

GOP Conference Agreement on the FY 2006 Budget Resolution

The budget outlook has deteriorated dramatically over the past four years. Since 2001, deficits have soared, reaching \$412 billion in 2004. The GOP budget conference agreement for FY 2006 makes a bad fiscal situation even worse – taking the nation further down the road of deficits, debt, and decline. The budget adds \$168 billion to deficits over the next five years and increases debt subject to limit by more than \$600 billion in each and every year.

When omitted costs are factored in, such as realistic ongoing war costs, AMT reform, and the Social Security surplus being spent on tax cuts and other things, operating deficits will remain above \$560 billion and reach \$572 billion in 2010. This resolution will worsen our nation’s fiscal outlook at the worst possible time, right before the baby boom generation retires.

GOP Conference Agreement: FY 2006 Budget Policies

| (\$ billions) | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2006-10</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|----------------|
| CBO baseline deficits | -365 | -298 | -268 | -246 | -219 | -201 | -1,232 |
| Tax cuts | --- | -18 | -26 | -12 | -28 | -23 | -106 |
| Mandatory changes | --- | -1 | -5 | -7 | -8 | -9 | -30 |
| Discretionary changes | 32 | 65 | 17 | -4 | -9 | -13 | 56 |
| Interest | --- | 3 | 7 | 8 | 9 | 10 | 36 |
| GOP Conference budget deficits . . | -398 | -383 | -313 | -254 | -238 | -211 | -1,400 |
| Debt held by the public | 4,689 | 5,082 | 5,409 | 5,677 | 5,927 | 6,150 | --- |
| Debt subject to limit | 7,962 | 8,645 | 9,284 | 9,890 | 10,500 | 11,105 | --- |
| <i>GOP increase in deficits</i> | -33 | -85 | -45 | -8 | -19 | -10 | -168 |
| <i>GOP yr/yr increase in debt</i> | --- | +683 | +639 | +606 | +610 | +605 | +3,143 |

Note: --- indicates less than \$500 million. Increases in spending are shown as positive numbers. Decreases in spending are shown as negative numbers.

Tax Cuts

The conference agreement calls for \$106 billion in tax cuts over the 2006-2010 period. Of this total, \$70 billion is reconciled and therefore protected from a filibuster in the Senate. The Finance and Ways and Means Committees have been instructed to report out a tax cut reconciliation bill by September 23, 2005.

The resolution assumptions for tax cuts could accommodate a variety of provisions, including a reduction in the capital gains rate, a dividend rate reduction, and energy tax incentives. In addition, the \$36 billion in non-reconciled tax cuts could be used to repeal the federal estate and gift tax or allow for a variety of expiring tax provisions.

Senate Reconciliation Directives in the GOP Conference Agreement

| (\$ billions) | <u>2006</u> | <u>2006-10</u> |
|---|-------------|----------------|
| Tax reconciliation (Finance) | -11.0 | -70.0 |
| <u>Spending reconciliation</u> | | |
| Agriculture | -0.2 | -3.0 |
| Banking | -0.03 | -0.5 |
| Commerce | -0.01 | -4.8 |
| Energy | 0 | -2.4 |
| Environment & Public Works | -0.04 | -0.03 |
| Finance | 0 | -10.0 |
| Health, Education, Labor, Pensions* | -1.2 | -13.7 |
| Judiciary | -0.06 | -0.3 |
| Subtotal, spending | -1.5 | -34.7 |
| Total reconciled deficit increases | -9.5 | -35.3 |

*Includes savings in 2005.

Mandatory Changes

The GOP budget reduces mandatory spending by \$1 billion in 2006 and by \$30 billion over the next five years. The mandatory assumption includes reconciled cuts of \$1.5 billion in 2006 and \$34.7 billion over the 2006-2010 period, as well as mandatory increases in energy programs and other unspecified increases totaling \$4.2 billion over five years. Committees are required to submit legislation achieving reconciliation savings to the Budget Committee by September 16, 2005.

Agriculture. The GOP budget cuts mandatory agricultural programs by \$173 million in 2006 and by \$3 billion over five years. Although the resolution does not identify the specific policy changes that could be made to achieve the required savings, changes in commodity, conservation and crop insurance programs as well as food stamps and other domestic nutrition programs could be considered.

Banking. The GOP budget requires savings of \$30 million in 2006 and \$470 million over the next five years from the Committee on Banking, Housing, and Urban Affairs.

Commerce. The GOP budget requires savings from the Commerce, Science, and Transportation Committee of \$10 million in 2006 and \$4.81 billion over the next five years. Much of these savings could come from changes to the Federal Communications Commission's authority to assign licenses for use of the electromagnetic spectrum, including extending beyond 2007 the FCC's general authority to assign licenses by competitive auction.

Energy. The conference agreement includes a reconciliation instruction to the Energy Committee

which assumes \$2.4 billion in savings over the 2006-2010 period, most likely from permitting drilling in the Arctic National Wildlife Refuge (ANWR). CBO has projected that allowing drilling in ANWR will produce approximately \$5 billion in receipts over five years. Some legislative proposals divide the receipts from drilling between the U.S. Treasury and the state of Alaska.

Environment and Public Works (EPW). The EPW Committee is reconciled for savings of \$4 million in 2006 and \$27 million over five years.

Finance. The GOP budget assumes \$10 billion over five years in reconciled cuts from the Finance Committee. The GOP committee-passed budget included reconciled cuts of \$15 billion to the Finance Committee. The Senate-passed GOP budget included a Smith-Bingaman amendment that struck the reconciliation instruction and restored cuts to Medicaid, resulting in no reconciliation cuts to the Finance Committee. The GOP conference report increases the reconciled Finance cuts from \$0 to \$10 billion, assuming changes primarily in Medicaid.

Health, Education, Labor and Pensions (HELP). The HELP Committee is reconciled for savings of \$1.2 billion in fiscal years 2005 and 2006 and \$13.7 billion over the 2005-2010 period. Programs targeted for cuts could include student loans and the Pension Benefit Guarantee Corporation (PBGC).

Judiciary. The Judiciary Committee is reconciled for \$60 million in 2006 and \$300 million over the next five years.

Discretionary Spending

The GOP budget conference report assumes a total discretionary level for 2006 of \$843 billion – the same amount requested by the President and \$5.8 billion below the level passed by the Senate. A funding level of \$843 billion represents a cut of \$4.3 billion, or 0.5 percent, below CBO’s baseline – the level needed to maintain current services. Those totals, however, obscure the fact that the conference report assumes steep cuts in funding for domestic programs of \$13 billion in 2006, or 3.4 percent, below CBO’s baseline.

GOP Budget Conference Agreement for Discretionary Programs

| Budget Authority; \$ billions | <u>Conference</u> | <u>Senate Passed</u> | <u>Bush Budget</u> | <u>2005 Enacted</u> | <u>CBO Baseline</u> |
|--------------------------------------|-------------------|----------------------|--------------------|---------------------|---------------------|
| Defense | 439.0 | 439.0 | 439.0 | 420.6 | 431.2 |
| International Affairs | 31.4 | 33.3 | 33.8 | 29.9 | 30.5 |
| Domestic | <u>372.7</u> | <u>376.5</u> | <u>370.3</u> | <u>378.1</u> | <u>385.7</u> |
| Total Discretionary | 843.0 | 848.8 | 843.0 | 828.6 | 847.3 |

Note: The table excludes supplemental funding provided for on-going military operations in Iraq and Afghanistan, as well as 2005 Florida hurricane relief.

Legislation exceeding the assumed discretionary totals in the budget for 2006 would be subject to a 60-vote point of order (the resolution also sets caps on budget authority for 2007 and 2008). There are no

caps set separately for defense, mass transit, highways, or conservation. The resolution also exempts from budgetary points of order up to \$50 billion to fund Iraq and Afghanistan costs in 2006.

As with the President’s budget, the conference report assumes even deeper cuts in domestic programs after 2006. By 2010, the budget assumes domestic programs will be cut \$47.6 billion, or 11.2 percent, below CBO’s baseline, including cuts in key domestic priorities, such as education and training, veterans’ benefits, and the environment.

GOP Budget Conference Agreement Cuts Key Domestic Priorities

| Budget Authority; \$ billions | 2006 | | 2006-2010 | |
|--|---------|---------|-----------|---------|
| | Dollars | Percent | Dollars | Percent |
| Education, Training, Employment, and Social Services | -1.5 | -1.9% | -35.1 | -8.4% |
| Natural Resources and the Environment | -3.4 | -10.7% | -25.6 | -15.5% |
| Transportation | -3.0 | -12.3% | -16.7 | -13.0% |
| Veterans’ Benefits and Services | 0.1 | 0.4% | -13.5 | -8.0% |
| Administration of Justice | -1.1 | -2.8% | -5.6 | -2.7% |

Note: Compares GOP Budget Conference for discretionary funding, by function, for 2006 and 2006-2010 with CBO’s March 2005 baseline, excluding supplemental funding.

Budget Process Changes

The conference agreement on the FY 2006 budget creates new budget points of order, contains a variety of budget reserve funds, and includes sense of the Congress language. Budget process highlights are described below.

Debt Limit Increase. The resolution instructs the Finance Committee to report a reconciliation bill increasing the statutory debt limit by \$781 billion by September 30, 2005.

Maintains Existing Paygo Loophole. The resolution leaves unchanged the existing paygo rule, a 60-vote point of order expiring in 2008 against mandatory spending or tax cuts that would increase the deficit in the first year, the total of the first five years, or the total of the second five years – *but it exempts all policies assumed in the budget resolution, resulting in over \$351 billion in deficit-financed tax cuts or mandatory spending over the 2005-2015 period* (\$436 million in 2005, \$16.9 billion in 2006, \$75.6 billion in 2006-2010, and \$275 billion in 2011-2015).

Budget Resolution Must Be Adopted Before Other Legislation. Currently, a simple majority point of order applies against appropriations legislation and new mandatory spending, revenue, or debt legislation until a budget resolution has been agreed upon for that fiscal year. This resolution would increase that point of order to 60 votes, and enforce it through 2010.

Unfunded Mandates 60-vote Point of Order. Currently, a simple majority point of order lies against legislation that creates unfunded mandates on states above a certain threshold (\$62 million in 2005,

adjusted annually for inflation). The resolution would increase the point of order to 60 votes.

Point of Order Against Long Term Spending Increases. The resolution establishes a 60-vote point of order against non-reconciliation bills that increase spending by more than \$5 billion in any of the four 10-year periods between 2015-2055, as estimated by CBO – even if fully offset by revenues.

Extends 60-vote Points of Order. The resolution extends through 2010 60-vote points of order enforcing revenue floors, spending aggregates, allocations, long term spending, and unfunded mandates. It also continues points of order enforcing nondefense emergencies and a cap on advance appropriations of \$23.2 billion.

Reserve Funds

The budget resolution contains a number of reserve funds for the following purposes:

- Family Opportunity Act
- SCHIP
- Energy bill
- Pell Grants
- Health Information Technology & Pay-for-Performance
- Asbestos
- Health Care for the Uninsured
- Prescription Drug Reimportation
- Transportation
- Disposal of Excess Federal Real Property

GOP Conference Agreement on the FY 2006 Budget: Comparisons

| (Changes from baseline; \$ billions) | <u>President</u> | <u>House</u> | <u>Senate</u> | <u>Final GOP</u> |
|--------------------------------------|------------------|--------------|---------------|------------------|
| Tax cuts | -100 | -106 | -129 | -106 |
| <i>Tax cuts reconciled</i> | <i>na</i> | <i>-45</i> | <i>-129</i> | <i>-70</i> |
| Defense discretionary | 139 | 191 | 189 | 189 |
| Nondefense discretionary | -134 | -133 | -116 | -133 |
| Mandatory | -26 | -67 | -23 | -30 |
| <i>Mandatory reconciled</i> | <i>na</i> | <i>-69</i> | <i>-17</i> | <i>-35</i> |
| Interest | 25 | 30 | 38 | 36 |
| Deficit increases | -104 | -127 | -217 | -168 |

*Senate Budget Committee Democratic Staff
April 29, 2005*