



March 28, 2007

Legislative Digest

H.Con.Res. 99 – Concurrent Resolution on the Budget for Fiscal Year 2008

Floor Situation

H.Con.Res. 99 was introduced by Representative John Spratt (D-SC) on March 23, 2007. On March 22, 2007 the House Budget Committee voted to favorably report the legislation as amended to the House by a vote of 22 to 17.

H.Con.Res. 99 is being considered on the floor pursuant to a structured rule. The rule:

- Provides four hours of debate with three hours equally divided and controlled by the Chairman and Ranking Member of the Committee on the Budget and one hour equally divided and controlled by Representative Maloney of New York and Representative Saxton of New Jersey.
- Waives all points of order against consideration.
- Makes in order three amendments (See Summaries of Budget Substitutes Made in Order by the Rule).
- Permits the Chair to postpone consideration of the concurrent resolution to such time as may be designated by the Speaker.

H.Con.Res. 99 is expected to be considered on the floor on March 28, 2007.

Summary

H.Con.Res. 99 would set the federal government's budget policies over the FY 2008 to FY 2012 period.

Title I: Recommended Levels and Amounts

- **Revenue:** Increases from \$2.542 trillion in FY 2007 to \$3.405 trillion in FY 2012. This is a total increase over five years of \$863 billion or 34 percent.

Within this revenue figure is a tax increase of \$392 billion that comes in the form of assuming all revenue from the expiration of previously enacted tax cuts. Tax

cuts which the revenue figure for H.Con.Res. 99 assumes will expire include the income tax rate reductions, the capital gains and dividend tax cuts, marriage penalty relief, death tax relief, the increase in the child tax credit, and the state and local sales tax deduction.

- **Total Spending:** Increases from \$2.751 billion in FY 2007 to \$3.252 billion in FY 2012. This is a total increase over five years of \$501 billion or 18 percent.
- **Total Mandatory Spending:** Increases from \$1.690 billion in FY 2007 to \$2.152 billion in FY 2012. This is a total increase over five years of \$462 billion or 26 percent.

**Note: 92 percent of the growth in federal spending over the FY 2008 to FY 2012 period, as proposed by H.Con.Res. 99, comes from growth in mandatory spending.*

- **Total Discretionary Spending:** Increases from \$1.061 trillion in FY 2007 to \$1.1 trillion in FY 2012. This is a total increase over five years of \$39 billion or 4 percent.

H.Con.Res. 99 proposes uneven growth in discretionary spending. For FY 2008, which has applicability to the limits appropriators will have to work with, the budget resolution allows outlays to increase by \$81 billion and budget authority to increase by \$24 billion compared to FY 2007.

- **Deficit:** The deficit declines from a projected \$209 billion in 2007 to a projected surplus of \$153 billion in 2012.

**Note: In reaching this surplus for 2012, the budget resolution proposes \$392 billion in tax increases over five years.*

See link with table containing funding levels by function as provided by the House Budget Committee: [Table with budget figures and major functional categories](#)

Title II: Reserve Funds

According to CRS, “A reserve fund is a provision in a budget resolution that authorizes the chairman of the House or Senate Budget Committee to adjust the aggregate levels of revenue and spending in the budget resolution, and the spending allocations made to committees thereunder, as appropriate, if a specified legislative action occurs.”

H.Con.Res. 99 sets aside no money for any of the reserve funds established in Title II, but instead requires either unspecified tax increases or unspecified spending reductions. An amendment offered by Representatives McHenry, Smith, and Ryan during committee consideration of H.Con.Res. 99 that would have prevented tax increases from being used to fund spending for the reserve funds was rejected by a vote of 17 to 20. If tax increases were used to fund the new spending proposed by the reserve funds, this would mean an

additional tax increase of \$115 billion on top of the \$392 billion tax increase proposed by the budget resolution's revenue numbers.

The budget resolution establishes reserve funds for 12 different legislative items:

- **State Children's Health Insurance (SCHIP) Program** (Section 201): Creates a reserve fund of \$50 billion over the 2008 to 2012 period for the SCHIP program. Requires unspecified offsets to cover the cost of this legislation.
- **AMT** (Section 202): Creates a reserve fund for reform of the AMT.

**Note: Any AMT tax relief is required to be offset with unspecified additional tax increases. Unlike the President's budget or the Republican Substitute, H.Con.Res. 99 does not provide a one-year patch for the AMT.*

- **Taxes** (Section 203): Creates a reserve fund for tax relief including extension of the child tax credit, extension of marriage penalty relief, extension of the 10 percent individual income tax bracket, modification of the Alternative Minimum Tax (AMT), extension of the research and experimentation tax credit, extension of the deduction for state and local sales taxes, and a tax credit for school construction.

No money is set aside in the budget for this purpose (the budget's revenue projection relies on these tax cuts expiring) and any of the tax cuts above would have to be offset with other unspecified tax increases.

On the death tax, this section of the bill proposes that the death tax come back into effect in 2011 (permanent repeal of the death tax passed by a vote of 272 to 162 in the 109th Congress with the vote of 42 Democratic Members, [roll call vote 102](#)). This section also proposes that the highest tax rate returns to 39.6 percent, the capital gains tax increases from 15 percent to 20 percent, and the dividend tax rate goes up from 15 percent to 39.6 percent.

- **Agriculture** (Section 204): \$20 billion for FY 2007 through FY 2012 to reauthorize the agriculture bill. Requires unspecified offsets for the cost of this legislation.
- **Higher Education** (Section 205): For reauthorization of the Higher Education Act of 1965. Requires unspecified offsets for this legislation.

See Legislative Digest on: [H.R. 5: College Student Relief Act of 2007](#)

- **Medicare** (Section 206): For increasing the Medicare reimbursement rate for physicians and other unspecified Medicare Prescription drug benefit spending. Requires unspecified offsets.

- **Energy** (Section 207): For investments in renewable or alternative energy sources. Requires unspecified offsets.

See Legislative Digest on [H.R. 6: The Clean Energy Act of 2007](#)

- **Housing** (Section 208): For reform of Fannie Mae and Freddie Mac and requires unspecified offsets for any associated costs.
- **Filipino Veterans of World War II** (Section 209): For legislation to provide increased benefits for Filipino veterans of World War II and requires unspecified offsets for any associated costs.
- **Secure Rural Schools and Community Self-Determination Act** (Section 210): For reauthorization of the Secure Rural Schools and Community Self-Determination Act. Requires unspecified offsets for any associated costs.

**Note: H.R. 1591, the supplemental, included \$400 million for Secure Rural Schools.*

- **Receipts from the Bonneville Power Administration** (Section 211): For legislation to reject the Administration's acceleration of the Bonneville Power Administration's debt repayment. Requires unspecified offsets.
- **Transitional Medical Assistance** (Section 212): For extension of Transitional Medical Assistance through 2008. Requires unspecified offsets. Transitional Medical Assistance provides Medicaid assistance for families transferring to the workforce.

Title III: Budget Enforcement

Program Integrity Initiatives (Section 301): Provides for allocation adjustments if legislation is reported designating funds concerning:

- Continuing Disability Reviews and Supplemental Security Income Redeterminations.
- IRS enforcement.
- Health Care Fraud and Abuse Control Program.
- Unemployment Insurance Improper Payments.

Advance Appropriations (Section 302): The budget resolution allows for advance appropriations of up to \$25.6 billion in 2009 and 2010, an increase of \$2 billion from the previous limit.

Overseas Deployment and Emergency Needs (Section 303): Exempts funding for overseas deployments in FY 2008 or FY 2009 from counting as part of budget limits. Also exempts non-defense discretionary spending that is designated as emergency spending.

Application and Effect of Changes in Allocations and Aggregates (Section 304): Details the allocation and aggregate adjustment procedures required to accommodate legislation for the reserve funds and “program integrity initiatives” in section 301.

Social Security Administrative Expenses (Section 306): Provides that the administrative expenses of the Social Security Administration are to be part of the annual appropriations process.

Exercise of Rulemaking Powers (Section 307): Provides that Title III provisions are incorporated into the rules of the House and recognizes the right of the House to change these rules at any time.

Title IV: Policy

Expresses policy views on:

- **Taxes** (Section 401): The budget resolution calls for a tax increase to make up for lost revenue (compared to what H.Con.Res. 99 calls for in the way of revenue) from:
 1. Reforming the AMT.
 2. Extension of some, but not all, portions of the 2001 and 2003 tax cuts.
- **Defense** (Section 402). Proposes that:
 1. The Missile Defense Agency be funded at lower levels than the President’s request.
 2. TRICARE fees for military retirees under the age of 65 remain at current levels.
 3. Cooperative threat reduction and nuclear nonproliferation programs be funded “at a level commensurate with the risk.”
 4. Military benefits be increased.
 5. Satellite, research, development, and procurement be funded at a level below the President’s request.
 6. GAO recommendations on “improving financial management and contracting practices at the Department of Defense” are followed.
- **College Affordability** (Section 403): States that the reconciliation instructions to the Education and Labor Committee in Section 601 of the budget resolution should not reduce any assistance that makes college more affordable to students.

Title V: Sense of the House

- **Veterans Health Care** (Section 501): The House supports excellent health care for current and former members of the United States Armed Services. The resolution assumes rejection of proposals from the President's budget for enrollment fees and co-payment increases.
- **Innovation Agenda** (Section 502): It is the sense of the House that "sufficient funding" be provided for programs on education and innovation. The increased funding is to support among other things the education of 100,000 new scientists, engineers, and mathematicians.
- **Homeland Security** (Section 503): The budget resolution calls for homeland security spending increases above the President's requested level every year.
- **Hurricane Katrina** (Section 504): The budget resolution calls for legislation to reform the contracting process and to better prepare for future disasters.
- **Long-Term Sustainability of Entitlements** (Section 505): The budget resolution notes the aging population, calls for a policy of funding future Social Security benefits by paying down the debt, states that a lower debt burden would free up resources for productive investments, and states that the most significant factor impacting the nation's entitlement programs is the rapid increase in health care costs for the Medicaid and Medicare programs.

**Note: The budget resolution recommends no step be taken concerning the rapid increase in health care costs for the Medicaid and Medicare programs.*

On Social Security, though section 505 calls for paying down the debt now to finance increases in Social Security spending later, H.Con.Res. 99 allows the national debt to increase by \$2.3 trillion over five years.

- **Hunger** (Section 506): The budget resolution calls for Department of Agriculture programs that fight hunger to be maintained.
- **Health Coverage** (Section 507): The budget resolution calls for legislation consistent with PAYGO that would expand access to health insurance and make it more affordable.
- **PAYGO** (Section 508): The budget resolution calls for an extension of PAYGO. This applies to not just spending but also to taxes, including expiring tax provisions.

**Note: Representatives Bonner, Tiberi, and Barrett offered an amendment during committee to apply PAYGO to spending but not to taxes. The amendment was*

defeated by a vote of 15 to 20. The Ryan Substitute applies PAYGO to spending but not to taxes.

- **Long-Term Budgeting** (Section 509): The budget resolution calls for consideration of the Financial Report of the U.S. Government during deliberation over budget policy.
- **Pay Parity** (Section 510): The House budget resolution calls for pay adjustments at the same rate for civilian federal employees and members of the uniformed services.
- **Waste, Fraud, and Abuse:** Calls on all committees to identify wasteful and fraudulent spending within their jurisdiction. (Section 511).
- **Sense of the House regarding the importance of child support enforcement** (Section 512): Calls for legislative action to ensure that states have the necessary resources to collect child support.
- **Sense of the House on state veterans cemeteries** (Section 513): The House budget resolution states that the U.S. government should pay a plot allowance to a state for the burial of a veteran's spouse or eligible child in a state veterans cemetery.

Title VI: Reconciliation (Section 601)

Calls for House Education and Labor Committee to come up with \$75 million in mandatory savings for the FY 2007 to FY 2012 period.

**Note: This is an amount that is 0.2 percent as large as the mandatory savings enacted during the 109th Congress in the Deficit Reduction Act of 2005 (PL 109-171).*

Background

Republicans have expressed concerns with several aspects of the FY 2008 budget resolution.

First, on the revenue side, the budget resolution would increase taxes by a larger amount than the most recent tax increases in 1993 and 1990. In fact, the Democratic budget resolution proposes the largest tax increase in U.S. history.

Second, the budget resolution (when compared to the President's FY 2008 Budget) provides spending increases that are of a greater amount than what 3 out of the past 4 budget reconciliation bills produced in spending reductions.

Compared to the Omnibus Budget Reconciliation Act of 1993 enacted during the first year of the Clinton Administration, the budget resolution calls for both: 1) tax increases

of an amount that is \$151 billion larger and 2) spending increases of an amount \$58 billion larger than what the 1993 deficit reduction law enacted in the way of spending cuts. (Note: Here, and elsewhere, “spending cut” is used to mean what the CBO scores as a spending reduction, which means a reduction compared to the CBO baseline.)

Finally, the budget resolution follows a roadmap that over the longer-term causes both the tax burden on the American people to increase to levels without any precedent in American history (whether in peace or war time) while still causing unsustainable increases in the public debt.

Tax Increases

The budget resolution would provide for the largest tax increase in American history. The tax increases proposed take a variety of forms:

- **Higher taxes from proposing that existing tax cuts expire:** The budget assumes revenue increases from the expiration of a number of provisions enacted as part of the 2001 and 2003 tax cuts including the income tax reductions, repeal of the death tax, and capital gains and dividend tax reductions.
- **Higher taxes from unspecified tax increases:** The budget resolution does propose, in non-binding language, to keep some of the previously enacted tax cuts from expiring. Even though this change in law would not actually lower taxes, but instead would just keep taxes from being increased, the Democratic budget resolution calls for new, unspecified tax increases to pay (consistent with PAYGO) for preventing these tax increases.

The total resulting tax increase provided by the budget resolution is \$392 billion over five years. A comparison of this proposed tax increase to other past tax increases is provided in the table below.

Comparison of H.Con.Res. 99 to 1990 and 1993 Tax Increases

	1990	1993	2007
Five Year Period	1991 – 1995	1994 - 1998	2008 - 2012
Public Law	PL 101-508	PL 103-66	As proposed in H.Con.Res. 99
Amount of Five-Year Tax Increase	\$158 Billion	\$241 Billion	\$392 Billion

Source: Tax data for tax reconciliation legislation in 1990 and 1993 from CRS Report RS22098.

Over ten years, the resulting tax increase comes to \$1.779 trillion. In 2012 alone, the Democratic budget resolution increases taxes by \$231 billion as compared to the President’s budget request.

In addition to these tax increases, the budget resolution calls for another large, unspecified tax increase to provide for “revenue neutral” AMT reform.

The AMT (originally intended to prevent the wealthiest of taxpayers from escaping taxes altogether) is without a fix scheduled to capture millions of new middle class taxpayers. This is not due to any intentional policy decision, but instead is the unforeseen result of the Tax Reform Act of 1969 law not indexing tax liability for either wage growth or inflation. After enactment, the AMT impacted 20,000 taxpayers. In 2006, 3.5 million taxpayers were subject to the AMT ([CRS Report RL3389](#)). According to the Committee Report, without reform, that figure is expected to rise to 23.2 million in 2007 and 25.7 million in 2008.

Instead of reducing the amount by which the tax burden increases under their budget (from an average of 18.2 percent of GDP over previous 40 years to 19.8 percent of GDP by 2012 and higher still beyond the five-year budget window) and simply correcting this aspect of the AMT which has few if any defenders, the Democratic budget assumes the revenue from an unreformed AMT will continue to flow into the federal government.

This feature of the Democratic budget means one of three things will occur: 1) The AMT will go on unreformed; or 2) The AMT will be fixed as part of a package that also includes a large tax increase; or, 3) This aspect of the budget resolution will be ignored and the budget projections will be off the mark accordingly.

Increased Spending

The budget provides no savings compared to what occurs according to CBO's baseline projections when the budget is put on automatic pilot.

Compared to the President's budget, H.Con.Res. 99 increases spending by \$250 billion over the FY 2008 – FY 2012 period. To put this spending increase in perspective, it is worthwhile to compare it to previous efforts at deficit reduction that contained spending reductions.

Deficit Savings from Spending Reduction in 1990, 1993, 1997 and 2006 compared to Proposal in FY 2008 Budget Resolution

	1990	1993	1997	2006	2007
Five Year Period	1991 - 1995	1994 - 1998	1998 - 2002	2006 - 2010	2008 - 2012
Public Law	PL 101-508	PL 103-66	PL 105-33	109-171	As proposed in H.Con. Res. 99
Deficit Savings from Spending Reductions	\$324 billion	\$192 billion	\$198 billion	\$39 billion	-\$250 billion (spending increase as compared to President's budget)

Source: Spending data for 1990, 1993, 1997, and 2006 reconciliation legislation from CRS Report RS22098.

There is, however, reason to believe that spending will actually turn out to be even higher than what H.Con.Res. 99 proposes.

The spending projections assume that the budget resolution's spending targets will actually be followed. However, during consideration of the FY 2007 supplemental (H.R. 1591), for example, the Democrats increased spending beyond the limits of the FY 2007 budget resolution by designating \$17.5 billion of domestic spending as emergency spending, even though most of this amount does not meet the normal criteria of "emergency spending." A point of order would have been in order against the supplemental for violating the budget resolution, but the rule for consideration of H.R. 1591 waived this point of order.

H.Con.Res. 99 and the Long-Term Budget Outlook

PAYGO, as used by H.Con.Res. 99, presumes that spending will be as high as would be the case if the budget were left on automatic pilot and that taxes will also be at least as high as the CBO baseline provides for. Under this understanding of PAYGO compliance, it is sufficient to simply allow the federal budget to run on auto-pilot.

The budget resolution's use of PAYGO on the tax side of the budget leads to a tax burden without precedent in American history. As a share of the economy, taxes were 16.3 percent of GDP as recently as 2004. In FY 2006, federal taxes came in at 18.4 percent of GDP (18.2 percent of GDP is equal to the average of the previous 40 years). Taxes would climb further to 19.8 percent of GDP by 2012 under the Democratic budget. By 2050, following PAYGO's definition of revenue neutrality would result in a federal tax burden of 23.7 percent of GDP. H.Con.Res. 99 is consistent with the PAYGO requirement that the tax burden rise to such levels.

In terms of spending and PAYGO, the Democratic budget resolution proposes increases in spending for a number of programs through reserve funds (\$20 billion for agriculture and unspecified sums for expanded access for health insurance, Medicare, etc.) that the budget does not set aside money for, but maintains the requirement that these increases be compliant with the PAYGO approach to spending (which would mean unspecified offsets). The total amount of additional new spending proposed by the reserve funds is \$115 billion. One impact of this is that any future savings from spending reductions that are not already included in the budget would probably be budgeted toward other spending increases, thus further reducing the chances that this budget resolution would lead to savings on the spending side of the budget as compared to the baseline.

However, as noted in section 505 of the budget resolution, projected increases in entitlement spending make the long-term budget outlook unsustainable assuming the current baseline.

Amendments offered during Budget Committee consideration

A number of amendments were offered by Republicans in the House Budget Committee during consideration of H.Con.Res. 99 to prevent tax increases or to limit spending increases included in the budget resolution. Amendments offered by Republican Members of the Budget Committee, but rejected on party line votes, included:

- An amendment offered by Representatives Ryan, Tiberi, Porter, Campbell, Diaz-Balart, and McHenry to strike the \$392 billion in tax increases from H.Con.Res. 99 and instead provide reconciliation instructions to extend the expiring tax cuts.
- An amendment offered by Representatives McHenry, Smith, and Ryan to prevent additional tax increases from being used to pay for new spending called for in the 12 reserve funds created in Title II of the bill.
- An amendment to create a point of order against any appropriations bill which increases funding over the 2007 level for a program that was found to be ineffective or failed the Administration's Program Assessment Rating Tool (PART).

A complete list of all amendments considered during committee consideration of H.Con.Res 99 can be found in the Committee Report ([House Report 110-69](#)).

Summaries of Budget Substitutes Made in Order by the Rule

#3 Rep. Paul Ryan (R-WI) may offer an amendment in the Nature of a Substitute. The Republican Substitute proposes:

- **A balanced budget without tax increases:** The Republican budget resolution extends the 2001 and 2003 tax cuts and provides for one-year extensions of the AMT relief, the state and local sales tax deduction, and the research and experimentation tax credit.
- **Entitlement Reform.** To address the sustainability of long-term entitlement spending, the budget calls for savings of \$279 billion over five years from entitlement spending.
- **Budget Enforcement.** Includes Legislative Line Item Veto, PAYGO for the spending side of the budget only, and discretionary spending caps.

#2 Rep. Robert Scott (D-VA) may offer an amendment in the Nature of a Substitute. The substitute proposes a larger tax increase than what is included in H.Con.Res. 99. Summary of substitute as provided to Rules Committee:

“This substitute balances the budget in FY 2012, and produces a total cumulative deficit that is \$339 billion lower than that of the President's budget. It also funds essential programs and services, especially in the areas of health care, education and Gulf Coast

reconstruction. It also provides for additional services for veterans and homeland security, including port and rail security.”

#1 Rep. Lynn Woolsey (D-CA) may offer an amendment in the Nature of a Substitute. The substitute proposes a larger tax increase than what is included in H.Con.Res. 99 and proposes complete deployment out of Iraq during 2007. Summary of substitute as provided to Rules Committee:

“This substitute has a non-defense, domestic discretionary spending number of just over \$483 billion. It balances the budget by FY 2010. It spends \$395 billion on defense while projecting complete U.S. military redeployment out of Iraq during 2007. It also projects enactment of the Common Sense Budget Act, which would save at least \$60 billion per year on largely obsolete Cold War weapons systems plus tens of billions more in waste, fraud, and abuse in DOD spending identified by the nonpartisan Government Accounting Office (GAO). It repeals the Bush tax cuts for the top 1% of taxpayers and cracks down on corporate welfare by eliminating certain tax breaks and corporate loopholes. It includes the SMART Security Alternative to Preemption Doctrine, which shifts some spending and increases other non-military spending to enhance homeland security and fight the root causes of terrorism through 21st century diplomacy and meeting basic human needs (e.g. HIV/AIDS/TB, universal basic education for all). It provides funding for immediate, cost-effective steps to redress global warming and the rapid acceleration of renewable energy development. It fully funds NCLB and IDEA to improve Teacher Corps and job training. It also fully funds the S-CHIP program to ensure every American child eligible is covered for basic health insurance. It ensures whatever federal funding is needed to provide health care (including mental health care) for all American veterans (including but not limited to veterans of the Iraq and Afghanistan military operations). Finally, the substitute increases funding for Community Development Block Grants, Hurricane Katrina relief and reconstruction, community policing, and priority clean-up of leaking underground storage tanks that threaten the drinking water of nearly half of all Americans.”

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