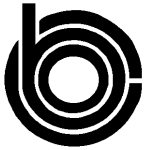

CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

January 27, 2006

S. 1932
Deficit Reduction Act of 2005

Conference agreement, as amended and passed by the Senate on December 21, 2005

SUMMARY

The Congressional budget resolution for fiscal year 2006 (H. Con. Res. 95) instructed several committees in both the House of Representatives and the Senate to recommend legislative changes that would reduce outlays from direct spending by about $35 billion over the 2006-2010 period. That process is known as reconciliation and its results are embodied in S. 1932. (The budget resolution also called for a reconciliation bill that would reduce collections of federal revenues; that legislation is being considered separately by the Congress.)

Enacting S. 1932 would reduce direct spending by about $39 billion over the 2006-2010 period and by approximately $99 billion over the 2006-2015 period, CBO estimates, through changes in a variety of programs. Those changes include increases in offsetting receipts (which are recorded in the budget as a credit against direct spending). Table 1 summarizes the estimated effects of this act, by title, on direct spending. This estimate does not address the act's potential impact on spending that is subject to appropriation.

The Deficit Reduction Act contains two apparent errors in legislative language: one in section 8006 regarding direct loans to parents of postsecondary students, and one in section 10002 regarding bankruptcy fees. If those apparent errors were changed in subsequent legislation, the estimated five-year savings would rise by about $700 million, and the estimated 10-year savings would increase by about $2 billion (see Table 2.)

TABLE 1. ESTIMATED BUDGETARY EFFECTS OF THE CONFERENCE AGREEMENT FOR S. 1932, THE DEFICIT REDUCTION ACT OF 2005

	By Fiscal Year, in Millions of Dollars											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN DIRECT SPENDING												
Title I - Agriculture Provisions												
Estimated Budget Authority	419	-2,113	-344	-508	-358	-267	-176	-105	-64	-55	-2,904	-3,571
Estimated Outlays	419	-1,365	-503	-651	-609	-385	-219	-107	-66	-55	-2,709	-3,541
Title II - Housing and Deposit Insurance Provisions												
Estimated Budget Authority	-30	-60	-60	-60	-60	0	0	0	0	0	-270	-270
Estimated Outlays	-30	-155	-355	50	-30	-160	-350	-390	-440	-250	-520	-2,110
Title III - Digital Television Transition and Public Safety												
Estimated Budget Authority	-10	3,805	1,565	-12,385	-150	-150	-150	0	0	0	-7,175	-7,475
Estimated Outlays	-10	1,420	2,460	-11,449	196	-55	-137	0	0	0	-7,383	-7,575
Title IV - Transportation Provisions												
Estimated Budget Authority	-30	-31	-31	-32	-32	0	0	0	0	0	-156	-156
Estimated Outlays	-30	-31	-31	-32	-32	0	0	0	0	0	-156	-156
Title V - Medicare												
Estimated Budget Authority	1,845	1,021	-1,194	-2,969	-5,040	-3,677	-3,924	-3,213	-2,776	-2,390	-6,337	-22,317
Estimated Outlays	-3,431	6,222	-1,194	-2,969	-5,040	-3,677	-3,924	-3,213	-2,776	-2,390	-6,412	-22,392
Title VI - Medicaid and SCHIP												
Estimated Budget Authority	2,331	-356	-1,445	-1,869	-2,761	-3,303	-3,773	-4,310	-4,963	-5,666	-4,100	-26,115
Estimated Outlays	2,247	-581	-1,676	-2,004	-2,729	-3,084	-3,658	-4,340	-4,888	-5,671	-4,743	-26,384
Title VII - Human Resources and Other Provisions												
Estimated Budget Authority	-25	159	-204	-895	-913	-1,012	-1,061	-1,134	-1,199	-1,270	-1,878	-7,554
Estimated Outlays	-20	192	-285	-536	-898	-988	-1,054	-1,133	-1,199	-1,269	-1,547	-7,190
Title VIII - Education and Pension Benefit Provisions												
Education												
Estimated Budget Authority	-3,470	-2,645	-2,485	-2,435	-2,270	-3,370	-3,623	-3,880	-4,140	-4,205	-13,305	-32,523
Estimated Outlays	-3,525	-1,854	-2,196	-2,217	-2,135	-2,362	-3,298	-3,555	-3,805	-4,050	-11,927	-28,997
Pension Insurance												
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	-417	-576	-732	-879	-959	-923	-877	264	2,250	2,311	-3,564	-539
Title IX - LIHEAP Provisions												
Estimated Budget Authority	0	1,000	0	0	0	0	0	0	0	0	1,000	1,000
Estimated Outlays	0	469	144	13	0	0	0	0	0	0	625	625
Title X - Judiciary-Related Provisions												
Estimated Budget Authority	-50	-106	-106	-106	-106	-106	-106	-106	-106	-106	-474	-1,004
Estimated Outlays	-50	-106	-106	-106	-106	-106	-106	-106	-106	-106	-474	-1,004
Total Changes												
Estimated Budget Authority	**980**	**674**	**-4,304**	**-21,259**	**-11,690**	**-11,885**	**-12,813**	**-12,748**	**-13,248**	**-13,692**	**-35,599**	**-99,985**
Estimated Outlays	**-4,847**	**3,635**	**-4,474**	**-20,780**	**-12,342**	**-11,740**	**-13,623**	**-12,580**	**-11,030**	**-11,480**	**-38,810**	**-99,263**

Notes: The conference agreement was reported in the House of Representatives as House Report 109-362, and was passed by the House on December 19, 2005. The Senate passed S. 1932, after adopting Senate Amendment #2691, on December 21, 2005. The version passed by the Senate struck three provisions that would have slightly increased savings.

SCHIP = State Children's Health Insurance Program; LIHEAP = Low-Income Home Energy Assistance Program.

TABLE 2. ESTIMATED BUDGETARY EFFECTS OF THE DEFICIT REDUCTION ACT OF 2005, WITH POSSIBLE CORRECTIONS

	By Fiscal Year, in Millions of Dollars											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN DIRECT SPENDING												
S. 1932 Conference Agreement												
Estimated Budget Authority	980	674	-4,304	-21,259	-11,690	-11,885	-12,813	-12,748	-13,248	-13,692	-35,599	-99,985
Estimated Outlays	-4,847	3,635	-4,474	-20,780	-12,342	-11,740	-13,623	-12,580	-11,030	-11,480	-38,810	-99,263
Possible corrections in legislative language: [a]												
Title VIII, Subtitle A - Education Provisions												
Estimated Budget Authority	-60	-125	-150	-185	-200	-220	-240	-265	-300	-295	-720	-2,040
Estimated Outlays	-55	-115	-135	-160	-180	-200	-220	-245	-265	-295	-645	-1,870
Title X - Judiciary-Related Provisions												
Estimated Budget Authority	-8	-15	-15	-15	-15	-15	-15	-15	-15	-15	-68	-143
Estimated Outlays	-8	-15	-15	-15	-15	-15	-15	-15	-15	-15	-68	-143
S. 1932 with possible corrections												
Estimated Budget Authority	**912**	**534**	**-4,469**	**-21,459**	**-11,905**	**-12,120**	**-13,068**	**-13,028**	**-13,563**	**-14,002**	**-36,387**	**-102,168**
Estimated Outlays	**-4,910**	**3,505**	**-4,624**	**-20,955**	**-12,537**	**-11,955**	**-13,858**	**-12,840**	**-11,310**	**-11,790**	**-39,523**	**-101,276**

a. The bill language contains apparent drafting errors in Title VIII, section 8006, and Title X, section 10002 (a)(2). This table shows how correcting those apparent errors would affect projected savings from that act.

The largest budgetary effects of S. 1932 over the next five years would stem from changes in federal student loan programs. Those changes include both decreases and increases in education spending and, on balance, would account for $11.9 billion of the estimated net savings through 2010. Other budget savings over the next five years would accrue from a host of changes to both the Medicare and Medicaid health care programs (for net savings of $11.2 billion over five years), changes in the authority to auction licenses to use the electromagnetic spectrum and to spend a portion of auction proceeds (for net savings of $7.4 billion over five years) changes in federal pension insurance (five-year savings of $3.6 billion), and changes to several other programs (five-year savings of $4.8 billion).

The estimates of the budgetary impact of the various provisions of this act are measured relative to CBO's March 2005 baseline projections, which underlie the Congressional budget resolution for fiscal year 2006, except in cases when subsequent legislation has changed the program in question. As specified by statute, certain programs that are reauthorized in this act were assumed to continue in the baseline projections; consequently, this estimate shows no cost for such reauthorizations. The programs affected include:

- Temporary Assistance for Needy Families, reauthorized for the period from April 1, 2006, to September 30, 2010; baseline budget authority over that period totals $74.3 billion;

- The child care entitlement to states, reauthorized for the period from April 1, 2006, to September 30, 2010; baseline budget authority over that period totals $11.7 billion;

- The authority for lenders in the guaranteed student loan program to make subsidized loans to new borrowers; extended through 2012—or through 2016, when necessary for students to complete their education;

- The Environmental Quality Incentives Program (EQIP) and the Conservation Security Program (CSP) of the Department of Agriculture, extended through 2010 and 2011, respectively; baseline budget authority over those periods totals $6.7 billion.

For this estimate, CBO assumes that the legislation will be enacted in early February 2006. The effects of this legislation fall within budget functions 350 (agriculture), 370 (commerce and housing credit), 400 (transportation), 500 (education, training, employment, and social services), 550 (health), 570 (Medicare), 600 (income security), 750 (administration of justice), and 950 (undistributed offsetting receipts).

MAJOR PROVISIONS

The conference agreement[1] for S. 1932 contains 10 titles, listed below along with the number of the page in this cost estimate where the discussion of that title begins:

Title I - Agriculture Provisions .... Page 7

Title II - Housing and Deposit Insurance Provisions .... Page 15

Title III - Digital Television Transition and Public Safety .... Page 20

Title IV- Transportation Provisions .... Page 25

Title V - Medicare .... Page 26

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1. The conference agreement for spending reconciliation legislation was reported in House Report 109-276 (under the House bill number H.R. 4241) and was passed by the House of Representatives on December 19, 2005. The Senate approved the conference agreement on December 21, 2005, after amending the legislation to remove a few provisions that were subject to a point of order. That amended legislation (contained in Senate Amendment 2691) is now pending before the House.

Title VI - Medicaid and SCHIP .... Page 34

Title VII - Human Resources and Other Provisions .... Page 46

Title VIII - Education and Pension Benefit Provisions .... Page 64

Title IX - LIHEAP Provisions .... Page 76

Title X - Judiciary-Related Provisions .... Page 76

Title I would amend laws governing federal assistance related to agriculture commodities, land conservation, and other agriculture-related programs. For the government's commodity program, the legislation would reduce spending in 2007 for advance direct payments for feed grains, oilseeds, wheat, cotton, rice, and peanuts. This change would not eliminate any such payments, but would shift payments from 2007 to 2008, followed by similar shifts in payments for future years—effectively shifting some outlays beyond 2015 (the last year of the 10-year window considered under the current budget resolution). Other commodity program changes would increase assistance to dairy producers but would decrease assistance to cotton producers.

The agriculture title would make several changes to land conservation programs, reducing their federal costs over the next 10 years. It also would reduce spending related to farm energy-efficiency systems, rural development, and grants that support research and education activities for U.S. agriculture.

Title II would make spending for certain activities associated with the sale of multifamily housing properties (obtained through defaults on federal loan guarantees) subject to appropriation. That change would reduce direct spending relative to current law because the Federal Housing Administration (FHA) can currently carry out such activities (primarily grants for property rehabilitation) without annual appropriation action. This title also would end some below-market sales of properties, leading to a net increase in annual sales receipts to FHA.

This title also would amend the deposit insurance system for banks and credit unions. It would restructure the federal insurance funds for that system and ultimately reduce net direct spending, primarily by giving the Federal Deposit Insurance Corporation more flexibility in determining the size of a new, combined insurance fund and in setting the premiums to be paid by deposit institutions. As a result, the government's receipts from such premiums would likely increase.

Title III would amend existing law regarding the Federal Communications Commission's (FCC's) authority to auction licenses to use the electromagnetic spectrum, resulting in additional auction proceeds. The title would allocate a portion of such proceeds for a variety of programs, mostly in the form of assistance to consumers for the switch from analog to digital television and to public safety agencies for interoperable communications systems.

Title IV would increase vessel tonnage charges on ships entering the United States. These charges are collected by the U.S. Customs Service.

Title V would make numerous changes to the Medicare program, including changes in the process for determining payments to managed care plans, to certain hospitals, and for certain medical procedures and services. The title also would restore payment rates for physicians' services back to the 2005 level—those rates were reduced by 4.4 percent on January 1, 2006; thus, this change would increase spending relative to current law. Finally, title V would shift some Medicare payments from the end of September 2006 into October.

Title VI would make several changes to the Medicaid program and the State Children's Health Insurance Program (SCHIP). It also would provide funding to cover some health care costs in areas affected by Hurricane Katrina. The changes with the largest budget savings include new limits on the reimbursement of pharmacies for prescription drugs covered by Medicaid, revisions to the rules relating to individuals' asset transfers prior to gaining eligibility for long-term care services under Medicaid, and increased cost-sharing and premiums for certain Medicaid enrollees. This title also would increase some forms of Medicaid spending—including enhanced coverage of certain disabled children and home- and community-based services.

Title VII would:

- Reauthorize the Temporary Assistance for Needy Families (TANF) program, and change funding levels for the program;

- Increase funding for certain child care programs;

- Reduce funding for the child support enforcement program;

- Make several changes in child welfare programs, including some increases in funding and some reductions in expected spending from new limits on federal matching funds and eligibility;

- Require additional reviews before benefits can be awarded to certain disabled adults; and

- End distributions of antidumping and countervailing duties collected by the federal government.

Title VIII would make numerous changes to federal higher education programs, including the student and parent loan programs. Some provisions would reduce direct spending for higher education programs, while others would increase costs. On balance, however, those provisions would lead to significant savings in direct spending for such programs. This title also would make changes to the premiums charged by the Pension Benefit Guaranty Corporation (PBGC). Those changes would reduce direct spending in the near term by bringing in more offsetting receipts to the federal government.

Title IX would provide $1 billion in additional funding for the Low-Income Home Energy Assistance Program (LIHEAP) for fiscal year 2007. A portion of those funds ($750 million) would be available on a contingency basis—that is, their availability would be subject to a determination that the funds are necessary to meet emergency assistance needs.

Title X would increase certain civil filing fees for parties appearing before U.S. federal courts and would increase filing fees for individuals seeking bankruptcy relief.

TITLE I - AGRICULTURE PROVISIONS

Title I, the Agricultural Reconciliation Act of 2005, would amend laws governing commodity income assistance, land conservation, energy, rural development, and research. CBO estimates that enacting this legislation would increase direct spending by $419 million in fiscal year 2006, and reduce direct spending by $2.7 billion over the 2006-2010 period and by $3.5 billion over the 2006-2015 period (see Table 3).

TABLE 3. ESTIMATED BUDGETARY EFFECTS OF TITLE I OF S. 1932

	By Fiscal Year, in Millions of Dollars											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN DIRECT SPENDING												
Commodity Program												
Estimated Budget Authority	419	-1,045	-8	-52	-50	-52	-49	-51	-51	-51	-736	-990
Estimated Outlays	419	-1,045	-8	-52	-50	-52	-49	-51	-51	-51	-736	-990
Conservation Programs												
Estimated Budget Authority	0	-249	-136	-256	-308	-215	-127	-54	-13	-4	-949	-1,362
Estimated Outlays	0	-148	-169	-279	-338	-223	-130	-56	-15	-4	-934	-1,362
Energy Program												
Estimated Budget Authority	0	-20	0	0	0	0	0	0	0	0	-20	-20
Estimated Outlays	0	-8	-8	-4	0	0	0	0	0	0	-20	-20
Rural Development Programs												
Estimated Budget Authority	0	-439	0	0	0	0	0	0	0	0	-439	-439
Estimated Outlays	0	-110	-162	-108	-19	-10	0	0	0	0	-399	-409
Research, Extension, and Education Grants												
Estimated Budget Authority	0	-360	-200	-200	0	0	0	0	0	0	-760	-760
Estimated Outlays	0	-54	-156	-208	-202	-100	-40	0	0	0	-620	-760
Total Changes												
Estimated Budget Authority	419	-2,113	-344	-508	-358	-267	-176	-105	-64	-55	-2,904	-3,571
Estimated Outlays	419	-1,365	-503	-651	-609	-385	-219	-107	-66	-55	-2,709	-3,541

Commodity Program

Subtitle A would extend National Dairy Market Loss Payments through September 2007, reduce advance direct payments by 10 percentage points in 2006 and by 28 percentage points in 2007, and eliminate the upland cotton Step 2 payments.

CBO's estimate of the budgetary impact of these amendments to the agricultural commodity program is detailed in Table 4.

TABLE 4. ESTIMATED IMPACT OF TITLE I ON SPENDING FOR THE COMMODITY PROGRAM

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN DIRECT SPENDING										
National Dairy Market Loss Payments										
Estimated Budget Authority	433	518	47	0	0	0	0	0	0	0
Estimated Outlays	433	518	47	0	0	0	0	0	0	0
Advance Direct Payments										
Estimated Budget Authority	0	-1,452	0	0	0	0	0	0	0	0
Estimated Outlays	0	-1,452	0	0	0	0	0	0	0	0
Cotton Competitiveness Provisions										
Estimated Budget Authority	-14	-111	-55	-52	-50	-52	-49	-51	-51	-51
Estimated Outlays	-14	-111	-55	-52	-50	-52	-49	-51	-51	-51
Total Changes										
Estimated Budget Authority	419	-1,045	-8	-52	-50	-52	-49	-51	-51	-51
Estimated Outlays	419	-1,045	-8	-52	-50	-52	-49	-51	-51	-51
Memorandum: Commodity Program Outlays Under CBO's March 2005 Baseline	19,289	16,669	14,687	14,962	14,662	14,339	13,962	13,862	13,840	12,865

Section 1101-National Dairy Market Loss Payments. The 2002 farm act (Public Law 107-171) authorized National Dairy Market Loss payments, more commonly known as Milk Income Loss Contract (MILC) payments, through September 30, 2005. Section 1101 would amend the expired program and authorize it through September 30, 2007. CBO estimates that those amendments to MILC would cost $433 million in 2006 and $998 million over the 2006-2010 period.

Under the MILC program, except for the month of September 2007, eligible dairy producers would receive a payment based on 34 percent of the difference between a specified target price of $16.94 per hundredweight and the announced Boston Class I (milk used for fluid use) price, multiplied by their monthly milk production, subject to a cap of 2.4 million pounds per calendar year. The payment rate factor for the month of September 2007 would be 0 percent, which would result in a termination of MILC on September 30, 2007. (Under the statutory rules that govern CBO's baseline projections, this program would not be assumed to continue beyond 2007.)

Section 1102 – Advance Direct Payments. The 2002 farm act authorizes the Secretary of Agriculture to offer eligible producers up to a 50 percent advance payment on their annual direct payment for feed grains, oilseeds, wheat, cotton, rice, and peanuts. Producers may receive advance payments beginning on December 1 of the calendar year before the crop is harvested until the final payment is made in October of the calendar year in which the crop is harvested. Section 1102 would limit those annual advance payments to no more than 40 percent of the direct payments for the 2006 crop year and 22 percent of the direct payments for the 2007 crop year.

This section would not affect the total value of direct payments that producers are eligible to receive for each crop year, only the timing of the payment. By shifting payments from 2007 to the following year, this provision would have the effect of reducing outlays in 2007. Under statutory rules governing baseline projections, such shifts would be assumed to continue for each year after 2007.[2] Thus, relative to CBO's March 2005 baseline, this provision would shift some outlays beyond 2015. CBO estimates that limiting advance direct payments would reduce spending by $1.5 billion in 2007, with no change in total payments in each subsequent fiscal year through 2015. CBO estimates that this provision would have no impact on 2006 outlays because an assumed February enactment date would be too late to affect producers' requests for advance payments for the 2006 crop. CBO assumes that once a producer enters into a contract to receive up to a 50 percent advance direct payment for the 2006 crop (which they have been able to do since October 1, 2005), those contracts must be honored regardless of any subsequent legislation that might reduce the potential advance.

Section 1103 – Cotton Competitiveness Provisions. Section 1103 would eliminate payments for cotton user marketing certificates, more commonly known as the Step 2 payments, effective beginning on August 1, 2006. First authorized in 1990, Step 2 is a provision of the marketing assistance loan program unique to upland cotton. It provides for cash or in-kind payments to eligible domestic users and exporters of U.S.-grown upland cotton whenever U.S. cotton prices are higher than world market cotton prices.

CBO estimates that eliminating Step 2, effective August 1, 2006, would reduce Commodity Credit Corporation (CCC) spending for the cotton program by $14 million in 2006, $282 million over the 2006-2010 period, and $536 million over the 2006-2015 period. Those savings are less than CBO's baseline estimates for Step 2 payments over the 2006-2015 period ($1.2 billion) because Step 2 payments also affect the demand for and price of upland cotton.

2. The commodity program is scheduled to expire on September 30, 2007. The Deficit Control Act specifies that, for the purposes of baseline projections, laws governing large expiring programs should be assumed to remain in effect as they were immediately before their expiration.

CBO estimates that eliminating Step 2 would reduce U.S. cotton exports by about 2.5 percent and domestic mill use by a smaller amount (because mill use is a smaller component of total use). We estimate that such a decrease in demand would reduce domestic cotton prices by $0.0075 to $0.0200 per pound, which is 50 percent to 60 percent of the estimated forgone Step 2 payment rate. The payment rate for countercyclical payments is determined, in part, by average U.S. cotton prices; the lower the prices, the higher the countercyclical payments. CBO estimates that lower U.S. prices due to elimination of Step 2 would lead to an increase in countercyclical payments of $484 million over the 2006-2015 period. Eliminating Step 2 would also slightly increase world cotton prices. The world price is used to determine repayment rates for upland cotton marketing loans and loan deficiency payments. We estimate that higher world prices would reduce the cost of cotton marketing loans by $17 million over the 2006-2015 period.

Conservation

Subtitle B would amend laws governing the Watershed Rehabilitation Program, the Conservation Security Program (CSP), and the Environmental Quality Incentives Program (EQIP). The subtitle would extend authority for CSP through 2011 and authority for EQIP through 2010. Under the assumptions underlying CBO's March 2005 baseline projections, CBO estimates that extending CSP through 2011 and EQIP through 2010 would result in outlays of around $5 billion over the 2008-2015 period. Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, such extensions are assumed in the baseline projections and thus have no cost relative to those projections. CBO's estimates of the budgetary effects of the amendments to conservation programs are detailed in Table 5.

Section 1201 – Watershed Rehabilitation Program. The Watershed Rehabilitation Program provides assistance to communities to rehabilitate aging local dams. The Natural Resources Conservation Service (NRCS) provides technical and financial assistance for the planning, design, and implementation of rehabilitation projects that may include upgrading or removing the dams. Section 1201 would cancel authority to obligate all balances from prior years that are unobligated as of October 1, 2006. CBO estimates that this provision would reduce spending for the watershed rehabilitation program by $210 million over the 2006-2010 period.

TABLE 5. ESTIMATED IMPACT OF TITLE I ON SPENDING FOR CONSERVATION PROGRAMS

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN DIRECT SPENDING										
Watershed Rehabilitation Program										
Estimated Budget Authority	0	-210	0	0	0	0	0	0	0	0
Estimated Outlays	0	-126	-42	-27	-15	0	0	0	0	0
Conservation Security Program										
Estimated Budget Authority	0	-9	-106	-226	-308	-215	-127	-54	-13	-4
Estimated Outlays	0	-9	-106	-226	-308	-215	-127	-54	-13	-4
Environmental Quality Incentives Program										
Estimated Budget Authority	0	-30	-30	-30	0	0	0	0	0	0
Estimated Outlays	0	-13	-21	-26	-15	-8	-3	-2	-2	0
Total Changes										
Estimated Budget Authority	0	-249	-136	-256	-308	-215	-127	-54	-13	-4
Estimated Outlays	0	-148	-169	-279	-338	-223	-130	-56	-15	-4
Memorandum: Outlays for Conservation Programs Under CBO's March 2005 Baseline	3,652	4,006	4,224	4,894	4,829	4,771	4,817	4,779	4,748	4,781

Section 1202 – Conservation Security Program. The CSP, first authorized in the 2002 farm act, provides financial and technical assistance to promote conservation and improvement of soil, water, air, plant and animal life, and land currently used for agricultural production. Producers enroll in 5- to 15-year contracts in exchange for cost-share assistance and annual payments. Under current law, total spending on CSP contracts is limited to $6.037 billion over the 2005-2014 period. Fiscal year 2015 is not covered by that limit; CBO's baseline includes $835 million in outlays for 2015.

Section 1202 would restrict CSP spending to $1.954 billion over the 2006-2010 period and $5.650 billion over the 2006-2015 period. CBO estimates that imposing those spending caps would reduce spending on the CSP program by $649 million over the 2006-2010 period and $1.1 billion over the 2006-2015 period.

Section 1203 – Environmental Quality Incentives Program. EQIP is a conservation program for farmers and ranchers that offers financial and technical help to install or

implement structural and management practices on agricultural land. The 2002 farm act limited obligations for EQIP contracts to $1.2 billion in 2006 and $1.3 billion in 2007. The CBO baseline assumes obligations would continue at $1.3 billion per year over the 2008-2015 period. Section 1203 would restrict EQIP obligations to $1.27 billion in each of fiscal years 2007 through 2009, and $1.30 billion in 2010.

CBO estimates that this provision would reduce conservation spending by $75 million over the 2006-2010 period and $90 million over the 2006-2015 period.

Energy

The renewable energy systems and energy efficiency improvements program provides a combination of loans and grants to farmers to purchase renewable energy systems or to make energy-efficiency improvements. Section 1301 would limit funding for the program to $3 million in 2007. CBO estimates that action would reduce direct spending by $20 million over the 2006-2010 period (see Table 6).

TABLE 6. ESTIMATED IMPACT OF TITLE I ON SPENDING FOR ENERGY PROGRAMS

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN DIRECT SPENDING										
Renewable Energy Systems and Energy-Efficiency Improvements Program										
Estimated Budget Authority	0	-20	0	0	0	0	0	0	0	0
Estimated Outlays	0	-8	-8	-4	0	0	0	0	0	0

Rural Development

The legislation would cancel authority to obligate budget authority from fiscal years prior to fiscal year 2007 for each of five programs: the broadband loans component of the Distance Learning, Telemedicine, and the Broadband program; Value-Added Marketing; Rural Business Investment; Rural Strategic Investment; and Rural Community Grants (firefighter assistance). The cancellation of authority to obligate would take effect on October 1, 2006, and would apply to balances available on that date. In addition, title I

would terminate fiscal year 2007 budget authority for Rural Community Grants. In sum, CBO estimates the provisions would reduce direct spending by $399 million over the 2006-2010 period and by $409 million over the 2006-2015 period (see Table 7).

TABLE 7. ESTIMATED IMPACT OF TITLE I ON SPENDING FOR RURAL DEVELOPMENT PROGRAMS

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN DIRECT SPENDING										
Enhanced Access to Broadband										
Estimated Budget Authority	0	-80	0	0	0	0	0	0	0	0
Estimated Outlays	0	-2	-6	-13	-19	-10	0	0	0	0
Value-Added Marketing Program										
Estimated Budget Authority	0	-120	0	0	0	0	0	0	0	0
Estimated Outlays	0	-48	-60	-12	0	0	0	0	0	0
Rural Business Investment Program										
Estimated Budget Authority	0	-89	0	0	0	0	0	0	0	0
Estimated Outlays	0	-45	-36	-8	0	0	0	0	0	0
Rural Strategic Investment Grants										
Estimated Budget Authority	0	-100	0	0	0	0	0	0	0	0
Estimated Outlays	0	-10	-40	-50	0	0	0	0	0	0
Rural Firefighers and Emergency Personnel Grants										
Estimated Budget Authority	0	-50	0	0	0	0	0	0	0	0
Estimated Outlays	0	-5	-20	-25	0	0	0	0	0	0
Total Changes										
Estimated Budget Authority	0	-439	0	0	0	0	0	0	0	0
Estimated Outlays	0	-110	-162	-108	-19	-10	0	0	0	0

Research

The Initiative for Future Agriculture and Food Systems is a competitive grant program designed to support research and education activities for U.S. agriculture. The Agricultural Research, Extension, and Education Reform Act of 1998 created the initiative and provided mandatory funding for it. The program was reauthorized in the Farm Security and Rural Investment Act of 2002 with mandatory funding of $160 million in 2006 and $200 million in subsequent years. The bill would eliminate funding available to the program over the

2007-2009 period, including unobligated funds from previous years. Funding would remain at $200 million in 2010 and subsequent years. CBO estimates that this provision would reduce mandatory spending by $620 million over the 2006-2010 period and $760 million over the 2006-2015 period (see Table 8).

TABLE 8. ESTIMATED IMPACT OF TITLE I ON SPENDING FOR THE INITIATIVE FOR FUTURE AGRICULTURE AND FOOD SYSTEMS

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN DIRECT SPENDING										
Initiative for Future Agriculture and Food Systems										
Estimated Budget Authority	0	-360	-200	-200	0	0	0	0	0	0
Estimated Outlays	0	-54	-156	-208	-202	-100	-40	0	0	0

TITLE II - HOUSING AND DEPOSIT INSURANCE PROVISIONS

Subtitle A of title II would make spending for certain activities associated with the sale of multifamily properties in the Federal Housing Administration's (FHA's) inventory of defaulted mortgages subject to appropriation. FHA currently spends about $60 million a year performing those activities. (The legislation also would authorize the appropriation of $100 million in 2006 to finance those activities.)

Subtitle B would amend laws governing banks and credit unions to modify the deposit insurance system. It would restructure the insurance funds administered by the Federal Deposit Insurance Corporation (FDIC), change the terms and conditions under which banks and savings associations pay insurance premiums, and increase insurance coverage for some of the accounts insured by the FDIC and the National Credit Union Administration (NCUA).

CBO estimates that enacting this title would reduce direct spending by $520 million over the 2006-2010 period and by $2.1 billion over the 2006-2015 period (see Table 9). Most of the savings would result from the changes in deposit insurance in subtitle B, particularly provisions giving the FDIC more flexibility in determining the size of the insurance fund and setting the premiums to be paid by banks and thrifts.

TABLE 9. ESTIMATED BUDGETARY EFFECTS OF TITLE II OF S. 1932

	By Fiscal Year, in Millions of Dollars											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN DIRECT SPENDING [a]												
Subtitle A: Federal Housing Administration												
Termination of Certain FHA Multifamily Authorities												
Estimated Budget Authority	-30	-60	-60	-60	-60	0	0	0	0	0	-270	-270
Estimated Outlays	-30	-60	-60	-60	-60	0	0	0	0	0	-270	-270
Subtitles B: Deposit Insurance												
Changes in Costs to Resolve Failed Institutions Insured by FDIC and NCUA												
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	5	5	10	30	40	50	60	60	100	50	360
Changes to FDIC and NCUA Premium Collections												
Estimated Budget Authority	0	5	5	10	30	40	50	60	60	100	50	360
Estimated Outlays	0	-105	-305	90	20	-190	-400	-460	-510	-350	-300	-2,210
Subtotal												
Estimated Budget Authority	0	5	5	10	30	40	50	60	60	100	50	360
Estimated Outlays	0	-100	-300	100	50	-150	-350	-400	-450	-250	-250	-1,850
Total Changes												
Estimated Budget Authority	-30	-60	-60	-60	-60	0	0	0	0	0	-270	-270
Estimated Outlays	-30	-160	-360	40	-10	-150	-350	-400	-400	-250	-520	-2,120

NOTES: FDIC = Federal Deposit Insurance Corporation; FHA = Federal Housing Administration; NCUA = National Credit Union Administration.

a. The legislation also would authorize the appropriation of $100 million in 2006.

Federal Housing Administration

Under subtitle A of title II, FHA's mandatory spending authority for rehabilitation grants and below-market sales would end. Those activities could continue only if appropriations were provided to finance them. Under current law, FHA has the authority to undertake these activities for properties financed by loans insured prior to 1992, using its permanent funding authority from the General and Special Risk Insurance Fund. CBO estimates that these provisions would reduce direct spending by $30 million in 2006 and by $270 million over the 2006-2010 period. (The changes in FHA's authority would expire at the end of 2010.)

FHA often provides rehabilitation grants to purchasers when selling multifamily properties in the agency's inventory of defaulted properties. Based on the historical amount of those grants, CBO estimates that making them subject to appropriation would reduce direct spending by about $20 million in 2006 and $50 million annually in subsequent years through 2010.

To preserve a defaulted property as affordable housing, FHA may sell that property at below-market rates. Based on information from FHA, CBO estimates that the forgone proceeds associated with these sales average about $10 million annually. Enacting this legislation would end FHA's permanent authority to sell such properties at below-market prices. CBO expects that the resulting increase in sales receipts would average about $10 million a year over the next five years. Eventually, sales receipts would decrease gradually as the large inventory of multifamily units (currently about 40,000 units) declines. Under this legislation FHA could continue to sell properties at below-market prices if funds are appropriated in advance to the agency in amounts sufficient to offset forgone sales receipts.

Deposit Insurance

Two federal agencies are primarily responsible for the deposit insurance system. The FDIC insures the deposits in banks (financed through the Bank Insurance Fund, BIF) and thrift institutions (financed through the Savings Association Insurance Fund, SAIF). The NCUA insures the deposits in credit unions (referred to as shares) with the Share Insurance Fund. When financial institutions fail, the FDIC and NCUA use the insurance funds to reimburse the insured depositors of the failed institutions. These agencies then sell the assets of the institutions and deposit any money recovered into the insurance funds.

The legislation would increase insurance coverage for FDIC-insured retirement accounts from $100,000 to $250,000 and would authorize the FDIC and NCUA to adjust the level of coverage for both standard and retirement accounts starting in April 2010 and every five years thereafter, subject to certain conditions; those future adjustments would be based on

the rate of inflation in preceding years, as measured by the Personal Consumption Expenditures Chain-Type Index. The legislation would merge the Bank Insurance Fund and the Savings Association Insurance Fund to create a new Deposit Insurance Fund (DIF). Other provisions would give the FDIC more flexibility in determining the appropriate size of the insurance fund and in setting the premiums to be paid by banks and thrifts.

Assuming that the FDIC and NCUA would increase insurance coverage to reflect inflation, as authorized by the legislation, CBO estimates that the net cost of resolving failed institutions would increase by about $360 million over the next 10 years, with most of the cost likely to occur after 2010. CBO also expects that the FDIC would use its new authority to collect nearly $2.2 billion more in net assessments than CBO estimates would be collected under current law. Over the same period, we estimate that NCUA would increase its net assessments by about $50 million under the legislation. As a result, CBO estimates that the legislation would reduce net direct spending of the FDIC and NCUA by $250 million over the 2006-2010 period and by $1.85 billion over the 2006-2015 period.

Increase in the Cost of Resolving Failed Financial Institutions. By insuring some current deposits that are now uninsured, the legislation would increase the liability of the FDIC and NCUA when institutions fail, without significantly increasing the assets of those institutions. Under current law, CBO estimates that insured deposits will total $4.5 trillion by the end of 2010 and that the FDIC's net losses on failed institutions will total about $8.4 billion over the 2006-2015 period. (We project that gross losses of $38.6 billion would be offset, in part, by recoveries of $30.2 billion from selling the assets of the failed institutions over the 10-year period.)

Assuming that the FDIC and NCUA would increase insurance coverage for inflation at the authorized intervals, CBO estimates that standard coverage would increase to $110,000 in April 2010 and $120,000 in April 2015. At those levels, CBO estimates that deposits insured by the FDIC would increase by about 2 percent by 2010 (or about $85 billion, including the effect of the increase in coverage of retirement accounts that would take effect in 2006). We estimate this change in the amount of insured deposits would lead to a net increase in losses of $360 million over the next 10 years, mostly for the FDIC.

Effects on Premiums Paid to the FDIC By Financial Institutions. Three provisions of the legislation would affect the total amount of premiums collected by the FDIC. The legislation would allow the reserve ratio for the DIF to range between 1.15 percent and 1.5 percent—it currently is fixed at 1.25 percent—and would give the FDIC flexibility in setting the premiums needed to achieve the desired level. (The reserve ratio is calculated by dividing the amount in the fund by the amount of insured deposits.) Second, some financial institutions would be given credits that could be used to pay the FDIC premium assessments in lieu of cash. Finally, the legislation would require the FDIC to merge the BIF and the SAIF. Overall, CBO estimates that the net effect of these provisions on deposit insurance

premiums would be an increase in collections of nearly $2.2 billion over the next 10 years. The major provisions that would affect premium assessments are described below.

Increased FDIC Discretion Over the Reserve Ratio and Premiums. For this estimate, CBO assumes that the FDIC would adopt a reserve ratio close to the current level of 1.25 percent, but would allow the ratio to vary around that target depending on the outlook for losses and factors that affect the insurance fund. We also expect that the FDIC would attempt to limit volatility in premiums by setting the fees at levels considered likely to achieve the desired reserve ratio over several years. CBO expects that the FDIC would choose to charge all institutions some premiums all of the time because even the strongest institutions pose some risk. (Under current law, the vast majority of institutions do not pay any premiums if reserves of the BIF or the SAIF are greater than 1.25 percent of insured deposits.) Based on information from the FDIC, CBO expects that the existing category of least risky institutions—which currently account for 98 percent of assessable deposits—would be subdivided into three groups.

Assuming a target reserve ratio of about 1.25 percent, CBO expects that the lowest-risk group would be assessed at a rate of 0.01 percent and that institutions in higher-risk categories would pay higher rates. (We expect that the FDIC would not charge those groups substantially different premiums if their risk is not significantly different from that of the next strongest institutions.) Because of the time needed to implement these changes, CBO assumes the new premium levels would not take effect until fiscal year 2007.

The legislation also would authorize the FDIC to pay varying levels of dividends to insured institutions if the reserve ratio exceeds 1.35 percent. Based on our estimates of the growth of insured deposits, increased losses, and the impact that one-time credits would have on premium income, CBO estimates that the fund balance would probably not approach 1.35 percent of insured deposits over the next 10 years.

Under such assumptions, CBO estimates that the FDIC's premium assessments—before the use of premium credits—would total $15.9 billion over the 2006-2015 period, compared to about $9.1 billion under current law. The amounts paid by most banks and savings associations would be reduced by the availability of one-time premium credits authorized by the legislation (see below).

Credits for Future Premiums. The legislation would require the FDIC to provide certain banks and thrifts with one-time credits against future premiums, based on the amount of their payments to the BIF or SAIF prior to 1997. The credits would equal 10.5 basis points (0.105 percent) of the combined assessment base of the BIF and SAIF as of December 31, 2001, or a total of $4.7 billion. Use of these credits would reduce the FDIC's collections by a corresponding amount. In most years, use of the credits would be capped at the amount of

an institution's annual assessment; in fiscal years 2008 through 2010, credits could be used to offset no more than 90 percent of the amount due that year. CBO expects that most of the credits would be used over the 2006-2010 period.

After adjusting for such credits, CBO estimates that implementing this legislation would increase net proceeds from premiums by approximately $2.2 billion relative to CBO's baseline over the next 10 years. Under CBO's current baseline assumptions regarding deposit growth and bank failures, the premium collections net of credits would result in an average reserve ratio of about 1.27 over the 2007-2015 period.

Merging BIF and SAIF. The legislation would require the FDIC to merge the Bank Insurance Fund and the Savings Association Insurance Fund and create a new Deposit Insurance Fund. When considered together with the other reforms in the legislation, CBO expects that merging the funds would have a negligible budgetary impact.

Increase in Premiums Paid to NCUA By Financial Institutions. Credit unions are required to pay NCUA 1 percent of the net change in deposits each year. Thus, increasing the amount of insured deposits would increase the amounts collected by NCUA. Based on information on the characteristics of credit union deposits, CBO expects that the legislation would extend insurance coverage to about $4 billion in currently uninsured deposits by 2010. Thus, CBO estimates that NCUA's net premium collections would increase by about $50 million over the 2011-2015 period. Most of the additional payments would be made in 2011, the year assessments would be due for the higher level of coverage for standard accounts.

TITLE III - DIGITAL TELEVISION TRANSITION AND PUBLIC SAFETY

Title III would amend existing law regarding the Federal Communications Commission's authority to auction licenses to use the electromagnetic spectrum, resulting in additional auction proceeds. The title would allocate a portion of such proceeds for a variety of programs, mostly in the form of assistance to consumers for the switch from analog to digital television and to public safety agencies for interoperable communications systems. On balance, CBO estimates that enacting this title would result in net savings of $7.4 billion over the 2006-2010 period and $7.6 billion over the 2006-2015 period (see Table 10).

TABLE 10. ESTIMATED BUDGETARY EFFECTS OF TITLE III OF S. 1932

	By Fiscal Year, in Millions of Dollars											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN DIRECT SPENDING												
Net Change in Spectrum Auction Proceeds												
Estimated Budget Authority	0	1,250	1,550	-12,650	-150	-150	-150	0	0	0	-10,000	-10,300
Estimated Outlays	0	1,250	1,550	-12,650	-150	-150	-150	0	0	0	-10,000	-10,300
Supplemental License Fees												
Budget Authority	-10	0	0	0	0	0	0	0	0	0	-10	-10
Estimated Outlays	-10	0	0	0	0	0	0	0	0	0	-10	-10
Converter Box Subsidies												
Budget Authority	0	1,500	0	0	0	0	0	0	0	0	1,500	1,500
Estimated Outlays	0	40	505	850	5	0	0	0	0	0	1,400	1,400
Interoperability Grants												
Budget Authority	0	1,000	0	0	0	0	0	0	0	0	1,000	1,000
Estimated Outlays	0	100	370	310	220	0	0	0	0	0	1,000	1,000
NYC Television Reimbursement												
Budget Authority	0	15	15	0	0	0	0	0	0	0	30	30
Estimated Outlays	0	15	15	0	0	0	0	0	0	0	30	30
LPTV Digital-to-Analog Devices												
Budget Authority	0	10	0	0	0	0	0	0	0	0	10	10
Estimated Outlays	0	0	5	5	0	0	0	0	0	0	10	10
LPTV and Translator Upgrade												
Budget Authority	0	0	0	65	0	0	0	0	0	0	65	65
Estimated Outlays	0	0	0	8	30	14	13	0	0	0	38	65
National Alert System												
Budget Authority	0	0	0	156	0	0	0	0	0	0	156	156
Estimated Outlays	0	0	0	10	73	73	0	0	0	0	83	156
E-911												
Budget Authority	0	0	0	44	0	0	0	0	0	0	44	44
Estimated Outlays	0	0	0	18	18	8	0	0	0	0	36	44
Essential Air Service												
Estimated Budget Authority	0	30	0	0	0	0	0	0	0	0	30	30
Estimated Outlays	0	15	15	0	0	0	0	0	0	0	30	30
Total Estimated Changes												
Estimated Budget Authority	-10	3,805	1,565	-12,385	-150	-150	-150	0	0	0	-7,175	-7,475
Estimated Outlays	-10	1,420	2,460	-11,449	196	-55	-137	0	0	0	-7,383	-7,575
Memorandum: Proceeds of Spectrum Auctions Under CBO's 2005 March Baseline	0	-7,605	-7,650	0	0	0	0	0	0	0	-15,255	-15,255

NOTE: Components may not sum to totals because of rounding.

Changes in Spectrum Auction Authority. This legislation would extend, for four years, the FCC's authority to auction licenses to use the electromagnetic spectrum, which currently expires at the end of fiscal year 2007. It also would change the statutory requirements for the return and subsequent auction of licenses for frequencies now used for television channels 52 through 69. The legislation would require the existing licensees to terminate broadcasts on February 18, 2009; under current law, those licenses do not have to be returned until at least 85 percent of households are able to receive television signals in a digital format. Under this legislation, the FCC would be required to auction licenses for use of 60 megahertz of the returned spectrum by January 28, 2008.

Spectrum Auction Proceeds Under Current Law. The proposed changes would significantly increase the quantity and quality of spectrum to be auctioned in the next few years. CBO expects that, under current law, the FCC will auction 90 megahertz for advanced wireless services in 2006 or 2007 and that proceeds from that and other smaller auctions will yield about $15 billion in receipts to the Treasury (recorded in the budget as offsets to outlays) in 2007 and 2008. CBO considers it unlikely that the television licenses would be auctioned under current law because the wireless industry has shown little interest in these frequencies while there is so much uncertainty about when the spectrum would be cleared for alternative uses. In fact, recent efforts to auction encumbered television licenses have yielded very little money.

Additional Auction Proceeds Under the Legislation. By imposing a firm date for both clearing channels 52-69 and auctioning the licenses for use of that spectrum, the legislation would have the effect of making available over a three-year period (2006 through 2008) a large quantity (150 megahertz) of high-quality spectrum that could be used for various wireless applications, including voice, video, data, and broadband services.

CBO estimates that the proceeds from the auction of the 60 megahertz now used by broadcasters would most likely total between $10 billion and $15 billion, with an expected value of about $12.5 billion. But offering the wireless industry a total of 150 megahertz within a two- or three-year time period would probably result in lower bids in the 90 megahertz auction than will take place under current law. CBO estimates that increasing the total supply of spectrum would result in a $2.5 billion reduction in receipts from the auctions being held under current law. Hence, we estimate that enacting the legislation would increase net receipts from spectrum auctions by $10 billion. (As a result, CBO expects that proceeds from all auctions over the next five years would total $25 billion.)

Estimates of spectrum values are very uncertain, largely because they depend on market factors that differ among firms, technologies, and regions, all of which can vary over time. CBO's estimates of the potential proceeds from such auctions are based on a variety of methods and considerations, including assessments of potential cash flows for various

applications, historical trends in auction bids, and information provided by numerous industry experts.

Proceeds from spectrum auctions are recorded in the budget after the licenses are granted to the winning bidder. Based on past experience as to the duration of large auctions and the licensing process, CBO estimates that the $12.5 billion in receipts would be recorded on the budget in fiscal year 2009.

Finally, CBO expects that extending the FCC's auction authority would increase direct spending for auction-related expenses; generate additional offsetting receipts from auctions of other spectrum licenses; and change the timing of some auctions that might occur in 2007 if the commission anticipated that its auction authority was going to expire. CBO estimates that those changes would reduce the net proceeds from auctions by about $300 million in 2008, but would increase offsetting receipts by $150 million a year over the 2009-2012 period.

FCC License Fees. The legislation would direct the FCC to collect $10 million in additional license fees in 2006 and specifies that those collections should be recorded as offsetting receipts in the budget.

Spending of Auction Proceeds. Under the legislation, some of the proceeds from the auction of licenses for the use of the returned television spectrum would be deposited in a new Digital Television Transition and Public Safety Fund established for specified purposes. From that fund, a total of $2.8 billion would be made available to the Departments of Commerce, Homeland Security, and Transportation for the following:

- Assisting consumers to obtain necessary hardware (converter boxes) for converting analog television signals to digital television signals—$1.5 billion;

- Providing grants to public safety agencies for interoperable communications systems—$1 billion;

- Reimbursing television stations in New York City for certain costs associated with the digital transition—$30 million;

- Helping low-power television stations purchase digital-to-analog conversion devices—$10 million.

- Covering some of the costs incurred by low-power television stations in upgrading equipment from analog to digital format—$65 million;

- Implementing a national alert and tsunami warning system—$156 million;

- Implementing the ENHANCE 911 Act of 2004—$43.5 million; and

- Increasing financial assistance for essential air service to certain communities—an estimated $30 million.

CBO estimates that enacting title III would increase direct spending for these activities by $2.6 billion over the 2006-2010 period and by about $2.7 billion over the 2006-2015 period. Various provisions would affect the timing of those expenditures. For example, the departments would be allowed to begin spending money in 2007—in advance of the auction of the returned television licenses—for five of the programs: converter box subsidies, interoperability grants, reimbursement for New York stations, compensation for digital-to-analog devices for low-power television stations, and financial assistance for essential air service. Spending for the other programs could not begin until auction proceeds are deposited in the fund, which CBO estimates would occur in 2009.

Converter box program. The legislation would allow households to apply for up to two coupons valued at $40 each that could be applied toward the purchase of certain kinds of set-top boxes that convert digital broadcast signals into a signal that can be viewed on an analog television set. The coupons would be issued from January 1, 2008, through March 31, 2009; each coupon would be valid for three months, meaning that the program would terminate on June 30, 2009. Historical data on federal entitlement programs suggest that only a fraction of the eligible households would likely apply for and redeem such coupons. CBO estimates that the value of coupons redeemed under this program would total about $1.4 billion, slightly less than the $1.5 billion authorized by the act.

CBO expects that implementing the coupon program would take 18 months to two years because of the regulatory and contractual complexity of creating a new subsidy program. Key elements of the program would include: developing regulations and contracts; determining which converter boxes would be eligible for the subsidy; printing and distributing application forms; certifying participating retailers; issuing coupons to eligible households; processing and validating retailers' invoices; handling complaints from consumers and retailers; and auditing program results. Thus, we assume that the Department of Commerce would begin developing the program in 2007 in order to have it up and running by January 2008. Outlays for redeemed coupons would be concentrated in fiscal years 2008 and 2009.

Essential Air Service. Section 3012 would provide $15 million a year in fiscal years 2007 and 2008 for financial assistance to airports and air carriers to support the cost of providing essential air service to certain communities. This funding would be available only if appropriations for the program equaled or exceeded $110 million in a fiscal year. For the purpose of this estimate, CBO assumes that appropriations for fiscal years 2007 and 2008 would be sufficient to trigger the additional funding.

TITLE IV - TRANSPORTATION PROVISIONS

Title IV would increase vessel tonnage charges on vessels entering the United States from any foreign port or place. These charges are collected by the U.S. Customs Service on behalf of the U.S. Coast Guard. The increase would be effective for fiscal years 2006 through 2010. CBO estimates that this provision would increase offsetting receipts (a credit against direct spending) by $156 million over the 2006-2010 period, with no effect after 2010. CBO's estimate of the budgetary effects of this title is shown in Table 11.

TABLE 11. ESTIMATED BUDGETARY EFFECTS OF TITLE IV OF S. 1932

	By Fiscal Year, in Millions of Dollars											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN DIRECT SPENDING												
Estimated Budget Authority	-30	-31	-31	-32	-32	0	0	0	0	0	-156	-156
Estimated Outlays	-30	-31	-31	-32	-32	0	0	0	0	0	-156	-156

Title IV would increase, through fiscal year 2010, per-ton duties from 2 cents to 4.5 cents (up to a maximum of 22.5 cents per ton per year) on vessels entering the United States from foreign ports in the Western Hemisphere and from 6 cents to 13.5 cents (up to a maximum annual duty of 67.5 cents per ton) on those arriving from other foreign ports. After 2010, duty rates would revert to current law.

CBO estimates that enacting this legislation would increase offsetting receipts by an average of $31 million annually over the fiscal years 2006 through 2010. That estimate is based on the receipts collected from existing tonnage rates and the amounts collected before 2002 when those rates were temporarily increased. In addition, CBO assumes that shipping traffic at U.S. ports will continue to grow at the rates experienced in recent years. Like collections from the existing fees, amounts received as a result of the proposed increase would be

deposited in the general fund of the U.S. Treasury as offsetting receipts (as specified in the legislation).

TITLE V - MEDICARE

The act would make numerous changes to the Medicare program. The largest savings would result from provisions that would lower spending by:

- Revising how the Centers for Medicare and Medicaid Services (CMS) accounts for the health status of individuals enrolled in Medicare Advantage (MA) when determining payment rates for MA plans;

- Clarifying CMS's policy regarding the formula used to calculate Medicare disproportionate share hospital (DSH) payments; and

- Reducing payments for multiple imaging procedures and home health services.

The act would increase payment rates for physicians' services to the 2005 level (those payment rates were reduced by 4.4 percent on January 1, 2006). That provision would increase outlays during the 2006-2009 period, and would reduce Medicare's payments to physicians below current-law levels in subsequent years.

In addition, the act would shift $5.2 billion in outlays from 2006 to 2007 by temporarily halting payments to providers during the last six business days of September 2006.

On net, CBO estimates that the provisions of title V would reduce Medicare spending by $3.1 billion in 2006, $6.4 billion over the 2006-2010 period, and $22.4 billion over the 2006-2015 period. The estimated effects of Title V on direct spending are summarized in Table 12 and shown in more detail in Table 13. Those estimates include the effect of changes in Medicare spending in the fee-for-service sector on payment rates for enrollees in Medicare Advantage plans and the effect of changes in spending for services covered by Part B of Medicare on receipts from Part B premiums. However, those effects are shown separately (as "interactions" in Table 13) and are not included in the estimates shown for individual provisions.

TABLE 12. ESTIMATED BUDGETARY EFFECTS OF TITLE V OF S. 1932

	By Fiscal Year, in Millions of Dollars											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN DIRECT SPENDING												
Estimated Budget Authority	1,845	1,021	-1,194	-2,969	-5,040	-3,677	-3,924	-3,213	-2,776	-2,390	-6,337	-22,317
Estimated Outlays	-3,431	6,222	-1,194	-2,969	-5,040	-3,677	-3,924	-3,213	-2,776	-2,390	-6,412	-22,392

Subtitle A–Provisions Relating to Medicare Part A

CBO estimates that the provisions relating to Part A would reduce spending by $1.4 billion over the 2006-2010 period and $4.0 billion over the 2006-2015 period (see Table 13). Two provisions, involving payments to hospitals for inpatient services, account for nearly all of those savings.

Hospital Quality Improvement. Under current law, Medicare's payment rates for hospital inpatient services are reduced by 0.4 percent if the hospital does not report certain quality-related data. That reduction for nonreporting will expire at the end of fiscal year 2007. Section 5001 would increase the reduction to 2 percent, beginning in fiscal year 2007, and would make it permanent.

In addition, this section would reduce payments to hospitals in some cases when the patient acquires an infection during a hospital stay. In particular, the Secretary of Health and Human Services would be required to select at least two sets of two or more diagnosis-related groups (DRGs) in which it is common for patients who otherwise would be assigned to a lower-paying DRG to be assigned to the higher-paying DRG when there is a secondary diagnosis that results from infections acquired during the hospital stay. For discharges occurring on or after October 1, 2008, Medicare would set the payment rate for cases involving those DRGs at the level of the lower-paying DRG if the secondary diagnoses that resulted in assignment to the higher-paying DRG were not present at the time of admission.

CBO estimates those provisions would reduce spending by $0.3 billion over the 2006-2010 period and by $0.8 billion over the 2006-2015 period.

TABLE 13. ESTIMATED BUDGETARY EFFECTS OF TITLE V, BY SUBTITLE

	Outlays in Billions of Dollars, By Fiscal Year											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN DIRECT SPENDING												
Subtitle A: Provisions Relating to Part A												
Hospital quality improvement	0	*	*	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.8
Disproportionate Share Hospital payments	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-1.2	-3.0
Medicare-dependent hospitals	0	*	*	*	*	*	*	0	0	0	*	*
Bad debt payments to SNFs	0	*	*	*	*	*	*	*	*	-0.1	-0.1	-0.3
Inpatient rehabilitation facilities	*	0.1	*	*	0	0	0	0	0	0	0.1	0.1
Specialty hospitals	*	*	0	0	0	0	0	0	0	0	*	*
Gainsharing demonstration	0	*	*	*	0	0	0	0	0	0	*	*
Post-acute payment reform demonstration	0	0	*	*	*	0	0	0	0	0	*	*
Subtotal, Subtitle A	-0.1	-0.2	-0.3	-0.4	-0.4	-0.4	-0.5	-0.5	-0.6	-0.6	-1.4	-4.0
Subtitle B: Provisions Relating to Part B												
Ownership of durable medical equipment	0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-0.7	-1.9
Payment for imaging services	0	-0.5	-0.7	-0.8	-0.8	-0.9	-1.0	-1.1	-1.1	-1.2	-2.8	-8.1
Payment for ASCs' services	0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.8
Payment for physicians' services	1.5	2.3	2.2	1.6	-0.3	-1.6	-2.2	-1.9	-1.3	-0.7	7.3	-0.4
Hospital hold-harmless provision	*	*	*	*	0	0	0	0	0	0	0.1	0.1
Payment for dialysis services	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.5	1.3
Payment for therapy services	0.5	0.1	*	*	0	0	0	0	0	0	0.5	0.5
Income-related Part B premium	0	-0.2	-0.4	-0.6	-0.4	0	0	0	0	0	-1.6	-1.6
Screening for abdominal aortic aneurysms	0	*	*	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.2	1.3
Screening for colorectal cancer	0	*	*	*	*	*	*	*	*	*	*	*
Federally qualified health centers	*	*	*	*	*	*	*	*	*	*	*	0.1
Waive Part B late-enrollment penalty	0	*	*	*	*	*	*	*	*	*	*	0.1
Subtotal, Subtitle B	2.0	1.6	1.1	0.2	-1.6	-2.5	-3.1	-2.9	-2.3	-1.8	3.2	-9.4
Subtitle C: Provisions Relating to Parts A and B												
Payment for home health services	-0.1	-0.4	-0.5	-0.5	-0.5	-0.6	-0.7	-0.7	-0.8	-0.9	-2.0	-5.7
Payments for paper claims	-0.1	*	*	*	*	*	*	*	*	*	-0.1	-0.1
Delay payments to providers	-5.2	5.2	0	0	0	0	0	0	0	0	0	0
Medicare Integrity Program	0.1	*	0	0	0	0	0	0	0	0	0.1	0.1
Subtotal, Subtitle C	-5.3	4.8	-0.5	-0.5	-0.6	-0.6	-0.7	-0.7	-0.8	-1.0	-2.0	-5.7
Subtitle D: Provisions Relating to Part C												
Risk adjustment of payments to MA plans	0	0	-1.4	-2.1	-2.9	-0.3	0.1	0.8	0.9	0.9	-6.5	-4.1
Rural PACE grants	*	*	*	*	*	*	*	*	*	*	*	0.1
Subtotal, Subtitle D	*	*	-1.4	-2.1	-2.9	-0.3	0.1	0.8	0.9	1.0	-6.4	-4.0
Interactions												
Interactions with MA payments	0	0.2	0.1	*	-0.4	-0.6	-0.7	-0.7	-0.6	-0.6	-0.1	-3.4
Part B premium receipts	0	-0.2	-0.2	-0.2	0.8	0.8	0.9	0.8	0.6	0.5	0.3	3.9
Total Changes	-3.4	6.2	-1.2	-3.0	-5.0	-3.7	-3.9	-3.2	-2.8	-2.4	-6.4	-22.4

NOTES: ASC = ambulatory surgical center, FQHC = federally qualified health center; MA = Medicare Advantage; PACE = Program for All-Inclusive Care for the Elderly; SNF = skilled nursing facility.

Changes in budget authority would be identical to changes in estimated outlays for all provisions except: specialty hospitals, payments for paper claims, delay payments to providers, Medicare Integrity Program, and rural PACE grants.

* = between -$100 million and $100 million.

Disproportionate Share Hospital Payments: Eligible Medicaid Days. Medicare makes additional payments, the so-called disproportionate share adjustment, to certain hospitals that serve a large number of low-income patients. The payment formula takes into account inpatient days for patients enrolled in Medicaid. Section 5002 would clarify that inpatient days for patients who are covered by Medicaid for other services, but not for hospital inpatient services, do not count as Medicaid days for the purposes of the disproportionate share adjustment. Based on information provided by CMS, CBO estimates that this provision would reduce spending by $1.2 billion over the 2006-2010 period and by $3.0 billion over the 2006-2015 period.

Other Provisions. This subtitle also contains provisions that would increase payment rates for certain small hospitals; delay the phase-in of rules that will reduce the number of hospitals that qualify for special payment rates as rehabilitation hospitals; and reduce payments to skilled nursing facilities for bad debt (from uncollected cost-sharing owed by Medicare patients). In combination, CBO estimates the net effect of those provisions would be to reduce spending by $0.1 billion over 10 years.

Subtitle B–Provisions Relating to Medicare Part B

CBO estimates that the provisions related to Part B would increase spending by $2.0 billion in 2006 and by $3.2 billion over the 2006-2010 period. Over the 2006-2015 period, CBO estimates those provisions would reduce Medicare spending by $9.4 billion. Six provisions account for the bulk of the estimated budgetary effect.

Ownership of Durable Medical Equipment (DME). Section 5101 would modify Medicare's payment rules for oxygen equipment and for most other types of durable medical equipment.

Under current law, Medicare will make rental payments for oxygen equipment for an indefinite period. The act would require beneficiaries to receive ownership of oxygen equipment after 36 months of continuous rental (or 36 months after January 1, 2006, for individuals already renting oxygen equipment).

For certain other items of durable medical equipment, Medicare pays on a so-called "capped rental" basis under current law. That means that the program will make rental payments for a maximum of 15 months. The beneficiary has the option of receiving ownership, without further expense, after 13 months of rental. If the beneficiary exercises that option, the program will pay for repairs as they are needed.

If the beneficiary does not exercise that option to assume ownership after 13 months of rental, Medicare will make rental payments for two additional months (that is, for a total of 15 months) and then will make semi-annual maintenance payments of 10 percent of the original purchase price. (In aggregate, rental payments over 13-month and 15-month periods amount to 105 percent and 120 percent of the original purchase price, respectively.)

The act would require that ownership of the item be transferred to the beneficiary after the 13th month (or 13 months after January 1, 2006, for individuals already renting specified items). The policy would eliminate the option of continuing to pay rent for the 14th and 15th months and the associated semiannual maintenance payments. Medicare would be responsible for paying for maintenance services on a cost-reimbursement basis.

CBO estimates those changes to Medicare's payment rules for oxygen and other durable medical equipment would reduce Medicare spending by $0.7 billion over the 2006-2010 period and by $1.9 billion over the 2006-2015 period.

Payment for Imaging Services. Section 5102 would reduce spending on imaging services (such as X-rays and magnetic resonance imaging) by $2.8 billion over the 2007-2010 period and by $8.1 billion over the 2007-2015 period, CBO estimates. Those savings would be realized, in part, by capping the "technical" component of payments (as distinguished from the "professional"—or interpretation—component) for imaging services that are performed in a doctor's office. Those payment rates would be capped at the rates paid to hospital outpatient departments.

In addition, the act would exempt from Medicare's budget-neutrality rules scheduled reductions in payments for certain imaging services that are performed on contiguous body parts. Exempting these reductions (which were put in place through administrative action) from the budget neutrality rules would allow savings resulting from the new payment rates to decrease overall spending rather than being used to increase payment rates for other services.

Payment for Physician Services. Effective January 1, 2006, Medicare's payment rates for physicians' services were reduced 4.4 percent. Section 5104 would eliminate that reduction and increase payment rates to the 2005 level. The Administration has announced that, if this provision is enacted, the Medicare program intends to make retroactive adjustments to payments for services that were paid at the lower rate.

Under the formula used for determining physician payments, increasing payment rates in 2006 to the 2005 level would also result in higher rates from 2007 through 2009. That change would increase Medicare spending by $1.5 billion in 2006 and by $7.3 billion over the 2006-2010 period. However, the act also would require that the cost of increasing

payment rates for physician's services be offset by future reductions in those rates. Consequently, Medicare’s payments for physicians' services would be below current-law levels from 2010 through 2015. Assuming that occurs, CBO estimates that Medicare spending would be reduced by about $0.4 billion over the 2006-2015 period.

Payment for Dialysis Services. Section 5106 would increase payment rates for dialysis services by 1.6 percent, beginning January 1, 2006. CBO assumes that Medicare would make retroactive adjustments to payments for services furnished before enactment, and estimates that provision would increase spending by $0.5 billion over the 2006-2010 period and by $1.3 billion over the 2006-2015 period.

Income-related Part B Premium. Section 5111 would accelerate the phase-in of the scheduled increase in Part B premiums for beneficiaries with incomes above specified thresholds. CBO estimates that this provision would increase premium collections (which are considered offsetting receipts) and, therefore, reduce net Medicare spending by $1.6 billion over the 2007-2010 period.

Screening for Abdominal Aortic Aneurysms. Section 5112 would provide coverage for a screening procedure intended to detect abdominal aortic aneurysms. CBO estimates that provision would increase spending by $0.2 billion over the 2006-2010 period and by $1.3 billion over the 2006-2015 period.

The screening for abdominal aortic aneurysms would be covered only as part of the initial preventative physical examination for new Medicare beneficiaries and would be limited to beneficiaries who are deemed as being at high-risk for developing abdominal aortic aneurysms. Beneficiaries who undergo the screening would be exempt from any Part B deductible for the procedure.

Other Provisions. This subtitle also contains provisions that would: cap payment rates for services furnished in ambulatory surgical centers at the rates paid for such services when they are furnished by a hospital outpatient department; increase payment rates for certain small hospitals; expand coverage for therapy services; provide coverage of screening for colorectal cancer; expand services that are eligible for Medicare payments when provided in federally qualified health centers; and waive the penalty for late enrollment in Part B for certain volunteers serving in foreign countries. In combination, those provisions would reduce Medicare spending by less than $100 million over the 2006-2015 period, CBO estimates.

Subtitle C–Provisions Relating to Parts A and B

CBO estimates that the provisions in subtitle C would reduce Medicare spending by $5.3 billion in 2006, $2.0 billion over the 2006-2015 period, and $5.7 billion over the 2006-2015 period. A provision reducing payment rates for home health services and a provision that would shift certain payments from fiscal year 2006 to fiscal year 2007 account for the bulk of those estimated budgetary effects.

Payment for Home Health Services. On January 1, 2006, Medicare's payment rates for home health services were increased by 2.8 percent. Section 5201 would reduce payment rates for home health services to the 2005 level. However, it would establish a 5 percent add-on payment for home health services furnished in rural areas during 2006. Beginning in 2007, the act also would reduce the rates paid to home health agencies that do not report certain quality-related data by 2 percent.

CBO estimates those provision would decrease spending by $2.0 billion over the 2006-2010 period and by $5.7 billion over the 2006-2015 period. CBO's estimate assumes that the reductions in payment rates for home health services in 2006 would not be imposed retroactively.

Delay Payments to Providers. Section 5203 would postpone payments for Medicare Part A and B benefits for six business days at the end of fiscal year 2006. The provision would postpone—until October 2, 2006—payments that otherwise would be made by Medicare carriers and fiscal intermediaries during the period from September 22 through September 30, 2006. This provision would shift an estimated $5.2 billion in spending from fiscal year 2006 to 2007 but would not affect total spending over the two-year period (and would have no effect after fiscal year 2007).

Other Provisions. This subtitle also contains provisions that would delay payments for claims that are not submitted electronically and would provide an additional $100 million in additional funding to the Medicare Integrity Program in 2006.

Subtitle D–Provisions Relating to Part C

Part C of Medicare encompasses plans in the Medicare Advantage program and certain other health care plans that are paid primarily on a capitated basis (in contrast to being paid on a fee-for-service basis). Those plans provide services covered in fee-for-service settings by Parts A and B of the Medicare program (and may provide drug benefits covered under Part D) and are paid with funds drawn from those Medicare trust funds.

The act would modify how payments to Medicare Advantage plans are adjusted to reflect differences in expected costs that are associated with the health status of the beneficiaries enrolled in those plans. It also would establish a grant program to encourage certain plans to operate in rural areas. CBO estimates that the provisions of subtitle D would reduce spending by $6.4 billion over the 2006-2010 period and by $4.0 billion over the 2006-2010 period. Nearly all of the estimated budgetary effect is due to the provision that would modify payments to MA plans.

Risk Adjustment of Payments to MA Plans. Section 5301 would require the phased elimination of certain payments to Medicare Advantage health plans. Currently, Medicare makes a "budget neutrality" adjustment to payment rates that returns to MA plans all of the savings that would result from the application of risk adjustment based on health status. The act would require the Secretary to phase out that budget-neutrality adjustment.

This section also would require the Secretary to modify the risk adjustment process during the 2008-2010 period to take into account the effect on measures of health status of differences in data reported by providers in the fee-for-service and Medicare Advantage settings. The legislation would limit the ability of the Secretary to adjust for such differences after 2010. CBO estimates that the provisions of section 5301 would reduce spending by $6.5 billion over the 2006-2010 period and by $4.1 billion over the 2006-2015 period. The Secretary would have substantial latitude in carrying out this adjustment in payment rates to MA plans because the legislation would not specify the details of that process. There is therefore considerable uncertainty about how the Secretary would implement the requirement to modify the risk-adjustment process. As a result, the budgetary effect of enacting this provision could be larger or smaller than CBO has estimated.

Grants for Rural PACE Providers. Section 5302 would establish a grant program for qualified providers to establish and deliver services in rural areas under the "Program of All Inclusive Care for the Elderly" (PACE). CBO estimates that this provision would increase spending by less than $50 million over the 2006-2010 period and by $0.1 billion over the 2006-2015 period.

Interactions

Changes in total Medicare spending affect the "benchmarks" that Medicare uses to determine how much the program pays for beneficiaries in the Medicare Advantage program. CBO estimates that the changes in Medicare spending discussed above would reduce MA payments by $0.1 billion over the 2006-2010 period and by $3.4 billion over the 2006-2015 period.

Beneficiaries enrolled in Part B of Medicare pay premiums for Part B that offset about 25 percent of the cost of those benefits. Therefore, about one-quarter of the changes in Part B spending would be offset by changes in those premium receipts. The Part B premium for 2006 has already been announced and will not be changed. Therefore, the act would have no effect on Part B premium receipts in 2006. CBO estimates that the legislation would reduce receipts of Part B premiums by $0.3 billion over the 2006-2010 period, and would reduce receipts by about $3.9 billion over the 2006-2015 period.

TITLE VI - MEDICAID AND SCHIP

The provisions of this title would make a variety of changes to the Medicaid program, modify the State Children's Health Insurance Program, and provide funding for health care costs in areas affected by Hurricane Katrina. CBO estimates that enacting the provisions of this title would increase direct spending by $2.2 billion in 2006, but would reduce direct spending by $4.7 billion over the 2006-2010 period and by $26.4 billion over the 2006-2015 period.

Subtitle A would reduce Medicaid outlays by allowing states to reduce benefits and impose additional cost-sharing requirements and premiums on certain enrollees, reducing payments for prescription drugs, and tightening the rules relating to asset transfers prior to eligibility for Medicaid long-term care services. Those savings would be partly offset by increased Medicaid coverage for certain disabled children, expanded home- and community-based services, and other benefit expansions. Subtitle B would provide additional SCHIP funding for states that will face funding shortfalls in 2006 and prohibit any additional states from using SCHIP funds to cover childless adults. Subtitle C would provide funding for health care costs in areas affected by Hurricane Katrina.

The estimated budgetary impact of title VI is shown in Table 14. The figures discussed in this estimate represent only the federal share of Medicaid and SCHIP spending unless noted otherwise.

TABLE 14. ESTIMATED BUDGETARY EFFECTS OF TITLE VI OF S. 1932

	By Fiscal Year, in Millions of Dollars											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN DIRECT SPENDING												
Subtitle A - Medicaid												
Estimated Budget Authority	43	-366	-1,450	-1,859	-2,741	-3,273	-3,743	-4,275	-4,888	-5,611	-6,373	-28,163
Estimated Outlays	7	-626	-1,646	-1,959	-2,679	-3,019	-3,593	-4,275	-4,888	-5,611	-6,903	-28,289
Subtitle B - SCHIP												
Estimated Budget Authority	138	10	5	-10	-20	-30	-30	-35	-75	-55	123	-102
Estimated Outlays	170	-25	-30	-45	-50	-65	-65	-65	0	-60	20	-235
Subtitle C - Katrina Health Care Relief												
Estimated Budget Authority	2,150	0	0	0	0	0	0	0	0	0	2,150	2,150
Estimated Outlays	2,070	70	0	0	0	0	0	0	0	0	2,140	2,140
Total Changes												
Estimated Budget Authority	2,331	-356	-1,445	-1,869	-2,761	-3,303	-3,773	-4,310	-4,963	-5,666	-4,100	-26,115
Estimated Outlays	2,247	-581	-1,676	-2,004	-2,729	-3,084	-3,658	-4,340	-4,888	-5,671	-4,743	-26,384

Subtitle A—Medicaid

Enacting subtitle A would reduce direct spending by $6.9 billion over the 2006-2010 period and by $28.3 billion over the 2006-2015 period. Those savings would be achieved mostly by allowing states to trim benefits for certain enrollees, letting states impose higher cost-sharing requirements and premiums on certain enrollees, lowering payments for outpatient prescription drugs, and increasing penalties for individuals who transfer assets for less than fair market value in order to qualify for nursing home care. The estimated effects of subtitle A are detailed in Table 15.

Chapter 1: Prescription Drugs. The provisions of this chapter would limit payments for certain outpatient prescription drugs and increase the rebates that Medicaid receives from drug manufacturers. CBO estimates that those provisions would reduce Medicaid spending by $3.9 billion over the 2006-2010 period and by $12.6 billion over the 2006-2015 period.

TABLE 15. ESTIMATED BUDGETARY EFFECTS OF TITLE VI, SUBTITLE A—MEDICAID

	Outlays in Millions of Dollars, By Fiscal Year											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN DIRECT SPENDING												
Chapter 1: Prescription Drugs												
Limits on pharmacy reimbursement	5	-645	-830	-965	-1,150	-1,280	-1,440	-1,625	-1,810	-2,020	-3,585	-11,760
Rebates on physician-administered drugs	-5	-10	-15	-20	-20	-20	-15	-15	-15	-20	-70	-155
Include authorized generics in best price	0	-15	-35	-45	-55	-60	-70	-80	-95	-110	-150	-565
Expand eligibility for 340B program	-5	-10	-10	-10	-15	-15	-20	-20	-20	-25	-50	-150
Chapter 2: Asset Transfers												
Revisions to penalty period	-118	-290	-290	-350	-420	-450	-470	-490	-520	-560	-1,468	-3,958
Treatment of home equity	-8	-50	-70	-80	-90	-90	-100	-120	-130	-140	-298	-878
Treatment of large annuities	-17	-50	-70	-70	-70	-80	-80	-80	-90	-90	-277	-697
Require states to use "income first" rule	-8	-20	-20	-20	-20	-20	-20	-20	-20	-20	-88	-188
Clarify treatment of CCRC fees	-8	-10	-20	-20	-20	-20	-20	-30	-30	-30	-78	-208
Other revisions to asset transfer rules	-22	-29	-40	-45	-45	-45	-60	-60	-60	-70	-181	-476
Long-Term Care Partnership Programs	3	4	3	8	8	5	10	15	15	15	26	86
Chapter 3: Fraud, Waste, and Abuse												
Third-party recovery	-20	-70	-120	-170	-190	-200	-210	-220	-240	-260	-570	-1,700
State false claims acts	0	1	-1	-7	-18	-32	-44	-60	-77	-96	-25	-334
False claims acts education	0	*	-1	-2	-4	-7	-9	-12	-16	-19	-7	-70
Double payments on prescription drugs	*	*	*	*	*	*	*	*	*	*	*	*
Require evidence of citizenship	-5	-20	-45	-70	-80	-85	-95	-105	-110	-120	-220	-735
Medicaid integrity program	35	86	109	140	158	139	135	135	135	135	528	1,207
Chapter 4: Cost Sharing and Benefits												
Increase cost sharing and premiums	-10	-60	-170	-300	-420	-540	-640	-710	-750	-820	-960	-4,420
Additional cost sharing for drugs	-20	-60	-150	-290	-440	-610	-780	-920	-980	-1,100	-960	-5,350
Non-emergency care provisions	5	10	5	10	-20	-20	-30	-30	-30	-40	10	-140
Alternative benefit packages	-30	-90	-250	-380	-500	-630	-780	-960	-1,150	-1,290	-1,250	-6,060
Chapter 5: State Financing												
Restrictions on provider taxes	5	-15	-15	-20	-390	-430	-460	-500	-530	-580	-435	-2,935
Targeted case management services	-30	-100	-180	-230	-220	-230	-250	-260	-280	-290	-760	-2,070
Temporary FMAP increase for Alaska	65	60	0	0	0	0	0	0	0	0	125	125
DSH payments for the Dist. of Columbia	20	20	20	20	20	21	21	22	22	23	100	209
Additional funding for the Territories	20	28	29	31	32	33	35	37	38	40	140	323
Chapter 6: Other Provisions												
Coverage of certain disabled children	0	10	140	510	720	860	930	1,000	1,080	1,170	1,380	6,420
Home- and community-based services	1	40	160	265	300	320	345	365	395	420	766	2,611
Money-Follows-the-Person demonstration	0	5	30	95	210	375	435	375	275	175	340	1,975
Demonstration for disabled children	0	2	8	11	15	31	14	13	10	6	36	110
Health information centers	0	2	3	4	2	*	*	0	0	0	11	11
Eligibility for certain disabled enrollees	0	20	25	30	30	35	40	40	45	50	105	315
Health opportunity accounts	0	10	15	15	16	25	35	40	50	55	56	261
Non-emergency medical transportation	15	5	-15	-30	-30	-30	-35	-35	-40	-40	-55	-235
Extension of TMA and abstinence grants	139	545	69	6	2	1	0	0	0	0	761	762
Emergency services for managed care	0	-10	-10	-15	-15	-15	-15	-15	-15	-20	-50	-130
Cash and counseling programs	0	5	20	35	40	45	50	50	55	60	100	360
Medicaid transformation grants	0	75	75	0	0	0	0	0	0	0	150	150
Total Changes in Subtitle A	7	-626	-1,646	-1,959	-2,679	-3,019	-3,593	-4,275	-4,888	-5,611	-6,903	-28,289

NOTES: Changes in budget authority would be identical to changes in estimated outlays for all provisions except those affecting the Medicaid Integrity Program, cost sharing for non-emergency services, the Money-Follows-the-Person demonstration, the demonstration program for disabled children, health information centers, Medicaid transformation grants, and abstinence education grants.

CCRC = continuing care retirement community; FMAP = federal medical assistance percentage; DSH = disproportionate share hospital; TMA = transitional medical assistance

* = between -$500,000 and $500,000.

Limits on Pharmacy Reimbursement. The act would change the maximum price Medicaid pays for multiple-source drugs from 150 percent of the lowest published price (usually the wholesale acquisition cost) for a drug to 250 percent of the lowest average manufacturer price (AMP). The AMP is the average price that manufacturers receive for sales to retail pharmacies. The revised limit would take effect on January 1, 2007. Like the current limit, it would apply only to a drug's ingredient costs and would not include dispensing fees, which would continue to be determined by the states.

The act also would require the Secretary of the Department of Health and Human Services (HHS) to disclose AMP data for all drugs (which are currently confidential) to the states on a monthly basis starting on July 1, 2006, and would appropriate $5 million annually over the 2006-2010 period for the Secretary to survey retail prices for prescription drugs.

Based on administrative data on AMPs and prescription drug spending by Medicaid, CBO estimates that those provisions would reduce Medicaid spending by $3.6 billion over the 2006-2010 period and $11.8 billion over the 2006-2015 period. Those savings reflect CBO's expectation that states would raise dispensing fees to mitigate the effects of the revised payment limit on pharmacies and preserve the widespread participation of pharmacies in Medicaid. The estimate also accounts for lower rebates from drug manufacturers resulting from increased use of cheaper generic drugs.

Other Provisions. The chapter also contains provisions that would require states to collect rebates from drug manufacturers on certain drugs administered by physicians, expand the definition of the "best price"—which HHS uses in calculating the rebate that manufacturers of brand-name drugs must pay to Medicaid—to include the prices of authorized generics, and allow certain children's hospitals to purchase prescription drugs at discounted prices (under section 340B of the Public Health Service Act). CBO estimates that those provisions would reduce net Medicaid spending by $270 million over the 2006-2010 period and by $870 million over the 2006-2015 period.

Chapter 2: Asset Transfers. The provisions of this chapter would reduce Medicaid spending by an estimated $2.4 billion over the 2006-2010 period and by $6.3 billion over the 2006-2015 period, primarily by increasing penalties on individuals who transfer assets for less than fair market value in order to qualify for nursing home care and by making individuals with substantial home equity ineligible for nursing home benefits.

Revisions to Penalty Period. Medicaid currently imposes a period of ineligibility for nursing home benefits on individuals who transfer assets for less than fair market value. The penalty period is based on the value of any assets transferred during the three years prior to application—known as the look-back period—and starts on the date the assets were

transferred. Those rules have relatively little effect because any penalty period usually has expired by the time an individual applies for Medicaid.

Under this act, the penalty period would start when an individual becomes eligible for Medicaid and the look-back period would be extended from three years to five years. The act also would codify certain protections against undue hardship for individuals who transfer assets. Those changes would apply only to asset transfers that occur after enactment, so the effect of the longer look-back period would not be felt until January 1, 2009.

CBO expects that the provision would deter some individuals from transferring assets and thus delay or prevent them from receiving nursing home benefits; others would pay a penalty in the form of delayed eligibility for nursing home benefits. Those provisions would reduce Medicaid spending by $1.5 billion over five years and $4.0 billion over 10 years, CBO estimates.

Treatment of Home Equity. Under current law, the value of an individual's home is not included when determining eligibility for Medicaid. The act would make individuals with more than $500,000 in home equity ineligible for nursing home benefits; states would be able to raise that limit to $750,000. That figure would be adjusted annually for inflation starting in 2011. The prohibition would not apply if an individual's spouse, minor child, or disabled child (regardless of age) lives in the house and would allow exemptions in the case of hardship. This provision would apply to individuals who apply for Medicaid after January 1, 2006. CBO estimates that this change would reduce Medicaid spending by $298 million over the 2006-2010 period and by $878 million over the 2006-2015 period.

Other Savings. The act also would:

- Require Medicaid applicants with annuities to name the state as remainder beneficiary to the extent of Medicaid's expenditures for that individual,

- Change the rules under which income and assets are allocated from beneficiaries to their spouses who are living in the community,

- Clarify that deposits paid to continuing care retirement communities are counted when determining Medicaid eligibility and are available to pay for the costs of care,

- Make other revisions to asset-transfer rules that would further tighten the penalty period and restrict the use of certain financial instruments, and

- Repeal a moratorium on the number of states that may operate Long-Term Care Partnership Programs, which allow individuals who purchase certain kinds of long-term care insurance to protect more of their assets if they later need nursing home care under Medicaid.

CBO estimates that those provisions would reduce Medicaid spending by $598 million over five years and $1.5 billion over 10 years.

Chapter 3: Fraud, Waste, and Abuse. This chapter includes several provisions intended to improve payment integrity in the Medicaid program. CBO estimates that those provisions would lower Medicaid outlays by $822 million over five years and by $2.8 billion over 10 years, largely by making it easier for states to avoid overpayments for Medicaid recipients who also have private health insurance. In addition, the chapter would add spending of $528 million over five years and $1.2 billion over 10 years for activities to promote program integrity.

Third-Party Recovery. The act would strengthen Medicaid's status as payer of last resort relative to private health insurance by specifying that pharmacy benefit managers and self-insured plans are liable third parties, requiring insurers to submit eligibility and claims data for Medicaid recipients to states on a regular basis, and requiring insurers to pay claims for Medicaid recipients that are submitted within three years of the date of service. Those provisions would take effect on January 1, 2006. CBO estimates that the act would improve states' abilities to identify liable third parties and would increase the amounts that Medicaid recovers from insurers for recipients who also have private health insurance, thereby reducing Medicaid spending by $570 million over the 2006-2010 period and by $1.7 billion over the 2006-2015 period.

Other Savings. The act also would encourage states to enact false claims acts, mandate that certain employers conduct education campaigns for employees about false claims acts, prohibit states from billing Medicaid twice for prescription drugs, and require recipients to document their U.S. citizenship. CBO estimates that those provisions would reduce Medicaid spending by a combined $252 million over the 2006-2010 period and by $1.1 billion over the 2006-2015 period.

Medicaid Integrity Program. The act would appropriate $5 million in 2006, $50 million in both 2007 and 2008, and $75 million annually after that for the Secretary of HHS to improve the accuracy of payments in the Medicaid program. The act also would appropriate $480 million over the 2006-2015 period for activities that support the Medicare-Medicaid data match program and $25 million annually between 2006 and 2010 for Medicaid-related activities by the department's Office of the Inspector General (OIG). Based on historical spending patterns for the OIG and for program integrity activities in Medicare, CBO

estimates that those appropriations would increase direct spending by $528 million over the 2006-2010 period and by $1.2 billion over the 2006-2015 period.

Chapter 4: Cost Sharing and Benefits. This chapter contains a number of provisions that would reduce direct spending, most notably by allowing states greater flexibility in imposing cost-sharing requirements and premiums than they have under current law, and by permitting states to restrict benefits for certain enrollees. In aggregate, we estimate that the provisions of this chapter would reduce Medicaid outlays by $3.2 billion over the 2006-2010 period and by $16.0 billion over the 2006-2015 period.

Increase Cost Sharing and Premiums. Current Medicaid law permits states to impose nominal cost-sharing requirements on services for certain beneficiaries other than children and pregnant women and narrowly limits states' ability to charge premiums. Since 1982, Medicaid regulations have limited nominal cost sharing to $3 for most services and have prohibited providers from denying services to individuals who do not pay. Although some states have permission from the Centers for Medicare and Medicaid Services to impose premiums and cost-sharing requirements on higher-income enrollees through waivers of Medicaid law, the majority of Medicaid enrollees do not pay any cost sharing.

The act would permit states to subject a broader range of enrollees to premium and cost-sharing requirements beginning on March 31, 2006. (Changes to cost-sharing requirements for prescription drugs are discussed in the next section.) Those proposed increases in cost sharing would apply to all Medicaid beneficiaries with family income at or above the poverty level with some exceptions, mainly children that states are required to cover under Medicaid rules, pregnant women, and individuals living in institutions. Moreover, cost sharing would not apply to preventive services for all children, pregnancy-related services, and certain other services that are exempt from cost sharing under current law. Under the act, premiums could not apply to individuals with income between 100 and 150 percent of the poverty level.

The act would limit the amount of cost sharing that states could impose to 10 percent of the cost of an item or service for individuals with family income between 100 and 150 percent of the poverty level and to 20 percent for individuals with family income above 150 percent of the poverty level. However, regardless of family income, aggregate cost sharing and premiums for all Medicaid individuals in a family could not exceed 5 percent of family income (which the states would apply on a quarterly or monthly basis). Additionally, states could allow providers to deny services for lack of payment and condition benefits on prepayment of premiums. Under the act, states also would be permitted to increase nominal copays by medical inflation starting in 2006 for individuals with income below under the poverty level.

CBO based its estimate on an analysis of current state premium and cost-sharing policies, income data from the Current Population Survey, and Medicaid administrative data, and assumed that states would adopt new cost-sharing measures over a 10-year period. CBO estimates that the proposed changes in cost-sharing policy would decrease Medicaid spending by $960 million over the 2006-2010 period and by $4.4 billion over the 2006-2015 period. Those savings reflect CBO's expectation of reduced utilization of services due to higher cost-sharing requirements and decreased participation in Medicaid by individuals who would be required to pay premiums.

Other Cost-Sharing Provisions. Other provisions of this chapter would allow states to require cost sharing by enrollees—including those who otherwise are exempt from cost-sharing rules—for certain prescription drugs that are not preferred drugs within a class, and for nonemergency care provided in a hospital. The chapter also would appropriate $50 million over the 2006-2010 period to assist states in developing alternative delivery networks. Those provisions would increase federal outlays by $15 million in 2006, and would decrease spending by $950 million over the 2006-2010 period and by $5.5 billion over the 2006-2015 period, CBO estimates.

Alternative Benefit Packages. Under current law, state Medicaid programs generally must offer the same set of benefits to all enrollees, regardless of income or eligibility category. States also must provide benefits not otherwise covered by the state's Medicaid plan to children to treat medical conditions diagnosed under the program. Some states offer reduced benefit packages under current law to certain enrollees with family incomes above the federal poverty level under waivers granted by CMS.

Starting on March 31, 2006, the act would allow states to scale back Medicaid benefits provided to a limited group of enrollees, mainly adults who are not disabled or pregnant and have income that exceeds the eligibility standard for the old Aid to Families with Dependent Children program. States could offer reduced benefit packages only to enrollees who are in eligibility categories the state established before the date of enactment, not to new categories of enrollees. Additionally, states could not reduce benefits for children, pregnant women that the federal government requires state Medicaid programs to cover, certain poor parents, disabled individuals, individuals eligible for both Medicare and Medicaid, and certain other aged and disabled enrollees who receive long-term care services, or are medically frail or have special medical needs.

The provision would require that states choosing to restrict benefits offer packages of benefits that meet certain minimum standards. The package of benefits would have to include certain basic services, such as physician and hospital coverage, and with some exceptions, would be required to be actuarially equivalent to coverage provided under one of the specified "benchmark" benefit packages. The benchmark benefit packages would be

the standard Blue Cross/Blue Shield preferred-provider option in the Federal Employees Health Benefit program, a health benefit plan that is offered and generally available to state employees, and the benefits offered by the health maintenance organization with the largest commercial enrollment in the state. The act would allow states to offer less than actuarially equivalent benefits for certain services, such as prescription drugs and mental health services, and would permit states to offer wrap-around coverage for other health insurance. States would be permitted to enroll children in a benchmark benefit plan but would be required to provide supplemental coverage for all other Medicaid benefits, including early and periodic screening, diagnostic, and treatment services.

CBO expects that some states would provide scaled-back coverage to certain categories of individuals and assumes that implementation would occur over a 10-year period. Based on Medicaid administrative data, and analysis of state experiences with providing limited benefit packages to poor families, CBO estimates that this provision would reduce federal spending by $1.3 billion over five years and $6.1 billion over 10 years.

Chapter 5: State Financing. The provisions of this chapter with the largest budgetary impact would (1) restrict states' ability to use revenues from taxes on health care providers to finance the state's share of Medicaid costs and (2) limit coverage of targeted case management services. Overall, we estimate that those provisions would reduce Medicaid spending by $1.2 billion over five years and by $5.0 billion over 10 years. In addition, other provisions in this chapter would increase spending by $365 million over the 2006-2010 period and by $657 million over the 2006-2015 period by providing additional Medicaid funding for Alaska, the District of Columbia, and U.S. territories.

Restrictions on Provider Taxes. Many states finance part of their share of Medicaid spending by imposing taxes on health care providers. States typically impose taxes on a particular type of provider and use the revenues to increase payment rates to those same providers. In the process, states collect federal Medicaid funds for those higher payments. Federal law generally requires states to tax all providers in a class, so states typically tax classes of providers (such as hospitals or nursing homes) of which a relatively large share receive significant Medicaid payments and stand to benefit from the higher payment rates that result from the provider tax. However, the law allows states to impose taxes only on those managed care organizations (MCOs) that serve Medicaid recipients. Because that exception makes it easier for states to impose provider taxes on MCOs, several states have already imposed such taxes, and more are planning to do so.

The act would require any taxes on MCOs to apply to all such organizations, including those that do not enroll Medicaid recipients. This provision would take effect upon enactment but would not apply fully to states with existing taxes on MCOs until 2009. CBO anticipates that states ultimately would eliminate their taxes on MCOs under the act and as a result, states

would pay MCOs less and claim fewer federal Medicaid funds. Using CMS data on provider taxes, we estimate that federal Medicaid spending would be reduced by $435 million over the 2006-2010 period and by $2.9 billion over the 2006-2015 period.

Targeted Case Management Services. Medicaid allows states to cover case management services that help recipients obtain access to medical, social, and other services and permits states to target those services to specific populations, such as disabled adults. However, current law provides little guidance as to the specific types of services that Medicaid will cover, and some states have billed the program for services that are core elements of other programs, such as juvenile justice and foster care. The act would clarify that case management services must help recipients gain access to needed medical, social, educational, and other services and would specify that Medicaid will not cover services that are normally provided under other programs (including certain activities provided by foster care programs).

CBO estimates that this provision would reduce Medicaid spending on case management services by about 10 percent, yielding savings of $1.1 billion over the 2006-2010 period and $3.0 billion over the 2006-2015 period. Based on information provided by CMS, we anticipate that some of the case management services previously covered by Medicaid would be billed instead to the federal foster care program, raising spending for that program by $350 million over the 2006-2010 period and by $940 million over the 2006-2015 period. Together, those reductions in spending for Medicaid and increases in spending for foster care would reduce federal spending by $760 million over the 2006-2010 period and by $2.1 billion over the 2006-2015 period, CBO estimates.

Other Provisions. The remaining provisions in this chapter would increase the federal match rate for Alaska in 2006 and 2007, allow the District of Columbia to make additional payments to disproportionate share hospitals, and increase funding for Medicaid programs in the United States' territories. On net, CBO estimates that those provisions would increase Medicaid outlays by $365 million over the 2006-2010 period and by $657 million over the 2006-2015 period.

Chapter 6: Other Provisions. This chapter contains a number of provisions that would increase direct spending, primarily by permitting states to offer Medicaid coverage to certain disabled children and providing additional funding for long-term care services that are provided in the community. In aggregate, CBO estimates that those provisions would increase Medicaid spending by $3.6 billion over the 2006-2010 period and by $12.6 billion over the 2006-2015 period.

Coverage of Certain Disabled Children. The act would allow state Medicaid programs to cover children who meet the disability standard used in the Supplemental Security Income (SSI) program but are ineligible for SSI because they do not meet that program's income or asset requirements. Eligibility would be limited to children whose family incomes do not exceed 300 percent of the federal poverty level. This provision would take effect on January 1, 2007, and would be phased in over a three-year period.

CBO anticipates that about two-thirds of states would ultimately provide Medicaid coverage under this provision. Based on information from the Survey of Income and Program Participation and Medicaid administrative data, we estimate that this provision would increase Medicaid outlays by $1.4 billion over the 2007-2010 period and by $6.4 billion over the 2007-2015 period.

Home- and Community-Based Services. States currently use waivers of Medicaid law approved by CMS to provide long-term care services in the home or community to limited numbers of individuals who otherwise would require the level of care provided in a nursing home. The act would allow states to provide certain community-based services, such as respite care and adult day health care, to beneficiaries with income below 150 percent of the poverty level without first getting a waiver. States also would be able to provide benefits to individuals who would not otherwise need to be in a nursing home. Those changes would take effect on January 1, 2007. Based on administrative data and information from the Survey of Income and Program Participation on health insurance and disability, CBO estimates this provision would increase Medicaid spending by $766 million over the 2006-2010 period and by $2.6 billion over the 2006-2015 period.

Money-Follows-the-Person Demonstration. The act would authorize a demonstration project under which the federal government would pay a higher share of costs than under current law (78 percent versus 57 percent, on average) for the first 12 months of long-term care services provided in the home or community for Medicaid recipients who used to be in nursing homes. The act would provide a total of $1.8 billion in funding over five years for the demonstration and would take effect on January 1, 2007. After accounting for reduced spending on nursing home care and the additional cost of home- and community-based services beyond the initial 12 months, CBO estimates that this provision would increase Medicaid spending by $340 million over the 2007-2010 period and $2.0 billion over the 2007-2015 period.

Other Provisions. The remaining provisions in this chapter would:

- Authorize a demonstration project to provide home- and community-based services to disabled children who otherwise would require psychiatric residential treatment;

- Appropriate funds to develop health information centers;
- Change the date on which Medicaid eligibility starts for certain recipients of Supplemental Security Income (SSI) benefits;
- Provide $150 million in funding to reward states that improve the management of their Medicaid programs;
- Establish a demonstration program—called health opportunity accounts—to allow certain beneficiaries to pay directly for some of their Medicaid costs with funds provided by their state;
- Amend the rules governing the provision of non-emergency transportation services;
- Extend the requirement that states provide transitional medical assistance and funding for abstinence education programs through December 31, 2006;
- Limit payment for emergency services that out-of-network hospitals provide to individuals enrolled in Medicaid managed care; and
- Allow certain enrollees who receive long-term care services in the community to contract directly with providers using a preset budget provided by the Medicaid program.

Taken together, CBO estimates those provisions would increase Medicaid spending by $1.1 billion over five years and $1.6 billion over 10 years.

Subtitle B—State Children's Health Insurance Program

The act contains several provisions affecting the State Children's Health Insurance Program. On balance, those changes would reduce federal spending by an estimated $235 million over the 2006-2015 period. Most of the budgetary impact would stem from provisions that would provide $283 million in additional funding in 2006 for states that have spent their existing funds and would prohibit additional states from using the program's funds to cover childless adults. We estimate that SCHIP spending would increase by $185 million over five years and by $160 million over 10 years as a result of enacting this subtitle and other provisions related to SCHIP elsewhere in the act (such as the state option to cover certain disabled children). The SCHIP changes also would reduce Medicaid spending by $165 million over the 2006-2010 period and by $395 million over the 2006-2015 period by reducing states' use of Medicaid funds to offset funding shortages in SCHIP.

Subtitle C—Katrina Health Care Relief

The act would appropriate $2.0 billion that would be used by the Secretary of HHS to pay for a range of health care costs related to Hurricane Katrina, such as the states' share of Medicaid benefits and uncompensated care for affected individuals and premiums for private health insurance. CBO estimates that all of the funding would be spent in 2006.

Subtitle C also would appropriate $90 million in 2006 for high-risk pools that states operate for individuals who cannot otherwise obtain health insurance. We estimate that provision would increase direct spending by $40 million in both 2006 and 2007.

Finally, this subtitle would appropriate $60 million in 2006 to CMS for the costs of implementing titles V and VI of this act. CBO estimates that appropriation would increase direct spending by $30 million in both 2006 and 2007.

TITLE VII - HUMAN RESOURCES AND OTHER PROVISIONS

Title VII would:

- Reauthorize the Temporary Assistance for Needy Families program; it would increase funding for some grants and establish a new grant program, but it also would eliminate funding for other related grants;

- Increase funding for child care programs;

- Make several changes to the child support enforcement program, including reducing the federal share of funding, assessing fees on some families receiving services, and allowing the distribution to families of more collections from child support payments;

- Clarify eligibility for foster care and adoption assistance, place limits on federal matching funds for certain administrative costs for foster care, establish a new grant program, and increase funding for another;

- Require the Social Security Administration (SSA) to change its system of reviewing awards to certain disabled adults in the Supplemental Security Income (SSI) program and use installment payments for more retroactive SSI benefits; and

- End distributions of antidumping and countervailing duties under the Continued Dumping and Subsidy Offset Act (CDSOA).

The legislation would extend the TANF and child care programs through 2010. Those programs are scheduled to expire on March 31, 2006. Continuing the programs at their current funding levels would provide budget authority of $74.3 billion for TANF and $11.7 billion for child care from April 1, 2006, through September 30, 2010. However, CBO already assumes that level of funding in its baseline for those programs, pursuant to section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985 (Deficit Control Act). Therefore, the extension of those programs would have no cost relative to CBO's baseline.

The legislation contains a number of other provisions that reduce or increase spending, resulting in an estimated net decrease in direct spending of $1.5 billion over the 2006-2010 period and $7.2 billion over the 2006-2015 period. Most of those budgetary effects would stem from reducing spending for the child support enforcement program. Other significant provisions would reduce spending in the SSI and foster care programs, raise funding for child care programs, and eliminate payments to domestic producers adversely affected by imported goods. The estimated budgetary impact of Title VII is shown in Table 16.

TABLE 16. ESTIMATED BUDGETARY EFFECTS OF TITLE VII OF S. 1932

	By Fiscal Year, in Millions of Dollars											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN DIRECT SPENDING												
Subtitle A: TANF												
Estimated Budget Authority	14	215	217	-106	-115	-133	-140	-146	-152	-157	225	-503
Estimated Outlays	116	265	140	-47	-100	-125	-138	-146	-152	-157	374	-344
Subtitle B: Child Care												
Budget Authority	200	200	200	200	200	200	200	200	200	200	1,000	2,000
Estimated Outlays	144	188	198	200	200	200	200	200	200	200	930	1,930
Subtitle C: Child Support												
Estimated Budget Authority	9	-45	-484	-515	-484	-500	-510	-524	-538	-557	-1,519	-4,148
Estimated Outlays	9	-45	-484	-515	-484	-500	-510	-524	-538	-557	-1,519	-4,148
Subtitle D: Child Welfare												
Estimated Budget Authority	-10	-60	-64	-67	-71	-95	-99	-103	-107	-112	-272	-788
Estimated Outlays	-51	-65	-66	-67	-71	-79	-94	-102	-107	-111	-320	-813
Subtitle E: Supplemental Security Income												
Estimated Budget Authority	-238	-151	-73	-107	-143	-184	-212	-261	-302	-344	-712	-2,015
Estimated Outlays	-238	-151	-73	-107	-143	-184	-212	-261	-302	-344	-712	-2,015
Subtitle F: Repeal of Continued Dumping and Subsidy Offset												
Estimated Budget Authority	0	0	0	-300	-300	-300	-300	-300	-300	-300	-600	-2,100
Estimated Outlays	0	0	0	0	-300	-300	-300	-300	-300	-300	-300	-1,800
Total Changes												
Estimated Budget Authority	-25	159	-204	-895	-913	-1,012	-1,061	-1,134	-1,199	-1,270	-1,878	-7,554
Estimated Outlays	-20	192	-285	-536	-898	-988	-1,054	-1,133	-1,199	-1,269	-1,547	-7,190
Memorandum: Direct Spending from Program Extensions That Are Already Assumed in CBO's Baseline												
TANF												
Estimated Budget Authority	6,901	16,848	16,848	16,848	16,848	0	0	0	0	0	74,293	74,293
Estimated Outlays	5,079	15,195	17,223	16,859	16,848	3,034	55	0	0	0	71,204	74,293
Child Care												
Estimated Budget Authority	796	2,717	2,717	2,717	2,717	0	0	0	0	0	11,664	11,664
Estimated Outlays	513	2,163	2,614	2,706	2,717	761	163	27	0	0	10,713	11,664

NOTE: TANF = Temporary Assistance for Needy Families.

Subtitle A: TANF

The legislation would reauthorize state family assistance grants through 2010 at the current funding level of $16.6 billion. By law, that amount is assumed to continue in CBO's current baseline; thus, enacting the legislation would not change basic TANF grants relative to that baseline. Subtitle A would alter the funding of some grants related to TANF and make several other changes to program rules and reporting requirements. CBO estimates that enacting subtitle A would increase direct spending by $374 million over the 2006-2010 period, but would decrease direct spending by $344 million over the 2006-2015 period, relative to CBO's baseline projections (see Table 17).

Extension of Temporary Assistance for Needy Families. Section 7101 would extend the state family assistance grant program through 2010 at the current funding level of $16.6 billion. CBO already assumes funding at that level in its baseline in accordance with rules for constructing baseline projections, as set forth in section 257 of the Deficit Control Act. Therefore, CBO estimates this provision would have no effect on direct spending over the 2006-2015 period, relative to the baseline projections. (The baseline includes about $74 billion in budget authority for state family assistance grants and related programs over the period covered by the extension.) The TANF program and related grants were originally authorized through fiscal year 2002. They have been extended several times in subsequent legislation, most recently through March 31, 2006, by Public Law 109-161, which was enacted on December 30, 2005.

Supplemental Grants. Section 7101 would provide $319 million annually for supplemental grants for population increases over the 2006-2008 period. (It provides only $129 million in 2006; Public Laws 109-68 and 109-161 already provided $190 million for the first half of 2006). These grants are awarded to states that have lower-than-average TANF grants per poor person or rapidly increasing populations. Current law specifies that supplemental grants should not be assumed to continue in baseline projections after March 31, 2005, overriding the continuation rules specified in section 257 of the Deficit Control Act.

CBO estimates that states would spend $767 million from this new funding over the 2006-2010 period. We expect that some of the additional funding would be used to increase benefits to families that also receive food stamps. As a result, the Food Stamp payments to those families would fall and the cost of Food Stamp benefits would decline by an estimated $11 million over the 2006-2010 period.

TABLE 17. ESTIMATED BUDGETARY EFFECTS OF TITLE VII, SUBTITLE A: TANF

	By Fiscal Year, in Millions of Dollars											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN DIRECT SPENDING												
Continue Supplemental Grant [a]												
Estimated Budget Authority	127	315	315	-1	0	0	0	0	0	0	756	756
Estimated Outlays	101	278	319	57	1	0	0	0	0	0	756	756
Eliminate High Performance Bonus [a]												
Estimated Budget Authority	-200	-199	-197	-197	-198	-198	-198	-198	-198	-198	-991	-1,981
Estimated Outlays	0	-114	-235	-208	-198	-198	-198	-198	-198	-198	-755	-1,745
Increase Transfer Authority to SSBG												
Budget Authority	0	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	42	-33	-9	0	0	0	0	0	0	0	0
Extend Funding of Studies and Demonstrations												
Budget Authority	7	15	15	15	15	15	15	15	15	15	67	142
Estimated Outlays	0	7	11	15	15	15	15	15	15	15	48	123
Extend Child Welfare Research Funding												
Budget Authority	3	6	6	6	6	0	0	0	0	0	27	27
Estimated Outlays	0	3	4	6	6	6	2	0	0	0	19	27
Penalties from Failure to Meet Work Requirements												
Estimated Budget Authority	0	*	*	-7	-16	-28	-35	-41	-47	-52	-23	-226
Estimated Outlays	0	*	*	-7	-16	-28	-35	-41	-47	-52	-23	-226
Eliminate Out-of-Wedlock Bonus [a]												
Estimated Budget Authority	-73	-72	-72	-72	-72	-72	-72	-72	-72	-72	-361	-721
Estimated Outlays	0	-41	-88	-74	-72	-72	-72	-72	-72	-72	-275	-635
Establish Marriage and Fatherhood Grants												
Budget Authority	150	150	150	150	150	150	150	150	150	150	750	1,500
Estimated Outlays	15	90	162	173	164	152	150	150	150	150	604	1,356
Total Changes												
Estimated Budget Authority	14	215	217	-106	-115	-133	-140	-146	-152	-157	225	-503
Estimated Outlays	116	265	140	-47	-100	-125	-138	-146	-152	-157	374	-344

NOTES: TANF = Temporary Assistance for Needy Families, SSBG = Social Services Block Grant.

* = Costs or savings of less than $500,000.

a. Estimate includes effects on spending in the Food Stamp program.

Bonuses for High-Performing States. Section 7101 would eliminate funding for bonuses to high-performing states. Those bonuses reward states for moving TANF recipients into jobs, providing support for low-income working families, and increasing the percentage of children who reside in married-couple families. This change would reduce funding by about $1 billion ($200 million a year) over the 2006-2010 period relative to CBO's baseline projections. Because the bonuses are usually granted in the last days of a fiscal year, TANF spending would fall by only $764 million over the five-year period. CBO expects the reduced TANF funding would cause states to decrease benefits to families that also receive food stamps. As a result, the Food Stamp payments to those families would rise and the cost of Food Stamp benefits would grow, by an estimated $9 million over the five-year period.

Social Services Block Grant (SSBG). Section 7101 would allow states to continue to transfer up to 10 percent of TANF funds to the SSBG program. Reflecting provisions in current law, that percentage was assumed to fall to 4.25 percent after September 30, 2006, in CBO's baseline projections.

Maintaining the transfer authority at the higher level would make it easier for states to spend their TANF grants and would accelerate spending relative to baseline. Based on recent state transfers, CBO expects that states would transfer an additional $340 million annually under this provision, but because some of this money would have been spent within the TANF program anyway, only $42 million of additional spending would occur in 2007. Because states would have found alternate ways to spend the funds in later years, the increase in spending in 2007 would be offset by decreased spending in subsequent years. Thus, this provision would have no net impact on TANF spending over the 2006-2010 period.

Research. The legislation would continue two research grants totaling $21 million annually. (Public Laws 109-68 and 109-161 already provided $11 million for the first half of 2006; this legislation would provide an additional $10 million for 2006.) Based on recent spending patterns, CBO estimates that this provision would increase outlays by $67 million over the 2006-2010 period.

Work Participation Requirements. Current law requires that states have 50 percent of families with an adult in work activities. (A separate standard of 90 percent applies to two-parent families.) It also provides a caseload reduction credit that reduces the required participation rate by 1 percentage point for each percentage point that a state's caseload is below its 1995 level. States have experienced significant caseload reductions since 1995, so they generally face an effective participation rate that is significantly lower than 50 percent. The law sets penalties for states for the failure to meet work requirements. Those penalties can total up to 5 percent of the TANF block grant amount for the first failure and increase with each subsequent failure.

Section 7102 would revise the caseload reduction credit to calculate the reductions in caseload from the 2005 level, rather than from the 1995 level. It also would apply the work requirements to families who are served by separate state programs (state-funded programs where the spending counts toward the TANF state funding requirement) and would require the Secretary of Health and Human Services to issue new standards about who counts as a participant. Together, the changes would make it significantly harder for states to meet work participation standards. CBO expects that, beginning in 2007, some states would fail to meet the requirements and would pay penalties totaling $23 million over the 2009-2010 period. On average, states would pay penalties two-to-four years after their failure to meet requirements. The data on work participation are not available until about one year after the end of the fiscal year. Also, the law allows states a period of time to attempt to correct their failures before a penalty is assessed.

Grants to Promote Healthy Marriage and Responsible Fatherhood. Section 7103 would eliminate a grant program that rewards states for reducing out-of-wedlock birth rates, but it also would create a new grant program to promote healthy marriages and responsible fatherhood. CBO projects $730 million in funding ($73 million annually over the 2006-2015 period) under current law for the existing grant program, in accordance with the Deficit Control Act. We estimate that eliminating this program would reduce outlays by $279 million over the 2007-2010 period, relative to CBO's baseline projections. The reduction in outlays would begin in 2007 because the grants are awarded in the last days of a fiscal year. CBO expects the reduced funding would cause states to decrease TANF benefits for families that also receive food stamps. As a result, the Food Stamp payments to those families would rise, and the cost of Food Stamp benefits would grow by an estimated $4 million over the 2007-2010 period.

Section 7103 would make funds available to the Secretary of Health and Human Services to conduct and support research and demonstration projects and provide technical assistance, primarily on the promotion of marriage and responsible fatherhood. The program would be funded at $150 million annually. Implementing the provision would boost spending by $604 million over the 2006-2010 period.

Subtitle B: Child Care

The child care entitlement to states provides funding to states for child care subsidies to low-income families and for other activities. Subtitle B would extend the grant program through 2010 and raise funding by $200 million annually, providing total funding of $12.7 billion over the 2006-2010 period. CBO already assumes funding of $11.7 billion in its baseline in accordance with the Deficit Control Act. CBO estimates that, as a result of

the funding increase, outlays would rise by $930 million over the 2006-2010 period and by $1.9 billion over the 2006-2015 period, relative to its baseline projections.

Subtitle C: Child Support

The legislation would change many aspects of the operation and financing of the child support program. It would reduce the federal share of child support administrative spending and require states to assess fees on certain recipients of child support services. It would allow states to share more child support collections with current and former recipients of TANF, thereby reducing the amount the federal and state governments would recoup from previous TANF benefit payments. Finally, it would require states to periodically update child support orders and expand the use of certain enforcement tools. Overall, CBO estimates that enacting subtitle C would increase direct spending by $9 million in 2006, but reduce direct spending by $1.5 billion over the 2006-2010 period and by $4.1 billion over the 2006-2015 period (see Table 18).

Distribute More Collections to Current TANF Recipients. When a family applies for TANF, it assigns to the state any rights the family has to child support collections. While the family receives assistance, the state uses any collections it receives to reimburse itself and the federal government for TANF payments. (The federal government's share of child support collections is 55 percent, on average.) Those reimbursements to the federal government are recorded as offsetting receipts (a credit against direct spending). States may choose to give some of the child support collected to families, but states must finance those payments out of their share of collections.

Section 7301 would allow states to pay up to $100 each month of child support to a family receiving assistance (up to $200 to a family with two or more children), without turning over to the federal government its share of those payments, beginning October 1, 2008. The state could not count the child support as income in determining the families' benefits under the TANF program. Based on information from state child-support officials, CBO estimates that federal share of collections would fall by $161 million over the 2009-2010 period. Because additional child support income in many cases would reduce the Food Stamp benefits a family receives, CBO estimates savings in the Food Stamp program totaling $21 million over that period.

TABLE 18. ESTIMATED BUDGETARY EFFECTS OF TITLE VII, SUBTITLE C: CHILD SUPPORT

	By Fiscal Year, in Millions of Dollars (Budget Authority and Outlays)											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
						CHANGES IN DIRECT SPENDING						
Distribute More Support to Current TANF Families												
Child Support Collections	0	0	0	76	85	87	89	91	93	95	161	616
Food Stamps	0	0	0	-9	-12	-12	-13	-13	-13	-14	-21	-86
Subtotal	0	0	0	67	73	75	76	78	80	81	140	530
Distribute More Past-Due Support to Former TANF Families												
Child Support Collections	0	0	0	106	183	187	191	195	200	204	289	1,266
Food Stamps	0	0	0	-5	-6	-7	-7	-7	-7	-7	-11	-46
Student Loans	5	*	*	*	*	*	*	*	*	*	5	5
Subtotal	5	*	*	101	177	180	184	188	193	197	283	1,225
Require Triennial Update of Child Support Orders												
Administrative Costs	0	0	15	15	12	12	13	13	13	13	42	106
Child Support Collections	0	0	-5	-14	-20	-20	-19	-19	-19	-20	-39	-136
Food Stamps	0	0	-1	-2	-2	-2	-2	-2	-3	-3	-5	-17
Medicaid	0	0	-2	-6	-10	-10	-8	-7	-7	-8	-18	-58
Subtotal	0	0	7	-7	-20	-20	-16	-15	-16	-18	-20	-105
Reduce Threshold for Passport Denial to $2,500												
Child Support Collections	0	-1	-1	-1	-1	-1	-1	-1	-1	-1	-4	-9
Maintain Funding for Technical Assistance												
Children's Research	2	2	1	0	-1	-2	-3	-4	-5	-6	4	-16
Match Databases of Insurance Claims												
Administrative Costs	2	2	0	0	0	0	0	0	0	0	4	4
Child Support Collections	0	0	-2	-4	-4	-4	-4	-4	-4	-4	-10	-30
Subtotal	2	2	-2	-4	-4	-4	-4	-4	-4	-4	-6	-26
Require Health Insurance from Either Parent												
Medicaid	*	-1	-1	-1	-3	-5	-7	-10	-13	-16	-6	-57
Reduce Match Rate for Paternity Establishment												
Administrative Costs	0	-7	-7	-7	-7	-7	-7	-7	-7	-7	-28	-63

Continued

TABLE 18. Continued.

	By Fiscal Year, in Millions of Dollars (Budget Authority and Outlays)											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
No Matching of State Expenditures of Incentive Payments												
Collections	0	0	34	47	47	46	46	46	46	45	128	357
Administrative Costs	0	0	-472	-639	-653	-667	-682	-697	-712	-728	-1,764	-5,250
Subtotal	0	0	-438	-592	-606	-621	-636	-651	-666	-683	-1,636	-4,893
Interaction of Incentive Match Change with Other Policies												
Collections	0	0	0	-31	-52	-54	-55	-56	-57	-58	-83	-363
Food Stamps	0	0	0	4	5	5	5	5	5	5	9	34
Subtotal	0	0	0	-27	-47	-49	-50	-51	-52	-53	-74	-329
$25 Annual Fee												
Administrative Costs	0	-40	-43	-44	-45	-46	-46	-47	-47	-47	-172	-405
Total Changes	9	-45	-484	-515	-484	-500	-510	-524	-538	-557	-1,519	-4,148

NOTE: TANF = Temporary Assistance for Needy Families.

Distribute More Past-Due Support to Former TANF Recipients. Section 7301 also would require states to share more child support collections with families through a change in assignment rules and would allow states to share more of such collections with families who used to receive welfare benefits.

Under current law, families assign to the state the right to any child support payments due before and during the period the families receive assistance. The act would eliminate the requirement that families assign support due in the period before the families receive assistance. It would require states to implement the new policy by October 1, 2009, but would give them the option of implementing it a year earlier.

When a family stops receiving public assistance, states continue to enforce the family's child support order. All amounts of child support collected on time are sent directly to the family. However, both the government and the family have a claim on collections of past-due child support: the government claims the support owed for the period when the family was on assistance, up to the amount of the assistance paid, and the family claims the remainder. A complicated set of distribution rules determines which claim is paid first when a collection is made. That order matters because, in many cases, past-due child support is never fully paid.

Section 7301 would give states the option to change the order of the distribution so that all collections would be paid to families first before the government is reimbursed. In addition, it would allow states to pay to families part of the government's share of support payments.

CBO estimates that, as a result of this provision, states with 40 percent of collections would implement the optional policy by 2010. (After considering the effects of other provisions of the bill, CBO estimates that the proportion would decline to 30 percent. That effect is discussed further in the section "Effect of Incentive Change on Other Policies".) Based on information from state child-support officials and policy experts, and on data from the Department of Health and Human Services, CBO estimates that the federal share of collections would fall by $289 million over the 2009-2010 period. Some of the new collections would be paid to families that also receive food stamps. As a result, the Food Stamp payments to those families would fall and the cost of Food Stamp benefits would decline by an estimated $11 million over the 2009-2010 period.

Section 7301 also would affect federal collections in the student loan program. Under a program called the federal tax offset refund program, tax refunds are withheld from individuals who owe overdue child support and certain federal debts, mainly related to student loans, and used to pay the debts. Beginning in 2010, the act would give child support debt priority over all other federal debts. CBO estimates that the provision would reduce recoveries in the student loan program from tax refund payments by $4 million annually beginning in 2010. However, much of those losses in recoveries in the student loan program would be subsequently recouped through various other collection methods.

The provisions affecting the student loan program are assessed under the requirements of the Federal Credit Reform Act. As such, the budget records all the costs and collections associated with a new loan on a present-value basis in the year the loan is obligated, and the costs of all changes affecting outstanding loans are displayed in the fiscal year the bill is enacted—2006 for this estimate. This results in a federal cost of $5 million in 2006 (mostly for outstanding loans) and insignificant amounts each year from 2007 through 2015 (for future loans).

Mandatory Three-Year Update of Child Support Orders. Section 7302 would require states to adjust child support orders of families on TANF every three years. States could use one of three methods to adjust orders: full review and adjustment, cost-of-living adjustment (COLA), or automated adjustment. Under current law, nearly half of the states perform periodic adjustments. Most perform a full review, and the remainder apply a COLA. No state currently makes automated adjustments. The provision would take effect on October 1, 2007, and CBO estimates that it would reduce direct spending by $20 million over the 2008-2010 period and by $105 million over the 2008-2015 period. Although it would require additional spending for administrative costs, this provision would produce more

income from child support collections and reduce spending for the Food Stamp and Medicaid programs.

CBO estimates that there are 700,000 TANF recipients with child support orders in states that do not periodically adjust orders and that one-third of those orders would be adjusted each year. We assume that half of the states not already adjusting orders would choose to perform full reviews and half would apply a COLA.

When a state performs a full review of a child support order, it obtains current financial information from the custodial and noncustodial parents and determines whether any adjustment in the amount of ordered child support is indicated. The state also may revise an order to require the noncustodial parent to provide health insurance. Children who receive TANF benefits are generally eligible for Medicaid, so any new health insurance requirements would reduce spending for that program. When a state makes a cost-of-living adjustment, it applies a percentage increase reflecting the rise in the cost of living to every order, regardless of how the financial circumstances of the individuals may have changed. When there are COLA adjustments, no additional health insurance coverage is required.

CBO expects any increased collections for a family would continue for up to three years. While a family remains on TANF, the state would keep all the increased collections to reimburse itself and the federal government for welfare payments. The states would pay any increased collections stemming from reviews of child support orders to families once they leave assistance. That additional child support income for former recipients would result in savings in the Food Stamp program. Overall, CBO expects the federal share of administrative costs for child support to rise by $42 million and federal collections to increase by $39 million over the 2008-2010 period. Food Stamp and Medicaid savings would total $5 million and $18 million, respectively, over that period.

Denial of Passports. Under current law, the State Department denies a request for a passport for a noncustodial parent if he or she owes more than $5,000 in past-due child support. Beginning in fiscal year 2007, section 7303 would lower that threshold and deny a passport to a noncustodial parent owing $2,500 or more. Generally, when a noncustodial parent seeks to restore eligibility for a passport, he or she will arrange to pay the past-due amount down to the threshold level.

Based on information from the State Department, CBO estimates the policy would result in new payments of child support of about $11 million annually. We assume the same share of those payments would be on behalf of current and former welfare families as in the overall program—10 percent—and that percentage would be retained by the federal and state governments as reimbursement for welfare benefits. The federal share of such collections would be about $1 million a year.

Maintenance of Technical Assistance and Federal Parent-Locator Service Funding. Current law allows the Secretary of Health and Human Services to use 3 percent of the federal share of child support collections to fund technical assistance efforts and to operate the federal parent-locator service. Sections 7304 and 7305 would set a minimum funding level for those purposes equal to the 2002 level of $37 million. Because CBO projects that such payments will fall below $37 million in each year from 2006 to 2008 under the current formula, this provision would increase payments by $5 million over that period.

Several provisions of subtitle C would affect the amount of child support collections the federal government retains. Provisions reducing funding for the administration of the child support program and allowing states to share more of collections with families would lower the federal share of collections. New enforcement mechanisms would boost the federal share. The net effect of all the provisions of subtitle C would be to lower the federal share of collections by an increasing amount each year. Because funding for technical assistance is set at a percentage of collections, CBO estimates that implementing subtitle C of the act would lower funding for technical assistance by $1 million in 2010 and $21 million over the 2010-2015 period.

Comparison with Insurance Data. Section 7306 would authorize the Secretary to compare information on noncustodial parents who owe past-due child support with information maintained by insurers concerning insurance payments and to furnish any information resulting from the match to state agencies to pursue payments to pay overdue child support. States representing about one-third of child support collections currently participate in an existing system operated by the Child Support Lien Network that performs a similar function. CBO expects that, eventually, even without federal intervention, about half of the states would participate. Under the proposal, CBO expects all states would participate by 2009. Based on data for the existing program, CBO expects that collections would increase by $15 million annually when fully phased in and that half of those collections would be on behalf of current or former TANF families. The federal share of collections would be $10 million over the 2008-2010 period and $30 million over the 2008-2015 period. CBO estimates that implementing the program would raise the federal share of administrative costs by about $2 million in each of the years 2006 and 2007.

Requirement to Seek Medical Support from Either Parent. Currently, about half the states explore both parents' ability to provide health insurance when setting a child support order. Section 7307 would require all states to look to either parent or both parents to provide health insurance for their child. The policy would apply to child support orders that are issued or amended after enactment, so it would take effect gradually. Based on national survey data, CBO expects that the policy would result in additional private health insurance coverage for children and that, without that coverage, some of those children would receive Medicaid benefits. CBO estimates that private health coverage would be provided to nearly

200 children who would otherwise receive Medicaid benefits in 2006. That number would grow to more than 9,000 by 2015. Based on spending per child in the Medicaid program, CBO estimates that implementing this provision would reduce costs in the Medicaid program by an insignificant amount in 2006 and by $57 million over the 2006-2015 period.

Reduction in Funding for Paternity Tests. Section 7308 would lower the federal share of spending for laboratory costs incurred in determining paternity from 90 percent to 66 percent. The provision would take effect on October 1, 2006, and CBO estimates that it would reduce the federal share of administrative costs for child support by $28 million over the 2007-2010 period and by $63 million over the 2007-2015 period.

No Matching of State Expenditures of Incentive Payments. Each year, the Secretary of Health and Human Services awards incentive funds to high-performing states. Such payments totaled $450 million in 2004 and are expected to grow to $505 million by 2010. States are required to spend their incentive payments on child support activities. In 2008, the legislation would eliminate the federal match for child support spending that states finance with incentive payments.

If states do not adjust their own spending for the child support program in response to the policies, total funding for the program would fall by 15 percent in 2010. CBO expects that states would instead lessen the effect of the policies on total program spending by increasing state spending. That increased state spending would avoid half of the reduction in total spending that would occur if states were to make no change. CBO estimates that the federal share of administrative costs for child support would fall by about $1.8 billion over the 2008-2010 period and by $5.3 billion over the 2008-2015 period.

Child support funding is used to establish and enforce child support orders and collect money owed to families. CBO expects that lower spending on the child support program would lead to lower collections. The estimate assumes that the percentage decline in collections would equal half the percentage decline in total administrative spending. On that basis, CBO estimates that the federal share of collections would drop by $128 million over the 2008-2010 period and by $357 million over the 2008-2015 period because of reduced spending in the child support program.

Effect of Incentive Change on Other Policies. Reducing the federal share of child support administrative spending would also affect the costs and savings of other provisions of subtitle C. Specifically, they would change the budget effects of the proposals to distribute more collections to current and former TANF families. CBO expects that the reduction in administrative funding would cause some states to maintain their current policies rather than adopt optional policies to share more child support with families. CBO estimates that the

reduction would lower the net cost of those provisions by $74 million over the 2009-2010 period and by $329 million over the 2009-2015 period.

Annual Fee. Section 7310 would require states to impose an annual fee of $25 on each family that never received TANF benefits and for which the child support program collects at least $500 in a year. Based on child support administrative data, CBO estimates that implementing the fee would raise $265 million over the 2007-2010 period and $620 million over the 2007-2015 period. The money would be split between the federal and state governments based on their shares of administrative costs. The federal portion of the fee would be $172 million over the 2007-2010 period and $405 million over the 2007-2015 period.

Subtitle D: Child Welfare

Subtitle D of the bill would make authorizations and appropriations for court improvement grants, increase funds for the safe and stable families program, clarify eligibility for foster care and adoption assistance, and place limits on federal matching funds for certain administrative costs for foster care. CBO estimates that enactment of this subtitle would reduce expenditures for child welfare by $320 million over the 2006-2010 period and by $813 million over the 2006-2015 period (see Table 19).

Court Improvement Grants. This subtitle would authorize and appropriate $20 million per year for fiscal years 2006 through 2010 (for a total of $100 million) for grants to state courts aimed at improving the tracking of child abuse and neglect cases, and at training judges, attorneys, and other legal personnel in child welfare cases. CBO estimates that spending from these new grants would total $79 million over the 2006-2010 period and $100 million over the 2006-2015 period.

TABLE 19. ESTIMATED BUDGETARY EFFECTS OF TITLE VII, SUBTITLE D: CHILD WELFARE

	By Fiscal Year, in Millions of Dollars											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN DIRECT SPENDING												
Strengthening Courts												
Budget Authority	20	20	20	20	20	0	0	0	0	0	100	100
Estimated Outlays	4	16	19	20	20	16	4	1	0	0	79	100
Funding Safe and Stable Families												
Budget Authority	40	40	40	40	40	40	40	40	40	40	200	400
Estimated Outlays	7	31	37	40	40	40	40	40	40	40	155	355
Limit Federal Matching Funds for Certain Administrative Costs for Foster Care												
Estimated Budget Authority	-20	-36	-38	-39	-41	-43	-44	-46	-48	-50	-174	-405
Estimated Outlays	-20	-36	-38	-39	-41	-43	-44	-46	-48	-50	-174	-405
Clarify Eligibility for Foster Care and Adoption Assistance												
Estimated Budget Authority	-50	-84	-86	-88	-90	-92	-95	-97	-99	-102	-398	-883
Estimated Outlays	-42	-76	-84	-88	-90	-92	-94	-97	-99	-101	-380	-863
Total Changes												
Estimated Budget Authority	-10	-60	-64	-67	-71	-95	-99	-103	-107	-112	-272	-788
Estimated Outlays	-51	-65	-66	-67	-71	-79	-94	-102	-107	-111	-320	-813

Funding for Safe and Stable Families Programs. The subtitle would increase the authorization level for the Safe and Stable Families program, a portion of which is an entitlement to states. Under current law, the mandatory portion of that program is authorized through 2006 at $305 million. Subtitle D would increase that authorization level to $345 million. Because the Safe and Stable Families program is assumed to continue in CBO's baseline (under provisions of the Deficit Control Act), CBO estimates that this provision would increase mandatory budget authority by $40 million each year from 2006 through 2015, a total of $400 million. We estimate that these new authorizations would result in additional outlays of $155 million over the 2006-2010 period and $355 million through 2015.

Limitation of Matching Funds for Administrative Costs. Subtitle D would reduce states' claims for administrative expenses in cases when a child is placed in an ineligible home. Under current practice, some states claim administrative expenses for placements that are not licensed and eligible for the federal match. This provision would limit those claims to the

average time it takes for the state to license or approve a home as a foster home, but no longer than 12 months. Based on information from HHS, CBO estimates that this provision would reduce federal spending on foster care administration by $20 million in fiscal year 2006, $174 million for the 2006-2010 period, and $405 million for the 2006-2015 period.

Clarification of Eligibility. Finally, Subtitle D would reduce claims for federal foster care and adoption assistance payments in the states located within the 9th Circuit by clarifying the "home of removal" requirement. Under a ruling by the 9th Circuit Court of Appeals, states within that circuit (Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, and Washington) have broader latitude in determining eligibility when a child has lived with a relative outside the home from which he or she was removed by the court. Based on estimates from the HHS of the number of children who are likely to be affected, CBO estimates that enacting this provision would reduce payments for about 4,000 children each month, on average, reducing federal spending on child welfare by $380 million over the 2006-2010 period and by $863 million over the 2006-2015 period.

Subtitle E: Supplemental Security Income

Subtitle E would make two changes to the Supplemental Security Income program. It would require that a portion of adult disability determinations receive an extra review before benefits are awarded. It would also require the Social Security Administration to pay more SSI awards in installments rather than as a single lump sum. Together, these proposals would reduce direct spending by $712 million over the 2006-2010 period and $2.0 billion over the 2006-2015 period (see Table 20).

Pre-effectuation Reviews. Section 7501 would require SSA to conduct reviews of initial decisions to award SSI benefits to certain disabled adults. The legislation would direct the agency to review at least 20 percent of all favorable adult-disability determinations made by state-level Disability Determination Service (DDS) offices in 2006. That fraction would rise to 40 percent in 2007 and to 50 percent thereafter.

CBO anticipates that state DDS offices will approve between 370,000 and 400,000 adult disability applications for SSI benefits annually between 2006 and 2015. Based on recent data for similar reviews in the Social Security Disability Insurance program, CBO projects that by 2015, about 20,000 DDS awards would be overturned as a result of this provision, resulting in lower outlays for SSI and Medicaid. (In most states, SSI eligibility automatically confers entitlement to Medicaid benefits.) CBO estimates that this change would trim SSI benefits by $1 million and federal Medicaid outlays by $2 million in 2006. Over the 2006-2010 period, CBO estimates the provision would reduce SSI outlays by $93 million and

Medicaid spending by $194 million. Over the 2006-2015 period, the provision would reduce outlays by $1.5 billion.

TABLE 20. ESTIMATED BUDGETARY EFFECTS OF TITLE VII, SUBTITLE E: SUPPLEMENTAL SECURITY INCOME

	By Fiscal Year, in Millions of Dollars (Budget Authority and Outlays)											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN DIRECT SPENDING												
Require Pre-effectuation Reviews												
SSI	-1	-7	-18	-28	-39	-52	-53	-67	-76	-84	-93	-425
Medicaid	-2	-14	-35	-59	-84	-112	-139	-169	-201	-235	-194	-1,050
Subtotal	-3	-21	-53	-87	-123	-164	-192	-236	-277	-319	-287	-1,475
Pay More Retroactive Benefits in Installments												
SSI	-235	-130	-20	-20	-20	-20	-20	-25	-25	-25	-425	-540
Total Changes	-238	-151	-73	-107	-143	-184	-212	-261	-302	-344	-712	-2,015

NOTE: SSI = Supplemental Security Income.

Retroactive Benefits. Section 7502 would require more past-due benefits in the SSI program to be paid in installments. Past-due benefits occur chiefly because of the time necessary to consider disability applications. Those processing times typically take three to five months at the DDS level—much longer on appeal—so that a successful claimant is usually entitled to a large retroactive check.

Under current law, SSA divides such retroactive benefits into as many as three installments (paid at six-month intervals) when they total more than 12 times the maximum monthly SSI benefit. That maximum is $603 per month in 2006, so the current rule affects cases in which the initial amount exceeds $7,236. The legislation would tighten that rule to require installments whenever the retroactive benefit exceeds three times the monthly maximum, or $1,809 in 2006. As under current law, people with terminal illnesses or overdue debts for food, clothing, shelter, or medical care would be exempt from the installment requirement, as would amounts owed to states under SSI's "interim assistance reimbursement" program.

The provision would take effect three months after enactment. It would not affect total amounts paid to disabled claimants, but would stretch them out over a longer period. Based on the volume of SSI awards and their processing times, CBO estimates that the provision would reduce benefit outlays by $235 million in 2006 and $130 million in 2007. After that, savings would decline to $20 million to $25 million annually because similar amounts would be shifted from one year to the next. The savings would reduce outlays by $425 million over the 2006-2010 period and by $540 million over the 2006-2015 period.

Subtitle F: Repeal of Continued Dumping and Subsidy Offset

Antidumping and countervailing duty laws provide for the assessment of duties on imports that cause an injury to competing domestic industries. Antidumping duties are imposed on imports that are thought to be priced too low, and countervailing duties are imposed on imports that are thought to be subsidized by foreign governments. The Continued Dumping and Subsidy Offset Act of 2000 (CDOSA) requires that antidumping and countervailing duties collected by the federal government be distributed to the domestic producers affected by imported goods. The collection of duties is recorded in the federal budget as revenues, and the distribution of the duties is recorded as federal spending.

The reconciliation legislation would repeal the CDSOA, stopping the distribution of duties to the affected domestic industries. The repeal would be effective for duties collected starting in fiscal year 2008. CBO estimates that repealing the CDSOA would reduce direct spending by $300 million in 2010 and by $1.8 billion over the 2010-2015 period. The legislation would not affect direct spending in fiscal years 2006 through 2009 because we estimate that duties distributed in those years would be collected before fiscal year 2008 and therefore would still be distributed. Antidumping and countervailing duties would still be collected; therefore, enacting the legislation would not affect federal revenues.

TITLE VIII - EDUCATION AND PENSION BENEFIT PROVISIONS

S. 1932 would make numerous changes to federal higher education programs, including the student and parent loan programs, and to the premiums charged by the Pension Benefit Guaranty Corporation. CBO estimates that enacting the legislation would reduce federal outlays by $15.5 billion over the 2006-2010 period and by $29.5 billion over the 2006-2015 period (see Table 21).

TABLE 21. ESTIMATED BUDGETARY EFFECTS OF TITLE VIII OF S. 1932

	By Fiscal Year, in Millions of Dollars											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN DIRECT SPENDING												
Subtitle A: Education Provisions												
Estimated Budget Authority	-3,470	-2,645	-2,485	-2,435	-2,270	-3,370	-3,623	-3,880	-4,140	-4,205	-13,305	-32,523
Estimated Outlays	-3,525	-1,854	-2,196	-2,217	-2,135	-2,362	-3,298	-3,555	-3,805	-4,050	-11,927	-28,997
Subtitle B: Pension Benefit Guaranty Corporation Premiums												
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	-417	-576	-732	-879	-959	-923	-877	264	2,250	2,311	-3,564	-539
Total Changes												
Estimated Budget Authority	-3,470	-2,645	-2,485	-2,435	-2,270	-3,370	-3,623	-3,880	-4,140	-4,205	-13,305	-32,523
Estimated Outlays	-3,942	-2,430	-2,928	-3,096	-3,094	-3,285	-4,175	-3,291	-1,555	-1,739	-15,491	-29,536

Note: Section 8006 would change certain loan terms for the guaranteed loan program, although it appears that those provisions were intended to apply to both guaranteed and direct loans. If legislation is enacted to extend these changes to direct loans, the estimated savings would rise by $645 million over the 2006-2010 period and by $1.9 billion over the 2006-2015 period.

Changes in higher education programs would account for the largest portion of the savings ($11.9 billion over the first five years and $29.0 billion over the 10-year period—mostly for the student loan programs, which are measured on a subsidy-cost basis). The net savings from the changes in PBGC premiums and reimbursements, which are recorded as offsets to spending, would be about $3.6 billion over the 2006-2010 period and $0.5 billion over 2006-2015 period.

Provisions addressing the education programs (subtitle A) with significant budget effects include:

- Changing parent-loan interest rates and the formulas used to calculate lenders' yields;
- Imposing limits on when the separate formula for lenders' yields for loans supported with certain tax-exempt funding would apply;
- Changing the insurance provided to lenders and the fees charged by lenders;

- Eliminating mandatory funding of administrative expenses (except the account maintenance fee for guaranty agencies) for student financial assistance activities;
- Reducing borrowers' origination fees and requiring collection of a 1 percent fee from guaranty agencies;
- Increasing the loan limits for first-year, second-year, and graduate students, as well as allowing graduate students to borrow under the parent-loan program;
- Cancelling the repayment of student loans for certain teachers; and
- Establishing two new grant programs that would supplement the Pell Grant program during the 2006-2010 period.

The major provisions affecting the PBGC (subtitle B) would increase premiums in both the single-employer and multiemployer programs, and impose a new charge on former plan sponsors if the PBGC had taken on their pension plans as a result of bankruptcy or had initiated termination.

Subtitle A: Education Provisions

Subtitle A contains some provisions that would reduce direct spending and others that would increase costs. On net, these changes would reduce outlays by $3.5 billion in 2006, $11.9 billion during the 2006-2010 period, and $29.0 billion over the 2006-2015 period.

The costs of the student loan programs are included in CBO's baseline, reflecting the assumption that the authorization for the existing loan programs is extended. Specifically, section 257 of the Balanced Budget and Emergency Deficit Control Act requires that certain types of expiring programs be assumed to continue for the purposes of baseline projections. The amounts shown in the budget for the student loan programs are governed by the requirements of the Federal Credit Reform Act of 1990. As such, the budget records the present value of all the costs and collections associated with a new loan as budget authority in the year in which the loan is obligated and as outlays when it is disbursed. The costs of all changes affecting outstanding loans are displayed in the fiscal year in which the legislation is enacted.

Major Education Provisions That Decrease Spending. The major changes in subtitle A that would decrease direct spending include new formulas for lenders' yields, a higher interest rate for parent borrowers, a new fee on the guaranty agencies, a reduction in mandatory funding for administrative payments, and reduced insurance for lenders. CBO

estimates that savings from these changes would total $4.0 billion in 2006, $20.3 billion over five years, and $47.9 billion over 10 years, mostly in the guaranteed loan program (see Table 22).

Borrowers' Interest Rates and Lender-Yield Formulas. The bill would change some of the formulas used to compute what borrowers owe to lenders and what lenders receive from or pay the government under the guaranteed loan program. Under current law, borrowers' rates on new student and parent loans are scheduled to switch from a variable-rate formula to a fixed rate (6.8 percent for students and 7.9 percent for parents) in July 2006; the act would raise the fixed rate for parent loans under the guaranteed loan program to 8.5 percent. (Information from committee staff indicates that the intent had been to apply this higher rate to parent loans under the direct loan program as well, but the legislation did not include the necessary conforming language.)

The lender-yield formulas for student and parent loans would continue to be based on a variable-rate formula, but the act would no longer allow the borrowers' rates to serve as the minimum for the lender yield. Under current law, lenders receive the higher of the lender-yield formula or the rate paid by borrowers, but the legislation would require lenders to rebate the difference between the two rates to the government when the borrowers' rate is higher.

The combination of these changes to borrowers and lenders would save an estimated $14.3 billion over the 2006-2010 period and $34.4 billion through 2015. (If the conforming changes necessary to change the borrowers' rate for direct parent loans were enacted, the savings would be $15.0 billion and $36.3 billion for those respective periods.)

Changes in "9.5 Percent" Loans. Another change in the payment formulas for lenders would affect loans that are funded with financing based on tax-exempt bonds issued between 1980 and 1993. Historically, these loans have had a different formula for determining payments to lenders. Specifically, the formula for the special allowance payments to the holders of these loans was 50 percent of the sum of the 91-day Treasury bill rate plus 3.5 percentage points or 9.5 percent, whichever was higher. In recent years, the 9.5 percent rate was higher. Consequently, these have come to be referred to as "9.5 percent" loans.

TABLE 22. ESTIMATED BUDGETARY EFFECTS OF TITLE VIII, SUBTITLE A - EDUCATION

	By Fiscal Year, in Million of Dollars											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN DIRECT SPENDING												
Major Provisions Reducing Spending												
Changes in Borrowers' Interest Rates and Lenders' Yields												
Estimated Budget Authority	-3,325	-2,935	-3,320	-3,620	-3,870	-4,105	-4,340	-4,580	-4,825	-4,910	-17,070	-39,830
Estimated Outlays	-2,710	-2,290	-2,840	-3,130	-3,365	-3,580	-3,790	-4,010	-4,230	-4,455	-14,335	-34,400
Changes to Certain Loans Financed with Tax-Exempt Bonds												
Estimated Budget Authority	-930	-265	-265	-270	-270	-275	-280	-290	-290	-290	-2,000	-3,425
Estimated Outlays	-805	-235	-235	-235	-240	-245	-245	-250	-255	-265	-1,750	-3,010
Changes in Borrowers' Insurance Premiums and Guaranty Agency Fees												
Estimated Budget Authority	-220	-330	-280	-305	-335	-365	-395	-430	-470	-500	-1,470	-3,630
Estimated Outlays	-220	-330	-280	-305	-335	-365	-395	-430	-470	-500	-1,470	-3,630
Changes in Lender Insurance												
Estimated Budget Authority	-265	-70	-75	-80	-80	-85	-90	-90	-95	-100	-570	-1,030
Estimated Outlays	-245	-55	-65	-70	-70	-75	-75	-80	-85	-85	-505	-905
Eliminate Mandatory Funding for Administrative Costs												
Estimated Budget Authority	-13	-646	-665	-684	-705	-724	-744	-766	-789	-812	-2,713	-6,548
Estimated Outlays	17	-345	-549	-640	-689	-709	-730	-750	-773	-795	-2,206	-5,963
Subtotal												
Estimated Budget Authority	-4,753	-4,246	-4,605	-4,959	-5,260	-5,554	-5,849	-6,156	-6,469	-6,612	-23,823	-54,463
Estimated Outlays	-3,963	-3,255	-3,969	-4,380	-4,699	-4,974	-5,235	-5,520	-5,813	-6,100	-20,266	-47,908
Major Provisions Increasing Spending												
Changes in Borrower Origination Fees												
Estimated Budget Authority	275	675	1,040	1,415	1,815	2,015	2,065	2,120	2,180	2,235	5,220	15,835
Estimated Outlays	160	465	795	1,120	1,460	1,695	1,785	1,830	1,885	1,930	4,000	13,125
Increased Loan Limits												
Estimated Budget Authority	-5	305	515	530	555	575	595	615	630	655	1,900	4,970
Estimated Outlays	-5	175	395	465	480	500	515	535	550	565	1,510	4,175
Academic Competitiveness and SMART Grants												
Budget Authority	790	850	920	960	1,010	0	0	0	0	0	4,530	4,530
Estimated Outlays	190	789	866	928	970	768	20	0	0	0	3,742	4,530
Subtotal												
Estimated Budget Authority	1,060	1,830	2,475	2,905	3,380	2,590	2,660	2,735	2,810	2,890	11,650	25,335
Estimated Outlays	345	1,429	2,056	2,513	2,910	2,963	2,320	2,365	2,435	2,495	9,252	21,830

(Continued)

TABLE 22. Continued.

	By Fiscal Year, in Millions of Dollars											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
Other Provisions with Measurable Effects												
Estimated Budget Authority	341	79	26	26	46	59	68	76	71	76	518	868
Estimated Outlays	182	189	54	21	46	59	71	74	74	79	492	849
Interaction Effects												
Estimated Budget Authority	-118	-308	-381	-407	-436	-465	-502	-535	-552	-559	-1,650	-4,263
Estimated Outlays	-89	-217	-337	-371	-392	-410	-454	-474	-501	-524	-1,406	-3,769
Total Changes												
Estimated Budget Authority	-3,470	-2,645	-2,485	-2,435	-2,270	-3,370	-3,623	-3,880	-4,140	-4,205	-13,305	-32,523
Estimated Outlays	-3,525	-1,854	-2,196	-2,217	-2,135	-2,362	-3,298	-3,555	-3,805	-4,050	-11,927	-28,997

Legislation in 2004 modified the policy for most new loans from tax-exempt lenders for the period from October 2004 to December 2005, changing the lender formula to conform to the rates paid to other lenders. Legislation enacted in December 2005 extended that policy through the end of March 2006. Under current law, the formula on new loans beginning in April 2006 will revert back to the pre-October 2004 structure, which would again establish the 9.5 percent minimum rate for such loans. S. 1932 would not only extend current law, but also expand it by eliminating most lenders' ability to make new loans from the repayments of old 9.5 percent loans. This act provides an exception for nonprofit agencies with less than $100 million of outstanding 9.5 percent loans, which could continue issuing such loans for five years. The act's changes with regard to "9.5 percent" loans would save an estimated $1.8 billion over the 2006-2010 period and $3.0 billion over the 2006-2015 period.

Borrowers' Insurance Premiums and Guaranty Agencies' Fees. Under current law, guaranty agencies may charge student and parent borrowers of guaranteed loans an insurance premium of up to 1 percent. Those premiums appear in the federal budget as offsetting collections in the student loan reserve account. In recent years, many agencies have waived part or all of the premium, thereby reducing these receipts, which are reflected in the budget as offsets to direct spending. The legislation would require the agencies to pay the 1 percent fee into the reserve account from their nonfederal resources; they would have the option of charging the borrowers some or all of the fee.

CBO estimates that the net effect of these changes, which would become effective on July 1, 2006, would reduce direct spending by $1.5 billion over the 2006-2010 period and by $3.6 billion over the 2006-2015 period.

Federal Lender Insurance. The legislation would reduce the portion of defaulted loans for which lenders are reimbursed. Under current law, lenders are generally reimbursed for 98 percent of the outstanding balances on loans that go into default. Lenders who meet certain requirements are classified as exceptional lenders, and they receive 100 percent insurance.

The legislation would reduce the 98 percent insurance level to 97 percent, and would drop the insurance rate for exceptional lenders from 100 percent to 99 percent. CBO estimates that these changes would reduce outlays by $505 million over the 2006-2010 period and by $905 million through 2015.

Eliminating Mandatory Funding for Administrative Costs. The act would eliminate mandatory funding for the federal costs of administering the student loan programs beginning in 2007. CBO estimates that this would reduce direct spending by $2.2 billion over the 2006-2010 period and by $6.0 billion through 2015.

Section 458 of the Higher Education Act currently provides permanent indefinite funding authority for the Secretary of Education to operate the federal student loan programs. (In fact, because the overall federal student assistance system relies on a common application, some of these funds support administration for non-loan programs as well.) For its baseline, CBO estimates costs for these activities in two ways. For the administrative activities such as processing of applications, servicing outstanding loans, and collecting on delinquent loans, the costs in future years are estimated by inflating the most recent year's actual spending. The account maintenance fees paid to guaranty agencies (equal to 0.1 percent of loan volume) are projected based on CBO's forecasts of outstanding loan volume.

Under this legislation, the administrative expenses would be capped at $600 million in 2006, $33 million below the CBO baseline estimate. The account maintenance fees paid from the account would be capped at $220 million in 2006, with the rest of the fees being paid out of another federal account—the student loan reserve account. Beginning in 2007, mandatory funding for the federal administrative functions would cease, but mandatory funding under section 458 would fully cover the payments to the guaranty agencies. (The Department of Education would continue to incur administrative costs, but they would have to be funded from discretionary appropriations. The added discretionary costs might offset most or all of the mandatory savings.)

Major Education Provisions Increasing Spending. The provisions in subtitle A that would result in the largest increases in spending are changes to origination fees paid by borrowers, increases in loan limits, and funding for two new programs to supplement the Pell Grant program. CBO estimates that these provisions would cost $9.3 billion over the 2006-2010 period and $21.8 billion over the 2006-2015 period.

Borrowers' Origination Fees. The legislation would reduce borrowers' origination fees for both subsidized and unsubsidized student loans. Currently, origination fees for guaranteed loans are 3.0 percent (there is also an insurance premium of up to 1.0 percent). In the direct loan program, the origination fee is also 3.0 percent (although in practice, the Department of Education generally charges 1.5 percent up front and another 1.5 percent if the borrower fails to make timely payments).

Origination fees for student borrowers in the guaranteed loan program would drop to 2.0 percent in July 2006, 1.5 percent in July 2007, 1.0 percent in July 2008, and 0.5 percent in July 2009 under the legislation. Origination fees for student borrowers in the guaranteed loan program would be completely eliminated in July 2010. Fees in the direct loan program would be phased down from 3.0 percent to 1.0 percent over the 2007-2010 period. CBO assumes that, under the Secretary's discretion, half of the fees would be charged up front and the other half would be added to the outstanding principal of the loan if the borrower fails to make timely payments. CBO estimates that these changes would increase outlays by $4.0 billion over the 2006-2010 period and by $13.1 billion over the 2006-2015 period.

Increased Loan Limits. The legislation would increase the maximum amount of subsidized loans for first- and second-year students from $2,625 and $3,500, respectively, to $3,500 and $4,500. In addition, the legislation would increase the limit for unsubsidized loans for each year of graduate school from $10,000 to $12,000. CBO assumes that the Department of Education would adjust the aggregate borrowing limits for graduate loans to conform to the latter changes so the limit on unsubsidized loans for most borrowers would be increased by $10,000. These increases would be effective beginning July 2007. Graduate students also would be permitted to borrow through the parent-loan program beginning in July 2006. In addition, students who require further undergraduate course work to qualify for a graduate program or to gain a professional license or certification would be eligible for higher borrowing levels. CBO estimates that these increases would boost aggregate student loan borrowing from both the direct and guaranteed loan programs, and as a result, would increase direct spending by $1.5 billion over the 2006-2010 period and by $4.2 billion over the 2006-2015 period.

Academic Competitiveness and National Science and Mathematics Access to Retain Talent (SMART) Grant Programs. The legislation would appropriate $790 million in 2006 and $4.5 billion over the 2006-2010 period for Academic Competitiveness Grants and for National Science and Mathematics Access to Retain Talent (SMART) Grants. CBO estimates that outlays would total $3.7 billion between 2006 and 2010 and $4.5 billion over the 10-year period. Both programs would sunset at the end of fiscal year 2010.

In order to be eligible for either grant program, a student would have to be a U.S. citizen who is eligible for a Pell Grant and attending school full-time. The Academic Competitiveness

Grants would provide a grant to any student meeting these criteria who also has completed a rigorous high school curriculum and is in his or her first or second academic year at a two-year or four-year institution of higher education. In order to be eligible in the second academic year, a student would need to maintain a 3.0 grade point average. First-year students would be eligible for $750 and second-year students would be eligible for $1,300.

SMART Grants would provide $4,000 to any student meeting the underlying requirements who is in his or her third or fourth year at a four-year institution of higher education and is pursuing a degree in physical, life, or computer sciences, mathematics, technology, or engineering (as determined by the Secretary of Education) or a foreign language deemed critical to U.S. security. Students would need a 3.0 grade point average in their major curriculum to be eligible for the award.

Based on data from the Department of Education, CBO estimates that in 2006 approximately 390,000 students would qualify for Academic Competitiveness Grants and about 110,000 would qualify for SMART Grants. If the current Pell Grant maximum award level of $4,050 were maintained, that total would rise over time, particularly as more students graduate from high school programs that meet certain requirements.

Other Provisions With Measurable Effects. The legislation contains numerous provisions that would have much smaller budgetary effects than those described above. Among them are changes in loan cancellation programs, eligibility for interest deferments, eligibility for default resolution through debt consolidation or loan rehabilitation, and repayment options. The act also would expand eligibility for loans by eliminating certain restrictions on distance learning and on students convicted of drug offenses. Other provisions with some estimated budget effects during the 2006-2010 period include changes in the expected financial contributions of parents, in the income protection allowance for students, and in the disbursement requirements for certain loans for schools with low default rates. Taken together, CBO estimates that these provisions would cost $492 million over the 2006-2010 period and $849 million over the 2006-2015 period.

Interactions Among Education Provisions. The overall reductions in direct spending that subtitle A would yield are significantly larger than the sum of the individual provisions because many of those provisions interact. For example, the changes in lenders' yields and borrowers' interest rates save even more when the increased loan volume from the changes in loan limits is considered. However, those same loan limit increases boost the costs of the provisions that reduce borrowers’ fees. On balance, the interactions among the various provisions would generate additional estimated savings of $1.4 billion over the 2006-2010 period and $3.8 billion over the 2006-2015 period.

Subtitle B: Pension Benefit Guaranty Corporation Premiums

The legislation would increase the per-participant premiums charged to sponsors of defined-benefit pension plans, as well as institute a new premium, which would be charged to sponsors whose plans are terminated as a result of an involuntary or distress termination. These premium receipts, which are shown in the budget as offsets to direct spending, would total about $3.6 billion over the 2006-2010 period and $7.9 billion over the 2006-2015 period. The higher premium receipts would eliminate the need for the PBGC to increase the rate at which it draws down the reserves of the pension plans for which it is responsible. Consequently, transfers from those reserves, which are recorded as offsets to spending, would decline by $7.4 billion during the 2013-2015 period, thereby reducing the net 10-year savings to about $0.5 billion. Components of these estimated changes are shown in Table 23 and are discussed below.

TABLE 23. ESTIMATED BUDGETARY EFFECTS OF TITLE VIII, SUBTITLE B: PENSION BENEFIT GUARANTY CORPORATION PREMIUMS

	Outlays in Millions of Dollars, by Fiscal Year											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN DIRECT SPENDING												
Increase in Flat-Rate Premiums for Single-Employer Plans	-327	-414	-448	-517	-552	-586	-655	-690	-759	-828	-2,257	-5,774
Increase in Flat-Rate Premiums for Multiemployer Plans	-54	-54	-64	-64	-64	-74	-74	-84	-84	-84	-300	-700
Premiums for Certain Terminated Single-Employer Plans	-36	-109	-220	-298	-343	-263	-148	-30	0	0	-1,007	-1,448
Subtotal, Pensions	-417	-576	-732	-879	-959	-923	-877	-804	-843	-912	-3,564	-7,921
Changes in Transfers from PBGC's Nonbudgetary Trust Fund	0	0	0	0	0	0	0	1,068	3,092	3,222	0	7,382
Total Changes	-417	-576	-732	-879	-959	-923	-877	264	2,250	2,311	-3,564	-539

NOTE: PBGC = Pension Benefit Guaranty Corporation.

Increase in Flat-Rate Premium for Single-Employer Plans. Under current law, sponsors of single-employer, defined-benefit pension plans insured by the PBGC are required to pay the agency a premium of $19 per participant. The legislation would increase the flat-rate premium to $30 per participant in 2006 and index it to wage growth starting in 2007. Under CBO's projections of wage growth, the premium rate for all single-employer plans would rise to approximately $35 per participant in 2010 and $43 in 2015.

About 35 million people currently participate in tax-qualified, single-employer pension plans. This figure includes active workers, former workers who are vested but have not started collecting retirement benefits, and annuitants. The number of participants in single-employer plans insured by the PBGC has remained nearly constant for the past decade, and CBO assumes it would remain steady for the next 10 years.

The current premium of $19 per participant generates about $650 million in premium income annually for the PBGC. CBO estimates that changes to the flat-rate premiums made by the legislation would increase premium payments by $2.3 billion over the 2006-2010 period and by $5.8 billion over the 2006-2015 period. Because the PBGC's premiums are recorded as offsetting collections to a mandatory spending account, an increase in premium collections is reflected in the budget as a decrease in direct spending.

Increase in Flat-Rate Premium for Multiemployer Plans. Under current law, sponsors of multiemployer pension plans insured by the PBGC are required to pay the agency a premium of $2.60 per participant. The legislation would increase the flat-rate premium to $8.00 per participant in 2006 and index it to wage growth starting in 2007. Under CBO's assumptions about wage growth, the premium rate for all single-employer plans would rise to approximately $9 per participant in 2010 and $11 in 2015.

Nearly 10 million people currently participate in tax-qualified, multiemployer pension plans. This figure includes active workers, former workers who are vested but have not started collecting retirement benefits, and annuitants. The number of participants in multiemployer plans insured by the PBGC has remained nearly constant for the past decade, and CBO assumes it would remain steady for the next 10 years.

The current premium of $2.60 per participant generates roughly $25 million in premium income annually for the PBGC. CBO estimates that changes to the flat-rate premiums made by the legislation would increase receipts by $0.3 billion over the 2006-2010 period and by $0.7 billion over the 2006-2015 period.

Premiums for Certain Terminated Single-Employer Plans. The legislation would create a new premium for sponsors of plans that are terminated on an involuntary or distressed-termination basis. The required payments would be $1,250 per plan participant, per year, for

three years after the termination. For sponsors whose plans were terminated while the program was being reorganized under chapter 11 of the bankruptcy code, the premium would be levied after the sponsor emerges from bankruptcy. The premium would not apply to firms that are liquidated by a bankruptcy court or to terminations after December 2010. CBO estimates that collections from these new premiums would total about $1.0 billion over the 2006-2010 period and $1.4 billion over the 2006-2015 period.

Based on recent PBGC data on terminations, CBO estimates that underfunded plans with about 120,000 participants will be terminated each year over the next five years; three-quarters of those terminations will involve nonliquidation bankruptcy filings. CBO assumes that each year's bankruptcy cases will emerge from bankruptcy over several years following the filing date. The annual income from the new premium would grow rapidly during the first few years because of the likely timing of sponsors emerging from bankruptcy, but would diminish quickly after the sunset of the provision at the end of 2010.

Transfers from PBGC's Nonbudgetary Trust Fund. The PBGC's assets are held in two separate funds: an on-budget revolving fund and a nonbudgetary trust fund.[3] The on-budget fund receives premium payments and makes outlays for benefit payments and administrative costs. The nonbudgetary trust fund holds assets from terminated plans until they are needed to help pay for benefits and other expenses. The PBGC makes periodic transfers from the nonbudgetary fund to the on-budget fund, where they are used to cover about half of all benefit payments and most of the PBGC's administrative costs. As with premiums, these transfers are offsetting collections to a mandatory account, and thus are reflected in the budget as offsets to outlays.

In CBO's current-law projections, the PBGC's increasing liabilities and steady premium income will cause the agency's on-budget fund to be completely exhausted in about 2013. No precedent exists for how the PBGC would proceed if its on-budget fund is depleted. However, CBO assumes that the agency would cover its expenses by increasing the percentage of benefits and other expenses being paid through transfers from its nonbudgetary trust fund, thus increasing offsetting collections above what they would have been if the fund had remained solvent.

CBO estimates the increases in premium receipts resulting from the bill would cause the on-budget fund to remain solvent beyond 2015. Because the legislation would improve the finances of the on-budget fund, the PBGC would not need to increase the amounts transferred from the nonbudgetary fund to help cover benefit payments and other expenses during the 10-year projection period. By allowing the on-budget fund to remain solvent through the

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3. The PBGC has several different on-budget revolving funds and two nonbudgetary trust funds. For simplicity in budgetary presentation, CBO combines the various on-budget and nonbudgetary funds into just two funds.

next decade, the legislation would reduce those transfers by $7.4 billion over the 2013-2015 period. Because this change would reduce an offset to mandatory spending, it would result in a net increase in such spending.

TITLE IX - LIHEAP PROVISIONS

Title IX would appropriate $1 billion for 2007 for the Low-Income Home Energy Assistance Program of the Department of Health and Human Services. These funds would supplement regular appropriations for the program. Of the $1 billion, $250 million would be obligated as a basic formula grant for states to provide energy assistance for low-income households, and $750 million would be provided as additional energy assistance for emergency needs. CBO estimates that all of the basic formula grants would be obligated and expended, but that only one-half of the emergency funds would be released before the end of 2007 when the authority to obligate the money would expire. CBO estimates that enacting title IX would result in outlays of $469 million in 2007 and $625 million over the 2007-2009 period.

TITLE X - JUDICIARY-RELATED PROVISIONS

Title X would increase certain civil filing fees for parties appearing before a U.S. District Court by $100 and by $200 for those appearing before a U.S. Court of Appeals. The legislation also would increase filing fees for individuals seeking Chapter 7 or Chapter 13 bankruptcy relief by $25 and $85, respectively. CBO estimates that enacting the legislation would increase offsetting receipts (a credit against direct spending) by $474 million over the 2006-2010 period and by about $1 billion over the 2006-2015 period (see Table 24).

Civil Filing Fees

The act would increase the filing fees that parties pay to seek action by a U.S. District Court or a U.S. Court of Appeals. To file a civil action before a U.S. District Court under the bill, a party would pay a $350 fee, an increase of $100 above the current fee. Similarly, the fee to file a case before a Court of Appeals would total $450, an increase of $200. Under current law, those collections are recorded as offsetting receipts and spent by the judiciary without further appropriation action. Under the legislation, however, the increase in those fees would be deposited into a special fund in the Treasury and would not be available for spending unless so specified in an appropriation act.

TABLE 24. ESTIMATED BUDGETARY EFFECTS OF TITLE X OF S. 1932

	By Fiscal Year, in Millions of Dollars											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN DIRECT SPENDING												
Civil Filing Fees												
Estimated Budget Authority	-19	-37	-37	-37	-37	-37	-37	-37	-37	-37	-167	-352
Estimated Outlays	-19	-37	-37	-37	-37	-37	-37	-37	-37	-37	-167	-352
Bankruptcy Fees [a]												
Estimated Budget Authority	-31	-69	-69	-69	-69	-69	-69	-69	-69	-69	-307	-652
Estimated Outlays	-31	-69	-69	-69	-69	-69	-69	-69	-69	-69	-307	-652
Total Changes												
Estimated Budget Authority	-50	-106	-106	-106	-106	-106	-106	-106	-106	-106	-474	-1,004
Estimated Outlays	-50	-106	-106	-106	-106	-106	-106	-106	-106	-106	-474	-1,004

a. The bankruptcy fee provision in section 10002(a)(2) of title X has an incorrect reference to a section of the U.S. Code. The table shows estimated savings for the text of the conference report as filed. No additional fee collections would occur under section 10002(a)(2) unless the reference is corrected. If the correction were made, CBO would estimate additional collections of $68 million over the 2006-2010 period and $143 million over the 2006-2015 period.

Based on the number of recent District Court and Court of Appeals filings, CBO estimates that the fees would apply to 250,000 and 60,000 cases, respectively, per year. Thus, CBO estimates that enacting the legislation would increase offsetting receipts by a total of $19 million for part of fiscal year 2006 and by $37 million annually thereafter.

Bankruptcy Fees

The act also would increase the fees individuals pay to seek relief under Chapter 7 (liquidation) and Chapter 13 (wage-earner reorganization) bankruptcy laws. Under current law, the Chapter 7 fee is $220 and the Chapter 13 fee is $150. Those fee collections are divided among the U.S. Trustee System Fund (recorded as an offsetting collection), the judiciary (recorded in the federal budget as an offsetting receipt and spent without further appropriation action), the private trustee assigned to the Chapter 7 case, and the general fund of the Treasury (recorded as a governmental receipt, or revenue).

The legislation would increase the Chapter 7 filing fee to $245 and the Chapter 13 fee to $235. The increase in those fees would not be distributed as under current law. Rather, the

increase in the fees would be recorded as an offsetting receipt in the federal budget and deposited into a special fund in the Treasury; it would not be available for spending unless so provided in an appropriation act. CBO estimates that the filing fees under the act would apply to about 1.1 million Chapter 7 cases and almost 500,000 Chapter 13 cases annually. Thus, CBO estimates that enacting the legislation would increase offsetting receipts by a total of $31 million for a portion of fiscal year 2006 and by $69 million annually thereafter.

CBO could not estimate additional collections for a proposed increase in the Chapter 11 filing fee. Under current law, the Chapter 11 fee is $1,000. Section 10002(a)(2) of title X contains an incorrect reference to a section of the U.S. Code. The language would amend Chapter 9 (municipal) bankruptcy instead of Chapter 11 (reorganization). No additional fee collections would occur under section 10002(a)(2) in its current form. If that reference is corrected (in subsequent legislation), CBO estimates that additional fee collections would total $68 million over the 2006-2010 period and $143 million over the 2006-2015 period.

PREVIOUS CBO ESTIMATES

On November 8, 2005, CBO transmitted a letter with tables summarizing the estimated effects on direct spending of S. 1932, the Deficit Reduction Omnibus Reconciliation Act of 2005, as passed by the Senate on November 3, 2005. During October 2005, CBO transmitted detailed cost estimates for individual titles of S. 1932 as approved by the eight committees that submitted reconciliation recommendations to the Senate Committee on the Budget (see www.cbo.gov – a link to "Cost estimates for reconciliation legislation" appears on the Web site home page).

On November 18, 2005, CBO transmitted a letter with tables summarizing the estimated effects on direct spending of H.R. 4241, the Deficit Reduction Act of 2005, as passed by the House of Representatives on November 18, 2005. CBO also transmitted detailed cost estimates for the individual components of H.R. 4241, as approved and submitted to the House Committee on the Budget by eight committees in the House (see www.cbo.gov).

The conference agreement for S. 1932 reflects several changes from the version of S. 1932 originally passed by the Senate and from H.R. 4241, as originally passed by the House. Differences between this estimate and CBO's previous cost estimates for S. 1932 and H.R. 4241 reflect the impact of those changes. In addition, CBO has updated its estimates to reflect an assumed enactment date in early February 2006. Our previous estimates assumed enactment in December 2005.

CBO has revised the estimated savings from the student loan changes included in title VIII, subtitle A, to reflect recent legislation and to correct an error. The revised estimate of net

savings over the 2006-2010 period is $11.9 billion. Two laws were enacted that affect the estimated cost of provisions in S. 1932. First, Public Law 109-149, the Departments of Labor, Health and Human Services, and Education, and Related Agencies Appropriations Act, 2006, funded the Pell Grant program for the 2006-2007 academic year. Any change in the Pell Grant program for academic year 2006-2007 that was enacted after the appropriation act would be considered direct spending. This act contains several provisions that would affect eligibility for Pell grants for academic year 2006-2007. Those changes add $145 million in 2006 budget authority and would increase outlays by $35 million in 2006 and by $145 million over the 2006-2010 period, CBO estimates.

Public Law 109-150, the Second Higher Education Extension Act of 2005, extended the provisions included in the Taxpayer Teacher Act of 2004 that would restrict the use of 9.5 percent loans through March 31, 2006. The law also extended the loan forgiveness provisions in the Taxpayer Teacher Act to include new student loan borrowers through June 2007. Both of those provisions are also included in this act. Because they have already become law, they would no longer result in additional savings. That change reduced savings by $45 million in 2006 and by $5 million over the 2006-2010 period.

CBO has also corrected a mistake in an earlier CBO cost estimate related to section 8006, which would change the interest rate from 7.9 percent to 8.5 percent for parent loans made in the guaranteed student loan program. On October 24, 2005, CBO transmitted a cost estimate for the reconciliation recommendations approved by the Senate Committee on Health, Education, Labor, and Pensions. That earlier estimate had incorporated savings assuming that loans in both the guaranteed and direct loan programs would be affected. However, it has subsequently become clear that the change applies only to guaranteed loans. CBO's earlier estimate included savings in the direct loan program of $55 million in 2006 and $645 million over the 2006-2010 period.

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