



# BRIEF ANALYSIS PRESIDENT BUSH'S FY 2009 BUDGET

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## **President Bush's 2009 Budget: More of the Same Failed Fiscal Policies**

### **Overview**

President Bush's 2009 budget contains more of the same failed fiscal policies that the President has embraced throughout his time in office – more deficit-financed war spending, more deficit-financed tax cuts tilted to benefit the wealthiest, and more borrowing from foreign nations like China and Japan. The result can only be the same – a further explosion of debt and the undermining of our nation's economic security.

Once again, the President has tried to conceal the true fiscal impact of his budget by leaving out large costs. He provides at most half a year of war funding for 2009. He leaves out the cost of an Alternative Minimum Tax fix beyond this year. And he again assumes multi-year cuts in domestic discretionary programs, without detailing where these cuts are to occur beyond the first year. Only by relying on this sleight of hand is the budget able to claim that it achieves balance in 2012 and 2013. A more realistic accounting of the President's policies shows that the budget would instead yield significant deficits in every year.

This budget will be quickly forgotten. But, unfortunately, the President's legacy of debt will stay with us, as it is passed on to future generations. His stewardship of our budget has been a disaster. He has offered no credible solutions to our nation's long-term budget problems and, time after time, has rejected opportunities to work with Democrats to put the budget on a more sustainable path. We need a dramatic change in our fiscal course, but once again this President has nothing to offer.

### **True Budget Outlook Under Bush Policies**

The President's budget claims to reach balance by 2012. But as with the President's past budgets, it only achieves that goal by leaving out large expenses. It provides at most half a year of war funding for 2009, even though costs will carry on beyond the first half of 2009 and likely well beyond that under the President's policies. It leaves out Alternative Minimum Tax relief beyond calendar year 2008. And it leaves out discretionary spending policy details beyond 2009.

If we add back omitted costs, which total \$1.0 trillion over five years including the associated interest costs, deficits never fall below \$200 billion and total \$1.6 trillion over five years. Those deficits are occurring at a time when we should be paying down debt to prepare for the retirement of the baby-boom generation.

<b>Bush 2009 Budget with Omitted Costs</b>							
<b>(\$ billions)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2009-13</b>
<b>Bush Budget Claim</b>	-410	-407	-160	-95	48	29	-585
AMT Reform	0	-8	-90	-89	-103	-118	-408
Ongoing War	0	-24	-119	-126	-117	-103	-489
Debt Service on Adjustments	0	-1	-7	-17	-29	-41	-94
<b>Bush Budget Deficits with Omitted Costs</b>	-410	-440	-375	-327	-200	-233	-1,576
<b>Increase in Gross Debt</b>	704	791	756	735	660	671	3,613

## **Federal Debt Soaring**

The debt has exploded on this President's watch. We are now facing a wall of debt. At the end of 2001, the year the Bush administration took office, gross debt was \$5.8 trillion. Under the President's budget with omitted costs factored in, gross debt will reach \$10.4 trillion by the end of 2009. If we continue with these policies, gross debt is projected to soar to \$13.3 trillion by the end of 2013.

Disturbingly, we are becoming increasingly reliant on foreigners to buy our debt and finance our deficits. It took 42 Presidents 224 years to run up a trillion dollars of external debt. Incredibly, President Bush more than doubled that amount. We now owe Japan almost \$600 billion; China almost \$400 billion; the United Kingdom more than \$300 billion; and "oil exporters" more than \$100 billion.

## **Tax Proposals**

The President's budget once again proposes further tax cuts that primarily benefit the wealthiest. The budget calls for tax cuts costing \$903.2 billion over five years and \$2.4 trillion over ten years. (This total includes the impact on outlays of proposals affecting refundable tax credits, such as the EITC and the Child Tax Credit.)

Extending the 2001 and 2003 tax cuts. The President proposes making permanent his previously enacted tax cuts, costing \$665.6 billion over five years and \$2.2 trillion over ten years (including the associated outlay effects).

Extending other expiring tax provisions. The President proposes a one-year extension of Alternative Minimum Tax (AMT) relief for calendar year 2008. He calls for the permanent extension of the research and experimentation (R&E) tax credit, the New Markets tax credit, the above-the-line deduction for teacher classroom expenses, and expensing of brownfields remediation costs. The budget also proposes to extend the Subpart F active financing exception and the first-time homebuyer credit for the District of Columbia through 2009.

Health insurance deduction. As in his budget last year, the President proposes a new standard deduction for health insurance of \$15,000 for families (\$7,500 for singles) to replace the current exclusion for employer-provided health insurance. Under the proposal, if a taxpayer has health insurance, either employer-provided or purchased individually in the non-group health insurance

market, the taxpayer is entitled to the new deduction, which would be applicable to both income and payroll taxes. Employees would include the value of employer-provided health coverage in gross income. The proposal would eliminate certain existing health tax subsidies, such as Flexible Spending Accounts, the premium deduction for the self-employed, and the medical expense itemized deduction (for taxpayers not enrolled in Medicare). The proposal, including outlay effects, would cost \$105.7 billion over five years and save \$32.5 billion over ten years. Starting in 2014, the proposal begins to raise revenue, as health care costs grow faster than the value of the deduction (which is increased by inflation).

*Tax preferred savings vehicles.* The President has again proposed a significant expansion of tax-free savings accounts. He proposes to consolidate and expand the three current types of IRAs into retirement savings accounts (RSAs). In addition, the President proposes establishing lifetime savings accounts (LSAs), which would allow any taxpayer to shelter more income from taxation. No income limits would apply to either LSAs or RSAs. The President also proposes consolidating a number of employer-sponsored retirement savings vehicles, including 401(k)s, 403(b)s, 457s, and SIMPLE IRAs, into Employer Retirement Savings Accounts (ERSAs). Together, these proposals increase revenues by \$7.2 billion over five years and reduce revenues by \$2.1 billion over ten years. Revenue gains through 2012 resulting from people paying tax on amounts in existing savings vehicles that they are converting to RSAs and LSAs turn to losses in 2012 that increase sharply thereafter.

*Expanding Health Savings Accounts (HSAs).* The President again proposes to expand HSAs by making more types of health plans eligible for HSA status, expanding the scope of qualified medical expenses under HSAs, allowing larger HSA contributions by employers, and making it easier for families to get HSA coverage. Together, the HSA expansion proposals would reduce revenues by \$11.5 billion over ten years.

*Closing the tax gap.* The budget includes proposals to improve tax compliance, primarily by expanding information reporting on the sales of publicly-traded securities, on payments to corporations for services, and on credit and debit card transactions. The proposals would raise revenues totaling \$35.9 billion over ten years. The proposals address just a fraction of the tax gap, which was estimated to be \$345 billion in 2001.

*Other tax items.* The budget proposes a variety of additional revenue provisions, including for small business investment, charitable giving, and other purposes.

### **Discretionary Spending Proposals**

At the same time that the President proposes further tax cuts that primarily benefit the wealthiest, he again proposes to cut funding for domestic programs that benefit the middle class. In total, the budget includes \$989.8 billion in discretionary budget authority for 2009 (excluding emergencies), an increase of \$44.7 billion, or 4.7 percent, over the 2008 enacted level (adjusted to include \$3.7 billion in 2008 contingent emergency veterans funding). Relative to these 2008 levels adjusted for inflation (to maintain the same purchasing power provided to agencies and programs in 2008), the President proposes to increase funding by \$15.6 billion, or 1.6 percent.

As the following table shows, however, that total includes increases for defense and international affairs, while cutting funding for domestic programs by \$12.8 billion, or 3.0 percent, below the 2008 level adjusted for inflation.

Discretionary Spending in 2009				
Discretionary budget authority (\$ billions)	Baseline*	Bush Budget	Budget Above/Below Baseline*	Percent Difference
Defense	513.1	536.8	+23.7	+4.6%
International	34.8	39.5	+4.7	+13.6%
Domestic**	426.2	413.4	-12.8	-3.0%
<b>Total</b>	<b>974.2</b>	<b>989.8</b>	<b>+15.6</b>	<b>+1.6%</b>

\*Baseline is the 2008 enacted level, including \$3.7 billion in contingent emergency veterans funding, adjusted for inflation.

\*\*Includes domestic homeland funding.

### Defense

The President's budget continues the rapid defense spending growth seen in recent years, calling for \$515.4 billion for the Department of Defense's discretionary budget (subfunction 051), excluding war costs, a nominal increase of more than 7.5 percent. This request is 4.8 percent above the 2008 level adjusted for inflation. For the broader National Defense budget function (function 050), the President proposes \$536.8 billion, an increase of 4.6 percent relative to the 2008 level adjusted for inflation.

Under the budget, defense spending would exceed the peak levels during the Reagan buildup and Vietnam War, and would be roughly equal to the peak level during the Korean War. Under the President's proposal, defense spending would grow in real (inflation-adjusted) terms for the eleventh straight year, the longest sustained growth in defense spending in history. However, the administration appears to project an end to the defense buildup in 2010, proposing below inflation growth in defense spending from 2010 onward.

The levels shown in the budget assume \$1.2 billion in savings through the enactment of the President's proposals to raise healthcare fees and co-pays for military retirees, which Congress has rejected two years in a row.

The President's budget fails to comply with the McCain amendment requiring the President to budget for ongoing war costs. The budget includes an unallocated allowance of \$70 billion for emergency war funding, far less than will be required to cover the costs of the wars in Iraq and Afghanistan in 2009 under the President's policies, given that the monthly "burn rate" currently exceeds \$12 billion. The budget also renews the President's request for an additional \$108 billion in war funding for 2008 (\$102.4 billion for defense), on top of the \$88 billion Congress has already provided for 2008. Unlike the 2008 budget, the 2009 budget does not project any additional war costs beyond the first year.

### Key Domestic Discretionary Cuts Proposed for 2009

*COPS.* The President's budget provides no funding for the COPS program. This reflects a cut of \$587 million below the 2008 enacted level and \$596 million below the 2008 enacted level adjusted for inflation.

*Byrne/JAG.* Funding for the Byrne/JAG formula grant program is proposed to be eliminated in its current form as part of a proposal to realign and reduce Department of Justice state and local assistance programs. This represents a cut of \$170 million below the 2008 enacted level

(excluding emergency funding) and \$173 million below the 2008 level adjusted for inflation.

*DHS State Grant Program.* The budget proposes to fund the DHS State Grant program for first responders at \$200 million. This represents a cut of \$690 million below the 2008 enacted level (excluding emergency funding) and \$708 million, or 78 percent, below the 2008 level adjusted for inflation.

*Firefighter Grants.* The budget proposes to fund the Assistance to Firefighter Grant program at \$300 million. This represents a cut of \$450 million below the 2008 enacted level and \$465 million, or 61 percent, below the 2008 level adjusted for inflation.

*CDBG.* The budget proposes \$2.9 billion for the Community Development Block Grant program (CDBG), a cut of \$659 million below the 2008 enacted level (excluding emergency funding) and \$731 million, or 20 percent, below the 2008 level adjusted for inflation.

*Education.* The budget freezes discretionary funding for education programs in the Department of Education at \$59.2 billion. This is \$826 million less than the 2008 enacted program level adjusted for inflation. The No Child Left Behind Act receives a nominal increase of \$125 million over 2008, but \$179 million less than the 2008 program level adjusted for inflation.

The budget eliminates 48 discretionary education programs, including Career and Technical Education, Federal Supplemental Educational Opportunity Grants (SEOG), Leveraging Education Assistance Grants (LEAP), Perkins Loans, education technology state grants, school counseling, mentoring, Even Start family literacy programs, parental information and resource centers, physical education, and school leadership grants.

*21<sup>st</sup> Century Learning Centers.* After-school funding is cut by \$281 million, or 26 percent, below the 2008 enacted level. That level is \$303 million below the 2008 level adjusted for inflation.

*Transportation.* The budget includes \$800 million for AMTRAK, which is \$525 million below the 2008 enacted level and \$552 million below the 2008 level adjusted for inflation. It also provides \$2.8 billion for Airport Improvement Program (AIP) capital grants, which is \$765 million below the 2008 enacted level.

*Clean Water.* The Clean Water State Revolving Fund is funded at \$555 million, which is \$148 million, or 21 percent, below the 2008 level adjusted for inflation.

*Energy Efficiency and Renewable Energy.* The budget provides \$1.3 billion for this Department of Energy program, a cut of \$467 million below the 2008 enacted level. As part of this proposal, the administration would eliminate the Weatherization Assistance program, which received \$227 million in 2008.

*Low Income Home Energy Assistance Program.* The President proposes \$2.0 billion for LIHEAP, which is \$361 million below the 2008 enacted level (excluding emergency funding) and \$400 million, or 17 percent, below the 2008 level adjusted for inflation. (The proposal is \$570 million below the 2008 enacted level including the \$250 million of emergency funding.)

*National Institutes of Health.* The budget freezes the NIH at its 2008 enacted level of \$29.3 billion.

*Health Resources and Services Administration (HRSA).* The budget proposes a program level of \$5.9 billion for HRSA, a \$1 billion (15 percent) cut from the 2008 enacted level of \$6.9 billion. This

level assumes numerous cuts including: health professions (-\$252 million); rural health (-\$150 million); the elimination of Children's Hospital GME (-\$302 million); the traumatic brain injury program (-\$8.7 million); and, universal newborn hearing and EMS for children (-\$31 million).

*Centers for Disease Control and Prevention (CDC).* The budget includes \$5.6 billion for the CDC, a \$432 million (7 percent) cut from the 2008 enacted level. This level assumes the elimination of the Preventive Health and Health Services Block grant (-\$97 million) and a \$137 million (18 percent) cut for state and local capacity grants for bioterrorism preparedness.

*Veterans' Discretionary Programs.* The budget provides \$44.9 billion for discretionary veterans' programs, which includes veterans' medical services. This amount is \$1.6 billion more than the levels provided in 2008 and \$385 million more than the 2008 levels adjusted for inflation. However, the budget also imposes new fees on veterans (discussed in the Mandatory Spending Proposals section). Congress has rejected similar fee proposals in the past.

*Even Steeper Cuts Through 2013.* The budget fails to provide any account-level detail on discretionary spending after the first year. The Bush administration claims savings from reduced spending on domestic programs, without detailing where those cuts would come from. However, aggregate budget function totals provided show that the President is proposing to cut a number of priority areas. For instance, the function totals reflect the following cuts in 2013 below the 2008 level adjusted for inflation (excluding noncontingent emergencies):

- \$7.6 billion, or 15.2 percent, in veterans programs;
- \$8.7 billion, or 14.4 percent, in health;
- \$8.2 billion, or 9.3 percent, in education, training, employment, and social services;
- \$7.5 billion, or 21.1 percent, in natural resources and the environment; and,
- \$4.5 billion, or 27.9 percent, in community and regional development.

### **Mandatory Spending Proposals**

Major mandatory changes proposed by the President include:

- cuts to Medicare fee-for-service providers and increased beneficiary cost-sharing;
- cuts to Medicaid;
- the establishment of voluntary private accounts in Social Security;
- new cost-sharing for veterans' health programs;
- cuts to student loan programs;
- cuts to crop safety net and agriculture insurance programs; and,
- drilling in the Arctic National Wildlife Refuge.

One primary consequence of many of the President's Medicare and Medicaid proposals will be to shift existing health care costs to other entities, including health care providers, beneficiaries, state and local governments, and employer-provided health plans. Most of these proposals will do little to address the underlying causes of health care cost growth in the overall health care system.

*Medicare.* The budget includes legislative proposals that, on net, would cut Medicare payments to health care providers and increase seniors' premiums by a total of \$178.0 billion over the next five years and \$556.1 billion over the next ten years. Separately, the budget assumes regulatory changes to Medicare provider payments that would achieve gross savings of \$8.0 billion over five years – raising the total five-year savings in Medicare to \$186.0 billion.

The legislative proposals to cut Medicare spending in the President's budget are nearly three times the size of the cuts proposed last year. Most of the proposed cuts are similar, but expanded, versions of cuts proposed last year.

Over two-thirds of the President's Medicare cuts are targeted at hospitals, including cuts to: annual market basket updates; disproportionate share (DSH) payments for hospitals that treat an unusually large share of low-income patients; capital payments; and, indirect medical education (IME) payments, which account for the higher cost of patient care in teaching hospitals. In addition, the President proposes to eliminate IME payments to hospitals for the care of Medicare Advantage beneficiaries.

The President's budget again proposes a series of across-the-board cuts in Medicare payments to fee-for-service providers. These cuts, which save \$112.9 billion over five years, include:

- Freezing annual market basket updates for three years and reducing future market basket updates in 2012 and beyond by 0.65 percent for inpatient and outpatient hospitals, nursing homes, rehab facilities, hospices, long-term care hospitals, and ambulance providers;
- Freezing payments to home health agencies every year through 2013, then providing a market basket update, minus 0.65 percent, in 2014 and beyond; and,
- Freezing payments for ambulatory surgical centers in 2010 and 2011 and reducing future market basket updates by 0.65 percent in every year beyond 2011.

Several 2008 proposals reappear in the 2009 budget, including proposals to: eliminate hospital IME payments for Medicare Advantage beneficiaries; limit the oxygen rental period to 13 months for certain oxygen equipment; equalize payments for five post-acute conditions treated in nursing homes and rehab facilities; eliminate Medicare bad debt payments (Medicare currently covers a portion of payments owed by Medicare beneficiaries to providers, but not paid); expand competitive bidding to include lab services; pay for short-term power wheelchairs based on actual use; modernize ESRD payments; extend Medicare secondary payer (MSP) status for ESRD from 30 to 60 months; and, eliminate payments for "never" events – payments for extremely rare medical errors that should never happen to a patient. Together these proposals save \$27.5 billion over five years.

This year's budget includes four new proposals that would cut Medicare payments to hospitals by a further \$38.3 billion over five years. The budget proposes to reduce the hospital payment add-on for indirect medical education from 5.5 percent to 2.2 percent over three years, reduce hospital capital payments by 5 percent in 2009, reduce hospital disproportionate share (DSH) payments by 30 percent over two years, and institute a new hospital value-based purchasing program.

The budget assumes a more than 10 percent cut in Medicare physician payments will go into effect on July 1, 2008, and an additional 5 percent cut will go into effect in 2009. These cuts are scheduled to take effect under current law, and would require Congressional action to override.

The President's budget proposes \$5.8 billion in savings from increased cost-sharing for beneficiaries in both Part B and Part D. Under current law, in 2008, Part B premiums are increased on a graduated basis for beneficiaries with annual incomes greater than \$82,000 for singles and \$164,000 for couples. These income thresholds are indexed to inflation. The budget proposes to eliminate the annual inflation indexing of the income thresholds for Part B premiums. The budget also proposes to establish for Part D the same income-related premiums that are being proposed for Part B (i.e., with the same income thresholds, not indexed for inflation).

Under the President's budget, costs attributable to a one-year QI extension and interactions, which reduce Part B premiums, would increase Medicare spending by \$6.5 billion over five years.

Finally, the President's budget includes a proposal to automatically cut Medicare fee-for-service provider payments by 0.4 percent per year in any year in which the Medicare Funding Warning is triggered – unless Congress acts to bring Medicare spending below the 45 percent general funding threshold. If the President's proposed Medicare cuts were enacted, in no year would this automatic sequester be triggered over the next five years.

Separately, the budget assumes Medicare regulatory changes that would achieve gross savings of \$8.0 billion over five years and \$20.0 billion over ten years, including: program integrity actions and payment adjustments to skilled nursing facilities (correcting the case-mix distribution); inpatient hospitals (increasing the inpatient length of stay that triggers transfer payment adjustments); and, hospices (phasing out the wage index adjustment).

Medicaid. The administration proposes policy changes resulting in net Medicaid cuts of \$17.7 billion over five years and \$47.0 billion over ten years. This net total includes \$18.9 billion in gross Medicaid cuts over five years and \$48.2 billion over ten years and new Medicaid spending of \$1.2 billion over five years and over ten years.

Separately, the budget proposes \$800 million in additional Medicaid cuts in the baseline over five years as a result of regulatory changes the administration will be pursuing.

The baseline Medicaid estimates also reflect savings of \$13.9 billion over five years and \$32.8 billion over ten years resulting from previously proposed regulatory changes, some of which have already been finalized. These regulatory changes include revising payments for government providers (-\$5.7 billion over five years), eliminating Medicaid graduate medical education (-\$1.8 billion over five years), clarifying rehabilitation services (-\$2.7 billion over five years), and reforming school-based services administration (-\$3.6 billion over five years). The Medicaid baseline is an estimate of the spending that would occur if no changes were made to current law (e.g., no Congressional action) during the period covered by the budget.

Children's Health Insurance (CHIP) Reauthorization. The budget assumes \$19.3 billion over five years for CHIP reauthorization. This level is described in the budget as representing the total cost of CHIP reauthorization, including CHIP and Medicaid costs, as well as spending resulting from outreach grants. It is unclear how much the budget proposes to increase the annual CHIP funding allotments. It is also unclear whether the proposed funding level is sufficient to cover all children currently enrolled in the CHIP program, let alone provide coverage to children who are currently eligible but not enrolled in the program. The bipartisan CHIP bills that were passed by the Congress in 2007 and vetoed by the President would have provided coverage to more than 3.8 million children who would otherwise have been uninsured.

Veterans' Health. As in previous years, the President proposes new fees on veterans' health care, with savings of \$2.3 billion over five years and \$5.2 billion over ten years. Specifically, the President proposes to charge medical care enrollment fees for non-disabled, higher-income veterans, and increase pharmacy co-payments, for savings of \$2.1 billion over five years and \$4.8 billion over ten years. The budget also calls for third-party insurance co-payment offsets (which would require co-payments to be charged to all eligible veterans equally and not reduced if a veteran has health insurance), with savings of \$218 million over five years and \$420 million over ten years. The President has proposed similar fees in previous years, and Congress has rejected them.



*Social Security.* The budget provides \$30.3 billion over five years and \$647.2 billion over ten years to implement the President's Social Security voluntary private accounts proposal. However, because the proposal would only be in effect for six years of the ten-year budget window, this figure does not reflect the true cost of the proposal once fully implemented.

In addition, the budget includes several savings proposals that would reduce Social Security benefits, totaling \$6.0 billion over five years and \$16.3 billion over ten years. Savings proposals include:

- limiting retroactive disability insurance benefits to 6 months prior to application, rather than the current policy of up to 12 months (thereby, conforming the disability and old-age and survivors retroactive payment policies);
- requiring full-time school attendance for continued eligibility of a child's Social Security benefits at age 16;
- tightening enforcement of the windfall elimination provision (WEP) and the government pension offset (GPO); and,
- replacing the disability insurance/worker's compensation offset with a uniform offset.

The budget also proposes to increase program integrity efforts in the disability insurance program.

*Agriculture.* The budget includes the President's 2007 Farm Bill proposal, which would add \$107 million in 2008, \$109 million in 2009, and \$2.4 billion over the 2009 to 2018 period for agriculture and nutrition programs. This proposal would also cut the crop safety net and insurance programs by billions of dollars over ten years and redistribute these funds to other USDA programs.

*Education.* The budget includes three proposals to cut mandatory higher education programs by \$6.1 billion over five years and \$9.5 billion over ten years.

Two of the proposals would cut benefits to student borrowers made available in last year's bipartisan College Cost Reduction and Access Act. The first would dramatically reduce eligibility for loan forgiveness for public servants. Borrowers who work in a public-sector job for 10 years are eligible for this benefit. Under the President's proposal, only loans made beginning in October 2009 will be eligible to be forgiven. This change costs student borrowers \$1.5 billion over five and ten years. The administration also proposes to cut interest subsidies for borrowers who elect income-based repayment plans. This costs borrowers \$500 million over five years and \$800 million over ten years.

Finally, the budget recalls capital for the Perkins loans. The Perkins program is a federal revolving loan program. Institutions use the funds to provide low-interest loans to low-income students as part of their aid packages. Congress rejected this cut last year when it had the opportunity to redirect the funding in other ways. This will cost borrowers \$4.2 billion over five years and \$7.2 billion over ten years.

*Energy and Environment.* The budget proposes to repeal an oil and gas R&D program that was included in the Energy Policy Act of 2005, saving \$210 million over five years and \$300 million over ten years. The budget once again assumes receipts from permitting oil and gas drilling in ANWR, resulting in savings of approximately \$4 billion (over a five-year and a ten-year period). The budget would increase direct spending by \$795 million over five years and \$17.96 billion over ten years to add oil to the Strategic Petroleum Reserve. (The President's budget also requests an increase in discretionary appropriations for the SPR.)

Spectrum Auctions: In total, the budget assumes \$7.1 billion in savings over ten years from spectrum auctions and new fees at the Federal Communications Commission. The administration would provide the FCC with the authority to collect spectrum license user fees on unauctioned spectrum licenses, for savings of \$4.1 billion over ten years. It also assumes an additional \$1.4 billion in savings over ten years by extending FCC's authority to auction spectrum indefinitely. Additionally, the administration assumes \$343 million in savings over ten years from restoring FCC's authority to auction domestic satellite service spectrum licenses and \$1.2 billion over ten years from charging a fee for land-based components of hybrid terrestrial-satellite communications networks.

Temporary Assistance for Needy Families (TANF). The President proposes \$1.5 billion over five years and \$3.1 billion over ten years to extend the authorization for TANF supplemental grants. These grants are provided to states that meet criteria of high population growth and/or low historic grants per poor person.

### **Budget Process Proposals**

Across-the-Board Cuts in Mandatory Programs. The President proposes a pay-as-you-go requirement for mandatory spending only. New mandatory spending that would increase the deficit in the current year and the budget year would trigger across-the-board cuts in other mandatory spending, unless paid for with reductions in other mandatory spending.

Automatic Cuts in Medicare. The President proposes automatic cuts in Medicare if the Medicare Modernization Act's threshold (when general revenue Medicare funding is projected to exceed 45 percent of Medicare's total spending) is exceeded. The cuts would begin as a four-tenths of one percent reduction to all payments to providers in the year that the threshold is exceeded, and would grow by four-tenths of one percent every year the shortfall continues.

Social Security Disability Insurance Funding Warning. The President proposes that if Social Security Administration actuaries project a negative disability insurance cash flow that is more than 10 percent of the program's cost for four consecutive years in the upcoming ten years, the Board of Trustees would issue a Funding Warning in its annual Trustees Report. The issuance of a Funding Warning would require the President to propose legislation within 15 days of the next budget submission to address the Funding Warning, and Congress would be required to consider the President's legislation.

Long-Term Underfunded Obligations. The President proposes a point of order against legislation that would worsen the long-term underfunded obligations of major entitlements including Social Security, Medicare, Federal civilian and military retirement, veterans' disability compensation, and Supplemental Security Income.

Discretionary Spending Caps Enforced with Sequesters. The President proposes separate annual discretionary spending caps for defense and nondefense for 2008, 2009, and 2010, enforced through across-the-board cuts in non-exempt discretionary programs. For 2011-2013, separate defense/nondefense caps would be eliminated and replaced with overall discretionary caps. The President's proposed caps do not include the administration's proposal to replace aviation taxes currently recorded as receipts with FAA user fees that would be recorded as offsetting collections, but if that proposal is enacted, the administration would reduce the caps for 2010-2013 by those amounts, and a separate category for transportation outlays financed by dedicated revenues would be established for 2009. The President also proposes cap adjustments for Social Security Administration Continuing Disability Reviews, IRS tax enforcement, the Health Care Fraud and

Abuse Control Program in the Centers for Medicare and Medicaid Services, and Unemployment Insurance improper payments in the Department of Labor. In addition, the President asks the Budget Committee to either adopt a scoring rule in the budget resolution for specific program integrity activities, or include a reserve fund in the resolution for program integrity efforts.

Advance Appropriations. The President's budget would limit advance appropriations for 2010 in 2009 bills to \$25.552 billion, including appropriations for the Corporation for Public Broadcasting.

Credit Reform. The President's budget states that, in the coming year, the administration plans to discuss with committees, CBO, and GAO the scope of the Federal Credit Reform Act, the treatment of administrative costs in credit program cost estimates, improvements in methods for making credit subsidy cost estimates, and the treatment of financial risk insurance programs in the budget.

Emergency Spending. The President's budget would require the President's concurrence in order for items of emergency spending designated by the Congress as emergencies to be scored as emergencies.

Line-Item Veto. The President's budget again proposes a line-item veto, to allow the President to cancel new mandatory and discretionary spending whenever the President determines that the spending is not an essential government priority. Under the President's proposal, Congress would be required to vote on the President's proposed rescissions on an expedited basis and without amendment.

Baseline Changes. The President proposes to revise budget baseline calculations to assume the extension of expiring tax provisions, exclude discretionary funding for emergencies, reflect adjustments for pay raises that begin on January 1st of each year rather than on October 1<sup>st</sup>, and eliminate adjustments for expiring housing contracts and social insurance administrative expenses.

Joint Budget Resolution. The President's budget advocates a joint budget resolution requiring the President's signature.

Biennial Budgeting. The President's budget proposes to switch from annual budgeting to biennial budgeting. Under biennial budgeting, in the first year of a new Congress, the President would be required to submit to Congress a two-year budget plan. Congress would then pass a two-year budget and enact two-year appropriations bills. The second year of each Congress would be used for considering authorizing legislation.

Automatic Continuing Resolution. The budget proposes that if Congress and the President fail to complete action on appropriations bills by the October 1 start of each fiscal year, an automatic continuing resolution should go into effect to provide funding at the lower of the President's budget or the prior year's level.

Results and Sunset Commissions. The President proposes requiring Congress to consider under expedited procedures the recommendations of Results Commissions to restructure or consolidate government agencies. In addition, the President proposes a Sunset Commission to require government programs to defend their existence, whereby programs would be scheduled to terminate absent Congressional action to reauthorize them.

Earmark Reform. The President calls for unspecified earmark reform, saying it remains a priority.

Note: All years are fiscal years unless otherwise noted. All estimates are based on Office of Management and Budget figures provided with the President's 2009 Budget.

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