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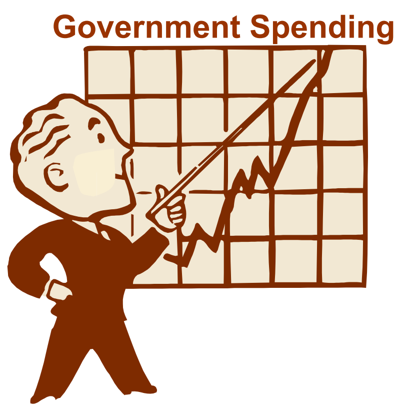
MID-SESSION BUDGET REVIEW

108TH CONGRESS, FIRST SESSION
AUGUST 2003



Prepared by the staff of the House Republican Study Committee

"We don't have a trillion-dollar debt because we haven't taxed enough; we have a trillion-dollar debt because we spend too much."

Ronald Reagan – March 28, 1982

August 19, 2003

MEMBERS OF THE REPUBLICAN STUDY COMMITTEE:

Over the last several months many of us have become increasingly concerned about the growth in the size of government. The public is likewise becoming concerned as they hear reports of deficits in excess of $450 billion. The attached "Mid-Session Review" was prepared by the RSC staff to walk through the major spending issues and outline what conservatives have already been doing as well as the remaining challenges for the year. In addition, the staff has included information regarding spending trends since the 1997 Balanced Budget Agreement as well as a list of legislation that has been introduced to help control spending.

Some key facts that are worth highlighting:

- The Deficit – The On-Budget Deficit (*i.e.* excluding Social Security surpluses) is estimated to hit $614 billion this year and will remain at $300 billion or above through 2008. However, this assumes there are no changes to the current-law baseline. If we adopt the President's policies, the deficit will remain above $400 billion for each of the next five years.
- Mandatory Spending – Through the end of July, the House has approved over $167 billion in new mandatory spending over the next five years. Approximately $120 billion is for Medicare.
- Discretionary Authorizations – Through the end of July, the House has authorized a total of $233 billion in non-defense spending over the next five years. Authorizations demonstrate intent to spend.
- Discretionary Appropriations – An increase of $5.2 billion above the spending levels in the Budget Resolution, which already included a 2.4% increase, has made passage of the annual spending bills easier this year.
- Supplementals – Despite finishing the FY 2003 Appropriations bills in February -- over a third of the way into the Fiscal Year -- Congress has approved two FY 2003 Supplementals totaling over $79 billion.
- Medicare – Under the House-passed bill, the costs for the prescription drug plan increase by approximately 11.1% a year from 2008 to 2013. If this trend continues over the second ten years (beginning in 2013), the program will cost $1.9 trillion (nearly five times what it is estimated to cost in the first ten years).
- Overspending Since 1997 – If Congress had simply limited spending to the levels prescribed in the 1997 Balanced Budget Agreement, we could have enacted all of the tax cuts that have been enacted, paid for the post-September 11th Supplementals and the Iraq War Supplemental, and have a deficit this year that that is *less than half* of what is currently projected. In other words, spending, not tax relief, homeland security, or the war, is driving the deficit.

I hope you find this information useful. When we return from the August recess we will have an opportunity to discuss strategies for limiting the growth in spending and the size of government. If you have any questions, comments, or concerns please contact me.

Sincerely,

Sue Myrick
Chairman, House Republican Study Committee

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A Note on This Document: Sections in this document entitled "What Conservative Members are Doing" are for illustration purposes only and do not constitute a complete list of what Members are working on to address the problems of overspending. Indeed, many Members are working on proposals or have offered proposals that are not included in this document for reasons of space and general readability.

Mention of a Member of Congress in this document is not an indication of their membership in the RSC. Many Members of Congress who are not members of the RSC are pursuing conservative policies supported by many RSC Members.

For more information about the RSC visit **www.house.gov/burton/RSC**

BUDGET DEFICIT FORECASTS

On July 15, the Office of Management and Budget released its mid-session review of the budget. In that document OMB projected the following deficits under current budget policies (*i.e.* the current baseline):

In Billions of Dollars

	2003	2004	2005	2006	2007	2008	2004-08
Unified Deficit	-455	-458	-241	-110	-78	-62	-949
Off-Budget Surplus	159	164	186	203	222	238	1,013
On-Budget Deficit	**-614**	**-621**	**-427**	**-313**	**-300**	**-300**	**-1,962**

Note: The Off-Budget Surplus consists of excess Social Security receipts.

The President has proposed several additions to the current baseline which would deepen the deficit, including:

In Billions of Dollars

	2003	2004	2005	2006	2007	2008	2004-08
Defense & Homeland Security	0	-8	-19	-26	-29	-43	-125
Extension of Expiring Tax Provisions	*	-2	-26	-50	-35	-35	-150
Medicare	0	-6	-10	-33	-38	-43	-130
Incentives for Charitable Giving	-*	-3	-2	-2	-2	-2	-11
Health Tax Credits	0	-*	-3	-6	-8	-8	-24
Other Proposals	-*	2	-1	-5	-11	-14	-29
Debt Service Costs	*-**	*-**	*-1*	*-5*	*-12*	*-19*	*-37*
TOTAL	**-1**	**-17**	**-63**	**-127**	**-135**	**-164**	**-506**

Note: *$500 million or less.
Source: OMB

If the President's proposals are enacted, this would result in deficits as follows:

In Billions of Dollars

	2003	2004	2005	2006	2007	2008	2004-08
Unified Deficit	-455	-475	-304	-238	-213	-226	-1,455
Off-Budget Surplus	159	164	186	203	222	238	1,013
On-Budget Deficit	**-614**	**-639**	**-490**	**-441**	**-435**	**-464**	**-2,468**

Note: The Off-Budget Surplus consists of excess Social Security receipts.

MANDATORY SPENDING

Excluding interest payments on the National Debt, mandatory spending currently consumes 55% of the total federal budget.

According to the Congressional Budget Office's January baseline projections, the government was expected to spend $6,684 billion on mandatory programs (excluding interest payments) over the next five years.

Through the end of July, the House had approved bills to add an additional $167.3 billion in mandatory spending to the baseline over the next five years. This is an increase of 2.5% over the current base. This means that in addition to the natural growth of entitlements, the House has proposed to expand entitlement spending even further.

By far, the largest increase is a result of the Medicare Prescription Drug Proposal (H.R. 1). As passed by the House, the legislation would add approximately $120 billion in mandatory spending over the next five years.

Other major increases in mandatory spending passed by the House include:

- Financial Assistance to the States ($20 billion over 5 years – all cost in initial years)
- Two extensions of unemployment insurance benefits ($15.5 billion over 5 years – all costs in initial years);
- Expansion of Federal Deposit Insurance Coverage ($3.4 billion over 5 years – costs turn into savings in out years);
- Increased Spending on Child Care & Other Welfare Reform Changes ($2.4 billion); and
- Aviation Spending ($1.4 billion over 5 years).

The House passed one piece of legislation that achieves significant mandatory savings over the next 5 years. Medical Malpractice Liability Reform (H.R. 5) is estimated to save taxpayers $4.4 billion over the next five years.

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What Conservative Members Are Doing:

Many RSC Members raised objections to the inclusion of the $20 billion in State Assistance included in the Economic Growth Package. After several RSC Members uncovered misuse of the funds by the States (which were documented in a report released by the RSC), Rep. Steve King introduced legislation requiring States to repay, with a penalty, any misspent funds.

Led by Reps. Jeb Hensarling and Pat Toomey, several RSC Members received a commitment from the Speaker to work to include a "cost containment" measure in the pending Medicare bill. The provision would ensure that the total cost of adding prescription drug coverage to Medicare does not exceed what we have budgeted for the program over the next ten years.

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Challenges for the Remainder of the Year:

Medicare – Given that the official estimates for both the House and Senate-passed bills exceed the $400 billion budgeted and given the increasing pressure to provide a more generous drug benefit, there will be tremendous pressure to increase the cost of the measure beyond $400 billion.

Concurrent Receipt – The Senate version of the Defense Authorization bill includes a proposal to expand concurrent receipt of retirement and disability benefits for military retirees. Over ten years, CBO estimates that full concurrent receipt would cost the government about $56.5 billion, including about $41 billion in direct spending and $15.4 billion in accrual payments to cover the future cost of today's military workforce. A House bill to provide full concurrent receipt has 354 cosponsors.

Welfare – If the Senate passes a welfare reauthorization bill, it may include additional funding for States and/or for childcare.

Unemployment – Congress has already extended the 13 weeks of additional unemployment benefits through December 31, 2003. As this deadline approaches, there will likely be pressure to extend the benefits for a fourth time.

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DISCRETIONARY AUTHORIZATIONS

While bills authorizing discretionary appropriations do not themselves increase spending, they do represent an intent to spend. Furthermore, in recent years when the Appropriations Committee has funded programs at levels below the authorized level, some have complained about "cuts" in funding. Increased authorization levels for existing programs and authorizations for new programs increase the pressure to increase actual discretionary spending.

<u>Through the end of July, the House had approved legislation authorizing $449 billion in spending for the next fiscal year and $634 billion in discretionary spending over the next five years.</u> By far the largest authorization is the annual National Defense Authorization bill, which authorizes discretionary appropriations of $398 billion for the next fiscal year and $401 billion over the next five years.

The following table highlights other major authorization bills passed by the House and compares them to a freeze in spending and inflation (all dollar figures over five years unless otherwise noted):

Bill	Total Cost of Authorization	5 Year Cost Increase Above What it Would Have Cost if Spending was Frozen at the Fiscal Year 2003 Level	Spending Growth Compared with CBO's Inflation Rate
Child Care (Included in Welfare Reform)	$13.5 Billion	$3.1 Billion	Faster Than Inflation
Assistance to Museum and Libraries	$1.276 Billion	$56 Million	With Inflation
IDEA Reauthorization	$85 Billion*	$37.9 Billion	Faster Than Inflation
Global AIDS Bill	$15 Billion	$6.8 Billion	Faster Than Inflation
Nanotechnology Research	$2.4 Billion** (three year bill)	$873 Million (three year bill)	Faster Than Inflation
Workforce Reinvestment Act	$31 Billion	$1.1 Billion	With Inflation
Federal Aviation Programs	$47.8 Billion (four year bill)	$7.2 Billion (four year bill)	Faster Than Inflation
Ready to Teach Act	$1.8 Billion	$1.2 Billion	Faster Than Inflation
State Department & Foreign Relations	$30.8 Billion	Unclear	Unclear
Millennium Challenge Accounts & Peace Corps	$11 Billion (four year bill)	$9.9 Billion (four year bill)	New Program & Faster Than Inflation
Project Bioshield	$3.5 Billion	$3.4 Billion	New Program
Head Start	$35.8 Billion	$2.3 Billion	Initial Increase, then Slower Than Inflation

*Total IDEA expenditures which includes cost of permanently authorized programs
**Total authorized funding which includes $350 million already authorized for 2004

Beyond just increased authorization levels, the creation of brand-new programs to address some need creates pressure to increase spending. Many Republicans have argued that the creation of new programs ought to be accompanied by the elimination of an existing program of lower-priority. Eliminating programs while creating new ones eliminates some of the pressure to increase overall spending and also keeps the government from expanding. The House, however, has approved a number of bills during the 108th Congress that create new federal programs.

Examples of new programs approved by the House this year include:

- Fatherhood Promotion Program -- $20 million annually
- Mosquito Control Grants to States & Localities -- $100 million annually
- Travel Expenses for Living Organ Donors -- $5 million annually
- Grants to States for Organ Donation Awareness Programs -- $15 million annually
- Grants to establish electronic prescription programs and to pay the costs of acquiring new technology to improve quality of care and reduce medical errors -- $25 million annually
- Grants to States to establish and support AMBER Alert programs -- $25 million
- Grants to Maryland and Louisiana to eradicate / control nutria -- $6 million annually
- Grants to Small Business Development Centers for Regulatory Assistance -- $5 million annually
- Grants to States to Provide Rebates to Consumers for Purchase of Energy Efficient Appliances -- $50 million annually
- Grants to Local Government and Private Organizations to Increase Energy Efficiency in Low-Income Areas -- $60 million over three years
- Program to demonstrate new technologies for the recovery oil and natural gas -- $100 million through 2010
- Grants for Commercial Biomass and Individual Biomass Projects -- $550 million
- Conserve by Bicycling Pilot Program -- $6.2 million
- Grants to State and Localities to Improve Wastewater Treatment Security -- $200 million
- Nanotechnolgy Research and Development Program -- $873 million
- Watershed Forestry Assistance Program -- $15 million annually
- Pilot Program for Innovative Financing for Aviation Terminal Automation Replacement System -- $200 million
- Public Diplomacy Reserve Corps -- unspecified
- International Public Library Program -- unspecified
- Millennium Challenge Corporation -- $9.3 billion over three years
- Grants to Non-profits for Projects of Former Peace Corps Members --$10 million

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<u>What Conservative Members Are Doing:</u>

The RSC is beginning to focus on limiting authorization levels as a means to reduce pressure on future increases in spending. In one of its first efforts to reduce authorization levels, the RSC successfully negotiated a rewrite of the authorization levels in the Head Start legislation; these changes reduced the authorizations by $209 million over the next five years relative to CBO's estimates.

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<u>Challenges for the Remainder of the Year:</u>

<u>Additional Authorization Measures – </u>The following authorization measures are likely to be considered after the August Recess:

- Higher Education Programs
- Energy Bill Conference Report
- FAA Reauthorization Conference Report
- Coast Guard and Maritime Transportation Act
- Economic Development Administration Reauthorization
- Corporation for National and Community Service (AmeriCorps) Reauthorization
- Small Business Reauthorization
- Child Nutrition / School Lunch Reauthorization

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FISCAL YEAR 2004 DISCRETIONARY APPROPRIATIONS

In order to expedite the Fiscal Year 2004 Appropriations process, an agreement was reached in late Spring between the House, the Senate, and the Administration to increase discretionary spending by $5.2 billion as compared to the Budget Resolution, which already included a 2.4% increase in spending. Of this total, $3 billion would be derived from rescinding money for one-time expenditures in the Iraq Supplemental and $2.2 billion would be derived by reclassifying $2.2 billion in advance funding from the Omnibus as regular Fiscal Year 2003 funding.

Through the end of July, the House had passed 11 of the 13 annual discretionary appropriations bills. The House is on track to comply with the revised levels of spending permitted under the Spring agreement. The chart below indicates the changes in spending versus last year and the President's request.

	FY 2003 Spending (Excluding Supplementals)	FY 2004 President's Request	FY 2004 House	FY 2004 House Vs. FY 2003	FY 2004 House Vs. Request
Agriculture	18,096	16,784	17,005	-6.03%	1.32%
Commerce / Justice / State	39,201	37,673	37,914	-3.28%	0.64%
Defense	364,243	371,819	370,662[c]	1.76%	-0.31%
D.C.	509	421	466	-8.45%	10.69%
Energy & Water	25,856	26,801	27,080	4.73%	1.04%
Foreign Operations	16,227	18,889	17,120	5.50%	-9.37%
Homeland Security	21,267	28,219	29,411	38.29%	4.22%
Interior	19,463	19,555	19,627	0.84%	0.37%
Labor / HHS / Education	134,313[a]	135,344[b]	138,036	2.77%	1.99%
Legislative Branch	3,343	3,804	3,512[d]	5.06%	-7.68%
Military Construction	10,546	9,115	9,196	-12.80%	0.89%
Transportation / Treasury	28,259	27,462	27,502[e]	-2.68%	0.15%
VA / HUD	86,717	89,634	90,033	3.82%	0.45%
TOTAL	**768,040**	**785,520**	**787,564**	**2.54%**	**0.26%**

[a] Increased by $2.244 billion to reflect the reclassification of FY 04 advance funding approved in the FY 03 bill as regular FY 03 spending. This reclassification made it possible to spend an extra $2.244 billion within the FY 04 Budget.
[b] Reduced by $2.244 billion to reflect the reclassification of FY 04 advance funding approved in the FY 03 bill as regular FY 03 spending. The President's request did not assume this reclassification.
[c] Increased by $2.0 billion to reflect that $2.0 billion in FY 04 spending is offset by rescinding FY 03 Supplemental War Spending.
[d] Total 302(b) Allocation
[e] 302(b) Allocation

Both the President's request and the House Appropriations Bills for FY 2004 devote the majority of the increase over last year to the Homeland Security Bill (41.7% of the increase) and the Defense

Bill (32.9% of the increase). 25.4% of the total increase in spending is distributed amongst the other 11 bills.

Compared to the President's request, the House Appropriations Bills increase spending beyond the request for the Homeland Security Bill by $1.2 billion. <u>In addition, the House Bills reduce funding for Defense relative to the President's request, which permits an increase relative to the request for non-defense, non-homeland appropriations of $1.9 billion.</u>

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<u>What Conservative Members Are Doing:</u>

A number of amendments have been offered by various Republican Members to reduce spending or prevent spending on certain projects or programs deemed wasteful in order to increase funding for other, higher-priority programs. These amendments include:

- **<u>Agriculture Appropriations – Hefley Amendment:</u>** Reduced funding in the bill by 1% ($175 million). Failed: 68-333 (R: 63-148; D: 5-184)
- **<u>Commerce / Justice / State Appropriations – Paul Amendment:</u>** Prohibits funds from being used to rejoin UNESCO. The bill included $71.4 million for the purpose of rejoining UNESCO. Failed: 145-279 (R: 141-84; D: 4-194)
- **<u>Energy & Water Appropriations – Hefley Amendment:</u>** Reduced funding in the bill by 1% ($272.11 million). Failed: 82-327 (R: 76-134; D: 6-192)
- **<u>Foreign Operations Appropriations – Hefley Amendment:</u>** Reduced funding in the bill by 1% ($171 million). Failed: 110-309 (R: 98-122; D: 12-186)
- **<u>Interior Appropriations – Hefley Amendment:</u>** Reduced funding in the bill by 1% ($196 million). Failed: 81-341 (R: 76-147; D: 5-193)
- **<u>Interior Appropriations – Tancredo Amendment:</u>** Transfer $57.48 million from the National Endowment for the Arts to Wildland Firefighting. Because of a lack of resources for wildland firefighting, the President has requested a Supplemental for FY 2003. An increase in FY 2004 funds could prevent the need for future Supplemental funding. Failed: 112-313 (R: 108-117; D: 4-195)
- **<u>Interior Appropriations – Shadegg Amendment:</u>** Transfer $19 million from Forest Service Land Acquisition to Wildland Firefighting. Because of a lack of resources for wildland firefighting, the President has requested a Supplemental for FY 2003. An increase in FY 2004 funds could prevent the need for future Supplemental funding. Failed: 128-298 (R: 119-107; D: 9-190)
- **<u>Labor / HHS / Education Appropriations – Toomey / Chocola Amendment:</u>** Prevents funding for five specific grants of questionable value, permitting the funding to be used for other research. The combined value of these grants is roughly $1.7 million for FY 2004. The grants are specifically:
  - Grant Number RO1HD043689: "Mood Arousal and Sexual Risk Taking."
  - Grant Number RO3HDO39206: Study on Sexual Habits of Older Men.
  - Grant Number R01DA01386: Study on San Francisco's Asian Prostitutes/Masseuses.
  - Grant Number R01MH065871: Study on American Indian Transgender Research.
  - Grant Number R01HD039789: National Institute for <u>Child</u> Health and <u>Human</u> Development Study on Pandas in China.

  Failed: 210-212-1 (R: 177-46; D: 33-165)

- **VA / HUD Appropriations – Stearns Amendment:** Reduced AmeriCorps by $12,217,000 and increased Veterans Medical and Prosthetic Research by $5 million. Failed: 154-264 (R: 146-74; D: 8-189)

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Challenges for the Remainder of the Year:

As the Senate completes work on its bills and as bills begin to move through Conference, there will be increased pressure to add a few billion more dollars to "finish up the process." Such additional spending would violate the spending agreement reached earlier in the year.

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FISCAL YEAR 2003 SUPPLEMENTALS

Despite the fact that the regular Fiscal Year 2003 Appropriations bills were not enacted until mid-February, four-and-a-half months into the Fiscal Year, Congress has passed two separate Supplemental Appropriations Bills totaling $79.446 Billion (note: the pending FY 2004 Defense Appropriations bill rescinds $2 billion from the first Supplemental).

While the vast majority of the funding in the first supplemental was for military operations related to the war in Iraq (approximately $62.4 billion), reconstruction of Iraq and other foreign affairs items (approximately $7.8 billion), and Homeland Security (approximately $6.3 billion), funding was also included for non-requested, non-emergency items such as:

- Agriculture Research Service Buildings ($110 million),
- Department of Veterans Affairs Administration ($100 million),
- Corps of Engineers ($39 million),
- Maritime Loans ($25 million),
- AmeriCorps ($64 million), and
- Embassy Facilities in Rome ($78 million).

The second supplemental only included funding for FEMA Disaster Relief ($983.6 million). The "need" for this supplemental, however, was created when Congress approved the Omnibus for Fiscal Year 2003 that purposefully underfunded FEMA by $1 billion so that those funds could be spent on other items.

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What Conservative Members Are Doing:

During consideration of the first Supplemental, the RSC fought against the inclusion of any extraneous unrequested spending in what was supposed to be a war supplemental. While some provisions were removed, including money for a dam in Vermont, a communications system in Kentucky, and a school-to-work program in Virginia, and while the costs of other provisions were reduced, including NOAA funding and maritime loan guarantees, the final bill still included numerous non-emergency add-ons.

During consideration of the second supplemental, the RSC maintained the position that any supplemental funding ought to be offset through reductions in spending in other programs. The Leadership elected instead to reduce the overall size of the supplemental by approximately $1 billion and permit the RSC to offer an offset amendment. Rep. Toomey offered an amendment that directed the President to make a pro-rata reduction in unobligated Fiscal Year 2003 discretionary funds to achieve savings of $983.6 million, thus fully offsetting the Supplemental. Defense programs, programs within the Department of Homeland Security, and programs within the Department of Veterans Affairs are specifically excluded from reduction. Finally, in the event that the President determines that the reduction in Fiscal Year 2003 for any particular program is excessive, he is authorized to make the reduction out of Fiscal Year 2004 funds for that account. The amendment failed by a vote of 111-300 (R: 97-120; D: 14-179).

Finally, in order to prevent the need for future supplementals, RSC Members are working to make sure that critical emergency accounts, like wildfire and FEMA, are not intentionally underfunded in the Fiscal Year 2004 Appropriations bills.

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Challenges for the Remainder of the Year:

There will be intense pressure to do another supplemental during the last four weeks of the fiscal year (the month of September) to fund wildfires and AmeriCorps. In addition, it is likely that in the near future the Administration will request additional funds for Operations in Iraq.

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TRANSPORTATION FUNDING

This year Congress is scheduled to reauthorize highway construction programs last authorized in 1998. While the administration has proposed funding of $247 billion over the next six years, the Senate is looking at a bill totaling over $300 billion, and Chairman Don Young has proposed funding of $375 billion. Chairman Young has proposed financing this spending in part by raising the gas tax. Strong opposition from the White House, the Leadership, and RSC Members to any tax increase has made it unlikely that a gas tax increase could be enacted. This has resulted in a number of alternatives being proffered in recent months, including:

- Bonds – Proposals have been floated in the Senate (including by Senators Talent and Wyden and Senators Grassley and Baucus) to finance additional transit and highway projects via federally backed bonds. These proposals have been met with opposition from many Republican Senators and the Administration. Objections to these proposals include: cost and creation of a funding mechanism outside of the existing highway trust fund.
- Short-Term Extension – Recently outside groups and Congressional staff have speculated that a short-term reauthorization could be enacted that would set funding levels for the next six years similar to the levels proposed by Chairman Young, but would require Congress to determine how to pay for the increase in the future. While not including a tax increase, enacting legislation that authorizes spending at levels that cannot be supported with existing revenues may concern Members who feel that it will lead to a future tax increase.
- Reprioritize Existing Funding – Transportation & Treasury Appropriations Subcommittee Chairman Ernest Istook has proposed increasing funding for surface transportation projects by $600 million in Fiscal Year 2004 by shifting funds to highway construction that would have been used under current law for transportation enhancements (bike paths, transportation museums, landscaping, renovation of historic places, etc.).
- Other Proposals – Other proposals include Rep. Musgrave's legislation to eliminate the federal Davis-Bacon requirement for highway projects, thus freeing up resources for additional construction. Rep. Mark Kennedy has proposed legislation permitting the use of tolls (provided certain requirements are met) to finance new construction.

In addition to the ongoing debate over highway funding, there is also a debate on the appropriate level of Amtrak funding. While Chairman Istook, with the strong support of many RSC Members (as evidenced in a letter circulated by Rep. Barrett), initially funded Amtrak at $580 million ($320 million below the request and $463 million below last year), the full Committee ultimately approved a level of $900 million. In addition to the annual appropriations, the Senate is considering authorizing new bonds to support Amtrak.

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What Conservative Members Are Doing:

Led by Rep. Musgrave, RSC Members expressed strong opposition to the proposed gas tax increase. The RSC also outlined other options for increasing highway funding without raising taxes, including: repeal of Davis-Bacon, reprioritization of existing funding (specifically transportation enhancement funding), and use of creative financing mechanisms, such as toll roads and hot lanes.

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Challenges for the Remainder of the Year:

It is likely that attempts will be made to restore funding for Transportation Enhancements while still maintaining the increase in funding for highways. This will require additional offsets to avoid an increase in overall spending.

Legislation must be enacted prior to September 30 to reauthorize or extend current highway funding. Assuming there is no agreement on methods of financing increased spending, the extension could come in the form of either a straight extension of existing law and existing spending levels or a short-term authorization with higher levels with financing to be determined later.

There will be a major push to increase Amtrak funding via regular appropriations or new bonding authority.

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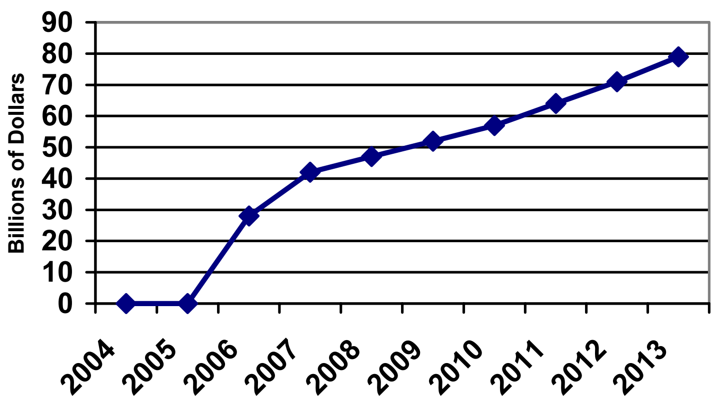
MEDICARE

According to analysis released by the Congressional Budget Office, the prescription drug benefits provided by the House-passed bill would cost $648 billion over the next ten years ($511 billion for benefits, $68 billion for subsidies to employer and union plans, $69 billion for low-income subsidies and transitional drug assistance). These costs are in part offset by income and savings of $238 billion ($139 billion in income for premiums and $99 billion in Medicaid and other federal drug spending savings).

All of these figures are somewhat misleading, however, since only $1 billion in spending occurs in the first two years of the ten-year window and only 27% occurs in the first five years of the ten-year window. For example, drug benefits do not begin until 2006 when they are estimated to cost $32 billion. Within three years the cost nearly doubles to $60 billion in 2009 and over the next four years the program increases by another 50% to $92 billion in 2013. Subsidies for employer and union plans follow a similar path staring at $4 billion in 2006, doubling to $8 billion in 2009 and increasing by approximately 50% to $12 billion by 2013.

Prescription Drug Benefits and Subisidies to Employers & Unions

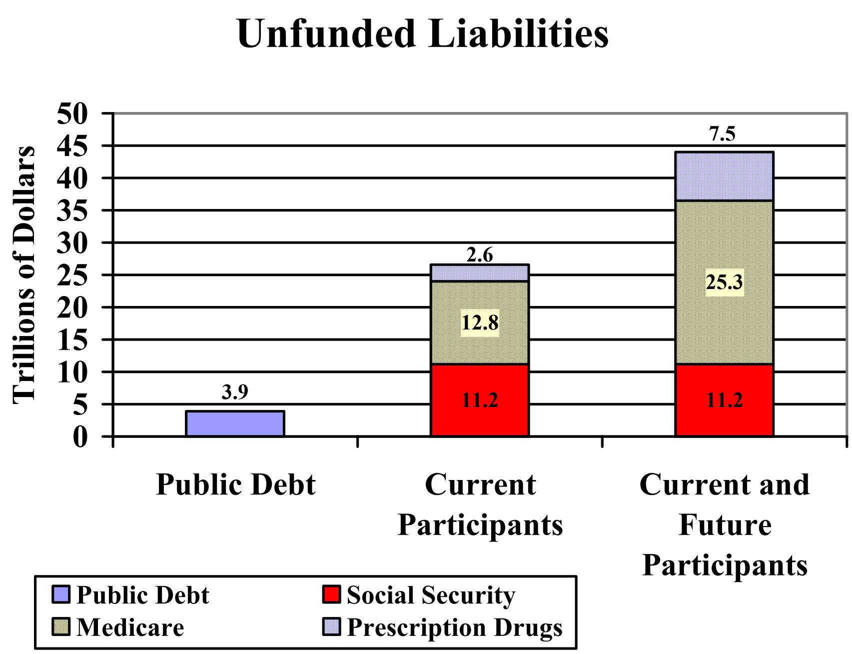


Note: Includes offsetting revenue from premiums.

From 2008 to 2013, the costs of the prescription drug benefits increase by an average of 11.1% a year. If this growth trend continues, over the next ten years the program would cost over $1.9 trillion.

Under current law (*i.e.* excluding the new prescription drug benefit), Medicare is expected to consume an ever-increasing share of the U.S. economy (Gross Domestic Product). According to the Congressional Budget Office, in 2000 Medicare consumed 2.2% of the economy. Within ten years (2010) Medicare will consume 2.7%, growing to 3.6% by 2020, 4.9% by 2030, and 6.0% by 2040. Data is currently unavailable concerning how much of the economy Medicare will consume after enactment of a prescription drug benefit.

Medicare and Social Security also face significant unfunded liabilities (*i.e.* obligations in excess of revenue). The proposed Prescription Drug Benefit will add significantly to this liability. The attached chart compares the amount of publicly held debt with the unfunded liabilities of Social Security and Medicare expressed in terms of net present value (*i.e.* the money we would have to set aside right now to cover the future liabilities). The chart is further broken down to look at the liability under two separate scenarios, first, the closed-group scenario under which only those currently receiving benefits or paying into the system are included in the calculations (*i.e.* it assumed that no new individuals will be permitted to participate in Social Security or Medicare) and second, the open-group scenario which includes future participants.



Adding a Prescription Drug Benefit to Medicare increases the unfunded liability of the Government by $2.6 trillion for current participants and $7.5 trillion for current and future participants.

Source: Department of the Treasury and Public Enterprise Research Center

Fundamental Medicare reform, if enacted, would offset some of the increased cost of the prescription drug benefit by controlling the increase in spending for traditional Medicare. The proposal developed by the Medicare Reform Commission (Breaux-Thomas) in 1999 added prescription drug coverage, but also reformed Medicare. This proposal actually would have saved money as compared to current law. Specifically, over the first ten years, the proposal saved approximately $100 billion. The proposals passed by the House and Senate this year do not contain the type of fundamental reform that will result in savings in the near-term. It is uncertain whether the 2010 FEHBP-style reforms included in the House-passed bill will result in significant savings in the out years (*i.e.* after 2013).

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<u>What Conservative Members Are Doing:</u>

Led by Reps. Jeb Hensarling and Pat Toomey, several RSC Members received a commitment from the Speaker to work to include a “cost containment” measure in the pending Medicare bill. The provision would ensure that the total cost of adding prescription drug coverage to Medicare does not exceed what we have budgeted for the program over the next ten years.

Led by Rep. Paul Ryan and others, RSC Members are working to maintain and improve the reforms included in the House-passed bill so that we may control the growth in spending for the existing Medicare program.

Former RSC Chairman John Shadegg along with Reps. Charlie Norwood, Steve Buyer, Richard Burr, and Joe Barton developed an alternative proposal to the new prescription drug benefit that would provide benefits through a prescription drug debit card and that would limit federal subsidies to low-income individuals. While the proposal would also provide catastrophic coverage for seniors it would avoid many of the problems associated with the current proposal to create an open-ended federal entitlement for all seniors, irrespective of need.

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Challenges for the Remainder of the Year:

Total Cost – Given that the official estimates for both the House-and Senate-passed bills exceed the $400 billion budgeted and given the increasing pressure to provide a more generous drug benefit, there will be tremendous pressure to increase the cost of the measure beyond $400 billion.

Reforms – Reforms require changes to the existing Medicare structure. Many inside and outside of Congress are concerned about the political consequences of making any changes to Medicare other than simply adding a new benefit. Some Democrats have already begun to politicize proposals to change the existing Medicare structure.

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GOVERNMENT WASTE

The initial Budget Resolution proposed by Budget Chairman Nussle required each Committee to report legislation that resulted in savings of roughly 1% by eliminating waste, fraud, and abuse within the programs in their jurisdiction. This proposal was significantly watered down and ultimately replaced with a requirement that each Committee simply report on areas where savings might be found.

To date, only one authorizing Committee, the Committee on Ways and Means, has reported legislation to achieve such savings. However, their proposal was incorporated into the Medicare Prescription Drug Bill and the savings were used to offset increased spending elsewhere.

In September, other authorizing Committees are expected to make the report required under the Budget Resolution. It is unclear whether other Committees will report specific legislation to achieve real savings.

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What Conservative Members Are Doing:

RSC Members and other conservatives have offered a number of amendments to reduce discretionary appropriations bills by 1% and/or to prevent funding for specific projects or programs deemed to be wasteful (for specific information see the Section on Discretionary Appropriations). In addition, Members including Reps. Chris Chocola and Joe Wilson are working to stop government credit card abuse. Rep. Chocola successfully included a provision on this matter in the FAA Reauthorization bill.

Several Freshman Members, including Reps. Jeb Hensarling, Tom Feeney, and Mario Diaz-Balart have launched Washington Waste Watchers, an effort designed to call attention to wasteful spending through floor speeches and other activities, thereby increasing the pressure and resolve to eliminate waste.

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Challenges for the Remainder of the Year:

The major challenge will be to move from simply highlighting wasteful spending to actually passing measures designed to address specific or generalized abuses.

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OVERSPENDING'S CONTRIBUTION TO THE DEFICIT

Reports issued by the Office of Management and Budget and other Congressional sources have attempted to explain what happened to the budget surplus. These reports correctly point out that the change from the projection of surplus for Fiscal Year 2003 in April of 2001 to the actual deficits is primarily the result of three factors: reduction in revenues from the weak economy and changes in estimates (53%); the 2001, 2002, and 2003 tax relief packages (23%); and increased spending (24%). These figures, however, are solely based on the changes from April 2001 to July 2003. These figures assume a spending pattern based on what we were actually spending in April of 2001. Since spending in April of 2001 was significantly higher than what was called for in the 1997 Balanced Budget Act, these figures actually understate the contribution of excessive spending to the current deficit.

Consider the following analogy: a family creates its household budget for the year based on the husband's annual income. Shortly after finishing the budget, the husband begins working overtime with the amount of overtime increasing each month. The family, with newfound income, exceeds their budget spending more and more each month. Suddenly, the husband's employer eliminates the overtime hours, yet the family keeps spending as if the husband was still earning overtime pay, and even as if the amount of overtime would continue to increase each month permitting then more and more spending.

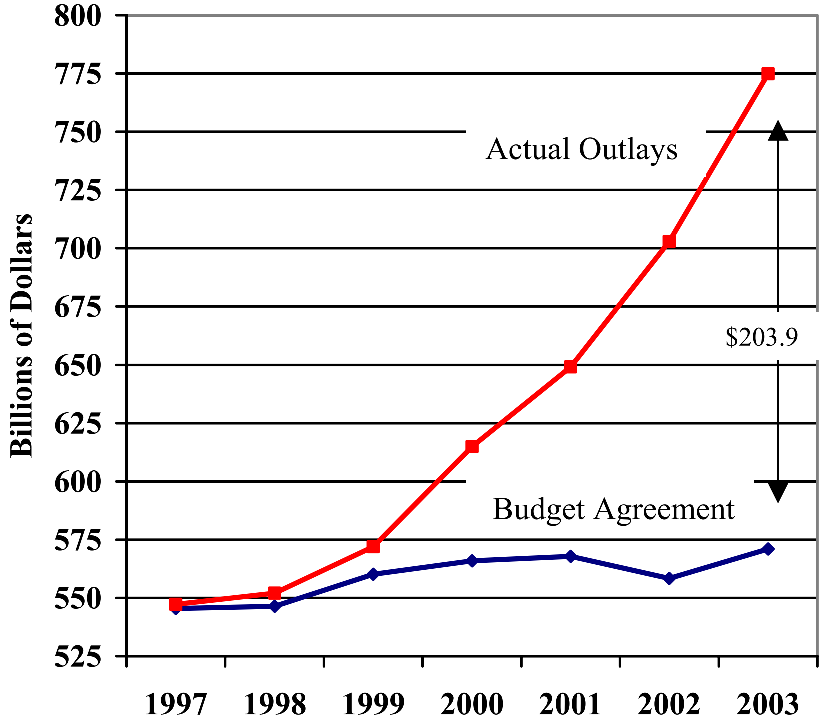
The Federal Government has done the exact same thing. In 1997, the Republican Congress and President Clinton agreed to a budget that limited the growth in discretionary spending over the next five years and which required that new entitlement programs be offset. Shortly after this agreement, the red-hot economy began generating unexpected tax revenues, creating the first surplus in over 40 years. Congress and the President spent much of this newfound money, forgetting about the budget agreement. When the economy slowed and the newfound tax revenues disappeared, the government continued to spend like the money was still being collected. The result is that the current deficit is much larger than it would be if we would have lived within the 1997 budget agreement.

As the following charts illustrate, discretionary and mandatory spending exploded after the 1997 budget agreement.

Actual Discretionary Outlays Vs.

1997 Balanced Budget Agreement

(Actuals Exclude September 11th & Iraq War Supplementals)



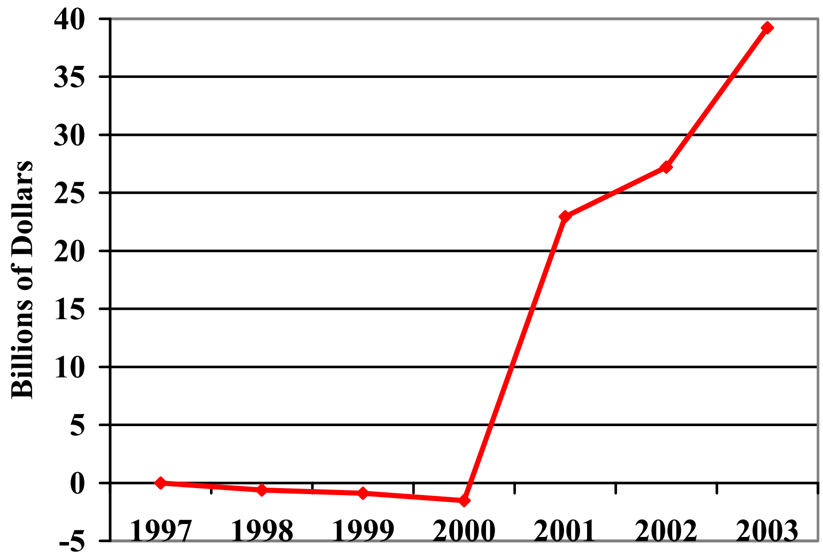
The 1997 Balanced Budget Agreement set out specific statutory spending caps for discretionary programs. Excluding the costs of the post September 11th Supplementals and the Iraq War Supplemental, total outlays were over $200 billion higher in 2003 than they would have been if we would have lived within the 1997 Balanced Budget agreement.

Source: RSC Calculations based on OMB Data
NOTE: Budget Agreement targets for 1997 through 2002 represent actual cap plus adjustments permitted in the agreement. Agreement for 2003 represents 2002 target adjusted for inflation.

It should be noted that these charts look at outlays. Since outlays often lag behind budget authority, spending approved in one year often shows up as increased outlays the next year or the year after. Hence, increased discretionary spending enacted in 1998 and 1999 shows up in 1999, 2000, and 2001.

Net Cost of Mandatory Spending Changes

(Excluding Revenue & Trade Measures and Measures Enacted in 108th Congress, Except the Omnibus)

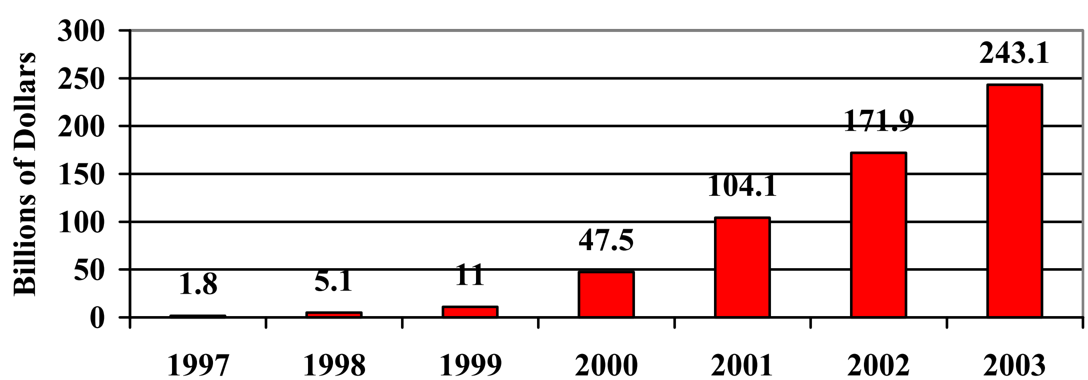


The 1997 Balanced Budget Agreement also required any changes in mandatory spending or revenues that would negatively impact the deficit to be offset. This is sometimes referred to as "paygo." In 2003, the total cost of new, unoffset mandatory spending was $39.2 billion.

Source: RSC Calculations based on OMB Data
NOTE: Revenue and Trade Measures are excluded from this chart as they generally tend to reduce revenue to the government. The total amounts excluded in billions are as follows: 1997: $0; 1998: $0.338; 1999: $0.087; 2000: $0.044; 2001: $72.390; 2002: $88.610; and 2003: $131.758.

Costs of Spending in Excess of the 1997 Budget Agreement

(Excludes Net Interest Costs and September 11th & Iraq War Supplementals)

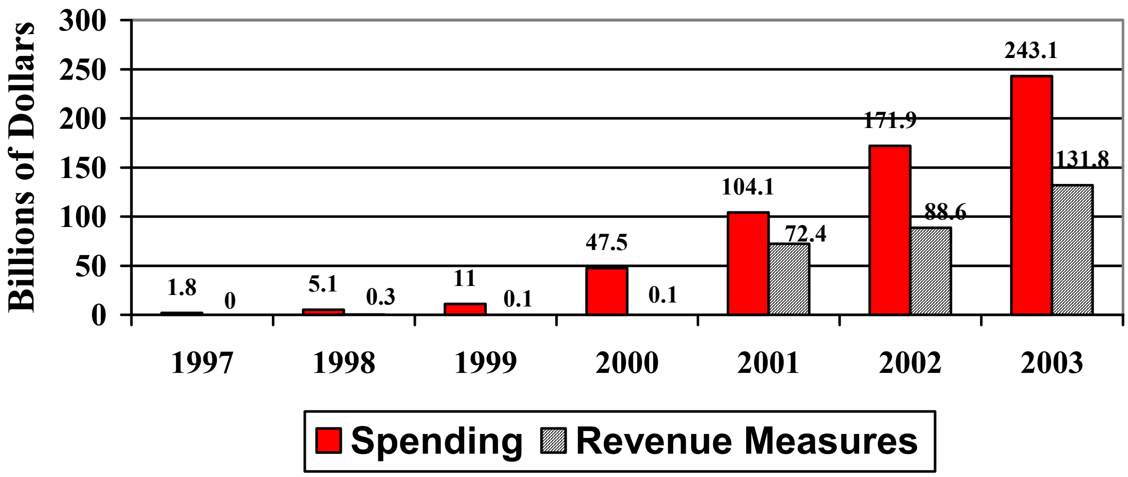


Source: RSC Calculations based on OMB Data

While much has been made of the impact of tax cuts on the budget deficit, the cumulative impact of excess spending since 1997 Budget Agreement exceeds the cumulative impact of tax relief measures enacted over the same period.

Costs of Spending vs. "Costs" Of Revenue Measures

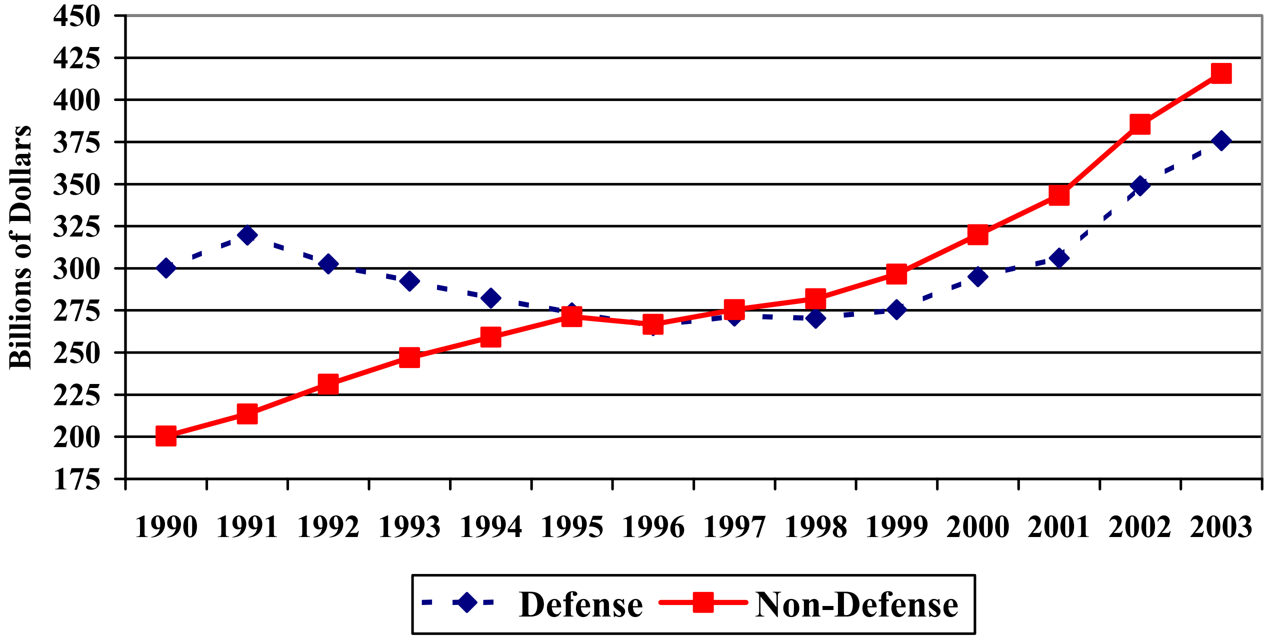
(Excludes Net Interest Costs)



Even excluding the savings that would be generated by lower interest payments on the debt, compliance with the spending limits agreed to as part of the 1997 Balanced Budget Agreement would cut the Fiscal Year 2003 budget deficit by more than half. It is important to remember that these figures do not include the costs of the post-September 11th Supplementals or the Iraq War Supplemental.

While increases in defense funding have contributed to the overall increase in spending, non-defense discretionary spending has surpassed defense spending in size since Republicans took control of Congress and has been growing at a faster rate than defense spending.

Discretionary Outlays



Source: OMB
Note: Funding includes supplemental expenditures, except for Fiscal Year 2003.

<u>LEGISLATIVE PROPOSALS TO CONTROL SPENDING</u>

Members have introduced a number of proposals designed to address the current budget deficit and overspending. The following are proposals that address the spending process or limits on spending. The list does not include proposals that would save money by terminating or reforming a specific program(s). This list is by no means exhaustive and it should not be construed as an indication of the RSC's support for a particular proposal.

<u>Constitutional Amendment:</u>

<u>H.J.Res. 22 – Balanced Budget Amendment – Rep. Istook –</u>

- Prohibits outlays for a fiscal year (except those for repayment of debt principal) from exceeding total receipts for that fiscal year (except those derived from borrowing) unless Congress, by a three-fifths rollcall vote of each House, authorizes a specific excess of outlays over receipts.
- Requires a three-fifths rollcall vote of each House to increase the public debt limit.
- Directs the President to submit a balanced budget to Congress annually.
- Prohibits any bill to increase revenue from becoming law unless approved by a majority of each House by rollcall vote.
- Authorizes waivers of these provisions when a declaration of war is in effect or under other specified circumstances involving military conflict.

<u>Budget Process / Caps Measures:</u>

<u>H.R. 180 – Comprehensive Budget Process Reform – Rep. Paul Ryan –</u>

- Redefines the public debt to exclude intragovernment obligations and reduces the public debt ceiling.
- Establishes biennial budgeting.
- Establishes criteria for an emergency and provides that certain emergency legislation shall not be extended in the baseline.
- Establishes a spending accountability reserve ledger to credit any reductions in new budget authority in an appropriation bill. Adjusts the respective appropriation allocation and discretionary spending limits downward accordingly.
- Authorizes the President to propose at any time the rescission of any budget authority he identifies as wasteful spending.
- Extends the budget enforcement mechanisms of discretionary spending limits (caps) and pay-as-you-go (Paygo).
- Provides for accrual funding of pensions and retirement pay for Federal employees and Uniformed Services Personnel.
- Provides for the accrual funding of post-retirement health benefits costs.

<u>H.R. 1175 -- Common Sense Spending Act – Rep. Barrett –</u>

- Extends the budget enforcement mechanisms of discretionary spending limits (caps) and pay-as-you-go (Paygo).
- Excludes specified emergency appropriations from extension in the baseline.

- Defines the term "emergency" as an unanticipated situation that requires new budget authority and outlays for the prevention or mitigation of, or response to, loss of life or property, or a threat to national security.
- Requires that the committee report and any statement of managers accompanying proposed legislation analyze whether a proposed emergency requirement meets such definition of "emergency." Prohibits the consideration of any such legislation that does not meet this "emergency" definition.

<u>H.Res. 133 – Deficit Reduction Safeguard – Rep. Sullivan –</u>

- Amends the Rules of the House of Representatives to direct the chairman of the Budget Committee to maintain a Discretionary Spending Ledger, divided into entries corresponding to Appropriations Committee subcommittees. States that each entry will consist of the Deficit Reduction Safeguard Balance which may be credited with any reductions in new budget authority offered in an amendment to an appropriation bill.
- Requires the chairman to maintain a Mandatory Spending Ledger, divided into entries corresponding to the House Committees receiving budget allocations, excluding Appropriations. States that each entry will consist of the First Year Deficit Reduction Safeguard Balance and the Five Year Deficit Reduction Safeguard Balance which may be credited with applicable reductions in new budget authority offered in an amendment to a bill.

<u>Government Duplication & Waste:</u>

<u>H.R. 2743 -- Government Accountability and Streamlining Act of 2003 – Rep. Jo Ann Davis –</u>

- Requires the Comptroller General to prepare statements for bills and resolutions reported by committees of the House of Representatives and the Senate on whether any new entities, programs, or functions authorized by the bills or resolutions are redundant with existing Federal entities, programs, or functions and could be more efficiently performed by an existing Federal entity, program, or function, and to require such statements to accompany reports on legislation

<u>H.R. 1227 – Abolishment of Obsolete Agencies and Federal Sunset Act of 2003 – Rep. Kevin Brady –</u>

- Establishes the Federal Agency Sunset Commission to: (1) submit to Congress a schedule for review by the Commission, at least once every 12 years, of the abolishment or reorganization of each agency; (2) review and evaluate the efficiency and public need for each agency using specified criteria; (3) recommend whether each agency should be abolished or reorganized; and (4) report to Congress on all legislation introduced that would establish a new agency or a new program to be carried out by an existing agency. Requires the abolishment of any agency within one year of the Commission's review, unless the agency is reauthorized by Congress.
- Authorizes the deadline for abolishing an agency to be extended for an additional two years by legislation enacted by a super majority of the House of Representatives and the Senate.
- Directs the Comptroller General and the Director of the Congressional Budget Office, in cooperation with the Director of the Congressional Research Service, to prepare an

inventory of Federal programs within each agency for the purpose of advising and assisting Congress and the Commission in carrying out the requirements of this Act.

H.R. 1632 -- Government Reform Act of 2003 – Rep. Royce –

- Establishes a Government Reform Commission to: (1) examine the current configuration of executive agencies and investigate their duties and responsibilities; (2) review agency operational jurisdictions to determine whether areas of overlap exist and whether the mission of any agency has become obsolete; (3) review and report to the President and Congress on existing Government Accounting Office, Congressional Budget Office, and Inspector General reports, together with any other existing governmental and nongovernmental recommendations, including those offered by the President's Private Sector Survey on Cost Control, on reducing waste in executive agencies; (4) submit to the President and Congress a proposed reorganization plan which shall provide for the realignment or closure of executive agencies to reduce duplication of services and increase productivity; and (5) transmit a copy of the plan to the Director of the Office of Management and Budget, who shall issue a public report detailing the predicted savings in Federal expenditures that would result from implementing such plan.
- Sets forth separate provisions for presidential and congressional consideration of and actions on the proposed reorganization plan.