

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■

October 3, 2005

Republican Proposals for Katrina Offsets Reflect Misplaced Priorities

Dear Democratic Colleague:

Attached is a new report regarding the potential for offsetting the costs of responding to Hurricane Katrina. The document examines the spending cuts in the President's budget and illustrates why, despite Republican posturing, it will be difficult to find sufficient cuts to cover the cost of Katrina funding.

On several occasions, the President has pointed to his budget as an outline for how he would achieve the savings necessary to pay for hurricane relief. Many of his proposals have already been rejected by members of the President's own party, for good reasons. For example, the President's budget includes \$14 billion in additional user fees, including new fees for veterans seeking health care benefits.

In the aftermath of Hurricanes Katrina and Rita, Republican efforts to cut spending for programs that serve the vulnerable seem particularly wrong-headed. Despite urging by Democrats to reconsider, Republicans still plan to move forward with their plans to cut spending through reconciliation, in some cases cutting funding for programs helping those who need assistance the most in the wake of Katrina. Under Republican plans, the \$35 billion in savings expected to be generated from the reconciliation spending bill will not, in fact, be used to offset the costs of Hurricane Katrina, but rather will be used to pay for half the cost of the \$70 billion in reconciliation tax cuts that are also planned. In total, Republican reconciliation plans will increase the deficit by \$35 billion. For more information on reconciliation, see recent reports on the House Budget Committee Democrats' website at www.house.gov/budget_democrats.

In proposing offsets for the cost of hurricane relief, many Congressional Republicans have targeted Medicare, Medicaid, and other important programs that serve the disadvantaged. In a recent report, the Republican Study Committee outlined \$370 billion in cuts. Even though many of these cuts have been proposed and rejected before, the report demonstrates which important services are still on the Republican chopping block. More information on this proposal can also be found at our website.

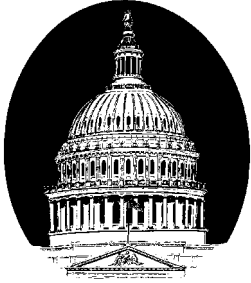
As always, please feel free to contact me or the staff of the Budget Committee with any questions or concerns.

Sincerely,

/s

John M. Spratt, Jr.

Ranking Democratic Member



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To date, Congress has enacted measures costing \$70.8 billion in response to Hurricane Katrina. Two supplemental appropriations bills, P.L. 109-61 and P.L. 109-62, provided \$62.3 billion for emergency response and recovery from Hurricane Katrina. Congress has also passed temporary tax relief and bills modifying some entitlement programs. While the President and other Republicans have suggested that we should pay for Katrina-related spending by cutting other programs, only a fraction of the spending is likely to be offset.

\$70.8 Billion in Katrina-Related Costs Thus Far Enacted Legislation, Dollars in Billions

Two Supplemental Appropriations	62.300
Katrina-Related Tax Bill	6.114
Flood Insurance Borrowing Authority	2.000
TANF Extension	0.396
Other	0.012
Total	70.822

Potential Discretionary Offsets

Offsetting Katrina funding would require unrealistic cuts to domestic funding (if defense and international funding are not cut). *An across-the-board cut of nineteen percent below the President's 2006 level would be needed just to offset the Katrina-related relief enacted thus far.* More legislation is likely to be approved in the coming months, which would require even deeper across-the-board cuts.

Domestic Appropriations

(Discretionary Non-Emergency Total Excluding Defense and International Funding)

<i>2005, excluding all supplemental funding</i>	\$379 billion	excludes \$73 billion for Katrina, October 2004 hurricanes, VA health care, and other domestic aid
<i>2006 Bush Budget</i>	\$372 billion	\$7 billion (2%) below 2005 non-emergency level
<i>19% across-the-board cut below Bush budget</i>	\$70.8 billion	just enough to offset enacted Katrina relief to date

Discretionary funding for 2005, excluding all supplemental funding, is \$830 billion. Of that total, domestic funding – the total excluding defense and international funding – is \$379 billion.

For 2006, President Bush proposed \$372 billion in domestic funding (including \$29 billion for domestic homeland security). That \$372 billion already represents a cut of \$7 billion (1.8 percent) from the non-emergency 2005 funding level.

Across-the-Board Cut — Even a one percent across-the-board cut below Bush’s 2006 budget for domestic appropriations would save only \$3.7 billion. One would need to cut domestic funding by 19 percent below the President’s proposed 2006 level to offset the \$70.8 billion in Katrina emergency funding and tax relief already approved. To offset all Katrina relief would require even deeper cuts.

Eliminate Highway Bill Earmarks — Some have raised the idea of cutting the earmarks in the recently enacted highway bill, which total \$24 billion over five years.

Potential Offsets in Mandatory Spending

The President’s 2006 budget included net mandatory spending cuts of \$24.7 billion over five years, according to CBO. Over ten years, however, CBO estimated the President’s mandatory proposals would increase spending by \$20.2 billion. (OMB estimated the President’s policies would reduce mandatory spending by \$38.7 billion over five years and \$71.1 billion over ten.) These estimates include increased outlays resulting from tax policy as well as proposals that increased spending, and do not include the costs of the President’s plan to privatize Social Security.

Removing outlay effects of tax policies, the President’s budget cuts mandatory spending by \$50.0 billion over five years and about \$100 billion over ten years according to CBO (\$62.0 billion over five years and \$138.0 billion over ten years according to OMB).

OMB estimates the President’s budget reduces spending on Medicaid and the State Children’s Health Insurance Program (SCHIP) by a net \$45 billion, with \$15 billion in program enhancements and \$60 billion in cuts. The President’s budget also includes over \$8 billion of

cuts to agriculture programs, cuts to the student loan program, Power Marketing Administrations, and environmental protection.

Selected Entitlement Cuts in the President's 2006 Budget

OMB's Estimate of Five- and Ten-Year Savings

<u>2006-2010</u>	<u>2006-2015</u>	<u>Program</u>
<i>\$2.1 billion</i>	<i>\$4.3 billion</i>	new user fees and copay increases for veterans
<i>\$13 billion</i>	<i>\$45 billion</i>	Medicaid and SCHIP cuts
<i>\$7.2 billion</i>	<i>\$10.7 billion</i>	student loan cuts
<i>\$5.4 billion</i>	<i>\$8.6 billion</i>	cuts to agriculture programs and new user fees
<i>\$3.2 billion</i>	<i>\$12.4 billion</i>	Power Marketing Administration rate structure changes (leading to higher utility rates for many consumers)
<i>\$1.4 billion</i>	<i>\$3.1 billion</i>	Unemployment Insurance changes
<i>\$507 million</i>	<i>\$1.1 billion</i>	cuts to Food Stamp eligibility

User Fee Increases — The President's budget also imposes \$14 billion in new user fees, including two new fees for veterans and additional fees for the Army Corps of Engineers. During previous Administrations, many Republicans characterized user fee proposals as "tax increases," and condemned such provisions in past budgets. Furthermore, many of the fees in the President's budget are politically unpopular and unlikely to garner Congressional support.

Attached is a list of mandatory cuts and fee increases as they appear in the President's 2006 budget.

Potential Revenue Offsets

President Bush has declined to raise taxes to pay for hurricane relief. In fact, he continues to support his proposal to cut taxes by an additional \$1.4 trillion over ten years – \$2.0 trillion including the inevitable repair of the alternative minimum tax – every dollar of which increases the deficit and leads to more federal borrowing.

Why This Spending?

Republicans' support for offsets for Katrina is ironic. The President has requested and Congress has enacted several proposals – many with higher price tags than Katrina relief – that worsen the deficit. Recent Congresses have approved large tax cuts, a Medicare prescription drug plan, increased defense spending, and ongoing military operations in Iraq and Afghanistan without acknowledging their fiscal impact or requiring an offset. Since 2001 when Republicans took control of the White House, every Republican budget resolution – blueprints that should show a path towards fiscal improvement – have reduced surpluses or increased deficits.

Table S-6. Mandatory Proposals
(In millions of dollars)

	2005	2006	2007	2008	2009	2010	Total	
							2006-2010	2006-2015
Programmatic Reforms:								
Agriculture:								
Commodity Credit Corporation:								
Limit Loan Deficiency Payments to historical production.....	—	-432	-509	-106	-4	-2	-1,053	-1,054
Tighten payment limits.....	—	-200	-190	-175	-150	-130	-845	-1,200
Cut Crop Payments by 5 percent.....	—	-383	-629	-468	-351	-309	-2,140	-3,641
Sugar marketing assessment 1.2 percent.....	—	-42	-43	-43	-43	-43	-214	-437
Tilt adjustment requirement.....	—	-130	-80	-50	-50	-50	-360	-610
Extend Milk Income Loss Compensation.....	—	600	600	—	—	—	1,200	1,200
Crop insurance coverage change.....	—	—	-140	-140	-140	-140	-560	-1,260
Forest Service:								
Facilities working capital fund.....	—	-5	-1	-1	—	—	-7	-7
Enhanced facilities disposal authority.....	—	-9	—	—	-5	—	-14	-14
Limit Food Stamp categorical eligibility.....	—	-57	-113	-112	-111	-114	-507	-1,124
Allow State Food Stamp Agencies to use the National Directory of New Hires (NDNH).....	—	—	-2	-2	-2	-2	-8	-18
Subtotal, Agriculture.....	—	-658	-1,107	-1,097	-856	-790	-4,508	-8,165
Education:								
Reform the Federal Student Aid Programs:								
Payoff Pell Shortfall (non-add BA only).....	—	(4,301)	—	—	—	—	(4,301)	(4,301)
Increase the Pell Grant Maximum Award by \$500 over Five Years.....	—	101	509	915	1,321	1,734	4,580	14,959
Increase Borrowing Limits and Other Benefits to Students.....	—	221	660	762	811	866	3,320	7,658
Recall Federal Perkins Loan Revolving Funds.....	—	-580	-642	-675	-735	-697	-3,329	-5,987
Increase Lender Risk Sharing and Improve Program Efficiency.....	—	-171	-601	-785	-838	-902	-3,297	-8,749
Adjust Guaranty Agency Reinsurance and Default Retention Rates.....	—	-43	-116	-152	-168	-187	-666	-1,788
Reform Federal Consolidation Loans.....	—	-269	-610	-544	-484	-503	-2,410	-3,769
Extend the Taxpayer-Teacher Extension Act.....	—	-254	-411	-449	-459	-485	-2,058	-4,945
Other Student Loan Reforms.....	557	-178	-790	-824	-783	-811	-3,386	-8,043
Subtotal, Education.....	557	-1,172	-2,001	-1,752	-1,337	-986	-7,248	-10,667

Table S-6. Mandatory Proposals—Continued
(In millions of dollars)

	2005	2006	2007	2008	2009	2010	Total	
							2006-2010	2006-2015
Energy:								
Allow Power Marketing Administrations to Charge up to Market Rates	—	-40	-157	-446	-1,145	-1,406	-3,194	-12,434
Bonneville Power Administration borrowing authority	—	—	—	—	—	140	140	200
Subtotal, Energy	—	-40	-157	-446	-1,145	-1,266	-3,054	-12,234
Health and Human Services:								
Medicaid and State Children's Health Insurance Program Proposals	225	1,112	-1,549	-3,699	-4,214	-4,417	-12,767	-44,637
State grants and demonstrations	—	400	500	594	605	618	2,717	5,000
Temporary Assistance for Needy Families Reauthorization	100	277	329	352	361	357	1,676	3,450
Child Support Enforcement: Increase Collections and Improve Program Effectiveness	—	-63	1	54	31	32	55	122
Healthy Marriage and Fatherhood Initiative	-71	-21	37	23	40	40	119	319
State-Based Abstinence Grants	9	30	46	50	50	50	226	476
Foster Care Clarify Statutory Eligibility Definition	—	-72	-74	-77	-79	-81	-383	-834
Foster Care Modify DC FMAP Rate	—	7	7	8	8	8	38	85
Child Welfare Program Option	—	7	67	135	3	-164	48	49
Subtotal, Health and Human Services	263	1,677	-636	-2,560	-3,195	-3,557	-8,271	-35,970
Housing and Urban Development:								
Repeal Federal Housing Administration's General and Special Risk Insurance Authorities	—	-60	-100	-100	-100	-100	-460	-960
Interior:								
Southern Nevada Land Sales	—	-227	-418	-636	-641	-642	-2,564	-5,783
Arctic National Wildlife Refuge, lease bonuses:								
State of Alaska's share:								
Receipts	—	—	-1,201	-1	-101	-1	-1,304	-1,588
Expenditures	—	—	1,201	1	101	1	1,304	1,588
Federal share:								
Receipts	—	—	-1,201	-1	-101	-1	-1,304	-1,588
Royalties Conservation Fund Outlays	—	—	—	—	—	—	—	115
Pick-Sloan Project Cost Repayment	—	-33	-33	-31	-31	-29	-157	-299

Table S-6. Mandatory Proposals—Continued
(In millions of dollars)

	2005	2006	2007	2008	2009	2010	Total	
							2006–2010	2006–2015
Eliminate Bureau of Land Management Range Improvements Fund	—	-7	-10	-10	-10	-10	-47	-97
Subtotal, Interior.....	—	-267	-1,662	-678	-783	-682	-4,072	-7,652
Labor:								
Pension Benefit Guaranty Corporation Reform.....	—	-2,195	-3,702	-3,495	-3,226	-2,916	-15,534	-26,521
Unemployment Insurance Integrity	—	—	-65	-134	-141	-148	-488	-1,341
Unemployment Insurance Overpayment Recoveries.....	—	-281	-282	-284	-288	-288	-1,423	-3,082
Federal Employees' Compensation Act Reforms.....	—	-6	-12	-20	-17	-17	-72	-172
Subtotal, Labor.....	—	-2,482	-4,061	-3,933	-3,672	-3,369	-17,517	-31,116
Treasury:								
Continued Dumping and Subsidy Offset repeal.....	—	-1,608	-1,615	-1,624	-855	-865	-6,567	-11,035
Eliminate 10-year Statute-of-Limitations on Non-Tax Debt.....	—	-11	-6	-6	-6	-6	-35	-65
Extend the Rum-Carryover for Puerto Rico.....	—	56	19	—	—	—	75	75
Subtotal, Treasury.....	—	-1,563	-1,602	-1,630	-861	-871	-6,527	-11,025
Federal Communications Commission (FCC):								
Extend Spectrum Auction Authority.....	—	—	—	1,083	-2,156	-3,239	-4,312	-5,112
Close Telecommunications Development Fund.....	—	-2	-2	-3	-3	-4	-14	-34
Subtotal, FCC.....	—	-2	-2	1,080	-2,159	-3,243	-4,326	-5,146
Federal Deposit Insurance Corporation:								
Merge Bank Insurance Fund and Savings Association Insurance Fund.....	—	—	—	-1	377	855	1,231	1,063
Social Security Administration (SSA):								
Supplemental Security Income (SSI) Pre-Effectuation Reviews and Other Technical Adjustments	—	-4	-18	-40	-64	-92	-218	-1,133
Extend SSI Eligibility to Refugees and Asylees to Eight Years after Entry	—	65	77	84	—	—	226	226
Subtotal, SSA.....	—	61	59	44	-64	-92	8	-907
Total, Programmatic Reforms	820	-4,506	-11,269	-11,073	-13,795	-14,101	-54,744	-122,779

Table S-6. Mandatory Proposals—Continued
(In millions of dollars)

	2005	2006	2007	2008	2009	2010	Total	
							2006-2010	2006-2015
User Fee Proposals:								
Agriculture:								
Animal Plant and Health Inspection Service *	—	-11	-11	-11	-12	-12	-57	-121
Food Safety and Inspection Service *	—	-139	-142	-145	-148	-151	-725	-1,529
Grain Inspection, Packers and Stockyards Administration *	—	-25	-26	-26	-27	-27	-131	-276
Agricultural Marketing Service Standardization *	—	-3	-3	-3	-3	-3	-15	-30
Justice:								
Bureau of Alcohol, Tobacco, Firearms and Explosives' Explosives Regulation *	—	-120	-120	-120	-120	-120	-600	-1,200
Transportation:								
St. Lawrence Seaway Development Corporation * ...	—	-8	-17	-17	-17	-17	-76	-170
Treasury:								
Tax and Trade Bureau Regulatory Activity *	—	-29	-29	-29	-29	-29	-145	-297
Veterans Affairs:								
Annual Medical Fees for higher income veterans with non-service-connected disabilities *	—	-248	-248	-248	-248	-248	-1,240	-2,480
Drug Copay Increase *	—	-176	-178	-180	-181	-183	-898	-1,842
<i>Total Medical Services (illustrative discretionary spending authority—non-add)</i>	—	(424)	(426)	(428)	(429)	(431)	(2,138)	(4,322)
Environment Protection Agency:								
Premanufacture Notification Fee Cap Removal *	—	-4	-8	-8	-8	-8	-36	-76
Pesticide Tolerance *	—	-20	-20	-21	-21	-22	-104	-221
Pesticide Registration *	—	-26	-27	-27	-28	-28	-136	-288
Federal Communications Commission:								
Authorize Spectrum License Fees	—	—	-50	-150	-300	-300	-800	-3,125
Analog Spectrum Lease Fees	—	—	-500	-500	-480	-450	-1,930	-2,580
Total, User Fees	—	-809	-1,379	-1,485	-1,622	-1,598	-6,893	-14,235
Total, Programmatic Reforms and User Fee Proposals	820	-5,315	-12,648	-12,558	-15,417	-15,699	-61,637	-137,014

Table S-6. Mandatory Proposals—Continued
(In millions of dollars)

	2005	2006	2007	2008	2009	2010	Total	
							2006-2010	2006-2015
Outlay Effects of Tax Proposals: ¹								
Health tax credits	—	99	3,757	5,762	6,934	7,638	24,190	69,138
Earned income tax credit	—	-81	-105	-118	-137	-181	-622	-1,569
Child tax credit	—	-34	-45	-50	-59	-77	-265	-670
Total, Outlay effects of tax proposals	—	-16	3,607	5,594	6,738	7,380	23,303	66,899
User Fee Proposals with Mandatory Spending:								
Immigration Examination Fees	—	-6	—	—	—	—	-6	-6
Increase Indian Gaming Commission Fees ¹	—	—	4	4	5	5	18	43
Foreign Labor Certification User Fees	—	—	—	—	—	—	—	—
Army Corps of Engineers:								
Additional Recreation User Fees and Contributions	—	-9	-9	-1	—	—	-19	-19
Total, User fee proposals with mandatory spending	—	-15	-5	3	5	5	-7	18
Other Mandatory Proposals:								
Black Lung Disability Trust Fund debt refinancing:								
Black Lung Disability Trust Fund	—	3,343	-459	-452	-448	-449	1,535	-1,419
Interest receipts on repayable advances	—	-3,343	459	452	448	449	-1,535	1,419
Use Escrow Account for USPS Retiree Health Benefits:								
On-budget effect	—	-3,081	-3,398	-3,716	-3,888	-4,174	-18,257	-43,238
Off-budget effect	—	3,081	3,398	3,716	3,888	4,174	18,257	43,238
Unified budget effect	—	—	—	—	—	—	—	—

Table S-6. Mandatory Proposals—Continued
(In millions of dollars)

	2005	2006	2007	2008	2009	2010	Total	
							2006-2010	2006-2015
Full-time School Attendance Required for Child's Social Security Benefits at Age 16 (off-budget)	—	-10	-75	-135	-140	-145	-505	-1,326
Correct trust accounting deficiencies in individual Indian money investments (non-paygo)	6	—	—	—	—	—	—	—
Third scorecard effects.....	—	31	31	32	32	33	159	334
Total, Other mandatory proposals.....	6	21	-44	-103	-108	-112	-346	-992
Grand Total (including outlay costs of tax proposals)	826	-5,325	-9,090	-7,064	-8,782	-8,426	-38,687	-71,089
Memorandum:								
Paygo.....	820	-5,346	-9,046	-6,961	-8,674	-8,314	-38,341	-70,097
Non-Paygo.....	6	21	-44	-103	-108	-112	-346	-992

* The Administration will work with the Congress to reclassify the enacted fees as discretionary beginning in 2007. Once reclassified, the Administration proposes to offset these fees against discretionary spending. Discretionary totals in those years will be reduced by these fees.

¹ Affects both receipts and outlays. Only the outlay effect is shown here.