
TALKING POINTS
on the
BALANCED BUDGET AGREEMENT OF 1997

20 May 1997

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Issued By JOHN R. KASICH, Chairman
House Committee on the Budget

HIGHLIGHTS OF THE BALANCED BUDGET AGREEMENT

- ▶ It balances the budget by 2002 and keeps the budget in surplus thereafter.

- ▶ It provides \$350 billion in gross tax cuts over 10 years for families, for education costs, and for economic growth.

- ▶ It ensures Medicare solvency for 10 years.

- ▶ It doesn't touch Social Security benefits.

- ▶ It reduces total government spending to 18.9 percent of Gross Domestic Product [GDP] in 2002. It will be the first time since 1974 — the year that Patty Hearst was kidnaped and Hank Aaron hit his 715th home run — that Federal spending has been less than 20 percent of GDP.

- ▶ It provides for more than \$600 billion in entitlement savings over 10 years.

- ▶ It provides for \$114 billion less in spending over 5 years than the President's fiscal year 1998 budget request.

HIGHLIGHTS OF THE BALANCED BUDGET AGREEMENT

President Clinton is committed to a balanced budget by 2002 and leading the budget in the right direction.

It provides \$250 billion in gross tax cuts over 10 years for a major tax reduction and for economic growth.

It provides \$250 billion in gross tax cuts over 10 years.

It doesn't touch Social Security benefits.

It reduces total government spending to 22.5 percent of Gross Domestic Product (GDP) in 2002. It will be the first time since 1974 -- the year that Foly Hovers was kidnapped and Hank was shot -- that the 1990s have seen -- that Federal spending has been less than 22 percent of GDP.

It provides for more than \$50 billion in entitlement savings over 10 years.

It provides for \$1.4 trillion in spending over 10 years. The President's fiscal year 2002 budget request.

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- ▶ **It slows the growth of nondefense discretionary spending by \$62 billion compared to what it would be if we did nothing.**
 - **Nondefense discretionary outlays will grow at an average annual rate of about one-half percent a year — compared with an average of 6 percent a year for the past 10 years.**
 - **Nondefense discretionary budget authority will grow at an average of about 1.7 percent a year, compared with an average of 5 percent a year over the past 5 years.**

shows the growth of nondefense discretionary spending by
\$22 billion compared to what it would be if we did nothing.

Nondefense discretionary spending will grow at an
average annual rate of about one-half percent a year —
compared with an average of 6 percent a year for the
past 10 years.

Nondefense discretionary budget authority will grow at
an average of about 1.7 percent a year, compared with
an average of 6 percent a year over the past 5 years.

TALKING POINTS ON THE BUDGET

TAX RELIEF

- ▶ Provides for gross tax relief of \$135 billion (\$85 billion net) through 2002 and \$350 billion (\$250 billion net) through 2007.
- ▶ Tax relief can accommodate:
 - Tax relief for families (child tax credit, death tax relief).
 - Incentives for savings and investment (expanded Individual Retirement Accounts).
 - Incentives for economic growth (capital gains tax relief).
 - Relief for families for education costs.
- ▶ The amount of tax relief in each area, and the structure of tax relief provisions, will be determined by the Ways and Means Committee.
- ▶ Assumes extension of the airline ticket tax.

TALKING POINTS ON THE BUDGET

TAX RELIEF

Through 2001 and 2002 a total of £150 billion of tax relief will be provided through the Budget. This includes £125 billion of tax relief for gross tax relief of £125 billion (£75 billion net).

Tax relief can be provided in a number of ways:

Tax relief for families (child tax credit, child tax credit, tax relief)

Incentives for savings and investment (extended Individual Savings Accounts)

Incentives for economic growth (capital gains tax relief)

Relief for families for education costs

The amount of tax relief in each area, and the structure of tax relief provisions, will be determined by the Ways and Means Committee.

A further expansion of the Budget 2001 tax

TALKING POINTS ON THE BUDGET

DEFENSE

- ▶ Over the 5-year period, the plan adds \$16.9 billion in budget authority and more than \$5 billion in outlays compared to the fiscal year 1997 Budget Resolution Conference Report. These levels allow for modernization of weapon systems, a high state of readiness, and a decent quality of life for armed forces personnel.

- ▶ The level of budget authority established for national defense in fiscal year 1998 of \$268.2 billion is identical to that projected in the fiscal year 1997 Budget Resolution Conference Report. This is approximately \$2.6 billion higher than the President's budget request.

- ▶ The 5-year defense path reflects a consensus between Congress and the administration that prudent increases in the defense budget are necessary, consistent with the need to balance the Federal budget. Given the historical decline of defense budgets since 1987, it is agreed that modest growth is now required to modernize the force structure.

- ▶ The budget plan does not assume any particular result from the Pentagon's forthcoming Quadrennial Defense Review [QDR]. The QDR could have a significant impact on strategy, force levels, and personnel.

TALKING POINTS ON THE BUDGET

DEFENSE

Over the 5-year period, the plan adds \$12.5 billion in direct
cutting and more than \$2 billion in outlay compared to the
fiscal year 1987 Budget Resolution Conference Report. These
funds will be used for modernization of weapon systems, a high state
of readiness and excellent quality of life for armed forces
personnel.

The level of budget authority established for national defense
in fiscal year 1992 of \$202.5 billion is identical to that projected
in the fiscal year 1987 Budget Resolution Conference Report.
This is approximately \$2.5 billion higher than the President's
budget request.

The 5-year defense path reflects a consensus between
Congress and the administration that prudent responses in the
defense budget are necessary, consistent with the need to
balance the Federal Budget. Given the historical decline of
defense budgets since 1987, it is agreed that modest growth is
now required to restructure the force structure.

The budget plan does not ensure any particular result from
the Pentagon's forthcoming Outgoing Budget Review.
1987. The OBR will have a significant impact on strategy,
force levels, and personnel.

TALKING POINTS ON THE BUDGET

NONDEFENSE DISCRETIONARY SPENDING

- ▶ Provides for \$35 billion over 5 years above the fiscal year 1997 spending level after accounting for the renewal of section 8 housing contracts to maintain current occupancy rates.

- ▶ But nondefense discretionary *spending growth will be reduced sharply* compared with recent history.
 - Nondefense discretionary outlays will grow at an average of about one-half percent a year — compared with an average of 6 percent a year for the past 10 years.

 - Nondefense discretionary budget authority will grow at an average of about 1.7 percent a year, compared with an average of 5 percent a year over the past 5 years.

 - In all, nondefense discretionary spending will be reduced by \$64.1 billion over 5 years compared with projected spending if Congress did nothing.

- ▶ Nondefense discretionary spending in fiscal year 1997 is about 17.3 percent of total Federal spending. Under the balanced budget plan, it will be only 15.3 percent by 2002.

- ▶ Section 8 renewals entail about \$35 billion in outlays over 5 years. More than half of the occupants are elderly or disabled.

TALKING POINTS ON THE SUBJECT

NONDEFENSE DISCRETIONARY SPENDING

Provides for \$25 billion over 5 years above the fiscal year 1987 spending level after accounting for the removal of section 8 housing contracts to establish current baseline rates.

But nondefense discretionary spending growth will be reduced sharply compared with recent history.

Nondefense discretionary outlays will grow at an average of about one-half percent a year -- compared with an average of 5 percent a year for the past 10 years.

Nondefense discretionary budget authority will grow at an average of about 1.7 percent a year, compared with an average of 5 percent a year over the past 5 years.

In all, nondefense discretionary spending will be reduced by \$21.7 billion over 5 years compared with projected spending if Congress did nothing.

Nondefense discretionary spending in fiscal year 1987 is about 17.3 percent of total federal spending. Under the proposed budget plan, it will be only 15.5 percent by 1992.

Section 8 housing contracts are \$12 billion in outlays over 5 years. More than half of the accounts are elderly or disabled.

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- ▶ **Assumes approximately \$8.8 billion in outlays over 5 years above the 1997 level for transportation, and \$8.2 billion in outlays above the President's proposed level. The resolution also establishes a deficit-neutral reserve fund making additional transportation funding available in the future.**

DEPARTMENT OF COMMERCE

National Institute of Standards and Technology (NIST)

DEPARTMENT OF EDUCATION

Education Reform (includes Technology Literacy Challenge Fund)

Bilingual and Immigrant Education

PEW (\$300 increased in 1998 maximum to \$3,000)

Child literacy initiatives consistent with the goals and the concepts of the President's America Reads program.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Head Start

DEPARTMENT OF THE INTERIOR

National Park Service: Operation & Park Service, Lands

Acquisition and Easement Assistance, and Everglades Restoration Fund (including Corps of Engineers)

Bureau of Indian Affairs: Tribal Priority Allocation

TALKING POINTS ON THE BUDGET

PROTECTED DISCRETIONARY PRIORITIES

(funded at levels proposed in the President's fiscal year 1998 budget)

- ▶ DEPARTMENT OF COMMERCE
 - National Institute of Standards and Technology [NIST].

- ▶ DEPARTMENT OF EDUCATION
 - Education Reform (includes Technology Literacy Challenge Fund).
 - Bilingual and Immigrant Education.
 - Pell (\$300 increase in 1998 maximum to \$3,000).
 - Child literacy initiatives consistent with the goals and the concepts of the President's America Reads program.

- ▶ DEPARTMENT OF HEALTH AND HUMAN SERVICES
 - Head Start.

- ▶ DEPARTMENT OF THE INTERIOR
 - National Park Service: Operation of Park Service, Land Acquisition and State Assistance, and Everglades Restoration Fund (including Corps of Engineers).
 - Bureau of Indian Affairs, Tribal Priority Allocations.

TALKING POINTS ON THE BUDGET
PROTECTED DISCRETIONARY PRIORITIES

DEPARTMENT OF COMMERCE
National Institute of Standards and Technology (NIST)

DEPARTMENT OF EDUCATION
Education Reform (includes Technology Library
Challenge Fund)
Bilingual and Immigrant Education
\$45 (\$300 increase in FY88 maximum to \$2.85B)
Child literacy initiatives consistent with the goals and
the concepts of the President's America Reads program

DEPARTMENT OF HEALTH AND HUMAN SERVICES
Head Start

DEPARTMENT OF THE INTERIOR
Bureau of Indian Affairs (BIA) - Energy Allocation
Bureau of Land Management (BLM) - Energy Allocation
Bureau of Reclamation (BOR) - Energy Allocation
Bureau of Mines (BOM) - Energy Allocation

▶ **DEPARTMENT OF LABOR**

- **Training and Employment Services, including Job Corps.**

▶ **DEPARTMENT OF TREASURY**

- **Community Development Financial Institution Fund.**

▶ **ENVIRONMENTAL PROTECTION AGENCY**

- **EPA Operating Program.**
- **Superfund appropriations will be at the President's level if policies can be worked out.**

▶ **VIOLENT CRIME REDUCTION TRUST FUND, INCLUDING COPS**

DEPARTMENT OF LABOR

Training and Employment Services, including Job
Corps

DEPARTMENT OF TREASURY

Community Development Finance Institutions Fund

ENVIRONMENTAL PROTECTION AGENCY

EPA Operating Program

Department appropriations will be at the President's level
if policies can be worked out

VOLENT CARE ADMINISTRATION TRUST FUND, INCLUDING COSTS

TALKING POINTS ON THE BUDGET

MEDICARE

- ▶ **Slows the growth of projected Medicare spending by \$115 billion over 5 years.**
- ▶ **Extends the solvency of the Part A Trust Fund for at least 10 years through a combination of savings and structural reforms (including the home health reallocation).**
- ▶ **Still provides for growth in Medicare spending:**
 - **Assumes growth of total Medicare spending from \$209 billion in 1997 to \$280 billion in 2002.**
 - **Assumes growth in Medicare spending per beneficiary from \$5,480 in 1997 to \$6,911 in 2002.**
- ▶ **Structural reforms will include provisions to give beneficiaries more choices among competing health plans, such as provider sponsored organizations and preferred provider organizations.**
- ▶ **The Medicare program reforms provide beneficiaries with comparative information about their options, such as now provided Federal employees and annuitants in the FEHB program.**

TALKING POINTS ON THE BUDGET
MEDICARE

Shows the growth of projected Medicare spending of \$715 billion over 6 years.

Extends the solvency of the Part A Trust Fund for at least 10 years through a combination of savings and structural reforms (including the home health reauthorization).

Bill provides for growth in Medicare spending:

Assumes growth of total Medicare spending from \$200 billion in 1991 to \$200 billion in 2002.

Assumes growth in Medicare spending per beneficiary from \$2,480 in 1991 to \$2,417 in 2002.

Structural reforms will include provisions to give beneficiaries more choice among competing health plans, such as provider equivalent organizations and preferred provider organizations.

The Medicare program reform provides beneficiaries with competitive bidding options that will allow them to now provide private Medicare and Medicaid in the FISC program.

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- ▶ **Maintains the Part B premium at 25 percent of program costs and phase in over seven years the inclusion in the calculation of the Part B premium the portion cost of home health expenditures reallocated to Part B.**
 - ▶ **Reforms managed care payment methodology to address geographic disparities that has limited HMO access in rural areas.**
 - ▶ **Reforms payment methodology by establishing prospective payment systems for areas such as home health providers, skilled nursing facilities, and outpatient departments.**
 - ▶ **Funds new health benefits including: (1) expanded mammography coverage; (2) coverage for colorectal screenings; (3) coverage for diabetes self-management; and (4) higher payments to providers for preventive vaccinations to the extent it will lead to greater use by beneficiaries. Invests \$4 billion over five years (and \$20 billion over ten years) to limit beneficiary copayments for outpatient services, unless there is a more cost-effective way to provide such services to beneficiaries as mutually agreed.**

Maintains the Part B premium at 23 percent of program costs and phase in over seven years the reduction in the calculation of the Part B premium the portion cost of home health expenditures reflected in Part B.

Reforms managed care payment methodology to address geographic disparities that has limited HMO access in rural areas.

Reforms payment methodology by establishing prospective payment systems for care such as home health providers, skilled nursing facilities, and outpatient departments.

Funds new health benefits including: (1) expanded maternity group coverage; (2) coverage for colorectal screenings; (3) coverage for diabetes self-management and (4) higher payments to providers for preventive vaccinations to the extent it will lead to greater use by beneficiaries. Invests \$4 billion over five years (and \$50 billion over ten years) in health care systems for outpatient services, unless there is a more cost-effective way to provide such services as beneficiaries mutually agreed.

TALKING POINTS ON THE BUDGET

MEDICAID

- ▶ The budget agreement slows the growth of Medicaid spending by a net of \$13.6 billion over 5 years.
- ▶ Federal Medicaid outlays would be allowed to grow from \$98.6 billion in 1997 to \$137.6 billion in 2002 — a 40-percent increase.
- ▶ Total Medicaid spending per enrollee would grow from \$2,261 in 1997 to \$2,946 in 2002.
- ▶ The plan assumes that most of the savings would come from reductions in disproportionate share [DSH] payments and provisions to enhance administrative flexibility.
- ▶ The plan grants unprecedented flexibility to States in managing the Medicaid program, including:
 - Repeal of the Boren amendment, which restricts Medicaid payment levels for hospital and nursing home services.
 - Converting current managed care and home/community-based care waiver process to State Plan Amendment.
 - Eliminating unnecessary administrative requirements.

TALKING POINTS ON THE BUDGET

MEDICAID

The budget agreement slows the growth of Medicaid spending by a net of \$1.8 billion over 5 years.

Federal Medicaid outlays would be allowed to grow from \$22.8 billion in 1997 to \$137.8 billion in 2002 - a 60 percent increase.

Total Medicaid spending per enrollee would grow from \$2,364 in 1997 to \$2,948 in 2002.

The plan assumes that most of the savings would come from reductions in disproportionate share (DSS) payments and provisions to enhance state program flexibility.

The plan grants unprecedented flexibility to States in managing the Medicaid program, including:

Repeal of the Boren amendment with a 5-year phase-out of the Boren amendment for hospital and nursing home services.

Converting current Medicaid care and program costs to a capitated payment process to State Plan Amendment.

Streamlining and consolidating administrative requirements.

TALKING POINTS ON THE BUDGET

CHILDREN'S HEALTH PROVISIONS

- ▶ The budget agreement provides \$16 billion over 5 years to increase health insurance coverage, services, or a combination for children who are uninsured.

- ▶ Options could include:
 - Modifications to existing programs, such as Medicaid, including outreach activities to identify and enroll eligible children and providing 12-month continuous eligibility; and also to restore Medicaid for current disabled children losing SSI because of the new, more strict definitions of childhood eligibility.
 - Grants to the States.
 - A combination of the two above.
 - Other approaches.

CHILDREN'S HEALTH PROVISIONS
KEY POINTS OF THE BUDGET

The budget provides \$1.2 billion over 5 years to increase the child health coverage, and also to provide for children who are uninsured.

Options could include:

Expanding existing programs, such as Medicaid, including certain activities to identify and serve eligible children and providing 12-month continuous eligibility and also to restore Medicaid for current uninsured children being 881 because of the new, more strict definition of childhood eligibility.

Options to the EGPA:

A combination of the two above.

Other approaches.

TALKING POINTS ON THE BUDGET

WELFARE

- ▶ The plan maintains the basic thrust of welfare reform's emphasis on work rather than dependency, and reducing the welfare magnet characteristics of benefits programs.

- ▶ The plan retains the ban on noncitizen Food Stamp and non-disabled SSI eligibility, as well as on persons who entered the U.S. after August 23, 1996 who were not enrolled in SSI or Medicaid prior to June 1, 1997.

- ▶ The plan maintains the basic structure of the Food Stamp work requirement enacted in last year's welfare reform law, which requires able bodied adults to work at least 20 hours per week to retain food stamp eligibility after receiving food stamps without working for three months in any 3 year period. Provides funding for additional work slots to help people subject to the requirement comply. Provides Governors with an additional option for hardship exemptions.

- ▶ Under the balanced budget plan, funding for Federal welfare programs including the Temporary Assistance for Needy Families block grant, the child care block grant, child support enforcement, foster care, food stamps, child nutrition, Supplemental Security Income and the Social Services Block Grant will increase by 19 percent between fiscal year 1998 and fiscal year 2002. Similarly, spending on the Earned Income Credit will rise by 17.2 percent during the same period.

TALKING POINTS ON THE BUDGET
WELFARE

The plan maintains the basic thrust of welfare reform's emphasis on work rather than dependency, and reducing the welfare budget through changes in benefit programs.

The plan retains the ban on non-elderly Food Stamp and non-elderly SSI eligibility, as well as on persons who entered the U.S. after August 23, 1996 who were not enrolled in SSI or Medicaid prior to June 1, 1997.

The plan maintains the basic structure of the Food Stamp work requirement enacted in last year's welfare reform law which requires able bodied adults to work at least 20 hours per week to retain food stamp eligibility, and receiving food stamps without working for three months in any 2-year period. Provisions for additional work sites to help people subject to the requirement remain. Further Government will continue to work for partnership arrangements.

Under the balanced budget plan, funding for Federal welfare programs including the Temporary Assistance for Needy Families (TANF) grant, the child care block grant and support for child care, child support, child nutrition, Supplemental Security Income and the Social Security Block Grant will increase by 15 percent budgeted for year 1997 and 1998. State spending on the Federal program will be cut by 15 percent during the same period.

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- ▶ The plan provides states with an additional \$3 billion in funding over the next 5 years targeted at moving the hardest to employ welfare recipients into work. This funding should make it easier for states to meet the work requirements enacted in last year's bill that reduce state block grant funds unless at least 50 percent of their single parent welfare recipients are working at least 30 hours per week by 2002.

 - ▶ The plan restores SSI and Medicaid eligibility for legal immigrants who become disabled after entering the U.S. Restored eligibility is limited to persons who entered the U.S. prior to August 23, 1996 and persons who entered after that date who were enrolled in the program by June 1, 1997.

 - ▶ The plan lengthens the period during which refugees and asylees qualify for public benefits after receiving their immigration status from 5 years to 7 years.

 - ▶ The plan provides funding to create more work slots in the Food Stamp Employment and Training program over 5 years to provide additional opportunities for persons subject to the food stamp work requirement to fulfill the requirement. Total cost of the work slots and restored benefits will be \$1 billion over 5 years.

 - ▶ The plan provides Governors with the opportunity to exempt up to 15 percent of the total number of persons in their states who would lose food stamp benefits as a result of failure to comply with the work requirement from a loss of food stamp benefits. This provision is assumed to result in \$500 million in additional Food Stamp benefit payments over 5 years.

The plan provides states with an additional \$5 billion in funding over the next 5 years targeted at moving the hardest to employ welfare recipients into work. This funding should make it easier for states to meet the work requirements needed in last year's bill that reduce state block grant funds by at least 20 percent of their state's previous welfare recipients are working at least 20 hours per week by 2002.

The plan restores 501 and 502(b)(2) eligibility for legal immigrants who became eligible after entering the U.S. Federal eligibility is limited to persons who entered the U.S. prior to August 21, 1996 and persons who entered after that date who were employed in the program by June 1, 1997.

The plan tightens the period during which refugees and asylum seekers for public benefits after receiving their immigration status from 5 years to 7 years.

The plan provides funding to cover state work staff in the Food Stamp Employment and Training program over 7 years to provide additional opportunities for working subjects to the food stamp work requirements to fund the requirement. Total cost of the work slots and related benefits will be \$1 billion over 5 years.

The plan provides Governors with the opportunity to exempt up to 10 percent of the total number of persons in their state who would lose food stamp benefits as a result of failure to comply with the work requirements from a loss of food stamp benefits. This provision is expected to result in \$500 million in additional food stamp benefit payments over 5 years.

TALKING POINTS ON THE BUDGET
EARNED INCOME CREDIT

- ▶ The plan assumes savings of \$124 million over 5 years. The savings will result from increased enforcement activities designed to detect fraud and erroneous claims within the credit. All of the proposals assumed in the plan were recommended by the administration.
- ▶ The Internal Revenue Service recently released a study of tax returns claiming the Earned Income Credit in 1995. One out of every four returns examined resulted in an overpayment to the claimant. Given this error rate, the IRS concluded, more than \$5 billion annually is wasted in fraudulent and inaccurate overpayments within the EIC.
- ▶ About half of the overpayments cited by the IRS were the result of deliberate fraud on the part of the filer. The other half resulted from taxpayer error or confusion caused by the complexity of the credit.
- ▶ These include requiring tax preparers assisting clients claiming the EIC to exercise "due diligence" in filing returns. Increased penalties will be imposed on people filing inaccurate claims. Other assumptions include devoting more IRS resources to detecting fraud within the EIC. According to the IRS report, the significantly higher rates of fraud within the EIC are linked to a lack of detection efforts compared to anti-fraud safeguards operating in other types of welfare programs.

TALKING POINTS ON THE ERECT
BANKED INCOME CREDIT

The plan estimates savings of \$1.5 billion over 5 years. The savings will result from increased enforcement activities designed to detect fraud and erroneous claims within the credit. All of the proposals assumed in the plan were recommended by the administration.

The Internal Revenue Service recently released a study of tax receipts claiming the Earned Income Credit in 1995. One out of every four returns extended resulted in an overpayment to the claimant. Over the 5-year test, the IRS concluded more than \$5 billion annually is wasted in fraudulent and incorrect overpayments within the EIC.

About half of the overpayments cited by the IRS were the result of delinquent payments on the part of the filer. The other half resulted from taxpayer error or confusion caused by the complexity of the credit.

These include tighter enforcement against claimants claiming the EIC to receive "free money" in living quarters. However, penalties will be imposed on people living in quarters to ensure they are eligible for the credit. According to the IRS report, the majority of filers who claim the credit are not eligible for it. The IRS report also shows that many filers who are eligible for the credit are not claiming it. The IRS report also shows that many filers who are eligible for the credit are not claiming it.

TALKING POINTS ON THE BUDGET

STUDENT LOANS

- ▶ The plan assumes \$1.8 billion in savings over 5 years in student loans by reducing excess guaranty agency reserves and reducing administrative costs in the direct loan program. Students will not be affected by these changes.
- ▶ Over 10 years, the saving will come equally from the direct and guaranteed loan programs.
- ▶ The same number of loans will be available to students at no additional cost to the students or their parents.
 - The volume of student loans will grow from \$27 billion in 1997 to \$36 billion in 2002.
 - The number of student loans will increase from 7,463,000 to 8,605,000.
 - This is the same level of growth that would have occurred without these changes to the student loan program.

TALKING POINTS ON THE BUDGET

STUDENT LOANS

The plan assumes \$1.5 billion in savings over 5 years in student loans by reducing excess capacity reserves and reducing administrative costs in the student loan program. Students will not be affected by these changes.

Over 10 years, the saving will come equally from the direct and guaranteed loan programs.

The same number of loans will be available to students at no additional cost to the student or their parents.

The volume of student loans will grow from \$27 billion in 1987 to \$38 billion in 2007.

The number of student loans will increase from 7,422,000 to 8,500,000.

This is the same level of growth that would have occurred without these changes to the student loan program.

TALKING POINTS ON THE BUDGET
FEDERAL RETIREMENT

- ▶ The agreement assumes \$4.9 billion in Federal retirement savings over 5 years.

- ▶ The plan contains *no COLA delays* and no changes in the formula for computing retirement annuities, or health benefit premiums.

- ▶ Under the plan, Federal employees will see their contributions to the retirement trust fund increased by one-half percentage point by fiscal year 2001. This represents the first increase in the Federal employee contribution since 1969. The increased contributions will help strengthen the solvency of the retirement system and lessen its dependence on the general fund.

- ▶ Federal agency contributions for Civil Service Retirement System [CSRS] employees will be increased by 1.51 percentage points. This brings the agency contributions closer to the full normal cost of accruing pension benefits for their CSRS employees. The Treasury share of CSRS full normal cost will decline to 9.5 percent of CSRS payroll, lessening pressure to reduce future retirement benefits.

FEDERAL RETIREMENT
SALARY POINTS ON THE MOVE

The agreement assumes \$4.5 billion in Federal retirement savings over 5 years.

The plan contains no COLA design and no changes in the formula for computing retirement annuities, or health benefit programs.

Under the plan, Federal employees will see their contributions to the retirement trust fund increased by one-half percentage point by fiscal year 2001. This represents the first increase in the Federal employee contribution since 1985. The increased contributions will help strengthen the solvency of the retirement system and lessen the dependence on the general fund.

Federal agency contributions for Civil Service Retirement System (CSRS) employees will be increased by 1.01 percentage points. This means the agency contributions must be the full normal cost of servicing pension benefits for CSRS employees. The Treasury's plan of CSRS full normal cost will decline to 0.5 percent of CSRS normal, leaving pressure to reduce other retirement benefits.

TALKING POINTS ON THE BUDGET
VETERANS' BENEFITS

- ▶ Assumes \$2.7 billion in savings over 5 years in mandatory veterans programs.
 - Assumes that the VA compensation COLA increase will be rounded down to the nearest whole dollar amount.
 - Assumes extension of expiring VA provisions of current law that sunset in 1998.
 - Assumes lifting of prohibition on home loan debt collections and extending real estate mortgage investment conduits.

- ▶ The plan recommends increasing total VA spending from \$39.4 billion in fiscal year 1997 to \$42.4 billion in fiscal year 2002. This increase will meet the Nation's obligation to ensure that the benefits provided to veterans are sufficient enable them to enrich their lives, in exchange for their honorable military service.

- ▶ The plan assumes acceptance of the administration's legislative proposal to supplement VA discretionary funding with receipts and collections which are currently mandatory. Under the plan, VA medical care will be able to retain third party insurance and user fees to partially offset the cost of care provided in VA facilities. CBO estimates that this will result in a supplement in budget authority of \$604 million for fiscal year 1998.

TEARING POINTS ON THE BUDGET
VETERANS' BENEFITS

Assumes \$2.7 billion in savings over 5 years in mandatory
veterans programs.

Assumes that the VA compensation COLA increase will
be rounded down to the nearest whole dollar amount.

Assumes a reduction of existing VA provisions of current
law that expired in 1993.

Assumes lifting of prohibition on home loan debt
collections and extending real estate mortgage
interest tax credits.

The plan recommends increasing total VA spending from \$28.4
billion in fiscal year 1997 to \$42.4 billion in fiscal year 2002.
This increase will meet the House's obligation to ensure that
the benefits provided to veterans are sufficient to enable them to
rehabilitate them in exchange for their honorable military
service.

The plan assumes a reduction of the administration's
total VA budget to approximately \$2.7 billion in fiscal year 2002,
with a total of approximately \$2.7 billion in mandatory funding
for the VA. The VA's total cost will be reduced to approximately
\$2.7 billion in fiscal year 2002. The plan also assumes that the
cost of the VA's medical care will be reduced to approximately
\$1.7 billion in fiscal year 2002. The plan also assumes that the
cost of the VA's medical care will be reduced to approximately
\$1.7 billion in fiscal year 2002.

TALKING POINTS ON THE BUDGET

HOUSING

- ▶ The budget agreement includes \$35 billion to renew Section 8 assisted housing contracts for very low-income Americans.

- ▶ If this funding were not included, more than three million low income Americans would lose their rental assistance and face eviction from their apartments. This represents two-thirds of the tenants now assisted.

- ▶ Half of the tenants living in these apartments are very low-income elderly and disabled Americans.

- ▶ Though \$35 billion is added back to fund these renewals, it only sustains the program at 1997 levels. No expansion of the program or increase in the number of apartments being subsidized is included.

TALKING POINTS ON THE BUDGET

HOUSING

The budget agreement includes \$35 billion to create Section 8 assisted housing contracts for very low-income Americans.

If the things were not included, more than three million low-income Americans would lose their rental subsidies and face eviction from their apartments. The tenants' livelihoods at the moment are at risk.

All of the tenants living in these apartments are very low-income elderly and disabled Americans.

Though \$35 billion is added back to fund these contracts, it only restores the program to 1987 levels. An expansion of the program or increase in the number of apartments being subsidized is needed.

TALKING POINTS ON THE BUDGET

ENVIRONMENT/NATURAL RESOURCES

- ▶ Identifies the area of natural resources and the environment as a bipartisan priority.

- ▶ Provides sufficient funds to create a healthier, safer, and cleaner environment.

- ▶ Defines several protected domestic discretionary priorities, including the National Park Service: Operation of the National Park System, Land Acquisition and State Assistance, and Everglades Restoration Fund (including Corps of Engineers); EPA operating program; and Superfund appropriations, which will be at the President's level if policies can be worked out.

- ▶ Provides for an Environmental Reserve Fund to facilitate the cleanup of hazardous waste sites.

- ▶ Provides \$700 million in budget authority for fiscal year 1998 for Federal land acquisitions and to finalize priority Federal land exchanges.

- ▶ Provides \$22.8 billion in discretionary budget authority in fiscal year 1998 and \$108.9 billion over the next 5 years, compared with approximately \$106 billion over the last 5 years.

TALKING POINTS ON THE SUBJECT

ENVIRONMENTAL RESOURCES

Identifies the role of natural resources and the environment as a high priority.

Provides sufficient funds to create a healthier, safer, and cleaner environment.

Protects several protected domestic discretionary priorities including the National Park Service; Director of the National Park System; Land Acquisition and State Assistance; and Ecological Restoration; and funding Corps of Engineers; EPA operating program; and Superfund program, which will be at the President's level if action can be worked out.

Provides for an Environmental Research Fund to facilitate the cleanup of hazardous waste sites.

Provides \$700 million in budget authority for fiscal year 1988 for Federal land acquisitions and to finance priority Federal land exchanges.

Provides \$1.5 billion in discretionary budget authority in fiscal year 1988 and \$1.5 billion over the next 2 years compared with approximately \$700 million over the last 2 years.

TALKING POINTS ON THE BUDGET
SPECTRUM AUCTIONS

- ▶ Assumes \$26.3 billion over 5 years in savings from spectrum auctions.
- ▶ It assumes an expansion of the FCC's current authority to auction non-broadcast spectrum and extends the auction authority beyond 1998.
- ▶ It assumes that 36 megahertz [MHZ] of spectrum currently allocated to television channels 60-69 will be auctioned and awards new generations of toll-free "888" telephone numbers through an auction.
- ▶ It assumes that 78 MHZ of spectrum currently allocated to analog broadcasting will be auctioned.
- ▶ It assumes a penalty fee will be levied against those entities who received "free" spectrum for advanced, advertiser-based television services, but failed to utilize it fully.

TALKING POINTS ON THE BUDGET SPECTRUM AUCTIONS

Assumes \$50.3 billion over 5 years in savings from spectrum auctions.

It assumes an expansion of the FCC's current authority to auction non-licensed spectrum and expands the auction authority beyond 1992.

It assumes that 20 megahertz (MHz) of spectrum currently allocated to television channels 50-69 will be auctioned and awards new allocations of 100 MHz "cellular" telephone numbers through an auction.

It assumes that 75 MHz of spectrum currently allocated to other broadcasting will be auctioned.

It assumes a penalty fee will be levied against those entities who received "over" spectrum for licensed, but unlicensed, television services, but leads to other fully

TALKING POINTS ON THE BUDGET

LAW ENFORCEMENT

- ▶ The agreement provides \$5.5 billion in budget authority and \$3.592 billion in outlays for the Violent Crime Reduction Trust Fund [VCRTF].
- ▶ The amount provided in the agreement is equal to the President's budget request.
- ▶ The agreement also retains a separate cap for the VCRTF as established as part of the Omnibus Crime Control and Prevention Act of 1994.

TALKING POINTS ON THE BUDGET
LAW ENFORCEMENT

The agreement provides \$2.5 billion in budget authority and \$2.5 billion in outlays for the Violent Crime Reduction Fund (VCRF).

The amount provided in the agreement is equal to the President's budget request.

The agreement also retains a separate cap for the VCRF as established as part of the Omnibus Crime Control and Prevention Act of 1994.

TALKING POINTS ON THE BUDGET

TRANSPORTATION

- ▶ Increases outlays by \$8.8 billion over 5 years above the 1997 level for transportation, and \$8.2 billion above the President's proposed level.
- ▶ Assumes outlays of \$40.9 billion for fiscal year 1998, \$41.2 billion for fiscal year 2002, and \$206.1 billion for the 5-year period of fiscal years 1998-2002.
- ▶ In mandatory spending, the budget resolution assumes the permanent extension of vessel tonnage fees, which will provide \$196 million in revenues over 5 years.
- ▶ The budget resolution establishes a deficit-neutral reserve fund to allow for increased spending from the highway trust fund on highway, transit, and highway safety above the levels assumed in this resolution. To ensure that proposed transportation spending increases are deficit-neutral, the spending must be offset by reductions in other spending or by revenue increases, or by a combination of both means.

TALKING POINTS ON THE BUDGET

TRANSFORMATION

Increased outlays by \$4.5 billion over 5 years above the 1997 level for transportation, and \$2.2 billion above the President's proposed level.

Average outlays of \$4.2 billion for fiscal year 1998, \$4.1 billion for fiscal year 1999, and \$3.9 billion for the 5-year period of fiscal years 1998-2002.

In addition, the budget resolution secures the permanent extension of several tax provisions, which will provide \$1.5 billion in revenues over 5 years.

The budget resolution establishes a deficit-neutral reserve fund to allow for increased spending from the highway trust fund on highway, tunnel, and highway safety above the levels assumed in the resolution. To ensure that proposed transportation spending increases are deficit-neutral, the spending will be offset by reductions in other spending or by revenue increases, or by a combination of both.

The national news also include the following components, incorporated by the Budget Control Law:

TALKING POINTS ON THE BUDGET

ECONOMIC ASSUMPTIONS

- ▶ *The plan is based on Congressional Budget Office [CBO] economic assumptions. Assumes that Gross Domestic Product grows at 2.1 percent a year.*
 - **FISCAL DIVIDEND.** The assumptions include a fiscal dividend for balancing the budget. Economists have long projected that balancing the budget would produce favorable economic effects. These were assumed in the Balanced Budget Act and would be assumed in any other balanced budget plan.
 - **CBO REVENUE CORRECTION.** There is widespread misunderstanding about the revenue correction CBO has projected.

This was not a sudden windfall. A similar phenomenon occurred last year, causing CBO to lower its 1996 deficit estimate. CBO thought then that this was a one-time occurrence.

But when it happened again this year — based largely on actual, not estimated, revenues — analysts determined that there is something fundamentally wrong with the revenue projections (which are based on income estimates calculated by the Department of Commerce). CBO now says it is reasonable to assume that fixing the technical error *will* lower deficit projections by approximately \$45 billion a year through 2002.

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TALKING POINTS ON THE BUDGET
ECONOMIC ASSUMPTIONS

The plan is based on Congressional Budget Office (CBO) economic assumptions. Assumptions that Gross Domestic Product grows at 2.1 percent a year.

Other assumptions include a fiscal deficit of \$100 billion. The assumptions have been used for balancing the budget. Economic forecasts are based on the budget would produce long projected that balancing the budget would produce favorable economic effects. These were assumed in the Budget Act and would be assumed in any other balanced budget plan.

The revenue estimates are based on the CBO's assumptions. There is a significant increase in the revenue estimates. The CBO has projected that the revenue estimates are based on the CBO's assumptions.

The plan is based on a similar economic forecast. A similar economic forecast is based on the CBO's assumptions. The CBO has projected that the revenue estimates are based on the CBO's assumptions.

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- ▶ The assumptions also include the following components, incorporated by the Budget Committee:
 - *CPI. The agreement does not require any legislated change in the CPI.* The plan anticipates CPI corrections as a result of statistical improvements assumed to be independently implemented by the Bureau of Labor Statistics. CBO expects that when BLS updates its measure of the CPI, it will correct the measure to remove a fraction of the upward bias that causes CPI to overstate inflation. The corrections are expected to be 0.3 percentage points starting in 2000, which result in deficit reduction of about \$15 billion for the period 2000-2002.
 - TECHNICAL CORRECTION IN PRICE MEASURES. This assumes a 0.04-percentage-point adjustment in taxable incomes, consistent with the CPI corrections above.

The assumptions also include the following components incorporated by the Budget Committee:

The agreement does not require any legislative change in the CPI. The main anticipated CPI corrections as a result of statistical improvements assumed to be independently implemented by the Bureau of Labor Statistics. CBO reports that when BLS updates its measure of the CPI, it will correct the measure to remove a portion of the upward bias that causes CPI to overstate inflation. The correction is expected to be 0.3 percentage points starting in 2005, which results in a total reduction of about \$15 billion for the period 2000-2001.

Technical correction in price weights. The committee's 0.1% percentage-point adjustment in taxable income is consistent with the CPI corrections above.

TALKING POINTS ON THE BUDGET
WHERE THE \$225 BILLION WENT

- ▶ Here is a summary of where the additional \$225 billion of revenue from CBO's updated projection went:
 - \$120 billion was used to replace the earlier assumed OMB income shares.
 - \$16 billion was used to replace the 0.15-percentage-point change in the Consumer Price Index that would have required legislative action ("upper level substitution bias").
 - \$8 billion was used to replace savings that were assumed from the Medicaid per-capita cap proposed (opposed by Republican and Democratic Governors). There is no per-capita cap limitation in the budget agreement.
 - About \$12 billion to \$14 billion was used for higher defense spending, domestic initiatives, and higher levels of transportation spending.
 - The remainder, \$69 billion, was used for deficit reduction throughout the 5-year period.



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WHERE THE \$225 BILLION WENT

TASKER POINTS ON THE BUDGET

Here is a summary of where the estimated \$225 billion of revenue from 1990's proposed practices went:

\$128 billion was used to reduce the deficit by cutting costs in the following areas:

- The \$10 billion was used to improve the 10% productivity plan change in the Department of Defense that would have reduced the military's operating level.
- The \$10 billion was used to reduce the 10% productivity plan change in the Department of Defense that would have reduced the military's operating level.
- The \$10 billion was used to reduce the 10% productivity plan change in the Department of Defense that would have reduced the military's operating level.

The remainder, \$97 billion, was used for other purposes:

- The \$50 billion was used for other purposes.
- The \$47 billion was used for other purposes.