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104TH CONGRESS
2D SESSION

H. R. 2903

To provide for deficit reduction and achieve a balanced budget by fiscal year 2002.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 26, 1996

Mr. KASICH (by request): introduced the following bill; which was referred to the Committee on the Budget, and in addition to the Committees on Ways and Means, Commerce, Banking and Financial Services, the Judiciary, Agriculture, Economic and Educational Opportunities, Government Reform and Oversight, House Oversight, National Security, Veterans' Affairs, Resources, International Relations, and Rules, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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A BILL

To provide for deficit reduction and achieve a balanced budget by fiscal year 2002.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the ''Balanced Budget Act of 1995 for Economic Growth and Fairness''.

SEC. 2. TABLE OF CONTENTS.

This Act is organized into titles as follows:

Title I—Banking, Housing, and Related Provisions
Title II—Spectrum Allocation Provisions
Title III—Medicaid
Title IV—Medicare
Title V—Welfare Reform
Title VI—Federal Retirement Provisions
Title VII—Veterans Provisions
Title VIII—Asset Sales, User Fees, and other Mandatory Provisions
Title IX—Revenues
Title X—Budget Enforcement

TITLE I—BANKING, HOUSING, AND RELATED PROVISIONS

Subtitle A—Financial Institutions

SEC. 2011. SPECIAL ASSESSMENT TO CAPITALIZE SAIF.

(a) IN GENERAL.—Except as provided in subsection (f), the Board of Directors shall impose a special assessment on the SAIF-assessable deposits of each insured depository at a rate applicable to all such institutions that the Board of Directors, in its 'sole discretion, determines (after taking into account the adjustments described in subsections (g) through (j)) will cause the Savings Association Insurance Fund to achieve the designated reserve ratio on the first business day of January 1996.

(b) FACTORS TO BE CONSIDERED.—In carrying out subsection (a), the Board of Directors shall base its determination on—

(1) the monthly Savings Association Insurance Fund balance most recently calculated;

(2) data on insured deposits reported in the most recent reports of condition filed not later than

70 days before the date of enactment of this Act by insured depository institutions; and

(3) any other factors that the Board of Directors deems appropriate.

(c) DATE OF DETERMINATION.—For purposes of subsection (a), the amount of the SAIF-assessable deposits of an insured depository institution shall be determined as of March 31, 1995.

(d) DATE PAYMENT DUE.—The special assessment imposed under this section shall be—

(1) due on the first business day of January 1996; and

(2) paid to the Corporation on the later of—

(A) the first business day of January 1996; or

(B) such other date as the Corporation shall prescribe, but not later than 60 days after the date of enactment of this Act.

(e) ASSESSMENT DEPOSITED IN SAIF.—Notwithstanding any other provisions of law, the proceeds of the special assessment imposed under this section shall be deposited in the Savings Association Insurance Fund.

(f) EXEMPTIONS FOR CERTAIN INSTITUTIONS.—

(1) EXEMPTION FOR WEAK INSTITUTIONS.—The Board of Directors may, by order, in its sole

discretion, exempt any insured depository institution that the Board of Directors determines to be weak, from paying the special assessment imposed under this section if the Board of Directors determines that the exemption would reduce risk to the Savings Association Insurance Fund.

(2) GUIDELINES REQUIRED.—Not later than 30 days after the date of enactment of this Act, the Board of Directors shall prescribe guidelines setting forth the criteria that the Board of Directors will use in exempting institutions under paragraph (1). Such guidelines shall be published in the Federal Register.

(3) EXEMPTION FOR CERTAIN NEWLY CHARTERED AND OTHER DEFINED INSTITUTIONS.—

(A) IN GENERAL.—In addition to the institutions exempted from paying the special assessment under paragraph (1), the Board of Directors shall exempt any insured depository institution from payment of the special assessment if the institution—

(i) was in existence on October 1, 1995, and held no SAIF-assessable deposits prior to January 1, 1993;

(ii) is a Federal savings bank which—

(I) was established de novo in April 1994 in order to acquire the deposits of a savings association which was in default or in danger of default; and

(II) received minority interim capital assistance from the Resolution Trust Corporation under section 21A(w) of the Federal Home Loan Bank Act in connection with the acquisition of any such savings association; or

(iii) is a savings association, the deposits of which are insured by the Savings Association Insurance Fund, which—

(I) prior to January 1, 1987, was chartered as a Federal savings bank insured by the Federal Savings and Loan Insurance Corporation for the purpose of acquiring all or substantially all of the assets and assuming all or substantially all of the deposit liabilities of a national bank in a transaction consummated after July 1, 1986; and

(II) as of the date of that transaction, had assets of less than $150,000,000.

(B) DEFINITION.—For purposes of this paragraph, an institution shall be deemed to have held SAIF-assessable deposits prior to January 1, 1993, if—

(i) it directly held SAIF-assessable insured deposits prior to that date; or

(ii) it succeeded to, acquired, purchased, or otherwise holds any SAIF-assessable deposits as of the date of enactment of this Act that were SAIF-assessable deposits prior to January 1, 1993.

(4) EXEMPT INSTITUTIONS REQUIRED TO PAY ASSESSMENTS AT FORMER RATES.—

(A) PAYMENTS TO SAIF AND DIF.—Any insured depository institution that the Board of Directors exempts under this subsection from paying the special assessment imposed under this section shall pay semiannual assessments—

(i) during calendar years 1996 and 1997, into the Savings Association Insurance Fund, based on SAIF-assessable deposits of that institution, at assessment

rates calculated under the schedule in effect for Savings Association Insurance Fund members on June 30, 1995; and

(ii) during calendar years 1998 and 1999—

(I) into the Deposit Insurance Fund, based on SAIF-assessable deposits of that institution as of December 31, 1997, at assessment rates calculated under the schedule in effect for Savings Association Insurance Fund members on June 30, 1995; or

(II) in accordance with clause (i), if the Bank Insurance Fund and the Savings Association Insurance Fund are not merged into the Deposit Insurance Fund.

(B) OPTIONAL PRO RATA PAYMENT OF SPECIAL ASSESSMENT.—This paragraph shall not apply with respect to any insured depository institution (or successor insured depository institution) that has paid, during any calendar year from 1997 through 1999, upon such terms as the Corporation may announce, an amount equal to the product of—

(i) 12.5 percent of the special assessment that the institution would have been required to pay under subsection (a), if the Board of Directors had not exempted the institution; and

(ii) the number of full semiannual periods remaining between the date of the payment and December 31, 1999.

(g) SPECIAL ELECTION FOR CERTAIN INSTITUTIONS FACING HARDSHIP AS A RESULT OF THE SPECIAL ASSESSMENT.—

(1) ELECTION AUTHORIZED.—If—

(A) an insured depository institution, or any depository institution holding company which, directly or indirectly, controls such institution, is subject to terms or covenants in any debt obligation or preferred stock outstanding on September 13, 1995; and

(B) the payment of the special assessment under subsection (a) would pose a significant risk of causing such depository institution or holding company to default or violate any such term or covenant,

the depository institution may elect, with the approval of the Corporation, to pay such special as-

sessment in accordance with paragraphs (2) and (3) in lieu of paying such assessment in the manner required under subsection (a).

(2) 1ST ASSESSMENT.—An insured depository institution which makes an election under paragraph (1) shall pay an assessment of 50 percent of the amount of the special assessment that would otherwise apply under subsection (a), by the date on which such special assessment is otherwise due under subsection (d).

(3) 2D ASSESSMENT.—An insured depository institution which makes an election under paragraph (1) shall pay a 2d assessment, by the date established by the Board of Directors in accordance with paragraph (4), in an amount equal to the product of 51 percent of the rate determined by the Board of Directors under subsection (a) for determining the amount of the special assessment and the SAIF-assessable deposits of the institution on March 31, 1996, or such other date in calendar year 1996 as the Board of Directors determines to be appropriate.

(4) DUE DATE OF 2D ASSESSMENT.—The date established by the Board of Directors for the payment of the assessment under paragraph (3) by a depository institution shall be the earliest practicable

date which the Board of Directors determines to be appropriate, which is at least 15 days after the date used by the Board of Directors under paragraph (3).

(5) SUPPLEMENTAL SPECIAL ASSESSMENT.—An insured depository institution which makes an election under paragraph (1) shall pay a supplemental special assessment, at the same time the payment under paragraph (3) is made, in an amount equal to the product of—

(A) 50 percent of the rate determined by the Board of Directors under subsection (a) for determining the amount of the special assessment; and

(B) 95 percent of the amount by which the SAIF-assessable deposits used by the Board of Directors for determining the amount of the 1st assessment under paragraph (2) exceeds, if any, the SAIF-assessable deposits used by the Board for determining the amount of the 2d assessment under paragraph (3).

(h) ADJUSTMENT OF SPECIAL ASSESSMENT FOR CERTAIN BANK INSURANCE FUND MEMBER BANKS.—

(1) IN GENERAL.—For purposes of computing the special assessment imposed under this section with respect to a Bank Insurance Fund member

bank, the amount of any deposits of any insured depository institution which section 5(d)(3) of the Federal Deposit Insurance Act treats as insured by the Savings Association Insurance Fund shall be reduced by 20 percent—

(A) if the adjusted attributable deposit amount of the Bank Insurance Fund member bank is less than 50 percent of the total domestic deposits of that member bank as of June 30, 1995; or

(B) if, as of June 30, 1995, the Bank Insurance Fund member—

(i) had an adjusted attributable deposit amount equal to less than 75 percent of the total assessable deposits of that member bank;

(ii) had total assessable deposits greater than $5,000,000,000; and

(iii) was owned or controlled by a bank holding company that owned or controlled insured depository institutions having an aggregate amount of deposits insured or treated as insured by the Bank Insurance Fund greater than the aggregate amount of deposits insured or treated

as insured by the Savings Association Insurance Fund.

(2) ADJUSTED ATTRIBUTABLE DEPOSIT AMOUNT.—For purposes of this subsection, the ''adjusted attributable deposit amount; shall be determined in accordance with section 5(d)(3)(C) of the Federal Deposit Insurance Act.

(i) ADJUSTMENT TO THE ADJUSTED ATTRIBUTABLE DEPOSIT AMOUNT FOR CERTAIN BANK INSURANCE FUND MEMBER BANKS.—Section 5(d)(3) of the Federal Deposit Insurance Act (12 U.S.C. 1815(d)(3)) is amended—

(1) in subparagraph (C), by striking ''The adjusted attributable deposit amount'' and inserting ''Except as provided in subparagraph (K), the adjusted attributable deposit amount''; and

(2) by adding at the end the following new subparagraph:

''(K) ADJUSTMENT OF ADJUSTED ATTRIBUTABLE DEPOSIT AMOUNT.—The amount determined under subparagraph (C)(i) for deposits acquired by March 31, 1995, shall be reduced by 20 percent for purposes of computing the adjusted attributable deposit amount for the payment of any assessment for any semiannual period after December 31, 1995 (other than the

special assessment imposed under section 2011(a) of the Balanced Budget Act of 1995), for a Bank Insurance Fund member bank that, as of June 30, 1995—

"(i) had an adjusted attributable deposit amount that was less than 50 percent of the total deposits of that member bank; or

"(ii)(I) had an adjusted attributable deposit amount equal to less than 75 percent of the total assessable deposits of that member bank;

"(II) had total assessable deposits greater than $5,000,000,000; and

"(III) was owned or controlled by a bank holding company that owned or controlled insured depository institutions having an aggregate amount of deposits insured or treated as insured by the Bank Insurance Fund greater than the aggregate amount of deposits insured or treated as insured by the Savings Association Insurance Fund.".

(j) ADJUSTMENT OF SPECIAL ASSESSMENT FOR CERTAIN SAVINGS ASSOCIATIONS.—

(1) SPECIAL ASSESSMENT REDUCTION.—For purposes of computing the special assessment imposed under this section, in the case of any converted association, the amount of any deposits of such association which were insured by the Savings Association Insurance Fund as of March 31, 1995, shall be reduced by 20 percent.

(2) CONVERTED ASSOCIATION.—For purposes of this subsection, the term ''converted association'' means—

(A) any Federal savings association—

(i) that is a member of the Savings Association Insurance Fund and that has deposits subject to assessment by that fund which did not exceed $4,000,000,000, as of March 31, 1995; and

(ii) that had been, or is a successor by merger, acquisition, or otherwise to an institution that had been, a State savings bank, the deposits of which were insured by the Federal Deposit Insurance Corporation prior to August 9, 1989, that converted to a Federal savings association pursuant to section 5(i) of the Home Owners Loan Act prior to January 1, 1985;

(B) a State depository institution that is a member of the Savings Association Insurance Fund that had been a State savings bank prior to October 15, 1982, and was a Federal savings association on August 9, 1989;

(C) an insured bank that—

(i) was established de novo in order to acquire the deposits of a savings association in default or in danger of default;

(ii) did not open for business before acquiring the deposits of such savings association; and

(iii) was a Savings Association Insurance Fund member as of the date of enactment of this Act; and

(D) an insured bank that—

(i) resulted from a savings association before December 19, 1991, in accordance with section 5(d)(2)(G) of the Federal Deposit Insurance Act; and

(ii) had an increase in its capital in conjunction with the conversion in an amount equal to more than 75 percent of the capital of the institution on the day before the date of the conversion.

SEC. 2012. FINANCING CORPORATION ASSESSMENTS SHARED PROPORTIONALLY BY ALL INSURED DEPOSITORY INSTITUTIONS.

(a) IN GENERAL.—Section 21 of the Federal Home Loan Bank Act (12 U.S.C. 1441) is amended—

(1) in subsection (f)(2)—

(A) in the matter immediately preceding subparagraph (A)—

(i) by striking ''Savings Association Insurance Fund member'' and inserting ''insured depository institution''; and

(ii) by striking ''members'' and inserting ''institutions''; and

(B) by striking '', except that—'' and all that follows through the end of the paragraph and inserting '', except that—

''(A) the Financing Corporation shall have first priority to make the assessment; and

''(B) no limitation under clause (i) or (iii) of section 7(b)(2)(A) of the Federal Deposit Insurance Act shall apply for purposes of this paragraph.''; and

(2) in subsection (k)—

(A) by striking ''section—'' and inserting ''section, the following definitions shall apply:'';

(B) by striking paragraph (1);

(C) by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively; and

(D) by adding at the end the following new paragraph:

"(3) INSURED DEPOSITORY INSTITUTION.—The term 'insured depository institution' has the same meaning as in section 3 of the Federal Deposit Insurance Act.".

(b) CONFORMING AMENDMENT.—Section 7(b)(2) of the Federal Deposit Insurance Act (12 U.S.C. 1817(b)(2)) is amended by striking subparagraph (D).

(c) EFFECTIVE DATE.—This section and the amendments made by this section shall become effective on January 1, 1996.

SEC. 2013. MERGER OF BIF AND SAIF.

(a) IN GENERAL.—

(1) MERGER.—The Bank Insurance Fund and the Savings Association Insurance Fund shall be merged into the Deposit Insurance Fund established by section 11(a)(4) of the Federal Deposit Insurance Act, as amended by this section.

(2) DISPOSITION OF ASSETS AND LIABILITIES.—All assets and liabilities of the Bank Insurance Fund and the Savings Association Insurance

Fund shall be transferred to the Deposit Insurance Fund.

(3) NO SEPARATE EXISTENCE.—The separate existence of the Bank Insurance Fund and the Savings Association Insurance Fund shall cease.

(b) SPECIAL RESERVE OF THE DEPOSIT INSURANCE FUND.—

(1) IN GENERAL.—Immediately before the merger of the Bank Insurance Fund and the Savings Association Insurance Fund, if the reserve ratio of the Savings Association Insurance Fund exceeds the designated reserve ratio, the amount by which that reserve ratio exceeds the designated reserve ratio shall be placed in the Special Reserve of the Deposit Insurance Fund, established under section 11(a)(5) of the Federal Deposit Insurance Act, as amended by this section.

(2) DEFINITION.—For purposes of this subsection, the term ''reserve ratio'' means the ratio of the net worth of the Savings Association Insurance Fund to aggregate estimated insured deposits held in all Savings Association Insurance Fund members.

(c) EFFECTIVE DATE.—This section and the amendments made by this section shall become effective on Janu-

ary 1, 1998, if no insured depository institution is a savings association on that date.

(d) TECHNICAL AND CONFORMING AMENDMENTS.—

(1) DEPOSIT INSURANCE FUND.—Section 11(a)(4) of the Federal Deposit Insurance Act (12 U.S.C. 1821(a)(4)) is amended—

(A) by redesignating subparagraph (B) as subparagraph (C);

(B) by striking subparagraph (A) and inserting the following:

''(A) ESTABLISHMENT.—There is established the Deposit Insurance Fund, which the Corporation shall—

''(i) maintain and administer;

''(ii) use to carry out its insurance purposes in the manner provided by this subsection; and

''(iii) invest in accordance with section 13(a).

''(B) USES.—The Deposit Insurance Fund shall be available to the Corporation for use with respect to Deposit Insurance Fund members.''; and

(C) by striking "(4) GENERAL PROVISIONS RELATING TO FUNDS.—" and inserting the following:

"(4) ESTABLISHMENT OF THE DEPOSIT INSURANCE FUND.—".

(2) OTHER REFERENCES.—Section 11(a)(4)(C) of the Federal Deposit Insurance Act (12 U.S.C. 1821(a)(4)(C), as redesignated by paragraph (1) of this subsection) is amended by striking "Bank Insurance Fund and the Savings Association Insurance Fund" and inserting "Deposit Insurance Fund".

(3) DEPOSITS INTO FUND.—Section 11(a)(4) of the Federal Deposit Insurance Act (12 U.S.C. 1821(a)(4)) is amended by adding at the end the following new subparagraph:

"(D) DEPOSITS.—All amounts assessed against insured depository institutions by the Corporation shall be deposited in the Deposit Insurance Fund."

(4) SPECIAL RESERVE OF DEPOSITS.—Section 11(a)(5) of the Federal Deposit Insurance Act (12 U.S.C. 1821(a)(5)) is amended to read as follows:

"(5) SPECIAL RESERVE OF DEPOSIT INSURANCE FUND.—

"(A) ESTABLISHMENT.—

"(i) IN GENERAL.—There is established a Special Reserve of the Deposit Insurance Fund, which shall be administered by the Corporation and shall be invested in accordance with section 13(a).

"(ii) LIMITATION.—The Corporation shall not provide any assessment credit, refund, or other payment from any amount in the Special Reserve.

"(B) EMERGENCY USE OF SPECIAL RESERVE.—Notwithstanding subparagraph (A)(ii), the Corporation may, in its sole discretion, transfer amounts from the Special Reserve to the Deposit Insurance Fund, for the purposes set forth in paragraph (4), only if—

"(i) the reserve ratio of the Deposit Insurance Fund is less than 50 percent of the designated reserve ratio; and

"(ii) the Corporation expects the reserve ratio of the Deposit Insurance Fund to remain at less than 50 percent of the designated reserve ratio for each of the next 4 calendar quarters.

"(C) EXCLUSION OF SPECIAL RESERVE IN CALCULATING RESERVE RATIO.—Notwithstanding any other provision of law, any amounts in the Special Reserve shall be excluded in calculating the reserve ratio of the Deposit Insurance Fund under section 7.".

(5) FEDERAL HOME LOAN BANK ACT.—Section 21B(f)(2)(C)(ii) of the Federal Home Loan Bank Act (12 U.S.C. 1441b(f)(2)(C)(ii)) is amended—

(A) in subclause (I), by striking "to Savings Associations Insurance Fund members" and inserting "to insured depository institutions, and their successors, which were Savings Association Insurance Fund members on September 1, 1995"; and

(B) in subclause (II), by striking "to Savings Associations Insurance Fund members" and inserting "to insured depository institutions, and their successors, which were Savings Association Insurance Fund members on September 1, 1995".

(6) REPEALS.—

(A) SECTION 3.—Section 3(y) of the Federal Deposit Insurance Act (12 U.S.C. 1813(y)) is amended to read as follows:

"(y) DEFINITIONS RELATING TO THE DEPOSIT INSURANCE FUND.—The term—

"(1) DEPOSIT INSURANCE FUND.—The term 'Deposit Insurance Fund' means the fund established under section 11(a)(4).

"(2) RESERVE RATIO.—The term 'reserve ratio' means the ratio of the net worth of the Deposit Insurance Fund to aggregate estimated insured deposits held in all insured depository institutions.

"(3) DESIGNATED RESERVE RATIO.—The designated reserve ratio of the Deposit Insurance Fund for each year shall be—

"(A) 1.25 percent of estimated insured deposits; or

"(B) a higher percentage of estimated insured deposits that the Board of Directors determines to be justified for that year by circumstances raising a significant risk of substantial future losses to the fund.".

(B) SECTION 7.—Section 7 of the Federal Deposit Insurance Act (12 U.S.C. 1817) is amended—

(i) by striking subsection (l);

(ii) by redesignating subsections (m) and (n) as subsections (l) and (m), respectively; and

(iii) in subsection (b)(2), by striking subparagraphs (B) and (F), and by redesignating subparagraphs (C), (E), (G), and (H) as subparagraphs (B) through (E), respectively.

(C) SECTION 11.—Section 11(a) of the Federal Deposit Insurance Act (12 U.S.C. 1821(a)) is amended—

(i) by striking paragraphs (6) and (7); and

(ii) by redesignating paragraph (8) as paragraph (6).

(7) SECTION 5136 OF THE REVISED STATUTES.—Paragraph Eleventh of section 5136 of the Revised Statutes (12 U.S.C. 24) is amended in the fifth sentence, by striking ''affected deposit insurance fund'' and inserting ''Deposit Insurance Fund''.

(8) INVESTMENTS PROMOTING PUBLIC WELFARE; LIMITATIONS ON AGGREGATE INVESTMENTS.—The 23d undesignated paragraph of section 9 of the Federal Reserve Act (12 U.S.C. 338a)

is amended in the fourth sentence, by striking ''affected deposit insurance fund'' and inserting ''Deposit Insurance Fund''.

(9) ADVANCES TO CRITICALLY UNDERCAPITALIZED DEPOSITORY INSTITUTIONS.—Section 10B(b)(3)(A)(ii) of the Federal Reserve Act (12 U.S.C. 347b(b)(3)(A)(ii)) is amended by striking ''any deposit insurance fund in'' and inserting ''the Deposit Insurance Fund of''.

(10) AMENDMENTS TO THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985.—Section 255(g)(1)(A) of the Balanced Budget and Emergency Deficit Control Act of 1985 (2 U.S.C. 905(g)(1)(A)) is amended—

(A) by striking ''Bank Insurance Fund'' and inserting ''Deposit Insurance Fund''; and

(B) by striking ''Federal Deposit Insurance Corporation, Savings Association Insurance Fund;''.

(11) FURTHER AMENDMENTS TO THE FEDERAL HOME LOAN BANK ACT.—The Federal Home Loan Bank Act (12 U.S.C. 1421 et seq.) is amended—

(A) in section 11(k) (12 U.S.C. 1431(k))—

(i) in the subsection heading, by striking, ''SAIF'' and inserting ''THE DEPOSIT INSURANCE FUND''; and

(ii) by striking ''Savings Association Insurance Fund'' each place such term appears and inserting ''Deposit Insurance Fund'';

(B) in section 21A(b)(4)(B) (12 U.S.C. 1441a(b)(4)(B)), by striking ''affected deposit insurance fund'' and inserting ''Deposit Insurance Fund'';

(C) in section 21A(b)(6)(B) (12 U.S.C. 1441a(b)(6)(B))—

(i) in the subparagraph heading, by striking ''SAIF-INSURED BANKS'' and inserting ''CHARTER CONVERSIONS''; and

(ii) by striking ''Savings Association Insurance Fund member'' and inserting ''savings association'';

(D) in section 21A(b)(10)(A)(iv)(II) (12 U.S.C. 1441a(b)(10)(A)(iv)(II)), by striking ''Savings Association Insurance Fund'' and inserting ''Deposit Insurance Fund'';

(E) in section 21B(e) (12 U.S.C. 1441b(e))—

(i) in paragraph (5), by inserting ''as of the date of funding'' after ''Savings Association Insurance Fund members'' each place such term appears;

(ii) by striking paragraph (7); and

(iii) by redesignating paragraph (8) as paragraph (7); and

(F) in section 21B(k) (12 U.S.C. 1441b(k))—

(i) by striking paragraph (8); and

(ii) by redesignating paragraphs (9) and (10) as paragraphs (8) and (9), respectively.

(12) AMENDMENTS TO THE HOME OWNERS' LOAN ACT.—The Home Owners' Loan Act (12 U.S.C. 1461 et seq.) is amended—

(A) in section 5 (12 U.S.C. 1464)—

(i) in subsection (c)(5)(A), by striking ''that is a member of the Bank Insurance Fund'';

(ii) in subsection (c)(6), by striking ''As used in this subsection—'' and inserting ''For purposes of this subsection, the following definitions shall apply:'';

(iii) in subsection (o)(1), by striking ''that is a Bank Insurance Fund member'';

(iv) in subsection (o)(2)(A), by striking ''a Bank Insurance Fund member until such time as it changes its status to a Savings Association Insurance Fund member'' and inserting ''insured by the Deposit Insurance Fund'';

(v) in subsection (t)(5)(D)(iii)(II), by striking ''affected deposit insurance fund'' and inserting ''Deposit Insurance Fund'';

(vi) in subsection (t)(7)(C)(i)(I), by striking ''affected deposit insurance fund'' and inserting ''Deposit Insurance Fund''; and

(vii) in subsection (v)(2)(A)(i), by striking '', the Savings Association Insurance Fund'' and inserting ''or the Deposit Insurance Fund''; and

(B) in section 10 (12 U.S.C. 1467a)—

(i) in subsection (e)(1)(A)(iii)(VII), by adding ''or'' at the end;

(ii) in subsection (e)(1)(A)(iv), by adding ''and'' at the end;

(iii) in subsection (e)(1)(B), by striking ''Savings Association Insurance Fund or Bank Insurance Fund'' and inserting ''Deposit Insurance Fund'';

(iv) in subsection (e)(2), by striking ''Savings Association Insurance Fund or the Bank Insurance Fund'' and inserting ''Deposit Insurance Fund''; and

(v) in subsection (m)(3), by striking subparagraph (E), and by redesignating subparagraphs (F), (G), and (H) as subparagraphs (E), (F), and (G), respectively.

(13) AMENDMENTS TO THE NATIONAL HOUSING ACT.—The National Housing Act (12 U.S.C. 1701 et seq.) is amended—

(A) in section 317(b)(1)(B) (12 U.S.C. 1723i(b)(1)(B)), by striking ''Bank Insurance Fund for banks or through the Savings Association Insurance Fund for savings associations'' and inserting ''Deposit Insurance Fund''; and

(B) in section 526(b)(1)(B)(ii) (12 U.S.C. 1735f–14(b)(1)(B)(ii)), by striking ''Bank Insurance Fund for banks and through the Savings Association Insurance Fund for savings as-

sociations'' and inserting ''Deposit Insurance Fund''.

(14) FURTHER AMENDMENTS TO THE FEDERAL DEPOSIT INSURANCE ACT.—The Federal Deposit Insurance Act (12 U.S.C. 1811 et seq.) is amended—

(A) in section 3(a)(1) (12 U.S.C. 1813(a)(1)), by striking subparagraph (B) and inserting the following:

''(B) includes any former savings association.'';

(B) in section 5(b)(5) (12 U.S.C. 1815(b)(5)), by striking ''the Bank Insurance Fund or the Savings Association Insurance Fund;'' and inserting ''Deposit Insurance Fund,'';

(C) in section 5(d) (12 U.S.C. 1815(d)), by striking paragraphs (2) and (3);

(D) in section 5(d)(1) (12 U.S.C. 1815(d)(1))—

(i) in subparagraph (A), by striking ''reserve ratios in the Bank Insurance Fund and the Savings Association Insurance Fund'' and inserting ''the reserve ratio of the Deposit Insurance Fund'';

(ii) by striking subparagraph (B) and inserting the following:

"(2) FEE CREDITED TO THE DEPOSIT INSURANCE FUND.—The fee paid by the depository institution under paragraph (1) shall be credited to the Deposit Insurance Fund.";

(iii) by striking "(1) UNINSURED INSTITUTIONS.—"; and

(iv) by redesignating subparagraphs (A) and (C) as paragraphs (1) and (3), respectively, and moving the margins 2 ems to the left;

(E) in section 5(e) (12 U.S.C. 1815(e))—

(i) in paragraph (5)(A), by striking "Bank Insurance Fund or the Savings Association Insurance Fund" and inserting "Deposit Insurance Fund";

(ii) by striking paragraph (6); and

(iii) by redesignating paragraphs (7), (8), and (9) as paragraphs (6), (7), and (8), respectively;

(F) in section 6(5) (12 U.S.C. 1816(5)), by striking "Bank Insurance Fund or the Savings Association Insurance Fund" and inserting "Deposit Insurance Fund";

(G) in section 7(b) (12 U.S.C. 1817(b))—

(i) in paragraph (1)(D), by striking ''each deposit insurance fund'' and inserting ''the Deposit Insurance Fund'';

(ii) in clauses (i)(I) and (iv) of paragraph (2)(A), by striking ''each deposit insurance fund'' each place such term appears and inserting ''the Deposit Insurance Fund'';

(iii) in paragraph (2)(A)(iii), by striking ''a deposit insurance fund'' and inserting ''the Deposit Insurance Fund'';

(iv) by striking clause (iv) of paragraph (2)(A);

(v) in paragraph (2)(C) (as redesignated by paragraph (6)(B) of this subsection)—

(I) by striking ''any deposit insurance fund'' and inserting ''the Deposit Insurance Fund''; and

(II) by striking ''that fund'' each place such term appears and inserting ''the Deposit Insurance Fund'';

(vi) in paragraph (2)(D) (as redesignated by paragraph (6)(B) of this subsection)—

(I) in the subparagraph heading, by striking ''FUNDS ACHIEVE'' and inserting ''FUND ACHIEVES''; and

(II) by striking ''a deposit insurance fund'' and inserting ''the Deposit Insurance Fund'';

(vii) in paragraph (3)—

(I) in the paragraph heading, by striking ''FUNDS'' and inserting ''FUND'';

(II) by striking ''that fund'' each place such term appears and inserting the ''the Deposit Insurance Fund'';

(III) in subparagraph (A), by striking ''Except as provided in paragraph (2)(F), if'' and inserting ''If'';

(IV) in subparagraph (A) by striking ''any deposit insurance fund'' and inserting ''the Deposit Insurance Fund''; and

(V) by striking subparagraphs (C) and (D) and inserting the following:

"(C) AMENDING SCHEDULE.—The Corporation may, by regulation, amend a schedule promulgated under subparagraph (B)."; and

(viii) in paragraph (6)—

(I) by striking "any such assessment" and inserting "any such assessment is necessary";

(II) by striking "(A) is necessary—";

(III) by striking subparagraph (B);

(IV) by redesignating clauses (i), (ii), and (iii) as subparagraphs (A), (B), and (C), respectively, and moving the margin 2 ems to the left; and

(V) in subparagraph (C) (as redesignated), by striking "; and" and inserting a period;

(H) in section 11(f)(1) (12 U.S.C. 1821(f)(1)), by striking ", except that—" and all that follows through the end of the paragraph and inserting a period;

(I) in section 11(i)(3) (12 U.S.C. 1821(i)(3))—

(i) by striking subparagraph (B);

(ii) by redesignating subparagraph (C) as subparagraph (B); and

(iii) in subparagraph (B) (as redesignated), by striking ''subparagraphs (A) and (B)'' and inserting ''subparagraph (A)'';

(J) in section 11A(a) (12 U.S.C. 1821a(a))—

(i) in paragraph (2), by striking ''LIABILITIES.—'' and all that follows through ''Except'' and inserting ''LIABILITIES.—Except'';

(ii) by striking paragraph (2)(B); and

(iii) in paragraph (3), by striking ''the Bank Insurance Fund, the Savings Association Insurance Fund,'' and inserting ''the Deposit Insurance Fund,'';

(K) in section 11A(b) (12 U.S.C. 1821a(b)), by striking paragraph (4);

(L) in section 11a(f) (12 U.S.C. 1821a(f)), by striking ''Savings Association Insurance

Fund'' and inserting ''Deposit Insurance Fund'';

(M) in section 13 (12 U.S.C. 1823)—

(i) in subsection (a)(1), by striking ''Bank Insurance Fund, the Savings Association Insurance Fund,'' and inserting ''Deposit Insurance Fund, the Special Reserve of the Deposit Insurance Fund,'';

(ii) in subsection (c)(4)(E)—

(I) in the subparagraph heading, by striking ''FUNDS'' and inserting ''FUND''; and

(II) in clause (i), by striking ''any insurance fund'' and inserting ''the Deposit Insurance Fund'';

(iii) in subsection (c)(4)(G)(ii)—

(I) by striking ''appropriate insurance fund'' and inserting ''Deposit Insurance Fund'';

(II) by striking ''the members of the insurance fund (of which such institution is a member)'' and inserting ''insured depository institutions'';

(III) by striking ''each member's'' and inserting ''each insured depository institution's''; and

(IV) by striking ''the member's'' each place such term appears and inserting ''the institution's'';

(iv) in subsection (c), by striking paragraph (11);

(v) in subsection (h), by striking ''Bank Insurance Fund'' and inserting ''Deposit Insurance Fund'';

(vi) in subsection (K)(4)(B)(i), by striking ''Savings Association Insurance Fund'' and inserting ''Deposit Insurance Fund''; and

(vii) in subsection (k)(5)(A), by striking ''Savings Association Insurance Fund'' and inserting ''Deposit Insurance Fund'';

(N) in section 14(a) (12 U.S.C. 1824(a)) in the fifth sentence—

(i) by striking ''Bank Insurance Fund or the Savings Association Insurance Fund'' and inserting ''Deposit Insurance Fund''; and

(ii) by striking ''each such fund'' and inserting ''the Deposit Insurance Fund'';

(O) in section 14(b) (12 U.S.C. 1824(b)), by striking ''Bank Insurance Fund or Savings Association Insurance Fund'' and inserting ''Deposit Insurance Fund'';

(P) in section 14(c) (12 U.S.C. 1824(c)), by striking paragraph (3);

(Q) in section 14(d) (12 U.S.C. 1824(d))—

(i) by striking ''BIF'' each place such term appears and inserting ''DIF''; and

(ii) by striking ''Bank Insurance Fund'' each place such term appears and inserting ''Deposit Insurance Fund'';

(R) in section 15(c)(5) (12 U.S.C. 1825(c)(5))—

(i) by striking ''the Bank Insurance Fund or Savings Association Insurance Fund, respectively'' each place such term appears and inserting ''the Deposit Insurance Fund''; and

(ii) in subparagraph (B), by striking ''the Bank Insurance Fund or the Savings Association Insurance Fund, respectively''

and inserting ''the Deposit Insurance Fund'';

(S) in section 17(a) (12 U.S.C. 1827(a))—

(i) in the subsection heading, by striking ''BIF, SAIF,'' and inserting ''THE DEPOSIT INSURANCE FUND''; and

(ii) in paragraph (1), by striking ''the Bank Insurance Fund, the Savings Association Insurance Fund'' each place such term appears and inserting ''the Deposit Insurance Fund'';

(T) in section 17(d) (12 U.S.C. 1827(d)), by striking ''the Bank Insurance Fund, the Savings Association Insurance Fund,'' each place such term appears and inserting ''the Deposit Insurance Fund'';

(U) in section 18(m)(3) (12 U.S.C. 1828(m)(3))—

(i) by striking ''Savings Association Insurance Fund'' each place such term appears and inserting ''Deposit Insurance Fund''; and

(ii) in subparagraph (C), by striking ''or the Bank Insurance Fund'';

(V) in section 18(p) (12 U.S.C. 1828(p)), by striking ''deposit insurance funds'' and inserting ''Deposit Insurance Fund'';

(W) in section 24 (12 U.S.C. 1831a) in subsections (a)(1) and (d)(1)(A), by striking ''appropriate deposit insurance fund'' each place such term appears and inserting ''Deposit Insurance Fund'';

(X) in section 28 (12 U.S.C. 1831e), by striking ''affected deposit insurance fund'' each place such term appears and inserting ''Deposit Insurance Fund'';

(Y) by striking section 31 (12 U.S.C. 1831h);

(Z) in section 36(i)(3) (12 U.S.C. 1831m(i)(3)) by striking ''affected deposit insurance fund'' and inserting ''Deposit Insurance Fund'';

(AA) in section 38(a) (12 U.S.C. 1831o(a)) in the subsection heading, by striking ''FUNDS'' and inserting ''FUND'';

(BB) in section 38(k) (12 U.S.C. 1831o(k))—

(i) in paragraph (1), by striking ''a deposit insurance fund'' and inserting ''the Deposit Insurance Fund''; and

(ii) in paragraph (2)(A)—

(I) by striking ''A deposit insurance fund'' and inserting ''The Deposit Insurance Fund''; and

(II) by striking ''the deposit insurance fund's outlays'' and inserting ''the outlays of the Deposit Insurance Fund''; and

(CC) in section 38(o) (12 U.S.C. 1831o(o))—

(i) by striking ''ASSOCIATIONS.—'' and all that follows through ''Subsections (e)(2)'' and inserting ''ASSOCIATIONS.—Subsections (e)(2)'';

(ii) by redesignating subparagraphs (A), (B), and (C) as paragraphs (1), (2), and (3), respectively, and moving the margins 2 ems to the left; and

(iii) in paragraph (1) (as redesignated), by redesignating clauses (i) and (ii) as subparagraphs (A) and (B), respec-

tively, and moving the margins 2 ems to the left.

(15) AMENDMENTS TO THE FINANCIAL INSTITUTIONS REFORM, RECOVERY, AND ENFORCEMENT ACT OF 1989.—The Financial Institutions Reform, Recovery, and Enforcement Act (Public Law 101–73; 103 Stat. 183) is amended—

(A) in section 951(b)(3)(B) (12 U.S.C. 1833a(b)(3)(B)), by striking ''Bank Insurance Fund, the Savings Association Insurance Fund,'' and inserting ''Deposit Insurance Fund''; and

(B) in section 1112(c)(1)(B) (12 U.S.C. 3341(c)(1)(B)), by striking ''Bank Insurance Fund, the Savings Association Insurance Fund,'' and inserting ''Deposit Insurance Fund''.

(16) AMENDMENT TO THE BANK ENTERPRISE ACT OF 1991.—Section 232(a)(1) of the Bank Enterprise Act of 1991 (12 U.S.C. 1834(a)(1)) is amended by striking ''section 7(b)(2)(H)'' and inserting ''section 7(b)(2)(G)''.

(17) AMENDMENT TO THE BANK HOLDING COMPANY ACT.—Section 2(j)(2) of the Bank Holding Company Act of 1956 (12 U.S.C. 1841(j)(2)) is

amended by striking ''Savings Association Insurance Fund'' and inserting ''Deposit Insurance Fund''.

SEC. 2014. CREATION OF SAIF SPECIAL RESERVE.

Section 11(a)(6) of the Federal Deposit Insurance Act (12 U.S.C. 1821(a)(6)) is amended by adding at the end the following new subparagraph:

''(L) ESTABLISHMENT OF SAIF SPECIAL RESERVE.—

''(i) ESTABLISHMENT.—If, on January 1, 1998, the reserve ratio of the Savings Association Insurance Fund exceeds the designated reserve ratio, there is established a Special Reserve of the Savings Association Insurance Fund, which shall be administered by the Corporation and shall be invested in accordance with section 13(a).

''(ii) AMOUNTS IN SPECIAL RESERVE.—If, on January 1, 1998, the reserve ratio of the Savings Association Insurance Fund exceeds the designated reserve ratio, the amount by which the reserve ratio exceeds the designated reserve ratio shall be placed in the Special Reserve

of the Savings Association Insurance Fund established by clause (i).

"(iii) LIMITATION.—The Corporation shall not provide any assessment credit, refund, or other payment from any amount in the Special Reserve of the Savings Association Insurance Fund.

"(iv) EMERGENCY USE OF SPECIAL RESERVE.—Notwithstanding clause (iii), the Corporation may, in its sole discretion, transfer amounts from the Special Reserve of the Savings Association Insurance Fund to the Savings Association Insurance Fund for the purposes set forth in paragraph (4), only if—

"(I) the reserve ratio of the Savings Association Insurance Fund is less than 50 percent of the designated reserve ratio; and

"(II) the Corporation expects the reserve ratio of the Savings Association Insurance Fund to remain at less than 50 percent of the designated reserve ratio for each of the next 4 calendar quarters.

"(v) EXCLUSION OF SPECIAL RESERVE IN CALCULATING RESERVE RATIO.—Notwithstanding any other provision of law, any amounts in the Special Reserve of the Savings Association Insurance Fund shall be excluded in calculating the reserve ratio of the Savings Association Insurance Fund.".

SEC. 2015. REFUND OF AMOUNTS IN DEPOSIT INSURANCE FUND IN EXCESS OF DESIGNATED RESERVE AMOUNT.

Subsection (e) of section 7 of the Federal Deposit Insurance Act (12 U.S.C. 1817(e)) is amended to read as follows:

"(e) REFUNDS.—

"(1) OVERPAYMENTS.—In the case of any payment of an assessment by an insured depository institution in excess of the amount due to the Corporation, the Corporation may—

"(A) refund the amount of the excess payment to the insured depository institution; or

"(B) credit such excess amount toward the payment of subsequent semiannual assessments until such credit is exhausted.

"(2) BALANCE IN INSURANCE FUND IN EXCESS OF DESIGNATED RESERVE.—

"(A) IN GENERAL.—Subject to subparagraphs (B) and (C), if, as of the end of any semiannual assessment period, the amount of the actual reserves in—

"(i) the Bank Insurance Fund (until the merger of such fund into the Deposit Insurance Fund pursuant to section 2013 of the Balanced Budget Act of 1995); or

"(ii) the Deposit Insurance Fund (after the establishment of such fund),

exceeds the balance required to meet the designated reserve ratio applicable with respect to such fund, such excess amount shall be refunded to insured depository institutions by the Corporation on such basis as the Board of Directors determines to be appropriate, taking into account the factors considered under the risk-based assessment system.

"(B) REFUND NOT TO EXCEED PREVIOUS SEMIANNUAL ASSESSMENT.—The amount of any refund under this paragraph to any member of a deposit insurance fund for any semiannual assessment period may not exceed the

total amount of assessments paid by such member to the insurance fund with respect to such period.

"(C) REFUND LIMITATION FOR CERTAIN INSTITUTIONS.—No refund may be made under this paragraph with respect to the amount of any assessment paid for any semiannual assessment period by any insured depository institutions described in clause (v) of subsection (b)(2)(A).".

SEC. 2016. ASSESSMENT RATES FOR SAIF MEMBERS MAY NOT BE LESS THAN ASSESSMENT RATES FOR BIF MEMBERS.

Section 7(b)(2)(C) of the Federal Deposit Insurance Act (12 U.S.C. 1817)(2)(E), as redesignated by section 2013(d)(6) of this Act) is amended—

(1) by striking "and" at the end of clause (i);

(2) by striking the period at the end of clause (ii) and inserting "; and"; and

(3) by adding at the end of the following new clause:

"(iii) notwithstanding any other provision of this subsection, during the period beginning on the date of enactment of the Balanced Budget Act of 1995, and ending

on January 1, 1998, the assessment rate for a Savings Association Insurance Fund member may not be less than the assessment rate for a Bank Insurance Fund member that poses a comparable risk to the deposit insurance fund.''.

SEC. 2017. ASSESSMENTS AUTHORIZED ONLY IF NEEDED TO MAINTAIN THE RESERVE RATIO OF A DEPOSIT INSURANCE FUND.

(a) IN GENERAL.—Section 7(b)(2)(A)(i) of the Federal Deposit Insurance Act (12 U.S.C. 1817(b)(2)(A)(i)) is amended in the matter preceding subclause (I) by inserting ''when necessary, and only to the extent necessary'' after ''insured depository institutions''.

(b) LIMITATION ON ASSESSMENT.—Section 7(b)(2)(A)(iii) of the Federal Deposit Insurance Act (12 U.S.C. 1817(b)(2)(A)(iii)) is amended to read as follows:

''(iii) LIMITATION ON ASSESSMENT.—Except as provided in clause (v), the Board of Directors shall not set semiannual assessments with respect to a deposit insurance fund in excess of the amount needed—

"(I) to maintain the reserve ratio of the fund at the designated reserve ratio; or

"(II) if the reserve ratio is less than the designated reserve ratio, to increase the reserve ratio to the designated reserve ratio.".

(c) EXCEPTION TO LIMITATION ON ASSESSMENTS.—Section 7(b)(2)(A) of the Federal Deposit Insurance Act (12 U.S.C. 1817(b)(2)(A)) is amended by adding at the end of the following new clause:

"(v) EXCEPTION TO LIMITATION ON ASSESSMENTS.—The Board of Directors may set semiannual assessments in excess of the amount permitted under clauses (i) and (iii) with respect to insured depository institutions that exhibit financial, operational, or compliance weaknesses ranging from moderately severe to unsatisfactory, or are not well capitalized, as that term is defined in section 38.".

SEC. 2018. LIMITATION ON AUTHORITY OF OVERSIGHT BOARD TO CONTINUE TO EMPLOY MORE THAN 18 OFFICERS AND EMPLOYEES.

(a) IN GENERAL.—Section 21A(a) of the Federal Home Loan Bank Act (12 U.S.C. 1441a(a)) is amended by adding at the end the following new paragraph:

"(17) PHASED-DOWN OPERATION OF OVERSIGHT BOARD FOLLOWING TERMINATION OF CORPORATION.—

"(A) TERMINATION OF AUTHORITY TO EMPLOY STAFF.—Except as provided in subparagraph (B), the authority of the Thrift Depositor Protection Oversight Board under paragraph (5) to establish officer and employee positions, to compensate officers and employees of the Board, and to provide other benefits for officers and employees of the Board shall terminate as of December 31, 1995.

"(B) LIMITED AUTHORITY FOR EMPLOYING STAFF.—The Thrift Depositor Protection Oversight Board may employ not more than 18 individuals, excluding any employee of any other department or agency utilized by the Board, to carry out the functions of the Board during the period beginning on January 1, 1996 and ending on May 1, 1996, other than

employees whose employment is in the process of being terminated in accordance with subparagraph (C).

"(C) TERMINATION OF EMPLOYMENT OF ADDITIONAL EMPLOYEES REQUIRED TO BE COMMENCED.—The Thrift Depositor Protection Oversight Board shall commence terminating, not later than December 31, 1995, and in accordance with title 5, United States Code, and applicable regulations of the Office of Personnel Management, the employment of any employee of the Board whose continued employment by the Board after such date is inconsistent with the requirement of subparagraph (B).".

(b) TECHNICAL AND CONFORMING AMENDMENTS.—Section 21A(a)(5) of the Federal Home Loan Bank Act (12 U.S.C. 1441a(a)(5)) is amended in subparagraphs (B), (C), (D), and (E), by inserting "subject to paragraph (17)", after the closing parenthesis of the subparagraph designation in each such subparagraph.

SEC. 2019. DEFINITIONS.

For purposes of this subtitle—

(1) the term "Bank Insurance Fund" means the fund established pursuant to section (11)(a)(5)(A) of the Federal Deposit Insurance Act,

as that section existed on the day before the date of enactment of this Act;

(2) the terms ''Bank Insurance Fund member'' and ''Savings Association Insurance Fund member'' have the same meanings as in section 7(l) of the Federal Deposit Insurance Act;

(3) the terms ''bank'', ''Board of Directors'', ''Corporation'', ''insured depository institution'', ''Federal savings association'', ''savings association'', ''State savings bank'', and ''State depository institution'' have the same meanings as in section 3 of the Federal Deposit Insurance Act;

(4) the term ''Deposit Insurance Fund'' means the fund established under section 11(a)(4) of the Federal Deposit Insurance Act, as amended by section 2013(d) of this Act;

(5) the term ''depository institution holding company'' has the same meaning as in section 3 of the Federal Deposit Insurance Act;

(6) the term ''designated reserve ratio'' has the same meaning as in section 7(b)(2)(A)(iv) of the Federal Deposit Insurance Act;

(7) the term ''Savings Association Insurance Fund'' means the fund established pursuant to section 11(a)(6)(A) of the Federal Deposit Insurance

Act, as that section existed on the day before the date of enactment of this Act; and

(8) the term ''SAIF-assessable deposit'' means—

(A) a deposit that is subject to assessment for purposes of the Savings Association Insurance Fund under the Federal Deposit Insurance Act; and

(B) a deposit that section 5(d)(3) of the Federal Deposit Insurance Act treats as insured by the Savings Association Insurance Fund.

Subtitle B—Housing

SEC. 2051. ANNUAL ADJUSTMENT FACTORS FOR OPERATING COSTS ONLY; RESTRAINT ON RENT INCREASES.

(a) ANNUAL ADJUSTMENT FACTORS FOR OPERATING COSTS ONLY.—Section 8(c)(2)(A) of the United States Housing Act of 1937 (42 U.S.C. 1437f(c)(2)(A)) is amended—

(1) by striking ''(2)(A)'' and inserting ''(2)(A)(i)'';

(2) by striking the second sentence and all that follows through the end of the subparagraph; and

(3) by adding at the end of the following new clause:

"(ii) Each assistance contract under this section shall provide that—

"(I) if the maximum monthly rent for a unit in a new construction or substantial rehabilitation project to be adjusted using an annual adjustment factor exceeds 100 percent of the fair market rent for an existing dwelling unit in the market area, the Secretary shall adjust the rent using an operating costs factor that increases the rent to reflect increases in operating costs in the market area; and

"(II) if the owner of a unit in a project described in subclause (I) demonstrates that the adjusted rent determined under subclause (I) would not exceed the rent for an unassisted unit of similar quality, type, and age in the same market area, as determined by the Secretary, the Secretary shall use the otherwise applicable annual adjustment factor.".

(b) RESTRAINT ON SECTION 8 RENT INCREASES.—Section 8(c)(2)(A) of the United States Housing Act of 1937 (42 U.S.C. 1437f(c)(2)(A)), as amended by subsection (a), is amended by adding at the end the following new clause:

"(iii)(I) Subject to subclause (II), with respect to any unit assisted under this section that it occupied by the same family at the time of the most recent annual rental adjustment, if the assistance contract provides for the adjustment of the maximum monthly rent by applying an annual adjustment factor, and if the rent for the unit is otherwise eligible for an adjustment based on the full amount of the annual adjustment factor, 0.01 shall be subtracted from the amount of the annual adjustment factor, except that the annual adjustment factor shall not be reduced to less than 1.0.

"(II) With respect to any unit described in subclause (I) that is assisted under the certificate program, the adjusted rent shall not exceed the rent for a comparable unassisted unit of similar quality, type, and age in the market area in which the unit is located.".

(c) EFFECTIVE DATE.—The amendments made by this section shall become effective on October 1, 1995.

SEC. 2052. FORECLOSURE AVOIDANCE AND BORROWER ASSISTANCE.

(a) FORECLOSURE AVOIDANCE.—Except as provided in subsection (e), the last sentence of section 204(a) of the National Housing Act (12 U.S.C. 1710(a)) is amended by inserting before the period the following: ": *And provided further,* That the Secretary may pay insurance bene-

fits to the mortgagee to recompense the mortgagee for its actions to provide an alternative to foreclosure of a mortgage that is in default, which actions may include such actions as special forbearance, loan modification, and deeds in lieu of foreclosure, all upon such terms and conditions as the mortgagee shall determine in the mortgagee's sole discretion within guidelines provided by the Secretary, but which may not include assignment of a mortgage to the Secretary: *And provided further,* That for purposes of the preceding proviso, no action authorized by the Secretary and no action taken, nor any failure to act, by the Secretary or the mortgagee shall be subject to judicial review''.

(b) AUTHORITY TO ASSIST MORTGAGORS IN DEFAULT.—Except as provided in subsection (e), section 230 of the National Housing Act (12 U.S.C. 1715u) is amended to read as follows:

''AUTHORITY TO ASSIST MORTGAGORS IN DEFAULT

''SEC. 230. (a) PAYMENT OF PARTIAL CLAIM.—The Secretary may establish a program for payment of a partial insurance claim to a mortgagee that agrees to apply the claim amount to payment of a mortgage on a 1- to 4-family residence that is in default. Any such payment under such program to the mortgagee shall be made in the Secretary's sole discretion and on terms and conditions acceptable to the Secretary, except that—

"(1) the amount of the payment shall be in an amount determined by the Secretary, which shall not exceed an amount equivalent to 12 monthly mortgage payments and any costs related to the default that are approved by the Secretary; and

"(2) the mortgagor shall agree to repay the amount of the insurance claim to the Secretary upon terms and conditions acceptable to the Secretary.

The Secretary may pay the mortgagee, from the appropriate insurance fund, in connection with any activities that the mortgagee is required to undertake concerning repayment by the mortgagor of the amount owed to the Secretary.

"(b) ASSIGNMENT.—

"(1) PROGRAM AUTHORITY.—The Secretary may establish a program for assignment to the Secretary, upon request of the mortgagee, of a mortgage on a 1- to 4-family residence insured under this Act.

"(2) PROGRAM REQUIREMENTS.—The Secretary may accept assignment of a mortgage under a program under this subsection only if—

"(A) the mortgage was in default;

"(B) the mortgagee has modified the mortgage to cure the default and provide for mort-

gage payments within the reasonable ability of the mortgagor to pay at interest rates not exceeding current market interest rates; and

"(C) the Secretary arranges for servicing of the assigned mortgage by a mortgagee (which may include the assigning mortgagee) through procedures that the Secretary has determined to be in the best interests of the appropriate insurance fund.

"(3) PAYMENT OF INSURANCE BENEFITS.—Upon accepting assignment of a mortgage under the program under this subsection, the Secretary may pay insurance benefits to the mortgagee from the appropriate insurance fund in an amount that the Secretary determines to be appropriate, but which may not exceed the amount necessary to compensate the mortgagee for the assignment and any losses and expenses resulting from the mortgage modification.

"(c) PROHIBITION OF JUDICIAL REVIEW.—No decision by the Secretary to exercise or forego exercising any authority under this section shall be subject to judicial review.

"(d) SAVINGS PROVISION.—Any mortgage for which the mortgagor has applied to the Secretary, before the

date of the enactment of the Balanced Budget Act of 1995, for assignment pursuant to subsection (c) of this section as in effect before such date of enactment shall continue to be governed by the provisions of this section in effect immediately before such date of enactment.

"(e) APPLICABILITY OF OTHER LAWS.—No provision of this Act or any other law shall be construed to require the Secretary to provide an alternative to foreclosure for mortgagees with mortgages on 1- to 4-family residences insured by the Secretary under this Act, or to accept assignments of such mortgages.".

(c) APPLICABILITY OF AMENDMENTS.—Except as provided in subsection (e), the amendments made by subsections (a) and (b) shall apply only with respect to mortgages insured under the National Housing Act that are originated on or after October 1, 1995.

(d) REGULATIONS.—Not later than the expiration of the 60-day period beginning on the date of the enactment of this Act, the Secretary of Housing and Urban Development shall issue interim regulations to implement this section and the amendments made by this section.

(e) EFFECTIVENESS AND APPLICABILITY.—If this Act is enacted after the date of the enactment of the Departments of Veterans Affairs and Housing and Urban

Development, and Independent Agencies Appropriations Act, 1996—

(1) subsections (a), (b), (c), and (d) of this section shall not take effect; and

(2) subsection (c) of the section relating to foreclosure avoidance and borrower assistance in title II of the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 1996, is amended by striking ''only with respect to mortgages insured under the National Housing Act that are originated before October 1, 1995'' and inserting ''to mortgages originated before, on, and after October 1, 1995''.

TITLE II—COMMUNICATIONS AND SPECTRUM ALLOCATION PROVISIONS

SEC. 3001. SPECTRUM AUCTIONS.

(a) EXTENSION AND EXPANSION OF AUCTION AUTHORITY.—

(1) AMENDMENTS.—Section 309(j) of the Communications Act of 1934 (47 U.S.C. 309(j)) is amended—

(A) by striking paragraphs (1) and (2) and inserting the following:

"(1) GENERAL AUTHORITY.—If, consistent with the obligations described in paragraph (6)(E), mutually exclusive applications are accepted for any initial license or construction permit, then the Commission shall grant such license or permit to a qualified applicant through a system of competitive bidding that meets the requirements of this subsection.

"(2) EXEMPTIONS.—The competitive bidding authority granted by this subsection shall not apply to licenses or construction permits issued by the Commission—

"(A) that, as the result of the Commission carrying out the obligations described in paragraph (6)(E), are not mutually exclusive;

"(B) for public safety radio services, including non-Government uses the sole or principal purpose of which is to protect the safety of life, health, and property and which are not made commercially available to the public; or

"(C) for initial licenses or construction permits for new terrestrial digital television services assigned by the Commission to existing terrestrial broadcast licensees to replace their current television licenses, unless—

"(i) the Commission, not later than 180 days after the date of enactment of the Balanced Budget Act of 1995, after notice and public comment, submits to Congress a report on the use of the authority provided in this subsection for the assignment of initial licenses or construction permits for use of the electromagnetic spectrum allocated but not assigned as of the date of enactment of that Act for television broadcast services; and

"(ii) the Congress amends this subsection to authorize the use of the authority provided by this subsection for such licenses or permits.

Except as provided in this subparagraph, the Commission may not assign initial licenses or construction permits under this title to terrestrial commercial television broadcast licensees to replace their existing broadcast licenses before November 15, 1996."; and

(B) by striking "1998" in paragraph (11) and inserting "2002".

(2) CONFORMING AMENDMENT.—Subsection (i) of section 309 of such Act is repealed.

(3) EFFECTIVE DATE.—The amendment made by paragraph (1)(A) shall not apply with respect to any license or permit for a terrestrial radio or television broadcast station for which the Federal Communications Commission has accepted mutually exclusive applications on or before the date of enactment of this Act.

(b) COMMISSION OBLIGATION TO MAKE ADDITIONAL SPECTRUM AVAILABLE BY AUCTION.—

(1) IN GENERAL.—The Federal Communications Commission shall complete all actions necessary to permit the assignment by September 30, 2002, by competitive bidding pursuant to service 309(i) of the Communications Act of 1934 (47 U.S.C. 309(j) of licenses for the use of bands of frequencies that—

(A) individually span not less than 25 megahertz, unless a combination of smaller bands can, notwithstanding the provisions of paragraph (7) of such section, reasonably be expected to produce greater receipts;

(B) in the aggregate span not less than 100 megahertz;

(C) are located below 3 gigahertz; and

(D) have not, as of the date of enactment of this Act—

(i) been designated by Commission regulation for assignment pursuant to such section;

(ii) been identified by the Secretary of Commerce pursuant to section 113 of the National Telecommunications and Information Administration Organization Act; or

(iii) been reserved for Federal Government use pursuant to section 305 of the Communications Act of 1934 (47 U.S.C. 305).

The Commission shall conduct the competitive bidding for not less than one-half of such aggregate spectrum by September 30, 2000.

(2) CRITERIA FOR REASSIGNMENT.—In making available bands of frequencies for competitive bidding pursuant to paragraph (1), the Commission shall—

(A) seek to promote the most efficient use of the spectrum;

(B) take into account the cost to incumbent licensees of relocating existing uses to

other bands of frequencies or other means of communication;

(C) take into account the needs of public safety radio services;

(D) comply with the requirements of international agreements concerning spectrum allocations; and

(E) take into account the costs to satellite service providers that could result from multiple auctions of like spectrum internationally for global satellite systems.

(3) NOTIFICATION TO NTIA.—The Commission shall notify the Secretary of Commerce if—

(A) the Commission is not able to provide for the effective relocation of incumbent licensees to bands of frequencies that are available to the Commission for assignment; and

(B) the Commission has identified bands of frequencies that are—

(i) suitable for the relocation of such licensees; and

(ii) allocated for Federal Government use, but that could be reallocated pursuant to part B of the National Telecommunications and Information Administration

Organization Act (as amended by this section).

(c) IDENTIFICATION AND REALLOCATION OF FREQUENCIES.—The National Telecommunications and Information Administration Organization Act (47 U.S.C. 901 et seq.) is amended—

(1) in section 113, by adding at the end the following new subsections:

"(f) ADDITIONAL REALLOCATION REPORT.—If the Secretary receives a notice from the Commission pursuant to section 3001(b)(3) of the Balanced Budget Act of 1995, the Secretary shall prepare and submit to the President and the Congress a report recommending for reallocation for use other than by Federal Government stations under section 305 of the 1934 Act (47 U.S.C. 305), bands of frequencies that are suitable for the uses identified in the Commission's notice.

"(g) RELOCATION OF FEDERAL GOVERNMENT STATIONS.—

"(1) IN GENERAL.—In order to expedite the efficient use of the electromagnetic spectrum and notwithstanding section 3302(b) of title 31, United States Code, any Federal entity which operates a Federal Government station may accept payment in advance or in-kind reimbursement of costs, or a

combination of payment in advance and in-kind reimbursement, from any person to defray entirely the expenses of relocating the Federal entity's operations from one or more radio spectrum frequencies to another frequency or frequencies, including, without limitation, the costs of any modification, replacement, ore reissuance of equipment, facilities, operating manuals, regulations, or other expenses incurred by that entity. Any such payment shall be deposited in the account of such Federal entity in the Treasury of the United States. Funds deposited according to this paragraph shall be available, without appropriation or fiscal year limitation, only for the operations of the Federal entity for which such funds were deposited under this paragraph.

"(2) PROCESS FOR RELOCATION.—Any person seeking to relocate a Federal Government station that has been assigned a frequency within a band allocated for mixed Federal and non-Federal use may submit a petition for such relocation to NTIA. The NTIA shall limit or terminate the Federal Government station's operating license when the following requirements are met:

"(A) the person seeking relocation of the Federal Government station has guaranteed to

defray entirely, through payment in advance, in-kind reimbursement of costs, or a combination thereof, all relocation costs incurred by the Federal entity, including all engineering, equipment, site acquisition and construction, and regulatory fee costs;

"(B) the person seeking relocation completes all activities necessary for implementing the relocation, including construction of replacement facilities (if necessary and appropriate) and identifying and obtaining on the Federal entity's behalf new frequencies for use by the relocated Federal Government station (where such station is not relocating to spectrum reserved exclusively for Federal use);

"(C) any necessary replacement facilities, equipment modifications, or other changes have been implemented and tested to ensure that the Federal Government station is able to successfully accomplish its purposes; and

"(D) NTIA has determined that the proposed use of the spectrum frequency band to which the Federal entity will relocate its operations is—

"(i) consistent with obligations undertaken by the United States in international agreements and with United States national security and public safety interests; and

"(ii) suitable for the technical characteristics of the band and consistent with other uses of the band.

In exercising its authority under subparagraph (d)(i), NTIA shall consult with the Secretary of Defense, the Secretary of State, or other appropriate officers of the Federal Government.

"(3) RIGHT TO RECLAIM.—If within one year after the relocation the Federal Government station demonstrates to the Commission that the new facilities or spectrum are not comparable to the facilities or spectrum from which the Federal Government station was relocated, the person seeking such relocation must take reasonable steps to remedy any defects or pay the Federal entity for the costs of returning the Federal Government station to the spectrum from which such station was relocated.

"(h) FEDERAL ACTION TO EXPEDITE SPECTRUM TRANSFER.—Any Federal Government station which operates on electromagnetic spectrum that has been identi-

fied for reallocation for mixed Federal and non-Federal use in any reallocation report under subsection (a) shall, to the maximum extent practicable through the use of the authority granted under subsection (g) and any other applicable provision of law, take action to relocate its spectrum use to other frequencies that are reserved for Federal use or to consolidate its spectrum use with other Federal Government stations in a manner that maximizes the spectrum available for non-Federal use. Subsection (c)(4) of this section shall not apply to the extent that a non-Federal user seeks to relocate or relocates a Federal power agency under subsection (g).

''(i) DEFINITION.—For purposes of this section, the term 'Federal entity' means any department, agency, or other instrumentality of the Federal Government that utilizes a Government station license obtained under section 305 of the 1934 Act (47 U.S.C. 305).''; and

(2) in section 114(a)(1), by striking ''(a) or (d)(1)'' and inserting ''(a), (d)(1), or (f)''.

(d) IDENTIFICATION AND REALLOCATION OF AUCTIONABLE FREQUENCIES.—The National Telecommunications and Information Administration Organization Act (47 U.S.C. 901 et seq.) is amended—

(1) in section 113(b)—

(A) by striking the heading of paragraph (1) and inserting ''INITIAL REALLOCATION REPORT.—'';

(B) by inserting ''in the first report required by subsection (a)'' after ''recommend for reallocation'' in paragraph (1);

(C) by inserting ''or (3)'' after ''paragraph (1)'' each place it appears in paragraph (2); and

(D) by inserting after paragraph (2) the following new paragraph:

''(3) SECOND REALLOCATION REPORT.—In accordance with the provisions of this section, the Secretary shall recommend for reallocation in the second report required by subsection (a), for use other than by Federal Government stations under section 305 of the 1934 Act (47 U.S.C. 305), a single frequency band that spans not less than an additional 20 megahertz, that is located below 3 gigahertz, and that meets the criteria specified in paragraphs (1) through (5) of subsection (a).''; and

(2) in section 115—

(A) in subsection (b), by striking ''the report required by section 113(a)'' and inserting

"the initial reallocation report required by section 113(a)"; and

(B) by adding at the end the following new subsection:

"(c) ALLOCATION AND ASSIGNMENT OF FREQUENCIES IDENTIFIED IN THE SECOND REALLOCATION REPORT.—With respect to the frequencies made available for reallocation pursuant to section 113(b)(3), the Commission shall, not later than 1 year after receipt of the second reallocation report required by such section, prepare, submit to the President and the Congress, and implement, a plan for the allocation and assignment under the 1934 Act of such frequencies. Such plan shall propose the immediate allocation and assignment of all such frequencies in accordance with section 309(j) of the 1934 Act (47 U.S.C. 309(j).".

SEC. 3002. AUCTION OF RECAPTURED ANALOG LICENSES.

(a) ANALOG SPECTRUM REVERSION.—

(1) LIMITATIONS ON TERMS OF ANALOG TELEVISION LICENSES ("REVERSION DATE").—No analog television license may be renewed for a period that extends beyond the earlier of December 31, 2005 or one year after the date the Commission finds, based on annual surveys conducted pursuant to paragraph (2), that at least 95% of households in the United

States have the capability to receive and display television signals, other than television signals transmitted pursuant to an analog television license. Following such date, only advanced television licenses shall be issued.

(2) ANNUAL SURVEY.—The Department of Commerce shall, each calendar year from 1998 to 2005, conduct a survey to estimate the percentage of households in the United States that have the capability to receive and display television signals other than signals transmitted pursuant to an analog television license.

(3) SPECTRUM REVERSION.—(A) The Commission shall ensure that, as analog television licenses expire pursuant to paragraph (a)(1), spectrum previously used for the broadcast of analog television is reclaimed and organized in such manner as to maximize the deployment of new and existing services.

(B) Licensees for new services shall be selected by competitive bidding. The FCC shall complete the competitive bidding procedure by March 1, 2002.

(4) MINIMUM SERVICE OBLIGATION.—(A) The Commission, by regulation, shall establish procedures to ensure that, within the year prior to the reversion date defined in paragraph (1), the advanced

television licensees shall provide each household without the capability to receive and display television signals other than television signals transmitted pursuant to an analog television license, if such household requests, with the capability to receive and display advanced television service.

(B) Each advanced television service licensee shall provide, each day for the duration of its license, at least one non-subscription television service that meets or exceeds minimum technical and other standards established by the Commission as well as any other regulations pursuant to the Communications Act of 1934, as amended, and the Children's Television Act of 1990. In setting these minimum technical standards, the Commission shall, to the extent technically feasible, ensure that picture and audio quality are at least as good as provided to recipients under current Commission rules for National Television Systems Committee (NTSC) signals and shall adopt such technical and other requirements as may be necessary or appropriate to assure the quality of the signal used to provide advanced television services, including regulations that set the minimum number of hours per day that such signal must be transmitted. The Commission shall

revoke the license of any advanced television licensee who fails to meet this condition of the license. The Commission shall promulgate regulations to assure the dissemination of converter boxes or devices necessary to ensure access to digital TV to all households that desire this access at a reasonable cost. The Commission in these regulations shall—

(A) ensure that consumers receive only one such rebate per household; and

(B) implement a mechanism by which responsibility for cost sharing can be equitably allocated. To the extent possible, the digital converter boxes distributed in accordance with this section shall utilize an affordable technology to process digital signals for reception on analog television sets.

(5) PUBLIC INTEREST OBLIGATION.—Nothing in this section shall be construed as relieving an advanced television licensee from its obligation to serve the public interest, convenience, and necessity.

(b) DEFINITIONS.—As used in this section—

(1) the term ''advanced television services'' means television services provided using digital or other advanced technology to enhance audio quality and video resolution, as further defined in the Opin-

ion, Report, and Order of the Commission entitled ''Advanced Television Systems and Their Impact Upon the Existing Television Service,'' MM Docket No. 87–268; and

(2) the term ''analog television licenses'' means licenses issued pursuant to CFR 73.682 et seq. and in effect November 13, 1995.

TITLE III—MEDICAID

SEC. 11300. TABLE OF CONTENTS OF SUBTITLE.

The table of contents of this subtitle is as follows:

TITLE III—MEDICAID

Sec. 11300. Table of contents of subtitle.

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PART 2—ELIGIBILITY

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Sec. 11322. State options to restrict choice of providers.
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Sec. 11351. MMIS requirements.
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Sec. 11358. Public Process for developing State plan amendments.

PART 7—EFFECTIVE DATE

Sec. 11361. Effective date.

PART 1—FEDERAL PAYMENTS

SEC. 11301. LIMITATIONS ON AVERAGE PER BENEFICIARY RATE OF GROWTH IN FEDERAL FINANCIAL PARTICIPATION.

(a) IN GENERAL.—Title XIX of the Social Security Act is amended—

(1) by redesignating section 1931 as section 1932, and

(2) by inserting after section 1930 the following new section:

"LIMITATION ON FEDERAL FINANCIAL PARTICIPATION BASED ON AVERAGE PER BENEFICIARY EXPENDITURES

"SEC. 1931. (a) AGGREGATE LIMIT.—

"(1) IN GENERAL.—Subject to the succeeding provisions of this section, the total amount of payments in grant awards to a State under section

1903(a) for the 4 quarters in each of fiscal years 1997 through 2002 shall not exceed the sum of the limits, specified under paragraph (2), for each group of medicaid enrollees (as defined in subsection (b)(1)) for the State for the fiscal year. Such payment limit shall be based on the total net matchable medicaid expenditures for the State for the fiscal year as defined and specified under subsection (c)(4).

"(2) GROUP LIMITS.—The limit under this paragraph for a group of medicaid enrollees for a State for a fiscal year is the product of the following factors:

"(A) The average per enrollee matchable expenditure limit for the group for the State for the fiscal year (determined under subsection (c)(1)).

"(B) The number of full-time equivalent individuals in the group in the State in the fiscal year (determined under subsection (d)).

"(C) The Federal medical assistance percentage for the State for the fiscal year (as defined in section 1905(b)).

"(3) Exception for portion of medical assistance provided under approved waivers.—

"(A) IN GENERAL.—In the case of a State which provides medical assistance under its State plan under this title pursuant to a waiver granted under section 1115 (as of [date of introduction of proposal]) on a Statewide basis (or under such a waiver that covers a substate area with a population of at least 9 million), the Secretary shall provide for an adjustment in the application of this section so that—

"(i) the limitation on total payments under paragraph (1) does not apply to Federal financial participation attributable to the medical assistance (and related administrative expenditures) provided under such a waiver; and

"(ii) the average per enrollee matchable expenditure limit established under subsection (c) and applicable to a group of medicaid enrollees is equal to such limit multiplied by the nonwaiver proportion (as defined in subparagraph (B)) for that group.

"(B) NONWAIVER PROPORTION.—In subparagraph (A)(ii), the 'nonwaiver proportion'

for a group of medicaid enrollees for a State for a fiscal year is the ratio of—

"(i) the amount of the Federal financial participation that the Secretary estimates would have been expended (in the absence of this section) for medical assistance (and related administrative expenditures) for the group for the State for the fiscal year for items and services not covered under the waiver, to

"(ii) the total amount of the Federal financial participation that the Secretary estimates would have been expended (in the absence of this section) for medical assistance (and related administrative expenditures) for the group for the State for the fiscal year (whether or not covered under the waiver).

"(4) NO APPLICATION TO VACCINE PROGRAM.—Nothing in this section shall be construed as applying any limitation to payments for the purchase and delivery of qualified pediatric vaccines under section 1928.

"(b) DEFINITIONS RELATING TO GROUPS OF MEDICAID ENROLLEES.—In this section:

"(1) IN GENERAL.—Each of the following shall be considered a separate 'group of medicaid enrollees':

"(A) Nondisabled medicaid children.

"(B) Nondisabled medicaid adults.

"(C) Elderly medicaid beneficiaries.

"(D) Disabled medicaid beneficiaries.

"(2) NONDISABLED MEDICAID CHILDREN.—The term 'nondisabled medicaid child' means a medicaid enrollee who—

"(A) is under 21 years of age,

"(B) is not the custodial parent of a child, and

"(C) is not a disabled medicaid beneficiary.

"(3) NONDISABLED MEDICAID ADULTS.—The term 'nondisabled medicaid adult' means a medicaid enrollee who—

"(A) is under 65 years of age,

"(B) is not a disabled medicaid beneficiary, and

"(C)(i) is at least 21 years of age or (ii) is the custodial parent of a child.

"(4) ELDERLY MEDICAID BENEFICIARY.—The term 'elderly medicaid beneficiary' means a medicaid enrollee who is at least 65 years of age.

"(5) DISABLED MEDICAID BENEFICIARIES.—The term 'disabled medicaid beneficiary' means a medicaid enrollee who—

"(A) is under 65 years of age, and

"(B) has been determined to meet the standards for being blind or disabled under the supplemental income security program under title XVI.

"(6) MEDICAID ENROLLEE.—The term 'medicaid enrollee' means, with respect to a State medical assistance program under this title, an individual who is enrolled with such program, but does not include an individual who is eligible only for medicare cost-sharing benefits under the program as—

"(A) a qualified medicare beneficiary (as defined in section 1905(p)(1)),

"(B) a qualified disabled and working individual (as defined in section 1905(s)), or

"(C) an individual described in section 1902(a)(10)(E)(iii).

"(c) AVERAGE PER ENROLLEE MATCHABLE EXPENDITURE LIMIT; TOTAL NET MATCHABLE MEDICAID EXPENDITURES DEFINED.—

"(1) IN GENERAL.—For purposes of this section, the average 'per enrollee matchable expenditure

limit', for a group of medicaid enrollees for a State—

"(A) for fiscal year 1997 is equal to the average base per enrollee amount (as defined under paragraph (2)(A)) for the group for the State multiplied by the allowable growth multiplier (under paragraph (3)) for each of fiscal years 1996 and 1997; and

"(B) for a succeeding fiscal year is equal to the per enrollee matchable expenditure limit under this paragraph for the preceding fiscal year multiplied by the allowable growth multiplier for that succeeding fiscal year.

Before the beginning of each of fiscal years 1997 through 2002, the Secretary shall determine and publish each State's average per enrollee matchable expenditure limit under this paragraph for each group of medicaid enrollees.

"(2) BASE PER ENROLLEE AMOUNT.—

"(A) IN GENERAL.—In this section, the 'base average per enrollee amount', for a group of medicaid enrollees for a State, is equal to—

"(i) the sum of (i) the base medical assistance amount (determined under subparagraph (C)) for the group and State,

and (ii) the base administrative cost amount (determined under subparagraph (D)) for group and the State; divided by

"(ii) the number of full-year equivalent medicaid enrollees in the group in the State in fiscal year 1995 (as determined pursuant to subsection (d)).

"(B) DETERMINATION OF NET MATCHABLE MEDICAID EXPENDITURES FOR FISCAL YEAR 1995.—In order to determine base average per enrollee amounts for a State, the Secretary shall—

"(i) determine the amount of the total net matchable medicaid expenditures (as defined in paragraph (4)) for the State for fiscal year 1995, and

"(ii) separately identify—

"(I) the portion of such amount attributable to medical assistance, and

"(II) the portion of such amount attributable to administrative costs.

The Secretary shall base the determination under clause (i) on the expenditures reported by the State on line 11 of HCFA Form 64 for the

4 quarters of fiscal year 1995, subject to the adjustments described in paragraph (4)(B)).

"(C) BASE MEDICAL ASSISTANCE AMOUNT FOR EACH GROUP.—For each State for each group of medicaid enrollees, the Secretary shall determine a 'base medical assistance amount' equal to the amount, of the portion of the total net matchable medicaid expenditures for fiscal year 1995 for the State attributed to medical assistance under subparagraph (B)(ii)(I), that the Secretary finds is attributable to items and services furnished to individuals in such group for the State .

"(D) BASE ADMINISTRATIVE COST AMOUNT FOR EACH GROUP.—For each State for each group of medicaid enrollees, the Secretary shall determine a 'base administrative cost amount' equal to the amount that bears the same ratio to the portion of the total net matchable medicaid expenditures for fiscal year 1995 for the State attributed to administrative costs under subparagraph (B)(ii)(II) as the base medical assistance amount for the group (as determined under subparagraph (C) for the State) bears to the sum of the base medical as-

sistance amounts for all the groups for the State.

"(3) ALLOWABLE GROWTH MULTIPLIER.—In this subsection, the 'allowable growth multiplier' for—

"(A) fiscal year 1996 is 6.5 percent.

"(B) fiscal year 1997 is 6.5 percent.

"(C) fiscal year 1998 is 6.5 percent.

"(D) fiscal year 1999 is 6.0 percent.

"(E) fiscal year 2000 is 5.5 percent.

"(F) fiscal year 2001 is 5.0 percent.

"(G) fiscal year 2002 is 4.5 percent.

"(4) EQUITY ADJUSTOR IN ALLOWABLE GROWTH MULTIPLIER FOR STATES WITH LOW PER CAPITA EXPENDITURES.—

"(A) FISCAL YEAR 1997.—If the [per beneficiary base amount described in paragraph ( ) for the base fiscal year] for a State for a [group of medicare enrollees]—

"(i) does not exceed 80 percent of the national, weighted average of such [per beneficiary base amounts] for such group for all States for the year, then, the determining the per beneficiary limit for such State and group for fiscal year 1997, the

allowable growth multiplier for each of fiscal years 1996 and 1997 shall be increased by 2.0 percentage points;

"(ii) exceeds 80 percent, but does not exceed 90 percent, of such national, weighted average, then, in determining the per beneficiary limit for such State and group for fiscal year 1997, the allowable growth multiplier for each of fiscal years

"(4) TOTAL NET MATCHABLE MEDICAID EXPENDITURES.—

"(A) IN GENERAL.—In this section, the term 'total net matchable medicaid expenditures' means, for a State for a fiscal year, the total net expenditures for the State under this title for the 4 quarters of the fiscal year for which payments may be made under section 1903, reduced by the amount of such expenditures that the Secretary determines is attributable to expenditures described in subsection (e).

"(B) USE OF FORMS AND ADJUSTMENT.—The total net matchable medicaid expenditures for a State for a fiscal year shall be determined by the Secretary based on reports submitted by

the State under section 1903 for quarters in the fiscal year and as adjusted by the Secretary by January 31 of the succeeding fiscal year to take into account disallowances and similar adjustments for expenditures not described in subsection (e).

"(d) DETERMINATION OF NUMBER OF FULL-YEAR EQUIVALENT INDIVIDUALS.—

"(1) IN GENERAL.—For purposes of this section, the number of full-year equivalent individuals in each group of medicaid enrollees for a State for a fiscal year shall be determined, subject to paragraphs (2) and (3), based on reports submitted by the State of the Secretary.

"(2) PART-YEAR ENROLLEES.—In the case of individuals who were not a medicaid enrollee for the entire fiscal year (or are within a group of medicaid enrollees for only part of a fiscal year), the number shall take into account only the portion of the year in which they were such enrollees or within such group.

"(3) SECRETARIAL OVERSIGHT.—In order to ensure the accuracy of the numbers reported by States under this subsection, the Secretary is authorized—

"(A) to require documentation, whether on a sample or other basis,

"(B) to audit such reports (or to require the performance of independent audits), and

"(C) to revise the numbers so reported.

"(e) EXPENDITURES NOT SUBJECT TO (OR COUNTED IN) LIMITATION.—For purposes of this section, the following expenditures (for which payments may be made to a State under section 1903(a)) shall not be counted in computing base medical assistance amounts or base administrative cost amounts under subsection (c)(2) and Federal financial participation with respect to such expenditures shall not be subject to the limit established under subsection (a)(1):

"(1) DISPROPORTIONATE SHARE PAYMENT ADJUSTMENTS.—Expenditures attributable to payment adjustments made under section 1923.

"(2) MEDICARE COST-SHARING.—Expenditures for medical assistance for medicare cost-sharing, as defined in section 1905(p)(3).

"(3) INDIAN HEALTH PROGRAMS.—Expenditures for medical assistance for services provided by—

"(A) the Indian Health Service,

"(B) an Indian health program operated by an Indian tribe or tribal organization pursuant to a contract, grant, cooperative agreement, or compact with the Indian Health Service pursuant to the Indian Self-Determination Act (25 U.S.C. 450 et seq.), and

"(C) an urban Indian health program operated by an urban Indian organization pursuant to a grant or contract with the Indian Health Service pursuant to title V of the Indian Health Care Improvement Act (25 U.S.C. 1601 et seq.).

"(4) INFORMATION SYSTEMS.—Expenditures described in subparagraph (A)(i) and (B) of section 1903(a)(2).

"(5) NURSING FACILITY PREADMISSION SCREENING, RESIDENT REVIEW, AND SURVEY AND CERTIFICATION ACTIVITIES.—Expenditures described in subparagraphs (C) and (D) of section 1903(a)(2).

"(6) SAVE.—Expenditures attributable to implementation of the immigration status verification system (described in section 1137(d)) pursuant to section 1903(a)(4).

"(7) FRAUD AND ABUSE ACTIVITIES.—Expenditures for activities of State medicaid fraud control units pursuant to section 1903(a)(6).".

(b) ENFORCEMENT-RELATED PROVISIONS.—

(1) ASSURING ACTUAL PAYMENTS TO STATES CONSISTENT WITH LIMITATION.—Section 1903(d) of such Act (42 U.S.C. 1396(d)) is amended—

(A) in paragraph (2)(A), by striking "The Secretary" and inserting "Subject to paragraph (7), the Secretary", and

(B) by adding at the end the following new paragraph:

"(7)(A) The Secretary shall take such steps as are necessary to assure that payments under this subsection for quarters in a fiscal year (and for the entire fiscal year) are consistent with the limitation established under section 1931 for the fiscal year. Such steps may include limiting such payments for one or more quarters in a fiscal year based on—

"(i) an appropriate proportion of the limitation under section 1931(a) for the fiscal year involved, and

"(ii) numbers of individuals within each group of medicaid enrollees, as reported under subparagraph (B) for a recent previous quarter.

"(B) Each State shall include, in its report filed under paragraph (1)(A) for a calendar quarter—

"(i) the actual number of individuals within each group of medicaid enrollees described in section 1931(b)(1) for the second previous calendar quarter and (based on the data available) for the previous calendar quarter, and

"(ii) an estimate of such numbers for the calendar quarter involved.

as well as expenditures (other than expenditures described in section 1931(e)) attributable to each such group for such periods.

"(C) In order to implement section 1931 and this subsection, the Secretary shall—

"(i) change HCFA Form 37 to require States to separate out spending projections by groups of medicaid enrollees, and

"(ii) change HCFA Form 64 to include enrollment data and to permit the attribution of expenditures to such groups.

The Secretary shall provide for the auditing of information reported under clause (ii).

"(D) The Secretary shall take such actions as may be necessary to assure the accuracy of the base per enrollee amounts determined under section 1931(c)(2).".

(2) UPPER INCOME LIMIT ON ''LESS RESTRICTIVE'' ELIGIBILITY METHODOLOGIES.—Section 1902(r)(2) of such Act (42 U.S.C. 1396a(r)(2)) is amended—

(A) in subparagraph (A), by inserting ''(except as provided in subparagraph (C))'' after ''no more restrictive'', and

(B) by adding at the end the following new subparagraph:

''(C) The methodology described in subparagraph (A) shall not result in an income eligibility limit (based on gross income) that is greater than the greater of—

''(i) 150 percent of the poverty line (as defined in section 673(2) of the Community Services Block Grant Act (42 U.S.C. 9902(2)), including any revision required by such section), or

''(ii) the income eligibility limit applicable under the State plan in effect in fiscal year 1995 (taking into account any such limit applicable under a waiver under section 1115).''.

(c) APPLICATION OF ENHANCED MATCHING RATE FOR DEVELOPMENT OF INFORMATION SYSTEMS.—Section 1903(a)(3)(A)(i) of such Act (42 U.S.C. 1396b(a)(3)(A)(i)) is amended by inserting before the comma at the end the following: ''and including informa-

tion systems necessary to assure compliance with reporting requirements identified as necessary to carry out section _____ of the [Omnibus Budget Reconciliation Act of 1995]''.

(d) CONFORMING AMENDMENT.—Section 1903(a) of such Act (42 U.S.C. 1396b(a)), in the matter preceding paragraph (1), is amended by inserting ''or section 1931'' after ''except as otherwise provided in this section''.

(e) CONFORMING AMENDMENTS.—

(1) Section 1903(a) is amended in the matter preceding paragraph (1) by inserting ''or section 1931'' after ''except as otherwise provided in the section''.

(2) Section 1903 is amended by adding after subsection (w) the following new subsections:

''(x) Notwithstanding any other provision of this Act, no State shall be entitled to payment under this title—

''(1) with respect to expenditures after September 30, 1996, that exceed the limitation on Federal financial participation specified in section 1931; or

''(2) with respect to an expenditure made or other obligation incurred by a State before October 1, 1996, unless the State has submitted to the Secretary, not later than June 30, 1997, a claim for

Federal financial participation in such expenditure or obligation.''.

TITLE IV—MEDICARE SAVINGS

(a) AMENDMENTS TO SOCIAL SECURITY ACT.—Except as otherwise specifically provided, whenever in this title an amendment is expressed in terms of an amendment to or repeal of a section or other provision, the reference is considered to be made to that section or other provision of the Social Security Act.

PART 1—PROVISIONS RELATING TO PART A

SEC. 11101. UPDATES FOR PPS HOSPITALS.

(a) UPDATE FACTORS.—Section 1886(b)(3)(B)(i) (42 U.S.C. 1395ww(b)(3)(B)(i)) is amended by striking subclauses (XII) and (XIII) and inserting the following:

''(XII) for each of the fiscal years 1997 through 2000, the market basket percentage increase minus 1.0 percentage points for hospitals in all areas,

''(XIII) for fiscal years 2001 and 2002, the market basket percentage increase minus 1.5 percentage points for hospitals in all areas, and

''(XIV) for fiscal year 2003 and each subsequent fiscal year, the market basket percentage increase for hospitals in all areas.''.

(b) ADJUSTMENTS FOR CASE MIX WHEN RECALIBRATING DRGS.—

(1) IN GENERAL.—Section 1886(d)(3) (42 U.S.C. 1395ww(d)(3)) is amended by adding at the end the following:

"(F) ADJUSTING FOR ESTIMATED CHANGE IN CASE MIX.—

"(i) IN GENERAL.—Effective for discharges occurring in a fiscal year in which the Secretary implements significant changes (as defined by the Secretary) in the diagnosis-related group classification system and thereafter, the Secretary may (subject to clause (ii)) adjust the standardized amounts to take into account estimated case mix increase not attributable to real case mix increase anticipated to occur during the fiscal year to which the standardized amounts apply.

"(ii) REFINEMENT.—With regard to the adjustment described in clause (i), if the Secretary determines, based on data taken from the fiscal year to which the adjustment applied, that the amount of the adjustment varied from the actual amount of case mix increase not attributable to real case mix increase by more than 0.25 percentage points, the Secretary shall

make a prospective adjustment to the standardized amounts to correct for the variance.''.

(2) PROPAC RECOMMENDATIONS.—Section 1886(e)(2)(A) (42 U.S.C. 1395ww(e)(2)(A)) is amended by adding at the end the following: ''With respect to subsection (d) hospitals, the Commission's recommendation regarding the appropriate percentage change shall take into account the anticipated difference during the fiscal year between the change in the average weighting factor and the change in real case mix.''.

SEC. 11102. MAINTAINING SAVINGS FROM TEMPORARY REDUCTION IN PPS CAPITAL RATES.

Section 1886(g)(1)(A) (42 U.S.C. 1395ww(g)(1)(A)) is amended by adding at the end the following: ''In addition to the reduction described in the preceding sentence, for discharges occurring after September 30, 1995, the Secretary shall reduce by 15.7 percent the unadjusted standard Federal capital payment rate (as described in section 412.308(c) of volume 42 of the Code of Federal Regulations), as in effect on September 30, 1995) and shall reduce by 15.7 percent the unadjusted hospital-specific rate (as described in section 412.328(e)(1) of volume 42 of the Code of Federal Regulations), as in effect on September 30, 1995).''.

SEC. 11103. REDUCTIONS IN DISPROPORTIONATE SHARE PAYMENT ADJUSTMENTS.

(a) IN GENERAL.—Section 1886(d)(5)(F) (42 U.S.C. 1395ww(d)(5)(F)) is amended—

(1) in clause (ii), by striking ''The amount'' and inserting ''Subject to clause (ix), the amount'', and

(2) by adding at the end the following:

''(ix) FISCAL YEAR 1999 AND LATER.—For discharges occurring on or after October 1, 1998, the payment amount otherwise determined under clause (ii) shall be reduced by 10 percent.''.

(b) CONFORMING AMENDMENT RELATING TO DETERMINATION OF STANDARDIZED AMOUNTS.—Section 1886(d)(2)(C)(iv) (42 U.S.C. 1395ww(d)(2)(C)(iv)) is amended inserting the following before the period: '', and the Secretary shall not take into account any reductions in the amount of such additional payments resulting from the amendments made by section 11103(a) of the Balanced Budget Act of 1995 for Economic Growth and Fairness''.

SEC. 11104. REDUCTION IN ADJUSTMENT FOR INDIRECT MEDICAL EDUCATION.

(a) IN GENERAL.—Section 1886(d)(5)(B)(ii) (42 U.S.C. 1395ww(d)(5)(B)(ii)) is amended by striking all

after ''occurring'' and inserting the following: ''the indirect teaching adjustment factor for discharges occurring—

''(I) on or after January 1, 1996, and before October 1, 1996, is equal to 1.77 × (((1+r) to the nth power) – 1),

''(II) during fiscal years 1997 through 1999, is equal to 1.67 × (((1+r) to the nth power) – 1),

''(III) during the fiscal year 2000, is equal to 1.55 × (((1+r) to nth power) – 1), and

''(IV) during the fiscal years beginning with 2001, is equal to 1.47 × (((1+r) to the nth power) – 1),

where 'r' is the ratio of the hospital's full-time equivalent interns and residents to beds in 'n' equals .405.''.

(b) CONFORMING AMENDMENT RELATING TO DETERMINATION OF STANDARDIZED AMOUNTS.—Section 1886(d)(2)(C)(i) (42 U.S.C. 1395ww(d)(2)(C)(i)) is amended by adding at the end the following: '', except that the Secretary shall not take into account any reductions in the amount of additional payments under subsection (d)(5)(B)(ii) resulting from the amendments made by section 11104(a) of the Balanced Budget Act of 1995 for Economic Growth and Fairness,''.

(c) ALTERNATIVE TO RESTANDARDIZATION OF COSTS.—Section 1886(d)(3)(A) (42 U.S.C. 1395ww(d)(3)(A)) is amended by adding at the end the following:

"(vi) ALTERNATIVE TO RESTANDARDIZATION OF COSTS.—Notwithstanding clauses (i) through (v), if changes in the amount of payment under subsections (d)(3)(E), (d)(5)(B), or (d)(5)(F) would otherwise require the Secretary top restandardize hospital costs under subsection (d)(2)(C), the Secretary may compute payments amounts under the subparagraph in a manner that assures the aggregate payments under this subsection in a fiscal year not greater or less than those that would have been made in the year if the Secretary had restandardized hospital costs under subsection (d)(2)(C).".

(d) EFFECTIVE DATE.—The amendments made by the previous subsections apply to discharges occurring after 1995.

SEC. 11105. REVISIONS IN DETERMINATION OF AMOUNT OF PAYMENT FOR MEDICAL EDUCATION.

(a) INDIRECT MEDICAL EDUCATION.—

(1) IN GENERAL.—Section 1886(d)(5)(B) (42 U.S.C. 1395ww(d)(5)(B)) is amended—

(A) in clause (ii) (as amended by section 111104(a) of the Act), by inserting before the period ", subject to clause (vii)", and

(B) by adding at the end the following:

"(v) LIMITATIONS ON NUMBERS OF INTERNS AND RESIDENTS.—In determining such adjustment with respect to a hospital for discharges occurring on or after October 1, 1995—

"(I) except as provided in clause (vi), the total number of interns and residents may not exceed the number of interns and residents with respect to the hospital's cost reporting period ending on or before December 31, 1995, and

"(II) except as provided in subclause (vi), the number of interns and residents who are not who are not primary care residents as defined in section 1886 (h)(5)(H) or residents in obstetrics and gynecology, may not exceed the number of such residents as of such cost reporting period.

"(vi) ADJUSTMENTS TO LIMITS.—The Secretary shall adjust the number of interns and residents in clause (v)—

"(I) by applying a weighting factor of 0.50 with respect to each intern or resident who was not in an initial residency period as defined in Section 1886(h)(5)(F),

"(II) by including any interns and residents that qualify under clause (iv), and

"(III) as appropriate, where a hospital has a significant increase in the number of primary care or obstetrics and gynecology interns and residents after June 30, 1995.

"(vii) LIMITATION ON RESIDENT-TO-BED RATIO.—For purposes of clause (ii), 'r' may not exceed the ratio of the number of interns and residents as determined under clause (v) with respect to the hospital for its most recent cost reporting period ending on or before December 31, 1995, to the hospital's available beds (as defined by the Secretary) during such cost reporting period.".

(2) PAYMENT FOR INTERNS AND RESIDENTS PROVIDING OFF-SITE SERVICES.—Section 1886(d)(5)(B)(iv) (U.S.C. 42 1395ww(d)(5)(B)(iv) is amended to read as follows:

"(iv) OFF-SITE SERVICES.—All the time spent by an intern or resident in patient care activities under an approved

medical residency training program shall be counted towards the determination of full-time equivalency at an entity in a non-hospital setting, if the hospital incurs all, or substantially all, of the costs for the training program in that setting.''.

(b) DIRECT MEDICAL EDUCATION.—

(1) LIMITATION OF NUMBER OF RESIDENTS.—Section 1886(h)(4) (42 U.S.C. 1395ww(h)(4)) is amended by adding at the end the following:

''(F) LIMITATION OF NUMBER OF RESIDENTS FOR CERTAIN FISCAL YEARS.—Such rules shall provide that for purposes of a cost reporting period beginning on or after October 1, 1995—

''(i) the total number of full-time equivalent residents (as determined under this paragraph) with respect to an approved medical residency training program may not exceed the number of full-time equivalent residents with respect to the ending on or before December 31, 1995, and

''(ii) the number of a hospital's full-time-equivalent residents as determined

under this paragraph who are not primary care residents (as defined in paragraph (5)(H)) or residents in obstetrics and gynecology may not exceed the number of such residents as of such cost reporting period.

"(G) ADJUSTMENTS TO LIMITATIONS.—The Secretary may adjust the limitations specified in subparagraph (F) if a hospital has a significant increase in the number of primary care or obstetrics and gynecology interns or residents after June 30, 1995.".

(2) CONTINUATION OF FREEZE ON UPDATES TO FTE RESIDENT AMOUNTS.—Section 1886(h)(2)(D)(ii) (42 U.S.C. 1395ww(h)(2)(D)(ii)) is amended by striking "fiscal year 1994 or fiscal year 1995" and inserting "fiscal years 1994 through 2000".

(3) PERMITTING PAYMENT TO NON-HOSPITAL PROVIDERS.—Section 1886 (42 U.S.C. 1395ww)) is amended by adding at the end the following:

"(j) PAYMENT TO NON-HOSPITAL PROVIDERS.—Beginning with cost reporting periods beginning on or after July 1, 1996, the Secretary may make payments (in such amounts and in such form, and from each of the trust funds under this title, as the Secretary considers appro-

1 priate) to Federally Qualified Health Centers (as defined
2 in section 1861(aa)(4)) and Rural Health Clinics (as de-
3 fined in section 1861(aa)(2)) and eligible organizations
4 with contracts under part C for the direct costs of medical
5 education, if such costs are incurred in the operation of
6 an approved medical residence training program described
7 in subsection (h). The Secretary may designate additional
8 entities as eligible organizations for such payments as the
9 Secretary determines to be appropriate.''.

10 (c) APPLICATION TO COST CONTRACTS.—Section
11 1886(j) of the Social Security Act (42 U.S.C. 1395ww(j))
12 (as added by subsection (b)(3) of this section) applies to
13 contracts under section 1876(h) of that Act (42 U.S.C.
14 1395mm).

15 (d) EFFECTIVE DATE.—The amendments made by
16 the previous subsections apply to hospital cost reporting
17 periods beginning on or after October 1, 1995.

18 (e) COMMISSION ON MEDICAL EDUCATION AND
19 WORKFORCE PRIORITIES.—

20 (1) IN GENERAL.—There is established within
21 the Department of Health and Human Services a
22 Commission to be known as the National Commis-
23 sion on Medical Education and Workforce Priorities
24 (hereafter in this subsection referred to as the
25 ''Commission'').

(2) DUTIES.—The Commission shall have the following responsibilities:

(A) To develop and recommend to the Secretary specific policies to address the preservation of the research and educational capacity of the Nation's academic health centers and the supply, composition, and support of the future health care workforce. The Commission shall examine—

(i) the financing of graduate medical education,

(ii) issues relating to children's and specialty hospitals,

(iii) policies regarding international medical school graduates, and

(iv) the relationship of graduate medical education funding and service-generated income.

(B) To make recommendations concerning the most effective allocation of training resources to ensure that the numbers and competencies of health care professionals are responsive to the Nation's needs.

(3) COMPOSITION.—

(A) QUALIFICATIONS.—The Commission shall consist of 15 members appointed by the Secretary, and shall to the extent feasible include—

(i) individuals nationally recognized for expertise in health economics, medical education financing, medical practice, issues relating to the composition of the health care workforce, research on and development of technological and scientific advances in health care, and other related fields; and

(ii) health care professionals including physicians (both faculty and non-faculty), consumers, a dean and a chief executive officer or an academic health center or a teaching hospital, and representatives from health insurance organizations, managed care organizations, and medical workforce accrediting organizations.

(B) NATIONAL REPRESENTATION.—To the extent feasible, the membership of the Commission—

(i) shall represent the various geographic regions of the United States,

(ii) shall reflect the racial, ethnic, and gender composition of the United States; and

(iii) shall be broadly representative of medical schools, academic health centers, teaching hospitals, and schools involved in the training of non-physician providers of health services.

(4) TERMS OF OFFICE.—Members of the Commission shall first be appointed no later than July 1, 1996, for a term of two and one half years.

(5) EX OFFICIO MEMBERS.—In addition to the members appointed pursuant to paragraph (3), the Commission shall include—

(A) the Secretary of Health and Human Services, the Secretary of Veterans Affairs, and the Secretary of Defense (or a designee of each such official); and

(B) such additional individuals as may be designated by the Secretary from among Federal officers or employees.

(6) CHAIR.—The Secretary shall designate an individual from among the members appointed pursuant to paragraph (3)(A) to serve as the chair of the Commission.

(7) QUORUM.—Nine members of the Commission shall constitute a quorum, but a lesser number may hold hearings.

(8) VACANCIES.—Any vacancy in the Commission shall not affect its power to function.

(9) COMPENSATION.—Each member of the Commission who is not otherwise employed by the United States Government shall receive compensation at a rate equal to the daily rate prescribed for GS–18 under the General Schedule under section 5332 of title 5, United States Code, for each day, including travel time, such member is engaged in the actual performance of duties as a member of the Commission. A member of the Commission who is an officer or employee of the United States Government shall serve without additional compensation. All members of the Commission shall be reimbursed for travel, subsistence, and other necessary expenses incurred by them in the performance of their duties.

(10) CERTAIN AUTHORITIES AND DUTIES.—In order to carry out the provisions of this subsection, the Commission is authorized to—

(A) collect such information, hold such hearings, and sit and act at such times and places, either as a whole or by subcommittee,

and request the attendance and testimony of such witnesses and the production of such documents as the Commission may consider advisable; and

(B) request the cooperation and assistance of Federal departments, agencies, and instrumentalities, and such departments, agencies, and instrumentalities are authorized to provide such cooperation and assistance.

(11) REPORTS.—The Commission shall submit to the Secretary a preliminary report not later than July 1, 1997, and a final report not later than July 1, 1998, making recommendations on the matters specified in paragraph (2).

(12) TERMINATION.—The Commission shall terminate as of December 31, 1998.

(13) AUTHORIZATION OF APPROPRIATIONS.—There is authorized to be appropriated to the Secretary of Health and Human Services for use in carrying out this subsection not more than $250,000 for each of fiscal years 1996, 1997, 1998. Funds appropriated for fiscal year 1998 shall remain available until expended.

SEC. 11106. ELIMINATION OF IME AND DSH PAYMENTS ATTRIBUTABLE TO OUTLIER PAYMENTS.

(a) INDIRECT MEDICAL EDUCATION.—Section 1886(d)(5)(B)(i)(I) (42 U.S.C. 1395ww(d)(5)(B)(i)(I)) is amended by inserting ", for cases qualifying for additional payment under subparagraph (A)(i)," before "the amount paid to the hospital under subparagraph (A)".

(b) DISPROPORTIONATE SHARE ADJUSTMENTS.—Section 1886(d)(5)(F)(ii)(I) (42 U.S.C. 1395ww(d)(5)(F)(ii)(I)) is amended by inserting ", for cases qualifying for additional payment under subparagraph (A)(i)," before "the amount paid to the hospital under subparagraph (A)".

(c) COST OUTLIER PAYMENTS.—Section 1886(d)(5)(A)(ii) (42 U.S.C. 1395ww(d)(5)(A)(ii)) is amended by striking "exceed the applicable DRG prospective payment rate" and inserting "exceed the sum of the applicable DRG prospective payment rate plus any amounts payable under paragraphs (d)(5)(B) and (d)(5)(F)".

(d) EFFECTIVE DATE.—The amendments made by the previous subsections apply to discharges occurring on or after October 1, 1995.

SEC. 11107. TREATMENT OF TRANSFER CASES.

Section 1886(d)(5)(I) (42 U.S.C. 1395ww(d)(5)(I)) of the Act is amended by adding at the end the following:

"(iii) CERTAIN TRANSFERS.—Effective for discharges occurring on or after October 1, 1995, transfer cases (as otherwise defined by the Secretary) shall also include cases in which a patient is transferred from a subsection (d) hospital to a hospital or hospital unit that is not a subsection (d) hospital (under section 1886(d)(1)(B) and implementing regulations) or to a skilled nursing facility for the purpose of receiving extended care services.".

SEC. 11108. MORATORIUM ON NEW LONG TERM CARE HOSPITAL EXCLUSIONS.

Section 1886(d)(1)(B)(iv) (42 U.S.C. 1395ww(d)(1)(B)(iv)) is amended by inserting "(and had such an average on the date of enactment of the Balanced Budget Act of 1995 for Economic Growth and Fairness)" before the comma.

SEC. 11109. PAYMENTS TO HOSPITALS EXCLUDED FROM PPS.

(a) REDUCTIONS IN UPDATES.—Section 1886(b)(3)(B)(ii) (42 U.S.C. 1395ww(b)(4)(B)(ii)) is amended—

(1) in subclause (V)

(A) by striking "through 1997" and inserting "through 1995", and

(B) by striking "and",

(2) by renumbering subclause (VI) as (VIII), and

(3) by inserting after subclause (V) the following:

"(VI) fiscal years 1996 through 2000, the market basket percentage increase minus 1.0 percentage point,

"(VII) fiscal years 2001 and 2002, the market basket percentage increase minus 1.5 percentage points, and".

(b) REBASING FOR PPS-EXEMPT HOSPITALS.—Section 1886(b)(3)(A) (42 U.S.C. 1395ww(b)(3)(A)) is amended to read as follows:

"(3)(A) TARGET AMOUNT.—

"(i) CALCULATION OF TARGET AMOUNT.—Subject to clauses (ii) and (iii), and except as provided in subparagraphs (C), (D), and (E), for purposes of this subsection, the term 'target amount' means—

"(I) with respect to the first 12-month cost reporting period in which this subparagraph is applied to the hospital, the average allowable operating costs of inpatient hospital services (as defined in subsection (a)(4)) recognized under this title for such hospital for the hospital's two most recent 12-month cost reporting periods be-

ginning on or after October 1, 1990, subject to the floor and ceiling for target amounts as specified in clause (ii), and increased by the applicable percentage increases under subparagraph (B)(ii) for the hospital's succeeding cost reporting periods beginning before fiscal year 1996, or

"(II) with respect to a later cost reporting period, the target amount for the preceding cost reporting period, increased by the applicable percentage increase under subparagraph (B)(ii).

"(ii) FLOOR AND CEILING.—Subject to clause (iii), the target amount determined under this subparagraph for a hospital or unit shall not be less than 70 percent nor more than 150 percent of the national mean (adjusted by an appropriate wage index) of the operating costs of inpatient hospital services determined under this paragraph for hospitals (and units thereof as applicable) of each type of hospital described in subsection (d)(1)(B) for the cost reporting periods noted in clause (i)(I) and updated by the applicable percentage increase under subparagraph (B)(ii).

"(iii) NEW HOSPITALS.—In the case of a hospital that does not have a cost reporting period beginning before October 1, 1990—

"(I) with respect to cost reporting periods beginning during the hospital's first two fiscal years of operation, the amount of payment made under this title with respect to operating costs of inpatient hospital services (as defined in subsection (a)(4)) shall be the reasonable costs for providing such services, except that such amount may not exceed 150 percent of the national mean as determined and updated in clause (ii),

"(II) with respect to a later cost reporting period, clauses (i) and (ii) shall apply to such hospital except that the target amount for the hospital shall be the average allowable operating costs of inpatient hospital services (as defined in subsection (a)(4)) recognized under this title for the hospital's first two 12-month cost reporting periods beginning at least one year after the hospital accepts its first patient.".

(c) EXCEPTIONS AND ADJUSTMENTS.—Section 1886(b)((4)(A)(i) (42 U.S.C. 1395ww(b)(4)(A)(i)) is

amended by inserting the following after the first sentence: * * *.

SEC. 11110. REDUCTIONS TO CAPITAL PAYMENTS FOR PPS-EXEMPT HOSPITALS.

Section 1861(v)(1) (42 U.S.C. 1395x(v)(1)) is amended by adding at the end the following new subparagraph:

"(T) REDUCTIONS FOR PPS-EXEMPT HOSPITALS.—Such regulations shall provide that, in determining the amount of the payments that may be made under this title with respect to the capital-related costs of inpatient hospital services furnished by a hospital that is not a subsection (d) hospital (as defined in section 1886(d)(1)(B)) or a subsection (d) Puerto Rico hospital (as defined in section 1886(d)(9)(A)), the Secretary shall reduce the amounts of such payments otherwise established under this title by 15 percent for payment attributable to portions of cost reporting periods occurring during each of the fiscal years 1996 through 2005.".

SEC. 11111. MAINTAINING SAVINGS RESULTING FROM TEMPORARY FREEZE ON PAYMENT INCREASES FOR SKILLED NURSING FACILITIES.

(a) BASING UPDATES TO PER DIEM COST LIMITS EFFECTIVE FOR FISCAL YEAR 1996 ON LIMITS FOR FISCAL YEAR 1993.—

(1) IN GENERAL.—The last sentence of section 1888(a) (42 U.S.C. 1395yy(a)) is amended by adding at the end the following: ", except that the limits effective October 1, 1995 shall be based on the limits effective on October 1, 1992 and shall not take into account any changes in the routine service costs of skilled nursing facilities occurring during cost reporting periods which began during fiscal year 1994 or fiscal year 1995.".

(2) NO EXCEPTIONS PERMITTED BASED ON AMENDMENT.—The Secretary of Health and Human Services shall not consider the amendment made by paragraph (1) in making any adjustments pursuant to section 1888(c) of the Social Security Act.

(b) PAYMENTS DETERMINED ON PROSPECTIVE BASIS.—Prospective payments made to skilled nursing facilities under section 1888(d) of the Social Security Act for cost reporting periods beginning on or after October 1, 1995, shall be based on the rates effective for cost reporting periods beginning October 1, 1992, and before Oc-

tober 1, 1993, and shall not take into account any changes in the costs of services occurring during cost reporting periods which began during fiscal year 1994 or fiscal year 1995.

SEC. 11112. INTERIM PROSPECTIVE PAYMENT FOR SKILLED NURSING FACILITIES.

(a) IN GENERAL.—Section 1888 (42 U.S.C. 1395yy) is amended by adding at the end the following:

"(e) PAYMENT ON AN INTERIM PROSPECTIVE BASIS.—The Secretary shall, for cost reporting periods beginning on or after October 1, 1996, provide for payment for routine service costs (excluding capital-related costs) of extended care services in accordance with a prospective payment system established by the Secretary in the amounts provided in subsection (f), subject to the exceptions and limitations in subsections (g) and (h).

"(f) DETERMINATION OF PAYMENT AMOUNTS.—

"(1) PER DIEM BASIS.—The amount of payment under subsection (e) shall be determined on a per diem basis.

"(2) USE OF BASE YEAR COSTS UPDATED BY MARKET BASKET.—The Secretary shall compute the routine service costs per diem in a base year (determined by the Secretary) for each skilled nursing facility, and shall update the per diem rate on the

basis of a market basket, excluding increases in routine service costs associated with fiscal year 1994 and fiscal year 1995, and other factors as the Secretary determines appropriate.

"(3) LIMITATION ON BASE YEAR COSTS.—The base year routine service costs used to determine the per diem rate applicable to a skilled nursing facility may not exceed the following limits:

"(A) RURAL AREAS.—With respect to skilled nursing facilities located in rural areas, the limit shall be equal to 112 percent of the mean per diem routine service costs in a base year (determined by the Secretary) for free-standing skilled nursing facilities located in rural areas within the same region.

"(B) URBAN AREAS.—With respect to skilled nursing facilities located in urban areas, the limit shall be equal to 112 percent of the mean per diem routine service costs in a base year (determined by the Secretary) for free-standing skilled nursing facilities located in urban areas within the same region.

"(C) DEFINITIONS.—For purposes of this subsection, urban and rural areas shall be determined in the same manner as for purposes of

subsection (a), and the term ''region'' shall have the same meaning as under section 1886(d)(2)(D).

''(D) WAGE ADJUSTMENTS.—In establishing limits under this subsection, the Secretary may make appropriate adjustments to the labor-related portion of the costs based upon on a wage index and other factors as the Secretary determines appropriate.

''(4) NEW SKILLED NURSING FACILITIES.—Skilled nursing facilities entering the Medicare program subsequent to the base period, determined in subsection (f)(1), shall receive a routine payment rate equal to the mean per diem routine costs of skilled nursing facilities in the urban or rural area in which they are located by region. The Secretary shall compute these payment rates using per diem costs in a base year (determined by the Secretary) and shall update the rates on the basis of a market basket and other factors as the Secretary determines appropriate.

''(5) LOW MEDICARE VOLUME FACILITIES.—Effective for cost reporting periods beginning on or after October 1, 1996, low Medicare volume skilled nursing facilities, as described in subsection (d),

shall receive payment for routine service costs as otherwise set forth in subsections (e) through (j), except that they may elect to receive payment on the basis of the rates described in subsection (f)(4).

"(6) CASE MIX ADJUSTMENTS.—The Secretary may make prospective adjustments to the routine payment rates to account for changes in facility patient mix (case mix) as the Secretary determines appropriate. Such adjustments shall be made in a manner which does not increase expenditures for the routine costs of skilled nursing facility services beyond what would otherwise occur.

"(g) HOLD HARMLESS PAYMENTS.—

"(1) IN GENERAL.—Subject to paragraphs (2) and (3), a facility's per diem payment rate based on the application of subsections (e) and (f) is the greater of—

"(A) its per diem payment amount in the base year, and

"(B) its base year cost per diem up to the regional limit plus any exception amounts that may have been granted in the base year (adjusted by the market basket).

"(2) LIMIT.—The payment rate determined under paragraph (1) shall not exceed the facility's

cost per diem incurred in the base year adjusted by the market basket.

"(3) NEW ENTITY EXCEPTION.—Subparagraph (1)(A) does not apply if the per diem payment amount in the base year was determined on the basis of an exemption under subsection (f)(4).

"(h) UPPER LIMITS ON REASONABLE COSTS.—The Secretary, in making determinations on the reasonable costs (both capital and operating) of ancillary services provided by skilled nursing facilities under part A, shall utilize as an upper limit, the carrier fee schedules applicable to such services as specified in sections 1834 and 1848. This subsection shall not have the effect of mitigating other limits on the reasonable costs of ancillary services currently in effect under Part A such as those specified in section 1861(v)(5)(A).

"(i) ELIMINATION OF EXCEPTIONS AND EXEMPTIONS.—Exceptions, as described in subsection (c), and exemptions, as described in the applicable regulations, are eliminated for cost reporting periods beginning on or after October 1, 1996.".

(b) CONSOLIDATED BILLING AND UNIFORM CODING.—

(1) IN GENERAL.—Section 1862(a) (42 U.S.C. 1395y(a)) is amended—

(A) by striking ''or'' at the end of paragraph (14),

(B) by striking the period at the end of paragraph (15) and adding a semicolon, and

(C) by inserting after paragraph (15) the following:

''(16) which are other than physicians' services, services described by sections 1861(s)(2)(K)(i) through (iii), certified nurse-midwife services, qualified psychologist services, and services of a certified registered nurse anesthetist, and which are furnished to an individual who is a resident of a skilled nursing facility by an entity other than the skilled nursing facility, unless the services are furnished under arrangements (as defined in section 1861(w)(1)) with the entity made by the skilled nursing facility; or

''(17) which are on a claim submitted by a skilled nursing facility under this title, unless the claim uses the HCFA common procedure coding system.''.

(2) CONFORMING AMENDMENT.—Section 1866(a)(1)(H) (42 U.S.C. 1395cc(a)(1)(H)) is amended—

(A) by striking ''(i)'' and inserting ''(I)'' and striking ''(ii)'' and inserting ''(II)'',

(B) by striking ''(H)'' and inserting ''(H)(i)'', and

(C) by adding at the end the following:

''(ii) in the case of skilled nursing facilities which provide services for which payment may be made under this title, to have all items and services (other than physicians' services, and other than services described by section 1861(s)(2)(K)(i) through (iii), certified nurse-midwife services, qualified psychologist services, and services of a certified registered nurse anesthetist)—

''(I) that are furnished to an individual who is a resident of the skilled nursing facility, and

''(II) for which the individual is entitled to have payment made under this title, furnished by the skilled nursing facility or otherwise under arrangements (as defined in section 1861(w)(1)) made by the skilled nursing facility,''.

(3) EFFECTIVE DATE.—the amendments made by the preceding paragraphs are effective for services furnished on or after October 1, 1996.

SEC. 11113. FULL PROSPECTIVE PAYMENT SYSTEM FOR SKILLED NURSING FACILITIES.

(a) IN GENERAL.—Section 1888 (42 U.S.C. 1395yy) is amended by striking subsections (e) through (i) (as added by section 11112(a) of this Act) and adding the following:

"(e) FULL PROSPECTIVE PAYMENT SYSTEM.—

"(1) IN GENERAL.—The Secretary shall provide for payment for all costs of extended care services (including routine service costs, ancillary costs, and capital related costs) in accordance with a prospective payment system established by the Secretary.

"(2) BUDGET SAVINGS.—Prior to implementing the prospective payment system described in paragraph (1) in a budget neutral fashion, the Secretary shall reduce, by 7 percent, the per diem rates for routine costs, and the reasonable costs for ancillary services and capital for skilled nursing facilities as such rates and costs are in effect on September 30, 1998.".

(b) EFFECTIVE DATE.—The amendments made by the preceding subsection apply to cost reporting periods beginning on or after October 1, 1998.

SEC. 11114. SALARY EQUIVALENCY GUIDELINES FOR THERAPY SERVICES.

Section 1861(v)(5) (42 U.S.C. 1395x(v)(5)) is amended—

(1) by redesignating subparagraph (B) as subparagraph (D),

(2) in subparagraph (D), as redesignated, by adding ''(B), or (C),'' after ''subparagraph (A),'',

(3) by inserting the following after subparagraph (A):

''(B) SALARY EQUIVALENCY GUIDELINES FOR THERAPY SERVICES.—

''(i) IN GENERAL.—Effective for services furnished on or after January 1, 1996, the Secretary shall establish guidelines relating to occupational therapy services and speech-language pathology services, and revise guidelines established under the subparagraph (A) relating to respiratory therapy services and physical therapy services using the methodology described in clause (ii).

''(ii) CALCULATION OF AMOUNTS.—The guidelines for each therapy shall be equal to the sum of:

''(I) the sum of an hourly salary rate, plus fringe benefits, plus a rental expense factor (in the same base year), and

"(II) an overhead factor (excluding rental expenses) equal to 28 percent of the amount determined in subclause (I),

adjusted by geographical area using the methodology contained in the final regulation of the Secretary of Health and Human Services published on page 44928 of volume 48 of the Federal Register on September 30, 1983, updated annually from the base year to the current year by an inflation factor.

"(iii) DATA.—The data used in establishing the guidelines under clause (ii) shall be—

"(I) in the case of hourly salary rates, for each therapy, the 75th percentile of salaries paid to therapists working full-time in an employment relationship in the area, from the most recent available Bureau of Labor Statistics (BLS) hospital salary data for each, increased by 10 percent,

"(II) in the case of fringe benefits, for each therapy, an aggregate factor derived from hospital cost reports ending in fiscal year 1991 for BLS survey areas used in subclause (I),

"(III) in the case of the rental expense factor, for each therapy, an amount derived from local area rental income data compiled by the

Building Owners and Managers Association International for 1991, for BLS survey areas used in subclause (I),

"(IV) in the case of the inflation factor, for each therapy, an amount equal to the average of Employment Cost Indices for wages and benefits of Civilian Hospital, Professional Technical and Clerical Workers, and Private Executives, Administrators and Managers, and the Consumer Price Indices-Urban for Housing and all items less food and energy, weighted by the relative proportion that each component represents of the guidelines amounts.

"(C) USE OF ADDITIONAL DATA.—Nothing in subparagraph (B) shall preclude the Secretary from updating the guidelines using such data sources and methodology as the Secretary determine to be appropriate, except that any changes to the data sources will be made through rulemaking in a manner that does not increase aggregate spending for such services beyond what would otherwise occur.", and

(4) by adding at the end the following:

"(E) NO EXCEPTION FOR PREVIOUS CONTRACTS.—In applying limitations under section 1861(v)(5), the Secretary shall not recognize an exception for a provider that

entered into a written binding contract or contingency contract with a therapist, provider or other organization prior to the date the initial guidelines are published.''.

SEC. 11115. REMOVAL OF GRADUATE MEDICAL EDUCATION, INDIRECT MEDICAL EDUCATION, AND DISPROPORTIONATE SHARE HOSPITAL PAYMENTS FROM THE CALCULATION OF THE ADJUSTED AVERAGE PER CAPITA COST.

(a) EXCLUSION OF GRADUATE MEDICAL EDUCATION, INDIRECT MEDICAL EDUCATION, AND DISPROPORTIONATE SHARE HOSPITAL PAYMENTS FROM THE CALCULATION OF THE ADJUSTED AVERAGE PER CAPITA COST.—Section 1851H(2) (as added by subtitle B of this title) is amended by adding at the end the following: ''Starting in calendar year 1998, the AAPCC shall not include estimated amounts that would have been paid for indirect medical education costs under section 1886(d)(5)(B), disproportionate share payment adjustments under section 1886(d)(5)(F), and direct graduate medical education costs under section 1886(h).''.

(b) PAYMENTS FOR GRADUATE EDUCATION PROGRAMS.—Section 1851F (as added by subtitle B of this title) is amended by adding at the end the following:

''(k) PAYMENTS FOR GRADUATE MEDICAL EDUCATION PROGRAMS.—

"(1) ADDITIONAL PAYMENTS.—

"(A) ADDITIONAL PAYMENT TO BE MADE.—Starting in calendar year 1998, each contract with an eligible organization under this section shall provide for an additional payment for Medicare's share of allowable direct graduate medical education costs incurred by such organization for an approved medical residency program.

"(B) LIMITATION FOR RISK CONTRACTS.—The sum of such payments to all eligible organizations having a risk contract under this section shall not exceed 75 percent of the amount that would otherwise have been payable to the organization if the estimated amounts for direct graduate medical education costs under section 1886(h) had been included in the AAPCC.

"(2) ALLOWABLE COSTS.—If the eligible organization has an approved program, the Secretary shall determine the allowable costs as follows:

"(A) RISK CONTRACTS.—In the case of an eligible organization having a risk contract under this section, and that incurs all or substantially all of the costs of the approved medical residency program, the allowable costs for

such program shall equal the national average per resident amount times the number of full-time-equivalent residents in the program.

"(B) OTHER CONTRACTS.—In the case of other eligible organizations, the allowable costs shall equal the lesser of—

"(i) the direct graduate medical education costs incurred by the organization, and

"(ii) the national average per resident amount times the number of full-time-equivalent residents in the program.

"(3) COSTS UNDER CONTRACTS WITH HOSPITALS.—If the eligible organization has a written agreement with a hospital or other entity that has an approved medical residency program, the allowable costs shall include such payments specified in the agreement for direct graduate medical education costs incurred for resident time spent in patient care related activities. Allowable costs under this paragraph shall not exceed 75 percent of the amount that would have been included in the AAPCC to account direct graduate medical education costs (if such costs had not been removed by the last sentence of section 1851H(2).

"(4) DEFINITIONS.—As used in this subsection—

"(A) the terms 'approved medical residency program', 'direct graduate medical education costs', and 'full-time-equivalent residents' have the same meanings as under section 1886(h),

"(B) the term 'Medicare's share' means the amount determined by multiplying the eligible organization's allowable costs for an approved medical residency program by the ratio of the number of individuals enrolled with the organization under this section to the total number of individuals enrolled with the organization,

"(C) the term 'national average per resident amount' means an amount estimated by the Secretary to equal the weighted average amount that would be paid per full-time-equivalent resident under section 1886(h) for the calendar year (determined separately for primary care residency programs (including obstetrics and gynecology residency programs) and for other residency programs).".

(c) ADDITIONAL PAYMENTS TO HOSPITALS FOR MANAGED CARE ENROLLEES.—Section 1886(d) (42

U.S.C. 1395ww(d)) is amended by adding at the end the following:

"(11) ADDITIONAL PAYMENTS TO HOSPITALS FOR MANAGED CARE ENROLLEES.—

"(A) IN GENERAL.—For portions of cost reporting periods occurring on or after January 1, 1998, the Secretary shall provide for an additional payment amount for subsection (d) hospitals for services furnished to individuals who are enrolled in an organization having a contract with an eligible organization under part C and who are entitled to part A.

"(B) AMOUNT OF PAYMENT.—Subject to subparagraph (F), the amount of such payment shall be determined by multiplying (i) the sum of the amounts determined under subparagraphs (C) and (D), by (ii) the product of the number of discharges determined under subparagraph (E) and the estimated average per discharge amount that would otherwise have been paid under section 1886(d)(1)(A) if the individuals had not been enrolled in an organization having a contract with an eligible organization under part C.

"(C) INDIRECT TEACHING ADJUSTMENT FACTOR.—The Secretary shall determine an indirect

teaching adjustment factor equal to 1.11×(((1+r) to the nth power)−1), where 'r' and 'n' have the same meaning as in section 1886(d)(5)(B).

"(D) DISPROPORTIONATE SHARE ADJUSTMENT.—The Secretary shall determine a disproportionate share adjustment factor equal to the disproportionate share adjustment percentage applicable to the hospital under section 1886(d)(5)(F).

"(E) DETERMINATION OF NUMBER OF DISCHARGES.—The Secretary shall determine the number of discharges as equal to the lesser of—

"(i) the number of discharges during the current cost reporting period attributable to individuals who are enrolled in an organization having a risk contract and who are entitled to part A of this title, and

"(ii) the number of discharges paid under section 1886(d) during the hospital's cost reporting period beginning in fiscal year 1992 minus the number of discharges paid under section 1886(d) during the hospital's current cost reporting period.

"(F) ADJUSTMENT FOR SAVINGS.—At the beginning of each calendar year, the Secretary shall make an adjustment in the amounts otherwise pay-

able under this paragraph so that the estimated payments under this paragraph for the discharges occurring in that calendar year, together with the estimated amounts payable under section 1851F for that calendar year, equal 75 percent of the amounts the Secretary estimates would otherwise have been payable under section 1851F during that calendar year if the adjusted average per capita cost determined under section 1851F included estimated amounts for indirect medical education costs, disproportionate share payment adjustments, and direct graduate medical education costs.''.

(d) USE OF INTERIM FINAL REGULATIONS.—The Secretary of Health and Human Services may issue regulations on an interim final basis to implement this title and the amendments made by this title.

SEC. 11116. SOLE COMMUNITY HOSPITALS.

(a) REBASING THE TARGET AMOUNT.—Section 1886(b)(3)(C) (42 U.S.C. 13955ww (b)(3)(C)) is amended—

(1) by striking ''or'' at the end of clause (iii),

(2) in clause (iv)—

(A) by striking ''and each subsequent fiscal year'', and

(B) by striking the period at the end and adding a comma,

(3) by inserting after clause (iv) the following:

''(v) with respect to discharges occurring in fiscal year 1996, the average of—

''(I) the allowable operating costs of inpatient hospital services (as defined in subsection (a)(4)) recognized under this title for the hospital's cost reporting period (if any) beginning during fiscal year 1992 increased (in a compounded manner) by the applicable percentage increases applied to such hospital under this paragraph for cost reporting periods beginning in fiscal year 1993 and for discharges occurring in fiscal years 1994, 1995, and 1996, and

''(II) the allowable operating costs of inpatient hospital services (as defined in subsection (a)(4)) recognized under this title for the hospital's cost reporting period (if any) beginning during fiscal year 1993 increased (in a compounded manner) by the applicable percentage increase applied to such hospital under this paragraph for discharges occurring in fiscal years 1994, 1995, and 1996, or

"(vi) With respect to discharges occurring in fiscal year 1997 and each subsequent fiscal year, the target amount for the preceding year (determined without application of clause (viii)) increased by the applicable percentage increase under subparagraph (B)(iv).", and

(4) by adding at the end the following:

"Notwithstanding clauses (v) and (vi), the target amount with respect to discharges occurring in fiscal year 1996 and each subsequent fiscal year shall be the higher of the amount determined under clause (v) or (vi) (as applicable) and the target amount with respect to discharges occurring in fiscal year 1995 (as determined under clause (iv)) increased by the applicable percentage increase under subparagraph (B)(iv) for discharges occurring in fiscal year 1996. The Secretary may substitute more recent cost reporting periods for those specified in subclause (v) but no more often than every four fiscal years.".

(b) ELIMINATING THE VOLUME ADJUSTMENT.—Section 1886(d)(5)(D)(ii) (42 U.S.C. 1395ww(d)(5)(D)(ii)) is amended by striking "In" and inserting "For cost reporting periods beginning before October 1, 1995, in".

SEC. 11117. RURAL PRIMARY CARE HOSPITAL PROGRAM.

(a) IN GENERAL.—The heading to section 1820 (42 U.S.C. 1395i–4)) is amended to read ''RURAL PRIMARY CARE HOSPITAL PROGRAM''.

(b) EXPANSION OF PROGRAM TO ALL STATES.—Section 1820(a)(1) (42 U.S.C. 1395i–4(a)(1)) is amended by striking ''not more than 7'' after ''shall make grants to''.

(c) MORATORIUM ON NEW ESSENTIAL ACCESS COMMUNITY HOSPITAL DESIGNATIONS.—Section 1820 (42 U.S.C. 1395i–4)) is amended—

(1) in subsections (a)(3) and (b)(1)(C), by striking ''essential access community hospitals or'' after ''as'',

(2) in subsection (c)(1)(B), by striking ''an essential access community hospital'' after ''is designated as'',

(3) in subsection (d)(1), by striking ''essential access community hospitals or'' after ''facilities in the State as'',

(4) in subsection (d)(2), by striking ''or an essential access community hospital'' after ''rural primary care hospital'',

(5) by striking subsection (e),

(6) in subsection (g)(1), by amending subparagraph (A) to read as follows:

"(A) at least one hospital that is not a rural primary care hospital. and",

(7) in subsection (i)—

(A) in the heading, by striking "HOSPITALS OR" and "BY SECRETARY",

(B) by striking paragraphs (1) and (2)(C),

(C) in paragraph (2)(A)(ii), by striking "subparagraph (B)" and inserting "paragraph (2)",

(D) by redesignating paragraph (2) as (1),

(E) by striking the subparagraph designation "(B)" and inserting "(2) FACILITIES DESIGNATED BY THE SEC- RETARY.—",

(F) by striking the heading to paragraph (1) (as redesignated by subparagraph (D) of this paragraph) and the subparagraph designation "(A)" and inserting "FACILITIES DESIGNATED BY THE STATE.—", and

(G) by redesignating clauses (i) through (iii) of paragraph (1) (as redesignated by subparagraph (D) of this paragraph) as subparagraphs (A) through (C), and

(8) in paragraphs (1) and (2) of subsection (j), by striking "an essential access community hospital or" each time it appears.

(d) CONTINUING PARTICIPATION OF RURAL PRIMARY CARE HOSPITALS.—Section 1820(h)(1)(A) (42 U.S.C. 1395i–4(h)(1)(A)) (as redesignated by subsection (c)(7) of this section) is amended by inserting before the semicolon the following: ''(or in a State which the Secretary finds would receive a grant under such subsection during a fiscal year if funds were appropriated for grants under such subsection for the fiscal year)''.

(e) DESIGNATION OF NONPROFIT OR PUBLIC HOSPITALS.—Section 1820(f)(1)(A) (42 U.S.C. 1395i–4(f)(1)(A)) is amended by inserting ''is a nonprofit or public hospital, and is'' after ''(A)''.

(f) ESTABLISHING A MINIMUM SEPARATION DISTANCE BETWEEN FACILITIES.—Section 1820(f)(1) (42 U.S.C. 1395i–4(f)(1)) is amended—

(1) by striking ''and'' at the end of subparagraph (G),

(2) by striking the period at the end of subparagraph (H) and adding a semicolon, and

(3) by adding at the end the following:

''(I) is located at least a 35-mile drive from any rural primary care hospital or hospital, or is certified by the State as being a necessary provider of health care services to residents in

the area, because of local geography or service patterns.''.

(g) REMOVAL OF REQUIREMENT FOR PRIOR COMPLIANCE WITH HOSPITAL STANDARDS.—Section 1820(f)(1)(B) (42 U.S.C. 1395i–4(f)(1)(B)) is amended by striking ''and had not been found, on the basis of a survey under section 1864, to be in violation of any requirement to participate as a hospital under this title''.

(h) LIMITATION ON NUMBER OF INPATIENT BEDS.—The matter in section 1820(f)(1)(F) (42 U.S.C. 1395i–4(f)(1)(F)) preceding clause (i) is amended by striking ''6'' and inserting ''15''.

(i) LIMITATION ON LENGTH OF INPATIENT STAYS.—Section 1820(f) (42 U.S.C. 1395i–4(f)) is amended—

(1) in the matter in paragraph (1)(F) preceding clause (i), by striking ''subject to paragraph (4),'',

(2) in paragraph (1)(F)(i), by striking ''72 hours'' and inserting ''96 hours'', and

(3) by striking paragraph (4).

(j) CONFORMING CHANGE.—Section 1814(a)(8) (42 U.S.C. 1395f(a)(8)) is amended by striking ''within 72 hours'' and inserting ''within 96 hours''.

(k) PERMITTING RURAL PRIMARY CARE HOSPITALS TO MAINTAIN SWING BEDS.—Section 1820(f)(3) (42 U.S.C. 1395i–4(f)(3)) is amended—

(1) in the first sentence, by striking everything after ''are used for the furnishing of extended care services'' up to the period, and

(2) by amending the second sentence to read as follows: ''Nothing in this subsection shall be construed to prohibit a rural primary care hospital from entering into an agreement under section 1883 under which its facilities are used for the furnishing of extended care services.''.

(l) CONFORMING CHANGE.—Section 1883 (42 U.S.C. 1395tt) is amended by striking ''hospital'' each place it appears and inserting ''hospital or rural primary care hospital''.

(m) CHANGE IN PAYMENT METHODOLOGY.—Section 1814(l)(1) (42 U.S.C. 1395f(l)(1)) is amended by striking ''services—'' and all that follows and inserting ''services is the reasonable cost of the rural primary care hospital in providing such services, as determined under section 1861(v).''.

(n) ELIMINATION OF DEADLINE FOR DEVELOPMENT OF PROSPECTIVE PAYMENT SYSTEM.—Section 1814(l) (42 U.S.C. 1395f(l)(1)) is amended—

(1) by striking paragraph (2), and

(2) by striking ''(l)(1)'' and inserting ''(l)''.

(o) NO CHANGE IN PAYMENT TO EXISTING ESSENTIAL ACCESS COMMUNITY HOSPITALS.—Clauses (iii)(III) and (v) of Section 1886(d)(5)(D) (42 U.S.C. 1395ww(d)(5)(D)) are each amended by—

(1) inserting ''was'' after ''is located in a rural area and'', and

(2) inserting ''as in effect on the day before effective date of the Balanced Budget Act of 1995 for Economic Growth and Fairness'' after ''section 1820(I)(1)''.

(p) CONFORMING AMENDMENT.—Section 1820(c)(3) (42 U.S.C. 1395i–4(c)(3)) is amended by striking ''(i)(2)(C)'' and inserting ''(i)(2)'';

(q) TECHNICAL AMENDMENT.—Section 1820(f)(1)(A) (42 U.S.C. 1395i–4(f)(1)(A)) is amended by striking ''section 1866(d)(2)(D)'' and inserting ''section 1886(d)(2)(D)''.

SEC. 11118. RESPITE BENEFIT.

(a) ENTITLEMENT.—Section 1832(a)(2) (42 U.S.C. 1395k(a)(2)) is amended by—

(1) striking ''and'' at the end of subparagraph (I),

(2) striking the period at the end of subparagraph (J) and inserting ''; and'', and

(3) inserting at the end the following new subparagraph:

"(K) respite services for no more than 32 hours each year".

(b) CONDITIONS AND LIMITATIONS ON PAYMENT.—

(1) PAYMENT RATE.—Section 1833(a)(2) (42 U.S.C. 13951(a)(2)) is amended by—

(A) adding a new subparagraph (G) to read as follows:

"(G)(i) with respect to respite services, payment shall be made at a rate equal to $7.50 per hour for 1996 and at a rate to be determined by the Secretary in subsequent years; and

"(ii) notwithstanding any provisions of section 1861(v), in the case of respite services furnished by a home health agency (or other organization designated by the Secretary pursuant to regulations), payment to the agency or other organization for respite services may not exceed 110 percent of the hourly respite allowance times the number of hours of respite for which the agency authorizes payment."

(2) CONDITIONS OF PAYMENT.—Section 1835(a)(2) (42 U.S.C. 1395n-(a)(2)) is amended by—

(A) striking ''and'' at the end of subparagraph (E),

(B) striking the period at the end of subparagraph (F) and inserting ''; and'', and

(C) inserting at the end the following new subparagraph:

''(G) In the case of respite services, that the individual for whom payment is claimed is severely impaired due to irreversible dementia (the individual has scored three or more errors on the Short Portable Mental Status Questionnaire) and either needs assistance in at least one out of five activities of daily living (bathing, dressing, transferring, toileting, and eating) or in at least one out of four instrumental activities of daily living (meal preparation, medication management, money management, and telephoning), or needs constant supervision because of one or more behavioral problems.''

(3) FAMILY DESIGNATION OF RESPITE SERVICES PROVIDER AND CARE GIVER.—Section

1835(a)(2) (42 U.S.C. 1295n(a)(2)) is amended by—

(A) by adding at the end the following new sentences: ''In the case of respite services which are the subject of the certification described in subparagraph (G), the entity or individual providing the care for which respite is sought shall designate a respite services caregiver either through a home health agency or (if the Secretary designates other organizations to provide or arrange for such services) other organization. The agency or organization shall determine the amount of respite entitlement remaining in the calendar year and inform the entity or individual of the extent to which respite services may be authorized. When services have been provided, the entity or individual shall inform the agency or organization, which shall then make payment to the caregiver. Where additional payment is made on behalf of the beneficiary, the agency or organization shall assure the entity or individual is informed of the limits applicable to such amount. No payment may be made under this title for respite services if the charge to the patient per hour for care by respite aides

exceeds by more than two dollars the hourly rates established under this title.''

(c) DEFINITIONS.—Section 1861 (42 U.S.C. 1395x) is amended—

(1) in subsection (m)—

(A) by striking ''and'' at the end of paragraph (6);

(B) by adding ''and'' at the end of paragraph (7); and

(C) by inserting after paragraph (7) the following:

''(8) respite services as described in subsection (oo);'',

(2) in subsection (o)—

(A) by striking ''and'' at the end of paragraph (6);

(B) by adding ''and'' at the end of paragraph (7); and

(C) by inserting after paragraph (7) the following:

''(8) agrees to provide or arrange for respite services as described in subsection (oo);'', and

(3) by adding at the end the following:

''(oo) RESPITE SERVICES; RESPITE AIDES; RESPITE PROVIDERS.—

"(1) RESPITE SERVICES.—The term 'respite services' means temporary care provided to individuals who meet the requirements of section 1835(a)(2) for the purposes of ensuring periodic time-off for co-resident primary informal caregivers. Although respite providers may provide assistance with personal care and/or household maintenance activities, their primary function is to provide protective supervision for persons with Alzheimer's and related dementias whose memory, orientation, judgment, and reasoning abilities have become so impaired that, for safety's sake , they require the constant attention or close physical proximity of another person at all or almost all hours of the day or night.

"(2) RESPITE AIDES.—The term 'respite aides' means individuals who have been designated by the Secretary as qualified to act as caregivers for purposes of providing the services described in paragraph (1). Respite aides may be nurse aides as identified in section 1819, home health aides as identified in section 1891, or other individuals licensed by the State or recognized by the Secretary as having the skills necessary to provide such services.

"(3) RESPITE PROVIDERS.—The term 'respite providers' means organizations identified by the Sec-

retary in regulations as qualified to provide or arrange for respite services under this title. The Secretary may establish by regulation any requirements for respite providers as the Secretary determines appropriate.''.

(d) PAYMENT FROM SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND FOR RESPITE SERVICES FURNISHED TO INDIVIDUALS WITH ONLY HOSPITAL INSURANCE COVERAGE.—(Section 1812(a) (42 U.S.C. 1395(a)) is amended by—

(1) striking ''and'' and the end of paragraph (3),

(2) striking the period at the end of paragraph (4), and inserting ''; and'', and

(3) inserting at the end the following new paragraph:

''(5) respite services, described in section 1832(a)(2)(K), except that such services shall be furnished under the Supplementary Medical Insurance Program.''

(e) EXCLUSION OF ADDITIONAL PART B COSTS FROM DETERMINATION OF PART B MONTHLY PREMIUM.—Section 1839(a)(5) (42 U.S.C. 1395r(a)), as added by section 11147(f) of this Act, is further amended by—

(1) inserting ''AND RESPITE BENEFIT'' after ''HOME HEALTH'', and

(2) inserting before the period the following: ''and for respite services as described in section 1832(a)(2)(K).''

(f) SUNSET.—The amendments made by this shall be effective for services furnished through fiscal year 2005.

PART 2—PROVISIONS RELATING TO PART B

SEC. 11121. PAYMENTS FOR PHYSICIANS' SERVICES.

(a) ESTABLISHING UPDATE TO CONVERSION FACTOR TO MATCH SPENDING UNDER SUSTAINABLE GROWTH RATE.—

(1) UPDATE.—

(A) IN GENERAL.—Section 1848(d)(3) (42 U.S.C. 1395w–4(d)(3)) is amended to read as follows:

''(3) UPDATE.—

''(A) IN GENERAL.—Unless Congress otherwise provides, subject to subparagraph (E), for purposes of this section the update for a year (beginning with 1997) is equal to the product of—

''(i) 1 plus the Secretary's estimate of the percentage increase in the MEI (de-

scribed in section 1842(i)(3)) for the year (divided by 100), and

"(ii) 1 plus the Secretary's estimate of the update adjustment factor for the year (divided by 100),

minus 2 and multiplied by 100.

"(B) UPDATE ADJUSTMENT FACTOR.—The 'update adjustment factor' for a year is equal to the quotient of—

"(i) the difference between (I) the sum of the allowed expenditures for physicians' services furnished during each of the years 1995 through the year involved and (II) the sum of the amount of actual expenditures for physicians' services furnished during each of the years 1995 through the previous year, divided by

"(ii) the Secretary's estimate of allowed expenditures for physicians' services furnished during the year.

"(C) DETERMINATION OF ALLOWED EXPENDITURES.—For purposes of subparagraph (B), allowed expenditures for physicians' services shall be determined as follows (as estimated by the Secretary):

"(i) 1995.—In the case of allowed expenditures for 1995, such expenditures shall be equal to actual expenditures for services furnished during the 12-month period ending with June 30, 1995.

"(ii) 1996 AND LATER YEARS.—In the case of allowed expenditures for 1996 and each subsequent year, such expenditures shall be equal to allowed expenditures for the previous year, increased by the sustainable growth rate under subsection (f) for the fiscal year which begins during the year.

"(D) DETERMINATION OF ACTUAL EXPENDITURES.—For purposes of subparagraph (B), the amount of actual expenditures for physicians' services furnished during a year shall be equal to the amount of expenditures for such services during the 12-month period ending with June of the previous year.

"(E) RESTRICTION ON VARIATION FROM MEDICARE ECONOMIC INDEX.—Notwithstanding the amount of the update adjustment factor determined under subparagraph (B), the update

in the conversion factor under this paragraph for a year may not be—

"(i) greater than 103 percent of 1 plus the Secretary's estimate of the percentage increase in the MEI (described in section 1842(i)(3)) for the year (divided by 100), minus 1 and multiplied by 100, or

"(ii) less than 93 percent of 1 plus the Secretary's estimate of the percentage increase in the MEI (described in section 1842(i)(3)) for the year (divided by 100), minus 1 and multiplied by 100.".

(B) EFFECTIVE DATE.—The amendments made by subparagraph (A) apply to physicians' services furnished on or after January 1, 1997.

(2) CONFORMING AMENDMENTS.—

(A) SECTION 1848(d)(2).—Section 1848(d)(2)(A) (42 U.S.C. 1395w–4(d)(2)(A)) is amended—

(i) in the matter preceding clause (i)—

(I) by striking "(or updates) in the conversion factor (or factors)" and inserting "in the conversion factor",

(II) by striking ''(beginning with 1991)'' and inserting ''(beginning with 1996)'', and

(III) by striking the second sentence,

(ii) by amending clause (ii) to read as follows:

''(ii) such factors as enter into the calculation of the update adjustment factor as described in paragraph (3)(B); and '',

(iii) by amending clause (iii) to read as follows:

''(iii) access to services.'',

(iv) by striking clauses (iv), (v), and (vi), and

(v) by striking the last sentence.

(B) SECTION 1848(d)(2)(b).—Section 1848(d)(2)(B) (42 U.S.C. 1395w–4(d)(2)(B)) is amended—

(i) by striking ''and'' at the end of clause (iii),

(ii) by striking the period at the end of clause (iv) and adding ''; and'', and

(iii) by adding at the end the following new clause:

"(v) changes in volume or intensity of services.".

(C) REDESIGNATION OF SUBPARAGRAPH.—Section 1848(d)(2) (42 U.S.C. 1395w–4(d)(2)) is further amended—

(i) by striking subparagraphs (C), (D), and (E),

(ii) by redesignating striking subparagraph (F) as subparagraph (C), and

(iii) in subparagraph (C), as redesignated, by striking "(or updates) in the conversion factor (or factors)" and inserting "in the conversion factor".

(b) REPLACEMENT OF VOLUME PERFORMANCE STANDARD WITH SUSTAINABLE GROWTH RATE.—

(1) IN GENERAL.—Section 1848(f) (42 U.S.C. 1395w–4(f)) is amended by striking paragraphs (2) through (5) and inserting the following:

"(2) SPECIFICATION OF GROWTH RATE.—

"(A) FISCAL YEAR 1996.—The sustainable growth rate for all physicians' services for fiscal year 1996 shall be equal to the product of—

"(i) 1 plus the Secretary's estimate of the percentage increase in the MEI (de-

scribed in section 1842(i)(3)) for 1996 (divided by 100),

"(ii) 1 plus the Secretary's estimate of the percentage change (divided by 100) in the average number of individuals enrolled under this part (other than private plan enrollees) from fiscal year 1995 to fiscal year 1996,

"(iii) 1 plus the Secretary's estimate of the projected percentage growth in real gross domestic product per capita (divided by 100) from fiscal year 1995 to fiscal year 1996, plus 1 percentage point, and

"(iv) 1 plus the Secretary's estimate of the percentage change (divided by 100) in expenditures for all physicians' services in fiscal year 1996 (compared with fiscal year 1995) which will result from changes in law (including the Balanced Budget Act of 1995 for Economic Growth and Fairness), determined without taking into account estimated changes in expenditures due to changes in the volume and intensity of physicians' services or change in expenditures resulting from changes in the update

to the conversion factor under subsection (d),

minus 1 and multiplied by 100.

"(B) SUBSEQUENT YEARS.—The sustainable growth rate for all physicians' services for fiscal year 1997 and each subsequent year shall be equal to the product of—

"(i) 1 plus the Secretary's estimate of the percentage increase in the MEI for the fiscal year involved (described in section 1842(i)(3)) (divided by 100),

"(ii) 1 plus the Secretary's estimate of the percentage change (divided by 100) in the average number of individuals enrolled under this part (other than private plan enrollees) from the previous fiscal year to the fiscal year involved,

"(iii) 1 plus the Secretary's estimate of the projected percentage growth in real gross domestic product per capita (divided by 100) from the previous fiscal year to the fiscal year involved, plus 1 percentage point, and

"(iv) 1 plus the Secretary's estimate of the percentage change (divided by 100)

in expenditures for all physicians' services in the fiscal year (compared with the previous fiscal year) which will result from changes in law, determined without taking into account estimated changes in expenditures due to changes in the volume and intensity of physicians' services or change in expenditures resulting from changes in the update to the conversion factor under subsection (d), minus 1 and multiplied by 100.

"(3) DEFINITIONS.—In this subsection:

"(A) SERVICES INCLUDED IN PHYSICIANS' SERVICES.—The term 'physicians' services' includes other items and services (such as clinical diagnostic laboratory test and radiology services), specified by the Secretary, that are commonly performed or furnished by a physician or in a physician's office, but does not include services furnished to an eligible organization enrollee.

"(B) ELIGIBLE ORGANIZATION ENROLLEE.—The term 'eligible organization enrollee' means, with respect to a fiscal year, an individual enrolled under this part who has elected to receive benefits under this title

through an eligible organization with a contract under part C (and, through 2000, enrollment with an organization with a contract under section 1876(h).''.

(2) CONFORMING AMENDMENTS.—Section 1848(f) (42 U.S.C. 1395w–4(f)) is amended—

(A) in the heading, by striking ''VOLUME PERFORMANCE STANDARD RATES OF INCREASE'' and inserting ''SUSTAINABLE GROWTH RATE'',

(B) in paragraph (1)—

(i) in the heading, by striking ''VOLUME PERFORMANCE STANDARD RATES OF INCREASE'' and inserting ''SUSTAINABLE GROWTH RATE'',

(ii) in subparagraph (A), in the matter preceding clause (i), by striking ''performance standard rates of increase'' and inserting ''sustainable growth rate'', and

(iii) in subparagraph (A), by striking ''HMO enrollees'' each place it appears and inserting ''eligible organization enrollees'',

(C) in subparagraph (B), by striking ''performance standard rates of increase'' and inserting ''sustainable growth rate'', and

(D) in subparagraph (C)—

(i) in the heading, by striking ''PERFORMANCE STANDARD RATES OF INCREASE'' and inserting ''SUSTAINABLE GROWTH RATE'',

(ii) in the first sentence, by striking ''with 1991), the performance standard rates of increase'' and all that follows through the first period and inserting ''with 1997), the sustainable growth rate for the fiscal year beginning in that year.'', and

(iii) in the second sentence, by striking ''January 1, 1990, the performance standard rate of increase under subparagraph (D) for fiscal year 1990'' and inserting ''January 1, 1997, the sustainable growth rate for fiscal year 1997''.

(c) ESTABLISHMENT OF SINGLE CONVERSION FACTOR FOR 1996.—

(1) IN GENERAL.—Section 1848(d)(1) (42 U.S.C. 1395w–4(d)(1)) is amended—

(A) by redesignating subparagraph (C) as subparagraph (D), and

(B) by inserting after subparagraph (B) the following:

"(C) SPECIAL RULE FOR 1996.—For 1996, the conversion factor under this subsection shall be $35.42 for all physicians' services, except that, for surgical services (as defined in subsection (j)(i), the conversion factor for 1996 shall be $38.10.".

(2) CONFORMING AMENDMENTS.—Section 1848 (42 U.S.C. 1395w–4) is amended—

(A) by striking "(or factors)" each place it appears in subsection (d)(1)(A) and (d)(1)(D)(ii) (as redesignated by paragraph (1)(a),

(B) in subsection (d)(1)(A), by striking "or updates",

(C) in subsection (d)(1)(D)(ii) (as redesignated by paragraph (1)(A)), by striking "(or updates)", and

(D) in subsection (i)(1)(C), by striking "conversion factors" and inserting "the conversion factor".

SEC. 11122. PRACTICE EXPENSE RELATIVE VALUE UNITS.

(a) EXTENSION TO 1997.—Section 1848(c)(2)(E)(i) (42 U.S.C. 1395w–4(c)(2)(E)(i)) is amended—

(1) by striking ''and'' at the end of subclause (II),

(2) by striking the period at the end of subclause (III) and inserting '', and'', and

(3) by inserting at the end the following:

''(IV) 1997, by an additional 25 percent of such excess.''

(b) CHANGE IN FLOOR ON REDUCTIONS AND SERVICES COVERED.—Clauses (ii) and (iii)(II) of Section 1848(c)(2)(E) (42 U.S.C. 1395w–4(c)(2)(E)) are each amended by inserting ''(or 115 percent in the case of 1997)'' after ''128 percent''.

SEC. 11123. SINGLE FEE FOR SURGERY.

(a) IN GENERAL.—Section 1848(a) (42 U.S.C. 1395w–4(a)) is amended by adding at the end the following:

''(5) SINGLE FEE FOR SURGERY.—

''(A) GENERAL RULE.—Payment under this part for surgical services (as defined by the Secretary under subsection (j)(1)), when a separate payment is also made for the services of a physician or physician assistant acting as an assistant at surgery, may not (except as pro-

vided in subparagraph (B)), when added to the separate payment made for the services of that other practitioner, exceed the amount that would be paid for the surgical services if a separate payment were not made for the services of that practitioner.

"(B) EXCEPTIONS.—The Secretary may specify surgery procedures or situations to which subparagraph (A) shall not apply."

(b) CONFORMING AMENDMENT.—Section 1848(g)(2)(D) (42 U.S.C. 1395w–4(g)(2)(D)) is amended by inserting "(or the lower amount under subsection (a)(5))" after "subsection (a)".

(c) EFFECTIVE DATE.—The amendments made by the preceding subsections apply to services furnished on or after January 1, 1996.

SEC. 11124. INCENTIVES TO CONTROL HIGH VOLUME FOR IN-HOSPITAL PHYSICIANS' SERVICES.

(a) IN GENERAL.—

(1) LIMITATIONS DESCRIBED.—Part B of title XVIII is amended by adding at the end the following:

"SEC. 1849. INCENTIVES TO CONTROL HIGH VOLUME FOR IN-HOSPITAL PHYSICIANS' SERVICES.

"(a) SERVICES SUBJECT TO REDUCTION.—

"(1) DETERMINATION OF HOSPITAL-SPECIFIC PER ADMISSION RELATIVE VALUE.—Not later than October 1 of each year (beginning with 1998), the Secretary shall determine for each hospital—

"(A) the hospital-specific per admission relative value under subsection (b)(2) for the following year, and

"(B) whether such hospital-specific relative value is projected to exceed the allowable average per admission relative value applicable to the hospital for the following year under subsection (b)(1).

"(2) REDUCTION FOR SERVICES AT HOSPITALS EXCEEDING ALLOWABLE AVERAGE PER ADMISSION RELATIVE VALUE.—If the Secretary determines (under paragraph (1)) that a medical staff's hospital-specific per admission relative value for a year (beginning with 1999) is projected to exceed the allowable average per admission relative value applicable to the medical staff for the year, the Secretary shall reduce (in accordance with subsection (c)) the amount of payment otherwise determined under this part for each physician's service furnished during the year to an inpatient of the hospital by an indi-

vidual who is a member of the hospital's medical staff.

"(3) TIMING OF DETERMINATION; NOTICE TO MEDICAL STAFFS AND CARRIERS.—Not later than October 1 of each year (beginning with 1998), the Secretary shall notify the medical executive committee of each hospital (as set forth in the Standards of the Joint Commission on the Accreditation of Health Organizations) of the determinations made with respect to the medical staff under paragraph (1).

"(b) DETERMINATION OF ALLOWABLE AVERAGE PER ADMISSION RELATIVE VALUE AND HOSPITAL—SPECIFIC PER ADMISSION RELATIVE VALUES.—

"(1) ALLOWABLE AVERAGE PER ADMISSION RELATIVE VALUE.—

"(A) URBAN HOSPITALS.—In the case of a hospital located in an urban area, the allowable average per admission relative value established under this subsection for 1999 and 2000 is equal to 125 percent and for years after 2000 is 120 percent of the median of 1997 hospital-specific per admission relative values determined under paragraph (2) for all hospital medical staffs.

"(B) RURAL HOSPITALS.—In the case of a hospital located in a rural area, the allowable average per admission relative value established under this subsection for 1999 and each succeeding year, is equal to 140 percent of the median of the 1997 hospital-specific per admission relative values determined under paragraph (2) for all hospital medical staffs.

"(2) HOSPITAL-SPECIFIC PER ADMISSION RELATIVE VALUE.—

"(A) IN GENERAL.—The hospital-specific per admission relative value projected for a hospital (other than a teaching hospital) for a calendar year, shall be equal to the average per admission relative value (as determined under section 1848(c)(2)) for physicians' services furnished to inpatients of the hospital by the hospital's medical staff (excluding interns and residents) during the second year preceding such calendar year, adjusted for variations in case-mix and disproportionate share status among hospitals (as determined by the Secretary under subparagraph (C)).

"(B) SPECIAL RULE FOR TEACHING HOSPITALS.—The hospital-specific relative value

projected for a teaching hospital in a calendar year shall be equal to the sum of—

"(i) the average per admission relative value (as determined under section 1848(c)(2)) for physicians' services furnished to inpatients of the hospital by the hospital's medical staff (excluding interns and residents) during the second year preceding such calendar year, and

"(ii) the equivalent per admission relative value (as determined under section 1848(c)(2)) for physicians' services furnished to inpatients of the hospital by interns and residents of the hospital during the second year preceding such calendar year, adjusted for variations in case-mix, disproportionate share status, and teaching status among hospitals (as determined by the Secretary under subparagraph (C)). The Secretary shall determine such equivalent relative value unit per admission for interns and residents based on the best available data and may make such adjustment in the aggregate.

"(C) ADJUSTMENT FOR TEACHING AND DISPROPORTIONATE SHARE HOSPITALS.—The Secretary shall adjust the allowable per admission relative values otherwise determined under this paragraph to take into account the needs of teaching hospitals and hospitals receiving additional payments under subparagraphs (F) and (G) of section 1886(d)(5). The adjustment for teaching status or disproportionate share shall not be less than zero.

"(c) AMOUNT OF REDUCTION.—The amount of payment otherwise made under this part for a physician's service that is subject to a reduction under subsection (a) during a year shall be reduced 15 percent, in the case of a service furnished by a member of the medical staff of the hospital for which the Secretary determines under subsection (a)(1) that the hospital medical staff's projected relative value per admission exceeds the allowable average per admission relative value.

"(d) RECONCILIATION OF REDUCTIONS BASED ON HOSPITAL-SPECIFIC RELATIVE VALUE PER ADMISSION WITH ACTUAL RELATIVE VALUES.—

"(1) DETERMINATION OF ACTUAL AVERAGE PER ADMISSION RELATIVE VALUE.—Not later than October 1 of each year (beginning with 2000), the

Secretary shall determine the actual average per admission relative value (as determined pursuant to section 1848(c)(2)) for the physicians' services furnished by members of a hospitals medical staff to inpatients of the hospital during the previous year, on the basis of claims for payment for such services that are submitted to the Secretary not later than 90 days after the last day of such previous year. The actual average per admission relative value shall be adjusted by the appropriate case-mix, disproportionate share factor, and teaching factor for the hospital medical staff (as determined by the Secretary under subsection (b)(2)(C)). Notwithstanding any other provision of this title, no payment may be made under this part for any physician's service furnished by a member of a hospital's medical staff to an inpatient of the hospital during a year unless such claim is submitted to the Secretary for payment for such service not later than 90 days after the last day of the year.

"(2) RECONCILIATION WITH REDUCTIONS TAKEN.—In the case of a hospital for which the payment amounts for physicians' services furnished by members of the hospital's medical staff to inpatients

of the hospital were reduced under this section for a year—

"(A) if the actual average per admission relative value for such hospital's medical staff during the year (as determined by the Secretary under paragraph (1)) did not exceed the allowable average per admission relative value applicable to the hospital's medical staff under subsection (b)(1) for the year, the Secretary shall reimburse the fiduciary agent for the medical staff by the amount by which payments for such services were reduced for the year under subsection (c), including interest at an appropriate rate determined by the Secretary;

"(B) if the actual average per admission relative value for such hospital's medical staff during the year exceeded the allowable average per admission relative value applicable to the hospital's medical staff under subsection (a)(1) for the year, the Secretary shall reimburse the fiduciary agent for the medical staff the amount withheld under subsection (c) multiplied by the 'final ratio', including interest at an appropriate rate determined by the Secretary. The final ratio described in the previous sentence shall be

determined by dividing the difference between the initial ratio and 0.85, by 0.15, where the initial ratio is determined by dividing the medical staff's allowable average per admission relative value for a year (as determined under subsection (a)(1)) by the medical staff's actual hospital-specific per admission relative value for such year, but in no case shall the initial ratio be less than 0.85.

"(3) MEDICAL EXECUTIVE COMMITTEE OF A HOSPITAL.—Each medical executive committee of a hospital whose medical staff is projected to exceed the allowable relative value per admission for a year, shall have one year from the date of notification that such medical staff is projected to exceed the allowable relative value per admission to designate a fiduciary agent for the medical staff to receive and disburse any appropriate withhold amount made by the carrier.

"(4) ALTERNATIVE REIMBURSEMENT TO MEMBERS OF STAFF.—At the request of a fiduciary agent for the medical staff, if the fiduciary agent for the medical staff is owed the reimbursement described in paragraph (2)(B) for excess reductions in payments during a year, the Secretary shall make

such reimbursement to the members of the hospital's medical staff, on a pro-rata basis according to the proportion of expenditures for physicians' services furnished to inpatients of the hospital during the year that were furnished by each member of the medical staff.

"(e) DEFINITIONS.—In this section, the following definitions apply:

"(1) MEDICAL STAFF.—An individual furnishing a physician's service is considered to be on the medical staff of a hospital—

"(A) if (in accordance with requirements for hospitals established by the Joint Commission on Accreditation of Health Organizations)—

"(i) the individual is subject to bylaws, rules, and regulations established by the hospital to provide a framework for the self-governance of medical staff activities,

"(ii) subject to such bylaws, rules, and regulations, the individual has clinical privileges granted by the hospital's governing body, and

"(iii) under such clinical privileges, the individual may provide physicians'

services independently within the scope of the individual's clinical privileges, or

"(B) if such physician provides at least one service to a medicare beneficiary in such hospital.

"(2) RURAL AREA; URBAN AREA.—The terms 'rural area' and 'urban area' have the meaning given such terms under section 1886(d)(2)(D).

"(3) TEACHING HOSPITAL.—The term 'hospital' means a hospital which has a teaching program approved as specified in section 1861(b)(6).

"(4) HOSPITAL.—The term 'hospital' means a subsection (d) hospital as defined in section 1886(d).

"(5) PHYSICIANS' SERVICES.—The term 'physicians' services' means those services described in section 1848(j)(3).

(2) CONFORMING AMENDMENTS.—

(A) SECTION 1833 (a).—Section 1833(a)(1)(N) (42 U.S.C. 13951(a)(1)(N)) is amended by inserting "(subject to reduction under section 1849)" after "1848(a)(1)".

(B) SECTION 1848 (a).—Section 1848(a)(1)(B) (42 U.S.C. 1395w–4(a)(1)(B)) is amended by striking "this subsection," and inserting "this subsection and section 1849,".

(b) REQUIRING PHYSICIANS TO IDENTIFY HOSPITAL AT WHICH SERVICE FURNISHED.—Section 1848(g)(4)(A)(i) (42 U.S.C. 1395w–4(g)(4)(A)(i)) is amended by striking ''beneficiary,'' and inserting ''beneficiary (and, in the case of a service furnished to an inpatient of a hospital, report the hospital identification number on such claim form),''.

(c) EFFECTIVE DATES.—

(1) SUBSECTION (a).—The amendments made by subsection (a) apply to services furnished on or after January 1, 1999.

(2) SUBSECTION (b).—The amendments made by subsection (b) apply to services furnished on or after January 1, 1998.

SEC. 11125. AMBULATORY SURGICAL CENTER SERVICE UPDATES.

Section 1833(i)(2)(C) (42 U.S.C. 13951(i)(2)(C)) is amended—

(1) by striking ''1996'' and inserting ''2003'', and

(2) by inserting after the subparagraph designation ''(C)'' the following: ''Notwithstanding the second sentence of subparagraph (A) or the second sentence of subparagraph (B), with respect to fiscal years 1996 through 2002, the Secretary shall in-

crease amounts for facility services by the percentage increase in the consumer price index for all urban consumers (U.S. city average) as estimated by the Secretary for the 12-month period ending with the midpoint of the year involved, reduced by two percentage points.''

SEC. 11126. OXYGEN AND OXYGEN EQUIPMENT.

(a) IN GENERAL.—Section 1834(a)(9)(C) (42 U.S.C. 1395m(a)(9)(C)) is amended—

(1) by striking ''and'' at the end of clause (iii),

(2) in clause (iv)—

(A) by striking ''a subsequent year'' and inserting ''1993, 1994, and 1995'', and

(B) by striking the period at the end and adding ''; and'', and

(3) by adding at the end the following:

''(v) in each of year beginning with 1996 is the national limited monthly payment rate computed under subparagraph (B) for the item for the year reduced by the applicable percentage described in subparagraph (D) (but in no case may the amount determined under this clause be less than 70 percent of such national limited payment rate).''.

(b) APPLICABLE PERCENTAGE DESCRIBED.—Section 1834(a)(9) (42 U.S.C. 1395m(a)(9)) is amended by adding at the end the following:

"(D) APPLICABLE PERCENTAGE DESCRIBED.—In clause (v) of subparagraph (C), the 'applicable percentage' with respect to a year described in that clause is—

"(i) for 1996, 20 percent,

"(ii) for 1997, 21⅔ percent,

"(iii) for 1998, 23⅓ percent,

"(iv) for 1999, 25 percent,

"(v) for 2000, 26⅔ percent,

"(vi) for 2001, 28⅓ percent, and

"(vii) for 2002 and thereafter, 30 percent.".

SEC. 11127. PAYMENT LIMITS FOR HMOS AND CMPS WITH RISK CONTRACTS.

(a) IN GENERAL.—Section 1851F(e)(2)(C) (as added by subtitle B of this title) is amended—

(1) by inserting ", subject to adjustment to take into account the provisions of the succeeding clauses" before the period,

(2) by striking "The annual" and inserting "(i) IN GENERAL.—The annual", and

(3) by adding at the end the following new clauses:

"(ii) CEILING.—The portion of the annual per capita rate of payment for each such class attributable to payments made from the Federal Supplementary Medical Insurance Trust Fund may not exceed 95 percent of the following amount (unless the portion of the annual per capita rate of payment for each such class attributable to payments made from the Federal Hospital Insurance Trust Fund is less than 95 percent of the weighted national average of all adjusted average per capita costs determined under paragraph (4) for that class that are attributable to payments made from the Federal Hospital Insurance Trust Fund):

"(I) 1996.—For 1996, 150 percent of the weighted national average of all adjusted average per capita costs determined under paragraph (4) for that class that are attributable to payments made from such Trust Fund, plus 80 percent of the amount by which (if any) the adjusted average per capita cost for that class exceeds 150 percent of that weighted national average.

"(II) 1997.—For 1997, 150 percent of the weighted national average of all adjusted average per capita costs determined under paragraph (4) for that class that are attributable to payments made from such Trust Fund, plus 60 percent of the amount by which (if any) the adjusted average per capita cost for that class exceeds 150 percent of that weighted national average.

"(III) 1998.—For 1998, 150 percent of the weighted national average of all adjusted average per capta costs determined under paragraph (4) for that class that are attributable to payments made from such Trust Fund, plus 40 percent of the amount by which (if any) the adjusted average per capita cost for that class exceeds 150 percent of that weighted national average.

"(IV) 1999.—For 1999, 150 percent of the weighted national average of all adjusted average per capita costs determined under paragraph (4) for that class that are attributable to payments made from such Trust Fund, plus 20 percent of the amount by which (if any) the adjusted average per capita cost for that class ex-

ceeds 150 percent of that weighted national average.

"(V) 2000 AND LATER YEARS.—For 2000 and each succeeding year (subject to the establishment by the Secretary of alternative limits under clause (vi)), 150 percent of the weighted national average of all adjusted average per capita costs determined under paragraph (4) for that class that are attributable to payments made from such Trust Fund.

"(iii) FLOOR.—For 1996 and succeeding years, the portion of the annual per capita rate of payment for each such class attributable to payments made from the Federal Supplementary Medical Insurance Trust Fund may not be less than 80 percent of 95 percent of the weighted national average of all adjusted average per capita costs determined under paragraph (4) for that class that are attributable to payments made from such Trust Fund, unless the portion of the annual per capita rate of payment for each such class attributable to payments made from the Federal Hospital Insurance Trust Fund is greater than 95 percent of the weighted national average of all adjusted average per capita costs determined under paragraph (4) for that class that are attrib-

utable to payments made from the Federal Hospital Insurance Trust Fund.

"(iv) FUTURE REVISIONS.—For 2001 and succeeding years, the Secretary may revise any of the percentages otherwise applicable during a year under the preceding clauses (other than clause (i)), but only if the aggregate payments made under this title to eligible organizations under risk-sharing contracts during the year is not greater than the aggregate payments that would have been made under this title to such organizations during the year if the Secretary had not revised the percentages.

"(v) DISREGARD OF ESRD COSTS.—For purposes of clauses (ii) and (iii), in determining the weighted average of all adjusted average per capita costs determined under paragraph (4) for a class, the Secretary shall not take into account any costs associated with individuals entitled to benefits under this title under section 226A.".

(b) CONFORMING AMENDMENT.—Section 1851F(e) (as added by subtitle B of this title)) is amended by inserting ", adjusted to take into account the limitations imposed by clauses (ii) through (iv) of paragraph (2)(C)" before the period.

SEC. 11128. WAIVE COST-SHARING FOR MAMMOGRAPHY.—

(a) DIAGNOSTIC MAMMOGRAPHY.—Section 1861(s) (42 U.S.C. 1395x(s)) is amended—

(1) in paragraph (3), by striking ''including diagnostic mammography if conducted by a facility that has a certificate (or provisional certificate) issued under section 354 of the Public Health Service Act'',

(2) by striking ''and'' at the end of paragraph (15),

(3) by striking the period at the end of paragraph (16) and inserting ''; and'', and

(4) by adding at the end the following:

''(17) diagnostic mammography, if conducted by a facility that has a certificate (or provisional certificate) issued under section 354 of the Public Health Service Act.''.

(b) PAYMENT FOR SCREENING MAMMOGRAPHY.—Section 1834(c)(1)(C) (42 U.S.C. 1395m(c)(1)(C)) is amended by striking '', subject to the deductible established under section 1833(b),'' and ''80 percent of''.

(c) WAIVER OF DEDUCTIBLE.—The first sentence of section 1833(b) (42 U.S.C. 1395l(b)) is amended by—

(1) striking ''and'' before ''(4)'', and

(2) inserting the following before the period: '', and (5) such deductible shall not apply with respect

to screening and diagnostic mammography described in section 1861(s)(13) and section 1861(s)(17).''

(d) WAIVER OF COINSURANCE.—Section 1833(a)(1) (42 U.S.C. 1395l(a)(1)) is amended by—

(1) striking ''and'' at the end of clause (O),

(2) inserting after clause (P) the following: '', and

''(Q) with respect to diagnostic mammography described in section 1861(s)(17), the amount paid shall be 100 percent of the fee schedule amount provided under section 1848.''.

(e) WAIVER OF COINSURANCE IN HOSPITAL OUTPATIENT DEPARTMENTS.—The third sentence of section 1866(a)(2)(A) (42 U.S.C. 1395cc(a)(2)(A)) is amended by inserting after ''1861(s)(10)(A)'' the following: '', with respect to items and services described in section 1861(s)(13), with respect to items and services described in section 1861(s)(17),''.

(f) EFFECTIVE DATE.—The amendments made by the preceding subsections apply to services furnished on or after January 1, 1997.

SEC. 11129. ANNUAL MAMMOGRAMS.

(a) PROVIDING ANNUAL SCREENING MAMMOGRAPHY FOR WOMEN OVER AGE 49.—Section 1834(c)(2)(A) (42 U.S.C. 1395m) (c)(2)(A)) is amended—

(1) in clause (iv), by striking ''but under 63 years of age,'' and

(2) by striking clause (v).

(b) EFFECTIVE DATE.—The amendment made by subsection (a) applies to services furnished on or after January 1, 1997.

SEC. 11130. COVERAGE OF COLORECTAL SCREENING.

(a) IN GENERAL.—Section 1834 (42 U.S.C. 1395m) is amended by inserting after subsection (c) the following:

''(d) FREQUENCY AND PAYMENT LIMITS FOR SCREENING FECAL-OCCULT BLOOD TESTS, SCREENING FLEXIBLE SIGMOIDOSCOPIES AND SCREENING COLONOSCOPY.—

''(1) FREQUENCY LIMITS FOR SCREENING FECAL-OCCULT BLOOD TESTS.—Subject to revision by the Secretary under paragraph (4), no payment may be made under this part for a screening fecal-occult blood test provided in an individual for the purpose of early detection of colon cancer if the test is performed—

''(A) in the case of an individual under 65 years of age, more frequently than is provided in a periodicity schedule established by the Secretary for purposes of this subparagraph, or

"(B) in the case of any other individual, within the 11 months following the month in which a previous screening fecal-occult blood test was performed.

"(2) SCREENING FLEXIBLE SIGMOIDOSCOPIES.—

"(A) PAYMENT AMOUNT.—The Secretary shall establish a payment amount under section 1848 with respect to screening flexible sigmoidoscopies provided for the purpose of early detection of colon cancer that is consistent with payment amounts under such section for similar or related services, except that such payment amount shall be established without regard to subsection (a)(2)(A) of such section.

"(B) FREQUENCY LIMITS.—Subject to revision by the Secretary under paragraph (4), no payment may be made under this part for a screening flexible sigmoidoscopy provided to an individual for the purpose of early detection of colon cancer if the procedure is performed—

"(i) in the case of an individual under 65 years of age, more frequently than is provided in a periodicity schedule estab-

lished by the Secretary for purposes of this subparagraph, or

"(ii) in the case of any other individual, within the 59 months following the month in which a previous screening flexible sigmoidoscopy was performed.

"(3) SCREENING COLONOSCOPY FOR INDIVIDUALS AT HIGH RISK FOR COLORECTAL CANCER.—

"(A) PAYMENT AMOUNT.—The Secretary shall establish a payment amount under section 1848 with respect to screening colonoscopy for individuals at high risk for colorectal cancer (as determined in accordance with criteria established by the Secretary) provided for the purpose of early detection of colon cancer that is consistent with payment amounts under such section for similar or related services, except that such payment amount shall be established without regard to subsection (a)(2)(A) of such section.

"(B) FREQUENCY LIMIT.—Subject to revision by the Secretary under paragraph (4), no payment may be made under this part for a screening colonoscopy for individuals at high risk for colorectal cancer provided to an individ-

ual for the purpose of early detection of colon cancer if the procedure is performed within the 47 months following the month in which a previous screening colonoscopy was performed.

"(C) FACTORS CONSIDERED IN ESTABLISHING CRITERIA FOR DETERMINING INDIVIDUALS AT HIGH RISK.—In establishing criteria for determining whether an individual is at high risk for colorectal cancer for purposes of this paragraph, the Secretary shall take into consideration family history, prior experience of cancer, a history of chronic digestive disease condition, and the presence of any appropriate recognized gene markers for colorectal cancer.

"(4) REVISION OF FREQUENCY.—

"(A) REVIEW.—The Secretary shall review periodically the appropriate frequency for performing screening fecal-occult blood tests, screening flexible sigmoidoscopies, and screening colonoscopy based on age and such other factors and the Secretary believes to be pertinent.

"(B) REVISION OF FREQUENCY.—The Secretary, taking into consideration the review made under clause (i), may revise from time to

time the frequency with which such tests and procedures may be paid for under this subsection.''.

(b) CONFORMING AMENDMENTS.—

(1) SECTION 1833(a).—Paragraphs (1)(D) and (2)(D) of section 1833(a) (42 U.S.C. 13951(a)) are each amended by striking ''subsection (h)(1),'' and inserting ''subsection (h)(1) or section 1834(d)(1),''.

(2) SECTION 1848(a)(2)(A).—Clauses (i) and (ii) of section 1848(a)(2)(A) (42 U.S.C. 13951(a)(2)(A)) are each amended by striking ''a service'' and inserting ''a service (other than a screening flexible sigmoidoscopy provided to an individual for the purpose of early detection of colon cancer or a screening colonoscopy provided to an individual at high risk for colorectal cancer for the purpose of early detection of colon cancer)''.

(3) SECTION 1862(a).—Section 1862(a) (42 U.S.C. 1395y(a)) is amended—

(A) in paragraph (1)—

(i) by striking ''and'' at the end of subparagraph (E),

(ii) by striking the semicolon at the end of subparagraph (F) and inserting ''and'', and

(iii) by adding at the end the following:

"(G) in the case of screening fecal-occult blood tests, screening flexible sigmoidoscopies, and screening colonoscopy provided for the purpose of early detection of colon cancer, which are performed more frequently than is covered under section 1834(d);", and

(B) in paragraph (7), by striking "paragraph (1)(B) or under paragraph (1)(F)" and inserting "subparagraphs (B), (F), or (G) of paragraph (1)".

(c) EFFECTIVE DATE.—The amendments made by the preceding subsections apply to services furnished on or after January 1, 1996.

SEC. 11131. PAYMENTS FOR VACCINES AND VACCINE ADMINISTRATION.

(a) PAYMENT AMOUNTS FOR THE ADMINISTRATION OF CERTAIN VACCINES.—

(1) IN GENERAL.—Section 1833(k) (42 U.S.C. 13951(k)) is amended to read as follows:

"(k) PAYMENT AMOUNT FOR CERTAIN VACCINES.—

"(1) IN GENERAL.—The payment amount under this part for the administration of a vaccine described in section 1861(s)(10) shall be equal to—

"(A)(i) for a vaccine administered in 1996 not in connection with the furnishing of another service, $9.00, and

"(ii) for a vaccine administered in 1996 in connection with the furnishing of another service, $4.00, and

"(B) for a vaccine administered in any subsequent year, the amount determined under subparagraph (A), or under this subparagraph, for the previous year, increased by the update under section 1848(d)(3) for that subsequent year for physicians' services (described in section 1848(d)(3)(A)(ii)(I)).

"(2) CROSS REFERENCE.—For a limitation on actual charges for items and services described in section 1861(s)(10), see paragraphs (1) and (2) of section 1848(g).".

(2) CONFORMING AMENDMENT TO SECTION 1832(a)(1).—Section 1832(a)(1) (42 U.S.C. 1395k(a)(1)) is amended by striking "and (D)" and inserting ", (D), and (K)".

(3) CONFORMING AMENDMENTS TO SECTION 1832(a)(2).—Section 1832(a)(2) (42 U.S.C. 1395k(a)(2)) is amended—

(A) in subparagraph (B), by striking ''described in subparagraph (G) or subparagraph (I)'' and inserting ''or services described in subparagraph (G), (I), or (K)'',

(B) in subparagraph (D), by inserting before the semicolon the following: '', other than, in either case, services described in subparagraph (K)'',

(C) in subparagraph (H), by inserting before the semicolon the following: '', other than services described in subparagraph (K)'',

(D) in subparagraph (I), by striking the final ''and'',

(E) in subparagraph (J), by striking the period and adding ''; and'', and

(F) by adding at the end the following:

''(K) administration of vaccines by providers of services, or as rural health clinic or Federally qualified health center services.''.

(4) CONFORMING AMENDMENTS TO SECTION 1833(a)(1).—Section 1833(a)(1)(B) (42 U.S.C. 13951(a)(1)(B)) is amended—

(A) by striking ''items and services described'' and inserting ''vaccines listed'', and

(B) by inserting at the end the following: ''and, with respect to the administration of those vaccines, the amounts described in subsection (k)(1),''

(5) CONFORMING AMENDMENTS TO SECTION 1833(a)(2).—Section 1833(a)(2) (42 U.S.C. 13951(a)(2)) is amended—

(A) in the matter preceding subparagraph (A), by striking ''and (I)'' and inserting '', (I), and (K)'', and

(B) in the matter in subparagraph (A) preceding clause (i), by striking ''items and services described'' and inserting ''vaccines listed''.

(6) CONFORMING AMENDMENT TO SECTION 1833(a)(3).—Section 1833(a)(3) (42 U.S.C. 13951(a)(3)) is amended by striking ''items and services described'' and inserting ''vaccines listed''.

(7) CONFORMING AMENDMENTS TO SECTION 1833(a)(6).—Section 1833(a)(6) (42 U.S.C. 13951(a)(6)) is amended—

(A) by inserting ''other than services described in section 1832(a)(2)(K)'' after ''services'', and

(B) by striking ''and''.

(8) CONFORMING AMENDMENT TO SECTION 1833(a)(7).—Section 1833(a)(7) (42 U.S.C. 13951(a)(7)) is amended by striking the period and adding at the end "; and".

(9) CROSS REFERENCE.—Section 1833(a) (42 U.S.C. 13951(a)) is amended by adding at the end the following:

"(8) in the case of services described in section 1832(a)(2)(k), the amount described in subsection (k)(1).".

(10) CONFORMING AMENDMENT TO SECTION 1834(g).—Section 1834(g)(2) (42 U.S.C. 1395m(g)(2)) is amended by inserting "(other than services described in section 1832(a)(2)(K))" after "hospital services".

(11) CONFORMING AMENDMENTS TO SECTION 1842(b).—

(A) INITIAL MATTER IN PARAGRAPH (3)(b).—The matter in section 1842(b)(3)(B) (42 U.S.C. 1395u(b)(3)(B)) preceding clause (i) is amended by inserting ", where payment under this part for a service is on a basis other than a cost basis," after "carrier, and".

(B) PARAGRAPH (3)(b)(ii).—Section 1842(b)(3)(B)(ii)(I) (42 U.S.C.

1395u(b)(3)(B)(ii)(I)) is amended by inserting ''(or other payment basis)'' after ''reasonable charge''.

(12) CONFORMING AMENDMENTS TO SECTION 1848(g).—

(A) PARAGRAPH (1).—The first sentence of section 1848(g)(1) (42 U.S.C. 1395w–4(g)(1)) is amended by inserting ''or items and services described in section 1861(s)(10)'' after ''January 1, 1991)''.

(B) PARAGRAPH (2).—Section 1848(g)(2)(C) (42 U.S.C. 1395w–4(g)(2)(C)) is amended by adding at the end the following: ''For items and services described in section 1861(s)(10) furnished in a year after 1994, the 'limiting charge' shall be 115 percent of the applicable amount described in section 1833(k)(1).''.

(b) ELIMINATION OF COINSURANCE AND DEDUCTIBLE FOR HEPATITIS B VACCINE.—Section 1833(a)(1)(B) (42 U.S.C. 13951(a)(1)(B)), the matter in subparagraph (A) of section 1833(a)(2) (42 U.S.C. 13951(a)(2)) preceding clause (i), section 1833(a)(3) (42 U.S.C. 13951(a)(3)), paragraph (1) of the first sentence of section 1833(b) (42 U.S.C. 13951(b)), and the third

sentence of section 1866(a)(2)(A) (42 U.S.C. 1395cc(a)(2)(A)) are each amended by striking ''1861(s)(10)(A)'' and inserting ''1861(s)(10)''.

(c) REPEAL OF OBSOLETE PROVISIONS.—

(1) SOCIAL SECURITY ACT.—Section 1861(s)(10)(A) (42 U.S.C. 1395x(s)(10)(A)) is amended by striking '', subject to section 4071(b) of the Omnibus Reconciliation Act of 1987,''.

(2) OBRA–1987.—Section 4071(b) of the Omnibus Budget Reconciliation Act of 1987 is repealed.

PART 3—PROVISIONS RELATING TO PARTS A AND B

SEC. 11141. CENTERS OF EXCELLENCE.

(a) IN GENERAL.—Title XVIII is amended by inserting after section 1888 the following:

''SEC. 1889. CENTERS OF EXCELLENCE.

''(a) IN GENERAL.—The Secretary shall use a competitive process to contract with centers of excellence for cataract surgery, coronary artery by-pass surgery, and such other services as the Secretary determines to be appropriate. Payment under this title shall be made for services subject to such contracts on the basis of negotiated or all-inclusive rates as follows:

''(1) COVERAGE OF URBAN AREA.—The center shall cover services provided in an urban area (as

defined in section 1886(d)(2)(D)) for years beginning with fiscal year 1996.

"(2) SAVINGS REQUIRED.—The amount of payment made by the Secretary to the center under this title for services covered under the project shall be less than the aggregate amount of the payments that the Secretary would have made to the center for such services had the project not been in effect.

"(3) TYPES OF SERVICES.—The Secretary shall make payments to the center on such a basis for the following services furnished to individuals entitled to benefits under this title:

"(A) Facility, professional, and related services relating to cataract surgery.

"(B) Coronary artery bypass surgery and related services.

"(C) Such other services as the Secretary and the center may agree to cover under the agreement.

"(b) REBATE OF PORTION OF SAVINGS.—In the case of any services furnished by a center under subsection (a), the Secretary shall make a payment to each individual to whom such services are furnished at such time and in such manner as the Secretary may provide, in an amount equal to 10 percent of the amount by which—

"(1) the amount of payment that would have been made by the Secretary under this title to the center for such services if the services had not been provided at the center, exceeds

"(2) the amount of payment made by the Secretary under this title to the center for such services.".

(b) EFFECTIVE DATE.—The amendments made by subsection (a) apply to services furnished on or after October 1, 1996.

SEC. 11142. MAINTAINING SAVINGS RESULTING FROM TEMPORARY FREEZE ON PAYMENT INCREASES FOR HOME HEALTH SERVICES.

(a) BASING UPDATES TO PER VISIT COST LIMITS ON LIMITS FOR FISCAL YEAR 1993.—Section 1861(v)(1)(L)(iii) (42 U.S.C. 1395x(v)(1)(L)(iii)) is amended by adding at the end the following sentence: "In establishing limits under this subparagraph, the Secretary may not take into account any changes in the costs of the provision of services furnished by home health agencies with respect to cost reporting periods which began on or after July 1, 1994, and before July 1, 1996.".

(b) NO EXCEPTIONS PERMITTED BASED ON AMENDMENT.—The Secretary of Health and Human Services shall not consider the amendment made by subsection (a)

in making any exemptions and exceptions pursuant to section 1861(v)(1)(L)(ii) of the Social Security Act.

SEC. 11143. INTERIM PAYMENTS FOR HOME HEALTH SERVICES.

(a) REDUCTIONS IN COST LIMITS.—Section 1861(v)(1)(L)(i) (42 U.S.C. 1395x(v)(1)(L)(i)) is amended—

(1) by inserting ''and before October 1, 1996,'' after ''July 1, 1987'' in subclause (III),

(2) by striking the period at the end of the matter following subclause (III), and inserting '', and'', and

(3) by adding at the end the following new subclause:

''(IV) October 1, 1996, 105 percent of the median of the labor-related and nonlabor per visit costs for freestanding home health agencies.''.

(b) DELAY IN UPDATES.—Section 1861(v)(1)(L)(iii) (42 U.S.C. 1395x(v)(1)(L)(iii)) is amended by striking ''July 1, 1996'' and inserting ''October 1, 1996''.

(c) ADDITIONS TO COST LIMITS.—Section 1861(v)(1)(L) (42 U.S.C. 1395x(v)(1)(L)) is amended by adding at the end the following:

''(iv) LIMITS FOR FISCAL YEARS 1997 THROUGH 1999.—For services furnished by

home health agencies for cost reporting periods beginning on or after October 1, 1996, but before October 1, 1999, the Secretary shall provide for an interim system of limits. Payment shall be the lower of—

"(I) costs determined under the preceding provisions of this subparagraph, or

"(II) an agency-specific per beneficiary annual limitation calculated from the agency's 12-month cost reporting period ending on or after January 1, 1994, and on or before December 31, 1994, based on reasonable costs (including nonroutine medical supplies), updated by the home health market basket index. The per beneficiary limitation shall be multiplied by the agency's unduplicated census count of patients (entitled to benefits under this title) for the year subject to the limitation to determine the aggregate agency specific per beneficiary limitation.

"(v) SPECIAL RULES.—For services furnished by home health agencies for cost reporting periods beginning on or after October 1, 1996, the following rules shall apply:

"(I) For new providers and those providers without a 12-month cost reporting period ending in calendar year 1994, the per beneficiary limitation shall be equal to the mean of these limits (or the Secretary's best estimates thereof) applied to home health agencies as determined by the Secretary. Home health agencies that have altered their corporate structure or name shall not be considered new provides for payment purposes.

"(II) For beneficiaries who use services furnished by more than one home health agency, the per beneficiary limitations shall be prorated among agencies.

"(vi) BONUS PAYMENTS.—Home health agencies whose cost or utilization experience is below 125 percent of the

mean national or census region aggregate per beneficiary cost or utilization experience for 1994, or best estimates thereof, and whose year-end reasonable costs are below the agency-specific per beneficiary limitation, shall receive payments equal to 50 percent of the difference between the agency's reasonable costs and its limit for fiscal years 1997, 1998, and 1999. Such payments may not exceed 5 percent of such agency's aggregate Medicare reasonable cost in a year.

''(vii) MODIFICATIONS FOR REGIONAL OR NATIONAL VARIATIONS IN UTILIZATION.—Effective January 1, 1997, or as soon as feasible, the Secretary shall modify the agency-specific per beneficiary annual limitation described in clause (iv) to provide for regional or national variations in utilization. For purposes of determining payment under clause (iv), the limit shall be calculated through a blend of 75 percent of the agency-specific cost or utilization experience in 1994 with 25 percent of the national or census region cost or utili-

1 zation experience in 1994, or the Sec-
2 retary's best estimates thereof.''.

3 (d) USE OF INTERIM FINAL REGULATIONS.—The
4 Secretary shall implement the payment limits described in
5 section 1861(v)(1)(L)(iv) of the Social Security Act by
6 publishing in the Federal Register a notice of interim final
7 payment limits by August 1, 1996, and allowing for a pe-
8 riod of public comment thereon. Payments subject to these
9 limits will be effective for cost reporting periods beginning
10 on or after October 1, 1996, without the necessity for con-
11 sideration of comments received, but the Secretary shall,
12 by Federal Register notice, affirm or modify the limits
13 after considering those comments.

14 (e) DEVELOPMENT OF CASE MIX SYSTEM.—The Sec-
15 retary shall expand research on a prospective payment sys-
16 tem for home health agencies that shall tie prospective
17 payments to an episode of care, including an intensive ef-
18 fort to develop a reliable case mix adjuster that explains
19 a significant amount of the variances in costs.

20 (f) SUBMISSION OF DATA FOR CASE MIX SYSTEM.—
21 Effective for cost reporting periods beginning on or after
22 October 1, 1998, the Secretary may require all home
23 health agencies to submit such additional information as
24 the Secretary deems necessary for the development of a
25 reliable case mix system.

SEC. 11144. PROSPECTIVE PAYMENT FOR HOME HEALTH SERVICES.

Title XVIII is amended by adding at the end the following:

"SEC. 1893. PROSPECTIVE PAYMENT FOR HOME HEALTH SERVICES.

"(a) IN GENERAL.—Notwithstanding section 1861(v), the Secretary shall, for cost reporting periods beginning on or after October 1, 1999, provide for payments for home health services in accordance with a prospective payment system, which pays home health agencies on a per episode basis, established by the Secretary.

"(b) ELEMENTS OF SYSTEM.—Such a system shall include the following:

"(1) BASED ON A PER EPISODE AMOUNT.—All services covered and paid on a reasonable cost basis under the medicare home health benefit as of the date of the enactment of the Balanced Budget Act of 1995 for Economic Growth and Fairness, including medical supplies, shall be subject to the per episode amount. In defining an episode of care, the Secretary shall consider an appropriate length of time for an episode, the use of services, and the number of visits provided within an episode, potential changes in the mix of services provided within an episode and their cost, and a general system de-

sign that will provide for continued access to quality services. The per episode amount shall be based on the most current audited cost report data available to the Secretary

"(2) USE OF CASE MIX.—The Secretary shall employ an appropriate case mix adjustment that explains a significant amount of the variation in cost.

"(3) ANNUAL ADJUSTMENTS.—The episode payment amount shall be adjusted annually by the home health market basket index. The labor portion of the episode amount shall be adjusted for geographic differences in labor-related costs based on the most current hospital wage index.

"(4) OUTLIERS.—The Secretary may designate a payment provision for outliers, recognizing the need to adjust payments due to unusual variations in the type or amount of medically necessary care.

"(5) COORDINATION BY HOME HEALTH AGENCY.—A home health agency shall be responsible for coordinating all care for a beneficiary. If a beneficiary elects to transfer to, or receive services from, another home health agency within an episode period, the episode payment shall be prorated between home health agencies.

"(c) SAVINGS.—Prior to implementing the prospective system described in subsections (a) and (b) in a budget neutral fashion, the Secretary shall first reduce, by 15 percent, the cost limits, per beneficiary limits, and actual costs, described in section 1861(v)(1)(L)(iv), as such limits are in effect on September 30, 1999.".

SEC. 11145. PAYMENT BASED ON LOCATION WHERE HOME HEALTH SERVICE IS FURNISHED.

(a) CONDITIONS OF PARTICIPATION.—Section 1891 (42 U.S.C. 1395bbb) is amended by adding at the end the following:

"(g) PAYMENT ON BASIS OF LOCATION OF SERVICE.—A home health agency shall submit claims for payment of home health services under this title only on the basis of the geographic location at which the service is furnished, as determined by the Secretary.".

(b) WAGE ADJUSTMENT.—Section 1861(v)(1)(L)(iii) (42 U.S.C. 1395x(v)(1)(L)(iii)) is amended by striking "agency is located" and inserting "service is furnished".

(c) EFFECTIVE DATE.—The amendments made by previous subsections apply to services furnished on or after October 1, 1996.

SEC. 11146. ELIMINATION OF PERIODIC INTERIM PAYMENTS FOR HOME HEALTH AGENCIES.

(a) IN GENERAL.—Section 1815(e)(2) (42 U.S.C. 1395g(e)(2)) is amended—

(1) by inserting ''and'' at the end of subparagraph (C),

(2) by striking subparagraph (D), and

(3) by redesignating subparagraph (E) as (D).

(b) EFFECTIVE DATE.—The amendments made by subsection (a) apply to payments made on or after October 1, 1999.

SEC. 11147. ESTABLISHMENT OF POST-HOSPITAL HOME HEALTH BENEFIT UNDER PART A AND TRANSFER OF OTHER HOME HEALTH SERVICES TO PART B.

(a) IN GENERAL.—Section 1812(a)(3) (42 U.S.C. 1395d(a)(3)) is amended—

(1) by inserting ''post-hospital'' before ''home health services'', and

(2) by inserting ''for up to 100 visits during any spell of illness (or, in the case of an individual who is not enrolled in the insurance program established by part B, home health services)'' before the semicolon.

(b) POST-HOSPITAL HOME HEALTH SERVICES.—Section 1861 (42 U.S.C. 1395x), as amended by section

11118, is further amended by adding at the end the following:

"(pp) POST-HOSPITAL HOME HEALTH SERVICES.—The term 'post-hospital home health services' means home health services furnished to an individual under a plan of treatment established when the individual was an inpatient of a hospital or rural primary care hospital for not less than 3 consecutive days before discharge, if home health services are initiated for such individual within 30 days after discharge from the hospital or rural primary care hospital.".

(c) CONFORMING AMENDMENTS.—Section 1812(b) (42 U.S.C. 1395d(b)) is amended—

(1) by striking "or" at the end of paragraph (2);

(2) by striking the period at the end of paragraph (3) and inserting "; or", and

(3) by adding at the end the following:

"(4) post-hospital home health services furnished to the individual during such spell of illness after such services had been furnished to the individual for 100 visits during such spell.".

(d) CLARIFICATION OF PART-TIME OR INTERMITTENT NURSING CARE.—Section 1861(m) (42 U.S.C. 1395x(m)) is amended by adding at the end the following:

"For purposes of paragraphs (1) and (4), the term 'part-time or intermittent services' means skilled nursing and home health aide services furnished any number of days per week as long as they are furnished (combined) less than 8 hours each day and 28 or less hours each week (or, subject to review on a case-by-case basis as to the need for care, less than 8 hours each day and 35 or less hours per week). For purposes of sections 1814(a)(2)(C) and 1835(a)(2)(A), 'intermittent' means skilled nursing care that is either provided or needed on fewer than 7 days each week, or less than 8 hours or each day of skilled nursing and home health services combined for periods of 21 days or less (with extensions in exceptional circumstances when the need for additional care is finite and predictable).".

(e) PAYMENTS UNDER PART B.—Subparagraph (A) of section 1833(a)(2) (42 U.S.C. 13951(a)(2)) is amended to read as follows:

"(A) with respect to home health services (other than a covered osteoporosis drug (as defined in section 1861(kk)), and to items and services described in section 1861(s)(10)(A), the amounts determined under section 1861(v)(1)(L) or section 1893, or, if such services are furnished by a public provider of serv-

ices, or by another provider which demonstrates to the satisfaction of the Secretary that a significant portion of its patients are low-income (and requests that payment be made under this provision), free of charge or at nominal charges to the public, the amount determined in accordance with section 1814(b)(2);''.

(f) EXCLUSION OF ADDITIONAL PART B COSTS FROM DETERMINATION OF PART B MONTHLY PREMIUM.—Section 1839(a) (42 U.S.C. 1395r(a)) is amended—

(A) in the second sentence of paragraph (1), by inserting ''(except as provided in paragraph (5))'' before the period, and

(B) by adding at the end the following:

''(5) EXCLUSION OF HOME HEALTH COSTS.—In estimating the benefits and administrative costs which will be payable from the Federal Supplementary Medical Insurance Trust Fund for a year (beginning with 1997), the Secretary shall exclude an estimate of any benefits and administrative costs attributable to home health services for which payment would have been made under part A during the year but for paragraph (4) of section 1812(b), or home health services furnished under part A that are not post-hospital home health services.''

(g) PAYMENTS FROM SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND FOR CERTAIN HOME HEALTH SERVICES FURNISHED UNDER PART A.—Section 1815(a) (42 U.S.C. 1395g(a)) is amended by inserting after ''Trust Fund'' the following: ''or in the case of home health services that are not post-hospital home health services, from the Federal Supplementary Medical Insurance Trust Fund)''.

(h) EFFECTIVE DATE.—The amendments made by the preceding subsections apply to spells of illness beginning on or after October 1, 1996.

SEC. 11148. PERMANENT EXTENSION OF CERTAIN SECONDARY PAYER PROVISIONS.

(a) WORKING DISABLED.—Section 1862(b)(1)(B) is amended by striking clause (iii).

(b) INDIVIDUAL WITH END STAGE RENAL DISEASE.—Section 1862(b)(1)(C) is amended—

(1) in the first sentence, by striking ''12-month'' each place it occurs and inserting ''18-month'', and

(2) by striking the second sentence.

(c) IRS-SSA-HCFA DATA MATCH.—

(1) SOCIAL SECURITY ACT.—Section 1862(b)(5)(C) is amended by striking clause (iii).

(2) INTERNAL REVENUE CODE.—Section 6103(l)(12) of the Internal Revenue Code of 1986 is amended by striking subparagraph (F).

PART 4—MEDICARE PART B PREMIUM

SEC. 11161. PART B PREMIUM.

(a) IN GENERAL.—The first and second sentences of section 1839(a)(3) (42 U.S.C. 1395r(a)(3)) are amended to read as follows: ''The Secretary shall, during September of each year, determine and promulgate a monthly premium rate for the succeeding calendar year. That monthly premium rate shall be equal to 50 percent of the monthly actuarial rate for enrollees age 65 and over, determined according to paragraph (1), for that succeeding calendar year.''.

(b) CONFORMING AND TECHNICAL AMENDMENTS.—Section 1839 (42 U.S.C. 1395r) is amended—

(1) in subsection (a)(2), by striking ''(b) and (e)'' and inserting ''(b), (c), and (f)'',

(2) in the third sentence of subsection (a)(3)—

(A) by inserting ''rate'' after ''premium'', and

(B) by striking ''and the derivation of the dollar amounts specified in this paragraph'',

(3) by striking subsection (e), and

(4) by redesignating subsection (g) and (e) and inserting that subsection after subsection (d).

(c) EFFECTIVE DATE.—The amendments made by the preceding subsections apply to premiums for months after December 1995.

Subtitle B—Expanded Medicare Choice

SEC. 11201. EXPANDED CHOICE UNDER MEDICARE.

(a) IN GENERAL.—Title XVIII (42 U.S.C. 1395 et seq.) is amended by inserting after section 1804 the following:

''OPTION TO ENROLL IN MANAGED CARE PLANS

''SEC. 1805. Every individual entitled to benefits under part A and enrolled under part B or enrolled under part B only shall be eligible to enroll under part C with any eligible organization with which the Secretary has entered into a contract under part C and which serves the geographic area in which the individual resides.''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) applies to enrollments whose periods begin after 1996.

SEC. 11202. BROADER CHOICE AMONG MANAGED CARE ORGANIZATIONS.

(a) IN GENERAL.—Title XVIII (42 U.S.C. 1395 et seq.) is amended—

(1) by redesignating part C (42 U.S.C. 1395x et seq.) as part D, and

(2) by inserting after part B (42 U.S.C. 1395j et seq.) the following:

"PART C—MANAGED CARE ORGANIZATIONS

"SEC. 1851A. TYPES OF MANAGED CARE ORGANIZATIONS.

"(a) ELIGIBLE ORGANIZATIONS.—For purposes of this part, the term 'eligible organization' means a public or private entity, organized under the laws of any State, that is—

"(1) a qualified health maintenance organization (QHMO),

"(2) a competitive medical plan (CMP),

"(3) a preferred provider organization (PPO), or

"(4) a provider sponsored organization (PSO).

"(b) QUALIFIED HEALTH MAINTENANCE ORGANIZATION (QHMO).—For purposes of this part, the term 'qualified health maintenance organization' means such as organization (as defined in section 1310(d) of the Public Health Service Act) that meets the requirements of subparagraphs (B) and (E) of subsection (c)(1).

"(c) COMPETITIVE MEDICAL PLAN (CMP).—

"(1) IN GENERAL.—For purposes of this part, the term 'competitive medical plan' means an entity that meets the following requirements:

"(A) MINIMUM SERVICES TO ALL MEMBERS.—The entity provides to enrolled members at least the following health care services:

"(i) Physicians' services performed by physicians (as defined in section 1861(r)(1)).

"(ii) Inpatient hospital services.

"(iii) Laboratory, X-ray, emergency, and preventive services.

"(iv) Out-of-area coverage.

"(B) PROVISION OF PHYSICIANS' SERVICES.—The entity provides physicians' services primarily (i) directly through physicians who are either employees or partners of such organization, or (ii) through contracts with individual physicians or one or more groups of physicians (organized on a group practice or individual practice basis).

"(C) COMPENSATION ON PREPAID RISK BASIS.—The entity is compensated (except for deductibles, coinsurance, and copayments) for the provision of health care services to enrolled

members by a payment which is paid on a periodic basis without regard to the date the health care services are provided and which is fixed without regard to the frequency, extent, or kind of health care service actually provided to a member.

"(D) ASSUMPTION OF RISK.—The entity assumes full financial risk on a prospective basis for the provision of the health care services listed in subparagraph (A), except that such entity may—

"(i) obtain insurance or make other arrangements for the cost of providing to any enrolled member health care services listed in subparagraph (A) the aggregate value of which exceeds $5,000 in any year,

"(ii) obtain insurance or make other arrangements for the cost of health care services listed in subparagraph (A) provided to its enrolled members other than through the entity because medical necessity required their provision before they could be secured through the entity,

"(iii) obtain insurance or make other arrangements for not more than 90 per-

cent of the amount by which its costs for any of its fiscal years exceed 115 percent of its income for such fiscal year, and

"(iv) make arrangements with physicians or other health professionals, health care institutions, or any combination of such individuals or institutions to assume all or part of the financial risk on a prospective basis for the provision of basic health services by the physicians or other health professionals or through the institutions.

"(E) FISCAL SOUNDNESS; PROVISION AGAINST INSOLVENCY.—The entity meets standards for fiscal soundness (including standards for provision against the risk of insolvency) applicable to Federally qualified health maintenance organizations under title XIII of the Public Health Service Act.

"(2) EXCEPTION FOR CERTAIN GRANDFATHERED CONTRACTS.—Paragraph (1)(A)(ii) shall not apply to an entity which had contracted with a single State agency administering a State plan approved under title XIX for the provision of services (other than inpatient hospital services) to individuals

eligible for such services under such State plan on a prepaid risk basis prior to 1970.

"(d) PREFERRED PROVIDER ORGANIZATION (PPO).—

"(1) IN GENERAL.—For purposes of this part, the term 'preferred provider organization' means an entity that meets the following requirements:

"(A) MINIMUM SERVICES TO ALL MEMBERS.—The entity provides at least physicians' services performed by physicians (as defined in section 1861(r)(1)).

"(B) PROVISION OF PHYSICIAN SERVICES; FISCAL SOUNDNESS.—The entity meets the requirements of subparagraphs (B) and (E) of subsection (c)(1).

"(C) ASSUMPTION OF RISK.—The entity meets the requirements of subsection (c)(1)(D) with respect to members enrolled with the organization under this part.

"(2) DETERMINATION OF PRIVATE MEMBERSHIP.—In applying the provisions of sections 1851E(g) and 1851F(e)(1)(B)(i) and (f)(1)(B)(i) (concerning minimum private enrollment) to an organization that meets the requirements of paragraph (1), individuals for whom the organization has as-

sumed substantial financial risk shall be considered to be members of the organization.

"(e) PROVIDER SPONSORED ORGANIZATION (PSO).—

"(1) IN GENERAL.—For purposes of this part, the term 'provider sponsored organization' means an entity that meets the following requirements:

"(A) TYPE OF ENTITY.—The entity is a hospital, a group of affiliated hospitals, or an affiliated group consisting of a hospital or hospitals and physicians (as defined in section 1861(r)(1)).

"(B) MINIMUM SERVICES TO ALL MEMBERS.—The entity provides at least physicians' services performed by physicians (as defined in section 1861(r)(1)) and inpatient hospital services.

"(C) DIRECT PROVISION OF SERVICES.—The entity provides directly a substantial portion of the services covered under this title (as determined by the Secretary, which may vary for rural or under served areas).

"(D) ASSUMPTION OF RISK.—The entity meets the requirements of subsection (c)(1)(D)

with respect to members enrolled with the organization under this part.

"(E) FISCAL SOUNDNESS; PROVISION AGAINST INSOLVENCY.—The entity meets requirements for fiscal soundness and provision against insolvency developed by the Secretary.

"(2) DETERMINATION OF PRIVATE MEMBERSHIP.—In applying the provisions of sections 1851E(g) and 1851F(e)(1)(B)(i) and (f)(1)(B)(i) (concerning minimum private enrollment) to an organization that meets the requirements of paragraph (1), individuals for whom the organization has assumed substantial financial risk shall be considered to be members of the organization.

"(3) LIMITED PREEMPTION OF STATE LAW.—Except as otherwise provided in the next sentence, an organization that meets the requirements of paragraph (1) may provide health benefits to individuals enrolled with the organization under this part without regard to any State law that imposes requirements different from those under paragraph (1)(E)) (concerning fiscal soundness and provision against insolvency), or that imposes requirements (in other respects) that differ from those imposed on other organizations which provide health care bene-

fits only through (or preferentially through) certain entities. If the Secretary determines that a State has licensing standards which are substantially equivalent to the requirements of such paragraph (1)(E), that the State has a process for issuing licenses on a timely basis, and that the State does not impose requirements (in other respects) that differ from those imposed on other organizations which provide health care benefits only through (or preferentially through) certain entities, the Secretary shall require the organization to obtain a license from the State.

"SEC. 1851B. ENROLLMENT AND DISENROLLMENT.

"(a) IN GENERAL.—

"(1) SECRETARY'S RESPONSIBILITY.—The Secretary shall carry out enrollment and termination of enrollment of individuals with eligible organizations.

"(2) INDIVIDUAL OPTIONS.—An individual may, as prescribed by regulations—

"(A) enroll under this part with an eligible organization; and

"(B) terminate enrollment with such organization—

"(i) as of the beginning of the first calendar month following the date on

which the request is made for such termination;

"(ii) as of the date determined in accordance with regulations, in the case of financial insolvency of the organization; and

"(iii) retroactively to the date of enrollment, in such special circumstances as the Secretary may designate.

"(b) INFORMATION CONCERNING ENROLLMENT.—

"(1) STANDARDIZED COMPARATIVE MATERIALS.—The Secretary shall develop and distribute standardized comparative materials about eligible organizations and medicare supplemental policies (as defined in section 1882(g)(1)) to enable individuals to compare benefits, costs, and quality indicators.

"(2) COST-SHARING BY PARTICIPATING ORGANIZATIONS.—Each eligible organization with a contract under this part shall pay the Secretary for its pro rata share (as determined by the Secretary) of the estimated costs to be incurred by the Secretary in carrying out the requirements of the preceding sentence, the first sentence of subsection (a)(1), and section 4360 of the Omnibus Reconciliation Act of 1990. Those payments are appropriated to defray

the costs described in the preceding sentence, to remain available until expended.

"(2) REVIEW OF MARKETING MATERIALS.—The Secretary may prescribe the procedures and conditions under which an eligible organization that has entered into a contract with the Secretary under this subsection may furnish information about the organization to enrollees and individuals eligible to enroll under this part. No brochures, application forms, or other promotional or informational material may be distributed by an organization to (or for the use of) such individuals unless at least 45 days before its distribution, the organization has submitted the material to the Secretary for review, and the Secretary has not disapproved the distribution of the material. The Secretary shall review all such material submitted and shall disapprove such material if the Secretary determines, in the Secretary's discretion, that the material is materially inaccurate or misleading or otherwise makes a material misrepresentation.

"(c) PERIODS OF ENROLLMENT.—

"(1) STANDARD ENROLLMENT OPPORTUNITIES.—Subject to the provisions of this section, an organization with a contract under this part shall

permit enrollment under this part by any individual—

"(A) during the month of each year specified by the Secretary for all eligible organizations;

"(B) during the individual's initial enrollment period in the program under part B (as described in section 1837(d));

"(C) during a special enrollment period in the program under part B (for individuals formerly electing employment-based coverage) described in section 1837(i)(3); and

"(D) during the 90-day period beginning 30 days before the date the individual takes up residence in the service area of the organization.

"(2) SPECIAL ENROLLMENT PERIOD FOR INDIVIDUALS LOSING COVERAGE BY ANOTHER ORGANIZATION.—

"(A) IN GENERAL.—Subject to other provisions of this section, if a contract with an organization under this part is not renewed or otherwise terminated, or is renewed in a manner that discontinues coverage for individuals residing in part of the service area, each other

organization with a contract under this part shall permit enrollment under this part by affected individuals enrolled with such other organization on the effective date of such termination or discontinuation of coverage.

"(B) ENROLLMENT PERIOD.—The enrollment period required by subparagraph (A) shall be for 30 days and shall begin 30 days after the date that the Secretary provides notice of such requirement.

"(2) ACCEPTANCE OR DENIAL OF APPLICATION.—An eligible organization shall enroll individuals under this part in the order of application, and may deny enrollment of such an individual only if the enrollment—

"(A) would exceed the limits of the organization's capacity (as determined by the Secretary);

"(B) would result in an enrolled population substantially nonrepresentative, as determined in accordance with regulations of the Secretary, of the population in the geographic area served by the organization; or

"(C) would result in the organization's failing to meet the requirements of sections

1851E(g) and 1851F(e)(1)(B)(i) and (f)(1)(B)(i) (concerning minimum private enrollment).

"(3) EFFECTIVE DATE OF ENROLLMENT.—An individual's enrollment with an eligible organization under this part shall be effective—

"(A) in the case of an enrollment under paragraph (1)(A), on the first day of the third month beginning after the end of the enrollment period;

"(B) in the case of an enrollment under paragraph (1)(B), as specified by section 1838(a);

"(C) in the case of an enrollment under paragraph (1)(C), as specified by section 1838(e);

"(D) in the case of an enrollment under paragraph (1)(D), on the first day of the first month following the month in which the individual enrolled; and

"(E) in the case of an enrollment under paragraph (2), 30 days after the end of the open enrollment period, or, if the Secretary determines that such date is not feasible, such other date as the Secretary specifies.

"(d) ENROLLMENT OR TERMINATION FOR HEALTH REASONS PROHIBITED.—An eligible organization—

"(1) shall not refuse to enroll, and shall not expel or refuse to re-enroll, any individual eligible to enroll or enrolled with the organization under this part because of the individual's health status or requirements for health care services;

"(2) shall include in any marketing materials a statement of the requirements of paragraph (1); and

"(3) shall notify each such individual of the requirements of paragraph (1) at the time of the individual's enrollment.

"SEC. 1851C. BENEFITS.

"(a) BASIC BENEFITS.—

"(1) IN GENERAL.—An eligible organization must provide to members enrolled under this part, either directly or through providers and other persons that meet the applicable requirements of this title and part A of title XI—

"(A) services covered under parts A and B of this title, for those members entitled to benefits under part A and enrolled under part B, or

"(B) services covered under part B, for those members enrolled only under such part,

which are available to individuals residing in the geographic area served by the organization.

"(2) PPO REQUIRED TO AFFORD 'POINT OF SERVICE' OPTION.—An eligible organization that contracts as a preferred provider organization under this part, in addition to providing services in accordance with paragraph (1), shall also pay for any service furnished to a member enrolled under this part (in the amounts, if any, that otherwise would be paid under this title) by any entity that may furnish that service under this title (other than an entity through which the organization provides services, or other than a service with respect to which the organization is required to provide for reimbursement under subsection (h)(2) (concerning urgently needed services provided outside the organization).

"(3) PSO PROHIBITED FROM AFFORDING 'POINT OF SERVICE' OPTION.—An eligible organization that contracts as a provider sponsored organization under this part may not pay for any service described in subsection (d) that is furnished to a number enrolled under this part.

"(b) ADDITIONAL BENEFITS OR OTHER ADJUSTMENT UNDER RISK PLANS.—

"(1) REQUIREMENT WHERE ADJUSTED COMMUNITY RATES BELOW PAYMENT RATES.—Each contract under section 1851F(e) shall provide for adjustment in accordance with this subsection, if—

"(A) the adjusted community rate for services under parts A and B (as reduced for the actual value of the coinsurance and deductibles under those parts) for members enrolled under this part with the organization and entitled to benefits under part A and enrolled in part B, or

"(B) the adjusted community rate for services under part B (as reduced for the actuarial value of the coinsurance and deductibles under that part) for members enrolled under this part B only is less than the average of the per capita rates of payment to be made under section 1851F(e)(2) at the beginning of an annual contract period for members enrolled under this part with the organization and entitled to benefits under part A and enrolled in part B, or enrolled in part B only, respectively.

"(2) SELECTION BY ORGANIZATION OF ADDITIONAL BENEFITS.—An eligible organization to which paragraph (1) applies shall either—

"(A) provide to members described in paragraph (1)(A) or (1)(B), as applicable, the additional benefits described in paragraph (3) which are selected by the eligible organization and which the Secretary finds are at least equal in value to the difference between the average per capita payment and the adjusted community rate (as so reduced); or

"(B) elect an alternative, in accordance with paragraph (4).

"(3) ADDITIONAL BENEFITS.—The additional benefits referred to in paragraph (2) are—

"(A) the reduction of the premium rate or other charges made with respect to services furnished by the organization to members enrolled under this part; or

"(B) the provision of additional health benefits; or both.

"(4) ALTERNATIVES TO ADDITIONAL BENEFITS.—An eligible organization to which paragraph (1) applies—

"(A) may elect to receive a lesser payment such that there is no longer a difference between the AAPCC and adjusted community rate (as so reduced); and

"(B) may (with the approval of the Secretary) provide that a part of the value of such additional benefits be withheld and reserved by the Secretary as provided in paragraph (5).

"(5) BENEFIT STABILIZATION FUND.—An organization having a contract under section 1851F(e) may (with the approval of the Secretary) provide that a part of the value of additional benefits otherwise required to be provided by reason of paragraph (1) be withheld and reserved in the Federal Hospital Insurance Trust Fund and in the Federal Supplementary Medical Insurance Trust Fund (in such proportions as the Secretary determines to be appropriate) by the Secretary for subsequent annual contract periods, to the extent required to stabilize and prevent undue fluctuations in the additional benefits offered in those subsequent periods by the organization in accordance with paragraph (3). Any of such value of additional benefits which is not provided to members of the organization in accordance with paragraph (3) prior to the end of such period, shall revert for the use of such trust funds.

"(6) DETERMINATION OF PER CAPITA RATES.—If the Secretary finds that there is insufficient enrollment experience to determine an average of the

per capita rates of payment to be made under section 1851F(e)(2) at the beginning of a contract period, the Secretary may determine such an average based on the enrollment experience of other contracts entered into under this part.

"(c) SUPPLEMENTAL BENEFITS.—

"(1) SUBJECT TO SECRETARY'S APPROVAL.—An eligible organization may provide to individuals enrolled under this part (without affording such individuals an option to decline such coverage), such additional health care services as the Secretary may approve. The Secretary shall approve any such additional services unless the Secretary determines that including such additional services will substantially discourage enrollment by covered individuals with the organization.

"(2) AT ENROLLEES' OPTION.—Such an organization may provide to such individuals such additional health care services as such individuals may elect, at their option, to have covered.

"(3) DISCLOSURE OF PREMIUM.—Such an organization shall furnish to such individuals information on the portion of its premium rate or other charges applicable to such additional services.

"(d) STANDARIZED PACKAGES OF ADDITIONAL BENEFITS.—Any health care service described in subsection (b) or (c) that is included in a standardized package of benefits specified by the Secretary may be offered only as part of that standardized package.

"(e) AVAILABILITY AND ACCESSIBILITY OF SERVICES.—

"(1) SERVICES PROVIDED THROUGH THE ORGANIZATION.—An eligible organization with a contract under this part must make the services it has contracted to provide to individuals enrolled with the organization under this part—

"(A) available and accessible to each such individual, within the area served by the organization, with reasonable promptness and in a manner with assures continuity, and

"(B) when medically necessary, available and accessible twenty-four hours a day and seven days a week.

"(2) SERVICES PROVIDED OUTSIDE THE ORGANIZATION.—An eligible organization with a contract under this part must provide for reimbursement with respect to services described in paragraph (1) provided to such an individual other than through the organization, if—

"(A) the services were medically necessary and immediately required because of an unforeseen illness, injury, or condition; and

"(B) it was not reasonable given the circumstances to obtain the services through the organization.

"SEC. 1851D. LIABILITY OF BENEFICIARY AND THIRD PARTIES.

"(a) LIMITS ON LIABILITY FOR REQUIRED BENEFITS.—

"(1) LIMITATION TO ACTUARIAL VALUE OF FEE-FOR-SERVICE COVERAGE.—Total charges by an eligible organization to individuals enrolled with the organization under this part, with respect to services described in section 1851C(a)—

"(A) shall include no amounts other than the individual's share of premiums, deductibles, coinsurance, and copayments; and

"(B) shall not exceed the actuarial value of the deductibles and coinsurance that would be applicable under this title on the average to such individuals if they were not members of an eligible organization.

"(2) ALTERNATIVE DATA.—If the Secretary finds that adequate data are not available for the de-

termination required under paragraph (1) with respect to an eligible organization, the Secretary may substitute the actuarial value of the deductibles and coinsurance applicable on the average to individuals in the area, in the State, or in the United States, eligible to enroll under this part with the organization, or other appropriate data.

"(b) LIMITS ON PREMIUM FOR SUPPLEMENTAL BENEFITS.—If an eligible organization provides to its members enrolled under this part supplemental benefits in accordance with section 1851C, the sum of—

"(1) the portion of such organization's premium rate charged, with respect to such supplemental benefits, to members enrolled under this part, and

"(2) the deductibles, coinsurance, and copayments charged, with respect to such services to such members shall not exceed the adjusted community rate for such services.

"(c) LIMITATION ON AMOUNTS AN OUT-OF-PLAN PHYSICIAN OR OTHER ENTITY MAY COLLECT.—

"(1) A physician or other entity (other than a provider of services) that does not have a contract establishing payment amounts for services furnished to an individual enrolled under this part with an eligible organization shall accept as payment in full for

services that are furnished to such an individual the amounts that the physician or other entity could collect if the indvidiual were not so enrolled. Any penalty or other provision of law that applies to such payments with respect to an individual entitled to benefits under this title (but not enrolled with an eligible organization under this part) shall also apply with respect to an individual so enrolled.

"(2) For similar requirements applicable to providers of services, see section 1866(a)(1)(O).

"(d) PLAN AS A SECONDARY PAYER.—Notwithstanding any other provision of law, an eligible organization may (in the case of the provision of services for which the Medicare program is a secondary payer under section 1862(b)(2)) charge or authorize the provider of such services to charge, in accordance with the charges allowed under such law or policy—

"(1) the insurance carrier, employer, or other entity which under such law, plan, or policy is to pay for the provision of such services, or

"(2) such member to the extent that the member has been paid under such law, plan, or policy for such services.

"SEC. 1851E. BENEFICIARY PROTECTIONS.

"(a) EXPLANATION OF RIGHTS AND RESTRICTIONS.—Each eligible organization shall provide each enrollee, at the time of enrollment and not less frequently than annually thereafter, an explanation of the enrollee's rights under this part and other important information, including the following:

"(1) COVERAGE.—The enrollee's rights to benefits from the organization, and benefit limitations, including—

"(A) out-of-area coverage provided by the organization,

"(B) the organization's coverage of emergency services and urgently needed care, and

"(C) the restrictions on payments under this title for services furnished other than by or through the organization.

"(2) TERMINATION OF COVERAGE.—An explanation that—

"(A) the organization may terminate or refuse to renew the contract under this part; and

"(B) termination of such contract could result in termination of enrollment of individuals with the organization.

"(3) PATIENT RIGHTS.—Safeguards on enrollees' rights, including—

"(A) appeal rights of enrollees,

"(B) the right to be informed about various treatment options, and

"(C) the right to decline treatment.

"(4) EMERGENCIES.—The appropriate use of the 911 emergency telephone system in the case of medical emergencies.

"(5) FRAUD AND ABUSE REPORTING.—The processes for reporting potential fraud or abuse.

"(b) NOTIFICATION OF TERMINATION OPTION IN MARKETING MATERIALS.—Each eligible organization with a contract under this part shall include the information required by subsection (a)(2) in any marketing materials described in section 1851B(b)(3) that are distributed by an eligible organization to individuals eligible to enroll under this part with the organization.

"(c) GRIEVANCE MECHANISM.—An eligible organization with a contract under this part must provide meaningful procedures for hearing and resolving grievances between the organization (including any entity or individual through which the organization provides health care services) and members enrolled with the organization under this part.

"(d) COVERAGE DETERMINATIONS AND APPEALS.—

"(1) DETERMINATION BY ORGANIZATION.—An eligible organization with a contract under this part shall have a procedure for determining whether an individual enrolled with the organization under this part is entitled to receive a health service described in section 1851C(a) and the amount (if any) that the individual is required to pay for that service, which includes the following elements:

"(A) TIMELY REVIEW.—The organization shall provide for review of a coverage issue within 30 days of a request by such individual, and for reconsideration, where requested, within 60 days after the initial review.

"(B) EXPEDITED REVIEW IN URGENT CASES.—The organization shall have an expedited process for review and reconsideration of a coverage issue in cases in which delayed treatment may place the health of such individual in jeopardy, risk serious impairment of bodily functions, or limit medically appropriate treatment options.

"(2) REVIEW BY EXTERNAL CONTRACTOR.—An individual dissatisfied with a determination under paragraph (1) concerning such individual's coverage

under a contract under this part is entitled to a hearing before an independent reviewer designated by the Secretary.

"(3) APPEAL TO SECRETARY.—An individual dissatisfied with a determination under paragraph (2) concerning such individual's coverage under a contract under this part is entitled, if the amount in controversy is $100 or more, to a hearing before the Secretary to the same extent as is provided in section 205(b), and in any such hearing the Secretary shall make the eligible organization a party. If the amount in controversy is $1,000 or more, the individual or eligible organization shall, upon notifying the other party, be entitled to judicial review of the Secretary's final decision as provided in section 205(g), and both the individual and the eligible organization shall be entitled to be parties to that judicial review. In applying sections 205(b) and 205(g) as provided in this subparagraph, and in applying section 205(l) thereto, any reference therein to the Commissioner of Social Security or the Social Security Administration shall be considered a reference to the Secretary or the Department of Health and Human Services, respectively.

"(e) QUALITY ASSURANCE.—

"(1) INTERNAL QUALITY ASSURANCE (IQA) PROGRAM.—

"(A) IN GENERAL.—Subject to subparagraph (B), an eligible organization must have arrangements, established in accordance with regulations of the Secretary, for an ongoing quality assurance program for health care services provided to individuals enrolled with the organization under this part that—

"(i) focuses on health outcomes; and

"(ii) provides for review by physicians and other health care professionals of the process followed in the provision of such health care services.

"(B) ACCEPTANCE OF ACCREDITATION IN SATISFACTION OF IQA STANDARDS.—If (or to the extent that) an eligible organization has been accredited by an accrediting body whose standards with respect to one or more of the elements of an internal quality assurance program are at least as stringent as such standards pursuant to subparagraph (A), the organization shall be deemed to meet the requirements of such subparagraph (A) with respect to such program elements.

"(2) EXTERNAL QUALITY REVIEW.—

"(A) REQUIREMENTS.—Each contract with an eligible organization under this part shall provide that the organization will maintain an agreement with—

"(i) a utilization and quality control peer review organization (which has a contract with the Secretary under part B of title XI for the area in which the eligible organization is located);

"(ii) an entity selected by the Secretary under section 1154(a)(4)(C); or

"(iii) an independent quality review and improvement organization selected by the organization and approved by the Secretary,

under which the review organization will perform functions under section 1154(a)(4)(B) and section 1154(a)(14) (other than those performed under contracts described in section 1866(a)(1)(F)) with respect to services, furnished by the eligible organization, for which payment may be made under this title.

"(B) QUALITY REVIEW AS COVERED SERVICE.—For purposes of payment under this title,

the cost of such agreement to the eligible organization shall be considered a cost incurred by a provider of services in providing covered services under this title and shall be paid directly by the Secretary to the review organization on behalf of such eligible organization in accordance with a schedule established by the Secretary.

"(C) PAYMENT FROM TRUST FUNDS.—Such payments—

"(i) shall be transferred in appropriate proportions from the Federal Hospital Insurance Trust Fund and from the Supplemental Medical Insurance Trust Fund, without regard to amounts appropriated in advance in appropriation Acts, in the same manner as transfers are made for payment for services provided directly to beneficiaries, and

"(ii) shall not be less in the aggregate for such organizations for a fiscal year that the amounts the Secretary determines to be sufficient to cover the costs of such organizations' conducting activities described in subparagraph (A) with respect

to such eligible organizations under part B of title XI.

"(f) BENEFICIARY ADVANCE DIRECTIVES CONCERNING MEDICAL TREATMENT.—A contract under this part shall provide that an eligible organization shall meet the requirements of section 1866(f) (relating to maintaining written policies and procedures respecting advance directives).

"(g) PRIVATE ENROLLMENT REQUIREMENTS.—

"(1) 50 PERCENT REQUIREMENT.—Subject to section 11205 of the Balanced Budget Act of 1995 for Economic Growth and Fairness, each eligible organization with which the Secretary enters into a contract under this part shall have, for the duration of such contract, an enrolled membership (without consideration of members enrolled in the program under title XIX) at least one-half of which consists of individuals who are not entitled to benefits under this title.

"(2) EXCEPTIONS.—The Secretary may modify or waive the requirement imposed by paragraph (1) only in the following circumstances:

"(A) AREA WITH LARGE MEDICARE POPULATION.—If more than 50 percent of the population of the area served by the organization

consists of individuals who are entitled to benefits under this title.

"(B) INITIAL PERIOD FOR GOVERNMENTAL CONTRACTOR.—In the case of an eligible organization that is owned and operated by a governmental entity, only with respect to a period of three years beginning on the date the organization first enters into a contract under this part, and only if the organization has taken and is making reasonable efforts to enroll individuals who are not entitled to benefits under this title,

"(C) UNDERSERVED RURAL AREA.—If the organization serves an underserved rural area.

"(D) CONTRACTOR WITH GOOD PAST RECORD.—If the organization has had contracts under this part for a total of at least three years, has complied with all applicable requirements during that period, maintains a level of enrollment of individuals not entitled to benefits under this title determined by the Secretary, and complies with any additional monitoring requirements established by the Secretary.

"(E) CONTRACTOR WITH GOOD RECORD IN ANOTHER GEOGRAPHIC AREA.—If—

"(i) the Secretary has not previously entered into a contract with the organization under this part in the same geographic area (or has entered into contracts for a total of three years or less),

"(ii) the organization (or a parent company that controls the organization) has entered into (or subsidiaries of the organization or parent company have entered into) contracts under this part for at least three different geographic areas—

"(I) for which no waiver has been granted under this paragraph and during the course of which there has been compliance with all applicable requirements; or

"(II) for which a waiver has been granted under subparagraph (D);

"(iii) the organization (or parent company) demonstrates to the Secretary a long-term business and financial commitment to the geographic area served by the organization, and the Secretary determines that a waiver is necessary to promote competition in that area; and

"(iv) the organization complies with all applicable requirements and any additional monitoring requirements established by the Secretary.

"(3) SUBSTITUTION OF QUALITY MEASUREMENT SYSTEM.—For conditions under which the requirements of this subsection will be replaced by requirements of a quality measurement system, see section 11205 of the Balanced Budget Act of 1995 for Economic Growth and Fairness.

"(h) ACCESS TO SPECIALTY CARE AND CASE MANAGEMENT.—Each eligible organization shall ensure that enrollees with chronic illnesses or disabilities, and other enrollees as appropriate, shall have access to medically appropriate specialty care and medically appropriate case management.

"(i) RESTRICTIONS ON PHYSICIAN INCENTIVE PLANS.—

"(1) CRITERIA.—Each contract with an eligible organization under this part shall provide that the organization may not operate any physician incentive plan (as defined in paragraph (2)) unless the following requirements are met:

"(A) NO INDUCEMENT TO LIMIT CARE.—No specific payment is made directly or indi-

rectly under the plan to a physician or physician group as an inducement to reduce or limit medically necessary services provided with respect to a specific individual enrolled with the organization.

"(B) REQUIREMENTS WHERE PHYSICIAN AT FINANCIAL RISK.—If the plan places a physician or physician group at substantial financial risk (as determined by the Secretary) for services not provided by the physician or physician group, the organization—

"(i) provides stop-loss protection for the physician or group that is adequate and appropriate, based on standards developed by the Secretary that take into account the number of physicians placed at such substantial financial risk in the group or under the plan and the number of individuals enrolled with the organization who receive services from the physician or the physician group, and

"(ii) conducts periodic surveys of both individuals enrolled and individuals previously enrolled with the organization to determine the degree of access of such in-

dividuals to services provided by the organization and satisfaction with the quality of such services.

"(C) DISCLOSURE TO SECRETARY.—The organization provides the Secretary with descriptive information regarding the plan, sufficient to permit the Secretary to determine whether the plan is in compliance with the requirements of this paragraph.

"(2) DEFINITION OF 'PHYSICIAN INCENTIVE PLAN'.—In this subsection, the term 'physician incentive plan' means any compensation arrangement between an eligible organization and a physician or physician group that may directly or indirectly have the effect of reducing or limiting services provided with respect to individuals enrolled with the organization.".

"SEC. 1851F. PAYMENTS TO MEDICAREPLUS ORGANIZATIONS.

"(a) PAYMENTS TO ORGANIZATIONS.—

"(1) MONTHLY PAYMENT.—

"(A) IN GENERAL.—Under a contract under paragraph (1) the Secretary shall make monthly payments under this section in advance to each eligible organization, with respect to

coverage of an individual under this part in a payment area for a month, in an amount equal to 1/12 of the annual capitation rate (as calculated under subsection (c)) with respect to that individual for that area, adjusted for such risk factors as age, disability status, gender, institutional status, and such other factors as the Secretary determines to be appropriate, so as to ensure actuarial equivalence. The Secretary may add to, modify, or substitute for such factors, if such changes will improve the determination of actuarial equivalence.

"(B) SPECIAL RULE FOR END-STAGE RENAL DISEASE.—The Secretary shall establish a separate rate of payment to an eligible organization with respect to any individual determined to have end-stage renal disease and enrolled in a plan of the organization. Such rate of payment shall be actuarially equivalent to rates paid to other enrollees in the payment area (or such other area as specified by the Secretary).

"(2) ADJUSTMENT TO REFLECT NUMBER OF ENROLLEES.—

"(A) IN GENERAL.—The amount of payment under this subsection may be retroactively adjusted to take into account any differences between the actual number of individuals enrolled with an organization under this part and the number of such individuals estimated to be so enrolled in determining the amount of the advance payment.

"(B) SPECIAL RULE FOR CERTAIN ENROLLEES.—

"(i) IN GENERAL.—Subject to clause (ii), the Secretary may make retroactive adjustments under subparagraph (A) to take into account individuals enrolled during the period beginning on the date on which the individual enrolls with an eligible organization under a plan operated, sponsored, or contributed to by the individual's employer or former employer (or the employer or former employer of the individual's spouse) and ending on the date on which the individual is enrolled in the organization under this part, except that for purposes of making such retroactive ad-

justments under this subparagraph, such period may not exceed 90 days.

"(ii) EXCEPTION.—No adjustment may be made under clause (i) with respect to any individual who does not certify that the organization provided the individual with the disclosure statement described in section 1851(E)(a) at the time the individual enrolled with the organization.

"(b) ANNUAL ANNOUNCEMENT OF PAYMENT RATES.—

"(1) ANNUAL ANNOUNCEMENT.—The Secretary shall annually determine, and shall announce (in a manner intended to provide notice to interested parties) not later than August 1 before the calendar year concerned—

"(A) the annual capitation rate for each payment area for the year, and

"(B) the risk and other factors to be used in adjusting such rates under subsection (a)(1)(A) for payments for months in that year.

"(2) ADVANCE NOTICE OF METHODOLOGICAL CHANGES.—At least 45 days before making the announcement under paragraph (2) for a year, the Secretary shall provide for notice to eligible organi-

zations of proposed changes to be made in the methodology from the methodology and assumptions used in the previous announcement and shall provide such organizations an opportunity to comment on such proposed changes.

"(3) EXPLANATION OF ASSUMPTIONS.—In each announcement made under paragraph (1) for a year, the Secretary shall include an explanation of the assumptions and changes in methodology used in the announcement in sufficient detail so that eligible organizations can compute monthly adjusted capitation rates for individuals in each payment area which is in whole or in part within the service area of such an organization.

"(c) CALCULATION OF ANNUAL CAPITATION RATES.—

"(1) IN GENERAL.—For purposes of this part, the annual capitation rate for a payment area for a contract year consisting of a calendar year, is equal to the greatest of the following:

"(A) BLENDED CAPITATION RATE.—The sum of—

"(i) area-specific percentage for the year (as specified under paragraph (2) for the year) of the annual area-specific

MedicarePlus capitation rate for the year for the MedicarePlus payment area, as determined under paragraph (3), and

"(ii) national percentage (as specified under paragraph (2) for the year) of the input-price-adjusted annual national MedicarePlus capitation, rate for the year, as determined under paragraph (4),

multiplied by a budget neutrality adjustment factor determined under paragraph (5).

"(B) MINIMUM AMOUNT.—

"(i) For 1996, $310.

"(ii) For 1997, $325.

"(iii) For a succeeding year, is the minimum amount specified in this subparagraph for the preceding year increased by national per capita growth percentage, specified under paragraph (6) for that succeeding year.

"(C) MINIMUM INCREASE OF 3 PERCENT OVER PREVIOUS YEAR'S RATE.—

"(i) For 1996, 102 percent of the annual per capita rate of payment for 1995 determined under section 1876(a)(1)(C) for the payment area.

"(ii) For a subsequent year, 102 percent of the annual capitation rate under this subsection for the area for the previous year.

"(2) AREA-SPECIFIC AND NATIONAL PERCENTAGES.—For purposes of paragraph (1)(A)—

"(A) for 1996 and 1997, the 'area-specific percentage' is 90 percent and the 'national percentage' is 10 percent,

"(B) for 1998, the 'area-specific percentage' is 85 percent and the 'national percentage' is 15 percent,

"(C) for 1999, the 'area-specific percentage' is 80 percent and the 'national percentage' is 20 percent,

"(D) for 2000, the 'area-specific percentage' is 75 percent and the 'national percentage' is 25 percent, and

"(E) for a year after 2000, the 'area-specific percentage' is 70 percent and the 'national percentage' is 30 percent.

"(3) ANNUAL AREA-SPECIFIC MEDICARE CHOICE CAPITATION RATE.—

"(A) IN GENERAL.—For purposes of paragraph (1)(A), subject to subparagraph (B), the

annual area-specific Medicare Choice capitation rate for a Medicare Choice payment area—

"(i) for 1996 is the annual per capita rate of payment for 1995 determined under section 1876(a)(1)(C) for the payment area, increased by the national average per capita growth percentage for 1996 (as defined in paragraph (6)); or

"(ii) for a subsequent year is the annual area-specific capitation rate for the previous year determined under this paragraph for the payment area, increased by the national average per capita growth percentage for such subsequent year.

"(B) REMOVAL OF MEDICAL EDUCATION AND DISPROPORTIONATE SHARE HOSPITAL PAYMENTS FROM CALCULATION OF ADJUSTED AVERAGE PER CAPITA COST.—In determining the annual area-specific Medicare Choice capitation rate for 1997 under subparagraph (A)(i), the average annual per capita rate of payment for 1996 determined under (A)(i) shall be determined as though the Secretary had excluded from such rate any amounts which the Sec-

retary estimated would have been payable under this title during the year for—

"(i) payment adjustments under section 1886(d)(5)(F) for hospitals serving a disproportionate share of low-income patients; and

"(ii) the indirect costs of medical education under section 1886(d)(5)(B) or for direct graduate medical education costs under section 1886(h).

"(4) INPUT-PRICE-ADJUSTED ANNUAL NATIONAL CAPITATION RATE.—

"(A) IN GENERAL.—For purposes of paragraph (1)(A), the input-price-adjusted annual national capitation rate for a payment area for a year is equal to the sum, for all the types of medicare services (as classified by the Secretary), of the plan (for each such type) of—

"(i) the national standardized annual capitation rate (determined under subparagraph (B)) for the year,

"(ii) the proportion of such rate for the year which is attributable to such type of services, and

"(iii) an index that reflects (for that year and that type of services) the relative input price of such services in the area compared to the national average input price of such services.

In applying clause (iii), the Secretary shall, subject to subparagraph (C), apply those indices under this title that are used in applying (or updating) national payment rates for specific areas and localities.

"(B) NATIONAL STANDARDIZED ANNUAL CAPITATION RATE.—In subparagraph (A)(i), the 'national standardized annual capitation rate' for a year is equal to—

"(i) the sum (for all payment areas) of the product of (I) the annual area-specific capitation rate for that year for the area under paragraph (3), and (II) the average number of medicare beneficiaries residing in that area in the year; divided by

"(ii) the total average number of medicare beneficiaries residing in all the payment areas for that year.

"(C) SPECIAL RULES FOR 1996.—In applying this paragraph for 1996—

"(i) medicare services shall be divided into 2 types of services: part A services and part B services;

"(ii) the proportions described in subparagraph (A)(ii) for such types of services shall be—

"(I) for part A services, the ratio (expressed as a percentage) of the average annual per capita rate of payment for the area for part A for 1995 to the total average annual per capita rate of payment for the area for parts A and B for 1995, and

"(II) for part B services, 100 percent minus the ratio described in subclause (I);

"(iii) for the part A services, 70 percent of payments attributable to such services shall be adjusted by the index used under section 1886(d)(3)(E) to adjust payment rates for relative hospital wage levels for hospitals located in the payment area involved;

"(iv) for part B services—

"(I) 66 percent of payments attributable to such services shall be adjusted by the index of the geographic area factors under section 1848(e) used to adjust payment rates for physicians' services furnished in the payment area, and

"(II) of the remaining 34 percent of the amount of such payments, 70 percent shall be adjusted by the index described in clause (iii);

"(v) the index values shall be computed based only on the beneficiary population who are 65 years of age or older who are not determined to have end stage renal disease.

The Secretary may continue to apply the rules described in this subparagraph (or similar rules) for 1997.

"(5) BUDGET NEUTRALITY ADJUSTMENT FACTOR.—For each year, the Secretary shall compute a budget neutrality adjustment factor so that the aggregate of the payments under this part shall not exceed the aggregate payments that would have been made under this part if the area-specific percentage

for the year had been 100 percent and the national percentage had been 0 percent.

"(6) NATIONAL AVERAGE PER CAPITA GROWTH PERCENTAGE DEFINED.—In this part, the "national average per capita growth percentage shall be the percentage determined by the Secretary on an annual basis (not later than August 1st before the calendar year concerned) to reflect the Secretary's estimate of the projected per capita rate of growth in private health insurance expenditures adjusted to reflect differences between the average benefit package under private insurance and the Medicare benefit package and differences in utilization and intensity of services between the general insured population and Medicare beneficiaries. In determining this percentage, the Secretary shall consider the traditional fee-for-service growth rates to ensure there is not a wide disparity between fee for service growth rates and the national average per capita growth rate. Unless the Secretary otherwise determines, the national average per capita growth percentage shall be 7 percent.

"(d) PAYMENT AREA DEFINED.—

"(1) IN GENERAL.—In this part, except as provided in paragraph (3), the term 'payment area'

means a county, or equivalent area specified by the Secretary.

"(2) RULE FOR ESRD BENEFICIARIES.—In the case of individuals who are determined to have end stage renal disease, the payment area shall be each State.

"SEC. 1851G. SANCTIONS.

"(a) VIOLATIONS SUBJECT TO CIVIL MONEY PENALTIES.—In addition to any other remedies authorized by law, the Secretary may impose a civil money penalty in accordance with subsection (c) on an eligible organization with a contract under this part that has committed any of the following violations:

"(1) FAILURE TO PROVIDE MEDICALLY NECESSARY CARE.—The organization has failed substantially to provide medically necessary items and services that are required (under law or under the contract) to be provided to an individual covered under the contract, if the failure has adversely affected (or has substantial likelihood of adversely affecting) the individual.

"(2) EXCESSIVE PREMIUMS.—The organization has imposed premiums on individuals enrolled under this part in excess of the premiums permitted.

"(3) DISCONTINUATION OF COVERAGE.—The organization has expelled or refused to re-enroll an individual in violation of the provisions of this part.

"(4) DISCOURAGING ENROLLMENT.—The organization has engaged in any practice that would reasonably be expected to have the effect of denying or discouraging enrollment (except as permitted by this part) by eligible individuals with the organization whose medical condition or history indicates a need for substantial future medical services.

"(5) FALSE INFORMATION.—The organization has misrepresented or falsified information furnished—

"(A) to the Secretary under this part, or

"(B) to an individual or to any other entity under this part.

"(6) FAILURE TO COOPERATE WITH EXTERNAL QUALITY REVIEW.—The organization fails to cooperate in the performance of the review required under section 1851E(e)(2).

"(7) PHYSICIAN INCENTIVE PLAN VIOLATIONS.—The organization fails to comply with the requirements of section 1851E(i).

"(8) RELATIONSHIP WITH EXCLUDED INDIVIDUAL OR ENTITY.—The organization.—

"(A) employs or contracts with any individual or entity that is excluded from participation under this title under section 1128 or 1128A for the provision of health care, utilization review, medical social work, or administrative services; or

"(B) employs or contracts with any entity for the provision (directly or indirectly) through such an excluded individual or entity of such services.

"(b) VIOLATIONS SUBJECT TO INTERMEDIATE SANCTIONS.—In addition to any other remedies authorized by law, the Secretary may impose an intermediate sanction in accordance with subsection (d) on an eligible organization with a contract under this part that has committed any of the following violations:

"(1) VIOLATION SUBJECT TO CIVIL MONEY PENALTY.—Any violation specified in subsection (a).

"(2) GROUNDS FOR TERMINATION OF CONTRACT.—Any violation that would be grounds for termination of the contract with the organization pursuant to section 1851F(b)(2).

"(3) FAILURE TO MAKE PROMPT PAYMENT.—Failure to make prompt payment as required by section 1851F(d).

"(4) DELAYED COVERAGE DETERMINATIONS.—Failure to meet timeliness standards for coverage determinations under section 1851E(d)(1).

"(5) INSUFFICIENT PRIVATE ENROLLMENT.—Failure to meet the minimum requirements of section 1851E(g).

"(c) CIVIL MONEY PENALTIES.—

"(1) AMOUNT OF PENALTY.—The Secretary may impose, on an eligible organization determined to have committed a violation specified in subsection (a), civil money penalties not to exceed the sum of the following amounts, as applicable:

"(A) for each such determination, not more than—

"(i) $100,000 in the case of a determination under subsection (a)(4) or (a)(5)(i); or

"(ii) $25,000, in the case of any other such determination;

"(B) with respect to a determination under subsection (a)(2), double the excess amount charged (and the excess amount charged shall be deducted from the penalty and returned to the individual concerned); and

"(C) with respect to a determination under subsection (a)(4), $15,000 for each individual not enrolled as a result of the practice involved.

"(2) ADMINISTRATIVE PROCEDURE.—The provisions of section 1128A (other than subsections (a) and (b) shall apply to a civil money penalty under this section in the same manner as they apply to a civil money penalty or proceeding under section 1128A(a).

"(d) INTERMEDIATE SANCTIONS.—The Secretary may impose, on an eligible organization determined to have committed a violation specified in subsection (a) or (b), either or both of the following sanctions.

"(1) SUSPENSION OF ENROLLMENT.—Suspension of enrollment of individuals with the organization under this part after the date the Secretary notifies the organization of a determination under subsection (a) or (b) and until the Secretary is satisfied that the basis for such determination has been corrected and is not likely to recur.

"(2) SUSPENSION OF PAYMENT.—Suspension of payment to the organization under this part for individuals enrolled after the date the Secretary notifies the organization of a determination under subsection (a) or (b) and until the Secretary is satisfied that

the basis for such determination has been corrected and is not likely to recur.

"SEC. 1851H. DEFINITIONS.

"(a) ADJUSTED COMMUNITY RATE.—

"(1) IN GENERAL.—For purposes of this part, the term 'adjusted community rate' for a service or services means, at the election of an eligible organization, either—

"(A) the rate of payment for that service or services which the Secretary annually determines would apply to a member enrolled under this part with an eligible organization if the rate of payment were determined under a community rating system' (as defined in section 1302(8) of the Public Health Service Act, other than subparagraph (C)), or

"(B) such portion of the weighted aggregate premium, which the Secretary annually estimates would apply to a member enrolled under this part with the eligible organization, as the Secretary annually estimates is attributable to that service or services, adjusted in accordance with paragraph (2).

"(2) ADJUSTMENT OF DIFFERENCES IN UTILIZATION.—The rate determined in accordance with

subparagraphs (A) and (B) of paragraph (1) shall be adjusted for—

"(A) the differences between the utilization characteristics of the members enrolled with the eligible organization under this part and utilization characteristics of the other members of the organization; or

"(B) (if the Secretary finds that adequate data are not available to calculate the adjustment pursuant to subparagraph (A)) the differences between—

"(i) the utilization characteristics of members in other eligible organizations, or individuals in the area, in the State, or in the United States, eligible to enroll under this part with an eligible organization, and

"(ii) the utilization characteristics of the rest of the population in the area, in the State, or in the United States, respectively.

"(b) ADJUSTED AVERAGE PER CAPITA COST (AAPCC).—For purposes of this part, the term 'AAPCC' (adjusted average per capita cost) means the average per capita amount that the Secretary estimates in advance (on the basis of actual experience, or retrospective actuarial

equivalent based upon an adequate sample and other information and data, in a geographic area served by an eligible organization or in a similar area, with appropriate adjustments to assure actuarial equivalence) would be payable in any contract year for services covered under parts A and B, or part B only, and types of expenses otherwise reimbursable under parts A and B, or part B only (including administrative costs incurred by organizations described in sections 1816 and 1842), if the services were to be furnished by other than an eligible organization or, in the case of services covered only under section 1861(s)(2)(H), if the services were to be furnished by a physician or as an incident to a physician's service.''.

(b) REPEAL OF SUPERSEDED PROVISION.—Section 1876 (42 U.S.C. 1395mm) is repealed, except to the extent provided in subsection (e).

(c) CONFORMING AMENDMENTS.—

(1) Section 1154(a)(4)(B) (42 U.S.C. 1320c–3(a)(4)(B)) is amended—

(A) in the first sentence, by striking ''risk-sharing contract under section 1876'' and inserting ''contract under part C of title XVIII'', and

(B) in the second sentence, by striking ''a health maintenance organization or competitive

medical plan under section 1876'' and inserting ''an eligible organization under part C of title XVIII''.

(2) The second sentence of section 1154(a)(4)(C) (42 U.S.C. 1320c–3(A)(4)(C)) is amended by striking ''section 1876'' and inserting ''part C of title XVIII''.

(3) Section 1866(a)(1)(O) (42 U.S.C. 1395cc(a)(1)(O)) is amended by striking ''risk-sharing contract under section 1876'' and inserting ''contract under part C''.

(4) The matter in the first sentence of section 1866(f)(1) (42 U.S.C. 1395cc(f)(1)) preceding subparagraph (A) is amended by striking ''1876(c)(8)'' and inserting ''1851E(f)''.

(5) Section 1866(f)(2)(E) (42 U.S.C. 1395cc(f)(2)(E)) is amended by striking ''1876(b)'' and inserting ''1851A(a)''.

(6) Section 1882(f)(1) is amended—

(A) by striking ''1876(b) and inserting ''1851A''; and

(B) by striking ''section 1876'' and inserting ''part C''.

(d) EFFECTIVE DATE.—Except to the extent otherwise provided, the amendments made by the preceding

subsections apply to items and services furnished after 1996.

(e) TRANSITION PROVISIONS FOR COST CONTRACTS.—

(1) REPEAL OF AUTHORITY FOR COST CONTRACTS DELAYED TO 2001.—The amendments made by the preceding subsections (other than the amendments specified in paragraph (2)) do not apply to items and services furnished before 2001 under a contract under section 1876(h) of the Social Security Act (42 U.S.C. 1395mm(h)).

(2) PROVISIONS WHOSE EFFECT IS NOT DELAYED.—The effective dates of the following provisions of part C of the Social Security Act (as enacted by subsection (a)(2) of this section) shall not be delayed by reason of paragraph (1):

(A) DEFINITION OF QUALIFIED HMO.—Section 1851A(b).

(B) ENROLLMENT AND DISENROLLMENT.—Section 1851B.

(C) BENEFICIARY PROTECTIONS.—Subsections (a) (explanation of patients' rights and restrictions), (c) (grievance mechanism), (d) (coverage determinations and appeals), and (g)

(private enrollment requirements) of section 1851E.

(3) OPTION RESTRICTED TO GRANDFATHERED ORGANIZATIONS.—With respect to services provided after 1995 but before 2001, the Secretary may enter into contracts under subsection (h) of section 1876 of the Social Security Act (42 U.S.C. 1395mm) only with entities with which the Secretary has entered into contracts under that subsection for all or part of 1995, or to which payments have been made during 1995 under section 1833(a)(1)(A) of that Act (42 U.S.C. 13951(a)(1)(A)).

(f) REGULATIONS.—

(1) CONTINUITY OF CURRENT REGULATIONS.—Regulations in effect (or available in proposed form) on December 31, 1996, that apply to section 1876 of the Social Security Act (42 U.S.C. 1395mm) shall apply to part C of title XVIII of that Act (as enacted by subsection (a)(2) of this section), except to the extent that the regulations are inconsistent with the provisions of that part.

(2) INTERIM FINAL REGULATIONS.—The Secretary may issue regulations before 1998 for part C of title XVIII of the Social Security Act (as enacted

by subsection (a)(2) of this section) on an interim final basis.

(g) CONSIDERATION OF EXPERIENCE UNDER SECTION 1876 IN SATISFACTION OF REQUIREMENTS OF PART C.—Any requirement in part C of title XVIII of the Social Security Act (as enacted by subsection (a)(2) of this section) that (in a particular context) relates to matters that occurred before 1997 shall be satisfied if the corresponding requirement was satisfied under section 1876 (42 U.S.C. 1395mm) of that Act.

(h) ENROLLMENT TRANSITION RULE.—An individual who is enrolled on December 31, 1996, with an eligible organization under section 1876 of the Social Security Act (42 U.S.C. 1395mm) shall be considered to be enrolled with that organization on January 1, 1997, under part C of title XVIII of that Act (as added by subsection (a)(2) of this section) if that organization has a contract under that part for providing services on January 1, 1997 (unless the individual has disenrolled effective on that date).

(i) IMMEDIATE EFFECTIVE DATE FOR CERTAIN REQUIREMENTS FOR DEMONSTRATIONS.—Section 1851B(b)(2) of the Social Security Act (as enacted by subsection (a)(2) of this section) (requiring contribution to certain costs related to the enrollment process compara-

tive materials) applies to demonstrations occurring after the date of enactment of this Act.

SEC. 11203. DEVELOPMENT OF STANDARDS FOR FISCAL SOUNDNESS AND REQUIREMENTS AGAINST RISK OF INSOLVENCY.

The Secretary of Health and Human Services, in consultation with the National Association of Insurance Commissioners, organizations that provide or pay for health care services, and consumer organizations, shall develop (and publish as an interim final rule by July 1, 1996) standards for fiscal soundness and requirements concerning adequate provision against the risk of insolvency for provider sponsored organizations that have entered into contracts under part C of title XVIII of the Social Security Act (as enacted by section 11202(a)(2) of this Act). The Secretary may also publish, as an interim final rule by that date, any additional requirements related to such organizations.

SEC. 11204. APPLICABILITY OF MEDICARE RATES TO ENROLLEES WHO USE AN OUT-OF-PLAN PROVIDER OF SERVICES.

(a) Section 1866(a)(1)(O) (42 U.S.C. 1395cc(a)(1)(O)) is amended—

(1) by striking ''in the case of hospitals and skilled nursing facilities,'';

(2) by striking ''inpatient hospital and extended care services that are covered under this title and'' and inserting ''services that''; and

(3) by striking ''(in the case of hospitals) or limits (in the case of skilled nursing facilities)''.

(b) The amendment made by subsection (a) applies to services furnished after 1996.

SEC. 11205. SUBSTITUTION OF QUALITY MEASUREMENT SYSTEM FOR PRIVATE ENROLLMENT REQUIREMENT.

(a) PROMULGATION OF REGULATIONS.—The Secretary of Health and Human Services, after consulting with representatives from managed health care plans (including representatives of provider service organizations), consumer organizations, and other major purchasers of managed care services—

(1) shall publish proposed regulations by July 1, 1997, requiring the collection, analysis, and reporting of data that will permit measurement of outcomes and other indices of the quality of managed care plans;

(2) shall publish final regulations after completing review of comments on the proposed regulations published pursuant to paragraph (1).

(b) REVISION OF BENEFICIARY PROTECTION REQUIREMENT.—As of the effective date of final regulations published pursuant to subsection (a), section 1851E(g) (as enacted by section 11202(a)(2) of this Act) is amended to read as follows:

"(g) QUALITY MEASUREMENT SYSTEM.—Each eligible organization with which the Secretary enters into a contract under this part shall meet the requirements of the quality measurement system established by the Secretary in regulations.".

SEC. 11206. HMO COMPETITIVE PRICING AND RELATED DEMONSTRATIONS.

(a) AMENDMENT EFFECTIVE ON DATE OF ENACTMENT.—Section 402(b) of the Social Security Amendments of 1967 (42 U.S.C. 1395b–1(b)) is amended by inserting after the first sentence the following: "The Secretary may also waive, in the case of such an experiment or demonstration project, compliance with the requirements of sections 1876 and 1882 of that Act.

"(2) REPORT TO CONGRESS ON COMPETITIVE PRICING DEMONSTRATION.—Not later then January 1, 2002, the Secretary shall report to Congress on specific recommendations for a new payment methodology for eligible organizations with contracts

under Part C to be based on the results of the competitive pricing demonstrations.''.

(b) AMENDMENT EFFECTIVE FOR 1997–2000.—

(1) The second sentence of section (402)(b) of the Social Security Amendments of 1967 (42 U.S.C. 1395B–1(b)) (as added by subsection (a) of this section) is amended by inserting ''and part C of title XVIII'' after ''1882''.

(2) The amendment made by paragraph (1) applies to activities occurring after 1996.

(c) AMENDMENT EFFECTIVE AFTER 2000.—

(1) The second sentence of section 402(b) of the Social Security Amendments of 1967 (42 U.S.C. 1395b–1(b)) (as added by subsection (a) and amended by subsection (b) of this section) is further amended by striking ''sections 1876 and 1882'' and inserting ''section 1882''.

(2) The amendment made by paragraph (1) applies to activities occurring after 2000.

SEC. 11207. ELIMINATION OF HEALTH CARE PREPAYMENT PLAN OPTION FOR ENTITIES ELIGIBLE TO PARTICIPATE UNDER PART C.

(a) ELIMINATION OF OPTION.—

(1) IN GENERAL.—Section 1833(a)(1)(A) (42 U.S.C. 13951(a)(1)(A)) is amended by inserting

after ''prepayment basis'' the following: ''(and either is sponsored by a union or employer, or does not provide, or provide benefits for, any inpatient hospital services)''.

(2) EFFECTIVE DATE.—The amendment made by subparagraph (A) applies to services furnished after 1996.

(b) MEDIGAP AMENDMENT.—Section 1882(g) (42 U.S.C. 1395ss(g)) is amended by striking '', during the period beginning on the date specified in subsection (p)(1)(C) and ending on December 31, 1995,''.

SEC. 11208. MEDIGAP REFORMS.

(a) UNIFORM ENROLLMENT PERIODS.—

(1) IN GENERAL.—Section 1882(s)(2)(A) (42 U.S.C. 1395ss(s)(2)(A)) is amended by striking ''an application is submitted'' and all that follows and inserting the following: ''an application is submitted—

''(i) prior to or during the 6-month period beginning with the first month as of the first day on which the individual is 65 years of age or older and is enrolled for benefits under part B;

''(ii) during an annual 30-day period specified by the Secretary; or

''(iii) during a period specified by the Secretary in the circumstances described in section

1851B(c)(2) (with respect to an individual losing coverage through an organization's termination of contract or discontinuation of coverage).''.

(2) EFFECTIVE DATE.—The amendment made by the paragraph (1) is effective after 1996.

(b) STANDARDIZED INFORMATION.—

(1) IN GENERAL.—

(A)(i) Section 1882 (42 U.S.C. 1395ss) is amended by adding at the end the following:

''(u) Each entity that offers a medicare supplemental policy shall pay the Secretary for its pro rata share (a determined by the Secretary) of the estimated costs to be incurred by the Secretary in carrying out the requirements of the first sentence of section 1851B(b)(1) and section 4360 of the Omnibus Reconciliation Act of 1990. Those payments are appropriated to defray the costs described in the preceding sentence, to remain available until expended.''.

(ii) Section 1882(c)(5) (42 U.S.C. 1395ss(c)(5)) is amended by striking ''(t)'' and inserting ''(u)''.

(B) Section 4360(g) of the Omnibus Reconciliation Act of 1990 (42 U.S.C. 1395b–4(g)) is amended to read as follows:

"(g) FUNDING.—For funding provisions, see section 1851B(b)(2), and section 1882(u), of the Social Security Act.".

(2) EFFECTIVE DATE.—The amendments made by the preceding paragraphs apply to demonstrations occurring after the date of enactment of this Act, and to other activities occurring after 1996.

(c) COMMUNITY RATING.—

(1) IN GENERAL.—Section 1882(c) (42 U.S.C. 1395ss(c)) is amended—

(A) by striking "and" at the end of paragraph (4),

(B) by striking the period at the end of paragraph (5) and adding "; and", and

(C) by adding after paragraph (5) the following: "(6) provides for the same premium for each enrollee.".

(2) CONFORMING AMENDMENT.—Section 1882(b)(1)(B) (42 U.S.C. 1395ss(b)(1)(B)) is amended by striking "(5)" and inserting "(6)".

(3) EFFECTIVE DATE AND TRANSITIONAL PROVISIONS.—The amendments made by the preceding paragraphs apply to policies and plans as of the beginning of 1997 (whether issued before or after that time), subject to such transitional rules as the Sec-

retary may develop after consulting with the National Association of Insurance Commissioners.

(d) LONG-TERM CARE INSURANCE SAFE HARBOR.—

(1) IN GENERAL.—Section 1882(d)(3)(C) is amended—

(A) by striking ''or (iii)'' and inserting ''(iii)''; and

(B) by inserting before the period the following: '', or (iv) the sale or issuance of a health insurance policy (or rider to an insurance contract which is not a health insurance policy) providing benefits only for long-term care, nursing home care, home health care, or community-based care, or any combination thereof, that coordinates against or excludes items and services available under this title, if such coordination or exclusion is disclosed in the policy's outline of coverage.''.

(2) EFFECTIVE DATE AND OTHER RULES.—

(A) The amendments made by this section shall take effect as if included in the enactment of section 4354 of the Omnibus Budget Reconciliation Act of 1990 (hereafter referred to as ''OBRA–1990'').

(B) No penalty shall be imposed under section 1882(d)(3)(A)(i) of the Social Security Act for any set or omission occurring after the effective date of the amendments made by section 4354 of OBRA–90 and before the date of the enactment of this Act relating to the sale of a health insurance policy described in section 1882(d)(3)(C)(iv) of the Social Security Act.

SEC. 11209. STANDARDIZED BENEFITS PACKAGES.

(a) MANAGED CARE.—The Secretary, no later than July 1, 1996, after consulting with the National Association of Insurance Commissioners, consumer groups, managed care plans, providers of health care, and insurers, shall develop standard packages of benefits (in addition to the benefits covered under title XVIII of the Social Security Act (42 U.S.C. 1395 et seq.)) that may be offered by eligible organizations under part C of that title (as added by section 11202(a)(2) of this Act).

(b) MEDIGAP.—

(1)(A) The Secretary shall request the National Association of Insurance Commissioners, in consultation with consumer groups, managed care plans, providers of health care, and insurers, to examine (and recommend by March 1, 1997, any restructuring needed for) the standard benefit pack-

ages developed under section 1882(p)(2) of the Social Security Act (42 U.S.C. 1395ss(p)(2)) in order to facilitate to the maximum extent feasible comparison across medicare supplemental policies and benefits offered by eligible organizations under section 1876.

(B) The Secretary, no later than May 1, 1997, after taking into account any recommendations made under subparagraph (A) by the National Association of Insurance Commissioners, shall restructure, as needed, those standard benefit packages.

(2)(A) Section 1882(p) (42 U.S.C. 1395ss(p)) is amended by adding at the end the following:

''(11) The groups or packages of benefits (including the core group of basic benefits) under paragraph (2) shall be modified by any changes made by the Secretary under section 11209(b)(1)(B) of the Balanced Budget Act of 1995 for Economic Growth and Fairness.''.

(B) The amendment made by subparagraph (A) applies to services provided after 1997.

MEDICAID LANGUAGE EXPLANATION

The proposal would include language with establishing a per capita cap on the average per beneficiary rate of growth in the Medicaid program.

There would be an ''equity adjustor'' to states with low per capita expenditures (i.e., their growth rates would be higher than other states). The national average growth rate, however, would be tagged to grow by a national index (compensating for the ''equity adjustor'').

With respect to savings in the disproportionate share hospital program, we would phase out the current disproportionate share program and phase in a retargeted disproportionate share program identical to the Coalition's bill.

Funding levels would be as follows:

	1996	1997	1998	1999	2000	2001	2002
Phase-out	10.7	8.0	5.3	2.6	0.0	0.0	0.0
Phase-in .	0.0	1.3	2.7	4.0	5.0	5.0	5.0
Total ...	10.7	9.3	8.0	6.6	5.0	5.0	5.0

The program would also include a mandatory set-aside of payments of $290 million for federally qualified health centers and $125 million for rural health centers in FY 1997 to be increased annually by the overall rate of Medicaid growth in the previous year. We estimate this would cost approximately $3 billion over the six year period.

In addition, we would include language from the conference report for the $3.5 billion for payments to states for costs incurred for the provision of care to undocumented aliens.

"(b) FOR UNDOCUMENTED IMMIGRANTS.—

"(1) IN GENERAL.—Each of the 15 States with the largest number of illegal immigrants (as estimated by the Statistics Division of the Immigration and Naturalization Service as of October, 1992) shall be entitled, for each of fiscal years 1996 through 2000, to an amount bearing the same ratio to the amount specified in paragraph (2) as the illegal immigrant population in all 15 such States.

"(2) AMOUNTS AUTHORIZED.—For purposes of paragraph (1) amounts authorized to be appropriated are—

"(A) $631,000,000 for fiscal year 1996;

"(B) $664,000,000 for fiscal year 1997;

"(C) $699,000,000 for fiscal year 1998;

"(D) $735,000,000 for fiscal year 1999; and

"(E) $771,000,000 for fiscal year 2000.

"(3) ANNUAL REPORT.—Not later than 90 days after the end of each fiscal year in which a State receives or uses amounts pursuant to this subsection, the State shall submit to the Secretary, and make available to the public, a report on its use of such amounts in such fiscal year which includes:

"(A) a listing of each of the providers receiving payment from such amounts and the amount of such payments; and

"(B) such information as the Secretary may require to provide an assurance that services provided with such payments were consistent with the limitations under section 1903(v).

"(c) EXTENDED AVAILABILITY OF FUNDS.—Amounts appropriated pursuant to this section and not required by a State for the purposes of this section in a fiscal year may be used by the State for such purposes in any subsequent fiscal year, and shall remain available until expended.

"(d) STATE ASSURANCES.—Each State receiving transitional assistance payments under this section shall provide assurances satisfactory to the Secretary—

"(1) in the case of payments under subsection (a), that such payments will be used by the State to make payments to health care providers for services which would otherwise be uncompensated; and

"(2) in the case of payments under subsection (b), that such payments will be used by the State to make payments for emergency health care services for illegal immigrants in accordance with section 1903(v).".

(2) PAYMENTS TO STATES.—Section 1903(a) is amended—

(A) by striking the period at the end of paragraph (7) and inserting "; plus"; and

(B) by adding after paragraph (7) the following new paragraph;

"(8) an amount equal to 100 percent of payments authorized pursuant to section 1923A".

(3) SUNSET.—Effective October 1, 2000, the amendments made by this subsection are repealed.

SEC. 11303. MEDICAID ELIGIBILITY QUALITY CONTROL (MEQC) REQUIREMENTS.

Section 1903(u) is amended—

(1) in paragraph (1)(A), to read as follows:

"(A) Notwithstanding subsection (a), the Secretary shall reduce the aggregate Federal payment limit applicable to a State for fiscal year 1997 or any succeeding fiscal year by the amount, if any, equal to the sum of the products, for each group defined in section 1931(b), of—

"(i) the number of excess erroneous enrollments of individuals in each such group; and

"(ii) the per beneficiary rate applicable to such group for such fiscal year pursuant to section 1931(c).";

(2) in paragraph (1)(C), by striking "erroneous excess payments for medical assistance" and inserting "excess erroneous enrollments";

(3) by striking subparagraphs (D) and (E) of paragraph (1) and inserting the following:

"(D) CALCULATION FACTORS.—For purposes of this subsection—

"(i) ERRONEOUS ENROLLMENTS.—The term 'erroneous enrollments' means, with respect to a group defined in section 1931(b), the number of individuals that a State reports, pursuant to section 1931(c)(4), as enrolled in such group who either (I) should have been so reported as enrolled in another such group which has a lower per beneficiary base rate, or (II) were ineligible for medical assistance under the State plan.

"(ii) EXCLUSION FROM ERRONEOUS ENROLLMENTS.—The term 'erroneous enrollments' does not include any enrollment—

"(I) of individuals whose eligibility was determined exclusively by the Commissioner of Social Security under an agreement pursuant to section 1634, and such other classes of individuals as the Secretary may by regulation prescribe whose eligibility was determined in part under such an agreement;

"(II) resulting from the failure of an individual to cooperate or give correct information with respect to third-party liability as required under section 1912(a)(1)(C) or 402(a)(26)(C); or

"(III) during a presumptive eligibility period (as defined in section 1920(b)(1)).

"(iii) EXCESS ERRONEOUS ENROLLMENTS.—The term 'excess erroneous enrollments' means, with respect to a group of individuals defined in section 1931(b), erroneous enrollments in excess of 3 percent of total enrollments of individuals in such group."; and

(4) in paragraph (2), by striking ''erroneous excess payments'' and inserting ''excess erroneous enrollments''.

PART 2—ELIGIBILITY

SEC. 11311. EXTENSION OF COVERAGE TO ADDITIONAL INDIVIDUALS, SUBJECT TO POVERTY-RELATED OR CASELOAD LIMITS.

(a) EXPANDED ELIGIBILITY.—Section 1902(a)(10) is amended by adding after subparagraph (F) the following new paragraph:

''(G) at the option of a State, for making medical assistance available to one of the following groups of individuals who would otherwise be ineligible for such assistance:

''(i) individuals whose income does not exceed a limit established by the State, not greater than 150 percent of the Federal poverty line; or * * *

(b) DISREGARD OF ADDITIONAL ENROLLEES IN CALCULATION OF FEDERAL PAYMENT LIMIT.—Section 1931(c)(4)(A), as added by section 11301 of this Act, is amended by adding at the end the following new clause:

''(iii) EXPANDED ELIGIBILITY DISREGARD.—The numbers reported by the State shall not include any individuals en-

rolled in the State program under this title pursuant to section 1902(a)(10)(G).''.

SEC. 11312. ELIMINATION OF AUTHORITY FOR NEW ELIGIBILITY EXPANSION DEMONSTRATIONS.

Section 1115(a)(1) is amended by inserting ''(except that waivers of requirements of section 1902 with respect to eligibility of individuals for medical assistance shall not be granted (but may be extended or modified) on or after October 1, 1996)'' after ''project''.

SEC. 11313. UPPER INCOME LIMIT ON ''LESS RESTRICTIVE'' ELIGIBILITY METHODOLOGIES.

Section 1902(r)(2) is amended—

(1) in paragraph (A), by inserting ''(except as provided in subparagraph (C))'' after ''no more restrictive''; and

(2) by adding at the end the following new subparagraph:

''(C) The methodology described in subparagraph (A) shall not result in an income eligibility limit (based on gross income) higher than the higher of—

''(i) 150 percent of the Federal poverty line; or

''(ii) the income eligibility limit applicable under the State plan in effect in fiscal year 1995 (taking into account any such limit applicable under a waiver under section 1115).''.

PART 3—MANAGED CARE

SEC. 11321. PRIMARY CARE CASE MANAGEMENT SERVICES AS STATE OPTION WITHOUT NEED FOR WAIVER.

(a) PRIMARY CARE CASE MANAGEMENT SERVICES DEFINED.—Section 1905 is amended by adding at the end of the following new subsection:

''(t)(1) The term 'primary care case management system' means a State program under which individuals eligible for medical assistance under the State plan under this title are enrolled with primary care case managers and are entitled to receive health care items and services covered under the State plan and specified in such program only as approved (and arranged or provided) by such managers.

''(2) The term 'primary care case manager' means a provider that has entered into a primary care case management contract with the State agency and that is—

''(A) a physician, a physician group practice, or an entity employing or having other arrangements with physicians who provide case management services; or

''(B) at State option—

''(i) a nurse practitioner (as described in section 1905(a)(21);

"(ii) a certified nurse-midwife (as defined in section 1861(gg)); or

"(iii) a physician assistant (as defined in section 1861(aa)(5).

"(3) The term 'primary care case management contract' means a contract with a State agency under which a primary care case manager undertakes to locate, coordinate and monitor covered primary care, covered primary care and other services, or covered services specified by the State, to all individuals enrolled with the primary care case manager, and which provides for—

"(A) reasonable and adequate hours of operation, including 24-hour availability of information, referral, and treatment with respect to medical emergencies;

"(B) restriction of enrollment to individuals residing sufficiently near a service delivery site of the entity to be able to reach such site within a reasonable time using available and affordable modes of transportation;

"(C) employment of, or contracts or other arrangements with, sufficient numbers of physicians and other appropriate health car professionals to ensure that services under the contract can be fur-

nished to enrollees promptly and without compromise to quality of care;

"(D) a prohibition on discrimination on the basis of health status or requirements for health services in enrollment, disenrollment, reenrollment, or disenrollment of individuals eligible for medical assistance under this title; and

"(E) a right for enrollees to terminate such enrollment without cause during the first month of each enrollment period, each such enrollment period not to exceed six months in duration, and to terminate their enrollment at any time for cause.

"(4) The term 'primary care' includes all health care services customarily provided by or under the supervision of, and all laboratory services customarily provided by or through, a general practitioner, family medicine physician, internal medicine physician, obstetrician/gynecologist, or pediatrician.".

(b) INCLUSION IN DEFINITION OF MEDICAL ASSISTANCE.—Section 1905(a) is amended—

(1) by striking "and" at the end of paragraph (24);

(2) by redesignating paragraph (25) as paragraph (26); and

(3) by inserting after paragraph (24) the following new paragraph:

''(25) primary care case management services (as defined in subsection (t)); and''.

(c) STATE PLAN REQUIREMENT.—Section 1902(a) is amended—

(1) by striking ''and'' at the end of paragraph (61);

(2) by striking the period at the end of paragraph (62) and inserting ''; and''; and

(3) by adding after paragraph (62) the following new paragraph:

''(63) provide that any primary care case management services furnished under the plan will be furnished in accordance with the provisions of section 1905(t).''.

(d) REPEAL OF WAIVER AUTHORITY.—Section 1915(b) is amended by striking paragraph (1) and redesignating paragraphs (2), (3), and (4) as paragraphs (1), (2), and (3), respectively.

(e) EXCEPTION TO FREEDOM OF CHOICE.—For State option to mandate enrollment in primary care case management programs, see section 11322.

SEC. 11322. STATE OPTIONS TO RESTRICT CHOICE OF PROVIDERS.

(a) MANDATORY ENROLLMENT IN MANAGED CARE.—Section 1915(a) is amended by inserting at the end the following new paragraph:

"(3) requires individuals eligible for medical assistance for items or services under the State plan to enroll with an entity that provides or arranges for services for enrollees under a contract pursuant to section 1903(m), or with a primary care case manager (as defined in section 1905(t)) (and/or restricts the number of provider agreements with such entities under the State plan, consistent with quality of care), if—

"(A)(i) individuals are permitted to choose between at least 2 such entities, or 2 such managers, or an entity and a manager, each of which has sufficient capacity to provide services to enrollees; or

"(ii) with respect to a rural area—

"(I) individuals who are required to enroll with a single entity are afforded the option in appropriate circumstances to obtain covered services by an alternative provider; and

"(II) an individual who is offered no alternative to a single entity or manager is given a choice between at least two providers within such entity or through such manager;

"(iii)(I) the State does not restrict the participation of any Indian health program specified in section 1931(d)(1)(C); and

"(II) in any case in which the State directs the enrollment of an individual who is an Indian (as defined in section 4 of the Indian Health Care Improvement Act of 1976) in accordance with this subsection, such individual is enrolled with a participating entity specified in subclause (I), if any;

"(B) the State restricts such individuals from changing their enrollment without cause for periods no longer than six months (and permits enrollees to change enrollment for cause at any time); and

"(C) such restrictions do not apply to providers of family planning services (as defined in section 1905(a)(4)(C)) and are not conditions for payment of medicare cost sharing pursuant to section 1905(p)(3).".

(b) STATE OPTION FOR SIX-MONTH LOCK-IN IN RISK-BASED ARRANGEMENTS.—Section 1903(m)(2) is amended—

(1) in paragraph (A)(vi)—

(A) by striking ''(I) as provided under subparagraph (F),''; and

(B) by striking all that follows ''to terminate such enrollment'' and inserting ''in accordance with the provisions of subparagraph (F);''; and

(2) in subparagraph (F), by striking ''In the case of—'' and all that follows through ''a State plan'' and inserting ''A State plan''.

SEC. 11323. ELIMINATION OF RESTRICTIONS ON RISK CONTRACTS.

(a) 75 PERCENT LIMIT ON MEDICARE AND MEDICAID ENROLLMENT.—

(1) IN GENERAL.—Section 1903(m)(2)(A) is amended by striking clause (ii).

(2) CONFORMING AMENDMENTS.—Section 1903(m)(2) is amended—

(A) by striking subparagraphs (C), (D), and (E); and

(B) in subparagraph (G), by striking ''clauses (i) and (ii)'' and inserting ''clause (i)''.

(b) SECRETARIAL APPROVAL OF CONTRACTS OVER $100,000.—Section 1903(m)(2)(A) is amended in clause (iii) by striking all that follow ''actuarially sound basis'' and inserting a semicolon.

(c) ADDITIONAL AMENDMENTS.—For additional amendments to section 1903(m)(2)(A), see section 11341(b).

SEC. 11324. 6-MONTH GUARANTEED ELIGIBILITY FOR ALL INDIVIDUALS ENROLLED IN MANAGED CARE.

Section 1902(e)(2) is amended—

(1) by striking ''who is enrolled'' and all that follows through ''section 1903(m)(2)(A)'' and inserting ''who is enrolled with a health maintenance organization (as defined in section 1903(m)), with a primary care case manager (as defined in section 1905(t),''; and

(2) by inserting before the period ''or by or through such case manager''.

SEC. 11325. REQUIREMENTS TO ENSURE QUALITY OF AND ACCESS TO CARE UNDER MANAGED CARE PLANS.

Section 1902(a), as amended by section 11321(c), is amended—

(1) in paragraph (62), by striking ''; and'' at the end and inserting a semicolon;

(2) by striking the period at the end of paragraph (63) and inserting "; and"; and

(3) by adding after paragraph (63) the following new paragraph:

"(64) provide, with respect to all agreements between the State agency and entities described in section 1903(m), section 1905(t), and other providers of managed care services—

"(A) that the State agency will develop and implement a quality improvement strategy, consistent with standards established by the Secretary, which includes—

"(i) standards for the provision of services under such agreements designed to ensure reasonable access of enrolled individuals to covered services meeting applicable standards for quality and safety;

"(ii) procedures for monitoring performance of entities under such agreements, including—

"(I) procedures for collection from (or reporting by) providers of patient data; and

"(II) procedures for analysis of such data;

"(B) that providers entering into such agreements under which payment is made on a prepaid capitated or other risk basis shall be required—

"(i) to demonstrate a capacity to deliver covered services to all enrolled individuals; and

"(ii) to maintain an internal quality assurance program, meeting such standards as the Secretary may establish in regulations, which includes a grievance process.".

PART 4—BENEFITS

SEC. 11331. HOME- AND COMMUNITY-BASED SERVICES AS STATE OPTION WITHOUT NEED FOR WAIVER.

(a) ELIMINATION OF WAIVER RESTRICTION.—Section 1915(c) is relocated and redesignated as subsection (u) of section 1905, and is amended—

(1) in paragraph (1), by striking everything through "pursuant to a written plan" and inserting "The term 'home- and community-based services' means items and services (other than room and board) which are provided in accordance with the provisions of this subsection, and pursuant to a written plan";

(2) in paragraph (2)—

(A) by striking the matter that precedes subparagraph (A) and inserting ''A State agency that elects to provide home- and community-based services as defined in this subsection shall ensure that—'';

(B) by adding ''and'' at the end of subparagraph (B);

(C) by striking the semicolon at the end of subparagraph (C) and inserting a period; and

(D) by striking subparagraphs (D) and (E);

(3) in paragraph (3), to read as follows:

''(3) A State plan may provide—

''(i) that home- and community-based services furnished under the plan shall not be subject to the provisions of section 1902(a)(1) (relating to statewideness), section 1902(a)(10)(B) (relating to comparability), or section 1902(a)(10)(C)(i)(III) (relating to income and resource rules applicable in the community), and

''(ii) for purposes of post-eligibility treatment of income, for disregard of a greater amount for the maintenance needs of the indi-

vidual than amounts specified in regulations with respect to a similarly situated institutionalized individual.'';

(4) in paragraph (4)—

(A) by striking the matter preceding subparagraph (A) and inserting ''A State plan providing for home- and community-based services may—'';

(B) in subparagraph (A)—

(i) by striking ''benefits under such waiver'' and inserting ''such benefits'';

(ii) by striking ''under such waiver'' and inserting ''for such benefits''; and

(iii) by striking ''if the waiver did not apply'' and inserting ''if institutionalized''; and

(C) by striking the final sentence; and

(5) by striking paragraphs (6) through (10).

(b) INCLUSION IN DEFINITION OF ''MEDICAL ASSISTANCE''.—Section 1905(a)(22) is amended to read ''home- and community-based services (as defined in subsection (u));''.

(c) STATE PLAN REQUIREMENT.—Section 1902(a), as amended by sections 11321(c) and 11325, is amended—

(1) by striking ''and'' at the end of paragraph (63);

(2) by striking the period at the end of paragraph (64) and inserting ''; and''; and

(3) by adding after paragraph (64) the following new paragraph:

''(65) provide that any home- and community-based services furnished under the plan will be furnished in accordance with the provisions of section 1905(u).''.

(d) REPEAL OF SUPERSEDED PROVISIONS.—

(1) Sections 1929 and 1930 are repealed.

(2) Section 1905(a) is amended by striking paragraph (23).

SEC. 11332. ELIMINATION OF REQUIREMENTS TO PAY FOR PRIVATE INSURANCE.

(a) REPEAL OF STATE PLAN PROVISION.—

(1) Section 1902(a)(25) is amended—

(A) by striking subparagraph (G); and

(B) by redesignating subparagraphs (H) and (I) as subparagraphs (G) and (H), respectively.

(b) REPEAL OF ENROLLMENT REQUIREMENTS.—Section 1906 is repealed.

(c) REINSTATEMENT OF STATE OPTION.—Section 1905(a) is amended, in the matter preceding clause (i), by inserting ''(including, at State option, through purchase or payment of enrollee costs of health insurance)'' after ''The term 'medical assistance' means payment''.

SEC. 11333. BENEFITS FOR INDIVIDUALS COVERED DURING TRANSITION TO WORK.

(a) PAYMENT OF GROUP HEALTH COINSURANCE AT MEDICAID RATES.—

(1) Section 1925(a)(4)(B) is amended—

(A) by striking ''and'' at the end of clause (i)(II);

(B) by striking the period at the end of clause (ii); and

(C) by adding after clause (ii) the following new clause:

''(iii) the State may limit the amount of any deductible or copayment for any health care item or service to the applicable portion of the amount the State would pay if such item or service had been furnished by a provider participating in the program under the State plan.''.

(2) Section 1925(b)(4)(D) is amended by adding at the end the following new sentence: ''If the

State elects to pay such deductibles and coinsurance, the State may limit the amount of such payments as provided in subsection (a)(4)(C)(iii).''.

(b) ELIMINATION OF PREMIUM LIMIT.—Section 1925 (b)(5)(C) is repealed.

(c) PROVISION CONCERNING REPORTING REQUIREMENTS MADE OPTIONAL.—

(1) REPORTING REQUIREMENT.—Section 1925(b)(2)(B) is amended to read as follows:

''(B) REPORTING REQUIREMENTS.—Each State may require, as a condition for additional extended assistance under this subsection, reports by the family at such times and containing such information as the State may specify concerning gross monthly earnings and costs for child care.''.

(2) STATE OPTION TO TERMINATE BENEFITS FOR FAILURE TO REPORT.—Section 1925(b)(3)(A) is amended (a) in clause (iii), by striking ''(2)(B)(ii)'' each place it appears and inserting ''(2)(B)''.

PART 5—PROVIDER PARTICIPATION AND PAYMENT RATES

SEC. 11341. METHODS FOR ESTABLISHING PROVIDER PAYMENT RATES.

(a) PLAN AMENDMENTS.—Section 1902(a)(13) is amended—

(1) by striking all that precedes subparagraph (D) and inserting the following:

''(13) provide—

''(A) for a public process for determination of rates of payment under the plan (including any payment adjustments under section 1923) for nursing facility services and services of intermediate care facilities for the mentally retarded under which—

''(i) proposed rates are published, and providers, beneficiaries and their representatives, and other concerned State residents are given a reasonable opportunity for review and comment thereon; and

''(ii) final rates are published, together with justifications based on the administrative record; and'';

(2) by redesignating subsections (D) and (E) as subsections (B) and (C), respectively;

(3) in subparagraph (B), as redesignated, by striking everything through ''of 100 percent of costs'' and inserting the following:

''(B) for payment under the plan—

''(i) for all services described in clause (B) or (C) of section 1905(a)(2) furnished on or before September 30, 1998; and

''(ii) for services described in clause (i) furnished on or after October 1, 1998, by an entity described in section 1931(d)(1)(C) of 100 percent of costs''; and

(4) by striking subsection (F).

(b) STUDY AND REPORT TO CONGRESS.—The Secretary shall conduct a study of the effect on access to services, and quality and safety of services, of the rate-setting methods used by States pursuant to section 1902(a)(13) of the Social Security Act, as amended by subsection (a), and shall submit a report to the Congress on the conclusions from such study, together with any legislative recommendations, not later than the date four years after enactment of this Act.

SEC. 11343. ELIMINATION OF OBSTETRICAL AND PEDIATRIC PAYMENT RATE REQUIREMENTS.

Section 1926 is repealed.

PART 6—STATE PLAN ADMINISTRATION

SEC. 11351. MMIS REQUIREMENTS.

(a) IN GENERAL.—Section 1903(r) is amended—

(1) by striking all that precedes paragraph (5) and inserting the following:

''(r) MEDICAID MANAGEMENT INFORMATION SYSTEMS (MMIS).—(1) IN GENERAL.—In order to receive payments under subsection (a) for use of automated data systems in administration of the State plan under this title, a State must have in operation mechanized claims processing and information retrieval systems that meet the requirements of this subsection and that the Secretary has found to be—

''(A) adequate to provide efficient, economical, and effective administration of such State plan;

''(B) compatible with the claims processing and information retrieval systems used in the administration of title XVIII, and for this purpose—

''(i) having a uniform identification coding system for providers, other payees, and beneficiaries under this title or title XVIII;

''(ii) providing liaison between States and carriers and intermediaries with agreements under title XVIII to facilitate timely exchange of appropriate data; and

"(iii) providing for exchange of data between the States and the Secretary with respect to persons sanctioned under this title or title XVIII;

"(C) capable of providing accurate and timely data;

"(D) able to accommodate receipt of provider claims in standard formats to the extent specified by the Secretary; and

"(E) able to transmit electronically such data as is specified by the Secretary.".

(2) in paragraph (5)—

(A) by striking all that precedes clause (i) and inserting the following:

"(2) In order to meet the requirements of this paragraph, mechanized claims processing and information retrieval systems must meet the following requirements:";

(B) in clause (iii), by striking "under paragraph (6)"; and

(C) by redesignating clauses (i) through (iii) as paragraphs (A) through (C); and

(3) by striking paragraphs (6), (7), and (8).

(b) CONFORMING AMENDMENTS.—Section 1902(a)(25)(A)(ii) is amended—

(1) by striking ", and" at the end of subclause (I) and inserting a semicolon;

(2) by relocating the matter in subclause (I) immediately after "which plan shall", after striking the intervening hyphen and the subclause designation; and

(3) by striking subclause (II).

SEC. 11352. ELIMINATION OF PERSONNEL REQUIREMENTS.

Section 1902(a)(4) is amended—

(1) in subparagraph (A), to read as follows:

"(A) provide such methods of administration as found by the Secretary to be necessary for the proper and efficient operation of the plan;";

(2) by striking subparagraph (B); and

(3) by redesignating subparagraph (C) as subparagraph (B).

SEC. 11353. ELIMINATION OF REQUIREMENTS FOR COOPERATIVE AGREEMENTS WITH HEALTH AGENCIES.

Section 1902(a)(11) is repealed.

SEC. 11355. STATE REVIEW OF MENTALLY ILL OR RETARDED NURSING FACILITY RESIDENTS UPON CHANGE IN PHYSICAL OR MENTAL CONDITION.

(a) STATE REVIEW ON CHANGE IN RESIDENT'S CONDITION.—Section 1919(e)(7)(B)(iii) is amended to read as follows:

"(iii) Review required upon change in resident's condition.—A review and determination under clause (i) or (ii) must be conducted promptly after a nursing facility has notified the State mental health authority or State mental retardation or developmental disability authority, as applicable, with respect to a mentally ill or mentally retarded resident, that there has been a significant change in the resident's physical or mental condition.".

(b) CONFORMING AMENDMENTS.—

(1) Section 1919(b)(3)(E) is amended by adding at the end the following: "In addition, a nursing facility shall notify the State mental health authority or State mental retardation or developmental disability authority, as applicable, promptly after a significant change in the physical or mental condition of a resident who is mentally ill or mentally retarded.".

(2) The heading to section 1919(e)(7)(B) is amended by striking ''annual''.

(3) The heading to section 1919(e)(7)(D)(i) is amended by striking ''annual''.

SEC. 11356. NURSE AID TRAINING IN MEDICARE AND MEDICAID NURSING FACILITIES SUBJECT TO EXTENDED SURVEY AND UNDER CERTAIN OTHER CONDITIONS.

(a) MEDICARE.—Section 1819(f)(2)(B)(iii)(I) is amended, in the matter preceding sub-subclause (a), by striking ''by or in a skilled nursing facility'' and inserting ''by a skilled nursing facility (or in such a facility, unless the State determines that there is no other such program offered within a reasonable distance, provides notice of the approval to the State long-term care ombudsman, and assures, through an oversight effort, that an adequate environment exists for such a program)''.

(b) MEDICAID.—Section 1919(f)(2)(B)(iii)(I) is amended, in the matter preceding sub-subclause (a), by striking ''by or in a nursing facility'' and inserting ''by a nursing facility (or in such a facility, unless the State determines that there is no other such program offered within a reasonable distance, provides notice of the approval to the State long-term care ombudsman, and

assures, through an oversight effort, that an adequate environment exists for such a program)''.

SEC. 11357. COMBINED STATE PLAN SUBMISSION.

(a) IN GENERAL.—A State may submit to the Secretary of Health and Human Services a single State plan (with any amendments) to carry out—

(1) the long-term care grant program established by subtitle E;

(2) the program of health insurance for the temporarily unemployed established by subtitle G; and

(3) the medical assistance program under title XIX of the Social Security Act.

(b) EFFECT OF COMBINED SUBMISSION.—A State plan submitted pursuant to subsection (a) must meet all requirements of each of the programs specified in such subsection.

(c) TIMETABLE FOR APPROVAL.—The Secretary shall, within 90 days after receipt of a State plan submitted pursuant to subsection (a), either approve or disapprove the plan, or inform the State that specified additional information is needed to permit review of the plan.

SEC. 11358. PUBLIC PROCESS FOR DEVELOPING STATE PLAN AMENDMENTS.

Section 1902(a), as amended by sections 11321(c), 11325, and 11331(c), is amended—

(1) by striking ''and'' at the end of paragraph (64);

(2) by striking the period at the end of paragraph (65) and inserting ''; and''; and

(3) by adding after paragraph (65) the following new paragraph:

''(66) a process for development of amendments to the State plan that affords an opportunity for review and comment to interested persons and groups, including beneficiaries, providers, Indian tribes, tribal organizations, Indian Health Service facilities, and urban Indian health organizations.''.

PART 7—EFFECTIVE DATE

SEC. 11361. EFFECTIVE DATE.

(a) IN GENERAL.—Except where otherwise specifically provided, the provisions of and amendments made by this subtitle shall be effective with respect to State programs under title XIX of the Social Security Act on and after October 1, 1996.

(b) EXTENSION FOR STATE LAW AMENDMENT.—In the case of a State plan under title XIX of the Social Security Act which the Secretary of Health and Human

Services determines requires State legislation in order for the plan to meet the additional requirements imposed by the amendments made by subsection (a), the State plan shall not be regarded as failing to comply with the requirements of such title solely on the basis of its failure to meet these additional requirements before the first day of the first calendar quarter beginning after the close of the first regular session of the State legislature that begins after the date of enactment of this Act. For purposes of the previous sentence, in the case of a State that has a 2-year legislative session, each year of such session shall be deemed to be a separate regular session of the State legislature.

Subtitle D—Fraud and Abuse

SEC. 11401. SHORT TITLE; TABLE OF CONTENTS OF SUBTITLE.

(a) SHORT TITLE.—This subtitle may be cited as the ''Federal Health Care Payment Integrity Act of 1995''.

(b) TABLE OF CONTENTS OF SUBTITLE.—The table of contents of this subtitle is as follows:

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PART 1—AMENDMENTS TO CURRENT LAW ENFORCEMENT AUTHORITIES

SEC. 11402. EXTENSION OF CURRENT CIVIL MONEY PENALTIES.

(a) GENERAL CIVIL MONEY PENALTIES.—Section 1128A (42 U.S.C. 1320a–7a) is amended—

(1) in the third sentence of subsection (a), by striking ''programs under title XVIII'' and inserting ''Federal health care program (as defined in subsection (m))'';

(2) in subsection (f)—

(A) by redesignating paragraph (3) as paragraph (4); and

(B) by inserting after paragraph (2) the following new paragraph:

''(3) With respect to amounts recovered arising out of a claim under a Federal health care program (as defined in subsection (m)), the portion of such amounts as is determined to have been paid by the program shall be repaid to the program, and the portion of such amount attributable to the amounts recovered under this section by reason of the amendments made by the Federal Health Care Payment Integrity Act of 1995 (as estimated by the Secretary) shall be deposited into the Health Care

Fraud and Abuse Control Account established under section 11423 of such Act.";

(3) in subsection (i)—

(A) in paragraph (2), by striking "title V, XVIII, XIX, or XX of this Act" and inserting "a Federal health care program (as defined in subsection (m))";

(B) in paragraph (4), by striking "a health insurance or medical services program under title XVIII or XIX of this Act" and inserting "a Federal health care program (as so defined)"; and

(C) in paragraph (5), by striking "title V, XVIII, XIX, or XX" and inserting "a Federal health care program (as so defined)"; and

(4) by adding at the end the following new subsection:

"(m)(1) For purposes of this section, with respect to a Federal health care program not contained in this Act, references to the Secretary in this section shall be deemed to be references to the Secretary of Administrator of the department or agency with jurisdiction over such program and references to the Inspector General of the Department of Health and Human Services in this section shall be deemed to be references to the Inspector General and any

other office with primary enforcement authority of the applicable department or agency. With respect to investigations of an employee welfare benefit plan as defined in section 3 of the Employee Retirement Income Security Act, the agency or department shall be deemed to be the Department of Labor.

''(2)(A) The Secretary and Administrator of the departments and agencies referred to in paragraph (1) may include, in any action pursuant to this section, claims within the Jurisdiction of other Federal departments or agencies as long as the following conditions are satisfied:

''(i) The case involves primarily claims submitted to the Federal health care programs of the department or agency initiating the action.

''(ii) The Secretary of Administrator and the Inspector General of the department or agency initiating the action gives notice and an opportunity to participate in the investigation to the Secretary or Administrator and the Inspector General of the department or agency with primary jurisdiction over the Federal health care programs to which the claims were submitted. With respect to actions involving an employee welfare benefit plan as defined in section 3 of the Employee Retirement Income Security Act, the department with primary jurisdiction

shall be deemed to be the Department of Labor for purposes of this notice.

"(B) If the conditions specified in subparagraph (A) are fulfilled, the Inspector General of the department or agency initiating the action is authorized to exercise all powers granted under the Inspector General Act of 1978 with respect to the claims submitted to the other departments or agencies to the same manner and extent as provided in that Act with respect to claims submitted to such departments or agencies.".

(b) EXCLUDED INDIVIDUAL RETAINING OWNERSHIP OR CONTROL INTEREST IN PARTICIPATING ENTITY.—Section 1128A(a) (42 U.S.C. 1320a–7a(a)) is amended—

(1) by striking "or" at the end of paragraph (a)(D);

(2) by striking ", or" at the end of paragraph (2) and inserting a semicolon;

(3) by striking the semicolon at the end of paragraph (3) and inserting "; or"; and

(4) by inserting after paragraph (3) the following new paragraph:

"(4) in the case of a person who is not an organization, agency, or other entity, is excluded from participating in a program under title XVIII or a State health care program in accordance with this

subsection or under section 1128 and who, at the time of a violation of this subsection, retains a direct or indirect ownership or control interest of 5 percent or more, or an ownership or control interest (as defined in section 1124(a)(3)) in, or who is an officer or managing employee (as defined in section 1126(b)) of, an entity that is participating in a program under title XVIII or a State health care program;''.

(c) EMPLOYER BILLING FOR SERVICES FURNISHED, DIRECTED, OR PRESCRIBED BY AN EXCLUDED EMPLOYEE.—Section 1128A(a)(1) (42 U.S.C. 1320a–7a(a)(1)) is amended—

(1) by striking ''or'' at the end of subparagraph (C);

(2) by striking ''; or'' at the end of subparagraph (D) and inserting '', or''; and

(3) by adding at the end the following new subparagraph:

''(E) is for a medical or other item or service furnished, directed, or prescribed by an individual who is an employee or agent of the person during a period in which such employee or agent was excluded from the program under which the claim was made on any of the

grounds for exclusion described in subparagraph (D);''.

(d) MODIFICATIONS OF AMOUNTS OF PENALTIES AND ASSESSMENTS.—Section 1128A(a) (42 U.S.C. 1320a–7a(a)), as amended by subsection (b), is amended in the matter following paragraph (4)—

(1) by striking ''$2,000'' and inserting $10,000'';

(2) by inserting ''; in cases under paragraph (4), $10,000 for each day the prohibited relationship occurs'' after ''false or misleading information was given''; and

(3) by striking ''twice the amount'' and inserting ''3 times the amount''.

(e) CLAIMS FOR ITEM OR SERVICE BASED ON INCORRECT CODING.—Section 1128A(a)(1)(A) (42 U.S.C. 1320a–7a(a)(1)(A)) is amended by striking ''claimed,'' and inserting ''claimed, including any person who engages in a pattern or practice of presenting or causing to be presented a claim for an item or service that is based on a code that the person knows or should know will result in a greater payment to the person that the code the person knows or should know is applicable to the item or service actually provided''.

(f) PERMITTING SECRETARY TO IMPOSE CIVIL MONEY PENALTY.—Section 1128A(b) (42 U.S.C. 1320a–7a(b)) is amended by adding the following new subparagraph:

"(3) Any person (including any organization, agency, or other entity, but excluding a beneficiary as defined in subsection (i)(5)) who the Secretary determines has violated section 1128B(b) of this title shall be subject to a civil monetary penalty of not more that $10,000 for each such violation. In addition, such person shall be subject to an assessment of not more than twice the total amount of the remuneration offered, paid, solicited, or received in violation of section 1128B(b). The total amount of remuneration subject to all assessments shall be calculated without regard to whether some portion thereof also may have been intended to serve a purpose other than one proscribed by section 1128B(b).".

(g) PROHIBITION AGAINST OFFERING INDUCEMENTS TO INDIVIDUALS ENROLLED UNDER PROGRAMS.—

(1) OFFER OF REMUNERATION.—Section 1128A(a) (42 U.S.C. 1320a–7a(a)) as amended by subsection (b) of this section, is amended—

(A) by striking ''or'' at the end of paragraph (3) and inserting a semicolon;

(B) by inserting ''or'' after the semicolon at the end of paragraph (4); and

(C) by inserting after paragraph (4) the following new paragraph:

''(5) offers to or transfers remuneration to any individual eligible for benefits under a Federal health program that such person knows or should know is likely to influence such individual to order or receive from a particular provider, practitioner, or supplier any item or service for which payment may be made, in whole or in part, under such program;''.

(2) REMUNERATION DEFINED.—Section 2238A(i) (42 U.S.C. 1320a–7a(i)) is amended by adding the following new paragraph:

''(6) The term 'remuneration' includes the waiver of coinsurance and deductible amounts (or any part thereof), and transfers of items or services for free or for other than fair market value. The term 'remuneration' does not include—

''(A) the waiver of coinsurance and deductible amounts by a person, if—

"(i) the waiver is not offered as part of any advertisement or solicitation;

"(ii) the person does not routinely waive coinsurance or deductible amounts; and

"(iii) the person—

"(I) waives the coinsurance and deductible amount after determining in good faith that the individual is in financial need;

"(II) fails to collect coinsurance or deductible amounts after making reasonable collection efforts; or

(III) provides for any permissible waiver as specified in section 1128B(b)(3) or in regulations issued by the Secretary;

"(B) differentials in coinsurance and deductible amounts as part of a benefit plan design as long as the differentials have been disclosed in writing to all beneficiaries, third party payors, and providers, to whom claims are presented and as long as the differentials meet the standards as defined in regulations promulgated

by the Secretary not later than 180 days after the date of the enactment of this Act; or

"(C) incentives given to individuals to promote the delivery of preventive care as determined by the Secretary in regulations as promulgated.".

(h) DEFINITION OF FEDERAL HEALTH CARE PROGRAM.—Section 1128A (42 U.S.C. 1320a–7b) is amended by adding at the end the following new subsection:

"(m) FEDERAL HEALTH CARE PROGRAM.—For purposes of this section, the term 'Federal health care program' means—

"(1) any plan or program (except a plan described in section 3(1) of the Employee Retirement Income Security Act) that provides health benefits, whether directly, through insurance, or otherwise, which is funded, in whole or in part, by the United States Government; or

"(2) any State health care program, as defined in section 1128(h).".

SEC. 11403. EXCLUSION OF PERSONS WHO DEFRAUD MEDICARE.

(a) MINIMUM PERIOD OF EXCLUSION FOR CERTAIN INDIVIDUALS AND ENTITIES SUBJECT TO PERMISSIVE EXCLUSION FROM MEDICARE AND STATE HEALTH CARE

PROGRAMS.—Section 1128(c)(3) (42 U.S.C. 1320a–7(c)(3)) is amended by adding at the end the following new subparagraphs:

"(D) In the case of an exclusion of an individual or entity under paragraph (1), (2), or (3) of subsection (b), the period of the exclusion shall be 3 years, unless the Secretary determines in accordance with published regulations that a longer period is appropriate because of aggravating circumstances.

"(E) In the case of an exclusion of an individual or entity under subsection (b)(4) or (b)(5), the period of the exclusion shall not be less than the period during which the individual or entity's license to provide health care is revoked, suspended, or surrendered, or the individual or the entity is excluded or suspended from a Federal or State health care program.

"(F) In the case of an exclusion of an individual or entity under subsection (b)(6)(B), the period of the exclusion shall be not less than 1 year.".

(b) PERMISSIVE EXCLUSION OF INDIVIDUALS WITH OWNERSHIP OR CONTROL INTEREST IN SANCTIONED ENTITIES.—Section 1128(b) (42 U.S.C. 1320a–7(b)) is amended by adding at the end the following new paragraph:

"(15) INDIVIDUALS CONTROLLING A SANCTIONED ENTITY.—Any individual who has a direct or indirect ownership or control interest of 5 percent or more, or an ownership or control interest (as defined in section 1124(a)(3)) in, or who is an officer or managing employee (as defined in section 1126(b)) of, an entity—

"(A) that has been convicted of any offense described in subsection (a) or in paragraph (1), (2), or (3) of this subsection; or

"(B) that has been excluded from participation under a program title XVIII or under a State health care program.".

(c) SANCTIONS AGAINST PROVIDERS FOR EXCESSIVE FEES OR PRICES.—Section 1128(b)(6)(A) (42 U.S.C. 1320a–7(b)(6)(A)) is amended—

(1) by inserting after "substantially in excess of such individual's or entity's usual charges" the following: "(as specified by the Secretary in regulations)"; and

(2) by striking "(or in applicable cases, substantially in excess of such individuals or entities' costs)" and inserting ", costs or fees" before "for such items or services.".

(d) APPLICABILITY OF THE BANKRUPTCY CODE TO PROGRAM SANCTIONS.—

(1) Section 1128 (42 U.S.C. 1320a–7) is amended by adding at the end the following new subsection:

"(j) An exclusion imposed under this section is not subject to the automatic stay imposed under the Bankruptcy Code, 11 U.S.C. § 362.".

(2) Section 1128A(a) (42 U.S.C. 1320a–7a) is amended by adding at the end the following sentence: "An exclusion imposed under this section is not subject to the automatic stay which is imposed under 11 U.S.C. § 362, and any penalties and assessments imposed under this section shall be nondischargeable under the Bankruptcy Code (11 U.S.C. § 101 et seq.).".

(3) Section 1892(a)(4) (42 U.S.C. 1395ccc(a)(4)) is amended by adding at the end the following sentence: "An exclusion imposed under paragraph (2)(C)(ii) or paragraph (3)(B) is not subject to the automatic stay which is imposed under the Bankruptcy Code (11 U.S.C. § 362).".

SEC. 11404. ILLEGAL REMUNERATION WITH RESPECT TO HEALTH CARE BENEFIT PROGRAMS.

(a) IN GENERAL.—Chapter 11 of title 18, United States Code, is amended by adding at the end the following:

"§ 227. Illegal remuneration with respect to health care benefit programs

''(a) Whoever knowingly and willfully solicits or receives any remuneration (including any kickback, bribe, or rebate) directly or indirectly, overtly or covertly, in cash or in kind—

''(1) in return for referring any individual to a person for the furnishing or arranging for the furnishing of any item or service for which payment may be made in whole or in part by any health care benefit program; or

''(2) in return for purchasing, leasing, ordering, or arranging for or recommending purchasing, leasing or ordering any good, facility, service, or item for which payment may be made in whole or in part by any health care benefit program, or attempting to do so,

shall be fined under this title or imprisoned for not more than 5 years, or both.

''(b) Whoever knowingly and willfully offers or pays any remuneration (including any kickback, bribe, or re-

bate) directly or indirectly, overtly, or covertly, in cash or in kind to any person to induce such person—

"(1) to refer an individual to a person for the furnishing or arranging for the furnishing of any item or service for which payment may be made in whole or in part by any health benefit program; or

"(2) to purchase, lease, order, or arrange for or recommend purchasing, leasing, or ordering any good, facility, service, or item for which payment may be made in whole or in part by any health benefit program or attempts to do so,

shall be fined under this title or imprisoned for not more than 5 years, or both.

"(c) Subsections (a) and (b) shall not apply to—

"(1) a discount or other reduction in price obtained by a provider of services or other entity under a health care benefit program if the reduction in price is properly disclosed and appropriately reflected in the costs claimed or charges made by the provider or entity under a health care benefit program;

"(2) any amount paid by an employer to an employee (who has a bona fide employment relationship with such employer) for employment in the provision of covered items or services if the amount of the re-

1 muneration under the arrangement is consistent
2 with the fair market value of the services and is not
3 determined in a manner that takes into account (di-
4 rectly or indirectly) the volume or value of any refer-
5 rals;

6 ''(3) any amount paid by a vendor of goods or
7 services to a person authorized to act as a purchas-
8 ing agent for a group of individuals or entities who
9 are furnishing services reimbursed under a health
10 care benefit program if—

11 ''(A) the person has a written contract,
12 with each such individual or entity, which speci-
13 fies the amount to be paid the person, which
14 amount may be a fixed amount or a percentage
15 of the value of the purchases made by each
16 such individual or entity under the contract,
17 and

18 ''(B) in the case of an entity that is a pro-
19 vider of services (as defined in section 1861(u)
20 of the Social Security Act, the person discloses
21 (in such form and manner as the Secretary of
22 Health and Human Services requires) to the
23 entity and, upon request, to the Secretary the
24 amount received from each such vendor with re-

spect to purchases made by or on behalf of the entity;

"(4) a waiver of any coinsurance under part B of title XVIII of the Social Security Act by a federally qualified health care center with respect to an individual who qualifies for subsidized services under a provision of the Public Health Service Act; and

"(5) any payment practice specified by the Secretary of Health and Human Services in regulations promulgated pursuant to section 14(a) of the Medicare and Medicaid Patient and Program Protection act of 1987.

"(d) Any person injured in his business or property by reason of a violation of this section or section 226 of this title may sue therefor in any appropriate United States district court and shall recover threefold the damages such person sustains and the cost of the suit, including a reasonable attorney's fee.

"(e) As used in this section, 'health care benefit program' has the meaning given such term in section 1347(b) of this title.".

(b) CLERICAL AMENDMENT.—The table of sections at the beginning of chapter 11 of title 18, United States Code, is amended by adding at the end the following:

"227. Illegal remuneration with respect to health care benefit programs.".

(c) CONFORMING AMENDMENT.—Section 1128B of the Social Security Act (42 U.S.C. 1320a–7b) is amended by striking subsection (b).

SEC. 11405. AMENDMENTS TO PRO (QUALITY OF CARE) SANCTIONS PROVISIONS.

(a) MINUMUM PERIOD OF EXCLUSION FOR PRACTITIONERS AND PERSONS FAILING TO MEET STATUTORY OBLIGATIONS.—

(1) IN GENERAL.—Section 1156(b)(1) (42 U.S.C. 1320c–5(b)(1)) is amended in the second sentence by striking ''may prescribe)'' and inserting ''may prescribe, except that such period may not be less than 1 year).''.

(2) CONFORMING AMENDMENT.—Section 1156(b)(2) (42 U.S.C. 1320c–5(b)(2)) is amended by striking ''shall remain'' and inserting ''shall (subject to the minimum period specified in the second sentence of paragraph (1)) remain''.

(b) REPEAL OF ''UNWILLING OR UNABLE'' CONDITION FOR IMPOSITION OF SANCTION.—Section 1156(b)(1) (42 U.S.C. 1320c–5(b)(1) is amended—

(1) in the second sentence, by striking ''and determines'' and all that follows through ''such obligations,''; and

(2) by striking the third sentence.

(c) SANCTIONS AGAINST PRACTITIONERS AND PERSONS FOR FAILURE TO COMPLY WITH STATUTORY OBLIGATIONS.—Section 1156(b)(3) (42 U.S.C. 1320c–5(b)(3)) is amended by striking ''the actual or estimated cost'' and inserting ''up to $10,000 for each instance.''

SEC. 11406. FINAL ADVERSE ACTION DATA BASE.

(a) GENERAL PURPOSE.—Not later than January 1, 1997, the Secretary of Health and Human Services (in this section referred to as the ''Secretary'') shall establish a national health care fraud and abuse data collection program or the reporting of final adverse actions against health care providers, suppliers, or practitioners as required by subsection (b), with access as set forth in subsection (c).

(b) REPORTING OF INFORMATION.—

(1) IN GENERAL.—Each government agency and Federal health care program shall (and each other health plan may) report to the Secretary any final adverse action taken against a health care provider, supplier, or practitioner.

(2) INFORMATION TO BE REPORTED.—The information to be reported under paragraph (1) includes:

(A) The name and TIN (as defined in section 7701(a)(41) of the Internal Revenue Code of 1986) of—

(i) any health care provider, supplier, or practitioner that is the subject of a final adverse action, and

(ii) any individual with a relationship specified in section 1128(b)(8)(A) to an entity described in clause (i).

(B) The name (if know) of any health care entity with which a health care provider, supplier, or practitioner is affiliated or associated.

(C) The nature of the final adverse action and whether such action is on appeal.

(D) A description of the acts of omissions and injuries upon which the final adverse action was based, and such other information as the Secretary determines by regulation is required for appropriate interpretation of information reported under this section.

(3) CONFIDENTIALITY.—In determining what information is required, the Secretary shall include procedures to ensure that the privacy of individuals receiving health care services is appropriately protected.

(4) TIMING AND FORM OF REPORTING.—The information required to be reported under this subsection shall be reported regularly (but less often than monthly) and in such form and manner as the Secretary prescribes. Such information shall first be required to be reported on a date specified by the Secretary.

(c) DISCLOSURE AND CORRECTION OF INFORMATION.—

(1) DISCLOSURE.—With respect to the information about final adverse actions reported to the Secretary under this section respecting a health care provider, supplier, or practitioner, the Secretary shall, by regulation, provide for—

(A) disclosure of the information, upon request, to the health care provider, supplier, or licensed practitioner, and

(B) procedures in the case of disputed accuracy of the information.

(2) CORRECTIONS.—Each Government agency and health plan shall report corrections of information already reported about any final adverse action taken against a health care provider, supplier, or practitioner, in such form and manner that the Secretary prescribes by regulation.

(d) ACCESS TO REPORTED INFORMATION.—

(1) AVAILABILITY.—The information in this database shall be available to Federal and State government agencies, health plans, and the public pursuant to procedures that the Secretary shall provide by regulation.

(2) FEES FOR DISCLOSURE.—The Secretary may establish or approve reasonable fees for the disclosure of information in this database (other than with respect to requests by Federal agencies). The amount of such a fee may be sufficient to recover the full costs of carrying out the provisions of this section, including reporting, disclosure and administration. Such fees shall be available to the Secretary or, in the Secretary's discretion to the agency designated under this section to cover such costs.

(e) PROTECTION FROM LIABILITY FOR REPORTING.—No person or entity, including the agency designated by the Secretary in subsection (b)(5) shall be held liable in any civil action with respect to any report made as required by this section, without knowledge of the falsity of the information contained in the report.

(f) DEFINITIONS AND SPECIAL RULES.—For purposes of this section:

(1)(A) The term ''final adverse action'' includes:

(i) Civil judgments against a health care provider or practitioner in Federal or State court related to the delivery of a health care item or service.

(ii) Federal or State criminal convictions related to the delivery of a health care item or service.

(iii) Actions by Federal or State agencies responsible for the licensing and certifications of health care providers, suppliers, and licensed health care practitioners, including—

(I) formal or official actions, such as revocation or suspension of a license (and the length of any such suspension), reprimand, censure or probation,

(II) any other loss of license, or the right to apply for or renew a license of the provider, supplier, or practitioner, whether by operation of law, voluntary surrender, non-renewable or otherwise, or

(III) any other negative action or finding by such Federal or State agency that, is publicly available information.

(iv) Exclusion from participation in Federal or State health care programs.

(v) Any other adjudicated actions or decisions that the Secretary shall establish by regulation.

(B) The term does not include any action with respect to a malpractice claim.

(2) The terms ''licensed health care practitioner'', ''licensed practitioner'', and ''practitioner'' mean, with respect to a State, an individual who is licensed or otherwise authorized by the State to provide health care services (or any individual who, without authority holds himself or herself out to be so licensed or authorized).

(3) The term ''health care provider'' means a provider of services as defined in section 1861(u) of the Social Security Act, and any person or entity, including a health maintenance organization, group medical practice, or any other entity listed by the Secretary in regulation, that provides health care services.

(4) The term ''supplier'' means a supplier of health care items and services described in section 1819(a) and (b), and section 1861 of the Social Security Act.

(5) The term ''Government agency'' shall include:

(A) The Department of Justice.

(B) The Department of Health and Human Services.

(C) Any other Federal agency that either administers or provides payment for the delivery of health care services, including, but not limited to the Department of Defense and the Veterans' Administration.

(D) State law enforcement agencies.

(E) State medicaid fraud and abuse units.

(F) Federal or State agencies responsible for the licensing and certification of health care providers and licensed health care practitioners.

(6) the term ''Federal health care program'' has the meaning given such term in section 1128B(b) of the Social Security Act.

(7) The term ''health plan'' has the meaning given such term in section 1347 of title 18 of the United States Code.

(8) For purposes of paragraph (1), the existence of a conviction shall be determined under section 1128 of the Social Security Act.

(g) CONFORMING AMENDMENT.—Section 1921(d) (42 U.S.C. 1396r-2(d)) is amended by inserting ''and section 105 of the Federal Health Care Payment Integrity Act of 1995 after ''section 422 of the Health Care Quality Improvement Act of 1986''.

SEC. 11407. EXPANSION OF AUTHORITY OF MEDICAID FRAUD CONTROL UNITS.

(a) EXTENSION OF CONCURRENT AUTHORITY TO INVESTIGATE AND PROSECUTE FRAUD IN OTHER FEDERAL PROGRAMS.—Section 1903(q)(3) (42 U.S.C. 1396b(q)(3)) is amended by striking ''in connection with'' and all that follows and inserting the following:

''in connection with—

''(A) any aspect of the provision of medical assistance and the activities of providers of such assistance under the State plan under this title; and

''(B) (in cases where the entity's function is also described by subparagraph (A), and upon the approval of the relevant Federal agency) any aspect of the provision of health care services and activities of providers of such services under any Federal health care program (as defined in section 1128B(b)(1)).''.

(b) EXTENSION OF AUTHORITY TO INVESTIGATE AND PROSECUTE PATIENT ABUSE IN NON-MEDICAID BOARD AND CARE FACILITIES.—Section 1903(q)(4) (42 U.S.C. 1396(b)(q)(4)) is amended to read as follows:

"(4)(A) The entity has—

"(i) procedures for reviewing complaints of abuse or neglect of patients in health care facilities which receive payments under the State plan under this title;

"(ii) at the option of the entity, procedures for reviewing complaints of abuse or neglect of patients residing in board and care facilities; and

"(iii) procedures for acting upon such complaints under the criminal laws of the State or for referring such complaints to other State agencies for action.

"(B) For purposes of this paragraph, the term 'board and care facility' means a residential setting which receives payment from or on behalf of two or more unrelated adults who reside in such facility, and for whom one or both of the following is provided:

"(i) Nursing care services provided by, or under the supervision of, a registered nurse, li-

censed practical nurse, or licensed nursing assistant.

"(ii) Personal care services that assist residents with the activities of daily living, including personal hygiene, dressing, bathing, eating, toileting, ambulation, transfer, positioning, self-medication, body care, travel to medical services, essential shopping, meal preparation, laundry, and housework.".

(c) AUTHORITY OF INSPECTORS GENERAL.—Nothing in this Act affects the authority of the Inspectors General of the Department of Veterans Affairs, the Department of Defense, and other health care agencies under the Inspector General Act of 1978 to conduct investigations, audits, inspections, and evaluations of programs and operations of their respective agencies, including health care programs and operations.

SEC. 11408. RECOVERY OF MEDICARE OVERPAYMENTS FROM BANKRUPT PROVIDERS.

(a) MEDICARE PART A.—Section 1815(d) (42 U.S.C. 1395g(d)) is amended by adding at the end the following sentence: "Amounts due to the program under this part are not dischargeable under any title of the Bankruptcy Code (11 U.S.C. 101 et seq.).".

(b) MEDICARE PART B.—Section 1833(j) (42 U.S.C. 13951(j)) is amended by adding at the end the following sentence: ''Amounts due to the program under this part are not dischargeable under any title of the Bankruptcy Code (11 U.S.C. 101 et seq.).''.

SEC. 11409. GRANTS TO STATES TO REVOKE LICENSES OF UNQUALIFIED PROVIDERS.

The Secretary of Health and Human Services is authorized to make grants to States for activities necessary to revoke the licenses, certification, or other State authorization of health care professionals and entities determined to be unqualified for such authorization on the basis of exclusion from Federal health care programs under section 1128 or 1128A or for any other reason.

SEC. 11410. AUTHORIZATION FOR INTERCEPTION OF WIRE, ORAL OR ELECTRONIC COMMUNICATIONS.

(a) Section 2516(1)(c) of title 18, United States Code, is amended—

(1) by inserting ''section 226 (bribery and graft in connection with health care), section 227 (illegal remunerations,'' after ''section 224 (bribery in sporting contests),''; and

(2) by inserting ''section 1347 (health care fraud),'' after ''section 1344 (relating to bank fraud),''.

(b) DEFINITIONS.—Section 1961(1) of title 18, United States Code, is amended—

(1) by inserting ''sections 226 and 227 (relating to bribery and graft, and illegal remuneration in connection with health care),'' after ''section 224 (relating to sports bribery),'';

(2) by inserting ''section 669 (relating to theft or embezzlement in connection with health care),'' after ''section 664 (relating to embezzlement from pension and welfare funds),''; and

(3) by inserting ''section 1347 (relating to health care fraud),'' after ''section 1344 (relating to financial institution fraud),''.

PART 2—RESOURCES FOR ANTI-FRAUD ACTIVITIES

SEC. 11421. HEALTH CARE FINANCING ADMINISTRATION AND HHS INSPECTOR GENERAL FUNDING.

(a) FINDINGS AND STATEMENT OF PURPOSE.—

(1) FINDINGS.—The Congress finds that—

(A) a significant amount of funds expended on the Medicare program are lost to fraud, medically unnecessary services and other abuse; and

(B) The Department of Health and Human Services through activities of the Office

of Inspector General and Health Care Financing Administration is effective in combating Medicare fraud and abuse and returning misspent funds to the Federal Treasury.

(2) PURPOSE.—It is the purpose of this Act to—

(A) protect, to the maximum extent practicable, the Medicare and Medicaid programs from further losses due to fraud and abuse;

(B) test methods by which the savings that these activities generate can be properly accounted for when determining funding levels; and

(C) ensure an adequate source of five-year funding for HHS Medicare anti-fraud and abuse activities.

(b) ESTABLISHMENT OF MEDICARE ANTI-FRAUD AND ABUSE PROGRAM.—Title XI (42 U.S.C. 1301 et seq.) is amended by adding at the end thereof the following new part:

"PART C—MEDICARE ANTI-FRAUD AND ABUSE PROGRAM

"PURPOSE

"SEC. 1171. The purpose of this part is to provide funding for activities of the Office of Inspector General

related to preventing and detecting fraud and abuse in the programs under title XVIII and determining the accuracy and appropriateness of expenditures under such programs.

"FUNDING AVAILABLE

"SEC. 1172. (a) COVERED ANTI-FRAUD AND ABUSE ACTIVITIES.—Funding from the trust funds established under title XVIII shall be available, in accordance with subsection (b), for activities conducted by the Inspector General, either directly or by contract, pursuant to this Act or the Inspector General Act of 1978, for the purposes of—

"(1) Prosecuting matters related to the programs under title XVIII through criminal, civil, and administrative proceedings.

"(2) Conducting investigations relating to such programs.

"(3) Performing financial and performance audits of programs and operations relating to the such programs.

"(4) Performing inspections and other evaluations relating to such programs.

"(5) Conducting provider and consumer education activities regarding the requirements of this title and title XVIII.

"(b) PAYMENTS FROM TRUST FUNDS.—Obligations incurred by the Inspector General in carrying out the activities designated in subsection (a) shall be paid from—

"(1) funds in the Federal Hospital Insurance Trust Fund; and

"(2) funds in the Federal Supplementary Medical Insurance Trust Fund, in the amounts set forth in subsection (c), allocated between those funds as the Secretary shall deem fair and equitable after taking into consideration the expenses attributable to each of the programs under title XVIII. The Secretary shall make such transfers of moneys between those funds as may be appropriate to settle accounts between them in cases where expenses properly payable from one fund have been paid from the other fund.

"(c) PAYMENT AMOUNTS.—Total amounts paid from the Trust Funds in accordance with subsection (b) shall equal—

"(1) $130 million for fiscal year 1996;

"(2) $181 million for fiscal year 1997;

"(3) $204 million for fiscal year 1998;

"(4) $223 million for fiscal year 1999; and

"(5) $244 million for fiscal year 2000.".

SEC. 11422. ESTABLISHMENT OF THE MEDICARE BENEFICIARY INTEGRITY SYSTEM.

(a) IN GENERAL.—Part C of title XVIII (42 U.S.C. 1395x et seq.) is amended by inserting after section 1889 the following:

"BENEFICIARY INTEGRITY SYSTEM

"SEC. 1890. (a) Obligations incurred for beneficiary integrity system activities for each of fiscal years 1996 through 2000 shall be paid from funds in the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund, in the amounts set forth in subsection (b), allocated between those funds as the Secretary shall deem fair and equitable after taking into consideration the expenses attributable to each of the programs under this title. The Secretary shall make such transfers or moneys between those funds as may be appropriate to settle accounts between them in cases where expenses properly payable from one fund have been paid from the other fund.

"(b) Total amounts paid from the Trust Funds in accordance with subsection (a) shall equal—

"(1) $430,000,000 for fiscal year 1996,

"(2) $490,000,000 for fiscal year 1997,

"(3) $550,000,000 for fiscal year 1998,

"(4) $620,000,000 for fiscal year 1999, and

"(5) $670,000,000 for fiscal year 2000.

"(c) For purposes of this section, beneficiary integrity system activities consist of the following:

"(1) Review of activities of providers of services or other persons in connection with this title, including medical and utilization review and fraud review.

"(2) Audit of cost reports.

"(3) Determination as to whether payment should not be, or should not have been, made under this title by reason of section 1862(b), and recovery of payments that should not have been made.

"(4) Education of providers of services, beneficiaries, and other persons with respect to payment integrity and beneficiary integrity system issues.".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) applies to obligations incurred after fiscal year 1995.

SEC. 11423. GOVERNMENT-WIDE ANTI-FRAUD REINVESTMENT FUND.

(a) ESTABLISHMENT.—

(1) IN GENERAL.—There is hereby established the Health Care Fraud and Abuse Control Account. The Health Care Fraud and Abuse Control Account shall consist of—

(A) such gifts and bequests as may be made as provided in subparagraph (B);

(B) such amounts as may be deposited in the Health Care Fraud and Abuse Control Account as provided in title XI of the Social Security Act; and

(C) such amounts as are transferred to the Health Care Fraud and Abuse Control Account under paragraph (3), but in no year shall more than $10 million be transferred or otherwise deposited to the Health Care Fraud and Abuse Control Account.

(2) AUTHORIZATION TO ACCEPT GIFTS.—The Health Care Fraud and Abuse Control Account is authorized to accept on behalf of the United States money gifts and bequests made unconditionally to the Health Care Fraud and Abuse Control Account for the benefit of the Health Care Fraud and Abuse Control Program or any activity financed through the Health Care Fraud and Abuse Control Account, but not to exceed $10 million.

(3) TRANSFER OF AMOUNTS.—The Secretary of the Treasury shall transfer to the Health Care Fraud and Abuse Control Account, under rules similar to the rules in section 9601 of the Internal Revenue Code of 1986, an amount equal to the sum of the following:

(A) Civil monetary penalties and assessments recovered (including voluntary settlement agreements) under titles XI, XVIII, and XIX of the Social Security Act (except as otherwise provided by law); the Program Fraud Civil Remedies Act (31 U.S.C. 3801 et seq.) and other civil monetary penalties and assessments imposed in health care cases.

(B) Penalties and damages otherwise creditable to Miscellaneous Receipts, Treasury, obtained (including voluntary settlement agreements) under the False Claims Act (31 U.S.C. 3729 et seq.), in cases involving claims related to the provision of health care items and services (other than funds awarded to a relator or for the damages sustained by the health plan because of the acts governed by section 3729).

(b) GENERAL USE OF FUNDS.—

(1) IN GENERAL.—Amounts in the Health Care Fraud and Abuse Control Account shall be paid, at the discretion jointly of the Attorney General and the Secretary of Health and Human Services (acting through the Inspector General of the Department of Health and Human Services) to cover the costs (including equipment, salaries and benefits, and travel

and training) of activities designed to prevent and detect health care fraud and abuse, and to promote economy and efficiency in Federal health care programs, such as health care fraud investigations, audits, and inspections, including the costs of—

(A) prosecuting health care matters (through criminal, civil, and administrative proceedings);

(B) investigations;

(C) financial and performance audits of health care programs and operations;

(D) inspections and other evaluations; and

(E) provider and consumer education regarding compliance with the provisions of this title.

(2) ERISA PLANS.—Any recoveries in connection with an employee welfare benefit plan as defined in section 3 of the Employee Retirement Income Security Act of 1974 (18 U.S.C. 1002) shall first be used to make whole participants and beneficiaries of the employee welfare benefit plan.

(3) FUNDS USED TO SUPPLEMENT AGENCY APPROPRIATIONS.—It is intended that disbursements made from the Health Care Fraud and Abuse control Account be fairly apportioned among all Federal

health care agencies and be used to increase and not supplant the recipient agency's appropriated operating budget.

(4) ANNUAL REPORT.—The Secretary and the Attorney General shall submit jointly an annual report to Congress on the amount of revenue which is generated and disbursed by the Health Care Fraud and Abuse Control Account in each fiscal year.

PART 3—AMENDMENTS TO CRIMINAL LAW

SEC. 11431. HEALTH CARE FRAUD.

IN GENERAL.—

(1) FINES AND IMPRISONMENT FOR HEALTH CARE FRAUD VIOLATIONS.—Chapter 63 of title 18, United States Code, is amended by adding at the end the following new section:

"§ 1347. Health care fraud

''(a) Whoever knowingly and willfully executes, or attempts to execute, a scheme or artifice—

''(1) to defraud any health plan or other person, in connection with the delivery of or payment for health care benefits, items, or services; or

''(2) to obtain, by means of false or fraudulent pretenses, representations, or promises, any of the money or property owned by, or under the custody or control of, any health plan, or person in connec-

tion with the delivery of or payment for health care benefits, items, and services;

shall be fined under this title or imprisoned not more than 10 years, or both. If the violation results in serious bodily injury (as defined in section 1365(g)(3) of this title), such person may be imprisoned for any term of years.

''(b) For purposes of this section, the term 'health plan means a plan or program that provides health benefits, whether directly, through insurance, or otherwise, and includes—

''(1) a policy of health insurance;

''(2) a contract of a service benefit organization;

''(3) a membership agreement with a health maintenance organization or other prepaid health plan; and

''(4) an employee welfare benefit plan or a multiple employer welfare arrangement (as those terms are defined in section 3 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1002).''.

(2) CLERICAL AMENDMENT.—The table of sections at the beginning of chapter 63 of title 18, United States Code, is amended by adding at the end the following:

''1347. Health care fraud.''.

SEC. 11432. FORFEITURES FOR FEDERAL HEALTH CARE OFFENSES.

IN GENERAL.—Section 982(a) of title 18, United States Code, is amended by adding after paragraph (5) the following new paragraph:

"(6)(A) the court, in imposing sentence on a person convicted of a Federal health care offense, shall order the person to forfeit property, real or personal, that constitutes or is derived, directly or indirectly, from proceeds traceable to the commission of the offense.

"(B) For purposes of this paragraph, the term 'Federal health care offense' means a violation of, or a criminal conspiracy to violate—

"(i) section 1347 of this title;

"(ii) section 1128B of the Social Security Act;

"(iii) sections 287, 371, 664, 666, 1001, 1027, 1341, 1343, 1920, of 1954 of this title if the violation or conspiracy relates to health care fraud; or

"(iv) section 501 or 511 of the Employee Retirement Income Security Act of 1974, if the violation or conspiracy relates to health care fraud.".

SEC. 11433. INJUNCTIVE RELIEF RELATING TO FEDERAL HEALTH CARE OFFENSES.

(a) IN GENERAL.—Section 1345(a)(1) of title 18, United States Code, is amended—

(1) by striking ''or'' at the end of subparagraph (A);

(2) by inserting ''or'' at the end of subparagraph (B); and

(3) by adding at the end the following new subparagraph:

''(C) committing or about to commit a Federal health care offense (as defined in section 982(a)(6)(B) of this title);''.

(b) FREEZING OF ASSETS.—Section 1345(a)(2) of title 18, United States Code, is amended by inserting ''or a Federal health care offense (as defined in section 982(a)(6)(B))'' after ''title)''.

SEC. 11434. GRAND JURY DISCLOSURE.

Section 3322 of title 18, United States Code, is amended—

(1) by redesignating subsections (c) and (d) as subsections (d) and (e), respectively; and

(2) by inserting after subsection (b) the following new subsection:

"(c) A person who is privy to grand jury information concerning a Federal health care offense (as defined in section 982(a)(6)(B))—

"(1) received in the course of duty as an attorney for the Government; or

"(2) disclosed under rule 6(a)(3)(A)(ii) of the Federal Rules of Criminal Procedure;

may disclose that information to an attorney for the Government to use in any investigation or civil proceeding relating to health care fraud.".

SEC. 11435. FALSE STATEMENTS.

(a) IN GENERAL.—Chapter 47 of title 18, United States Code, is amended by adding at the end the following new section:

"§ 1033. False statements relating to health care matters

"(a) Whoever, in any matter involving a health plan, knowingly and willfully falsifies, conceals, or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious, or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious, or fraudulent statement or entry, shall be fined under this title or imprisoned not more than 5 years, or both.

"(b) For purposes of this section, the term 'health plan' has the meaning given such term in section 1347(b).".

(b) CLERICAL AMENDMENT.—The table of sections at the beginning of chapter 47 of title 18, United States Code, is amended by adding at the end the following:

"1033. False statements relating to health care matters.".

SEC. 11436. OBSTRUCTION OF CRIMINAL INVESTIGATIONS, AUDITS OR INSPECTIONS OF FEDERAL HEALTH CARE OFFENSES.

(a) IN GENERAL.—Chapter 73 of title 18, United States Code, is amended by adding at the end the following new section:

"§ 1518. Obstruction of criminal investigations, audits or inspections of Federal health care offenses.

"(a) IN GENERAL.—Whoever willfully prevents, obstructs, misleads, delays or attempts to present, obstruct, mislead, or delay the communication of information or records relating to a Federal health care offense to a Federal agent or employee involved in the investigation, audit, inspection or other related activity shall be fined under this title or imprisoned not more than 5 years, or both.

"(b) FEDERAL HEALTH CARE OFFENSE.—As used in this section the term 'Federal health care offense' has

the same meaning given such term in section 982(a)(6)(B) of this title.

"(c) CRIMINAL INVESTIGATOR.—As used in this section the term 'criminal investigator' means any individual duly authorized by a department, agency, or armed force of the Untied States to conduct or engage in investigations for prosecutions for violations of health care offenses.".

(b) CLERICAL AMENDMENT.—The table of sections at the beginning of chapter 73 of title 18, United States Code, is amended by adding at the end the following:

"1518. Obstruction of Criminal Investigations, Audits, or Inspections of Federal Health Care Offenses.".

SEC. 11437. THEFT OR EMBEZZLEMENT.

(a) IN GENERAL.—Chapter 31 of title 18, United States Code, is amended by adding at the end the following new section: "§ 669. Theft or embezzlement in connection with health care.

"(a) IN GENERAL.—Whoever willfully embezzles, steals, or otherwise without authority willfully and unlawfully converts to the use of any person other than the rightful owner, or intentionally misapplies any of the moneys, funds, securities, premiums, credits, property, or other assets of a health plan, shall be fined under this title or imprisoned not more than 10 years, or both.

"(b) HEALTH PLAN.—As, used in this section the term 'health plan' has the meaning given such term in section 1347(b).".

(b) CLERICAL AMENDMENT.—The table of sections at the beginning of chapter 31 of title 18, United States Code, is amended by adding at the end the following:

"669. Theft or Embezzlement in Connection with Health care.".

SEC. 11438. LAUNDERING OF MONETARY INSTRUMENTS.

Section 1956(c)(7) of title 18, United States Code, is amended by adding at the end the following new subparagraph:

"(F) Any act or activity constituting an offense involving a Federal health care offense as that term is defined in section 982(a)(6)(B) of this title.".

SEC. 11439. AUTHORIZED INVESTIGATIVE DEMAND PROCEDURES.

(a) IN GENERAL.—Chapter 233 of title 18, United States Code, is amended by adding after section 3485 the following new section:

"§ 3486. Authorized investigative demand procedures.

"(a) AUTHORIZATION.—

"(1) In any investigation relating to functions set forth in paragraph (2), the Attorney General or designee may issue in writing and cause to be served a subpoena compelling production of any records (including any books, papers, documents, electronic

media, or other objects or tangible things), which may be relevant to an authorized law enforcement inquiry, that a person or legal entity may possess or have care, custody, or control. A custodian of records may be required to give testimony concerning the production and authentication of such records. The production of records may be required from any place in any State or in any territory, or other place subject to the jurisdiction of the United States at any designated place; except that such production shall not be required more than 500 miles distant from the place where the subpoena is served. Witnesses summoned under this section shall be paid the same fees and mileage that are paid witnesses in the courts of the United States. A subpoena requiring the production of records shall describe the objects required to be produced and prescribe a return date within a reasonable period of time within which the objects can be assembled and made available.

''(2) Investigative demands utilizing an administrative subpoena are authorized for any investigation with respect to any act or activity constituting or involving health car fraud, including a scheme or artifice—

"(A) to defraud any health plan or other person, in connection with the delivery of or payment for health care benefits, items, or services; or

"(B) to obtain, by means of false or fraudulent pretenses, representations, or promises, any of the money or property owned by, or under the custody or control or, any health plan, or person in connection with the delivery of or payment for health care benefits, items, or services.

"(b) SERVICE.—A subpoena issued under this section may be served by any person designated in the subpoena to serve it. Service upon a natural person may be made by personal delivery of the subpoena to such person. Service may be made upon a domestic or foreign association which is subject to suit under a common name, by delivering the subpoena to an officer, to a managing or general agent, or to any other agency authorized by appointment or by law to receive service of process. The affidavit of the person serving the subpoena entered on a true copy thereof by the person serving it shall be proof of service.

"(c) ENFORCEMENT.—In the case of contumacy by or refusal to obey a subpoena issued to any person, the Attorney General may invoke the aid of any court of the

United States within the Jurisdiction of which the investigation is carried on or of which the subpoenaed person is an inhabitant, or in which such person carries on business or may be found, to compel compliance with the subpoena. The court may issue an order requiring the subpoenaed person to appear before the Attorney General to produce records, if so ordered, or to give testimony touching the matter under investigation. Any failure to obey the order of the court may be punished by the court as a contempt thereof. All process in any such case may be served in any Judicial district in which such person may be found.

"(d) IMMUNITY FROM CIVIL LIABILITY.—Notwithstanding any Federal, State, or local law, any person, including officers, agents, and employees receiving a subpoena under this section, who complies in good faith with the subpoena and thus produces the materials sought, shall not be liable in any court of any State or the United States to any customer or other persons for such production or for nondisclosure of that production to the customer.

"(e) USE IN ACTION AGAINST INDIVIDUALS.—

"(1) Health information about an individual that is disclosed under this section may not be used in, or disclosed to any person for use in, any admin-

istrative, civil, or criminal action or investigation directed against the individual who is the subject of the information unless the action or investigation arises out of and is directly related to receipt of health care or payment for health care or action involving a fraudulent claim related to health; or if authorized by an appropriate order of a court of competent jurisdiction, granted after application showing good cause therefore.

''(2) In assessing good cause, the court shall weigh the public interest and the need for disclosure against the injury to the patient, to the physician-patient relationship, and to the treatment services.

''(3) Upon the granting of such order, the court, in determining the extent to which any disclosure of all or any part of any record is necessary, shall impose appropriate safeguards against unauthorized disclosure.

''(f) HEALTH PLAN.—As used in this section the term 'health plan' has the meaning given such term in section 1347(b).''.

(b) CLERICAL AMENDMENT.—The table of sections for chapter 223 of title 18, United States Code, is amended by inserting after the item relating to section 3405 the

following new item: § 3486. Authorized investigative demand procedures''.

(c) CONFORMING AMENDMENT.—Section 1510(b)(3)(B) of title 18, United States Code, is amended by inserting ''or a Department of Justice subpoena (issued under section 3486),'' after ''subpoena''.

PART 4—MEDICARE IMPROVEMENTS

Subpart A—Coordination of Benefits

SEC. 11441. CLARIFICATION OF TIME AND FILING LIMITATIONS.

(a) IN GENERAL.—Section 1862(b)(2)(B) (42 U.S.C. 1395y(b)(2)(B)) is amended by adding at the end of the following:

''(v) TIME, FILING, AND RELATED PROVISIONS UNDER PRIMARY PLAN.—Requirements under a primary plan as to the filing of a claim, time limitations for the filing of a claim, information not maintained by the Secretary, or notification or pre-admission review, shall not apply to a claim by the United States under clause (ii) or (iii).''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) applies to items and services furnished after 1990.

SEC. 11442. CLARIFICATION OF LIABILITY OF THIRD PARTY ADMINISTRATORS.

(a) IN GENERAL.—Section 1862(b)(2)(B)(ii) (42 U.S.C. 1395(b)(2)(B)(ii)) is amended by inserting ", or which determines claims under the primary plan" after "primary plan".

(b) CLAIMS BETWEEN PARTIES OTHER THAN THE UNITED STATES.—Section 1862(b)(2)(B) (42 U.S.C. 1395y(b)(2)(B)) (as amended by section 11441(a) of this Act) is further amended by adding at the end the following:

"(vi) CLAIMS BETWEEN PARTIES OTHER THAN THE UNITED STATES.—A claim by the United States under clause (ii) or (iii) shall not preclude claims between other parties.".

(c) EFFECTIVE DATE.—The amendments made by the previous subsections apply to items and services furnished after 1990.

SEC. 11443. CLARIFICATION OF PAYMENT AMOUNTS TO MEDICARE.

(a) IN GENERAL.—Section 1862(b)(2)(B)(i) (42 U.S.C. 1395y(b)(2)(B)(i)) is amended to read as follows:

"(i) REPAYMENT REQUIRED.—

"(I) Any payment under this title, with respect to any item or service for which payment by a primary plan is required under the preced-

ing provisions of this subsection, shall be conditioned on reimbursement to the appropriate Trust Fund established by this title when notice or other information is received that payment for that item or service has been or should have been made under those provisions. If reimbursement is not made to the appropriate Trust Fund before the expiration of the 60-day period that begins on the date such notice or other information is received, the Secretary may charge interest (beginning with the date on which the notice or other information is received) on the amount of the reimbursement until reimbursement is made (at a rate determined by the Secretary in accordance with regulations of the Secretary of the Treasury applicable to charges for late payments).

"(II) The amount owned by a primary plan under the first sentence of subclause (I) is the lesser of the full primary payment required (if that amount is readily determinable) and the amount paid under this title for that item or service.".

(b) CONFORMING AND TECHNICAL AMENDMENTS.—

(1) Subparagraphs (A)(i)(I) and (B)(i) of section 1862(b)(1) (42 U.S.C. 1395y(b)(1)) are each amended by inserting ''(or eligible to be covered)'' after ''covered''.

(2) Section 1862(b)(1)(C)(ii) (42 U.S.C. 1395y(b)(1)(C)(ii)) is amended by striking ''covered by such plan''.

(3) The matter in section 1862(b)(2)(A) (42 U.S.C. 1395y(b)(2)(A)) preceding clause (i) is amended by striking '', except as provided in subparagraph (B),''.

(c) EFFECTIVE DATE.—The amendments made by the previous subsections apply to items and services furnished after 1990.

SEC. 11444. CONDITIONS FOR DOUBLE DAMAGES.

(a) IN GENERAL.—Section 1862(b)(2)(B)(ii) (42 U.S.C. 1395y(b)(2)(B)(ii)) is amended—

(1) by striking '', in accordance with paragraph (3)(A)'', and

(2) by inserting '', unless the entity demonstrates that it did not know, and could not have known, of its obligation to pay'' after ''against that entity.''

(b) CONFORMING AMENDMENT.—Section 1862(b)(3)(A) is amended by striking ''(or appropriate reimbursement)''.

SEC. 11445. REPEAL OF EXCISE TAX.

(a) IN GENERAL.—Chapter 47 of the Internal Revenue Code of 1986 (26 U.S.C. 5000) is repealed.

(b) CONFORMING AMENDMENT TO THE INTERNAL REVENUE CODE OF 1986.—The table of chapters of subtitle D of the Internal Revenue Code of 1986 (26 U.S.C. 4001 et seq.) is amended by striking the listing for chapter 47.

(c) CONFORMING AMENDMENTS TO THE SOCIAL SECURITY ACT.—

(1) Section 1862(b)(1)(A) (42 U.S.C. 1395y(b)(1)(A)) is amended by striking clause (v).

(2) The matter in section 1862(b)(1)(C) (42 U.S.C. 1395y(b)(1)(C)) preceding clause (i) is amended by striking ''plan (as defined in subparagraph (A)(v))—'' and inserting ''plan—''.

(3) Section 1862(b)(1)(E) (42 U.S.C. 1395y(b)(1)(E)) is amended by adding at the end the following:

''(iv) GROUP HEALTH PLAN DEFINED.—The term 'group health plan' means a plan (including a self-insured plan) of, or contributed to

by, an employer or employee organization to provide health care (directly or otherwise) to the employees, former employees, the employer, others associated or formerly associated with the employer in a business relationship, or their families.''.

(4) Section 1862(b)(3) (42 U.S.C. 1395y(b)(3)) is amended—

(A) by striking subparagraph (B), and

(B) by redesignating subparagraph (C) as (B).

(5) Subparagraph (A) of the first sentence of section 1837(i)(1) (42 U.S.C. 1395p(i)(1)), subparagraph (B) of the first sentence of section 1837(i)(2) (42 U.S.C. 1395p(i)(2)), section 1837(i)(3)(A) (42 U.S.C. 1395p(i)(3)(A)), and clause (2) of the second sentence of section 1839(b) (42 U.S.C. 1395r(b)), are each amended by striking ''1862(b)(1)(A)(v)'' and inserting ''1862(b)(1)(E)(iv)''.

(d) EFFECTIVE DATE.—The amendment made by subsection (a) applies, with respect to the Internal Revenue Code of 1986, to expenses incurred after 1994.

SEC. 11446. INFORMATION REQUIREMENTS.

(a) INFORMATION FROM GROUP HEALTH PLANS.—Section 1862(b) (42 U.S.C. 1395y(b)) is amended by adding at the end the following:

"(7) INFORMATION FROM GROUP HEALTH PLANS.—

"(A) Provision of information by group health plans.—The administrator of a group health plan (other than a plan exempt, under paragraph (1)(E)(v), from the requirements of paragraph (1)) shall provide to the Secretary any or all of the information elements listed in subparagraph (C), and in such manner and at such times (but not more frequently than four times per year), as the Secretary may specify, with respect to each individual covered under the plan and entitled to benefits under this title.

"(B) PROVISION OF INFORMATION BY EMPLOYERS AND EMPLOYEE ORGANIZATIONS.—An employer (or employee organization) that maintains or participates in a group health plan (other than a plan exempt, under paragraph (1)(E)(v), from the requirements of paragraph (1)) shall provide to the administrator of the plan any or all of the information elements list-

ed in subparagraph (C), and in such manner and at such times (but not more frequently than four times per year), as the Secretary may specify, with respect to each individual covered under the plan and entitled to benefits under this title.

"(C) INFORMATION ELEMENTS TO BE PROVIDED.—The information elements to be provided under subparagraph (A) or (B) are:

"(i) ELEMENTS CONCERNING THE INDIVIDUAL.—

"(I) The individual's name.

"(II) The individual's date of birth.

"(II) The individual's sex.

"(IV) The individual's social security insurance number.

"(V) The number assigned by the Secretary to the individual for claims under this title.

"(VI) The family relationship of the individual to the person who has current or former employment status with the employer.

"(ii) ELEMENTS CONCERNING THE FAMILY MEMBER WITH CURRENT OR FORMER EMPLOYMENT STATUS.—

"(I) The name of the person in the individual's family who has current or former employment status with the employer.

"(II) That person's social security insurance number.

"(III) The number or other identifier assigned by the plan to that person.

"(IV) The periods of coverage for that person under the plan.

"(V) The employment status of that person (current or former) during those periods of coverage.

"(VI) The classes (of that person's family members) covered under the plan.

"(iii) PLAN ELEMENTS.—

"(I) The nature of the items and services covered under the plan.

"(II) The name and address to which claims under the plan are to be sent.

"(iv) ELEMENTS CONCERNING THE EMPLOYER.—

"(I) The employer's name.

"(II) The employer's address.

"(III) The employer identification number of the employer.

"(D) USE OF IDENTIFIERS.—The administrator of a group health plan shall utilize an identifier for the plan (that the Secretary may furnish) in providing information under subparagraph (A) and in other transactions, as may be specified by the Secretary, related to the provisions of this subsection.

"(E) PENALTY FOR NONCOMPLIANCE.—Any entity that knowingly and willfully fails to comply with a requirement imposed by the previous subparagraphs shall be subject to a civil money penalty not to exceed $1000 for each incident of such failure. The provisions of section 1128A (other than subsections (a) and (b)) shall apply to a civil money penalty under the previous sentence in the same manner as those

provisions apply to a penalty or proceeding under section 1128A(a).''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) is effective 180 days after the date of enactment of this Act.

SEC. 11447. TECHNICAL CHANGES CONCERNING MINIMUM SIZES OF GROUP HEALTH PLANS.

(a) CONSOLIDATION OF REQUIREMENTS.—

(1) Section 1862(b)(1)(A) (42 U.S.C. 1395y(b)(1)(A)) (as amended by section 11443 of this Act) is further amended—

(A) by striking clauses (ii) and (iii), and

(B) by renumbering clause (iv) as (ii).

(2) Section 1862(b)(1)(B) (42 U.S.C. 1395y(b)(1)(B)) is amended—

(A) in clause (i), by striking ''large group health plan (as defined in clause (iv))'' and inserting ''group health plan'', and

(B) by striking clause (iv).

(3) Section 1862(b)(1)(E) (42 U.S.C. 1395y(b)(1)(E)) (as amended by section 405(c)(3) of this Act) is further amended by adding at the end the following:

''(v) EXCLUSION OF GROUP HEALTH PLANS OF SMALL AND MEDIUM EMPLOYERS.—

"(I) Subparagraph (A) shall not apply to a group health plan unless the plan covers employees of at least one employer that has 20 or more employees on at least 50 percent of its business days in each of 20 or more calendar weeks in the current or preceding calendar year.

"(II) Subparagraph (B) shall not apply to a group health plan unless the plan covers employees of at least one employer that has 100 or more employees on at least 50 percent of its business days in each of 20 or more calendar weeks in the current or preceding calendar year.".

(b) CONFORMING AMENDMENTS.—

(1) The second sentence of section 1862(b)(2)(A) (42 U.S.C. 1395y(b)(2)(A)) is amended by striking "or large group health plan".

(2) Section 1862 (b)(3)(C) (42 U.S.C. 1395y(b)(3)(C)) is amended—

(A) in the heading, by striking "or a large group health plan", and

(B) in the first sentence, by striking "or a large group health plan".

(3)(A) Subparagraph (A) of the first sentence of section 1837(i)(1) (42 U.S.C. 1395p(i)(1)) is amended by striking ''(or the individual's spouse's) current employment status'' and inserting ''current employment status (or the current employment status of a family member of the individual).''.

(B) Section 1837(i)(1) (42 U.S.C. 1395p(i)(1)) is amended by striking the second sentence.

(4)(A) Subparagraph (b) of the first sentence of section 1837(i)(2) (42 U.S.C. 1395p(i)(2)) is amended by striking ''(or the individual's spouse's) current employment status'' and inserting ''current employment status (or the current employment status of a family member of the individual).''.

(B) Section 1837(i)(2) (42 U.S.C. 1395p(i)(2)) is amended by striking the second sentence.

(5) Section 1837(i)(3) (42 U.S.C. 1395p(i)(3)) is amended—

(A) by striking subparagraph (b), and

(B) by striking ''(3)(A)'' and inserting ''(3)''.

(6) Clause (2) of the second sentence of section 1839(b) (42 U.S.C. 1395r(b)) is amended by striking ''by reason of the individual's (or the individual's spouse's) current employment status or months dur-

ing which the individual has not attained the age of 65 and for which the individual can demonstrate that the individual was enrolled in a large group health plan''.

Subpart B—Contractor Reform

SEC. 11451. INCREASED FLEXIBILITY IN CONTRACTING FOR MEDICARE CLAIMS PROCESSING.

(a) CARRIERS TO INCLUDE ENTITIES THAT ARE NOT INSURANCE COMPANIES.—

(1) The matter in section 1842(a) (42 U.S.C. 1395u(a)) preceding paragraph (1) is amended by striking ''with carriers'' and inserting ''with agencies and organizations (referred to as carriers)''.

(2) Section 1842(f) (42 U.S.C. 1394u(f)) is repealed.

(b) CHOICE OF FISCAL INTERMEDIARIES BY PROVIDERS OF SERVICES; SECRETARIAL FLEXIBILITY IN ASSIGNING FUNCTIONS TO INTERMEDIARIES AND CARRIERS.—

(1) Section 1816 (42 U.S.C. 1395h) is amended by striking everything after the heading but before subsection (b) and inserting the following:

''SEC. 1816. (a)(1) The Secretary may enter into contracts with agencies or organizations to reform any or all of the following functions, or parts of those functions (or,

to the extent provided in a contract, to secure performance thereof by other organizations):

"(A) determine (subject to the provisions of section 1878 and to such review by the Secretary as may be provided for the contracts) the amount of the payments required pursuant to this part to be made to providers of services,

"(B) make payments described in subparagraph (A),

"(C) provide consultative services to institutions or agencies to enable them to establish and maintain fiscal records necessary for purposes of this part and otherwise to qualify as providers of services,

"(D) serve as a center for, and communicate to individuals entitles to benefits under this part and to providers of services, any information or instructions furnished to the agency or organization by the Secretary, and serve as a channel of communication from individuals entitled to benefits under this part and from providers of services to the Secretary,

"(E) make such audits of the records of providers of services as may be necessary to insure that proper payments are made under this part,

"(F) perform the functions described by subsection (d), and

"(G) perform such other functions as are necessary to carry out the purposes of this part.

"(2) As used in this title and title XI, the term 'fiscal intermediary' means an agency or organization with a contract under this section.".

(2) Subsections (d) and (e) of section 1816 (42 U.S.C. 1395h) are amended to read as follows:

"(d) Each provider of services shall have a fiscal intermediary that—

"(1) acts as a single point of contact for the provider of services under this part,

"(2) makes its services sufficiently available to meet the needs of the provider of services, and

"(3) is responsible and accountable for arranging the resolution of issues raised under this part by the provider of services.

"(e)(1)(A) The Secretary shall, at least every five years, permit each provider of services (other than a home health agency or a hospice program) to choose an agency or organization (from at least three proposed by the Secretary, of which at least one shall have an office in the geographic area of the provider of services, except as provided by subparagraph (B)(ii)(II)) as the fiscal intermediary under subsection (d) for the provider of services. If a contract with that fiscal intermediary is discon-

tinued, the Secretary shall permit the provider of services to choose under the same conditions from three other agencies or organizations

"(B)(i) The Secretary, in carrying out subparagraph (A), shall permit a group of hospitals (or a group of another class of providers other than home health agencies or hospice programs) under common ownership by, or control of, a particular entity to choose one agency or organization (from at least three proposed by the Secretary) as the fiscal intermediary under subsection (d) for all the providers in that group if the conditions specified in clause (ii) are met

"(ii) the conditions for clause (i) to apply are that—

"(I) the group includes all the providers or services of that class that are under common ownership by, or control of, that particular entity, and

"(II) all the providers of services in that group agree that none of the agencies or organizations proposed by the Secretary is required to have an office in any particular geographic area.

"(2) The Secretary, in evaluating the performance of a fiscal intermediary, shall solicit comments from providers of services.".

(3)(A) Section 1816(b)(1)(A) (42 U.S.C. 1395h(b)(1)(A)) is amended by striking "after ap-

plying the standards, criteria, and procedures'' and inserting ''after evaluating the ability of the agency or organization to fulfill the contract performance requirements''.

(B) The first sentence of section 1816(f)(1) (42 U.S.C. 1395h(f)(1)) is amended—

(i) by striking ''develop standards, criteria, and procedures'' and inserting '', after public notice and opportunity for comment, develop contract performance requirements'', and

(ii) by striking '', and the Secretary shall establish standards and criteria with respect to the efficient and effective administration of this part''.

(C) The second sentence of section 1842(b)(2)(A) (42 U.S.C. 1395u(b)(2)(A)) is amended to read as follows: ''The Secretary shall, after public notice and opportunity for comment, develop contract performance requirements for the efficient and effective performance of contract obligations under this section.''.

(D) Section 1842(b)(2)(A) (42 U.S.C. 1395u(b)(2)(A)) is amended by striking the third sentence.

(E) The matter in section 1842(b)(2)(B) (42 U.S.C. 1395u(b)(2)(B)) preceding clause (i) is amended by striking ''establish standards'' and inserting ''develop contract performance requirements''.

(F) Section 1842(b)(2)(D) (42 U.S.C. 1395u(b)(2)(D)) is amended by striking ''standards and criteria'' each place it occurs and inserting ''contract performance requirements''.

(4)(A) The matter in section 1816(b) (42 U.S.C. 1395h(b)) preceding paragraph (1) is amended by striking ''an agreement'' and inserting ''a contract''.

(B) Paragraphs (1)(B) and (2)(A) of section 1816(b) (42 U.S.C. 1395h(b)) are each amended by striking ''agreement'' and inserting ''contract''.

(C) The first sentence of section 1816(c)(1) (42 U.S.C. 1395h(c)(1)) is amended by striking ''An agreement'' and inserting ''A contract''.

(D) The last sentence of section 1816(c)(1) (42 U.S.C. 1395h(c)(1)) is amended by striking ''an agreement'' and inserting ''a contract''.

(E) The matter in section 1816(c)(2)(A) (42 U.S.C. 1395h(c)(2)(A)) preceding clause (i) is

amended by striking ''agreement'' and inserting ''contract''.

(F) Section 1816(c)(3)(A) (42 U.S.C. 1395h(c)(3)(A)) is amended by striking ''agreement'' and inserting ''contract''.

(G) The first sentence of section 1816(f)(1) (42 U.S.C. 1395h(f)(1)) is amended by striking ''an agreement'' and inserting ''a contract''.

(H) Section 1816(h) (42 U.S.C. 1395h(h)) is amended—

(i) by striking ''An agreement'' and inserting ''A contract'', and

(ii) by striking ''the agreement'' each place it occurs and inserting ''the contract''.

(I) Section 1816(i)(1) (42 U.S.C. 1395h(i)(1)) is amended by striking ''an agreement'' and inserting ''a contract''.

(J) Section 1816(j) (42 U.S.C. 1395(j)) is amended by striking ''An agreement'' and inserting ''A contract''.

(K) Section 1816(k) (42 U.S.C. 1395h(k)) is amended by striking ''An agreement'' and inserting ''A contract''.

(L) The matter in section 1842(a) (42 U.S.C. 1395u(a)) preceding paragraph (1) is amended by striking ''agreements'' and inserting ''contracts''.

(M) Section 1842(h)(3)(A) (42 U.S.C. 1395u(h)(3)(A)) is amended by striking ''an agreement'' and inserting ''a contract''.

(5) Section 1816(f)(1) (42 U.S.C. 1395h(f)(1)) is amended by striking the second sentence.

(6)(A) The matter in section 1816(c)(2)(A) (42 U.S.C. 1395h(c)(2)(A)) preceding clause (i) is amended by inserting ''that provides for making payments under this part'' after ''this section''.

(B) Section 1816(c)(3)(A) (42 U.S.C. 1395h(c)(3)(A)) is amended by inserting ''that provides for making payments under this part'' after ''this section''.

(C) Section 1816(k) (42 U.S.C. 1395h(k)) is amended by inserting ''(as appropriate)'' after ''submit''.

(D) The matter in section 1842(a) (42 U.S.C. 1395u(a)) preceding paragraph (1) is amended by striking ''some or all of the following functions'' and inserting ''any or all of the following functions, or parts of those functions''.

(E) The first sentence of section 1842(b)(2)(C) (42 U.S.C. 1395u(b)(2)(C)) is amended by inserting ''(as appropriate)'' after ''carriers''.

(F) The matter preceding subparagraph (A) in the first sentence of section 1842(b)(3) (42 U.S.C. 1395u(b)(3)) is amended by inserting ''(as appropriate)'' after ''contract''.

(G) The matter in section 1842(b)(7)(A) (42 U.S.C. 1395u(b)(7)(A)) preceding clause (i) is amended by striking ''the carrier'' and inserting ''a carrier''.

(H) The matter in section 1842(b)(11)(A) (42 U.S.C. 1395u(b)(11)(A)) preceding clause (i) is amended by inserting ''(as appropriate)'' after ''each carrier''.

(I) The first sentence of section 1842(h)(2) (42 U.S.C. 1395u(b)(2)) is amended by inserting ''(as appropriate)'' after ''shall''.

(J) Section 1842(h)(5)(A) (42 U.S.C. 1395u(h)(5)(A) is amended by inserting ''(as appropriate)'' after ''carrier''.

(7)(A) Section 1816(c)(2)(C) (42 U.S.C. 1395h(c)(2)(C) is amended by striking ''hospital, rural primary care hospital, skilled nursing facility, home health agency hospice program, comprehensive

outpatient rehabilitation facility, or rehabilitation agency'' and inserting ''* * * of services''.

(B) The matter in section 1816(j) (42 U.S.C. 1395(j)) preceding paragraph (1) is amended by striking ''for home health services, extended care services, or post-hospital extended care services''.

(8) Section 1842(a)(3) (42 U.S.C. 1395u(a)(3)) is amended by inserting ''(to and from individuals enroll under this part and to and from physicians and other entities that furnish items and services)'' after ''communication''.

(c) ELIMINATION OF SPECIAL PROVISIONS FOR TERMINATIONS OF CONTRACTS.—

(1) The matter in section 1816(b) (42 U.S.C. 1395h(b)) preceding paragraph (1) is amended by striking ''or renew''.

(2) The last sentence of section 1816(c)(1) (42 U.S.C. 1395h(c)(1)) is amended by striking ''or renewing''.

(3) Section 1816(f)(1) (42 U.S.C. 1395h(f)(1)) is amended by striking '', renew, or terminate'' and '', whether the Secretary should assign or reassign a provider of services to an agency or organization,''.

(4) Section 1816(g) (42 U.S.C. 1395h(g)) is repealed.

(5) The last sentence of section 1842(b)(2)(A) (42 U.S.C. 1395u(b)(2)(A)) is amended by striking ''or renewing''.

(6) Section 1842(b) (42 U.S.C. 1395u(b)) is amended by striking paragraph (5).

(d) REPEAL OF FISCAL INTERMEDIARY REQUIREMENTS THAT ARE NOT COST-EFFECTIVE.—Section 1816(f)(2) (42 U.S.C. 1395h(f)(2)) is amended to read as follows:

''(2) The contract performance requirements developed under paragraph (1) shall include, with respect to claims for services furnished under this part by any provider of services other than a hospital, whether such agency or organization is able to process 75 percent of reconsiderations within 60 days and 90 percent of reconsiderations within 90 days.''.

(e) REPEAL OF COST REIMBURSEMENT REQUIREMENTS.—

(1) The first sentence of section 1816(c)(1) (42 U.S.C. 1395h(c)(1)) is amended—

(A) by striking the comma after ''appropriate'' and inserting ''and'', and

(B) by striking everything after ''subsection (a)'' up to the period.

(2) Section 1816(c)(1) (42 U.S.C. 1395h(c)(1)) is further amended by striking the second and third sentences.

(3) The first sentence of section 1842(c)(1)(A) (42 U.S.C. 1395u(c)(1)(A)) is amended—

(A) by striking ''shall provide'' the first place it occurs and inserting ''may provide'', and

(B) by striking everything after ''this part'' up to the period.

(4) Section 1842(c)(1) (42 U.S.C. 1395u(c)(1)) is further amended by striking the remaining sentences.

(5) Section 2326(a) of the Deficit Reduction Act of 1984 (42 U.S.C. 1395h nt) is repealed.

(f) COMPETITION REQUIRED FOR NEW CONTRACTS AND IN CASES OF POOR PERFORMANCE.—

(1) Section 1816(c) (42 U.S.C. 1395h(c)) is amended by adding at the end the following:

''(4)(A) A contract with a fiscal intermediary under this section may be renewed from term to term without regard to any provision of law requiring competition if the fiscal intermediary has met or exceeded the performance requirements established in the current contract.

"(B) Functions may be transferred among fiscal intermediaries without regard to any provision of law requiring competition.".

(2) Section 1842(b) (42 U.S.C. 1395u(b)) is amended by striking everything before paragraph (2) and inserting the following:

"(b)(1)(A) A contract with a carrier under subsection (a) may be renewed from term to term without regard to any provision of law requiring competition if the carrier has met or exceeded the performance requirements established in the current contract.

"(B) Functions may be transferred among carriers without regard to any provision of law requiring competition.".

(g) WAIVER OF COMPETITIVE REQUIREMENTS FOR INITIAL CONTRACTS.—

(1) Contracts whose periods begin during the one year period that begins on the first day of the fourth calendar month that begins after the date of enactment of this Act may be entered into under section 1816(a) of the Social Security Act (42 U.S.C. 1395h(a)) without regard to any provision of law requiring competition.

(2) The amendments made by subsection (f) apply to contracts whose periods begin after the end

of the one year period specified in paragraph (1) of this subsection.

(h) EFFECTIVE DATES.—

(1) The amendments made by subsection (c) apply to contracts whose periods end at, or after, the end of the third calendar month that begins after the date of enactment of this Act.

(2) The amendments made by subsections (a), (b), (d), and (e) apply to contracts whose periods begin after the third calendar month that begins after the date of enactment of this Act.

Subpart C—Provisions Relating to Part B of Medicare

SEC. 11461. REPLACEMENT OF REASONABLE CHARGE METHODOLOGY BY FEE SCHEDULES.

(a) IN GENERAL.—The matter in section 1833(a)(1) (42 U.S.C. 13951(a)(1)) preceding clause (A) is amended by striking ''the reasonable charges for the services'' and inserting ''the lesser of the actual charges for the services and the amounts determined by the applicable fee schedules developed by the Secretary for the particular services''.

(b) CONFORMING AMENDMENTS.—

(1) Section 1833(a)(1) (42 U.S.C. 1395l(a)(1)) is amended—

(A) in clause (A), by striking ''reasonable charges for'' and inserting ''payment bases otherwise applicable to'',

(B) in clause (B), by striking ''reasonable charges'' and inserting ''fee schedule amounts'', and

(C) by inserting after clause (F) the following: ''(G) with respect to services described in clause (i), (ii), or (iv) of section 1861(s)(2)(K) (relating to physician assistants and nurse practitioners), the amounts paid shall be 80 percent of the lesser of the actual charge for the services and the applicable amount determined under subclause (I) of (II) of section 1842(b)(12)(A)(ii),''.

(2) Section 1833(a)(2) (42 U.S.C. 1395l(a)(2)) is amended—

(A) in the matter in subparagraph (B) preceding clause (i), by striking ''(C), (D),'' and inserting ''(D),'' and

(B) by striking subparagraph (C).

(3) Section 1833(l) (42 U.S.C. 1395l(l)) is amended—

(A) in paragraph (3)—

(i) by striking subparagraph (B), and

(ii) by striking ''(3)(A)'' and inserting ''(3)'', and

(B) by striking paragraph (6).

(4) The heading to section 1834(g)(1)(A)(ii) (42 U.S.C. 1395m(g)(1)(A)(ii)) is amended by striking ''Reasonable charges for professional'' and inserting ''Professional''.

(5) Section 1842(a) (42 U.S.C. 1395u(a)) is amended—

(A) in the matter preceding paragraph (1), by striking ''reasonable charge'' and inserting ''fee schedule'', and

(B) in paragraph (1)(A), by striking ''reasonable charge'' and inserting ''other''.

(6)(A) The matter preceding clause (i) in subparagraph (B) of the first sentence of section 1842(b)(3) (42 U.S.C. 1395u(b)(3)) is amended by striking everything after ''assure that,'' and inserting the following: ''where payment under this part for a service is on a basis other than a cost basis, such payment will (except as otherwise provided in section 1870(f)) be made—''.

(B) Subparagraph (B)(ii)(I) of the first sentence of section 1842(b)(3) (42 U.S.C. 1395u(b)(3)) is amended to read as follows: ''(I) the amount de-

termined by the applicable payment basis under this part is the full charge for the service,''.

(C) Section 1842(b)(3) (42 U.S.C. 1395u(b)(3)) is amended by striking the second, third, fourth, fifth, sixth, eight, and ninth sentences.

(7)(A) Section 1842(b)(4) (42 U.S.C. 1395u(b)(4)) is amended to read as follows:

''(4) In the case of an enteral or parenteral pump that is furnished on a rental basis during a period of medical need—

''(A) monthly rental payments shall not be made under this part for more than 15 months during that period, and

''(B) after monthly rental payments have been made for 15 months during that period, payment under this part shall be made for maintenance and servicing of the pump is such amounts as the Secretary determines to be reasonable and necessary to ensure the proper operation of the pump.''.

(B) Section 6112(b) (42 U.S.C. 1395m nt) of the Omnibus Reconciliation Act of 1989 is repealed.

(8) Section 1842(b)(7) (42 U.S.C. 1395u(b)(7)) is amended—

(A) in the matter in subparagraph (D)(i) preceding subclause (I), by striking ", to the extent that such payment is otherwise allowed under this paragraph,",

(B) in subparagraph (D)(ii), by striking "subparagraph" and inserting "paragraph",

(C) by striking "(7)(A) In the case of" through the end of subparagraph (C).

(D) by striking "(D)(i)" and inserting "(7)(A)",

(E) by redesignating clauses (ii) and (iii) as subparagraphs (B) and (C), respectively, and

(F) by redesignating subclauses (I), (II), and (III), of subparagraph (A) (as redesignated by subparagraph (D) of this paragraph) as clauses (i), (ii), and (iii), respectively.

(9)(A) Section 1842(b) (42 U.S.C. 1395u(b)) is amended by striking paragraphs (8) and (9).

(B) The first sentence of section 1834(a)(10)(B) (42 U.S.C. 1395m(a)(10(B)) is amended by striking everything after "is authorized to" up to the period and inserting the following: "describe by regulation the factors to be used in determining the cases (of particular items) in which the application of this subsection results in the de-

termination of an amount that, by reason of its being grossly excessive or grossly deficient, is not inherently reasonable, and to provide in those cases for the factors that will be considered in establishing an amount that is realistic and equitable''.

(10) Section 1842(b)(10) (42 U.S.C. 1395u(b)(10)) is repealed.

(11) Section 1842(b)(11) (42 U.S.C. 1395u(b)(11)) is amended—

(A) by striking subparagraphs (B) through (D),

(B) by striking ''(11)(A)'' and inserting ''(11)'', and

(C) by redesignating clauses (i) and (ii) as subparagraphs (A) and (B), respectively.

(12) Section 1842(b)(12)(A)(ii) (42 U.S.C. 1395u(b)(12)(A)(ii) is amended—

(A) in the matter preceding subclause (I), by striking ''prevailing charges determined under paragraph (3)'' and inserting ''the amounts determined under section 1833(a)(1)(G)'', and

(B) in subclause (II), by striking ''prevailing charge rate'' and all that follows up to the period and inserting ''fee schedule amount spec-

ified in section 1848 for such services performed by physicians''.

(13) Paragraphs (14) through (17) of section 1842(b) (42 U.S.C. 1395u(b)) are repealed.

(14)(A) Section 1842(b)(18)(A) (42 U.S.C. 1395u(b)(18)(A)) is amended by striking ''reasonable charge or''.

(B) Paragraph (18) of section 1842(b) (42 U.S.C. 1395u(b)) is renumbered as paragraph (14).

(15)(A) The matter in section 1842(j) (42 U.S.C. 1395u(j)) preceding paragraph (2) is amended to read as follows:

''(j)(1) See subsections (k), (l), (m), (n), and (p) as to the cases in which sanctions may be applied under paragraph (2).''.

(B) Section 1842(j)(4) (42 U.S.C. 1395u(j)(4)) is amended by striking ''under paragraph (1)''.

(16) Section 1842(n)(1)(A) (42 U.S.C. 1395u(n)(1)(A)) is amended by striking ''reasonable charge (or other applicable limit)'' and inserting ''other applicable limit''.

(17) Section 1842(q) 42 U.S.C. 1395u(q) is amended—

(A) by striking paragraph (1)(B), and

(B) by striking ''(q)(1)(A)'' and inserting ''(q)(1)''.

(18) Section 1845(b)(1) (42 U.S.C. 1395w-1(b)(1) is amended by striking ''adjustments to the reasonable charge levels for physicians' services recognized under section 1842(b) and''.

(19) Section 1848(i)(3) (42 U.S.C. 1395w-4(i)(3)) is repealed.

(20) Clause (ii) of the first sentence of section 1866(a)2)(A) (42 U.S.C. 1395cc(a)(2)(A) is amended by striking ''reasonable charges'' through ''provider)'' and inserting ''amount customarily charged for such items and services by such provider''.

(21) Section 1881(b)(3)(A) (42 U.S.C. 1395rr(b)(3)(A)) is amended by striking ''a reasonable charge'' through ''section 1848)'' and inserting ''the basis described in section 1848''.

(22) Section 9340 of the Omnibus Budget Reconciliation Act of 1986 (42 U.S.C. 1395u nt) is repealed.

(c) EFFECTIVE DATES.—The amendments made by the preceding subsections, to the extent they substitute fee schedules for reasonable charges, apply to particular services as of the date specified by the Secretary of Health and Human Services.

(d) INITIAL BUDGET NEUTRALITY.—The Secretary, in developing a fee schedule for particular services (under the amendments made by subsections (a) and (b)), shall set amounts for the first year period to which the fee schedule applies at a level such that the total payments under title XVIII of the Social Security Act (42 U.S.C. 1395 et seq.) for those services for that year period shall be approximately equal to the estimated total payments if those amendments had not been made.

SEC. 11462. APPLICATION OF INHERENT REASONABLENESS TO SURGICAL DRESSINGS.

Section 1834(i) (42 U.S.C. 1395m(i)) is amended by adding at the end the following:

"(3) ADJUSTMENT FOR INHERENT REASONABLENESS.—The provisions of subsection (a)(10)(B) shall also apply to surgical dressings.".

SEC. 11463. APPLICATION OF COMPETITIVE ACQUISITION PROCESS TO CERTAIN PART B ITEMS AND SERVICES.

(a) GENERAL RULE.—Part B of title XVIII (42 U.S.C. 1395j et seq.) is amended by inserting after section 1846 the following:

"COMPETITIVE ACQUISITION OF ITEMS AND SERVICES

"SEC. 1847. (a) ESTABLISHMENT OF BIDDING AREAS.—

"(1) IN GENERAL.—The Secretary shall establish competitive acquisition areas for the purposes of awarding contracts for the furnishing under this part of the items and services described in subsection (c) after 1995. The Secretary may establish different competitive acquisition areas under this subsection for different classes of items and services under this part.

"(2) CRITERIA FOR ESTABLISHMENT.—The competitive acquisition areas established under paragraph (1) shall—

"(A) initially be, or be within, metropolitan statistical areas, and

"(B) be chosen based on the availability and accessibility of entities able to furnish items and services, and the probable savings to be realized by the use of competitive bidding in the furnishing of items and services in the area.

"(b) AWARDING OF CONTRACTS IN AREAS.—

"(1) IN GENERAL.—The Secretary shall conduct a competition among individuals and entities supplying items and services under this part for each competitive acquisition area established under subsection (a) for each class of items and services.

"(2) CONDITIONS FOR AWARDING CONTRACT.—The Secretary may not award a contract to any entity under the competition conducted pursuant to paragraph (1) to furnish an item or service under this part unless the Secretary finds that the entity meets quality standards specified by the Secretary for the furnishing of the item or service.

"(3) CONTENTS OF CONTRACT.—A contract entered into with an entity under the competition conducted pursuant to paragraph (1) shall specify (for all of the items and services within a class)—

"(A) the quantity of items and services the entity shall provide; and

"(B) such other terms and conditions as the Secretary may require.

"(c) SERVICES DESCRIBED.—The items and services to which the provisions of this section shall apply are as follows:

"(1) Magnetic resonance imaging tests and computerized axial tomography scans, including physician's interpretation of the results of such tests and scans.

"(2) Enteral and parenteral nutrients, supplies, and equipment.

"(3) Such other items as the Secretary may specify.".

(b) ITEMS AND SERVICES TO BE FURNISHED ONLY THROUGH COMPETITIVE ACQUISITION.—Section 1862(a) (42 U.S.C. 1395y(a)) is amended—

(1) by striking "or" at the end of paragraph (14),

(2) by striking the period at the end of paragraph (15) and inserting "; or", and

(3) by inserting after paragraph (15) the following:

"(16) where such expenses are for an item or service furnished in a competitive acquisition area (as established by the Secretary under section 1847(a)) by an entity other than an entity with which the Secretary has entered into a contract under section 1847(b) for the furnishing of such an item or service in that area, unless the Secretary finds that such expenses were incurred in a case of urgent need.".

(c) REDUCTION IN PAYMENT AMOUNTS IF COMPETITIVE ACQUISITION FAILS TO ACHIEVE MINIMUM REDUCTION IN PAYMENTS.—Notwithstanding any provision of title XVIII of the Social Security Act (42 U.S.C. 1395 et seq.), if the establishment of competitive acquisition

areas under section 1847 of that Act (as added by this part) and the furnishing of items and services under that section during 1997 does not result in a reduction of at least 15 percent in the projected payment amounts that would apply to a class of items or services under part B of that title (42 U.S.C. 1395j et seq.) if that class of items or services were not to be furnished under that section 1997, the Secretary shall reduce for that year the payment amounts for that class of items and services by the percentage the Secretary determines necessary to result in that reduction for that year (and those reduced amounts shall be considered the full payment amounts for that year in calculating payment amounts for future years).

(d) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) apply to items and services furnished under part B of title XVIII of the Social Security Act (42 U.S.C. 1395j et seq.) after 1995.

SEC. 11464. APPLICATION OF COMPETITIVE ACQUISITION PROCESS TO LABORATORY SERVICES.

(a) IN GENERAL.—Section 1847(c), as added by section 11463(a) of this Act, is amended by renumbering paragraph (4) as (5) and inserting after paragraph (3) the following:

"(4) Clinical diagnostic laboratory tests.".

(b) REDUCTION IN PAYMENT AMOUNTS IF COMPETITIVE ACQUISITION FAILS TO ACHIEVE MINIMUM REDUCTION IN PAYMENTS.—See section 11463(c) for provisions that address reductions in payment amounts.

(c) EFFECTIVE DATE.—The amendment made by subsection (a) applies to tests furnished under part B of title XVIII of the Social Security Act (42 U.S.C. 1395j et seq.) after 1995.

SEC. 11465. CHANGES IN PAYMENTS FOR CLINICAL LABORATORY TESTS.

(a) IN GENERAL.—Section 1833(h)(2)(A)(iii) (42 U.S.C. 1395l(h)(2)(A)(iii)) is amended—

(1) by striking the clause designation ''(iii)'' and inserting ''(iii)(I)'', and

(2) by adding at the end the following:

''(II) In lieu of the fees established under subclause I, the Secretary may pay for tests classified as automated tests on the basis of a nationally uniform fee for a group of tests (of whatever number) performed together.

''(III) The Secretary shall pay for tests for amylase, apolipoprotein A, apolipoprotein B, creatine kinase, gamma glutamyl transferase, iron, lipase, magnesium, thyroxine, triglyceride, or triiodothyronine uptake on the same basis as the Secretary pays for other tests classified as automated tests.

"(IV) The Secretary may, from time to time, reclassify specific tests as automated or not automated, based on the volume of a test and the relative frequency by which the test is performed on automated equipment.".

(b) EFFECTIVE DATE AND INITIAL PAYMENT LEVELS.—

(1) The amendments made by subsection (a) apply to tests performed after 1995.

(2) If the Secretary sets a nationally uniform fee under subclause (II) of section 1833(h)(2)(A)(iii) of the Social Security Act (42 U.S.C. 1395(h)(2)(A)(iii)), such a fee shall be initially established so that estimated aggregate payments under such fee shall equal the estimated aggregate amounts that would otherwise have been payable for the tests under subclause (I).

Subpart D—Provisions Relating to Parts A and B of Medicare

SEC. 11471. DISCLOSURE OF TAXPAYER IDENTIFYING NUMBERS AND OTHER INFORMATION.

(a) PROVIDERS OF SERVICES AND CERTAIN OTHER ENTITIES.—Section 1124 (42 U.S.C. 1320a–3) is amended by adding at the end of the following:

"(c) The Secretary may also require a disclosing entity to supply the Secretary with the taxpayer identifying

number (TIN) of the disclosing entity, of any person concerning whom information is to be supplied under subsection (a), or of any other disclosing entity listed under subsection (b).''.

(b) ENTITIES THAT FURNISH ITEMS AND SERVICES UNDER PART B.—

(1) Section 1124A(c)(1) (42 U.S.C. 1320a–3a(c)(1)) is amended by striking ''on an assignment-related basis''.

(2) Section 1124A(a) (42 U.S.C. 1320a–3a(a)) is amended—

(A) by striking ''and'' at the end of paragraph (1),

(B) by striking the period at the end of paragraph (2) and adding ''; and'', and

(C) by adding at the end the following:

''(3) on the identity of each individual described in section 1866(a)(1)(D).''.

(3) Section 1124A (42 U.S.C. 1320a–3a) is amended—

(A) by redesignating subsection (c) as (d), and

(B) by inserting after subsection (b) the following:

"(d) The Secretary may also require a disclosing part B provider to provide the Secretary with the taxpayer identifying number (TIN) of the disclosing part B provider, of any person concerning whom information is to be supplied under subsection (a)(1), and of any managing employee or entity listed under subsection (a)(2).".

(c) VERIFICATION OF TINS WITH THE SECRETARY OF THE TREASURY.—Section 6103(m) of the Internal Revenue Code of 1986 (26 U.S.C. 6103(m)) is amended by adding at the end the following:

"(8) Individuals and other entities involved in furnishing health care items and services under Federal (or federally supported) programs.—Upon written request by the Secretary of Health and Human Services, the Secretary shall disclose to the Secretary of Health and Human Services the name of each person or entity whose TIN has been obtained under section 1124(c) or 1124A(d) of the Social Security Act.".

SEC. 11472. USE OF WAGE INDEX FOR AREA IN WHICH HOME HEALTH SERVICES ARE FURNISHED.

(a) IN GENERAL.—Section 1861(v)(1)(L)(iii) (42 U.S.C. 1395x(v)(1)(L)(iii)) is amended by striking "the home health agency is located" and inserting "services are furnished".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) applies to services furnished after 1996.

CHANGES TO ADMINISTRATION BILL

(1) SNF PPS (Section 11113): Advance effective date by one year to October 1, 1997. Interim PPS contained in Section 11112 would apply between October 1, 1996 and September 30, 1997.

(2) Medical Education (Section 11105): Delete all but subsections (a)(1) and (b)(1). The only thing that remains is the freeze on interns and residents at the hospital-specific level in the aggregate and for non-primary care slots, for both Medicare IME and GME payments. Plus the 2 proposals on the attached sheet.

(3) AAPCC Add-Ons (Section 11115): Change subsection (c) (new section 1886(d)(11)(F)) to payback of 100 percent of IME, GME and DSH (rather than 75 percent), effective 1/1/98. See change in removal of add-ons in managed care section.

(4) Oxygen (Section 11126): Delete Section 11126 from Administration bill. Substitute Section 8233 from H.R. 2530 (the Coalition bill).

(5) Rural Provisions: Keep Section 11116 (Sole Community Hospitals) and Section 11117 (Rural Primary Care Hospital Program). Add Section 7021 (Rural Referral Center), Section 7024 (PA/NP), Section 7025 (Telemedicine). Section 7026 (Rural Health Outreach

Grants), Section 7028 (DSH threshold) from the Senate Democratic Plan (printed in the Congressional Record on Nov. 1).

(6) Managed Care: See attachment.

(7) Preventive benefits demonstration program sunsets in 2001 unless the Secretary determines these benefits are cost-effective.

ADDITIONAL GMF PROPOSALS

Medical Education: Add provision from Administration package to allow hospitals to count residents in non-hospital settings for purposes of their IME adjustment as long as their resident-to-bed ratio does not increase, effective 7/1/96.

Medical Education: Add provision from Administration package to allow DGME payments to be made to certain non-hospital settings when the non-hospital is paying for the resident's salary in that setting, effective 7/1/96.

(c) UPGRADED DURABLE MEDICAL EQUIPMENT.—Section 1834(a) (42 U.S.C. 1395m(a)) is amended by inserting after paragraph (15) the following new paragraph:

"(16) CERTAIN UPGRADED ITEMS.—

"(A) INDIVIDUAL'S RIGHT TO CHOOSE UPGRADED ITEM.—Notwithstanding any other provision of law, effective on the date on which the Secretary issues regulations under subparagraph (C), an individual may purchase or rent

from a supplier an item of upgraded durable medical equipment for which payment would be made under this subsection if the item were a standard item.

"(B) PAYMENTS TO SUPPLIER.—In the case of the purchase or rental of an upgraded item under subparagraph (A)—

"(i) the supplier shall receive payment under this subsection with respect to such item as if such item were a standard item; and

"(ii) the individual purchasing or renting the item shall pay the supplier an amount equal to the difference between the supplier's charge and the amount under clause (i).

In no event may the supplier's charge for an upgraded item exceed the applicable fee schedule amount (if any) for such item.

"(C) CONSUMER PROTECTION SAFEGUARDS.—The Secretary shall issue regulations providing for consumer protection standards with respect to the furnishing of upgraded equipment under subparagraph (A). Such regulations shall provide for—

"(i) determination of fair market prices with respect to an upgraded item;

"(ii) full disclosure of the availability and price of standard items and proof of receipt of such disclosure information by the beneficiary before the furnishing of the upgraded item;

"(iii) conditions of participation for suppliers in the simplified billing arrangement;

"(iv) sanctions of suppliers who are determined to engage in coercive or abusive practices, including exclusion; and

"(v) such other safeguards as the Secretary determines are necessary.".

OTHER MEDICARE CHANGES TO ADMINISTRATION'S ORIGINAL PLAN CHOICES

Expanded Secretarial discretion over 50/50 and minimum enrollment: The Administration bill would establish minimum enrollment requirements of 5,000 members in urban areas and 1,500 members in rural areas, and maintain the 50/50 enrollment composition requirement in urban and rural areas, counting members for whom the entity is "substantially at risk". The 50/50 requirement could be waived in certain situations.

This change would give the Secretary authority to contract with organizations not meeting either the initial enrollment or the 50/50 requirements, subject to: (1) an evaluation that the entity has as the ability to manage risk; (2) capacity limits imposed by the Secretary; (3) meeting appropriate financial solvency requirements; and (4) a higher level of monitoring.

Secretarial authority to contract out with entities: Eligible health plans would include those specified in the Administration bill, with the addition of an ''other'' category for new types of plans that meet specified standards. The Secretary would retain discretion as to which plans could contract with Medicare.

Nurses and PSO issue: The Administration bill limits who can establish PSOs to various mixtures of physicians and/or hospitals. This change would treat nurse practioners on a par with physicians for purposes of creating PSOs.

BENEFITS

Barium enemas with sigmoidoscopy for high risk beneficiaries: The Administration bill would cover colonoscopy for beneficiaries at high risk of colon cancer. Under this change, Medicare would cover either (1) a colonoscopy or (2) a combination of a flexible sigmoidoscopy and an air contrast barium enema. The original estimate for the complete colon screening benefit

was $1.1 billion; the original proposal was repriced, based on new information, at $1.365 billion. The total cost estimate, including this change, is $1.355 billion, or estimated lower costs of $10 million over 7 years. (The combination of sigmoidoscopy and air contrast barium enema cost slightly less than colonoscopy.) Because HCFA expects a small net savings, we do not anticipate this change would affect CBO's estimate.

REGULATORY REFORM

CLIA compromise: The ''Blue Dog'' proposal would exempt all physician office laboratories (POLs) from CLIA requirements, except when they perform Pap smear tests. An identical provision was deleted under the Byrd rule from the Reconciliation Bill. This provision would leave a majority of the nation's labs with no quality oversight at all. Various compromise proposals for reducing CLIA burdens on POLs have been discussed on Capitol Hill. One such compromise, drafted by Democrats on the House Commerce Committee, would (1) remove the requirement of biennial laboratory inspections, allowing as-needed inspections based on criteria set by the Secretary; (2) mandate that all routine inspections be announced; and (3) reduce application requirements for CLIA certificates and remove biennial re-application requirements. This change would reduce burdens related to inspections

and paperwork without compromising the quality of laboratory testing.

Self-referral compensation exception: The Administration bill includes no provision in this area; the Reconciliation Bill would substantially weaken current protections.

This change, modeled after Mr. Stark's bill, would:

1. Add exceptions for shared facility services and for capitated payments (if designated health services are included).

2. Entirely exclude intraocular lens, eyeglasses, and contact lenses from designated health services subject to prohibitions.

3. Include DME and parenteral and enteral nutrients, equipment and supplies in the exception for in-office ancillary services.

4. Delineate the requirements for permissible compensation arrangements, thus making the requirements uniform for all arrangements.

5. Repeal the exception for physicians' services.

The ''General Exceptions to both Ownership and Compensation Arrangement Prohibitions'' would then be: (1) shared facility services (new); (2) in-office ancillary services (including DME, parenteral and enteral nutrients, equipment, and supplies) (altered); (3) pre-paid plans (un-

changed); (4) capitated payments (new); and (5) other permissible exceptions (unchanged).

OTHER

OPD/PPS: Add a PPS for OPDs. In particular, in FY 2002, establish a PPS that would be budget neutral relative to what Medicare payments would have been in 2002 and also budget neutral relative to what total beneficiary coinsurance would have been in 2002.

Hospice: Under current law, hospice care is excepted from the package of services provided by risk plans. If beneficiaries elect hospice care, Medicare makes payments directly to the hospice, and the HMOs and CMPs receive the full monthly capitation amount (less an amount paid to the hospice for attending physician services). Thus, hospices are not required to contract directly with HMOs and CMPs. This technical change would retain the current provision under the new authority for Medicare managed care contracting.

SNF minimum data set: This change would require the continuation of standardized resident assessments contained in the minimum data set (MDS). The MDS data is necessary for developing a case-mix adjustor for a SNF PPS, proposed elsewhere in the bills. Current Congressional proposals eliminate the requirement that this data be collected by eliminating certain nursing home quality standards.

Home health agency data for case mix system: This change would allow the Secretary to mandate the collection of data that may be necessary to develop a case mix adjustor for HH PPS. There is currently no requirement that such data be collected.

Rural Primary Care Hospital Program (Sec. 11117 in President's bill)

(1) Sen. Baucus is seeking an extension of the MAF demonstration project until 2002, such as the one that was included in the Conference Agreement. Since our Rural Primary Care Hospital (RPCH) expansion proposal makes RPCHs much more similar to MAFs in all key aspects, we suggest grandfathering all MAFs as RPCHs as of the date of implementation of the national program. This would effectively make all MAFs permanent, so that extensions of the MAF demonstration would no longer be necessary.

Centers of excellence: This change would replace the term ''rebates'' with ''beneficiary incentives.''

TITLE V—WELFARE REFORM

SEC. 9000. AMENDMENT OF THE SOCIAL SECURITY ACT.

Except as otherwise expressly provided, wherever in this title an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provi-

sion, the reference shall be considered to be made to a section or other provision of the Social Security Act.

Subtitle A—Temporary Employment Assistance

SEC. 9101. STATE PLAN.

(a) IN GENERAL.—Title IV (42 U.S.C. 601 et seq.) is amended by striking part A and inserting the following:

"PART A—TEMPORARY EMPLOYMENT ASSISTANCE

"SEC. 400. APPROPRIATION.

"For the purpose of providing assistance to families with needy children and assisting parents of children in such families to obtain and retain private sector work to the extent possible, and public sector or volunteer work if necessary, through the Work First Employment Block Grant program (hereafter in this title referred to as the 'Work First program'), there is hereby authorized to be appropriated, and is hereby appropriated, for each fiscal year a sum sufficient to carry out the purposes of this part. The sums made available under this section shall be used for making payments to States which have approved State plans for temporary employment assistance.

"SUBPART 1—STATE PLANS FOR TEMPORARY EMPLOYMENT ASSISTANCE

"SEC. 401. ELEMENTS OF STATE PLANS.

"A State plan for temporary employment assistance shall provide a description of the State program which carries out the purpose described in section 400 and shall meet the requirements of the following sections of this subpart.

"SEC. 402. FAMILY ELIGIBILITY FOR TEMPORARY EMPLOYMENT ASSISTANCE.

"(a) IN GENERAL.—The State plan shall provide that any family—

"(1) with 1 or more children (or any expectant family, at the option of the State), defined as needy by the State; and

"(2) which fulfills the conditions set forth in subsection (b),

shall be eligible for cash assistance under the plan, except as otherwise provided under this part.

"(b) INDIVIDUAL RESPONSIBILITY PLAN.—The State plan shall provide that not later than 30 days after the approval of the application for temporary employment assistance, a parent qualifying for assistance shall execute an individual responsibility plan as described in section 403. If a child otherwise eligible for assistance under this

part is residing with a relative other than a parent, the State plan may require the relative to execute such a plan as a condition of the family receiving such assistance.

"(c) LIMITATIONS ON ELIGIBILITY.—

"(1) LENGTH OF TIME.—

"(A) IN GENERAL.—Except as provided in subparagraphs (B), (C), (D), and (E), the State plan shall provide that the family of an individual who, after attaining age 18 years (or age 19 years, at the option of the State), has received assistance under the plan for 60 months, shall no longer be eligible for cash assistance under the plan.

"(B) HARDSHIP EXCEPTION.—With respect to any family, the State plan shall not include in the determination of the 60-month period under subparagraph (A) any month in which—

"(i) at the option of the State, the family includes an individual working 20 hours per week (or more, at the option of the State);

"(ii) the family resides in an area with an unemployment rate exceeding 8 percent; or

"(iii) the family is experiencing other special hardship circumstances which make it appropriate for the State to provide an exemption for such month, except that the total number of exemptions under this clause for any month shall not exceed 15 percent of the number of families to which the State is providing assistance under the plan.

"(C) EXCEPTION FOR TEEN PARENTS.—With respect to any family, the State plan shall not include in the determination of the 60-month period under subparagraph (A) any month in which the parent—

"(i) is under age 18 (or age 19, at the option of the State); and

"(ii) is making satisfactory progress while attending high school or an alternative technical preparation school.

"(D) EXCEPTION FOR INDIVIDUALS EXEMPT FROM WORK REQUIREMENTS.—With respect to any family, the State plan shall not include in the determination of the 60-month period under subparagraph (A) any month in which 1 or each of the parents—

"(i) is seriously ill, incapacitated, or of advanced age;

"(ii)(I) except for a child described in subclause (II), is responsible for a child under age 1 year (or age 6 months, at the option of the State), or

"(II) in the case of a second or subsequent child born during such period, is responsible for a child under age 3 months;

"(iii) is pregnant in the third trimester; or

"(iv) is caring for a family member who is ill or incapacitated.

"(E) EXCEPTION FOR CHILD-ONLY CASES.—With respect to any child who has not attained age 18 (or age 19, at the option of the State) and who is eligible for assistance under this part, but not as a member of a family otherwise eligible for assistance under this part (determined without regard to this paragraph), the State plan shall not include in the determination of the 60-month period under subparagraph (A) any month in which such child has not attained such age.

"(F) OTHER PROGRAM ELIGIBILITY.—The State plan shall provide that if a family is no longer eligible for cash assistance under the plan due to the imposition of the 60-month period under subparagraph (A) or due to the imposition of a penalty under subparagraph (A)(ii) or (B)(ii) of section 403(e)(1)—

"(i) for purposes of determining eligibility for any other Federal or federally assisted program based on need, such family shall continue to be considered eligible for such cash assistance;

"(ii) for purposes of determining the amount of assistance under any other Federal or federally assisted program based on need, such family shall continue to be considered receiving such cash assistance; and

"(iii) the State may, at the option of the State, after having assessed the needs of the child or children of the family, provide for such needs with a voucher for such family—

"(I) determined on the same basis as the State would provide as-

sistance under the State plan to such a family with 1 less individual,

"(II) designed appropriately to pay third parties for shelter, goods, and services received by the child or children, and

"(III) payable directly to such third parties.

"(2) TREATMENT OF INTERSTATE MIGRANTS.—The State plan may apply to a category of families the rules for such category under a plan of another State approved under this part, if a family in such category has moved to the State from the other State and has resided in the State for less than 12 months.

"(3) INDIVIDUALS ON OLD-AGE ASSISTANCE OR SSI INELIGIBLE FOR TEMPORARY EMPLOYMENT ASSISTANCE.—The State plan shall provide that no assistance shall be furnished any individual under the plan with respect to any period with respect to which such individual is receiving old-age assistance under the State plan approved under section 102 of title I or supplemental security income under title XVI.

"(4) CHILDREN FOR WHOM FEDERAL, STATE, OR LOCAL FOSTER CARE MAINTENANCE OR ADOP-

TION ASSISTANCE PAYMENTS ARE MADE.—A child with respect to whom foster care maintenance payments or adoption assistance payments are made under part E or under State or local law shall not, for the period for which such payments are made, be regarded as a needy child under this part, and such child's income and resources shall be disregarded in determining the eligibility of the family of such child for temporary employment assistance.

"(5) DENIAL OF ASSISTANCE FOR 10 YEARS TO A PERSON FOUND TO HAVE FRAUDULENTLY MISREPRESENTED RESIDENCE IN ORDER TO OBTAIN ASSISTANCE IN 2 OR MORE STATES.—The State plan shall provide that no assistance will be furnished any individual under the plan during the 10-year period that begins on the date the individual is convicted in Federal or State court of having made, a fraudulent statement or representation with respect to the place of residence of the individual in order to receive benefits or services simultaneously from 2 or more States under programs that are funded under this part, title XIX, or the Food Stamp Act of 1977, or benefits in 2 or more States under the supplemental security income program under title XVI.

"(6) DENIAL OF ASSISTANCE FOR FUGITIVE FELONS AND PROBATION AND PAROLE VIOLATORS.—

"(A) IN GENERAL.—The State plan shall provide that no assistance will be furnished any individual under the plan for any period if during such period the State agency has knowledge that such individual is—

"(i) fleeing to avoid prosecution, or custody or confinement after conviction, under the laws of the place from which the individual flees, for a crime, or an attempt to commit a crime, which is a felony under the laws of the place from which the individual flees, or which, in the case of the State of New Jersey, is a high misdemeanor under the laws of such State; or

"(ii) violating a condition of probation or parole imposed under Federal or State law.

"(B) EXCHANGE OF INFORMATION WITH LAW ENFORCEMENT AGENCIES.—Notwithstanding any other provision of law, the State plan shall provide that the State shall furnish any Federal, State, or local law enforcement officer,

upon the request of the officer, with the current address of any recipient of assistance under the plan, if the officer furnishes the agency with the name of the recipient and notifies the agency that—

"(i) such recipient—

"(I) is described in clause (i) or (ii) of subparagraph (A); or

"(II) has information that is necessary for the officer to conduct the officer's official duties; and

"(ii) the location or apprehension of the recipient is within such officer's official duties.

"(d) DETERMINATION OF ELIGIBILITY.—

"(1) DETERMINATION OF NEED.—The State plan shall provide that the State agency take into consideration any income and resources of any individual the State determines should be considered in determining the need of the child or relative claiming temporary employment assistance, subject to section 407.

"(2) RESOURCE AND INCOME DETERMINATION.—In determining the total resources and in-

come of the family of any needy child, the State plan shall provide the following:

"(A) RESOURCES.—The State's resource limit, including a description of the policy determined by the State regarding any exclusion allowed for vehicles owned by family members, resources set aside for future needs of a child, individual development accounts, or other policies established by the State to encourage savings.

"(B) FAMILY INCOME.—The extent to which earned or unearned income is disregarded in determining eligibility for, and amount of, assistance.

"(C) CHILD SUPPORT.—The State's policy, if any, for determining the extent to which child support received in excess of $50 per month on behalf of a member of the family is disregarded in determining eligibility for, and the amount of, assistance.

"(D) CHILD'S EARNINGS.—The treatment of earnings of a child living in the home.

"(E) EARNED INCOME TAX CREDIT.—The State agency shall disregard any refund of Federal income taxes made to a family receiving temporary employment assistance by reason of

section 32 of the Internal Revenue Code of 1986 (relating to earned income tax credit) and any payment made to such a family by an employer under section 3507 of such Code (relating to advance payment of earned income credit).

"(3) VERIFICATION SYSTEM.—The State plan shall provide that information is requested and exchanged for purposes of income and eligibility verification in accordance with a State system which meets the requirements of section 1137.

"SEC. 403. INDIVIDUAL RESPONSIBILITY PLAN.

"(a) ASSESSMENT.—The State agency responsible for administering the State plan shall make an initial assessment of the skills, prior work experience, and employability of each applicant for, or recipient of, assistance under the State plan who—

"(1) has attained 18 years of age; or

"(2) has not completed high school or obtained a certificate of high school equivalency, and is not attending secondary school.

"(b) INDIVIDUAL RESPONSIBILITY PLANS.—

"(1) IN GENERAL.—On the basis of the assessment made under subsection (a) with respect to an individual, the State agency, in consultation with the

individual, shall develop an individual responsibility plan for the individual, which—

"(A) shall provide that participation by the individual in job search activities shall be a condition of eligibility for assistance under the State plan approved under part A, except during any period for which the individual is employed full-time in an unsubsidized job in the private sector;

"(B) sets forth an employment goal for the individual and a plan for moving the individual immediately into private sector employment;

"(C) sets forth the obligations of the individual, which may include a requirement that the individual attend school, maintain certain grades and attendance, keep school age children of the individual in school, immunize children, attend parenting and money management classes, or do other things that will help the individual become and remain employed in the private sector;

"(D) may require that the individual enter the State program established under part F, if the caseworker determines that the individual will need education, training, job placement as-

sistance, wage enhancement, or other services to become employed in the private sector;

"(E) shall provide that the individual must—

"(i) assign to the State any rights to support from any other person the individual may have in such individual's own behalf or in behalf of any other family member for whom the individual is applying for or receiving assistance; and

"(ii) cooperate with the State—

"(I) in establishing the paternity of a child born out of wedlock with respect to whom assistance is claimed, and

"(II) in obtaining support payments for the individual and for a child with respect to whom such assistance is claimed, or in obtaining any other payments or property due the individual or the child,

unless (in either case) the individual is found to have good cause for refusing to cooperate as determined by the State agency in accordance with standards prescribed by the Secretary,

which standards shall take into consideration the best interests of the child on whose behalf assistance is claimed.

"(F) to the greatest extent possible shall be designed to move the individual into whatever private sector employment the individual is capable of handling as quickly as possible, and to increase the responsibility and amount of work the individual is to handle over time;

"(G) shall describe what services the State will provide the individual so that the individual will be able to obtain and keep employment in the private sector, and describe the job counseling and other services that will be provided by the State; and

"(H) at the option of the State, may require the individual to undergo appropriate substance abuse treatment.

"(2) TIMING.—The State agency shall comply with paragraph (1) with respect to an individual—

"(A) within 90 days (or, at the option of the State, 180 days) after the effective date of this part, in the case of an individual who, as of such effective date, is a recipient of assist-

ance under the State plan approved under this part; or

"(B) within 30 days (or, at the option of the State, 90 days) after the individual is determined to be eligible for such assistance, in the case of any other individual.

"(c) PROVISION OF PROGRAM AND EMPLOYMENT INFORMATION.—The State shall inform all applicants for and recipients of assistance under the State plan approved under this part of all available services under the State plan for which they are eligible.

"(d) REQUIREMENT THAT RECIPIENTS ENTER THE WORK FIRST PROGRAM.—

"(1) IN GENERAL.—Beginning with fiscal year 2004, the State shall place recipients of assistance under the State plan approved under this part, who have not become employed in the private sector within 1 year after signing an individual responsibility plan, in the first available slot in the State program established under part F, except as provided in paragraph (2).

"(2) EXCEPTIONS.—A state may not be required to place a recipient of such assistance in the State program established under part F if the recipient—

"(A) is ill, incapacitated, or of advanced age;

"(B) has not attained 18 years of age;

"(C) is caring for a child or parent who is ill or incapacitated; or

"(D) is enrolled in school or in educational or training programs that will lead to private sector employment.

"(e) PENALTIES.—

"(1) STATE NOT OPERATING A WORK FIRST OR WORKFARE PROGRAM.—In the case of a State that is not operating a program under part F or G:

"(A) FAILURE TO COMPLY WITH INDIVIDUAL RESPONSIBILITY PLAN OR AGREEMENT OF MUTUAL RESPONSIBILITY.—

"(i) PROGRESSIVE REDUCTIONS IN ASSISTANCE FOR 1ST AND 2ND FAILURES.—The amount of assistance otherwise to be provided under the State plan approved under this part to a family that includes an individual who fails without good cause to comply with an individual responsibility plan (or, if the State has established a program under subpart 1 of part F and the individual is required to

participate in the program, an agreement of mutual responsibility) signed by the individual (other than by reason of conduct described in paragraph (2)) shall be reduced by—

"(I) 33 percent for the 1st such act of noncompliance; or

"(II) 66 percent for the 2nd such act of noncompliance.

"(ii) DENIAL OF ASSISTANCE FOR 3RD FAILURE.—In the case of the 3rd such act of noncompliance, the family of which the individual is a member shall not thereafter be eligible for assistance under the State plan approved under this part.

"(iii) ACTS OF NONCOMPLIANCE.—For purposes of this paragraph, a 1st act of noncompliance by an individual that continues for more than 1 calendar month shall be considered a 2nd act of noncompliance, and a 2nd act of noncompliance that continues for more than 3 calendar months shall be considered a 3rd act of noncompliance.

"(B) DENIAL OF ASSISTANCE TO ADULTS REFUSING TO WORK, LOOK FOR WORK, OR ACCEPT A BONA FIDE OFFER OF EMPLOYMENT.—

"(i) REFUSAL TO WORK OR LOOK FOR WORK.—If an unemployed individual who has attained 18 years of age refuses to work or look for work—

"(I) in the case of the 1st such refusal, assistance under the State plan approved under this part shall not be payable with respect to the individual until the later of—

"(aa) a period of not less than 6 months after the date of the first such refusal; or

"(bb) the first date the individual agrees to work or look for work; or

"(II) in the case of the 2nd such refusal, the family of which the individual is a member shall not thereafter be eligible for assistance under the State plan approved under this part.

"(ii) REFUSAL TO ACCEPT A BONA FIDE OFFER OF EMPLOYMENT.—If an unemployed individual who has attained 18 years of age refuses to accept a bona fide offer of employment, the family of which the individual is a member shall not thereafter be eligible for assistance under the State plan approved under this part.

"(2) OTHER STATES.—In the case of any other State, the State shall reduce, by such amount as the State considers appropriate, the amount of assistance otherwise payable under the State plan approved under this part to a family that includes an individual who fails without good cause to comply with an individual responsibility plan signed by the individual.

"SEC. 404. PAYMENT OF ASSISTANCE.

"(a) STANDARDS OF ASSISTANCE.—The State plan shall specify standards of assistance, including—

"(1) the composition of the unit for which assistance will be provided;

"(2) a standard, expressed in money amounts, to be used in determining the need of applicants and recipients;

"(3) a standard, expressed in money amounts, to be used in determining the amount of the assistance payment; and

"(4) the methodology to be used in determining the payment amount received by assistance units.

"(b) LEVEL OF ASSISTANCE.—Except as otherwise provided in this title, the State plan shall provide that—

"(1) the determination of need and the amount of assistance for all applicants and recipients shall be made on an objective and equitable basis; and

"(2) families of similar composition with similar needs and circumstances shall be treated similarly.

"(c) CORRECTION OF PAYMENTS.—The State plan shall provide that the State agency will promptly take all necessary steps to correct any overpayment or underpayment of assistance under such plan, including the request for Federal tax refund intercepts as provided under section 416.

"(d) OPTIONAL VOLUNTARY DIVERSION PROGRAM.—The State plan shall, at the option of the State, and in such part or parts of the State as the State may select, provide that—

"(1) upon the recommendation of the caseworker who is handling the case of a family eligible for assistance under the State plan, the State shall,

in lieu of any other assistance under the State plan to the family during a time period of not more than 3 months, make a lump-sum payment to the family for the time period in an amount not to exceed—

"(A) the value of the monthly benefits that would otherwise be provided to the family under the State plan; multiplied by

"(B) the number of months in the time period;

"(2) a lump-sum payment pursuant to subparagraph (A) shall not be made more than once to any family; and

"(3) if, during a time period for which the State has made a lump-sum payment to a family pursuant to subparagraph (A), the family applies for and (but for the lump-sum payment) would be eligible under the State plan for a monthly benefit that is greater than the value of the monthly benefit which would have been provided to the family under the State plan at the time of the calculation of the lump sum payment, then, notwithstanding subparagraph (A), the State shall, for that part of the time period that remains after the family becomes eligible for the greater monthly benefit, provide monthly benefits to the family in an amount not to exceed—

"(A) the amount by which the value of the greater monthly benefit exceeds the value of the former monthly benefit, multiplied by the number of months in the time period; divided by

"(B) the whole number of months remaining in the time period.

"SEC. 405. OTHER PROGRAMS.

"(a) WORK FIRST PROGRAM; WORKFARE OR JOB PLACEMENT VOUCHER PROGRAM.—The State plan shall provide that the State has in effect and operation—

"(1) a work first program that meets the requirements of part F; and

"(2) a workfare program that meets the requirements of part G, or a job placement voucher program that meets the requirements of part H, but not both.

"(b) PROVISION OF POSITIONS AND VOUCHERS.—The State plan shall provide that the State shall provide a position in the workfare program established by the State under part G, or a job placement voucher under the job placement voucher program established by the State under part H to any individual who, by reason of section 487(b), is prohibited from participating in the work first program operated by the State, and shall not provide such a position or such a voucher to any other individual.

"(c) PROVISION OF CASE MANAGEMENT SERVICES.—The State plan shall provide that the State shall provide to participants in such programs such case management services as are necessary to ensure the integrated provision of benefits and services under such programs.

"(d) STATE CHILD SUPPORT AGENCY.—The State plan shall—

"(1) provide that the State has in effect a plan approved under part D and operates a child support program in substantial compliance with such plan;

"(2) provide that the State agency administering the plan approved under this part shall be responsible for assuring that—

"(A) the benefits and services provided under plans approved under this part and part D are furnished in an integrated manner, including coordination of intake procedures with the agency administering the plan approved under part D;

"(B) all applicants for, and recipients of, temporary employment assistance are encouraged, assisted, and required (as provided under section 403(b)(1)(E)(ii)) to cooperate in the establishment and enforcement of paternity and child support obligations and are notified about

the services available under the State plan approved under part D; and

"(C) procedures require referral of paternity and child support enforcement cases to the agency administering the plan approved under part D not later than 10 days after the application for temporary employment assistance; and

"(3) provide for prompt notice (including the transmittal of all relevant information) to the State child support collection agency established pursuant to part D of the furnishing of temporary employment assistance with respect to a child who has been deserted or abandoned by a parent (including a child born out-of-wedlock without regard to whether the paternity of such child has been established).

"(e) CHILD WELFARE SERVICES AND FOSTER CARE AND ADOPTION ASSISTANCE.—The State plan shall provide that the State has in effect—

"(1) a State plan for child welfare services approved under part B; and

"(2) a State plan for foster care and adoption assistance approved under part E,

and operates such plans in substantial compliance with the requirements of such parts.

"(f) REPORT OF CHILD ABUSE, ETC.—The State plan shall provide that the State agency will—

"(1) report to an appropriate agency or official, known or suspected instances of physical or mental injury, sexual abuse or exploitation, or negligent treatment or maltreatment of a child receiving assistance under the State plan under circumstances which indicate that the child's health or welfare is threatened thereby; and

"(2) provide such information with respect to a situation described in paragraph (1) as the State agency may have.

"(g) AVAILABILITY OF ASSISTANCE IN RURAL AREAS OF STATE.—The State plan shall consider and address the needs of rural areas in the State to ensure that families in such areas receive assistance to become self-sufficient.

"(h) FAMILY PRESERVATION.—

"(1) IN GENERAL.—The State plan shall describe the efforts by the State to promote family preservation and stability, including efforts—

"(A) to encourage fathers to stay home and be a part of the family;

"(B) to keep families together to the extent possible; and

"(C) except to the extent provided in paragraph (2), to treat 2-parent families and 1-parent families equally with respect to eligibility for assistance.

"(2) MAINTENANCE OF TREATMENT.—The State may impose eligibility limitations relating specifically to 2-parent families to the extent such limitations are no more restrictive than such limitations in effect in the State plan in fiscal year 1995.

"SEC. 406. ADMINISTRATIVE REQUIREMENTS FOR STATE PLAN.

"(a) STATEWIDE PLAN.—The State plan shall be in effect in all political subdivisions of the State, and, if administered by the subdivisions, be mandatory upon such subdivisions. If such plan is not administered uniformly throughout the State, the plan shall describe the administrative variations.

"(b) SINGLE ADMINISTRATING AGENCY.—The State plan shall provide for the establishment or designation of a single State agency to administer the plan or supervise the administration of the plan.

"(c) FINANCIAL PARTICIPATION.—The State plan shall provide for financial participation by the State in the same manner and amount as such State participates under title XIX, except that with respect to the sums ex-

pended for the administration of the State plan, the percentage shall be 50 percent.

"(d) REASONABLE PROMPTNESS.—The State plan shall provide that all individuals wishing to make application for temporary employment assistance shall have opportunity to do so, and that such assistance be furnished with reasonable promptness to all eligible individuals.

"(e) AUTOMATED DATA PROCESSING SYSTEM.—The State plan shall, at the option of the State, provide for the establishment and operation of an automated statewide management information system designed effectively and efficiently, to assist management in the administration of the State plan approved under this part, so as—

"(1) to control and account for—

"(A) all the factors in the total eligibility determination process under such plan for assistance, and

"(B) the costs, quality, and delivery of payments and services furnished to applicants for and recipients of assistance; and

"(2) to notify the appropriate officials for child support, food stamp, and social service programs, and the medical assistance program approved under title XIX, whenever a recipient becomes ineligible for

such assistance or the amount of assistance provided to a recipient under the State plan is changed.

"(f) DISCLOSURE OF INFORMATION.—The State plan shall provide for safeguards which restrict the use or disclosure of information concerning applicants or recipients.

"(g) DETECTION OF FRAUD.—The State plan shall provide, in accordance with regulations issued by the Secretary, for appropriate measures to detect fraudulent applications for temporary employment assistance before the establishment of eligibility for such assistance.

"SUBPART 2—ADMINISTRATIVE PROVISIONS

"SEC. 411. APPROVAL OF PLAN.

"(a) IN GENERAL.—The Secretary shall approve a State plan which fulfills the requirements under subpart 1 within 120 days of the submission of the plan by the State to the Secretary.

"(b) DEEMED APPROVAL.—If a State plan has not been rejected by the Secretary during the period specified in subsection (a), the plan shall be deemed to have been approved.

"SEC. 412. COMPLIANCE.

In the case of any State plan for temporary employment assistance which has been approved under section 411, if the Secretary, after reasonable notice and opportunity for hearing to the State agency administering or

supervising the administration of such plan, finds that in the administration of the plan there is a failure to comply substantially with any provision required by subpart 1 to be included in the plan, the Secretary shall notify such State agency that further payments will not be made to the State (or in the Secretary's discretion, that payments will be limited to categories under or parts of the State plan not affected by such failure) until the Secretary is satisfied that such prohibited requirement is no longer so imposed, and that there is no longer any such failure to comply. Until the Secretary is so satisfied the Secretary shall make no further payments to such State (or shall limit payments to categories under or parts of the State plan not affected by such failure).

"SEC. 413. PAYMENTS TO STATES.

''(a) COMPUTATION OF AMOUNT.—Subject to section 412, from the sums appropriated therefor, the Secretary of the Treasury shall pay to each State which has an approved plan for temporary employment assistance, for each quarter, beginning with the quarter commencing October 1, 1996, an amount equal to the Federal medical assistance percentage (as defined in section 1905(b)) of the expenditures by the State under such plan.

"(b) METHOD OF COMPUTATION AND PAYMENT.—The method of computing and paying such amounts shall be as follows:

"(1) The Secretary shall, prior to the beginning of each quarter, estimate the amount to be paid to the State for such quarter under the provisions of subsection (a), such estimate to be based on—

"(A) a report filed by the State containing its estimate of the total sum to be expended in such quarter in accordance with the provisions of such subsection and stating the amount appropriated or made available by the State and its political subdivisions for such expenditures in such quarter, and if such amount is less than the State's proportionate share of the total sum of such estimated expenditures, the source or sources from which the difference is expected to be derived;

"(B) records showing the number of needy children in the State; and

"(C) such other information as the Secretary may find necessary.

"(2) The Secretary of Health and Human Services shall then certify to the Secretary of the Treas-

ury the amount so estimated by the Secretary of Health and Human Services—

"(A) reduced or increased, as the case may be, by any sum by which the Secretary of Health and Human Services finds that the estimate for any prior quarter was greater or less than the amount which should have been paid to the State for such quarter;

"(B) reduced by a sum equivalent to the pro rata share to which the Federal Government is equitably entitled, as determined by the Secretary of Health and Human Services, of the net amount recovered during any prior quarter by the State or any political subdivision thereof with respect to temporary employment assistance furnished under the State plan; and

"(C) reduced by such amount as is necessary to provide the appropriate reimbursement to the Federal Government that the State is required to make under section 457 out of that portion of child support collections retained by the State pursuant to such section,

except that such increases or reductions shall not be made to the extent that such sums have been applied to make the amount certified for any prior

quarter greater or less than the amount estimated by the Secretary of Health and Human Services for such prior quarter.

"(c) METHOD OF PAYMENT.—The Secretary of the Treasury shall thereupon, through the Fiscal Service of the Department of the Treasury and prior to audit or settlement by the General Accounting Office, pay to the State, at the time or times fixed by the Secretary of Health and Human Services, the amount so certified.

"SEC. 414. QUALITY ASSURANCE, DATA COLLECTION, AND REPORTING SYSTEM.

"(a) QUALITY ASSURANCE.—

"(1) IN GENERAL.—Under the State plan, a quality assurance system shall be developed based upon a collaborative effort involving the Secretary, the State, the political subdivisions of the State, and assistance recipients, and shall include quantifiable program outcomes related to self sufficiency in the categories of welfare-to-work, payment accuracy, and child support.

"(2) MODIFICATIONS TO SYSTEM.—As deemed necessary, but not more often than every 2 years, the Secretary, in consultation with the State, the political subdivisions of the State, and assistance recipients, shall make appropriate changes in the de-

sign and administration of the quality assurance system, including changes in benchmarks, measures, and data collection or sampling procedures.

"(b) DATA COLLECTION AND REPORTING.—

"(1) IN GENERAL.—The State plan shall provide for a quarterly report to the Secretary regarding the data described in paragraphs (2) and (3) and such additional data needed for the quality assurance system. The data collection and reporting system under this subsection shall promote accountability, continuous improvement, and integrity in the State plans for temporary employment assistance and Work First.

"(2) DISAGGREGATED DATA.—The State shall collect the following data items on a monthly basis from disaggregated case records of applicants for and recipients of temporary employment assistance from the previous month:

"(A) The age of adults and children (including pregnant women).

"(B) Marital or familial status of cases: married (2-parent family), widowed, divorced, separated, or never married; or child living with other adult relative.

"(C) The gender, race, educational attainment, work experience, disability status (whether the individual is seriously ill, incapacitated, or caring for a disabled or incapacitated child) of adults.

"(D) The amount of cash assistance and the amount and reason for any reduction in such assistance. Any other data necessary to determine the timeliness and accuracy of benefits and welfare diversions.

"(E) Whether any member of the family receives benefits under any of the following:

"(i) Any housing program.

"(ii) The food stamp program under the Food Stamp Act of 1977.

"(iii) The Head Start programs carried out under the Head Start Act.

"(iv) Any job training program.

"(F) The number of months since the most recent application for assistance under the plan.

"(G) The total number of months for which assistance has been provided to the families under the plan.

"(H) The employment status, hours worked, and earnings of individuals while re-

ceiving assistance, whether the case was closed due to employment, and other data needed to meet the work performance rate.

"(I) Status in Work First and workfare, including the number of hours an individual participated and the component in which the individual participated.

"(J) The number of persons in the assistance unit and their relationship to the youngest child. Nonrecipients in the household and their relationship to the youngest child.

"(K) Citizenship status.

"(L) Shelter arrangement.

"(M) Unearned income (not including temporary employment assistance), such as child support, and assets.

"(N) The number of children who have a parent who is deceased, incapacitated, or unemployed.

"(O) Geographic location.

"(3) AGGREGATED DATA.—The State shall collect the following data items on a monthly basis from aggregated case records of applicants for and recipients of temporary employment assistance from the previous month:

"(A) The number of adults receiving assistance.

"(B) The number of children receiving assistance.

"(C) The number of families receiving assistance.

"(D) The number of assistance units who had their grants reduced or terminated and the reason for the reduction or termination, including sanction, employment, and meeting the time limit for assistance).

"(E) The number of applications for assistance; the number approved and the number denied and the reason for denial.

"(4) LONGITUDINAL STUDIES.—The State shall submit selected data items for a cohort of individuals who are tracked over time. This longitudinal sample shall be used for selected data items described in paragraphs (2) and (3), as determined appropriate by the Secretary.

"(c) ADDITIONAL DATA.—The report required by subsection (b) for a fiscal year quarter shall also include the following:

"(1) REPORT ON USE OF FEDERAL FUNDS TO COVER ADMINISTRATIVE COSTS AND OVERHEAD.—A statement of—

"(A) the percentage of the Federal funds paid to the State under this part for the fiscal year quarter that are used to cover administrative costs or overhead; and

"(B) the total amount of State funds that are used to cover such costs or overhead.

"(2) REPORT ON STATE EXPENDITURES ON PROGRAMS FOR NEEDY FAMILIES.—A statement of the total amount expended by the State during the fiscal year quarter on programs for needy families, with the amount spent on the program under this part, and the purposes for which such amount was spent, separately stated.

"(3) REPORT ON NONCUSTODIAL PARENTS PARTICIPATING IN WORK ACTIVITIES.—The number of noncustodial parents in the State who participated in work activities during the fiscal year quarter.

"(4) REPORT ON CHILD SUPPORT COLLECTED.—The total amount of child support collected by the State agency administering the State plan under part D on behalf of a family receiving assistance under this part.

"(5) REPORT ON CHILD CARE.—The total amount expended by the State for child care under this part, along with a description of the types of child care provided, such as child care provided in the case of a family that has ceased to receive assistance under this part because of increased hours of, or increased income from, employment, or in the case of a family that is not receiving assistance under this part but would be at risk of becoming eligible for such assistance if child care was not provided.

"(6) REPORT ON TRANSITIONAL SERVICES.—The total amount expended by the State for providing transitional services to a family that has ceased to receive assistance under this part because of increased hours of, or increased income from, employment, along with a description of such services.

"(d) COLLECTION PROCEDURES.—The Secretary shall provide case sampling plans and data collection procedures as deemed necessary to make statistically valid estimates of plan performance.

"(e) VERIFICATION.—The Secretary shall develop and implement procedures for verifying the quality of the data submitted by the State, and shall provide technical

assistance, funded by the compliance penalties imposed * * *

SEC. 9201. EXTENSION OF PROVISION PROVIDING ADDITIONAL ELIGIBILITY FOR MEDICAID.

Subsection (f) of section 1925 of the Social Security Act (42 U.S.C. 1396r–6(f)) is amended by striking ''1998'' and inserting ''2002''.

SEC. 9202. NOTICE OF AVAILABILITY REQUIRED TO BE PROVIDED TO APPLICANTS AND FORMER RECIPIENTS OF TEMPORARY FAMILY ASSISTANCE, FOOD STAMPS, AND MEDICAID.

(a) TEMPORARY FAMILY ASSISTANCE.—Section 406, as added by the amendment made by section 9101(a) of this Act, is amended by adding at the end the following:

''(h) NOTICE OF AVAILABILITY OF EITC.—The State plan shall provide that the State agency referred to in subsection (b) must provide written notice of the existence and availability of the earned income credit under section 32 of the Internal Revenue Code of 1986 to—

''(1) any individual who applies for assistance under the State plan, upon receipt of the application; and

''(2) any individual whose assistance under the State plan (or under the State plan approved under part A of this title (as in effect before the effective

date of title IX of the Omnibus Budget Reconciliation Act of 1995) is terminated, in the notice of termination of benefits.''.

(b) FOOD STAMPS.—Section 11(e) of the Food Stamp Act of 1977 (7 U.S.C. 2020(e)) is amended—

(1) in paragraph (24) by striking ''and'' at the end;

(2) in paragraph (25) by striking the period at the end and inserting ''; and''; and

(3) by inserting after paragraph (25) the following:

''(26) that whenever a household applies for food stamp benefits, and whenever such benefits are terminated with respect to a household, the State agency shall provide to each member of such household notice of—

''(A) the existence of the earned income tax credit under section 32 of the Internal Revenue Code of 1986; and

''(B) the fact that such credit may be applicable to such member.''.

(c) MEDICAID.—Section 1902(a) (42 U.S.C. 1396a(a)) is amended—

(1) by striking ''and'' at the end of paragraph (61);

(2) by striking the period at the end of paragraph (62) and inserting "; and"; and

(3) by inserting after paragraph (62) the following new paragraph:

"(63) provide that the State shall provide notice of the existence and availability of the earned income tax credit under section 32 of the Internal Revenue Code of 1986 to each individual applying for medical assistance under the State plan and to each individual whose eligibility for medical assistance under the State plan is terminated.".

SEC. 9203. NOTICE OF AVAILABILITY OF EARNED INCOME TAX CREDIT AND DEPENDENT CARE TAX CREDIT TO BE INCLUDED ON W–4 FORM.

(a) IN GENERAL.—Section 11114 of the Omnibus Budget Reconciliation Act of 1990 (26 U.S.C. 21 note), relating to program to increase public awareness, is amended by adding at the end the following new sentence: "Such means shall include printing a notice of the availability of such credits on the forms used by employees to determine the proper number of withholding exemptions under chapter 24 of such Code."

SEC. 9204. ADVANCE PAYMENT OF EARNED INCOME TAX CREDIT THROUGH STATE DEMONSTRATION PROGRAMS.

(a) IN GENERAL.—Section 3507 of the Internal Revenue Code of 1986 (relating to the advance payment of the earned income tax credit) is amended by adding at the end the following:

"(g) STATE DEMONSTRATIONS.—

"(1) IN GENERAL.—In lieu of receiving earned income advance amounts from an employer under subsection (a), a participating resident shall receive advance earned income payments from a responsible State agency pursuant to a State Advance Payment Program that is designated pursuant to paragraph (2).

"(2) DESIGNATIONS.—

"(A) IN GENERAL.—From among the States submitting proposals satisfying the requirements of paragraph (3), the Secretary (in consultation with the Secretary of Health and Human Services) may designate not more than 4 State Advance Payment Demonstrations. States selected for the demonstrations may have, in the aggregate, no more than 5 percent of the total number of households participating in the program under the Food Stamp program

in the immediately preceding fiscal year. Administrative costs of a State in conducting a demonstration under this section may be included for matching under section 413(a) of the Social Security Act and section 16(a) of the Food Stamp Act of 1977.

"(B) WHEN DESIGNATION MAY BE MADE.—Any designation under this paragraph shall be made no later than December 31, 1996.

"(C) PERIOD FOR WHICH DESIGNATION IS IN EFFECT.—

"(i) IN GENERAL.—Designations made under this paragraph shall be effective for advance earned income payments made after December 31, 1996, and before January 1, 2000.

"(ii) SPECIAL RULES.—

"(I) REVOCATION OF DESIGNATIONS.—The Secretary may revoke any designation made under this paragraph if the Secretary determines that the State is not complying substantially with the proposal described

in paragraph (3) submitted by the State.

"(II) AUTOMATIC TERMINATION OF DESIGNATIONS.—Any failure by a State to comply with the reporting requirements described in paragraphs (3)(F) and (3)(G) shall have the effect of immediately terminating the designation under this paragraph and rendering paragraph (5)(A)(ii) inapplicable to subsequent payments.

"(3) PROPOSALS.—No State may be designated under paragraph (2) unless the State's proposal for such designation—

"(A) identifies the responsible State agency,

"(B) describes how and when the advance earned income payments will be made by that agency, including a description of any other State or Federal benefits with which such payments will be coordinated,

"(C) describes how the State will obtain the information on which the amount of advance earned income payments made to each

participating resident will be determined in accordance with paragraph (4),

"(D) describes how State residents who will be eligible to receive advance earned income payments will be selected, notified of the opportunity to receive advance earned income payments from the responsible State agency, and given the opportunity to elect to participate in the program,

"(E) describes how the State will verify, in addition to receiving the certifications and statement described in paragraph (7)(D)(iv), the eligibility of participating residents for the earned income tax credit,

"(F) commits the State to furnishing to each participating resident by January 31 of each year a written statement showing—

"(i) the name and taxpayer identification number of the participating resident, and

"(ii) the total amount of advance earned income payments made to the participating resident during the prior calendar year,

"(G) commits the State to furnishing to the Secretary by December 1 of each year a written statement showing the name and taxpayer identification number of each participating resident,

"(H) commits the State to treat any advance earned income payments as described in paragraph (5) and any repayments of excessive advance earned income payments as described in paragraph (6),

"(I) commits the State to assess the development and implementation of its State Advance Payment Program, including an agreement to share its findings and lessons with other interested States in a manner to be described by the Secretary, and

"(J) is submitted to the Secretary on or before June 30, 1996.

"(4) AMOUNT AND TIMING OF ADVANCE EARNED INCOME PAYMENTS.—

"(A) AMOUNT.—

"(i) IN GENERAL.—The method for determining the amount of advance earned income payments made to each participating resident shall conform to the fullest ex-

tent possible with the provisions of subsection (c).

"(ii) SPECIAL RULE.—A State may, at its election, apply the rules of subsection (c)(2)(B) by substituting 'between 60 percent and 75 percent of the credit percentage in effect under section 32(b)(1) for an individual with the corresponding number of qualifying children' for '60 percent of the credit percentage in effect under section 32(b)(1) for such an eligible individual with 1 qualifying child' in clause (i) and 'the same percentage (as applied in clause (i))' for '60 percent' in clause (ii).

"(B) TIMING.—The frequency of advance earned income payments may be determined on the basis of the payroll periods of participating residents, on a single statewide schedule, or on any other reasonable basis prescribed by the State in its proposal; however, in no event may advance earned income payments be made to any participating resident less frequently than on a calendar-quarter basis.

"(5) PAYMENTS TO BE TREATED AS PAYMENTS OF WITHHOLDING AND FICA TAXES.—

"(A) IN GENERAL.—For purposes of this title, advance earned income payments during any calendar quarter—

"(i) shall neither be treated as a payment of compensation nor be included in gross income, and

"(ii) shall be treated as made out of—

"(I) amounts required to be deducted by the State and withheld for the calendar quarter by the State under section 3401 (relating to wage withholding),

"(II) amounts required to be deducted for the calendar quarter under section 3102 (relating to FICA employee taxes), and

"(III) amounts of the taxes imposed on the State for the calendar quarter under section 3111 (relating to FICA employer taxes),

as if the State had paid to the Secretary, on the day on which payments are made to participating residents, an amount equal to such payments.

"(B) IF ADVANCE PAYMENTS EXCEED TAXES DUE.—If for any calendar quarter the aggregate amount of advance earned income payments made by the responsible State agency under a State Advance Payment Program exceeds the sum of the amounts referred to in subparagraph (A)(ii) (without regard to paragraph (6)(A)), each such advance earned income payment shall be reduced by an amount which bears the same ratio to such excess as such advance earned income payment bears to the aggregate amount of all such advance earned income payments.

"(6) STATE REPAYMENT OF EXCESSIVE ADVANCE EARNED INCOME PAYMENTS.—

"(A) IN GENERAL.—Notwithstanding any other provision of law, in the case of an excessive advance earned income payment a State shall be treated as having deducted and withheld under section 3401 (relating to wage withholding), and as being required to pay to the United States, the repayment amount during the repayment calendar quarter.

"(B) EXCESSIVE ADVANCE EARNED INCOME PAYMENT.—For purposes of this section,

the term ‘excessive advance income payment’ means that portion of any advance earned income payment that, when combined with other advance earned income payments previously made to the same participating resident during the same calendar year, exceeds the amount of earned income tax credit to which that participating resident is entitled under section 32 for that year.

“(C) REPAYMENT AMOUNT.—For purposes of this subsection, the term ‘repayment amount’ means an amount equal to 50 percent of the excess of—

“(i) excessive advance earned income payments made by a State during a particular calendar year, over

“(ii) the sum of—

“(I) 4 percent of all advance earned income payments made by the State during that calendar year, and

“(II) the excessive advance earned income payments made by the State during that calendar year that have been collected from participating residents by the Secretary.

"(D) REPAYMENT CALENDAR QUARTER.—For purposes of this subsection, the term 'repayment calendar quarter' means the second calendar quarter of the third calendar year beginning after the calendar year in which an excessive earned income payment is made.

"(7) DEFINITIONS.—For purposes of this subsection—

"(A) STATE ADVANCE PAYMENT PROGRAM.—The term 'State Advance Payment Program' means the program described in a proposal submitted for designation under paragraph (1) and designated by the Secretary under paragraph (2).

"(B) RESPONSIBLE STATE AGENCY.—The term 'responsible State agency' means the single State agency that will be making the advance earned income payments to residents of the State who elect to participate in a State Advance Payment Program.

"(C) ADVANCE EARNED INCOME PAYMENTS.—The term 'advance earned income payments' means an amount paid by a responsible State agency to residents of the State pursuant to a State Advance Payment Program.

"(D) PARTICIPATING RESIDENT.—The term 'participating resident' means an individual who—

"(i) is a resident of a State that has in effect a designated State Advance Payment Program,

"(ii) makes the election described in paragraph (3)(D) pursuant to guidelines prescribed by the State,

"(iii) certifies to the State the number of qualifying children the individual has, and

"(iv) provides to the State the certifications and statement described in subsections (b)(1), (b)(2), (b)(3), and (b)(4) (except that for purposes of this clause, the term 'any employer' shall be substituted for 'another employer' in subsection (b)(3)), along with any other information required by the State.".

(b) TECHNICAL ASSISTANCE.—The Secretaries of the Treasury and Health and Human Services shall jointly ensure that technical assistance is provided to State Advance Payment Programs and that these programs are rigorously evaluated.

(c) ANNUAL REPORTS.—The Secretary shall issue annual reports detailing the extent to which—

(1) residents participate in the State Advance Payment Programs,

(2) participating residents file Federal and State tax returns,

(3) participating residents report accurately the amount of the advance earned income payments made to them by the responsible State agency during the year, and

(4) recipients of excessive advance earned income payments repay those amounts.

The report shall also contain an estimate of the amount of advance earned income payments made by each responsible State agency but not reported on the tax returns of a participating resident and the amount of excessive advance earned income payments.

(d) AUTHORIZATION OF APPROPRIATIONS.—For purposes of providing technical assistance described in subsection (b), preparing the reports described in subsection (c), and providing grants to States in support of designated State Advance Payment Programs, there are authorized to be appropriated in advance to the Secretary of the Treasury and the Secretary of Health and Human

Services a total of $1,400,000 for fiscal years 1997 through 2000.

SEC. 9205. CONSOLIDATED CHILD CARE DEVELOPMENT BLOCK GRANT.

(a) PURPOSE.—It is the purpose of this section to—

(1) eliminate program fragmentation and create a seamless system of high quality child care that allows for continuity of care for children as parents move from welfare to work;

(2) provide for parental choice among high quality child care programs; and

(3) increase the availability of high quality affordable child care in order to promote self sufficiency and support working families.

(b) AMENDMENTS TO CHILD CARE AND DEVELOPMENT BLOCK GRANT ACT OF 1990.—

(1) APPROPRIATIONS.—Section 658B of the Child Care and Development Block Grant Act of 1990 (42 U.S.C. 9858) is amended to read as follows:

"SEC. 658B. APPROPRIATION.

"(a) AUTHORIZATION OF APPROPRIATIONS OF BLOCK GRANT FUNDS.—For the purpose of providing child care services for eligible children through the awarding of grants to States under this subchapter (other than

the grants awarded under subsection (b)) by the Secretary, there are authorized to be appropriated, $1,000,000,000 for fiscal year 1996 and such sums as may be necessary for fiscal years 1997 through 2002.

"(b) APPROPRIATIONS OF FEDERAL MATCHING FUNDS.—For the purpose of providing child care services for eligible children through the awarding of matching grants to States under section 658J(d) by the Secretary, there are authorized to be appropriated and are hereby appropriated, baseline plus $500,000,000 for fiscal year 1996, baseline plus $500,000,000 for fiscal year 1997, baseline plus $500,000,000 for fiscal year 1998, baseline plus $500,000,000 for fiscal year 1999, baseline plus $500,000,000 for fiscal year 2000, baseline plus $500,000,000 for fiscal year 2001, and baseline plus $500,000,000 for fiscal year 2002.".

(2) USE OF FUNDS.—Section 658E(c)(3)(B) of the Child Care and Development Block Grant Act of 1990 (42 U.S.C. 9858c(c)(3)(B)) is amended—

(A) in clause (i), by striking "with very low family incomes (taking into consideration family size)" and inserting "described in clause (ii) (in the order so described)";

(B) by redesignating clauses (i) and (ii) as subclauses (I) and (II), respectively, and realigning the margins accordingly;

(C) by striking ''Subject'' and inserting the following:

''(i) IN GENERAL.—Subject''; and

(D) by adding at the end the following new clause:

''(ii) FAMILIES DESCRIBED.—The families described in this clause are the following:

''(I) Families containing an individual receiving assistance under a State plan approved under part A of title IV of the Social Security Act and participating in education, job search, job training, work, or workfare programs.

''(II) Families containing an individual who—

''(aa) no longer qualifies for child care assistance under section 405(b) of the Social Security Act because such individual has ceased to receive assistance under

the temporary employment assistance program under part A of title IV of the Social Security Act as a result of increased hours of, or increased income from, employment; and

"(bb) the State determines requires such child care assistance in order to continue such employment (but only for the 1-year period beginning on the date that the individual no longer qualifies for child care assistance under section 405(b) of such Act, and, at the option of the State, for the additional 1-year period beginning after the conclusion of the first 1-year period).

"(III) Families containing an individual who—

"(aa) is not described in subclause (I) or (II); and

"(bb) has an annual income for a fiscal year below 75 percent of the State median income.".

(3) SET-ASIDES FOR QUALITY AND EXPANSION.—Section 658E(c)(3) of the Child Care and Development Block Grant Act of 1990 (42 U.S.C. 9858c(c)(3)) is amended in subparagraph (C), by striking ''25 percent'' and inserting ''10 percent''.

(4) SLIDING FEE SCALE.—Section 658E(c)(5) of the Child Care and Development Block Grant Act of 1990 (42 U.S.C. 9858c(c)(5)) is amended by inserting ''described in subclauses (II) and (III) of paragraph (3)(B)(ii)'' after ''families''.

(5) MATCHING REQUIREMENT FOR NEW FUNDS.—

''SEC. 418. FUNDING FOR CHILD CARE.

''(a) GENERAL CHILD CARE ENTITLEMENT.—

''(1) GENERAL ENTITLEMENT.—Subject to the amount appropriated under 658(B)(b), each State shall, for the purpose of providing child care assistance, be entitled to payments under a grant under this subsection for a fiscal year in an amount equal to—

''(A) the sum of the total amount required to be paid to the State under former section 403 for fiscal year 1994 with respect to amounts expended for child care under section—

"(i) 402(g) of this Act (as such section was in effect before October 1, 1995); and

"(ii) 403(i) of this Act (as so in effect); or

"(B) the average of the total amounts required to be paid to the State for fiscal years 1992 through 1994 under the sections referred to in subparagraph (A);

whichever is greater.

"(2) REMAINDER.—

"(A) GRANTS.—The Secretary shall use any amounts appropriated for a fiscal year under 658(B)(b)(3), and remaining after the reservation described in paragraph (3) and after grants are awarded under paragraph (1), to make grants to States under this paragraph.

"(B) AMOUNT.—Subject to subparagraph (C), the amount of a grant awarded to a State for a fiscal year under this paragraph shall be based on the formula used for determining the amount of Federal payments to the State under section 658(o).

"(C) MATCHING REQUIREMENT.—The Secretary shall pay to each eligible State in a fiscal

year an amount, under a grant under subparagraph (A), equal to the Federal medical assistance percentage for such State for fiscal year 1994 (as defined in section 1905(b)) of so much of the expenditures by the State for child care in such year as exceed the State set-aside for such State under subparagraph (A) for such year and the amount of State expenditures in fiscal year 1994 that equal the non-Federal share for the programs described in subparagraphs (A), (B) and (C) of paragraph (1).

"(3) REDISTRIBUTION.—With respect to any fiscal year, if the Secretary determines that amounts under any grant awarded to a State under this subsection for such fiscal year will not be used by such State for carrying out the purpose for which the grant is made, the Secretary shall make such amounts available for carrying out such purpose to 1 or more other States which apply for such funds to the extent the Secretary determines that such other States will be able to use such additional amounts for carrying out such purpose. Such available amounts shall be redistributed to a State pursuant to section 402(i) (as such section was in effect before October 1, 1995) by substituting 'the number

of children residing in all States applying for such funds' for 'the number of children residing in the United States in the second preceding fiscal year'. Any amount made available to a State from an appropriation for a fiscal year in accordance with the preceding sentence shall, for purposes of this part, be regarded as part of such State's payment (as determined under this subsection) for such year.

''(e) AMOUNTS RESERVED FOR INDIAN TRIBES.—The Secretary shall reserve not more than 3 percent of the amount appropriated under section 658B in each fiscal year for payments to Indian tribes and tribal organizations with applications approved under section 6580(c). The amounts reserved under the prior sentence shall be available to make grants to or enter into contracts with Indian tribes or tribal organizations consistent with section 6580(c) without a requirement of matching funds by the Indian tribes or tribal organizations.

''(f) SAME TREATMENT AS ALLOTMENTS.—Amounts paid to a State or Indian tribe under subsections (d) and (e) shall be subject to the same requirements under this subchapter as amounts paid from the allotment under section 658O.''.

(B) CONFORMING AMENDMENTS.—Section 658O of the Child Care and Development Block

Grant Act of 1990 (42 U.S.C. 9858m) is amended—

(i) in subsection (a)—

(I) in paragraph (1), by striking ''this subchapter'' and inserting section 658B(a); and

(II) in paragraph (2), by striking ''section 658B'' and inserting ''section 658B(a); and

(ii) in subsection (b)(1), by striking ''section 658B'' and inserting ''section 658B(a)''.

(6) IMPROVING QUALITY.—

(A) INCREASE IN REQUIRED FUNDING.—Section 658G of the Child Care and Development Block Grant Act of 1990 (42 U.S.C. 9858e) is amended by striking ''not less than 20 percent''.

(B) QUALITY IMPROVEMENT INCENTIVE INITIATIVE.—Section 658G of the Child Care and Development Block Grant Act of 1990 (42 U.S.C. 9858e) is amended—

(i) by striking ''A State'' and inserting ''(a) IN GENERAL.—A State'';

(ii) by adding at the end the following new subparagraphs:

"(6) BEFORE AND AFTER-SCHOOL ACTIVITIES.—Increasing the availability of before and after-school care.

"(7) INFANT CARE.—Increasing the availability of child care for infants under the age of 18 months.

"(8) NONTRADITIONAL WORK HOURS.—Increasing the availability of child care between the hours of 5:00 p.m. and 8:00 a.m.";

(iii) by adding at the end the following new subsection:

"(b) QUALITY IMPROVEMENT INCENTIVE INITIATIVE.—

"(1) IN GENERAL.—The Secretary shall establish a child care quality improvement incentive initiative to make funds available to States that demonstrate progress in the implementation of—

"(A) innovative teacher training programs such as the Department of Defense staff development and compensation program for child care personnel; or

"(B) enhanced child care quality standards and licensing and monitoring procedures.

"(2) FUNDING.—From the amounts made available for each fiscal year under subsection (a), the Secretary shall reserve not to exceed $250,000,000 in each such fiscal year to carry out this subsection.".

(7) REPEAL—Section 658H of the Child Care and Development Block Grant Act of 1990 (42 U.S.C. 9858f) is repealed.

(8) PAYMENTS.—Section 658J(a) of the Child Care and Development Block Grant Act of 1990 (42 U.S.C. 9858h) is amended by striking "Subject to the availability of appropriation, a" and inserting "A".

(9) DEFINITION OF POVERTY LINE.—Section 658P of the Child Care and Development Block Grant Act of 1990 (42 U.S.C. 9858n) is amended—

(A) by redesignating paragraphs (10) through (14) as paragraphs (11) through (15), respectively; and

(B) by inserting after paragraph (9), the following new paragraph:

"(10) POVERTY LINE.—The term 'poverty line' means the poverty line (as such term is defined in section 673(2) of the Community Services Block

Grant Act (42 U.S.C. 9902(2)), including any revision required by such section) that—

"(A) in the case of a family of less than 4 individuals, is applicable to a family of the size involved; and

"(B) in the case of a family of 4 or more individuals, is applicable to a family of 4 individuals.".

(c) PROGRAM REPEALS.—

(1) STATE DEPENDENT CARE GRANTS.—Subchapter E of chapter 8 of subtitle A of title VI of the Omnibus Budget Reconciliation Act of 1981 (42 U.S.C. 9871 et seq.) is repealed.

(2) CHILD DEVELOPMENT ASSOCIATE SCHOLARSHIP ASSISTANCE ACT.—The Child Development Associate Scholarship Assistance Act of 1985 (42 U.S.C. 10901 et seq.) is repealed.

SEC. 9206. CERTAIN FEDERAL ASSISTANCE INCLUDIBLE IN GROSS INCOME.

(a) IN GENERAL.—Part II of subchapter B of chapter 1 of the Internal Revenue Code of 1986 (relating to items specifically included in gross income) is amended by adding at the end the following new section:

"SEC. 91. CERTAIN FEDERAL ASSISTANCE.

"(a) IN GENERAL.—Gross income shall include an amount equal to the specified Federal assistance received by the taxpayer during the taxable year.

"(b) SPECIFIED FEDERAL ASSISTANCE.—For purposes of this section—

"(1) IN GENERAL.—The term 'specified Federal assistance' means—

"(A) supplemental security income benefits under title XVI of the Social Security Act (including supplemental security income benefits of the type described in section 1616 of such Act or section 212 of Public Law 93-66).".

(b) REPORTING.—

(1) IN GENERAL.—Subpart B of part III of subchapter A of chapter 61 of such Code is amended by adding at the end the following new section:

"SEC. 6050Q. PAYMENTS OF CERTAIN FEDERAL ASSISTANCE.

"(a) REQUIREMENT OF REPORTING.—The appropriate official shall make a return, according to the forms and regulations prescribed by the Secretary, setting forth—

"(1) the aggregate amount of specified Federal assistance paid to any individual during any calendar year, and

"(2) the name, address, and TIN of such individual.

"(b) STATEMENTS TO BE FURNISHED TO PERSONS WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—Every person required to make a return under subsection (a) shall furnish to each individual whose name is required to be set forth in such return a written statement showing—

"(1) the aggregate amount of payments made to the individual which are required to be shown on such return, and

"(2) the name of the agency making the payments.

The written statement required under the preceding sentence shall be furnished to the individual on or before January 31 of the year following the calendar year for which the return under subsection (a) was required to be made.

"(c) DEFINITIONS AND SPECIAL RULE.—For purposes of this section—

"(1) APPROPRIATE OFFICIAL.—The term 'appropriate official' means—

"(A) in the case of specified Federal assistance described in section 91(b)(1)(A), the head of the State agency administering the plan under which such assistance is provided,

"(B) in the case of specified Federal assistance described in section 91(b)(1)(B), the head of the State agency administering the program under which such assistance is provided, and

"(C) in the case of specified Federal assistance described in section 91(b)(1)(C), the Secretary of Health and Human Services.

"(2) SPECIFIED FEDERAL ASSISTANCE.—The term 'specified Federal assistance' has the meaning given such term by section 91(b).

"(3) AMOUNTS TREATED AS PAID.—The rules of section 91(c) shall apply for purposes of determining to whom specified Federal assistance is paid."

(2) PENALTIES.—

(A) Subparagraph (B) of section 6724(d)(1) of such Code is amended by redesignating clauses (ix) through (xiv) as clauses (x) through (xv), respectively, and by inserting after clause (viii) the following new clause:

"(ix) section 6050Q (relating to payments of certain Federal assistance),".

(B) Paragraph (2) of section 6724(d) of such Code is amended by redesignating sub-

paragraphs (Q) through (T) as subparagraphs (R) through (U), respectively, and by inserting after subparagraph (P) the following new subparagraph:

"(Q) section 6050Q(b) (relating to payments of certain Federal assistance),".

(c) SUPPLEMENTAL SECURITY INCOME BENEFITS NOT TAKEN INTO ACCOUNT FOR PURPOSES OF THE EARNED INCOME TAX CREDIT.—Section 32 of the Internal Revenue Code of 1986 (relating to the earned income tax credit), is amended by adding at the end the following new subsection:

"(k) ADJUSTED GROSS INCOME DETERMINED WITHOUT REGARD TO CERTAIN FEDERAL ASSISTANCE.—For purposes of this section, adjusted gross income shall be determined without regard to any amount which is includible in gross income solely by reason of section 91."

(d) CLERICAL AMENDMENTS.—

(1) The table of sections for part II of subchapter B of chapter 1 of such Code is amended by adding at the end the following new item:

"Sec. 91. Certain Federal assistance.".

(2) The table of sections for subpart B of part III of subchapter A of chapter 61 of such Code is

amended by adding at the end the following new item:

"Sec. 6050Q. Payments of certain Federal assistance.".

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to benefits received after December 31, 1995, except that the amendment made by subsection (c) shall apply to taxable years beginning after such date.

SEC. 9207. DEPENDENT CARE CREDIT TO BE REFUNDABLE; HIGH-INCOME TAXPAYERS INELIGIBLE FOR CREDIT.

(a) CREDIT TO BE REFUNDABLE.—

(1) IN GENERAL.—Section 21 of the Internal Revenue Code of 1986 (relating to expenses for household and dependent care services necessary for gainful employment) is hereby moved to subpart C of part IV of subchapter A of chapter 1 of such Code (relating to refundable credits) and inserted after section 34.

(2) TECHNICAL AMENDMENTS.—

(A) Section 35 of such Code is redesignated as section 36.

(B) Section 21 of such Code is redesignated as section 35.

(C) Paragraph (1) of section 35(a) of such Code (as redesignated by subparagraph (B)) is

amended by striking ''this chapter'' and inserting ''this subtitle''.

(D) Subparagraph (C) of section 129(a)(2) of such Code is amended by striking ''section 21(e)'' and inserting ''section 35(e)''.

(E) Paragraph (2) of section 129(b) of such Code is amended by striking ''section 21(d)(2)'' and inserting ''section 35(d)(2)''.

(F) Paragraph (1) of section 129(e) of such Code is amended by striking ''section 21(b)(2)'' and inserting ''section 35(b)(2)''.

(G) Subsection (e) of section 213 of such Code is amended by striking ''section 21'' and inserting ''section 35''.

(H) Paragraph (2) of section 1324(b) of title 31, United States Code, is amended by inserting before the period '', or from section 35 of such Code''.

(I) The table of sections for subpart C of part IV of subchapter A of chapter 1 of such Code is amended by striking the item relating to section 35 and inserting the following:

''Sec. 35. Expenses for household and dependent care services necessary for gainful employment.
''Sec. 36. Overpayments of tax.''.

(J) The table of sections for subpart A of such part IV is amended by striking the item relating to section 21.

(b) HIGHER-INCOME TAXPAYERS INELIGIBLE FOR CREDIT.—Subsection (a) of section 35 of such Code, as redesignated by subsection (a), is amended by adding at the end the following new paragraph:

"(3) PHASEOUT OF CREDIT FOR HIGHER-INCOME TAXPAYERS.—The amount of the credit which would (but for this paragraph) be allowed by this section shall be reduced (but not below zero) by an amount which bears the same ratio to such amount of credit as the excess of the taxpayer's adjusted gross income for the taxable year over $60,000 bears to $20,000. Any reduction determined under the preceding sentence which is not a multiple of $10 shall be rounded to the nearest multiple of $10.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1996.

Subtitle C—Work First

SEC. 9301. WORK FIRST PROGRAM.

(a) ESTABLISHMENT AND OPERATION OF PROGRAM.—Title IV (42 U.S.C. 601 et seq.) is amended by striking part F and inserting the following:

"Part F—Work First Program

"SEC. 481. STATE ROLE.

''(a) PROGRAM REQUIREMENTS.—Any State may establish and operate a work first program that meets the following requirements:

''(1) OBJECTIVE.—The objective of the program is for each program participant to find and hold a full-time unsubsidized paid job, and for this goal to be achieved in a cost-effective fashion.

''(2) METHOD.—The method of the program is to connect recipients of assistance under the State plan approved under part A with the private sector labor market as soon as possible and offer them the support and skills necessary to remain in the labor market. Each component of the program should be permeated with an emphasis on employment and with an understanding that minimum wage jobs are a stepping stone to more highly paid employment. The program shall provide recipients with education, training, job search and placement, wage supplementation, temporary subsidized jobs, or such other services that the State deems necessary to help a recipient obtain private sector employment.

''(3) JOB CREATION.—The creation of jobs, with an emphasis on private sector jobs, shall be a component of the program and shall be a priority for

each State office with responsibilities under the program.

"(4) FORMS OF ASSISTANCE.—The State shall provide assistance to participants in the program in the form of education, training, job placement services (including vouchers for job placement services), work supplementation programs, temporary subsidized job creation, job counseling, assistance in establishing microenterprises, or other services to provide individuals with the support and skills necessary to obtain and keep employment in the private sector.

"(5) 2-YEAR LIMITATION ON PARTICIPATION.—The program shall comply with section 487(b).

"(6) AGREEMENTS OF MUTUAL RESPONSIBILITY.—

"(A) IN GENERAL.—The State agency shall develop an agreement of mutual responsibility for each program participant, which will be an individualized comprehensive plan, developed by the team and the participant, to move the participant into a full-time unsubsidized job. The agreement should detail the education, training, or skills that the individual will be receiving to obtain a full-time unsubsidized job, and the obligations of the individual.

"(B) HOURS OF PARTICIPATION REQUIREMENT.—The agreement shall provide that the individual shall participate in activities in accordance with the agreement for—

"(i) not fewer than 20 hours per week during fiscal years 1997 and 1998;

"(ii) not fewer than 25 hours per week during fiscal year 1999; and

"(iii) not fewer than 30 hours per week thereafter.

"(7) CASELOAD PARTICIPATION RATES.—The program shall comply with section 488.

"(8) NONDISPLACEMENT.—The program may not be operated in a manner that results in—

"(A) the displacement of a currently employed worker or position by a program participant;

"(B) the replacement of an employee who has been terminated with a program participant; or

"(C) the replacement of an individual who is on layoff from the same position given to a program participant or any equivalent position.

"(b) ANNUAL REPORTS.—

"(1) COMPLIANCE WITH PERFORMANCE MEASURES.—Each State that operates a program under this part shall submit to the Secretary annual reports that compare the achievements of the program with the performance-based measures established under section 488(c).

"(2) COMPLIANCE WITH PARTICIPATION RATES.—Each State that operates a program under this part for a fiscal year shall submit to the Secretary a report on the participation rate of the State for the fiscal year.

"SEC. 482. REVAMPED JOBS PROGRAM.

"A State that establishes a program under this part may operate a program similar to the program known as the 'GAIN Program' that has been operated by Riverside County, California, under Federal law in effect immediately before the date this part first applies to the State of California.

"SEC. 483. USE OF PLACEMENT COMPANIES.

"(a) IN GENERAL.—A State that establishes a program under this part may enter into contracts with private companies (whether operated for profit or not for profit) for the placement of participants in the program in positions of full-time employment, preferably in the private

sector, for wages sufficient to eliminate the need of such participants for cash assistance.

"(b) REQUIRED CONTRACT TERMS.—Each contract entered into under this section with a company shall meet the following requirements:

"(1) PROVISION OF JOB READINESS AND SUPPORT SERVICES.—The contract shall require the company to provide, to any program participant who presents to the company a voucher issued under subsection (d) intensive personalized support and job readiness services designed to prepare the individual for employment and ensure the continued success of the individual in employment.

"(2) PAYMENTS.—

"(A) IN GENERAL.—The contract shall provide for payments to be made to the company with respect to each program participant who presents to the company a voucher issued under subsection (d).

"(B) STRUCTURE.—The contract shall provide for the majority of the amounts to be paid under the contract with respect to a program participant, to be paid after the company has placed the participant in a position of full-time employment and the participant has been

employed in the position for such period of not less than 5 months as the State deems appropriate.

"(c) COMPETITIVE BIDDING REQUIRED.—Contracts under this section shall be awarded only after competitive bidding.

"(d) VOUCHERS.—The State shall issue a voucher to each program participant whose agreement of mutual responsibility provides for the use of placement companies under this section, indicating that the participant is eligible for the services of such a company.

"SEC. 484. TEMPORARY SUBSIDIZED JOB CREATION.

"A State that establishes a program under this part may establish a program similar to the program known as 'JOBS Plus' that has been operated by the State of Oregon under Federal law in effect immediately before the date this part first applies to the State of Oregon.

"SEC. 485. MICROENTERPRISE.

"(a) GRANTS AND LOANS TO NONPROFIT ORGANIZATIONS FOR THE PROVISION OF TECHNICAL ASSISTANCE, TRAINING, AND CREDIT TO LOW INCOME ENTREPRENEURS.—A State that establishes a program under this part may make grants and loans to nonprofit organizations to provide technical assistance, training, and credit

to low income entrepreneurs for the purpose of establishing microenterprises.

"(b) MICROENTERPRISE DEFINED.—For purposes of this subsection, the term 'microenterprise' means a commercial enterprise which has 5 or fewer employees, 1 or more of whom owns the enterprise.

"SEC. 486. WORK SUPPLEMENTATION PROGRAM.

"(a) IN GENERAL.—A State that establishes a program under this part may institute a work supplementation program under which the State, to the extent it considers appropriate, may reserve the sums that would otherwise be payable under the State plan approved under part A to participants in the program and use the sums instead for the purpose of providing and subsidizing jobs for the participants (as described in subsection (c)(3)(A) and (B)), as an alternative to providing such assistance to the participants.

"(b) STATE FLEXIBILITY.—

"(1) Nothing in this part, or in any State plan approved under part A, shall be construed to prevent a State from operating (on such terms and conditions and in such cases as the State may find to be necessary or appropriate) a work supplementation program in accordance with this section and section

484 (as in effect immediately before the date this part first applies to the State).

''(2) Notwithstanding any other provision of law, a State may adjust the levels of the standards of need under the State plan as the State determines to be necessary and appropriate for carrying out a work supplementation program under this section.

''(3) Notwithstanding any other provision of law, a State operating a work supplementation program under this section may provide that the need standards in effect in those areas of the State in which the program is in operation may be different from the need standards in effect in the areas in which the program is not in operation, and the State may provide that the need standards for categories of recipients may vary among such categories to the extent the State determines to be appropriate on the basis of ability to participate in the work supplementation program.

''(4) Notwithstanding any other provision of law, a State may make such further adjustments in the amounts of assistance provided under the plan to different categories of recipients (as determined under paragraph (3)) in order to offset increases in benefits from needs-related programs (other than

the State plan approved under part A) as the State determines to be necessary and appropriate to further the purposes of the work supplementation program.

"(5) In determining the amounts to be reserved and used for providing and subsidizing jobs under this section as described in subsection (a), the State may use a sampling methodology.

"(6) Notwithstanding any other provision of law, a State operating a work supplementation program under this section, may reduce or eliminate the amount of earned income to be disregarded under the State plan as the State determines to be necessary and appropriate to further the purposes of the work supplementation program.

"(c) RULES RELATING TO SUPPLEMENTED JOBS.—

"(1) A work supplementation program operated by a State under this section may provide that any individual who is an eligible individual (as determined under paragraph (2)) shall take a supplemented job (as defined in paragraph (3)) to the extent that supplemented jobs are available under the program. Payments by the State to individuals or to employers under the work supplementation program shall be treated as expenditures incurred by the

State for temporary employment assistance under part A except as limited by subsection (d).

"(2) For purposes of this section, an eligible individual is an individual who is in a category which the State determines should be eligible to participate in the work supplementation program, and who would, at the time of placement in the job involved, be eligible for assistance under an approved State plan if the State did not have a work supplementation program in effect.

"(3) For purposes of this subsection, a supplemented job is—

"(A) a job provided to an eligible individual by the State or local agency administering the State plan under part A; or

"(B) a job provided to an eligible individual by any other employer for which all or part of the wages are paid by the State or local agency.

A State may provide or subsidize under the program any job which the State determines to be appropriate.

"(d) COST LIMITATION.—The amount of the Federal payment to a State under section 413 for expenditures incurred in making payments to individuals and employers

under a work supplementation program under this subsection shall not exceed an amount equal to the amount which would otherwise be payable under such section if the family of each individual employed in the program established in the State under this section had received the maximum amount of assistance providable under the State plan to such a family with no income (without regard to adjustments under subsection (b) of this section) for the lesser of—

"(1) 9 months; or

"(2) the number of months in which the individual was employed in the program.

"(e) RULES OF INTERPRETATION.—

"(1) This section shall not be construed as requiring the State or local agency administering the State plan to provide employee status to an eligible individual to whom the State or local agency provides a job under the work supplementation program (or with respect to whom the State or local agency provides all or part of the wages paid to the individual by another entity under the program), or as requiring any State or local agency to provide that an eligible individual filling a job position provided by another entity under the program be provided em-

ployee status by the entity during the first 13 weeks the individual fills the position.

"(2) Wages paid under a work supplementation program shall be considered to be earned income for purposes of any provision of law.

"(f) PRESERVATION OF MEDICAID ELIGIBILITY.—Any State that chooses to operate a work supplementation program under this section shall provide that any individual who participates in the program, and any child or relative of the individual (or other individual living in the same household as the individual) who would be eligible for assistance under the State plan approved under part A if the State did not have a work supplementation program, shall be considered individuals receiving assistance under the State plan approved under part A for purposes of eligibility for medical assistance under the State plan approved under title XIX.

"SEC. 487. PARTICIPATION RULES.

"(a) IN GENERAL.—Except as provided in subsection (b), a State that establishes a program under this part may require any individual receiving assistance under the State plan approved under part A to participate in the program.

"(b) 2-YEAR LIMITATION ON PARTICIPATION.—

"(1) IN GENERAL.—Except as provided in paragraph (2), an individual may not participate in a State program established under this part if the individual has participated in the State program established under this part for 24 months after the date the individual first signed an agreement of mutual responsibility under this part, excluding any month during which the individual worked for an average of at least 25 hours per week in a private sector job.

"(2) AUTHORITY TO ALLOW REPEAT PARTICIPATION.—

"(A) IN GENERAL.—Subject to subparagraph (B) of this paragraph, a State may allow an individual who, by reason of paragraph (1), would be prohibited from participating in the State program established under this part to participate in the program for such additional period or periods as the State determines appropriate.

"(B) LIMITATION ON PERCENTAGE OF REPEAT PARTICIPANTS.—

"(i) IN GENERAL.—Except as provided in clause (ii) of this subparagraph, the number of individuals allowed under

subparagraph (A) to participate during a program year in a State program established under this part shall not exceed—

"(I) 10 percent of the total number of individuals who participated in the State program established under this part or the State program established under part H during the immediately preceding program year; or

"(II) in the case of fiscal year 2004 or any succeeding fiscal year, 15 percent of such total number of individuals.

"(ii) AUTHORITY TO INCREASE LIMITATION.—

"(I) PETITION.—A State may request the Secretary to increase to not more than 15 percent the percentage limitation imposed by clause (i)(I) for a fiscal year before fiscal year 2004.

"(II) AUTHORITY TO GRANT REQUEST.—The Secretary may approve a request made pursuant to subclause (I) if the Secretary deems it appropriate. The Secretary shall develop

recommendations on the criteria that should be applied in evaluating requests under subclause (I).

"SEC. 488. CASELOAD PARTICIPATION RATES; PERFORMANCE MEASURES.

"(a) PARTICIPATION RATES.—

"(1) REQUIREMENT.—A State that operates a program under this part shall achieve a participation rate for the following fiscal years of not less than the following percentage:

"Fiscal year:	Percentage:
1997	20
1998	24
1999	28
2000	32
2001	36
2002	40
2003 or later	52.

"(2) PARTICIPATION RATE DEFINED.—

"(A) IN GENERAL.—As used in this subsection, the term 'participation rate' means, with respect to a State and a fiscal year, an amount equal to—

"(i) the average monthly number of individuals who, during the fiscal year, participate in the State program established under this part or (if applicable) part G or H; divided by

"(ii) the average monthly number of individuals who are not described in section 402(c)(1)(D) and for whom an individual responsibility plan is in effect under section 403 during the fiscal year.

"(B) SPECIAL RULE.—For each of the 1st 12 months after an individual ceases to receive assistance under a State plan approved under part A by reason of having become employed for more than 25 hours per week in an unsubsidized job in the private sector, the individual shall be considered to be participating in the State program established under this part, and to be an adult recipient of such assistance, for purposes of subparagraph (A).

"(3) STATE COMPLIANCE REPORTS.—Each State that operates a program under this part for a fiscal year shall submit to the Secretary a report on the participation rate of the State for the fiscal year.

"(4) EFFECT OF FAILURE TO MEET PARTICIPATION RATES.—

"(A) IN GENERAL.—If a State reports that the State has failed to achieve the participation rate required by paragraph (1) for the fiscal year, the Secretary may make recommendations

for changes in the State program established under this part and (if the State has established a program under part G) the State program established under part G. The State may elect to follow such recommendations, and shall demonstrate to the Secretary how the State will achieve the required participation rates.

"(B) SECOND CONSECUTIVE FAILURE.—Notwithstanding subparagraph (A), if a State fails to achieve the participation rate required by paragraph (1) for 2 consecutive fiscal years, the Secretary may—

"(i) require the State to make changes in the State program established under this part and (if the State has established a program under part G) the State program established under part G; and

"(ii) reduce by 5 percent the amount otherwise payable to the State under section 413.

"(b) PERFORMANCE STANDARDS.—The Secretary shall develop standards to be used to measure the effectiveness of the programs established under this part and part G in moving recipients of assistance under the State

plan approved under part A into full-time unsubsidized employment.

"(c) PERFORMANCE-BASED MEASURES.—

"(1) ESTABLISHMENT.—The Secretary shall, by regulation, establish measures of the effectiveness of the State programs established under this part and under part G in moving recipients of assistance under the State plan approved under part A into full-time unsubsidized employment, based on the performance of such programs.

"(2) ANNUAL COMPLIANCE REPORTS.—Each State that operates a program under this part shall submit to the Secretary annual reports that compare the achievements of the program with the performance-based measures established under paragraph (1).

"SEC. 489. FEDERAL ROLE.

"(a) APPROVAL OF STATE PLANS.—

"(1) IN GENERAL.—Within 60 days after the date a State submits to the Secretary a plan that provides for the establishment and operation of a work first program that meets the requirements of section 481, the Secretary shall approve the plan.

"(2) AUTHORITY TO EXTEND APPROVAL DEADLINE.—The 60-day deadline established in para-

graph (1) with respect to a State may be extended in accordance with an agreement between the Secretary and the State.

"(b) PERFORMANCE-BASED MEASURES.—The Secretary shall, by regulation, establish measures of the effectiveness of the State program established under this part and (if the State has established a program under part G) the State program established under part G in moving recipients of assistance under the State plan approved under part A into full-time unsubsidized employment, based on the performance of such programs.

"(c) EFFECT OF FAILURE TO MEET PARTICIPATION RATES.—

"(1) IN GENERAL.—If a State reports that the State has failed to achieve the participation rate required by section 488 for the fiscal year, the Secretary may make recommendations for changes in the State program established under this part and (if the State has established a program under part G) the State program established under part G. The State may elect to follow such recommendations, and shall demonstrate to the Secretary how the State will achieve the required participation rates.

"(2) SECOND CONSECUTIVE FAILURE.—Notwithstanding paragraph (1), if the State has failed

to achieve the participation rates required by section 488 for 2 consecutive fiscal years, the Secretary may require the State to make changes in the State program established under this part and (if the State has established a program under part G) the State program established under part G.

"PART G—WORKFARE PROGRAM

"SEC. 490. ESTABLISHMENT AND OPERATION OF PROGRAM.

"(a) IN GENERAL.—A State that establishes a work first program under part F may establish and carry out a workfare program that meets the requirements of this part, unless the State has established a job placement voucher program under part H.

"(b) OBJECTIVE.—The objective of the workfare program is for each program participant to find and hold a full-time unsubsidized paid job, and for this goal to be achieved in a cost-effective fashion.

"(c) CASE MANAGEMENT TEAMS.—The State shall assign to each program participant a case management team that shall meet with the participant and assist the participant to choose the most suitable workfare job under subsection (e), (f), or (g) and to eventually obtain a full-time unsubsidized paid job.

"(d) PROVISION OF JOBS.—The State shall provide each participant in the program with a community service

job that meets the requirements of subsection (e) or a subsidized job that meets the requirements of subsection (f) or (g).

"(e) COMMUNITY SERVICE JOBS.—

"(1) IN GENERAL.—Except as provided in paragraphs (2) and (3), each participant shall work for not fewer than 30 hours per week (or, at the option of the State, 20 hours per week during fiscal years 1997 and 1998, not fewer than 25 hours per week during fiscal year 1999, not fewer than 30 hours per week during fiscal years 2000 and 2001, and not fewer than 35 hours per week thereafter) in a community service job, and be paid at a rate which is not greater than 75 percent (or, at the option of the State, 100 percent) of the maximum amount of assistance that may be provided under the State plan approved under part A to a family of the same size and composition with no income.

"(2) EXCEPTION.—(A) If the participant has obtained unsubsidized part-time employment in the private sector, the State shall provide the participant with a part-time community service job.

"(B) If the State provides a participant a part-time community service job under subparagraph (A),

the State shall ensure that the participant works for not fewer than 30 hours per week.

"(3) WAGES NOT CONSIDERED EARNED INCOME.—Wages paid under a workfare program shall not be considered to be earned income for purposes of any provision of law.

"(4) COMMUNITY SERVICE JOB DEFINED.—For purposes of this section, the term 'community service job' means—

"(A) a job provided to a participant by the State administering the State plan under part A; or

"(B) a job provided to a participant by any other employer for which all or part of the wages are paid by the State.

A State may provide or subsidize under the program any job which the State determines to be appropriate.

"(f) TEMPORARY SUBSIDIZED JOB CREATION.—A State that establishes a workfare program under this part may establish a program similar to the program operated by the State of Oregon, which is known as 'JOBS Plus'.

"(g) WORK SUPPLEMENTATION PROGRAM.—

"(1) IN GENERAL.—A State that establishes a workfare program under this part may institute a

work supplementation program under which the State, to the extent it considers appropriate, may reserve the sums that would otherwise be payable to participants in the program as a community service minimum wage and use the sums instead for the purpose of providing and subsidizing private sector jobs for the participants.

"(2) EMPLOYER AGREEMENT.—An employer who provides a private sector job to a participant under paragraph (1) shall agree to provide to the participant an amount in wages equal to the poverty threshold for a family of three.

"(h) JOB SEARCH REQUIREMENT.—The State shall require each participant to spend a minimum of 5 hours per week on activities related to securing unsubsidized full-time employment in the private sector.

"(i) DURATION OF PARTICIPATION.—

"(1) IN GENERAL.—Except as provided in paragraph (2), an individual may not participate for more than 2 years in a workfare program under this part.

"(2) AUTHORITY TO ALLOW REPEATED PARTICIPATION.—

"(A) IN GENERAL.—Subject to subparagraph (B), a State may allow an individual

who, by reason of paragraph (1), would be prohibited from participating in the State program established under this part to participate in the program for such additional period or periods as the State determines appropriate.

"(B) LIMITATION ON PERCENTAGE OF REPEAT PARTICIPANTS.—

"(i) IN GENERAL.—Except as provided in clause (ii), the number of individuals allowed under subparagraph (A) to participate during a program year in a State program established under this part shall not exceed 10 percent of the total number of individuals who participated in the program during the immediately preceding program year.

"(ii) AUTHORITY TO INCREASE LIMITATION.—

"(I) PETITION.—A State may request the Secretary to increase the percentage limitation imposed by clause (i) to not more than 15 percent.

"(II) AUTHORITY TO GRANT REQUEST.—The Secretary may approve

a request made pursuant to subclause (I) if the Secretary deems it appropriate. The Secretary shall develop recommendations on the criteria that should be applied in evaluating requests under subclause (I).

''(j) USE OF PLACEMENT COMPANIES.—A State that establishes a workfare program under this part may enter into contracts with private companies (whether operated for profit or not for profit) for the placement of participants in the program in positions of full-time employment, preferably in the private sector, for wages sufficient to eliminate the need of such participants for cash assistance in accordance with section 483.

''(k) MAXIMUM OF 3 COMMUNITY SERVICE JOBS.—A program participant may not receive more than 3 community service jobs under the program.

''PART H—JOB PLACEMENT VOUCHER PROGRAM

''SEC. 490A. JOB PLACEMENT VOUCHER PROGRAM.

''A State that is not operating a workfare program under part G may establish a job placement voucher program that meets the following requirements:

''(1) The program shall offer each program participant a voucher which the participant may use to obtain employment in the private sector.

"(2) An employer who receives a voucher issued under the program from an individual may redeem the voucher at any time after the individual has been employed by the employer for 6 months, unless another employee of the employer was displaced by the employment of the individual.

"(3) Upon presentation of a voucher by an employer to the State agency responsible for the administration of the program, the State agency shall pay to the employer an amount equal to 50 percent of the total amount of assistance provided under the State plan approved under part A to the family of which the individual is a member for the most recent 12 months for which the family was eligible for such assistance.".

(c) FUNDING.—Section 413(a), as added by section 9101(a) of this Act, is amended—

(1) by striking "Subject to" and inserting the following:

"(1) IN GENERAL.—Subject to"; and

(2) by inserting after and below the end the following:

"(2) WORK FIRST AND OTHER PROGRAMS.—(A) Each State that is operating a program in accordance with a plan approved under part F and a pro-

gram in accordance with part G or H shall be entitled to payments under paragraph (3) for any fiscal year in an amount equal to the sum of the applicable percentages (specified in such paragraph) of its expenditures to carry out such programs (subject to limitations prescribed by or pursuant to such parts or this part on expenditures that may be included for purposes of determining payment under paragraph (3)), but such payments for any fiscal year in the case of any State may not exceed the limitation determined under subparagraph (B) with respect to the State.

''(B) The limitation determined under this subparagraph with respect to a State for any fiscal year is the amount that bears the same ratio to the amount specified in subparagraph (C) for such fiscal year as the average monthly number of adult recipients (as defined in subparagraph (D)) in the State in the preceding fiscal year bears to the average monthly number of such recipients in all the States for such preceding year.

''(C)(i) The amount specified in this subparagraph is—

''(I) $1,600,000,000 for fiscal year 1997;

''(II) $1,600,000,000 for fiscal year 1998;

"(III) $1,900,000,000 for fiscal year 1999;

"(IV) $2,500,000,000 for fiscal year 2000; and

"(V) $3,200,000,000 for fiscal year 2001; and

"(VI) $4,700,000,000 for fiscal year 2002; and

"(VII) the amount determined under clause (ii) for fiscal year 2003 and each succeeding fiscal year.

"(ii) The amount determined under this clause for a fiscal year is the product of the following:

"(I) The amount specified in this subparagraph for the immediately preceding fiscal year.

"(II) 1.00 plus the percentage (if any) by which—

"(aa) the average of the Consumer Price Index (as defined in section 1(f)(5) of the Internal Revenue Code of 1986) for the most recent 12-month period for which such information is available; exceeds

"(bb) the average of the Consumer Price Index (as so defined) for the 12-month period ending on June 30 of the 2nd preceding fiscal year.

"(III) The amount that bears the same ratio to the amount specified in this subparagraph for the immediately preceding fiscal year as the number of individuals whom the Secretary estimates will participate in programs operated under part F, G, or H during the fiscal year bears to the total number of individuals who participated in such programs during such preceding fiscal year.

"(D) For purposes of this paragraph, the term 'adult recipient' in the case of any State means an individual other than a dependent child (unless such child is the custodial parent of another dependent child) whose needs are met (in whole or in part) with assistance provided under the State plan approved under this part.

"(E) For purposes of subparagraph (D), the term 'dependent child' means a needy child (i) who has been deprived of parental support or care by reason of the death, continued absence from the home (other than absence occasioned solely by reason of the performance of active duty in the uniformed services of the United States), or physical or mental incapacity of a parent, and who is living with his father, mother, grandfather, grandmother, broth-

er, sister, stepfather, stepmother, stepbrother, stepsister, uncle, aunt, first cousin, nephew, or niece, in a place of residence maintained by one or more of such relatives as his or their own home, and (ii) who is (I) under the age of eighteen, or (II) at the option of the State, under the age of nineteen and a full-time student in a secondary school (or in the equivalent level of vocational or technical training), if, before he attains age nineteen, he may reasonably be expected to complete the program of such secondary school (or such training).

''(F) For purposes of subparagraph (E), the term 'relative with whom any dependent child is living' means the individual who is one of the relatives specified in subparagraph (E) and with whom such child is living (within the meaning of such subsection) in a place of residence maintained by such individual (himself or together with any one or more of the other relatives so specified) as his (or their) own home.

''(3)(A) In lieu of any payment under paragraph (1) therefor, the Secretary shall pay to each State that is operating a program in accordance with a plan approved under part F and a program in accordance with part G or H, with respect to ex-

1 penditures by the State to carry out such programs,
2 an amount equal to—
3 "(i) with respect to so much of such ex-
4 penditures in a fiscal year as do not exceed the
5 State's expenditures in the fiscal year 1987
6 with respect to which payments were made to
7 such State from its allotment for such fiscal
8 year pursuant to part C of this title as then in
9 effect, 90 percent; and
10 "(ii) with respect to so much of such ex-
11 penditures in a fiscal year as exceed the amount
12 described in clause (i)—
13 "(I) 50 percent, in the case of expend-
14 itures for administrative costs made by a
15 State in operating such programs for such
16 fiscal year (other than the personnel costs
17 for staff employed full-time in the oper-
18 ation of such program) and the costs of
19 transportation and other work-related sup-
20 portive services; and
21 "(II) 60 percent or the Federal medi-
22 cal assistance percentage (as defined in the
23 last sentence of section 1118), whichever is
24 the greater, in the case of expenditures
25 made by a State in operating such pro-

grams for such fiscal year (other than for costs described in subclause (I)).

"(B) With respect to the amount for which payment is made to a State under subparagraph (A)(i), the State's expenditures for the costs of operating such programs may be in cash or in kind, fairly evaluated.

"(C) Not more than 10 percent of the amount payable to a State under this paragraph for a quarter may be for expenditures made during the quarter with respect to program participants who are not eligible for assistance under the State plan approved under this part.".

(d) SECRETARY'S SPECIAL ADJUSTMENT FUND.—Section 413(a), as added by section 9101(a) of this Act, is amended by adding at the end the following:

"(4) SECRETARY'S SPECIAL ADJUSTMENT FUND.—(A) There shall be available to the Secretary from the amount appropriated for payments under paragraph (2) for States' programs under parts F and G for fiscal year 1996, $300,000,000 for special adjustments to States' limitations on Federal payments for such programs.

"(B) A State may, not later than March 1 and September 1 of each fiscal year, submit to the Sec-

retary a request to adjust the limitation on payments under this section with respect to its program under part F (and, in fiscal years after 1997) its program under part G for the following fiscal year. The Secretary shall only consider such a request from a State which has, or which demonstrates convincingly on the basis of estimates that it will, submit allowable claims for Federal payment in the full amount available to it under paragraph (2) in the current fiscal year and obligated 95 percent of its full amount in the prior fiscal year. The Secretary shall by regulation prescribe criteria for the equitable allocation among the States of Federal payments pursuant to adjustments of the limitations referred to in the preceding sentence in the case where the requests of all States that the Secretary finds reasonable exceed the amount available, and, within 30 days following the dates specified in this paragraph, will notify each State whether one or more of its limitations will be adjusted in accordance with the State's request and the amount of the adjustment (which may be some or all of the amount requested).

''(C) The Secretary may adjust the limitation on Federal payments to a State for a fiscal year

under paragraph (2), and upon a determination by the Secretary that (and the amount by which) a State's limitation should be raised, the amount specified in such paragraph shall be considered to be so increased for the following fiscal year.

"(D) The amount made available under subparagraph (A) for special adjustments shall remain available to the Secretary until expended. That amount shall be reduced by the sum of the adjustments approved by the Secretary in any fiscal year, and the amount shall be increased in a fiscal year by the amount by which all States' limitations under paragraph (2) of this subsection and section 2008 for a fiscal year exceeded the sum of the Federal payments under such provisons of law for such fiscal year, but for fiscal years after 1997, such amount at the end of such fiscal year shall not exceed $400,000,000.".

(e) CONFORMING AMENDMENTS.—

(1) Section 1115(b)(2)(A) (42 U.S.C. 1315(b)(2)(A)) is amended by striking ", and 402(a)(19) (relating to the work incentive program)".

(2) Section 1108 (42 U.S.C. 1308) is amended—

(A) in subsection (a), by striking ''or, in the case of part A of title IV, section 403(k)''; and

(B) in subsection (d), by striking ''(exclusive of any amounts on account of services and items to which, in the case of part A of such title, section 403(k) applies)''.

(3) Section 1902(a)(10)(A)(i)(I) (42 U.S.C. 1396a(a)(19)(A)(i)(I)) is amended—

(A) by striking ''402(a)(37), 406(h), or''; and

(B) by striking ''482(e)(6)'' and inserting ''486(f)''.

(4) Section 1928(a)(1) (42 U.S.C. 1396s(a)(1)) is amended by striking ''482(e)(6)'' and inserting ''486(f)''.

(f) INTENT OF THE CONGRESS.—The Congress intends for State activities under section 484 of the Social Security Act (as added by the amendment made by section 9301(a) of this Act) to emphasize the use of the funds that would otherwise be used to provide individuals with assistance under part A of title IV of the Social Security Act and with food stamp benefits under the Food Stamp Act of 1977, to subsidize the wages of such individuals in temporary jobs.

(g) SENSE OF THE CONGRESS.—It is the sense of the Congress that States should target individuals who have not attained 25 years of age for participation in the program established by the State under part F of title IV of the Social Security Act (as added by the amendment made by section 9301(a) of this section) in order to break the cycle of welfare dependency.

SEC. 9302. REGULATIONS.

The Secretary of Health and Human Services shall prescribe such regulations as may be necessary to implement the amendments made by this subtitle.

SEC. 9303. APPLICABILITY TO STATES.

(a) STATE OPTION TO ACCELERATE APPLICABILITY.—If a State formally notifies the Secretary of Health and Human Services that the State desires to accelerate the applicability to the State of the amendments made by this subtitle, the amendments shall apply to the State on and after such earlier date as the State may select.

(b) STATE OPTION TO DELAY APPLICABILITY UNTIL WAIVERS EXPIRE.—The amendments made by this subtitle shall not apply to a State with respect to which there is in effect a waiver issued under section 1115 of the Social Security Act for the State program established under part F of title IV of such Act, until the waiver expires, if the State formally notifies the Secretary of Health and

Human Services that the State desires to so delay such effective date.

(c) AUTHORITY OF THE SECRETARY OF HEALTH AND HUMAN SERVICES TO DELAY APPLICABILITY TO A STATE.—If a State formally notifies the Secretary of Health and Human Services that the State desires to delay the applicability to the State of the amendments made by this title, the amendments shall apply to the State on and after any later date agreed upon by the Secretary and the State.

Subtitle D—Family Responsibility And Improved Child Support Enforcement

CHAPTER 1—ELIGIBILITY AND OTHER MATTERS CONCERNING TITLE IV–D PROGRAM CLIENTS

SEC. 9401. STATE OBLIGATION TO PROVIDE PATERNITY ESTABLISHMENT AND CHILD SUPPORT ENFORCEMENT SERVICES.

(a) STATE LAW REQUIREMENTS.—Section 466(a) (42 U.S.C. 666(a)) is amended by inserting after paragraph (11) the following:

"(12) USE OF CENTRAL CASE REGISTRY AND CENTRALIZED COLLECTIONS UNIT.—Procedures under which—

"(A) every child support order established or modified in the State on or after October 1, 1998, is recorded in the central case registry established in accordance with section 454A(e); and

"(B) child support payments are collected through the centralized collections unit established in accordance with section 454B—

"(i) on and after October 1, 1998, under each order subject to wage withholding under section 466(b); and

"(ii) on and after October 1, 1999, under each other order required to be recorded in such central case registry under this paragraph or section 454A(e), except as provided in subparagraph (C); and

"(C)(i) parties subject to a child support order described in subparagraph (B)(ii) may opt out of the procedure for payment of support through the centralized collections unit (but not the procedure for inclusion in the central case registry) by filing with the State agency a written agreement, signed by both parties, to an alternative payment procedure; and

"(ii) an agreement described in clause (i) becomes void whenever either party advises the State agency of an intent to vacate the agreement.".

(b) STATE PLAN REQUIREMENTS.—Section 454 (42 U.S.C. 654) is amended—

(1) by striking paragraph (4) and inserting the following:

"(4) provide that such State will undertake—

"(A) to provide appropriate services under this part to—

"(i) each child with respect to whom an assignment is effective under section 403(b)(1)(E)(i), 471(a)(17), or 1912 (except in cases where the State agency determines, in accordance with paragraph (25), that it is against the best interests of the child to do so); and

"(ii) each child not described in clause (i)—

"(I) with respect to whom an individual applies for such services; and

"(II) (on and after October 1, 1998) each child with respect to whom a support order is recorded in

the central State case registry established under section 454A, regardless of whether application is made for services under this part; and

''(B) to enforce the support obligation established with respect to the custodial parent of a child described in subparagraph (A) unless the parties to the order which establishes the support obligation have opted, in accordance with section 466(a)(12)(C), for an alternative payment procedure.''; and

(2) in paragraph (6)—

(A) by striking subparagraph (A) and inserting the following:

''(A) services under the State plan shall be made available to nonresidents on the same terms as to residents;'';

(B) in subparagraph (B)—

(i) by inserting ''on individuals not receiving assistance under part A'' after ''such services shall be imposed''; and

(ii) by inserting ''but no fees or costs shall be imposed on any absent or custodial parent or other individual for inclusion

in the central State registry maintained pursuant to section 454A(e)''; and

(C) in each of subparagraphs (B), (C), and (D)—

(i) by indenting such subparagraph and aligning its left margin with the left margin of subparagraph (A); and

(ii) by striking the final comma and inserting a semicolon.

(c) CONFORMING AMENDMENTS.—

(1) Section 452(g)(2)(A) (42 U.S.C. 652(g)(2)(A)) is amended by striking ''454(6)'' each place it appears and inserting ''454(4)(A)(ii)''.

(2) Section 454(23) (42 U.S.C. 654(23)) is amended, effective October 1, 1998, by striking ''information as to any application fees for such services and''.

(3) Section 466(a)(3)(B) (42 U.S.C. 666(a)(3)(B)) is amended by striking ''in the case of overdue support which a State has agreed to collect under section 454(6)'' and inserting ''in any other case''.

(4) Section 466(e) (42 U.S.C. 666(e)) is amended by striking ''or (6)''.

SEC. 9402. DISTRIBUTION OF PAYMENTS.

(a) DISTRIBUTIONS THROUGH STATE CHILD SUPPORT ENFORCEMENT AGENCY TO FORMER ASSISTANCE RECIPIENTS.—Section 454(5) (42 U.S.C. 654(5)) is amended—

(1) in subparagraph (A)—

(A) by striking ''section 402(a)(26) is effective,'' and inserting ''section 403(b)(1)(E)(i) is effective, except as otherwise specifically provided in section 464 or 466(a)(3),''; and

(B) by striking ''except that'' and all that follows through the semicolon; and

(2) in subparagraph (B), by striking '', except'' and all that follows through ''medical assistance''.

(b) DISTRIBUTION TO A FAMILY CURRENTLY RECEIVING TEMPORARY EMPLOYMENT ASSISTANCE.—Section 457 (42 U.S.C. 657) is amended—

(1) by striking subsection (a) and redesignating subsection (b) as subsection (a);

(2) in subsection (a) (as so redesignated)—

(A) in the matter preceding paragraph (2), to read as follows:

''(a) IN THE CASE OF A FAMILY RECEIVING TEA.—Amounts collected under this part during any month as support of a child who is receiving assistance under part A (or a parent or caretaker relative of such a child) shall

(except in the case of a State exercising the option under subsection (b)) be distributed as follows:

"(1) an amount equal to the amount that will be disregarded pursuant to section 402(d)(2)(C) shall be taken from each of—

"(A) the amounts received in a month which represent payments for that month; and

"(B) the amounts received in a month which represent payments for a prior month which were made by the absent parent in that prior month;

and shall be paid to the family without affecting its eligibility for assistance or decreasing any amount otherwise payable as assistance to such family during such month;";

(B) in paragraph (4), by striking "or (B)" and all that follows through the period and inserting "; then (B) from any remainder, amounts equal to arrearages of such support obligations assigned, pursuant to part A, to any other State or States shall be paid to such other State or States and used to pay any such arrearages (with appropriate reimbursement of the Federal Government to the extent of its

participation in the financing); and then (C) any remainder shall be paid to the family.''; and

(3) by inserting after subsection (a) (as so redesignated) the following new subsection:

''(b) ALTERNATIVE DISTRIBUTION IN CASE OF FAMILY RECEIVING TEA.—In the case of a State electing the option under this subsection, amounts collected as described in subsection (a) shall be distributed as follows:

''(1) an amount equal to the amount that will be disregarded pursuant to section 402(d)(2)(C) shall be taken from each of—

''(A) the amounts received in a month which represent payments for that month; and

''(B) the amounts received in a month which represent payments for a prior month which were made by the absent parent in that prior month;

and shall be paid to the family without affecting its eligibility for assistance or decreasing any amount otherwise payable as assistance to such family during such month;

''(2) second, from any remainder, amounts equal to the balance of support owed for the current month shall be paid to the family;

"(3) third, from any remainder, amounts equal to arrearages of such support obligations assigned, pursuant to part A, to the State making the collection shall be retained and used by such State to pay any such arrearages (with appropriate reimbursement of the Federal Government to the extent of its participation in the financing);

"(4) fourth, from any remainder, amounts equal to arrearages of such support obligations assigned, pursuant to part A, to any other State or States shall be paid to such other State or States and used to pay any such arrearages (with appropriate reimbursement of the Federal Government to the extent of its participation in the financing); and

"(5) fifth, any remainder shall be paid to the family.".

(c) DISTRIBUTION TO A FAMILY NOT RECEIVING TEA.—Section 457(c) (42 U.S.C. 657(c)) is amended to read as follows:

"(c) DISTRIBUTIONS IN CASE OF FAMILY NOT RECEIVING TEA.—Amounts collected by a State agency under this part during any month as support of a child who is not receiving assistance under part A (or of a parent or caretaker relative of such a child) shall (subject to

the remaining provisions of this section) be distributed as follows:

"(1) first, amounts equal to the total of such support owed for such month shall be paid to the family;

"(2) second, from any remainder, amounts equal to arrearages of such support obligations for months during which such child did not receive assistance under part A shall be paid to the family;

"(3) third, from any remainder, amounts equal to arrearages of such support obligations assigned to the State making the collection pursuant to part A shall be retained and used by such State to pay any such arrearages (with appropriate reimbursement of the Federal Government to the extent of its participation in the financing); and

"(4) fourth, from any remainder, amounts equal to arrearages of such support obligations assigned to any other State pursuant to part A shall be paid to such other State or States, and used to pay such arrearages, in the order in which such arrearages accrued (with appropriate reimbursement of the Federal Government to the extent of its participation in the financing).".

(d) DISTRIBUTION TO A CHILD RECEIVING ASSISTANCE UNDER TITLE IV–E.—Section 457(d) (42 U.S.C. 657(d)) is amended, in the matter preceding paragraph (1), by striking ''Notwithstanding the preceding provisions of this section, amounts'' and inserting the following:

''(d) DISTRIBUTIONS IN CASE OF A CHILD RECEIVING ASSISTANCE UNDER TITLE IV–E.—Amounts''.

(e) REGULATIONS.—The Secretary of Health and Human Services shall promulgate regulations under part A of title IV of the Social Security Act, establishing standards applicable to States electing the alternative formula under section 457(b) of such Act for distribution of collections on behalf of families receiving temporary employment assistance, designed to minimize irregular monthly payments to such families.

(f) CLERICAL AMENDMENTS.—Section 454 (42 U.S.C. 654) is amended—

(1) in paragraph (11)—

(A) by striking ''(11)'' and inserting ''(11)(A)''; and

(B) by inserting after the semicolon ''and''; and

(2) by redesignating paragraph (12) as subparagraph (B) of paragraph (11).

(g) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall become effective on October 1, 1996.

(2) FAMILY NOT RECEIVING TEA.—The amendment made by subsection (c) shall become effective on October 1, 1999.

(3) SPECIAL RULES.—

(A) APPLICABILITY.—A State may elect to have the amendments made by any subsection of this section become effective only with respect to child support cases beginning on or after the effective date of such subsection.

(B) DELAYED IMPLEMENTATION.—A State may elect to have the amendments made by this section (other than subsection (c)) become effective on a date later than October 1, 1996, which date shall coincide with the operation of the single statewide automated data processing and information retrieval system required by section 454A of the Social Security Act (as added by section 9415(a)(2) of this Act) and the State centralized collection unit required by section 454B of the Social Security Act (as added by section 9422(b) of this Act).

SEC. 9403. DUE PROCESS RIGHTS.

(a) IN GENERAL.—Section 454 (42 U.S.C. 654), as amended by section 9402(f) of this Act, is amended by inserting after paragraph (11) the following new paragraph:

"(12) provide for procedures to ensure that—

"(A) individuals who are applying for or receiving services under this part, or are parties to cases in which services are being provided under this part—

"(i) receive notice of all proceedings in which support obligations might be established or modified; and

"(ii) receive a copy of any order establishing or modifying a child support obligation, or (in the case of a petition for modification) a notice of determination that there should be no change in the amount of the child support award, within 14 days after issuance of such order or determination;

"(B) individuals applying for or receiving services under this part have access to a fair hearing that meets standards established by the Secretary and ensures prompt consideration and resolution of complaints (but the resort to

such procedure shall not stay the enforcement of any support order); and

"(C) individuals adversely affected by the establishment or modification of (or, in the case of a petition for modification, the determination that there should be no change in) a child support order shall be afforded not less than 30 days after the receipt of the order or determination to initiate proceedings to challenge such order or determination;".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall become effective on October 1, 1997.

SEC. 9404. PRIVACY SAFEGUARDS.

(a) STATE PLAN REQUIREMENT.—Section 454 (42 U.S.C. 454) is amended—

(1) by striking "and" at the end of paragraph (23);

(2) by striking the period at the end of paragraph (24) and inserting "; and"; and

(3) by adding after paragraph (24) the following:

"(25) will have in effect safeguards applicable to all sensitive and confidential information handled by the State agency designed to protect the privacy rights of the parties, including—

"(A) safeguards against unauthorized use or disclosure of information relating to proceedings or actions to establish paternity, or to establish or enforce support;

"(B) prohibitions on the release of information on the whereabouts of one party to another party against whom a protective order with respect to the former party has been entered; and

"(C) prohibitions on the release of information on the whereabouts of one party to another party if the State has reason to believe that the release of the information may result in physical or emotional harm to the former party.".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall become effective on October 1, 1997.

CHAPTER 2—PROGRAM ADMINISTRATION AND FUNDING

SEC. 9411. FEDERAL MATCHING PAYMENTS.

(a) INCREASED BASE MATCHING RATE.—Section 455(a)(2) (42 U.S.C. 655(a)(2)) is amended to read as follows:

"(2) The applicable percent for a quarter for purposes of paragraph (1)(A) is—

"(A) for fiscal year 1997, 69 percent,

"(B) for fiscal year 1998, 72 percent, and

"(C) for fiscal year 1999 and succeeding fiscal years, 75 percent.".

(b) MAINTENANCE OF EFFORT.—Section 455 (42 U.S.C. 655) is amended—

(1) in subsection (a)(1), in the matter preceding subparagraph (A), by striking "From" and inserting "Subject to subsection (c), from"; and

(2) by inserting after subsection (b) the following new subsection:

"(c) MAINTENANCE OF EFFORT.—Notwithstanding the provisions of subsection (a), total expenditures for the State program under this part for fiscal year 1997 and each succeeding fiscal year, reduced by the percentage specified for such fiscal year under subsection (a)(2)(A), (B), or (C)(i), shall not be less than such total expenditures for fiscal year 1996, reduced by 66 percent.".

SEC. 9412. PERFORMANCE-BASED INCENTIVES AND PENALTIES.

(a) INCENTIVE ADJUSTMENTS TO FEDERAL MATCHING RATE.—Section 458 (42 U.S.C. 658) is amended to read as follows:

"INCENTIVE ADJUSTMENTS TO MATCHING RATE

"SEC. 458. (a) INCENTIVE ADJUSTMENT.—(1) IN GENERAL.—In order to encourage and reward State child

support enforcement programs which perform in an effective manner, the Federal matching rate for payments to a State under section 455(a)(1)(A), for each fiscal year beginning on or after October 1, 1998, shall be increased by a factor reflecting the sum of the applicable incentive adjustments (if any) determined in accordance with regulations under this section with respect to Statewide paternity establishment and to overall performance in child support enforcement.

''(2) STANDARDS.—(A) IN GENERAL.—The Secretary shall specify in regulations—

''(i) the levels of accomplishment, and rates of improvement as alternatives to such levels, which States must attain to qualify for incentive adjustments under this section; and

''(ii) the amounts of incentive adjustment that shall be awarded to States achieving specified accomplishment or improvement levels, which amounts shall be graduated, ranging up to—

''(I) 5 percentage points, in connection with Statewide paternity establishment; and

''(II) 10 percentage points, in connection with overall performance in child support enforcement.

"(B) LIMITATION.—In setting performance standards pursuant to subparagraph (A)(i) and adjustment amounts pursuant to subparagraph (A)(ii), the Secretary shall ensure that the aggregate number of percentage point increases as incentive adjustments to all States do not exceed such aggregate increases as assumed by the Secretary in estimates of the cost of this section as of June 1995, unless the aggregate performance of all States exceeds the projected aggregate performance of all States in such cost estimates.

"(3) DETERMINATION OF INCENTIVE ADJUSTMENT.—The Secretary shall determine the amount (if any) of incentive adjustment due each State on the basis of the data submitted by the State pursuant to section 454(15)(B) concerning the levels of accomplishment (and rates of improvement) with respect to performance indicators specified by the Secretary pursuant to this section.

"(4) FISCAL YEAR SUBJECT TO INCENTIVE ADJUSTMENT.—The total percentage point increase determined pursuant to this section with respect to a State program in a fiscal year shall apply as an adjustment to the applicable percent under section 455(a)(2) for payments to such State for the succeeding fiscal year.

"(5) RECYCLING OF INCENTIVE ADJUSTMENT.—A State shall expend in the State program under this part

all funds paid to the State by the Federal Government as a result of an incentive adjustment under this section.

"(b) MEANING OF TERMS.—For purposes of this section—

"(1) the term 'Statewide paternity establishment percentage' means, with respect to a fiscal year, the ratio (expressed as a percentage) of—

"(A) the total number of out-of-wedlock children in the State under one year of age for whom paternity is established or acknowledged during the fiscal year, to

"(B) the total number of children born out of wedlock in the State during such fiscal year; and

"(2) the term 'overall performance in child support enforcement' means a measure or measures of the effectiveness of the State agency in a fiscal year which takes into account factors including—

"(A) the percentage of cases requiring a child support order in which such an order was established;

"(B) the percentage of cases in which child support is being paid;

"(C) the ratio of child support collected to child support due; and

"(D) the cost-effectiveness of the State program, as determined in accordance with standards established by the Secretary in regulations.".

(b) ADJUSTMENT OF PAYMENTS UNDER PART D OF TITLE IV.—Section 455(a)(2) (42 U.S.C. 655(a)(2)), as amended by section 9411(a) of this Act, is amended—

(1) by striking the period at the end of subparagraph (C)(ii) and inserting a comma; and

(2) by adding after and below subparagraph (C), flush with the left margin of the subsection, the following:

"increased by the incentive adjustment factor (if any) determined by the Secretary pursuant to section 458.".

(c) CONFORMING AMENDMENTS.—Section 454(22) (42 U.S.C. 654(22)) is amended—

(1) by striking "incentive payments" the first place it appears and inserting "incentive adjustments"; and

(2) by striking "any such incentive payments made to the State for such period" and inserting "any increases in Federal payments to the State resulting from such incentive adjustments".

(d) CALCULATION OF IV–D PATERNITY ESTABLISHMENT PERCENTAGE.—(1) Section 452(g)(1) (42 U.S.C.

652(g)(1)) is amended in the matter preceding subparagraph (A) by inserting ''its overall performance in child support enforcement is satisfactory (as defined in section 458(b) and regulations of the Secretary), and'' after ''1994,''.

(2) Section 452(g)(2) (42 U.S.C. 652(g)(2)) is amended—

(A) in subparagraph (A), in the matter preceding clause (i)—

(i) by striking ''paternity establishment percentage'' and inserting ''IV–D paternity establishment percentage''; and

(ii) by striking ''(or all States, as the case may be)'';

(B) in subparagraph (A)(i), by striking ''during the fiscal year'';

(C) in subparagraph (A)(ii)(I), by striking ''as of the end of the fiscal year'' and inserting ''in the fiscal year or, at the option of the State, as of the end of such year'';

(D) in subparagraph (A)(ii)(II), by striking ''or (E) as of the end of the fiscal year'' and inserting ''in the fiscal year or, at the option of the State, as of the end of such year'';

(E) in subparagraph (A)(iii)—

(i) by striking ''during the fiscal year''; and

(ii) by striking ''and'' at the end; and

(F) in the matter following subparagraph (A)—

(i) by striking ''who were born out of wedlock during the immediately preceding fiscal year'' and inserting ''born out of wedlock'';

(ii) by striking ''such preceding fiscal year'' both places it appears and inserting ''the preceding fiscal year''; and

(iii) by striking ''or (E)'' the second place it appears.

(3) Section 452(g)(3) (42 U.S.C. 652(g)(3)) is amended—

(A) by striking subparagraph (A) and redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B), respectively;

(B) in subparagraph (A), as redesignated, by striking ''the percentage of children born out-of-wedlock in the State'' and inserting ''the percentage of children in the State who are born out of wedlock or for whom support has not been established''; and

(C) in subparagraph (B), as redesignated—

(i) by inserting ''and overall performance in child support enforcement'' after ''paternity establishment percentages''; and

(ii) by inserting ''and securing support'' before the period.

(e) REDUCTION OF PAYMENTS UNDER PART D OF TITLE IV.—

(1) NEW REQUIREMENTS.—Section 455 (42 U.S.C. 655) is amended by inserting after subsection (b) the following:

''(c)(1) If the Secretary finds, with respect to a State program under this part in a fiscal year beginning on or after October 1, 1997—

''(A)(i) on the basis of data submitted by a State pursuant to section 454(15)(B), that the State program in such fiscal year failed to achieve the IV–D paternity establishment percentage (as defined in section 452(g)(2)(A)) or the appropriate level of overall performance in child support enforcement (as defined in section 458(b)(2)), or to meet other performance measures that may be established by the Secretary, or

''(ii) on the basis of an audit or audits of such State data conducted pursuant to section 452(a)(4)(C), that the State data submitted pursu-

ant to section 454(15)(B) is incomplete or unreliable; and

"(B) that, with respect to the succeeding fiscal year—

"(i) the State failed to take sufficient corrective action to achieve the appropriate performance levels as described in subparagraph (A)(i) of this paragraph, or

"(ii) the data submitted by the State pursuant to section 454(15)(B) is incomplete or unreliable,

the amounts otherwise payable to the State under this part for quarters following the end of such succeeding fiscal year, prior to quarters following the end of the first quarter throughout which the State program is in compliance with such performance requirement, shall be reduced by the percentage specified in paragraph (2).

"(2) The reductions required under paragraph (1) shall be—

"(A) not less than 6 nor more than 8 percent, or

"(B) not less than 8 nor more than 12 percent, if the finding is the second consecutive finding made pursuant to paragraph (1), or

"(C) not less than 12 nor more than 15 percent, if the finding is the third or a subsequent consecutive such finding.

"(3) For purposes of this subsection, section 405(d), and section 452(a)(4), a State which is determined as a result of an audit to have submitted incomplete or unreliable data pursuant to section 454(15)(B), shall be determined to have submitted adequate data if the Secretary determines that the extent of the incompleteness or unreliability of the data is of a technical nature which does not adversely affect the determination of the level of the State's performance.".

(2) CONFORMING AMENDMENTS.—

(A) Section 452(a)(4) (42 U.S.C. 652(a)(4)) is amended by striking "403(h)" each place such term appears and inserting "455(c)".

(B) Subsections (d)(3)(A), (g)(1), and (g)(3)(A) of section 452 (42 U.S.C. 652) are each amended by striking "403(h)" and inserting "455(c)".

(f) EFFECTIVE DATES.—

(1) INCENTIVE ADJUSTMENTS.—(A) The amendments made by subsections (a), (b), and (c)

shall become effective October 1, 1997, except to the extent provided in subparagraph (B).

(B) Section 458 of the Social Security Act, as in effect prior to the enactment of this section, shall be effective for purposes of incentive payments to States for fiscal years prior to fiscal year 1999.

(2) PENALTY REDUCTIONS.—(A) The amendments made by subsection (d) shall become effective with respect to calendar quarters beginning on and after the date of enactment of this Act.

(B) The amendments made by subsection (e) shall become effective with respect to calendar quarters beginning on and after the date one year after the date of enactment of this Act.

SEC. 9413. FEDERAL AND STATE REVIEWS AND AUDITS.

(a) STATE AGENCY ACTIVITIES.—Section 454 (42 U.S.C. 654) is amended—

(1) in paragraph (14), by striking ''(14)'' and inserting ''(14)(A)'';

(2) by redesignating paragraph (15) as subparagraph (B) of paragraph (14); and

(3) by inserting after paragraph (14) the following new paragraph:

''(15) provide for—

"(A) a process for annual reviews of and reports to the Secretary on the State program under this part, which shall include such information as may be necessary to measure State compliance with Federal requirements for expedited procedures and timely case processing, using such standards and procedures as are required by the Secretary, under which the State agency will determine the extent to which such program is in conformity with applicable requirements with respect to the operation of State programs under this part (including the status of complaints filed under the procedure required under paragraph (12)(B)); and

"(B) a process of extracting from the State automated data processing system and transmitting to the Secretary data and calculations concerning the levels of accomplishment (and rates of improvement) with respect to applicable performance indicators (including IV–D paternity establishment percentages and overall performance in child support enforcement) to the extent necessary for purposes of sections 452(g) and 458.".

(b) FEDERAL ACTIVITIES.—Section 452(a)(4) (42 U.S.C. 652(a)(4)) is amended to read as follows:

"(4)(A) review data and calculations transmitted by State agencies pursuant to section 454(15)(B) on State program accomplishments with respect to performance indicators for purposes of section 452(g) and 458, and determine the amount (if any) of penalty reductions pursuant to section 455(c) to be applied to the State;

"(B) review annual reports by State agencies pursuant to section 454(15)(A) on State program conformity with Federal requirements; evaluate any elements of a State program in which significant deficiencies are indicated by such report on the status of complaints under the State procedure under section 454(12)(B); and, as appropriate, provide to the State agency comments, recommendations for additional or alternative corrective actions, and technical assistance; and

"(C) conduct audits, in accordance with the government auditing standards of the United States Comptroller General—

"(i) at least once every 3 years (or more frequently, in the case of a State which fails to meet requirements of this part, or of regula-

tions implementing such requirements, concerning performance standards and reliability of program data) to assess the completeness, reliability, and security of the data, and the accuracy of the reporting systems, used for the calculations of performance indicators specified in subsection (g) and section 458;

''(ii) of the adequacy of financial management of the State program, including assessments of—

''(I) whether Federal and other funds made available to carry out the State program under this part are being appropriately expended, and are properly and fully accounted for; and

''(II) whether collections and disbursements of support payments and program income are carried out correctly and are properly and fully accounted for; and

''(iii) for such other purposes as the Secretary may find necessary;''.

(c) EFFECTIVE DATE.—The amendments made by this section shall be effective with respect to calendar quarters beginning on or after the date one year after enactment of this section.

SEC. 9414. REQUIRED REPORTING PROCEDURES.

(a) ESTABLISHMENT.—Section 452(a)(5) (42 U.S.C. 652(a)(5)) is amended by inserting ", and establish procedures to be followed by States for collecting and reporting information required to be provided under this part, and establish uniform definitions (including those necessary to enable the measurement of State compliance with the requirements of this part relating to expedited processes and timely case processing) to be applied in following such procedures" before the semicolon.

(b) STATE PLAN REQUIREMENT.—Section 454 (42 U.S.C. 654), as amended by section 9404(a) of this Act, is amended—

(1) by striking "and" at the end of paragraph (24);

(2) by striking the period at the end of paragraph (25) and inserting "; and"; and

(3) by adding after paragraph (25) the following:

"(26) provide that the State shall use the definitions established under section 452(a)(5) in collecting and reporting information as required under this part.".

SEC. 9415. AUTOMATED DATA PROCESSING REQUIREMENTS.

(a) REVISED REQUIREMENTS.—(1) Section 454(16) (42 U.S.C. 654(16)) is amended—

(A) by striking ", at the option of the State,";

(B) by inserting "and operation by the State agency" after "for the establishment";

(C) by inserting "meeting the requirements of section 454A" after "information retrieval system";

(D) by striking "in the State and localities thereof, so as (A)" and inserting "so as";

(E) by striking "(i)"; and

(F) by striking "(including" and all that follows and inserting a semicolon.

(2) Part D of title IV (42 U.S.C. 651–669) is amended by inserting after section 454 the following new section:

"AUTOMATED DATA PROCESSING

"SEC. 454A. (a) IN GENERAL.—In order to meet the requirements of this section, for purposes of the requirement of section 454(16), a State agency shall have in operation a single statewide automated data processing and information retrieval system which has the capability to perform the tasks specified in this section, and performs such tasks with the frequency and in the manner specified in this part or in regulations or guidelines of the Secretary.

"(b) PROGRAM MANAGEMENT.—The automated system required under this section shall perform such functions as the Secretary may specify relating to management of the program under this part, including—

"(1) controlling and accounting for use of Federal, State, and local funds to carry out such program; and

"(2) maintaining the data necessary to meet Federal reporting requirements on a timely basis.

"(c) CALCULATION OF PERFORMANCE INDICATORS.—In order to enable the Secretary to determine the incentive and penalty adjustments required by sections 452(g) and 458, the State agency shall—

"(1) use the automated system—

"(A) to maintain the requisite data on State performance with respect to paternity establishment and child support enforcement in the State; and

"(B) to calculate the IV–D paternity establishment percentage and overall performance in child support enforcement for the State for each fiscal year; and

"(2) have in place systems controls to ensure the completeness, and reliability of, and ready access to, the data described in paragraph (1)(A), and the

accuracy of the calculations described in paragraph (1)(B).

"(d) INFORMATION INTEGRITY AND SECURITY.—The State agency shall have in effect safeguards on the integrity, accuracy, and completeness of, access to, and use of data in the automated system required under this section, which shall include the following (in addition to such other safeguards as the Secretary specifies in regulations):

"(1) POLICIES RESTRICTING ACCESS.—Written policies concerning access to data by State agency personnel, and sharing of data with other persons, which—

"(A) permit access to and use of data only to the extent necessary to carry out program responsibilities;

"(B) specify the data which may be used for particular program purposes, and the personnel permitted access to such data; and

"(C) ensure that data obtained or disclosed for a limited program purpose is not used or redisclosed for another, impermissible purpose.

"(2) SYSTEMS CONTROLS.—Systems controls (such as passwords or blocking of fields) to ensure strict adherence to the policies specified under paragraph (1).

"(3) MONITORING OF ACCESS.—Routine monitoring of access to and use of the automated system, through methods such as audit trails and feedback mechanisms, to guard against and promptly identify unauthorized access or use.

"(4) TRAINING AND INFORMATION.—The State agency shall have in effect procedures to ensure that all personnel (including State and local agency staff and contractors) who may have access to or be required to use sensitive or confidential program data are fully informed of applicable requirements and penalties, and are adequately trained in security procedures.

"(5) PENALTIES.—The State agency shall have in effect administrative penalties (up to and including dismissal from employment) for unauthorized access to, or disclosure or use of, confidential data.".

(3) REGULATIONS.—Section 452 (42 U.S.C. 652) is amended by adding at the end the following:

"(j) The Secretary shall prescribe final regulations for implementation of the requirements of section 454A not later than 2 years after the date of the enactment of this subsection.".

(4) IMPLEMENTATION TIMETABLE.—Section 454(24) (42 U.S.C. 654(24)), as amended by sections

9404(a)(2) and 9414(b)(1) of this Act, is amended to read as follows:

"(24) provide that the State will have in effect an automated data processing and information retrieval system—

"(A) by October 1, 1995, meeting all requirements of this part which were enacted on or before the date of enactment of the Family Support Act of 1988; and

"(B) by October 1, 1999, meeting all requirements of this part enacted on or before the date of enactment of the Omnibus Budget Reconciliation Act of 1995 (but this provision shall not be construed to alter earlier deadlines specified for elements of such system), except that such deadline shall be extended by 1 day for each day (if any) by which the Secretary fails to meet the deadline imposed by section 452(j) of this Act;".

(b) SPECIAL FEDERAL MATCHING RATE FOR DEVELOPMENT COSTS OF AUTOMATED SYSTEMS.—Section 455(a) (42 U.S.C. 655(a)) is amended—

(1) in paragraph (1)(B)—

(A) by striking "90 percent" and inserting "the percent specified in paragraph (3)";

(B) by striking ''so much of''; and

(C) by striking ''which the Secretary'' and all that follows and inserting '', and''; and

(2) by adding at the end the following new paragraph:

''(3)(A) The Secretary shall pay to each State, for each quarter in fiscal year 1996, 90 percent of so much of State expenditures described in subparagraph (1)(B) as the Secretary finds are for a system meeting the requirements specified in section 454(16), or meeting such requirements without regard to clause (D) thereof.

''(B)(i) The Secretary shall pay to each State, for each quarter in fiscal years 1997 through 2001, the percentage specified in clause (ii) of so much of State expenditures described in subparagraph (1)(B) as the Secretary finds are for a system meeting the requirements specified in sections 454(16) and 454A, subject to clause (iii).

''(ii) The percentage specified in this clause, for purposes of clause (i), is the higher of—

''(I) 80 percent, or

''(II) the percentage otherwise applicable to Federal payments to the State under subparagraph (A) (as adjusted pursuant to section 458).''.

(c) CONFORMING AMENDMENT.—Section 123(c) of the Family Support Act of 1988 (102 Stat. 2352; Public Law 100–485) is repealed.

(d) ADDITIONAL PROVISIONS.—For additional provisions of section 454A, as added by subsection (a) of this section, see the amendments made by sections 9421, 9422(c), and 9433(d) of this Act.

SEC. 9416. DIRECTOR OF CSE PROGRAM; STAFFING STUDY.

(a) REPORTING TO SECRETARY.—Section 452(a) (42 U.S.C. 652(a)) is amended in the matter preceding paragraph (1) by striking ''directly''.

(b) STAFFING STUDIES.—

(1) SCOPE.—The Secretary of Health and Human Services shall, directly or by contract, conduct studies of the staffing of each State child support enforcement program under part D of title IV of the Social Security Act. Such studies shall include a review of the staffing needs created by requirements for automated data processing, maintenance of a central case registry and centralized collections of child support, and of changes in these needs resulting from changes in such requirements. Such studies shall examine and report on effective staffing practices used by the States and on recommended staffing procedures.

(2) FREQUENCY OF STUDIES.—The Secretary shall complete the first staffing study required under paragraph (1) by October 1, 1997, and may conduct additional studies subsequently at appropriate intervals.

(3) REPORT TO THE CONGRESS.—The Secretary shall submit a report to the Congress stating the findings and conclusions of each study conducted under this subsection.

SEC. 9417. FUNDING FOR SECRETARIAL ASSISTANCE TO STATE PROGRAMS.

Section 452 (42 U.S.C. 652), as amended by section 9415(a)(3) of this Act, is amended by adding at the end the following new subsection:

''(k) FUNDING FOR FEDERAL ACTIVITIES ASSISTING STATE PROGRAMS.—(1) There shall be available to the Secretary, from amounts appropriated for fiscal year 1996 and each succeeding fiscal year for payments to States under this part, the amount specified in paragraph (2) for the costs to the Secretary for—

''(A) information dissemination and technical assistance to States, training of State and Federal staff, staffing studies, and related activities needed to improve programs (including technical assistance concerning State automated systems);

"(B) research, demonstration, and special projects of regional or national significance relating to the operation of State programs under this part; and

"(C) operation of the Federal Parent Locator Service under section 453, to the extent such costs are not recovered through user fees.

"(2) The amount specified in this paragraph for a fiscal year is the amount equal to a percentage of the reduction in Federal payments to States under part A on account of child support (including arrearages) collected in the preceding fiscal year on behalf of children receiving assistance under State plans approved under part A in such preceding fiscal year (as determined on the basis of the most recent reliable data available to the Secretary as of the end of the third calendar quarter following the end of such preceding fiscal year), equal to—

"(A) 1 percent, for the activities specified in subparagraphs (A) and (B) of paragraph (1); and

"(B) 2 percent, for the activities specified in subparagraph (C) of paragraph (1).".

SEC. 9418. REPORTS AND DATA COLLECTION BY THE SECRETARY.

(a) ANNUAL REPORT TO CONGRESS.—(1) Section 452(a)(10)(A) (42 U.S.C. 652(a)(10)(A)) is amended—

(A) by striking ''this part;'' and inserting ''this part, including—''; and

(B) by adding at the end the following indented clauses:

''(i) the total amount of child support payments collected as a result of services furnished during such fiscal year to individuals receiving services under this part;

''(ii) the cost to the States and to the Federal Government of furnishing such services to those individuals; and

''(iii) the number of cases involving families—

''(I) who became ineligible for assistance under a State plan approved under part A during a month in such fiscal year; and

''(II) with respect to whom a child support payment was received in the same month;''.

(2) Section 452(a)(10)(C) (42 U.S.C. 652(a)(10)(C)) is amended—

(A) in the matter preceding clause (i)—

(i) by striking ''with the data required under each clause being separately stated for

cases'' and inserting ''separately stated for (1) cases'';

(ii) by striking ''cases where the child was formerly receiving'' and inserting ''or formerly received'';

(iii) by inserting ''or 1912'' after ''471(a)(17)''; and

(iv) by inserting ''(2)'' before ''all other'';

(B) in each of clauses (i) and (ii), by striking '', and the total amount of such obligations'';

(C) in clause (iii), by striking ''described in'' and all that follows and inserting ''in which support was collected during the fiscal year;'';

(D) by striking clause (iv); and

(E) by redesignating clause (v) as clause (vii), and inserting after clause (iii) the following new clauses:

''(iv) the total amount of support collected during such fiscal year and distributed as current support;

''(v) the total amount of support collected during such fiscal year and distributed as arrearages;

''(vi) the total amount of support due and unpaid for all fiscal years; and''.

(3) Section 452(a)(10)(G) (42 U.S.C. 652(a)(10)(G)) is amended by striking ''on the use of Federal courts and''.

(4) Section 452(a)(10) (42 U.S.C. 652(a)(10)) is amended by striking all that follows subparagraph (I).

(b) DATA COLLECTION AND REPORTING.—Section 469 (42 U.S.C. 669) is amended—

(1) by striking subsections (a) and (b) and inserting the following:

''(a) The Secretary shall collect and maintain, on a fiscal year basis, up-to-date statistics, by State, with respect to services to establish paternity and services to establish child support obligations, the data specified in subsection (b), separately stated, in the case of each such service, with respect to—

''(1) families (or dependent children) receiving assistance under State plans approved under part A (or E); and

''(2) families not receiving such assistance.

''(b) The data referred to in subsection (a) are—

''(1) the number of cases in the caseload of the State agency administering the plan under this part in which such service is needed; and

''(2) the number of such cases in which the service has been provided.''; and

(2) in subsection (c), by striking ''(a)(2)'' and inserting ''(b)(2)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall be effective with respect to fiscal year 1996 and succeeding fiscal years.

CHAPTER 3—LOCATE AND CASE TRACKING

SEC. 9421. CENTRAL STATE AND CASE REGISTRY.

Section 454A, as added by section 9415(a)(2) of this Act, is amended by adding at the end the following:

''(e) CENTRAL CASE REGISTRY.—(1) IN GENERAL.—The automated system required under this section shall perform the functions, in accordance with the provisions of this subsection, of a single central registry containing records with respect to each case in which services are being provided by the State agency (including, on and after October 1, 1998, each order specified in section 466(a)(12)), using such standardized data elements (such as names, social security numbers or other uniform identification numbers, dates of birth, and case identification numbers), and containing such other information (such as information on case status) as the Secretary may require.

''(2) PAYMENT RECORDS.—Each case record in the central registry shall include a record of—

"(A) the amount of monthly (or other periodic) support owed under the support order, and other amounts due or overdue (including arrears, interest or late payment penalties, and fees);

"(B) the date on which or circumstances under which the support obligation will terminate under such order;

"(C) all child support and related amounts collected (including such amounts as fees, late payment penalties, and interest on arrearages);

"(D) the distribution of such amounts collected; and

"(E) the birth date of the child for whom the child support order is entered.

"(3) UPDATING AND MONITORING.—The State agency shall promptly establish and maintain, and regularly monitor, case records in the registry required by this subsection, on the basis of—

"(A) information on administrative actions and administrative and judicial proceedings and orders relating to paternity and support;

"(B) information obtained from matches with Federal, State, or local data sources;

"(C) information on support collections and distributions; and

"(D) any other relevant information.

"(f) DATA MATCHES AND OTHER DISCLOSURES OF INFORMATION.—The automated system required under this section shall have the capacity, and be used by the State agency, to extract data at such times, and in such standardized format or formats, as may be required by the Secretary, and to share and match data with, and receive data from, other data bases and data matching services, in order to obtain (or provide) information necessary to enable the State agency (or Secretary or other State or Federal agencies) to carry out responsibilities under this part. Data matching activities of the State agency shall include at least the following:

"(1) DATA BANK OF CHILD SUPPORT ORDERS.—Furnish to the Data Bank of Child Support Orders established under section 453(h) (and update as necessary, with information including notice of expiration of orders) minimal information (to be specified by the Secretary) on each child support case in the central case registry.

"(2) FEDERAL PARENT LOCATOR SERVICE.—Exchange data with the Federal Parent Locator Service for the purposes specified in section 453.

"(3) TEMPORARY EMPLOYMENT ASSISTANCE PROGRAM AND MEDICAID AGENCIES.—Exchange

data with State agencies (of the State and of other States) administering the programs under part A and title XIX, as necessary for the performance of State agency responsibilities under this part and under such programs.

"(4) INTRA- AND INTERSTATE DATA MATCHES.—Exchange data with other agencies of the State, agencies of other States, and interstate information networks, as necessary and appropriate to carry out (or assist other States to carry out) the purposes of this part.".

SEC. 9422. CENTRALIZED COLLECTION AND DISBURSEMENT OF SUPPORT PAYMENTS.

(a) STATE PLAN REQUIREMENT.—Section 454 (42 U.S.C. 654), as amended by sections 9404(a) and 9414(b) of this Act, is amended—

(1) by striking "and" at the end of paragraph (25);

(2) by striking the period at the end of paragraph (26) and inserting "; and"; and

(3) by adding after paragraph (26) the following new paragraph:

"(27) provide that the State agency, on and after October 1, 1998—

"(A) will operate a centralized, automated unit for the collection and disbursement of child support under orders being enforced under this part, in accordance with section 454B; and

"(B) will have sufficient State staff (consisting of State employees), and (at State option) contractors reporting directly to the State agency to monitor and enforce support collections through such centralized unit, including carrying out the automated data processing responsibilities specified in section 454A(g) and to impose, as appropriate in particular cases, the administrative enforcement remedies specified in section 466(c)(1).".

(b) ESTABLISHMENT OF CENTRALIZED COLLECTION UNIT.—Part D of title IV (42 U.S.C. 651–669) is amended by adding after section 454A the following new section:

"CENTRALIZED COLLECTION AND DISBURSEMENT OF SUPPORT PAYMENTS

"SEC. 454B. (a) IN GENERAL.—In order to meet the requirement of section 454(27), the State agency must operate a single centralized, automated unit for the collection and disbursement of support payments, coordinated with the automated data system required under section 454A, in accordance with the provisions of this section, which shall be—

"(1) operated directly by the State agency (or by two or more State agencies under a regional cooperative agreement), or by a single contractor responsible directly to the State agency; and

"(2) used for the collection and disbursement (including interstate collection and disbursement) of payments under support orders in all cases being enforced by the State pursuant to section 454(4).

"(b) REQUIRED PROCEDURES.—The centralized collections unit shall use automated procedures, electronic processes, and computer-driven technology to the maximum extent feasible, efficient, and economical, for the collection and disbursement of support payments, including procedures—

"(1) for receipt of payments from parents, employers, and other States, and for disbursements to custodial parents and other obligees, the State agency, and the State agencies of other States;

"(2) for accurate identification of payments;

"(3) to ensure prompt disbursement of the custodial parent's share of any payment; and

"(4) to furnish to either parent, upon request, timely information on the current status of support payments.".

(c) USE OF AUTOMATED SYSTEM.—Section 454A, as added by section 9415(a)(2) of this Act and as amended by section 9421 of this Act, is amended by adding at the end the following new subsection:

"(g) CENTRALIZED COLLECTION AND DISTRIBUTION OF SUPPORT PAYMENTS.—The automated system required under this section shall be used, to the maximum extent feasible, to assist and facilitate collections and disbursement of support payments through the centralized collections unit operated pursuant to section 454B, through the performance of functions including at a minimum—

"(1) generation of orders and notices to employers (and other debtors) for the withholding of wages (and other income)—

"(A) within two working days after receipt (from the directory of New Hires established under section 453(i) or any other source) of notice of and the income source subject to such withholding; and

"(B) using uniform formats directed by the Secretary;

"(2) ongoing monitoring to promptly identify failures to make timely payment; and

"(3) automatic use of enforcement mechanisms (including mechanisms authorized pursuant to section 466(c)) where payments are not timely made.".

(d) EFFECTIVE DATE.—The amendments made by this section shall become effective on October 1, 1998.

SEC. 9423. AMENDMENTS CONCERNING INCOME WITHHOLDING.

(a) MANDATORY INCOME WITHHOLDING.—(1) Section 466(a)(1) (42 U.S.C. 666(a)(1)) is amended to read as follows:

"(1) INCOME WITHHOLDING.—(A) UNDER ORDERS ENFORCED UNDER THE STATE PLAN.—Procedures described in subsection (b) for the withholding from income of amounts payable as support in cases subject to enforcement under the State plan.

"(B) UNDER CERTAIN ORDERS PREDATING CHANGE IN REQUIREMENT.—Procedures under which all child support orders issued (or modified) before October 1, 1996, and which are not otherwise subject to withholding under subsection (b), shall become subject to withholding from wages as provided in subsection (b) if arrearages occur, without the need for a judicial or administrative hearing.".

(2) Section 466(a)(8) (42 U.S.C. 666(a)(8)) is repealed.

(3) Section 466(b) (42 U.S.C. 666(b)) is amended—

(A) in the matter preceding paragraph (1), by striking ''subsection (a)(1)'' and inserting ''subsection (a)(1)(A)'';

(B) in paragraph (5), by striking all that follows ''administered by'' and inserting ''the State through the centralized collections unit established pursuant to section 454B, in accordance with the requirements of such section 454B.'';

(C) in paragraph (6)(A)(i)—

(i) by inserting '', in accordance with timetables established by the Secretary,'' after ''must be required''; and

(ii) by striking ''to the appropriate agency'' and all that follows and inserting ''to the State centralized collections unit within 5 working days after the date such amount would (but for this subsection) have been paid or credited to the employee, for distribution in accordance with this part.'';

(D) in paragraph (6)(A)(ii), by inserting ''be in a standard format prescribed by the Secretary, and'' after ''shall''; and

(E) in paragraph (6)(D)—

(i) by striking ''employer who discharges'' and inserting ''employer who—(A) discharges'';

(ii) by relocating subparagraph (A), as designated, as an indented subparagraph after and below the introductory matter;

(iii) by striking the period at the end; and

(iv) by adding after and below subparagraph (A) the following new subparagraph:

''(B) fails to withhold support from wages, or to pay such amounts to the State centralized collections unit in accordance with this subsection.''.

(b) CONFORMING AMENDMENT.—Section 466(c) (42 U.S.C. 666(c)) is repealed.

(c) DEFINITION OF TERMS.—The Secretary shall promulgate regulations providing definitions, for purposes of part D of title IV of the Social Security Act, for the term ''income'' and for such other terms relating to income withholding under section 466(b) of such Act as the Secretary may find it necessary or advisable to define.

SEC. 9424. LOCATOR INFORMATION FROM INTERSTATE NETWORKS.

Section 466(a) (42 U.S.C. 666(a)), as amended by section 9423(a)(2) of this Act, is amended by inserting after paragraph (7) the following:

"(8) LOCATOR INFORMATION FROM INTERSTATE NETWORKS.—Procedures ensuring that the State will neither provide funding for, nor use for any purpose (including any purpose unrelated to the purposes of this part), any automated interstate network or system used to locate individuals—

"(A) for purposes relating to the use of motor vehicles; or

"(B) providing information for law enforcement purposes (where child support enforcement agencies are otherwise allowed access by State and Federal law),

unless all Federal and State agencies administering programs under this part (including the entities established under section 453) have access to information in such system or network to the same extent as any other user of such system or network.".

SEC. 9425. EXPANDED FEDERAL PARENT LOCATOR SERVICE.

(a) EXPANDED AUTHORITY TO LOCATE INDIVIDUALS AND ASSETS.—Section 453 (42 U.S.C. 653) is amended—

(1) in subsection (a), by striking all that follows "subsection (c))" and inserting the following:

1 ‘‘, for the purpose of establishing parentage, establishing,
2 setting the amount of, modifying, or enforcing child sup-
3 port obligations—
4 ‘‘(1) information on, or facilitating the discov-
5 ery of, the location of any individual—
6 ‘‘(A) who is under an obligation to pay
7 child support;
8 ‘‘(B) against whom such an obligation is
9 sought; or
10 ‘‘(C) to whom such an obligation is owed,
11 including such individual’s social security num-
12 ber (or numbers), most recent residential ad-
13 dress, and the name, address, and employer
14 identification number of such individual’s em-
15 ployer; and
16 ‘‘(2) information on the individual’s wages (or
17 other income) from, and benefits of, employment (in-
18 cluding rights to or enrollment in group health care
19 coverage); and
20 ‘‘(3) information on the type, status, location,
21 and amount of any assets of, or debts owed by or
22 to, any such individual.’’; and
23 (2) in subsection (b)—
24 (A) in the matter preceding paragraph (1),
25 by striking ‘‘social security’’ and all that follows

through ''absent parent'' and inserting ''information specified in subsection (a)''; and

(B) in paragraph (2), by inserting before the period '', or from any consumer reporting agency (as defined in section 603(f) of the Fair Credit Reporting Act (15 U.S.C. 1681a(f))'';

(3) in subsection (e)(1), by inserting before the period '', or by consumer reporting agencies''.

(b) REIMBURSEMENT FOR DATA FROM FEDERAL AGENCIES.—Section 453(e)(2) (42 U.S.C. 653(e)(2)) is amended in the fourth sentence by inserting before the period ''in an amount which the Secretary determines to be reasonable payment for the data exchange (which amount shall not include payment for the costs of obtaining, compiling, or maintaining the data)''.

(c) ACCESS TO CONSUMER REPORTS UNDER FAIR CREDIT REPORTING ACT.—(1) Section 608 of the Fair Credit Reporting Act (15 U.S.C. 1681f) is amended—

(A) by striking '', limited to'' and inserting ''to a governmental agency (including the entire consumer report, in the case of a Federal, State, or local agency administering a program under part D of title IV of the Social Security Act, and limited to''; and

(B) by striking ''employment, to a governmental agency'' and inserting ''employment, in the case of any other governmental agency)''.

(2) REIMBURSEMENT FOR REPORTS BY STATE AGENCIES AND CREDIT BUREAUS.—Section 453 (42 U.S.C. 653) is amended by adding at the end the following new subsection:

''(g) The Secretary is authorized to reimburse costs to State agencies and consumer credit reporting agencies the costs incurred by such entities in furnishing information requested by the Secretary pursuant to this section in an amount which the Secretary determines to be reasonable payment for the data exchange (which amount shall not include payment for the costs of obtaining, compiling, or maintaining the data).''.

(d) DISCLOSURE OF TAX RETURN INFORMATION.—(1) Section 6103(1)(6)(A)(ii) of the Internal Revenue Code of 1986 is amended by striking '', but only if'' and all that follows and inserting a period.

(2) Section 6103(1)(8)(A) of the Internal Revenue Code of 1986 is amended by inserting ''Federal,'' before ''State or local''.

(e) TECHNICAL AMENDMENTS.—

(1) Sections 452(a)(9), 453(a), 453(b), 463(a), and 463(e) (42 U.S.C. 652(a)(9), 653(a), 653(b),

663(a), and 663(e)) are each amended by inserting ''Federal'' before ''Parent'' each place it appears.

(2) Section 453 (42 U.S.C. 653) is amended in the heading by adding ''FEDERAL'' before ''PARENT''.

(f) NEW COMPONENTS.—Section 453 (42 U.S.C. 653), as amended by subsection (c)(2) of this section, is amended by adding at the end the following:

''(h) DATA BANK OF CHILD SUPPORT ORDERS.—

''(1) IN GENERAL.—Not later than October 1, 1998, In order to assist States in administering their State plans under this part and parts A, F, and G, and for the other purposes specified in this section, the Secretary shall establish and maintain in the Federal Parent Locator Service an automated registry to be known as the Data Bank of Child Support Orders, which shall contain abstracts of child support orders and other information described in paragraph (2) on each case in each State central case registry maintained pursuant to section 454A(e), as furnished (and regularly updated), pursuant to section 454A(f), by State agencies administering programs under this part.

''(2) CASE INFORMATION.—The information referred to in paragraph (1), as specified by the Sec-

retary, shall include sufficient information (including names, social security numbers or other uniform identification numbers, and State case identification numbers) to identify the individuals who owe or are owed support (or with respect to or on behalf of whom support obligations are sought to be established), and the State or States which have established or modified, or are enforcing or seeking to establish, such an order.

"(i) DIRECTORY OF NEW HIRES.—

"(1) IN GENERAL.—Not later than October 1, 1998, In order to assist States in administering their State plans under this part and parts A, F, and G, and for the other purposes specified in this section, the Secretary shall establish and maintain in the Federal Parent Locator Service an automated directory to be known as the directory of New Hires, containing—

"(A) information supplied by employers on each newly hired individual, in accordance with paragraph (2); and

"(B) information supplied by State agencies administering State unemployment compensation laws, in accordance with paragraph (3).

"(2) EMPLOYER INFORMATION.—

"(A) INFORMATION REQUIRED.—Subject to subparagraph (D), each employer shall furnish to the Secretary, for inclusion in the directory established under this subsection, not later than 10 days after the date (on or after October 1, 1998) on which the employer hires a new employee (as defined in subparagraph (C)), a report containing the name, date of birth, and social security number of such employee, and the employer identification number of the employer.

"(B) REPORTING METHOD AND FORMAT.—The Secretary shall provide for transmission of the reports required under subparagraph (A) using formats and methods which minimize the burden on employers, which shall include—

"(i) automated or electronic transmission of such reports;

"(ii) transmission by regular mail; and

"(iii) transmission of a copy of the form required for purposes of compliance

with section 3402 of the Internal Revenue Code of 1986.

"(C) EMPLOYEE DEFINED.—For purposes of this paragraph, the term 'employee' means any individual subject to the requirement of section 3402(f)(2) of the Internal Revenue Code of 1986.

"(D) PAPERWORK REDUCTION REQUIREMENT.—As required by the information resources management policies published by the Director of the Office of Management and Budget pursuant to section 3504(b)(1) of title 44, United States Code, the Secretary, in order to minimize the cost and reporting burden on employers, shall not require reporting pursuant to this paragraph if an alternative reporting mechanism can be developed that either relies on existing Federal or State reporting or enables the Secretary to collect the needed information in a more cost-effective and equally expeditious manner, taking into account the reporting costs on employers.

"(E) CIVIL MONEY PENALTY ON NONCOMPLYING EMPLOYERS.—(i) Any employer that fails to make a timely report in accordance

with this paragraph with respect to an individual shall be subject to a civil money penalty, for each calendar year in which the failure occurs, of the lesser of $500 or 1 percent of the wages or other compensation paid by such employer to such individual during such calendar year.

"(ii) Subject to clause (iii), the provisions of section 1128A (other than subsections (a) and (b) thereof) shall apply to a civil money penalty under clause (i) in the same manner as they apply to a civil money penalty or proceeding under section 1128A(a).

"(iii) Any employer with respect to whom a penalty under this subparagraph is upheld after an administrative hearing shall be liable to pay all costs of the Secretary with respect to such hearing.

"(3) EMPLOYMENT SECURITY INFORMATION.—

"(A) REPORTING REQUIREMENT.—Each State agency administering a State unemployment compensation law approved by the Secretary of Labor under the Federal Unemployment Tax Act shall furnish to the Secretary of Health and Human Services extracts of the reports to the Secretary of Labor concerning the

wages and unemployment compensation paid to individuals required under section 303(a)(6), in accordance with subparagraph (B).

"(B) MANNER OF COMPLIANCE.—The extracts required under subparagraph (A) shall be furnished to the Secretary of Health and Human Services on a quarterly basis, with respect to calendar quarters beginning on and after October 1, 1996, by such dates, in such format, and containing such information as required by that Secretary in regulations.

"(j) DATA MATCHES AND OTHER DISCLOSURES.—

"(1) VERIFICATION BY SOCIAL SECURITY ADMINISTRATION.—(A) The Secretary shall transmit data on individuals and employers maintained under this section to the Social Security Administration to the extent necessary for verification in accordance with subparagraph (B).

"(B) The Social Security Administration shall verify the accuracy of, correct or supply to the extent necessary and feasible, and report to the Secretary, the following information in data supplied by the Secretary pursuant to subparagraph (A):

"(i) the name, social security number, and birth date of each individual; and

"(ii) the employer identification number of each employer.

"(2) CHILD SUPPORT LOCATOR MATCHES.—For the purpose of locating individuals for purposes of paternity establishment and establishment and enforcement of child support, the Secretary shall—

"(A) match data in the directory of New Hires against the child support order abstracts in the Data Bank of Child Support Orders not less often than every 2 working days; and

"(B) report information obtained from such a match to concerned State agencies operating programs under this part not later than 2 working days after such match.

"(3) DATA MATCHES AND DISCLOSURES OF DATA IN ALL REGISTRIES FOR TITLE IV PROGRAM PURPOSES.—The Secretary shall—

"(A) perform matches of data in each component of the Federal Parent Locator Service maintained under this section against data in each other such component (other than the matches required pursuant to paragraph (1)), and report information resulting from such matches to State agencies operating programs under this part and parts A, F, and G; and

"(B) disclose data in such registries to such State agencies,

to the extent, and with the frequency, that the Secretary determines to be effective in assisting such States to carry out their responsibilities under such programs.

"(k) FEES.—

"(1) FOR SSA VERIFICATION.—The Secretary shall reimburse the Commissioner of Social Security, at a rate negotiated between the Secretary and the Commissioner, the costs incurred by the Commissioner in performing the verification services specified in subsection (j).

"(2) FOR INFORMATION FROM SESAS.—The Secretary shall reimburse costs incurred by State employment security agencies in furnishing data as required by subsection (j)(3), at rates which the Secretary determines to be reasonable (which rates shall not include payment for the costs of obtaining, compiling, or maintaining such data).

"(3) FOR INFORMATION FURNISHED TO STATE AND FEDERAL AGENCIES.—State and Federal agencies receiving data or information from the Secretary pursuant to this section shall reimburse the costs incurred by the Secretary in furnishing such data or

information, at rates which the Secretary determines to be reasonable (which rates shall include payment for the costs of obtaining, verifying, maintaining, and matching such data or information).

"(l) RESTRICTION ON DISCLOSURE AND USE.—Data in the Federal Parent Locator Service, and information resulting from matches using such data, shall not be used or disclosed except as specifically provided in this section.

"(m) RETENTION OF DATA.—Data in the Federal Parent Locator Service, and data resulting from matches performed pursuant to this section, shall be retained for such period (determined by the Secretary) as appropriate for the data uses specified in this section.

"(n) INFORMATION INTEGRITY AND SECURITY.—The Secretary shall establish and implement safeguards with respect to the entities established under this section designed to—

"(1) ensure the accuracy and completeness of information in the Federal Parent Locator Service; and

"(2) restrict access to confidential information in the Federal Parent Locator Service to authorized persons, and restrict use of such information to authorized purposes.

"(o) LIMIT ON LIABILITY.—The Secretary shall not be liable to either a State or an individual for inaccurate information provided to a component of the Federal Parent Locator Service section and disclosed by the Secretary in accordance with this section.".

(g) CONFORMING AMENDMENTS.—

(1) TO PART D OF TITLE IV OF THE SOCIAL SECURITY ACT.—Section 454(8)(B) (42 U.S.C. 654(8)(B)) is amended to read as follows:

"(B) the Federal Parent Locator Service established under section 453;".

(2) TO FEDERAL UNEMPLOYMENT TAX ACT.—Section 3304(16) of the Internal Revenue Code of 1986 is amended—

(A) by striking "Secretary of Health, Education, and Welfare" each place such term appears and inserting "Secretary of Health and Human Services";

(B) in subparagraph (B), by striking "such information" and all that follows and inserting "information furnished under subparagraph (A) or (B) is used only for the purposes authorized under such subparagraph;";

(C) by striking "and" at the end of subparagraph (A);

(D) by redesignating subparagraph (B) as subparagraph (C); and

(E) by inserting after subparagraph (A) the following new subparagraph:

''(B) wage and unemployment compensation information contained in the records of such agency shall be furnished to the Secretary of Health and Human Services (in accordance with regulations promulgated by such Secretary) as necessary for the purposes of the directory of New Hires established under section 453(i) of the Social Security Act, and''.

(3) TO STATE GRANT PROGRAM UNDER TITLE III OF THE SOCIAL SECURITY ACT.—Section 303(a) (42 U.S.C. 503(a)) is amended—

(A) by striking ''and'' at the end of paragraph (8);

(B) by striking the period at the end of paragraph (9) and inserting ''; and''; and

(C) by adding after paragraph (9) the following new paragraph:

''(10) The making of quarterly electronic reports, at such dates, in such format, and containing such information, as required by the Secretary of Health and Human Services under section 453(i)(3),

and compliance with such provisions as such Secretary may find necessary to ensure the correctness and verification of such reports.''.

SEC. 9426. USE OF SOCIAL SECURITY NUMBERS.

(a) STATE LAW REQUIREMENT.—Section 466(a) (42 U.S.C. 666(a)), as amended by section 9401(a) of this Act, is amended by inserting after paragraph (12) the following:

''(13) SOCIAL SECURITY NUMBERS REQUIRED.—Procedures requiring the recording of social security numbers—

''(A) of both parties on marriage licenses and divorce decrees; and

''(B) of both parents, on birth records and child support and paternity orders.''.

(b) CLARIFICATION OF FEDERAL POLICY.—Section 205(c)(2)(C)(ii) (42 U.S.C. 405(c)(2)(C)(ii)) is amended by striking the third sentence and inserting ''This clause shall not be considered to authorize disclosure of such numbers except as provided in the preceding sentence.''.

CHAPTER 4—STREAMLINING AND UNIFORMITY OF PROCEDURES

SEC. 9431. ADOPTION OF UNIFORM STATE LAWS.

Section 466(a) (42 U.S.C. 666(a)), as amended by sections 9401(a) and 9426(a) of this Act, is amended inserting after paragraph (13) the following:

"(14) INTERSTATE ENFORCEMENT.—(A) ADOPTION OF UIFSA.—Procedures under which the State adopts in its entirety (with the modifications and additions specified in this paragraph) not later than January 1, 1997, and uses on and after such date, the Uniform Interstate Family Support Act, as approved by the National Conference of Commissioners on Uniform State Laws in August, 1992.

"(B) EXPANDED APPLICATION OF UIFSA.—The State law adopted pursuant to subparagraph (A) shall be applied to any case—

"(i) involving an order established or modified in one State and for which a subsequent modification is sought in another State; or

"(ii) in which interstate activity is required to enforce an order.

"(C) JURISDICTION TO MODIFY ORDERS.—The State law adopted pursuant to subparagraph (A) of this paragraph shall contain the following provision

in lieu of section 611(a)(1) of the Uniform Interstate Family Support Act described in such subparagraph (A):

"'(1) the following requirements are met:

"'(i) the child, the individual obligee, and the obligor—

"'(I) do not reside in the issuing State; and

"'(II) either reside in this State or are subject to the jurisdiction of this State pursuant to section 201; and

"'(ii) (in any case where another State is exercising or seeks to exercise jurisdiction to modify the order) the conditions of section 204 are met to the same extent as required for proceedings to establish orders; or'.

"(D) SERVICE OF PROCESS.—The State law adopted pursuant to subparagraph (A) shall recognize as valid, for purposes of any proceeding subject to such State law, service of process upon persons in the State (and proof of such service) by any means acceptable in another State which is the initiating or responding State in such proceeding.

"(E) COOPERATION BY EMPLOYERS.—The State law adopted pursuant to subparagraph (A)

shall provide for the use of procedures (including sanctions for noncompliance) under which all entities in the State (including for-profit, nonprofit, and governmental employers) are required to provide promptly, in response to a request by the State agency of that or any other State administering a program under this part, information on the employment, compensation, and benefits of any individual employed by such entity as an employee or contractor.''.

SEC. 9432. IMPROVEMENTS TO FULL FAITH AND CREDIT FOR CHILD SUPPORT ORDERS.

Section 1738B of title 28, United States Code, is amended—

(1) in subsection (a)(2), by striking ''subsection (e)'' and inserting ''subsections (e), (f), and (i)'';

(2) in subsection (b), by inserting after the 2nd undesignated paragraph the following:

'' 'child's home State' means the State in which a child lived with a parent or a person acting as parent for at least six consecutive months immediately preceding the time of filing of a petition or comparable pleading for support and, if a child is less than six months old, the State in which the child lived from birth with any of them. A period of tem-

porary absence of any of them is counted as part of the six-month period.''; (3) in subsection (c), by inserting ''by a court of a State'' before ''is made''; (4) in subsection (c)(1), by inserting ''and subsections (e), (f), and (g)'' after ''located''; (5) in subsection (d)—

(A) by inserting ''individual'' before ''contestant''; and

(B) by striking ''subsection (e)'' and inserting ''subsections (e) and (f)''; (6) in subsection (e), by striking ''make a modification of a child support order with respect to a child that is made'' and inserting ''modify a child support order issued''; (7) in subsection (e)(1), by inserting ''pursuant to subsection (i)'' before the semicolon; (8) in subsection (e)(2)—

(A) by inserting ''individual'' before ''contestant'' each place such term appears; and

(B) by striking ''to that court's making the modification and assuming'' and inserting ''with the State of continuing, exclusive jurisdiction for a court of another State to modify the order and assume'';

(9) by redesignating subsections (f) and (g) as subsections (g) and (h), respectively;

(10) by inserting after subsection (e) the following:

"(f) RECOGNITION OF CHILD SUPPORT ORDERS.—If one or more child support orders have been issued in this or another State with regard to an obligor and a child, a court shall apply the following rules in determining which order to recognize for purposes of continuing, exclusive jurisdiction and enforcement:

"(1) If only one court has issued a child support order, the order of that court must be recognized.

"(2) If two or more courts have issued child support orders for the same obligor and child, and only one of the courts would have continuing, exclusive jurisdiction under this section, the order of that court must be recognized.

"(3) If two or more courts have issued child support orders for the same obligor and child, and only one of the courts would have continuing, exclusive jurisdiction under this section, an order issued by a court in the current home State of the child must be recognized, but if an order has not been is-

sued in the current home State of the child, the order most recently issued must be recognized.

''(4) If two or more courts have issued child support orders for the same obligor and child, and none of the courts would have continuing, exclusive jurisdiction under this section, a court may issue a child support order, which must be recognized.

''(5) The court that has issued an order recognized under this subsection is the court having continuing, exclusive jurisdiction.'';

(11) in subsection (g) (as so redesignated)—

(A) by striking ''PRIOR'' and inserting ''MODIFIED''; and

(B) by striking ''subsection (e)'' and inserting ''subsections (e) and (f)'';

(12) in subsection (h) (as so redesignated)—

(A) in paragraph (2), by inserting ''including the duration of current payments and other obligations of support'' before the comma; and

(B) in paragraph (3), by inserting ''arrears under'' after ''enforce''; and

(13) by adding at the end the following:

''(i) REGISTRATION FOR MODIFICATION.—If there is no individual contestant or child residing in the issuing State, the party or support enforcement agency seeking

to modify, or to modify and enforce, a child support order issued in another State shall register that order in a State with jurisdiction over the nonmovant for the purpose of modification.''.

SEC. 9433. STATE LAWS PROVIDING EXPEDITED PROCEDURES.

(a) STATE LAW REQUIREMENTS.—Section 466 (42 U.S.C. 666) is amended—

(1) in subsection (a)(2), in the first sentence, to read as follows: ''Expedited administrative and judicial procedures (including the procedures specified in subsection (c)) for establishing paternity and for establishing, modifying, and enforcing support obligations.''; and

(2) by adding after subsection (b) the following new subsection:

''(c) EXPEDITED PROCEDURES.—The procedures specified in this subsection are the following:

''(1) ADMINISTRATIVE ACTION BY STATE AGENCY.—Procedures which give the State agency the authority (and recognize and enforce the authority of State agencies of other States), without the necessity of obtaining an order from any other judicial or administrative tribunal (but subject to due process safeguards, including (as appropriate) requirements

for notice, opportunity to contest the action, and opportunity for an appeal on the record to an independent administrative or judicial tribunal), to take the following actions relating to establishment or enforcement of orders:

"(A) GENETIC TESTING.—To order genetic testing for the purpose of paternity establishment as provided in section 466(a)(5).

"(B) DEFAULT ORDERS.—To enter a default order, upon a showing of service of process and any additional showing required by State law—

"(i) establishing paternity, in the case of any putative father who refuses to submit to genetic testing; and

"(ii) establishing or modifying a support obligation, in the case of a parent (or other obligor or obligee) who fails to respond to notice to appear at a proceeding for such purpose.

"(C) SUBPOENAS.—To subpoena any financial or other information needed to establish, modify, or enforce an order, and to sanction failure to respond to any such subpoena.

"(D) ACCESS TO PERSONAL AND FINANCIAL INFORMATION.—To obtain access, subject to safeguards on privacy and information security, to the following records (including automated access, in the case of records maintained in automated data bases):

"(i) records of other State and local government agencies, including—

"(I) vital statistics (including records of marriage, birth, and divorce);

"(II) State and local tax and revenue records (including information on residence address, employer, income and assets);

"(III) records concerning real and titled personal property;

"(IV) records of occupational and professional licenses, and records concerning the ownership and control of corporations, partnerships, and other business entities;

"(V) employment security records;

"(VI) records of agencies administering public assistance programs;

"(VII) records of the motor vehicle department; and

"(VIII) corrections records; and

"(ii) certain records held by private entities, including—

"(I) customer records of public utilities and cable television companies; and

"(II) information (including information on assets and liabilities) on individuals who owe or are owed support (or against or with respect to whom a support obligation is sought) held by financial institutions (subject to limitations on liability of such entities arising from affording such access).

"(E) INCOME WITHHOLDING.—To order income withholding in accordance with subsection (a)(1) and (b) of section 466.

"(F) CHANGE IN PAYEE.—(In cases where support is subject to an assignment under section 403(b)(1)(E)(i), 471(a)(17), or 1912, or to

a requirement to pay through the centralized collections unit under section 454B) upon providing notice to obligor and obligee, to direct the obligor or other payor to change the payee to the appropriate government entity.

"(G) SECURE ASSETS TO SATISFY ARREARAGES.—For the purpose of securing overdue support—

"(i) to intercept and seize any periodic or lump-sum payment to the obligor by or through a State or local government agency, including—

"(I) unemployment compensation, workers' compensation, and other benefits;

"(II) judgments and settlements in cases under the jurisdiction of the State or local government; and

"(III) lottery winnings;

"(ii) to attach and seize assets of the obligor held by financial institutions;

"(iii) to attach public and private retirement funds in appropriate cases, as determined by the Secretary; and

"(iv) to impose liens in accordance with paragraph (a)(4) and, in appropriate cases, to force sale of property and distribution of proceeds.

"(H) INCREASE MONTHLY PAYMENTS.—For the purpose of securing overdue support, to increase the amount of monthly support payments to include amounts for arrearages (subject to such conditions or restrictions as the State may provide).

"(I) SUSPENSION OF DRIVERS' LICENSES.—To suspend drivers' licenses of individuals owing past-due support, in accordance with subsection (a)(16).

"(2) SUBSTANTIVE AND PROCEDURAL RULES.—The expedited procedures required under subsection (a)(2) shall include the following rules and authority, applicable with respect to all proceedings to establish paternity or to establish, modify, or enforce support orders:

"(A) LOCATOR INFORMATION; PRESUMPTIONS CONCERNING NOTICE.—Procedures under which—

"(i) the parties to any paternity or child support proceedings are required

(subject to privacy safeguards) to file with the tribunal before entry of an order, and to update as appropriate, information on location and identity (including Social Security number, residential and mailing addresses, telephone number, driver's license number, and name, address, and telephone number of employer); and

"(ii) in any subsequent child support enforcement action between the same parties, the tribunal shall be authorized, upon sufficient showing that diligent effort has been made to ascertain such party's current location, to deem due process requirements for notice and service of process to be met, with respect to such party, by delivery to the most recent residential or employer address so filed pursuant to clause (i).

"(B) STATEWIDE JURISDICTION.—Procedures under which—

"(i) the State agency and any administrative or judicial tribunal with authority to hear child support and paternity cases exerts statewide jurisdiction over the par-

ties, and orders issued in such cases have statewide effect; and

"(ii) (in the case of a State in which orders in such cases are issued by local jurisdictions) a case may be transferred between jurisdictions in the State without need for any additional filing by the petitioner, or service of process upon the respondent, to retain jurisdiction over the parties.".

(c) EXCEPTIONS FROM STATE LAW REQUIREMENTS.—Section 466(d) (42 U.S.C. 666(d)) is amended—

(1) by striking "(d) If" and inserting the following:

"(d) EXEMPTIONS FROM REQUIREMENTS.—

"(1) IN GENERAL.—Subject to paragraph (2), if"; and

(2) by adding at the end the following new paragraph:

"(2) NONEXEMPT REQUIREMENTS.—The Secretary shall not grant an exemption from the requirements of—

"(A) subsection (a)(5) (concerning procedures for paternity establishment);

"(B) subsection (a)(10) (concerning modification of orders);

"(C) subsection (a)(12) (concerning recording of orders in the central State case registry);

"(D) subsection (a)(13) (concerning recording of Social Security numbers);

"(E) subsection (a)(14) (concerning interstate enforcement); or

"(F) subsection (c) (concerning expedited procedures), other than paragraph (1)(A) thereof (concerning establishment or modification of support amount).".

(d) AUTOMATION OF STATE AGENCY FUNCTIONS.—Section 454A, as added by section 9415(a)(2) of this Act and as amended by sections 9421 and 9422(c) of this Act, is amended by adding at the end the following new subsection:

"(h) EXPEDITED ADMINISTRATIVE PROCEDURES.—The automated system required under this section shall be used, to the maximum extent feasible, to implement any expedited administrative procedures required under section 466(c).".

CHAPTER 5—PATERNITY ESTABLISHMENT

SEC. 9441. SENSE OF THE CONGRESS.

It is the sense of the Congress that social services should be provided in hospitals to women who have become pregnant as a result of rape or incest.

SEC. 9442. AVAILABILITY OF PARENTING SOCIAL SERVICES FOR NEW FATHERS.

Section 466(a) (42 U.S.C. 666(a)), as amended by sections 9401(a), 9426(a), and 9431 of this Act, is amended by inserting after paragraph (14) the following:

"(15) Procedures for providing new fathers with positive parenting counseling that stresses the importance of paying child support in a timely manner, in accordance with regulations prescribed by the Secretary.".

SEC. 9443. COOPERATION REQUIREMENT AND GOOD CAUSE EXCEPTION.

(a) IN GENERAL.—Section 454 (42 U.S.C. 654) is amended—

(1) by striking "and" at the end of paragraph (23);

(2) by striking the period at the end of paragraph (24) and inserting "; and"; and

(3) by inserting after paragraph (24) the following:

"(25) provide that the State agency administering the plan under this part—

"(A) will make the determination specified under paragraph (4), as to whether an individual is cooperating with efforts to establish paternity and secure support (or has good cause not to cooperate with such efforts) for purposes of the requirements of sections 403(b)(1)(E)(i) and 1912;

"(B) will advise individuals, both orally and in writing, of the grounds for good cause exceptions to the requirement to cooperate with such efforts;

"(C) will take the best interests of the child into consideration in making the determination whether such individual has good cause not to cooperate with such efforts;

"(D)(i) will make the initial determination as to whether an individual is cooperating (or has good cause not to cooperate) with efforts to establish paternity within 10 days after such individual is referred to such State agency by the State agency administering the program under part A of title XIX;

"(ii) will make redeterminations as to cooperation or good cause at appropriate intervals; and

"(iii) will promptly notify the individual, and the State agencies administering such programs, of each such determination and redetermination;

"(E) with respect to any child born on or after the date 10 months after enactment of this provision, will not determine (or redetermine) the mother (or other custodial relative) of such child to be cooperating with efforts to establish paternity unless such individual furnishes—

"(i) the name of the putative father (or fathers); and

"(ii) sufficient additional information to enable the State agency, if reasonable efforts were made, to verify the identity of the person named as the putative father (including such information as the putative father's present address, telephone number, date of birth, past or present place of employment, school previously or currently attended, and names and addresses of par-

ents, friends, or relatives able to provide location information, or other information that could enable service of process on such person), and

"(F)(i) (where a custodial parent who was initially determined not to be cooperating (or to have good cause not to cooperate) is later determined to be cooperating or to have good cause not to cooperate) will immediately notify the State agencies administering the programs under part A of title XIX that this eligibility condition has been met; and

"(ii) (where a custodial parent was initially determined to be cooperating (or to have good cause not to cooperate)) will not later determine such individual not to be cooperating (or not to have good cause not to cooperate) until such individual has been afforded an opportunity for a hearing.".

(b) MEDICAID AMENDMENTS.—Section 1912(a) (42 U.S.C. 1396k(a)) is amended—

(1) in paragraph (1)(B), by inserting "(except as provided in paragraph (2))" after "to cooperate with the State";

(2) in subparagraphs (B) and (C) of paragraph (1) by striking ", unless" and all that follows and inserting a semicolon; and

(3) by redesignating paragraph (2) as paragraph (5), and inserting after paragraph (1) the following new paragraphs:

"(2) provide that the State agency will immediately refer each applicant or recipient requiring paternity establishment services to the State agency administering the program under part D of title IV;

"(3) provide that an individual will not be required to cooperate with the State, as provided under paragraph (1), if the individual is found to have good cause for refusing to cooperate, as determined in accordance with standards prescribed by the Secretary, which standards shall take into consideration the best interests of the individuals involved—

"(A) to the satisfaction of the State agency administering the program under part D, as determined in accordance with section 454(25), with respect to the requirements to cooperate with efforts to establish paternity and to obtain support (including medical support) from a parent; and

"(B) to the satisfaction of the State agency administering the program under this title, with respect to other requirements to cooperate under paragraph (1);

"(4) provide that (except as provided in paragraph (5)) an applicant requiring paternity establishment services (other than an individual presumptively eligible pursuant to section 1920) shall not be eligible for medical assistance under this title until such applicant—

"(i) has furnished to the agency administering the State plan under part D of title IV the information specified in section 454(25)(E); or

"(ii) has been determined by such agency to have good cause not to cooperate; and

"(5) provide that the provisions of paragraph (4) shall not apply with respect to an applicant—

"(i) if such agency has not, within 10 days after such individual was referred to such agency, provided the notification required by section 454(25)(D)(iii), until such notification is received; and

"(ii) if such individual appeals a determination that the individual lacks good cause

for noncooperation, until after such determination is affirmed after notice and opportunity for a hearing.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall be effective with respect to applications filed in or after the first calendar quarter beginning 10 months or more after the date of the enactment of this Act (or such earlier quarter as the State may select) for assistance under a State plan approved under part A of title IV of the Social Security Act or for medical assistance under a State plan approved under title XIX of such Act.

SEC. 9444. FEDERAL MATCHING PAYMENTS.

(a) INCREASED BASE MATCHING RATE.—Section 455(a)(2) (42 U.S.C. 655(a)(2)) is amended to read as follows:

''(2) The applicable percent for a quarter for purposes of paragraph (1)(A) is—

''(A) for fiscal year 1996, 69 percent;

''(B) for fiscal year 1997, 72 percent; and

''(C) for fiscal year 1998 and succeeding fiscal years, 75 percent.''.

(b) MAINTENANCE OF EFFORT.—Section 455 (42 U.S.C. 655) is amended—

(1) in subsection (a)(1), in the matter preceding subparagraph (A), by striking ''From'' and inserting ''Subject to subsection (c), from''; and

(2) by inserting after subsection (b) the following:

''(c) MAINTENANCE OF EFFORT.—Notwithstanding subsection (a), total expenditures for the State program under this part for fiscal year 1996 and each succeeding fiscal year, reduced by the percentage specified for such fiscal year under subparagraph (A), (B), or (C)(i) of paragraph (2), shall not be less than such total expenditures for fiscal year 1995, reduced by 66 percent.''.

SEC. 9445. STATE LAWS CONCERNING PATERNITY ESTABLISHMENT.

(a) STATE LAWS REQUIRED.—Section 466(a)(5) (42 U.S.C. 666(a)(5)) is amended—

(1) by striking ''(5)'' and inserting the following:

''(5) PROCEDURES CONCERNING PATERNITY ESTABLISHMENT.—'';

(2) in subparagraph (A)—

(A) by striking ''(A)(i)'' and inserting the following:

"(A) ESTABLISHMENT PROCESS AVAILABLE FROM BIRTH UNTIL AGE EIGHTEEN.—(i)"; and

(B) by indenting clauses (i) and (ii) so that the left margin of such clauses is 2 ems to the right of the left margin of paragraph (4);

(3) in subparagraph (B)—

(A) by striking "(B)" and inserting the following:

"(B) PROCEDURES CONCERNING GENETIC TESTING.—(i)";

(B) in clause (i), as redesignated, by inserting before the period ", where such request is supported by a sworn statement (I) by such party alleging paternity setting forth facts establishing a reasonable possibility of the requisite sexual contact of the parties, or (II) by such party denying paternity setting forth facts establishing a reasonable possibility of the nonexistence of sexual contact of the parties;";

(C) by inserting after and below clause (i) (as redesignated) the following new clause:

"(ii) Procedures which require the State agency, in any case in which such agency orders genetic testing—

"(I) to pay costs of such tests, subject to recoupment (where the State so elects) from the putative father if paternity is established; and

"(II) to obtain additional testing in any case where an original test result is disputed, upon request and advance payment by the disputing party.";

(4) by striking subparagraphs (C) and (D) and inserting the following:

"(C) PATERNITY ACKNOWLEDGMENT.—(i) Procedures for a simple civil process for voluntarily acknowledging paternity under which the State must provide that, before a mother and a putative father can sign an acknowledgment of paternity, the putative father and the mother must be given notice, orally, in writing, and in a language that each can understand, of the alternatives to, the legal consequences of, and the rights (including, if 1 parent is a minor, any rights afforded due to minority status) and responsibilities that arise from, signing the acknowledgment.

"(ii) Such procedures must include a hospital-based program for the voluntary acknowl-

edgment of paternity focusing on the period immediately before or after the birth of a child.

"(iii) Such procedures must require the State agency responsible for maintaining birth records to offer voluntary paternity establishment services.

"(iv) The Secretary shall prescribe regulations governing voluntary paternity establishment services offered by hospitals and birth record agencies. The Secretary shall prescribe regulations specifying the types of other entities that may offer voluntary paternity establishment services, and governing the provision of such services, which shall include a requirement that such an entity must use the same notice provisions used by, the same materials used by, provide the personnel providing such services with the same training provided by, and evaluate the provision of such services in the same manner as, voluntary paternity establishment programs of hospitals and birth record agencies.

"(v) Such procedures must require the State and those required to establish paternity to use only the affidavit developed under section

452(a)(7) for the voluntary acknowledgment of paternity, and to give full faith and credit to such an affidavit signed in any other State.

"(D) STATUS OF SIGNED PATERNITY ACKNOWLEDGMENT.—(i) Procedures under which a signed acknowledgment of paternity is considered a legal finding of paternity, subject to the right of any signatory to rescind the acknowledgment within 60 days.

"(ii)(I) Procedures under which, after the 60-day period referred to in clause (i), a signed acknowledgment of paternity may be challenged in court only on the basis of fraud, duress, or material mistake of fact, with the burden of proof upon the challenger, and under which the legal responsibilities (including child support obligations) of any signatory arising from the acknowledgment may not be suspended during the challenge, except for good cause shown.

"(II) Procedures under which, after the 60-day period referred to in clause (i), a minor who signs an acknowledgment of paternity other than in the presence of a parent or court-appointed guardian ad litem may rescind the

acknowledgment in a judicial or administrative proceeding, until the earlier of—

"(aa) attaining the age of majority; or

"(bb) the date of the first judicial or administrative proceeding brought (after the signing) to establish a child support obligation, visitation rights, or custody rights with respect to the child whose paternity is the subject of the acknowledgment, and at which the minor is represented by a parent, guardian ad litem, or attorney.";

(5) by striking subparagraph (E) and inserting the following:

"(E) BAR ON ACKNOWLEDGMENT RATIFICATION PROCEEDINGS.—Procedures under which no judicial or administrative proceedings are required or permitted to ratify an unchallenged acknowledgment of paternity.";

(6) by striking subparagraph (F) and inserting the following:

"(F) ADMISSIBILITY OF GENETIC TESTING RESULTS.—Procedures—

"(i) requiring that the State admit into evidence, for purposes of establishing

paternity, results of any genetic test that is—

"(I) of a type generally acknowledged, by accreditation bodies designated by the Secretary, as reliable evidence of paternity; and

"(II) performed by a laboratory approved by such an accreditation body;

"(ii) that any objection to genetic testing results must be made in writing not later than a specified number of days before any hearing at which such results may be introduced into evidence (or, at State option, not later than a specified number of days after receipt of such results); and

"(iii) that, if no objection is made, the test results are admissible as evidence of paternity without the need for foundation testimony or other proof of authenticity or accuracy."; and

(7) by adding after subparagraph (H) the following new subparagraphs:

"(I) NO RIGHT TO JURY TRIAL.—Procedures providing that the parties to an action to establish paternity are not entitled to jury trial.

"(J) TEMPORARY SUPPORT ORDER BASED ON PROBABLE PATERNITY IN CONTESTED CASES.—Procedures which require that a temporary order be issued, upon motion by a party, requiring the provision of child support pending an administrative or judicial determination of parentage, where there is clear and convincing evidence of paternity (on the basis of genetic tests or other evidence).

"(K) PROOF OF CERTAIN SUPPORT AND PATERNITY ESTABLISHMENT COSTS.—Procedures under which bills for pregnancy, childbirth, and genetic testing are admissible as evidence without requiring third-party foundation testimony, and shall constitute prima facie evidence of amounts incurred for such services and testing on behalf of the child.

"(L) WAIVER OF STATE DEBTS FOR COOPERATION.—At the option of the State, procedures under which the tribunal establishing paternity and support has discretion to waive rights to all or part of amounts owed to the

State (but not to the mother) for costs related to pregnancy, childbirth, and genetic testing and for public assistance paid to the family where the father cooperates or acknowledges paternity before or after genetic testing.

"(M) STANDING OF PUTATIVE FATHERS.—Procedures ensuring that the putative father has a reasonable opportunity to initiate a paternity action.".

(b) NATIONAL PATERNITY ACKNOWLEDGMENT AFFIDAVIT.—Section 452(a)(7) (42 U.S.C. 652(a)(7)) is amended by inserting ", and develop an affidavit to be used for the voluntary acknowledgment of paternity which shall include the social security account number of each parent" before the semicolon.

(c) TECHNICAL AMENDMENT.—Section 468 (42 U.S.C. 668) is amended by striking "a simple civil process for voluntarily acknowledging paternity and".

SEC. 9446. OUTREACH FOR VOLUNTARY PATERNITY ESTABLISHMENT.

(a) STATE PLAN REQUIREMENT.—Section 454(23) (42 U.S.C. 654(23)) is amended by adding at the end the following new subparagraph:

"(C) publicize the availability and encourage the use of procedures for voluntary estab-

lishment of paternity and child support through a variety of means, which—

"(i) include distribution of written materials at health care facilities (including hospitals and clinics), and other locations such as schools;

"(ii) may include pre-natal programs to educate expectant couples on individual and joint rights and responsibilities with respect to paternity (and may require all expectant recipients of assistance under part A to participate in such pre-natal programs, as an element of cooperation with efforts to establish paternity and child support);

"(iii) include, with respect to each child discharged from a hospital after birth for whom paternity or child support has not been established, reasonable follow-up efforts (including at least one contact of each parent whose whereabouts are known, except where there is reason to believe such follow-up efforts would put mother or child at risk), providing—

"(I) in the case of a child for whom paternity has not been established, information on the benefits of and procedures for establishing paternity; and

"(II) in the case of a child for whom paternity has been established but child support has not been established, information on the benefits of and procedures for establishing a child support order, and an application for child support services;".

(b) ENHANCED FEDERAL MATCHING.—Section 455(a)(1)(C) (42 U.S.C. 655(a)(1)(C)) is amended—

(1) by inserting "(i)" before "laboratory costs", and

(2) by inserting before the semicolon ", and (ii) costs of outreach programs designed to encourage voluntary acknowledgment of paternity".

(c) EFFECTIVE DATES.—(1) The amendments made by subsection (a) shall become effective October 1, 1997.

(2) The amendments made by subsection (b) shall be effective with respect to calendar quarters beginning on and after October 1, 1996.

CHAPTER 6—ESTABLISHMENT AND MODIFICATION OF SUPPORT ORDERS

SEC. 9451. NATIONAL CHILD SUPPORT GUIDELINES COMMISSION.

(a) ESTABLISHMENT.—There is hereby established a commission to be known as the ''National Child Support Guidelines Commission'' (in this section referred to as the ''Commission'').

(b) GENERAL DUTIES.—The Commission shall develop a national child support guideline for consideration by the Congress that is based on a study of various guideline models, the benefits and deficiencies of such models, and any needed improvements.

(c) MEMBERSHIP.—

(1) NUMBER; APPOINTMENT.—

(A) IN GENERAL.—The Commission shall be composed of 12 individuals appointed jointly by the Secretary of Health and Human Services and the Congress, not later than January 15, 1997, of which—

(i) 2 shall be appointed by the Chairman of the Committee on Finance of the Senate, and 1 shall be appointed by the ranking minority member of the Committee;

(ii) 2 shall be appointed by the Chairman of the Committee on Ways and Means of the House of Representatives, and 1 shall be appointed by the ranking minority member of the Committee; and

(iii) 6 shall be appointed by the Secretary of Health and Human Services.

(B) QUALIFICATIONS OF MEMBERS.—Members of the Commission shall have expertise and experience in the evaluation and development of child support guidelines. At least 1 member shall represent advocacy groups for custodial parents, at least 1 member shall represent advocacy groups for noncustodial parents, and at least 1 member shall be the director of a State program under part D of title IV of the Social Security Act.

(2) TERMS OF OFFICE.—Each member shall be appointed for a term of 2 years. A vacancy in the Commission shall be filled in the manner in which the original appointment was made.

(d) COMMISSION POWERS, COMPENSATION, ACCESS TO INFORMATION, AND SUPERVISION.—The first sentence of subparagraph (C), the first and third sentences of subparagraph (D), subparagraph (F) (except with respect to

the conduct of medical studies), clauses (ii) and (iii) of subparagraph (G), and subparagraph (H) of section 1886(e)(6) of the Social Security Act shall apply to the Commission in the same manner in which such provisions apply to the Prospective Payment Assessment Commission.

(e) REPORT.—Not later than 2 years after the appointment of members, the Commission shall submit to the President, the Committee on Ways and Means of the House of Representatives, and the Committee on Finance of the Senate, a recommended national child support guideline and a final assessment of issues relating to such a proposed national child support guideline.

(f) TERMINATION.—The Commission shall terminate 6 months after the submission of the report described in subsection (e).

SEC. 9452. SIMPLIFIED PROCESS FOR REVIEW AND ADJUSTMENT OF CHILD SUPPORT ORDERS.

(a) IN GENERAL.—Section 466(a)(10) (42 U.S.C. 666(a)(10)) is amended to read as follows:

"(10) PROCEDURES FOR MODIFICATION OF SUPPORT ORDERS.—

"(A)(i) Procedures under which—

"(I) every 3 years, at the request of either parent subject to a child support

order, the State shall review and, as appropriate, adjust the order in accordance with the guidelines established under section 467(a) if the amount of the child support award under the order differs from the amount that would be awarded in accordance with such guidelines, without a requirement for any other change in circumstances; and

''(II) upon request at any time of either parent subject to a child support order, the State shall review and, as appropriate, adjust the order in accordance with the guidelines established under section 467(a) based on a substantial change in the circumstances of either such parent.

''(ii) Such procedures shall require both parents subject to a child support order to be notified of their rights and responsibilities provided for under clause (i) at the time the order is issued and in the annual information exchange form provided under subparagraph (B).

''(B) Procedures under which each child support order issued or modified in the State after the effective date of this subparagraph

shall require the parents subject to the order to provide each other with a complete statement of their respective financial condition annually on a form which shall be established by the Secretary and provided by the State. The Secretary shall establish regulations for the enforcement of such exchange of information.''.

CHAPTER 7—ENFORCEMENT OF SUPPORT ORDERS

SEC. 9461. FEDERAL INCOME TAX REFUND OFFSET.

(a) CHANGED ORDER OF REFUND DISTRIBUTION UNDER INTERNAL REVENUE CODE.—Section 6402(c) of the Internal Revenue Code of 1986 is amended by striking the 3rd sentence.

(b) ELIMINATION OF DISPARITIES IN TREATMENT OF ASSIGNED AND NON-ASSIGNED ARREARAGES.—(1) Section 464(a) (42 U.S.C. 664(a)) is amended—

(A) by striking ''(a)'' and inserting ''(a) OFFSET AUTHORIZED.—'';

(B) in paragraph (1)—

(i) in the first sentence, by striking ''which has been assigned to such State pursuant to section 402(a)(26) or section 471(a)(17)''; and

(ii) in the second sentence, by striking ''in accordance with section 457 (b)(4) or (d)(3)'' and inserting ''as provided in paragraph (2)'';

(C) in paragraph (2), to read as follows:

''(2) The State agency shall distribute amounts paid by the Secretary of the Treasury pursuant to paragraph (1)—

''(A) in accordance with section 457(a)(4) or (d)(3), in the case of past-due support assigned to a State pursuant to section 403(b)(1)(E)(i) or 471(a)(17); and

''(B) to or on behalf of the child to whom the support was owed, in the case of past-due support not so assigned.'';

(D) in paragraph (3)—

(i) by striking ''or (2)'' each place it appears; and

(ii) in subparagraph (B), by striking ''under paragraph (2)'' and inserting ''on account of past-due support described in paragraph (2)(B)''.

(2) Section 464(b) (42 U.S.C. 664(b)) is amended—

(A) by striking ''(b)(1)'' and inserting ''(b) REGULATIONS.—''; and

(B) by striking paragraph (2).

(3) Section 464(c) (42 U.S.C. 664(c)) is amended—

(A) by striking ''(c)(1) Except as provided in paragraph (2), as'' and inserting ''(c) DEFINITION.—As''; and

(B) by striking paragraphs (2) and (3).

(c) EFFECTIVE DATE.—The amendments made by this section shall become effective October 1, 1999.

SEC. 9462. INTERNAL REVENUE SERVICE COLLECTION OF ARREARS.

(a) AMENDMENT TO INTERNAL REVENUE CODE.—Section 6305(a) of the Internal Revenue Code of 1986 is amended—

(1) in paragraph (1), by inserting ''except as provided in paragraph (5)'' after ''collected'';

(2) by striking ''and'' at the end of paragraph (3);

(3) by striking the period at the end of paragraph (4) and inserting a comma;

(4) by adding after paragraph (4) the following new paragraph:

''(5) no additional fee may be assessed for adjustments to an amount previously certified pursu-

ant to such section 452(b) with respect to the same obligor.''; and

(5) by striking ''Secretary of Health, Education, and Welfare'' each place it appears and inserting ''Secretary of Health and Human Services''.

(b) EFFECTIVE DATE.—The amendments made by this section shall become effective October 1, 1997.

SEC. 9463. AUTHORITY TO COLLECT SUPPORT FROM FEDERAL EMPLOYEES.

(a) CONSOLIDATION AND STREAMLINING OF AUTHORITIES.—

(1) Section 459 (42 U.S.C. 659) is amended in the caption by inserting ''INCOME WITHHOLDING,'' before ''GARNISHMENT''.

(2) Section 459(a) (42 U.S.C. 659(a)) is amended—

(A) by striking ''(a)'' and inserting ''(a) CONSENT TO SUPPORT ENFORCEMENT.—'';

(B) by striking ''section 207'' and inserting ''section 207 of this Act and 38 U.S.C. 5301''; and

(C) by striking all that follows ''a private person,'' and inserting ''to withholding in accordance with State law pursuant to subsections (a)(1) and (b) of section 466 and regulations of

the Secretary thereunder, and to any other legal process brought, by a State agency administering a program under this part or by an individual obligee, to enforce the legal obligation of such individual to provide child support or alimony.''.

(3) Section 459(b) (42 U.S.C. 659(b)) is amended to read as follows:

''(b) CONSENT TO REQUIREMENTS APPLICABLE TO PRIVATE PERSON.— Except as otherwise provided herein, each entity specified in subsection (a) shall be subject, with respect to notice to withhold income pursuant to subsection (a)(1) or (b) of section 466, or to any other order or process to enforce support obligations against an individual (if such order or process contains or is accompanied by sufficient data to permit prompt identification of the individual and the moneys involved), to the same requirements as would apply if such entity were a private person.''.

(4) Section 459(c) (42 U.S.C. 659(c)) is redesignated and relocated as paragraph (2) of subsection (f), and is amended—

(A) by striking ''responding to interrogatories pursuant to requirements imposed by section 461(b)(3)'' and inserting ''taking ac-

tions necessary to comply with the requirements of subsection (A) with regard to any individual''; and

(B) by striking ''any of his duties'' and all that follows and inserting ''such duties.''.

(5) Section 461 (42 U.S.C. 661) is amended by striking subsection (b), and section 459 (42 U.S.C. 659) is amended by inserting after subsection (b) (as added by paragraph (3) of this subsection) the following:

''(c) DESIGNATION OF AGENT; RESPONSE TO NOTICE OR PROCESS.—(1) The head of each agency subject to the requirements of this section shall—

''(A) designate an agent or agents to receive orders and accept service of process; and

''(B) publish (i) in the appendix of such regulations, (ii) in each subsequent republication of such regulations, and (iii) annually in the Federal Register, the designation of such agent or agents, identified by title of position, mailing address, and telephone number.''.

(6) Section 459 (42 U.S.C. 659) is amended by striking subsection (d) and by inserting after subsection (c)(1) (as added by paragraph (5) of this subsection) the following:

"(2) Whenever an agent designated pursuant to paragraph (1) receives notice pursuant to subsection (a)(1) or (b) of section 466, or is effectively served with any order, process, or interrogatories, with respect to an individual's child support or alimony payment obligations, such agent shall—

"(A) as soon as possible (but not later than fifteen days) thereafter, send written notice of such notice or service (together with a copy thereof) to such individual at his duty station or last-known home address;

"(B) within 30 days (or such longer period as may be prescribed by applicable State law) after receipt of a notice pursuant to subsection (a)(1) or (b) of section 466, comply with all applicable provisions of such section 466; and

"(C) within 30 days (or such longer period as may be prescribed by applicable State law) after effective service of any other such order, process, or interrogatories, respond thereto.".

(7) Section 461 (42 U.S.C. 661) is amended by striking subsection (c), and section 459 (42 U.S.C. 659) is amended by inserting after subsection (c) (as added by paragraph (5) and amended by paragraph (6) of this subsection) the following:

"(d) PRIORITY OF CLAIMS.—In the event that a governmental entity receives notice or is served with process, as provided in this section, concerning amounts owed by an individual to more than one person—

"(1) support collection under section 466(b) must be given priority over any other process, as provided in section 466(b)(7);

"(2) allocation of moneys due or payable to an individual among claimants under section 466(b) shall be governed by the provisions of such section 466(b) and regulations thereunder; and

"(3) such moneys as remain after compliance with subparagraphs (A) and (B) shall be available to satisfy any other such processes on a first-come, first-served basis, with any such process being satisfied out of such moneys as remain after the satisfaction of all such processes which have been previously served.".

(8) Section 459(e) (42 U.S.C. 659(e)) is amended by striking "(e)" and inserting the following:

"(e) NO REQUIREMENT TO VARY PAY CYCLES.—".

(9) Section 459(f) (42 U.S.C. 659(f)) is amended by striking "(f)" and inserting the following:

"(f) RELIEF FROM LIABILITY.—(1)".

(10) Section 461(a) (42 U.S.C. 661(a)) is redesignated and relocated as section 459(g), and is amended—

(A) by striking ''(g)'' and inserting the following:

''(g) REGULATIONS.—''; and

(B) by striking ''section 459'' and inserting ''this section''.

(11) Section 462 (42 U.S.C. 662) is amended by striking subsection (f), and section 459 (42 U.S.C. 659) is amended by inserting the following after subsection (g) (as added by paragraph (10) of this subsection):

''(h) MONEYS SUBJECT TO PROCESS.—(1) Subject to subsection (i), moneys paid or payable to an individual which are considered to be based upon remuneration for employment, for purposes of this section—

''(A) consist of—

''(i) compensation paid or payable for personal services of such individual, whether such compensation is denominated as wages, salary, commission, bonus, pay, allowances, or otherwise (including severance pay, sick pay, and incentive pay);

"(ii) periodic benefits (including a periodic benefit as defined in section 228(h)(3)) or other payments—

"(I) under the insurance system established by title II;

"(II) under any other system or fund established by the United States which provides for the payment of pensions, retirement or retired pay, annuities, dependents' or survivors' benefits, or similar amounts payable on account of personal services performed by the individual or any other individual;

"(III) as compensation for death under any Federal program;

"(IV) under any Federal program established to provide 'black lung' benefits; or

"(V) by the Secretary of Veterans Affairs as pension, or as compensation for a service-connected disability or death (except any compensation paid by such Secretary to a former member of the Armed Forces who is in receipt of retired or retainer pay if such former member has

waived a portion of his retired pay in order to receive such compensation); and

''(iii) worker's compensation benefits paid under Federal or State law; but

''(B) do not include any payment—

''(i) by way of reimbursement or otherwise, to defray expenses incurred by such individual in carrying out duties associated with his employment; or

''(ii) as allowances for members of the uniformed services payable pursuant to chapter 7 of title 37, United States Code, as prescribed by the Secretaries concerned (defined by section 101(5) of such title) as necessary for the efficient performance of duty.''.

(12) Section 462(g) (42 U.S.C. 662(g)) is redesignated and relocated as section 459(i) (42 U.S.C. 659(i)).

(13)(A) Section 462 (42 U.S.C. 662) is amended—

(i) in subsection (e)(1), by redesignating subparagraphs (A), (B), and (C) as clauses (i), (ii), and (iii); and

(ii) in subsection (e), by redesignating paragraphs (1) and (2) as subparagraphs (A) and (B).

(B) Section 459 (42 U.S.C. 659) is amended by adding at the end the following:

"(j) DEFINITIONS.—For purposes of this section:".

(C) Subsections (a) through (e) of section 462 (42 U.S.C. 662), as amended by subparagraph (A) of this paragraph, are relocated and redesignated as paragraphs (1) through (4), respectively of section 459(j) (as added by subparagraph (B) of this paragraph, (42 U.S.C. 659(j)), and the left margin of each of such paragraphs (1) through (4) is indented 2 ems to the right of the left margin of subsection (i) (as added by paragraph (12) of this subsection).

(b) CONFORMING AMENDMENTS.—

(1) TO PART D OF TITLE IV.—Sections 461 and 462 (42 U.S.C. 661), as amended by subsection (a) of this section, are repealed.

(2) TO TITLE 5, UNITED STATES CODE.—Section 5520a of title 5, United States Code, is amended, in subsections (h)(2) and (i), by striking "sections 459, 461, and 462 of the Social Security Act (42 U.S.C. 659, 661, and 662)" and inserting "sec-

tion 459 of the Social Security Act (42 U.S.C. 659)''.

(c) MILITARY RETIRED AND RETAINER PAY.—(1) DEFINITION OF COURT.—Section 1408(a)(1) of title 10, United States Code, is amended—

(A) by striking ''and'' at the end of subparagraph (B);

(B) by striking the period at the end of subparagraph (C) and inserting ''; and''; and

(C) by adding after subparagraph (C) the following new paragraph:

''(D) any administrative or judicial tribunal of a State competent to enter orders for support or maintenance (including a State agency administering a State program under part D of title IV of the Social Security Act).'';

(2) DEFINITION OF COURT ORDER.—Section 1408(a)(2) of such title is amended by inserting ''or a court order for the payment of child support not included in or accompanied by such a decree or settlement,'' before ''which—''.

(3) PUBLIC PAYEE.—Section 1408(d) of such title is amended—

(A) in the heading, by striking ''to spouse'' and inserting ''to (or for benefit of)''; and

(B) in paragraph (1), in the first sentence, by inserting ''(or for the benefit of such spouse or former spouse to a State central collections unit or other public payee designated by a State, in accordance with part D of title IV of the Social Security Act, as directed by court order, or as otherwise directed in accordance with such part D)'' before ''in an amount sufficient''.

(4) RELATIONSHIP TO PART D OF TITLE IV.—Section 1408 of such title is amended by adding at the end the following new subsection:

''(j) RELATIONSHIP TO OTHER LAWS.—In any case involving a child support order against a member who has never been married to the other parent of the child, the provisions of this section shall not apply, and the case shall be subject to the provisions of section 459 of the Social Security Act.''.

(d) EFFECTIVE DATE.—The amendments made by this section shall become effective 6 months after the date of the enactment of this Act.

SEC. 9464. ENFORCEMENT OF CHILD SUPPORT OBLIGATIONS OF MEMBERS OF THE ARMED FORCES.

(a) AVAILABILITY OF LOCATOR INFORMATION.—

(1) MAINTENANCE OF ADDRESS INFORMATION.—The Secretary of Defense shall establish a

centralized personnel locator service that includes the address of each member of the Armed Forces under the jurisdiction of the Secretary. Upon request of the Secretary of Transportation, addresses for members of the Coast Guard shall be included in the centralized personnel locator service.

(2) TYPE OF ADDRESS.—

(A) RESIDENTIAL ADDRESS.—Except as provided in subparagraph (B), the address for a member of the Armed Forces shown in the locator service shall be the residential address of that member.

(B) DUTY ADDRESS.—The address for a member of the Armed Forces shown in the locator service shall be the duty address of that member in the case of a member—

(i) who is permanently assigned overseas, to a vessel, or to a routinely deployable unit; or

(ii) with respect to whom the Secretary concerned makes a determination that the member's residential address should not be disclosed due to national security or safety concerns.

(3) UPDATING OF LOCATOR INFORMATION.—Within 30 days after a member listed in the locator service establishes a new residential address (or a new duty address, in the case of a member covered by paragraph (2)(B)), the Secretary concerned shall update the locator service to indicate the new address of the member.

(4) AVAILABILITY OF INFORMATION.—The Secretary of Defense shall make information regarding the address of a member of the Armed Forces listed in the locator service available, on request, to the Federal Parent Locator Service.

(b) FACILITATING GRANTING OF LEAVE FOR ATTENDANCE AT HEARINGS.—

(1) REGULATIONS.—The Secretary of each military department, and the Secretary of Transportation with respect to the Coast Guard when it is not operating as a service in the Navy, shall prescribe regulations to facilitate the granting of leave to a member of the Armed Forces under the jurisdiction of that Secretary in a case in which—

(A) the leave is needed for the member to attend a hearing described in paragraph (2);

(B) the member is not serving in or with a unit deployed in a contingency operation (as

defined in section 101 of title 10, United States Code); and

(C) the exigencies of military service (as determined by the Secretary concerned) do not otherwise require that such leave not be granted.

(2) COVERED HEARINGS.—Paragraph (1) applies to a hearing that is conducted by a court or pursuant to an administrative process established under State law, in connection with a civil action—

(A) to determine whether a member of the Armed Forces is a natural parent of a child; or

(B) to determine an obligation of a member of the Armed Forces to provide child support.

(3) DEFINITIONS.—For purposes of this subsection:

(A) The term ''court'' has the meaning given that term in section 1408(a) of title 10, United States Code.

(B) The term ''child support'' has the meaning given such term in section 462 of the Social Security Act (42 U.S.C. 662).

(c) PAYMENT OF MILITARY RETIRED PAY IN COMPLIANCE WITH CHILD SUPPORT ORDERS.—

(1) DATE OF CERTIFICATION OF COURT ORDER.—Section 1408 of title 10, United States Code, is amended—

(A) by redesignating subsection (i) as subsection (j); and

(B) by inserting after subsection (h) the following new subsection (i):

''(i) CERTIFICATION DATE.—It is not necessary that the date of a certification of the authenticity or completeness of a copy of a court order or an order of an administrative process established under State law for child support received by the Secretary concerned for the purposes of this section be recent in relation to the date of receipt by the Secretary.''.

(2) PAYMENTS CONSISTENT WITH ASSIGNMENTS OF RIGHTS TO STATES.—Section 1408(d)(1) of such title is amended by inserting after the first sentence the following: ''In the case of a spouse or former spouse who, pursuant to section 403(b)(1)(E)(i) of the Social Security Act, assigns to a State the rights of the spouse or former spouse to receive support, the Secretary concerned may make the child support payments referred to in the preceding sentence to that State in amounts consistent with that assignment of rights.''.

(3) ARREARAGES OWED BY MEMBERS OF THE UNIFORMED SERVICES.—Section 1408(d) of such title is amended by adding at the end the following new paragraph:

''(6) In the case of a court order or an order of an administrative process established under State law for which effective service is made on the Secretary concerned on or after the date of the enactment of this paragraph and which provides for payments from the disposable retired pay of a member to satisfy the amount of child support set forth in the order, the authority provided in paragraph (1) to make payments from the disposable retired pay of a member to satisfy the amount of child support set forth in a court order or an order of an administrative process established under State law shall apply to payment of any amount of child support arrearages set forth in that order as well as to amounts of child support that currently become due.''.

SEC. 9465. MOTOR VEHICLE LIENS.

Section 466(a)(4) (42 U.S.C. 666(a)(4)) is amended—

(1) by striking ''(4) Procedures'' and inserting the following:

''(4) LIENS.—

''(A) IN GENERAL.—Procedures''; and

(2) by adding at the end the following new subparagraph:

"(B) MOTOR VEHICLE LIENS.—Procedures for placing liens for arrears of child support on motor vehicle titles of individuals owing such arrears equal to or exceeding two months of support, under which—

"(i) any person owed such arrears may place such a lien;

"(ii) the State agency administering the program under this part shall systematically place such liens;

"(iii) expedited methods are provided for—

"(I) ascertaining the amount of arrears;

"(II) affording the person owing the arrears or other titleholder to contest the amount of arrears or to obtain a release upon fulfilling the support obligation;

"(iv) such a lien has precedence over all other encumbrances on a vehicle title other than a purchase money security interest; and

"(v) the individual or State agency owed the arrears may execute on, seize, and sell the property in accordance with State law.".

SEC. 9466. VOIDING OF FRAUDULENT TRANSFERS.

Section 466(a) (42 U.S.C. 666(a)), as amended by sections 9401(a), 9426(a), 9431, and 9442 of this Act, is amended by inserting after paragraph (15) the following:

"(16) FRAUDULENT TRANSFERS.—Procedures under which—

"(A) the State has in effect—

"(i) the Uniform Fraudulent Conveyance Act of 1981,

"(ii) the Uniform Fraudulent Transfer Act of 1984, or

"(iii) another law, specifying indicia of fraud which create a prima facie case that a debtor transferred income or property to avoid payment to a child support creditor, which the Secretary finds affords comparable rights to child support creditors; and

"(B) in any case in which the State knows of a transfer by a child support debtor with re-

spect to which such a prima facie case is established, the State must—

"(i) seek to void such transfer; or

"(ii) obtain a settlement in the best interests of the child support creditor.".

SEC. 9467. STATE LAW AUTHORIZING SUSPENSION OF LICENSES.

Section 466(a) (42 U.S.C. 666(a)), as amended by sections 9401(a), 9426(a), 9431, 9442, and 9466 of this Act, is amended by inserting after paragraph (16) the following:

"(17) AUTHORITY TO WITHHOLD OR SUSPEND LICENSES.—Procedures under which the State has (and uses in appropriate cases) authority (subject to appropriate due process safeguards) to withhold or suspend, or to restrict the use of driver's licenses, and professional and occupational licenses of individuals owing overdue child support or failing, after receiving appropriate notice, to comply with subpoenas or warrants relating to paternity or child support proceedings.".

SEC. 9468. REPORTING ARREARAGES TO CREDIT BUREAUS.

Section 466(a)(7) (42 U.S.C. 666(a)(7)) is amended to read as follows:

"(7) REPORTING ARREARAGES TO CREDIT BUREAUS.—(A) Procedures (subject to safeguards pursuant to subparagraph (B)) requiring the State to report periodically to consumer reporting agencies (as defined in section 603(f) of the Fair Credit Reporting Act (15 U.S.C. 1681a(f)) the name of any absent parent who is delinquent by 90 days or more in the payment of support, and the amount of overdue support owed by such parent.

"(B) Procedures ensuring that, in carrying out subparagraph (A), information with respect to an absent parent is reported—

"(i) only after such parent has been afforded all due process required under State law, including notice and a reasonable opportunity to contest the accuracy of such information; and

"(ii) only to an entity that has furnished evidence satisfactory to the State that the entity is a consumer reporting agency.".

SEC. 9469. EXTENDED STATUTE OF LIMITATION FOR COLLECTION OF ARREARAGES.

(a) AMENDMENTS.—Section 466(a)(9) (42 U.S.C. 666(a)(9)) is amended—

(1) by striking "(9) Procedures" and inserting the following:

"(9) LEGAL TREATMENT OF ARREARS.—

"(A) FINALITY.—Procedures";

(2) by redesignating subparagraphs (A), (B), and (C) as clauses (i), (ii), and (iii), respectively, and by indenting each of such clauses 2 additional ems to the right; and

(3) by adding after and below subparagraph (A), as redesignated, the following new subparagraph:

"(B) STATUTE OF LIMITATIONS.—Procedures under which the statute of limitations on any arrearages of child support extends at least until the child owed such support is 30 years of age.".

(b) APPLICATION OF REQUIREMENT.—The amendment made by this section shall not be read to require any State law to revive any payment obligation which had lapsed prior to the effective date of such State law.

SEC. 9470. CHARGES FOR ARREARAGES.

(a) STATE LAW REQUIREMENT.—Section 466(a) (42 U.S.C. 666(a)), as amended by sections 9401(a), 9426(a), 9431, 9442, 9466, and 9467 of this Act, is amended by inserting after paragraph (17) the following:

"(18) CHARGES FOR ARREARAGES.—Procedures providing for the calculation and collection of interest or penalties for arrearages of child support, and for distribution of such interest or penalties collected for the benefit of the child (except where the right to support has been assigned to the State).".

(b) REGULATIONS.—The Secretary of Health and Human Services shall establish by regulation a rule to resolve choice of law conflicts arising in the implementation of the amendment made by subsection (a).

(c) CONFORMING AMENDMENT.—Section 454(21) (42 U.S.C. 654(21)) is repealed.

(d) EFFECTIVE DATE.—The amendments made by this section shall be effective with respect to arrearages accruing on or after October 1, 1998.

SEC. 9471. DENIAL OF PASSPORTS FOR NONPAYMENT OF CHILD SUPPORT.

(a) HHS CERTIFICATION PROCEDURE.—

(1) SECRETARIAL RESPONSIBILITY.—Section 452 (42 U.S.C. 652), as amended by sections 9415(a)(3) and 9417 of this Act, is amended by adding at the end the following new subsection:

"(l) CERTIFICATIONS FOR PURPOSES OF PASSPORT RESTRICTIONS.—

"(1) IN GENERAL.—Where the Secretary receives a certification by a State agency in accordance with the requirements of section 454(28) that an individual owes arrearages of child support in an amount exceeding $5,000 or in an amount exceeding 24 months' worth of child support, the Secretary shall transmit such certification to the Secretary of State for action (with respect to denial, revocation, or limitation of passports) pursuant to section 9471(b) of the Omnibus Budget Reconciliation Act of 1995.

"(2) LIMIT ON LIABILITY.—The Secretary shall not be liable to an individual for any action with respect to a certification by a State agency under this section.".

(2) STATE CSE AGENCY RESPONSIBILITY.—Section 454 (42 U.S.C. 654), as amended by sections 9404(a), 9414(b), and 9422(a) of this Act, is amended—

(A) by striking "and" at the end of paragraph (26);

(B) by striking the period at the end of paragraph (27) and inserting "; and"; and

(C) by adding after paragraph (27) the following new paragraph:

"(28) provide that the State agency will have in effect a procedure (which may be combined with the procedure for tax refund offset under section 464) for certifying to the Secretary, for purposes of the procedure under section 452(l) (concerning denial of passports) determinations that individuals owe arrearages of child support in an amount exceeding $5,000 or in an amount exceeding 24 months' worth of child support, under which procedure—

"(A) each individual concerned is afforded notice of such determination and the consequences thereof, and an opportunity to contest the determination; and

"(B) the certification by the State agency is furnished to the Secretary in such format, and accompanied by such supporting documentation, as the Secretary may require.".

(b) STATE DEPARTMENT PROCEDURE FOR DENIAL OF PASSPORTS.—

(1) IN GENERAL.—The Secretary of State, upon certification by the Secretary of Health and Human Services, in accordance with section 452(l) of the Social Security Act, that an individual owes arrearages of child support in excess of $5,000, shall refuse to issue a passport to such individual, and

may revoke, restrict, or limit a passport issued previously to such individual.

(2) LIMIT ON LIABILITY.—The Secretary of State shall not be liable to an individual for any action with respect to a certification by a State agency under this section.

(c) EFFECTIVE DATE.—This section and the amendments made by this section shall become effective October 1, 1996.

SEC. 9472. INTERNATIONAL CHILD SUPPORT ENFORCEMENT.

(a) SENSE OF THE CONGRESS THAT THE UNITED STATES SHOULD RATIFY THE UNITED NATIONS CONVENTION OF 1956.—It is the sense of the Congress that the United States should ratify the United Nations Convention of 1956.

(b) TREATMENT OF INTERNATIONAL CHILD SUPPORT CASES AS INTERSTATE CASES.—Section 454 (42 U.S.C. 654), as amended by sections 9404(a), 9414(b), 9422(a), and 9471(a)(2) of this Act, is amended—

(1) by striking ''and'' at the end of paragraph (27);

(2) by striking the period at the end of paragraph (28) and inserting ''; and''; and

(3) by inserting after paragraph (28) the following:

"(29) provide that the State must treat international child support cases in the same manner as the State treats interstate child support cases.".

SEC. 9473. SEIZURE OF LOTTERY WINNINGS, SETTLEMENTS, PAYOUTS, AWARDS, AND BEQUESTS, AND SALE OF FORFEITED PROPERTY, TO PAY CHILD SUPPORT ARREARAGES.

Section 466(a) (42 U.S.C. 666(a)), as amended by sections 9401(a), 9426(a), 9431, 9442, 9466, 9467, and 9470(a) of this Act, is amended by inserting after paragraph (18) the following:

"(19) Procedures, in addition to other income withholding procedures, under which a lien is imposed against property with the following effect:

"(A) The person required to make a payment under a policy of insurance or a settlement of a claim made with respect to the policy shall—

"(i) suspend the payment until an inquiry is made to and a response received from the agency as to whether the person otherwise entitled to the payment owes a child support arrearage; and

"(ii) if there is such an arrearage, withhold from the payment the lesser of the amount of the payment or the amount of the arrearage, and pay the amount withheld to the agency for distribution.

"(B) The payor of any amount pursuant to an award, judgment, or settlement in any action brought in Federal or State court shall—

"(i) suspend the payment of the amount until an inquiry is made to and a response is received from the agency as to whether the person otherwise entitled to the payment owes a child support arrearage; and

"(ii) if there is such an arrearage, withhold from the payment the lesser of the amount of the payment or the amount of the arrearage, and pay the amount withheld to the agency for distribution.

"(C) If the State seizes property forfeited to the State by an individual by reason of a criminal conviction, the State shall—

"(i) hold the property until an inquiry is made to and a response is received from

the agency as to whether the individual owes a child support arrearage; and

"(ii) if there is such an arrearage, sell the property and, after satisfying the claims of all other private or public claimants to the property and deducting from the proceeds of the sale the attendant costs (such as for towing, storage, and the sale), pay the lesser of the remaining proceeds or the amount of the arrearage directly to the agency for distribution.

"(D) Any person required to make a payment in respect of a decedent shall—

"(i) suspend the payment until an inquiry is made to and a response received from the agency as to whether the person otherwise entitled to the payment owes a child support arrearage; and

"(ii) if there is such an arrearage, withhold from the payment the lesser of the amount of the payment or the amount of the arrearage, and pay the amount withheld to the agency for distribution.".

SEC. 9474. LIABILITY OF GRANDPARENTS FOR FINANCIAL SUPPORT OF CHILDREN OF THEIR MINOR CHILDREN.

Section 466(a) (42 U.S.C. 666(a)), as amended by sections 9401(a), 9426(a), 9431, 9442, 9466, 9467, 9470(a), and 9473 of this Act, is amended by inserting after paragraph (19) the following:

"(20) Procedures under which each parent of an individual who has not attained 18 years of age is liable for the financial support of any child of the individual to the extent that the individual is unable to provide such support. The preceding sentence shall not apply to the State if the State plan explicitly provides for such inapplicability.".

SEC. 9475. SENSE OF THE CONGRESS REGARDING PROGRAMS FOR NONCUSTODIAL PARENTS UNABLE TO MEET CHILD SUPPORT OBLIGATIONS.

It is the sense of the Congress that the States should develop programs, such as the program of the State of Wisconsin known as the "Children's First Program", that are designed to work with noncustodial parents who are unable to meet their child support obligations.

CHAPTER 8—MEDICAL SUPPORT

SEC. 9481. TECHNICAL CORRECTION TO ERISA DEFINITION OF MEDICAL CHILD SUPPORT ORDER.

(a) IN GENERAL.—Section 609(a)(2)(B) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1169(a)(2)(B)) is amended—

(1) by striking ''issued by a court of competent jurisdiction'';

(2) by striking the period at the end of clause (ii) and inserting a comma; and

(3) by adding, after and below clause (ii), the following:

''if such judgment, decree, or order (I) is issued by a court of competent jurisdiction or (II) is issued by an administrative adjudicator and has the force and effect of law under applicable State law.''.

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall take effect on the date of the enactment of this Act.

(2) PLAN AMENDMENTS NOT REQUIRED UNTIL JANUARY 1, 1996.—Any amendment to a plan required to be made by an amendment made by this section shall not be required to be made before the

first plan year beginning on or after January 1, 1996, if—

(A) during the period after the date before the date of the enactment of this Act and before such first plan year, the plan is operated in accordance with the requirements of the amendments made by this section, and

(B) such plan amendment applies retroactively to the period after the date before the date of the enactment of this Act and before such first plan year.

A plan shall not be treated as failing to be operated in accordance with the provisions of the plan merely because it operates in accordance with this paragraph.

CHAPTER 9—FOOD STAMP PROGRAM REQUIREMENTS

SEC. 9491. COOPERATION WITH CHILD SUPPORT AGENCIES.

Section 6 of the Food Stamp Act of 1977 (7 U.S.C. 2015) is amended adding at the end the following:

"(i) CUSTODIAL PARENT'S COOPERATION WITH CHILD SUPPORT AGENCIES.—

"(1) IN GENERAL.—At the option of a State agency, subject to paragraphs (2) and (3), no natural or adoptive parent or other individual (collec-

tively referred to in this subsection as 'the individual') who is living with and exercising parental control over a child under the age of 18 who has an absent parent shall be eligible to participate in the food stamp program unless the individual cooperates with the State agency administering the program established under part D of title IV of the Social Security Act (42 U.S.C. 651 et seq.)—

"(A) in establishing the paternity of the child (if the child is born out of wedlock); and

"(B) in obtaining support for—

"(i) the child; or

"(ii) the individual and the child.

"(2) GOOD CAUSE FOR NONCOOPERATION.—Paragraph (1) shall not apply to the individual if good cause is found for refusing to cooperate, as determined by the State agency in accordance with standards prescribed by the Secretary in consultation with the Secretary of Health and Human Services. The standards shall take into consideration circumstances under which cooperation may be against the best interests of the child.

"(3) FEES.—Paragraph (1) shall not require the payment of a fee or other cost for services pro-

vided under part D of title IV of the Social Security Act (42 U.S.C. 651 et seq.).

"(j) NON-CUSTODIAL PARENT'S COOPERATION WITH CHILD SUPPORT AGENCIES.—

"(1) IN GENERAL.—At the option of a State agency, subject to paragraphs (2) and (3), a putative or identified non-custodial parent of a child under the age of 18 (referred to in this subsection as 'the individual') shall not be eligible to participate in the food stamp program if the individual refuses to cooperate with the State agency administering the program established under part D of title IV of the Social Security Act (42 U.S.C. 651 et seq.)—

"(A) in establishing the paternity of the child (if the child is born out of wedlock); and

"(B) in providing support for the child.

"(2) REFUSAL TO COOPERATE.—

"(A) GUIDELINES.—The Secretary, in consultation with the Secretary of Health and Human Services, shall develop guidelines on what constitutes a refusal to cooperate under paragraph (1).

"(B) PROCEDURES.—The State agency shall develop procedures, using guidelines developed under subparagraph (A), for determining

whether an individual is refusing to cooperate under paragraph (1).

"(3) FEES.—Paragraph (1) shall not require the payment of a fee or other cost for services provided under part D of title IV of the Social Security Act (42 U.S.C. 651 et seq.).

"(4) PRIVACY.—The State agency shall provide safeguards to restrict the use of information collected by a State agency administering the program established under part D of title IV of the Social Security Act (42 U.S.C. 651 et seq.) to purposes for which the information is collected.".

SEC. 9492. DISQUALIFICATION FOR CHILD SUPPORT ARREARS.

Section 6 of the Food Stamp Act of 1977 (7 U.S.C. 2015), as amended by section 9491 of this Act, is amended by adding at the end the following:

"(k) DISQUALIFICATION FOR CHILD SUPPORT ARREARS.—

"(1) IN GENERAL.—At the option of a State agency, except as provided in paragraph (2), no individual shall be eligible to participate in the food stamp program as a member of any household during any month that the individual is delinquent in

any payment due under a court order for the support of a child of the individual.

"(2) EXCEPTIONS.—Paragraph (1) shall not apply if—

"(A) a court is allowing the individual to delay payment; or

"(B) the individual is complying with a payment plan approved by a court or the State agency designated under part D of title IV of the Social Security Act (42 U.S.C. 651 et seq.) to provide support for the child of the individual.".

CHAPTER 10—EFFECT OF ENACTMENT

SEC. 9498. EFFECTIVE DATES.

(a) IN GENERAL.—Except as otherwise specifically provided (but subject to subsections (b) and (c))—

(1) provisions of this title requiring enactment or amendment of State laws under section 466 of the Social Security Act, or revision of State plans under section 454 of such Act, shall be effective with respect to periods beginning on and after October 1, 1996; and

(2) all other provisions of this title shall become effective upon enactment.

(b) GRACE PERIOD FOR STATE LAW CHANGES.—The provisions of this title shall become effective with respect to a State on the later of—

(1) the date specified in this title, or

(2) the effective date of laws enacted by the legislature of such State implementing such provisions, but in no event later than the first day of the first calendar quarter beginning after the close of the first regular session of the State legislature that begins after the date of enactment of this Act. For purposes of the previous sentence, in the case of a State that has a 2-year legislative session, each year of such session shall be deemed to be a separate regular session of the State legislature.

(c) GRACE PERIOD FOR STATE CONSTITUTIONAL AMENDMENT.—A State shall not be found out of compliance with any requirement enacted by this title if it is unable to comply without amending the State constitution until the earlier of—

(1) the date one year after the effective date of the necessary State constitutional amendment, or

(2) the date five years after enactment of this title.

SEC. 9499. SEVERABILITY.

If any provision of this title or the application thereof to any person or circumstance is held invalid, the invalid-

ity shall not affect other provisions or applications of this title which can be given effect without regard to the invalid provision or application, and to this end the provisions of this title shall be severable.

Subtitle E—Teen Pregnancy and Family Stability

SEC. 9501. STATE OPTION TO DENY TEMPORARY EMPLOYMENT ASSISTANCE FOR ADDITIONAL CHILDREN.

(a) IN GENERAL.—Section 402(d)(1), as added by section 9101(a) of this Act, is amended—

(1) by striking "(1) DETERMINATION OF NEED.—" and inserting the following:

"(1) DETERMINATION OF NEED.—

"(A) IN GENERAL.—"; and

(2) by adding at the end the following:

"(B) OPTIONAL DENIAL OF ASSISTANCE TO FAMILIES HAVING ADDITIONAL CHILDREN WHILE RECEIVING ASSISTANCE.—At the option of the State, the State plan may provide that—

"(i)(I) a child shall not be considered a needy child if the child is born (other than as a result of rape or incest) to a member of a family—

"(aa) while the family was a recipient of assistance under the State plan; or

"(bb) during the 6-month period ending with the date the family applied for such assistance; and

"(II) if the value of assistance to a family under the State plan approved under this part is reduced by reason of subclause (I), each member of the family shall be considered to be receiving such assistance for purposes of eligibility for medical assistance under the State plan approved under title XIX for so long as assistance to the family under the State plan approved under this part would otherwise not be so reduced; and

"(ii) if the State exercises the option, the State may provide the family with vouchers, in amounts not exceeding the amount of any such reduction in assistance, that may be used only to pay for particular goods and services specified by the State as suitable for the care of the

child of the parent (such as diapers, clothing, or school supplies).''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) of this section shall take effect in the same manner as the amendment made by section 9101(a) takes effect.

SEC. 9502. SUPERVISED LIVING ARRANGEMENTS FOR MINORS.

(a) IN GENERAL.—Section 402(c), as added by section 9101(a) of this Act, is amended by adding at the end the following:

''(8) SUPERVISED LIVING ARRANGEMENTS FOR MINORS.—The State plan shall provide that—

''(A) except as provided in subparagraph (B), in the case of any individual who is under age 18 and has never married, and who has a needy child in his or her care (or is pregnant and is eligible for temporary employment assistance under the State plan)—

''(i) such individual may receive such assistance for the individual and such child (or for herself in the case of a pregnant woman) only if such individual and child (or such pregnant woman) reside in a place of residence maintained by a parent,

legal guardian, or other adult relative of such individual as such parent's, guardian's, or adult relative's own home; and

"(ii) such assistance (where possible) shall be provided to the parent, legal guardian, or other adult relative on behalf of such individual and child; and

"(B)(i) in the case of an individual described in clause (ii)—

"(I) the State agency shall assist such individual in locating an appropriate adult-supervised supportive living arrangement taking into consideration the needs and concerns of the individual, unless the State agency determines that the individual's current living arrangement is appropriate, and thereafter shall require that the individual (and child, if any) reside in such living arrangement as a condition of the continued receipt of assistance under the plan (or in an alternative appropriate arrangement, should circumstances change and the current arrangement cease to be appropriate), or

"(II) if the State agency is unable, after making diligent efforts, to locate any such appropriate living arrangement, the State agency shall provide for comprehensive case management, monitoring, and other social services consistent with the best interests of the individual (and child) while living independently (as determined by the State agency); and

"(ii) for purposes of clause (i), an individual is described in this clause if—

"(I) such individual has no parent or legal guardian of his or her own who is living and whose whereabouts are known;

"(II) no living parent or legal guardian of such individual allows the individual to live in the home of such parent or guardian;

"(III) the State agency determines that the physical or emotional health of such individual or any needy child of the individual would be jeopardized if such individual and such needy child lived in the same residence with such individual's own parent or legal guardian; or

"(IV) the State agency otherwise determines (in accordance with regulations issued by the Secretary) that it is in the best interest of the needy child to waive the requirement of subparagraph (A) with respect to such individual.".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) of this section shall take effect in the same manner as the amendment made by section 9101(a) takes effect.

SEC. 9503. NATIONAL CLEARINGHOUSE ON ADOLESCENT PREGNANCY.

(a) IN GENERAL.—Title XX (42 U.S.C. 1397–1397f), as amended by section 9205(b) of this Act, is amended by adding at the end the following:

"SEC. 2010. NATIONAL CLEARINGHOUSE ON ADOLESCENT PREGNANCY.

"(a) NATIONAL CLEARINGHOUSE ON ADOLESCENT PREGNANCY.—

"(1) ESTABLISHMENT.—The responsible Federal officials shall establish, through grant or contract, a national center for the collection and provision of programmatic information and technical assistance that relates to adolescent pregnancy prevention programs, to be known as the 'National Clear-

inghouse on Adolescent Pregnancy Prevention Programs'.

"(2) FUNCTIONS.—The national center established under paragraph (1) shall serve as a national information and data clearinghouse, and as a training, technical assistance, and material development source for adolescent pregnancy prevention programs. Such center shall—

"(A) develop and maintain a system for disseminating information on all types of adolescent pregnancy prevention programs and on the state of adolescent pregnancy prevention program development, including information concerning the most effective model programs;

"(B) develop and sponsor a variety of training institutes and curricula for adolescent pregnancy prevention program staff;

"(C) identify model programs representing the various types of adolescent pregnancy prevention programs;

"(D) develop technical assistance materials and activities to assist other entities in establishing and improving adolescent pregnancy prevention programs;

"(E) develop networks of adolescent pregnancy prevention programs for the purpose of sharing and disseminating information; and

"(F) conduct such other activities as the responsible Federal officials find will assist in developing and carrying out programs or activities to reduce adolescent pregnancy.

"(b) FUNDING.—The responsible Federal officials shall make grants to eligible entities for the establishment and operation of a National Clearinghouse on Adolescent Pregnancy Prevention Programs under subsection (a) so that in the aggregate the expenditures for such grants do not exceed $2,000,000 for fiscal year 1996, $4,000,000 for fiscal year 1997, $8,000,000 for fiscal year 1998, and $10,000,000 for fiscal year 1999 and each subsequent fiscal year.

"(c) DEFINITIONS.—As used in this section:

"(1) ADOLESCENTS.—The term 'adolescents' means youth who are ages 10 through 19.

"(2) ELIGIBLE ENTITY.—The term 'eligible entity' means a partnership that includes—

"(A) a local education agency, acting on behalf of one or more schools, together with

"(B) one or more community-based organizations, institutions of higher education, or public or private agencies or organizations.

"(3) ELIGIBLE AREA.—The term 'eligible area' means a school attendance area in which—

"(A) at least 75 percent of the children are from low-income families as that term is used in part A of title I of the Elementary and Secondary Education Act of 1965; or

"(B) the number of children receiving assistance under a State plan approved under part A of title IV of this Act is substantial as determined by the responsible Federal officials; or

"(C) the unmarried adolescent birth rate is high, as determined by the responsible Federal officials.

"(4) SCHOOL.—The term 'school' means a public elementary, middle, or secondary school.

"(5) RESPONSIBLE FEDERAL OFFICIALS.—The term 'responsible Federal officials' means the Secretary of Education, the Secretary of Health and Human Services, and the Chief Executive Officer of the Corporation for National and Community Service.".

(b) EFFECTIVE DATE.—The amendment made by this section shall become effective January 1, 1996.

SEC. 9504. REQUIRED COMPLETION OF HIGH SCHOOL OR OTHER TRAINING FOR TEENAGE PARENTS.

(a) IN GENERAL.—Section 403(b)(1)(D), as added by section 9101(a) of this Act, is amended—

(1) by inserting ''(i)'' after ''(D)''; and

(2) by adding at the end the following:

''(ii) in the case of a client who is a custodial parent who is under age 18 (or age 19, at the option of the State), has not successfully completed a high-school education (or its equivalent), and is required to participate in the Work First program (including an individual who would otherwise be exempt from participation in the program), shall provide that—

''(I) such parent participate in—

''(aa) educational activities directed toward the attainment of a high school diploma or its equivalent on a full-time (as defined by the educational provider) basis; or

''(bb) an alternative educational or training program on a full-time (as defined by the provider) basis; and

"(II) child care be provided in accordance with section 2009 with respect to the family.".

(b) STATE OPTION TO PROVIDE ADDITIONAL INCENTIVES AND PENALTIES TO ENCOURAGE TEEN PARENTS TO COMPLETE HIGH SCHOOL AND PARTICIPATE IN PARENTING ACTIVITIES.—

(1) STATE PLAN.—Section 403(b)(1)(D), as amended by subsection (a) of this section, is amended by adding at the end the following:

"(iii) at the option of the State, may provide that the client who is a custodial parent or pregnant woman who is under age 19 (or age 21, at the option of the State) participate in a program of monetary incentives and penalties which—

"(I) may, at the option of the State, require full-time participation by such custodial parent or pregnant woman in secondary school or equivalent educational activities, or participation in a course or program leading to a skills certificate found appropriate by the State agency or parenting education activities (or any com-

bination of such activities and secondary education);

"(II) shall require that the needs of such custodial parent or pregnant woman be reviewed and the program assure that, either in the initial development or revision of such individual's individual responsibility plan, there will be included a description of the services that will be provided to the client and the way in which the program and service providers will coordinate with the educational or skills training activities in which the client is participating;

"(III) shall provide monetary incentives (to be treated as assistance under the State plan) for more than minimally acceptable performance of required educational activities;

"(IV) shall provide penalties (which may be those required by subsection (e) or, with the approval of the Secretary, other monetary penalties that the State finds will better achieve the objectives of the program) for less than minimally acceptable performance of required activities;

"(V) shall provide that when a monetary incentive is payable because of the more than minimally acceptable performance of required educational activities by a custodial parent, the incentive be paid directly to such parent, regardless of whether the State agency makes payment of assistance under the State plan directly to such parent; and

"(VI) for purposes of any other Federal or federally-assisted program based on need, shall not consider any monetary incentive paid under the State plan as income in determining a family's eligibility for or amount of benefits under such program, and if assistance is reduced by reason of a penalty under this clause, such other program shall treat the family involved as if no such penalty has been applied.".

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect in the same manner as the amendment made by section 9101(a) takes effect.

SEC. 9505. DENIAL OF FEDERAL HOUSING BENEFITS TO MINORS WHO BEAR CHILDREN OUT-OF-WEDLOCK.

(a) PROHIBITION OF ASSISTANCE.—Notwithstanding any other provision of law, a household whose head of household is an individual who has borne a child out-of-wedlock before attaining 18 years of age may not be provided Federal housing assistance for a dwelling unit until attaining such age, unless—

(1) after the birth of the child—

(A) the individual marries an individual who has been determined by the relevant State to be the biological father of the child; or

(B) the biological parent of the child has legal custody of the child and marries an individual who legally adopts the child;

(2) the individual is a biological and custodial parent of another child who was not born out-of-wedlock; or

(3) eligibility for such Federal housing assistance is based in whole or in part on any disability or handicap of a member of the household.

(4) the state deems it necessary.

(b) DEFINITIONS.—For purposes of this section, the following definitions shall apply:

(1) COVERED PROGRAM.—The term ''covered program'' means—

(A) the program of rental assistance on behalf of low-income families provided under section 8 of the United States Housing Act of 1937 (42 U.S.C. 1437f);

(B) the public housing program under title I of the United States Housing Act of 1937 (42 U.S.C. 1437 et seq.);

(C) the program of rent supplement payments on behalf of qualified tenants pursuant to contracts entered into under section 101 of the Housing and Urban Development Act of 1965 (12 U.S.C. 1701s);

(D) the program of interest reduction payments pursuant to contracts entered into by the Secretary of Housing and Urban Development under section 236 of the National Housing Act (12 U.S.C. 1715z–1);

(E) the program for mortgage insurance provided pursuant to sections 221(d) (3) or (4) of the National Housing Act (12 U.S.C. 1715l(d)) for multifamily housing for low- and moderate-income families;

(F) the rural housing loan program under section 502 of the Housing Act of 1949 (42 U.S.C. 1472);

(G) the rural housing loan guarantee program under section 502(h) of the Housing Act of 1949 (42 U.S.C. 1472(h));

(H) the loan and grant programs under section 504 of the Housing Act of 1949 (42 U.S.C. 1474) for repairs and improvements to rural dwellings;

(I) the program of loans for rental and cooperative rural housing under section 515 of the Housing Act of 1949 (42 U.S.C. 1485);

(J) the program of rental assistance payments pursuant to contracts entered into under section 521(a)(2)(A) of the Housing Act of 1949 (42 U.S.C. 1490a(a)(2)(A));

(K) the loan and assistance programs under sections 514 and 516 of the Housing Act of 1949 (42 U.S.C. 1484, 1486) for housing for farm labor;

(L) the program of grants and loans for mutual and self-help housing and technical assistance under section 523 of the Housing Act of 1949 (42 U.S.C. 1490c);

(M) the program of grants for preservation and rehabilitation of housing under section 533 of the Housing Act of 1949 (42 U.S.C. 1490m); and

(N) the program of site loans under section 524 of the Housing Act of 1949 (42 U.S.C. 1490d).

(2) COVERED PROJECT.—The term ''covered project'' means any housing for which Federal housing assistance is provided that is attached to the project or specific dwelling units in the project.

(3) FEDERAL HOUSING ASSISTANCE.—The term ''Federal housing assistance'' means—

(A) assistance provided under a covered program in the form of any contract, grant, loan, subsidy, cooperative agreement, loan or mortgage guarantee or insurance, or other financial assistance; or

(B) occupancy in a dwelling unit that is—

(i) provided assistance under a covered program; or

(ii) located in a covered project and subject to occupancy limitations under a covered program that are based on income.

(4) STATE.—The term ''State'' means the States of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, Guam, the Virgin Islands, American Samoa, and any other territory or possession of the United States.

(c) LIMITATIONS ON APPLICABILITY.—Subsection (a) shall not apply to Federal housing assistance provided for a household pursuant to an application or request for such assistance made by such household before the effective date of this Act if the household was receiving such assistance on the effective date of this Act.

SEC. 9506. STATE OPTION TO DENY TEMPORARY EMPLOYMENT ASSISTANCE TO MINOR PARENTS.

(a) IN GENERAL.—Section 402(d)(1), as added by section 9101(a) of this Act and as amended by section 9501(a) of this Act, is amended by adding at the end the following:

''(C) OPTIONAL DENIAL OF ASSISTANCE TO MINOR PARENTS.—At the option of the State, the State plan may provide that—

''(i)(I) in determining the need of a family, the State may disregard the needs of any family member who is a parent and

has not attained 18 years of age or such lesser age as the State may prescribe; and

"(II) if the value of the assistance provided to a family under the State plan approved under this part is reduced by reason of subclause (I), each member of the family shall be considered to be receiving such assistance for purposes of eligibility for medical assistance under the State plan approved under title XIX for so long as such assistance under the State plan approved under this part would otherwise not be so reduced; and

"(ii) if the State exercises the option, the State may provide the family with vouchers, in amounts not exceeding the value of any such reduction in assistance, that may be used only to pay for—

"(I) particular goods and services specified by the State as suitable for the care of the child of the parent (such as diapers, clothing, or cribs); and

"(II) the costs associated with a maternity home, foster home, or other adult-

supervised supportive living arrangement in which the parent and the child live.''.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect in the same manner in which the amendment made by section 9101(a) takes effect.

Subtitle F—SSI Reform

SEC. 9601. DEFINITION AND ELIGIBILITY RULES.

(a) DEFINITION OF CHILDHOOD DISABILITY.—Section 1614(a)(3) (42 U.S.C. 1382c(a)(3)) is amended—

(1) in subparagraph (A), by striking ''An individual'' and inserting ''Except as provided in subparagraph (C), an individual'';

(2) in subparagraph (A), by striking ''(or, in the case of an individual under the age of 18, if he suffers from any medically determinable physical or mental impairment of comparable severity)'';

(3) by redesignating subparagraphs (C) through (H) as subparagraphs (D) through (I), respectively;

(4) by inserting after subparagraph (B) the following new subparagraph:

''(C) An individual under the age of 18 shall be considered disabled for the purposes of this title if that individual has a medically determinable physical or mental impairment, which results in marked and severe functional

limitations, and which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.''; and

(5) in subparagraph (F), as so redesignated by paragraph (3) of this subsection, by striking ''(D)'' and inserting ''(E)''.

(b) CHANGES TO CHILDHOOD SSI REGULATIONS.—

(1) MODIFICATION TO MEDICAL CRITERIA FOR EVALUATION OF MENTAL AND EMOTIONAL DISORDERS.—The Commissioner of Social Security shall modify sections 112.00C.2. and 112.02B.2.c.(2) of appendix 1 to subpart P of part 404 of title 20, Code of Federal Regulations, to eliminate references to maladaptive behavior in the domain of personal/behavorial function.

(2) DISCONTINUANCE OF INDIVIDUALIZED FUNCTIONAL ASSESSMENT.—The Commissioner of Social Security shall discontinue the individualized functional assessment for children set forth in sections 416.924d and 416.924e of title 20, Code of Federal Regulations.

(c) EFFECTIVE DATE; REGULATIONS; APPLICATION TO CURRENT RECIPIENTS.—

(1) IN GENERAL.—The amendments made by subsections (a) and (b) shall apply to applicants for

benefits for months beginning on or after January 1, 1997.

(2) REGULATIONS.—The Commissioner of Social Security shall issue such regulations as the Commissioner determines to be necessary to implement the amendments made by subsections (a) and (b), not later than January 1, 1997.

(3) APPLICATION TO CURRENT RECIPIENTS.—

(A) ELIGIBILITY DETERMINATIONS.—Beginning on January 1, 1997, and ending not later than January 1, 1998, the Commissioner of Social Security shall redetermine the eligibility of any individual under age 18 who is receiving supplemental security income benefits based on a disability under title XVI of the Social Security Act as of the date of the enactment of this Act and whose eligibility for such benefits may terminate by reason of the amendments made by subsection (a) or (b). With respect to any redetermination under this subparagraph—

(i) section 1614(a)(4) of the Social Security Act (42 U.S.C. 1382c(a)(4)) shall not apply;

(ii) the Commissioner of Social Security shall apply the eligibility criteria for new applicants for benefits under title XVI of such Act;

(iii) the Commissioner shall give such redetermination priority over all continuing eligibility reviews and other reviews under such title; and

(iv) such redetermination shall be counted as a review or redetermination otherwise required to be made under section 208 of the Social Security Independence and Program Improvements Act of 1994 or any other provision of title XVI of the Social Security Act.

(B) NOTICE.—Not later than 90 days after the date of the enactment of this Act, the Commissioner of Social Security shall notify an individual described in subparagraph (A) of the provisions of this paragraph.

SEC. 9602. ELIGIBILITY REDETERMINATIONS AND CONTINUING DISABILITY REVIEWS.

(a) CONTINUING DISABILITY REVIEWS RELATING TO CERTAIN CHILDREN.—Section 1614(a)(3)(H) (42 U.S.C.

1382c(a)(3)(H)), as so redesignated by section 9601(a)(3) of this Act, is amended—

(1) by inserting ''(i)'' after ''(H)''; and

(2) by adding at the end the following new clause:

''(ii)(I) Not less frequently than once every 3 years, the Commissioner shall review in accordance with paragraph (4) the continued eligibility for benefits under this title of each individual who has not attained 18 years of age and is eligible for such benefits by reason of an impairment (or combination of impairments) which may improve (or, which is unlikely to improve, at the option of the Commissioner).

''(II) A parent or guardian of a recipient whose case is reviewed under this clause shall present, at the time of review, evidence demonstrating that the recipient is, and has been, receiving treatment, to the extent considered medically necessary and available, of the condition which was the basis for providing benefits under this title.''.

(b) DISABILITY ELIGIBILITY REDETERMINATIONS REQUIRED FOR SSI RECIPIENTS WHO ATTAIN 18 YEARS OF AGE.—

(1) IN GENERAL.—Section 1614(a)(3)(H) (42 U.S.C. 1382c(a)(3)(H)), as so redesignated by sec-

tion 9601(a)(3) of this Act and as amended by subsection (a) of this section, is amended by adding at the end the following new clause:

''(iii) If an individual is eligible for benefits under this title by reason of disability for the month preceding the month in which the individual attains the age of 18 years, the Commissioner shall redetermine such eligibility—

''(I) during the 1-year period beginning on the individual's 18th birthday; and

''(II) by applying the criteria used in determining the initial eligibility for applicants who have attained the age of 18 years.

With respect to a redetermination under this clause, paragraph (4) shall not apply and such redetermination shall be considered a substitute for a review or redetermination otherwise required under any other provision of this subparagraph during that 1-year period.''.

(2) CONFORMING REPEAL.—Section 207 of the Social Security Independence and Program Improvements Act of 1994 (42 U.S.C. 1382 note; 108 Stat. 1516) is hereby repealed.

(c) CONTINUING DISABILITY REVIEW REQUIRED FOR LOW BIRTH WEIGHT BABIES.—Section 1614(a)(3)(H) (42 U.S.C. 1382c(a)(3)(H)), as so redesignated by section 9601(a)(3) of this Act and as amended by subsections (a)

and (b) of this section, is amended by adding at the end the following new clause:

"(iv)(I) Not later than 12 months after the birth of an individual, the Commissioner shall review in accordance with paragraph (4) the continuing eligibility for benefits under this title by reason of disability of such individual whose low birth weight is a contributing factor material to the Commissioner's determination that the individual is disabled.

"(II) A review under subclause (I) shall be considered a substitute for a review otherwise required under any other provision of this subparagraph during that 12-month period.

"(III) A parent or guardian of a recipient whose case is reviewed under this clause shall present, at the time of review, evidence demonstrating that the recipient is, and has been, receiving treatment, to the extent considered medically necessary and available, of the condition which was the basis for providing benefits under this title.".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to benefits for months beginning on or after the date of the enactment of this Act, without regard to whether regulations have been issued to implement such amendments.

SEC. 9603. ADDITIONAL ACCOUNTABILITY REQUIREMENTS.

(a) TIGHTENING OF REPRESENTATIVE PAYEE REQUIREMENTS.—

(1) CLARIFICATION OF ROLE.—Section 1631(a)(2)(B)(ii) (42 U.S.C. 1383(a)(2)(B)(ii)) is amended by striking ''and'' at the end of subclause (II), by striking the period at the end of subclause (IV) and inserting ''; and'', and by adding after subclause (IV) the following new subclause:

''(V) advise such person through the notice of award of benefits, and at such other times as the Commissioner of Social Security deems appropriate, of specific examples of appropriate expenditures of benefits under this title and the proper role of a representative payee.''.

(2) DOCUMENTATION OF EXPENDITURES REQUIRED.—

(A) IN GENERAL.—Subparagraph (C)(i) of section 1631(a)(2) (42 U.S.C. 1383(a)(2)) is amended to read as follows:

''(C)(i) In any case where payment is made to a representative payee of an individual or spouse, the Commissioner of Social Security shall—

''(I) require such representative payee to document expenditures and keep contemporaneous

records of transactions made using such payment; and

"(II) implement statistically valid procedures for reviewing a sample of such contemporaneous records in order to identify instances in which such representative payee is not properly using such payment.".

(B) CONFORMING AMENDMENT WITH RESPECT TO PARENT PAYEES.—Clause (ii) of section 1631(a)(2)(C) (42 U.S.C. 1383(a)(2)(C)) is amended by striking "Clause (i)" and inserting "Subclauses (II) and (III) of clause (i)".

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to benefits paid after the date of the enactment of this Act.

(b) DEDICATED SAVINGS ACCOUNTS.—

(1) IN GENERAL.—Section 1631(a)(2)(B) (42 U.S.C. 1383(a)(2)(B)) is amended by adding at the end the following:

"(xiv) Notwithstanding clause (x), the Commissioner of Social Security may, at the request of the representative payee, pay any lump sum payment for the benefit of a child into a dedicated savings account that could only be used to purchase for such child—

"(I) education and job skills training;

"(II) special equipment or housing modifications or both specifically related to, and required by the nature of, the child's disability; and

"(III) appropriate therapy and rehabilitation.".

(2) DISREGARD OF TRUST FUNDS.—Section 1613(a) (42 U.S.C. 1382b(a)) is amended—

(A) by striking "and" at the end of paragraph (10),

(B) by striking the period at the end of paragraph (11) and inserting "; and", and

(C) by inserting after paragraph (11) the following:

"(12) all amounts deposited in, or interest credited to, a dedicated savings account described in section 1631(a)(2)(B)(xiv).".

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to payments made after the date of the enactment of this Act.

SEC. 9604. DENIAL OF SSI BENEFITS BY REASON OF DISABILITY TO DRUG ADDICTS AND ALCOHOLICS.

(a) IN GENERAL.—Section 1614(a)(3) (42 U.S.C. 1382c(a)(3)), as amended by section 9601(a)(3) of this Act, is amended by adding at the end the following:

"(J) Notwithstanding subparagraph (A), an individual shall not be considered to be disabled for purposes of this title if alcoholism or drug addiction would (but for this subparagraph) be a contributing factor material to the Commissioner's determination that the individual is disabled.".

(b) CONFORMING AMENDMENTS.—

(1) Section 1611(e) (42 U.S.C. 1382(e)) is amended by striking paragraph (3).

(2) Section 1613(a)(12) (42 U.S.C. 1382b(a)(12)) is amended by striking "1631(a)(2)(B)(xiv)" and inserting "1631(a)(2)(B)(xiii)".

(3) Section 1631(a)(2)(A)(ii) (42 U.S.C. 1383(a)(2)(A)(ii)) is amended—

(A) by striking "(I)"; and

(B) by striking subclause (II).

(4) Section 1631(a)(2)(B) (42 U.S.C. 1383(a)(2)(B)) is amended—

(A) by striking clause (vii);

(B) in clause (viii), by striking "(ix)" and inserting "(viii)";

(C) in clause (ix)—

(i) by striking "(viii)" and inserting "(vii)"; and

(ii) in subclause (II), by striking all that follows "15 years" and inserting a period;

(D) in clause (xiii)—

(i) by striking "(xii)" and inserting "(xi)"; and

(ii) by striking "(xi)" and inserting "(x)";

(E) in clause (xiv) (as added by section 9603(b)(1) of this Act), by striking "(x)" and inserting "(ix)"; and

(F) by redesignating clauses (viii) through (xiv) as clauses (vii) through (xiii), respectively.

(5) Section 1631(a)(2)(D)(i)(II) (42 U.S.C. 1383(a)(2)(D)(i)(II)) is amended by striking all that follows "$25.00 per month" and inserting a period.

(6) Section 1634 (42 U.S.C. 1383c) is amended by striking subsection (e).

(7) Section 201(c)(1) of the Social Security Independence and Program Improvements Act of 1994 (42 U.S.C. 425 note) is amended—

(A) by striking "—" and all that follows through "(A)" the 1st place such term appears;

(B) by striking "and" the 3rd place such term appears;

(C) by striking subparagraph (B);

(D) by striking ''either subparagraph (A) or subparagraph (B)'' and inserting ''the preceding sentence''; and

(E) by striking ''subparagraph (A) or (B)'' and inserting ''the preceding sentence''.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on October 1, 1995, and shall apply with respect to months beginning on or after such date.

(d) FUNDING OF CERTAIN PROGRAMS FOR DRUG ADDICTS AND ALCOHOLICS.—Out of any money in the Treasury of the United States not otherwise appropriated, the Secretary of the Treasury shall pay to the Director of the National Institute on Drug Abuse—

(1) $95,000,000, for each of fiscal years 1997, 1998, 1999, and 2000, for expenditure through the Federal Capacity Expansion Program to expand the availability of drug treatment; and

(2) $5,000,000 for each of fiscal years 1997, 1998, 1999, and 2000 to be expended solely on the medication development project to improve drug abuse and drug treatment research.

SEC. 9605. DENIAL OF SSI BENEFITS FOR 10 YEARS TO INDIVIDUALS FOUND TO HAVE FRAUDULENTLY MISREPRESENTED RESIDENCE IN ORDER TO OBTAIN BENEFITS SIMULTANEOUSLY IN 2 OR MORE STATES.

Section 1614(a) (42 U.S.C. 1382c(a)) is amended by adding at the end the following:

''(5) An individual shall not be considered an eligible individual for purposes of this title during the 10-year period beginning on the date the individual is found by a State to have made, or is convicted in Federal or State court of having made, a fraudulent statement or representation with respect to the place of residence of the individual in order to receive benefits simultaneously from 2 or more States under programs that are funded under part A of title IV, or title XIX of this Act, the consolidated program of food assistance under chapter 2 of subtitle E of title XIV of the Omnibus Budget Reconciliation Act of 1995, or the Food Stamp Act of 1977 (as in effect before the effective date of such chapter), or benefits in 2 or more States under the supplemental security income program under title XVI of this Act.''.

SEC. 9606. DENIAL OF SSI BENEFITS FOR FUGITIVE FELONS AND PROBATION AND PAROLE VIOLATORS.

(a) IN GENERAL.—Section 1611(e) (42 U.S.C. 1382(e)), as amended by section 9604(b)(1) of this Act, is amended by inserting after paragraph (2) the following:

"(3) A person shall not be an eligible individual or eligible spouse for purposes of this title with respect to any month if, throughout the month, the person is—

"(A) fleeing to avoid prosecution, or custody or confinement after conviction, under the laws of the place from which the person flees, for a crime, or an attempt to commit a crime, which is a felony under the laws of the place from which the person flees, or which, in the case of the State of New Jersey, is a high misdemeanor under the laws of such State; or

"(B) violating a condition of probation or parole imposed under Federal or State law.".

(b) EXCHANGE OF INFORMATION WITH LAW ENFORCEMENT AGENCIES.—Section 1631(e) of such Act (42 U.S.C. 1383(e)) is amended by inserting after paragraph (3) the following:

"(4) Notwithstanding any other provision of law, the Commissioner shall furnish any Federal, State, or local law enforcement officer, upon the request of the officer,

with the current address of any recipient of benefits under this title, if the officer furnishes the agency with the name of the recipient and notifies the agency that—

"(A) the recipient—

"(i) is fleeing to avoid prosecution, or custody or confinement after conviction, under the laws of the place from which the person flees, for a crime, or an attempt to commit a crime, which is a felony under the laws of the place from which the person flees, or which, in the case of the State of New Jersey, is a high misdemeanor under the laws of such State;

"(ii) is violating a condition of probation or parole imposed under Federal or State law; or

"(iii) has information that is necessary for the officer to conduct the officer's official duties;

"(B) the location or apprehension of the recipient is within the official duties of the officer; and

"(C) the request is made in the proper exercise of such duties.".

Subtitle D—Supplemental Security Income

SEC. 9607 VERIFICATION OF ELIGIBILITY FOR CERTAIN SSI DISABILITY BENEFITS.

Section 1631 (42 U.S.C. 1383) is amended by adding at the end the following new subsection:

''(o)(1) Notwithstanding any other provision of law, if the Commissioner of Social Security determines that an individual, who is 18 years of age or older, is eligible to receive benefits pursuant to section 1614(a)(3), the Commissioner shall, at the time of the determination, either exempt the individual from an eligibility review or establish a schedule for reviewing the individual's continuing eligibility in accordance with paragraph (2).

''(2)(A) The Commissioner shall establish a periodic review with respect to the continuing eligibility of an individual to receive benefits, unless the individual is exempt from review under subparagraph (C) or is subject to a scheduled review under subparagraph (B). A periodic review under this subparagraph shall be initiated by the Commissioner not later than 30 months after the date a determination is made that the individual is eligible for benefits and every 30 months thereafter, unless a waiver is granted under section 221(i)(2). However, the Commissioner shall not postpone the initiation of a periodic review for more than 12 months in any case in which such waiver

has been granted unless exigent circumstances require such postponement.

"(B)(i) In the case of an individual, other than an individual who is exempt from review under subparagraph (C) or with respect to whom subparagraph (A) applies, the Commissioner shall schedule a review regarding the individual's continuing eligibility to receive benefits at any time the Commissioner determines, based on the evidence available, that there is a significant possibility that the individual may cease to be entitled to such benefits.

"(ii) The Commissioner may establish classifications of individuals for whom a review of continuing eligibility is scheduled based on the impairments that are the basis for such individuals' eligibility for benefits. A review of an individual covered by a classification shall be scheduled in accordance with the applicable classification, unless the Commissioner determines that applying such schedule is inconsistent with the purpose of this Act or the integrity of the supplemental security income program.

"(C)(i) The Commissioner may exempt an individual from review under this subsection, if the individual's eligibility for benefits is based on a condition that, as a practical matter, has no substantial likelihood of improving to a point where the individual will be able to perform substantial gainful activity.

"(ii) The Commissioner may establish classifications of individuals who are exempt from review under this subsection based on the impairments that are the basis for such individuals' eligibility for benefits. Notwithstanding any such classification, the Commissioner may, at the time of determining an individual's eligibility, schedule a review of such individual's continuing eligibility if the Commissioner determines that a review is necessary to preserve the integrity of the supplemental security income program.

"(3) The Commissioner may revise a determination made under paragraph (1) and schedule a review under paragraph (2)(B), if the Commissioner obtains credible evidence that an individual may no longer be eligible for benefits or the Commissioner determines that a review is necessary to maintain the integrity of the supplemental security income program. Information obtained under section 1137 may be used as the basis to schedule a review.

"(4)(i) The requirements of sections 1614(a)(4) and 1633 shall apply to reviews conducted under this subsection.

"(ii) Such reviews may be conducted by the applicable State agency or the Commissioner, whichever is appropriate.".

MODIFICATION TO ACCELERATE IMPLEMENTATION OF CONRAD CONTINUING DISABILITY REVIEW PROVISION

At the end of section 841 of S. 840, insert after ''is appropriate.'' the following:

''(5) TRANSITION RULE.—Not later than three months after the date of enactment of this subsection, the Commissioner shall establish a schedule for reviewing the continuing eligibility of each individual receiving benefits pursuant to section 1614(a)(3) on the date of enactment and who is 18 years of age or older unless such individual is exempt under subparagraph (2)(C). Such reviews shall be scheduled under the procedures set out in paragraph (2), except that the reviews shall be scheduled so that the eligibility of one-third of all such non-exempt individuals is reviewed within one year after the date of enactment, the eligibility of two-thirds of such non-exempt individuals is reviewed within two years of the date of enactment, and all remaining non-exempt individuals receiving benefits on the date of enactment of this subsection who continue receiving benefits shall have their eligibility reviewed within three years of the date of enactment. Each individual determined eligible to continue receiving benefits in a review scheduled under this paragraph

shall, at the time of such determination, be subject to paragraph (1).''.

Subtitle H—Treatment of Aliens

SEC. 9801. EXTENSION OF DEEMING OF INCOME AND RESOURCES UNDER TEA, SSI, AND FOOD STAMP PROGRAMS.

(a) IN GENERAL.—Except as provided in subsections (b) and (c), in applying sections 407 and 1621 of the Social Security Act and section 5(i) of the Food Stamp Act of 1977, the period in which each respective section otherwise applies with respect to an alien shall be extended through the date (if any) on which the alien becomes a citizen of the United States (under chapter 2 of title III of the Immigration and Nationality Act).

(b) EXCEPTION.—Subsection (a) shall not apply to an alien if—

(1) the alien has been lawfully admitted to the United States for permanent residence, has attained 75 years of age, and has resided in the United States for at least 5 years;

(2) the alien—

(A) is a veteran (as defined in section 101 of title 38, United States Code) with a discharge characterized as an honorable discharge,

(B) is on active duty (other than active duty for training) in the Armed Forces of the United States, or

(C) is the spouse or unmarried dependent child of an individual described in subparagraph (A) or (B);

(3) the alien is the subject of domestic violence by the alien's spouse and a divorce between the alien and the alien's spouse has been initiated through the filing of an appropriate action in an appropriate court; or

(4) there has been paid with respect to the self-employment income or employment of the alien, or of a parent or spouse of the alien, taxes under chapter 2 or chapter 21 of the Internal Revenue Code of 1986 in each of 20 different calendar quarters.

(c) HOLD HARMLESS FOR MEDICAID ELIGIBILITY.—Subsection (a) shall not apply with respect to determinations of eligibility for benefits under a State plan approved under part A of title IV of the Social Security Act or under the supplemental income security program under title XVI of such Act but only insofar as such determinations provide for eligibility for medical assistance under title XIX of such Act.

(d) EXECPTION FOR ALIENS RECEIVING BENEFIT.—Subsection (a) shall not apply with respect to determinations of eligibility for a benefit for an alien receiving such a benefit on the date of the enactment of the Common Sense Budget Act of 1996 who otherwise continues to be eligible for and continues to receive such benefit after such date.

(e) RULES REGARDING INCOME AND RESOURCE DEEMING UNDER TEA PROGRAM.—Subpart 1 of part A of title IV of the Social Security Act, as added by section 9101(a) of this Act, is amended by adding at the end the following:

"SEC. 407. ATTRIBUTION OF SPONSOR'S INCOME AND RESOURCES TO ALIEN.

''(a) For purposes of determining eligibility for and the amount of assistance under a State plan approved under this part for an individual who is an alien lawfully admitted for permanent residence or otherwise permanently residing in the United States under color of law (including any alien who is lawfully present in the United States as a result of the application of the provisions of section 207(c) of the Immigration and Nationality Act (or of section 203(a)(7) of such Act prior to April 1, 1980), or as a result of the application of the provisions of section 208 or 212(d)(5) of such Act), the income and resources

of any person who (as a sponsor of such individual's entry into the United States) executed an affidavit of support or similar agreement with respect to such individual, and the income and resources of the sponsor's spouse, shall be deemed to be the unearned income and resources of such individual (in accordance with subsections (b) and (c)) for a period of three years after the individual's entry into the United States, except that this section is not applicable if such individual is a dependent child and such sponsor (or such sponsor's spouse) is the parent of such child.

''(b)(1) The amount of income of a sponsor (and his spouse) which shall be deemed to be the unearned income of an alien for any month shall be determined as follows:

''(A) the total amount of earned and unearned income of such sponsor and such sponsor's spouse (if such spouse is living with the sponsor) shall be determined for such month;

''(B) the amount determined under subparagraph (A) shall be reduced by an amount equal to the sum of—

''(i) the lesser of (I) 20 percent of the total of any amounts received by the sponsor and his spouse in such month as wages or salary or as net earnings from self-employment, plus the full

amount of any costs incurred by them in producing self-employment income in such month, or (II) $175;

"(ii) the cash needs standard established by the State under its plan for a family of the same size and composition as the sponsor and those other individuals living in the same household as the sponsor who are claimed by him as dependents for purposes of determining his Federal personal income tax liability but whose needs are not taken into account in making a determination under section 402(d);

"(iii) any amounts paid by the sponsor (or his spouse) to individuals not living in such household who are claimed by him as dependents for purposes of determining his Federal personal income tax liability; and

"(iv) any payments of alimony or child support with respect to individuals not living in such household.

"(2) The amount of resources of a sponsor (and his spouse) which shall be deemed to be the resources of an alien for any month shall be determined as follows:

"(A) the total amount of the resources (determined as if the sponsor were applying for assistance

under the State plan approved under this part) of such sponsor and such sponsor's spouse (if such spouse is living with the sponsor) shall be determined; and

"(B) the amount determined under subparagraph (A) shall be reduced by $1,500.

"(c)(1) Any individual who is an alien and whose sponsor was a public or private agency shall be ineligible for assistance under a State plan approved under this part during the period of three years after his or her entry into the United States, unless the State agency administering such plan determines that such sponsor either no longer exists or has become unable to meet such individual's needs; and such determination shall be made by the State agency based upon such criteria as it may specify in the State plan, and upon such documentary evidence as it may therein require. Any such individual, and any other individual who is an alien (as a condition of his or her eligibility for assistance under a State plan approved under this part during the period of three years after his or her entry into the United States), shall be required to provide to the State agency administering such plan such information and documentation with respect to his sponsor as may be necessary in order for the State agency to make any determination required under this section, and to obtain

any cooperation from such sponsor necessary for any such determination. Such alien shall also be required to provide to the State agency such information and documentation as it may request and which such alien or his sponsor provided in support of such alien's immigration application.

"(2) The Secretary shall enter into agreements with the Secretary of State and the Attorney General whereby any information available to them and required in order to make any determination under this section will be provided by them to the Secretary (who may, in turn, make such information available, upon request, to a concerned State agency), and whereby the Secretary of State and Attorney General will inform any sponsor of an alien, at the time such sponsor executes an affidavit of support or similar agreement, of the requirements imposed by this section.

"(d) Any sponsor of an alien, and such alien, shall be jointly and severally liable for an amount equal to any overpayment of assistance under the State plan made to such alien during the period of three years after such alien's entry into the United States, on account of such sponsor's failure to provide correct information under the provisions of this section, except where such sponsor was without fault, or where good cause of such failure existed. Any such overpayment which is not repaid to the State

or recovered in accordance with the procedures generally applicable under the State plan to the recoupment of overpayments shall be withheld from any subsequent payment to which such alien or such sponsor is entitled under any provision of this Act.

"(e)(1) In any case where a person is the sponsor of two or more alien individuals who are living in the same home, the income and resources of such sponsor (and his spouse), to the extent they would be deemed the income and resources of any one of such individuals under the preceding provisions of this section, shall be divided into two or more equal shares (the number of shares being the same as the number of such alien individuals) and the income and resources of each such individual shall be deemed to include one such share.

"(2) Income and resources of a sponsor (and his spouse) which are deemed under this section to be the income and resources of any alien individual in a family shall not be considered in determining the need of other family members except to the extent such income or resources are actually available to such other members.

"(f) The provisions of this section shall not apply with respect to any alien who is—

"(1) admitted to the United States as a result of the application, prior to April 1, 1980, of the pro-

visions of section 203(a)(7) of the Immigration and Nationality Act;

"(2) admitted to the United States as a result of the application, after March 31, 1980, of the provisions of section 207(c) of such Act;

"(3) paroled into the United States as a refugee under section 212(d)(5) of such Act;

"(4) granted political asylum by the Attorney General under section 208 of such Act; or

"(5) a Cuban and Haitian entrant, as defined in section 501(e) of the Refugee Education Assistance Act of 1980 (Public Law 96–422).'.

SEC. 9802. REQUIREMENTS FOR SPONSOR'S AFFIDAVITS OF SUPPORT.

(a) IN GENERAL.—Title II of the Immigration and Nationality Act is amended by inserting after section 213 the following new section:

"REQUIREMENTS FOR SPONSOR'S AFFIDAVIT OF SUPPORT

"SEC. 213A. (a) ENFORCEABILITY.—

"(1) IN GENERAL.—No affidavit of support may be accepted by the Attorney General or by any consular officer to establish that an alien is not excludable under section 212(a)(4) unless such affidavit is executed as a contract—

"(A) which is legally enforceable against the sponsor by the Federal Government, by a

State, or by any political subdivision of a State, providing cash benefits under a public cash assistance program (as defined in subsection (f)(2)), but not later than 5 years after the date the alien last receives any such cash benefit; and

"(B) in which the sponsor agrees to submit to the jurisdiction of any Federal or State court for the purpose of actions brought under subsection (e)(2).

"(2) EXPIRATION OF LIABILITY.—Such contract shall only apply with respect to cash benefits described in paragraph (1)(A) provided to an alien before the earliest of the following:

"(A) CITIZENSHIP.—The date the alien becomes a citizen of the United States under chapter 2 of title III.

"(B) VETERAN.—The first date the alien is described in section 9801(b)(2)(A) of the Omnibus Budget Reconciliation Act of 1995.

"(C) PAYMENT OF SOCIAL SECURITY TAXES.—The first date as of which the condition described in section 9801(b)(4) of the Omnibus Budget Reconciliation Act of 1995 is met with respect to the alien.

"(3) NONAPPLICATION DURING CERTAIN PERIODS.—Such contract also shall not apply with respect to cash benefits described in paragraph (1)(A) provided during any period in which the alien is described in section 9801(b)(2)(B) or 9801(b)(2)(C) of the Omnibus Budget Reconciliation Act of 1995.

"(b) FORMS.—Not later than 90 days after the date of enactment of this section, the Attorney General, in consultation with the Secretary of State and the Secretary of Health and Human Services, shall formulate an affidavit of support consistent with the provisions of this section.

"(c) NOTIFICATION OF CHANGE OF ADDRESS.—

"(1) REQUIREMENT.—The sponsor shall notify the Federal Government and the State in which the sponsored alien is currently resident within 30 days of any change of address of the sponsor during the period specified in subsection (a)(1)(A).

"(2) ENFORCEMENT.—Any person subject to the requirement of paragraph (1) who fails to satisfy such requirement shall be subject to a civil penalty of—

"(A) not less than $250 or more than $2,000, or

"(B) if such failure occurs with knowledge that the sponsored alien has received any benefit under any means-tested public benefits program, not less than $2,000 or more than $5,000.

"(d) REIMBURSEMENT OF GOVERNMENT EXPENSES.—

"(1) REQUEST FOR REIMBURSEMENT.—

"(A) IN GENERAL.—Upon notification that a sponsored alien has received any cash benefits described in subsection (a)(1)(A), the appropriate Federal, State, or local official shall request reimbursement by the sponsor in the amount of such cash benefits.

"(B) REGULATIONS.—The Attorney General, in consultation with the Secretary of Health and Human Services, shall prescribe such regulations as may be necessary to carry out subparagraph (A).

"(2) INITIATION OF ACTION.—If within 45 days after requesting reimbursement, the appropriate Federal, State, or local agency has not received a response from the sponsor indicating a willingness to commence payments, an action may be brought

against the sponsor pursuant to the affidavit of support.

"(3) FAILURE TO ABIDE BY REPAYMENT TERMS.—If the sponsor fails to abide by the repayment terms established by such agency, the agency may, within 60 days of such failure, bring an action against the sponsor pursuant to the affidavit of support.

"(4) LIMITATION ON ACTIONS.—No cause of action may be brought under this subsection later than 5 years after the date the alien last received any cash benefit described in subsection (a)(1)(A).

"(f) DEFINITIONS.—For the purposes of this section:

"(1) SPONSOR.—The term 'sponsor' means an individual who—

"(A) is a citizen or national of the United States or an alien who is lawfully admitted to the United States for permanent residence;

"(B) is 18 years of age or over; and

"(C) is domiciled in any State.

"(2) PUBLIC CASH ASSISTANCE PROGRAM.—The term 'public cash assistance program' means a program of the Federal Government or of a State or political subdivision of a State that provides direct cash assistance for the purpose of income mainte-

nance and in which the eligibility of an individual, household, or family eligibility unit for cash benefits under the program, or the amount of such cash benefits, or both are determined on the basis of income, resources, or financial need of the individual, household, or unit. Such term does not include any program insofar as it provides medical, housing, education, job training, food, or in-kind assistance or social services.''.

(b) CLERICAL AMENDMENT.—The table of contents of such Act is amended by inserting after the item relating to section 213 the following:

''Sec. 213A. Requirements for sponsor's affidavit of support.''.

(c) EFFECTIVE DATE.—Subsection (a) of section 213A of the Immigration and Nationality Act, as inserted by subsection (a) of this section, shall apply to affidavits of support executed on or after a date specified by the Attorney General, which date shall be not earlier than 60 days (and not later than 90 days) after the date the Attorney General formulates the form for such affidavits under subsection (b) of such section 213A.

SEC. 9803. EXTENDING REQUIREMENT FOR AFFIDAVITS OF SUPPORT TO FAMILY-RELATED AND DIVERSITY IMMIGRANTS.

(a) IN GENERAL.—Section 212(a)(4) of the Immigration and Nationality Act (8 U.S.C. 1182(a)(4)) is amended to read as follows:

"(4) PUBLIC CHARGE AND AFFIDAVITS OF SUPPORT.—

"(A) PUBLIC CHARGE.—Any alien who, in the opinion of the consular officer at the time of application for a visa, or in the opinion of the Attorney General at the time of application for admission or adjustment of status, is likely at any time to become a public charge is excludable.

"(B) AFFIDAVITS OF SUPPORT.—Any immigrant who seeks admission or adjustment of status as any of the following is excludable unless there has been executed with respect to the immigrant an affidavit of support pursuant to section 213A:

"(i) As an immediate relative (under section 201(b)(2)).

"(ii) As a family-sponsored immigrant under section 203(a) (or as the spouse or

child under section 203(d) of such an immigrant).

"(iii) As the spouse or child (under section 203(d)) of an employment-based immigrant under section 203(b).

"(iv) As a diversity immigrant under section 203(c) (or as the spouse or child under section 203(d) of such an immigrant).".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to aliens with respect to whom an immigrant visa is issued (or adjustment of status is granted) after the date specified by the Attorney General under section 9802(c)

SEC. 6102. REDUCTION IN TITLE XX BLOCK GRANTS TO STATES FOR SOCIAL SERVICES.

Section 2003(c) of the Social Security Act (42 U.S.C. 1397b(c)) is amended—

(1) by striking "and" at the end of paragraph (4);

(2) in paragraph (5), by striking "fiscal year after fiscal year 1989." and inserting "of fiscal years 1990 through 1995; and"; and

(3) by adding at the end the following:

"(6) $2,520,000,000 for fiscal year 1996 and each succeeding fiscal year.".

PART 1—FOOD STAMPS

SHORT TITLE

SEC. 12001. This part may be cited as "The Food Stamp Act Amendments of 1995".

INCLUDE MINOR CHILDREN UNDER 18 YEARS OLD IN THEIR PARENTS' HOUSEHOLDS

SEC. 12011. Section 3(i) of the Food Stamp Act of 1997 (7 U.S.C. 2012(i)) is amended by striking the first parenthetical phrase in the second sentence and inserting in lieu thereof—"(except children who have reached the age of 18 and are themselves parents living with their children or married and living with their spouses)".

USE THE COST OF THE THRIFTY FOOD PLAN FOR ALLOTMENT ADJUSTMENTS

SEC. 12012. Section 3(o) of the Food Stamp Act of 1977 (7 U.S.C. 2012(o)) is amended by—

(1) inserting in paragraph (11) of the second sentence immediately following "and each October 1 thereafter," the words "through the last day of the first month after the month of enactment of the Balanced Budget Act of 1995 for Economic Growth and Fairness"; and

(2) inserting a new third sentence as follows—

"On the first day of the second month after the month of enactment of the Balanced Budget Act of 1995 for Economic Growth and Fairness and each October 1 thereafter, adjust the cost of the diet to reflect the cost of the diet, in the preceding June, and round the result to the nearest lower dollar increment for each household size, except that on the first day of the second month after the month of enactment of the Balanced Budget Act of 1995 for Economic Growth and Fairness, the Secretary may not reduce the cost of the diet in effect on September 30, 1995.".

LOWER AGE FOR EXCLUDING STUDENTS' EARNINGS

SEC. 12013. Section 5(d)(7) of the Food Stamp Act of 1977 (7 U.S.C. 2014(d)(7)) is amended by striking "is 21 years of age or younger" and inserting "has not reached the age of 18".

COUNT GOVERNMENTAL ENERGY ASSISTANCE AS INCOME

SEC. 12014. (a) Section 5(d) of the Food Stamp Act of 1977 (7 U.S.C. 2014(d)) is amended by striking paragraph (11) and renumbering paragraphs (12) through (16) as paragraphs (11) through (15), respectively.

(b) Section 5(e) of the Food Stamp Act of 1977 (7 U.S.C. 2014(e)) is amended by striking "If a State agency

elects'' and all that follows through ''season for which it was provided.''.

(c) Section 5(k) of the Food Stamp Act of 1977 (7 U.S.C. 2014(k)) is amended—

(1) in paragraph (1)(B), by striking '', not including energy or utility-cost assistance,'';

(2) in paragraph (2), by striking subparagraph (C); and

(3) by adding at the end the following—

''(4)(A) For purposes of subsection (d)(1), a payment made under a Federal or State law to provide energy assistance to a household shall be considered money payable directly to the household.

''(B) For purposes of subsection (e), an expense paid on behalf of a household under a Federal or State law to provide energy assistance shall be considered an out-of-pocket expense incurred and paid by the household.''.

(d) Section 2605(f) of the Low-Income Home Energy Assistance Act of 1981 (42 U.S.C. 8624(f)) is amended—

(1) by striking ''(1) Notwithstanding any other provision of law unless'' and inserting ''Notwithstanding any other provision of law except the Food

Stamp Act of 1977 (7 U.S.C. 2011 et seq.), and any''; (2) in paragraph (1), by striking ''food stamps,''; and (3) by striking paragraph (2).

REDUCE THE STANDARD DEDUCTION

SEC. 12015. Section 5(e) of the Food Stamp Act of 1977 (7 U.S.C. 2014(e)) is amended by striking the first two sentences and inserting in lieu thereof the following—

''The Secretary shall allow a standard deduction for each household in the 48 contiguous States and the District of Columbia, Alaska, Hawaii, Guam, and the Virgin Islands of the United States of—

''for fiscal year 1995, $134, $, $, $, and $, respectively;

''(i) for fiscal year 1996, $130, $, $, $, and $, respectively;

''(ii) for fiscal year 1997, $115, $, $, $, and $, respectively; and

''(iii) on October 1, 1997, and each October 1 thereafter, the Secretary shall adjust the standard deduction to the nearest lower dollar increment to reflect changes in the Consumer Price Index for all urban consumers published by the Bureau of Labor Statistics, for items other than food, for the 12-month period ending the preceding June 30.''.

MAKE MANDATORY USE OF STANDARD UTILITY ALLOWANCES A STATE OPTION

SEC. 12016. Section 5(e) of the Food Stamp Act of 1977 (7 U.S.C. 2014(e)) is amended by inserting immediately before ''No such allowance may be used'' the following new sentence—''A State agency may make the use of a standard utility allowance mandatory for all households with qualifying utility costs if (1) the State agency has developed one or more standards that include the cost of heating and cooling and one or more standards that do not include the cost of heating and cooling; and (2) the Secretary finds that the standards will not result in increased program costs.''.

FREEZE AMOUNT OF VEHICLE ASSET LIMITATION

SEC. 12017. The first sentence of section 5(g)(2) of the Food Stamp Act of 1977 (7 U.S.C. 2014(g)(2)) is amended by striking ''through September 30, 1995'' and all that follows through ''such date and on'' and inserting ''and shall be adjusted on October 1, 1996, and''.

REQUIRE COOPERATION WITH CHILD SUPPORT ENFORCEMENT AGENCIES AT STATE OPTION

SEC. 12018. (a) Section 6 of the Food Stamp Act of 1977 (7 U.S.C. 2015) is amended by adding new subsections (i) and (j) at the end thereof as follows—''(i) At the option of the State, no natural or adoptive parent or other individual who is living with and exercising parental

control over a child under the age of eighteen who has an absent parent shall be eligible to participate in the food stamp program unless such parent or individual cooperates with the State agency administering the program under part D of title IV of the Social Security Act (or is determined by such State agency to have good cause not to cooperate) in (1) establishing the paternity of such child (if born out of wedlock), and (2) obtaining support for such child or for herself/himself and for such child. Notwithstanding any provision of part D of title IV of the Social Security Act, no person required under this subsection to cooperate with the State agency administering the program under part D of title IV of the Social Security Act may be required to pay a fee or other costs for services provided under such program.''.

''(j) At the option of the State agency, no person who fails to make legally obligated child support payments shall be eligible to participate in the food stamp program unless such person is unemployed or establishes that the child support award is inconsistent with applicable guidelines.''.

FACILITATE IMPLEMENTATION OF A NATIONAL ELECTRONIC BENEFIT TRANSFER DELIVERY SYSTEM

SEC. 12019. Section 7 of the Food Stamp Act of 1977 (7 U.S.C. 2016) is amended by—

(1) striking in subsection (g) ''(1)'';

(2) striking paragraph (g)(2); and

(3) striking in subsection (g) ''(A)'' and ''(B)'' and inserting in lieu thereof ''(1)'' and ''(2)'', respectively.

REPEAL MINIMUM BENEFIT ADJUSTMENTS

SEC. 12020. Section 8(a) of the Food Stamp Act of 1977 (7 U.S.C. 2017(a)) is amended by striking in the proviso '', and shall be adjusted'' and all that follows through ''$5''.

PRORATE BENEFITS ON RECERTIFICATION

SEC. 12021. Section 8(c)(2)(B) of the Food Stamp Act of 1977 (7 U.S.C. 2017(c)(2)(B)) is amended by striking ''of more than one month''.

PROHIBIT ALLOTMENT INCREASES FOR PENALTIES UNDER OTHER WELFARE AND PUBLIC ASSISTANCE PROGRAMS

SEC. 12022. Section 8 of the Food Stamp Act of 1977 (7 U.S.C. 2017) is amended by striking subsection (d) and inserting in lieu thereof the following—''(d) If the benefits of a household are reduced under a Federal, State, or local law relating to a welfare or public assistance program because of a penalty or for the failure to perform an action required under the law or program, for the duration of the reduction the household may not receive an increased allotment as the result of a decrease

in the income of the household to the extent that the decrease is the result of the reduction.''.

PERMIT STATES TO DETERMINE MOST USEFUL AND RELIABLE MEANS OF VERIFICATION

SEC. 12023. Section 11 of the Food Stamp Act of 1977 (7 U.S.C. 2020) is amended by—

(1) striking in subsection (e)(3) all that follows ''\, and that the State agency shall'' through ''(E)'';

(2) inserting after the paragraph designation (19) of subsection (e) ''at the option of the State agency,''; and

(3) by adding at the end thereof the following new subsection—

''(p) Notwithstanding any other provision of law, State agencies (described in section 3(n)(1) of this Act) shall not be required to use an income and eligibility verification system established under section 1137 of the Social Security Act (42 U.S.C. 1320b–7) or the immigration status verification system established under section 1137(d) of the Social Security Act (42 U.S.C. 1320b–71d)).''.

EXPAND CLAIMS COLLECTION METHODS

SEC. 12024. (a) Section 11(e)(8) of the Food Stamp Act of 1977 (7 U.S.C. 2020(e)(8)) is amended by inserting before the semicolon at the end thereof the following—

"or refunds of Federal taxes as authorized pursuant to 31 U.S.C. 3720A".

(b) Section 13 of the Food Stamp Act of 1977 (7 U.S.C. 2022) is amended by—

(1) striking paragraph (1) of subsection (b);

(2) redesignating subparagraph (A) of paragraph (b)(2) as paragraph (b)(1);

(3) striking in paragraph (b)(1), as redesignated by this subsection, ", other than claims the collection of which is provided for in paragraph (1) of this subsection and claims arising from an error of the State agency,";

(4) inserting at the end of paragraph (b)(1), as redesignated by this subsection, the following new sentence—"A State agency may waive the use of allotment reduction as a means of collecting a claim arising from an error of the State agency if su8ch collection would cause a hardship (as defined by the State agency) on the household but shall continue to pursue all other lawful methods of collection of such claims as prescribed in subsection (b)(2).";

(5) striking in paragraph (b)(1), as redesignated by this subsection, ", except that the household shall" and inserting in lieu thereof ". At the option of the State, the household may";

(6) redesignating subparagraph (b)(2)(B) as paragraph (b)(2);

(7) striking in paragraph (b)(2), as redesignated by this subsection, ''or subparagraph (A)'';

(8) striking in subsection (d) ''and except for claims arising from an error of the State agency,'';

(9) striking in subsection (d) ''may'' and inserting in lieu thereof ''shall''; and

(10) inserting before the period at the end of subsection (d) the following—''or refunds of Federal taxes as authorized pursuant to 31 U.S.C. 3720A''.

(c) Section 16(a) of the Food Stamp Act of 1977 (7 U.S.C. 2025(a)) is amended by striking ''25 percent during the period beginning October 1, 1990'' and all that follows through ''error of a State agency.'' and inserting in lieu thereof the following—''25 percent of overissuances, except those arising from an error of the State agency, which are recovered or collected pursuant to subsections (b), (c), and (d) of section 13.''.

(d) Section 6402(d) of the Internal Revenue Code (26 U.S.C. 6402(d)) is amended by—

(1) inserting in paragraph (1) immediately following ''any Federal agency'' the following—

''(or any State agency that has the responsibility for the administration of the food stamp

program operated pursuant to the Food Stamp Act of 1977)''; and

(inserting in the second sentence of paragraph (2) immediately following ''a Federal agency'' the following—

''(or a State agency that has the responsibility for the administration of the food stamp program operated pursuant to the Food Stamp Act of 1977)''.

EFFECTIVE DATES

SEC. 12025. Except as otherwise provided in this part, the provisions of this part shall become effective the first day of the second month after the month of enactment.

PART 2—CHILD NUTRITION

IMPROVED TARGETING OF DAY CARE HOME REIMBURSEMENTS

SEC. 12031. (a) RESTRUCTURED DAY CARE HOME REIMBURSEMENTS.—Section 17(f)(3) of the National School Lunch Act (42 U.S.C. 1766(f)(3)) is amended by striking ''(3)(A) Institutions'' and all that follows through the end of subparagraph (A) and inserting the following—

''(3) REIMBURSEMENT OF FAMILY OR GROUP DAY CARE HOME SPONSORING ORGANIZATIONS.—

''(A) REIMBURSEMENT FACTOR.—

"(i) IN GENERAL.—An institution that participates in the program under this section as a family or group day care home sponsoring organization shall be provided, for payment to a home sponsored by the organization, reimbursement factors in accordance with this subparagraph for the cost of obtaining and preparing food and prescribed labor costs involved in providing meals under this section.

"(ii) TIER I FAMILY OR GROUP DAY CARE HOMES.—

"(I) DEFINITION.—In this paragraph, the term 'tier I family or group day care home' means—

"(aa) a family or group day care home that is located in a geographic area, as defined by the Secretary based on census data, in which at least 50 percent of the children residing in the area are members of households whose incomes meet the income eligibility guidelines for free or re-

duced price meals under section 9;

"(bb) a family or group day care home that is located in an area served by a school enrolling elementary students in which at least 50 percent of the total number of children enrolled are certified eligible to receive free or reduced price school meals under this Act or the Child Nutrition Act of 1966 (42 U.S.C. 1771 et seq.); or

"(cc) a family or group day care home that is operated by a provider whose household meets the eligibility requirements for free or reduced price meals under section 9 and whose eligibility is verified by the sponsoring organization of the home under regulations established by the Secretary.

"(II) REIMBURSEMENT.—Except as provided in subclause (III), a tier

I family or group day care home shall be provided reimbursement factors under this clause without a requirement for documentation of the costs described in clause (i), except that reimbursement shall not be provided under this subclause for meals or supplements served to the children of a person acting as a family or group day care home provider unless the children meet the eligibility requirements for free or reduced price meals under section 9.

"(III) FACTORS.—Except as provided in subclause (IV), the reimbursement factors applied to a home referred to in subclause (II) shall be the factors in effect on the date of enactment of this subclause.

"(IV) ADJUSTMENTS.—The reimbursement factors under this subparagraph shall be adjusted on October 1, 1996, July 1, 1997, and each July 1 thereafter, to reflect changes in the Consumer Price Index for food at

home for the most recent 12-month period for which the data are available. The reimbursement factors under this subparagraph shall be rounded to the nearest lower cent increment and based on the unrounded adjustment in effect on June 30 of the preceding school year.

"(iii) TIER II FAMILY OR GROUP DAY CARE HOMES.—

"(I) IN GENERAL.—

"(aa) FACTORS.—Except as provided in subclause (II), with respect to meals or supplements served under this clause by a family or group day care home that does not meet the criteria set forth in clause (ii)(I), the reimbursement factors shall be $1 for lunches and suppers, 30 cents for breakfasts, and 15 cents for supplements.

"(bb) ADJUSTMENTS.—The factors shall be adjusted on July 1, 1997, and each July 1 there-

after, to reflect changes in the Consumer Price Index for food at home for the most recent 12-month period for which the data are available. The reimbursement factors under this item shall be rounded down to the nearest lower cent increment and based on the unrounded adjustment for the preceding 12-month period.

"(cc) REIMBURSEMENT.—A family or group day care home shall be provided reimbursement factors under this subclause without a requirement for documentation of the costs described in clause (i), except that reimbursement shall not be provided under this subclause for meals or supplements served to the children of a person acting as a family or group day care home provider unless the children meet the eligibility requirements for free

or reduced price meals under section 9.

"(II) OTHER FACTORS.—A family or group day care home that does not meet the criteria set forth in clause (ii)(I) may elect to be provided reimbursement factors determined in accordance with the following requirements:

"(aa) CHILDREN ELIGIBLE FOR FREE OR REDUCED PRICE MEALS.—In the case of meals or supplements served under this subsection to children who meet the eligibility requirements for free or reduced price meals under section 9, the family or group day care home shall be provided reimbursement factors set by the Secretary in accordance with clause (ii)(III).

"(bb) INELIGIBLE CHILDREN.—In the case of meals or supplements served under this subsection to children who do not

meet the eligibility requirements for free or reduced priced meals under section 9, the family or group day care home shall be provided reimbursement factors in accordance with subclause (I).

"(III) INFORMATION AND DETERMINATIONS.—

"(aa) IN GENERAL.—If a family or group day care home elects to claim the factors described in subclause (II), the family or group day care home sponsoring organization serving the home shall collect the necessary eligibility information, as determined by the Secretary, from any parent or other caretaker to make the determinations specified in subclause (II) and shall make the determinations in accordance with rules prescribed by the Secretary.

"(bb) CATEGORICAL ELIGIBILITY—In making a determina-

tion under item (aa), a family or group day care home sponsoring organization may consider a child participating in or subsidized under, or a child with a parent participating in or subsidized under, a federally or State supported child care or other benefit program with an income eligibility limit that does not exceed the income eligibility guidelines for free or reduced price meals under section 9 to be a child who is eligible for free or reduced price meals under section 9.

"(cc) FACTORS FOR CHILDREN ONLY.—A family or group day care home may elect to receive the reimbursement factors prescribed under clause (ii) (III) solely for the children participating in a program referred to in item (bb) if the home elects not to have eligibility information col-

lected from parents or other caretakers.''.

(b) GRANTS TO STATES TO PROVIDE ASSISTANCE TO FAMILY OR GROUP DAY CARE HOMES.—Section 17(f)(3) of the National School Lunch Act (42 U.S.C. 1766(f)(3)) is amended by adding at the end the following—

''(D) GRANTS TO STATES TO PROVIDE ASSISTANCE TO FAMILY OR GROUP DAY CARE HOMES.—

''(i) IN GENERAL.—

''(I) RESERVATION.—The Secretary shall reserve $5,000,000 of the amount made available to carry out this section for fiscal year 1996.

''(II) PURPOSE.—The Secretary shall use the funds made available under subclause (I) to provide grants to States for the purpose of providing—

''(aa) assistance, including grants, to family or group day care home sponsoring organizations and other appropriate organization, in securing and providing training, materials, automated data processing assistance, and other assistance for the

staff of the sponsoring organizations; and

"(bb) training and other assistance to family or group day care homes in the implementation of the amendments to subparagraph (A) made by section 12031(a) of the Balanced Budget Act of 1995 for Economic Growth and Fairness.

"(ii) ALLOCATION.—The Secretary shall allocate from the funds reserved under clause (i)(I)—

"(I) $30,000 in base funding to each State; and

"(II) any remaining amount among the States, based on the number of family or group day case homes participating in the program in a State during fiscal year 1994 as a percentage of the number of all family or group day care homes participating in the program during fiscal year 1994.

"(iii) RETENTION OF FUNDS.—of the amount of funds made available to a State for fiscal year 1996 under clause (i), the State may

retain not to exceed 30 percent of the amount to carry out this subparagraph.

"(iv) ADDITIONAL PAYMENTS.—Any payments received under this subparagraph shall be in addition to payments that a State receives under subparagraph (A) (as amended by section 12031(a) of the Balanced Budget Act of 1995 for Economic Growth and Fairness).".

(c) PROVISION OF DATA.—Section 17(f)(3) of the National School Lunch Act (42 U.S.C. 1766(f)(3)), as amended by subsection (b), is further amended by adding at the end the following—

"(E) PROVISION OF DATA TO FAMILY OR GROUP DAY CARE HOME SPONSORING ORGANIZATIONS.—

"(i) CENSUS DATA.—The Secretary shall provide to each State agency administering a child and adult care food program under this section data from the most recent decennial census survey or other appropriate census survey for which the data are available showing which areas in the State meet the requirements of subparagraph (A)(ii)(I)(aa). The State agency shall provide the data to family or group day

care home sponsoring organizations located in the State.

"(ii) SCHOOL DATA.—

"(I) IN GENERAL.—A State agency administering the school lunch program under this Act or the school breakfast program under the Child Nutrition Act of 1966 (42 U.S.C. 1771 et seq.) shall provide data for each elementary school in the State, or shall direct each school within the State to provide data for the school, to approved family or group day care home sponsoring organizations that request the data, on the percentage of enrolled children who are certified eligible for free or reduced price meals.

"(II) USE OF DATA FROM PRECEDING SCHOOL YEAR.—In determining for a fiscal year or other annual period whether a home qualifies as a tier I family or group day care home under subparagraph (A)(ii)(I), the State agency administering the program under this section, and a family or group day care home sponsoring organization, shall use the most current

available data at the time of the determination.

"(iii) DURATION OF DETERMINATION.—For purposes of this section, a determination that a family or group day care home is located in an area that qualifies the home as a tier I family or group day care home (as the term is defined in subparagraph (A)(ii)(I)), shall be in effect for 3 years (unless the determination is made on the basis of census data, in which case the determination shall remain in effect until more recent census data are available) unless the State agency determines that the area in which the home is located no longer qualifies the home as a tier I family or group day care home.".

(d) CONFORMING AMENDMENTS.—Section 17(c) of the National School Lunch Act (42 U.S.C. 1766(c)) is amended by inserting "except as provided in subsection (f)(3)," after "For purposes of this section," each place it appears in paragraphs (1), (2), and (3).

(e) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section

shall become effective on the date of enactment of this part.

(2) IMPROVED TARGETING OF DAY CARE HOME REIMBURSEMENTS.—The amendments made by subsections (a), (c), and (d) shall become effective on October 7, 1996.

SEC. . REIMBURSEMENT RATE ADJUSTMENTS.

(a) IN GENERAL.—

(1) COMMODITY RATE.—Section 6(a)(1)(B) of the National School Lunch Act (42 U.S.C. 1755(g)(1)(M) is amended by striking ''¼ cent'' and inserting ''lower cent increment''.

(2) LUNCH, BREAKFAST AND SUPPLEMENT RATES.—Section 11(a)(3)(b) of the National School Lunch Act (42 U.S.C. 1759a(a)(3)(B)) is amended by striking ''one fourth cent'' and inserting ''lower cent increment''.

(3) SUMMER PROGRAM RATES.—Section 13(b)(1) of the National School Lunch Act (42 U.S.C. 1761(b)(1)) is amended by striking ''one-fourth cent'' and inserting ''lower cent increment''.

(4) FAMILY DAY CARE RATES.—Section 17(f)(3(A) of the National School Lunch Act (42 U.S.C. 1766(f)(3)(A)) is amended in the last sen-

tence by striking ''one-fourth cent'' and inserting ''lower cent increment''.

(5) SPECIAL MILK PROGRAM RATES.—Section 3(a)(8) of the Child Nutrition Act (42 U.S.C. 1772(a)(8)) is amended by striking ''one-fourth cent'' and inserting ''lower cent increment''.

(6) SEVERE NEED RATES.—Section 4(b)(2)(B)(ii) of the Child Nutrition Act (42 U.S.C. 1773(b)(B)(ii)) is amended by striking ''one-fourth cent'' and inserting ''lower cent increment''.

(b) EFFECTIVE DATES.—The amendments made by subsection (a) shall become effective on July 1, 1996.

SEC. . ELIMINATION OF START-UP AND EXPANSION GRANTS.

(a) Section 4 of the Child Nutrition Act (42 U.S.C. 1773) is amended by striking subsection (g).

(b) The amendment made by this subsection (a) shall become effective on October 1, 1996.

SEC. . AUTHORIZATION OF APPROPRIATIONS.

Section 19(i) of the Child Nutrition Act (42 U.S.C. 1788(i)) is amended—

(a) in the first sentence of paragraph (2)(A), by striking ''and each succeeding fiscal year'';

(b) by redesignating paragraphs (3) and (4) as paragraphs (4) and (5), respectively; and

(c) by inserting after paragraph (2) the following: ''(3) FISCAL YEARS 1997 THROUGH 2002—

''(A) IN GENERAL.—There are authorized to be appropriated to carry out this section $10,000,00 for each of the fiscal years 1997 through 2002.

''(B) GRANTS.—

''(i)'' IN GENERAL.—Grants to each State from the amounts made available under subparagraph (A) shall be based on a rate of 50 cents for each child enrolled in schools or institutions within the State, except that no State shall * * * an amount less than $75,000 per fiscal year.

''(ii) INSUFFICIENT FUNDS.—If an amount made available for any fiscal year is insufficient to pay the amount to which each State is entitled under clause (i), the amount of each grant shall be ratably reduced.''

SEC. 12035. DIRECT FEDERAL EXPENDITURES.

(a) COMMODITY ASSISTANCE.—

(1) Section 6(g) of the National School Lunch Act (42 U.S.C. 1755(g)) is amended by striking ''12 percent'' and inserting ''8 percent''.

TITLE X—FOOD STAMPS AND COMMODITY DISTRIBUTION

SEC. 1001. SHORT TITLE.

This title may be cited as the ''Food Stamp Reform and Commodity Distribution Act of 1995''.

Subtitle A—Food Stamp Program

SEC. 1011. DEFINITION OF CERTIFICATION PERIOD.

Section 3(c) of the Food Stamp Act of 1977 (7 U.S.C. 2012(c)) is amended by striking ''Except as provided'' and all that follows and inserting the following: ''The certification period shall not exceed 12 months, except that the certification period may be up to 24 months if all adult household members are elderly or disabled. A State agency shall have at least 1 contact with each certified household every 12 months''.

SEC. 1012. DEFINITION OF COUPON.

Section 3(d) of the Food Stamp Act of 1977 (7 U.S.C. 2012(d)) is amended by striking ''or type of certificate'' and inserting ''type of certificate, authorization card, cash or check issued in lieu of a coupon, or an access device, including an electronic benefit transfer card or personal identification number,''.

SEC. 1016. DEFINITION OF HOMELESS INDIVIDUAL.

Section 3(s)(2)(C) of the Food Stamp Act of 1977 (7 U.S.C. 2012(s)(2)(C)) is amended by inserting ''for not more than 90 days'' after ''temporary accommodation''.

SEC. 1017. STATE OPTION FOR ELIGIBILITY STANDARDS.

Section 5(b) of the Food Stamp Act of 1977 (7 U.S.C. 2014(d)) is amended by striking ''(b) The Secretary'' and inserting the following:

''(b) ELIGIBILITY STANDARDS.—Except as otherwise provided in this Act, the Secretary''.

SEC. 1023. DOUBLE PENALTIES FOR VIOLATING FOOD STAMP PROGRAM REQUIREMENTS.

Section 6(b)(1) of the Food Stamp Act of 1977 (7 U.S.C. 2015(b)(1)) is amended—

(1) in clause (i), by striking ''six months'' and inserting ''1 year''; and

(2) in clause (ii), by striking ''1 year'' and inserting ''2 years''.

SEC. 1024. DISQUALIFICATION OF CONVICTED INDIVIDUALS.

Section 6(b)(1)(iii) of the Food Stamp Act of 1977 (7 U.S.C. 2015(b)(1)(iii) is amended—

(1) in subclause (II), by striking ''or'' at the end;

(2) in subclause (III), by striking the period at the end and inserting ''; or''; and

(3) by inserting after subclause (III) the following:

"(IV) a conviction of an offense under subsection (b) or (c) of section 15 involving an item covered by subsection (b) or (c) of section 15 having a value of $500 or more.".

SEC. 1027. EMPLOYMENT AND TRAINING.

(a) IN GENERAL.—Section 6(d)(4) of the Food Stamp Act of 1977 (7 U.S.C. 2015(d)(4)) is amended—

(1) in subparagraph (A)—

(A) by striking "Not later than April 1, 1987, each" and inserting "Each";

(B) by inserting "work," after "skills, training,"; and

(C) by adding at the end the following: "Each component of an employment and training program carried out under this paragraph shall be delivered through a statewide workforce development system, unless the component is not available locally through the statewide workforce development system.";

(2) in subparagraph (B)—

(A) in the matter preceding clause (i), by striking the colon at the end and inserting the following: ", except that the State agency shall

retain the option to apply employment requirements prescribed under this subparagraph to a program applicant at the time of application:'';

(B) in clause (i), by striking ''with terms and conditions'' and all that follows through ''time of application''; and

(C) in clause (iv)—

(i) by striking subclauses (I) and (II); and

(ii) by redesignating subclauses (III) and (IV) as subclauses (I) and (II), respectively;

(3) in subparagraph (D)—

(A) in clause (i), by striking ''to which the application'' and all that follows through ''30 days or less'';

(B) in clause (ii), by striking ''but with respect'' and all that follows through ''child care''; and

(C) in clause (iii), by striking '', on the basis of'' and all that follows through ''clause (ii)'' and inserting ''the exemption continues to be valid'';

(4) in subparagraph (E), by striking the third sentence;

(5) in subparagraph (G)—

(A) by striking ''(G)(i) The State'' and inserting ''(G) The State''; and

(B) by striking clause (ii);

(6) in subparagraph (H), by striking ''(H)(i) The Secretary'' and all that follows through ''(ii) Federal funds'' and inserting ''(H) Federal funds'';

(7) in subparagraph (I)(i)(II), by striking '', or was in operation,'' and all that follows through ''Social Security Act'' and inserting the following: ''), except that no such payment or reimbursement shall exceed the applicable local market rate'';

(8)(A) by striking subparagraphs (K) and (L) and inserting the following:

''(K) LIMITATION ON FUNDING.—Notwithstanding any other provision of this paragraph, the amount of funds a State agency uses to carry out this paragraph (including under subparagraph (I)) for participants who are receiving benefits under a State program funded under part A of title IV of the Social Security Act (42 U.S.C. 601 et seq.) shall not exceed the amount of funds the State agency used in fiscal year 1995 to carry out this paragraph for participants who were receiving benefits in fiscal

year 1995 under a State program funded under part A of title IV of the Act (42 U.S.C. 601 et seq.).''; and

(B) by redesignating subparagraphs (M) and (N) as subparagraphs (L) and (M), respectively; and

(9) in subparagraph (L), as redesignated by paragraph (8)(B)—

(A) by striking ''(L)(i) The Secretary'' and inserting ''(L) The Secretary''; and

(B) by striking clause (ii).

(b) FUNDING.—Section 16(h) of the Act (7 U.S.C. 2025(h)) is amended by striking ''(h)(1)(A) The Secretary'' and all that follows through the end of paragraph (1) and inserting the following:

''(h) FUNDING OF EMPLOYMENT AND TRAINING PROGRAMS.—

''(1) IN GENERAL.—

''(A) AMOUNTS.—To carry out employment and training programs, the Secretary shall reserve for allocation to State agencies from funds made available for each fiscal year under section 18(a)(1) the amount of—

''(i) for fiscal year 1996, $77,000,000;

"(ii) for fiscal year 1997, $79,000,000;

"(iii) for fiscal year 1998, $81,000,000;

"(iv) for fiscal year 1999, $84,000,000;

"(v) for fiscal year 2000, $86,000,000;

"(vi) for fiscal year 2001, $88,000,000; and

"(vii) for fiscal year 2002, $90,000,000.

"(B) ALLOCATION.—The Secretary shall allocate the amounts reserved under subparagraph (A) among the State agencies using a reasonable formula (as determined by the Secretary) that gives consideration to the population in each State affected by section 6(o).

"(C) REALLOCATION.—

"(i) NOTIFICATION.—A State agency shall promptly notify the Secretary if the State agency determines that the State agency will not expend all of the funds allocated to the State agency under subparagraph (B).

"(ii) REALLOCATION.—On notification under clause (i), the Secretary shall reallocate the funds that the State agency will not expend as the Secretary considers appropriate and equitable.

"(D) MINIMUM ALLOCATION.—Notwithstanding subparagraphs (A) through (C), the Secretary shall ensure that each State agency operating an employment and training program shall receive not less than $50,000 in each fiscal year.".

(c) ADDITIONAL MATCHING FUNDS.—Section 16(h)(2) of the Act (7 U.S.C. 2025(h)(2)) is amended by inserting before the period at the end the following: ", including the costs for case management and casework to facilitate the transition from economic dependency to self-sufficiency through work".

(d) REPORTS.—Section 16(h) of the Act (7 U.S.C. 2025(h)) is amended—

(1) in paragraph (5)—

(A) by striking "(5)(A) The Secretary" and inserting "(5) The Secretary"; and

(B) by striking subparagraph (B); and

(2) by striking paragraph (6).

SEC. 1030. DISQUALIFICATION OF FLEEING FELONS.

Section 6 of the Food Stamp Act of 1977 (7 U.S.C. 2015), as amended by section 1029, is further amended by inserting after subsection (j) the following:

''(k) DISQUALIFICATION OF FLEEING FELONS.—No member of a household who is otherwise eligible to participate in the food stamp program shall be eligible to participate in the program as a member of that or any other household during any period during which the individual is—

(1) fleeing to avoid prosecution, or custody or confinement after conviction, under the law of the place from which the individual is fleeing, for a crime, or attempt to commit a crime, that is a felony under the law of the place from which the individual is fleeing or that, in the case of New Jersey, is a high misdemeanor under the law of New Jersey; or

''(2) violating a condition of probation or parole imposed under a Federal or State law.''.

SEC. 1034. ENCOURAGE ELECTRONIC BENEFIT TRANSFER SYSTEMS.

(a) IN GENERAL.—Section 7(i) of the Food Stamp Act of 1977 (7 U.S.C. 2016(i)) is amended—

(1) by striking paragraph (1) and inserting the following:

''(1) ELECTRONIC BENEFIT TRANSFERS.—

"(A) IMPLEMENTATION.—Each State agency shall implement an electronic benefit transfer system in which household benefits determined under section 8(a) or 24 are issued from and stored in a central databank before October 1, 2002, unless the Secretary provides a waiver for a State agency that faces unusual barriers to implementing an electronic benefit transfer system.

"(C) STATE FLEXIBILITY.—Subject to paragraph (2), a State agency may procure and implement an electronic benefit transfer system under the terms, conditions, and design that the State agency considers appropriate.

"(D) OPERATION.—An electronic benefit transfer system should take into account generally accepted standard operating rules based on—

"(i) commercial electronic funds transfer technology;

"(ii) the need to permit interstate operation and law enforcement monitoring; and

"(iii) the need to permit monitoring and investigations by authorized law enforcement agencies.";

"(8) REPLACEMENT CARD FEE.—A State agency may collect a charge for replacement of an electronic benefit transfer card by reducing the monthly allotment of the household receiving the replacement card.

"(9) OPTIONAL PHOTOGRAPHIC IDENTIFICATION.—

"(A) IN GENERAL.—A State agency may require that an electronic benefit card contain a photograph of 1 or more members of a household.

"(B) OTHER AUTHORIZED USERS.—If a State agency requires a photograph on an electronic benefit card under subparagraph (A), the State agency shall establish procedures to ensure that any other appropriate member of the household or any authorized representative of the household may utilize the card.".

SEC. 1035. VALUE OF MINIMUM ALLOTMENT.

The proviso in section 8(a) of the Food Stamp Act of 1977 (7 U.S.C. 2017(a)) is amended by striking ", and shall be adjusted" and all that follows through "$5.".

SEC. 1036. BENEFITS ON RECERTIFICATION.

Section 8(c)(2)(B) of the Food Stamp Act of 1977 (7 U.S.C. 2017(c)(2)(B)) is amended by striking ''of more than one month''.

SEC. 1037. OPTIONAL COMBINED ALLOTMENT AND EXPEDITED HOUSEHOLDS.

Section 8(c) of the Food Stamp Act of 1977 (7 U.S.C. 2017(c)) is amended by striking paragraph (3) and inserting the following:

''(3) OPTIONAL COMBINED ALLOTMENT FOR EXPEDITED HOUSEHOLDS.—A State agency may provide to an eligible household applying after the 15th day of a month, in lieu of the initial allotment of the household and the regular allotment of the household for the following month, an allotment that is equal to the total amount of the initial allotment and the first regular allotment. The allotment shall be provided in accordance with section 11(e)(3) in the case of a household that is not entitled to expedited service and in accordance with paragraphs (3) and (9) of section 11(e) in the case of a household that is entitled to expedited service.''.

SEC. 1038. FAILURE TO COMPLY WITH OTHER MEANS-TESTED PUBLIC ASSISTANCE PROGRAMS.

Section 8 of the Food Stamp Act of 1977 (7 U.S.C. 2017) is amended by striking subsection (d) and inserting the following:

"(d) REDUCTION OF PUBLIC ASSISTANCE BENEFITS.—

"(1) IN GENERAL.—If the benefits of a household are reduced under a Federal, State, or local law relating to a means-tested public assistance program for the failure of a member of the household to perform an action required under the law or program, for the duration of the reduction—

"(A) the household may not receive an increased allotment as the result of a decrease in the income of the household to the extent that the decrease is the result of the reduction; and

"(B) the State agency may reduce the allotment of the household by not more than 25 percent.

SEC. 1037. OPTIONAL COMBINED ALLOTMENT FOR EXPEDITED HOUSEHOLDS.

Section 8(c) of the Food Stamp Act of 1977 (7 U.S.C. 2017(c)) is amended by striking paragraph (3) and inserting the following:

"(3) OPTIONAL COMBINED ALLOTMENT FOR EXPEDITED HOUSEHOLDS.—A State agency may provide to an eligible household applying after the 15th day of a month, in lieu of the initial allotment of the household and the regular allotment of the household for the following month, an allotment that is equal to the total amount of the initial allotment and the first regular allotment. The allotment shall be provided in accordance with section 11(e)(3) in the case of a household that is not entitled to expedited service and in accordance with paragraphs (3) and (9) of section 11(e) in the case of a household that is entitled to expedited service.".

SEC. 1039. ALLOTMENTS FOR HOUSEHOLDS RESIDING IN CENTERS.

Section 8 of the Food Stamp Act of 1977 (7 U.S.C. 2017) is amended by adding at the end the following:

"(f) ALLOTMENTS FOR HOUSEHOLDS RESIDING IN CENTERS.—

"(1) IN GENERAL.—In the case of an individual who resides in a center for the purpose of a drug or alcoholic treatment program described in the last sentence of section 3(i), a State agency may provide an allotment for the individual to—

"(A) the center as an authorized representative of the individual for a period that is less than 1 month; and

"(B) the individual, if the individual leaves the center.

"(2) DIRECT PAYMENT.—A State agency may require an individual referred to in paragraph (1) to designate the center in which the individual resides as the authorized representative of the individual for the purpose of receiving an allotment.".

SEC. 1046. EXCHANGE OF LAW ENFORCEMENT INFORMATION.

Section 11(e)(8) of the Food Stamp Act of 1977 (7 U.S.C. 2020(e)(8)) is amended—

(1) by striking "that (A) such" and inserting the following: "that—

"(A) the";

(2) by striking "law, (B) notwithstanding" and inserting the following: "law;

"(B) notwithstanding";

(3) by striking "Act, and (C) such" and inserting the following: "Act;

"(C) the"; and

(4) by adding at the end the following:

"(D) notwithstanding any other provision of law, the address, social security number, and, if available, photograph of any member of a household shall be made available, on request, to any Federal, State, or local law enforcement officer if the officer furnishes the State agency with the name of the member and notifies the agency that—

"(i) the member—

"(I) is fleeing to avoid prosecution, or custody or confinement after conviction, for a crime (or attempt to commit a crime) that, under the law of the place the member is fleeing, is a felony (or, in the case of New Jersey, a high misdemeanor), or is violating a condition of probation or parole imposed under Federal or State law; or

"(II) has information that is necessary for the officer to conduct an official duty related to subclause (I);

"(ii) locating or apprehending the member is an official duty; and

"(iii) the request is being made in the proper exercise of an official duty; and

"(E) the safeguards shall not prevent compliance with paragraph (16);".

SEC. 1047. EXPEDITED COUPON SERVICE.

Section 11(e)(9) of the Food Stamp Act of 1977 (7 U.S.C. 2020(e)(9)) is amended—

(1) in subparagraph (A)—

(A) by striking "five days" and inserting "7 days"; and

(B) by inserting "and" at the end;

(2) by striking subparagraphs (B) and (C);

(3) by redesignating subparagraph (D) as subparagraph (B); and

(4) in subparagraph (B), as redesignated by paragraph (3), by striking ", (B), or (C)".

SEC. 1048. WITHDRAWING FAIR HEARING REQUESTS.

Section 11(e)(10) of the Food Stamp Act of 1977 (7 U.S.C. 2020(e)(10)) is amended by inserting before the semicolon at the end a period and the following: "At the option of a State, at any time prior to a fair hearing determination under this paragraph, a household may withdraw, orally or in writing, a request by the household for the fair hearing. If the withdrawal request is an oral request, the State agency shall provide a written notice to

the household confirming the withdrawal request and providing the household with an opportunity to request a hearing''.

SEC. 1049. INCOME, ELIGIBILITY, AND IMMIGRATION STATUS VERIFICATION SYSTEMS.

Section 11 of the Food Stamp Act of 1977 (7 U.S.C. 2020) is amended—

(1) in subsection (e)(18), as redesignated by section 1044(1)(D)—

(A) by striking ''that information is'' and inserting ''at the option of the State agency, that information may be''; and

(B) by striking ''shall be requested'' and inserting ''may be requested''; and

(2) by adding at the end the following:

''(p) STATE VERIFICATION OPTION—Notwithstanding any other provision of law, in carrying out the food stamp program, a State agency shall not be required to use an income and eligibility or an immigration status verification system established under section 1137 of the Social Security Act (42 U.S.C. 1320b–7).''.

SEC. 1059. AUTHORIZATION OF PILOT PROJECTS.

Section 17(b)(1)(B) of the Food Stamp Act of 1977 (7 U.S.C. 2026(b)(1)(B)), as amended by section 1058, is further amended—

(1) in clause (iv), by striking ''coupons. Any pilot'' and inserting the following: ''coupons.

''(v) CASH PAYMENT PILOT PROJECTS.—Any pilot''; and

(2) in clause (v), as so amended, by striking ''1995'' and inserting ''2002''.

SEC. 1060. RESPONSE TO WAIVERS.

Section 17(b)(1) of the Food Stamp Act of 1977 (7 U.S.C. 2026(b)(1)), as amended by section 1058, is further amended by adding at the end the following:

''(D) RESPONSE TO WAIVERS.—

''(i) RESPONSE.—Not later than 60 days after the date of receiving a request for a waiver under subparagraph (A), the Secretary shall provide a response that—

''(I) approves the waiver request;

''(II) denies the waiver request and explains any modification needed for approval of the waiver request;

''(III) denies the waiver request and explains the grounds for the denial; or

''(IV) requests clarification of the waiver request.

"(ii) FAILURE TO RESPOND.—If the Secretary does not provide a response in accordance with clause (i), the waiver shall be considered approved, unless the approval is specifically prohibited by this Act.

"(iii) NOTICE OF DENIAL.—On denial of a waiver request under clause (i)(III), the Secretary shall provide a copy of the waiver request and a description of the reasons for the denial to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate.".

Subtitle B—Commodity Distribution Programs

SEC. 1071. COMMODITY DISTRIBUTION PROGRAM; COMMODITY SUPPLEMENTAL FOOD PROGRAM.

(a) REAUTHORIZATION.—The first sentence of section 4(a) of the Agriculture and Consumer Protection Act of 1973 (Public Law 93–86; 7 U.S.C. 612c note) is amended by striking "1995" and inserting "2002".

(b) FUNDING.—Section 5 of the Act (Public Law 93–86; 7 U.S.C. 612c note) is amended—

(1) in subsection (a)(2), by striking "1995" and inserting "2002"; and

(2) in subsection (d)(2), by striking "1995" and inserting "2002".

SEC. 1073. FOOD BANK DEMONSTRATION PROJECT.

Section 3 of the Charitable Assistance and Food Bank Act of 1987 (Public Law 100–232; 7 U.S.C. 612c note) is repealed.

SEC. 1074. HUNGER PREVENTION PROGRAMS.

The Hunger Prevention Act of 1988 (Public Law 100–435; 7 U.S.C 612c note) is amended—

(1) by striking section 110;

(2) by striking subtitle C of title II; and

(3) by striking section 502.

SEC. 1075. REPORT ON ENTITLEMENT COMMODITY PROCESSING.

Section 1773 of the Food, Agriculture, Conservation, and Trade Act of 1990 (Public Law 101–624; 7 U.S.C. 612c note) is amended by striking subsection (f).

TITLE XI—MISCELLANEOUS

SEC. 1101. EXPENDITURE OF FEDERAL FUNDS IN ACCORDANCE WITH LAWS AND PROCEDURES APPLICABLE TO EXPENDITURE OF STATE FUNDS.

(a) IN GENERAL.—Notwithstanding any other provision of law, any funds received by a State under the provisions of law specified in subsection (b) shall be expended only in accordance with the laws and procedures applicable

to expenditures of the State's own revenues, including appropriation by the State legislature, consistent with the terms and conditions required under such provisions of law.

TITLE VI—FEDERAL RETIREMENT AND RELATED PROVISIONS

Subtitle A—Civil Service and Postal Service Provisions

SEC. 6001. EXTENSION OF DELAY IN COST-OF-LIVING ADJUSTMENTS IN FEDERAL EMPLOYEE RETIREMENT BENEFITS THROUGH FISCAL YEAR 2002.

Section 11001(a) of the Omnibus Budget Reconciliation Act of 1993 (Public Law 103–66; 107 Stat. 408) is amended in the matter preceding paragraph (1) by striking out ''or 1996,'' and inserting in lieu thereof ''1996, 1997, 1998, 1999, 2000, 2001, or 2002,''.

SEC. 6002. INCREASED CONTRIBUTIONS TO FEDERAL CIVILIAN RETIREMENT SYSTEMS.

(a) CIVIL SERVICE RETIREMENT SYSTEM.—

(1) DEDUCTIONS.—The first sentence of section 8334(a)(1) of title 5, United States Code, is amended to read as follows: ''The employing agency shall deduct and withhold from the basic pay of an employee, Member, Congressional employee, law en-

forcement officer, firefighter, bankruptcy judge, judge of the United States Court of Appeals for the Armed Forces, United States magistrate, or Claims Court judge, as the case may be, the percentage of basic pay applicable under subsection (c).''.

(2) AGENCY CONTRIBUTIONS.—

(A) INCREASE IN AGENCY CONTRIBUTION DURING CALENDAR YEARS 1996 THROUGH 2002.—Section 8334(a)(1) of title 5, United States Code (as amended by this section) is further amended—

(i) by inserting ''(A)'' after ''(1)''; and

(ii) by adding at the end thereof the following new subparagraph;

''(B)(i) Notwithstanding subparagraph (A), the agency contribution under the second sentence of such subparagraph, during the period beginning on January 1, 1996, through December 31, 2002—

''(I) for each employing agency (other than the United States Postal Service or the Washington Metropolitan Airport Authority) shall be 8.51 percent of the basic pay of an employee, Congressional employee, and a Member of Congress, 9.01

percent of the basic pay of a law enforcement officer, a member of the Capitol Police, and a firefighter, and 8.51 percent of the basic pay of a Claims Court judge, a United States magistrate, a judge of the United States Court of Appeals for the Armed Services, and a bankruptcy judge, as the case may be; and

"(II) for the United States Postal Service and the Washington Metropolitan Airport Authority shall be 7 percent of the basic pay of an employee and 7.5 percent of the basic pay of a law enforcement officer or firefighter.".

(B) NO REDUCTION IN AGENCY CONTRIBUTIONS BY THE POSTAL SERVICE.—Agency contributions by the United States Postal Service under section 8348(h) of title 5, United States Code—

(i) shall not be reduced as a result of the amendments made under paragraph (3) of this subsection; and

(ii) shall be computed as through such amendments had not been enacted.

(3) INDIVIDUAL DEDUCTIONS, WITHHOLDINGS, AND DEPOSITS.—The table under section 8334(c) of title 5, United States Code, is amended—

(A) in the matter relating to an employee by striking out

"7	After December 31, 1969."

and inserting in lieu thereof the following:

"7	January 1, 1970, to December 31, 1995.
7.25	January 1, 1996, to December 31, 1996.
7.4	January 1, 1997, to December 31, 1997.
7.5	January 1, 1998, to December 31, 2002.
7	After December 31, 2002.";

(B) in the matter relating to a Member or employee for Congressional employee service by striking out

"7½	After December 31, 1969."

and inserting in lieu thereof the following:

"7.5	January 1, 1970, to December 31, 1995.
7.25	January 1, 1996, to December 31, 1996.
7.4	January 1, 1997, to December 31, 1997.
7.5	January 1, 1998, to December 31, 2002.
7	After December 31, 2002.";

(C) in the matter relating to a Member for Member service by striking out

"8	After December 31, 1969."

and inserting in lieu thereof the following:

"8	January 1, 1970, to December 31, 1995.
7.25	January 1, 1996, to December 31, 1996.
7.4	January 1, 1997, to December 31, 1997.
7.5	January 1, 1998, to December 31, 2002.
7	After December 31, 2002.";

(D) in the matter relating to a law enforcement officer for law enforcement service and firefighter for firefighter service by striking out

"7½	After December 31, 1974."

and inserting in lieu thereof the following:

"7.5	January 1, 1975, to December 31, 1995.
7.75	January 1, 1996, to December 31, 1996.
7.9	January 1, 1997, to December 31, 1997.
8	January 1, 1998, to December 31, 2002.
7.5	After December 31, 2002.";

(E) in the matter relating to a bankruptcy judge by striking out

"8	After December 31, 1983."

and inserting in lieu thereof the following:

"8	January 1, 1984, to December 31, 1995.
7.5	January 1, 1996, to December 31, 1996.
7.4	January 1, 1997, to December 31, 1997.
7.5	January 1, 1998, to December 31, 2002.
7	After December 31, 2002.";

(F) in the matter relating to a judge of the United States Court of Appeals for the Armed Forces for service as a judge of that court by striking out

"8	On and after the date of the enactment of the Department of Defense Authorization Act, 1984."

and inserting in lieu thereof the following:

"8	The date of the enactment of the Department of Defense Authorization Act, 1984, to December 31, 1995.
7.25	January 1, 1996, to December 31, 1996.
7.4	January 1, 1997, to December 31, 1997.

7.5	January 1, 1998, to December 31, 2002.
7	After December 31, 2002.”;

1 (G) in the matter relating to a United
2 States magistrate by striking out

“8	After September 30, 1987.”

3 and inserting in lieu thereof the following:

“8	October 1, 1987, to December 31, 1995.
7.25	January 1, 1996, to December 31, 1996.
7.4	January 1, 1997, to December 31, 1997.
7.5	January 1, 1998, to December 31, 2002.
7	After December 31, 2002.”;

4 (H) in the matter relating to a Claims
5 Court judge by striking out

“8	After September 30, 1988.”

6 and inserting in lieu thereof the following:

“8	October 1, 1988, to December 31, 1995.
7.25	January 1, 1996, to December 31, 1996.
7.4	January 1, 1997, to December 31, 1997.
7.5	January 1, 1998, to December 31, 2002.
7	After December 31, 2002.”;

7 and
8 (I) by inserting after the matter relating to
9 a Claims Court judge the following:

“Member of the Capitol Police	2.5	August 1, 1920, to June 30, 1926.
	3.5	July 1, 1926, to June 30, 1942.
	5	July 1, 1942, to June 30, 1948.
	6	July 1, 1948, to October 31, 1956.
	6.5	November 1, 1956, to December 31, 1969.
	7.5	January 1, 1970, to December 31, 1995.
	7.75	January 1, 1996, to December 31, 1996.
	7.9	January 1, 1997, to December 31, 1997.
	8	January 1, 1998, to December 31, 2002.
	7.5	After December 31, 2002.”.

10 (4) OTHER SERVICE.—

(A) MILITARY SERVICE.—Section 8334(j) of title 5, United States Code, is amended—

(i) in paragraph (1)(A) by inserting ''and subject to paragraph (5),'' after ''Except as provided in subparagraph (B),''; and

(ii) by adding at the end thereof the following new paragraph:

''(5) Effective with respect to any period of military service after December 31, 1995, the percentage of basic pay under section 204 of title 37 payable under paragraph (1) shall be equal to the same percentage as would be applicable under section 8334(c) for that same period for service as an employee, subject to paragraph (1)(B).''.

(B) VOLUNTEER SERVICE.—Section 8334(l) of title 5, United States Code, is amended—

(i) in paragraph (1) by adding at the end thereof the following: ''This paragraph shall be subject to paragraph (4).''; and

(ii) by adding at the end thereof the following new paragraph:

''(4) Effective with respect to any period of service after December 31, 1995, the percentage of

the readjustment allowance or stipend (as the case may be) payable under paragraph (1) shall be equal to the same percentage as would be applicable under section 8334(c) for that same period for service as an employee.''.

(b) FEDERAL EMPLOYEES RETIREMENT SYSTEM.—

(1) INDIVIDUAL DEDUCTIONS AND WITHHOLDINGS.—

(A) IN GENERAL.—Section 8422(a) of title 5, United States Code, is amended by striking out paragraph (2) and inserting in lieu thereof the following:

''(2) The percentage to be deducted and withheld from basic pay for any pay period shall be equal to—

''(A) the applicable percentage under paragraph (3), minus

''(B) the percentage then in effect under section 3101(a) of the Internal Revenue Code of 1986 (relating to rate of tax for old-age, survivors, and disability insurance).

''(3) The applicable percentage under this paragraph, for civilian service shall be as follows:

Employee	7	Before January 1, 1996.
	7.25	January 1, 1996, to December 31, 1996.
	7.4	January 1, 1997, to December 31, 1997.
	7.5	January 1, 1998, to December 31, 2002.
	7	After December 31, 2002.
Congressional employee	7.5	Before January 1, 1996.
	7.25	January 1, 1996, to December 31, 1996.

	7.4	January 1, 1997, to December 31, 1997.
	7.5	January 1, 1998, to December 31, 2002.
	7	After December 31, 2002.
Member	7.5	Before January 1, 1996.
	7.25	January 1, 1996, to December 31, 1996.
	7.4	January 1, 1997, to December 31, 1997.
	7.5	January 1, 1998, to December 31, 2002.
	7	After December 31, 2002.
Law enforcement officer, firefighter, member of the Capitol Police, or air traffic controller.	7.5	Before January 1, 1996.
	7.75	January 1, 1996, to December 31, 1996.
	7.9	January 1, 1997, to December 31, 1997.
	8	January 1, 1998, to December 31, 2002.
	7.5	After December 31, 2002.

(B) MILITARY SERVICE.—Section 8422(e) of title 5, United States Code, is amended—

(i) in paragraph (1)(A) by inserting ''and subject to paragraph (6),'' after ''Except as provided in subparagraph (B),''; and

(ii) by adding at the end thereof the following:

''(6) The percentage of basic pay under section 204 of title 37 payable under paragraph (1), with respect to any period of military service performed during—

''(A) January 1, 1996, through December 31, 1996, shall be 3.25 percent;

''(B) January 1, 1997, through December 31, 1997, shall be 3.4 percent; and

''(C) January 1, 1998, through December 31, 2002, shall be 3.5 percent.''.

(C) VOLUNTEER SERVICE.—Section 8422(f) of title 5, United States Code, is amended—

(i) in paragraph (1) by adding at the end thereof the following: ''This paragraph shall be subject to paragraph (4).''; and

(ii) by adding at the end the following:

''(4) The percentage of the readjustment allowance or stipend (as the case may be) payable under paragraph (1), with respect to any period of volunteer service performed during—

''(A) January 1, 1996, through December 31, 1996, shall be 3.25 percent;

''(B) January 1, 1997, through December 31, 1997, shall 3.4 percent; and

''(C) January 1, 1998, through December 31, 2002, shall be 3.5 percent.''.

(2) NO REDUCTION IN AGENCY CONTRIBUTIONS.—Agency contributions under section 8423 (a) and (b) of title 5, United States Code, shall not be reduced as a result of the amendments made under paragraph (1) of this subsection.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the first day of the first

applicable pay period beginning on or after January 1, 1996.

SEC. 6003. FEDERAL RETIREMENT PROVISIONS RELATING TO MEMBERS OF CONGRESS AND CONGRESSIONAL EMPLOYEES.

(a) RELATING TO THE YEARS OF SERVICE AS A MEMBER OF CONGRESS AND CONGRESSIONAL EMPLOYEES FOR PURPOSES OF COMPUTING AN ANNUITY.—

(1) CSRS.—Section 8339 of title 5, United States Code, is amended—

(A) in subsection (a) inserting ''or Member'' after ''employee''; and

(B) by striking out subsections (b) and (c).

(2) FERS.—Section 8415 of title 5, United States Code, is amended—

(A) by striking out subsections (b) and (c);

(B) in subsections (a) and (g) by inserting ''or Member'' after ''employee'' each place it appears; and

(C) in subsection (g)(2) by striking out ''Congressional employee''.

(b) ACCRUAL RATE FOR MEMBER AND CONGRESSIONAL EMPLOYEE SERVICE PERFORMED BUT NOT VESTED BEFORE EFFECTIVE DATE.—

(1) APPLICATION.—This subsection shall apply to an individual who—

(A) is a Member of Congress or Congressional employee on December 31, 1995;

(B) has performed less than 5 years of service as a Member of Congress or Congressional employee on December 31, 1995; and

(C) after December 31, 1995, completes 5 years of service as a Member of Congress or Congressional employee, that includes a period of service performed as a Member of Congress or Congressional employee before January 1, 1996.

(2) COMPUTATION OF ANNUITY.—In computing the annuity of an individual described under paragraph (1)—

(A) any period of service as a Member of Congress or Congressional employee performed before January 1, 1996, shall be computed under section 8339 or 8415 of title 5, United States Code (as though the amendments under subsection (a) of this section were not enacted); and

(B) the 5 year service requirement under subsections (b) and (c) of section 8339 or 8415

of such title (as in effect before the date of enactment of this Act) shall be deemed fulfilled.

(c) CAPITOL POLICE.—Section 8339(q) of title 5, United States Code, is amended by striking out ''with subsection (b), except that, in the case of a member who retires under section 8335(d) or 8336(m), and who meets the requirements of subsection (b)(2),'' and inserting in lieu thereof ''with subsection (a), except that in the case of a member who retires under section 8335(d) or 8336(m), and who has deductions withheld from his pay or has made deposit covering his last 5 years of civilian service,''.

(d) ADMINISTRATIVE REGULATIONS.—The Office of Personnel Management, in consultation with the Secretary of the Senate and the Clerk of the House of Representatives, may prescribe regulations to carry out the provisions of this section and the amendments made by this section for applicable employees and Members of Congress.

(e) EFFECTIVE DATES.—

(1) YEARS OF SERVICE; ANNUITY COMPUTATION.—

(A) SERVICE AFTER EFFECTIVE DATE.—The amendments made by subsection (a) shall take effect on January 1, 1996, and shall apply

only with respect to the computation of an annuity relating to—

(i) the service of a Member of Congress as a Member or as a Congressional employee performed on or after January 1, 1996; and

(ii) the service of a Congressional employee as a Congressional employee performed on or after January 1, 1996.

(B) SERVICE BEFORE EFFECTIVE DATE.—An annuity shall be computed as though the amendments made under subsection (a) had not been enacted with respect to—

(i) the service of a Member of Congress as a Member or a Congressional employee or military service performed before January 1, 1996; and

(ii) the service of a Congressional employee as a Congressional employee or military service performed before January 1, 1996.

(C) ALTERNATIVE EFFECTIVE DATE RELATING TO MEMBERS OF CONGRESS.—If a court of competent jurisdiction makes a final determination that a provision of this para-

graph violates the 27th amendment of the United States Constitution, the effective date and application dates relating to Members of Congress shall be January 1, 1997.

(2) ADMINISTRATIVE PROVISIONS.—The provisions of subsections (b), (c), and (d) shall take effect on the date of the enactment of this Act.

SEC. 6004. ACCRUAL RATES RELATING TO CERTAIN JUDGES WITH SIMILAR TREATMENT AS CONGRESSIONAL SERVICE.

(a) JUDGE OF THE UNITED STATES COURT OF MILITARY APPEALS.—Section 8339(d)(7) of title 5, United States Code, is amended by striking out ''service.'' and inserting in lieu thereof ''service performed before January 1, 1996.''

(b) CLAIMS COURT JUDGE, BANKRUPTCY JUDGE, UNITED STATES MAGISTRATE.—Section 8339(n) of title 5, United States Code, is amended by striking out ''service.'' and inserting in lieu thereof ''service performed before January 1, 1996. The annuity of any such employee is, and with respect to any service referred to in the preceding sentence that is performed on or after January 1, 1996, computed under subsection (a).''.

SEC. 6005. REPEAL OF AUTHORIZATION OF TRANSITIONAL APPROPRIATIONS FOR THE UNITED STATES POSTAL SERVICE.

(a) REPEAL.—

(1) IN GENERAL.—Section 2004 of title 39, United States Code, is repealed.

(2) TECHNICAL AND CONFORMING AMENDMENT.—

(A) The table of sections for chapter 20 of such title is amended by repealing the item relating to section 2004.

(B) Section 2003(e)(2) of such title is amended by striking ''sections 2401 and 2004'' each place it appears and inserting ''section 2401''.

(b) CLARIFICATION THAT LIABILITIES FORMERLY PAID PURSUANT TO SECTION 2004 REMAIN LIABILITIES PAYABLE BY THE POSTAL SERVICE.—Section 2003 of title 39, United States Code, is amended by adding at the end the following:

''(h) Liabilities of the former Post Office Department to the Employees' Compensation Fund (appropriations for which were authorized by former section 2004, as in effect before the effective date of this subsection) shall be liabilities of the Postal Service payable out of the Fund.''.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—This section and the amendments made by this section shall be effective as of October 1, 1995.

(2) PROVISIONS RELATING TO PAYMENTS FOR FISCAL YEAR 1996.—

(A) AMOUNTS NOT YET PAID.—No payment may be made to the Postal Service Fund, on or after the date of the enactment of this Act, pursuant to any appropriation for fiscal year 1996 authorized by section 2004 of title 39, United States Code (as in effect before the effective date of this section).

(B) AMOUNTS PAID.—If any payment to the Postal Service Fund is or has been made pursuant to an appropriation for fiscal year 1996 authorized by such section 2004, then an amount equal to the amount of such payment shall be paid from such Fund into the Treasury as miscellaneous receipts.

SEC. 13103. REQUIREMENT THAT CERTAIN AGENCIES PREFUND GOVERNMENT HEALTH BENEFITS CONTRIBUTIONS FOR THEIR ANNUITANTS.

(a) DEFINITIONS.—For the purpose of this section—

(1) the term ''agency'' means any agency or other instrumentality within the executive branch of

the Government, the receipts and disbursements of which are not generally included in the totals of the budget of the United States Government submitted by the President;

(2) the term ''health benefits plan'' means, with respect to an agency, a health benefits plan, established by or under Federal law, in which employees or annuitants of such agency may participate;

(3) the term ''health-benefits coverage'' means coverage under a health benefits plan;

(4) an individual shall be considered to be an ''annuitant of an agency'' if such individual is entitled to an annuity, under a retirement system established by or under Federal law, by virtue of—

(A) such individual's service with, and separation from, such agency; or

(B) being the survivor of an annuitant under subparagraph (A) or of an individual who died while employed by such agency; and

(5) the term ''Office'' means the Office of Personnel Management.

(b) PREFUNDING REQUIREMENT.—

(1) IN GENERAL.—Effective as of October 1, 1996, each agency shall be required to prepay the Government contributions which are or will be re-

quired in connection with providing health-benefits coverage for annuitants of such agency.

(2) REGULATIONS.—The Office shall prescribe such regulations as may be necessary to carry out this section. The regulations shall be designed to ensure at least the following:

(A) Amounts paid by each agency shall be sufficient to cover the amounts which would otherwise be payable by such agency (on a ''pay-as-you-go'' basis), on or after the applicable effective date under paragraph (1), on behalf of—

(i) individuals who are annuitants of the agency as of such effective date; and

(ii) individuals who are employed by the agency as of such effective date, or who become employed by the agency after such effective date, after such individuals have become annuitants of the agency (including their survivors).

(B)(i) For purposes of determining any amounts payable by an agency—

(I) this section shall be treated as if it had taken effect at the beginning of the 20-year period which ends on the effective

date applicable under paragraph (1) with respect to such agency; and

(II) in addition to any amounts payable under subparagraph (A), each agency shall also be responsible for paying any amounts for which it would have been responsible, with respect to the 20-year period described in subclause (I), in connection with any individuals who are annuitants or employees of the agency as of the applicable effective date under paragraph (1).

(ii) Any amounts payable under this subparagraph for periods preceding the applicable effective date under paragraph (1) shall be payable in equal installments over the 20-year period beginning on such effective date.

(c) FASB STANDARDS.—Regulations under subsection (b) shall be in conformance with the provisions of standard 106 of the Financial Accounting Standards Board, issued in December 1990.

(d) CLARIFICATION.—Nothing in this section shall be considered to permit or require duplicative payments on behalf of any individuals.

(e) DRAFT LEGISLATION.—The Office shall prepare and submit to Congress any draft legislation which may be necessary in order to carry out this section.

TITLE VII—VETERANS AND RELATED PROVISIONS

SEC. 10001. SHORT TITLE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This title may be cited as the ''Veterans Reconciliation Act of 1995''.

(b) TABLE OF CONTENTS.—The table of contents for this title is as follows:

Sec. 10001. Short title; table of contents.

SUBTITLE A—EXTENSION OF TEMPORARY AUTHORITIES

Sec. 10011. Authority to require that certain veterans make copayments in exchange for receiving health-care benefits.
Sec. 10012. Medical care cost recovery authority.
Sec. 10013. Income verification authority.
Sec. 10014. Limitation on pension for certain recipients of medicaid-covered nursing home care.
Sec. 10015. Home loan fees.
Sec. 10016. Procedures applicable to liquidation sales on defaulted home loans guaranteed by the Department of Veterans Affairs.
Sec. 10017. Enhanced loan asset sale authority.

SUBTITLE B—OTHER MATTERS

Sec. 10021. Revision to prescription drug copayment.
Sec. 10022. Rounding down of cost-of-living adjustments in compensation and DIC rates.
Sec. 10023. Revised standard for liability for injuries resulting from Department of Veterans Affairs treatment.
Sec. 10024. Withholding of payments and benefits.

Subtitle A—Extension of Temporary Authorities

SEC. 10011. AUTHORITY TO REQUIRE THAT CERTAIN VETERANS MAKE COPAYMENTS IN EXCHANGE FOR RECEIVING HEALTH-CARE BENEFITS.

(a) HOSPITAL AND MEDICAL CARE.—Section 8013(e) of the Omnibus Budget Reconciliation Act of 1990 (38 U.S.C. 1710 note) is amended by striking out ''September 30, 1998'' and inserting in lieu thereof ''September 30, 2002''.

(b) OUTPATIENT MEDICATIONS.—Section 1722A(c) of title 38, United States Code, is amended by striking out ''September 30, 1998'' and inserting in lieu thereof ''September 30, 2002''.

SEC. 10012. MEDICAL CARE COST RECOVERY AUTHORITY.

Section 1729(a)(2)(E) of title 38, United States Code, is amended by striking out ''before October 1, 1998,'' and inserting ''before October 1, 2002,''.

SEC. 10013. INCOME VERIFICATION AUTHORITY.

Section 5317(g) of title 38, United States Code, is amended by striking out ''September 30, 1998'' and inserting in lieu thereof ''September 30, 2002''.

SEC. 10014. LIMITATION ON PENSION FOR CERTAIN RECIPIENTS OF MEDICAID-COVERED NURSING HOME CARE.

Section 5503(f)(7) of title 38, United States Code, is amended by striking out ''September 30, 1998'' and inserting in lieu thereof ''September 30, 2002''.

SEC. 10015. HOME LOAN FEES.

Section 3729(a) of title 38, United States Code, is amended—

(1) in paragraph (4), by striking out ''October 1, 1998'' and inserting in lieu thereof ''October 1, 2002''; and

(2) in paragraph (5)(C), by striking out ''October 1, 1998'' and inserting in lieu thereof ''October 1, 2002''.

SEC. 10016. PROCEDURES APPLICABLE TO LIQUIDATION SALES ON DEFAULTED HOME LOANS GUARANTEED BY THE DEPARTMENT OF VETERANS AFFAIRS.

Section 3732(c)(11) of title 38, United States Code, is amended by striking out ''October 1, 1998'' and inserting ''October 1, 2002''.

SEC. 10017. ENHANCED LOAN ASSET SALE AUTHORITY.

Section 3720(h)(2) of title 38, United States Code, is amended by striking out ''December 31, 1995'' and inserting in lieu thereof ''September 30, 2002''.

Subtitle B—Other Matters

SEC. 1002. ROUNDING DOWN OF COST-OF-LIVING ADJUSTMENTS IN COMPENSATION AND DIC RATES.

(a) FISCAL YEAR 1996 COLA.—Effective as of December 1, 1995, the Secretary of Veterans Affairs shall recompute any increase in an adjustment that is otherwise provided by law to be effective during fiscal year 1996 in the rates of disability compensation and dependency and indemnity compensation paid by the Secretary as such rates were in effect on November 30, 1995. The recomputation shall provide for the same percentage increase as provided under such law, but with amounts so recomputed (if not a whole dollar amount).

"§ 1103. Cost-of-living adjustments

''(a) In the computation of cost-of-living adjustments for fiscal years 1997 through 2002 in the rates of, and dollar limitations applicable to, compensation payable under this chapter, such adjustments shall be made by a uniform percentage that is no more than the percentage equal to the social security increase for that fiscal year, with all increased monthly rates and limitations (other than increased rates or limitations equal to a whole dollar amount) rounded down to the next lower whole dollar amount.

"(b) For purposes of this section, the term 'social security increase' means the percentage by which benefit amounts payable under title II of the Social Security Act (42 U.S.C. 401 et seq.) are increased for any fiscal year as a result of a determination under section 215(i) of such Act (42 U.S.C. 415(i)).".

(b) The table of sections at the beginning of such chapter is amended by inserting after the item relating to section 1102 the following new item:

"1103. Cost-of-living adjustments.".

(c) OUT-YEAR DIC COLAS.—(1) Chapter 13 of title 38, United States Code, is amended by inserting after section 1302 the following new section:

"§ 1303. Cost-of-living adjustments

"(a) In the computation of cost-of-living adjustments for fiscal years 1997 through 2002 in the rates of dependency and indemnity compensation payable under this chapter, such adjustments shall be made by a uniform percentage that is no more than the percentage equal to the social security increase for that fiscal year, with all increased monthly rates (other than increased rates equal to a whole dollar amount) rounded down to the next lower whole dollar amount.

"(b) For purposes of this section, the term 'social security increase' means the percentage by which benefit

amounts payable under title II of the Social Security Act (42 U.S.C. 401 et seq.) are increased for any fiscal year as a result of a determination under section 215(i) of such Act (42 U.S.C. 415(i)).''.

(2) The table of sections at the beginning of such chapter is amended by inserting after the item relating to section 1302 the following new item:

''1303. Cost-of-living adjustments.''.

SEC. 10023. REVISED STANDARD FOR LIABILITY FOR INJURIES RESULTING FROM DEPARTMENT OF VETERANS AFFAIRS TREATMENT.

(a) REVISED STANDARD.—Section 1151 of title 38, United States Code, is amended—

(1) by designating the second sentence as subsection (c);

(2) by striking out the first sentence and inserting in lieu thereof the following:

''(a) Compensation under this chapter and dependency and indemnity compensation under chapter 13 of this title shall be awarded for a qualifying additional disability of a veteran or the qualifying death of a veteran in the same manner as if such disability or death were service-connected.

''(b)(1) For purposes of this section, a disability or death is a qualifying additional disability or a qualifying death only if the disability or death—

"(A) was caused by Department health care and was a proximate result of—

"(i) negligence on the part of the Department in furnishing the Department health care; or

"(ii) an event not reasonably foreseeable; or

"(B) was incurred as a proximate result of the provision of training and rehabilitation services by the Secretary (including by a service-provider used by the Secretary for such purpose under section 3115 of this title) as part of an approved rehabilitation program under chapter 31 of this title.

"(2) For purposes of this section, the term 'Department health care' means hospital care, medical or surgical treatment, or an examination that is furnished under any law administered by the Secretary to a veteran by a Department employee or in a facility over which the Secretary has direct jurisdiction.

"(3) A disability or death of a veteran which is the result of the veteran's willful misconduct is not a qualifying disability or death for purposes of this section."; and

(3) by adding at the end the following:

"(d) Effective with respect to injuries, aggravations of injuries, and deaths occurring after September 30,

2002, a disability or death is a qualifying additional disability or a qualifying death for purposes of this section (notwithstanding the provisions of subsection (b)(1)) if the disability or death—

"(1) was the result of Department health care; or

"(2) was the result of the pursuit of a course of vocational rehabilitation under chapter 31 of this title.".

(b) CONFORMING AMENDMENTS.—Subsection (c) of such section, as designated by subsection (a)(1), is amended—

(1) by striking out ", aggravation," both places it appears; and

(2) by striking out "sentence" and inserting in lieu thereof "subsection".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to any administrative or judicial determination of eligibility for benefits under section 1151 of title 38, United States Code, based on a claim that is received by the Secretary on or after October 1, 1995, including any such determination based on an original application or an application seeking to reopen, revise, reconsider, or otherwise readjudicate any claim for benefits

under section 1151 of that title or any predecessor provision of law.

SEC. 10024. WITHHOLDING OF PAYMENTS AND BENEFITS.

(a) NOTICE REQUIRED IN LIEU OF CONSENT OR COURT ORDER.—Section 3726 of title 38, United States Code, is amended by striking out ''unless'' and all that follows and inserting in lieu thereof the following: ''unless the Secretary provides such veteran or surviving spouse with notice by certified mail with return receipt requested of the authority of the Secretary to waive the payment of indebtedness under section 5302(b) of this title. If the Secretary does not waive the entire amount of the liability, the Secretary shall then determine whether the veteran or surviving spouse should be released from liability under section 3713(b) of this title. If the Secretary determines that the veteran or surviving spouse should not be released from liability, the Secretary shall notify the veteran or surviving spouse of that determination and provide a notice of the procedure for appealing that determination, unless the Secretary has previously made such determination and notified the veteran or surviving spouse of the procedure for appealing the determination.''.

(b) CONFORMING AMENDMENT.—Section 5302(b) of such title is amended by inserting ''with return receipt requested'' after ''certified mail''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to any indebtedness to the United States arising pursuant to chapter 37 of title 38, United States Code, before, on, or after the date of the enactment of this Act.

Subtitle C—Educational Benefits

SEC. 11031. LIMITATION REGARDING COST-OF-LIVING ADJUSTMENTS FOR MONTGOMERY GI BILL BENEFITS.

With respect to each of fiscal years 1966 through 2002, the cost-of-living adjustments in the rates of educational assistance payable under chapter 30 of title 38, United States Code, shall be the percentage equal to 50 percent of the percentage by which such assistance would be increased under section 3015(g) of such title with respect to such fiscal year but for this section.

TITLE VIII—ASSET SALES; USER FEES AND OTHER MANDATORY PROGRAMS

Subtitle A—United States Enrichment Corporation

SEC. 3001. SHORT TITLE.

This subtitle may be cited as the ''USEC Privatization Act''.

SEC. 3002. PURPOSE.

The purpose of this subtitle is to transfer the interest of the United States in the United States Enrichment Corporation to the private sector in a manner that provides for the long-term viability of the Corporation, provides for the continuation by the Corporation of the operation of the Department of Energy's gaseous diffusion plants, provides for the protection of the public interest in maintaining a reliable and economical domestic source of uranium mining and enrichment services, and, to the extent not inconsistent with such purposes, secures the maximum proceeds to the United States.

SEC. 3003. DEFINITIONS.

For purposes of this subtitle:

(1) The term ''AVLIS'' means atomic vapor laser isotope separation technology.

(2) The term ''Corporation'' means the United States Enrichment Corporation and, unless the context otherwise requires, includes the private corporation and any successor thereto following privatization.

(3) The term ''gaseous diffusion plants'' means the Paducah Gaseous Diffusion Plant at Paducah, Kentucky and the Portsmouth Gaseous Diffusion Plant at Piketon, Ohio.

(4) The term ''highly enriched uranium'' means uranium enriched to 20 percent or more of the uranium-235 isotope.

(5) The term ''low-enriched uranium'' means uranium enriched to less than 20 percent of the uranium-235 isotope, including that which is derived from highly enriched uranium.

(6) The term ''low-level radioactive waste'' has the meaning given such term in section 2(9) of the Low-Level Radioactive Waste Policy Act (42 U.S.C. 2021b(9)).

(7) The term ''private corporation'' means the corporation established under section 3005.

(8) The term ''privatization'' means the transfer of ownership of the Corporation to private investors.

(9) The term ''privatization date'' means the date on which 100 percent of the ownership of the Corporation has been transferred to private investors.

(10) The term ''public offering'' means an underwritten offering to the public of the common stock of the private corporation pursuant to section 3004.

(11) The ''Russian HEU Agreement'' means the Agreement Between the Government of the United States of America and the Government of the Russian Federation Concerning the Disposition of Highly Enriched Uranium Extracted from Nuclear Weapons, dated February 18, 1993.

(12) The term ''Secretary'' means the Secretary of Energy.

(13) The ''Suspension Agreement'' means the Agreement to Suspend the Antidumping Investigation on Uranium from the Russian Federation, as amended.

(14) The term ''uranium enrichment'' means the separation of uranium of a given isotopic content into 2 components, 1 having a higher percentage of a fissile isotope and 1 having a lower percentage.

SEC. 3004. SALE OF THE CORPORATION.

(a) AUTHORIZATION.—The Board of Directors of the Corporation, with the approval of the Secretary of the Treasury, shall transfer ownership of the assets and obligations of the Corporation to the private corporation established under section 3005 (which may be consummated through a merger or consolidation effected in accordance with, and having the effects provided under, the laws of

the State of incorporation of the private corporation, as if the Corporation were incorporated thereunder.).

(b) BOARD DETERMINATION.—The Board, with the approval of the Secretary of the Treasury, shall select the method of transfer and establish terms and conditions for the transfer to provide the maximum proceeds to the Treasury of the United States and to provide for the long-term viability of the private corporation, the continued operation of the gaseous diffusion plants, and the public interest in maintaining reliable and economical domestic uranium mining and enrichment industries.

(c) APPLICATION OF SECURITIES LAWS.—Any offering or sale of securities by the private corporation shall be subject to the Securities Act of 1993 (15 U.S.C. 77a et seq.), the Securities Exchange Act of 1934 (15 U.S.C. 78a et seq.), and the provisions of the Constitution and laws of any State, territory, or possession of the United States relating to transactions in securities.

(d) PROCEEDS.—Proceeds from the sale of the United States' interest in the Corporation shall be—

(1) deposited in the general fund of the Treasury;

(2) included in the budget baseline required by the Balanced Budget and Emergency Deficit Control Act of 1985; and

(3) counted as an offset to direct spending for purposes of section 252 of such Act, notwithstanding section 257(e) of such Act.

(e) EXPENSES.—Expenses of privatization shall be paid from Corporation revenue accounts in the United States Treasury.

SEC. 3005 ESTABLISHMENT OF PRIVATE CORPORATION.

(a) INCORPORATION.—(1) The directors of the Corporation shall establish a private for-profit corporation under the laws of a State for the purpose of receiving the assets and obligations of the Corporation at privatization and continuing the business operations of the Corporation following privatization.

(2) The directors of the Corporation may serve as incorporators of the private corporation and shall take all steps necessary to establish the private corporation, including the filing of articles of incorporation consistent with the privisions of this subtitle.

(3) Employees and officers of the Corporation (including members of the Board of Directors) acting in accordance with this section on behalf of the private corporation shall be deemed to be acting in their official capacities as employees or officers of the Corporation for purposes of section 205 of title 18, United States Code.

(b) STATUS OF THE PRIVATE CORPORATION.—(1) The private corporation shall not be an agency, instrumentality, or establishment of the United States, a Government corporation, or a Government-controlled corporation.

(2) Except as otherwise provided by this subtitle, financial obligations of the private corporation shall not be obligations of, or guaranteed as to principal or interest by, the Corporation or the United States, and the obligations shall so plainly state.

(3) No action under section 1491 of title 28, United States Code, shall be allowable against the United States based on actions of the private corporation.

(c) APPLICATION OF POST-GOVERNMENT EMPLOYMENT RESTRICTIONS.—Beginning on the privatization date, the restrictions of sections 207(a), (b), (c), and (d) of title 18, United States Code, shall not apply to the acts of an individual done in carrying out official duties as a director, officer, or employee of the private corporation, if the individual was an officer or employee of the Corporation (including a director) continuously during the 45 days prior to the privatization date.

(d) DISSOLUTION.—In the event that the privatization does not occur, the Corporation will provide for the dissolution of the private corporation within 1 year of the private corporation's incorporation unless the Secretary of

the Treasury or his delegate, upon the Corporation's request, agrees to delay any such dissolution for an additional year.

SEC. 3006. TRANSFERS TO THE PRIVATE CORPORATION.

Concurrent with privatization, the Corporation shall transfer to the private corporation—

(1) the lease of the gaseous diffusion plants in accordance with section 3007,

(2) all personal property and inventories of the Corporation,

(3) all contracts, agreements, and leases under section 3108(a),

(4) the Corporation's right to purchase power from the Secretary under section 3008(b),

(5) such funds in accounts of the Corporation held by the Treasury or on deposit with any bank or other financial institution as approved by the Secretary of the Treasury, and

(6) all of the Corporation's records, including all of the papers and other documentary materials, regardless of physical form or characteristics, made or received by the Corporation.

SEC. 3007. LEASING OF GASEOUS DIFFUSION FACILITIES.

(a) TRANSFER OF LEASE.—Concurrent with privatization, the Corporation shall transfer to the private cor-

poration the lease of the gaseous diffusion plants and related property for the remainder of the term of such lease in accordance with the terms of such lease.

(b) RENEWAL.—The private corporation shall have the exclusive option to lease the gaseous diffusion plants and related property for additional periods following the expiration of the initial term of the lease.

(c) EXCLUSION OF FACILITIES FOR PRODUCTION OF HIGHLY ENRICHED URANIUM.—The Secretary shall not lease to the private corporation any facilities necessary for the production of highly enriched uranium but may, subject to the requirements of the Atomic Energy Act of 1954 (42 U.S.C. 2011 et seq.), grant the Corporation access to such facilities for purposes other than the production of highly enriched uranium.

(d) DOE RESPONSIBILITY FOR PREEXISTING CONDITIONS.—The payment of any costs of decontamination and decommissioning, response actions, or corrective actions with respect to conditions existing before July 1, 1993, at the gaseous diffusion plants shall remain the sole responsibility of the Secretary.

(e) ENVIRONMENTAL AUDIT.—For purposes of subsection (d), the conditions existing before July 1, 1993, at the gaseous diffusion plants shall be determined from the environmental audit conducted pursuant to section

1403(e) of the Atomic Energy Act of 1954 (42 U.S.C. 2297c–2(e)).

(f) TREATMENT UNDER PRICE-ANDERSON PROVISIONS.—Any lease executed between the Secretary and the Corporation or the private corporation, and any extension or renewal thereof, under this section shall be deemed to be a contract for purposes of section 170d. of the Atomic Energy Act of 1954 (42 U.S.C. 2210(d)).

(g) WAIVER OF EIS REQUIREMENT.—The execution or transfer of the lease between the Secretary and the Corporation or the private corporation, and any extension or renewal thereof, shall not be considered a major Federal action significantly affecting the quality of the human environment for purposes of section 102 of the National Environmental Policy Act of 1969 (42 U.S.C. 4332).

SEC. 3008. TRANSFER OF CONTRACTS.

(a) TRANSFER OF CONTRACTS.—Concurrent with privatization, the Corporation shall transfer to the private corporation all contracts, agreements, and leases, including all uranium enrichment contracts that were—

(1) transferred by the Secretary to the Corporation pursuant to section 1401(b) of the Atomic Energy Act of 1954 (42 U.S.C. 2297c(b)), or

(2) entered into by the Corporation before the privatization date.

(b) NONTRANSFERABLE POWER CONTRACTS.—The Corporation shall transfer to the private corporation the right to purchase power from the Secretary under the power purchase contracts for the gaseous diffusion plants executed by the Secretary before July 1, 1993. The Secretary shall continue to receive power for the gaseous diffusion plants under such contracts and shall continue to resell such power to the private corporation at cost during the term of such contracts.

(c) EFFECTS OF TRANSFER.—(1) Notwithstanding subsection (a), the United States shall remain obligated to the parties to the contracts, agreements, and leases transferred under subsection (a) for the performance of its obligations under such contracts, agreements, or leases during their terms. Performance of such obligations by the private corporation shall be considered performance by the United States.

(2) If a contract, agreement, or lease transferred under subsection (a) is terminated, extended, or materially amended after the privatization date—

(A) the private corporation shall be responsible for any obligation arising under such contract, agreement, or lease after any extension or material amendment, and

(B) the United States shall be responsible for any obligation arising under the contract, agreement, or lease before the termination, extension, or material amendment.

(3) The private corporation shall reimburse the United States for any amount paid by the United States under a settlement agreement entered into with the consent of the private corporation or under a judgment, if the settlement or judgment—

(A) arises out of an obligation under a contract, agreement, or lease transferred under subsection (a), and

(B) arises out of actions of the private corporation between the privatization date and the date of a termination, extension, or material amendment of such contract agreement, or lease.

(d) PRICING.—The Corporation may establish prices for its products, materials, and services provided to customers on a basis that will allow it to attain the normal business objectives of a profitmaking corporation.

SEC. 3009. LIABILITIES.

(a) LIABILITY OF THE UNITED STATES.—(1) Except as otherwise provided in this subtitle, all liabilities arising out of the operation of the uranium enrichment enterprise

before July 1, 1993, shall remain the direct liabilities of the Secretary.

(2) Except as provided in subsection (a)(3) or otherwise provided in a memorandum of agreement entered into by the Corporation and the Office of Management and Budget prior to the privatization date, all liabilities arising out of the operation of the Corporation between July 1, 1993, and the privatization date shall remain the direct liabilities of the United States.

(3) All liabilities arising out of the disposal of depleted uranium generated by the Corporation between July 1, 1993 and privatization date shall become the direct liabilities of the Secretary.

(4) Any stated or implied consent for the United States, or any agent or officer of the United States, to be sued by any person for any legal, equitable, or other relief with respect to any claim arising out of, or resulting from, the privatization of the Corporation is hereby withdrawn.

(5) To the extent that any claim against the United States under this section is of the type otherwise required by Federal statute or regulation to be presented to a Federal agency or official for adjudication or review, such claim shall be presented to the Department of Energy in accordance with the procedures to be established by the

Secretary. Nothing in this paragraph shall be construed to impose on the Department of Energy liability to pay any claim presented pursuant to this paragraph.

(6) The Attorney General shall represent the United States in any action seeking to impose liability under this subsection.

(b) LIABILITY OF THE CORPORATION.—Notwithstanding any provision of any agreement to which the Corporation is a party, the Corporation shall not be considered in breach, default, or violation of any agreement because of the transfer of such agreement to the private corporation under section 3008 or any other action the Corporation is required to take under this subtitle.

(c) LIABILITY OF THE PRIVATE CORPORATION.—Except as provided in this subtitle, the private corporation shall be liable for any liabilities arising out of its operations after the privatization date.

(d) LIABILITY OF OFFICERS AND DIRECTORS.—(1) No officer, director, employee, or agent of the Corporation shall be liable in any civil proceeding to any party in connection with any action taken in connection with the privatization if, with respect to the subject matter of the action, suit, or proceeding, such person was acting within the scope of his employment.

(2) This subsection shall not apply to claims arising under the Securities Exchange Act of 1933 (15 U.S.C. 77a et seq.), the Securities Exchange Act of 1934 (15 U.S.C. 78a et seq.), or under the Constitution or laws of any State, territory, or possession of the United States relating to transactions in securities.

SEC. 3010. EMPLOYEE PROTECTIONS.

(a) CONTRACTOR EMPLOYEES.—(1) Privatization shall not diminish the accrued, vested pension benefits of employees of the Corporation's operating contractor at the two gaseous diffusion plants.

(2) In the event that the private corporation terminates or changes the contractor at either or both of the gaseous diffusion plants, the plan sponsor or other appropriate fiduciary of the pension plan covering employees of the prior operating contractor shall arrange for the transfer of all plan assets and liabilities relating to accrued pension benefits of such plan's participants and beneficiaries from such plant to a pension plan sponsored by the new contractor or the private corporation or a joint labor-management plan, as the case may be.

(3) In addition to any obligations arising under the National Labor Relations Act, any employer (including the private corporation if it operates a gaseous diffusion plant

without a contractor or any contractor of the private corporation) at a gaseous diffusion plant shall—

(A) abide by the terms of any unexpired collective bargaining agreement covering employees in bargaining units at the plant and in effect on the privatization date until the stated expiration or termination date of the agreement; or

(B) in the event a collective bargaining agreement is not in effect upon the privatization date, have the same bargaining obligations under section 8(d) of the National Labor Relations Act (29 U.S.C. 158(d)) as it had immediately before the privatization date.

(4) If the private corporation replaces its operating contractor at a gaseous diffusion plant, the new employer (including the new contractor or the private corporation if it operates a gaseous diffusion plant without a contractor) shall—

(A) offer employment to non-management employees of the predecessor contractor to the extent that their jobs still exist or they are qualified for new jobs, and

(B) abide by the terms of the predecessor contractor's collective bargaining agreement until the agreement expires or a new agreement is signed.

The provisions of subparagraphs (A) and (B) apply only to replacements of operating contractors at the gaseous diffusion plants during the first two years following the privatization date (if any) and to the first bona fide replacement of an operating contractor at a gaseous diffusion plant following the expiration of that two year period. For purposes of this paragraph, a replacement of an operating contractor is considered to be ''bona fide'' unless it is made solely to evade or avoid the provisions of subparagraphs (A) and (B).

(5) In the event of a plant closing or mass layoff (as such terms are defined in section 2(a) (2) and (3) of the Worker Adjustment and Retraining Notification Act (29 U.S.C. 2102(2)(2) and (3))) at either of the gaseous diffusion plants, the Secretary of Energy shall treat any adversely affected employee of an operating contractor at either plant who was an employee at such plant on July 1, 1993, as a Department of Energy employee for purposes of sections 3161 and 3162 of the National Defense Authorization Act for Fiscal Year 1993 (42 U.S.C. 7274h–7274i).

(6)(A) The Secretary and the private corporation shall cause the post-retirement health benefits plan provider (or its successor) to continue to provide benefits for persons employed by an operating contractor at either of

the gaseous diffusion plants in an economically efficient manner and at substantially the same level of coverage as eligible retirees are entitled to receive on the privatization date.

(B) Persons eligible for coverage under subparagraph (A) shall be limited to:

(i) Persons who retired from active employment at one of the gaseous diffusion plants on or before the privatization date as vested participants in a pension plan maintained either by the Corporation's operating contractor or by a contractor employed prior to July 1, 1993, by the Department of Energy to operate a gaseous diffusion plant.

(ii) Persons who are employed by the Corporation's operating contractor on or before the privatization date and are vested participants in a pension plan maintained either by the Corporation's operating contractor or by a contractor employed prior to July 1, 1993, by the Department of Energy to operate a gaseous diffusion plant.

(C) The Secretary shall fund the entire cost of post-retirement health benefits for persons who retired from employment with an operating contractor prior to July 1, 1993.

(D) The Secretary and the Corporation shall fund the cost of post-retirement health benefits for persons who retire from employment with an operating contractor after July 1, 1993 in proportion to the retired person's years and months of service at a gaseous diffusion plant under their respective management.

(7)(A) Any suit under this subsection alleging a violation of an agreement between an employer and a labor organization shall be brought in accordance with section 301 of the Labor Management Relations Act (29 U.S.C. 185).

(B) Any charge under this subsection alleging an unfair labor practice violation of section 8 of the National Labor Relations Act (29 U.S.C. 158) shall be pursued in accordance with section 10 of the National Labor Relations Act (29 U.S.C. 160).

(C) Any suit alleging a violation of any provision of this subsection, to the extent it does not allege a violation of the National Labor Relations Act, may be brought in any district court of the United States having jurisdiction of the parties, without regard to the amount in controversy or the citizenships of the parties.

(b) FORMER FEDERAL EMPLOYEES.—(1)(A) Employees of the Corporation who were subject to either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS) on the day immediately preceding the privatization date shall elect—

(i) to retain their coverage under either CSRS or FERS, as applicable, in lieu of coverage by the Corporation's retirement system, or

(ii) to receive a deferred annuity or lump sum benefit payable to a terminated employee under CSRS or FERS, as applicable.

(B) Those employees electing subparagraph (A)(ii) shall have the option to transfer the balance in their Thrift Savings Plan account to a defined contribution plan under the Corporation's retirement system, consistent with applicable law and the terms of the Corporation's defined contribution plan.

(2) The Corporation shall pay to the Civil Service Retirement and Disability Fund—

(A) such employee deductions and agency contributions as are required by sections 8334, 8422, and 8423 of title 5, United States Code, for those employees who elect to retain their coverage under either CSRS or FERS pursuant to paragraph (1);

(B) such additional agency contributions as are determined necessary by the Office of Personnel Management to pay, in combination with the sums under subparagraph (A), the ''normal cost'' (determined using dynamic assumptions) of retirement benefits for those employees who elect to retain their coverage under CSRS pursuant to paragraph (1), with the concept of ''normal cost'' being used consistent with generally accepted actuarial standards and principles; and

(C) such additional amounts, not to exceed two percent of the amounts under subparagraphs (A) and (B), as are determined necessary by the Office of Personnel Management to pay the cost of administering retirement benefits for employees who retire from the Corporation after the privatization date under either CSRS or FERS, for their survivors, and for survivors of employees of the Corporation who die after the privatization date (which amounts shall be available to the Office of Personnel Management as provided in section 8348(a)(1)(B) of title 5, United States Code).

(3) The Corporation shall pay to the Thrift Savings Fund such employee and agency contributions as are required by section 8432 of title 5, United States Code, for

those employees who elect to retain their coverage under FERS pursuant to paragraph (1).

(4) Any employee of the Corporation who was subject to the Federal Employee Health Benefits Program (FEHBP) on the day immediately preceding the privatization date and who elects to retain coverage under either CSRS or FERS pursuant to paragraph (1) shall have the option to receive health benefits from a health benefit plan established by the Corporation or to continue without interruption coverage under the FEHBP, in lieu of coverage by the Corporation's health benefit system.

(5) The Corporation shall pay to the Employees Health Benefits Fund—

(A) such employee deductions and agency contributions as are required by section 8906 (a)–(f) of title 5, United States Code, for those employees who elect to retain their coverage under FEHBP pursuant to paragraph (4); and

(B) such amounts as are determined necessary by the Office of Personnel Management under paragraph (6) to reimburse the Office of Personnel Management for contributions under section 8906(g)(1) of title 5, United States Code, for those employees who elect to retain their coverage under FEHBP pursuant to paragraph (4).

(6) The amounts required under paragraph (5)(B) shall pay the Government contributions for retired employees who retire from the Corporation after the privatization date under either CSRS or FERS, for survivors of such retired employees, and for survivors of employees of the Corporation who die after the privatization date, with said amounts prorated to reflect only that portion of the total service of such employees and retired persons that was performed for the Corporation after the privatization date.

SEC. 3011. OWNERSHIP LIMITATIONS.

No director, officer, or employee of the Corporation may acquire directly or indirectly any securities, or any rights to acquire any securities of the private corporation on terms more favorable than those offered to the general public—

(1) in a public offering designed to transfer ownership of the Corporation to private investors,

(2) pursuant to any agreement, arrangement, or understanding entered into before the privatization date, or

(3) before the election of the directors of the private corporation.

SEC. 3012. URANIUM TRANSFERS AND SALES.

(a) TRANSFERS AND SALES BY THE SECRETARY.—The Secretary shall not provide enrichment services or

transfer or sell any uranium (including natural uranium concentrates, natural uranium hexafluoride, or enriched uranium in any form) to any person except as consistent with this section.

(b) RUSSIAN HEU.—(1) On or before December 31, 1996, the United States Executive Agent under the Russian HEU Agreement shall transfer to the Secretary without charge title to an amount of uranium hexafluoride equivalent to the natural uranium component of low-enriched uranium derived from at least 18 metric tons of highly enriched uranium purchased from the Russian Executive Agent under the Russian HEU Agreement. The quantity of such uranium hexafluoride delivered to the Secretary shall be based on a tails assay of 0.30 U^{235}. Uranium hexafluoride transferred to the Secretary pursuant to this paragraph shall be deemed under U.S. law, for all purposes to be of Russian origin.

(2) Within 7 years of the date of enactment of this subtitle, the Secretary shall sell, and receive payment for, the uranium hexafluoride transferred to the Secretary pursuant to paragraph (1). Such uranium hexafluoride shall be sold—

(A) at any time for use in the United States for the purpose of overfeeding;

(B) at any time for end use outside the United States; or

(C) in calendar year 2001 for consumption by end users in the United States not prior to January 1, 2002, in volumes not to exceed 3 million pounds U_3O_8 equivalent per year.

(3) With respect to all enriched uranium delivered to the United States Executive Agent under the Russian HEU Agreement on or after January 1, 1997, the United States Executive Agent shall, upon request of the Russian Executive Agent, enter into an agreement to deliver concurrently to the Russian Executive Agent an amount of uranium hexafluoride equivalent to the natural uranium component of such uranium. An agreement executed pursuant to a request of the Russian Executive Agent, as contemplated in this paragraph, may pertain to any deliveries due during any period remaining under the Russian HEU Agreement. The quantity of such uranium hexafluoride delivered to the Russian Executive Agent shall be based on a tails assay of 0.30 U^{235}. Title to uranium hexafluoride delivered to the Russian Executive Agent pursuant to this paragraph shall transfer to the Russian Executive Agent upon delivery of such material to the Russian Executive Agent, with such delivery to take place at a North American facility designated by the Russian Executive Agent.

Uranium hexafluoride delivered to the Russian Executive Agent pursuant to this paragraph shall be deemed under U.S. law for all purposes to be of Russian origin. Such uranium hexafluoride may be sold to any person or entity for delivery and use in the United States only as permitted in subsections (b)(5), (b)(6) and (b)(7) of this section.

(4) In the event that the Russian Executive Agent does not exercise its right to enter into an agreement to take delivery of the natural uranium component of any low-enriched uranium, as contemplated in paragraph (3), within 90 days of the date such low-enriched uranium is delivered to the United States Executive Agent, then the United States Executive Agent shall engage an independent entity through a competitive selection process to auction an amount of uranium hexafluoride or U_3O_8 (in the event that the conversion component of such hexafluoride has previously been sold) equivalent to the natural uranium component of such low-enriched uranium. Such independent entity shall sell such uranium hexafluoride in one or more lots to any person or entity to maximize the proceeds from such sales, for disposition consistent with the limitations set forth in this subsection. The independent entity shall pay to the Russian Executive Agent the proceeds of any such auction less all reasonable transaction and other administrative costs. The quantity of such ura-

nium hexafluoride auctioned shall be based on a tails assay of 0.30 U^{235}. Title to uranium hexafluoride auctioned pursuant to this paragraph shall transfer to the buyer of such material upon delivery of such material to the buyer. Uranium hexafluoride auctioned pursuant to this paragraph shall be deemed under U.S. law for all purposes to be of Russian origin.

(5) Except as provided in paragraphs (6) and (7), uranium hexafluoride delivered to the Russian Executive Agent under paragraph (3) or auctioned pursuant to paragraph (4), may not be delivered for consumption by end users in the United States either directly or indirectly prior to January 1, 1998 and thereafter only in accordance with the following schedule:

Annual Maximum Deliveries to End Users

Year:	*(millions lbs. U_3O_8 equivalent)*
1998	3
1999	5
2000	7
2001	9
2002	11
2003	13
2004	15
2005	16
2006	17
2007	18
2008	19
2009 and each succeeding year	20

(6) Uranium hexafluoride delivered to the Russian Executive Agent under paragraph (3) or auctioned pursuant to paragraph (4) may be sold at any time as Russian-origin natural uranium in a

matched sale pursuant to the Suspension Agreement, and in such case shall not be counted against the annual maximum deliveries set forth in paragraph (5).

(7) Uranium hexafluoride delivered to the Russian Executive Agent under paragraph (3) or auctioned pursuant to paragraph (4) may be sold at any time for use in the United States for the purpose of overfeeding in the operations of enrichment facilities.

(8) Nothing in this subsection (b) shall restrict the sale of the conversion component of such uranium hexafluoride.

(9) The Secretary of Commerce shall have responsibility for the administration and enforcement of the limitations set forth in this subsection. The Secretary of Commerce may require any person to provide any certifications, information, or take any action that may be necessary to enforce these limitations. The U.S. Customs Service shall maintain and provide any information required by the Secretary of Commerce and shall take any action requested by the Secretary of Commerce which is necessary for the administration and enforcement of the uranium delivery limitations set forth in this section.

(10) The President shall monitor the actions of the United States Executive Agent under the Russian HEU Agreement and shall report to the Congress not later than December 31 of each year on the effect the low-enriched uranium delivered under the Russian HEU Agreement is having on the domestic uranium mining, conversion, and enrichment industries, and the operation of the gaseous diffusion plants. Such report shall include a description of actions taken or proposed to be taken by the President to prevent or mitigate any material adverse impact on such industries or any loss of employment at the gaseous diffusion plants as a result of the Russian HEU Agreement.

(11)(A) In the event that the President makes a determination that a waiver under this subsection with respect to the importation of highly enriched uranium or low-enriched uranium derived from highly enriched uranium extracted from nuclear weapons dismantled in the Russian Federation and purchased from the Russian Federation under a government-to-government agreement is in the national security interest of the United States, then such highly enriched uranium and low-enriched uranium derived from highly enriched uranium, including, within the

limits established by this section, the natural uranium component thereof and any uranium products delivered pursuant to enrichment contracts affected by such imports, shall not be subject to title VII of the Tariff Act of 1930, to such extent, for such period, and under such terms and conditions as may be provided in the order making such determination.

(B) No person shall have any cause of action or defense based on this section, and no court shall have jurisdiction to entertain challenges based on any action taken by the President or the Secretary of Commerce pursuant to this section or on an alleged failure to take any such action.

(c) TRANSFERS TO THE CORPORATION.—

(1) The Secretary shall transfer to the Corporation without charge up to 50 metric tons of enriched uranium and up to 7,000 metric tons of natural uranium from the Department of Energy's stockpile, subject to the restrictions in subsection (c)(2).

(2) The Corporation shall not deliver for commercial end use in the United States—

(A) any of the uranium transferred under this subsection before January 1, 1998;

(B) more than 10 percent of the uranium (by uranium hexafluoride equivalent content)

transferred under this subsection or more than 4 million pounds, whichever is less, in any calendar year after 1997; or

(C) more than 800,000 separative work units contained in low-enriched uranium transferred under this subsection in any calendar year.

(d) INVENTORY SALES.—(1) In addition to the transfers authorized under subsections (c) and (e), the Secretary may, from time to time, sell natural and low-enriched uranium (including low-enriched uranium derived from highly enriched uranium) from the Department of Energy's stockpile.

(2) Except as provided in subsections (b), (c), and (e), no sale or transfer of natural or low-enriched uranium shall be made unless—

(A) the President determines that the material is not necessary to national security needs,

(B) the Secretary determines that the sale of the material will not have an adverse material impact on the domestic uranium mining, conversion, or enrichment industry, taking into account the sales of uranium under the Russian HEU Agreement and the Suspension Agreement, and

(C) the price paid to the Secretary will not be less than the fair market value of the material.

(e) GOVERNMENT TRANSFERS.—Nothwithstanding subsection (d)(2), the Secretary may transfer or sell enriched uranium—

(1) to a Federal agency if the material is transferred for the use of the receiving agency without any resale or transfer to another entity and the material does not meet commercial specifications;

(2) to any person for national security purposes, as determined by the Secretary; or

(3) to any State or local agency or nonprofit, charitable, or educational institution for use other than the generation of electricity for commercial use.

(f) SAVINGS PROVISION.—Nothing in this subtitle shall be read to modify the terms of the Russian HEU Agreement.

SEC. 3013. LOW-LEVEL WASTE.

(a) RESPONSIBILITY OF DOE.—(1) The Secretary, at the request of the generator, shall accept for disposal low-level radioactive waste, including depleted uranium if it were ultimately determined to be low-level radioactive waste, generated by—

(A) the Corporation as a result of the operations of the gaseous diffusion plants or as a result

of the treatment of such wastes at a location other than the gaseous diffusion plants, or

(B) any person licensed by the Nuclear Regulatory Commission to operate a uranium enrichment facility under sections 53, 63, and 193 of the Atomic Energy Act of 1954 (42 U.S.C. 2073, 2093, and 2243).

(2) Except as provided in paragraph (3), the generator shall reimburse the Secretary for the disposal of low-level radioactive waste pursuant to paragraph (1) in an amount equal to the Secretary's costs, including a pro rata share of any capital costs, but in no event more than an amount equal to that which would be charged by commercial, State, regional, or interstate compact entities for disposal of such waste.

(3) In the event depleted uranium were ultimately determined to be low-level radioactive waste, the generator shall reimburse the Secretary for the disposal of depleted uranium pursuant to paragraph (1) in an amount equal to the Secretary's costs, including a pro rata share of any capital costs.

(b) AGREEMENTS WITH OTHER PERSONS.—The generator may also enter into agreements for the disposal of low-level radioactive waste subject to subsection (a) with any person other than the Secretary that is author-

ized by applicable laws and regulations to dispose of such wastes.

(c) STATE OR INTERSTATE COMPACTS.—Notwithstanding any other provision of law, no State or interstate compact shall be liable for the treatment, storage, or disposal of any low-level radioactive waste (including mixed waste) attributable to the operation, decontamination, and decommissioning of any uranium enrichment facility.

SEC. 3014. AVLIS.

(a) EXCLUSIVE RIGHT TO COMMERCIALIZE.—The Corporation shall have the exclusive commercial right to deploy the use any AVLIS patents, processes, and technical information owned or controlled by the Government, upon completion of a royalty agreement with the Secretary.

(b) TRANSFER OF RELATED PROPERTY TO CORPORATION.—

(1) IN GENERAL.—To the extent requested by Corporation and subject to the requirements of the Atomic Energy Act of 1954, the President shall transfer without charge to the Corporation all of the right, title, or interest in and to property owned by the United States under control or custody of the Secretary that is directly related to and materially useful in the performance of the Corporation's pur-

poses regarding AVLIS and alternative technologies for uranium enrichment, including—

(A) facilities, equipment, and materials and research, development, and demonstration activities; and

(B) all other facilities, equipment, materials, processes, patents, technical information of any kind, contracts, agreements, and leases.

(2) EXCEPTION.—Facilities, real estate, improvements, and equipment related to the gaseous diffusion, and gas centrifuge, uranium enrichment programs of the Secretary shall not transfer under paragraph (1)(B).

(3) EXPIRATION OF TRANSFER AUTHORITY.—The President's authority to transfer property under this subsection shall expire upon the privatization date.

(c) LIABILITY FOR PATENT AND RELATED CLAIMS.—With respect to any right, title, or interest provided to the Corporation under subsection (a) or (b), the Corporation shall have sole liability for any payments made or awards under section 157b.(3) of the Atomic Energy Act of 1954 (42 U.S.C. 2187(b)(3)), or any settlements or judgments involving claims for alleged patent infringement. Any royalty agreement under subsection (a)

of this section shall provide for a reduction of royalty payments to the Secretary to offset any payments, awards, settlements, or judgments under this subsection.

SEC. 3015. APPLICATION OF CERTAIN LAWS.

(a) OSHA.—(1) As of the privatization date, the private corporation shall be subject to and comply with the Occupational Safety and Health Act of 1970 (29 U.S.C. 651 et seq.).

(2) The Nuclear Regulatory Commission and the Occupational Safety and Health Administration shall, within 90 days after the enactment of this subtitle, enter into a memorandum of agreement to govern the exercise of their authority over occupational safety and health hazards at the gaseous diffusion plants, including inspection, investigation, enforcement, and rulemaking relating to such hazards.

(b) ANTITRUST LAWS.—For purposes of the antitrust laws, the performance by the private corporation of a ''matched import'' contract under the Suspension Agreement shall be considered to have occurred prior to the privatization date, if at the time of privatization, such contract had been agreed to by the parties in all material terms and confirmed by the Secretary of Commerce under the Suspension Agreement.

(c) ENERGY REORGANIZATION ACT REQUIREMENTS.—(1) The private corporation and its contractors shall be subject to the provisions of section 211 of the Energy Reorganization Act of 1974 (42 U.S.C. 5851) to the same extent as an employer subject to such section.

(2) With respect to the operation of the facilities leased by the private corporation, section 206 of the Energy Reorganization Act of 1974 (42 U.S.C. 5846) shall apply of the directors and officers of the private corporation.

SEC. 3016. AMENDMENTS OF THE ATOMIC ENERGY ACT.

(a) REPEAL.—(1) Chapters 22 through 26 of the Atomic Energy Act of 1954 (42 U.S.C. 1201–1608) are repealed as of the privatization date.

(2) The table of contents of such Act is amended as of the privatization date by striking the items referring to sections repealed by paragraph (1).

(b) NRC LICENSING.—(1) Section 11v. of the Atomic Energy Act of 1954 (42 U.S.C. 2014v.) is amended by striking ''or the construction and operation of a uranium enrichment facility using Atomic Vapor Laser Isotope Separation technology''.

(2) Section 193 of the Atomic Energy Act of 1954 (42 U.S.C. 2243) is amended by adding at the end the following:

"(f) LIMITATION.—No license or certificate of compliance may be issued to the United States Enrichment Corporation or its successor under sections 53, 63, 193, or 1701, if in the opinion of the Commission, the issuance of such a license or certificate of compliance—

"(i) would be inimical to the common defense and security of the United States; or

"(ii) would be inimical to the maintenance of a reliable and economical domestic source of enrichment services because of the nature and extent of the ownership, control, or domination of the Corporation by a foreign corporation or a foreign government or any other relevant factors or circumstances.".

(3) Section 1701(c)(2) of the Atomic Energy Act of 1954 (42 U.S.C. 2297f(c)(2) is amended to read as follows:

"(2) PERIODIC APPLICATION FOR CERTIFICATE OF COMPLIANCE.—The Corporation shall apply to the Nuclear Regulatory Commission for a certificate of compliance under paragraph (1) periodically, as determined by the Commission, by not less than every 5 years. The Commission shall review any such application and any determination made under sub-

section (b)(2) shall be based on the results of any such review.''.

(4) Section 1702(a) of the Atomic Energy Act of 1954 (42 U.S.C. 2297f–1(a)) is amended—

(1) by striking ''other than'' and inserting ''including'', and

(2) by striking ''sections 53 and 63'' and inserting ''sections 53, 63, and 193''.

(c) JUDICIAL REVIEW OF NRC ACTIONS.—Section 189b. of the Atomic Energy Act of 1954 (42 U.S.C. 2239(b)) is amended to read as follows:

''b. The following Commission actions shall be subject to judicial review in the manner prescribed in chapter 158 of title 28, United States Code and chapter 7 of title 5, United States Code:

''(1) Any final order entered in any proceeding of the kind specified in subsection (a).

''(2) Any final order allowing or prohibiting a facility to begin operating under a combined construction and operation license.

''(3) Any final order establishing by regulation standards to govern the Department of Energy's gaseous diffusion uranium enrichment plants, including any such facilities leased to a corporation established under the USEC Privatization Act.

"(4) Any final determination relating to whether the gaseous diffusion plants, including any such facilities leased to a corporation established under the USEC Privatization Act, are in compliance with the Commission's standards governing the gaseous diffusion plants and all applicable laws.".

(d) CIVIL PENALTIES.—Section 234a. of the Atomic Energy Act of 1954 (42 U.S.C. 2282(a)) is amended by—

(1) striking "any licensing provision of sections 53, 57, 62, 63, 81, 82, 101, 103, 104, 107, or 109" and inserting: "any licensing or certification provision of section 53, 57, 62, 63, 81, 82, 101, 103, 104, 107, 109, or 1701"; and

(2) by striking "any license issued thereunder" and inserting: "and license or certification issued thereunder".

(e) REFERENCES TO THE CORPORATION.—Following the privatization date, all references in the Atomic Energy Act of 1954 to the United States Enrichment Corporation shall be deemed to be references to the private corporation.

SEC. 3017. AMENDMENTS TO OTHER LAWS.

(a) DEFINITION OF GOVERNMENT CORPORATION.—As of the privatization date, section 9101(3) of title 31,

United States Code, is amended by striking subparagraph (N).

(b) DEFINITION OF THE CORPORATION.—Section 1018(1) of the Energy Policy Act of 1992 (42 U.S.C. 2296b–7(1)) is amended by adding immediately before the period ", or its successor".

(b) REPEAL OF PRIOR CONDITIONAL ENACTMENT.—Section 8114A(b) of Public Law 103–335 (108 Stat. 2648) is repealed.

Subtitle B—Naval Petroleum Reserves Privatization

SEC. 4101. SHORT TITLE.

This subtitle may be cited as the "Naval Petroleum Reserves Privatization Act".

PART I—DEFINITIONS, APPLICABILITY OF TITLES

SEC. 4111. DEFINITIONS.

For the purposes of this subtitle:

(a) "Department" means the United States Department of Energy.

(b) "Naval petroleum reserves" (referred to in this subtitle as "the Reserves") means Naval Petroleum Reserve Numbered 1 (Elk Hills), located in Kern County, California, established by Executive order of the President, dated September 2, 1912; Naval Petroleum Reserve Numbered 2 (Buena

Vista), located in Kern County, California, established by Executive order of the President, dated December 13, 1912; Navel Petroleum Reserve Numbered 3 (Teapot Dome), located in Wyoming, established by Executive order of the President, dated April 30, 1915; Oil Shale Reserve Numbered 1, located in Colorado, established by Executive order of the President, dated December 6, 1916, as amended by Executive order dated June 12, 1919; and Oil Shale Reserve Numbered 3, located in Colorado, established by Executive order of the President, dated September 27, 1924.

(c) ''Petroleum'' includes crude oil, gases (including natural gas), natural gasoline, and other related hydrocarbons, oil shale, and the products of any of such resources.

(d) ''Secretary'' means the Secretary of Energy.

(e) ''Unit Plan Contract'' means the agreement of June 19, 1944 between the Department and Chevron U.S.A., Inc.

SEC. 4112. APPLICABILITY OF TITLES.

(a) Parts 1, 2, and 4, of this subtitle take effect upon enactment of this subtitle.

PART II—PRIVATIZATION

SEC. 4121. PRIVATIZATION PLAN AND IMPLEMENTATION.

(a) PREPARATION OF PLAN.—

(1) The Secretary shall prepare not later than March 31, 1997, in consultation with the Secretary of the Treasury, a plan for selling Naval Petroleum Reserve Numbered 1 and for selling or leasing the remaining Reserves out of Federal ownership, in fiscal year 2002.

(2) The plan shall include consideration of alternative means for selling Naval Petroleum Reserve Numbered 1 and for selling or leasing the remaining Reserves. The plan shall include the estimated return on the Government's investment in the Reserves achievable through each sale or lease alternative and shall include the Secretary's recommendation on the preferred means of selling or leasing the Reserves. The plan shall specify a minimum acceptable price for the Reserves, which is not less than the net present value of the sum of the:

(A) anticipated revenue stream that the Secretary, in consultation with the Secretary of the Treasury, determines the Treasury would receive from the Reserves if they were not sold or leased, and

(B) the payments due under subsection (g). The minimum acceptable price may be adjusted by the Secretary for relevant economic factors after consideration of the results of the studies conducted under subsection (c) of this section.

(b) PRESIDENTIAL APPROVAL.—The Secretary shall submit the plan to the President not later than March 31, 1997. The President may modify the minimum acceptable price in the plan, or otherwise modify the plan. The President shall approve the plan with or without modifications by June 30, 1997. When the plan is approved with or without modification by the President, the Secretary shall implement the plan. Not later than the end of fiscal year 2002 the Secretary of Energy shall enter into one or more contracts for the sale of all rights, title, and interest of the United States in and to all lands owned or controlled by the United States inside Naval Petroleum Reserve Numbered 1.

(c) ACQUISITION OF SERVICE.—The Secretary may enter into contracts on a non-competitive basis for studies relating to the preparation or implementation of the plan.

(d) EQUITY SHARES IN NAVAL PETROLEUM RESERVE NUMBERED 1.—

(1) Not later than five months after the effective date, the Secretary shall finalize equity interests of the known oil and gas zones in Naval Petroleum Reserve Numbered 1 in the manner provided by this subsection.

(2) The Secretary shall retain the services of an independent petroleum engineer, mutually acceptable to the equity owners, who shall prepare a recommendation on final equity figures. The Secretary may accept the recommendation of the independent petroleum engineer for final equity in each known oil and gas zone and establish final equity interest in Naval Petroleum Reserve Numbered 1 in accordance with the recommendation, or the Secretary may use such other method to establish final equity interest in the reserve as the Secretary considers appropriate.

(3) If, on the effective date, there is an ongoing equity redetermination dispute between the equity owners under section 9(b) of the unit plan contract, the dispute shall be resolved in the manner provided in the unit plan contract within five months after the effective date. The resolution shall be considered final for all purposes under this section.

(e) FUTURE LIABILITIES.—To effectuate the sale of the interest of the United States in Naval Petroleum Reserve Numbered 1, the Secretary may extend such indemnities and warranties as the Secretary considers reasonable and necessary to protect the purchaser from claims arising from the ownership in the reserve by the United States.

(f) DEPOSIT OF PROCEEDS.—Proceeds from the sale or lease of the Reserves under this subtitle shall be deposited into miscellaneous receipts in the Treasury.

(g) REVENUE SHARING WITH THE STATE OF CALIFORNIA.—Notwithstanding any other law, the Secretary of the Treasury shall pay to the State of California (to be credited by the State to the Supplemental Benefits Maintenance Account within the Teachers' Retirement Fund) seven percent of proceeds from the sale of Naval Petroleum Reserve Numbered 1. The State of California share (seven percent of proceeds) shall be paid in annual installments of 2.25 percent of the share in each fiscal year from the date of sale for 9 fiscal years, and 25.75 of the share in the tenth fiscal year. Payments under this subsection may begin upon a release of all claims against the United States by the State of California and the Teachers' Retirement Fund with respect to production

and proceeds of sale from Naval Petroleum Reserve Numbered 1.

(h) EXPENDITURES FOR SALE OR LEASE.—(1) Section 501 of Public Law 101–45 is hereby repealed.

(2) Unobligated balances in the Naval Petroleum and Oil Shale Reserves account shall be used for necessary expenses related to sale of lease of the reserves.

(a) EFFECT ON EXISTING CONTRACTS.—(1) In the case of any contract, in effect on the effective date, for the purchase of production from any part of the United States' share of Naval Petroleum Reserve Numbered 1, the sale of the interest of the United States in the reserve shall be subject to the contract for a period of three months after the closing date of the sale or until termination of the contract, whichever occurs first. The term of any contract entered into after the effective date for the purchase of the production shall not exceed the anticipated closing date for the sale of the reserve.

(2) The Secretary shall exercise the termination procedures provided in the contract between the United States and Bechtel Petroleum Operations, Inc., Contract Number DE–ACO1–85FE60520 or in any subsequent management and operating contract so that the contract terminates not later than the date of closing of the sale

of Naval Petroleum Reserve Numbered 1 under section 3412.

(3) The Secretary shall exercise the termination procedures provided in the unit plan contract so that the unit plan contract terminates not later than the date of closing of the sale reserve.

(b) EFFECT ON ANTITRUST LAWS.—Nothing in this subtitle shall be construed to alter the application of the antitrust laws of the United States to the purchaser or purchasers (as the case may be) of Naval Petroleum Reserve Numbered 1 or to the lands in the reserve subject to sale or lease under Section 4121 upon the completion of the sale or lease.

(c) PRESERVATION OF PRIVATE RIGHT, TITLE, AND INTEREST.—Nothing in this subtitle shall be construed to adversely affect the ownership interest of any other entity having any right, title, and interest in and to lands within the boundaries of Naval Petroleum Reserve Numbered 1 and which are subject to the unit plan contract.

The Secretary may transfer to the purchaser or purchasers (as the case may be) of Naval Petroleum Reserve Numbered 1 the incidental take permit regarding the reserve issued to the Secretary by the United States Fish and Wildlife Serve and in effect on the effective date if the Secretary determines that transfer of the permit is

necessary to expedite the sale of the reserve in a manner that maximized the value of the sale to the United States. The transferred permit shall cover the identical activities, and shall be subject to the same terms and conditions, as apply to the permit at the time of the transfer.

SEC. 4122. RELATIONSHIP TO BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985.

If the President so designates, the net proceeds from privatizing the Reserves under this subtitle shall be included in the budget baseline required by the Balanced Budget and Emergency Deficit Control Act of 1985 and shall be counted for the purposes of section 252 of that Act as an offset to direct spending notwithstanding section 257(a) of the Act.

SEC. 4123. DISCRETIONARY SPENDING LIMITS.

(a) Upon sale of the NPR Numbered 1 the discretionary spending limits set forth in section 601(a)(2) of the Congressional Budget Act of 1974 (2 U.S.C. 665(a)(2)) (as adjusted in conformance with section 251 of the Balanced Budget and Emergency Deficit Control Act of 1985) for fiscal year 2003 are reduced as follows:

for fiscal year 2002 for the discretionary category: $158 million in new budget authority and $166 million in outlays.

(b) For fiscal year 2004, the comparable amount for budgetary purposes is considered to be $158 million in new budget authority and $166 million in outlays. For fiscal year 2005 the comparable amount for budgetary purposes is considered to be $158 million in new budget authority and $166 million in outlays.

PART III—OIL SHALE RESERVE NUMBERED 2

SEC. 4131. TRANSFER.

Subject to sections 4132 and 4133 of this subtitle, the functions vested in the Secretary with regard to Oil Shale Reserve Numbered 2 (located in Utah, established by Executive order of the President dated December 6, 1916) by chapter 641 of title 10, United States Code, as amended by section 501 of this Act, are transferred to and vested in the Secretary of the Interior.

SEC. 4132. GREEN RIVER AREA.

(a) REPORT AND MANAGEMENT OF AREA.—The Secretary of the Interior shall study and submit to the President a report on the appropriateness of including the Green River area within the national wild and scenic rivers system. During the study period, the Secretary of the Interior shall manage the Green River area in a manner consistent with the memorandum of understanding between

the Department of Energy and the Department of the Interior under which the reserve is being currently managed.

(b) For purposes of this section, ''Green River area'' means the following area within Oil Shale Reserve Numbered 2: The segments of the Green River that are within the boundaries of Oil Shale Reserve Numbered 2, which include the approximately 11.6 mile segment of the Green River extending from the northern boundary of Oil Shale Reserve Numbered 2 near Duchess Hole to the western boundary of Oil Shale Reserve Numbered 2 near Rock House Bottom and the approximately .6 mile segment of the Green River in Oil Shale Reserve Numbered 2 near the base of Peters Point, and the area extending one-half mile from the river on each side of these segments.

SEC. 4133. UINTAH AND OURAY INDIAN RESERVATION.

Nothing in this subtitle affects any interest in, or right or obligation respecting, the Uintah and Ouray Indian Reservation.

PART IV—MISCELLANEOUS

SEC. 4151. AMENDMENTS TO CHAPTER 641 OF TITLE 10, UNITED STATES CODE.

Chapter 641 of title 10, United States Code, is amended:

(a) in the table of contents, by renaming section 7438 ''Mining and removal of oil shale.'';

(b) in section 7420, by striking paragraph (6);

(c) in section 7421(a), by striking ''for national defense purposes, except as otherwise provided in this chapter'';

(d) by amending section 7422 to read as follows:

''(a) Prior to privatization, the Secretary, directly or by contract, lease, or otherwise, shall explore, prospect, conserve, develop, use, produce, and operate the naval petroleum reserves to maximize the economic value of these properties to the Nation, except that no petroleum leases shall be granted at Naval Petroleum Reserves Numbered 1 and 3.

''(b) The Secretary shall dispose of the United States' share of petroleum produced from the naval petroleum reserves in accordance with section 7430 of this chapter.

''(c) The Secretary may construct, acquire, or contract for the use of storage and shipping facilities, and pipelines and associated facilities, on and off the naval petroleum reserves, for transporting petroleum to locations where it will be refined or shipped.

"(d) The Secretary may store petroleum owned or managed by other Federal agencies and instrumentalities, for appropriate reimbursement reasonably reflecting fair market value.

"(e) The Secretary may acquire a pipeline in the vicinity of a naval petroleum reserve not otherwise operated as a common carrier, by condemnation, if necessary, if the pipeline owner refuses to accept, convey, and transport petroleum produced at that reserve without discrimination and at reasonable rates. The Secretary may acquire rights-of-way for new pipelines and associated facilities by eminent domain under the Act of February 26, 1931 (40 U.S.C. 258a–258e), and the prospective holder of the right-of-way is "the authority empowered by law to acquire the lands" within the meaning of that Act. New pipelines shall accept, convey, and transport any petroleum produced at the naval petroleum reserves at reasonable rates as a common carrier,";

(e) in section 7423, by striking "when that production is authorized under section 7422 of this title";

(f) in section 7425(a), by striking ", with the approval of the President,";

(g) in section 7426, as follows:

(1) by striking "Subject to the provisions of section 7422(c) of this title, the" and inserting "The" in subsection (a),

(2) by inserting "as is fixed, or" after "contract," in subsection (b), and

(3) by striking "than having petroleum produced for national defense" and inserting "producing petroleum" in subsection (c);

(h) in section 7427, by striking ", with the consent of the President,";

(i) in section 7428, by striking "approval by the President and to";

(j) in section 7429, by striking "If any such land is to be re-leased, the" and inserting "The";

(k) in section 7430, as follows:

(l) by amending subsection (b)(2) to read as follows:

"(2) The Secretary may not sell any part of the United States share of petroleum produced from Naval Petroleum Reserves Numbered 1, 2, and 3 for less than the Secretary's estimate of the current sales price of comparable petroleum in the same area.",

(2) by striking ''Naval Petroleum Reserves Numbered 1 or Numbered 3'' and inserting ''the naval petroleum reserves'' in subsection (j),

(3)(A) by amending subsection (l)(1) to read as follows: ''Notwithstanding any other provision of this chapter (but subject to paragraph (2)), the Secretary may provide any portion of the United States share of petroleum to any other Federal agency or instrumentality for its use in order to meet petroleum product requirements of the Federal Government.'';

(B) by striking ''the Department of Defense'' and inserting ''any other Federal agency or instrumentality'' and striking ''Secretary of Defense'' and inserting ''other Federal agencies and instrumentalities'' in subsection (l)(2); and

(C) by striking ''exchange'' and inserting ''transaction'' in subsection (l)(3), and

(4) by striking subsections (c), (d), (e), (f), (g), (h), and (i);

(l) in section 7431, as follows:

(1) by striking ''and approval'' in the catch line,

(2) by striking ''and the President's approval must be obtained'' in subsection (a),

(3) by striking 11 and Presidential approval are'' and inserting ''is'' in subsection (a)(2), and

(4) by striking subsections (a)(3), and (c);

(m) by amending section 7432 to read as follows:

''§ 7432. Production Enhancement

''Not more than $60 million of the United States share of amounts collected in fiscal year 1996 under the Emergency Petroleum Allocation Act of 1973 (15 U.S.C. § 751 et seq.) may be used to enhance production from the Reserves in that fiscal year, to the extent provided in an appropriations Act.'';

(n) by amending section 7434 to read as follows: ''Prior to privatization, the Secretary shall submit a report to the Committee on Armed Services of the Senate and the Committee on National Security of the House of Representatives, within 270 days of the end of each fiscal year, on production from the naval petroleum reserves for the preceding fiscal year and on other naval petroleum reserves matters the Secretary considers appropriate.''; and

(o) by amending section 7438 to read as follows:

"§ 7438. Mining and removal of oil shale

''(a) Except as provided in title III of the Naval Petroleum Reserves Privatization Act, prior to privatization the Secretary may mine and remove, or authorize the mining and removal of, oil shale or oil shale products from Oil Shale Reserves Numbered 1, 2, and 3 needed for the national defense or for research, development, test, evaluation, and demonstration work, at prices and under other terms that the Secretary directs.

''(b) This section is not intended to authorize the commercial development and operation of the naval oil shale reserves by the Government in competition with private industry.''.

SEC. 4132. CONFORMING AMENDMENTS AND REPEALERS.

(a) Section 2 of Pub. L. No. 96–137, 93 Stat. 1061 (1979) (42 U.S.C. 7156a) is repealed.

(b) Section 501 of the Dire Emergency Supplemental Appropriations and Transfers, Urgent Supplementals, and correcting Enrollment Errors Act of 1989 (10 U.S.C. 7431 note) is repealed.

(c) Chapter 641 of title 10 United States Code ceases to apply to any Reserve that is privatized.

CHAPTER 2—DEPARTMENT OF ENERGY

SEC. 5221. SALE OF DOE ASSETS.

(a) ASSET MANAGEMENT AND DISPOSITION PROGRAM.—

(1) IN GENERAL.—In order to maximize the use of Department of Energy assets and to reduce overhead and other costs related to asset management at the Department's facilities and laboratories, the Secretary of Energy shall conduct an asset management and disposition program that will result in not less than $225,000,000 in receipts and savings by October 1, 2000.

(2) ITEMS TO BE INCLUDED.—The program shall include an inventory of assets in the care of the Department and its contractors; the recovery, reuse, and stewardship of assets; and disposition of a minimum of 1,139,000,000 pounds of fuel, 136,000 tons of chemicals and industrial gases, 557,000 tons of scrap metal, 14,000 radiation sources, 17,000 pieces of major equipment, 11,000 pounds of precious metals, and 91,000,000 pounds of base metals.

(b) FEDERAL PROPERTY AND ADMINSTRATIVE SERVICES ACT.—The disposition of assets under this section is not subject to section 202 or 203 of the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 483, 484) or section 13 of the Surplus Property Act of 1944 (50 U.S.C. App. 1622). In order to avoid market disruptions, the Secretary shall consult with appro-

priate executive agencies with respect to dispositions under this section.

(c) DISPOSITION OF PROCEEDS.—After deduction of administrative costs of disposition under this section not to exceed $7,000,000 per year, the remainder of the proceeds from dispositions under this subpart shall be returned to the Treasury as miscellaneous receipts. There shall be established a new receipt account in the Treasury for proceeds of asset sales under this section.

SEC. 5222. SALE OF WEEKS ISLAND OIL.

Notwithstanding section 161 of the Energy Policy and Conservation Act (42 U.S.C. 6241), the Secretary of Energy shall draw down and sell 32,000,000 barrels of oil contained in the Weeks Island Strategic Petroleum Reserve Facility. The Secretary shall, to the greatest extent practicable, sell oil from the reserve in a manner that minimizes the impact of such sale upon supply levels and market forces.

SEC. 5223. LEASE OF EXCESS STRATEGIC PETROLEUM RESERVE CAPACITY.

(a) AMENDMENT.—Part B of title I of the Energy Policy and Conservation Act (42 U.S.C. 6231 et seq.) is amended by adding at the end the following:

"USE OF UNDERUTILIZED FACILITIES

"SEC. 168. (a) AUTHORITY.—Notwithstanding any other provision of this title, the Secretary, by lease or oth-

erwise, for any term and under such other conditions as the Secretary considers necessary or appropriate, may store in underutilized Strategic Petroleum Reserve facilities petroleum product owned by a foreign government or its representative. Petroleum products stored under this section are not part of the Strategic Petroleum Reserve and may be exported without license from the United States.

''(b) PROTECTION OF FACILITIES.—All agreements entered into pursuant to subsection (a) shall contain provisions providing for fees to fully compensate the United States for all costs of storage and removals of petroleum products, including the cost of replacement facilities necessitated as a result of any withdrawals.

''(c) ACCESS TO STORED OIL.—The Secretary shall ensure that agreements to store petroleum products for foreign governments or their representatives do not affect the ability of the United States to withdraw, distribute, or sell petroleum from the Strategic Petroleum reserve in response to an energy emergency or to the obligations of the United States under the Agreement on an International Energy Program''.

(b) TABLE OF CONTENTS AMENDMENT.—The table of contents of part B of title I of the Energy Policy and

Conservation Act is amended by adding at the end the following:

"Sec. 168. Use of underutilized facilities.".

Subtitle C—Natural Resources

Subchapter B—Helium Reserves

SEC. 5311. SHORT TITLE.

This subchapter may be cited as the "Helium Act of 1995".

SEC. 5312. AMENDMENT OF HELIUM ACT.

Except as otherwise expressly provided, whenever in this chapter an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Helium Act (50 U.S.C. 167 to 167n).

SEC. 5313. AUTHORITY OF SECRETARY.

Sections 3, 4, and 5 are amended to read as follows:

"SEC. 3. AUTHORITY OF SECRETARY.

"(a) EXTRACTION AND DISPOSAL OF HELIUM ON FEDERAL LANDS.—

"(1) IN GENERAL.—The Secretary may enter into agreements with private parties for the recovery and disposal of helium on Federal lands upon such terms and conditions as the Secretary deems fair, reasonable, and necessary.

"(2) LEASEHOLD RIGHTS.—The Secretary may grant leasehold rights to any such helium.

"(3) LIMITATION.—The Secretary may not enter into any agreement by which the Secretary sells such helium other than to a private party with whom the Secretary has an agreement for recovery and disposal of helium.

"(4) REGULATIONS.—Agreements under paragraph (1) may be subject to such regulations as may be prescribed by the Secretary.

"(5) EXISTING RIGHTS.—An agreement under paragraph (1) shall be subject to any rights of any affected Federal oil and gas lessee that may be in existence prior to the date of the agreement.

"(6) TERMS AND CONDITIONS.—An agreement under paragraph (1) (and any extension or renewal of an agreement) shall contain such terms and conditions as the Secretary may consider appropriate.

"(7) PRIOR AGREEMENTS.—This subsection shall not in any manner affect or diminish the rights and obligations of the Secretary and private parties under agreements to dispose of helium produced from Federal lands in existence on the date of enactment of the Helium Act of 1995 except to the extent

that such agreements are renewed or extended after that date.

"(b) STORAGE, TRANSPORTATION AND SALE.—The Secretary may store, transport, and sell helium only in accordance with this Act.

"SEC. 4. STORAGE, TRANSPORTATION, AND WITHDRAWAL OF CRUDE HELIUM.

"(a) STORAGE, TRANSPORTATION AND WITHDRAWAL.—The Secretary may store, transport and withdraw crude helium and maintain and operate crude helium storage facilities, in existence on the date of enactment of the Helium Act of 1995 at the Bureau of Mines Cliffside Field, and related helium transportation and withdrawal facilities.

"(b) CESSATION OF PRODUCTION, REFINING, AND MARKETING.—Not later than 18 months after the date of enactment of the Helium Act of 1995, the Secretary shall cease producing, refining, and marketing refined helium and shall cease carrying out all other activities relating to helium which the Secretary was authorized to carry out under this Act before the date of enactment of the Helium Act of 1995, except activities described in subsection (a).

"(c) DISPOSAL OF FACILITIES.—

"(1) IN GENERAL.—Subject to paragraph (5), not later than 24 months after the cessation of activities referred to in section (b) of this section, the Secretary shall designate as excess property and dispose of all facilities, equipment, and other real and personal property, and all interests therein, held by the United States for the purpose of producing, refining and marketing refined helium.

"(2) APPLICABLE LAW.—The disposal of such property shall be in accordance with the Federal Property and Administrative Services Act of 1949.

"(3) PROCEEDS.—All proceeds accruing to the United States by reason of the sale or other disposal of such property shall be treated as moneys received under this chapter for purposes of section 6(f).

"(4) COSTS.—All costs associated with such sale and disposal (including costs associated with termination of personnel) and with the cessation of activities under subsection (b) shall be paid from amounts available in the helium production fund established under section 6(f).

"(5) EXCEPTION.—Paragraph (1) shall not apply to any facilities, equipment, or other real or personal property, or any interest therein, necessary for the storage, transportation and withdrawal of

crude helium or any equipment, facilities, or other real or personal property, required to maintain the purity, quality control, and quality assurance of crude helium in the Bureau of Mines Cliffside Field.

"(d) EXISTING CONTRACTS.—

"(1) IN GENERAL.—All contracts that were entered into by any person with the Secretary for the purchase by the person from the Secretary of refined helium and that are in effect on the date of the enactment of the Helium Act of 1995 shall remain in force and effect until the date on which the refining operations cease, as described in subsection (b).

"(2) COSTS.—Any costs associated with the termination of contracts described in paragraph (1) shall be paid from the helium production fund established under section 6(f).

"SEC. 5. FEES FOR STORAGE, TRANSPORTATION AND WITHDRAWAL.

"(a) IN GENERAL.—Whenever the Secretary provides helium storage withdrawal or transportation services to any person, the Secretary shall impose a fee on the person to reimburse the Secretary for the full costs of providing such storage, transportation, and withdrawal.

"(b) TREATMENT.—All fees received by the Secretary under subsection (a) shall be treated as moneys received under this Act for purposes of section 6(f).".

SEC. 5314. SALE OF CRUDE HELIUM.

(a) Subsection 6(a) is amended by striking "from the Secretary" and inserting "from persons who have entered into enforceable contracts to purchase an equivalent amount of crude helium from the Secretary".

(b) Subsection 6(b) is amended—

(1) by inserting "crude" before "helium"; and

(2) by adding the following at the end: "Except as may be required by reason of subsection (a), sales of crude helium under this section shall be in amounts as the Secretary determines, in consultation with the helium industry, necessary to carry out this subsection with minimum market disruption.".

(c) Subsection 6(c) is amended—

(1) by inserting "crude" after "Sales of"; and

(2) by striking "together with interest as provided in this subsection" and all that follows through the end of the subsection and inserting "all funds required to be repaid to the United States as of October 1, 1995 under this section (referred to in this subsection as 'repayable amounts'). The price at which crude helium is sold by the Secretary shall not

be less than the amount determined by the Secretary by—

"(1) dividing the outstanding amount of such repayable amounts by the volume (in million cubic feet) of crude helium owned by the United States and stored in the Bureau of Mines Cliffside Field at the time of the sale concerned, and

"(2) adjusting the amount determined under paragraph (1) by the Consumer Price Index for years beginning after December 31, 1995.".

(d) Subsection 6(d) is amended to read as follows:

"(d) EXTRACTION OF HELIUM FROM DEPOSITS ON FEDERAL LANDS.—All moneys received by the Secretary from the sale or disposition of helium on Federal lands shall be paid to the Treasury and credited against the amounts required to be repaid to the Treasury under subsection (c).".

(e) Subsection 6(e) is repealed.

(f) Subsection 6(f) is amended—

(1) by striking "(f)" and inserting "(e)(1)"; and

(2) by adding the following at the end:

"(2)(A) Within 7 days after the commencement of each fiscal year after the disposal of the facilities referred to in section 4(c), all amounts in such fund in excess of

$2,000,000 (or such lesser sum as the Secretary deems necessary to carry out this Act during such fiscal year) shall be paid to the Treasury and credited as provided in paragraph (1).

''(B) On repayment of all amounts referred to in subsection (c), the fund established under this section shall be terminated and all moneys received under this Act shall be deposited in the general fund of the Treasury.''.

SEC. 5315. ELIMINATION OF STOCKPILE.

Section 8 is amended to read as follows:

''SEC. 8. ELIMINATION OF STOCKPILE.

''(a) STOCKPILE SALES.—

''(1) COMMENCEMENT.—Not later than January 1, 2005, the Secretary shall commence offering for sale crude helium from helium reserves owned by the United States in such amounts as would be necessary to dispose of all such helium reserves in excess of 600,000,000 cubic feet on a straight-line basis between such date and January 1, 2015.

''(2) TIMES OF SALE.—The sales shall be at such times during each year and in such lots as the Secretary determines, in consultation with the helium industry, to be necessary to carry out this subsection with minimum market disruption.

"(3) PRICE.—The price for all sales under paragraph (1), as determined by the Secretary in consultation with the helium industry, shall be such price as will ensure repayment of the amounts required to be repaid to the Treasury under section 6(c).

"(b) DISCOVERY OF ADDITIONAL RESERVES.—The discovery of additional helium reserves shall not affect the duty of the Secretary to make sales of helium under subsection (a).".

SEC. 5316. REPEAL OF AUTHORITY TO BORROW.

Sections 12 and 15 are repealed.

SEC. 5317. LAND CONVEYANCE IN POTTER COUNTY, TEXAS.

(a) IN GENERAL.—The Secretary of the Interior shall transfer all right, title, and interest of the United States in and to the parcel of land described in subsection (b) to the Texas Plains Girl Scout Council for consideration of $1, reserving to the United States such easements as may be necessary for pipeline rights-of-way.

(b) LAND DESCRIPTION.—The parcel of land referred to in subsection (a) is all those certain lots, tracts or parcels of land lying and being situated in the County of Potter and State of Texas, and being the East Three Hundred Thirty-One (E331) acres out of Section Seventy-eight (78) in Block Nine (9), B.S. & F. Survey, (some

times known as the G.D. Landis pasture) Potter County, Texas, located by certificate No. 1/39 and evidenced by letters patents Nos. 411 and 412 issued by the State of Texas under date of November 23, 1937, and of record in Vol. 66A of the Patent Records of the State of Texas. The metes and bounds description of such lands is as follows:

(1) FIRST TRACT.—One Hundred Seventy-one (171) acres of land known as the North part of the East part of said survey Seventy-eight (78) aforesaid, described by metes and bounds as follows:

Beginning at a stone 20 x 12 x 3 inches marked X, set by W.D. Twichell in 1905, for the Northeast corner of this survey and the Northwest corner of Section 59;

Thence, South 0 degrees 12 minutes East with the West line of said Section 59, 999.4 varas to the Northeast corner of the South 160 acres of East half of Section 78;

Thence, North 89 degrees 47 minutes West with the North line of the South 150 acres of the East half, 956.8 varas to a point in the East line of the West half Section 78;

Thence, North 0 degrees 10 minutes West with the East line of the West half 999.4 varas to a stone

18 x 14 x 3 inches in the middle of the South line of Section 79;

Thence, South 89 degrees 47 minutes East 965 varas to the place of beginning.

(2) SECOND TRACT.—One Hundred Sixty (160) acres of land known as the South part of the East part of said survey No. Seventy-eight (78) described by metes and bounds as follows:

Beginning at the Southwest corner of Section 59, a stone marked X and a pile of stones; Thence, North 89 degrees 47 minutes West with the North line of Section 77, 966.5 varas to the Southeast corner of the West half of Section 78; Thence, North 0 degrees 10 minutes West with the East line of the West half of Section 78;

Thence, South 89 degrees 47 minutes East 965.8 varas to a point in the East line of Section 78;

Thence, South 0 degrees 12 minutes East 934.6 varas to the place of beginning.

Containing an area of 331 acres, more or less.

CHAPTER 8—OUTER CONTINENTAL SHELF DEEP WATER ROYALTY RELIEF

SEC. 5421. SHORT TITLE.

This chapter may be referred to as the ''Outer Continental Shelf Deep Water Royalty Relief Act''.

SEC. 5422. AMENDMENTS TO THE OUTER CONTINENTAL SHELF LANDS ACT.

Section 8(a)(3) of the Outer Continental Shelf Lands Act (43 U.S.C. 1337(a)(3)), is amended—

(1) by designating the provisions of paragraph (3) as subparagraph (A) of such paragraph (3); and

(2) by inserting after subparagraph (A), as so designated, the following:

''(B) In the Western and Central Planning Areas of the Gulf of Mexico and the portion of the Eastern Planning Area of the Gulf of Mexico encompassing whole lease blocks lying west of 87 degrees, 30 minutes West longitude, the Secretary may, in order to—

''(i) promote development or increased production on producing or non-producing leases; or

''(ii) encourage production of marginal resources on producing or non-producing leases;

through primary, secondary, or tertiary recovery means, reduce or eliminate any royalty or net profit share set forth in the lease(s). With the lessee's consent, the Secretary may make other modifications to the royalty or net profit share terms of the lease in order to achieve these purposes.

"(C)(i) Notwithstanding the provisions of this Act other than this subparagraph, with respect to any lease or unit in existence on the date of enactment of the Outer Continental Shelf Deep Water Royalty Relief Act meeting the requirements of this subparagraph, no royalty payments shall be due on new production, as defined in clause (iv) of this subparagraph, from any lease or unit located in water depths of 200 meters or greater in the Western and Central Planning Areas of the Gulf of Mexico, including that portion of the Eastern Planning Area of the Gulf of Mexico encompassing whole lease blocks lying west of 87 degrees, 30 minutes West longitude, until such volume of production as determined pursuant to clause (ii) has been produced by the lessee.

"(ii) Upon submission of a complete application by the lessee, the Secretary shall determine within 180 days of such application whether new production from such lease or unit would be economic in the absence of the relief from the requirement to pay royalties provided for by clause (i) of this subparagraph. In making such determination, the Secretary shall consider the increased technological and financial risk of deep water development and all costs associated with exploring, developing, and producing from the lease. The lessee shall provide information required for a complete application to the Secretary prior to such determination. The Secretary shall clearly define the information required for a complete application under this section. Such application may be made on the basis of an individual lease or unit. If the Secretary determines that such new production would be economic in the absence of the relief from the requirement to pay royalties provided for by clause (i) of this subparagraph, the provisions of clause (i) shall not apply to such production. If the Secretary determines that such new production would not be economic in the

absence of the relief from the requirement to pay royalties provided for by clause (i), the Secretary must determine the volume of production from the lease or unit on which no royalties would be due in order to make such new production economically viable; except that for new production as defined in clause (iv)(I), in no case will that volume be less than 17.5 million barrels of oil equivalent in water depths of 200 to 400 meters, 52.5 million barrels of oil equivalent in 400 to 800 meters of water, and 87.5 million barrels of oil equivalent in water depths greater than 800 meters. Redetermination of the applicability of clause (i) shall be undertaken by the Secretary when requested by the lessee prior to the commencement of the new production and upon significant change in the factors upon which the original determination was made. The Secretary shall make such redetermination within 120 days of submission of a complete application. The Secretary may extend the time period for making any determination or redetermination under this clause for 30 days, or longer if agreed to by the applicant, if circumstances so warrant. The lessee shall be

notified in writing of any determination or redetermination and the reasons for and assumptions used for such determination. Any determination or redetermination under this clause shall be a final agency action. The Secretary's determination or redetermination shall be judicially reviewable under section 10(a) of the Administrative Procedure Act (5 U.S.C. 702), only for actions filed within 30 days of the Secretary's determination or redetermination.

''(iii) In the event that the Secretary fails to make the determination or redetermination called for in clause (ii) upon application by the lessee within the time period, together with any extension thereof, provided for by clause (ii), no royalty payments shall be due on new production as follows:

''(I) For new production, as defined in clause (iv)(I) of this subparagraph, no royalty shall be due on such production according to the schedule of minimum volumes specified in clause (ii) of this subparagraph.

''(II) For new production, as defined in clause (iv)(II) of this subparagraph, no

royalty shall be due on such production for one year following the start of such production.

"(iv) For purposes of this subparagraph, the term 'new production' is—

"(I) any production from a lease from which no royalties are due on production, other than test production, prior to the date of enactment of the Outer Continental Shelf Deep Water Royalty Relief Act; or

"(II) any production resulting from lease development activities pursuant to a Development Operations Coordination Document, or supplement thereto that would expand production significantly beyond the level anticipated in the Development Operations Coordination Document, approved by the Secretary after the date of enactment of the Outer Continental Shelf Deep Water Royalty Relief Act.

"(v) During the production of volumes determined pursuant to clauses (ii) or (iii) of this subparagraph, in any year during which the arithmetic average of the closing prices on the New York Mercantile Exchange for light sweet

crude oil exceeds $28.00 per barrel, any production of oil will be subject to royalties at the lease stipulated royalty rate. Any production subject to this clause shall be counted toward the production volume determined pursuant to clauses (ii) or (iii). Estimated royalty payments will be made if such average of the closing prices for the previous year exceeds $28.00. After the end of the calendar year, when the new average price can be calculated, lessees will pay any royalties due, with interest but without penalty, or can apply for a refund, with interest, of any overpayment.

''(vi) During the production of volumes determined pursuant to clause (ii) or (iii) of this subparagraph, in any year during which the arithmetic average of the closing prices on the New York Mercantile Exchange for natural gas exceeds $3.50 per million British thermal units, any production of natural gas will be subject to royalties at the lease stipulated royalty rate. Any production subject to this clause shall be counted toward the production volume determined pursuant to clauses (ii) or (iii). Estimated royalty payments will be made if such

average of the closing prices for the previous year exceeds $3.50. After the end of the calendar year, when the new average price can be calculated, lessees will pay any royalties due, with interest but without penalty, or can apply for a refund, with interest, of any overpayment.

"(vii) The prices referred to in clauses (v) and (vi) of this subparagraph shall be changed during any calendar year after 1994 by the percentage, if any, by which the implicit price deflator for the gross domestic product changed during the preceding calendar year.".

SEC. 5423. NEW LEASES.

Section 8(a)(1) of the Outer Continental Shelf Lands Act, as amended (43 U.S.C. 1337(a)(1)), is amended—

(1) by redesignating subparagraph (H) as subparagraph (I);

(2) by striking "or" at the end of subparagraph (G); and

(3) by inserting after subparagraph (G) the following new subparagraph:

"(H) cash bonus bid with royalty at no less than 12 and 1/2 per centum fixed by the Secretary in amount or value of production saved, removed, or sold, and with suspension of royal-

ties for a period, volume, or value of production determined by the Secretary, which suspensions may vary based on the price of production from the lease; or''.

SEC. 5424. LEASE SALES.

For all tracts located in water depths of 200 meters or greater in the Western and Central Planning Area of the Gulf of Mexico, including that portion of the Eastern Planning Area of the Gulf of Mexico encompassing whole lease blocks lying west of 87 degrees, 30 minutes West longitude, any lease sale within seven years of the date of enactment of this chapter, shall use the bidding system authorized in section 8(a)(1)(H) of the Outer Continental Shelf Lands Act, as amended by this chapter, except that the suspension of royalties shall be set at a volume of not less than the following:

(1) 17.5 million barrels of oil equivalent for leases in water depths of 200 to 400 meters;

(2) 52.5 million barrels of oil equivalent for leases in 400 to 800 meters of water; and

(3) 87.5 million barrels of oil equivalent for leases in water depths greater than 800 meters.

SEC. 5425. REGULATIONS.

The Secretary shall promulgate such rules and regulations as are necessary to implement the provisions of this chapter within 180 days after the enactment of this Act.

SEC. 5426. SAVINGS CLAUSE.

Nothing in this chapter shall be construed to affect any offshore pre-leasing, leasing, or development moratorium, including any moratorium applicable to the Eastern Planning Area of the Gulf of Mexico located off the Gulf Coast of Florida.

Subtitle C—GSA Property Sales

SEC. 6021. SALE OF GOVERNORS ISLAND, NEW YORK.

(a) IN GENERAL.—Notwithstanding any other provision of law, the Administrator of General Services shall dispose of by sale at fair market value all rights, title, and interests of the United States in and to the land of, and improvements to, Governors Island, New York.

(b) RIGHT OF FIRST REFUSAL.—Before a sale is made under subsection (a) to any other parties, the State of New York and the city of New York shall be given the right of first refusal to purchase all or part of Governors Island. Such right may be exercised by either the State of New York or the city of New York or by both parties acting jointly.

(c) PROCEEDS.—Proceeds from the disposal of Governors Island under subsection (a) shall be deposited in

the general fund of the Treasury and credited as miscellaneous receipts.

SEC. 6022. SALE OF AIR RIGHTS.

(a) IN GENERAL.—Notwithstanding any other provision of law, the Administrator of General Services shall sell, at fair market value and in a manner to be determined by the Administrator, the air rights adjacent to Washington Union Station described in subsection (b), including air rights conveyed to the Administrator under subsection (d). The Administrator shall complete the sale by such date as is necessary to ensure that the proceeds from the sale will be deposited in accordance with subsection (c).

(b) DESCRIPTION.—The air rights referred to in subsection (a) total approximately 16.5 acres and are depicted on the plat map of the District of Columbia as follows:

(1) Part of lot 172, square 720.

(2) Part of lots 172 and 823, square 720.

(3) Part of lot 811, square 717.

(c) PROCEEDS.—Before September 30, 1996, proceeds from the sale of air rights under subsection (a) shall be deposited in the general fund of the Treasury and credited as miscellaneous receipts.

(d) CONVEYANCE OF AMTRAK AIR RIGHTS.—

(1) GENERAL RULE.—As a condition of future Federal financial assistance, Amtrak shall convey to the Administrator of General Services on or before December 31, 1995, at no charge, all of the air rights of Amtrak described in subsection (b).

(2) FAILURE TO COMPLY.—If Amtrak does not meet the condition established by paragraph (1), Amtrak shall be prohibited from obligating Federal funds after March 1, 1996.

TITLE V—ENERGY AND NATURAL RESOURCES PROVISIONS

Subtitle A—Nuclear Regulatory Commission Annual Charges

SEC. 5001. NUCLEAR REGULATORY COMMISSION ANNUAL CHARGES.

Section 6101(a)(3) of the Omnibus Budget Reconciliation Act of 1990 (42 U.S.C. 2214(a)(3)) is amended by striking ''September 30, 1998'' and inserting ''September 30, 2002''.

Subtitle B—Department of Energy Assets

CHAPTER 1—UNITED STATES ENRICHMENT CORPORATION

SEC. 5410. HETCH HETCHY DAM.

Section 7 of the Act of December 13, 1913 (38 Stat. 242), is amended—

(1) By striking ''pay the sum of $30,000'' and all that follows in the first sentence and inserting ''pay an amount determined annually by the Secretary in accordance with the formula used by the Federal Energy Regulatory Commission for application to licenses of hydroelectric projects under the Federal Power Act (16 U.S.C. 791 et seq.), provided that, in no event shall such amount be less than $597,000.00. Said amount to be paid on the first day of July of each year.''.

(2) By amending the second and third sentences to read as follows: ''These funds shall be placed in a separate fund by the United States and, notwithstanding any other provision of law, shall not be available for obligation or expenditure until appropriated by Congress. The highest priority use of the funds shall be for annual operation of Yosemite National Park, with the remainder of any funds to be used to fund operations of other national parks in the State of California.''.

CHAPTER 7—POWER MARKETING ADMINISTRATIONS

Subchapter A—Bonneville Power Administration Refinancing

SEC. 5401. DEFINITIONS.

For the purposes of this subchapter—

(1) ''Administrator'' means the Administrator of the Bonneville Power Administration;

(2) ''capital investment'' means a capitalized cost funded by Federal appropriations that—

(A) is for a project, facility, or separable unit or feature of a project or facility;

(B) is a cost for which the Administrator is required by law to establish rates to repay to the United States Treasury through the sale of electric power, transmission, or other services;

(C) excludes a Federal irrigation investment; and

(D) excludes an investment financed by the current revenues of the Administrator or by bonds issued and sold, or authorized to be issued and sold, by the Administrator under section 13 of the Federal Columbia River Transmission System Act (16 U.S.C. 838k);

(3) ''new capital investment'' means a capital investment for a project, facility, or separable unit or feature of a project, facility, or separable unit or feature of a project or facility, placed in service after September 30, 1995;

(4) ''old capital investment'' means a capital investment the capitalized cost of which—

(A) was incurred, but not repaid, before October 1, 1995, and

(B) was for a project, facility, or separable unit or feature of a project or facility, placed in service before October 1, 1995;

(5) ''repayment date'' means the end of the period within which the Administrator's rates are to assure the repayment of the principal amount of a capital investment; and

(6) ''Treasury rate'' means—

(A) for an old capital investment, a rate determined by the Secretary of the Treasury, taking into consideration prevailing market yields, during the month preceding October 1, 1995, on outstanding interest-bearing obligations of the United States with periods to maturity comparable to the period between October

1, 1995, and the repayment date for the old capital investment; and

(B) for a new capital investment, a rate determined by the Secretary of the Treasury, taking into consideration prevailing market yields, during the month preceding the beginning of the fiscal year in which the related project, facility, or separable unit or feature is placed in service, on outstanding interest-bearing obligations of the United States with periods to maturity comparable to the period between the beginning of the fiscal year and the repayment date for the new capital investment.

SEC. 5402. NEW PRINCIPAL AMOUNTS.

(a) PRINCIPAL AMOUNT.—Effective October 1, 1995, an old capital investment has a new principal amount that is the sum of—

(1) the present value of the old payment amounts for the old capital investment, calculated using a discount rate equal to the Treasury rate for the old capital investment; and

(2) an amount equal to $100,000,000 multiplied by a fraction the numerator of which is the principal amount of the old payment amounts for the old capital investment and the denominator of

which is the sum of the principal amounts of the old payment amounts for all old capital investments.

(b) DETERMINATION.—With the approval of the Secretary of the Treasury, based solely on consistency with this subchapter, the Administrator shall determine the new principal amounts under this section and the assignment of interest rates to the new principal amounts under section 5403.

(c) OLD PAYMENT AMOUNT.—For the purposes of this section, ''old payment amounts'' means, for an old capital investment, the annual interest and principal that the Administrator would have paid to the United States Treasury from October 1, 1995, if this subchapter had not been enacted, assuming that—

(1) the principal were repaid—

(A) on the repayment date the Administrator assigned before October 1, 1993, to the old capital investment, or

(B) with respect to an old capital investment for which the Administrator has not assigned a repayment date before October 1, 1993, on a repayment date the Administrator shall assign to the old capital investment in accordance with paragraph 10(d)(1) of the ver-

sion of Department of Energy Order RA 6120.2 in effect on October 1, 1993; and

(2) interest were paid—

(A) at the interest rate the Administrator assigned before October 1, 1993, to the old capital investment, or

(B) with respect to an old capital investment for which the Administrator has not assigned an interest rate before October 1, 1993, at a rate determined by the Secretary of the Treasury, taking into consideration prevailing market yields, during the month preceding the beginning of the fiscal year in which the related project, facility, or separable unit or feature is placed in service, on outstanding interest-bearing obligations of the United States with periods to maturity comparable to the period between the beginning of the fiscal year and the repayment date for the old capital investment.

SEC. 5403. INTEREST RATE FOR NEW PRINCIPAL AMOUNTS.

As of October 1, 1995, the unpaid balance on the new principal amount established for an old capital investment under section 5402 bears interest annually at the Treasury rate for the old capital investment until the ear-

lier of the date that the new principal amount is repaid or the repayment date for the new principal amount.

SEC. 5404. REPAYMENT DATES.

As of October 1, 1995, the repayment date for the new principal amount established for an old capital investment under section 5402 is no earlier than the repayment date for the old capital investment assumed in section 5402(c)(1).

SEC. 5405. PREPAYMENT LIMITATIONS.

During the period October 1, 1995, through September 30, 2000, the total new principal amounts of old capital investments, as established under section 5402, that the Administrator may pay before their respective repayment dates shall not exceed $100,000,000.

SEC. 5406. INTEREST RATES FOR NEW CAPITAL INVESTMENTS DURING CONSTRUCTION.

(a) NEW CAPITAL INVESTMENT.—The principal amount of a new capital investment includes interest in each fiscal year of construction of the related project, facility, or separable unit or feature at a rate equal to the one-year rate for the fiscal year on the sum of—

(1) construction expenditures that were made from the date construction commenced through the end of the fiscal year, and

(2) accrued interest during construction.

(b) PAYMENT.—The Administrator is not required to pay, during construction of the project, facility, or separable unit or feature, the interest calculated, accrued, and capitalized under subsection (a).

(c) ONE-YEAR RATE.—For the purposes of this section, ''one-year rate'' for a fiscal year means a rate determined by the Secretary of the Treasury, taking into consideration prevailing market yields, during the month preceding the beginning of the fiscal year, on outstanding interest-bearing obligations of the United States with periods to maturity of approximately one year.

SEC. 5407. INTEREST RATES FOR NEW CAPITAL INVESTMENTS.

The unpaid balance on the principal amount of a new capital investment bears interest at the Treasury rate for the new capital investment from the date the related project, facility, or separable unit or feature is placed in service until the earlier of the date the new capital investment is repaid or the repayment date for the new capital investment.

SEC. 5408. CREDITS TO ADMINISTRATOR'S PAYMENTS TO THE UNITED STATES TREASURY.

The Confederated Tribe of the Colville Reservation Grand Coulee Dam Settlement Act (Public Law 103–436;

108 Stat. 4577) is amended by striking section 6 and inserting the following:

"SEC. 6. CREDITS TO ADMINISTRATOR'S PAYMENTS TO THE UNITED STATES TREASURY.

"So long as the Administrator makes annual payments to the tribes under the settlement agreement, the Administrator shall apply against amounts otherwise payable by the Administrator to the United States Treasury a credit that reduces the Administrator's payment in the amount and for each fiscal year as follows: $15,250,000 in fiscal year 1996; $15,860,000 in fiscal year 1997; $16,490,000 in fiscal year 1998; $17,150,000 in fiscal year 1999; $17,840,000 in fiscal year 2000; and $4,100,000 in each succeeding fiscal year.".

SEC. 5409. CONTRACT PROVISIONS.

In each contract of the Administrator that provides for the Administrator to sell electric power, transmission, or related services, and that is in effect after September 30, 1995, the Administrator shall offer to include, or as the case may be, shall offer to amend to include, provisions specifying that after September 30, 1995—

(1) the Administrator shall establish rates and charges on the basis that—

(A) the principal amount of an old capital investment shall be no greater than the new

principal amount established under section 5402;

(B) the interest rate applicable to the unpaid balance of the new principal amount of an old capital investment shall be no greater than the interest rate established under section 5403;

(C) any payment of principal of an old capital investment shall reduce the outstanding principal balance of the old capital investment in the amount of the payment at the time the payment is tendered; and

(D) any payment of interest on the unpaid balance of the new principal amount of an old capital investment shall be a credit against the appropriate interest account in the amount of the payment at the time the payment is tendered;

(2) apart from charges necessary to repay the new principal amount of an old capital investment as established under section 5402 and to pay the interest on the principal amount under section 5403, no amount may be charged for return to the United States Treasury as repayment for or return on an old capital investment, whether by way of rate, rent,

lease payment, assessment, user charge, or any other fee;

(3) amounts provided under section 1304 of title 31, United States Code, shall be available to pay, and shall be the sole source for payment of, a judgment against or settlement by the Administrator or the United States on a claim for a breach of the contract provisions required by this subchapter; and

(4) the contract provisions specified in this subchapter do not—

(A) preclude the Administrator from recovering, through rates or other means, any tax that is generally imposed on electric utilities in the United States, or

(B) affect the Administrator's authority under applicable law, including section 7(g) of the Pacific Northwest Electric Power Planning and Conservation Act (16 U.S.C. 839e(g)), to—

(i) allocate costs and benefits, including but not limited to fish and wildlife costs, to rates or resources, or

(ii) design rates.

SEC. 5410. SAVINGS PROVISIONS.

(a) REPAYMENT.—This subchapter does not affect the obligation of the Administrator to repay the principal

associated with each capital investment, and to pay interest on the principal, only from the ''Administrator's net proceeds,'' as defined in section 13(b) of the Federal Columbia River Transmission System Act (16 U.S.C. 838k(b)).

(b) PAYMENT OF CAPITAL INVESTMENT.—Except as provided in section 5405, this subchapter does not affect the authority of the Administrator to pay all or a portion of the principal amount associated with a capital investment before the repayment date for the principal amount.

Subchapter B—Alaska Power Marketing Administration Sale

SEC. 5411. SHORT TITLE.

This subchapter may be cited as the ''Alaska Power Administration Asset Sale and Termination Act''.

SEC. 5412. DEFINITIONS.

For purposes of this subchapter:

(1) The term ''Eklutna'' means Eklutna Hydroelectric Project and related assets as described in section 4 and Exhibit A of the Eklutna Purchase Agreement.

(2) The term ''Eklutna Purchase Agreement'' means the August 2, 1989, Eklutna Purchase Agreement between the Alaska Power Administration of the Department of Energy and the Eklutna

Purchasers, together with any amendments thereto adopted before the date of enactment of this Act.

(3) The term ''Eklutna Purchasers'' means the Municipality of Anchorage doing business as Municipal Light and Power, the Chugach Electric Association, Inc. and the Matanuska Electric Association, Inc.

(4) The term ''Snettisham'' means the Snettisham Hydroelectric Project and related assets as described in section 4 and Exhibit A of the Snettisham Purchase Agreement.

(5) The term ''Snettisham Purchase Agreement'' means the February 10, 1989, Snettisham Purchase Agreement between the Alaska Power Administration of the Department of Energy and the Alaska Power Authority and its successors in interest, together with any amendments thereto adopted before the date of enactment of this Act.

(6) The term ''Snettisham Purchaser'' means the Alaska Industrial Development and Export Authority or a successor State agency or authority.

SEC. 5413. SALE OF EKLUTNA AND SNETTISHAM HYDROELECTRIC PROJECTS.

CHAPTER 11—PARK ENTRANCE FEES

SEC. 5451. FEES.

(a) ADMISSION FEES.—Section 4(a) of the Land and Water Conservation Fund Act of 1965 (16 U.S.C. 460*l*–6a(a)) is amended—

(1) in the first sentence of the subsection by striking ''no more than 21'';

(2) in the first sentence of paragraph (1)(A)(i) by striking ''$25'' and inserting ''$50'';

(3) in the second sentence of paragraph (1)(B) by striking ''$15'' and inserting ''$25'';

(4) in paragraph (2) by striking the fourth, fifth, and sixth sentences and inserting ''The fee for a single-visit permit at any designated area shall be collected on a per person basis, not to exceed $6 per person, including for persons entering by private, noncommercial vehicle.'';

(5) in paragraph (3)—

(A) in the third sentence by inserting ''Great'' before ''Smoky''; and

(B) by striking the last sentence;

(6) in paragraph (4)—

(A) by striking the second sentence and inserting ''Such permit shall be nontransferable,

shall be issued for a one-time charge, which shall be set at the same rate as the fee for a Golden Eagle Passport, and shall entitle the permittee to free admission into any area designated pursuant to this subsection.''; and

(B) by striking the third sentence and inserting ''No fees of any kind shall be collected from any persons who have a right of access for hunting or fishing privileges under a specific provision of law or treaty or who are engaged in the conduct of official Federal, State, or local government business.'';

(7) by striking paragraph (5) and inserting the following:

''(5) The Secretary of the Interior and the Secretary of Agriculture shall establish procedures providing for the issuance of a lifetime admission permit to any citizen of, or person legally domiciled in, the United States, if such citizen or person applies for such permit and is permanently disabled. Such procedures shall ensure that a lifetime admission permit shall be issued only to persons who have been medically determined to be permanently disabled. A lifetime admission permit shall be nontransferable, shall be issued without charge, and shall entitle the

permittee and one accompanying individual to general admission into any area designated pursuant to this subsection, notwithstanding the method of travel.'';

(8) by striking paragraph (9) and by redesignating paragraph (10) as paragraph (9)'';

(9) by striking all but the last sentence of paragraph (11) and redesignating paragraph (11) as paragraph (10); and

(10) by redesignating paragraph (12) as paragraph (11).

(b) RECREATION FEES.—Section 4 of the Land and Water Conservation Fund Act of 1965 (16 U.S.C. 460*l*–6a) is amended by striking subsection (b) and inserting the following:

''(b) RECREATION USE FEES.—Each agency developing, administering, providing, or furnishing at Federal expense services for such activities as camping, including, but not limited to, back country camping under permit, guarded swimming sites, boat launch facilities, managed parking lots, motorized recreation use and other recreation uses, is authorized, in accordance with this section to provide for the collection of recreation use fees at the place of use or any reasonably convenient location. The admin-

istering Secretary may establish both daily and annual recreation use fees.''.

(c) CRITERIA, POSTING AND UNIFORMITY OF FEES.—Section 4(d) of the Land and Water Conservation Fund Act of 1965 (16 U.S.C. 460*l*–6a(d)) is amended in the first sentence by striking ''recreation fees charged by non-Federal public agencies,'' and inserting ''fees charged by other public and private entities,''.

(d) PENALTY.—Section 4(e) of the Land and Water Conservation Fund Act of 1965 (16 U.S.C. 460*l*–6a(e)) is amended by striking ''of not more than $100.'' and inserting ''as provided by law.''.

(e) TECHNICAL AMENDMENTS.—Section 4(h) of the Land and Water Conservation Fund Act of 1965 (16 U.S.C. 460*l*–6a(h)) is amended—

(1) by striking ''Bureau of Outdoor Recreation'' and inserting ''National Park Service'';

(2) by striking ''Natural Resources'' and inserting ''Resources''; and

(3) by striking ''Bureau'' and inserting ''National Park Service''.

(f) USE OF FEES.—Section 4(i) of the Land and Water Conservation Fund Act of 1965 (16 U.S.C. 460*l*–6a(i)) is amended—

(1) in the first sentence of paragraph (1)(B) by striking ''fee collection costs for that fiscal year'' and inserting ''fee collection costs for the immediately preceding fiscal year'' and by striking ''section in that fiscal year'' and inserting ''section in such immediately preceding fiscal year'';

(2) in the second sentence of subparagraph (B) by striking ''in that fiscal year''; and

(3) by striking paragraph (4) and inserting the following:

''(4) Amounts covered into the special account for the National Park Service shall be allocated among park system units in accordance with subsection (j) for obligation or expenditure by the Director of the National Park Service for park operations.''.

(g) TIME OF REIMBURSEMENT.—Section 4(k) of the Land and Water Conservation Fund Act of 1965 (16 U.S.C. 460*l*–6a(k)) is amended by striking the last sentence.

(h) COMMERCIAL TOUR USE FEES.—Section 4(n) of the Land and Water Conservation Fund Act of 1965 (16 U.S.C. 460*l*–6a(n)) is amended—

(1) by striking the first sentence of paragraph (1) and inserting ''In the case of each unit of the

National Park System for which an admission fee is charged under this section, the Secretary of the Interior shall establish, by October 1, 1996, a commercial tour use fee in lieu of a per person admission fee to be imposed on each vehicle entering the unit for the purpose of providing commercial tour services within the unit.''; and

(2) by striking the period at the end of paragraph (3) and inserting '', with written notification of such adjustments provided to commercial tour operators 12 months in advance of implementation.''.

(i) CONFORMING AMENDMENTS.—

(1) Title I of the Department of the Interior and Related Agencies Appropriations Act, 1994, is amended by striking the second proviso under the heading ''ADMINISTRATIVE PROVISIONS'' under the heading ''NATIONAL PARK SERVICE'' (related to recovery of costs associated with special use permits).

(2) Section 3 of the Act entitled ''An Act creating the Mount Rushmore National Memorial Commission and defining its purposes and powers'', approved February 25, 1929 (45 Stat. 1300, chapter 315), is amended by striking the last sentence.

(3) Section 5 of Public Law 87–657 (16 U.S.C. 459c–5), is amended by striking subsection (e).

(4) Section 3 of Public Law 87–750 (16 U.S.C. 398e) is amended by striking subsection (b).

(5) Section 4(e) of Public Law 92–589 (16 U.S.C. 460bb–3) is amended by striking the first sentence.

(6) Section 6 of Public Law 95–348 (16 U.S.C. 410dd) is amended by striking subsection (j).

(7) Section 207 of Public Law 96–199 (16 U.S.C. 410ff–6) is repealed.

(8) Section 106 of Public Law 96–287 (16 U.S.C. 410gg–5) is amended by striking the last sentence.

(9) Section 204 of Public Law 96–287 (94 Stat. 601) is amended by striking the last sentence.

(10) Section 5 of Public Law 96–428 (94 Stat. 1842; 16 U.S.C. 461 note) is repealed.

(11) Public Law 100–55 (101 Stat. 371; U.S.C. 460l–6a note) is repealed.

SEC. 5452. COVERING OF INCREASED FEE REVENUES INTO SPECIAL ACCOUNTS.

Of the funds deposited in special accounts in the Treasury for the National Park Service, Bureau of Land Management, and Forest Service as set forth in section 4(i) of the Land and Water Conservation Fund Act of 1965 (16 U.S.C. 460l–6a(i)), beginning in fiscal year

1997, 80 percent of all receipts earned in the previous year in excess of the following amounts for each covered agency shall be made available to that agency without further appropriation:

(1) National Park System:

(A) $82,000,000 for fiscal year 1997.

(B) $85,000,000 for fiscal year 1998.

(C) $88,000,000 for fiscal year 1999.

(D) $91,000,000 for fiscal year 2000.

(E) $94,000,000 for fiscal year 2001.

(F) $97,000,000 for fiscal year 2002.

(G) $100,000,000 for fiscal year 2003.

(2) Bureau of Land Management:

(A) $4,500,000 for fiscal year 1997.

(B) $5,000,000 for fiscal year 1998.

(C) $5,000,000 for fiscal year 1999.

(D) $5,000,000 for fiscal year 2000.

(E) $5,000,000 for fiscal year 2001.

(F) $5,000,000 for fiscal year 2002.

(G) $5,000,000 for fiscal year 2003.

(3) Forest Service:

(A) $20,000,000 for fiscal year 1997.

(B) $20,600,000 for fiscal year 1998.

(C) $21,200,000 for fiscal year 1999.

(D) $21,900,000 for fiscal year 2000.

(E) $22,500,000 for fiscal year 2001.

(F) $23,600,000 for fiscal year 2002.

(G) $24,300,000 for fiscal year 2003.

SEC. 5453. ALLOCATION AND USE OF FEES.

(a) ALLOCATION.—Beginning in fiscal year 1997, receipts above the amounts stated in section 5454 in each covered agency's special account from the previous fiscal year shall be allocated as follows:

(1) Seventy-five percent shall be allocated among the units or areas of each affected agency in the same proportion as fees collected pursuant to section 4 of the Land and Water Conservation Fund Act of 1965 (16 U.S.C. 460l–6a) from a specific unit or area bear to the total amount of such fees collected from all units or areas of the same covered agency for each fiscal year.

(2) Twenty-five percent shall be allocated among each covered agency's units or areas on the basis of need, as determined by the Secretary.

(b) USE.—Expenditures from the special accounts shall be used solely for infrastructure related to visitor use and annual operating expenses related to visitor services at units or areas of the covered agencies.

Subtitle F—National Defense Stockpile

SEC. 12601. DISPOSAL OF CERTAIN MATERIALS IN NATIONAL DEFENSE STOCKPILE FOR DEFICIT REDUCTION.

(a) DISPOSALS REQUIRED.—(1) During fiscal year 1996, the President shall dispose of all cobalt contained in the National Defense Stockpile that, as of the date of the enactment of this Act, is authorized for disposal under any law (other than this Act).

(2) In addition to the disposal of cobalt under paragraph (1), the President shall dispose of additional quantities of cobalt and quantities of other materials contained in the National Defense Stockpile and specified in the table in subsection (b) so as to result in receipts to the United States in amounts equal to—

(A) $21,000,000 during the fiscal year ending September 30, 1996;

(B) $338,000,000 during the five-fiscal year period ending on September 30, 2000; and

(C) $649,000,000 during the seven-fiscal year period ending on September 30, 2002.

(b) LIMITATION ON DISPOSAL QUANTITY.—The total quantities of materials authorized for disposal by the President under subsection (a)(2) may not exceed the amounts set forth in the following table:

AUTHORIZED STOCKPILE DISPOSALS

Material for disposal	Quantity
Aluminum	62,881 short tons.
Cobalt	30,000,000 pounds contained.
Columbium Ferro	930,911 pounds contained.
Germanium Metal	40,000 kilograms.
Indium	35,000 troy ounces.
Palladium	15,000 troy ounces.
Platinum	10,000 troy ounces.
Rubber, Natural	125,138 long tons.
Tantalum, Carbide Powder	6,000 pounds contained.
Tantalum, Minerals	750,000 pounds contained.
Tantalum, Oxide	40,000 pounds contained.

(c) DEPOSIT OF RECEIPTS.—Notwithstanding section 9 of the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98h), funds received as a result of the disposal of materials under subsection (a)(2) shall be deposited into the general fund of the Treasury for the purpose of deficit reduction.

(d) RELATIONSHIP TO OTHER DISPOSAL AUTHORITY.—The disposal authority provided in subsection (a)(2) is new disposal authority and is in addition to, and shall not affect, any other disposal authority provided by law regarding the materials specified in such subsection.

(e) TERMINATION OF DISPOSAL AUTHORITY.—The President may not use the disposal authority provided in subsection (a)(2) after the date on which the total amount of receipts specified in subparagraph (C) of such subsection is achieved.

(f) DEFINITION.—The term ''National Defense Stockpile'' means the National Defense Stockpile provided

for in section 4 of the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98c).

SEC. 9002. EXTENSION OF HIGHER VESSEL TONNAGE DUTIES.

(a) EXTENSION OF DUTIES.—Section 36 of the Act of August 5, 1909 (36 Stat. 111; 46 U.S.C. App. 121), is amended by striking ''for fiscal years 1991, 1992, 1993, 1994, 1995, 1996, 1997, 1998,'' each place it appears and inserting ''for fiscal years through fiscal year 2002,''.

(b) CONFORMING AMENDMENT.—The Act entitled ''An Act concerning tonnage duties on vessels entering otherwise than the sea'', approved March 8, 1910 (36 Stat. 234; 46 U.S.C. App. 132), is amended by striking ''for fiscal years 1991, 1992, 1993, 1994, 1995, 1996, 1997, and 1998,'' and inserting ''fiscal years through fiscal year 2002,''.

SEC. 9003. FEMA RADIOLOGICAL EMERGENCY PREPAREDNESS FEES.

(a) IN GENERAL.—The Director of the Federal Emergency Management Agency may assess and collect fees applicable to persons subject to radiological emergency preparedness regulations issued by the Director.

(b) REQUIREMENTS.—The assessment and collection of fees by the Director under subsection (a) shall be fair and equitable and shall reflect the full amount of costs

to the Agency of providing radiological emergency planning, preparedness, response, and associated services. Such fees shall be assessed by the Director in a manner that reflects the use of resources of the Agency for classes of regulated persons and the and the administrative costs of collecting such fees.

(c) AMOUNT OF FEES.—The aggregate amount of fees assessed under subsection (a) in a fiscal year shall approximate but not be less than, 100 percent of the amounts anticipated by the Director to be obligated for the radiological emergency preparedness program of the Agency for such fiscal year.

(d) DEPOSIT OF FEES IN TREASURY.—Fees received pursuant to subsection (a) shall be deposited in the general fund of the Treasury as offsetting receipts.

(e) EXPIRATION OF AUTHORITY.—The authority of the Director to assess and collect fees under subsection (a) shall expire on September 30, 2002.

SEC. 6011. PATENT AND TRADEMARK FEES.

Section 10101 of the Omnibus Budget Reconciliation Act of 1990 (35 U.S.C. 41 note) is amended—

(1) in subsection (a) by striking ''1998'' and inserting ''2002'';

(2) in subsection (b)(2) by striking ''1998'' and inserting ''2002''; and

(3) in subsection (c)—

(A) by striking ''through 1998'' and inserting ''through 2002''; and

(B) by adding at the end the following:

''(9) $119,000,000 in fiscal year 1999.

''(10) $119,000,000 in fiscal year 2000.

''(11) $119,000,000 in fiscal year 2001.

''(12) $119,000,000 in fiscal year 2002.''.

CHAPTER 6—DISCLOSURE OF RETURN INFORMATION FOR ADMINISTRATION OF CERTAIN VETERANS PROGRAMS

SEC. 11161. DISCLOSURE OF RETURN INFORMATION FOR ADMINISTRATION OF CERTAIN VETERANS PROGRAMS.

(a) GENERAL RULE.—Subparagraph (D) of section 6103(l)(7) (relating to disclosure of return information to Federal, State, and local agencies administering certain programs) is amended by striking ''Clause (viii) shall not apply after September 30, 1998.'' and inserting ''Clause (viii) shall not apply after September 30, 2002.''

(b) EFFECTIVE DATE.—The amendment made by section (a) shall take effect on the date of the enactment of this Act.

Subtitle F—Taxpayer Bill of Rights 2 Provisions

SEC. 11201. EXPANSION OF AUTHORITY TO ABATE INTEREST.

(a) GENERAL RULE.—Paragraph (1) of section 6404(e) (relating to abatement of interest in certain cases) is amended—

(1) by inserting ''unreasonable'' before ''error'' each place it appears in subparagraphs (A) and (B), and

(2) by striking ''in performing a ministerial act'' each place it appears and inserting ''in performing a ministerial or managerial act''.

(b) CLERICAL AMENDMENT.—The subsection heading for subsection (e) of section 6404 is amended—

(1) by striking ''ASSESSMENT'' and inserting ''ABATEMENT'', and

(2) by inserting ''UNREASONABLE'' before ''ERRORS''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to interest accruing with respect to deficiencies or payments for taxable years beginning after the date of the enactment of this Act.

SEC. 11202. EXTENSION OF INTEREST-FREE PERIOD FOR PAYMENT OF TAX AFTER NOTICE AND DEMAND.

(a) GENERAL RULE.—Paragraph (3) of section 6601(e) (relating to payments made within 10 days after notice and demand) is amended to read as follows:

SEC 6105. DENIAL OF UNEMPLOYMENT INSURANCE TO INDIVIDUALS WHO VOLUNTARILY LEAVE MILITARY SERVICE.

(a) GENERAL RULE.—Paragraph (1) of section 8521(a) of title 5, United State Code, is amended to read as follows:

"(1) 'Federal service' means active service (not including active duty in a reserve status unless for a continuous period of 45 days or more) in the armed forces or the commissioned corps of the National Oceanic and Atmospheric Administration if with respect to that service the individual—

"(A) was discharged or released under honorable conditions,

"(B) did not resign or voluntarily leave the service, and

"(C) was not discharged or released for cause as defined by the Secretary of Defense;".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply in the case of a discharge or release after the date of the enactment of this Act.

TITLE IX—LIMITATIONS ON CORPORATE WELFARE AND OTHER REVENUE PROVISIONS

SEC. ____001. AMENDMENT OF 1986 CODE.

Except as otherwise expressly provided, whenever in this title an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to such section or other provision of the Internal Revenue Code of 1986.

SEC. ____002. TABLE OF CONTENTS.

The table of contents for this title is as follows:

TITLE ____—LIMITATIONS ON CORPORATE WELFARE AND OTHER REVENUE PROVISIONS

Sec. ____001. Amendment of 1986 Code.
Sec. ____002. Table of contents.

Subtitle A—Expatriation

Sec. ____101. Revision of tax rules on expatriation.
Sec. ____102. Information on individuals expatriating.

Subtitle B—Corporate Reforms

Sec. ____201. Tax treatment of certain extraordinary dividends.
Sec. ____202. Registration of confidential corporate tax shelters.
Sec. ____203. Denial of deduction for interest on loans with respect to company-owned insurance.
Sec. ____204. Termination of suspense accounts for family corporations required to use accrual method of accounting.
Sec. ____205. Modifications of Puerto Rico and possessions tax credit.

Sec. ____206. Personal property used predominantly in the United States treated as not property of a like kind with respect to property used predominantly outside the United States.
Sec. ____207. Repeal of financial institution transition rule to interest allocation rules.
Sec. ____208. Conversion of large corporations into S corporations treated as complete liquidation.
Sec. ____209. Modification of taxable years to which net operating losses may be carried.
Sec. ____210. Constructive sales treatment for appreciated financial positions.
Sec. ____211. Modification of rules for allocating interest expense to tax-exempt interest.
Sec. ____212. Reduction of 70 percent dividends received deduction to 50 percent.
Sec. ____213. Modification of holding period applicable to dividends received deduction.
Sec. ____214. Certain preferred stock treated as boot.
Sec. ____215. Denial of interest deductions on certain debt instruments.
Sec. ____216. Deferral of deduction for interest on convertible debt until payment.

Subtitle C—Foreign Provisions

Part I—Foreign Trusts

Sec. ____301. Improved information reporting on foreign trusts.
Sec. ____302. Modifications of rules relating to foreign trusts having one or more United States beneficiaries.
Sec. ____303. Foreign persons not to be treated as owners under grantor trust rules.
Sec. ____304. Information reporting regarding foreign gifts.
Sec. ____305. Modification of rules relating to foreign trusts which are not grantor trusts.
Sec. ____306. Residence of estates and trusts, etc.

Part II—Other Foreign Provisions

Sec. ____311. Definition of foreign personal holding company income.
Sec. ____312. Treatment of foreign oil and gas extraction income.
Sec. ____313. Limitation on exclusion of earned income of citizens or residents of the United States living abroad.

Subtitle D—Accounting Provisions

Sec. ____401. Repeal of bad debt reserve method for thrift savings associations.
Sec. ____402. Depreciation under income forecast method.
Sec. ____403. Repeal of lower-of-cost-or-market method of accounting for inventories.

Subtitle E—Administrative Provisions

Sec. ____501. Repeal of diesel fuel tax rebate to purchasers of diesel-powered automobiles and light trucks.
Sec. ____502. Increased information reporting penalties.

Subtitle F—Casualty and Involuntary Conversion Provisions

Sec. ____601. Basis adjustment to property held by corporation where stock in corporation is replacement property under involuntary conversion rules.

Subtitle G—Excise Tax on Amounts of Private Excess Benefits

Sec. ____701. Excise taxes for failure by certain charitable organizations to meet certain qualification requirements.
Sec. ____702. Reporting of certain excise taxes and other information.
Sec. ____703. Increase in penalties on exempt organizations for failure to file complete and timely annual returns.

Subtitle H—Extension of Certain Taxes

Sec. ____801. Extension of hazardous substance Superfund taxes.
Sec. ____802. Extension of oil spill liability tax.
Sec. ____803. Extension of Federal unemployment tax.

Subtitle I—Provisions Relating To Individuals

Sec. ____851. No rollover or exclusion of gain on sale of principal residence which is attributable to depreciation deductions.
Sec. ____852. Extension of withholding to certain gambling winnings.
Sec. ____853. Repeal of special rule for rental use of vacation homes, etc., for less than 15 days.

Subtitle J—Reform of Earned Income Credit

Sec. ____901. Earned income credit denied to individuals not authorized to be employed in the United States.
Sec. ____902. Rules relating to denial of earned income credit on basis of disqualified income.

Subtitle A—Expatriation

SEC. ____101. REVISION OF TAX RULES ON EXPATRIATION.

(a) IN GENERAL.—Subpart A of part II of subchapter N of chapter 1 is amended by inserting after section 877 the following new section:

"SEC. 877A. TAX RESPONSIBILITIES OF EXPATRIATION.

"(a) GENERAL RULES.—For purposes of this subtitle—

"(1) MARK TO MARKET.—Except as provided in subsection (f), all property of a covered expatriate to

which this section applies shall be treated as sold on the expatriation date for its fair market value.

"(2) RECOGNITION OF GAIN OR LOSS.—In the case of any sale under paragraph (1)—

"(A) notwithstanding any other provision of this title, any gain arising from such sale shall be taken into account for the taxable year of the sale unless such gain is excluded from gross income under part III of subchapter B, and

"(B) any loss arising from such sale shall be taken into account for the taxable year of the sale to the extent otherwise provided by this title, except that section 1091 shall not apply (and section 1092 shall apply) to any such loss.

"(3) EXCLUSION FOR CERTAIN GAIN.—The amount which would (but for this paragraph) be includible in the gross income of any individual by reason of this section shall be reduced (but not below zero) by $600,000. For purposes of this paragraph, allocable expatriation gain taken into account under subsection (f)(2) shall be treated in the same manner as an amount required to be includible in gross income.

"(4) ELECTION TO CONTINUE TO BE TAXED AS UNITED STATES CITIZEN.—

"(A) IN GENERAL.—If an expatriate elects the application of this paragraph—

"(i) this section (other than this paragraph) shall not apply to the expatriate, but

"(ii) the expatriate shall be subject to tax under this title, with respect to property to which this section would apply but for such election, in the same manner as if the individual were a United States citizen.

"(B) LIMITATION ON AMOUNT OF ESTATE, GIFT, AND GENERATION-SKIPPING TRANSFER TAXES.—The aggregate amount of taxes imposed under subtitle B with respect to any transfer of property by reason of an election under subparagraph (A) shall not exceed the amount of income tax which would be due if the property were sold for its fair market value immediately before the time of the transfer or death (taking into account the rules of paragraph (2)).

"(C) REQUIREMENTS.—Subparagraph (A) shall not apply to an individual unless the individual—

"(i) provides security for payment of tax in such form and manner, and in such amount, as the Secretary may require,

"(ii) consents to the waiver of any right of the individual under any treaty of the United States which would preclude assessment or collection of any tax which may be imposed by reason of this paragraph, and

"(iii) complies with such other requirements as the Secretary may prescribe.

"(D) ELECTION.—An election under subparagraph (A) shall apply to all property to which this section would apply but for the election and, once made, shall be irrevocable. Such election shall also apply to property the basis of which is determined in whole or in part by reference to the property with respect to which the election was made.

"(b) ELECTION TO DEFER TAX.—

"(1) IN GENERAL.—If the taxpayer elects the application of this subsection with respect to any property—

"(A) no amount shall be required to be included in gross income under subsection (a)(1) with respect to the gain from such property for the taxable year of the sale, but

"(B) the taxpayer's tax for the taxable year in which such property is disposed of shall be increased by the deferred tax amount with respect to the property.

Except to the extent provided in regulations, subparagraph (B) shall apply to a disposition whether or not gain or loss is recognized in whole or in part on the disposition.

"(2) DEFERRED TAX AMOUNT.—

"(A) IN GENERAL.—For purposes of paragraph (1), the term 'deferred tax amount' means, with respect to any property, an amount equal to the sum of—

"(i) the difference between the amount of tax paid for the taxable year described in paragraph (1)(A) and the amount which would have been paid for such taxable year if the election under

paragraph (1) had not applied to such property, plus

"(ii) an amount of interest on the amount described in clause (i) determined for the period—

"(I) beginning on the 91st day after the expatriation date, and

"(II) ending on the due date for the taxable year described in paragraph (1)(B),

by using the rates and method applicable under section 6621 for underpayments of tax for such period.

For purposes of clause (ii), the due date is the date prescribed by law (determined without regard to extension) for filing the return of the tax imposed by this chapter for the taxable year.

"(B) ALLOCATION OF LOSSES.—For purposes of subparagraph (A), any losses described in subsection (a)(2)(B) shall be allocated ratably among the gains described in subsection (a)(2)(A).

"(3) SECURITY.—

"(A) IN GENERAL.—No election may be made under paragraph (1) with respect to any property unless adequate security is provided with respect to such property.

"(B) ADEQUATE SECURITY.—For purposes of subparagraph (A), security with respect to any property shall be treated as adequate security if—

"(i) it is a bond in an amount equal to the deferred tax amount under paragraph (2)(A) for the property, or

"(ii) the taxpayer otherwise establishes to the satisfaction of the Secretary that the security is adequate.

"(4) WAIVER OF CERTAIN RIGHTS.—No election may be made under paragraph (1) unless the taxpayer consents to the waiver of any right under any treaty of the United States which would preclude assessment or collection of any tax imposed by reason of this section.

"(5) DISPOSITIONS.—For purposes of this subsection, a taxpayer making an election under this subsection with respect to any property shall be treated as having disposed of such property—

"(A) immediately before death if such property is held at such time, and

"(B) at any time the security provided with respect to the property fails to meet the requirements of paragraph (3) and the taxpayer does not correct such failure within the time specified by the Secretary.

"(6) ELECTIONS.—An election under paragraph (1) shall only apply to property described in the election and, once made, is irrevocable. An election may be under paragraph (1) with respect to an interest in a trust with respect to which gain is required to be recognized under subsection (f)(1).

"(c) COVERED EXPATRIATE.—For purposes of this section—

"(1) IN GENERAL.—The term 'covered expatriate' means an expatriate—

"(A) whose average annual net income tax (as defined in section 38(c)(1)) for the period of 5 taxable years ending before the expatriation date is greater than $100,000, or

"(B) whose net worth as of such date is $500,000 or more.

If the expatriation date is after 1996, such $100,000 and $500,000 amounts shall be increased

by an amount equal to such dollar amount multiplied by the cost-of-living adjustment determined under section 1(f)(3) for such calendar year by substituting '1995' for '1992' in subparagraph (B) thereof. Any increase under the preceding sentence shall be rounded to the nearest multiple of $1,000.

"(2) EXCEPTIONS.—An individual shall not be treated as a covered expatriate if—

"(A) the individual—

"(i) became at birth a citizen of the United States and a citizen of another country and, as of the expatriation date, continues to be a citizen of, and is taxed as a resident of, such other country, and

"(ii) has been a resident of the United States (as defined in section 7701(b)(1)(A)(ii)) for not more than 8 taxable years during the 15-taxable year period ending with the taxable year during which the expatriation date occurs, or

"(B)(i) the individual's relinquishment of United States citizenship occurs before such individual attains age 18½, and

"(ii) the individual has been a resident of the United States (as so defined) for not more

than 5 taxable years before the date of relinquishment.

"(d) PROPERTY TO WHICH SECTION APPLIES.—For purposes of this section—

"(1) IN GENERAL.—Except as otherwise provided by the Secretary, this section shall apply to—

"(A) any interest in property held by a covered expatriate on the expatriation date the gain from which would be includible in the gross income of the expatriate if such interest had been sold for its fair market value on such date in a transaction in which gain is recognized in whole or in part, and

"(B) any other interest in a trust to which subsection (f) applies.

"(2) EXCEPTIONS.—This section shall not apply to the following property:

"(A) UNITED STATES REAL PROPERTY INTERESTS.—Any United States real property interest (as defined in section 897(c)(1)), other than stock of a United States real property holding corporation which does not, on the expatriation date, meet the requirements of section 897(c)(2).

"(B) INTEREST IN CERTAIN RETIREMENT PLANS.—

"(i) IN GENERAL.—Any interest in a qualified retirement plan (as defined in section 4974(c)), other than any interest attributable to contributions which are in excess of any limitation or which violate any condition for tax-favored treatment.

"(ii) FOREIGN PENSION PLANS.—

"(I) IN GENERAL.—Under regulations prescribed by the Secretary, interests in foreign pension plans or similar retirement arrangements or programs.

"(II) LIMITATION.—The value of property which is treated as not sold by reason of this subparagraph shall not exceed $500,000.

"(e) DEFINITIONS.—For purposes of this section—

"(1) EXPATRIATE.—The term 'expatriate' means—

"(A) any United States citizen who relinquishes his citizenship, or

"(B) any long-term resident of the United States who—

"(i) ceases to be a lawful permanent resident of the United States (within the meaning of section 7701(b)(6)), or

"(ii) commences to be treated as a resident of a foreign country under the provisions of a tax treaty between the United States and the foreign country and who does not waive the benefits of such treaty applicable to residents of the foreign country.

"(2) EXPATRIATION DATE.—The term 'expatriation date' means—

"(A) the date an individual relinquishes United States citizenship, or

"(B) in the case of a long-term resident of the United States, the date of the event described in clause (i) or (ii) of paragraph (1)(B).

"(3) RELINQUISHMENT OF CITIZENSHIP.—A citizen shall be treated as relinquishing his United States citizenship on the earliest of—

"(A) the date the individual renounces his United States nationality before a diplomatic or consular officer of the United States pursuant to paragraph (5) of section 349(a) of the Immi-

gration and Nationality Act (8 U.S.C. 1481(a)(5)),

"(B) the date the individual furnishes to the United States Department of State a signed statement of voluntary relinquishment of United States nationality confirming the performance of an act of expatriation specified in paragraph (1), (2), (3), or (4) of section 349(a) of the Immigration and Nationality Act (8 U.S.C. 1481(a)(1)–(4)),

"(C) the date the United States Department of State issues to the individual a certificate of loss of nationality, or

"(D) the date a court of the United States cancels a naturalized citizen's certificate of naturalization.

Subparagraph (A) or (B) shall not apply to any individual unless the renunciation or voluntary relinquishment is subsequently approved by the issuance to the individual of a certificate of loss of nationality by the United States Department of State.

"(4) LONG-TERM RESIDENT.—

"(A) IN GENERAL.—The term 'long-term resident' means any individual (other than a citizen of the United States) who is a lawful

permanent resident of the United States in at least 8 taxable years during the period of 15 taxable years ending with the taxable year during which the expatriation date occurs. For purposes of the preceding sentence, an individual shall not be treated as a lawful permanent resident for any taxable year if such individual is treated as a resident of a foreign country for the taxable year under the provisions of a tax treaty between the United States and the foreign country and does not waive the benefits of such treaty applicable to residents of the foreign country.

"(B) SPECIAL RULE.—For purposes of subparagraph (A), there shall not be taken into account—

"(i) any taxable year during which any prior sale is treated under subsection (a)(1) as occurring, or

"(ii) any taxable year prior to the taxable year referred to in clause (i).

"(f) SPECIAL RULES APPLICABLE TO BENEFICIARIES' INTERESTS IN TRUST.—

"(1) IN GENERAL.—Except as provided in paragraph (2), if an individual is determined under paragraph (3) to hold an interest in a trust—

"(A) the individual shall not be treated as having sold such interest,

"(B) such interest shall be treated as a separate share in the trust, and

"(C)(i) such separate share shall be treated as a separate trust consisting of the assets allocable to such share,

"(ii) the separate trust shall be treated as having sold its assets immediately before the expatriation date for their fair market value and as having distributed all of its assets to the individual as of such time, and

"(iii) the individual shall be treated as having recontributed the assets to the separate trust.

Subsection (a)(2) shall apply to any income, gain, or loss of the individual arising from a distribution described in subparagraph (C)(ii).

"(2) SPECIAL RULES FOR INTERESTS IN QUALIFIED TRUSTS.—

"(A) IN GENERAL.—If the trust interest described in paragraph (1) is an interest in a qualified trust—

"(i) paragraph (1) and subsection (a) shall not apply, and

"(ii) in addition to any other tax imposed by this title, there is hereby imposed on each distribution with respect to such interest a tax in the amount determined under subparagraph (B).

"(B) AMOUNT OF TAX.—The amount of tax under subparagraph (A)(ii) shall be equal to the lesser of—

"(i) the highest rate of tax imposed by section 1(e) for the taxable year in which the expatriation date occurs, multiplied by the amount of the distribution, or

"(ii) the balance in the deferred tax account immediately before the distribution determined without regard to any increases under subparagraph (C)(ii) after the 30th day preceding the distribution.

"(C) DEFERRED TAX ACCOUNT.—For purposes of subparagraph (B)(ii)—

"(i) OPENING BALANCE.—The opening balance in a deferred tax account with respect to any trust interest is an amount equal to the tax which would have been imposed on the allocable expatriation gain with respect to the trust interest if such gain had been included in gross income under subsection (a).

"(ii) INCREASE FOR INTEREST.—The balance in the deferred tax account shall be increased by the amount of interest determined (on the balance in the account at the time the interest accrues), for periods after the 90th day after the expatriation date, by using the rates and method applicable under section 6621 for underpayments of tax for such periods.

"(iii) DECREASE FOR TAXES PREVIOUSLY PAID.—The balance in the tax deferred account shall be reduced—

"(I) by the amount of taxes imposed by subparagraph (A) on any distribution to the person holding the trust interest, and

"(II) in the case of a person holding a nonvested interest, to the extent provided in regulations, by the amount of taxes imposed by subparagraph (A) on distributions from the trust with respect to nonvested interests not held by such person.

"(D) ALLOCABLE EXPATRIATION GAIN.—For purposes of this paragraph, the allocable expatriation gain with respect to any beneficiary's interest in a trust is the amount of gain which would be allocable to such beneficiary's vested and nonvested interests in the trust if the beneficiary held directly all assets allocable to such interests.

"(E) TAX DEDUCTED AND WITHHELD.—

"(i) IN GENERAL.—The tax imposed by subparagraph (A)(ii) shall be deducted and withheld by the trustees from the distribution to which it relates.

"(ii) EXCEPTION WHERE FAILURE TO WAIVE TREATY RIGHTS.—If an amount may not be deducted and withheld under clause (i) by reason of the distributee fail-

ing to waive any treaty right with respect to such distribution—

"(I) the tax imposed by subparagraph (A)(ii) shall be imposed on the trust and each trustee shall be personally liable for the amount of such tax, and

"(II) any other beneficiary of the trust shall be entitled to recover from the distributee the amount of such tax imposed on the other beneficiary.

"(F) DISPOSITION.—If a trust ceases to be a qualified trust at any time, a covered expatriate disposes of an interest in a qualified trust, or a covered expatriate holding an interest in a qualified trust dies, then, in lieu of the tax imposed by subparagraph (A)(ii), there is hereby imposed a tax equal to the lesser of—

"(i) the tax determined under paragraph (1) as if the expatriation date were the date of such cessation, disposition, or death, whichever is applicable, or

"(ii) the balance in the tax deferred account immediately before such date.

Such tax shall be imposed on the trust and each trustee shall be personally liable for the amount of such tax and any other beneficiary of the trust shall be entitled to recover from the covered expatriate or the estate the amount of such tax imposed on the other beneficiary.

"(G) DEFINITIONS AND SPECIAL RULE.—For purposes of this paragraph—

"(i) QUALIFIED TRUST.—The term 'qualified trust' means a trust—

"(I) which is organized under, and governed by, the laws of the United States or a State, and

"(II) with respect to which the trust instrument requires that at least 1 trustee of the trust be an individual citizen of the United States or a domestic corporation.

"(ii) VESTED INTEREST.—The term 'vested interest' means any interest which, as of the expatriation date, is vested in the beneficiary.

"(iii) NONVESTED INTEREST.—The term 'nonvested interest' means, with respect to any beneficiary, any interest in a

trust which is not a vested interest. Such interest shall be determined by assuming the maximum exercise of discretion in favor of the beneficiary and the occurrence of all contingencies in favor of the beneficiary.

"(iv) ADJUSTMENTS.—The Secretary may provide for such adjustments to the bases of assets in a trust or a deferred tax account, and the timing of such adjustments, in order to ensure that gain is taxed only once.

"(3) DETERMINATION OF BENEFICIARIES' INTEREST IN TRUST.—

"(A) DETERMINATIONS UNDER PARAGRAPH (1).—For purposes of paragraph (1), a beneficiary's interest in a trust shall be based upon all relevant facts and circumstances, including the terms of the trust instrument and any letter of wishes or similar document, historical patterns of trust distributions, and the existence of and functions performed by a trust protector or any similar advisor.

"(B) OTHER DETERMINATIONS.—For purposes of this section—

"(i) CONSTRUCTIVE OWNERSHIP.—If a beneficiary of a trust is a corporation, partnership, trust, or estate, the shareholders, partners, or beneficiaries shall be deemed to be the trust beneficiaries for purposes of this section.

"(ii) TAXPAYER RETURN POSITION.—A taxpayer shall clearly indicate on its income tax return—

"(I) the methodology used to determine that taxpayer's trust interest under this section, and

"(II) if the taxpayer knows (or has reason to know) that any other beneficiary of such trust is using a different methodology to determine such beneficiary's trust interest under this section.

"(g) TERMINATION OF DEFERRALS, ETC.—On the date any property held by an individual is treated as sold under subsection (a), notwithstanding any other provision of this title—

"(1) any period during which recognition of income or gain is deferred shall terminate, and

"(2) any extension of time for payment of tax shall cease to apply and the unpaid portion of such tax shall be due and payable at the time and in the manner prescribed by the Secretary.

"(h) IMPOSITION OF TENTATIVE TAX.—

"(1) IN GENERAL.—If an individual is required to include any amount in gross income under subsection (a) for any taxable year, there is hereby imposed, immediately before the expatriation date, a tax in an amount equal to the amount of tax which would be imposed if the taxable year were a short taxable year ending on the expatriation date.

"(2) DUE DATE.—The due date for any tax imposed by paragraph (1) shall be the 90th day after the expatriation date.

"(3) TREATMENT OF TAX.—Any tax paid under paragraph (1) shall be treated as a payment of the tax imposed by this chapter for the taxable year to which subsection (a) applies.

"(4) DEFERRAL OF TAX.—The provisions of subsection (b) shall apply to the tax imposed by this subsection to the extent attributable to gain includible in gross income by reason of this section.

"(i) COORDINATION WITH ESTATE AND GIFT TAXES.—If subsection (a) applies to property held by an individual for any taxable year and—

"(1) such property is includible in the gross estate of such individual solely by reason of section 2107, or

"(2) section 2501 applies to a transfer of such property by such individual solely by reason of section 2501(a)(3),

then there shall be allowed as a credit against the additional tax imposed by section 2101 or 2501, whichever is applicable, solely by reason of section 2107 or 2501(a)(3) an amount equal to the increase in the tax imposed by this chapter for such taxable year by reason of this section.

"(j) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section, including regulations—

"(1) to prevent double taxation by ensuring that—

"(A) appropriate adjustments are made to basis to reflect gain recognized by reason of subsection (a) and the exclusion provided by subsection (a)(3), and

"(B) any gain by reason of a deemed sale under subsection (a) of an interest in a corporation, partnership, trust, or estate is reduced to reflect that portion of such gain which is attributable to an interest in a trust which a shareholder, partner, or beneficiary is treated as holding directly under subsection (f)(3)(B)(i), and

"(2) which provide for the proper allocation of the exclusion under subsection (a)(3) to property to which this section applies.

"(k) CROSS REFERENCE.—

"For income tax treatment of individuals who terminate United States citizenship, see section 7701(a)(47).".

(b) INCLUSION IN INCOME OF GIFTS AND INHERITANCES FROM COVERED EXPATRIATES.—Section 102 (relating to gifts, etc. not included in gross income) is amended by adding at the end the following new subsection:

"(d) GIFTS AND INHERITANCES FROM COVERED EXPATRIATES.—Subsection (a) shall not exclude from gross income the value of any property acquired by gift, bequest, devise, or inheritance from a covered expatriate after the expatriation date. For purposes of this subsection, any term used in this subsection which is also used in section 877A shall have the same meaning as when used in section 877A.".

(c) DEFINITION OF TERMINATION OF UNITED STATES CITIZENSHIP.—Section 7701(a) is amended by adding at the end the following new paragraph:

"(47) TERMINATION OF UNITED STATES CITIZENSHIP.—An individual shall not cease to be treated as a United States citizen before the date on which the individual's citizenship is treated as relinquished under section 877A(e)(3).".

(d) CONFORMING AMENDMENTS.—

(1) Section 877 is amended by adding at the end the following new subsection:

"(f) APPLICATION.—This section shall not apply to any individual who relinquishes (within the meaning of section 877A(e)(3)) United States citizenship on or after February 6, 1995.".

(2) Section 2107(c) is amended by adding at the end the following new paragraph:

"(3) CROSS REFERENCE.—For credit against the tax imposed by subsection (a) for expatriation tax, see section 877A(i).".

(3) Section 2501(a)(3) is amended by adding at the end the following new flush sentence:

"For credit against the tax imposed under this section by reason of this paragraph, see section 877A(i).".

(4) Paragraph (10) of section 7701(b) is amended by adding at the end the following new sentence: ''This paragraph shall not apply to any long-term resident of the United States who is an expatriate (as defined in section 877A(e)(1)).''.

(e) CLERICAL AMENDMENT.—The table of sections for subpart A of part II of subchapter N of chapter 1 is amended by inserting after the item relating to section 877 the following new item:

''Sec. 877A. Tax responsibilities of expatriation.''.

(f) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in this subsection, the amendments made by this section shall apply to expatriates (within the meaning of section 877A(e) of the Internal Revenue Code of 1986, as added by this section) whose expatriation date (as so defined) occurs on or after February 6, 1995.

(2) GIFTS AND BEQUESTS.—Section 102(d) of the Internal Revenue Code of 1986 (as added by subsection (b)) shall apply to amounts received from expatriates (as so defined) whose expatriation date (as so defined) occurs on and after February 6, 1995.

(3) SPECIAL RULES RELATING TO CERTAIN ACTS OCCURRING BEFORE FEBRUARY 6, 1995.—In

the case of an individual who took an act of expatriation specified in paragraph (1), (2), (3), or (4) of section 349(a) of the Immigration and Nationality Act (8 U.S.C. 1481(a) (1)–(4)) before February 6, 1995, but whose expatriation date (as so defined) occurs after February 6, 1995—

(A) the amendment made by subsection (c) shall not apply,

(B) the amendment made by subsection (d)(1) shall not apply for any period prior to the expatriation date, and

(C) the other amendments made by this section shall apply as of the expatriation date.

(4) DUE DATE FOR TENTATIVE TAX.—The due date under section 877A(h)(2) of such Code shall in no event occur before the 90th day after the date of the enactment of this Act.

SEC. ___102. INFORMATION ON INDIVIDUALS EXPATRIATING.

(a) IN GENERAL.—Subpart A of part III of subchapter A of chapter 61 is amended by inserting after section 6039E the following new section:

"SEC. 6039F. INFORMATION ON INDIVIDUALS EXPATRIATING.

"(a) REQUIREMENT.—

"(1) IN GENERAL.—Notwithstanding any other provision of law, any expatriate (within the meaning of section 877A(e)(1)) shall provide a statement which includes the information described in subsection (b).

"(2) TIMING.—

"(A) CITIZENS.—In the case of an expatriate described in section 877(e)(1)(A), such statement shall be—

"(i) provided not later than the expatriation date (within the meaning of section 877A(e)(2)), and

"(ii) provided to the person or court referred to in section 877A(e)(3).

"(B) NONCITIZENS.—In the case of an expatriate described in section 877A(e)(1)(B), such statement shall be provided to the Secretary with the return of tax imposed by chapter 1 for the taxable year during which the event described in such section occurs.

"(b) INFORMATION TO BE PROVIDED.—Information required under subsection (a) shall include—

"(1) the taxpayer's TIN,

"(2) the mailing address of such individual's principal foreign residence,

"(3) the foreign country in which such individual is residing,

"(4) the foreign country of which such individual is a citizen,

"(5) in the case of an individual having a net worth of at least the dollar amount applicable under section 877A(c)(1)(B), information detailing the assets and liabilities of such individual, and

"(6) such other information as the Secretary may prescribe.

"(c) PENALTY.—Any individual failing to provide a statement required under subsection (a) shall be subject to a penalty for each year during any portion of which such failure continues in an amount equal to the greater of—

"(1) 5 percent of the additional tax required to be paid under section 877A for such year, or

"(2) $1,000,

unless it is shown that such failure is due to reasonable cause and not to willful neglect.

"(d) INFORMATION TO BE PROVIDED TO SECRETARY.—Notwithstanding any other provision of law—

"(1) any Federal agency or court which collects (or is required to collect) the statement under subsection (a) shall provide to the Secretary—

"(A) a copy of any such statement, and

"(B) the name (and any other identifying information) of any individual refusing to comply with the provisions of subsection (a),

"(2) the Secretary of State shall provide to the Secretary a copy of each certificate as to the loss of American nationality under section 358 of the Immigration and Nationality Act which is approved by the Secretary of State, and

"(3) the Federal agency primarily responsible for administering the immigration laws shall provide to the Secretary the name of each lawful permanent resident of the United States (within the meaning of section 7701(b)(6)) whose status as such has been revoked or has been administratively or judicially determined to have been abandoned.

Notwithstanding any other provision of law, not later than 30 days after the close of each calendar quarter, the Secretary shall publish in the Federal Register the name of each individual relinquishing United States citizenship (within the meaning of section 877A(e)(3)) with respect to whom the Secretary receives information under the preceding sentence during such quarter.

"(e) EXEMPTION.—The Secretary may by regulations exempt any class of individuals from the requirements of

this section if the Secretary determines that applying this section to such individuals is not necessary to carry out the purposes of this section.''.

(b) CLERICAL AMENDMENT.—The table of sections for such subpart A is amended by inserting after the item relating to section 6039E the following new item:

''Sec. 6039F. Information on individuals expatriating.''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to individuals to whom section 877A of the Internal Revenue Code of 1986 applies and whose expatriation date (as defined in section 877A(e)(2)) occurs on or after February 6, 1995, except that no statement shall be required by such amendments before the 90th day after the date of the enactment of this Act.

Subtitle B—Corporate Reforms

SEC. ___201. TAX TREATMENT OF CERTAIN EXTRAORDINARY DIVIDENDS.

(a) TREATMENT OF EXTRAORDINARY DIVIDENDS IN EXCESS OF BASIS.—Paragraph (2) of section 1059(a) (relating to corporate shareholder's basis in stock reduced by nontaxed portion of extraordinary dividends) is amended to read as follows:

''(2) AMOUNTS IN EXCESS OF BASIS.—If the nontaxed portion of such dividends exceeds such basis, such excess shall be treated as gain from the

sale or exchange of such stock for the taxable year in which the extraordinary dividend is received.''.

(b) TREATMENT OF REDEMPTIONS WHERE OPTIONS INVOLVED.—Paragraph (1) of section 1059(e) (relating to treatment of partial liquidations and non-pro rata redemptions) is amended to read as follows:

''(1) TREATMENT OF PARTIAL LIQUIDATIONS AND CERTAIN REDEMPTIONS.—Except as otherwise provided in regulations—

''(A) REDEMPTIONS.—In the case of any redemption of stock—

''(i) which is part of a partial liquidation (within the meaning of section 302(e)) of the redeeming corporation,

''(ii) which is not pro rata as to all shareholders, or

''(iii) which would not have been treated (in whole or in part) as a dividend if any options had not been taken into account under section 318(a)(4),

any amount treated as a dividend with respect to such redemption shall be treated as an extraordinary dividend to which paragraphs (1) and (2) of subsection (a) apply without regard to the period the taxpayer held such stock. In

the case of a redemption described in clause (iii), only the basis in the stock redeemed shall be taken into account under subsection (a).

"(B) REORGANIZATIONS, ETC.—An exchange described in section 356(a)(1) which is treated as a dividend under section 356(a)(2) shall be treated as a redemption of stock for purposes of applying subparagraph (A).".

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to distributions after May 3, 1995.

(2) TRANSITION RULE.—The amendments made by this section shall not apply to any distribution made pursuant to the terms of—

(A) a written binding contract in effect on May 3, 1995, and at all times thereafter before such distribution, or

(B) a tender offer outstanding on May 3, 1995.

(3) CERTAIN DIVIDENDS NOT PURSUANT TO CERTAIN REDEMPTIONS.—In determining whether the amendment made by subsection (a) applies to any extraordinary dividend other than a dividend treated as an extraordinary dividend under section

1059(e)(1) of the Internal Revenue Code of 1986 (as amended by this Act), paragraphs (1) and (2) shall be applied by substituting ''September 13, 1995'' for ''May 3, 1995''.

SEC. ___202. REGISTRATION OF CONFIDENTIAL CORPORATE TAX SHELTERS.

(a) IN GENERAL.—Section 6111 (relating to registration of tax shelters) is amended by redesignating subsections (d) and (e) as subsections (e) and (f), respectively, and by inserting after subsection (c) the following new subsection:

''(d) CERTAIN CONFIDENTIAL ARRANGEMENTS TREATED AS TAX SHELTERS.—

''(1) IN GENERAL.—For purposes of this section, the term 'tax shelter' includes any entity, plan, arrangement, or transaction—

''(A) a significant purpose of the structure of which is the avoidance or evasion of Federal income tax for a direct or indirect participant which is a corporation,

''(B) which is offered to any potential participant under conditions of confidentiality, and

''(C) for which the tax shelter promoters may receive fees in excess of $100,000 in the aggregate.

"(2) CONDITIONS OF CONFIDENTIALITY.—For purposes of paragraph (1)(B), an offer is under conditions of confidentiality if—

"(A) the potential participant to whom the offer is made (or any other person acting on behalf of such participant) has an understanding or agreement with or for the benefit of any promoter of the tax shelter that such participant (or such other person) will limit disclosure of the tax shelter or any significant tax features of the tax shelter, or

"(B) any promoter of the tax shelter—

"(i) claims, knows, or has reason to know,

"(ii) knows or has reason to know that any other person (other than the potential participant) claims, or

"(iii) causes another person to claim, that the tax shelter (or any aspect thereof) is proprietary to any person other than the potential participant or is otherwise protected from disclosure to or use by others.

For purposes of this subsection, the term 'promoter' means any person or any related person (within the meaning of section 267 or 707) who participates in

the organization, management, or sale of the tax shelter.

"(3) PERSONS OTHER THAN PROMOTER REQUIRED TO REGISTER IN CERTAIN CASES.—

"(A) IN GENERAL.—If—

"(i) the requirements of subsection (a) are not met with respect to any tax shelter (as defined in paragraph (1)) by any tax shelter promoter, and

"(ii) no tax shelter promoter is a United States person,

then each United States person who discussed participation in such shelter shall register such shelter under subsection (a).

"(B) EXCEPTION.—Subparagraph (A) shall not apply to a United States person who discussed participation in a tax shelter if—

"(i) such person notified the promoter in writing (not later than the close of the 90th day after the day on which such discussions began) that such person would not participate in such shelter, and

"(ii) such person does not participate in such shelter.

"(4) OFFER TO PARTICIPATE TREATED AS OFFER FOR SALE.—For purposes of subsections (a) and (b), an offer to participate in a tax shelter (as defined in paragraph (1)) shall be treated as an offer for sale.".

(b) PENALTY.—Subsection (a) of section 6707 (relating to failure to furnish information regarding tax shelters) is amended by adding at the end the following new paragraph:

"(3) CONFIDENTIAL ARRANGEMENTS.—

"(A) IN GENERAL.—In the case of a tax shelter (as defined in section 6111(d)), the penalty imposed under paragraph (1) shall be an amount equal to the greater of—

"(i) 50 percent of the fees paid to any promoter of the tax shelter with respect to offerings made before the date such shelter is registered under section 6111, or

"(ii) $10,000.

Clause (i) shall be applied by substituting '75 percent' for '50 percent' in the case of an intentional failure or act described in paragraph (1).

"(B) SPECIAL RULE FOR PARTICIPANTS REQUIRED TO REGISTER SHELTER.—In the

case of a person required to register such a tax shelter by reason of section 6111(d)(3)—

"(i) such person shall be required to pay the penalty under paragraph (1) only if such person actually participated in such shelter,

"(ii) the amount of such penalty shall be determined by taking into account under subparagraph (A)(i) only the fees paid by such person, and

"(iii) such penalty shall be in addition to the penalty imposed on any other person for failing to register such shelter.".

(c) CONFORMING AMENDMENTS.—

(1) Paragraph (2) of section 6707(a) is amended by striking "The penalty" and inserting "Except as provided in paragraph (3), the penalty".

(2) Subparagraph (A) of section 6707(a)(1) is amended by striking "paragraph (2)" and inserting "paragraph (2) or (3), as the case may be".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to any tax shelter (as defined in section 6111(d) of the Internal Revenue Code of 1986, as amended by this section) interests in which are offered to potential participants after the Secretary of the Treas-

ury prescribes guidance with respect to meeting requirements added by such amendments.

SEC. ___203. DENIAL OF DEDUCTION FOR INTEREST ON LOANS WITH RESPECT TO COMPANY-OWNED INSURANCE.

(a) IN GENERAL.—Paragraph (4) of section 264(a) is amended—

(1) by inserting ", or any endowment or annuity contracts owned by the taxpayer covering any individual," after "the life of any individual", and

(2) by striking all that follows "carried on by the taxpayer" and inserting a period.

(b) EXCEPTION FOR CONTRACTS RELATING TO KEY PERSONS; PERMISSIBLE INTEREST RATES.—Section 264 is amended—

(1) by striking "Any" in subsection (a)(4) and inserting "Except as provided in subsection (d), any", and

(2) by adding at the end the following new subsection:

"(d) SPECIAL RULES FOR APPLICATION OF SUBSECTION (a)(4).—

"(1) EXCEPTION FOR KEY PERSONS.—Subsection (a)(4) shall not apply to any interest paid or accrued on any indebtedness with respect to policies

or contracts covering an individual who is a key person to the extent that the aggregate amount of such indebtedness with respect to policies and contracts covering such individual does not exceed $50,000.

"(2) INTEREST RATE CAP ON KEY PERSONS AND PRE-1986 CONTRACTS.—

"(A) IN GENERAL.—No deduction shall be allowed by reason of paragraph (1) or the last sentence of subsection (a) with respect to interest paid or accrued for any month to the extent the amount of such interest exceeds the amount which would have been determined if the applicable rate of interest were used for such month.

"(B) APPLICABLE RATE OF INTEREST.—For purposes of subparagraph (A)—

"(i) IN GENERAL.—The applicable rate of interest for any month is the rate of interest described as Moody's Corporate Bond Yield Average-Monthly Average Corporates as published by Moody's Investors Service, Inc., or any successor thereto, for such month.

"(ii) PRE-1986 CONTRACT.—In the case of indebtedness on a contract to which

the last sentence of subsection (a) applies—

"(I) which is a contract providing a fixed rate of interest, the applicable rate of interest for any month shall be the Moody's rate described in clause (i) for the month in which the contract was purchased, or

"(II) which is a contract providing a variable rate of interest, the applicable rate of interest for any month in an applicable period shall be such Moody's rate for the second month preceding the first month in such period.

For purposes of subclause (II), the taxpayer shall elect an applicable period for such contract on its return of tax imposed by this chapter for its first taxable year ending on or after October 13, 1995. Such applicable period shall be for any number of months (not greater than 12) specified in the election and may not be changed by the taxpayer without the consent of the Secretary.

"(3) KEY PERSON.—For purposes of paragraph (1), the term 'key person' means an officer or 20-percent owner, except that the number of individuals who may be treated as key persons with respect to any taxpayer shall not exceed the greater of—

"(A) 5 individuals, or

"(B) the lesser of 5 percent of the total officers and employees of the taxpayer or 10 individuals.

"(4) 20-PERCENT OWNER.—For purposes of this subsection, the term '20-percent owner' means—

"(A) if the taxpayer is a corporation, any person who owns directly 20 percent or more of the outstanding stock of the corporation or stock possessing 20 percent or more of the total combined voting power of all stock of the corporation, or

"(B) if the taxpayer is not a corporation, any person who owns 20 percent or more of the capital or profits interest in the employer.

"(5) AGGREGATION RULES.—

"(A) IN GENERAL.—For purposes of paragraph (4)(A) and applying the $50,000 limitation in paragraph (1)—

"(i) all members of a controlled group shall be treated as 1 taxpayer, and

"(ii) such limitation shall be allocated among the members of such group in such manner as the Secretary may prescribe.

"(B) CONTROLLED GROUP.—For purposes of this paragraph, all persons treated as a single employer under subsection (a) or (b) of section 52 or subsection (m) or (o) of section 414 shall be treated as members of a controlled group.".

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to interest paid or accrued after October 13, 1995.

(2) TRANSITION RULE FOR EXISTING INDEBTEDNESS.—

(A) IN GENERAL.—In the case of—

(i) indebtedness incurred before January 1, 1996, or

(ii) indebtedness incurred before January 1, 1997, with respect to any contract or policy entered into in 1994 or 1995,

the amendments made by this section shall not apply to qualified interest paid or accrued on

such indebtedness after October 13, 1995, and before January 1, 1999.

(B) QUALIFIED INTEREST.—For purposes of subparagraph (A), the qualified interest with respect to any indebtedness for any month is the applicable percentage of the amount of interest (otherwise deductible) which would be paid or accrued for such month on such indebtedness if—

(i) in the case of any interest paid or accrued after December 31, 1995, indebtedness with respect to no more than 20,000 insured individuals were taken into account, and

(ii) the lesser of the following rates of interest were used for such month:

(I) The rate of interest specified under the terms of the indebtedness as in effect on October 13, 1995 (and without regard to modification of such terms after such date).

(II) The rate of interest described as Moody's Corporate Bond Yield Average-Monthly Average Corporates as published by Moody's

Investors Service, Inc., or any successor thereto, for such month.

For purposes of clause (i), all persons treated as a single employer under subsection (a) or (b) of section 52 of the Internal Revenue Code of 1986 or subsection (m) or (o) of section 414 of such Code shall be treated as one person.

(C) APPLICABLE PERCENTAGE.—For purposes of subparagraph (B), the applicable percentage is as follows:

For calendar year:	The percentage is:
1995	100 percent
1996	90 percent
1997	80 percent
1998	70 percent.

(3) SPECIAL RULE FOR GRANDFATHERED CONTRACTS.—This section shall not apply to any contract purchased on or before June 20, 1986, except that section 264(d)(2) of the Internal Revenue Code of 1986 shall apply to interest paid or accrued after October 13, 1995.

(d) SPREAD OF INCOME INCLUSION ON SURRENDER, ETC. OF CONTRACTS.—

(1) IN GENERAL.—If any amount is received under any life insurance policy or endowment or annuity contract described in paragraph (4) of section 264(a) of the Internal Revenue Code of 1986—

(A) on the complete surrender, redemption, or maturity of such policy or contract during calendar year 1996, 1997, or 1998, or

(B) in full discharge during any such calendar year of the obligation under the policy or contract which is in the nature of a refund of the consideration paid for the policy or contract,

then (in lieu of any other inclusion in gross income) such amount shall be includible in gross income ratably over the 4-taxable year period beginning with the taxable year such amount would (but for this paragraph) be includible. The preceding sentence shall only apply to the extent the amount is includible in gross income for the taxable year in which the event described in subparagraph (A) or (B) occurs.

(2) SPECIAL RULES FOR APPLYING SECTION 264.—A contract shall not be treated as—

(A) failing to meet the requirement of section 264(c)(1) of the Internal Revenue Code of 1986, or

(B) a single premium contract under section 264(b)(1) of such Code,

solely by reason of an occurrence described in subparagraph (A) or (B) of paragraph (1) of this subsection or solely by reason of no additional premiums being received under the contract by reason of a lapse occurring after October 13, 1995.

(3) SPECIAL RULE FOR DEFERRED ACQUISITION COSTS.—In the case of the occurrence of any event described in subparagraph (A) or (B) of paragraph (1) of this subsection with respect to any policy or contract—

(A) section 848 of the Internal Revenue Code of 1986 shall not apply to the unamortized balance (if any) of the specified policy acquisition expenses attributable to such policy or contract immediately before the insurance company's taxable year in which such event occurs, and

(B) there shall be allowed as a deduction to such company for such taxable year under chapter 1 of such Code an amount equal to such unamortized balance.

SEC. ____204. TERMINATION OF SUSPENSE ACCOUNTS FOR FAMILY CORPORATIONS REQUIRED TO USE ACCRUAL METHOD OF ACCOUNTING.

(a) IN GENERAL.—Subsection (i) of section 447 (relating to method of accounting for corporations engaged in farming) is amended by adding at the end the following new paragraph:

"(7) TERMINATION.—

"(A) IN GENERAL.—No suspense account may be established under this subsection by any corporation required by this section to change its method of accounting for any taxable year ending after September 13, 1995.

"(B) 20-YEAR PHASEOUT OF EXISTING SUSPENSE ACCOUNTS.—Each suspense account under this subsection shall be reduced (but not below zero) for each of the first 20 taxable years beginning after September 13, 1995, by an amount equal to the applicable portion of such account. Any reduction in a suspense account under this paragraph shall be included in gross income for the taxable year of the reduction. The amount of the reduction required under this paragraph for any taxable year shall be reduced (but not below zero) by the amount

of any reduction required for such taxable year under any other provision of this subsection.

"(C) APPLICABLE PORTION.—For purposes of subparagraph (B), the term 'applicable portion' means, for any taxable year, the amount which would ratably reduce the amount in the account (after taking into account prior reductions) to zero over the period consisting of such taxable year and the remaining taxable years in such first 20 taxable years.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years ending after September 13, 1995.

SEC. ___205. MODIFICATIONS OF PUERTO RICO AND POSSESSIONS TAX CREDIT.

(a) PHASEOUT OF REDUCED CREDIT.—The table contained in clause (ii) of section 936(a)(4)(B) (relating to election to take reduced credit) is amended to read as follows:

"In the case of taxable years beginning in:	The percentage is:
1996	50
1997	36
1998	24
1999	16
2000	8
2001 and thereafter	0."

(b) CARRYOVER OF EXCESS ECONOMIC ACTIVITY CREDIT.—

(1) IN GENERAL.—Section 936(a)(4) is amended by redesignating subparagraph (C) as subparagraph (D) and by inserting after subparagraph (B) the following new subparagraph:

"(C) CARRYOVER OF EXCESS ECONOMIC ACTIVITY CREDIT.—

"(i) IN GENERAL.—If the amount determined under subparagraph (A) for any taxable year exceeds the amount of the credit determined under paragraph (1) for such taxable year with respect to income referred to in paragraph (1)(A), the amount determined under subparagraph (A) for the following taxable year shall be increased by the amount of such excess.

"(ii) LIMITATION.—Any excess described in clause (i) may not be carried to any taxable year after the 5th taxable year following the taxable year in which it arises.

"(iii) ORDERING RULE.—For purposes of applying subparagraph (A), the limitation under subparagraph (A) shall be treated as used on a first-in, first-out basis."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1995.

SEC. ___206. PERSONAL PROPERTY USED PREDOMINANTLY IN THE UNITED STATES TREATED AS NOT PROPERTY OF A LIKE KIND WITH RESPECT TO PROPERTY USED PREDOMINANTLY OUTSIDE THE UNITED STATES.

(a) IN GENERAL.—Subsection (h) of section 1031 (relating to exchange of property held for productive use or investment) is amended to read as follows:

"(h) SPECIAL RULES FOR FOREIGN REAL AND PERSONAL PROPERTY.—For purposes of this section—

"(1) REAL PROPERTY.—Real property located in the United States and real property located outside the United States are not property of a like kind.

"(2) PERSONAL PROPERTY.—

"(A) IN GENERAL.—Personal property used predominantly within the United States and personal property used predominantly outside the United States are not property of a like kind.

"(B) PREDOMINANT USE.—Except as provided in subparagraph (C), the predominant use of any property shall be determined based on—

"(i) in the case of the property relinquished in the exchange, the 2-year period ending on the date of such relinquishment, and

"(ii) in the case of the property acquired in the exchange, the 2-year period beginning on the date of such acquisition.

"(C) SPECIAL RULE FOR CERTAIN PROPERTY.—Property described in any subparagraph of section 168(g)(4) shall be treated as used predominantly in the United States."

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by this section shall apply to transfers after December 6, 1995, in taxable years ending after such date.

(2) BINDING CONTRACTS.—The amendment made by this section shall not apply to any transfer pursuant to a written binding contract in effect on December 6, 1995, and at all times thereafter before the disposition or acquisition of property. A contract shall not fail to meet the requirements of the preceding sentence solely because—

(A) it provides for a sale in lieu of an exchange, or

(B) the property to be disposed of as relinquished property, or the property to be acquired as replacement property, whichever is applicable, was not identified under such contract before December 7, 1995.

SEC. ___207. REPEAL OF FINANCIAL INSTITUTION TRANSITION RULE TO INTEREST ALLOCATION RULES.

(a) IN GENERAL.—Paragraph (5) of section 1215(c) of the Tax Reform Act of 1986 (Public Law 99–514, 100 Stat. 2548) is hereby repealed.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1995.

SEC. ___208. CONVERSION OF LARGE CORPORATIONS INTO S CORPORATIONS TREATED AS COMPLETE LIQUIDATION.

(a) IN GENERAL.—Section 1374 (relating to tax imposed on certain built-in gains) is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

"(e) SECTION NOT TO APPLY TO CONVERSIONS OF LARGE C CORPORATIONS.—

"(1) IN GENERAL.—If an S corporation was a large C corporation for the last taxable year before the first taxable year for which the election under section 1362(a) was effective—

"(A) the preceding provisions of this section shall not apply to the S corporation, but

"(B) for purposes of this title—

"(i) the C corporation shall be treated as having distributed, as of the last day of such last taxable year, all its property to its shareholders in complete liquidation, and

"(ii) the shareholders shall be treated as having immediately contributed such property to the S corporation in exchange for its stock.

"(2) SPECIAL RULE FOR ASSET ACQUISITIONS.—Rules similar to the rules of paragraph (1) shall apply to any transaction described in subsection (d)(8) in which an S corporation acquires assets from a large C corporation.

"(3) LARGE C CORPORATION.—For purposes of this subsection, the term 'large C corporation' means a C corporation the fair market value of all of the stock of which, as of the close of the last taxable

year described in paragraph (1), is greater than $5,000,000.

(b) REGULATORY AUTHORITY TO PREVENT AVOIDANCE.—Section 1374(f), as redesignated by subsection (a), is amended by inserting ''and regulations preventing avoidance of the application of subsection (e)'' before the period at the end.

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to elections under section 1361(a) of the Internal Revenue Code of 1986 which are made after December 6, 1995.

(2) ACQUISITIONS.—The provisions of section 1374(e)(2) of such Code (as added by the amendments made by this section) shall apply to acquisitions after December 6, 1995, except that such provisions shall not apply to any acquisition after such date pursuant to a binding contract in effect on such date and at all times thereafter before such acquisition.

SEC. ___209. MODIFICATION OF TAXABLE YEARS TO WHICH NET OPERATING LOSSES MAY BE CARRIED.

(a) IN GENERAL.—Subparagraph (A) of section 172(b)(1) (relating to years to which loss may be carried) is amended—

(1) by striking ''3'' in clause (i) and inserting ''1'', and

(2) by striking ''15'' in clause (ii) and inserting ''20''.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to net operating losses for taxable years beginning after December 31, 1995.

SEC. ___210. CONSTRUCTIVE SALES TREATMENT FOR APPRECIATED FINANCIAL POSITIONS.

(a) IN GENERAL.—Part IV of subchapter P of chapter 1 is amended by adding at the end the following new section:

''SEC. 1259. CONSTRUCTIVE SALES TREATMENT FOR APPRECIATED FINANCIAL POSITIONS.

''(a) IN GENERAL.—If there is a constructive sale of an appreciated financial position—

''(1) such position shall be treated as sold for its fair market value on the date of such constructive sale (and any gain shall be taken into account for the taxable year which includes such date), and

''(2) for purposes of applying this title for periods after the constructive sale—

''(A) proper adjustment shall be made in the amount of any gain or loss subsequently realized with respect to such position for any gain

taken into account by reason of paragraph (1), and

"(B) the holding period of such position shall be determined as if such position were originally acquired on the date of such constructive sale.

"(b) APPRECIATED FINANCIAL POSITION.—For purposes of this section—

"(1) IN GENERAL.—The term 'appreciated financial position' means any position with respect to any stock, debt instrument, or partnership interest if there would be gain were such position sold.

"(2) POSITION.—The term 'position' means an interest, including a futures or forward contract, short sale, or option.

"(c) CONSTRUCTIVE SALE.—For purposes of this section—

"(1) IN GENERAL.—A taxpayer shall be treated as having made a constructive sale of an appreciated financial position if the taxpayer or a related person—

"(A) enters into 1 or more positions with respect to the same or substantially identical property which, for some period, substantially

eliminate both risk of loss and opportunity for gain on the appreciated financial position, or

"(B) enters into any other transaction which is marketed or sold as being economically equivalent to any transaction described in subparagraph (A).

The transactions described in subparagraph (A) shall include making a short sale with respect to substantially identical property, and the granting of a call option, or the acquisition of a put option, with respect to the same or substantially identical property but only if there is a substantial certainty that such call or put option will be exercised.

"(2) EXCEPTION FOR TRANSACTIONS MARKED TO MARKET.—The term 'constructive sale' shall not include any transaction if the appreciated financial position which is part of such transaction is marked to market under section 475 or 1256.

"(3) EXCEPTION FOR SALES OF NONPUBLICLY TRADED PROPERTY.—The term 'constructive sale' shall not include any contract for sale of any stock, debt instrument, or partnership interest which is not a marketable security (as defined in section 453(f)) if the sale occurs within 1 year after the date such contract is entered into.

"(4) RELATED PERSON.—A person is related to another person with respect to a transaction if—

"(A) the relationship between such persons would result in a disallowance of losses under section 267 or 707(b), and

"(B) such transaction is entered into with a view toward avoiding the purposes of this section.

"(d) SPECIAL RULES.—

"(1) TRANSACTIONS COVERING LESS THAN ALL OF APPRECIATED FINANCIAL POSITIONS.—If there is a constructive sale of less than all of the appreciated financial positions held by the taxpayer, subsection (a) shall apply to such positions in the order in which acquired or entered into.

"(2) TREATMENT OF SUBSEQUENT SALE OF POSITION WHICH WAS DEEMED SOLD.—If—

"(A) there is a constructive sale of any appreciated financial position,

"(B) such position is subsequently sold or otherwise disposed of, and

"(C) at the time of such sale or disposition, the transaction resulting in the constructive sale of such position is open,

solely for purposes of determining whether the taxpayer has entered into a constructive sale of any other appreciated financial position held by the taxpayer, the taxpayer shall be treated as entering into such transaction immediately after such sale or other disposition.

"(3) CERTAIN TRUST INSTRUMENTS TREATED AS STOCK.—For purposes of this section, an interest in a trust which is actively traded (within the meaning of section 1092(d)(1)) shall be treated as stock.

"(e) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section."

(b) CLERICAL AMENDMENT.—The table of sections for such part IV is amended by adding at the end the following new item:

"Sec. 1259. Constructive sales treatment for appreciated financial positions."

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to—

(A) constructive sales after the date of the enactment of this Act, and

(B) constructive sales after January 4, 1996, and before the date of the enactment of this Act but only if the transaction is not closed

before the date which is 30 days after the date of the enactment of this Act.

In a case to which subparagraph (B) applies, section 1259 of the Internal Revenue Code of 1986 (as added by this section) shall be applied as if the constructive sale occurred on the date which is 30 days after the date of the enactment of this Act.

(2) SPECIAL RULE.—In the case of a decedent dying after the date of the enactment of this Act, if—

(A) there was a constructive sale on or before such date of enactment of any appreciated financial position, and

(B) on the day before the date of the decedent's death, the transaction resulting in the constructive sale of such position is open,

for purposes of the Internal Revenue Code of 1986, such position (and any property related thereto, as determined under the principles of section 1259(d)(1) of such Code (as so added)) shall be treated as property constituting rights to receive an item of income in respect of a decedent under section 691 of such Code.

SEC. ___211. MODIFICATION OF RULES FOR ALLOCATING INTEREST EXPENSE TO TAX-EXEMPT INTEREST.

(a) PRO RATA ALLOCATION RULES APPLICABLE TO CORPORATIONS.—

(1) IN GENERAL.—Paragraph (1) of section 265(b) is amended by striking ''In the case of a financial institution'' and inserting ''In the case of a corporation''.

(2) ONLY OBLIGATIONS ACQUIRED AFTER DECEMBER 6, 1995 TAKEN INTO ACCOUNT.—Subparagraph (A) of section 265(b)(2) is amended by striking ''August 7, 1986'' and inserting ''December 6, 1995 (August 7, 1986, in the case of a financial institution)''.

(3) SMALL ISSUER EXCEPTION NOT TO APPLY.—Subparagraph (A) of section 265(b)(3) is amended by striking ''Any qualified'' and inserting ''In the case of a financial institution, any qualified''.

(4) EXCEPTION FOR CERTAIN BONDS ACQUIRED ON SALE OF GOODS OR SERVICES.—Subparagraph (B) of section 265(b)(4) is amended by adding at the end the following new sentence: ''In the case of a taxpayer other than a financial institution, such term shall not include a nonsaleable obligation ac-

quired by such taxpayer in the ordinary course of business as payment for goods or services provided by such taxpayer to any State or local government.''

(5) LOOK-THRU RULES FOR PARTNERSHIPS.—Paragraph (6) of section 265(b) is amended by adding at the end the following new subparagraph:

''(C) LOOK-THRU RULES FOR PARTNERSHIPS.—In the case of a corporation which is a partner in a partnership, such corporation shall be treated for purposes of this subsection as holding directly its allocable share of the assets of the partnership.''

(6) APPLICATION OF PRO RATA DISALLOWANCE ON AFFILIATED GROUP BASIS.—Subsection (b) of section 265 is amended by adding at the end the following new paragraph:

''(7) APPLICATION OF DISALLOWANCE ON AFFILIATED GROUP BASIS.—

''(A) IN GENERAL.—For purposes of this subsection, all members of an affiliated group filing a consolidated return under section 1501 shall be treated as 1 taxpayer.

''(B) TREATMENT OF INSURANCE COMPANIES.—This subsection shall not apply to an insurance company, and subparagraph (A) shall

be applied without regard to any member of an affiliated group which is an insurance company.''

(7) CLERICAL AMENDMENT.—The subsection heading for section 265(b) is amended by striking ''FINANCIAL INSTITUTIONS'' and inserting ''CORPORATIONS''.

(b) APPLICATION OF SECTION 265(a)(2) WITH RESPECT TO CONTROLLED GROUPS.—Paragraph (2) of section 265(a) is amended after ''obligations'' by inserting ''held by the taxpayer (or any corporation which is a member of a controlled group (as defined in section 267(f)(1)) which includes the taxpayer)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1995.

SEC. ___212. REDUCTION OF 70 PERCENT DIVIDENDS RECEIVED DEDUCTION TO 50 PERCENT.

(a) IN GENERAL.—Paragraph (1) of section 243(a) (relating to dividends received by corporations) is amended by striking ''70 percent'' and inserting ''50 percent''.

(b) CONFORMING CHANGES.—Each of the following provisions is amended by striking ''70 percent'' and inserting ''50 percent'':

(1) Section 243(c)(1).

(2) Subsections (a)(3) and (b)(2) of section 244.

(3) Section 245(c)(1)(B).

(4) Section 246(b)(3)(B).

(5) Section 246A(a)(1).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to dividends received or accrued after January 31, 1996.

SEC. ___213. MODIFICATION OF HOLDING PERIOD APPLICABLE TO DIVIDENDS RECEIVED DEDUCTION.

(a) IN GENERAL.—Subparagraph (A) of section 246(c)(1) is amended to read as follows:

"(A) which is held by the taxpayer for 45 days or less during the 90-day period beginning on the date which is 45 days before the date on which such share becomes ex-dividend with respect to such dividend, or".

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (2) of section 246(c) is amended to read as follows:

"(2) 90-DAY RULE IN THE CASE OF CERTAIN PREFERENCE DIVIDENDS.—In the case of stock having preference in dividends, if the taxpayer receives dividends with respect to such stock which are at-

tributable to a period or periods aggregating in excess of 366 days, paragraph (1)(A) shall be applied—

"(A) by substituting '90 days' for '45 days' each place it appears, and

"(B) by substituting '180-day period' for '90-day period'."

(2) Paragraph (3) of section 246(c) is amended by adding "and" at the end of subparagraph (A), by striking subparagraph (B), and by redesignating subparagraph (C) as subparagraph (B).

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to dividends received or accrued after January 31, 1996.

SEC. ___214. CERTAIN PREFERRED STOCK TREATED AS BOOT.

(a) SECTION 351.—Section 351 (relating to transfer to corporation controlled by transferor) is amended by redesignating subsection (g) as subsection (h) and by inserting after subsection (f) the following new subsection:

"(g) NONQUALIFIED PREFERRED STOCK NOT TREATED AS STOCK.—

"(1) IN GENERAL.—For purposes of subsections (a) and (b), the term 'stock' shall not include nonqualified preferred stock.

"(2) NONQUALIFIED PREFERRED STOCK.—For purposes of paragraph (1), the term 'nonqualified preferred stock' means preferred stock if—

"(A) the holder of such stock has the right to require the issuer or a related person to redeem or purchase the stock,

"(B) the issuer or a related person is required to redeem or purchase such stock,

"(C) the issuer or a related person has the right to redeem or purchase the stock and, as of the issue date, it is more likely than not that such right will be exercised, or

"(D) the dividend rate on such stock varies in whole or in part (directly or indirectly) with reference to interest rates, commodity prices, or other similar indices.

Subparagraphs (A), (B), and (C) shall apply only if the right or obligation referred to therein may be exercised within the 20-year period beginning on the issue date of such stock and if such right or obligation is not pursuant to a contingency the likelihood of which is remote.

"(3) DEFINITIONS.—For purposes of this subsection—

"(A) PREFERRED STOCK.—The term 'preferred stock' means stock which is limited and preferred as to dividends and does not participate (including through a conversion privilege) in corporate growth to any significant extent.

"(B) RELATED PERSON.—A person shall be treated as related to another person if they bear a relationship to such other person described in section 267(b) or 707(b).

"(4) REGULATIONS.—The Secretary may prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection and sections 354(a)(2)(C), 355(a)(3)(D), and 356(e). The Secretary may also prescribe regulations, consistent with the treatment under this subsection and such sections, for the treatment of nonqualified preferred stock under other provisions of this title."

(b) SECTION 354.—Paragraph (2) of section 354(a) (relating exchanges of stock and securities in certain reorganizations) is amended by adding at the end the following new subparagraph:

"(C) NONQUALIFIED PREFERRED STOCK.—

"(i) IN GENERAL.—Nonqualified preferred stock (as defined in section 351(g)(2)) received in exchange for stock other than nonqualified preferred stock (as so defined) shall not be treated as stock or securities.

"(ii) RECAPITALIZATIONS OF FAMILY-OWNED CORPORATIONS.—

"(I) IN GENERAL.—Clause (i) shall not apply in the case of a recapitalization under section 368(a)(1)(E) of a family-owned corporation.

"(II) FAMILY-OWNED CORPORATION.—For purposes of this clause, the term 'family-owned corporation' means any corporation which is described in clause (i) of section 447(d)(2)(C) throughout the 8-year period beginning on the date which is 5 years before the date of the recapitalization. For purposes of the preceding sentence, stock shall not be treated as owned by a family member during any period that such family mem-

ber's holding period would be reduced under the rules of section 246(c)(4).

(c) SECTION 355.—Paragraph (3) of section 355(a) is amended by adding at the end the following new subparagraph:

"(D) NONQUALIFIED PREFERRED STOCK.—Nonqualified preferred stock (as defined in section 351(g)(2)) received in a distribution with respect to stock other than nonqualified preferred stock (as so defined) shall not be treated as stock or securities."

(d) SECTION 356.—Section 356 is amended by redesignating subsections (e) and (f) as subsections (f) and (g), respectively, and by inserting after subsection (d) the following new subsection:

"(e) NONQUALIFIED PREFERRED STOCK TREATED AS OTHER PROPERTY.—For purposes of this section—

"(1) IN GENERAL.—Except as provided in paragraph (2), the term 'other property' includes nonqualified preferred stock (as defined in section 351(g)(2)).

"(2) EXCEPTION.—The term 'other property' does not include nonqualified preferred stock (as so defined) to the extent that, under section 354 or

355, such preferred stock would be permitted to be received without the recognition of gain.''

(e) CONFORMING AMENDMENTS.—

(1) Subparagraph (B) of section 354(a)(2) is amended by inserting ''(including nonqualified preferred stock, as defined in section 351(g)(2))'' after ''stock''.

(2) Subparagraph (A) of section 354(a)(3) is amended by inserting ''nonqualified preferred stock and'' after ''including''.

(3) Section 1036 is amended by redesignating subsection (b) as subsection (c) and by inserting after subsection (a) the following new subsection:

''(b) NONQUALIFIED PREFERRED STOCK TREATED AS NOT STOCK.—For purposes of this section, nonqualified preferred stock (as defined in section 351(g)(2)) shall be treated as not stock.''

(f) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to transactions after December 7, 1995.

(2) TRANSITIONAL RULE.—The amendments made by this section shall not apply to—

(A) any stock issued pursuant to a written agreement which was (subject to customary

conditions) binding on December 7, 1995, and at all times thereafter before the stock was issued,

(B) any stock issued pursuant to an exchange offer which was outstanding on such date, and

(C) any stock which was priced for purposes of issuance on or before such date.

SEC. ___215. DENIAL OF INTEREST DEDUCTIONS ON CERTAIN DEBT INSTRUMENTS.

(a) IN GENERAL.—Section 163 (relating to deduction for interest) is amended by redesignating subsection (k) as subsection (l) and by inserting after subsection (j) the following new subsection:

''(k) DISALLOWANCE OF DEDUCTION ON CERTAIN DEBT INSTRUMENTS OF CORPORATIONS.—

''(1) IN GENERAL.—No deduction shall be allowed under this chapter for any interest paid or accrued on a disqualified debt instrument.

''(2) DISQUALIFIED DEBT INSTRUMENT.—For purposes of this subsection—

''(A) IN GENERAL.—The term 'disqualified debt instrument' means any indebtedness of a corporation—

"(i) which has a weighted average maturity of more than 40 years, or

"(ii) any principal or interest on which is payable in equity of the issuer or a related party.

"(B) EXCEPTIONS.—Such term shall not include—

"(i) a demand loan,

"(ii) indebtedness in connection with a lease described in section 1055(c)(1) (relating to redeemable ground rents), or

"(iii) any other indebtedness specified by the Secretary.

"(3) WEIGHTED AVERAGE MATURITY.—For purposes of paragraph (2)(A)(i), the weighted average maturity of any indebtedness shall be determined in the same manner as under section 1273, and in making such determination—

"(A) any option or other right to extend, renew, or relend the amount of any indebtedness shall be treated as if exercised,

"(B) the holding of a put, call, or other right to accelerate payment shall be disregarded, and

"(C) 2 or more loans which are part of the same transaction or series of transactions shall be treated as 1 loan.

"(4) SPECIAL RULES FOR AMOUNTS PAYABLE IN EQUITY.—For purposes of paragraph (2)(A)(ii), principal or interest on indebtedness shall be treated as payable in equity of the issuer or a related party only if—

"(A) the principal or interest is required to be paid or converted, or at the option of the issuer or a related party is payable or convertible, into such equity,

"(B) the amount of principal or interest is required to be determined, or at the option of the issuer or a related party is determined, by reference to the value of such equity at the time of payment of such principal or interest, or

"(C) the indebtedness is part of an arrangement which is reasonably expected to result in a transaction described in subparagraph (A) or (B).

The requirements of the preceding sentence shall be treated as met with respect to any principal or interest on indebtedness only if such requirement is met

with respect to a substantial amount of such principal or interest.

"(5) RELATED PARTY.—For purposes of this subsection, a person is a related party with respect to another person if such person bears a relationship to such other person described in section 267(b) or 707(b).

"(6) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection, including regulations preventing avoidance of this subsection through the use of an issuer other than a corporation."

(b) CLASSIFICATION OF CERTAIN INSTRUMENTS AS DEBT OR EQUITY.—Section 385(c) (relating to effect of classification by issuer) is amended by redesignating paragraph (3) as paragraph (4) and by inserting after paragraph (2) the following new paragraph:

"(3) DEEMED CLASSIFICATION OF INTEREST AS STOCK.—

"(A) IN GENERAL.—Except as otherwise provided in regulations, for purposes of this subsection, an applicable corporation shall be treated as having characterized an interest in the corporation as stock if—

"(i) it has a term of more than 20 years (determined under the principles of subparagraphs (A), (B), and (C) of section 163(k)(3)), and

"(ii) it is not shown as indebtedness on an applicable balance sheet of the issuer.

This paragraph shall not apply to an interest described in section 163(k)(2)(B).

"(B) EFFECT OF CHARACTERIZATION.—Any characterization of an interest as stock under subparagraph (A)—

"(i) may not be changed, and

"(ii) except to the extent provided in regulations, shall be treated as having been made as of the time of issuance.

"(C) APPLICABLE CORPORATION, ETC.—For purposes of this paragraph—

"(i) APPLICABLE CORPORATION.—The term 'applicable corporation' means, with respect to any interest, a corporation which, at any time during the 1-year period beginning on the date of issuance of the interest, is—

"(I) required to file annual financial statements with the Securities and Exchange Commission, or

"(II) required to be included in such financial statements.

"(ii) APPLICABLE BALANCE SHEET.—The term 'applicable balance sheet' means any balance sheet which is required to be filed with the Securities and Exchange Commission by the issuer of an interest or which is required to include data with respect to such issuer.

"(D) INTERESTS ISSUED TO RELATED PARTIES.—For purposes of subparagraph (A)(ii), if—

"(i) an interest in a corporation to which subparagraph (A) applies is issued to a person (other than a corporation) which is related to the issuer, and

"(ii) such interest is not shown on an applicable balance sheet of the issuer solely because the related person is consolidated with such person on such balance sheet,

such interest shall be treated as having been characterized as stock if such related person is-

sues a related instrument not shown as indebtedness on such balance sheet. For purposes of the preceding sentence, a person is a related person with respect to an issuer if such person bears a relationship to the issuer described in section 267(b) or 707(b).

"(E) EXCEPTION FOR CERTAIN LEASE RECEIVABLES.—This subsection shall not apply to a nonrecourse interest if the issuer's investment in a related lease receivable as shown on the applicable balance sheet is reduced by the amount of such interest."

(c) REGULATIONS.—Paragraph (4) of section 385(c), as redesignated by subsection (b), is amended to read as follows:

"(4) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection, including such requirements for the providing of information to the Secretary or such other persons as the Secretary determines appropriate."

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to interests in a corporation issued on or after December 7, 1995.

(2) TRANSITIONAL RULE.—The amendments made by this section shall not apply to—

(A) any interest issued pursuant to a commitment which was binding on December 6, 1995, and at all times thereafter before the interest was issued,

(B) any interest issued pursuant to an exchange offer which was outstanding on such date,

(C) any interest which was priced for purposes of issuance on or before such date,

(D) interests issued pursuant to a registration statement filed with the Securities and Exchange Commission on or before December 7, 1995 (other than a registration statement which, under 17 CFR 230.415, contemplated a delayed or continuous offering of such interests), but only to the extent that such interests are described in, and the amount of such interests does not exceed in the aggregate the amount stated in, such registration statement as of such date,

(E) interests issued pursuant to a registration statement which is filed with the Securities and Exchange Commission on or before Decem-

ber 7, 1995, and which, under 17 CFR 230.415, contemplated a delayed or continuous offering of such interests if a prospectus supplement (including a preliminary prospectus supplement) to such registration statement was filed under 17 CFR 230.424 on or before December 7, 1995, but only to the extent that such interests are described in, and the amount of such interests does not exceed in the aggregate the amount stated in, such prospectus supplement as of such date (or, to the extent a preliminary prospectus supplement as of such date does not state a maximum amount to be issued, the amount expected to be offered may be established by other contemporaneous, written evidence), and

(F) interests issued pursuant to a private placement that contemplates resales of the interests pursuant to 17 CFR 230.144A, but only if, on or before December 7, 1995—

(i) the issuer had made a public announcement of its intention to issue the interests, and

(ii) an offering circular or memorandum (including a preliminary offering cir-

cular or memorandum) with respect to the interests had been distributed to prospective investors, but only to the extent that such interests are described in, and the amount of such interests does not exceed in the aggregate the amount stated in, such offering circular or memorandum as of such date.

An interest shall be treated as meeting the requirements of subparagraph (A) if such interest is issued, before the 30th day after the date of the enactment of this Act, as part of an issue substantially identical (other than yield) to an issue which was publicly announced as having been sold on December 7, 1995, but which was terminated on such date.

SEC. ___216. DEFERRAL OF DEDUCTION FOR INTEREST ON CONVERTIBLE DEBT UNTIL PAYMENT.

(a) IN GENERAL.—Section 163, as amended by section ____, is amended by redesignating subsection (l) as subsection (m) and by inserting after subsection (k) the following new subsection:

"(l) DEFERRAL OF INTEREST DEDUCTION ON CONVERTIBLE INDEBTEDNESS.—

"(1) IN GENERAL.—Interest on convertible indebtedness of a corporation shall be deductible under

this chapter only in the taxable year in which paid. For purposes of the preceding sentence, the principles of section 163(i)(3)(B) shall apply.

"(2) EQUITY PAYMENTS DISREGARDED.—Except to the extent provided in regulations, payments (including through an arrangement described in paragraph (3)(C)) shall be disregarded for purposes of paragraph (1) if such payments are in the form of—

"(A) equity of the issuer or a related party, or

"(B) cash or other property the amount of which is determined by reference to the value of such equity.

"(3) CONVERTIBLE INDEBTEDNESS.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'convertible indebtedness' means any indebtedness if—

"(i) the indebtedness is convertible into equity of the issuer or a related party,

"(ii) the amount principal or interest on such indebtedness is determined by reference to the value of such equity, or

"(iii) the indebtedness is issued with warrants or similar instruments as part of

an investment unit in which the indebtedness may be used to satisfy the exercise price of such warrants or similar instruments.

"(B) EXCEPTIONS.—Such term shall not include—

"(i) any indebtedness which would (but for this subparagraph) be convertible indebtedness solely because a fixed payment of principal or interest is, at the election of the holder, payable in equity of the issuer or a related party having a value equal to the amount of such principal or interest, or

"(ii) any other indebtedness specified by the Secretary.

"(4) RELATED PARTY.—For purposes of this subsection, persons are related if they bear a relationship specified in section 267(b) or section 707(b).

"(5) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection, including regulations preventing avoidance

of this subsection through the use of an issuer other than a corporation.''

(b) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to indebtedness issued on or after December 7, 1995.

(2) TRANSITIONAL RULE.—The amendments made by this section shall not apply to—

(A) any indebtedness issued pursuant to a commitment which was binding on December 6, 1995, and at all times thereafter before the indebtedness was issued,

(B) any indebtedness issued pursuant to an exchange offer which was outstanding on such date,

(C) any indebtedness which was priced for purposes of issuance on or before such date,

(D) indebtedness issued pursuant to a registration statement filed with the Securities and Exchange Commission on or before December 7, 1995 (other than a registration statement which, under 17 CFR 230.415, contemplated a delayed or continuous offering of such indebtedness), but only to the extent that such indebted-

ness is described in, and the amount of such indebtedness does not exceed in the aggregate the amount stated in, such registration statement as of such date,

(E) indebtedness issued pursuant to a registration statement which is filed with the Securities and Exchange Commission on or before December 7, 1995, and which, under 17 CFR 230.415, contemplated a delayed or continuous offering of such indebtedness if a prospectus supplement (including a preliminary prospectus supplement) to such registration statement was filed under 17 CFR 230.424 on or before December 7, 1995, but only to the extent that such indebtedness is described in, and the amount of such indebtedness does not exceed in the aggregate the amount stated in, such prospectus supplement as of such date (or, to the extent a preliminary prospectus supplement as of such date does not state a maximum amount to be issued, the amount expected to be offered may be established by other contemporaneous, written evidence), and

(F) indebtedness issued pursuant to a private placement that contemplates resales of the

instruments pursuant to 17 CFR 230.144A, but only if, on or before December 7, 1995—

(i) the issuer had made a public announcement of its intention to issue the indebtedness, and

(ii) an offering circular or memorandum (including a preliminary offering circular or memorandum) with respect to the indebtedness had been distributed to prospective investors, but only to the extent that such indebtedness is described in, and the amount of such indebtedness does not exceed in the aggregate the amount stated in, such offering circular or memorandum as of such date.

Indebtedness shall be treated as meeting the requirements of subparagraph (A) if such indebtedness is issued, before the 30th day after the date of the enactment of this Act, as part of an issue substantially identical (other than yield) to an issue which was publicly announced as having been sold on December 7, 1995, but which was terminated on such date.

Subtitle C—Foreign Provisions

PART I—FOREIGN TRUSTS

SEC. ___301. IMPROVED INFORMATION REPORTING ON FOREIGN TRUSTS.

(a) IN GENERAL.—Section 6048 of the Internal Revenue Code of 1986 (relating to returns as to certain foreign trusts) is amended to read as follows:

"SEC. 6048. INFORMATION WITH RESPECT TO CERTAIN FOREIGN TRUSTS.

''(a) NOTICE OF CERTAIN EVENTS.—

''(1) GENERAL RULE.—On or before the 90th day (or such later day as the Secretary may prescribe) after any reportable event, the responsible party shall provide written notice of such event to the Secretary in accordance with paragraph (2).

''(2) CONTENTS OF NOTICE.—The notice required by paragraph (1) shall contain such information as the Secretary may prescribe, including—

''(A) the amount of money or other property (if any) transferred to the trust in connection with the reportable event, and

''(B) the identity of the trust and of each trustee and beneficiary (or class of beneficiaries) of the trust.

"(3) REPORTABLE EVENT.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'reportable event' means—

"(i) the creation of any foreign trust by a United States person,

"(ii) the transfer of any money or property (directly or indirectly) to a foreign trust by a United States person, including a transfer by reason of death, and

"(iii) the death of a citizen or resident of the United States if—

"(I) the decedent was treated as the owner of any portion of a foreign trust under the rules of subpart E of part I of subchapter J of chapter 1, or

"(II) any portion of a foreign trust was included in the gross estate of the decedent.

"(B) EXCEPTIONS.—

"(i) FAIR MARKET VALUE SALES.—Subparagraph (A)(ii) shall not apply to any transfer of property to a trust in exchange for consideration of at least the fair

market value of the transferred property. For purposes of the preceding sentence, consideration other than cash shall be taken into account at its fair market value and the rules of section 679(a)(3) shall apply.

"(ii) PENSION AND CHARITABLE TRUSTS.—Subparagraph (A) shall not apply with respect to a trust which is—

"(I) described in section 404(a)(4) or 404A, or

"(II) determined by the Secretary to be described in section 501(c)(3).

"(4) RESPONSIBLE PARTY.—For purposes of this subsection, the term 'responsible party' means—

"(A) the grantor in the case of the creation of an inter vivos trust,

"(B) the transferor in the case of a reportable event described in paragraph (3)(A)(ii) other than a transfer by reason of death, and

"(C) the executor of the decedent's estate in any other case.

"(b) UNITED STATES GRANTOR OF FOREIGN TRUST.—

"(1) IN GENERAL.—If, at any time during any taxable year of a United States person, such person is treated as the owner of any portion of a foreign trust under the rules of subpart E of part I of subchapter J of chapter 1, such person shall be responsible to ensure that—

"(A) such trust makes a return for such year which sets forth a full and complete accounting of all trust activities and operations for the year, the name of the United States agent for such trust, and such other information as the Secretary may prescribe, and

"(B) such trust furnishes such information as the Secretary may prescribe to each United States person (i) who is treated as the owner of any portion of such trust or (ii) who receives (directly or indirectly) any distribution from the trust.

"(2) TRUSTS NOT HAVING UNITED STATES AGENT.—

"(A) IN GENERAL.—If the rules of this subsection apply to any foreign trust, the determination of amounts required to be taken into

account with respect to such trust by a United States person under the rules of subpart E of part I of subchapter J of chapter 1 shall be determined by the Secretary in the Secretary's sole discretion from the Secretary's own knowledge or from such information as the Secretary may obtain through testimony or otherwise.

"(B) UNITED STATES AGENT REQUIRED.—The rules of this subsection shall apply to any foreign trust to which paragraph (1) applies unless such trust agrees (in such manner, subject to such conditions, and at such time as the Secretary shall prescribe) to authorize a United States person to act as such trust's limited agent solely for purposes of applying sections 7602, 7603, and 7604 with respect to—

"(i) any request by the Secretary to examine records or produce testimony related to the proper treatment of amounts required to be taken into account under the rules referred to in subparagraph (A), or

"(ii) any summons by the Secretary for such records or testimony.

The appearance of persons or production of records by reason of a United States person being such an agent shall not subject such persons or records to legal process for any purpose other than determining the correct treatment under this title of the amounts required to be taken into account under the rules referred to in subparagraph (A). A foreign trust which appoints an agent described in this subparagraph shall not be considered to have an office or a permanent establishment in the United States, or to be engaged in a trade or business in the United States, solely because of the activities of such agent pursuant to this subsection.

"(C) OTHER RULES TO APPLY.—Rules similar to the rules of paragraphs (2) and (4) of section 6038A(e) shall apply for purposes of this paragraph.

"(c) REPORTING BY UNITED STATES BENEFICIARIES OF FOREIGN TRUSTS.—

"(1) IN GENERAL.—If any United States person receives (directly or indirectly) during any taxable year of such person any distribution from a foreign trust, such person shall make a return with respect to such trust for such year which includes—

"(A) the name of such trust,

"(B) the aggregate amount of the distributions so received from such trust during such taxable year, and

"(C) such other information as the Secretary may prescribe.

"(2) INCLUSION IN INCOME IF RECORDS NOT PROVIDED.—If adequate records are not provided to the Secretary to determine the proper treatment of any distribution from a foreign trust, such distribution shall be treated as an accumulation distribution includible in the gross income of the distributee under chapter 1. To the extent provided in regulations, the preceding sentence shall not apply if the foreign trust elects to be subject to rules similar to the rules of subsection (b)(2)(B).

"(d) SPECIAL RULES.—

"(1) DETERMINATION OF WHETHER UNITED STATES PERSON RECEIVES DISTRIBUTION.—For purposes of this section, in determining whether a United States person receives a distribution from a foreign trust, the fact that a portion of such trust is treated as owned by another person under the rules of subpart E of part I of subchapter J of chapter 1 shall be disregarded.

"(2) DOMESTIC TRUSTS WITH FOREIGN ACTIVITIES.—To the extent provided in regulations, a trust which is a United States person shall be treated as a foreign trust for purposes of this section and section 6677 if such trust has substantial activities, or holds substantial property, outside the United States.

"(3) TIME AND MANNER OF FILING INFORMATION.—Any notice or return required under this section shall be made at such time and in such manner as the Secretary shall prescribe.

"(4) MODIFICATION OF RETURN REQUIREMENTS.—The Secretary is authorized to suspend or modify any requirement of this section if the Secretary determines that the United States has no significant tax interest in obtaining the required information."

(b) INCREASED PENALTIES.—Section 6677 of such Code (relating to failure to file information returns with respect to certain foreign trusts) is amended to read as follows:

"SEC. 6677. FAILURE TO FILE INFORMATION WITH RESPECT TO CERTAIN FOREIGN TRUSTS.

"(a) CIVIL PENALTY.—In addition to any criminal penalty provided by law, if any notice or return required to be filed by section 6048—

"(1) is not filed on or before the time provided in such section, or

"(2) does not include all the information required pursuant to such section or includes incorrect information,

the person required to file such notice or return shall pay a penalty equal to 35 percent of the gross reportable amount. If any failure described in the preceding sentence continues for more than 90 days after the day on which the Secretary mails notice of such failure to the person required to pay such penalty, such person shall pay a penalty (in addition to the amount determined under the preceding sentence) of $10,000 for each 30-day period (or fraction thereof) during which such failure continues after the expiration of such 90-day period.

"(b) SPECIAL RULES FOR RETURNS UNDER SECTION 6048(b).—In the case of a return required under section 6048(b)—

"(1) the United States person referred to in such section shall be liable for the penalty imposed by subsection (a), and

"(2) subsection (a) shall be applied by substituting '5 percent' for '35 percent'.

"(c) GROSS REPORTABLE AMOUNT.—For purposes of subsection (a), the term 'gross reportable amount' means—

"(1) the gross value of the property involved in the event (determined as of the date of the event) in the case of a failure relating to section 6048(a),

"(2) the gross value of the portion of the trust's assets at the close of the year treated as owned by the United States person in the case of a failure relating to section 6048(b)(1), and

"(3) the gross amount of the distributions in the case of a failure relating to section 6048(c).

"(d) REASONABLE CAUSE EXCEPTION.—No penalty shall be imposed by this section on any failure which is shown to be due to reasonable cause and not due to willful neglect. The fact that a foreign jurisdiction would impose a civil or criminal penalty on the taxpayer (or any other person) for disclosing the required information is not reasonable cause.

"(e) DEFICIENCY PROCEDURES NOT TO APPLY.—Subchapter B of chapter 63 (relating to deficiency procedures for income, estate, gift, and certain excise taxes)

shall not apply in respect of the assessment or collection of any penalty imposed by subsection (a).''

(c) CONFORMING AMENDMENTS.—

(1) Paragraph (2) of section 6724(d) of such Code is amended by striking ''or'' at the end of subparagraph (S), by striking the period at the end of subparagraph (T) and inserting '', or'', and by inserting after subparagraph (T) the following new subparagraph:

''(U) section 6048(b)(1)(B) (relating to foreign trust reporting requirements).''

(2) The table of sections for subpart B of part III of subchapter A of chapter 61 is of such Code amended by striking the item relating to section 6048 and inserting the following new item:

''Sec. 6048. Information with respect to certain foreign trusts.''

(3) The table of sections for part I of subchapter B of chapter 68 of such Code is amended by striking the item relating to section 6677 and inserting the following new item:

''Sec. 6677. Failure to file information with respect to certain foreign trusts.''

(d) EFFECTIVE DATES.—

(1) REPORTABLE EVENTS.—To the extent related to subsection (a) of section 6048 of the Internal Revenue Code of 1986, as amended by this sec-

tion, the amendments made by this section shall apply to reportable events (as defined in such section 6048) occurring after the date of the enactment of this Act.

(2) GRANTOR TRUST REPORTING.—To the extent related to subsection (b) of such section 6048, the amendments made by this section shall apply to taxable years of United States persons beginning after the date of the enactment of this Act.

(3) REPORTING BY UNITED STATES BENEFICIARIES.—To the extent related to subsection (c) of such section 6048, the amendments made by this section shall apply to distributions received after the date of the enactment of this Act.

SEC. ___302. MODIFICATIONS OF RULES RELATING TO FOREIGN TRUSTS HAVING ONE OR MORE UNITED STATES BENEFICIARIES.

(a) TREATMENT OF TRUST OBLIGATIONS, ETC.—

(1) Paragraph (2) of section 679(a) of the Internal Revenue Code of 1986 is amended by striking subparagraph (B) and inserting the following:

"(B) TRANSFERS AT FAIR MARKET VALUE.—To any transfer of property to a trust in exchange for consideration of at least the fair market value of the transferred property. For

purposes of the preceding sentence, consideration other than cash shall be taken into account at its fair market value.''

(2) Subsection (a) of section 679 of such Code (relating to foreign trusts having one or more United States beneficiaries) is amended by adding at the end the following new paragraph:

''(3) CERTAIN OBLIGATIONS NOT TAKEN INTO ACCOUNT UNDER FAIR MARKET VALUE EXCEPTION.—

''(A) IN GENERAL.—In determining whether paragraph (2)(B) applies to any transfer by a person described in clause (ii) or (iii) of subparagraph (C), there shall not be taken into account—

''(i) any obligation of a person described in subparagraph (C), and

''(ii) to the extent provided in regulations, any obligation which is guaranteed by a person described in subparagraph (C).

''(B) TREATMENT OF PRINCIPAL PAYMENTS ON OBLIGATION.—Principal payments by the trust on any obligation referred to in subparagraph (A) shall be taken into account on and after the date of the payment in deter-

mining the portion of the trust attributable to the property transferred.

"(C) PERSONS DESCRIBED.—The persons described in this subparagraph are—

"(i) the trust,

"(ii) any grantor or beneficiary of the trust, and

"(iii) any person who is related (within the meaning of section 643(i)(3)) to any grantor or beneficiary of the trust."

(b) EXEMPTION OF TRANSFERS TO CHARITABLE TRUSTS.—Subsection (a) of section 679 of such Code is amended by striking "section 404(a)(4) or 404A" and inserting "section 6048(a)(3)(B)(ii)".

(c) OTHER MODIFICATIONS.—Subsection (a) of section 679 of such Code is amended by adding at the end the following new paragraphs:

"(4) SPECIAL RULES APPLICABLE TO FOREIGN GRANTOR WHO LATER BECOMES A UNITED STATES PERSON.—

"(A) IN GENERAL.—If a nonresident alien individual has a residency starting date within 5 years after directly or indirectly transferring property to a foreign trust, this section and section 6048 shall be applied as if such individual

transferred to such trust on the residency starting date an amount equal to the portion of such trust attributable to the property transferred by such individual to such trust in such transfer.

"(B) TREATMENT OF UNDISTRIBUTED INCOME.—For purposes of this section, undistributed net income for periods before such individual's residency starting date shall be taken into account in determining the portion of the trust which is attributable to property transferred by such individual to such trust but shall not otherwise be taken into account.

"(C) RESIDENCY STARTING DATE.—For purposes of this paragraph, an individual's residency starting date is the residency starting date determined under section 7701(b)(2)(A).

"(5) OUTBOUND TRUST MIGRATIONS.—If—

"(A) an individual who is a citizen or resident of the United States transferred property to a trust which was not a foreign trust, and

"(B) such trust becomes a foreign trust while such individual is alive,

then this section and section 6048 shall be applied as if such individual transferred to such trust on the date such trust becomes a foreign trust an amount

equal to the portion of such trust attributable to the property previously transferred by such individual to such trust. A rule similar to the rule of paragraph (4)(B) shall apply for purposes of this paragraph.''

(d) MODIFICATIONS RELATING TO WHETHER TRUST HAS UNITED STATES BENEFICIARIES.—Subsection (c) of section 679 of such Code is amended by adding at the end the following new paragraphs:

''(3) CERTAIN UNITED STATES BENEFICIARIES DISREGARDED.—A beneficiary shall not be treated as a United States person in applying this section with respect to any transfer of property to foreign trust if such beneficiary first became a United States person more than 5 years after the date of such transfer.

''(4) TREATMENT OF FORMER UNITED STATES PERSONS.—To the extent provided by the Secretary, for purposes of this subsection, the term 'United States person' includes any person who was a United States person at any time during the existence of the trust.''

(e) TECHNICAL AMENDMENT.—Subparagraph (A) of section 679(c)(2) is amended to read as follows:

"(A) in the case of a foreign corporation, such corporation is a controlled foreign corporation (as defined in section 957(a)),".

(f) REGULATIONS.—Section 679 is amended by adding at the end the following new subsection:

"(d) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section."

(g) EFFECTIVE DATE.—The amendments made by this section shall apply to transfers of property after February 6, 1995.

SEC. ___303. FOREIGN PERSONS NOT TO BE TREATED AS OWNERS UNDER GRANTOR TRUST RULES.

(a) GENERAL RULE.—

(1) Subsection (f) of section 672 of the Internal Revenue Code of 1986 (relating to special rule where grantor is foreign person) is amended to read as follows:

"(f) SUBPART NOT TO RESULT IN FOREIGN OWNERSHIP.—

"(1) IN GENERAL.—Notwithstanding any other provision of this subpart, this subpart shall apply only to the extent such application results in an amount being currently taken into account (directly or through 1 or more entities) under this chapter in

computing the income of a citizen or resident of the United States or a domestic corporation.

"(2) EXCEPTIONS.—

"(A) CERTAIN REVOCABLE AND IR-REVOCABLE TRUSTS.—

"(i) IN GENERAL.—Except as provided in clause (ii), paragraph (1) shall not apply to any trust if—

"(I) the power to revest absolutely in the grantor title to the trust property is exercisable solely by the grantor without the approval or consent of any other person or with the consent of a related or subordinate party who is subservient to the grantor, or

"(II) the only amounts distributable from such trust (whether income or corpus) during the lifetime of the grantor are amounts distributable to the grantor or the spouse of the grantor.

"(ii) EXCEPTION.—Clause (i) shall not apply to any trust which has a beneficiary who is a United States person to

the extent such beneficiary has made transfers of property by gift (directly or indirectly) to a foreign person who is the grantor of such trust. For purposes of the preceding sentence, any gift shall not be taken into account to the extent such gift is excluded from taxable gifts under section 2503(b).

"(B) COMPENSATORY TRUSTS.—Except as provided in regulations, paragraph (1) shall not apply to any portion of a trust distributions from which are taxable as compensation for services rendered.

"(3) SPECIAL RULES.—Except as otherwise provided in regulations prescribed by the Secretary—

"(A) a controlled foreign corporation (as defined in section 957) shall be treated as a domestic corporation for purposes of paragraph (1), and

"(B) paragraph (1) shall not apply for purposes of applying part III of subchapter G (relating to foreign personal holding companies) and part VI of subchapter P (relating to treat-

ment of certain passive foreign investment companies).

''(4) RECHARACTERIZATION OF PURPORTED GIFTS.—In the case of any transfer directly or indirectly from a partnership or foreign corporation which the transferee treats as a gift or bequest, the Secretary may recharacterize such transfer in such circumstances as the Secretary determines to be appropriate to prevent the avoidance of the purposes of this subsection.

''(5) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection, including regulations providing that paragraph (1) shall not apply in appropriate cases.''

(2) The last sentence of subsection (c) of section 672 of such Code is amended by inserting ''subsection (f) and'' before ''sections 674''.

(b) CREDIT FOR CERTAIN TAXES.—Paragraph (2) of section 665(d) of such Code is amended by adding at the end the following new sentence: ''Under rules or regulations prescribed by the Secretary, in the case of any foreign trust of which the settlor or another person would be treated as owner of any portion of the trust under subpart E but for section 672(f), the term 'taxes imposed on

the trust' includes the allocable amount of any income, war profits, and excess profits taxes imposed by any foreign country or possession of the United States on the settlor or such other person in respect of trust gross income.''

(c) DISTRIBUTIONS BY CERTAIN FOREIGN TRUSTS THROUGH NOMINEES.—

(1) Section 643 of such Code is amended by adding at the end the following new subsection:

''(h) DISTRIBUTIONS BY CERTAIN FOREIGN TRUSTS THROUGH NOMINEES.—For purposes of this part, any amount paid to a United States person which is derived directly or indirectly from a foreign trust of which the payor is not the grantor shall be deemed in the year of payment to have been directly paid by the foreign trust to such United States person.''

(2) Section 665 of such Code is amended by striking subsection (c).

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided by paragraph (2), the amendments made by this section shall take effect on the date of the enactment of this Act.

(2) EXCEPTION FOR CERTAIN TRUSTS.—The amendments made by this section shall not apply to any trust—

(A) which is treated as owned by the grantor or another person under section 676 or 677 (other than subsection (a)(3) thereof) of the Internal Revenue Code of 1986, and

(B) which is in existence on September 19, 1995.

The preceding sentence shall not apply to the portion of any such trust attributable to any transfer to such trust after September 19, 1995.

(e) TRANSITIONAL RULE.—If—

(1) by reason of the amendments made by this section, any person other than a United States person ceases to be treated as the owner of a portion of a domestic trust, and

(2) before January 1, 1997, such trust becomes a foreign trust, or the assets of such trust are transferred to a foreign trust,

no tax shall be imposed by section 1491 of the Internal Revenue Code of 1986 by reason of such trust becoming a foreign trust or the assets of such trust being transferred to a foreign trust.

SEC. ___304. INFORMATION REPORTING REGARDING FOREIGN GIFTS.

(a) IN GENERAL.—Subpart A of part III of subchapter A of chapter 61 of the Internal Revenue Code of 1986 is amended by inserting after section 6039E the following new section:

"SEC. 6039F. NOTICE OF GIFTS RECEIVED FROM FOREIGN PERSONS.

"(a) IN GENERAL.—If the value of the aggregate foreign gifts received by a United States person (other than an organization described in section 501(c) and exempt from tax under section 501(a)) during any taxable year exceeds $10,000, such United States person shall furnish (at such time and in such manner as the Secretary shall prescribe) such information as the Secretary may prescribe regarding each foreign gift received during such year.

"(b) FOREIGN GIFT.—For purposes of this section, the term 'foreign gift' means any amount received from a person other than a United States person which the recipient treats as a gift or bequest. Such term shall not include any qualified transfer (within the meaning of section 2503(e)(2)).

"(c) PENALTY FOR FAILURE TO FILE INFORMATION.—

"(1) IN GENERAL.—If a United States person fails to furnish the information required by subsection (a) with respect to any foreign gift within the time prescribed therefor (including extensions)—

"(A) the tax consequences of the receipt of such gift shall be determined by the Secretary in the Secretary's sole discretion from the Secretary's own knowledge or from such information as the Secretary may obtain through testimony or otherwise, and

"(B) such United States person shall pay (upon notice and demand by the Secretary and in the same manner as tax) an amount equal to 5 percent of the amount of such foreign gift for each month for which the failure continues (not to exceed 25 percent of such amount in the aggregate).

"(2) REASONABLE CAUSE EXCEPTION.— Paragraph (1) shall not apply to any failure to report a foreign gift if the United States person shows that the failure is due to reasonable cause and not due to willful neglect.

"(d) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section."

(b) CLERICAL AMENDMENT.—The table of sections for such subpart is amended by inserting after the item relating to section 6039E the following new item:

"Sec. 6039F. Notice of large gifts received from foreign persons."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to amounts received after the date of the enactment of this Act in taxable years ending after such date.

SEC. ___305. MODIFICATION OF RULES RELATING TO FOREIGN TRUSTS WHICH ARE NOT GRANTOR TRUSTS.

(a) MODIFICATION OF INTEREST CHARGE ON ACCUMULATION DISTRIBUTIONS.—Subsection (a) of section 668 of the Internal Revenue Code of 1986 (relating to interest charge on accumulation distributions from foreign trusts) is amended to read as follows:

"(a) GENERAL RULE.—For purposes of the tax determined under section 667(a)—

"(1) INTEREST DETERMINED USING UNDERPAYMENT RATES.—The interest charge determined under this section with respect to any distribution is the amount of interest which would be determined on the partial tax computed under section 667(b) for the period described in paragraph

(2) using the rates and the method under section 6621 applicable to underpayments of tax.

"(2) PERIOD.—For purposes of paragraph (1), the period described in this paragraph is the period which begins on the date which is the applicable number of years before the date of the distribution and which ends on the date of the distribution.

"(3) APPLICABLE NUMBER OF YEARS.—For purposes of paragraph (2)—

"(A) IN GENERAL.—The applicable number of years with respect to a distribution is the number determined by dividing—

"(i) the sum of the products described in subparagraph (B) with respect to each undistributed income year, by

"(ii) the aggregate undistributed net income.

The quotient determined under the preceding sentence shall be rounded under procedures prescribed by the Secretary.

"(B) PRODUCT DESCRIBED.—For purposes of subparagraph (A), the product described in this subparagraph with respect to any undistributed income year is the product of—

"(i) the undistributed net income for such year, and

"(ii) the sum of the number of taxable years between such year and the taxable year of the distribution (counting in each case the undistributed income year but not counting the taxable year of the distribution).

"(4) UNDISTRIBUTED INCOME YEAR.—For purposes of this subsection, the term 'undistributed income year' means any prior taxable year of the trust for which there is undistributed net income, other than a taxable year during all of which the beneficiary receiving the distribution was not a citizen or resident of the United States.

"(5) DETERMINATION OF UNDISTRIBUTED NET INCOME.—Notwithstanding section 666, for purposes of this subsection, an accumulation distribution from the trust shall be treated as reducing proportionately the undistributed net income for prior taxable years.

"(6) PERIODS BEFORE 1996.—Interest for the portion of the period described in paragraph (2) which occurs before January 1, 1996, shall be determined—

"(A) by using an interest rate of 6 percent, and

"(B) without compounding until January 1, 1996."

(b) ABUSIVE TRANSACTIONS.—Section 643(a) of such Code is amended by inserting after paragraph (6) the following new paragraph:

"(7) ABUSIVE TRANSACTIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this part, including regulations to prevent avoidance of such purposes."

(c) TREATMENT OF USE OF TRUST PROPERTY.—

(1) IN GENERAL.—Section 643 of such Code (relating to definitions applicable to subparts A, B, C, and D) is amended by adding at the end the following new subsection:

"(i) USE OF FOREIGN TRUST PROPERTY.—For purposes of subparts B, C, and D—

"(1) GENERAL RULE.—If a foreign trust makes a loan of cash or marketable securities directly or indirectly to—

"(A) any grantor or beneficiary of such trust who is a United States person, or

"(B) any United States person not described in subparagraph (A) who is related to such grantor or beneficiary,

the amount of such loan shall be treated as a distribution by such trust to such grantor or beneficiary (as the case may be).

"(2) USE OF OTHER PROPERTY.—Except as provided in regulations prescribed by the Secretary, any direct or indirect use of trust property (other than cash or marketable securities) by a person referred to in subparagraph (A) or (B) of paragraph (1) shall be treated as a distribution to the grantor or beneficiary (as the case may be) equal to the fair market value of the use of such property. The Secretary may prescribe regulations treating a loan guarantee by the trust as a use of trust property equal to the value of the guarantee.

"(3) DEFINITIONS AND SPECIAL RULES.—For purposes of this subsection—

"(A) CASH.—The term 'cash' includes foreign currencies and cash equivalents.

"(B) RELATED PERSON.—

"(i) IN GENERAL.—A person is related to another person if the relationship between such persons would result in a dis-

allowance of losses under section 267 or 707(b). In applying section 267 for purposes of the preceding sentence, section 267(c)(4) shall be applied as if the family of an individual includes the spouses of the members of the family.

"(ii) ALLOCATION OF USE.—If any person described in paragraph (1)(B) is related to more than one person, the grantor or beneficiary to whom the treatment under this subsection applies shall be determined under regulations prescribed by the Secretary.

"(C) EXCLUSION OF TAX-EXEMPTS.—The term 'United States person' does not include any entity exempt from tax under this chapter.

"(D) TRUST NOT TREATED AS SIMPLE TRUST.—Any trust which is treated under this subsection as making a distribution shall be treated as not described in section 651.

"(4) SUBSEQUENT TRANSACTIONS REGARDING LOAN PRINCIPAL.—If any loan is taken into account under paragraph (1), any subsequent transaction between the trust and the original borrower regarding the principal of the loan (by way of complete or par-

tial repayment, satisfaction, cancellation, discharge, or otherwise) shall be disregarded for purposes of this title.''

(2) TECHNICAL AMENDMENT.—Paragraph (8) of section 7872(f) is amended by inserting '', 643(i),'' before ''or 1274'' each place it appears.

(d) EFFECTIVE DATES.—

(1) INTEREST CHARGE.—The amendment made by subsection (a) shall apply to distributions after the date of the enactment of this Act.

(2) ABUSIVE TRANSACTIONS.—The amendment made by subsection (b) shall take effect on the date of the enactment of this Act.

(3) USE OF TRUST PROPERTY.—The amendment made by subsection (c) shall apply to—

(A) loans of cash or marketable securities after September 19, 1995, and

(B) uses of other trust property after December 31, 1995.

SEC. ___306. RESIDENCE OF ESTATES AND TRUSTS, ETC.

(a) TREATMENT AS UNITED STATES PERSON.—

(1) IN GENERAL.—Paragraph (30) of section 7701(a) of the Internal Revenue Code of 1986 is amended by striking subparagraph (D) and by inserting after subparagraph (C) the following:

"(D) any estate or trust if—

"(i) a court within the United States is able to exercise primary supervision over the administration of the estate or trust, and

"(ii) in the case of a trust, one or more United States fiduciaries have the authority to control all substantial decisions of the trust."

(2) CONFORMING AMENDMENT.—Paragraph (31) of section 7701(a) of such Code is amended to read as follows:

"(31) FOREIGN ESTATE OR TRUST.—The term 'foreign estate' or 'foreign trust' means any estate or trust other than an estate or trust described in section 7701(a)(30)(D)."

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply—

(A) to taxable years beginning after December 31, 1996, or

(B) at the election of the trustee of a trust, to taxable years ending after the date of the enactment of this Act.

Such an election, once made, shall be irrevocable.

(b) DOMESTIC TRUSTS WHICH BECOME FOREIGN TRUSTS.—

(1) IN GENERAL.—Section 1491 of such Code (relating to imposition of tax on transfers to avoid income tax) is amended by adding at the end the following new flush sentence:

''If a trust which is not a foreign trust becomes a foreign trust, such trust shall be treated for purposes of this section as having transferred, immediately before becoming a foreign trust, all of its assets to a foreign trust.''

(2) PENALTY.—Section 1494 of the Internal Revenue Code of 1986 is amended by adding at the end the following new subsection:

''(c) PENALTY.—In the case of any failure to file a return required by the Secretary with respect to any transfer described in section 1491, the person required to file such return shall be liable for the penalties provided in section 6677 in the same manner as if such failure were a failure to file a return under section 6048(a).''

(3) EFFECTIVE DATE.—The amendments made by this subsection shall take effect on the date of the enactment of this Act.

PART II—OTHER FOREIGN PROVISIONS

SEC. ___311. DEFINITION OF FOREIGN PERSONAL HOLDING COMPANY INCOME.

(a) INCOME FROM NOTIONAL PRINCIPAL CONTRACTS.—

(1) IN GENERAL.—Paragraph (1) of section 954(c) (defining foreign personal holding company income) is amended by adding at the end the following new subparagraph:

"(F) INCOME FROM NOTIONAL PRINCIPAL CONTRACTS.—Net income from notional principal contracts. Any item of income, gain, deduction, or loss from a notional principal contract entered into for purposes of hedging any item described in subparagraph (B), (C), (D), or (E) shall not be taken into account for purposes of this subparagraph but shall be taken into account under such other subparagraph."

(2) EXCEPTION FOR DEALERS.—Paragraph (2) of section 954(c) is amended by adding at the end the following new subparagraph:

"(C) EXCEPTION FOR DEALERS.—Except as provided by regulations, in the case of a regular dealer in property, forward contracts, option contracts, or similar financial instruments (including notional principal contracts), there

shall not be taken into account in computing foreign personal holding income any item of income, gain, deduction, or loss from any transaction (including hedging transactions) entered into in the ordinary course of such dealer's trade or business as such a dealer.''

(3) CONFORMING AMENDMENT.—Subparagraph (B) of section 954(c)(1) is amended—

(A) by striking the second sentence, and

(B) by striking ''also'' in the last sentence.

(b) PAYMENTS IN LIEU OF DIVIDENDS.—Paragraph (1) of section 954(c), as amended by subsection (a), is amended by adding at the end the following new subparagraph:

''(G) PAYMENTS IN LIEU OF DIVIDENDS.—Payments in lieu of dividends which are made pursuant to an agreement to which section 1058 applies.''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1995.

SEC. ___312. TREATMENT OF FOREIGN OIL AND GAS EXTRACTION INCOME.

(a) DISALLOWANCE OF FOREIGN TAX CREDIT.—Section 907(a) is amended to read as follows:

"(a) DENIAL OF FOREIGN TAX CREDIT FOR EXTRACTION INCOME.—

"(1) IN GENERAL.—Notwithstanding any other provision of this part—

"(A) no credit shall be allowed under section 901(a) for any income, war profits, or excess profits taxes paid or accrued (or deemed paid under section 902 or 960) to any country which are attributable to foreign oil and gas extraction income, and

"(B) subsections (a), (b), and (c) of section 904 and sections 902 and 960 shall be applied separately with respect to foreign oil and gas extraction income.

"(2) TAXES ALLOWED AS DEDUCTION, ETC.—Sections 78 and 275 shall not apply to any tax which is not allowable as a credit under section 901(a) by reason of this subsection."

(b) ELIMINATION OF DEFERRAL.—Section 954(g) is amended by adding at the end the following new paragraph:

"(3) NO EXCEPTIONS FOR EXTRACTION INCOME.—Notwithstanding paragraphs (1) and (2), foreign base company oil related income shall include

all foreign oil and gas extraction income (as defined in section 907(c)(1)) for the taxable year.''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1995. The amendments made by this section shall apply notwithstanding any treaty obligation of the United States.

SEC. ___313. LIMITATION ON EXCLUSION OF EARNED INCOME OF CITIZENS OR RESIDENTS OF THE UNITED STATES LIVING ABROAD.

(a) IN GENERAL.—Section 911 (relating to exclusion of earned income of citizens or residents of the United States living abroad) is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

''(f) EXCLUSION TO BE APPLIED AT LOWEST RATES OF TAX.—If this section applies to a taxpayer for any taxable year, the tax imposed this chapter for such taxable year shall be equal to the greater of—

''(1) such tax determined without regard to this subsection, or

''(2) the excess of—

''(A) such tax determined without regard to this section, over

"(B) a tax determined under section 1 on an amount of taxable income equal to the amount of the exclusion under subsection (a)."

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1995.

Subtitle D—Accounting Provisions

SEC. ___401. REPEAL OF BAD DEBT RESERVE METHOD FOR THRIFT SAVINGS ASSOCIATIONS.

(a) IN GENERAL.—Section 593 (relating to reserves for losses on loans) is hereby repealed.

(b) CONFORMING AMENDMENTS.—

(1) Subsection (d) of section 50 is amended by adding at the end the following new sentence: "Paragraphs (1)(A), (2)(A), and (4) of section 46(e) referred to in paragraph (1) of this subsection shall not apply to any taxable year beginning after December 31, 1995."

(2) Subsection (e) of section 52 is amended by striking paragraph (1) and by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively.

(3) Subsection (a) of section 57 is amended by striking paragraph (4).

(4) Section 246 is amended by striking subsection (f).

(5) Clause (i) of section 291(e)(1)(B) is amended by striking ''or to which section 593 applies''.

(6) Subparagraph (A) of section 585(a)(2) is amended by striking ''other than an organization to which section 593 applies''.

(7) Sections 595 and 596 are hereby repealed.

(8) Subsection (a) of section 860E is amended—

(A) by striking ''Except as provided in paragraph (2), the'' in paragraph (1) and inserting ''The'',

(B) by striking paragraphs (2) and (4) and redesignating paragraphs (3) and (5) as paragraphs (2) and (3), respectively, and

(C) by striking in paragraph (2) (as so redesignated) all that follows ''subsection'' and inserting a period.

(9) Paragraph (3) of section 992(d) is amended by striking ''or 593''.

(10) Section 1038 is amended by striking subsection (f).

(11) Clause (ii) of section 1042(c)(4)(B) is amended by striking ''or 593''.

(12) Subsection (c) of section 1277 is amended by striking ''or to which section 593 applies''.

(13) Subparagraph (B) of section 1361(b)(2) is amended by striking ''or to which section 593 applies''.

(14) The table of sections for part II of subchapter H of chapter 1 is amended by striking the items relating to sections 593, 595, and 596.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 1995.

(2) REPEAL OF SECTION 595.—The repeal of section 595 under subsection (b)(7) shall apply to property acquired in taxable years beginning after December 31, 1995.

(d) 6-YEAR SPREAD OF ADJUSTMENTS.—

(1) IN GENERAL.—In the case of any taxpayer who is required by reason of the amendments made by this section to change its method of computing reserves for bad debts—

(A) such change shall be treated as a change in a method of accounting,

(B) such change shall be treated as initiated by the taxpayer and as having been made with the consent of the Secretary, and

(C) the net amount of the adjustments required to be taken into account by the taxpayer under section 481(a)—

(i) shall be determined by taking into account only applicable excess reserves, and

(ii) as so determined, shall be taken into account ratably over the 6-taxable year period beginning with the first taxable year beginning after December 31, 1995.

(2) APPLICABLE EXCESS RESERVES.—

(A) IN GENERAL.—For purposes of paragraph (1), the term 'applicable excess reserves' means the excess (if any) of—

(i) the balance of the reserves described in section 593(c)(1) of such Code (as in effect on the day before the date of the enactment of this Act) as of the close of the taxpayer's last taxable year beginning before January 1, 1996, over

(ii) the lesser of—

(I) the balance of such reserves as of the close of the taxpayer's last taxable year beginning before January 1, 1988, or

(II) the balance of the reserves described in subclause (I), reduce by an amount determined in the same manner as under section 585(b)(2)(B)(ii) on the basis of the taxable years described in clause (i) and this clause.

(B) SPECIAL RULE FOR THRIFTS WHICH BECOME SMALL BANKS.—In the case of a bank (as defined in section 581 of such Code) which is not a large bank (as defined in section 585(c)(2) of such Code) for its first taxable year beginning after December 31, 1995—

(i) the balance taken into account under subparagraph (A)(ii) shall not be less than the amount which would be the balance of such reserve as of the close of its last taxable year beginning before January 1, 1996, if the additions to such reserve for all taxable years had been determined under section 585(b)(2)(A), and

(ii) the opening balance of the reserve for bad debts as of the beginning of such first taxable year shall be the balance taken into account under subparagraph (A)(ii) (determined after the application of clause (i) of this subparagraph).

The preceding sentence shall not apply for purposes of paragraphs (5), (6), and (7).

(3) RECAPTURE OF PRE-1988 RESERVES WHERE TAXPAYER CEASES TO BE BANK.—If during any taxable year beginning after December 31, 1995, a taxpayer to which paragraph (1) applied is not a bank (as defined in section 581), paragraph (1) shall apply to the reserves described in subparagraph (A)(ii) except that such reserves shall be taken into account ratably over the 6-taxable year period beginning with such taxable year.

(4) SUSPENSION OF RECAPTURE IF RESIDENTIAL LOAN REQUIREMENT MET.—

(A) IN GENERAL.—In the case of a bank which meets the residential loan requirement of subparagraph (B) for a taxable year beginning after December 31, 1995, and before January 1, 1998—

(i) no adjustment shall be taken into account under paragraph (1) for such taxable year, and

(ii) such taxable year shall be disregarded in determining—

(I) whether any other taxable year is a taxable year for which an adjustment is required to be taken into account under paragraph (1), and

(II) the amount of such adjustment.

(B) RESIDENTIAL LOAN REQUIREMENT.—A taxpayer meets the residential loan requirement of this subparagraph for any taxable year if the principal amount of the residential loans made by the taxpayer during such year is not less than the base amount for such year.

(C) RESIDENTIAL LOAN.—For purposes of this paragraph, the term ''residential loan'' means any loan described in clause (v) of section 7701(a)(19)(C) of such Code but only if such loan is incurred in acquiring, constructing, or improving the property described in such clause.

(D) BASE AMOUNT.—For purposes of subparagraph (B), the base amount is the average of the principal amounts of the residential loans made by the taxpayer during the 6 most recent taxable years beginning before January 1, 1996. At the election of the taxpayer who made such loans during each of such 6 taxable years, the preceding sentence shall be applied without regard to the taxable year in which such principal amount was the highest and the taxable year in such principal amount was the lowest. Such an election may be made only for the first taxable year beginning after December 31, 1995, and, if made for such taxable year, shall apply to the succeeding taxable year unless revoked with the consent of the Secretary of the Treasury or his delegate.

(E) CONTROLLED GROUPS.—In the case of a taxpayer which is a member of any controlled group of corporations described in section 1563(a)(1) of such Code, subparagraph (B) shall be applied with respect to such group.

(5) CONTINUED APPLICATION OF FRESH START UNDER SECTION 585 TRANSITIONAL RULES.—In the case of a taxpayer to which paragraph (1) applied

and which was not a large bank (as defined in section 585(c)(2) of such Code) for its first taxable year beginning after December 31, 1995:

(A) IN GENERAL.—For purposes of determining the net amount of adjustments referred to in section 585(c)(3)(A)(iii) of such Code, there shall be taken into account only the excess of the reserve for bad debts as of the close of the last taxable year before the disqualification year over the balance taken into account by such taxpayer under paragraph (2)(A)(ii) of this subsection.

(B) TREATMENT UNDER ELECTIVE CUTOFF METHOD.—For purposes of applying section 585(c)(4) of such Code—

(i) the balance of the reserve taken into account under subparagraph (B) thereof shall be reduced by the balance taken into account by such taxpayer under paragraph (2)(A)(ii) of this subsection, and

(ii) no amount shall be includible in gross income by reason of such reduction.

(6) CONTINUED APPLICATION OF SECTION 593(e).—Notwithstanding the amendments made by

this section, in the case of a taxpayer to which paragraph (1) of this subsection applies, section 593(e) of such Code (as in effect on the day before the date of the enactment of this Act) shall continue to apply to such taxpayer as if such taxpayer were a domestic building and loan association but the amount of the reserves taken into account under subparagraphs (B) and (C) of section 593(e)(1) (as so in effect) shall be the balance taken into account by such taxpayer under paragraph (2)(A)(ii) of this subsection.

(7) CERTAIN ITEMS INCLUDED AS SECTION 381(c) ITEMS.—The balance of the applicable excess reserves, and the balance taken into account by a taxpayer under paragraph (2)(A)(ii) of this subsection, shall be treated as items described in section 381(c) of such Code.

(8) CONVERSIONS TO CREDIT UNIONS.—In the case of a taxpayer to which paragraph (1) applied which becomes a credit union described in section 501(c)(14)(A)—

(A) any amount required to be included in the gross income of the credit union by reason of this subsection shall be treated as derived from an unrelated trade or business (as defined in section 513), and

(B) for purposes of paragraph (3), the credit union shall not be treated as if it were a bank.

(9) REGULATIONS.—The Secretary of the Treasury or his delegate shall prescribe such regulations as may be necessary to carry out this subsection, including regulations providing for the application of paragraphs (4) and (6) in the case of acquisitions, mergers, spin-offs, and other reorganizations.

SEC. ___402. DEPRECIATION UNDER INCOME FORECAST METHOD.

(a) GENERAL RULE.—Section 167 (relating to depreciation) is amended by redesignating subsection (g) as subsection (h) and by inserting after subsection (f) the following new subsection:

"(g) DEPRECIATION UNDER INCOME FORECAST METHOD.—

"(1) IN GENERAL.—If the depreciation deduction allowable under this section to any taxpayer with respect to any property is determined under the income forecast method or any similar method—

"(A) in applying such method, the income from the property shall include all income earned in connection with the property before

the close of the 10th taxable year following the taxable year in which the property was placed in service,

"(B) the adjusted basis of the property shall only include amounts with respect to which the requirements of section 461(h) are satisfied,

"(C) the depreciation deduction under such method for the 10th taxable year beginning after the taxable year in which the property was placed in service shall be equal to the adjusted basis of such property as of the beginning of such 10th taxable year, and

"(D) such taxpayer shall pay (or be entitled to receive) interest computed under the look-back method of paragraph (2) for any recomputation year.

"(2) LOOK-BACK METHOD.—The interest computed under the look-back method of this paragraph for any recomputation year shall be determined by—

"(A) first determining the depreciation deductions under this section with respect to such property which would have been allowable for prior taxable years if the determination of the amounts so allowable had been made on the

basis of the sum of the following (instead of the estimated income with respect to such property)—

"(i) the actual income earned in connection with such property for periods before the close of the recomputation year, and

"(ii) an estimate of the future income to be earned in connection with such property for periods after the recomputation year,

"(B) second, determining (solely for purposes of computing such interest) the overpayment or underpayment of tax for each such prior taxable year which would result solely from the application of subparagraph (A), and

"(C) then using the adjusted overpayment rate (as defined in section 460(b)(7)), compounded daily, on the overpayment or underpayment determined under subparagraph (B).

For purposes of the preceding sentence, any cost incurred after the property is placed in service (which is not treated as a separate property under paragraph (5)) shall be taken into account by discount-

ing (using the Federal mid-term rate determined under section 1274(d) as of the time such cost is incurred) such cost to its value as of the date the property is placed in service. The taxpayer may elect with respect to any property to have the preceding sentence not apply to such property.

"(3) EXCEPTION FROM LOOK-BACK METHOD.—Paragraph (1)(D) shall not apply with respect to any property which, when placed in service by the taxpayer, had a basis of $100,000 or less.

"(4) RECOMPUTATION YEAR.—For purposes of this subsection, except as provided in regulations, the term 'recomputation year' means, with respect to any property, the 3d and the 10th taxable years beginning after the taxable year in which the property was placed in service, unless the actual income earned in connection with the property for the period before the close of such 3d or 10th taxable year is within 10 percent of the income earned in connection with the property for such period which was taken into account under paragraph (1)(A).

"(5) SPECIAL RULES.—

"(A) CERTAIN COSTS TREATED AS SEPARATE PROPERTY.—For purposes of this sub-

section, the following costs shall be treated as separate properties:

"(i) Any costs incurred with respect to any property after the 10th taxable year beginning after the taxable year in which the property was placed in service.

"(ii) Any costs incurred after the property is placed in service and before the close of such 10th taxable year if such costs are significant and give rise to a significant increase in the income from the property which was not included in the estimated income from the property.

"(B) SYNDICATION INCOME FROM TELEVISION SERIES.—In the case of property which is an episode in a television series, income from syndicating such series shall not be required to be taken into account under this subsection before the earlier of—

"(i) the 4th taxable year beginning after the date the first episode in such series is placed in service, or

"(ii) the earliest taxable year in which the taxpayer has an arrangement relating to the future syndication of such series.

"(C) SPECIAL RULES FOR FINANCIAL EXPLOITATION OF CHARACTERS, ETC.—For purposes of this subsection, in the case of television and motion picture films, the income from the property shall include income from the exploitation of characters, designs, scripts, scores, and other incidental income associated with such films, but only to the extent that such income is earned in connection with the ultimate use of such items by, or the ultimate sale of merchandise to, persons who are not related persons (within the meaning of section 267(b)) to the taxpayer.

"(D) COLLECTION OF INTEREST.—For purposes of subtitle F (other than sections 6654 and 6655), any interest required to be paid by the taxpayer under paragraph (1) for any recomputation year shall be treated as an increase in the tax imposed by this chapter for such year.

"(E) DETERMINATIONS.—For purposes of paragraph (2), determinations of the amount of income earned in connection with any property shall be determined in the same manner as for purposes of applying the income forecast meth-

od; except that any income from the disposition of such property shall be taken into account.

"(F) TREATMENT OF PASS-THRU ENTITIES.—Rules similar to the rules of section 460(b)(4) shall apply for purposes of this subsection."

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by subsection (a) shall apply to property placed in service after September 13, 1995.

(2) BINDING CONTRACTS.—The amendment made by subsection (a) shall not apply to any property produced or acquired by the taxpayer pursuant to a written contract which was binding on September 13, 1995, and at all times thereafter before such production or acquisition.

SEC. ____403. REPEAL OF LOWER-OF-COST-OR-MARKET METHOD OF ACCOUNTING FOR INVENTORIES.

(a) IN GENERAL.—Section 471 (relating to general rule for inventories) is amended by redesignating subsection (b) as subsection (c) and by inserting after subsection (a) the following new subsection:

"(b) CERTAIN WRITE-DOWNS NOT PERMITTED; USE OF MARK-DOWNS REQUIRED UNDER RETAIL METHOD.—

"(1) IN GENERAL.—A taxpayer—

"(A) may not use the lower-of-cost-or-market method of accounting for inventories, and

"(B) may not write-down items by reason of being unsalable at normal prices or unusable in the normal way because of damage, imperfections, shop wear, changes of style, odd or broken lots, or other similar causes.

Subparagraph (B) shall not apply to a taxpayer using a mark-to-market method of accounting for both gains and losses in inventory values.

"(2) MARK-DOWNS REQUIRED TO BE TAKEN INTO ACCOUNT UNDER RETAIL METHOD.—The retail method of accounting for inventories shall be applied by taking into account mark-downs in determining the approximate cost of the inventories.

"(3) EXCEPTION FOR CERTAIN SMALL BUSINESSES.—Paragraph (1) shall not apply to any taxpayer for the taxable year if the average annual gross receipts of the taxpayer for the 3 preceding taxable years do not exceed $5,000,000. For purposes of the preceding sentence, rules similar to the rules of paragraph (2) and (3) of section 448(c) shall apply.

"(4) REGULATIONS.—The Secretary shall prescribe such regulations as may be appropriate to carry out the purposes of this subsection, including regulations relating to wash-sale-type transactions."

(b) CONFORMING AMENDMENTS.—

(1) Clause (iii) of section 312(n)(4)(C) is amended to read as follows:

"(iii) INVENTORY AMOUNT.—The inventory amount of assets under the first-in, first-out method authorized by section 471 shall be determined using the method authorized to be used by the taxpayer under such section."

(2) Subparagraph (C) of section 1363(d)(4) is amended to read as follows:

"(iii) INVENTORY AMOUNT.—The inventory amount of assets under a method authorized by section 471 shall be determined using the method authorized to be used by the corporation under such section."

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning after December 31, 1995.

(2) CHANGE IN METHOD OF ACCOUNTING.—In the case of any taxpayer required by this section to change its method accounting for its first taxable year beginning after December 31, 1995—

(A) such change shall be treated as initiated by the taxpayer,

(B) such change shall be treated as made with the consent of the Secretary of the Treasury, and

(C) the net amount of the adjustments required to be taken into account by the taxpayer under section 481 of the Internal Revenue Code of 1986 shall be taken into account ratably over the 4-taxable year period beginning with the first taxable year beginning after December 31, 1995.

Subtitle E—Administrative Provisions

SEC. ___501. REPEAL OF DIESEL FUEL TAX REBATE TO PURCHASERS OF DIESEL-POWERED AUTOMOBILES AND LIGHT TRUCKS.

(a) IN GENERAL.—Section 6427 (relating to fuels not used for taxable purposes) is amended by striking subsection (g).

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (3) of section 34(a) is amended to read as follows:

"(3) under section 6427 with respect to fuels used for nontaxable purposes or resold during the taxable year (determined without regard to section 6427(k)).".

(2) Paragraphs (1) and (2)(A) of section 6427(i) are each amended—

(A) by striking "(g),", and

(B) by striking "(or a qualified diesel powered highway vehicle purchased)" each place it appears.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to vehicles purchased after December 31, 1995.

SEC. ___502. INCREASED INFORMATION REPORTING PENALTIES.

(a) IN GENERAL.—Section 6721(a) (relating to imposition of penalty) is amended by adding at the end the following new paragraph:

"(3) INCREASED PENALTY IF LESS THAN 97 PERCENT OF AGGREGATE AMOUNT OF ITEMS REPORTED CORRECTLY.—

"(A) IN GENERAL.—Subject to the overall limitation of paragraph (1), the amount of the

penalty under paragraph (1) for any failure with respect to any information return shall be equal to the greater of $50 or 5 percent of the amount required to be reported correctly but not so reported.

"(B) EXCEPTION WHERE SUBSTANTIAL COMPLIANCE.—Subparagraph (A) shall not apply to failures with respect to information returns required to be filed by a person during any calendar year if the aggregate amount which is timely and correctly reported on such returns filed by the person for the calendar year is at least 97 percent of the aggregate amount which is required to be reported on such returns by the person for the calendar year."

(b) CONFORMING AMENDMENT.—Paragraph (1) of section 6721(a) is amended by striking "In" and inserting "Except as provided in paragraph (3), in".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to returns the due date for which (without regard to extensions) is more than 90 days after the date of the enactment of this Act.

Subtitle F—Casualty and Involuntary Conversion Provisions

SEC. ___601. BASIS ADJUSTMENT TO PROPERTY HELD BY CORPORATION WHERE STOCK IN CORPORATION IS REPLACEMENT PROPERTY UNDER INVOLUNTARY CONVERSION RULES.

(a) IN GENERAL.—Subsection (b) of section 1033 is amended to read as follows:

"(b) BASIS OF PROPERTY ACQUIRED THROUGH INVOLUNTARY CONVERSION.—

"(1) CONVERSIONS DESCRIBED IN SUBSECTION (a)(1).—If the property was acquired as the result of a compulsory or involuntary conversion described in subsection (a)(1), the basis shall be the same as in the case of the property so converted—

"(A) decreased in the amount of any money received by the taxpayer which was not expended in accordance with the provisions of law (applicable to the year in which such conversion was made) determining the taxable status of the gain or loss upon such conversion, and

"(B) increased in the amount of gain or decreased in the amount of loss to the taxpayer recognized upon such conversion under the law

applicable to the year in which such conversion was made.

"(2) CONVERSIONS DESCRIBED IN SUBSECTION (a)(2).—In the case of property purchased by the taxpayer in a transaction described in subsection (a)(2) which resulted in the nonrecognition of any part of the gain realized as the result of a compulsory or involuntary conversion, the basis shall be the cost of such property decreased in the amount of the gain not so recognized; and if the property purchased consists of more than 1 piece of property, the basis determined under this sentence shall be allocated to the purchased properties in proportion to their respective costs.

"(3) PROPERTY HELD BY CORPORATION THE STOCK OF WHICH IS REPLACEMENT PROPERTY.—

"(A) IN GENERAL.—If the basis of stock in a corporation is decreased under paragraph (2), an amount equal to such decrease shall also be applied to reduce the basis of property held by the corporation at the time the taxpayer acquired control (as defined in subsection (a)(2)(E)) of such corporation.

"(B) LIMITATION.—Subparagraph (A) shall not apply to the extent that it would (but

for this subparagraph) require a reduction in the aggregate adjusted bases of the property of the corporation below the taxpayer's adjusted basis of the stock in the corporation (determined immediately after such basis is decreased under paragraph (2)).

"(C) ALLOCATION OF BASIS REDUCTION.—The decrease required under subparagraph (A) shall be allocated—

"(i) first to property which is similar or related in service or use to the converted property,

"(ii) second to depreciable property (as defined in section 1017(b)(3)(B)) not described in clause (i), and

"(iii) then to other property.

"(D) SPECIAL RULES.—

"(i) REDUCTION NOT TO EXCEED ADJUSTED BASIS OF PROPERTY.—No reduction in the basis of any property under this paragraph shall exceed the adjusted basis of such property (determined without regard to such reduction).

"(ii) ALLOCATION OF REDUCTION AMONG PROPERTIES.—If more than 1

property is described in a clause of subparagraph (C), the reduction under this paragraph shall be allocated among such property in proportion to the adjusted bases of such property (as so determined).''.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to involuntary conversions occurring after September 13, 1995.

Subtitle G—Excise Tax on Amounts of Private Excess Benefits

SEC. ___701. EXCISE TAXES FOR FAILURE BY CERTAIN CHARITABLE ORGANIZATIONS TO MEET CERTAIN QUALIFICATION REQUIREMENTS.

(a) IN GENERAL.—Chapter 42 (relating to private foundations and certain other tax-exempt organizations) is amended by redesignating subchapter D as subchapter E and by inserting after subchapter C the following new subchapter:

''Subchapter D—Failure By Certain Charitable Organizations To Meet Certain Qualification Requirements

''Sec. 4958. Taxes on excess benefit transactions.

"SEC. 4958. TAXES ON EXCESS BENEFIT TRANSACTIONS.

"(a) INITIAL TAXES.—

"(1) ON THE DISQUALIFIED PERSON.—There is hereby imposed on each excess benefit transaction a tax equal to 25 percent of the excess benefit. The tax imposed by this paragraph shall be paid by any disqualified person referred to in subsection (f)(1) with respect to such transaction.

"(2) ON THE MANAGEMENT.—In any case in which a tax is imposed by paragraph (1), there is hereby imposed on the participation of any organization manager in the excess benefit transaction, knowing that it is such a transaction, a tax equal to 10 percent of the excess benefit, unless such participation is not willful and is due to reasonable cause. The tax imposed by this paragraph shall be paid by any organization manager who participated in the excess benefit transaction.

"(b) ADDITIONAL TAX ON THE DISQUALIFIED PERSON.—In any case in which an initial tax is imposed by subsection (a)(1) on an excess benefit transaction and the excess benefit involved in such transaction is not corrected within the taxable period, there is hereby imposed a tax equal to 200 percent of the excess benefit involved. The tax imposed by this subsection shall be paid by any dis-

qualified person referred to in subsection (f)(1) with respect to such transaction.

"(c) EXCESS BENEFIT TRANSACTION; EXCESS BENEFIT.—For purposes of this section—

"(1) EXCESS BENEFIT TRANSACTION.—

"(A) IN GENERAL.—The term 'excess benefit transaction' means any transaction in which an economic benefit is provided by an applicable tax-exempt organization directly or indirectly to or for the use of any disqualified person if the value of the economic benefit provided exceeds the value of the consideration (including the performance of services) received for providing such benefit. For purposes of the preceding sentence, an economic benefit shall not be treated as consideration for the performance of services unless such organization clearly indicated its intent to so treat such benefit.

"(B) EXCESS BENEFIT.—The term 'excess benefit' means the excess referred to in subparagraph (A).

"(2) AUTHORITY TO INCLUDE CERTAIN OTHER PRIVATE INUREMENT.—To the extent provided in regulations prescribed by the Secretary, the term 'excess benefit transaction' includes any transaction

in which the amount of any economic benefit provided to or for the use of a disqualified person is determined in whole or in part by the revenues of 1 or more activities of the organization but only if such transaction results in inurement not permitted under paragraph (3) or (4) of section 501(c), as the case may be. In the case of any such transaction, the excess benefit shall be the amount of the inurement not so permitted.

"(d) SPECIAL RULES.—For purposes of this section—

"(1) JOINT AND SEVERAL LIABILITY.—If more than 1 person is liable for any tax imposed by subsection (a) or subsection (b), all such persons shall be jointly and severally liable for such tax.

"(2) LIMIT FOR MANAGEMENT.—With respect to any 1 excess benefit transaction, the maximum amount of the tax imposed by subsection (a)(2) shall not exceed $10,000.

"(e) APPLICABLE TAX-EXEMPT ORGANIZATION.—For purposes of this subchapter, the term 'applicable tax-exempt organization' means—

"(1) any organization which (without regard to any excess benefit) would be described in paragraph

(3) or (4) of section 501(c) and exempt from tax under section 501(a), and

"(2) any organization which was described in paragraph (1) at any time during the 10-year period ending on the date of the transaction.

Such term shall not include a private foundation (as defined in section 509(a)).

"(f) OTHER DEFINITIONS.—For purposes of this section—

"(1) DISQUALIFIED PERSON.—The term 'disqualified person' means, with respect to any transaction—

"(A) any person who was, at any time during the 5-year period ending on the date of such transaction, in a position to exercise substantial influence over the affairs of the organization,

"(B) a member of the family of an individual described in subparagraph (A), and

"(C) a 35-percent controlled entity.

"(2) ORGANIZATION MANAGER.—The term 'organization manager' means, with respect to any applicable tax-exempt organization, any officer, director, or trustee of such organization (or any individual having powers or responsibilities similar to those

of officers, directors, or trustees of the organization).

"(3) 35-PERCENT CONTROLLED ENTITY.—

"(A) IN GENERAL.—The term '35-percent controlled entity' means—

"(i) a corporation in which persons described in subparagraph (A) or (B) of paragraph (1) own more than 35 percent of the total combined voting power,

"(ii) a partnership in which such persons own more than 35 percent of the profits interest, and

"(iii) a trust or estate in which such persons own more than 35 percent of the beneficial interest.

"(B) CONSTRUCTIVE OWNERSHIP RULES.—Rules similar to the rules of paragraphs (3) and (4) of section 4946(a) shall apply for purposes of this paragraph.

"(4) FAMILY MEMBERS.—The members of an individual's family shall be determined under section 4946(d); except that such members also shall include the brothers and sisters (whether by the whole or half blood) of the individual and their spouses.

"(5) TAXABLE PERIOD.—The term 'taxable period' means, with respect to any excess benefit transaction, the period beginning with the date on which the transaction occurs and ending on the earliest of—

"(A) the date of mailing a notice of deficiency under section 6212 with respect to the tax imposed by subsection (a)(1), or

"(B) the date on which the tax imposed by subsection (a)(1) is assessed.

"(6) CORRECTION.—The terms 'correction' and 'correct' mean, with respect to any excess benefit transaction, undoing the excess benefit to the extent possible, and where fully undoing the excess benefit is not possible, such additional corrective action as is prescribed by the Secretary by regulations."

(b) APPLICATION OF PRIVATE INUREMENT RULE TO TAX-EXEMPT ORGANIZATIONS DESCRIBED IN SECTION 501(c)(4).—

(1) Paragraph (4) of section 501(c) is amended by inserting "(A)" after "(4)" and by adding at the end the following:

"(B) Subparagraph (A) shall not apply to an entity unless no part of the net earnings of such en-

tity inures to the benefit of any private shareholder or individual.''

(2) In the case of an organization operating on a cooperative basis which, before the date of the enactment of this Act, was determined by the Secretary of the Treasury or his delegate, to be described in section 501(c)(4) of the Internal Revenue Code of 1986 and exempt from tax under section 501(a) of such Code, the allocation or return of net margins or capital to the members of such organization in accordance with its incorporating statute and bylaws shall not be treated for purposes of such Code as the inurement of the net earnings of such organization to the benefit of any private shareholder or individual. The preceding sentence shall apply only if such statute and bylaws are substantially as such statute and bylaws were in existence on the date of the enactment of this Act.

(c) TECHNICAL AND CONFORMING AMENDMENTS.—

(1) Subsection (e) of section 4955 is amended—

(A) by striking ''SECTION 4945'' in the heading and inserting ''SECTIONS 4945 and 4958'', and

(B) by inserting before the period ''or an excess benefit for purposes of section 4958''.

(2) Subsections (a), (b), and (c) of section 4963 are each amended by inserting ''4958,'' after ''4955,''.

(3) Subsection (e) of section 6213 is amended by inserting ''4958 (relating to private excess benefit),'' before ''4971''.

(4) Paragraphs (2) and (3) of section 7422(g) are each amended by inserting ''4958,'' after ''4955,''.

(5) Subsection (b) of section 7454 is amended by inserting ''or whether an organization manager (as defined in section 4958(f)(2)) has 'knowingly' participated in an excess benefit transaction (as defined in section 4958(c)),'' after ''section 4912(b),''.

(6) The table of subchapters for chapter 42 is amended by striking the last item and inserting the following:

''Subchapter D. Failure by certain charitable organizations to meet certain qualification requirements.
''Subchapter E. Abatement of first and second tier taxes in certain cases.''

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section (other than subsection (b)) shall apply

to excess benefit transactions occurring on or after September 14, 1995.

(2) BINDING CONTRACTS.—The amendments referred to in paragraph (1) shall not apply to any benefit arising from a transaction pursuant to any written contract which was binding on September 13, 1995, and at all times thereafter before such transaction occurred.

(3) APPLICATION OF PRIVATE INUREMENT RULE TO TAX-EXEMPT ORGANIZATIONS DESCRIBED IN SECTION 501(C)(4).—

(A) IN GENERAL.—The amendment made by subsection (b) shall apply to inurement occurring on or after September 14, 1995.

(B) BINDING CONTRACTS.—The amendment made by subsection (b) shall not apply to any inurement occurring before January 1, 1997, pursuant to a written contract which was binding on September 13, 1995, and at all times thereafter before such inurement occurred.

SEC. ___702. REPORTING OF CERTAIN EXCISE TAXES AND OTHER INFORMATION.

(a) REPORTING BY ORGANIZATIONS DESCRIBED IN SECTION 501(c)(3).—Subsection (b) of section 6033 (re-

lating to certain organizations described in section 501(c)(3)) is amended by striking ''and'' at the end of paragraph (9), by redesignating paragraph (10) as paragraph (14), and by inserting after paragraph (9) the following new paragraphs:

''(10) the respective amounts (if any) of the taxes paid by the organization during the taxable year under the following provisions:

''(A) section 4911 (relating to tax on excess expenditures to influence legislation),

''(B) section 4912 (relating to tax on disqualifying lobbying expenditures of certain organizations), and

''(C) section 4955 (relating to taxes on political expenditures of section 501(c)(3) organizations),

''(11) the respective amounts (if any) of the taxes paid by the organization, or any disqualified person with respect to such organization, during the taxable year under section 4958 (relating to taxes on private excess benefit from certain charitable organizations),

''(12) such information as the Secretary may require with respect to any excess benefit transaction (as defined in section 4958),

"(13) the name of each disqualified person (as defined in section 4958(f)(1)(A)) with respect to such organization and such other information with respect to such disqualified persons as the Secretary may prescribe, and".

(b) ORGANIZATIONS DESCRIBED IN SECTION 501(c)(4).—Section 6033 is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

"(f) CERTAIN ORGANIZATIONS DESCRIBED IN SECTION 501(c)(4).—Every organization described in section 501(c)(4) which is subject to the requirements of subsection (a) shall include on the return required under subsection (a) the information referred to in paragraphs (11), (12) and (13) of subsection (b) with respect to such organization."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to returns for taxable years beginning after the date of the enactment of this Act.

SEC. ___703. INCREASE IN PENALTIES ON EXEMPT ORGANIZATIONS FOR FAILURE TO FILE COMPLETE AND TIMELY ANNUAL RETURNS.

(a) IN GENERAL.—Subparagraph (A) of section 6652(c)(1) (relating to annual returns under section

6033) is amended by striking ''$10'' and inserting ''$20'' and by striking ''$5,000'' and inserting ''$10,000''.

(b) LARGER PENALTY ON ORGANIZATIONS HAVING GROSS RECEIPTS IN EXCESS OF $1,000,000.—Subparagraph (A) of section 6652(c)(1) is amended by adding at the end the following new sentence: ''In the case of an organization having gross receipts exceeding $1,000,000 for any year, with respect to the return required under section 6033 for such year, the first sentence of this subparagraph shall be applied by substituting '$100' for '$20' and, in lieu of applying the second sentence of this subparagraph, the maximum penalty under this subparagraph shall not exceed $50,000.''

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to returns for taxable years ending on or after December 31, 1995.

Subtitle H—Extension of Certain Taxes

SEC. ___801. EXTENSION OF HAZARDOUS SUBSTANCE SUPERFUND TAXES.

(a) EXTENSION OF TAXES.—

(1) ENVIRONMENTAL TAX.—Section 59A(e) is amended to read as follows:

"(e) APPLICATION OF TAX.—The tax imposed by this section shall apply to taxable years beginning after December 31, 1986, and before January 1, 1997.".

(2) EXCISE TAXES.—Section 4611(e) is amended to read as follows:

"(e) APPLICATION OF HAZARDOUS SUBSTANCE SUPERFUND FINANCING RATE.—The Hazardous Substance Superfund financing rate under this section shall apply after December 31, 1986, and before October 1, 1996.".

(b) TERMINATION ON DEPOSITS OF TAXES INTO HAZARDOUS SUBSTANCE SUPERFUND.—Paragraph (1) of section 9507(b) is amended by inserting "before August 1, 1996" after "received".

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

SEC. ___802. EXTENSION OF OIL SPILL LIABILITY TAX.

(a) IN GENERAL.—Section 4611(f)(1) (relating to application of oil spill liability trust fund financing rate) is amended by striking "after December 31, 1989, and before January 1, 1995" and inserting "after December 31, 1995, and before October 1, 2002".

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on January 1, 1996.

SEC. ___803. EXTENSION OF FEDERAL UNEMPLOYMENT TAX.

Section 3301 (relating to rate of Federal unemployment tax) is amended—

(1) by striking ''1998'' in paragraph (1) and inserting ''2002'', and

(2) by striking ''1999'' in paragraph (2) and inserting ''2003''.

Subtitle I—Provisions Relating To Individuals

SEC. ___851. NO ROLLOVER OR EXCLUSION OF GAIN ON SALE OF PRINCIPAL RESIDENCE WHICH IS ATTRIBUTABLE TO DEPRECIATION DEDUCTIONS.

(a) IN GENERAL.—Subsection (d) of section 1034 (relating to limitations) is amended by adding at the end the following new paragraph:

''(3) RECOGNITION OF GAIN ATTRIBUTABLE TO DEPRECIATION.—Subsection (a) shall not apply to so much of the gain from the sale of any residence as does not exceed the portion of the depreciation adjustments (as defined in section 1250(b)(3)) attributable to periods after December 31, 1995, in respect of such residence.''.

(b) COMPARABLE TREATMENT UNDER 1-TIME EXCLUSION OF GAIN ON SALE OF PRINCIPAL RESIDENCE.—

Subsection (d) of section 121 is amended by adding at the end the following new paragraph:

"(10) RECOGNITION OF GAIN ATTRIBUTABLE TO DEPRECIATION.—

"(A) IN GENERAL.—Subsection (a) shall not apply to so much of the gain from the sale of any property as does not exceed the portion of the depreciation adjustments (as defined in section 1250(b)(3)) attributable to periods after December 31, 1995, in respect of such property.

"(B) COORDINATION WITH PARAGRAPH (5).—If this section does not apply to gain attributable to a portion of a residence by reason of paragraph (5), subparagraph (A) shall not apply to depreciation adjustments attributable to such portion.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years ending after December 31, 1995.

SEC. ___852. EXTENSION OF WITHHOLDING TO CERTAIN GAMBLING WINNINGS.

(a) REPEAL OF EXEMPTION FOR BINGO AND KENO.—Paragraph (5) of section 3402(q) is amended to read as follows:

"(5) EXEMPTION FOR SLOT MACHINES.—The tax imposed under paragraph (1) shall not apply to winnings from a slot machine.".

(b) THRESHOLD AMOUNT.—Paragraph (3) of section 3402(q) is amended—

(1) by striking "(B) and (C)" in subparagraph (A) and inserting "(B), (C), and (D)", and

(2) by adding at the end the following new subparagraph:

"(D) BINGO AND KENO.—Proceeds of more than $5,000 from a wager placed in a bingo or keno game.".

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on January 1, 1996.

SEC. ___853. REPEAL OF SPECIAL RULE FOR RENTAL USE OF VACATION HOMES, ETC., FOR LESS THAN 15 DAYS.

(a) IN GENERAL.—Section 280A (relating to disallowance of certain expenses in connection with business use of home, rental of vacation homes, etc.) is amended by striking subsection (g).

(b) NO BASIS REDUCTION UNLESS DEPRECIATION CLAIMED.—Section 1016 is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

"(e) SPECIAL RULE WHERE RENTAL USE OF VACATION HOME, ETC., FOR LESS THAN 15 DAYS.—If a dwelling unit is used during the taxable year by the taxpayer as a residence and such dwelling unit is actually rented for less than 15 days during the taxable year, the reduction under subsection (a)(2) by reason of such rental use in any taxable year beginning after December 31, 1995, shall not exceed the depreciation deduction allowed for such rental use."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1995.

Subtitle J—Reform of Earned Income Credit

SEC. ___901. EARNED INCOME CREDIT DENIED TO INDIVIDUALS NOT AUTHORIZED TO BE EMPLOYED IN THE UNITED STATES.

(a) IN GENERAL.—Section 32(c)(1) (relating to individuals eligible to claim the earned income credit) is amended by adding at the end the following new subparagraph:

"(F) IDENTIFICATION NUMBER REQUIREMENT.—The term 'eligible individual' does not include any individual who does not include on the return of tax for the taxable year—

"(i) such individual's taxpayer identification number, and

"(ii) if the individual is married (within the meaning of section 7703), the taxpayer identification number of such individual's spouse.".

(b) SPECIAL IDENTIFICATION NUMBER.—Section 32 is amended by adding at the end the following new subsection:

"(l) IDENTIFICATION NUMBERS.—Solely for purposes of subsections (c)(1)(F) and (c)(3)(D), a taxpayer identification number means a social security number issued to an individual by the Social Security Administration (other than a social security number issued pursuant to clause (II) (or that portion of clause (III) that relates to clause (II)) of section 205(c)(2)(B)(i) of the Social Security Act).".

(c) EXTENSION OF PROCEDURES APPLICABLE TO MATHEMATICAL OR CLERICAL ERRORS.—Section 6213(g)(2) (relating to the definition of mathematical or clerical errors) is amended by striking "and" at the end of subparagraph (D), by striking the period at the end of subparagraph (E) and inserting a comma, and by inserting after subparagraph (E) the following new subparagraphs:

"(F) an omission of a correct taxpayer identification number required under section 32 (relating to the earned income credit) to be included on a return, and

"(G) an entry on a return claiming the credit under section 32 with respect to net earnings from self-employment described in section 32(c)(2)(A) to the extent the tax imposed by section 1401 (relating to self-employment tax) on such net earnings has not been paid.".

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1995.

SEC. ___902. RULES RELATING TO DENIAL OF EARNED INCOME CREDIT ON BASIS OF DISQUALIFIED INCOME.

(a) DEFINITION OF DISQUALIFIED INCOME.—Paragraph (2) of section 32(i) (defining disqualified income) is amended by striking "and" at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and inserting ", and", and by adding at the end the following new subparagraph:

"(D) the net capital gain (as defined in section 1222) of the taxpayer for such taxable year."

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 1995.

TITLE 9—MIDDLE CLASS BILL OF RIGHTS

SEC. ____00. SHORT TITLE; AMENDMENT OF 1986 CODE.

(a) SHORT TITLE.—This Act may be cited as the ''Middle-Class Bill of Rights Tax Relief Act of 1996''.

(b) AMENDMENT OF 1986 CODE.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

(c) TABLE OF CONTENTS.—

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Sec. ____31. Increase in self-employed individuals' deduction for health insurance costs.

Subtitle A—Middle Class Tax Relief

SEC. ____01. CREDIT FOR FAMILIES WITH YOUNG CHILDREN.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to nonrefundable personal credits) is amended by inserting after section 22 the following new section:

"SEC. 23. FAMILIES WITH YOUNG CHILDREN.

"(a) ALLOWANCE OF CREDIT.—

"(1) IN GENERAL.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to $300 multiplied by the number of eligible children of the taxpayer for the taxable year.

"(2) INCREASE IN CREDIT.—In the case of taxable years beginning after December 31, 1998, paragraph (1) shall be applied by substituting '$500' for '$300'.

"(b) LIMITATIONS.—

"(1) PHASE-OUT OF CREDIT.—

"(A) IN GENERAL.—The amount of the credit allowed under subsection (a) shall be reduced (but not below zero) by the amount determined under subparagraph (B).

"(B) AMOUNT OF REDUCTION.—The amount determined under this subparagraph equals the amount which bears the same ratio to the credit (determined without regard to this subsection) as—

"(i) the excess of—

"(I) the taxpayer's adjusted gross income for such taxable year, over

"(II) $60,000, bears to

"(ii) $15,000.

Any amount determined under this subparagraph which is not a multiple of $10 shall be rounded to the next lowest $10.

"(C) ADJUSTED GROSS INCOME.—For purposes of this paragraph, adjusted gross income of any taxpayer shall be increased by any amount excluded from gross income under section 911, 931, or 933.

"(2) LIMITATION BASED ON AMOUNT OF TAX.—The credit allowed by subsection (a) for the

taxable year (after the application of paragraph (1)) shall not exceed the excess (if any) of—

"(A) the taxpayer's regular tax liability for the taxable year reduced by the credits allowable against such tax under this subpart (other than this section) determined without regard to section 26, over

"(B) the sum of—

"(i) the taxpayer's tentative minimum tax for such taxable year, plus

"(ii) the credit allowed for the taxable year under section 32.

"(c) ELIGIBLE CHILD.—For purposes of this section, the term 'eligible child' means any child (as defined in section 151(c)(3)) of the taxpayer—

"(1) who has not attained age 13 as of the close of the calendar year in which the taxable year of the taxpayer begins,

"(2) who is a dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction under section 151 for such taxable year, and

"(3) whose TIN is included on the taxpayer's return for such taxable year.

"(d) INFLATION ADJUSTMENTS.—In the case of a taxable year beginning in a calendar year after 1999—

"(1) IN GENERAL.—The $500 and $60,000 amounts contained in subsections (a)(2) and (b)(2) shall each be increased by an amount equal to—

"(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 1998' for 'calendar year 1992' in subparagraph (B) thereof.

"(2) INCREASE IN PHASEOUT RANGE.—If the amount applicable under subsection (a) for any taxable year exceeds $500, subsection (b)(2)(B) shall be applied by substituting an amount equal to 30 times such applicable amount for '$15,000'.

"(3) ROUNDING.—If any amount as adjusted under paragraph (1) is not a multiple of $100, such amount shall be rounded to the next lowest multiple of $100.

"(e) SPECIAL RULES.—

"(1) AMOUNT OF CREDIT MAY BE DETERMINED UNDER TABLES.—The amount of the credit allowed by this section may be determined under tables prescribed by the Secretary.

"(2) CERTAIN OTHER RULES APPLY.—Rules similar to the rules of subsections (c)(1)(E) and (F), (d), and (e) of section 32 shall apply for purposes of this section.

"(f) TERMINATION.—This section shall not apply to taxable years beginning after December 31, 2000."

(b) CLERICAL AMENDMENT.—The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 22 the following new item:

"Sec. 23. Families with young children."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1995.

SEC. ___02. DEDUCTION FOR HIGHER EDUCATION EXPENSES.

(a) DEDUCTION ALLOWED.— Part VII of subchapter B of chapter 1 (relating to additional itemized deductions for individuals) is amended by redesignating section 220 as section 221 and by inserting after section 219 the following new section:

"SEC. 220. HIGHER EDUCATION TUITION AND FEES.

"(a) ALLOWANCE OF DEDUCTION.—In the case of an individual, there shall be allowed as a deduction the

amount of qualified higher education expenses paid by the taxpayer during the taxable year.

"(b) LIMITATIONS.—

"(1) DOLLAR LIMITATION.—

"(A) IN GENERAL.—The amount allowed as a deduction under subparagraph (a) for any taxable year shall not exceed $10,000.

"(B) PHASE-IN.—In the case of taxable years beginning in 1996, 1997, or 1998, '$5,000' shall be substituted for '$10,000' in subparagraph (A).

"(2) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

"(A) IN GENERAL.—The amount which would (but for this paragraph) be taken into account under paragraph (1) shall be reduced (but not below zero) by the amount determined under subparagraph (B).

"(B) AMOUNT OF REDUCTION.—The amount determined under this subparagraph equals the amount which bears the same ratio to the amount which would be so taken into account as—

"(i) the excess of—

"(I) the taxpayer's modified adjusted gross income for such taxable year, over

"(II) $70,000 ($100,000 in the case of a joint return), bears to

"(ii) $20,000.

"(C) MODIFIED ADJUSTED GROSS INCOME.—The term 'modified adjusted gross income' means the adjusted gross income of the taxpayer for the taxable year determined—

"(i) without regard to this section and sections 911, 931, and 933, and

"(ii) after the application of sections 86, 135, 219 and 469.

For purposes of sections 86, 135, 219, and 469, adjusted gross income shall be determined without regard to the deduction allowed under this section.

"(D) INFLATION ADJUSTMENTS.—

"(i) IN GENERAL.—In the case of a taxable year beginning after 1999, the $70,000 and $100,000 amounts described in subparagraph (B) shall each be increased by an amount equal to—

"(I) such dollar amounts, multiplied by

"(II) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 1998' for 'calendar year 1992' in subparagraph (B) thereof.

"(ii) ROUNDING.—If any amount as adjusted under clause (i) is not a multiple of $5,000, such amount shall be rounded to the next lowest multiple of $5,000.

"(c) QUALIFIED HIGHER EDUCATION EXPENSES.—For purposes of this section—

"(1) QUALIFIED HIGHER EDUCATION EXPENSES.—

"(A) IN GENERAL.—The term 'qualified higher education expenses' means tuition and fees charged by an educational institution and required for the enrollment or attendance of—

"(i) the taxpayer,

"(ii) the taxpayer's spouse, or

"(iii) any dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction under section 151,

as an eligible student at an institution of higher education.

"(B) EXCEPTION FOR EDUCATION INVOLVING SPORTS, ETC.—Such term does not include expenses with respect to any course or other education involving sports, games, or hobbies, unless such expenses—

"(i) are part of a degree program, or

"(ii) are deductible under this chapter without regard to this section.

"(C) EXCEPTION FOR NONACADEMIC FEES.—Such term does not include any student activity fees, athletic fees, insurance expenses, or other expenses unrelated to a student's academic course of instruction.

"(D) ELIGIBLE STUDENT.—For purposes of subparagraph (A), the term 'eligible student' means a student who—

"(i) meets the requirements of section 484(a)(1) of the Higher Education Act of 1965 (20 U.S.C. 1091(a)(1)), as in effect

on the date of the enactment of this section, and

"(ii)(I) is carrying at least one-half the normal full-time work load for the course of study the student is pursuing, as determined by the institution of higher education, or

"(II) is enrolled in a course which enables the student to improve the student's job skills or to acquire new job skills.

"(E) IDENTIFICATION REQUIREMENT.—No deduction shall be allowed under subsection (a) to a taxpayer with respect to an eligible student unless the taxpayer includes the name, age, and taxpayer identification number of such eligible student on the return of tax for the taxable year.

"(2) INSTITUTION OF HIGHER EDUCATION.—The term 'institution of higher education' means an institution which—

"(A) is described in section 481 of the Higher Education Act of 1965 (20 U.S.C. 1088), as in effect on the date of the enactment of this section, and

"(B) is eligible to participate in programs under title IV of such Act.

"(d) SPECIAL RULES.—

"(1) NO DOUBLE BENEFIT.—

"(A) IN GENERAL.—No deduction shall be allowed under subsection (a) for qualified higher education expenses with respect to which a deduction is allowable to the taxpayer under any other provision of this chapter unless the taxpayer irrevocably waives his right to the deduction of such expenses under such other provision.

"(B) DEPENDENTS.—No deduction shall be allowed under subsection (a) to any individual with respect to whom a deduction under section 151 is allowable to another taxpayer for a taxable year beginning in the calendar year in which such individual's taxable year begins.

"(C) SAVINGS BOND EXCLUSION.—A deduction shall be allowed under subsection (a) for qualified higher education expenses only to the extent the amount of such expenses exceeds the amount excludable under section 135 for the taxable year.

"(2) LIMITATION ON TAXABLE YEAR OF DEDUCTION.—

"(A) IN GENERAL.—A deduction shall be allowed under subsection (a) for any taxable year only to the extent the qualified higher education expenses are in connection with enrollment at an institution of higher education during the taxable year.

"(B) CERTAIN PREPAYMENTS ALLOWED.—Subparagraph (A) shall not apply to qualified higher education expenses paid during a taxable year if such expenses are in connection with an academic term beginning during such taxable year or during the 1st 3 months of the next taxable year.

"(3) ADJUSTMENT FOR CERTAIN SCHOLARSHIPS AND VETERANS BENEFITS.—The amount of qualified higher education expenses otherwise taken into account under subsection (a) with respect to the education of an individual shall be reduced (before the application of subsection (b)) by the sum of the amounts received with respect to such individual for the taxable year as—

"(A) a qualified scholarship which under section 117 is not includable in gross income,

"(B) an educational assistance allowance under chapter 30, 31, 32, 34, or 35 of title 38, United States Code, or

"(C) a payment (other than a gift, bequest, devise, or inheritance within the meaning of section 102(a)) for educational expenses, or attributable to enrollment at an eligible educational institution, which is exempt from income taxation by any law of the United States.

"(4) NO DEDUCTION FOR MARRIED INDIVIDUALS FILING SEPARATE RETURNS.—If the taxpayer is a married individual (within the meaning of section 7703), this section shall apply only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

"(5) NONRESIDENT ALIENS.—If the taxpayer is a nonresident alien individual for any portion of the taxable year, this section shall apply only if such individual is treated as a resident alien of the United States for purposes of this chapter by reason of an election under subsection (g) or (h) of section 6013.

"(6) REGULATIONS.—The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this section, including regula-

tions requiring recordkeeping and information reporting.

"(e) TERMINATION.—This section shall not apply to taxable years beginning after December 31, 2000."

(b) DEDUCTION ALLOWED IN COMPUTING ADJUSTED GROSS INCOME.—Section 62(a) is amended by inserting after paragraph (15) the following new paragraph:

"(16) HIGHER EDUCATION TUITION AND FEES.—The deduction allowed by section 220."

(c) CONFORMING AMENDMENT.—The table of sections for part VII of subchapter B of chapter 1 is amended by striking the item relating to section 220 and inserting:

"Sec. 220. Higher education tuition and fees.
"Sec. 221. Cross reference."

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to payments made after December 31, 1995.

Subtitle B—Provisions Relating To Individual Retirement Plans

PART I—RETIREMENT SAVINGS INCENTIVES

Subpart A—IRA Deduction

SEC. ___11. INCREASE IN INCOME LIMITATIONS.

(a) IN GENERAL.—Subparagraph (B) of section 219(g)(3) is amended—

(1) by striking "$40,000" in clause (i) and inserting "$80,000", and

(2) by striking "$25,000" in clause (ii) and inserting "$50,000".

(b) PHASE-OUT OF LIMITATIONS.—Clause (ii) of section 219(g)(2)(A) is amended by striking "$10,000" and inserting "an amount equal to 10 times the dollar amount applicable for the taxable year under subsection (b)(1)(A)".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1995, and before January 1, 2001.

SEC. ___12. INFLATION ADJUSTMENT FOR DEDUCTIBLE AMOUNT AND INCOME LIMITATIONS.

(a) IN GENERAL.—Section 219 is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

"(h) COST-OF-LIVING ADJUSTMENTS.—

"(1) IN GENERAL.—In the case of any taxable year beginning in a calendar year after 1996, each dollar amount to which this subsection applies shall be increased by an amount equal to—

"(A) such dollar amount, multiplied by

"(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting 'calendar year 1995' for

'calendar year 1992' in subparagraph (B) thereof.

"(2) DOLLAR AMOUNTS TO WHICH SUBSECTION APPLIES.—This subsection shall apply to—

"(A) the $2,000 amounts under subsection (b)(1)(A) and (c), and

"(B) the applicable dollar amounts under subsection (g)(3)(B).

"(3) ROUNDING RULES.—

"(A) DEDUCTION AMOUNTS.—If any amount referred to in paragraph (2)(A) as adjusted under paragraph (1) is not a multiple of $500, such amount shall be rounded to the next lowest multiple of $500.

"(B) APPLICABLE DOLLAR AMOUNTS.—If any amount referred to in paragraph (2)(B) as adjusted under paragraph (1) is not a multiple of $5,000, such amount shall be rounded to the next lowest multiple of $5,000."

(b) CONFORMING AMENDMENTS.—

(1) Clause (i) of section 219(c)(2)(A) is amended to read as follows:

"(i) the sum of $250 and the dollar amount in effect for the taxable year under subsection (b)(1)(A), or".

(2) Section 408(a)(1) is amended by striking ''in excess of $2,000 on behalf of any individual'' and inserting ''on behalf of any individual in excess of the amount in effect for such taxable year under section 219(b)(1)(A)''.

(3) Section 408(b)(2)(B) is amended by striking ''$2,000'' and inserting ''the dollar amount in effect under section 219(b)(1)(A)''.

(4) Subparagraph (A) of section 408(d)(5) is amended by striking ''$2,250'' and inserting ''the dollar amount in effect for the taxable year under section 219(c)(2)(A)(i)''.

(5) Section 408(j) is amended by striking ''$2,000''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1995, and before January 1, 2001.

SEC. ___13. COORDINATION OF IRA DEDUCTION LIMIT WITH ELECTIVE DEFERRAL LIMIT.

(a) IN GENERAL.—Section 219(b) (relating to maximum amount of deduction) is amended by adding at the end the following new paragraph:

''(4) COORDINATION WITH ELECTIVE DEFERRAL LIMIT.—The amount determined under paragraph (1) or subsection (c)(2) with respect to any

individual for any taxable year shall not exceed the excess (if any) of—

"(A) the limitation applicable for the taxable year under section 402(g)(1), over

"(B) the elective deferrals (as defined in section 402(g)(3)) of such individual for such taxable year."

(b) CONFORMING AMENDMENT.—Section 219(c) is amended by adding at the end the following new paragraph:

"(3) CROSS REFERENCE.—

"For reduction in paragraph (2) amount, see subsection (b)(4)."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1995, and before January 1, 2001.

Subpart B—Nondeductible Tax-Free IRA's

SEC. ___21. ESTABLISHMENT OF NONDEDUCTIBLE TAX-FREE INDIVIDUAL RETIREMENT ACCOUNTS.

(a) IN GENERAL.—Subpart A of part I of subchapter D of chapter 1 (relating to pension, profit-sharing, stock bonus plans, etc.) is amended by inserting after section 408 the following new section:

"SEC. 408A. SPECIAL INDIVIDUAL RETIREMENT ACCOUNTS.

"(a) GENERAL RULE.—Except as provided in this chapter, a special individual retirement account shall be

treated for purposes of this title in the same manner as an individual retirement plan.

"(b) SPECIAL INDIVIDUAL RETIREMENT ACCOUNT.—For purposes of this title, the term 'special individual retirement account' means an individual retirement plan which is designated at the time of establishment of the plan as a special individual retirement account.

"(c) TREATMENT OF CONTRIBUTIONS.—

"(1) NO DEDUCTION ALLOWED.—No deduction shall be allowed under section 219 for a contribution to a special individual retirement account.

"(2) CONTRIBUTION LIMIT.—The aggregate amount of contributions for any taxable year to all special individual retirement accounts maintained for the benefit of an individual shall not exceed the excess (if any) of—

"(A) the maximum amount allowable as a deduction under section 219 with respect to such individual for such taxable year, over

"(B) the amount so allowed.

"(3) SPECIAL RULES FOR QUALIFIED TRANSFERS.—

"(A) IN GENERAL.—No rollover contribution may be made to a special individual retirement account unless it is a qualified transfer.

"(B) LIMIT NOT TO APPLY.—The limitation under paragraph (2) shall not apply to a qualified transfer to a special individual retirement account.

"(d) TAX TREATMENT OF DISTRIBUTIONS.—

"(1) IN GENERAL.—Except as provided in this subsection, any amount paid or distributed out of a special individual retirement account shall not be included in the gross income of the distributee.

"(2) EXCEPTION FOR EARNINGS ON CONTRIBUTIONS HELD LESS THAN 5 YEARS.—

"(A) IN GENERAL.—Any amount distributed out of a special individual retirement account which consists of earnings allocable to contributions made to the account during the 5-year period ending on the day before such distribution shall be included in the gross income of the distributee for the taxable year in which the distribution occurs.

"(B) ORDERING RULE.—

"(i) FIRST-IN, FIRST-OUT RULE.—Distributions from a special individual retirement account shall be treated as having been made—

"(I) first from the earliest contribution (and earnings allocable thereto) remaining in the account at the time of the distribution, and

"(II) then from other contributions (and earnings allocable thereto) in the order in which made.

"(ii) ALLOCATIONS BETWEEN CONTRIBUTIONS AND EARNINGS.—Any portion of a distribution allocated to a contribution (and earnings allocable thereto) shall be treated as allocated first to the earnings and then to the contribution.

"(iii) ALLOCATION OF EARNINGS.—Earnings shall be allocated to a contribution in such manner as the Secretary may by regulations prescribe.

"(iv) CONTRIBUTIONS IN SAME YEAR.—Except as provided in regulations, all contributions made during the same taxable year may be treated as 1 contribution for purposes of this subparagraph.

"(C) CROSS REFERENCE.—

"For additional tax for early withdrawal, see section 72(t).

"(3) QUALIFIED TRANSFER.—

"(A) IN GENERAL.—Paragraph (2) shall not apply to any distribution which is transferred in a qualified transfer to another special individual retirement account.

"(B) CONTRIBUTION PERIOD.—For purposes of paragraph (2), the special individual retirement account to which any contributions are transferred shall be treated as having held such contributions during any period such contributions were held (or are treated as held under this subparagraph) by the special individual retirement account from which transferred.

"(4) SPECIAL RULES RELATING TO CERTAIN TRANSFERS.—

"(A) IN GENERAL.—Notwithstanding any other provision of law, in the case of a qualified transfer to a special individual retirement account from an individual retirement plan which is not a special individual retirement account—

"(i) there shall be included in gross income any amount which, but for the qualified transfer, would be includible in gross income, but

"(ii) section 72(t) shall not apply to such amount.

"(B) TIME FOR INCLUSION.—In the case of any qualified transfer which occurs before January 1, 1997, any amount includible in gross income under subparagraph (A) with respect to such contribution shall be includible ratably over the 4-taxable year period beginning in the taxable year in which the amount was paid or distributed out of the individual retirement plan.

"(e) QUALIFIED TRANSFER.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified transfer' means a transfer to a special individual retirement account from another such account or from an individual retirement plan but only if such transfer meets the requirements of section 408(d)(3).

"(2) LIMITATION.—A transfer otherwise described in paragraph (1) shall not be treated as a qualified transfer if the taxpayer's adjusted gross income for the taxable year of the transfer exceeds the sum of—

"(A) the applicable dollar amount, plus

"(B) the dollar amount applicable for the taxable year under section 219(g)(2)(A)(ii).

This paragraph shall not apply to a transfer from a special individual retirement account to another special individual retirement account.

"(3) DEFINITIONS.—For purposes of this subsection, the terms 'adjusted gross income' and 'applicable dollar amount' have the meanings given such terms by section 219(g)(3), except subparagraph (A)(ii) thereof shall be applied without regard to the phrase 'or the deduction allowable under this section'."

(b) EARLY WITHDRAWAL PENALTY.—Section 72(t) is amended by adding at the end the following new paragraph:

"(6) RULES RELATING TO SPECIAL INDIVIDUAL RETIREMENT ACCOUNTS.—In the case of a special individual retirement account under section 408A—

"(A) this subsection shall only apply to distributions out of such account which consist of earnings allocable to contributions made to the account during the 5-year period ending on the day before such distribution, and

"(B) paragraph (2)(A)(i) shall not apply to any distribution described in subparagraph (A)."

(c) EXCESS CONTRIBUTIONS.—Section 4973(b) is amended by adding at the end the following new sentence: "For purposes of paragraphs (1)(B) and (2)(C), the amount allowable as a deduction under section 219 shall be computed without regard to section 408A."

(d) CONFORMING AMENDMENT.—The table of sections for subpart A of part I of subchapter D of chapter 1 is amended by inserting after the item relating to section 408 the following new item:

"Sec. 408A. Special individual retirement accounts."

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1995, and before January 1, 2001.

PART II—PENALTY-FREE DISTRIBUTIONS

SEC. ___21. DISTRIBUTIONS FROM CERTAIN PLANS MAY BE USED WITHOUT PENALTY TO PURCHASE FIRST HOMES, TO PAY HIGHER EDUCATION OR FINANCIALLY DEVASTATING MEDICAL EXPENSES, OR BY THE UNEMPLOYED.

(a) IN GENERAL.—Paragraph (2) of section 72(t) (relating to exceptions to 10-percent additional tax on early distributions from qualified retirement plans) is amended by adding at the end the following new subparagraph:

"(D) DISTRIBUTIONS FROM CERTAIN PLANS FOR FIRST HOME PURCHASES OR EDUCATIONAL EXPENSES.—Distributions to an individual from an individual retirement plan—

"(i) which are qualified first-time homebuyer distributions (as defined in paragraph (7)); or

"(ii) to the extent such distributions do not exceed the qualified higher education expenses (as defined in paragraph (8)) of the taxpayer for the taxable year."

(b) FINANCIALLY DEVASTATING MEDICAL EXPENSES.—

(1) IN GENERAL.—Section 72(t)(3)(A) is amended by striking "(B),".

(2) CERTAIN LINEAL DESCENDANTS AND ANCESTORS TREATED AS DEPENDENTS AND LONG-TERM CARE SERVICES TREATED AS MEDICAL CARE.—Subparagraph (B) of section 72(t)(2) is amended by striking "medical care" and all that follows and inserting "medical care determined—

"(i) without regard to whether the employee itemizes deductions for such taxable year, and

"(ii) in the case of an individual retirement plan—

"(I) by treating such employee's dependents as including all children, grandchildren and ancestors of the employee or such employee's spouse and

"(II) by treating qualified long-term care services (as defined in paragraph (9)) as medical care for purposes of this subparagraph (B)."

(3) CONFORMING AMENDMENT.—Subparagraph (B) of section 72(t)(2) is amended by striking "or (C)" and inserting ", (C) or (D)".

(c) DEFINITIONS.—Section 72(t), as amended by this Act, is amended by adding at the end the following new paragraphs:

"(7) QUALIFIED FIRST-TIME HOMEBUYER DISTRIBUTIONS.—For purposes of paragraph (2)(D)(i)—

"(A) IN GENERAL.—The term 'qualified first-time homebuyer distribution' means any payment or distribution received by an individual to the extent such payment or distribution is used by the individual before the close of the

60th day after the day on which such payment or distribution is received to pay qualified acquisition costs with respect to a principal residence of a first-time homebuyer who is such individual or the spouse, child (as defined in section 151(c)(3)), or grandchild of such individual.

"(B) QUALIFIED ACQUISITION COSTS.—For purposes of this paragraph, the term 'qualified acquisition costs' means the costs of acquiring, constructing, or reconstructing a residence. Such term includes any usual or reasonable settlement, financing, or other closing costs.

"(C) FIRST-TIME HOMEBUYER; OTHER DEFINITIONS.—For purposes of this paragraph—

"(i) FIRST-TIME HOMEBUYER.—The term 'first-time homebuyer' means any individual if—

"(I) such individual (and if married, such individual's spouse) had no present ownership interest in a principal residence during the 3-year period ending on the date of acquisition

of the principal residence to which this paragraph applies, and

"(II) subsection (h) or (k) of section 1034 did not suspend the running of any period of time specified in section 1034 with respect to such individual on the day before the date the distribution is applied pursuant to subparagraph (A).

In the case of an individual described in section 143(i)(1)(C) for any year, an ownership interest shall not include any interest under a contract of deed described in such section. An individual who loses an ownership interest in a principal residence incident to a divorce or legal separation is deemed for purposes of this subparagraph to have had no ownership interest in such principal residence within the period referred to in subclause (II).

"(ii) PRINCIPAL RESIDENCE.—The term 'principal residence' has the same meaning as when used in section 1034.

"(iii) DATE OF ACQUISITION.—The term 'date of acquisition' means the date—

"(I) on which a binding contract to acquire the principal residence to which subparagraph (A) applies is entered into, or

"(II) on which construction or reconstruction of such a principal residence is commenced.

"(D) SPECIAL RULE WHERE DELAY IN ACQUISITION.—If any distribution from any individual retirement plan fails to meet the requirements of subparagraph (A) solely by reason of a delay or cancellation of the purchase or construction of the residence, the amount of the distribution may be contributed to an individual retirement plan as provided in section 408(d)(3)(A)(i) (determined by substituting '120 days' for '60 days' in such section), except that—

"(i) section 408(d)(3)(B) shall not be applied to such contribution, and

"(ii) such amount shall not be taken into account in determining whether section 408(d)(3)(A)(i) applies to any other amount.

"(8) QUALIFIED HIGHER EDUCATION EXPENSES.—For purposes of paragraph (2)(D)(ii)—

"(A) IN GENERAL.—The term 'qualified higher education expenses' means tuition and fees required for the enrollment or attendance of—

"(i) the taxpayer,

"(ii) the taxpayer's spouse,

"(iii) a dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction under section 151, or

"(iv) the taxpayer's child (as defined in section 151(c)(3)) or grandchild,

as an eligible student at an institution of higher education (as defined in paragraphs (1)(D) and (2) of section 220(c)).

"(B) EXCEPTIONS.—The term 'qualified higher education expenses' does not include expenses described in subparagraphs (B) and (C) of section 220(c)(1).

"(C) COORDINATION WITH SAVINGS BOND PROVISIONS.—The amount of qualified higher education expenses for any taxable year shall be reduced by any amount excludable from gross income under section 135.

"(9) QUALIFIED LONG-TERM CARE SERVICES.—For purposes of paragraph (2)(B)—

"(A) IN GENERAL.—The term 'qualified long-term care services' means necessary diagnostic, curing, mitigating, treating, preventive, therapeutic, and rehabilitative services, and maintenance and personal care services (whether performed in a residential or nonresidential setting) which—

"(i) are required by an individual during any period the individual is an incapacitated individual (as defined in subparagraph (B)),

"(ii) have as their primary purpose—

"(I) the provision of needed assistance with 1 or more activities of daily living (as defined in subparagraph (C)), or

"(II) protection from threats to health and safety due to severe cognitive impairment, and

"(iii) are provided pursuant to a continuing plan of care prescribed by a licensed professional (as defined in subparagraph (D)).

"(B) INCAPACITATED INDIVIDUAL.—The term 'incapacitated individual' means any individual who—

"(i) is unable to perform, without substantial assistance from another individual (including assistance involving cueing or substantial supervision), at least 2 activities of daily living as defined in subparagraph (C), or

"(ii) has severe cognitive impairment as defined by the Secretary in consultation with the Secretary of Health and Human Services.

Such term shall not include any individual otherwise meeting the requirements of the preceding sentence unless a licensed professional within the preceding 12-month period has certified that such individual meets such requirements.

"(C) ACTIVITIES OF DAILY LIVING.—Each of the following is an activity of daily living:

"(i) Eating.

"(ii) Toileting.

"(iii) Transferring.

"(iv) Bathing.

"(v) Dressing.

"(D) LICENSED PROFESSIONAL.—The term 'licensed professional' means—

"(i) a physician or registered professional nurse, or

"(ii) any other individual who meets such requirements as may be prescribed by the Secretary after consultation with the Secretary of Health and Human Services.

"(E) CERTAIN SERVICES NOT INCLUDED.—The term 'qualified long-term care services' shall not include any services provided to an individual—

"(i) by a relative (directly or through a partnership, corporation, or other entity) unless the relative is a licensed professional with respect to such services, or

"(ii) by a corporation or partnership which is related (within the meaning of section 267(b) or 707(b)) to the individual.

For purposes of this subparagraph, the term 'relative' means an individual bearing a relationship to the individual which is described in paragraphs (1) through (8) of section 152(a)."

(d) PENALTY-FREE DISTRIBUTIONS FOR CERTAIN UNEMPLOYED INDIVIDUALS.—Paragraph (2) of section

72(t) is amended by adding at the end the following new subparagraph:

"(E) DISTRIBUTIONS TO UNEMPLOYED INDIVIDUALS.—A distribution from an individual retirement plan to an individual after separation from employment, if—

"(i) such individual has received unemployment compensation for 12 consecutive weeks under any Federal or State unemployment compensation law by reason of such separation, and

"(ii) such distributions are made during any taxable year during which such unemployment compensation is paid or the succeeding taxable year."

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to payments and distributions after December 31, 1995, and before January 1, 2001.

SEC. ___22. CONTRIBUTIONS MUST BE HELD AT LEAST 5 YEARS IN CERTAIN CASES.

(a) IN GENERAL.—Section 72(t), as amended by this Act, is amended by adding at the end the following new paragraph:

"(10) CERTAIN CONTRIBUTIONS MUST BE HELD 5 YEARS.—

"(A) IN GENERAL.—Paragraph (2)(A)(i) shall not apply to any amount distributed out of an individual retirement plan (other than a special individual retirement account) which is allocable to contributions made to the plan during the 5-year period ending on the date of such distribution (and earnings on such contributions).

"(B) ORDERING RULE.—For purposes of this paragraph, distributions shall be treated as having been made—

"(i) first from the earliest contribution (and earnings allocable thereto) remaining in the account at the time of the distribution, and

"(ii) then from other contributions (and earnings allocable thereto) in the order in which made.

Earnings shall be allocated to contributions in such manner as the Secretary may prescribe.

"(C) SPECIAL RULE FOR ROLLOVERS.—

"(i) PENSION PLANS.—Subparagraph (A) shall not apply to distributions out of an individual retirement plan which are allocable to rollover contributions to which

section 402(c), 403(a)(4), or 403(b)(8) applied.

"(ii) CONTRIBUTION PERIOD.—For purposes of subparagraph (A), amounts shall be treated as having been held by a plan during any period such contributions were held (or are treated as held under this clause) by any individual retirement plan from which transferred.

"(D) SPECIAL ACCOUNTS.—For rules applicable to special individual retirement accounts under section 408A, see paragraph (8)."

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to contributions (and earnings allocable thereto) which are made after December 31, 1995, and before January 1, 2001.

Subtitle C—Increase in Deduction for Health Care Costs of Self-Employed Individuals

SEC. ___31. INCREASE IN SELF-EMPLOYED INDIVIDUALS' DEDUCTION FOR HEALTH INSURANCE COSTS.

(a) IN GENERAL.—Section 162(l) (relating to special rules for health insurance costs of self-employed individuals) is amended—

(1) by striking "30 percent" in paragraph (1) and inserting "the applicable percentage", and

(2) by adding at the end the following new paragraph:

"(6) APPLICABLE PERCENTAGE.—For purposes of this subsection, the term 'applicable percentage' means the percentage determined in accordance with the following table:

"In the case of taxable years beginning in:	The applicable percentage is:
1996	35
1997	35
1998	40
1999	45
2000	50
2001 and thereafter	30."

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1995.

TITLE X—BUDGET ENFORCEMENT

SEC. 10001. PURPOSE.

The Congress declares that it is essential to—

(1) preserve the deficit reduction achieved by this Act;

(2) extend the system of discretionary spending limits for the single discretionary category set forth in section 601 of the Congressional Budget Act of 1974;

(3) extend the pay-as-you-go enforcement system;

(4) prohibit the consideration of direct spending or receipts legislation that would decrease the pay-as-you-go surplus achieved by this Act and created under section 252 of the Balanced Budget and Emergency Deficit Contract of 1985; and

(5) provide for additional deficit reduction, investment, and tax relief in the event that actual deficit reduction exceeds that currently projected by the Congressional Budget Office to result from enactment of this Act.

SEC. 10002. DISCRETIONARY SPENDING LIMITS.

(a) DEFINITION OF ''DISCRETIONARY SPENDING LIMIT''.—Section 601(a)(2) of the Congressional Budget Act of 1974 is amended—

(1) in subparagraph (E) by striking the word ''and''; and

(2) by striking subparagraph (F) and inserting the following:

''(F) with respect to fiscal year 1996, for the discretionary category: $502,000,000,000 in new budget authority and $539,535,000,000 in outlays;

"(G) with respect to fiscal year 1997, for the discretionary category: $508,000,000,000 in new budget authority and $546,851,000,000 in outlays;

"(H) with respect to fiscal year 1998, for the discretionary category: $514,000,000,000 in new budget authority and $540,041,000,000 in outlays;

"(I) with respect to fiscal year 1999, for the discretionary category: $508,000,000,000 in new budget authority and $542,166,000,000 in outlays;

"(J) with respect to fiscal year 2000, for the discretionary category: $504,000,000,000 in new budget authority and $541,759,000,000 in outlays;

"(K) with respect to fiscal year 2001, for the discretionary category: $500,000,000,000 in new budget authority and $530,833,000,000 in outlays; and

"(L) with respect to fiscal year 2002, for the discretionary category: $482,000,000,000 in new budget authority and $514,088,000,000 in outlays;".

(b) POINT OF ORDER IN THE SENATE.—Section 601(b)(1) of the Congressional Budget Act of 1974 is amended to read as follows:

"(1) Except as otherwise provided in this Act, it shall not be in order in the Senate to consider any concurrent resolution on the budget for fiscal year 1996, 1997, 1998,

1999, 2000, 2001, or 2002 (or amendment, motion, or conference report on such a resolution) that would exceed any of the deficit targets or discretionary spending limits in this title.''.

(c) CONFORMING AMENDMENTS.—(1) Section 251 of the Balanced Budget and Emergency Deficit Control Act of 1985 is amended—

(A) in subsection (a) by striking ''FISCAL YEARS 1991–1998 ENFORCEMENT.—'' and inserting ''FISCAL YEARS 1991–2002 ENFORCEMENT.—'';

(B) in subsection (b)(1)—

(i) in the matter before subparagraph (A), by—

(I) striking ''When the President submits the budget under section 1105(a) of title 31, United States Code, for budget year 1992, 1993, 1994, 1995, 1996, 1997, or 1998'' and inserting ''When the President submits the budget under section 1105(a) of title 31, United States Code, for budget year 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, or 2002''; and

(II) striking ''the budget shall include, adjustments to discretionary spending lim-

its (and those limits as cumulatively adjusted) for the budget year and each outyear through 1998'' and inserting ''the budget shall include, adjustments to discretionary spending limits (and those limits as cumulatively adjusted) for the budget year and each outyear through 2002'';

(ii) in paragraph (1)(B), by striking ''budget year 1996, 1997, or 1998,'' and inserting ''budget year 1996, 1997, 1998, 2000, 2001, or 2002,'';

(iii) in the matter before subparagraph (A) in paragraph (2) by—

(I) striking ''When OMB submits a sequestration report under section 254 (g) or (h) for fiscal year 1991, 1992, 1993, 1994, 1995, 1996, 1997, or 1998,'' and inserting ''When OMB submits a sequestration report under section 254(g) or (h) for fiscal year 1991, 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, or 2002,''; and

(II) striking ''for the fiscal year and each succeeding year through 1998,'' and

inserting ''for the fiscal year and each succeeding year through 2002,'';

''(iv) by amending paragraph (2)(A) to read as follows:

''(A) IRS FUNDING.—(i) To the extent that appropriations are enacted that provide additional new budget authority or result in additional outlays for the Internal Revenue Service compliance initiative in any fiscal year, the adjustments for that year shall be those amounts of additional new budget authority or additional outlays (as defined in clause (ii)), but not to exceed in any fiscal year $405,000,000 in new budget authority and $405,000,000 in outlays.

''(ii) ADDITIONAL AMOUNTS.—As used in this subparagraph, the terms 'additional new budget authority' or 'additional outlays' shall mean, for any fiscal year, budget authority or outlays (as the case may be) in excess of the amounts requested for that fiscal year for the Internal Revenue Service in the President's Budget for fiscal year 1996.'';

(v) in paragraph (2)(E)(iv), by striking ''fiscal years 1994, 1995, 1996, 1997, and 1998,'' and inserting ''fiscal years 1994, 1995,

1996, 1997, 1998, 1999, 2000, 2001, and 2002''; and

(vi) in paragraph (2)(F), by striking ''fiscal year 1996, 1997, or 1998'' and inserting ''fiscal year 1996, 1997, 1998, 1999, 2000, 2001, or 2002''.

(2) REPORTS.—Sections 254(d)(2) and 254(g)(2)(A) of the Balanced Budget and Emergency Deficit Control Act of 1985 are each amended by striking ''1998'' and inserting ''2002''.

(3) CONGRESSIONAL ENFORCEMENT.—

(A) Title VI of the Congressional Budget Act of 1974 is amended—

(i) in section 602(c) and (d), by striking ''1995'' each time it appears and inserting ''2002'';

(ii) in section 606(a), by striking ''fiscal year 1992, 1993, 1994, or 1995,'' and inserting ''any fiscal year''; and

(iii) in section 606(d)(1), by striking ''fiscal years 1992, 1993, 1994, and 1995,'' and inserting any fiscal year''.

(B) Section 210 of House Concurrent Resolution 67 (104th Congress) is repealed.

(4) EXPIRATION.—(A) Notwithstanding section 275(b) of the Balanced Budget and Emergency Deficit Control Act of 1985, sections 250, 251, 252, and 254 through 258C of that Act, the second sentence of section 904(c) of the Congressional Budget Act, and the second sentence of section 904(d) of the Congressional Budget Act shall expire on September 30, 2002.

(B) Section 607 of the Congressional Budget Act of 1974 is amended by striking ''shall apply to fiscal years 1991 to 1998'' and inserting ''shall apply to fiscal years 1991 to 2002''

SEC. 10003. ENFORCING PAY-AS-YOU-GO.

(a) Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 is amended—

(1) in subsection (a), by striking ''FISCAL YEAR 1992–1998 ENFORCEMENT.'' and inserting ''FISCAL YEAR 1992–2002 ENFORCEMENT.'';

(2) in subsection (d), by striking ''estimate of the amount of change in outlays or receipts, as the case may be, in each fiscal year through fiscal year 1998'' both places that it appears and inserting ''estimate of the amount of change in outlays or receipts, as the case may be, in each fiscal year through fiscal year 2002'' both places; and

(3) in subsection (e), by striking ''for any fiscal year from 1991 through 1998,'' and inserting ''for any fiscal year from 1991 through 2002,''.

(b) Section 254(g)(3) of the Balanced Budget and Emergency Deficit Control Act of 1985 is amended by striking ''1998'' and inserting ''2002''.

(c) Upon enactment of this Act, the director of the Office of Management and Budget shall reduce the balances of direct spending and receipts legislation applicable to each fiscal year under section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 by an amount equal to the net deficit reduction achieved through the enactment in this Act of direct spending and receipts legislation for that year.

SEC. 10004. FISCAL DIVIDEND FOR DEFICIT REDUCTION, INVESTMENT, AND TAX REDUCTION.

Title VI of the Congressional Budget Act is amended by inserting at the end thereof the following new section:

''SEC. 608. FISCAL DIVIDEND FOR DEFICIT REDUCTION, INVESTMENT, AND TAX REDUCTION.

''(a) DEFINITIONS.—

''(1) DEFICIT TARGETS.—The term 'deficit target' means—

''(A) with respect to fiscal year 1999, $131,000,000,000;

"(B) with respect to fiscal year 2000, $114,000,000,000;

"(C) with respect to fiscal year 2001, $54,000,000,000; and

"(D) with respect to fiscal year 2002, $0.".

"(2) FISCAL DIVIDEND.—The term 'fiscal dividend' means, for any fisal year, the amount by which the deficit target exceeds the actual deficit.

"(b) USE OF THE FISCAL DIVIDEND IN THE CONGRESSIONAL BUDGET PROCESS—

"(1) FILINGS—As soon as practicable after the actual deficit for th prior fiscal year is known, the Chairs of the Committees on the Budget of the Senate and House shall file with their respective Houses—

"(A) revised allocations under sections 302(a) and 602(a) of the Congressional Budget Act of 1974 to the Committees on Appropriations for the current fiscal year and corresponding aggregates, increased by one third of the fiscal dividend for the prior fiscal year; and

"(B) revised revenue aggregates for the current fiscal year, decreased by one third of the fiscal dividend for the prior fiscal year.

"(2) EFFECT OF REVISED ALLOCATIONS AND AGGREGATES.—Revised allocations and aggregates submitted under this subsection shall be considered for the purposes of the Congressional Budget Act of 1974 as allocations and aggregates contained in the most recently adopted concurrent resolution on the budget.

"(B) USE OF THE FISCAL DIVIDEND IN THE ENFORCEMENT OF DISCRETTIONARY SPENDING LIMITS.—As soon as practicable after the actual deficit for the prior fiscal year is known, the Director of the Office of Management and Budget shall increase the discretionary spending limits for the current fiscal year by one third of the fiscal dividend for the prior fiscal year.

"(C) USE OF THE FISCAL DIVIDEND IN THE ENFORCEMENT OF PAY-AS-YOU-GO.—As soon as practicable after the actual deficit for the prior fiscal year is known, the Director of the Office of Management and Budget shall credit the balances of direct spending and receipts legislation applicable to the current fiscal year under section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 by

one third of the fiscal dividend for the prior fiscal year.''

SEC. 10005. EXERCISE OF RULE-MAKING POWERS

The Congress enacts the provisions of this part—

(1) as an exercise of the rule-making power of the Senate and the House of Representatives, respectively, and as such these provisions shall be considered as part of the rules of each House, respectively, or of that House to which they specifically apply, and such rules shall supersede other rules only to the extent that they are inconsistent therewith; and

(2) with full recognition of the constitutional right of either House to change such rules (so far as relating to such House) at any time, in the same manner, and to the same extent as in the case of any other rule of such House.

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