



## WASHINGTON BUDGET REPORT

Nonpartisan Federal Budget Analysis by Charles S. Konigsberg, Budget Advisor to Three U.S. Senators and Three White House Budget Directors

### **BUDGET ALERT:** **Senate Budget Committee Reports \$2.9 Trillion Conrad Budget Plan** **House Appropriations Committee Reports \$124.1 Billion '07 Supplemental** **March 15, 2007**

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#### **SENATE BUDGET COMMITTEE REPORTS \$2.9 TRILLION BUDGET PLAN ON PARTY-LINE VOTE**

The Senate Budget Committee Thursday afternoon voted to report Chairman Kent Conrad's (D-ND) Budget Resolution for Fiscal Years 2008-2012. The Resolution was reported on a 12-11 party line vote. In general, the Conrad budget plan:

- fully funds the President's **defense** request;
- would allow the 2001 and 2003 **tax cuts to expire** at the end of 2010, **unless** spending cuts or tax increases are identified to pay for extending the tax cuts;
- would use the additional revenues (as compared with the President's Budget) to **increase non-defense discretionary spending** and achieve a budget surplus in 2012;
- **rejects most of the Medicare reforms** proposed by the President;
- would re-establish **spending caps** to control overall discretionary spending;
- would re-establish **PAYGO** budgeting to require that any new tax cuts or increases in entitlement spending be paid for by offsetting savings elsewhere in the budget; and
- makes heavy use of **unfunded "reserve funds"** to accommodate a wide range of new programs, but which are **contingent** on the committees of jurisdiction identifying spending cuts or revenue increases to pay for the initiatives. (See the Budget Backgrounder below.)

The Budget Resolution **does not include any Budget Reconciliation instructions.**

The Budget Resolution does not propose any substantial policy changes to rein in the long-term fiscal risks posed by the rapid growth of entitlement programs. Chairman Conrad expressed his view that only a bipartisan working group or commission is likely to have success in addressing the long-term fiscal crisis.

#### **Text of Chairman's Mark**

**[http://budget.senate.gov/democratic/documents/2007/JEN07562\\_xml.pdf](http://budget.senate.gov/democratic/documents/2007/JEN07562_xml.pdf)**

#### **Link to Summary Materials**

**<http://budget.senate.gov/democratic/documents/2007/BudRes08CHAIRMAN%27SMARK031407.pdf>**

#### **Link to Senator Gregg's Analysis**

**<http://budget.senate.gov/republican/pressarchive/2007-03-14Mark-UpReaction.pdf>**

Highlights of the Senate Budget Committee Budget Resolution compared to the President’s Budget:

- Non-Defense Discretionary Spending (Outlays in billions of \$\$):**

|                  | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> | <b>2012</b> |
|------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Conrad</b>    | 518         | 528         | 529         | 530         | 534         |
| <b>President</b> | 511         | 500         | 494         | 492         | 493         |

**Analysis:** The Conrad plan calls for increasing non-defense discretionary outlays over the 5-year period. The President’s Budget by contrast generally reduces non-defense discretionary spending below a freeze. By 2012, the difference between the two plans would be substantial.

The Conrad plan “assumes” that the additional funding, as compared with the President’s request, could protect or increase funding for education & training, veterans, COPS, homeland security grants, community development block grants, LIHEAP, Amtrak, community health centers, energy, environmental protections, NASA, and small business and manufacturing technologies. **However**, the authority to allocate discretionary spending among the hundreds of government programs belongs to the Appropriations Committees. The Budget Committee “assumptions” are not binding. What matters in the Budget Resolution is the total budget authority made available to the appropriators.

- Total Defense Spending (BA in billions of \$\$):**

|                  | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> | <b>2012</b> |
|------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Conrad</b>    | 646         | 582         | 542         | 548         | 557         |
| <b>President</b> | 647         | 585         | 545         | 552         | 561         |

**Analysis:** The Conrad plan assumes nearly full funding of the President’s defense requests, including the \$145 billion in war funding requested for FY’08 and the \$50 billion requested for ’09. However, some would argue that assuming only \$50 billion for FY’09 and nothing for subsequent years is unrealistic—on the part of the President’s Budget and the Conrad plan.

- Total Mandatory (Entitlement) Spending (Outlays in trillions of \$\$):**

|                  | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011</b> | <b>2012</b> |
|------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Conrad</b>    | 1.539       | 1.624       | 1.713       | 1.830       | 1.868       |
| <b>President</b> | 1.527       | 1.613       | 1,700       | 1.817       | 1.867       |

Source for President’s numbers: CBO Preliminary Re-estimate

**Medicare Cuts:** The Conrad plan rejects the \$66 billion in Medicare cuts (’08-’12) proposed by the President, instead calling for \$15 billion in Medicare savings by reducing “overpayments” to certain health care providers.

**Rejects new Veterans Fees:** The Conrad plan rejects the President’s proposed increase in certain pharmacy copayment fees for veterans health care services.

**Rising Health Care Costs:** Acknowledging the warnings of the Fed Chairman and the Comptroller General that the nation’s long-term fiscal outlook is bleak due principally to exploding entitlement costs, the Conrad plan calls for a research fund to “evaluate technologies, devices, procedures, and pharmaceuticals for both effectiveness and value,” asserting that such research “could lead to savings over the long-term by allowing providers to avoid treatments that may be clinically ineffective and overly expensive.” However, neither the means of paying for the fund nor the extent to which it might actually impact exploding Medicare and Medicaid costs are specified.

- **Total Spending (Outlays in trillions of \$):**

|                  | 2008  | 2009  | 2010  | 2011  | 2012  |
|------------------|-------|-------|-------|-------|-------|
| <b>Conrad</b>    | 2.927 | 3.041 | 3.088 | 3.196 | 3.229 |
| <b>President</b> | 2.905 | 3.002 | 3.038 | 3.147 | 3.197 |

Source for President's numbers: CBO Preliminary Re-estimate

- **Total Revenues (trillions of \$):**

|                  | 2008  | 2009  | 2010  | 2011  | 2012  |
|------------------|-------|-------|-------|-------|-------|
| <b>Conrad</b>    | 2.678 | 2.826 | 2.959 | 3.183 | 3.361 |
| <b>President</b> | 2.679 | 2.797 | 2.886 | 3.018 | 3.188 |

Source for President's numbers: CBO Preliminary Re-estimate

**No Tax Cut Extensions Without Offsets:** The President's Budget proposed making the 2001 and 2003 tax cuts permanent when they expire in 2010 (costing more than \$1.8 trillion by 2017, according to CBO's March 2 Analysis of the President's Budget). The Conrad Budget rejects the tax cut extensions, except where the costs can be offset. **This is where we will see a major partisan clash. Republicans will call the absence of a proposal to make the cuts permanent a "tax increase." Democrats will point out that under current law, the tax cuts expire in 2010, and any effort to make the cuts permanent would constitute new, fiscally irresponsible tax cuts.**

Launching the first salvo in the fiscal debate, Chairman Conrad stated that "the FY 2008 Senate Budget Resolution rejects the notion that tax cuts pay for themselves. The fact is that deficit-financed tax cuts, and proposals to make them permanent without offsets, add significantly to the nation's debt. This harms the economy and passes on an unfair burden to our children and grandchildren."

**AMT Relief:** Unlike the President's Budget that provided Alternative Minimum Tax relief for only FY'07, the Conrad plan provides relief for both '07 and 08, but makes any further relief contingent on as yet **unidentified** offsets.

- **Total Deficits/Surpluses (billions of \$):**

|                  | 2008 | 2009 | 2010 | 2011 | 2012 |
|------------------|------|------|------|------|------|
| <b>Conrad</b>    | -249 | -215 | -129 | -14  | +132 |
| <b>President</b> | -226 | -205 | -152 | -130 | -9   |

Source for President's numbers: CBO Preliminary Re-estimate

- **Total Deficits Excluding Social Security Surpluses (billions of \$):**

|                  | 2008 | 2009 | 2010 | 2011 | 2012 |
|------------------|------|------|------|------|------|
| <b>Conrad</b>    | -451 | -432 | -361 | -260 | -124 |
| <b>President</b> | -428 | -411 | -371 | -368 | -262 |

Source for President's numbers: CBO Preliminary Re-estimate

**Context:** Many analysts view these non-Social Security deficit numbers (rather than the "total deficit" numbers above) as more relevant for fiscal policy since they exclude the "masking" effect that Social Security surpluses have on the ongoing structural budget deficits—particularly since Social Security surpluses will disappear within 10 years as the boomers retire.

- **Budget Enforcement Measures:**

1. Would re-establish a PAYGO point of order in the Senate, by requiring that tax cuts or entitlement spending increases be deficit-neutral, that is, they would have to be offset by spending cuts or tax increases elsewhere in the budget. A 60-vote waiver would be required to consider any legislation that violates the point of order.

(If the proposed point of order had been in place during the last 6 years, the tax cuts and Medicare prescription drug benefit would have violated the point of order.)

2. Would establish a new parliamentary point of order against legislation that would worsen the long-term deficit in any of the 4 upcoming decades. (If the proposed point of order had been in place during the last 6 years, the tax cuts and Medicare prescription drug benefit would have violated the point of order.)
  3. Would prohibit the Budget Reconciliation process from being used to expedite legislation that would increase deficits (Reconciliation allows tax or entitlement changes to be considered under special fast-track, filibuster-proof rules. If the proposed point of order had been in place during the last 6 years, the tax cuts would have violated the point of order.)
  4. Would establish discretionary spending caps for fiscal years 2007 and 2008; a 60-vote point of order would lie against any discretionary spending legislation that would cause the caps to be exceeded. The caps would not apply to war funding, wildfire suppression or program integrity initiatives where additional spending could yield greater budgetary savings, such as tax enforcement.
  5. Would establish a 60-vote point of order to protect Social Security long-term solvency (Conrad amendment.)
- **Reserve Funds:** Reserve funds are optional provisions included in Budget Resolutions that allow spending or revenue totals and committee allocations to be adjusted to accommodate specific new spending or revenue programs, provided they are “deficit-neutral,” that is, **provided the costs are offset through unspecified spending cuts or revenue increases**. (Context: reserve funds do not actually provide any funding.) The Conrad plan would establish reserve funds to facilitate programs relating to:
    1. Extending the expiring 2001 and 2003 tax cuts;
    2. Services for wounded military personnel;
    3. Expanding SCHIP (State Children’s Health Insurance Program) coverage;
    4. College Assistance;
    5. Energy independence;
    6. Prescription drug price negotiation;
    7. Agricultural funding;
    8. Medicare prescription drug program improvements;
    9. Medicare Part B physician reimbursement;
    10. Small business health insurance;
    11. Reauthorization of County payments by the Secure Rural Schools and Community Self-Determination Act;
    12. Terrorism Risk Insurance;
    13. Affordable Housing;
    14. Bonneville Power Administration;
    15. Indian Trust Fund Settlement;
    16. FDA Tobacco Regulation;
    17. Long-term care (added by a Cardin/Menendez amendment);
    18. Veterans program improvements (added by a Sanders amendment);
    19. The Federal costs of mental health parity (added by a Domenici/Stabenow/Feingold amendment);
    20. Health reform (Wyden amendment);
    21. Employer verification systems for immigration enforcement (Cornyn);
    22. Child care (Sanders/Cardin amendment);
    23. Military health care (Graham amendment)

- **Other Amendment Action:**

The Committee **defeated** the following amendments: a non-binding Allard amendment to urge the appropriators to eliminate programs identified by OMB as ineffective; a Gregg amendment on health care reform and SCHIP; a Bunning amendment to create a point of order against a Budget Resolution that uses Social Security surpluses to fund other government programs; an Enzi amendment on unfunded mandates; an Ensign amendment to insert a Reconciliation Instruction intended to increase Medicare Part D (prescription drug) premiums on upper income beneficiaries; an Ensign amendment to create a “firewall” to ensure a specified level of defense spending; a Cornyn amendment to add a Reconciliation instruction to reduce Medicare expenditures; a Cornyn reserve fund amendment to limit the SCHIP program to children; and a Gregg amendment to dedicate collection of delinquent taxes (the “tax gap”) to deficit reduction.

## **HOUSE APPROPRIATIONS COMMITTEE REPORTS \$124.1 BILLION FY'07 SUPPLEMENTAL**

Today the House Appropriations Committee voted 36-28, largely along party lines, to report a \$124.1 billion FY'07 Supplemental Appropriations Bill including: \$103.6 billion for Iraq and Afghanistan war costs and other costs related to the Global War on Terror, \$6.3 billion for Hurricane Katrina and Gulf Coast relief; \$3.5 billion for military and veterans health care; \$3.1 billion for Base Realignment and Closure; \$2.5 billion for Homeland Security; \$4.3 billion for agriculture disaster (drought) relief; \$500 million for wildfire suppression; \$400 million for Low Income Home Energy Assistance; \$1 billion for Pandemic (avian) flu vaccines; and \$735 million in emergency SCHIP (State Children's Health Insurance Program) funds.

- The bill also includes Democrats' language to require withdrawal / redeployment of U.S. troops from Iraq by August of 2008, or earlier if the Iraqi government does not meet certain "benchmarks"; and which requires that the military adhere to its standard unit readiness and length of deployment standards absent a presidential waiver.
- The bill also includes the minimum wage / small business tax relief passed previously by the House in separate measures.
- The bill does not include controversial language that would have attempted to bar the President from military action in Iran without congressional approval.
- The bill includes a Weldon/Murtha amendment to overturn the Base Realignment and Closure process and keep the Walter Reed Army Medical Center open.
- During the course of the mark-up, the following amendments were adopted: a Kirk amendment to apply minimum wage changes to American Samoa; and a Wicker amendment to increase the number of military attorneys at Walter Reed.
- During the course of the mark-up, the following amendments were defeated: a Lewis/Young amendment to strike the Iraq conditions; a Kirk amendment to strike the farm disaster funds; a Wamp amendment to upgrade Capitol Police radio equipment; a Kirk amendment to strike relief for spinach farmers; Culberson amendment to allow states to set their own safety standards for chemical plants; and a Lee amendment to withdraw from Iraq by end of '07.

**Check out our new Budget Docs page ([www.washingbudgetreport.com/bd.php](http://www.washingbudgetreport.com/bd.php)) for links to the bill language when they become available.**

### **FY'07 SUPPLEMENTAL: STEP-BY-STEP™**

- Week of March 19: House Floor action on FY 2007 Supplemental.
- March 22: Senate Appropriations Committee mark-up of FY 2007 Supplemental.
- Week of March 26: Possible Senate Floor action on FY 2007 Supplemental.

### **FY'08 BUDGETPROCESS: STEP-BY-STEP™**

- March 16: Senate Budget Committee files report on '08 Budget Resolution.
- March 16: CBO releases full analysis of the President's FY '08 Budget proposals.
- Week of March 19: Senate Floor action on FY 2008 Budget Resolution.
- March 21: House Budget Committee mark-up of FY 2008 Budget Resolution.
- Week of March 26: House Floor debate on FY 2008 Budget Resolution.

**FY 2007 Supplemental: President's *REVISED* Request vs. House Committee-Reported Bill (\$ in billions)**

| Account/Activity                               | President's Request | House Democrats | Explanation: Democratic proposal compared to President  |
|--|---------------------|-----------------|---|
| <b>DEFENSE</b>                                 |                     |                 |   |
| Military Personnel                             | 12.145              | 13.567          | Increase covers housing allowance shortfall   |
| Operations and Maint.                          | 50.316              | 52.500          | Increases for strategic reserve readiness, Afghanistan, family advocacy; Decreases for Navy and Air Force O&M           |
| Procurement                                    | 24.900              | 24.814          | Increases for mine resistant vehicles, 3 F/A-18E/F aircraft; reduces 2 Joint Strike Fighters, and 5 navy attack planes. |
| RDT&E*   | 1.448               | 1.035           | This reduction in funds is re-directed to military health care.   |
| Revolving Funds                                | 1.321               | 1.321           |   |
| Defense Health                                 | 1.073               | 2.790           | Increases for PTSD, Brain Injury, Amputee care, other.  |
| Drug Interdiction                              | 0.259               | 0.259           |   |
| Intelligence                                   | 0.067               | 0.057           | Nat'l Counterterrorism Center   |
| General Provisions                             |                     | -0.815          | Budget savings from better management of private contractors.   |
| <b>Subtotal: defense</b>                       | <b>91.529</b>       | <b>95.529</b>   | <b>Funding for Iraq, Afghanistan, Global War on Terror</b>  |
| MILITARY CONSTRUCTION                          | 1.853               | 1.853           |   |
| STATE DEPT/ INT'L ASSIST.                      | 6.000               | 6.000           | Also includes Security Assistance: Iraq, Afghanistan, Lebanon   |
| OTHER AGENCIES                                 | 0.200               | 0.200           | Prisons, Treasury, Corps of Engineers,  |
| <b>Subtotal: War on Terror</b>                 | <b>99.582</b>       | <b>103.582</b>  |   |
| HURRICANE KATRINA                              | 3.400               | 6.300           |   |
| <b>Subtotal: War &amp; Katrina</b>             | <b>102.982</b>      | <b>109.882</b>  | This was the amount requested on February 5th.  |
| VETERANS HOSPITALS                             |                     | 1.783           | The Dem plan would add \$3.5 b for military & veterans health, reflected on this line and "defense health" (above)      |
| BRAC   | 3.100               | 3.100           | Base Realignment and Closure: Congress to designate as "emergency"; <b>President to offset w/ education, other cuts</b> |
| HOMELAND SECURITY                              |                     | 2.500           | Aviation, Port, Container and Border Security   |
| PANDEMIC FLU VACCINES                          |                     | 1.000           | Avian flu preparedness.   |
| SCHIP  |                     | 0.735           | Address shortfalls in 14 States   |
| LIHEAP   |                     | 0.400           | Low Income Home Energy Assistance   |
| WILDFIRE SUPPRESSION                           |                     | 0.400           | Forest Service / Interior Dept.   |
| FARM DISASTER FUNDS                            |                     | 4.300           | For farmers who have purchased crop insurance.  |
| <b>TOTAL: FY'07 SUPP</b>                       | <b>102.982</b>      | <b>124.100</b>  |   |
| *Research, development, testing and evaluation |                     |                 |   |

**NOTE: The "bottom line" figure of \$124.1 billion for the House Democratic proposal assumes concurrence with the President's request for State Department, International Assistance, and other agencies.**

## **BUDGET BACKGROUNDER—WHAT IS A BUDGET RESOLUTION:**

### **What is a Budget Resolution?**

In general, a “Budget Resolution” is a concurrent resolution of the Congress that establishes a general framework for subsequent congressional action on spending and revenue bills.

- The Budget Resolution **does not require presidential signature and does not become law.**
- The Budget Resolution **includes spending and revenue totals**, but the **Budget Resolution does not set annual spending levels for specific programs; that authority belongs to the House and Senate Appropriations Committees.**
- In order to calculate proposed spending and revenue totals, the Budget Resolution makes “**non-binding assumptions**” regarding levels of spending for specific programs. The background materials on the budget plan therefore include considerable discussion about program areas being “increased” or the President’s proposed program terminations being “rejected.” Such discussion is superfluous since the Budget Committee has no jurisdiction to make those programmatic decisions. **The Budget Committee decision that does have great import is the total amount of discretionary spending authority made available to the Appropriations Committees.**

### **What is the Difference Between Budget Authority and Outlays?**

- “Budget authority,” (often referred to as “BA”) is the legal authority Congress gives to a Federal department or agency to enter into financial obligations that will result in outlays. **When Congress appropriates funds for a particular program, it is enacting BA—not outlays.**
- “Outlays,” by contrast, are actual disbursements by the Treasury. When the Treasury issues a check in FY’08, that becomes an FY’08 outlay. This Budget Alert uses both BA and Outlays, depending on which numbers are available for specific items to do an apples-to-apples comparison between the Conrad plan and the President’s Budget.

### **What is the Difference Between Discretionary and Mandatory Spending?**

- Discretionary programs are funded by Congress in annual appropriations bills, that is, decisions are made each year on funding levels.
- “Mandatory programs” are programs that are driven by legal obligations written into U.S. law. Most mandatory programs are “entitlements,” which are programs where annual spending is driven by statutory eligibility and benefit formulas (such as Social Security, Medicare, Medicaid, and Food Stamps).

### **What is a “Reserve Fund”?**

- A reserve fund is a provision in a Budget Resolution that allows spending and revenue aggregates and committee allocations to be adjusted to accommodate new programs, provided the legislation is accompanied by spending cuts or revenue increases to fully pay the costs of the new program. **It is important to realize that reserve funds do not fund anything.** They allow the Budget Resolution framework to be adjusted to accommodate new programs only if they are deficit-neutral.

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