# HOUSE BUDGET COMMITTEE

## Democratic Caucus

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### Friday Afternoon Update:

# Republican Reconciliation Package Cuts Key Services to Fund Tax Cuts

The last of the eight House authorizing committees are completing work today on reconciliation submissions that will cut spending by a net total of approximately $50 billion – thus cutting a number of key services, including Medicaid, student loans, child support, and food stamps. These reconciled spending cuts will be considered by the House Budget Committee next week, with floor consideration expected the week of November 7. The roughly $50 billion in cuts marks approximately a 44 percent increase from the $35 billion in reconciled spending cuts included in this year's budget resolution, and is about $11 billion higher than the reconciliation cuts that the Senate will debate next week.

**Key Points About Reconciliation**

All of these spending cuts will be used to offset tax cuts, not the costs of hurricane response or deficit reduction.

Spending cuts threaten vital services, including services for hurricane victims.

Even with these spending cuts, the Republican budget resolution still increases the deficit by more than $100 billion over five years.

Republicans reveal a double standard in proposing to offset hurricane costs but not war costs or tax cuts.

**Spending Cuts Offset Tax Cuts, Not Hurricane Costs or Deficit Reduction** — While some may claim that these reconciled savings will be used to reduce the deficit or offset the cost of hurricane relief efforts, the reality is that these spending cuts will help finance, in part, the $106 billion of tax cuts – $70 billion protected under reconciliation procedures – included in this year's Republican budget resolution. Indeed, the Republican budget resolution called for reconciled spending cuts long before the hurricanes occurred.

**Republican Claims About Offsetting Hurricane Costs Reveal Double Standard** — The Republican claim about offsetting the cost of hurricane relief is inconsistent with the decision in recent years not to offset tax cuts or supplemental funding for Iraq and other purposes. Why does the Republican leadership insist on offsetting the cost of rebuilding Biloxi but not the cost of rebuilding Baghdad?

**Spending Cuts Threaten Vital Services, Including Services for Hurricane Victims** — To help finance more tax cuts, the reconciliation spending package cuts funding for priorities including Medicaid, student loans, child support, and food stamps. A number of these programs, like food stamps and Medicaid, benefit people who have been affected by the hurricanes.

**Highlights of Controversial Cuts** — The objectionable cuts included in the reconciliation package include the following:

- ***Medicaid*** — The Energy and Commerce Committee Chairman's mark, prior to amendments, cut overall Medicaid spending by $9.5 billion, of which $7.4 billion will fall upon beneficiaries in the form of increases in cost-sharing and premiums, "flexibility" that will allow states to cut benefit packages for certain individuals, and provisions that will make it harder for some seniors to access needed long-term care. (*Note that final CBO scoring may differ.)*
- ***Student Loans*** — The Education and the Workforce Committee cut spending on student loan programs by about $14.3 billion over five years primarily through increases in the interest rates and fees that students pay as well as some reductions in subsidies to lenders. At a time when college costs are rising faster than inflation, the Committee is making the largest cut in the history of the student loan programs.

**Reconciled Spending Cuts Unfairly Target Working Families**

*Reported Size of Cuts*

| | |
|---|---|
| Student Loans | $14.3 Billion |
| Medicaid | Approx. $10 Billion |
| Child Support | $4.9 Billion |
| Food Stamps | $844 Million |

- ***Food Stamps*** — The Agriculture Committee imposes cuts to the food stamp program of $844 million over five years (2006-2010). Savings are achieved by adopting the President's proposal to limit categorical eligibility for food stamps to TANF recipients and increasing the in-country waiting period for legal immigrants from five to seven years. Under current law, 44 percent of those eligible for food stamps do not participate in the program. Changes such as these may mean even fewer vulnerable children and working families who qualify for nutrition benefits will actually receive them.
- ***Child Support* —** The Ways and Means Committee cut $4.9 billion from child support programs over five years. This cut will reduce states' capacity to establish and enforce child support orders, which will result in custodial parents receiving $7.1 billion less child support over five years and $21.3 billion less over ten years.

**Other Controversial Provisions** – The package includes a number of other controversial provisions, including:

- ***Arctic National Wildlife Refuge*** — The Resources Committee's submission opens the Arctic National Wildlife Refuge (ANWR) to oil and gas drilling, as well as allowing offshore drilling on the outer continental shelf.
- ***Farm Programs*** — The Agriculture Committee cuts over $1 billion from commodity programs and $760 million from conservation programs, in addition to the $844 million reduction in the food stamp program. Cuts to research, rural development, and energy programs make up the remaining $3.7 billion of the Agriculture Committee's cuts.

- ***Byrd Amendment* —** The Ways and Means Committee's submission includes a repeal of the Byrd Amendment, which provides that anti-dumping duties be distributed to companies affected by dumped or subsidized imports.
- ***Federal Housing Administration (FHA)* —** The Financial Services Committee cut $270 million by limiting the Department of Housing and Urban Development's (HUD) authority to dispose of FHA-insured multifamily properties that have gone into default. By requiring HUD to secure annual appropriations in order to sell default properties at below-market rates or provide up-front rehabilitation grants to the buyers of these properties, the Committee has put at risk HUD's ability to return these properties to the supply of privately owned affordable housing.

**Republican Budget Resolution Increases Deficit** — Republicans passed a budget resolution this spring that over five years was going to make the deficit $168 billion worse than if they took no budgetary action at all. Even though their spending reconciliation package is likely to reduce spending by about $15 billion more than envisioned by the budget resolution, the Republican resolution would still worsen the budget's bottom line by more than $100 billion.

**Democrats Support Fiscal Responsibility** — Democrats have a strong track record on fiscal responsibility. In the 1990s, President Clinton and Democrats in Congress worked together to move the budget from record deficits to record surpluses. The budget resolution offered by House Democrats this year balanced the budget by 2012, while the Republican budget never reaches balance, even with these proposed changes. Democrats also support reinstatement of the effective pay-as-you-go (PAYGO) rule that helped take the budget from record deficits in the early 1990s to a $236 billion surplus just five short years ago.

## Reconciliation Cuts by House Committee

**Reconciled Spending Cuts**
(Outlays in Billions of Dollars)

| *House Committee* | *Budget Resolution* | *Cuts Being Considered** |
|---|---|---|
| Agriculture | -3.000 | -3.7 |
| Education and the Workforce | -12.651 | -20.4 |
| Energy and Commerce | -14.734 | -17.3 |
| Financial Services | -0.470 | -0.5 |
| Judiciary | -0.300 | -0.5 |
| Resources | -2.400 | -3.6 |
| Transportation and Infrastructure | -0.103 | -0.2 |
| Ways and Means | -1.000 | -8.0 |
| ***Total Cuts, 2006-2010*** | ***-34.658*** | ***-54.2**** |

* Amounts subject to change pending further Committee action.

*Because some of the Committees marked up today and others finished only yesterday, the Congressional Budget Office (CBO) has not yet finished scoring most of the reconciliation submissions. The cost estimates that follow may change when CBO issues its final scores next week. We will provide more details when those official scores are available. Until then, following is a summary of key reconciliation provisions for each committee.*

## Agriculture Committee: Cut = $3.7 Billion

The reconciliation package approved by the House Agriculture Committee reduces spending by $3.7 billion over five years and $567 million in 2006.

***Food Stamps*** — The Agriculture Committee imposes cuts to the food stamp program of $64 million in 2006 and $844 million over five years (2006-2010). Savings are achieved by adopting the President's proposal to limit categorical eligibility for food stamps to TANF recipients and increasing the in-country waiting period for legal immigrants from five to seven years. Under current law, 44 percent of those eligible for food stamps do not participate in the program. Changes such as these may mean even fewer vulnerable children and working families who qualify for nutrition benefits will actually receive them.

***Farm Programs*** — The Committee cuts over $1 billion from commodity programs and $760 million from conservation programs, in addition to the $844 million reduction in the food stamp program. Cuts to research, rural development, and energy programs make up the remaining $3.7 billion.

## Education and the Workforce Committee: Cut = $20.4 Billion

The Education and the Workforce Committee approved reconciliation legislation that cuts direct spending by about $20.4 billion over five years – a cut that is $7.8 billion more than required by the budget resolution.[1]

### Student Loans

The Committee's reconciliation bill cuts spending on student loan programs by about $14.3 billion over five years through a combination of increases in the interest rates and fees that students pay, reductions in subsidies to lenders, and other changes including the elimination of all mandatory spending for administration of federal student loans (either the money becomes appropriated funding, in which case there is no savings to the government, or it is cut, which would jeopardize the continuation of the federal student loan programs).

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[1]On Thursday, the Committee voted on a bipartisan basis to reject creation of a new voucher program to pay K-12 education costs for Katrina evacuees. According to press reports, Chairman Boehner intends to include that new program in the Committee's reconciliation submission. Such an action appears to be contrary to the requirement that a committee vote to approve reconciliation submissions. If the new spending provision is included, the Committee savings will be reduced to a net of around $17.9 billion.

***Increased Student Costs* —** New student loans will have variable interest rates capped at 8.25 percent rather than the fixed 6.8 percent rate scheduled for next year. Students getting Direct Loans will see their origination fees double – to 3 percent – before they eventually are reduced in 2010, and students applying for Federal Family Education Loans will face a mandatory one percent insurance fee, which banks now often waive. In addition, students who consolidate their loans will have to pay not only a new one percent origination fee, but also a one percent premium if they want to lock in at the variable rate then in place.

***Lender Subsidies* —** The bill eliminates the loans that guarantee certain lenders a minimum 9.5 percent return, and ends subsidies that pay lenders above a minimum rate of return (known as "floor income"). The bill also reduces the federal level of loan insurance and the percentage that collection agencies may keep on payments of a defaulted loan. Finally, the bill increases some lender fees.

**Pension Benefit Guaranty Corporation (PBGC)**

The Committee raises about $6 billion over five years by increasing premiums that single-employer pension plans pay to the PBGC. First, the reconciliation bill increases the flat-rate premiums from $19 to $30 per participant in 2006. PBGC could then increase that rate by up to 20 percent annually for the next four years. Second, the bill creates a new $1,250 per participant premium that companies would pay annually for three years after they emerge from bankruptcy.

## Energy and Commerce Committee: Cut = about $17.3 billion

The submission for the Energy and Commerce Committee is estimated to achieve net savings of about $17.3 billion over five years, consisting of net Medicaid cuts of about $9.5 billion (Chairman's mark – final score likely to change), about $8.5 billion in net savings from changes to spectrum policy, and $750 million in new funding for the Low Income Home Energy Assistance Program (LIHEAP). Final scoring of the bill as reported out of Committee is not yet available.

**Medicaid**

The original Chairman's mark included net Medicaid savings of $9.5 billion, consisting of $10.6 billion in gross cuts and $1.1 billion in new spending. The Committee passed 17 amendments with both large and small budget implications, so the final score for the package will change from numbers cited here.

***Increases Cost-Sharing and Imposes Premiums* —** The Chairman's mark saves $2.6 billion by allowing states to increase cost-sharing and impose new premiums on many categories of Medicaid beneficiaries. The mark also, for the first time, lets providers refuse care if a beneficiary cannot afford the co-payment. There is an extensive body of research demonstrating that when cost-sharing is increased significantly for low-income people, their use of essential health care services declines and their health status worsens.

***Allows State "Flexibility" to Cut Benefit Packages for Certain Beneficiaries* —** The Chairman's mark saves $2 billion by allowing states to cut benefit packages for certain beneficiaries. In doing so, a state can remove a requirement of current law to cover preventive care as well as all medically necessary services that a child has been determined to need. This change could affect more than one-fifth of children covered by Medicaid – more than 5 million children overall – who could lose their entitlement to coverage of medical care and health services that will prevent and ameliorate the long-term effects of chronic illness and disability.

Other provisions in the Chairman's mark tighten requirements governing access to long-term care and modify payments for prescription drugs. The bill as reported by the Committee also includes an amendment providing full federal funding of the Medicaid costs of Hurricane Katrina victims who meet existing eligibility requirements.

**Spectrum Auctions**

The Committee submitted about $8.5 billion in net savings over five years by making changes to spectrum policy. The Committee's submission requires that television broadcasters complete the transition to digital broadcasts by January 1, 2009, a transition that will free up the analog spectrum currently being used by the broadcasters. A portion of this spectrum will then be made available for public safety use, and another portion will be auctioned off – generating new receipts estimated to total about $10 billion. The Committee's submission spends about $1.5 billion of the new receipts, including about $1 billion to finance and administer the purchase by consumers of the converter box technology needed to adapt analog television sets to receive digital television broadcasts. This converter box funding is far less than the $3 billion provided in the Senate bill for this purpose.

## Financial Services Committee: Cut = $470 Million

The Financial Services reconciliation submission cuts spending by $470 million over five years by making changes to deposit insurance and the Federal Housing Administration (FHA). The Committee saved $200 million over five years by approving comprehensive legislation designed to modernize the federal deposit insurance system. The legislation increases the coverage limit on insured deposits from $100,000 to $130,000 for most accounts, and it sets up a new risk-based premium structure that will have the effect of increasing premiums paid by insured financial institutions. The Committee also saved $270 million over five years by requiring annual appropriations for certain activities carried out by the Department of Housing and Urban Development (HUD) with regard to properties in mortgage default. Under current law, when FHA-insured multi-family properties go into mortgage default, HUD has authority to sell them at below-market prices in order to preserve the properties as affordable housing. HUD also has the authority to provide up-front rehabilitation grants to the buyers of defaulted properties. The legislation approved by the Committee makes HUD's use of these authorities subject to the availability of annual appropriations, which puts at risk HUD's ability to effectively deal with these properties so that they remain part of the supply of privately owned affordable housing. The requirement for appropriations sunsets after 2010.

## Judiciary Committee: Cut = $450 Million

The Judiciary Committee will raise a net total of approximately $450 million by imposing a new fee on certain visas. The Committee reported out H.R. 3648, which requires multinational employers to pay a $1,500 fee for each petition for an L-1 visa. These visas cover nonimmigrant transferees who work in managerial or executive capacities or provide services requiring specialized knowledge. According to CBO, this legislation will increase collections to the Treasury by $80 million for 2006, and $500 million over years 2006 through 2010. However, today the Judiciary Committee marked up legislation increasing the number of circuit and district judgeships. Salaries for federal judges are mandatory. Therefore, although H.R. 3648 exceeds the Judiciary Committee's reconciliation requirements by $200 million, some of the excess collections will be offset by the increased spending resulting from additional salaries for federal judges.

## Resources Committee: Cut = $3.6 Billion

The Committee submission opens both the Arctic National Wildlife Refuge coastal plain and the Outer Continental Shelf leasing moratoria areas to oil and gas exploration; provides incentives for companies to mine gold and silver on public lands by repealing the current moratorium on mining patents and granting companies the right to mine regardless of whether they have discovered a valuable mineral deposit within the claim; fast-tracks the development of oil shale by restricting states' rights and subsidizing development; and sells some federal lands. The Committee submission also prohibits the government from levying any additional royalties or fees on the oil, gas, or mining industries. Last week, the Senate Energy and Natural Resources Committee passed its reconciliation proposal that only included drilling in the Arctic, albeit in a slightly different version than the House Committee. Unofficially, the Resources Committee package is slated to raise $3.6 billion in receipts to the federal government over the 2006-2010 period.

## Transportation and Infrastructure Committee: Cut = $156 Million

The Transportation & Infrastructure Committee submission increases vessel tonnage duties. These fees are imposed on the cargo-carrying capacity of vessels that enter the United States from any foreign port or place, or that depart from and return to a United States port or place. The tonnage duties are assessed regardless of whether the vessel is empty or carrying cargo. In 1990, the 2 cents per ton duty was raised to 9 cents per ton, not to exceed 45 cents per ton in a single year, and the 6-cent duty was raised to 27 cents per ton, not to exceed $1.35 per ton in a single year. These fee increases were extended twice, but expired in 2002. The Committee submission increases the current rate, but at a lower rate than was previously established. For 2006-2010, the bill increases the 2-cent duty to 4.5 cents per ton, not to exceed 22.5 cents per ton in a single year, and increases the 6-cent duty to 13.5 cents per ton, not to exceed 67.5 cents per ton in a single year. CBO estimates that these changes would increase revenues by $156 million over the 2006-2010 period.

## Ways and Means Committee: Cut = $8.0 Billion

The Ways and Means reconciliation submission cuts spending by $8.0 billion over five years. More than half of the cuts come out of human services programs such as child support and foster care. A trade provision reduces spending by $3.2 billion.

### Human Services

***Child Support —*** The Committee cut $4.9 billion over five years by reducing federal spending on child support programs run by states. Most of the savings result from reducing the federal matching rate to states from 66 percent to 50 percent of program costs. This cut will reduce states' capacity to help families establish legal child support orders and enforce orders to make sure that child support owed actually gets paid. CBO estimates that the reconciliation bill's reduction in the federal commitment to child support programs will result in custodial parents receiving $7.1 billion less child support over five years and $21.3 billion less over ten years.

***Foster Care* —** The Committee cut $577 million by limiting children's eligibility for federally funded foster care payments and limiting federal funding for services provided to children in certain settings, such as non-licensed foster homes. These two provisions essentially shift costs to states. Unless states devote new resources to foster care, they may cut services and increase caseloads in a system that in many states is already overburdened and underfunded.

***Supplemental Security Income (SSI)* —** The Committee cut spending by $425 million by requiring that retroactive SSI benefits exceeding three times the maximum monthly benefit be paid to beneficiaries in installments over the period of a year. About 750,000 individuals per year become eligible for SSI. Many are entitled to retroactive benefits, due to the lengthy nature of the disability determination process. Initial determinations take three months on average. The appeals process for denied claims often takes more than a year. The Committee also saved $307 million by requiring that the Social Security Administration review 50 percent of new disability benefit awards to ensure the finding of disability is accurate before starting payments.

***Welfare and Child Care* —** The Committee reconciliation package includes a comprehensive welfare bill that increases child care funding above current-law levels by $500 million over five years. This increase is not enough to keep pace with inflation, let alone cover the additional demand for child care created by the bill's increased work requirements for welfare recipients. Consequently, the number of children served by child care funding will decline by 100,000 within five years. CBO estimates that complying with the bill's work requirements would increase states' costs over the next five years by $4.1 billion for child care and $4.2 billion for work activities. States will likely shift existing child-care resources to TANF recipients facing new work rules. The Center on Budget and Policy Priorities estimates that 270,000 children of low-wage working parents who are *not* on welfare would lose child care assistance as a result.

**Continued Dumping and Subsidy Offset (Byrd Amendment)**

The Committee saved $3.2 billion over five years by repealing the Continued Dumping and Subsidy Offset, also known as the Byrd Amendment. Current law requires that anti-dumping duties paid by overseas firms be distributed directly to the U.S. industries affected by the dumping. Repeal of this requirement means that the anti-dumping duties will stay in the Treasury.