



**A Summary of the U.S. House of Representatives'
Fiscal Year 2013 Budget Resolution**

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Overview of the House of Representatives' Fiscal Year 2013 Budget Resolution

Introduction

On Thursday, March 29th, the U.S. House of Representatives adopted the Republican majority's budget blueprint for the coming fiscal year on a near party-line vote of 228-191. The budget resolution, officially House Concurrent Resolution 112 (H. Con. Res. 112), sets the funding parameters for fiscal year 2013 as envisioned by House Budget Committee Chairman Paul Ryan (R-WI) and endorsed by House leaders as well as most rank-and-file Republican members. Ten House Republicans voted against the resolution and no House Democrats voted in support of the measure.

While the President's budget for the next fiscal year was submitted to Capitol Hill in February, it serves more as a guideline indicating Administration policy and funding desires. It is up to Congress to assemble and pass a budget resolution each year which can include some elements of the President's budget. However, with respect to the House-passed budget proposal, it is important to remember that "the budget resolution is not sent to the President, and does not become law. It does not provide budget authority or raise or lower revenues; instead, it is a guide for the House and Senate as they consider various budget-related bills, including appropriations and tax measures."¹

Spending

According to House Republicans, their budget proposal will cut spending relative to President Obama's budget submission by \$5.3 trillion over the next ten years, and will reduce the deficit by some \$3.26 trillion relative to the President's budget over that same ten-year period.² Moreover, the Republicans state that their budget is estimated to drop the level of the deficit relative to gross domestic product (GDP) to 1.2 percent ten years from now, and that the ten-year average will be 1.7 percent. Further, House Republicans indicate that as a portion of GDP, their budget resolution is expected to show a 0.25 percent surplus in 2040. With regard to debt, the Republicans state that the ratio under their budget will be about 77 percent of GDP in 2013, and will fall to about 62 percent relative to GDP in ten years.

Under the Republicans' budget proposal, the discretionary spending cap for both defense and non-defense spending would be set at \$1.028 trillion for fiscal year 2013. This is approximately \$19 billion less than the \$1.047 trillion cap that was agreed upon last August in the Budget Control Act (BCA) which both the House and Senate adopted and the President signed into law (Public Law 112-25). Additionally, the budget proposal includes such items as a requirement that any hikes in mandatory spending be offset by spending reductions, the creation of a budget point of order on any spending that extends beyond the normal ten-year projection limits, and the elimination of the ability to utilize "advance appropriations" in order to get around discretionary limits.

The Republican's budget plan also contains a provision that is meant to prevent an automatic sequestration from taking effect on January 1st. As part of last summer's debt ceiling increase and deficit reduction law (the BCA), Congress empowered a "super committee" to develop a plan that would implement approximately \$1.2 trillion in deficit reduction. Because that deficit reduction exercise did not materialize, automatic cuts will begin in 2013 unless Congress can find other offsets to help stop

¹ Congressional Research Service - The Congressional Appropriations Process: An Introduction, 2/23/12 page 3

² The deficit under the House Republicans proposal is expected to be \$3.127 trillion over 10 years. The Congressional Budget Office estimates the President's 10 year deficit at \$6.39 trillion (CBO - An Analysis of the President's 2013 Budget, 3/16/12)

those cuts. The Republican budget proposal includes a provision designed to help avoid a sequestration -- it would invoke the reconciliation process for six House Committees with the responsibility to identify further savings of more than \$260 billion over ten years and some \$18.3 billion in the first year. This latter amount would be slightly more than 40 percent of the \$43 billion in non-defense discretionary spending that will need to be cut in 2013. In terms of defense spending, the Republican budget calls for \$554 billion for defense programs, which is a slight increase in funding, and seeks cuts in other spending to ensure that the Department of Defense does not face a \$55 billion sequestration hit in 2013.

Taxes

With regard to taxes, the Republican budget assumes continuation of the so-called "Bush era" tax cuts. It also includes a number of changes starting with a reduction of the number of tax brackets, dropping from today's six brackets for individuals -- currently at a high of 35 percent -- down to two brackets of 25 and 10 percent. Further, the resolution would repeal the Alternative Minimum Tax (AMT), lowers the corporate rate from 35 percent to 25 percent, and "shifts from a worldwide system of taxation" instituting instead a "territorial" tax system. This is meant to put "American companies and their workers on a level playing field with foreign competitors and ends the 'lock-out effect' that discourages companies from bringing back foreign earnings to invest in the United States."³ Supporters of the budget resolution state that the proposal does not seek to raise taxes as under the President's proposal, but it will "broaden the tax base to maintain revenue at the appropriate level designated by this budget resolution for the next 10 years, and at a share of the economy consistent with historical norms of 18 to 19 percent in the following decades."⁴ As such, supporters are confident there will be enough revenue to fund the government in the years ahead within the normal GDP parameters.

Healthcare

A significant provision of House budget proposal would repeal the 2010 Affordable Care Act (ACA) healthcare reform law. For those not enrolled in a federal healthcare program, a refundable tax credit of \$2,300 for individuals and \$5,700 for families would be available to help defray the cost of purchasing private insurance. Workers with Health Savings Accounts would receive the same tax deductions for medical costs as under current law, but recipients of the budget plan's new tax credit could not deduct the premiums of their subsidized insurance plan. Businesses would still be able to deduct contributions to employee insurance plans, and small businesses would be able to pool together in national association health plans.

In addition to traditional Medicare coverage, seniors would have the option to choose a federal subsidy to help pay for private health insurance through a state-based "Medicare Exchange." Each plan participating in the exchange would be required to cover "at least the actuarial equivalent" of traditional Medicare benefits, and the subsidy would be tied to the second least expensive plan offered. Congressman Ryan originally drafted this compromise plan for Medicare with Senator Ron Wyden (D-OR), and they introduced legislation in their respective chambers to put it into effect in December 2011. Under this provision, federal Medicare expenditures would be capped at 0.5 percent over GDP. Senator Wyden expressed concern over several provisions of the final budget proposal's Medicare plan, including lowering the GDP-plus-1-percent spending limit for Medicare that he and Congressman Ryan had originally agreed upon. Participating insurance plans would be required to cover all seniors, to

³ Report to accompany H.Con.Res.112, Page 114

⁴ Report to accompany H.Con.Res.112, Page 124

prevent the sickest patients from flocking to traditional Medicare. In addition, plans covering many high-risk seniors would be eligible for incentive payments, while plans covering fewer than average high-risk seniors would be subject to a fee. The budget plan also requires that states create protections to ensure that high-risk pool participants are not subject to prohibitively high premiums. Proposed changes to Medicare would only apply to those becoming eligible for the program on or after January 1, 2021.

Medicaid spending would be reduced by \$810 billion over 10 years under the House budget plan by converting the program into a block grant to states for enrollees receiving long-term care and those who are disabled. The rest of the population meeting Medicaid requirements would receive healthcare "debit cards" worth set amounts depending on income. The debit cards could be used to purchase health coverage or care, and would be combined with the healthcare tax credit. Federal funding for the program would be indexed to inflation and population growth to keep costs down.

The Supplemental Nutrition Assistance Program (SNAP), more widely known as food stamps, would also be converted into a block grant program. Federal spending on SNAP would be reduced by \$122.5 billion under the House Republicans' budget. Congressman Ryan noted that this would be the plan for all "means-tested entitlements" including housing assistance and other programs, to allow more flexibility for states in implementing them.

The House budget does not address the 27 percent cut to Medicare payments to physicians scheduled by the sustainable growth rate (SGR). Because the cost of extending the current payment rate (a "doc fix") is not included in the proposal's total cost tabulation, the budget assumed that either the cut would be allowed to take place or would be offset somehow. The payment rate would also likely be affected by the budget's total Medicare spending cap.

Additional healthcare cuts under the budget plan are possible, as both the Ways and Means and the Energy and Commerce Committees are directed to come up with additional savings over ten years as part of the reconciliation process – \$150 billion all together.

Research

The House budget proposal would establish a bipartisan Health Care Services Commission charged with "the establishment of a broad base of scientific research" as well as encouraging improvements in all aspects of healthcare service and delivery. The budget places particular emphasis on improving healthcare outcomes and efficiency for Commission-supported research projects. Conversely, the Agency for Healthcare Research and Quality would be terminated by repeal of title IX of the Public Health Service Act.

Higher Education

The House-passed budget resolution notes that funding for the Pell Grant program has steadily increased in order to help "the disadvantaged" pay for postsecondary education opportunities. In order to rein in costs, the fiscal year 2013 proposal would tighten the eligibility requirements for the Pell Grant program, although it does not include specifics beyond "limiting the growth of financial aid and focusing it on low-income students who need it the most." The budget proposal would also change how the budgetary impact of federal lending is measured, with student loans measured against what a private lender would earn at the market rate. All student lending would therefore be tallied as a loss under "fair

value" accounting. The proposal also cites "evidence that subsidized lending contributes to tuition inflation" as further reason to de-emphasize federal student loans.

The House budget proposal criticizes job training programs created by the 1998 Workforce Investment Act for duplicating each other and underserving laid-off workers, and proposes "requirements to increase job training outcomes across the board." States would submit job training improvement plans to apply for federal job training grants. While current law recommends that these grants be distributed through competitive bidding by private contractors, the budget proposal would make competitive bidding mandatory. Programs would track costs per student and employment outcomes, both of which would be published online.

Miscellaneous

The House-passed budget proposal also contains a number of provisions that target specific federal programs. Under the budget, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) would eventually be eliminated. Until that point, the budget "supports removing distortions to allow an influx of private capital and advancing various measures that would bring transparency to these two government sponsored enterprises."⁵

The Republican budget would also eliminate the Home Affordable Modification Program (HAMP) which was a provision of the Troubled Asset Relief Program (TARP). According to the Republican House majority, the program was slated to give mortgage relief to up to four million Americans, however less than one-fifth of that projected number have taken advantage of the program in the three years of its existence. The sponsors of the measure indicate savings of \$1.4 billion over ten years could occur with the elimination of HAMP.

When it was released, the President's budget contained a substantial cut to the Low Income Home Energy Assistance Program (LIHEAP) – a decrease of roughly \$500 million from \$3.5 billion to \$3.02 billion in funding for fiscal year 2013. The House budget takes its cue from the President's proposal, and would also lower LIHEAP funding to \$3.02 billion for the year ahead.

In terms of energy policy, the House budget proposal would continue ongoing efforts by Republicans in Congress to address decisions they say have put "America's vast natural resources...locked behind bureaucratic barriers and red tape."⁶ The Republican budget proposal would eliminate the Administration's energy exploration moratoriums and implement policies they indicate are designed to responsibly extract such domestic resources.

In addition, the House budget resolution calls for a reduction in the number of federal workers, with a goal of 10 percent fewer employees over three years via attrition. It also freezes the pay of the federal workforce through 2015 and invokes changes to retirement contributions of federal workers. The budget supporters assume their federal workforce proposals will save more than \$360 billion over 10 years.

Further, the House budget resolution looks to change farm programs by reducing fixed payments for farmers in recognition of current high commodity prices, and it also incorporates changes to the crop

⁵ Report to accompany H.Con.Res.112, Page 74

⁶ Report to accompany H.Con.Res.112, Page 8

insurance program to ensure producers “assume the same kind of responsibility for managing risk that other businesses do.”⁷ Supporters believe these changes will save \$30 billion over then next ten years.

The Senate

Senate Republicans have repeatedly “called out” the Senate Democratic leadership for not having brought a Senate budget resolution to the floor in more than 1,000 days. Given this fact and even though the House has passed its budget resolution, it is not considered likely that the Senate will follow suit and debate its own budget proposal any time soon. Senate Majority Leader Harry Reid (D-NV) has indicated that since the Budget Control Act set a \$1.047 trillion top-line spending cap, it is not necessary to bring up a Senate resolution. However, the Senate’s newly appointed parliamentarian has ruled that the Budget Control Act does not preclude the option of one or more members of the Senate seeking to offer a budget resolution. How this dynamic plays out in the near future remains to be seen.

Conclusion

As indicated earlier, budget resolutions serve as rough guidelines for Representatives and Senators as they consider such items as tax and appropriations bills. As such, when Congress returns on April 16th, Council Members should expect to see the debate change over to the “meat and potatoes” of federal funding – the appropriations process. These 12 separate bills representing the full range of government spending will begin to take shape in the weeks ahead and are slated to be considered by each chamber’s full membership beginning in May. If it all goes according to textbook, each of these bills will be considered by their respective chambers, adopted, conferenced, adopted again, and signed into law by September 30. The reality is a scenario that is less scripted. The coming elections will likely play a role in the composition of each bill and the timeline of its consideration. If recent history is any example, Congress will no doubt be working on its fiscal year 2013 spending bills well after the November elections, and quite possibly close to the end of the calendar year.

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⁷ The Path to Prosperity – fiscal year 2013 budget resolution, page 34