BUDGET BULLETIN
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COMMITTEE ON THE BUDGET Republican Staff
Judd Gregg, Chairman
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INFORMED BUDGETEER

Budget Reform Legislation

Senate Budget Committee Chairman Judd Gregg and 24 Senate co-sponsors last week introduced sweeping legislation to reform many aspects of the budget process. The bill, S. 3521, entitled the *Stop Over-Spending (SOS) Act of 2006,* will be marked up by the Senate Budget Committee on June 20, 2006.

The SOS Act seeks to curtail federal spending and reduce the deficit by giving the President line-item veto authority to rescind discretionary and mandatory funding items; reinstating statutory caps on discretionary spending, including limitations on emergency spending; establishing automatic reconciliation directives for mandatory spending reductions triggered by exceeding a deficit ceiling; establishing biennial budgeting; and implementing reforms to the budget resolution and reconciliation processes. The bill also creates two commissions: one to review spending at federal agencies, and the other to study the solvency problems of entitlement programs.

Legislative Line-Item Veto Authority

The SOS Act gives the President authority to propose rescissions of line items of discretionary and mandatory funding as well as certain targeted tax provisions. Congress would be required to consider and vote on the President's requested rescissions under a "fast-track" procedure.

- Rescission savings must be used for deficit reduction.
- Rescissions may include any discretionary funding or any *new* mandatory spending.
- Rescissions may include specific tax provisions, generally those targeted to benefit a small number of beneficiaries. Under the Act, the Joint Committee on Taxation would identify targeted tax benefits that would be eligible for rescission.
- President may only submit four "special message" rescission packages a year (once with the submission of the President's Budget and three other times at the President's discretion.)
- President may propose for rescission only those items that have been enacted into law within the past year. Items that have been in law longer than one year are not eligible to be included in the package.
- The President may resubmit only once a specific rescission that was in an earlier package of rescissions rejected by Congress.
- Upon submission of the President's rescission package, if a Member of Congress introduces the President's package, the matter will be considered on the floor of the Senate within eight days of the President's submission.
- The rescission package is not amendable.
- Both the House and Senate must pass the President's rescission package, and the President must sign it, for the rescission to become law.
- From the time Congress receives the President's rescission package, the President is permitted to suspend funds for his proposed rescissions only for 45 days. If Congress rejects his rescission prior to the expiration of the 45 days, the President may release the funds earlier.
- The authority to rescind spending or tax items would apply to any discretionary or mandatory spending bill or tax bills enacted on or after September 1, 2006.
- The Legislative Line Item Veto authority sunsets on December 31, 2010.

Statutory Limits on Discretionary Spending

The SOS Act reinstates statutory caps for discretionary budget authority and allows potential adjustments to those discretionary caps by reasonable amount for emergency spending, if needed. Statutory caps were last in place in 2002. The new caps, which would be enforced by sequestration, are designed to hold the line on discretionary spending and end the trend of funding predictable, annual expenses through emergency appropriations.

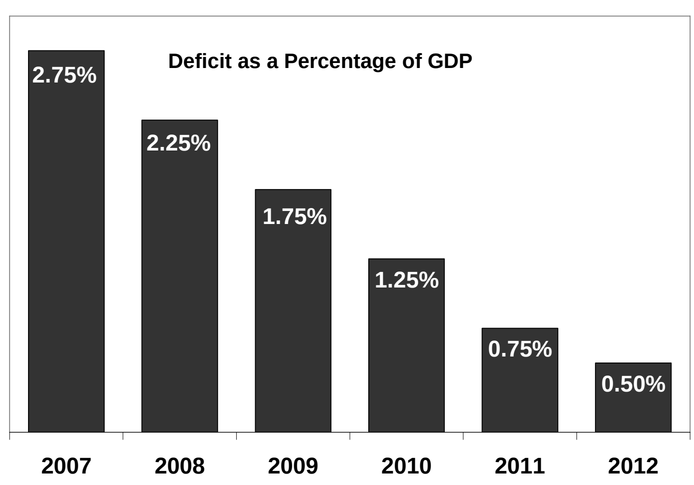
- The statutory caps for the next three years are as follows:
  - $873 billion in 2007
  - $896 billion in 2008
  - $920 billion in 2009
- The limits for emergency spending adjustments to the caps are as follows:
  - $90 billion in 2007
  - $50 billion in 2008
  - $30 billion in 2009
- If Congress fails to adhere to the statutory caps, as adjusted for emergency spending, then the Office of Management and Budget would be required to implement an across-the-board sequester of discretionary budget authority in order to ensure that spending does not exceed the spending caps prescribed in law.

Automatic Spending Reduction/Reconciliation Mechanism

The SOS Act requires Congress to produce mandatory spending reductions if, through the regular legislative process, Congress has not enacted legislation that will hold the deficit to 2.75% of GDP in 2007 (declining to 0.5% in 2012). In 2006, the deficit is currently forecast to be roughly 2.4% of GDP.

- The Act establishes a deficit limit based on a percentage of GDP – if the limit is breached in any one year, "automatic reconciliation" goes into effect. The deficit triggers are as follows:

S.O.S DEFICIT REDUCTION



- The mandatory reconciliation procedure is very similar to the normal reconciliation procedure except:
  - the House and Senate Budget Committees assign instructions to the various Committees who must report back recommendations within 20 days; and
  - the reconciliation bill cannot include provisions to increase taxes.
- Each Authorizing Committee would be required to report legislation that achieves savings equal to the amount directed by the Budget Committee. If a Committee fails to report legislation sufficient to meet its directive, the Budget Committee has the authority to forward to the floor the necessary legislative language to meet the spending reduction amount.
- If Congress fails to enact an automatic reconciliation bill with savings that meet the deficit target, across-the-board reductions (often referred to as sequestration) of mandatory spending would go into effect.
- The proposal exempts Social Security, and other programs that cannot be sequestered for legal or constitutional reasons.

Biennial Budgeting

The SOS Act would convert the annual budget, appropriations, and authorizing process to a two-year cycle. The first year of a Congress would be reserved for submission of the President's two-year budget, the Congressional budget resolution, and appropriation bills. The second year would be free for Congress to conduct oversight and consider authorizing legislation.

- President submits two-year budget request at beginning of first session of a Congress.
- Congress adopts two-year budget resolution (and passes reconciliation legislation that flows from it) and then completes all appropriation bills providing funding for two years during first session. There would be a point of order (simple majority) against an appropriation bill that failed to provide funding for the two years.
- In the second session of Congress, authorization bills could be considered. The bill creates a point of order (simple majority) against legislation that authorizes appropriations for less than two years and against consideration during a biennium until the budget resolution has been adopted and all appropriation bills have been enacted.
- The bill would make other changes to conform agencies' requirements under federal performance law and other reporting procedures to the biennial schedule.

Commission on the Accountability and Review of Federal Agencies (CARFA)

The SOS Act would create a four-year commission (like The Base Realignment and Closure Commission-BRAC) that would evaluate executive agencies and their programs. To assist the Commission, the President would be required to establish a systematic method for assessing the effectiveness and accountability of agency programs and submit to the Commission an assessment these programs assessed by such method. The Commission would annually submit to Congress legislation that would implement a plan designating the agencies and programs that should be realigned or eliminated. The Congress would be required to consider the legislation under fast-track procedures that would preclude amendments.

Commission on Entitlement Solvency

The SOS Act would establish a Commission to review the Social Security, Medicare, and Medicaid programs and make recommendations to the President and Congress on how to ensure their long-term solvency. The Commission requires a two-thirds vote to approve its report and would have 15 members, with the Speaker, the House Minority Leader, the Senate Majority Leader, the Senate Minority Leader and the President each making three appointments. Should the Commission approve legislative recommendations, they must be considered by Congress under rules for expedited consideration that ensure a final vote on the legislation and on the conference report should conferees come to an agreement.

Budget Enforcement

The bill contains provisions designed to help Congress adhere to the budget process.

Definitions

- Includes definition of "Governmental Receipts" that encompasses all revenue and collections from the public.

Procedures Changes to Budget Resolution and Reconciliation

- Clarifies that dilatory and precatory amendments are not in order.
- Limits all motions related to conference, including motions to instruct, to a total of one hour.
- Limits consideration of conference reports and messages between the Houses to a total of ten hours.
- Eliminates vote-a-rama.

Budget Resolution Changes

- Provides specific allocations for budget authority and outlays to Authorizing Committees in the budget resolution.
- Clarifies that Reserve Funds linked to specific legislation changes may be included in the budget resolution.
- Requires Authorizing Committees to submit specific recommendations to achieve savings in programs under their jurisdiction; recommendations would be included in the Views and Estimates letters they currently submit to the Budget Committee.
- Clarifies the existing Section 303 Point of Order, which provides a point of order against any tax or spending measure that is brought to the floor before a budget resolution has been put in place.

Reconciliation Changes

- Permits the Budget Committee to report out amendments to reconciliation submissions from an Authorizing Committee, if the Committee has failed to meet its instruction. Senate would have the opportunity to vote to reject or to accept Budget Committee amendments to reconciliation submissions when the reconciliation measure is brought to the floor.
- Limits creation of new spending in reconciliation bills. The new restriction would limit Committees to spending no more than 20% of the total savings instruction to a Committee. For example, if a Committee is instructed to save $10 billion, then they could save $12 billion and spend $2 billion, but they could not save additional money to spend more than $2 billion.
- Permits reconciliation instructions to give all Committees the ability to use changes in governmental receipts within the jurisdiction of the committee.
- Requires all instructed Committees to report recommendations in relation to the reconciliation instructions to the Budget Committee.
- Clarifies that "technical and conforming" amendments shall not be considered extraneous.
- Clarifies that reconciliation bills can not be brought down solely because they contain indirect or secondary budgetary impacts.

Medicare Trigger

The SOS Act creates a new enforcement tool to address long-term entitlement spending. If the general fund contribution to total Medicare outlays is projected to exceed 45% within the next seven years, the Chairman of the Budget Committee may submit to the Senate a notification of a Medicare Funding Warning. When the Chairman has submitted such a warning for two consecutive years, a budget point of order would stand against any legislation with new direct spending that is not offset. The warning is cancelled when legislation is passed that reduces the general fund contribution to Medicare outlays below 45%.