BOB DOLE
KANSAS

United States Senate

OFFICE OF THE MAJORITY LEADER
WASHINGTON, DC 20510

February 13, 1986

MEMORANDUM

TO: SENATOR DOLE

FROM: GEORGE PIELER

SUBJECT: TALK TO NATIONAL APARTMENT ASSOCIATION, MONDAY, FEBRUARY 17

You are scheduled to talk to about 20 members of the National Apartment Association at noon on Monday, February 17, at the J.W. Marriott.

Attached are current talking points on the economy, budget, and tax. In addition, this group is particularly interested in features of the House tax reform bill that affect rental housing, as follows:

(1) Minimum tax: NAA is concerned about the tightened up minimum tax in the House bill on several grounds. First, they believe the narrowed gap between the regular top tax rate of 38% and the new minimum tax rate of 25% will cause many more taxpayers to pay the minimum tax (because it will take a smaller amount of tax preference income to shift a taxpayer into the minimum tax base).

In addition, NAA objects to the new standard for accelerated depreciation as a preference item. Under the House bill a 40-year useful life would be the reference point for calculating 'excess' depreciation benefits that would be included in the minimum tax base. NAA thinks 40 years is excessive for rental housing and that the consequent threat of minimum tax liability will discourage investment in rental housing. NAA also objects to including in the minimum tax base net losses from passive investments: they believe losses should be included only if related to the use of tax preferences.

(2) Depreciation. NAA does not like the 30-year straightline method the House bill proposes for rental property, and objects to eliminating the distinction between residential rental property and commercial property. They claim existing depreciation benefits are needed to get investors to rehab and maintain our rental housing stock. NAA says a differential for

rental housing is needed because of lower initial cash flows (compared with commercial property).

(3) Interest Limitation. NAA opposes extending the limitation on deductible investment interest to cover interest from passive investments, including real estate limited partnerships. They claim that such a limitation will force them to rely more on raising capital, rather than borrowing.

Finally, this NAA group wants you to know that the deals they are involved with are financed at market rates: they do not get subsidized or tax-exempt financing.

Attachments

THE ECONOMY IN 1986

- No one can really predict the course of the economy in 1986, although of course we have to take a stab at it to guide our budget decisions. But it is increasingly clear that the economy began picking up late last year. Leading indicators rose 0.9% in December, the eighth month in a row. Unemployment is down to 6.7%, the lowest since 1979.

- There are forces at work that improve the prospects for strong growth this year. One of these is the drop in oil prices, which acts like a tax cut for energy users and helps moderate inflationary pressures that might build as a result of the dollar's decline. Coupled with the monetary stimulus the Federal Reserve provided in the last six months of 1986, and the prospect for improvement in our balance of trade later in the year (as the effects of the dollar decline are felt), this means we have a good chance for healthy growth in 1986.

- Clearly the number one threat to maintaining a healthy economy remains the U.S. budget deficit. If it's not reduced sharply this year, we won't meet the commitment we made to our trading partners to secure their agreement to ease the dollar down. What's more, we would put an unconscionable burden on the Federal Reserve to keep the recovery going by pumping more money out in order to keep interest rates down. That's a sure recipe for inflation.

- We've created 9 million jobs with a near record economic recovery. We've got inflation down to the lowest levels in two decades. Let's not throw it all a way by punting on the deficit issue. The fact is that all the economic pundits we've been hearing in recent years have been wrong: the economy is more resilient than many believed, but not so strong as to be able to sustain huge deficits this late in the recovery. It's time for everyone to "give" a little in the interest of a deficit-reduction plan that will steer us safely through the potentially treacherous waters ahead.

February 6, 1986

BUDGET FOR FY 1987

- The President's budget for FY 1987 is a blueprint for deficit reduction that Congress will have to take seriously even if we can't agree with it in all particulars. It is important to keep in mind OMB Director Miller's contention that, if we adopt this budget in full, we can meet the Gramm-Rudman targets for the rest of the decade without the need for major additional cuts.

- The 1987 budget plan is designed to get the deficit down to $143.6 billion: just below the G-R-H target of $144 billion. Total spending is projected at $994 billion, and revenues at $850.4 billion. Total interest expense is $206.85 billion, and net interest (exclusive of intra-government payments) is $148 billion.

- The deficit would be reduced by $38 billion in FY 87, and by $166 billion over three years. Defense would still grow by 3% in real terms (increase in budget authority adjusted for inflation). Increased funds would be provided for fighting terrorism, for law and drug enforcement, for the space program, aviation safety, and AIDS research.

- Major new deficit-reduction initiatives include privatization of government activities, ranging from Amtrak to power facilities to Ex-Im bank loans; transferring a few programs to the States, such as the Agriculture Cooperative Extension Service and highway; a wide array of user fees on government services; eliminating programs like EDA, UDAG, SBA, maritime subsidies, and the ICC.

- There are additional receipts in the budget as well: extending the cigarette tax, higher fees for black lung, repealing the gasohol exemption, increased contributions to civil service retirement and the like.

The Deficit and the Average American

o Unless we follow a deficit reduction path like that mandated under Gramm-Rudman, American families will face either higher interest rates or higher inflation: not to mention the risk of a disastrous new recession throwing millions of breadwinners out of work. That is what the Gramm-Rudman-Hollings initiative is all about.

o Most economists believe that enactment of deficit reduction measures that eliminate the deficit by the end of the decade will produce a drop of at least 1 percent in interest rates over the short run and 2 to 3 percentage points over the long term: relative to what they otherwise would be.

-- With a 2% drop in interest rates, the monthly payment on a median priced home ($80,000) would go down by about $100 a month.

-- Conversely, if we don't reduce the deficit to keep rates as low as they are now, homeowners could face that large an increase--or more-- in monthly payments.

-- A 2% drop in interest rates would mean an additional $4,000 in income for the average wheat farmer with a 1,000 acre operation.

-- In 1985, the Federal Government will overspend close to $1,000 for every man, woman, and child in America.

-- This $1,000 per head of additional federal debt will be one more burden for our children to repay in higher taxes or higher inflation in the future.

Interest on the Debt

The massive increase in debt has itself created one of the largest and fastest growing components of Federal spending--interest on the debt. Constant deficits have put fiscal policy on an endless treadmill of paying for the irresponsibility of previous decades:

o In 1965, interest on the national debt cost $9 billion and consumed 1.4% of GNP. By 1980, annual interest costs rose to $52 billion--2% of GNP. But the worst was yet to come.

o In 1985, interest on the national debt cost taxpayers $130 billion--almost three times the level of five years ago. this represents 3.8% of GNP, 13.5% of the entire 1985 budget, and a 1,450% increase in costs over 1965.

Tax Reform Talking Points

- The President's tax plan and the House bill are similar in concept--they both shift more of the tax burden to corporations and reduce the tax burden on individuals. But the bills are very different in how they make the change.

- Both substantially reduce tax rates for individuals (the President to a maximum of 35%; Ways and Means to 38%) and for corporations (President 33%; Ways and Means 36%). But the Ways and Means rates take effect at much lower income levels: the 35% rate clicks in at $43,000 for married couples, as opposed to $70,000 under the Reagan plan.

- Neither plan gets an A+ for the major objectives of tax reform--simplification and fairness, but the President's plan repealed many more of the overly complicated provisions of the tax code than the Ways and Means Committee effort. The House bill just modifies, but leaves in place, many complex tax rules.

- The House bill falls far short of the President's on fairness grounds. Fringe benefits and itemized deductions are major causes of differing tax liabilities, and unlike the President's proposal, the House retained the State and local tax deduction, did less to limit interest-paid deductions, and did nothing on fringe benefits. This means that taxpayers with equal incomes can still have substantially different tax liabilities.

- I have personally long favored income tax reform and, as Chairman of the Senate Finance Committee, led the fight over a number of years to plug unjustified tax loopholes.

- It is possible for the Senate to fashion a tax reform bill by June, but only with an interest intensive effort by the President to push the bill and reshape it along the lines he favors: and to help us along in finding a bipartisan solution to this year's deficit problem.

- $130 billion is equal to the sum total of all Federal spending from 1789--the founding of the republic--to 1936. It also equals total Federal outlays in 1966, the entire defense budget in 1980, and twice the level of medicare funding today.

But if we can adhere to the deficit-reduction goals we've set for ourselves, I am very, very optimistic about the course of the economy. I think we take too much for granted what we have achieved so far: strong growth without inflation. We can keep that going if we reduce the deficit substantially. The way is open to economic performance unprecedented in the postwar period if we have the will to find it.

Betty

NATIONAL APARTMENT ASSOCIATION

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February 13, 1986

The Honorable Robert Dole
U.S. Senate
Washington, D.C. 20510

Dear Senator Dole:

On behalf of the National Apartment Association's National Legislative Council Trustees, I would like to take this opportunity to thank you for agreeing to be our luncheon speaker on Monday, February 17, 1986 at a special meeting of the Trustees to be held at the J.W. Marriott Hotel, National Place.

The National Apartment Association is a trade association representing more than 45,000 builders, developers, owners, and managers of nearly two million apartment and condominium units across the country. Within the NAA are some of the largest owners and developers of rental housing throughout the country. These individuals are a select group and are the Trustees of the National Legislative Council. The Trustees support NAA's legislative efforts throughout the year.

We are expecting approximately 25 of our Trustees to attend the meeting. Consequently, because of the size of the group, we would like to allow time after your presentation for questions and answers. The schedule for February 17, 1986 is as follows:

> The J.W. Marriott has reserved the Hart Room for our luncheon. We would like the lunch to begin at approximately 12:00p.m. and run to 2:00p.m. Your speech we estimate will run for approximately 30 minutes and as I indicated above, we would like to allow time for questions and answers.

For your information, I have enclosed some background materials on the National Apartment Association and our members. Should you or your staff have any questions or need additional information, please do not hesitate to give me a call at (202) 842-4050.

Sincerely,

Colleen M. Fisher

Colleen M. Fisher
Director of Government Relations

MAILGRAM INVITATIONS TO LUNCHEON WITH SENATOR ROBERT DOLE

Paul Austin
Property Company of America

Leonard Bedell
Commonwealth Financial Group

Bob Benson
Benson Properties

Lan Bentsen
Lan Bentsen Interests

Gerry Blonder
Tempo Management

Gene Branscome
Gene Branscome Investments

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Sean Bushe
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Richard Buzbee
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Dinerstein Builders

Donald Schenkel
Northill Development Company

Walter Embrey
Embrey Investments

Robert Esrey
Robert Esrey Company

Max Farash
Farash Construction

Dan Faulk
Wilwot Properties

Jim Finley
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Bert Glazov
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Kendall Laughlin
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James A. Law
Oxford Development Corp.

Herb McDonald
Gene Branscome Investments

James/Thomas/Mark Mahaffey
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Sam Merrick
Hawaii Properties

Brad Miller
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Ronald J. Nemeyer
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Barbara Noska
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James Pio
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