



## UPDATE ON FISCAL YEAR 2010 BUDGET PROCESS

**APRIL 13, 2009**

*This summary is an addition to the Council's breakdown of the budget outline released by the Obama Administration in late February, which can be found at:*

[http://newenglandcouncil.com/pdf/rep\\_webReports/rep\\_2009.02.27\\_2010BudgetSumm.pdf](http://newenglandcouncil.com/pdf/rep_webReports/rep_2009.02.27_2010BudgetSumm.pdf)

In early April the House and Senate passed their respective versions of the Fiscal Year 2010 federal budget (H. Con. Res. 85, S. Con. Res. 13), coming several weeks after the Obama Administration released its macro-budget outline for next year. In the coming days and weeks, a joint conference committee will work to resolve the differences between the two budgets before sending the measure back to each chamber for final passage (the Congressional budget does not go to the President for his signature or veto). The White House is expected to release a more detailed program-by-program FY10 budget by the end of April as Congressional appropriations subcommittees begin crafting spending bills.

Before Congressional debate began on the budget, the non-partisan Congressional Budget Office (CBO) released an analysis of the President's FY10 budget outline. For the purposes of the summary, the CBO estimate will be used when referring to the President's budget.

### **OVERVIEW**

The budgets passed by the House and Senate are similar, although not identical, to the President's budget request. The White House budget assumes about \$3.67 trillion in government spending next year, with the House and Senate budgets coming in at a little over \$3.5 trillion. The Administration's budget sought to arm Congressional appropriators with \$1.096 trillion for discretionary spending, with the House and Senate cutting that number to \$1.089 trillion and \$1.081 trillion respectively.

Throughout the committee and floor debates opponents cited CBO's estimate that the annual budget deficit would balloon to \$1.845 trillion in FY09 and remain at historic levels (\$1.379 trillion) in FY10. Due to a number of factors, including the phasing out of programs in the American Recovery and Reinvestment Act (ARRA) and spending under the Troubled Assets Relief Program, all three budget show the deficit declining significantly by FY13: the House at \$586 billion, the Senate at \$570 billion, and the Administration's budget estimating an FY13 deficit of \$672 billion.

All would dramatically aggravate the cumulative national debt. As an example, CBO estimates by Fiscal Year 2019 net interest alone on the national debt held by the public (\$17.3 trillion) would reach \$860 billion – about 3.8% of gross domestic product and higher than the total cost of the recent economic stimulus plan.

The Administration chose to release a 10-year budget outline in order to increase truth-in-budgeting practices -- attempting to show a more honest picture of the nation's financial position. The House and Senate budgets only include 5-year windows, with explanations that the uncertainty of the economy as well as policy changes make decade-long predictions highly unreliable and unnecessary.

## **RECONCILIATION**

While appropriators and other Congressional committees may choose not to closely follow programmatic spending recommendations in the budget (or outright ignore them), the budget does offer one vehicle to force action on specific issues: the budget reconciliation process. Reconciliation instructions direct committees to report specific legislation making changes to existing laws, usually with changes in spending and/or revenues as well. Those bills are then packaged into one reconciliation measure and brought to the floor with specific protections against filibusters and amendments, making reconciliation a valuable tool for majorities.

As the budget process began, the Chairman of the Senate Budget Committee was adamant his bill would not include reconciliation, just as the Administration's budget failed to include such instruction. True to his word, the Senate budget does not have reconciliation. The House budget, however, includes instructions for comprehensive health care and education reform. The likelihood continues to increase that the combined budget emerging from the House/Senate

conference *will* include reconciliation instructions. It is unlikely the conference will add cap-and-trade climate change legislation to the list, however, as many members of the majority party in the Senate have voiced their apprehension about addressing climate change in what is viewed as a traditionally partisan reconciliation process. The Senate went so far as to pass an amendment preventing reconciliation from being used for climate change legislation.

The Congressional Research Service has compiled a more detailed primer of reconciliation procedures at: [http://www.senate.gov/CRSReports/crs-publish.cfm?pid=%26\\*2%3C4RL\\_%3F%0A](http://www.senate.gov/CRSReports/crs-publish.cfm?pid=%26*2%3C4RL_%3F%0A).

## **ENERGY/CLIMATE CHANGE**

All three budgets aim to build on the economic stimulus package by directing significant resources to the Department of Energy and other agencies to promote renewable and clean energy sources, energy efficiency programs, and clean vehicle technologies. However, the anticipated revenues from a \$629 billion cap-and-trade climate change program included in the President's budget have garnered a great deal of attention. Both the House and Senate budget include deficit-neutral reserve funds to allow for climate change legislation this year, without specifying how such programs would be structured or revenues distributed. Reserve funds allow the Chairman of the Budget Committee to loosen spending ceilings or other restrictions when specific conditions are met (such as the passage of a climate change bill).

## **TAX PROVISIONS**

Research and Development Tax Credit – The White House included a permanent extension of the R&D tax credit in its budget. The Senate budget includes an R&D extension through 2011 while the House defers to the status quo, saying, “It is the policy of this resolution to extend the following tax relief consistent with current policy,” including the R&D credit.

Alternative Minimum Tax – The Senate budget provides for three full years of AMT relief from FY10-FY12 in contrast to the Administration's proposal to index the AMT to inflation starting in 2009, at a five year cost of \$177 billion. The House budget patches the AMT for 2010, and then indexes the tax in future years.

Making Work Pay Tax Credit—One of the hallmarks of the economic stimulus bill, the Administration proposes using revenues from any possible climate change bill to

permanently extend the credit. The Congressional budgets allow the credit to run its course and sunset as outline in the ARRA.

Income Taxes – The House and Senate budget follow the President's lead, incorporating extensions of the 2001 and 2003 tax cuts for middle-income individuals and families while raising rates on higher-income earners (\$200,000 for an individual).

Estate Tax – One of the more noteworthy developments during the Senate budget debate was the success of a bipartisan amendment to lower the 45% estate tax to 35% with a \$5 million exemption. The Administration and House budgets want the 45% rate to remain in place with the current \$3.5 million exemption. The estate tax is set to disappear entirely in 2010 but return with lower exemption thresholds and higher tax rates in 2011.

## **FINANCIAL SERVICES/TARP**

The President includes \$250 billion as a, “placeholder for potential additional financial stabilization efforts,” which could leverage as much as \$750 billion in the purchase of legacy assets from financial institutions. Neither the House nor Senate budget includes such a placeholder.

## **HEALTH CARE**

The House and Senate FY2010 budget resolutions provide congressional authorizing Committees with flexibility to determine how much money to spend on federal health care services, and where the money will come from to offset spending with the stipulation that costs do not increase the nation's deficit.

Health spending under both House and Senate resolutions are comparable to the principles set out in President Obama's proposed budget to reform the nation's healthcare system. Among other things, the President's budget sets out to promote nationwide health information technology adoption; increase funding for cancer research conducted by the National Institutes of Health, expand comparative effectiveness research; curtail waste, abuse and fraud in the Medicare and Medicaid program; improve quality of care and access to in rural areas; and reduce health workforce shortages in underserved areas.

The House FY2010 budget resolution sets aside \$1.9 billion for health care services over a period of four years, \$308.9 million of which is discretionary and “...match[es] the President's 2010 request and increase funding over the 2010 baseline level, enabling support of the President's priorities for cancer research,

*food safety, and other important programs.” Additionally, the House FY2010 budget resolution includes \$2.6 billion for the Medicare program. The resolution addresses the physician pay cuts as a result of the Sustainable Growth rate (SGR) and “assumes that the payment rates in effect for physicians for 2009 will stay in effect through 2019.”*

The FY 2010 Senate budget resolution contains \$299.7 million in discretionary health spending which includes \$2.9 billion for Community Health Centers, and resources to reduce workforce shortages in underserved areas and improve NIH cancer research. Mandatory expenditures in the Senate FY2010 budget resolution total \$1.59 billion and include a deficit neutral reserve fund “*to facilitate legislation that transforms and modernizes our health care system and achieves the common goals of constraining costs, expanding access, and improving quality.*” The resolution also includes \$2.5 billion for the Medicare program.

## **EDUCATION**

The House FY 2010 budget resolution provides discretionary funding for Pell grant increase set forth in the President’s proposed budget which supports “*a \$5,550 Pell Grant maximum award in the 2010-2011 school year*” to make college more accessible and affordable. Furthermore, the President’s budget calls to “*index Pell grants to the Consumer Price Index plus 1 percent in order to address Inflation*”, and to stop subsidies to financial institutions that provide student loans. The House resolution contains a deficit reserve fund “*to accommodate legislation that makes college more affordable*” consistent with House budgetary rules. The resolution also includes reconciliation instructions that require the authorizing Committee to report an education spending bill which reduces the deficit by \$1 billion.

The Senate FY 2010 budget resolution “*proposes to reduce barriers to higher education by accommodating the President’s student aid proposals, such as expanding Pell grants or expanding education tax incentives.*” The Senate resolution makes Pell grants spending mandatory, and establishes a deficit neutral reserve fund for higher education.

## **TRANSPORTATION**

The House FY2010 budget resolution provides funding for the nation’s transportation system—highways, mass transit, railways and aviation—for a four year period (2010-2014). “*Beginning in 2010, the resolution restores the mandatory baseline for the federal-aid highway program so that its funding authority is in line with current projections of obligation limitations. The resolution retains current scorekeeping practices for contract authority programs*”. The

House resolution also establishes deficit neutral reserve fund transportation expenditures.

The Senate FY2010 budget resolution sets aside \$1 billion for high speed rail for FY 2010. The resolution also establishes a deficit neutral reserve fund which will *“be available for surface transportation, and anticipates future investments will be paid for and the solvency of the highway trust fund will be maintained for the length of the surface transportation authorization.”* Additionally, the reserve fund can be used for multimodal transportation projects which *“seek to increase economic growth, efficiency and public safety, provide cost-savings, and reduce transportation related fatalities, traffic congestion, greenhouse gas emissions and energy fuel consumption.”*

# # #