



SUMMARY

OF THE FY 2004 REPUBLICAN
BUDGET CONFERENCE REPORT

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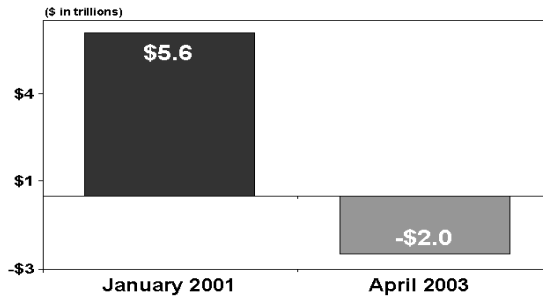
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Summary of the Fiscal Year 2004 Republican Budget Conference Report (H.Con.Res. 95)

Adoption of the fiscal year 2004 Republican Budget Conference Report (H.Con.Res. 95) will continue a remarkable reversal in the fiscal fortunes of this nation. When President Bush assumed office in January 2001, the Congressional Budget Office projected that there would be a surplus of \$5.6 trillion in fiscal years 2002 through 2011. Under this budget resolution, there will be a deficit of \$1.95 trillion over that period – representing a stunning decline of nearly \$7.6 trillion in just two years.

**Unified Surplus Disappears Under GOP Budget Policies
Nearly \$7.6 Trillion Reversal in 2 Years
(FY 2002-2011)**



Source: January 2001 - CBO January 2001 baseline
April 2003 - GOP FY 2004 Budget Conference Report

If this budget resolution is adopted, unified deficits will reach record levels in 2003 and 2004 (\$347 billion and \$385 billion, respectively) and will total more than \$1.7 trillion in 2003 through 2013. Excluding Social Security, deficits will reach \$558 billion in 2004, will exceed \$400 billion in every year through 2008, will eclipse \$300 billion through 2013, and will total more than \$4.5 trillion in 2003 through 2013.

Deficits in GOP Budget Conference Report for FY 2004												
(\$ billions)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	11-yr
Unified	-347	-385	-294	-217	-166	-151	-93	-69	-71	10	37	-1,746
On-budget	-512	-558	-488	-432	-400	-405	-366	-360	-381	-315	-302	-4,518

Note: On-budget deficits exclude Social Security and the Postal Service.

The budget resolution policies will produce a \$2.4 trillion deterioration in the budget outlook for 2003 through 2013 relative to CBO's March 2003 baseline projections. The main cause of that deterioration is the nearly \$1.3 trillion in new tax cuts assumed by the budget resolution (with interest, the cost is \$1.6 trillion). Only a portion of the assumed tax cuts is reconciled. And, in an unprecedented move, the amounts reconciled are effectively different in the Senate and the House. The

reconciliation instructions to both the Senate Finance Committee and the House Ways and Means Committee say that tax cuts of up to \$550 billion over 11 years (including refundable credits) can be reported. *But a special rule included in the conference report prohibits consideration in the Senate of a reconciliation bill that costs more than \$350 billion, although it allows the Senate to consider a reconciliation conference report that costs up to \$550 billion.*

The budget resolution also provides for a net increase in mandatory spending of \$450 billion in 2003 through 2013 (excluding increases in refundable tax credits that are included as part of the tax cut). The bulk of the increase, \$400 billion, is included in a reserve fund for Medicare modernization and prescription drugs. There also is a reserve fund of \$50 billion for health insurance for the uninsured.

The budget resolution sets caps on discretionary spending (with separate caps on highway funding, mass transit funding, and all other discretionary funding) totaling \$784 billion in budget authority and \$861 billion in outlays in 2004 and \$814 billion in budget authority and \$858 billion in outlays in 2005. (The resolution also sets caps for 2003 at the current enacted level, plus the cost of the supplemental appropriation bill currently in conference.) The cap on discretionary budget authority for 2004 is essentially equal to the President's request, \$6.4 billion below CBO's baseline projection, and \$6.9 billion below the Senate-passed budget resolution. Over the next ten years, the Conference Report assumes defense budget authority will increase by \$208 billion above CBO's baseline projection, but \$56 billion below CBO's reestimate of the President's request. Budget authority for international programs is also assumed to increase, by \$51 billion. But funding for domestic programs is cut by \$168 billion below the baseline.

Under House Rule XXVII, adoption of the GOP Budget Conference Report will result in the House being deemed to have passed a joint resolution increasing the statutory limit on the public debt. The Senate could then consider that joint resolution under regular Senate rules. The Conference Report states that the conferees contemplate that the limit on the debt will be raised from \$6.4 trillion to \$7.384 trillion in that joint resolution. *That increase of \$984 billion will be the largest increase in the debt limit in the nation's history, eclipsing the \$915 billion increase in 1990 during the first Bush administration.* Under the Conference Report, the debt limit would have to be increased to \$12 trillion by 2013.

Tax Cuts

The conference agreement provides for tax cuts of \$1.3 trillion over the period 2003-13; \$550 billion of this total is protected by reconciliation procedures in both the House and the Senate.

Reconciled tax cuts. The reconciliation instruction would allow for most of the components in the President's economic growth plan, including: acceleration of marriage penalty relief, the child tax credit, the marginal rate reductions scheduled to take effect in 2006, and the expansion of the 10 percent bracket; increasing the amount of investment that can be expensed by small businesses; and, temporary relief for individuals affected by the alternative minimum tax.

Nonreconciled tax cuts. An additional \$726 billion in tax cuts and associated outlays are assumed but not reconciled in the conference report and could accommodate the cost of making permanent the 2001 tax cuts and the research and development tax credit as well as a two-year extension of other expiring tax authorities and energy tax incentives.

Discretionary Appropriations

Over the next ten years, the conference report assumes cuts in funding for all domestic programs relative to CBO’s March 2003 baseline of \$168 billion – that is a cut of 4.1 percent below baseline. If enacted, these cuts would reduce funding for important domestic priorities, such as homeland security, education, veterans health care, local law enforcement, and transportation.

Changes in Discretionary Budget Authority from CBO Base — 2004-13											
(\$ billions)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Defense . . .	-2.0	7.4	16.6	25.5	34.0	32.6	30.0	26.2	21.3	16.3	208.0
International	2.8	3.6	4.5	5.2	5.5	5.6	5.8	5.9	6.0	6.1	51.0
Domestic . . .	<u>-7.2</u>	<u>-7.3</u>	<u>-10.4</u>	<u>-12.0</u>	<u>-12.6</u>	<u>-14.9</u>	<u>-18.3</u>	<u>-22.9</u>	<u>-28.3</u>	<u>-33.9</u>	<u>-167.7</u>
Total . .	-6.4	3.7	10.7	18.7	26.9	23.4	17.5	9.2	-1.0	-11.5	91.3

Statutory caps. The conference report includes caps on discretionary spending for fiscal years 2003, 2004, and 2005, including separate caps for general purpose, highways, and transit. It allows the Budget Committee Chairman to increase the highway and mass transit allocations if authorizing legislation is enacted providing for increases and if such increases are offset by either reductions in mandatory outlays from the Highway Trust Fund or new revenues for the Trust Fund. Finally, the conference report limits advance appropriations to a total of \$23.158 billion for each of 2005 and 2006.

Caps on Discretionary Spending						
(\$ millions)	<u>2003</u>		<u>2004</u>		<u>2005</u>	
	BA	Outlays	BA	Outlays	BA	Outlays
General Purpose	839,118	805,146	782,999	822,563	812,598	817,883
Highways	---	31,264	---	31,555	---	33,393
Mass Transit	<u>1,436</u>	<u>6,551</u>	<u>1,461</u>	<u>6,634</u>	<u>1,488</u>	<u>6,726</u>
Total	840,554	842,961	784,460	860,752	814,086	858,002

For 2004, the conference report assumes a level of funding for domestic activities that is \$7.2 billion below CBO’s baseline and \$6.9 billion below what was passed by the Senate. Unlike recent

years, the conference report does not include a firewall between defense and nondefense spending.

Defense. For defense, the conference report assumes \$48 billion more in budget authority over ten years than the Senate-passed resolution, but \$56 billion less than CBO’s reestimate of the President’s request.

Homeland Security. The conference agreement funds homeland security activities at the President's requested level. Additional funding for port security that was added during Senate consideration of the budget resolution is not reflected in the conference agreement spending levels. It also cuts important local enforcement funding such as the COPS program, the Byrne Grant program, and the Local Law Enforcement Block Grant program in order to fund first responders as proposed by the President.

2004 Discretionary Level in Conference Report Compared to CBO Baseline and Senate-Passed Resolution							
Budget authority, \$ billions	Conference Report	CBO Baseline	Senate-Passed	Conference vs CBO Baseline		Conference vs Senate-Passed	
	\$	\$	\$	\$	%	\$	%
Defense	400.1	402	400.1	-2	-0.5%	0	0.0%
International Affairs	28.7	25.9	28.7	2.8	10.7%	0	0.0%
Domestic	<u>355.8</u>	<u>362.9</u>	<u>362.7</u>	<u>-7.2</u>	<u>-2.0%</u>	<u>-6.9</u>	<u>-1.9%</u>
Total Appropriations	784.5	790.8	791.4	-6.4	-0.8%	-6.9	-0.9%

Transportation. For highways, the conference agreement assumes \$35.5 billion in contract authority and \$33.841 billion in obligation limitations (\$1.7 billion less than the Senate-passed level) in 2004. Over the 2004 to 2009 reauthorization period, the conference agreement assumes \$231.1 billion in contract authority (\$24.6 billion less than the Senate-passed level) and \$218.2 billion in obligation limitations (\$15.1 billion less than the Senate-passed level).

For transit, the conference agreement assumes \$7.302 billion in total resources in 2004 (\$748 million less than the Senate-passed level) and \$49.1 billion over the reauthorization period (\$7.4 billion less than the Senate-passed level).

Education. The conference agreement assumes funding that is \$4 billion less than the Senate-passed level in 2004 and \$20 billion less over ten years. Those reductions more than offset the total of all the amendments added on the Senate floor for the No Child Left Behind Act, the Individuals with Disabilities Education Act (IDEA), Pell Grants, and Impact Aid. The conference agreement also drops the Senate’s reserve fund for IDEA.

Veterans health care. The conference report includes the Senate-passed discretionary budget

authority level for the Veterans Affairs function of \$29.96 billion in 2004 - - a \$3.4 billion (12.9 percent) increase over the FY 2003 enacted level. Of this amount, \$27.2 billion would be for VA medical care which is a \$3.29 billion (13.8 percent) increase over the FY 2003 enacted level.

Entitlement Program Changes

Medicare and prescription drugs. The conference agreement provides up to \$400 billion for the period of fiscal years 2004-2013 for Medicare modernization and prescription drugs. The conference report includes separate reserve funds for the House and the Senate. In the House, Medicare legislation must provide a prescription drug benefit, modernize Medicare, and provide adjustments to the Medicare program on a fee-for-service, capitated, or other basis. The Senate language requires Medicare legislation to strengthen and enhance the Medicare program, improve the access of beneficiaries to prescription drugs *or* promote geographic equity payments.

Expanded Coverage. The conference report includes a reserve fund that provides up to \$28.5 billion over five years and \$49.9 billion over ten years for health insurance to the uninsured. Assistance may be provided through spending increases, tax credits, or any combination of the two. The conference level is \$38 billion below the Senate-passed budget.

Medicaid and low income programs. The conference report includes roughly \$19.7 billion over the next ten years for Medicaid and other low-income programs, including:

- \$7.3 billion to fund the Family Opportunity Act.
- \$1.8 billion in budget authority and \$975 million in outlays for legislation that extends expired SCHIP allotments to the States.
- A net cut of \$100 million over ten years resulting from reserve fund language that calls for a Medicaid block grant. (Provides \$12.78 billion over eight years in additional funds, but then cuts Medicaid by \$12.85 billion in 2011 through 2013.)
- \$3.9 billion to extend the Transitional Medical Assistance program for five years. This program allows families to remain eligible for Medicaid for up to 12 months after they lose welfare benefits because of reentry into the workforce.
- \$1.1 billion to extend the QI-1 program for five years.
- \$3.5 billion to reauthorize TANF-related activities.
- \$1.9 billion for the Child Care Development Block grant.
- \$700 million for the Administration's proposal to block grant child welfare programs, including foster care and adoption assistance.

Education (IDEA) The conference report dropped a special education provision included in the Senate-reported resolution that created a mechanism to adjust committee allocations and other appropriate levels to accommodate additional IDEA spending of \$205 million in 2004 and \$209 million in 2005.

Concurrent receipt. The conference report dropped the concurrent receipt amendment offered by Senator Reid, which was adopted in the Senate. This item provided \$12.8 billion in National Defense mandatory funding over ten years for concurrent receipt for military retirees with service-connected disabilities rated at 60 percent or greater.

Social Security. The conference report dropped a provision included in the Senate-reported resolution which created a \$396 billion reserve fund to strengthen Social Security and extend the solvency of the Social Security trust funds.

Conservation Security Program. The conference report assumes that the Conservation Security Program is funded at \$3.4 billion over ten years, the same level included in the Senate-passed resolution, and a reduction of \$400 million over ten years, relative to the baseline.

Elimination of Waste, Fraud, and Abuse. The conference report requires the Chairmen of the House and Senate Budget Committees to insert in the Congressional Record by May 16 specified levels of savings for House and Senate committees. Those committees are required to submit findings to the House and Senate Budget Committees by September 2 identifying legislative changes that would achieve the specified savings by eliminating waste, fraud, and abuse. The General Accounting Office is instructed to submit to the House and Senate Budget Committees by August 1 a report identifying potential legislative improvements that could be made by the committees of jurisdiction.

Reserve Funds

The budget resolution includes six reserve funds for the following purposes: Medicare Modernization and Prescription Drugs, Medicaid Reform, State Children's Health Insurance Program, Project Bioshield, Health Insurance for the Uninsured, and Children with Special Needs.

Reconciliation

Reconciliation Instructions. The conference report instructs the Senate Finance Committee to report by May 8 reconciliation legislation to cut taxes by up to \$522.524 billion and increase outlays by up to \$27.476 billion over the period 2003-2013, and instructs the House Ways and Means Committee to report by May 8 reconciliation legislation to cut taxes by up to \$535 billion and increase outlays by up to \$15 billion over the period 2003-2013. However, the conference report creates a 60-vote point of order against the Senate's consideration of that same legislation if it exceeds \$322.524 billion in tax cuts or \$27.476 billion in outlays for the period of fiscal years 2003-2013. The point of order will not apply against the Senate's consideration of a reconciliation conference report, however.

Other Budget Process Changes

Emergency Designations. The conference report establishes a 60-vote point of order against nondefense emergency designations. The point of order operates like the Byrd rule, allowing provisions of a bill, amendment, or conference report to be stricken upon a point of order that is not waived with 60 votes. The conference report further instructs that provisions designated as emergencies shall not count for purposes of budgetary points of order enforcing committee allocations, tax and spending aggregates, discretionary caps, or the pay-as-you-go rule. A provision added on the floor to the Senate-passed budget resolution that exempted homeland security spending from the point of order was dropped in conference.

Advance Appropriations. The conference report establishes a 60-vote point of order against

provisions of legislation making appropriations for fiscal year 2004 or 2005 that first become available in any subsequent fiscal year, except for advance appropriations for 2005 and 2006 for programs, projects, activities, and accounts listed in the statement of managers in an amount up to \$23.158 billion in each year. The point of order operates like the Byrd rule, allowing provisions of a bill, amendment, or conference report to be stricken upon a point of order that is not waived with 60 votes.

Supermajority Enforcement of Points of Order. The conference report would extend through September 30, 2008, for purposes of Senate enforcement, provisions requiring 60 votes to waive or appeal budget points of order, including those protecting Social Security and limiting tax cuts and spending to levels provided in the budget resolution. Absent this extension, those points of order could be waived with only a simple majority vote after April 15, 2003.

Pay-as-you-go. The current paygo rule in the Senate expires on April 15, 2003. It is a supermajority point of order against mandatory and tax legislation that would increase the deficit in the first year, the first five years, or the second five years. The conference report extends the paygo rule through September 30, 2008, but exempts all legislation assumed in any budget resolution from the paygo rule.

Sense of the Senate Provisions

The conference report expresses the sense of the Senate on federal employee pay, Pell grants, emergency and disaster assistance for livestock and agriculture producers, Social Security restructuring, state fiscal relief, a federal agency review commission, highway spending, liabilities and future costs, expanding health care coverage, the Corps of Engineers, Native American health, incentives to revitalize rural America, children's graduate medical education, funding for criminal justice, funding for drug treatment, and free trade with the United Kingdom. All other sense of the Senate or House provisions were dropped.

House-passed, Senate-passed and Conference Report on FY 2004 Budget Resolution

(FY 2003-13; \$ billions)	Senate-passed	House-passed	Conference
Tax cuts and tax credits	852	1,400	1,276
<i>Reconciled</i>	350	726	550
<i>Other</i>	502	674	726
Discretionary (outlays) 1/	23	0	143
Defense	126	211	228
International	41	33	49
Domestic	-144	-244	-134
Entitlements	503	154	450
Medicare/prescription drugs	400	400	400
Expanded coverage	88	0	50
Medicaid/low income	21	-165	20
Veterans	13	-14	0
Custom's user fees	-18	-18	-18
Other mandatory	-1	-49	- 2
Interest	347	361	523
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Deficits	1,081	1,270	1,746
Deficits below (-) President's budget	-1,025	-836	-360
Year of unified balance	2011	2012	2012

1/ The Conference report assumes the 2003 supplemental funded at the President's request.
 Note: all changes are shown relative to CBO's March baseline.