The Balanced Budget Agreement of 1997

SUMMARY OF MAJOR ASSUMPTIONS

Prepared by the House Committee on the Budget
Majority Staff

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FINAL PROVISIONS, including updated figures and modifications made during negotiations May 15, 1997, to seal the Balanced Budget Agreement.

THE BALANCED BUDGET AGREEMENT OF 1997

(all figures in billions of dollars)

Fiscal Year	1998	1999	2000	2001	2002	5-Year
SUMMARY						
Total Spending	1,692	1,754	1,811	1,858	1,889	9,004
Total Revenues	1,602	1,664	1,728	1,805	1,890	8,690
Deficit/Surplus	-90.4	-89.5	-83.0	-53.2	1.6	-----
Total Discretionary Spending						
Defense						
BA	269	272	275	282	290	1,387
Outlays	267	267	269	271	273	1,346
Nondefense						
BA	258	261	262	260	261	1,303
Outlays	286	293	295	294	288	1,456
Total Discretionary Spending						
BA	527	533	537	542	551	2,690
Outlays	553	559	564	564	561	2,802
Total Entitlement Spending						
Medicare	221	233	253	261	280	1,248
Medicaid	105	112	121	129	138	605
Other	564	597	625	662	674	3,122
Total Entitlement Spending	890	942	999	1,052	1,091	4,975

NOTE: Figures may not add due to rounding and may be subject to late modifications.

SAVINGS TO AMERICAN TAXPAYERS FROM THE BALANCED BUDGET AGREEMENT

- ALL GOVERNMENT SPENDING OVER 10 YEARS:
  - Under current projections . . . . $21.057 trillion
  - Under the balanced budget agreement . . . $20.096 trillion
  - Savings to taxpayers under the balanced budget agreement . . . . $961 billion

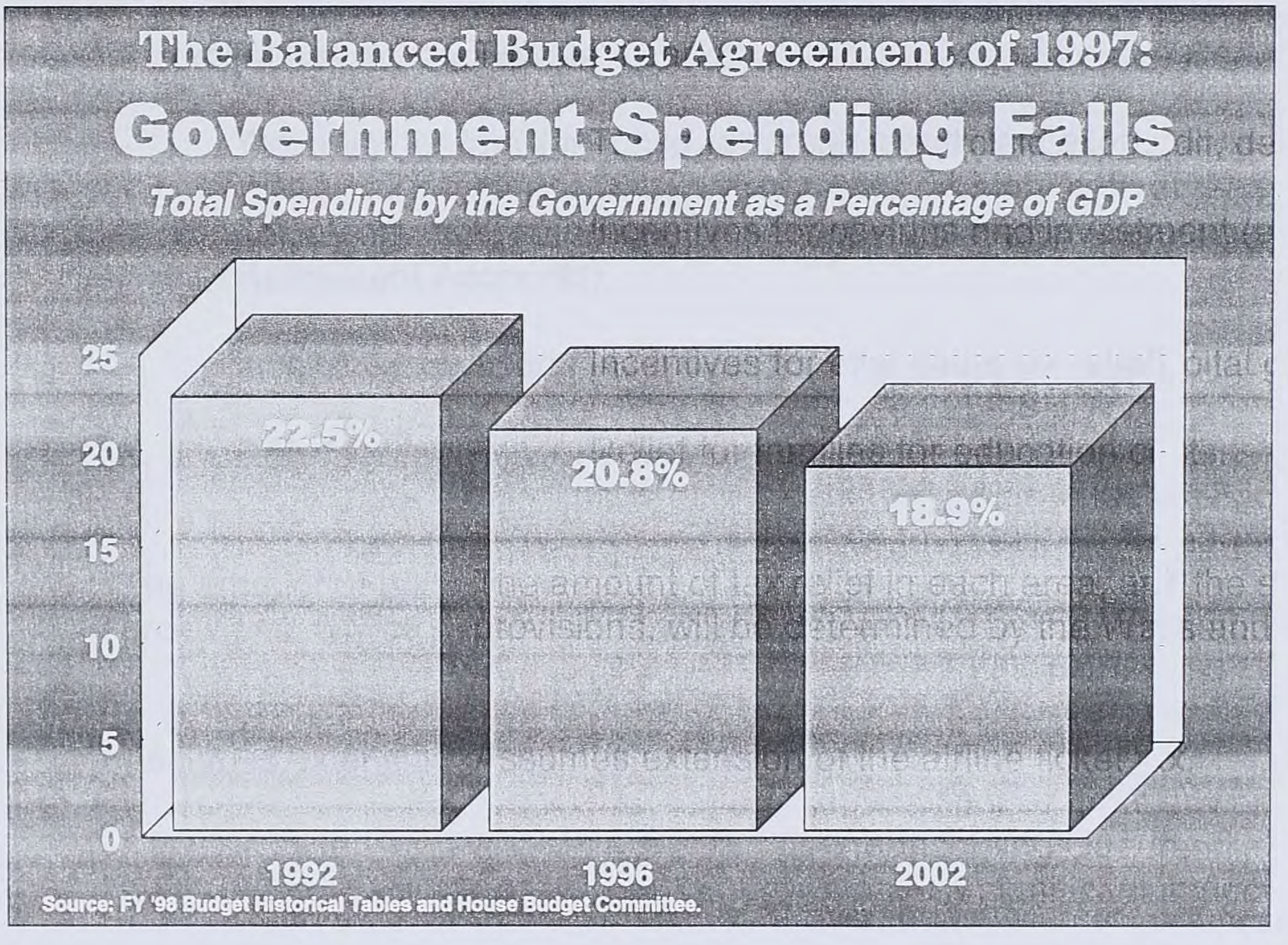
- TAX REVENUES OVER 10 YEARS:
  - Under current projections . . . . $19.313 trillion
  - Under the balanced budget agreement . . . $19.063 trillion
  - Savings to taxpayers under the balanced budget agreement . . . . $250 billion

- TAX CUTS ASSUMED IN THE AGREEMENT:
  - Relief for families with children (the child tax credit, death tax relief)
  - Incentives for job creation and economic growth (capital gains tax relief)
  - Incentives for savings and investment (IRA expansion)
  - Relief for families for education costs

IN SUMMARY: THE AGREEMENT MEANS SMALLER GOVERNMENT, LOWER SPENDING, LOWER TAXES, AND A BALANCED BUDGET — ALL IN ONE AGREEMENT [SEE CHART ON NEXT PAGE].

THE ERA OF BIG GOVERNMENT IS OVER

- Under the Balanced Budget Agreement, total government spending will decline from 22.5 percent of Gross Domestic Product [GDP] in 1992 to 18.9 percent of 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 government will have spent less than 20 percent of the Nation's economic resources.



TAX RELIEF

Major Policy Assumptions

[NOTE: THE BUDGET RESOLUTION ASSUMES THE FOLLOWING COMPONENTS. FINAL POLICY DECISIONS REMAIN WITH THE COMMITTEES OF JURISDICTION.]

- Provides for net tax relief of $85 billion, and gross tax relief of up to $135 billion, through 2002. Assumes not more than $250 billion in net tax relief 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.

DEFENSE

Major Policy Assumptions

[NOTE: THE BUDGET RESOLUTION ASSUMES THE FOLLOWING COMPONENTS. FINAL POLICY DECISIONS REMAIN WITH THE COMMITTEES OF JURISDICTION.]

- Over 5 years, assumes:
  - An addition of approximately $17 billion in discretionary budget authority and more than $5 billion in discretionary outlays compared to the fiscal year 1997 Budget Resolution Conference Report [see chart on the following page].
  - These levels allow for modernization of weapon systems, a high state of readiness, and a decent quality of life for Armed Forces personnel.
- Assumes fiscal year 1998 budget authority is $269 billion. Outlays are $266.8 billion.
  - This is identical to budget authority projected in the fiscal year 1997 Budget Resolution Conference Report.
  - It is approximately $2.6 billion higher than the President's budget request.
- 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.

The Balanced Budget Agreement of 1997

Defense Spending

Billions of Dollars

	1998	1999	2000	2001	2002	Total
FY 1997 Budget Resolution:						
Budget Authority	269.0	271.5	274.0	276.7	279.5	1,370.6
Outlays	263.8	267.0	270.7	269.7	269.6	1,340.8
Balanced Budget Agreement of 1997:						
Budget Authority	269.0	271.5	275.4	281.8	289.6	1,387.3
Outlays	266.8	266.5	269.0	270.7	273.1	1,346.1

Source: FY '98 Budget Historical Tables and House Budget Committee.

NONDEFENSE DISCRETIONARY SPENDING

Major Policy Assumptions

[NOTE: THE BUDGET RESOLUTION ASSUMES THE FOLLOWING COMPONENTS. FINAL POLICY DECISIONS REMAIN WITH THE COMMITTEES OF JURISDICTION.]

- 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.

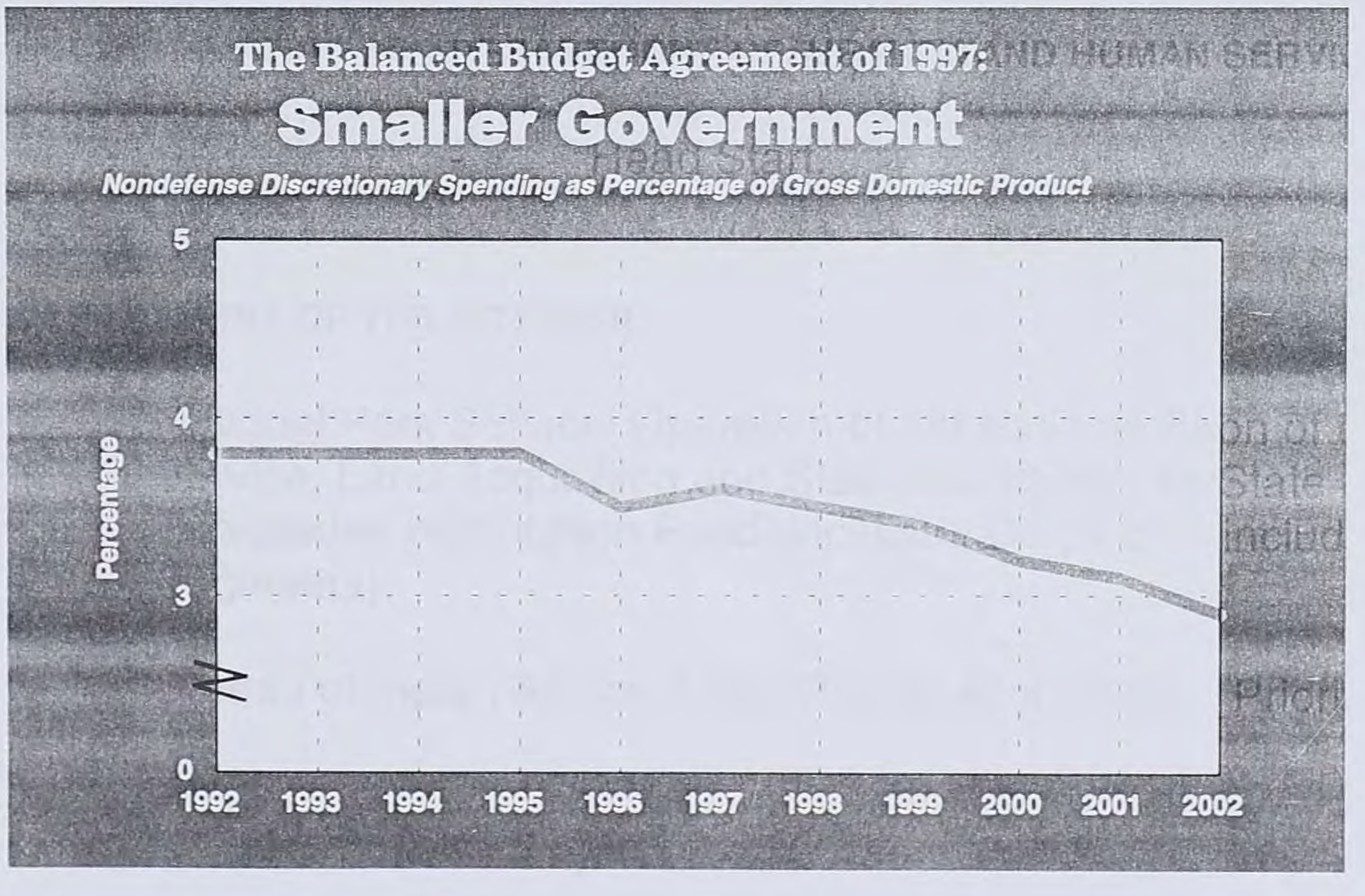
- Nondefense discretionary budget authority will grow at an average of about 1.7 percent a year, compared with an average of 5 percent a year over the past 5 years.

- In all, nondefense discretionary spending will be reduced by $62.3 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.

▸ 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.



PROTECTED DOMESTIC 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 award amount, 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 the National Park Service, Land Acquisition and State Assistance, and Everglades Restoration Fund (including Corps of Engineers).
  - Bureau of Indian Affairs, Tribal Priority Allocations.

- **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**

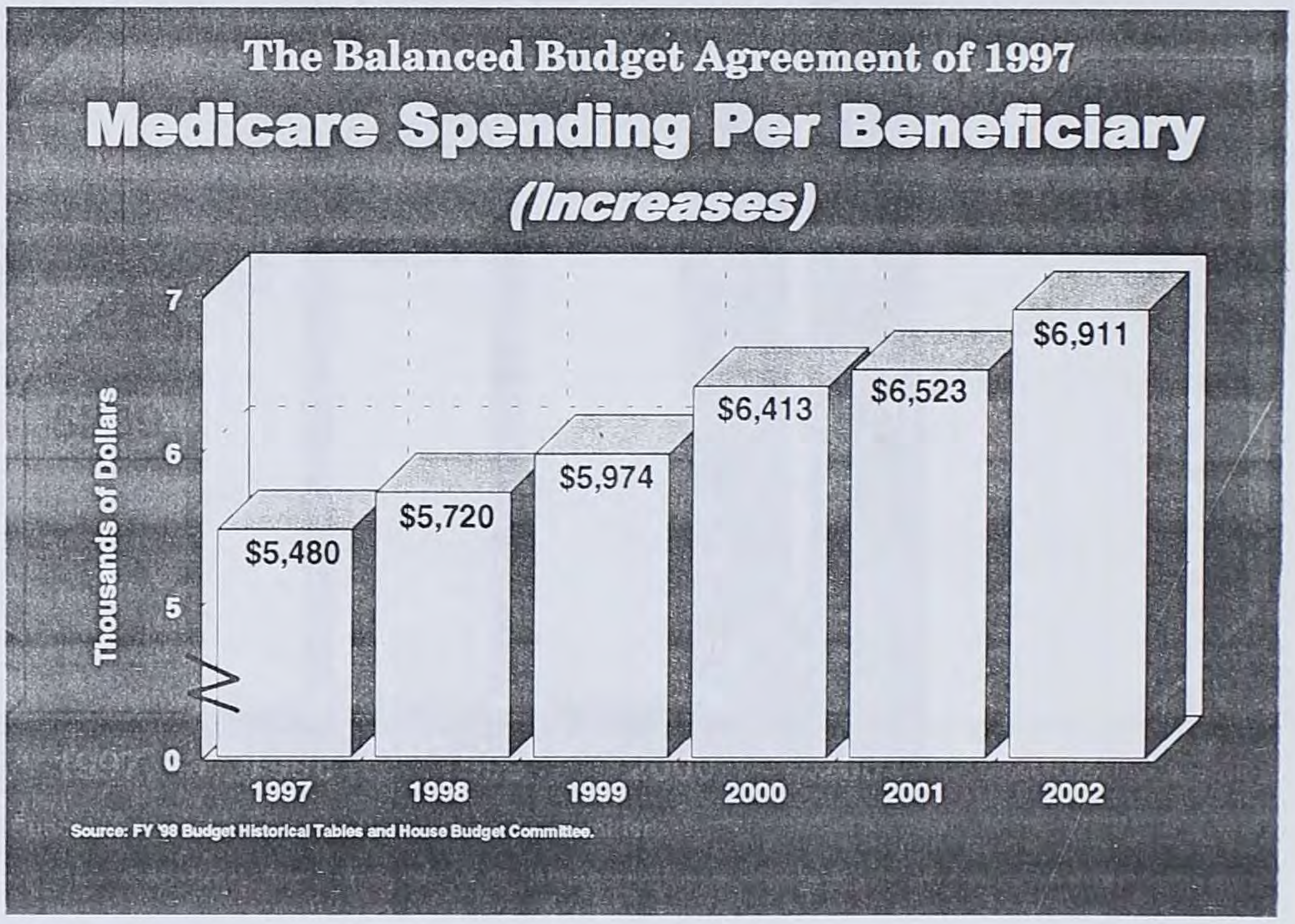
MEDICARE

Policy Assumptions

[NOTE: THE BUDGET RESOLUTION ASSUMES THE FOLLOWING COMPONENTS. FINAL POLICY DECISIONS REMAIN WITH THE COMMITTEES OF JURISDICTION.]

- Assumes extending the solvency of the Medicare Part A Trust Fund for 10 years, combining savings and structural reforms, and reallocating home health care spending from Part A to Part B.

- Assumes slowing the growth of projected Medicare spending by $115 billion over 5 years.



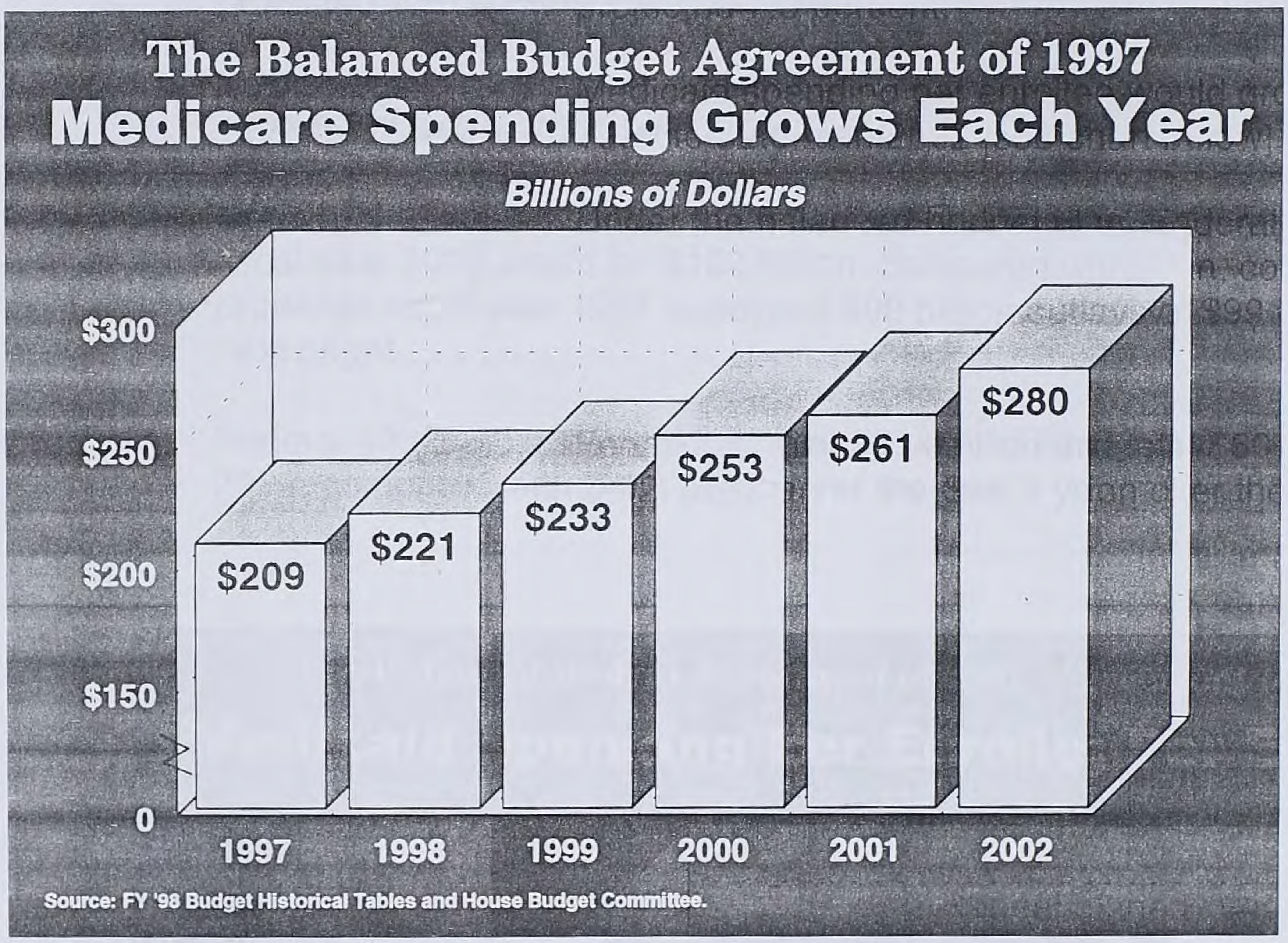
- Assumes increase in per-beneficiary spending from $5,480 in 1997 to $6,911 in 2002 [see chart].

- Provides more choices for beneficiaries among competing health plans, such as provider-sponsored organizations and preferred provider organizations.

- Provides for Medicare spending growth from $209 billion in 1997 to $280 billion in 2002, average annual growth of 6.0 percent, and total growth over 5 years of 34 percent [see chart on next page].

- Part B Premium: (1) assumes maintaining premium at 25 percent of program costs; and (2) phasing in over 7 years an adjustment for the portion of home health expenditures reallocated to Part B, with protections for low-income beneficiaries.

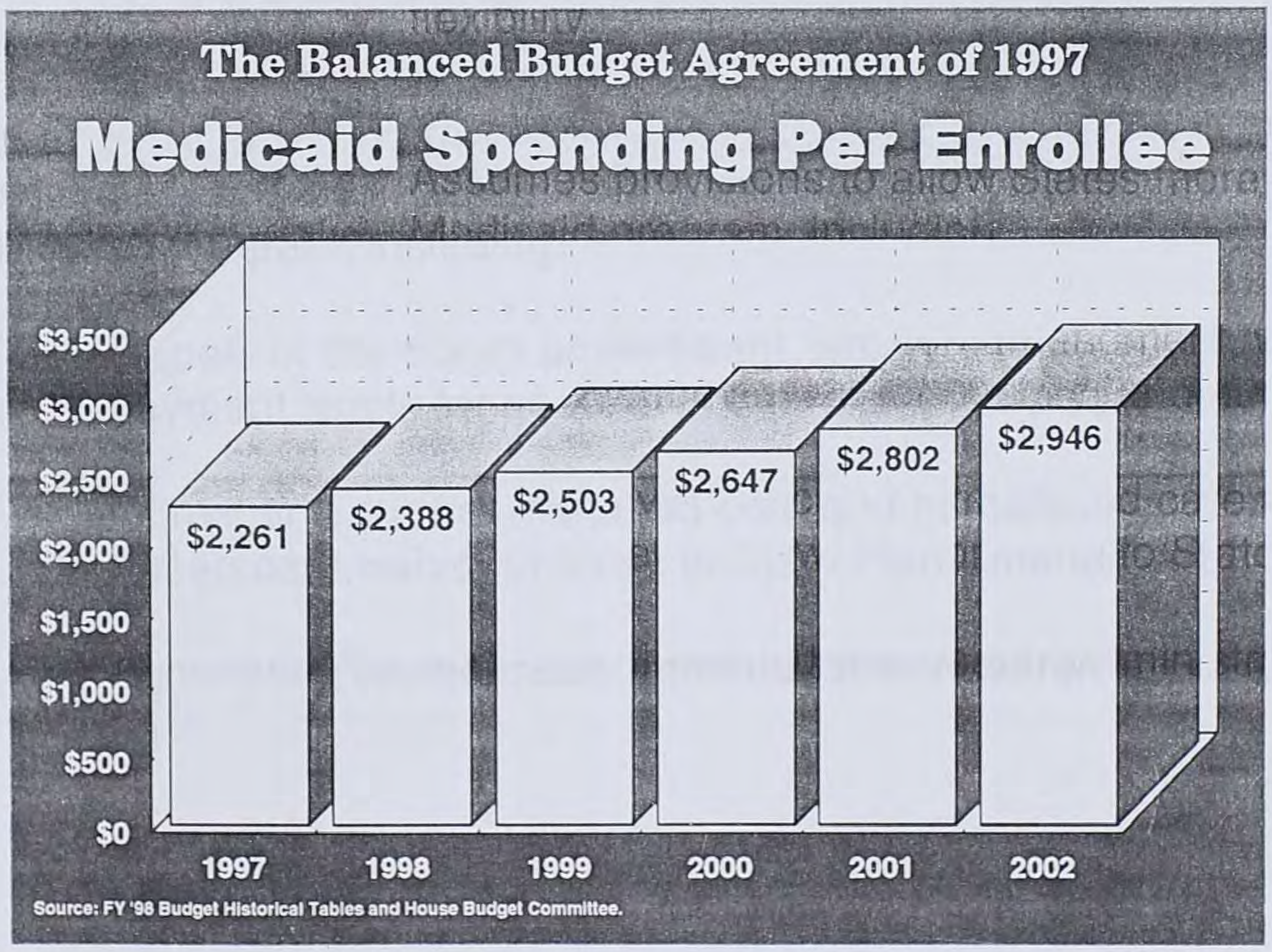
- Allows for new benefits, including but not limited to coverage for annual mammograms, diabetes self-management, immunizations, and colorectal cancer screening — but final decisions on benefits will be determined by the Ways and Means and Commerce Committees.



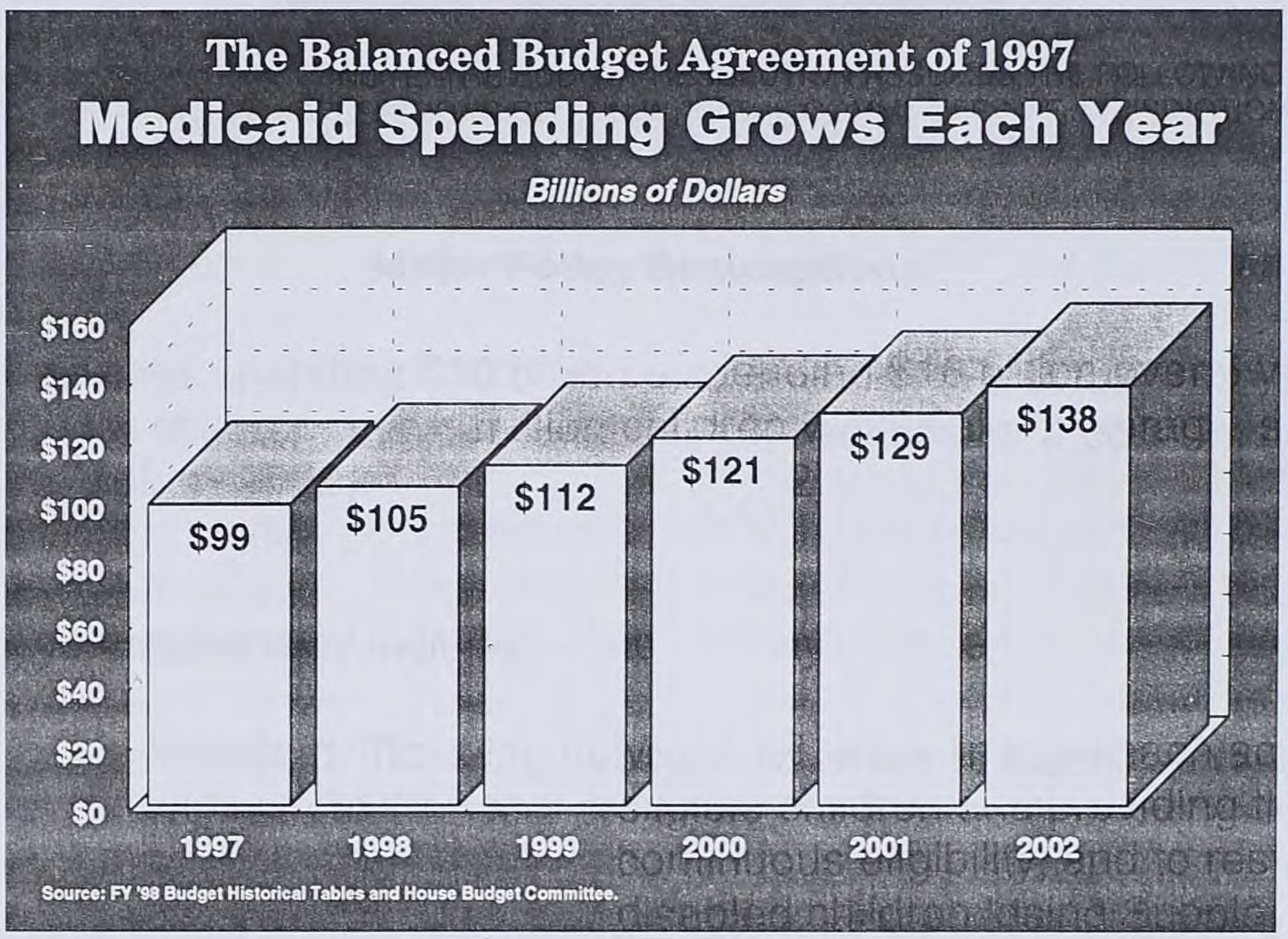
MEDICAID

[NOTE: THE BUDGET RESOLUTION ASSUMES THE FOLLOWING COMPONENTS. FINAL POLICY DECISIONS REMAIN WITH THE COMMITTEES OF JURISDICTION.]

- Assumes net Medicaid savings of $13.6 billion over 5 years.
  - Federal Medicaid outlays would continue to grow at a 6.9-percent annual growth rate — rather than the currently projected 7.8 percent.
  - Medicaid spending per enrollee would grow from $2,261 in 1997 to $2,946 in 2002 [see chart below].
  - Under the balanced budget plan, Federal Medicaid outlays in fiscal year 2002 would be $138 billion, compared with projected fiscal year 1997 outlays of $99 billion [see chart on next page].
  - Federal Medicaid outlays would total $604 billion through 2002, compared with $438 billion over the past 5 years.



- Assumes Medicaid savings do not reflect health care spending for children's coverage, protections for legal immigrants under welfare reform, or the extension of the veterans' pension limit for veterans in Medicaid nursing homes.



- Assumes savings from reduced disproportionate share [DSH] payments and various provisions to enhance administrative flexibility.

- Assumes provisions to allow States more flexibility 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.

CHILDREN'S HEALTH

[NOTE: THE BUDGET RESOLUTION ASSUMES THE FOLLOWING COMPONENTS. FINAL POLICY DECISIONS REMAIN WITH THE COMMITTEES OF JURISDICTION.]

Major Policy Assumptions

- Assumes spending $16 billion over 5 years (to provide up to 5 million children with health coverage, services, or a combination thereof, by 2002).

- The funding may include:
  - Medicaid, including outreach activities to identify and enroll eligible children and providing the State option of 12-month continuous eligibility; and to restore Medicaid for current disabled children losing Supplemental Security Income [SSI] because of the new definition of childhood eligibility.
  - A program of grants to States to finance health insurance coverage for uninsured children.

OTHER MANDATORY SPENDING ASSUMPTIONS

[NOTE: THE BUDGET RESOLUTION ASSUMES THE FOLLOWING COMPONENTS. FINAL POLICY DECISIONS REMAIN WITH THE COMMITTEES OF JURISDICTION.]

Major Policy Assumptions

- STUDENT LOANS: Assumes $1.8 billion over 5 years in savings from student loans.
  - Assumes reduction in direct loan administrative account, but does not call for capping direct lending.
  - Assumes elimination of the $10-per-loan fee.
  - Assumes reclaiming excess guaranty agency reserves.
- WELFARE TO WORK: Assumes $3 billion over 5 years in welfare-to-work grants to States.
- IMMIGRANTS:
  - Assumes restoration of eligibility for Supplemental Security Income [SSI] and Medicaid for all disabled legal immigrants who are or become disabled and who entered the United States prior to August 23, 1996.
  - Assumes that disabled legal immigrants who entered the United States after August 22, 1996, and are on the rolls before June 1, 1997, shall not be removed.
- FOOD STAMPS: Assumes the creation of additional workfare positions in the Food Stamp Employment and Training Program over the next 5 years for able-bodied adults subject to new work requirements in the Food Stamp law.

- **EARNED INCOME CREDIT:** Assumes $124 million over 5 years in savings.

  - Assumes adoption of Treasury proposals to improve detection of fraud and errors among tax returns claiming the EIC. Expected to be included in the package are tougher penalties for fraudulent claims, a requirement that tax filers exercise "due diligence" in claiming the credit, and more IRS resources for detecting fraud within the program.

- **FEDERAL RETIREMENT:** Assumes $4.9 billion over 5 years in Federal retirement programs.

  - Assumes increases in Federal agency contributions to the Civil Service Retirement and Disability Trust Fund [CSRDF] for CSRS employees by 1.51 percentage points, beginning in fiscal year 1998. Does not apply to the Postal Service.

  - Assumes phase-in of a one-half-percentage-point increase in the employee contribution to the CSRDF beginning in fiscal year 1999. All CSRS and FERS employees are covered by the increase, including Postal Service employees. Agency contributions for FERS employees would not decrease.

  - Assumes shifting to the Postal Service the cost of financing workers compensation benefits for pre-1971 postal employees, for net savings of $121 million over 5 years.

  - Assumes no delay in cost-of-living adjustments [COLA's] for Federal retirees.

- **VETERANS:** 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.

- **SPECTRUM AUCTIONS:** Assumes approximately $26.3 billion over 5 years in savings from spectrum auctions.

- **OTHER:** Other assumed mandatory savings include:

    - Leasing excess capacity in the Strategic Petroleum Reserve [SPR].
    - Extending vessel tonnage duties at current level.
    - Achieving $624 million in unemployment trust fund savings over 5 years by increasing the ceiling on Federal administrative unemployment trust funds to 0.5 percent of total covered benefits.
    - Generating $763 million in savings over 5 years by adopting administration proposals to conduct more benefit integrity activities within the program aimed at detecting fraudulent unemployment insurance claims and underpayment of unemployment insurance taxes.
    - Provides a $1-billion reserve for environmental purposes contingent on reform of the Superfund program.

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.

- 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.

BUDGET PROCESS/ENFORCEMENT

- No final decisions have been reached concerning process and enforcement, but the budget is likely to call for the following:

  - Extending discretionary spending caps through 2002.

  - Extending the Pay-As-You-Go [PAYGO] discipline.

  - Retains current law on separate Violent Crime Reduction Trust Fund spending cap.

  - A revision of the asset sales rule to score sales if net present value of all associated cash flows would not increase the deficit.

  - A reconciliation process that will include two reconciliation bills with likely dates of June 12 and June 13 for authorizing committees to report to the Budget Committee.

OTHER ISSUES

- The plan makes no assumption abandoning a potential continuing appropriations resolution.