INFORMED BUDGETEER:

@ End of 106th Congress Countdown @
Calendar Days to Sine Die: October 6
(From July 10- following 4th of July Recess)

Total Days	88
Less:	
Scheduled Non-Leg. Periods (41 days)	47
Fridays & Mondays before/after Non-Leg. Periods (3)	44
Remaining Saturdays & Sundays (10)	34
Mondays & Fridays in Leg. Periods (10) ; =	24
Memo: Days to Beginning of FY 2001	21

AT MID-SESSION – THE PRESIDENT'S BUDGET

- As required by law, the President submitted to Congress his update of the Budget on June 26. The Midsession review's great unkept secret of revised budget surplus estimates were made official. The CBO's summer update is likely to be forthcoming in mid-July.

- The President's Midsession, following current law accounting (meaning the Medicare HI Trust Fund is on-budget, not off-budget) estimates that this year's surplus, before any policy changes, will top $224 billion. Surpassing previous estimates, current services non-social security surplus for this year is expected to reach $76 billion.

- Assuming that appropriated accounts (discretionary spending) grow at the Administration's projected overall inflation rate between 2000 and 2001 (estimated to be about 2.6 %) the unified surplus would continue to grow to over $239 billion in 2001, and the non-social security surplus would reach $79 billion. Over the next decade, the baseline surpluses would accumulate to nearly $4.2 trillion, of which $1.9 trillion is the non-social security portion.

- The President's policies would change these numbers as shown in the table below. The surplus for this year would be reduced slightly to $211 billion, with the on-budget surplus falling to $63 billion. In other words, spending policy changes – mostly timing shifts – would reduce the current year surplus by $13 billion.

Comparison of OMB Baseline and the President's Budget
($ in Billions)

	2000	2001	2001-05	2001-10
OMB-July 2000 Current Services				
Unified Surplus	224	239	1497	4193
On-Budget	76	79	540	1874
Off- Budget	148	160	957	2319
President's Budget-July 2000				
Unified Surplus	211	228	1210	2912
On-Budget	63	68	253	593
Off-Budget	148	160	957	2319
Revenues	2013	2096	11288	25257
Outlays	1802	1848	9955	21844
Discretionary	620	633	3344	7080
Mandatory	959	1003	5687	13343
Net Interest	223	212	924	1421
Reserve for America's Future	- -	20	123	500
Public Held Debt (end of period)	3449	3324	2293	646

SOURCE: Midsession Review, Office of Management and Budget, June 26, 2000.

- For the 2001 Budget, the President's policies would reduce the projected on-budget surplus by $11 billion. Once again, because the policies assume a tax increase of nearly $11.5 billion in 2001 (see "Same Old, Same Old" below), one can conclude that the President's policies would increase spending (over and above inflation) by $21.5 billion.

- Compared to February when the President submitted his budget, the surplus over the next decade is expected to be about $1.3 trillion higher. What would the President do with this new found "wealth"?

- The *Bulletin* concludes that nearly 70% of this new surplus is spent! (See the following table.) While the President claims that $500 billion of it would be set aside for "America's Future" – read for his Vice President to use for promises this fall – the Midsession clearly does not use for debt reduction and the President's minimal tax cuts of last fall have not been altered. Thus one can conclude that the "Reserve" will be spent.

Uses of Surplus in President's Proposals, 2001-2010
(10-year totals, $ in billions)

	February	Midsession	Difference
Unified surplus inflated baseline	2919	4193	1274
Policy Proposals:			
Reserve for America's Future[A]	0	500	500
Prescription Drugs	133	224	91
Other Health	56	130	74
Spending Changes	14	31	17
Net Tax Cut	133	140	7
Additional Interest costs	64	256	192
Subtotal: uses	400	281	
Debt Reduction[B]	2519	2912	393
Use of Additional Surplus:			
More Spending		69%	
More Tax Cuts		0%	
More Debt Reduction		31%	

[A]President's Midsession Review suggests this reserve would be available for "key national priorities" such as increased spending or targeted tax cuts. This summary assumes it would be devoted to spending. [B]Amount of unified surplus (post policy) used for debt reduction.

SAME OLD, SAME OLD

- Not much has changed regarding the President's tax policy proposals between the February budget and the Midsession review. The Administration is still saying the tax cut in the President's budget is larger than it really is.

- In the Midsession Review tables, the Administration shows $263 billion in ten-year tax relief. This number <u>includes</u> $37.7 billion in new spending from refundable tax credits, and it <u>excludes</u> $85.2 billion in tax increases from proposals such as tobacco tax and superfund tax increases. As the table shows, the correct figure for ten-year tax relief in the President's budget is $140.4 billion.

- The *Bulletin* also notes that during this time of record surpluses, the Administration is recommending increasing taxes on net by $11.5 billion in 2001 and by $4.7 billion over the next five years.

Mid Session Review: President's Revenue Proposals
($ in Billions)

	2001	2001-05	2001-10
Gross Tax Cut	-3.5	-86.6	-321.1
Gross Tax Increase	15.0	91.3	180.8
Net Tax change	11.5	4.7	-140.4
Outlay increase: refundable tax credits	2.1	14.9	37.7

CLINTON-GORE'S SHELL GAME ON MEDICARE: MORE SPENDING, OFF-BUDGET, AND MORE IOUS

- For those who are worried about Medicare's long-term solvency, the President's Midsession Review contains the worst possible combination of proposals.

- The Clinton-Gore plan would: increase spending on Medicare by $166 billion over ten years compared to his February budget, for a total spending increase of $264 billion over the baseline; remove the Medicare Hospital Insurance trust fund from budget discipline; and transfer hundreds of billions of dollars in new IOUs from the general fund to the Medicare Hospital Insurance (HI) trust fund to claim he has made the fund more "solvent".

- What is most striking about the Clinton-Gore plan is the new argument for transferring IOUs to HI is the claim Medicare is running a surplus and therefore deserves to get the interest savings from a smaller national debt. This argument is absurd.

- First, Medicare is two trust funds, not one. CBO projects that the Medicare HI trust fund will run a surplus of nearly $25 billion in 2001, and the part B trust fund will run a deficit of $7.4 billion. But the part B trust fund is financed mostly from an automatic general fund contribution equal to 75%of program costs; the general fund contribution will total $66.9 billion in 2001. Without this contribution, Medicare would be running an overall deficit of about $50 billion in 2001, not a surplus.

- Even the current HI surplus amounts are fabricated. In 1993, the Clinton-Gore Administration imposed a new tax on Social Security beneficiaries. The receipts were put into the HI fund which will generate $6.9 billion for the fund in 2001. And in 1997, the Clinton-Gore Administration insisted on transferring a substantial portion of home health spending from the HI fund to the Medicare part B trust fund. CBO estimated the transferred amount at $11 billion in 2001.

- Without these implicit general fund subsidies and the additional interest payments they have generated, the HI trust fund would be running a deficit in 2001 of nearly $4 billion, not a surplus. The Clinton-Gore Administration takes this shell game to new heights by suggesting the manufactured "surpluses" in HI justify taking it off-budget with more transfers from the general fund.

- They argue that the HI trust fund is contributing to the overall budget surplus, and therefore should be credited with interest savings on the debt, totaling hundreds of billions of dollars over the coming decades. The only real effect of this transfer is to move even more of Medicare's liabilities onto future taxpayers.

- The House has passed a Medicare "Lock Box" which would require on-budget surpluses to at least equal the Medicare HI surpluses. This proposal would lock in further debt reduction. But the Clinton-Gore proposal to further balkanize the budget and continue the shell games with Medicare should be exposed and rejected.

CONSIDERING TAX RECONCILIATION PROCEDURES

- This week the Finance Committee has reported the first tax reconciliation bill assumed in the Budget Resolution. Its consideration following the 4th of July recess will be governed by section 104 of the FY2001 Budget Resolution (H. Con. Res. 290) and the procedures set out in sections 305 and 310 of the Congressional Budget Act of 1974.

- Because this year instructions were given to only one committee in the Senate, the bill will not be reported out of the Budget Committee but rather will go straight onto the Senate Calendar from the Finance Committee. The bill is privileged for consideration.

- If the bill is accompanied by a committee report, it is not in order to proceed to the bill until the report has been available for 48 hours. The motion to proceed to the bill is NOT debatable.

- Under the Budget Act, there will be 20 hours available for debate on the bill. Note that this is not an overall limit on consideration. Thus amendments may be offered and motions made after the expiration of 20 hours. Such amendments and motions will be disposed of without debate unless unanimous consent is obtained.

- During the 20 hours, 1st degree amendments are debatable for 2 hours and 2nd degree amendments and debatable motions and appeals are debatable for 1 hour. All time limitations are equally divided and controlled by the Majority Leader and the Minority Leader or their designees.

- As is the case with all legislation considered in the Senate, the tax reconciliation bill and any amendments offered thereto must conform with the parameters of the Budget Resolution and the section 306 prohibition regarding matters within the jurisdiction of the Budget Committee.

- That means that the bill and any amendments must comply with the reconciliation instructions (both the 1st and 5-year totals), and the revenue aggregate. If not, they will be subject to Budget Act points of order (section 311 with respect to the aggregates).

- The Budget Resolution was constructed such that the aggregates and the Senate pay-go scorecard would accommodate a tax cut bill that complies with the reconciliation instructions.

- Because this is a *reconciliation bill*, the legislation (and any amendments thereto and the conference report) must also conform to : (i) the **germaneness** requirement found in section 305(b) - although this applies to amendments only, (ii) the prohibition regarding changes to **Social Security** found in section 310(g), and (iii) the **Byrd Rule**.

- Savvy budgeteers will remember that the Byrd Rule is found at section 313 of the Budget Act and prohibits the inclusion of "extraneous matter" in reconciliation legislation. Unlike other points of order in the Senate, the Byrd Rule applies to "provisions" and as such may be used to extract language from within the bill and the conference report.

- Because the instruction given to the Finance Committee deals only with revenues, as was the case with last year's reconciliation bill, the Byrd Rule must be given particular consideration. Section 313(b)(1)(E) of the Byrd Rule requires that there be no net change in spending or revenues in the years beyond the reconciliation instructions.

- What this means is that the tax cuts must sunset after FY 2005; otherwise the taxcutting provisions will be vulnerable to a 60-vote point of order. Note also that because the instruction covers only revenues, the Senate Parliamentarian has advised that any provision (either in the bill or in a floor amendment) which produces a change in outlays, will also be considered extraneous under the Byrd Rule.

- All of these points of order require the affirmative vote of 60 Senators in order to prevail on a motion to waive or to appeal a ruling of the Chair.

- Because this is a revenue bill, the vehicle in conference must be a House revenue bill. Otherwise there is the potential of a "blue slip" from the House. "Blue slip" is the term used to describe the situation where a simple House resolution accompanies a message from the House of Representatives regarding a Senate-passed bill. In such cases, the House declines to consider that particular measure on the grounds that it infringes upon the House's constitutional prerogative to originate all revenue legislation (Article I, Section 7).

- The Budget Act does not specifically address the amount of time which may be spent on the various motions required to get a reconciliation bill to conference and the appointment of conferees.

- The Senate Parliamentarian has advised, however, that since the Act envisions limited debate on reconciliation, a limit of 10 hours for disposing of the motions would be appropriate. Nonetheless, in the past these motions and the naming of conferees have generally been disposed of by unanimous consent without debate.