HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200

December 22, 2005

Summary and Analysis of Reconciliation Conference Report

This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and may not necessarily reflect the views of all members.

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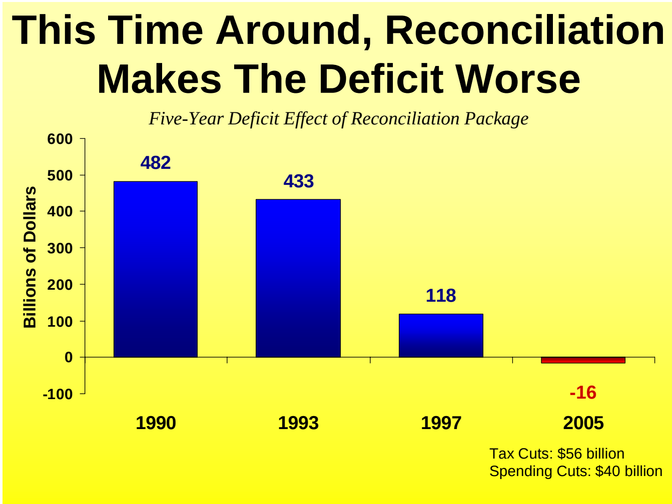
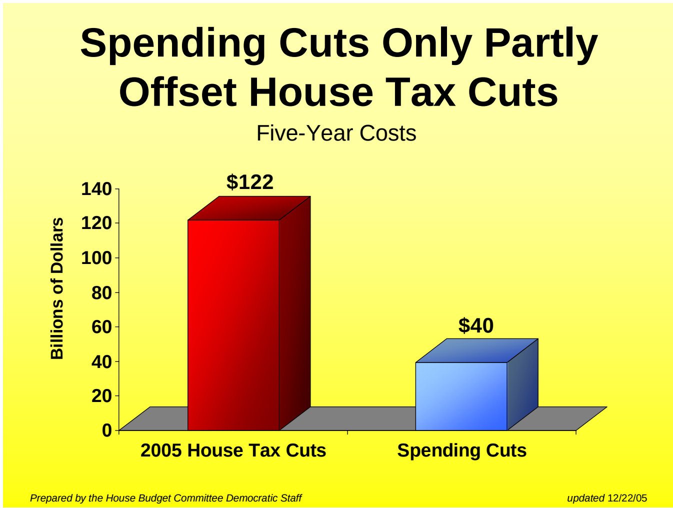
Overview

The conference report on the spending reconciliation bill, S. 1932, cuts spending by $39.7 billion over five years from a number of programs, including Medicaid, student loans, child support enforcement, and Medicare. The conference report was approved by the House on December 19, and the Senate approved it on December 21 by a vote of 51-50, with Vice President Cheney casting the tie-breaking vote. However, the version passed by the Senate is not identical to the House-passed version, because three provisions were dropped from the bill during Senate consideration as a result of a point of order prohibiting the inclusion of non-budgetary provisions. As a result, the legislation cannot be enacted without another vote by the House.



Reconciliation Plans Increase the Deficit — Though Republicans claim that this bill will reduce the deficit, it has the opposite effect. It will actually increase the deficit. The reconciliation spending plan is part of a fast-track process pairing spending cuts with even larger tax cuts, producing a net increase in the deficit. This year's budget resolution calls for $106 billion in tax cuts over the next five years – with up to $70 billion of these cuts protected under fast-track reconciliation procedures. In fact, the House has passed tax cuts this year exceeding even this total – $122 billion in all. Thus, despite the reconciliation bill's title ("Deficit Reduction Act of 2005"), its purpose is not to reduce the deficit, but rather to facilitate passage of and partially offset the cost of tax cuts.



Spending Cuts Threaten Important Services — To help finance more tax cuts, this bill cuts funding for a number of key services. Although the impact of these cuts on the budget's bottom line will be relatively small – given more than $100 billion in new tax cuts and annual budget deficits of more than $300 billion – the cuts will have a harmful impact on many Americans. The programs cut include:

- **Medicaid and SCHIP —** The conference report cuts Medicaid and the State Children's Health Insurance Program (SCHIP) by $6.9 billion over five years, including harmful increases in cost-sharing and premiums, tightened asset rules governing eligibility for long-term care, and other benefit cuts.

- **Student Loans** — The conference report includes $12.7 billion over five years in funding reductions to student loans, including higher fees on students, higher interest rates on parent loans, elimination of mandatory spending to administer higher education programs, and cuts in lender subsidies.
- **Medicare** — The conference report cuts Medicare spending by $6.4 billion**,** in part by increasing Part B premiums for certain Medicare beneficiaries, while leaving in place unnecessary payments to private health plans.
- **Child Support Enforcement and Other Safety Net Programs** — The conference report cuts $2.6 billion from programs serving single-parent families, foster children, and low-income elderly and disabled individuals. These cuts consist of $1.5 billion from child support enforcement, $343 million from foster care programs, and $732 million from Supplemental Security Income for the elderly and disabled.

Reconciliation Highlights

Billions of Dollars, 2006-2010	Conference Report
Student Loans	-12.7
Medicare	-6.4
Spectrum	-7.4
Medicaid and SCHIP	-6.9
Katrina Health Care Relief	+2.1
Pension Insurance	-3.6
Farm & Conservation Programs	-2.7
MILC Extension	+1.0
Child Support: Incentive Payments & Other Provisions	-1.5
Byrd Amendment	-0.3
LIHEAP	+0.6

Democrats Support Fiscal Responsibility — We have a strong track record on fiscal responsibility. In the 1990s, President Clinton and Democrats in Congress worked together to move the budget from record deficits to record surpluses. Earlier this year, Ranking Member Spratt offered a budget that balanced by 2012, while the Republican budget never reaches balance, even with these reconciled changes. Our caucus also supports reinstatement of the effective pay-as-you-go (PAYGO) rule that helped take the budget from record deficits in the early 1990s to a $236 billion surplus just five short years ago.

> On December 21, the Senate upheld a Byrd rule point of order against the following provisions, which are now stricken from the conference report:
>
> Medicaid – Limits the liability of hospitals and physicians who require individuals to pay certain costs as a condition of receiving non-emergency care in hospital emergency rooms. Under this paragraph, such hospitals and physicians would be liable for cost-sharing decisions only if a victim could establish "gross negligence" by "clear and convincing evidence." (Portion of Section 6043(a))
>
> Medicare – Requires an HHS report on development of a value based purchasing program for hospitals. (Section 5001 (b)(3))
>
> Medicare – Requires a MedPAC report with recommendations on value based payment adjustments for hospital services. (Section 5001(b)(4))

Reconciliation Savings, 2006-2010 by Title	
Title I: Agriculture Provisions	-2.709
Title II: Housing and Deposit Insurance Provisions	-0.520
Title III: Digital Television Transition and Public Safety	-7.383
Title IV: Transportation Provisions	-0.156
Title V: Medicare	-6.412
Title VI: Medicaid and SCHIP	-4.759
Title VII: Human Resources and Other Provisions	-1.592
Title VIII: Education and Pension Benefit Provisions	-16.286
Title IX: LIHEAP Provisions	0.625
Title X: Judiciary Related Provisions	-0.553
Total:	**-39.745**

Outlays in Billions of Dollars

Medicaid

The conference report cuts Medicaid by $6.9 billion over five years. This cut is less than the $11 billion of cuts in the House bill, but more than the $6.1 billion in the Senate bill. The conference report modifies some of the burdensome increases in Medicaid co-payments and premiums and the benefit cuts from the House-passed bill, but in doing so, provides even less protection for children.

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Medicaid and SCHIP Changes in Reconciliation Bills

Billions of Dollars, 2006-2010	**House**	**Senate**	**Conference Report**
Increase cost-sharing and premiums	-2.4	no provision	-1.9
Eliminate federal benefit standards	-3.9	no provision	-1.3
Tighten asset rules and other changes to long-term care	-2.2	-0.3	-2.4
Changes to prescription drug payments	-1.7	-8.2	-3.9
Anti-waste, fraud and abuse	-0.5	-0.1	-0.1
Benefit expansions	1.0	2.6	3.7
Other Medicaid provisions	-1.4	-0.05	-1.2
Total cuts, 2006-2010	**-11.0**	**-6.1**	**-6.9**
Hurricane Katrina Relief	2.6	1.8	2.1
Total cuts plus Hurricane Katrina Relief, 2006-2010	**-8.5**	**-4.3**	**-4.8**

Conference Report Reduces Access to Services by Hiking Cost-Sharing and Premiums — The conference report lets states impose premiums and allows bigger increases in cost-sharing than in the House bill, allowing coinsurance payments as high as 10 to 20 percent of the cost of the medical service or drug. States could, for the first time, let providers turn away someone who needs care if the beneficiary cannot afford the co-payment. There is extensive research showing that increasing cost-sharing for low-income people results in a decline in use of health care services and worsening of health status. *In fact, CBO finds that a large share of the savings comes from reduced use of services caused by higher cost-sharing, and from fewer eligible beneficiaries enrolling because of the premiums.* The Senate bill did not include a comparable provision.

Conference Report Lets States Cut Benefits for All Children — The House bill let states remove standards for Medicaid benefit packages, and the conference report extends this provision to all Medicaid children, meaning that all 28 million children on Medicaid could face benefit cuts. States *may* be required to provide wrap-around coverage to ameliorate the long-term effects of chronic illness and disability (known as "EPSDT" or Early and Periodic Screening, Diagnostic and Treatment service.) However, the legislative language is not clear – this coverage may be only at state option, which could result in elimination of this comprehensive health coverage for children on Medicaid. The Senate did not include a comparable provision.

Tightens Access to Long-Term Care — The conference report picks up all of the provisions, with minor changes, from both the House and Senate bills tightening the rules governing how assets are counted for determining eligibility for long-term care. Under the conference report, states will look at asset transfers going back five years, and if any assets were transferred for less than fair market value, there will be a delay in Medicaid eligibility that begins when the individual becomes eligible for coverage. The conference report tightens another provision from the House bill, disqualifying individuals with home equity greater than $500,000 (up to $750,000 at state option) from eligibility for long-term care. The provision in the House bill set the limit at a home equity value of $750,000.

Modifies Payments for Prescription Drugs — The conference report modifies payments for prescription drugs, but eliminates many cost-saving provisions from the Senate bill. The Senate bill yielded savings of $8.2 billion by reducing overpayments for prescription drugs and increasing rebates from pharmaceutical companies; the conference report protects the drug industry from many of these provisions, yielding much lower savings of $3.9 billion.

Addresses Waste, Fraud and Abuse — The conference report includes $72 million in savings from various provisions designed to combat waste, fraud and abuse, with re-investments for a Medicaid integrity program.

Expands Some Benefits — The conference report includes some benefit expansions, including expansion of coverage to certain disabled children and extension of transitional Medicaid assistance through 2006.

Other Provisions — The conference report includes other provisions, such as restricting the types of case management activities eligible for Medicaid reimbursement, which can affect care for individuals with multiple complex illnesses, and tightening requirements governing how an applicant can prove that he or she is a U.S. citizen or national, which can delay eligibility for individuals who are entitled to coverage.

Hurricane Katrina Relief — The conference report provides $2.1 billion for Hurricane Katrina health care relief, the bulk of which is a block grant for the health care expenses of Katrina evacuees or those who still reside in Katrina-affected areas. Unlike the House and Senate bills, which provided a guaranteed funding stream, this is a capped amount of money.

Medicare

The conference report cuts Medicare by $6.4 billion, leaving in place unnecessary payments to private health plans, and including a provision that was in neither the House nor Senate bill to raise Medicare premiums.

Medicare Changes in Reconciliation Bills			
Billions of Dollars, 2006-2010	**House**	**Senate**	**Conference Report**
Increase Part B premium*	no provision	no provision	-1.6
Eliminate PPO stabilization fund	no provision	-5.4	no provision
Remove extra risk adjustments payments to HMOs	no provision	-6.5	-6.5
Freeze physician payments for 2006	no provision	10.8	7.3
Benefit expansions and other provider payment increases	no provision	2.3	1.5
Provider payment cuts	no provision	-5.7	-7.5
Interactions	no provision	-0.5	0.2
Total cuts, 2006-2010**	**0.0**	**-5.0**	**-6.4**

*This premium increase is in addition to premium increases caused by changes to Part B spending in other provisions of the conference report.
**Totals may not add due to rounding.

Increases Beneficiary Premiums — The conference report accelerates the phase-in of premium increases established in the Medicare Modernization Act, adding $1.6 billion to the premium costs beneficiaries will pay over five years. Beneficiaries will see an additional premium increase due to higher Part B spending, mainly from the change to physician payments.

Removes Extra Risk Adjustment Payments to Private Plans, But Then Reverses Course — HMOs under Medicare Advantage are supposed to receive lower payments if they serve healthier, and thus cheaper, beneficiaries, known as "risk adjustment." The Administration currently provides extra payments to HMOs to protect them from the effects of risk adjustment. While the conference report includes savings from phasing out those extra payments, it actually starts to give those savings back to HMOs outside the budget window.

Ignores Senate Provision to Eliminate the Preferred Provider Organization Stabilization Fund — The Medicare Modernization Act created a $10 billion ten-year fund to entice private preferred provider organizations (PPOs) into the Medicare program. Given that there are going to be an overwhelming number of choices for seniors next year with 65 regional PPO plans in 21 regions, the Senate bill eliminated the PPO "slush fund"as unnecessary, consistent with a recommendation from the Medicare Payment Advisory Commission (MedPAC). The conference report fails to adopt this provision.

Provides Last-Minute Protection for Oxygen Manufacturers — At the last minute, the Republican leadership gutted a provision that would have changed Medicare payments to oxygen manufacturers so that beneficiaries owned the equipment after Medicare made 18 monthly rental payments. This provision was changed so that beneficiaries do not own the equipment until after 36 monthly rental payments are made. This change eliminated any savings from the provision, protecting $1.9 billion in payments to these manufacturers over five years.

Freezes Physician Payments — Under the current payment formula, physicians are slated to receive a 4.4 percent cut to their payments beginning January 1, 2006. The conference report overrides the payment formula and instead freezes payments for 2006 at the 2005 payment level, at a cost of $7.3 billion over five years. The House bill did not address the physician payment issue, while the Senate bill provided a 1 percent increase for 2006. As noted earlier, this increase in Part B spending will also cause a rise in beneficiary premiums.

Benefit Expansions and Other Provider Payment Increases — The conference report includes $1.5 billion for a variety of provisions, including the continuation of additional payments to rural outpatient hospitals and an increase in dialysis payments.

Provider Payment Cuts — The conference report includes provisions that reduce payments for a number of provider groups, including imaging services (-$2.8 billion), home health providers (-$2.0 billion), disproportionate share hospital payments for inpatient hospitals (-$1.2 billion), durable medical equipment (-$0.7 billion) ambulatory surgical centers (-$0.3 billion), and skilled nursing facilities (-$0.1 billion).

Student Loans

The $12.7 billion cut to student loans accounts for almost one-third of the spending cuts in the reconciliation conference report. The bill imposes higher fees on students, increases the interest rate on parent loans, eliminates all mandatory spending to administer the country's higher education programs, and cuts some subsidies to lenders. The final cut to student loans is significantly more than the $8.8 billion cut in the Senate bill, but less than the $14.3 billion cut in the House reconciliation bill. The Senate bill included a complete reauthorization of the Higher Education Act, but only the student loan provisions remain in the conference report.

Student Loan Cuts
2006-2010, in Billions of Dollars

Conference Report	House	Senate
-12.7	-14.3	-8.8

Increases Student Fees — Like the House bill, the conference report doubles the origination fee for students getting Direct Loans – from an effective 1.5 percent to 3 percent in 2006 – before it eventually reduces the fee to 1 percent in 2010. That immediate increase in student origination fees may cause colleges to stop offering loans through the Direct Loan program, a program that is more efficient for the federal government than the competing Federal Family Education Loans (FFEL) program because it generally has lower federal subsidy costs. The conference report also requires lenders to collect a 1 percent fee on FFEL loans that may come directly from students' pockets or the lenders' own operating expenses; the House bill required that the fee come from students.

Raises Interest Rate on Some Loans — The conference report adopts the Senate bill's increase in the rate on parent loans; under current law, beginning in July 2006 students will pay a fixed rate of 6.8 percent and parent loans will have a fixed rate of 7.9 percent, but the reconciliation bill increases the fixed rate on parent loans to 8.5 percent. The conference report drops the House bill's increases in rates and fees on consolidation loans.

Cuts Lender Subsidies — The bill adopts provisions in both bills that end all loans that guarantee certain lenders a minimum 9.5 percent return, and that divert to the Treasury payments that lenders currently receive from students when students are paying a higher interest rate than the one set for lenders to receive. In addition, lenders will now be guaranteed 97 percent of the amount of a student loan against default, instead of 98 percent. The conference report also reduces how much collection agencies may keep from payments of a defaulted loan. It drops provisions in the House bill that increase lender origination and consolidation fees.

Adopts Budget Gimmick in House Bill That Jeopardizes Higher Education Programs — The conference report eliminates all mandatory spending for administration of all federal higher education programs, which shows a savings of $2.2 billion over five years. But the only way these savings will occur is if Congress chooses not to appropriate this money – which would jeopardize not just student loans but also programs such as Pell Grants, TRIO, and Work-Study – or if Congress offsets this funding by cutting $2.2 billion from other appropriated programs – a controversial and painful step given that programs are already being cut or frozen in appropriations bills.

Creates New Grant — The Senate bill included $8.0 billion in new spending for enhanced Pell Grants, but the conference report includes only $3.7 billion and limits the aid just to students studying math, science, or other specified fields who meet certain qualifications. The conference report does not include provisions in the Senate bill that provided $1.7 billion for elementary and secondary education costs for students displaced by Hurricane Katrina, and $105 million for aid to students and colleges affected by Katrina. (The Defense Department spending bill conference report approved by the House on December 19 includes a hurricane recovery package with $1.6 billion for damaged schools, schools that took in new students, and affected college students.)

Other Changes — Like both the House and Senate bills, the conference report increases the amount that students may borrow from the federal loan programs during their first and second year of college, and it extends the loan forgiveness program for those who become qualified teachers of math, science, or special education, and expands it to private school teachers.

Safety Net

Over five years, the conference report cuts $2.6 billion from programs serving single-parent families, foster children, and low-income elderly and disabled individuals. The conference report also makes changes to the Temporary Assistance for Needy Families (TANF) program, increases child care spending by $930 million, and increases low-income energy assistance spending by $625 million, resulting in net spending cuts of $0.7 billion.

Safety Net Changes in Reconciliation Bills			
Billions of Dollars, 2006-2010	**House**	**Senate**	**Conference**
Food Stamps	-0.7	no provision	dropped
Child Support Enforcement	-4.9	no provision	-1.5
Foster Care	-0.6	no provision	-0.3
Supplemental Security Income	-0.7	no provision	-0.7
Temporary Assistance for Needy Families	+0.9	no provision	+0.4
Child Care	+0.4	no provision	+0.9
Low-Income Home Energy Assistance	+1.0	no provision	+0.6
Total cuts, 2006-2010	**-4.6**	**0.0**	**-0.7**

Child Support — The conference report cuts $1.6 billion by ending the federal match on state spending of incentive payments. This cut will reduce states' ability to help families receive child support that is owed to them. CBO estimates that this policy change will reduce child-support collections by $2.9 billion over five years and $8.4 billion over ten years. The bill also makes several other changes to the child support program that increase spending by a small amount, resulting in a net cut of $1.5 billion. The House bill cut child support spending by $4.9 billion; the Senate bill made no changes to child support.

Child Welfare — The conference report cuts $577 million from foster care programs by limiting eligibility for federally funded foster care payments and limiting circumstances under which states can receive federal funding for services provided to children in certain settings, such as non-licensed foster homes. These provisions, which were in the House bill but not the Senate bill, essentially shift costs to states. The conference report also provides $200 million for the Promoting Safe and Stable Families program, and it provides $100 million to improve courts' handling of child welfare cases. These two provisions, which were in neither the House nor the Senate bill, bring the net spending cut from child welfare programs to $343 million.

Supplemental Security Income (SSI) — The conference report cuts spending by a total of

$732 million over five years. The bill cuts $425 million by requiring that retroactive SSI benefits exceeding three times the maximum monthly benefit (currently $579) be paid to beneficiaries in installments over the period of a year. About 750,000 individuals per year become eligible for SSI. Many are entitled to retroactive benefits resulting from the lengthy nature of the disability determination process. The appeals process for denied claims often takes more than a year. The other $307 million in cuts comes from requiring that the Social Security Administration review 50 percent of new disability benefit awards to ensure that the finding of disability is accurate before starting payments, thereby avoiding erroneous payments. These provisions were in the House bill but not the Senate bill.

Low-Income Home Energy Assistance Program (LIHEAP) Funding Increase — The conference report includes $1.0 billion in new budget authority for LIHEAP – $250 million for basic grants and $750 million in contingency funds – for 2007, which will not help families facing sharp increases in heating costs this winter. Moreover, Congressional appropriators may decide to offset this funding with a lower LIHEAP appropriation next year. CBO estimates that only half of the contingency funds in the reconciliation bill will be spent, so the reconciliation bill is estimated to result in LIHEAP outlays of $625 million.

Welfare Reform — The conference report makes several changes to the Temporary Assistance for Needy Families (TANF) program. The legislation freezes the basic block grant, eliminates two performance bonus programs (saving $1.1 billion), and changes the caseload reduction credit in a way that requires states to increase significantly the number of TANF recipients who are working. Current law requires states to have 50 percent of TANF recipients (90 percent of two-parent families) engaged in work activities, but states can offset that work requirement based on the total reduction in their TANF caseloads since 1995. The conference report changes the base year for calculating the caseload reduction credit from 1995 to 2005, so states will no longer be able to take credit for the steep declines in welfare caseloads in the late 1990s. TANF caseloads have declined much more slowly in recent years.

The TANF legislation also spends $604 million on marriage promotion activities, and it extends supplemental grants through 2008 at a cost of $851 million. The net effect of the TANF provisions is to increase spending by $372 million over five years relative to CBO's estimate of current services. This appearance of an increase in spending is only because the extension of supplemental grants is excluded by law from CBO's projections of current services, even though the grants have been in place for nine years. Adjusting for this scoring factor, total TANF spending in the bill actually declines by $479 million compared with current services. The conference report is similar to the TANF reauthorization package included in the House bill. The Senate bill did not include TANF reauthorization.

Child Care — The conference report increases child care funding above current-law levels by $1.0 billion over five years ($930 million of which will be spent within the five-year window). This increase is not enough to keep pace with inflation, let alone cover the additional demand for child care created by the bill's new work requirements. CBO estimates that complying with the new work requirements in the conference report will increase states' costs over the next five years by $4.1 billion for child care and $4.3 billion for work activities. States will likely shift existing child care resources to TANF recipients facing new work requirements. The Center on Budget and Policy Priorities estimates that as a result, 255,000 fewer children from low-wage working families will receive child care assistance in 2010 than in 2004.

Environment

The Republican conference report cuts $934 million over five years from vital Farm Bill conservation programs that would help farmers and ranchers protect and enhance natural resources. The Conservation Security Program (CSP), which rewards good conservation stewardship practices, is cut by $649 million. The Environmental Quality Incentives Programs (EQIP) provides farmers and ranchers with financial and technical assistance to improve water, soil, and air quality as well as improve wildlife habitat. It is cut by $75 million. The Watershed Rehabilitation Program is eliminated, cutting $210 million that goes to localities to rehabilitate aging dams and other flood control structures that are beyond their lifespan and pose a hazard to life and property. The conference report cut is more than the $760 million of Farm Bill cuts in the House bill (cuts to CSP, the Watershed Rehabilitation Program, and the Agriculture Management Assistance Program), but less than the $1.1 billion in Farm Bill cuts in the Senate bill (cuts to CSP, EQIP, and the Conservation Reserve Program).

The conference report does not include any of the other environmental provisions that were included in either the House- or Senate-passed versions. The conference report drops provisions in the House-passed bill that substantially changed current mining law, fast-tracked the development of oil shale, and sold public land in Nevada, Idaho, and the District of Columbia. (A manager's amendment added before House floor consideration stripped provisions from the House bill opening the Arctic National Wildlife Refuge and the Outer Continental Shelf to oil and gas exploration.) The Senate-passed bill did open the Arctic Refuge to oil and gas exploration. Provisions to open the Arctic Refuge to oil and gas exploration were dropped in conference and subsequently added to the Department of Defense appropriations bill. This passed the House but stalled in the Senate.

Environment

Billions of Dollars, 2006-2010	House	Senate	Conference
ANWR	0	-2.5	0
OCS	0	0	0
Mining Law Changes	-0.2	0	0
Oil Shale Development	minimal	0	0
Public Land Sale	-0.1	0	0
Farm Bill Conservation Cuts	-0.8	-1.1	-0.9
Total	**-1.0**	**-3.6**	**-0.9**

Note: ANWR and OCS drilling provisions were included in the House Committee-passed version but were removed prior to floor action. Numbers do not add due to rounding.

Spectrum Auctions

> **Spectrum Auctions**
>
> The conference report generates $10 billion in receipts over five years by requiring that broadcasters complete the conversion to digital television in 2009, and by auctioning spectrum made available by that transition.
>
> The conference report spends $2.6 billion of this total, primarily to provide digital converter boxes to consumers and to fund interoperable communications systems for first responders, producing a net savings of $7.4 billion over five years.

The conference report includes $7.4 billion in net savings over five years by making changes to spectrum policy. The conference report requires that television broadcasters complete the transition to digital broadcasts by February 18, 2009 (a date that falls between the January 1 date included in the House bill and the April 7 date included in the Senate bill). This transition will free up the analog spectrum currently being used by the broadcasters. A portion of this spectrum will then be made available for public safety use, and another portion will be auctioned off – generating new receipts estimated to total $10 billion over the next five years. The conference report spends $2.6 billion of these receipts. (The House bill spent $1.3 billion of these receipts, for a net savings of $8.7 billion; the Senate bill spent $4.7 billion, for a net savings of $5.3 billion.) Key spending provisions in the conference report include:

Funding for Transition to Digital Television — An estimated 21 million households only have televisions that, unless modified, will not work once the transition to digital broadcasting is completed. The conference report provides up to $1.5 billion of the new receipts to finance and administer the purchase by consumers of the converter box needed to adapt analog television sets to receive digital broadcasts; only $1.4 billion of this total is expected to be spent under the conditions included in the bill. This level of funding is expected to be insufficient to hold consumers harmless for the cost of equipping analog televisions with converter boxes. The Senate version included $3 billion for this purpose, while the House bill included about $1 billion.

Funding for Public Safety Equipment — The conference report includes $1.0 billion for interoperable communications equipment for first responders. The House bill included $500 million for this purpose and the Senate bill included $1.0 billion, though not all of these amounts was expected to be spent within the reconciliation window (2006-2010). The Senate bill also included a provision making additional funds available for this purpose if proceeds from the auctioned spectrum exceeded the estimated level.

Pensions

PBGC Premium Increases
5-year total

House	Senate	Conference
$6.2 billion	$6.7 billion	$3.6 billion

The conference report raises $3.6 billion over five years by increasing premiums that single-employer pension plans pay to the Pension Benefit Guaranty Corporation (PBGC). First, the conference report increases the flat-rate premiums from $19 to $30 per participant in 2006 and indexes it to inflation thereafter. In addition, the bill raises the per participant premium for multi-employer plans from the current $2.60 to $8.00 in 2006, and indexes it to inflation thereafter. Lastly, the bill creates a new $1,250 per participant premium that companies would pay annually for three years after they emerge from bankruptcy. This provision sunsets after 2010.

The conference report includes provisions from both the House and Senate reconciliations bills but scales back the premium increases. The report does not include a provision from the House bill that would give PBGC the authority to increase the flat-rate premiums by up to 20 percent annually for four years after the initial increase from $19 to $30.

The Byrd Amendment

The conference report permanently repeals the Byrd Amendment, a provision that redistributes customs duties to companies injured by unfair foreign trade. Under the terms of the conference report, duties collected prior to October 1, 2007, may still be distributed to affected businesses while all duties collected after that date will remain in the U.S. Treasury's general fund. This cut is expected to save $300 million over five years, significantly less than the $3.2 billion savings in the House reconciliation bill.

Funds distributed through the Byrd Amendment have supported a large number of industries; since 2001, approximately 770 companies have benefitted from this provision and used these funds to remain competitive with foreign business. Repeal of the Byrd Amendment is particularly harmful to those industries that have received a significant portion of the recent distributions, including producers of bearings, steel products, candles, cement, and food products. However, the conference agreement permits the distribution of approximately $4 billion in accumulated duties on Canadian softwood lumber, much of which are presently being held in clearing accounts pending the outcome of negotiations between the United States and Canada.

The structure of the Republican-supported repeal is extremely favorable to the timber industry relative to other sectors since it permits the payout of previously collected duties, most of which are those levied on timber products. While no industries are likely to receive significant distributions after 2009, timber companies can still expect massive payouts under this repeal while other sectors will receive relatively little.

Much of the criticism of the Byrd Amendment has centered on the retaliation by trading partners in response to the distribution of duties to domestic industries. Currently, Mexico, Japan, Canada, and the European Union have increased tariffs by $134 million in response to the action taken by the United States. It is unlikely that these additional tariffs will be removed until a time near the termination of the Byrd Amendment.

The Byrd Amendment is widely supported in the Senate, which did not include a repeal in its version of the reconciliation package and recently voted to instruct its conferees to ensure the Byrd Amendment's preservation in the conference report. Many House members also support the Byrd Amendment.

Agriculture

Agriculture Cuts 2006-2010, in Billions of Dollars	Conference Report	House	Senate
Commodities	-0.7	-1.0	-1.7
Other	-1.0	-1.1	-0.2

Commodity Programs

In the face of record-high energy prices and natural disasters, Republicans chose to cut important safety net programs for farmers.

The conference report reduces to 40 percent the amount of direct payments available in advance for 2006, and to 22 percent for 2007. The House bill reduced the amount to 40 percent for 2006 and 2007, while the Senate bill reduced the amount to 40 percent for 2006 but to 29 percent for 2007 through 2011. This provision saves $518 million in 2006 and $934 million in 2007, for a total of $1.5 billion.

As in the House and Senate bills, the conference report eliminates the Cotton "Step 2" program, saving $14 million in 2006 and $282 million over five years (2006-2010).

Like the Senate bill, the conference report extends the Milk Income Loss Contract (MILC) program through 2007 at a reduced payment factor; this provision increases spending by $998 million over five years.

Neither the House provision reducing direct payments by one percent nor the Senate provision reducing all commodity payments (direct payments, counter-cyclical payments, marketing loan gains, and loan deficiency payments) by 2.5 percent are included in the conference report. The Senate provision imposing a forfeiture penalty on nonrecourse loans for sugar, saving $65 million over five years, was not included in the conference agreement.

Commodity Program Cuts
2006-2010 Savings, In Millions of Dollars

Conference Report		House		Senate	
Reduce Advance Direct Payment to 40% for 2006 and 22% for 2007	-1,452	Reduce Advance Direct Payment to 40% for 2006 and 2007	-513	Reduce Advance Direct Payment to 40% for 2006 and 29% for 2007-2011	-1,088
Eliminate Cotton Step 2	-282	Eliminate Cotton Step 2	-282	Eliminate Cotton Step 2	-282
Extend MILC at 34% payment factor	+998			Extend MILC at 34% payment factor	+998
		One Percent Reduction for Direct Payments	-211	Reduce All Commodity Payments by 2.5%	-1,296
				Forfeiture Penalty for Nonrecourse Sugar Loans	-65
Total	**-736**	**Total**	**-1,006**	**Total**	**-1,733**

Conservation Programs

See "Environment"

Rural Development, Research, and Energy Programs

The conference report cancels funds for several programs that have been reduced in recent appropriations measures, saving a total of $1.0 billion over five years (2006-2010). These programs include the Initiative for Future Agriculture and Food Systems, the Enhanced Broadband program, the Value-Added Marketing program, the Rural Business Investment program, Rural Business Strategic Investment grants, Rural Firefighters and Emergency Personnel grants, and Renewable Energy Systems programs.

The following programs are cut under the conference report:

- **Initiative for Future Agriculture and Food Systems —** cut $620 million.
- **Enhanced Access to Broadband Telecommunications Services in Rural Areas —** cut $40 million.
- **Value-Added Agricultural Product Market Development Program Grants —** cut $120 million.
- **Rural Business Investment Program —** cut $89 million.
- **Rural Business Strategic Investment Grants —** cut $100 million.
- **Rural Firefighters and Emergency Personnel Grants —** cut $50 million.
- **Renewable Energy Systems and Energy Efficiency Improvements Program —** cut $20 million.

The House reconciliation package made similar reductions to the same programs, saving $1.1 billion over five years. The Senate bill limited funding for the Initiative for Future Agriculture and Food Systems, but did not eliminate it entirely, saving $227 million over five years.

Judiciary

The conference report raises $553 million[1] by increasing civil case filing fees in district and appellate courts and increasing filing fees for chapter 7, 11, and 13 bankruptcy cases. Neither the House nor the Senate reconciliation bill included these provisions. The conference report does not include any of the House or Senate provisions. Those provisions imposed new L-1 Visa fees, imposed fees on reissued H1-B and employment-based immigrant visas, authorized new temporary and permanent judgeships and extended authority for certain judgeships, and split the Ninth Circuit federal court into two panels.

Judiciary Changes in Reconciliation

Millions of Dollars, 2006-2010	**House**	**Senate**	**Conference**
Civil Case Filing Fees	no provision	no provision	-170
Bankruptcy Filing Fees	no provision	no provision	-383
L-1 Visa Fees for Multinational Employers	-500	-252	no provision
New Judgeships	+72	no provision	no provision
Fees for Reissued H-1B Visas	no provision	-75	no provision
Fees for Reissued Employment-Based Visas	no provision	-251	no provision
Department of Justice Programs	no provision	+183	no provision
Total	**-428**	**-394**	**-553**

[1] A bankruptcy fee provision in the conference report has an incorrect reference to a section of the U.S. Code. If the reference is fixed, CBO estimates these fees will raise $553 million over five years.

Transportation

The conference report raises $156 million by increasing vessel tonnage duties that are currently imposed on the cargo-carrying capacity of vessels that enter the United States. The tonnage duties are assessed regardless of whether the vessel is carrying cargo. In 1990, the 2 cents per ton duty on vessels arriving in the United States from certain foreign ports was raised to 9 cents per ton, not to exceed 45 cents per ton per vessel in a single year. In addition, the 6 cents per ton duty on vessels arriving in the United States from any other foreign port was raised to 27 cents per ton, not to exceed $1.35 per ton in a single year. The higher fees were extended twice, but expired in 2002. For 2006-2010, the conference report increases the 2-cent duty to 4.5 cents per ton, not to exceed 22.5 cents per ton in a single year, and increases the 6-cent duty to 13.5 cents per ton, not to exceed 67.5 cents per ton in a single year. This is identical to the transportation provisions contained in the House-passed bill. In contrast, the Senate-passed bill rescinded a portion of the State of Alaska's transportation funding that was provided in the recently enacted transportation reauthorization bill (SAFETEA-LU), saving $30 million.

Deposit Insurance

The conference report saves $250 million over five years by making changes to the federal deposit insurance system. The bill increases the coverage limit on individual retirement accounts to $250,000 and indexes the coverage limit on other insured deposits (currently $100,000) to inflation starting after 2010. The bill also merges the Bank Insurance Fund and the Savings Association Insurance Fund, establishes a variable reserve ratio, and gives the Federal Deposit Insurance Corporation the ability to set premiums based on risk. These changes are projected to increase the premiums paid by insured financial institutions. The deposit insurance provisions in the House bill saved $200 million. The Senate bill saved $300 million.

Federal Housing Administration

The conference report saves $270 million over five years by eliminating mandatory spending and requiring annual appropriations for certain activities carried out by the Department of Housing and Urban Development’s Federal Housing Administration (FHA) with regard to properties in mortgage default. Both the House and Senate bills included this provision. Under current law, when FHA-insured multi-family properties go into mortgage default, FHA has authority to sell them at below-market prices in order to preserve the properties as affordable housing. FHA also has the authority to sell discount loans, and to provide up-front rehabilitation grants to the buyers of defaulted properties. The conference report makes FHA’s use of these authorities subject to the availability of annual appropriations, which puts at risk the agency’s ability to effectively deal with these properties so that they remain part of the supply of privately owned affordable housing. The requirement for appropriations sunsets after 2010.