



OVERVIEW

FY 2008 BUDGET CONFERENCE AGREEMENT



May 16, 2007

A Fiscally Responsible Budget Plan

Provides New Direction for Country – The new Democratic Majority pledged that we would work together to restore our economic health, reclaim our leadership position in the world, advance our national security, and invest in the future. The FY 2008 Budget Conference Agreement takes important steps toward meeting those goals. The Conference Agreement:

- returns the budget to balance – reaching a surplus of \$41 billion in 2012 – without raising taxes;
- provides for middle-class tax relief;
- allocates funding for national priorities like children’s health care, education, and veterans’ medical care;
- begins to reverse six years of fiscal mismanagement and harmful cuts in key areas; and
- sets us on a course to build the future we want for our children and grandchildren.

Begins to Clean Up Fiscal Mess We Inherited – Unfortunately, the nation’s budget outlook deteriorated dramatically over the last six years under Republican policies. When President Bush took office in 2001, we enjoyed a record \$5.6 trillion ten-year projected surplus. That surplus has been squandered. Gross debt has exploded – rising from \$5.8 trillion in 2001 to an estimated \$9 trillion by the end of this year. This debt is accumulating at the worst possible time, just before the retirement of the baby boom generation. And most of this debt has been purchased by foreign investors, making the U.S. more vulnerable to economic and political pressure from abroad. The President’s budget would continue the fiscal approach that has brought these large deficits and growing debt. In contrast, the Conference Agreement will put the nation back on a sound fiscal path.

Restores Fiscal Responsibility – In addition to bringing the budget back into balance by 2012, under the Conference Agreement, gross debt as a share of GDP will begin to fall after 2010. Spending as a share of GDP will decline in every year after 2008. The plan also directs all committees to review their programs to promote efficiency and eliminate unnecessary spending.

The Conference Agreement also includes crucial budget enforcement provisions. Most notably, as a complement to the strong paygo, or pay-as-you-go, rule adopted earlier this year in the House, the plan restores a strong paygo rule in the Senate. The paygo rule in the Senate requires that new mandatory spending or new tax cuts be offset, or get 60 votes. Reinstating a strong paygo rule represents a crucial step in restoring fiscal discipline.

The Conference Agreement includes no new mandatory spending that is not offset. Unlike the Republican Congress that racked up over \$260 billion in deficit-financed mandatory spending programs over the past six years, the Conference Agreement adheres to the principle that all new mandatory spending must be paid for.

The plan also allows reconciliation to be used for deficit reduction only. Since 2001, the Republican-controlled Congress has abused reconciliation by using the procedure to pass tax cuts that have increased the deficit by more than \$1.7 trillion.

Defends Our Nation – The Conference Agreement provides robust funding for national defense and ensures that resources are available to address the most critical threats facing our nation. It provides more homeland security funding than the Bush administration. And it provides funding for the 9/11 Commission recommendations.

A Balanced Budget Must Be Accompanied by Balanced Priorities – The Conference Agreement rejects the President's proposals to again cut critical domestic priorities. It provides needed resources in key areas such as:

Kids' Health - SCHIP

The Conference Agreement rejects the inadequate funding level proposed by the President for children's health care and instead provides up to \$50 billion for expanding coverage and improving children's health through the State Children's Health Insurance Program (SCHIP). There are an estimated six million children eligible but not enrolled in either SCHIP or Medicaid. These additional SCHIP funds will expand coverage to uninsured children and ensure states can maintain current caseloads.

Education

The Conference Agreement rejects the President's proposed cuts in education and training and adds significant new resources that could be used for the Individuals with Disabilities Education Act (IDEA), No Child Left Behind Act, and Pell grants. For 2008 alone, it provides an increase in discretionary funding for the education and training function of \$9.5 billion (including \$2 billion in additional 2009 advance appropriations) above the President's request.

Veterans

The Conference Agreement provides critical resources to ensure that our nation's veterans get the high quality health care they deserve. The Conference Agreement provides \$43.1 billion for discretionary veterans' programs, including medical care, and is consistent with The Independent Budget, a plan developed by four leading veterans groups, and the recommendation of the American Legion. This funding level is \$3.6 billion more than the President in 2008 and more than \$30 billion above the President over five years. For veterans' medical care, it represents the largest increase ever provided.

Protects Middle-Class Taxpayers – The Conference Agreement balances the budget without a tax increase.

Middle-Class Tax Cuts

The Conference Agreement supports middle-class tax relief, including extending marriage penalty relief, the child tax credit, and the 10 percent bracket subject to the pay-as-you-go rule. It also supports reform of the estate tax to protect small businesses and family farms. House provisions include additional procedural protections to help ensure fiscal responsibility.

AMT Relief

The Conference Agreement prevents the spread of the Alternative Minimum Tax (AMT), so that it does not impose higher taxes on middle-class families. It ensures that the number of taxpayers subject to the AMT will not be allowed to increase in 2007 – protecting some 20 million middle-class taxpayers from being subject to the tax.

No Tax Increase

Over the five years of the Conference Agreement, revenues total \$14.828 trillion, which is virtually identical to the President's level of \$14.826 trillion, as estimated by his own administration. And revenues are only 2.1 percent above the President's level, as estimated by the Congressional Budget Office. The modest additional revenues in the plan can be achieved by closing the tax gap, shutting down abusive tax shelters, addressing offshore tax havens, and without raising taxes.

Closing the tax gap is not about raising taxes on anyone. It is simply collecting taxes that are already due under current law. While we will never be able to close the tax gap entirely, it is clear that much more can and should be done. To help close the tax gap, the Conference Agreement supports steps to increase reporting and withholding requirements. It also fully funds the President's budget request for the IRS, including additional resources available through a discretionary cap adjustment that directs \$406 million to IRS enforcement activities.

Addresses Long-Term Fiscal Challenges – With the coming retirement of the baby boom generation, our nation faces a significant long-term imbalance between revenues and spending. While the Conference Agreement returns the budget to balance by 2012, this represents only a first step in the difficult path of restoring our long-term economic security. The Conference Agreement recognizes that a comprehensive effort, focused on the long-term fiscal imbalance, must be undertaken on a bipartisan basis. However, the plan does include a number of measures to begin preparing for our long-term fiscal challenges.

Program Integrity Initiatives

The Conference Agreement institutes tough program integrity initiatives to crack down on wasteful or fraudulent spending in the Social Security, Medicare, and Unemployment Insurance programs. Specifically, it provides in Function 920 for discretionary cap adjustments for program integrity initiatives in these areas, including \$200 million more than the President's budget in 2008 to go after Medicare fraud – for a total of \$383 million.

Health IT Reserve Fund

The Conference Agreement also includes a deficit-neutral Health IT reserve fund designed to promote the use of advanced information technology to improve the quality and efficiency of health care.

Comparative Effectiveness Reserve Fund

The Conference Agreement also includes a deficit-neutral reserve fund to jumpstart an initiative on comparative effectiveness research. The purpose of such research would be to evaluate medical technologies, devices, procedures, and pharmaceuticals for both effectiveness and value. This information could lead to savings over the long-term by allowing providers to avoid treatments that may be clinically ineffective and overly expensive, while at the same time improving health care outcomes.

Long-Term Deficit Point of Order

The Conference Agreement also creates a Senate point of order against legislation that increases the deficit over the long term – specifically in the four decades beyond the next ten years (2018-2027, 2028-2037, 2038-2047, and 2048-2057). The long-term point of order will apply against any net deficit increases in excess of \$5 billion (including changes in revenues and mandatory spending, but excluding debt service) in any of the four ten-year periods.

Importance of Adopting Budget Resolution – Given that the federal government has operated without a budget resolution in three of the last five years, it is even more important that Congress adopt a budget resolution this year. The FY2008 Budget Conference Agreement provides a crucial blueprint to guide the nation's fiscal course. While no single resolution can solve all of our budget challenges, this budget resolution represents an excellent effort to put the nation back on a sound fiscal path. The conferees strongly endorse its adoption.