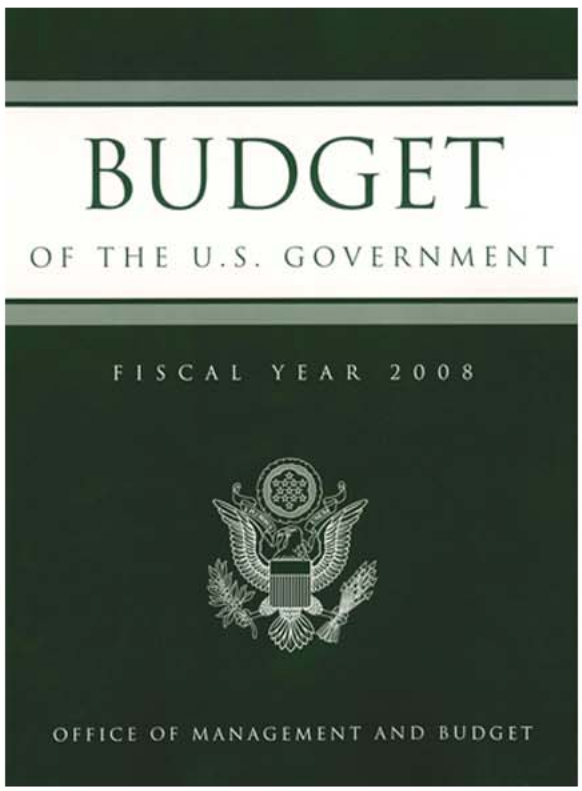
President Bush's 2008 Budget

A Brief Overview



**Prepared by
the U. S. Senate
Budget Committee
Minority Staff
Senator Judd Gregg
Ranking Member**

February 5, 2007

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Dear Colleagues,

The following is a brief overview and analysis of President George W. Bush's Fiscal Year 2008 budget, as prepared by the Republican staff of the U.S. Senate Budget Committee. I hope it serves as a useful tool in understanding the short-term budgetary outlook, as well as the long-term fiscal challenges we face.

The President's 2008 budget reflects his goals of continuing robust economic growth, protecting the nation from harm, and investing in domestic priorities. Under the President's budget, overall federal spending over the next five years remains within the average federal spending rate of the past 50 years, 20 percent of GDP.

The President's budget shows continued restraint on annual spending for non-defense activities, as well as a commitment to slowing the rate of growth in certain entitlement programs that are absorbing an increasing share of the federal budget.

According to the President's budget, that disciplined approach to spending, combined with strong revenues that have surged under the existing pro-growth tax policies, will drive down the deficit over the next five years, producing a surplus in 2012.

The President is also being more explicit regarding the cost of the Global War on Terror this year and next. Its timing in relation to the budget cycle gives Congress a better indication of the overall cost of government during that time period.

While the short-term budgetary outlook under the President's budget is positive – restrained spending, strong revenues, and a return to federal surpluses – there is a looming threat on the horizon that must be addressed. A huge demographic shift is about to occur, with the Baby Boom generation beginning to retire in 2008. That wave of retirees will double the "over-65" population in this country by 2035, to 75 million people or 19 percent of our population.

Without Congressional action, Social Security, Medicare and Medicaid are poised to increase from 8.8 percent of the economy this year to 18 percent in 2030. We cannot tax our way out of this problem, nor will economic growth alone alleviate the pressure these entitlement programs will place on our children and grandchildren's resources.

With $66 trillion in total unfunded entitlement obligations outstanding over the next 75 years, Congress must begin taking steps now to slow that rate of growth. As stewards of the economy and our children's future, we must begin to prepare and budget for the shift that is about to occur. As we begin work on crafting a budget for 2008, I look forward to working with my colleagues and the President to find reasonable solutions to these critical fiscal issues.

Sincerely,

Judd Gregg
Ranking Member, U.S. Senate Budget Committee

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THE PRESIDENT'S 2008 BUDGET REQUEST

President George W. Bush's 2008 budget reflects policies that will maintain strong economic growth and further national priorities such as winning the global war on terrorism (GWOT) and protecting the homeland, improving access to health care and education, and achieving energy independence, while at the same time taking additional steps to slow the growth in entitlement spending that threatens the fiscal health of our country.

Improvement in Short-Term Budget Situation Sets Stage for Action on Long-Term Entitlement Crisis

In the President's penultimate budget, the estimated deficit for the current fiscal year ($244 billion for 2007) shows a steady decline from the level recorded for 2006 ($248 billion) all the way through the five-year period of the budget request, turning into a surplus of $61 billion by 2012.

THE PRESIDENT'S 2008 BUDGET ($ billions)

	Actual 2006	2007	2008	2009	2010	2011	2012
Spending	2,655	2,784	2,902	2,985	3,049	3,157	3,246
Revenues	2,407	2,540	2,662	2,798	2,955	3,104	3,307
Unified Deficit(-)/ Surplus(+)	-248	-244	-239	-187	-94	-54	61
% of GDP	-1.9%	-1.8%	-1.6%	-1.2%	-0.6%	-0.3%	0.3%

Spending

The budget proposes total spending of $2.9 trillion (equal to 20 percent of GDP) in 2008, an increase of $118 billion, or 4.2 percent, over 2007. Federal spending has averaged 20 percent of GDP over the last 50 years.

Under the President's proposals, total spending would grow to $3.2 trillion by 2012 (an average annual growth rate of 3.1 percent), which by then would be only 18.3 percent of

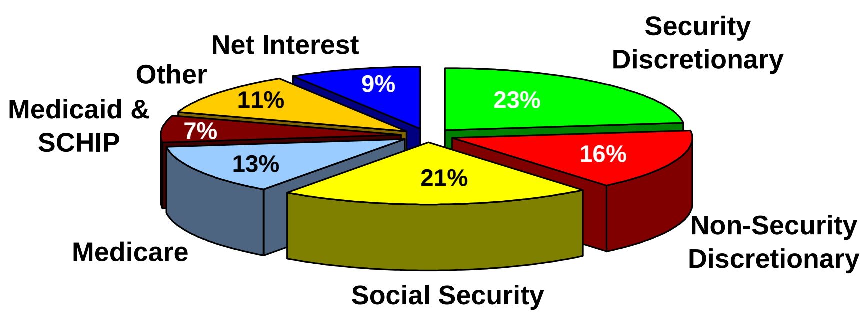
GDP, as nominal GDP is expected to grow by an average of 5.3 percent annually (*see Appendix table 1*).

The budget separates spending into **mandatory programs** (programs that are on "auto-pilot and do not require annual congressional action) and **discretionary programs** (programs requiring annual appropriations action).

With regard to mandatory programs, the President's budget proposes a set of proposals amounting to $61 billion in net savings over five years by restraining the rate of growth in certain entitlement programs.

With regard to discretionary programs, the President continues his pattern of disciplined requests of appropriations for the non-security activities in the budget, which would increase by about one percent per year from 2008 through 2012. To help achieve this spending discipline, the President proposes reductions in or termination of 141 discretionary programs, saving $12 billion annually. Nearly all the growth in discretionary spending in the President's request is for security spending for GWOT and to enhance homeland security.

President's 2008 Budget:
$2.9 Trillion in Outlays by Budget Category



* Security funding includes Department of Defense and International Affairs appropriations as well as spending on homeland security activities.

Mandatory Spending

The budget proposes total mandatory spending (including net interest) of $1.8 trillion in 2008, an increase of $84 billion, or 4.9 percent, over 2007 (*see Appendix table 2*). Under the President's proposals, mandatory spending next year accounts for 62 percent of total spending. By 2012, mandatory spending (excluding net interest) would grow to $2.2 trillion (68 percent of total spending) -- an annual average growth rate of 5.3 percent, more than double the rate of inflation.

Social Security spending totaled $582 billion in 2007 and is projected to total $608 billion in 2008, an increase of $26 billion or 4.5 percent. Without legislative changes, Social Security spending will grow to $762 billion in 2012, an annual average growth rate of 5.5 percent.

- **Personal Accounts**. The President's budget includes a proposal to create personal retirement accounts in 2012. Under this proposal, Social Security spending in 2012 would increase by $29 billion and total $790 billion.
- **Disability Insurance Funding Warning**. The President's budget includes a new proposal for legislation to create a Disability Insurance Funding Warning similar to the Medicare Funding Warning created in the Medicare Modernization Act.

Medicare spending totaled $367 billion in 2007. OMB's baseline projects $391 billion for 2008, an increase of $24 billion or 6.5 percent. Without legislative changes, Medicare spending will grow to $503 billion in 2012, an average annual growth rate of 6.5 percent.

- The President's budget includes reforms to the Medicare program that will reduce the growth in the program by $66 billion over the next five years. Under the President's proposals, Medicare spending in 2012 would be $482 billion, an average annual growth rate of 5.6 percent.

Medicaid and SCHIP spending totaled $197 billion in 2007 and is projected in OMB's baseline to total $209 billion in 2008, an increase of $12 billion or 6.1 percent. Left unchanged, Medicaid and SCHIP spending is expected to grow to $279 billion by 2012, an annual average growth rate of 7.3 percent.

- The President's budget includes several reforms to the Medicaid and SCHIP programs that would achieve net savings of $6.8 billion over the 2008-2012 period. Under the President's proposal, Medicaid and SCHIP spending in 2012 would total $277 billion, an annual average growth rate of 7.1 percent.

Discretionary Spending

The budget proposes total discretionary spending authority of $1.075 trillion for 2008, an increase of $33 billion, or 3.1 percent, over the President's desired level of $1.042 for 2007 (including the cost of GWOT, but excluding $4.2 billion of spending for hurricanes and border security in 2007; see Appendix table 4).

Within these totals, the President proposes to spend $170 billion on GWOT in 2007 (of which $70 billion has already been enacted into law), but would reduce spending on GWOT to $145 billion in 2008 (with a "placeholder" amount of $50 billion for 2009 and zero thereafter).

Spending on all discretionary activities outside of these GWOT costs would rise from $873 billion in 2007 to $930 billion in 2008, an increase of $57 billion, or 6.5 percent. This request of $930 billion for non-GWOT discretionary spending in 2008 is significantly larger (3.8 percent) than the amount the President requested for the same set of programs last year for 2008, which was $896 billion.

- **The request for the Department of Defense's** normal activities (not directly related to GWOT) for 2008 is $481 billion, an increase of $46 billion, or 10.5 percent, over 2007 (this comparison excludes the costs of funding GWOT for both 2007 and 2008).

The Shadow Budget of "Emergency" War Spending

Making any kind of observation about the trend and year-to-year changes in discretionary spending over the past several years has been difficult. This is because of the "shadow budget" of requesting and appropriating funds to cover the costs of the global war on terror (GWOT) outside of the President's budget request and including an "emergency" label or designation.

While the President's budget for 2008 complies with a congressional requirement that costs of the war be reflected in his budget documents, it still displays the following label (Table S-2, p. 152): "Requested Supplemental and Emergency Funding," which is associated with the amounts of $100 billion for 2007 and $145 billion for 2008 ($245 billion in total; there is an additional $50 billion place holder for 2009). Page 44 of the Budget also refers to "emergency" appropriations to fund continuing costs for the war.

This Overview of the President's 2008 Budget chooses to redisplay the request for GWOT in a more accurate form. Because of a concern that the high level of appropriations for the war should not be absorbed into the base budget of the Department of Defense in perpetuity once the fighting is over and the need for GWOT appropriations goes away, the President's budget shows the costs of GWOT separately, rather than embedded in the base budget of the Department of Defense.

Labeling the cost of GWOT as an emergency is not accurate, however, since the emergency designation was intended and often used to provide appropriations for truly unexpected spending requirements in excess of the limits on discretionary spending that applied from 1991-2002 (which were enforced by the Office of Management and Budget). But there have been no statutory caps on discretionary spending since they expired at the end of fiscal year 2002.

Nonetheless, the Congress, through its annual budget resolution, has continued to set a discretionary allocation (or cap) one year at a time, while allowing for the possibility that certain spending be designated as emergency if additional appropriations become necessary above and beyond that allocation.

Further, the Senate, while having set an allocation for 2007 appropriations at $873 billion, also set a limit on the amount of allowable emergency spending for 2007 at $86 billion[1]. This limit has been nearly consumed by the $72 billion in emergency spending already enacted in the Defense and Homeland Security appropriation bills for 2007. Therefore, the request for another $100 billion for 2007 war costs as an emergency in the President's 2008 budget will not be protected from a point of order in the Senate. Such appropriations will face the same spending point of order that regular spending faces, since emergency spending in excess of $86 billion is not allowed.

For 2008, the situation is slightly different, but has the same result. No Congressional allocation or cap yet exists for 2008 (it will presumably be set in the 2008 budget resolution). The Administration is free to request whatever it wants Congress to appropriate for 2008, but designating some part of the request as an emergency to "get around" some limit that does not yet exist has no effect or meaning because there is no limit in place to "get around." The bottom line is that the President's budget requests an amount for 2008 for all the regular things usually funded through discretionary appropriations and also requests an amount for GWOT (for both 2007 and 2008). This overview summarizes that request accordingly.

[1] The House has no comparable limit on emergency spending; if the House wants to designate additional war funding for 2007 as an emergency to avoid its points of order, it may do that, but it does not need the President's concurrence in the designation, only his signature on the appropriations law.

COMPARISON OF DISCRETIONARY RESOURCES IN THE PRESIDENT'S BUDGET
(Budget authority and obligation limitations, $ in billions)

	2006 Actual	2007 Estimate	2008 Policy	2007-2008 Difference	2007-2008 % Change
Discretionary Budget Authority					
Security Spending	**595**	**670**	**699**	**29**	**4.3%**
Defense	531	605	627	21	3.5%
Department of Defense Regular	*411*	*435*	*481*	*46*	*10.5%*
Global War on Terror (Defense and Non-Defense) a/	*120*	*170*	*145*	*-24*	*-14.4%*
Security (Non-DoD)	64	65	72	*8*	*11.6%*
Homeland Security (Non-DoD)	*32*	*34*	*36*	*2*	*6.7%*
International Affairs (Non-Homeland Security)	*31*	*31*	*36*	*5*	*17.1%*
Non-Security Spending	**369**	**372**	**376**	**4**	**1.0%**
Total Discretionary Budget Authority	**964**	**1,042**	**1,075**	**33**	**3.1%**
Non-GWOT Budget Authority	843	873	930	*57*	*6.5%*

a/ An additional $50 billion is included in the President's Budget for Global War on Terror funding in 2009.
Source: Senate Budget Committee Republican Staff; Office of Management and Budget

- **The request for Homeland Security** (non-defense) activities totals $36 billion, an increase of $2.3 billion, or 6.7 percent, over 2007.

- **The request for international affairs** (non-Homeland Security) activities also totals $36 billion, an increase of $5.3 billion, or 17.1 percent, over 2007.

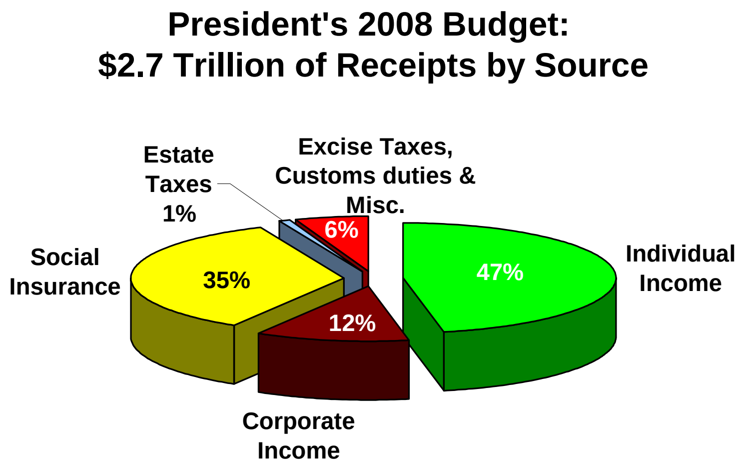
- **Other discretionary programs** would total $376 billion in 2008, an increase of $3.6 billion, or 1.0 percent, above 2007. Under the President's budget, appropriations for non-security programs are allowed to grow by one percent per year through 2012.

Revenues

The budget projects **total revenues of $2.7 trillion in 2008**, an increase of $122 billion or 4.8 percent, over 2007, and equal to 18.3 percent of GDP. Federal revenue has averaged 18.2 percent of GDP over the last 40 years.

Under the President's proposals, total revenues will continue growing to $3.3 trillion by 2012, rising as a share of GDP to 18.6 percent.

The President proposes a number of **new tax policy changes that would reduce federal revenues by $225 billion over five years**, compared to a baseline revenue forecast that has been adjusted to <u>include</u> permanent extension of certain tax cuts enacted in 2001 and 2003.



- o Relative to the adjusted baseline, major tax proposals that would change revenues over the 2008-2012 period include (but are not limited to):
  - ▸ Savings incentives (these proposals would begin to reduce revenues in 2012, but because of timing shifts would increase revenues by $7 billion over 2008-2012)
  - ▸ Tax compliance ($9 billion revenue increase)

  Revenue Loss:
  - ▸ Health care ($125 billion revenue loss over 2008-2012, followed by revenue increases)
  - ▸ Research tax credit ($42 billion)
  - ▸ One-year 2007 AMT patch ($36 billion)
  - ▸ Change financing of Airport and Airway trust fund ($27 billion)
  - ▸ Trade promotion ($4 billion)
  - ▸ Charitable giving ($3 billion)
  - ▸ Education incentives ($2 billion)

If the baseline revenue forecast is not adjusted to include extension of the 2001 and 2003 tax cuts, then the President's **tax proposals would reduce revenues by $52.2 billion in 2008 and $599 billion over five years**. This set of policies includes $225 billion as described above, plus relative to current law, $374 billion to permanently extend the dividends and capital gains tax rate structure, small business expensing, death tax repeal, marginal rate reductions, marriage penalty relief, child tax credit and other components of the 2001 and 2003 tax relief.

Debt & Interest

The budget reflects **debt held by the public growing from $5.1 trillion in 2007 (36.9 percent of GDP) to $5.7 trillion in 2012 (32.1 percent of GDP)**. Over the last two decades, debt held by the public has been as high as 49.5 percent of GDP in 1993 and as low as 33.1 percent of GDP in 2001.

The budget projects **net interest costs of $261 billion in 2008** (9.0 percent of total spending), growing to $285 billion by 2012 (8.8 percent of total spending).

FY 08

SPENDING

U.S. Senate Budget Committee

The proposed changes in spending in the President's 2008 budget are dominated by increased spending on the war on terrorism and homeland security. Over the next five years, security-related spending would increase by $0.5 trillion compared to OMB's baseline (which includes no funding for GWOT), and this amount only reflects the full-year cost of funding GWOT for 2007 and 2008 (there is a $50 billion placeholder for 2009). Holding the increase in non-security discretionary spending to less than half the rate of inflation over the next five years would reduce spending by $0.1 trillion, relative to a baseline that inflates the total $873 billion allowed for 2007 appropriations.

Other important changes to spending are on the mandatory side of the budget. The President proposes about $96 billion in net savings over the next five years, of which $66 billion is a reduction to slow the exploding growth of Medicare. One component of the pluses and minuses proposed for mandatory programs is a $15-billion increase in spending for Pell Grants, which currently is funded entirely through discretionary appropriations. Not included in the $96-billion figure is the President's proposal to begin personal accounts for Social Security in 2012, which would cost $29 billion that year. Also not included in the $96 billion figure are the outlay effects associated with tax proposals (such as refundable tax credits), which would count on the pay-go scorecard, and certain other mandatory effects that would not count on the pay-go scorecard (because they are associate but would affect the deficit. Adding up all these changes, the President's entire mandatory package would reduce spending by a net $61 billion over the 2008-2012 period.

A more detailed description of specific changes to existing programs or proposals for new policies or programs follows. Note that this year it is difficult to make useful comparisons of the President's 2008 request for specific discretionary programs to the level for 2007. Only two kinds of discretionary programs have enacted, full-year, regular appropriations for 2007: defense and homeland security. All other federal discretionary programs are operating under a continuing resolution (CR) through February 15, 2007 at the lowest of the 2006 level, the House-passed 2007 level, or the Senate-passed 2007 level.

The continuing resolution that the House passed on January 31, 2007 would instead fund all these federal programs at the 2006 level, except for a subset of programs (especially in the areas of education, health, and veterans) where additional appropriations were provided because the 2006 level was deemed insufficient for 2007. Because this full-year CR has not been debated by the Senate and is not law, it is not used as a basis of comparison for 2007. As a result, for specific accounts or programs, this chapter compares the 2008 request to the annualized 2007 levels from the CR in effect through February 15, 2007.

The President's budget proposes terminating or reducing 141 discretionary programs. In order to effectively review and evaluate federal programs, the Administration developed a Program Assessment Rating Tool (PART). The purpose of this tool is to review federal programs' strengths and weaknesses in order to inform funding and programmatic decisions. The PART looks at all factors that affect and reflect program performance including program purpose and design; performance measurement, evaluations, and strategic planning; program management; and program results. The public can access nearly 1,000 federal program assessments, based on PART reviews on www.ExpectMore.gov.

MANDATORY PROGRAMS

Medicare

Baseline Medicare spending will total $391 billion in 2008, an increase of $24 billion or 6.5 percent over 2007. Without legislative changes, Medicare spending will grow to $503 billion in 2012, an average annual growth rate of 6.5 percent.

This size of growth is particularly notable in light of the fact that, according to CMS actuaries, projected Medicare spending on prescription drugs (Part D) has decreased by a net $113 billion over the 2007-2016 period compared to the last CMS estimates in OMB's Mid-Session Review released in July 2006. This is primarily due to plan competition resulting in lower premiums ($96 billion), lower than expected drug costs ($13 billion) and lower than anticipated enrollment due to other creditable coverage ($20 billion). On the other hand, the new projections reflect an increase of $16 billion due to the 2003 Medicare Current Beneficiary Survey.

The President's budget includes reforms to the Medicare program that will reduce the growth in the program by $66 billion over the next five years. This is nearly double the President's proposal from last year. Under the President's proposals, Medicare spending in 2012 would be $482 billion, resulting in a lower average annual growth rate of 5.6 percent – a reduction of less than one percentage point from the rate at which Medicare would grow under current law

If all the Medicare proposals are enacted, the reductions would amount to 2.9 percent of total Medicare spending of $2.25 trillion over the period.

Medicare Proposal Funding Summary
(billions of dollars)

	2008-2012
Baseline Outlays	2,252.0
Proposed changes from current law	
Rationalize Premium Subsidies & Payments	-11.5
Increase High Income Beneficiary Responsibility	-10.4
Improve Program Integrity	-7.9
Enhanced Productivity and Efficiency	-41.8
Premium Interactions/QI Extension	*6.0*
Total Savings	-65.6

- **Premium Subsidies and Payments**. The Medicare Modernization Act, later modified by the Deficit Reduction Act, increased Part B premiums for higher income enrollees ($80,000 for singles/$160,000 for couples) beginning in 2007. The President's budget proposes to eliminate the indexing of these income thresholds for assessing higher premiums for Part B services. The budget also extends this Part B proposal to Part D high-income beneficiaries.

- **Fiscal Control**. The budget would strengthen the Medicare Modernization Act's solvency provision by requiring an automatic 0.4 percent across-the-board reduction in Medicare spending if Congress fails to prevent general fund contributions to Medicare spending from exceeding 45 percent of total Medicare outlays. Because the budget request expects all its legislative proposals to reform Medicare will be enacted and will lower Medicare spending accordingly, the budget does not expect the 45 percent threshold to be exceeded until 2022. As a result, the budget does not assume any savings associated with this proposal for automatic Medicare reductions between 2008-2012.

- **Competition**. The budget proposes to replace the current prospective payment system for clinical laboratory services with a national competitive bidding program.

- **Program Integrity**. To ensure proper payments in situations where private insurance companies are primary payers for Medicare beneficiaries, the budget proposes to establish a data clearinghouse to enhance current Medicare Secondary Payer (MSP) payment coordination. It also extends MSP status for beneficiaries with End-Stage Renal Disease from 30 months to five years for large employers. The budget proposes to eliminate the Medicare bad debt payment to providers for unpaid beneficiary cost-sharing. Finally, the budget proposes to eliminate duplicative IME (Indirect Medical Education) payments to hospitals for the Medicare Advantage (MA) beneficiaries.

- **Productivity and Efficiency**. The budget proposes to make adjustments to provider payments to reflect increasing productivity and to encourage further quality and efficiency gains. The budget also proposes changes to align rental payments and purchase requirements for durable medical equipment. Details:

    - **Hospitals, Hospices and Ambulance Services** would a have an annual 0.65 percent reduction in their annual inflationary update starting in 2008 (-$18.6 billion).
    - **Skilled Nursing Facilities and Inpatient Rehabilitation Facilities** would have a 0 percent update in 2008 followed by a 0.65 percent annual reduction in their inflationary update thereafter (-$11.1 billion).
    - **Ambulatory Surgical Centers** would receive an annual 0.65 percent reduction in their inflationary update starting in 2010 (-$90 million).
    - **Home Health Services** would have a five year payment freeze (2008-2012) followed by an annual 0.65 percent reduction in their inflationary update beginning in 2013 (-$9.7 billion).

- **Durable Medical Equipment** payments for short-term wheelchairs and oxygen rentals would be limited to 13 months prior to purchase (-$2.9 billion).
- **Payments for "Never" Events** (preventable, adverse events such as surgery on the wrong part of the body) would be prohibited (-$0.2 billion).
- **Inpatient Admissions** would be covered for no more than 190 days (-$1.8 billion).
- **Payments for Post-Acute Care Services**. The budget proposes to adjust payments to inpatient rehabilitation facilities for hip and knee replacements to more closely align them with other Medicare facilities.
- **Administrative Savings.** The budget assumes regulatory savings of $10.2 billion over 2008-2012 due to new efforts to strengthen the Medicare payment system by reducing improper provider payments and providing adjustments for efficiency and productivity

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President's Budget FY 2008: Medicare Legislative Proposals

	($billions) 2008 - 12
Medicare Baseline Outlays	2,252.000
Proposed Changes From Current Law [(-) is savings/(+) is cost]	
Enhanced Productivity & Efficiency	
Hospital inflationary update reduced by 0.65% annually starting in FY2008	-13.790
Skilled Nursing Facility update at 0% in 2008 with inflationary update reduced by 0.65% annually thereafter	-9.210
Inpatient Rehabilitation Facility update at 0% in 2008 with inflationary update reduced by 0.65% annually thereafter	-1.910
Hospice inflationary update reduced by 0.65% annually starting in FY2008	-1.140
Outpatient hospital inflationary update reduced by 0.65% annually starting in FY2008	-3.360
Ambulance inflationary update reduced by 0.65% annually starting in FY2008	-0.360
Ambulatory Surgical Center inflationary update reduced by 0.65% annually starting in FY2008	-0.090
Home Health update at 0% from 2008-2012 with inflation update reduced by 0.65% annually thereafter	-9.680
Introduce competitive bidding for Clinical Laboratory services	-2.380
Rationalize Medicare Payments and Subsidies	
Eliminate duplicate indirect medical education payments to hospitals for Medicare Advantage beneficiaries	-4.370
Payment prohibition for preventable adverse events ("never events')	-0.190
Establish hospital value-based purchasing program	0.000
Set base payment for 5 post-acute conditions treated in skilled nursing facilities and inpatient rehabilitation facilities	-2.930
Establish 13 month rental period for power wheelchairs	-0.530
Limit rental payments for oxygen equipment to 13 months instead of 36 months**	-2.380
Extend Medicare Secondary Payer status for End-Stage Renal Disease beneficiaries from 30 months to 5 years for large employers	-1.080
Improve Program Integrity	
Establish federal data sharing clearinghouse for Medicare Secondary payer	-0.640
Phase out Medicare bad debt payments over four years to payer for unpaid beneficiary cost-sharing	-7.150
Limit use of mandamus jurisdiction to obtain judicial review of Medicare determinations	-0.080
Increase high income beneficiary responsibility	
Eliminate annual indexing of income thresholds ($80,000 for singles/$160,000 for couples) for assessing reduced subsidy eligibility in Part B	-7.135
Extend reduced Part B subsidy to Part D	-3.242
Other	
Extend QI Program through 2008/Premium interactions	6.030
TOTAL LEGISLATIVE PROPOSALS	**-65.618**

President's Budget FY 2008: Medicaid and SCHIP Legislative Proposals

I. MEDICAID LEGISLATIVE REFORM PROPOSALS	($ billions) 2008 - 12
Medicaid Baseline Outlays	1,187.000
Proposed Changes From Current Law [(-) is savings/(+) is cost]	
Administrative Reforms	
Limit Medicaid reimbursement for administrative services to 50 percent	-5.315
Eliminate Medicaid payments duplicative of TANF block grant funds	-1.770
Reimbursement Reforms	
Provide 50 percent match for Targeted Case Management services	-1.160
Require state reporting of select performance measures and links performance to reimbursement	-0.330
Pharmacy	
Reduce overpayments for prescription drugs	-1.200
Allow states to develop formularies	-0.870
Require "tamper-resistant" prescription pads	-0.210
Replace "best price" component of drug rebate formula with a budget neutral flat drug rebate	0.000
Program Integrity	
Expand demonstration to verify assets of Medicaid beneficiaries	-0.640
Reinforce third party liability statute	-0.085
Allow longer renewal period for managed care Medicaid waivers	0.000
Eliminate state option to increase home equity limit to $750,000	-0.430
Other	
Allow improved continuity in coverage in Medicaid/SCHIP by modifying HIPAA	0.000
Extend Transitional Medical Assistance extension through 2008	0.665
Extend QI program	0.425
Adjustment for QI transfer from Medicare	-0.425
TOTAL LEGISLATIVE PROPOSALS FOR MEDICAID	**-11.345**

II. SCHIP LEGISLATIVE REFORM PROPOSALS	
SCHIP Baseline Outlays (millions)	25.000
Proposed Changes From Current Law	
SCHIP Reauthorization	
Reauthorize SCHIP for 5 years; target resources for lowest-income children	**5.930**
TOTAL LEGISLATIVE PROPOSALS FOR MEDICAID & SCHIP	**-5.415**
MEMO: OTHER PROPOSALS IMPACTING MEDICAID SPENDING	
Medicaid impact of SCHIP Reauthorization	-1.770
Medicaid impact of Refugee Exemption Extension	0.099

Medicaid and SCHIP

Without legislative changes, Medicaid and SCHIP spending will total $209 billion in 2008, an increase of $12 billion or 4.5 percent over 2007. Medicaid and SCHIP spending is expected to grow to $279 billion by 2012, an annual average growth rate of 7.2 percent.

The President's 2008 budget includes changes to the Medicaid and SCHIP programs that would achieve savings of $6.8 billion over the next five years. Under the President's proposal, Medicaid and SCHIP spending in 2012 would total $277 billion, resulting in an annual average growth rate of 7.1 percent.

State Children's Health Insurance Program (SCHIP). The President proposes an additional $5.9 billion of gross new spending over five years to reauthorize the SCHIP program to maintain current enrollment levels and refocus the program on lowest-income children. This proposal would increase SCHIP funding by 24 percent over baseline levels.

Medicaid. The President's proposal also would reduce the growth in Medicaid by a gross $12 billion over five years through changes to the administration of pharmacy benefits, modifications to asset tests for long term care benefits, and limitations on the use of the standard Medicaid match of services that are administrative in nature. These changes amount to one percent of one of total estimated Medicaid spending of $1.19 trillion over the period.

Specifically, the proposal would:

- reduce the reimbursement rate for states ($8.3 billion);
- achieve additional savings by allowing states to develop formularies and limiting pharmacy reimbursement ($2.3 billion); and
- limit beneficiary qualification for Medicaid through asset tests ($1 billion).

In addition, the administration assumes that regulatory savings of $12.7 billion over the next five years will be implemented.

Social Security

Without legislative changes, Social Security spending will total $608 billion in 2008, an increase of $26 billion or 4.5 percent over 2007, and will grow to $762 billion in 2012, an annual average growth rate of 5.5 percent.

Social Security Personal Investment Accounts. The President's budget includes the creation of personal retirement accounts in 2012. As a result, Social Security spending would increase by $29 billion in 2012 to $790 billion.

Disability Insurance Funding Warning. The President's budget proposes a new Funding Warning to highlight fiscal problems within Social Security's Disability Insurance (DI) program similar to the Medicare Funding Warning enacted in the Medicare Modernization Act. The proposal requires that the Board of Trustees issue a warning in the annual Trustees

Report when Social Security Administration actuaries project a negative DI cash flow that is more than 10 percent of program cost for four consecutive years. Issuance of a warning requires that the President propose legislation to Congress within 15 days after the date of the next budget submission.

Education

Stafford Student Loans and Pell grants. Loan limits on federally subsidized Stafford loans for college juniors and seniors would increase by $2,000 to $7,500 under the President's 2008 proposal. The five-year cost is $1.1 billion. For Pell Grants, the President would add a mandatory component to this discretionary program, providing $15 billion over the next five years to bring the maximum Pell grant to $5,400 by 2012. The President would offset the cost of the Pell grant increase by reducing the subsidies paid to private lenders and guarantee agencies providing federal Stafford loans by $17 billion over five years.

American Competitiveness Grants. The President proposes to increase American Competitiveness Grant levels by 50 percent in 2008, which would cost roughly $1 billion in new mandatory funds over the next five years. This grant program, which was created in the Deficit Reduction Act of 2005, provides grant aid to lower-income college freshmen and sophomores who took rigorous academic courses while in high school and maintain a 3.0 grade point average during college. Under the President's proposal, the grant levels would rise to $1,125 (up from $750) for first-year college students and to $1,950 (up from $1,300) for second-year students.

Perkins Loans. The President's budget proposes to accelerate the recall of the federal portion of the Perkins Loan Revolving funds. While this proposal appears to show savings of $3.2 billion from 2008-2012, over time it would have a negligible effect on the federal budget because the recall will occur eventually under current law.

Strategic Petroleum Reserve

The President proposes to expand the Strategic Petroleum Reserve (SPR) from its current capacity of 727 million barrels to 1.5 billion barrels by 2027, at a cost of $0.9 billion over the next five years and $11 billion over the next 10 years. To begin to create the necessary storage capacity to hold the additional oil, the President requests $332 million in discretionary funds for 2008, an increase of $177 million or 115 percent over the 2007 level.

ANWR

The President, as he did last year, proposes to open a portion of the Arctic National Wildlife Refuge (ANWR) to oil and gas exploration, which would yield $4.0 billion in net receipts to the U.S. Treasury over the next five years.

Farm Bill

The President proposes to reauthorize the 2002 Farm Bill, which, over the next 10 years, would increase gross spending by $18.6 billion while also achieving $13.7 billion in gross savings, resulting in a total net cost of $5.0 billion. His proposal emphasizes conservation, providing an additional $7.8 billion for programs that, among other things, help farmers install conservation practices on working lands and pay farmers to retire land from production. The President also provides $500 million and $1 billion in additional resources for research into bioenergy and specialty crops, respectively, as well as almost $1 billion for the development of renewable energy. His proposal achieves savings largely through changes to existing commodity programs and the crop insurance program.

County Payments

The President proposes a four-year extension of the Secure Rural Schools and Community Self-Determination Act, which expired in 2006. Under this Act, the federal government had provided payments to mostly Pacific Northwest counties that had experienced significant declines in timber receipts from federal lands. Similar to the proposal included in the President's 2007 Budget, this proposal would offset the extension through the sale of National Forest lands (estimated at $800 million). However, under this proposal, only 50 percent of land sale proceeds would be used to make payments to counties (at a gradually declining rate) while the remaining 50 percent would be used for conservation in the state in which the lands were sold.

Veterans

The President once again proposes three changes to the fee structure in Veterans medical care. The first proposal is a new $250 medical-care enrollment fee for veterans with family incomes from $50,000 to $74,999; $500 for those with family incomes from $75,000 to $99,999; and $750 for those with family incomes $100,000 or more. This proposal is estimated to save $0.5 billion over five years. The second proposal is a pharmacy co-payment increase from $8 to $15 for lower-priority 7 and 8 veterans, saving $1.6 billion over five years. A related proposal to prescription drug payments would save $0.2 billion over five years.

DISCRETIONARY PROGRAMS

Defense

Department of Defense discretionary budget authority for 2008 is $481 billion, an increase of $52 billion or 12.1 percent above the 2007 enacted level (these figures do not include supplemental funding; the Administration has proposed $94 billion for the balance of war funding for 2007 and $142 billion for 2008). Discretionary budget authority for the National Defense Function, which includes Department of Energy Atomic Defense Activities and Other Defense Activities in addition to the Department of Defense, would total $502 billion for 2008.

Department of Defense Budget Request
(Budget authority, $ in billions)

	2007 Estimate	2008 Request
Regular DoD Budget	435	481
Military Personnel	110	116
Operation and Maintenance	148	164
Procurement	81	101
Research, Development, Test and Eval.	75	75
Military Construction	7	18
Other	12	5
War (Enacted and Requested)	163	141
Total DoD Budget Authority	598	623

Department of Defense Discretionary by Major Category:

- Military Personnel: $116 billion, a 4.5-percent increase over 2007.
- Operations and Maintenance: $165 billion, a 10.7-percent increase.
- Procurement: $84.2 billion, a 26-percent increase.
- Research, Development, Test, and Evaluation: $75 billion, equaling the 2007 enacted level.
- Military Construction: $18 billion, a 57-percent increase.
- Family Housing: $2.9 billion, a 31-percent decrease.

Pay and Benefits. The budget request includes a 3.0-percent active duty pay raise.

Military End Strength. The President's budget supports an increase of the Army from 482,400 to 547,400 active duty personnel and the Marine Corps from 175,000 to 200,000 active duty personnel by 2012. This is intended to relieve the personnel shortages that are a result of the wars in Iraq, Afghanistan, and the broader Global War on Terrorism.

Special Operations. As a critical component of the Global War on Terrorism, the Special Operations Command is requesting $6.2 billion. This funding will provide an additional 3,000 special operations personnel in 2008 and 10,000 over the next 5 years.

Base Realignment and Closure [BRAC]. The President's budget requests $8.2 billion to fund the closure and realignment of military facilities pursuant to the 2005 round of base closings (note: this request is abnormally large because the pending Continuing Resolution would provide $3 billion less than DOD's 2007 BRAC request of $5.6 billion.

Missile Defense. The budget proposes $8.9 billion to develop new systems and continue work on existing land and sea based anti-ballistic missile systems.

Shipbuilding. The budget requests $14.2 billion for Navy shipbuilding, including the first of a new class of nuclear carrier (the CVN-21) and three Littoral Combat Ships, which are intended to be a smaller, lower-cost surface combatant than the present generation of cruisers and destroyers.

Army Programs. The President's 2008 request includes $7.6 billion for the Army's modularity program, which is reconfiguring the service's ground combat structure into quickly deployable two-battalion brigades. This request represents an increase of $1 billion over the amount enacted for 2007.

International Affairs

- The President proposes $36.2 billion in discretionary appropriations for International Affairs activities. This is $5.3 billion or 17.2 percent above the amount enacted for 2007 (not including an enacted and requested 2007 supplemental total of $6.0 billion).

- The request includes $10.0 billion for the State Department to support ongoing diplomatic and consular operations. This figure represents an increase of $1.4 billion, or 15.8 percent, above the 2007 level.

- The President proposes $20.3 billion for bilateral economic assistance for 2008, an increase of $2.6 billion or 14.4 percent above the 2007 enacted level.

- The Broadcasting Board of Governors receives $668 million to support radio and television broadcasting, including the Middle East and Cuba.

The request for the Economic Support Fund [ESF] is $3.3 billion, a $716- million or 27-percent increase over the 2007 level. Among the major recipients of the ESF are Afghanistan ($693 million), Pakistan ($383 million), and Iraq ($298 million).

For 2008, the President proposes to more than double the funding for the Millennium Challenge Corporation to $3.0 billion.

The budget requests a total of $4.2 billion for the President's Global HIV/AIDS Initiative, a $2.3-billion increase.

Homeland Security Funding

Government-wide Homeland Security discretionary budget authority (excluding $17.5 billion Homeland Security spending in DOD) totals $36.4 billion, an increase of $3.4 billion or 9.3 percent over 2007 current CR levels. This total does not include $2.3 billion in mandatory funding and $5 billion in discretionary fee-funded activities. Adjusting for these programs results in $43.6 billion in non-DOD Homeland Security programs across the federal government.

Emergency Preparedness and Response/ FEMA. The budget provides $5.2 billion for the Federal Emergency Management Agency, $872 million or 17 percent less than the 2007 level. Included is $100 million to implement a new structure for FEMA to establish better program analysis and project management, $1.7 billion for the Disaster Relief Fund, and $1.9 billion for state and local program grants, $840 million less than 2007.

Customs and Border Protection. The President proposes $8.8 billion for the Office of Customs and Border Protection, an increase of $2 billion, or 22 percent above 2007. The budget provides for an increase of 3,000 Border Patrol agents, and $1 billion for the Secure Border Initiative to upgrade technology and infrastructure used to control the border.

Immigration and Customs Enforcement. The budget proposes a total of $4.8 billion for Immigration and Customs Enforcement, $341 million or 7 percent above 2007. This increase will provide 950 new detention beds, for a total of 28,450 as part of the Administration's continued plan to improve border security and enforcement of immigration laws through the Secure Border Initiative.

Port Security. The President proposes nearly $3 billion for enhanced security for U.S. ports, including $531 million for cargo security initiatives, such as the Container Security Initiative, and $210 million for Port Security Grants.

Domestic Nuclear Detection Office/ DNDO. The budget provides $562 million for the DNDO, and increase of 17 percent above the 2007 level, and 400 percent since the program was established in 2005. This increase includes $178 million to deploy radiation portal monitors to the 22 busiest U.S. ports, which will result in 98 percent of all seaport containers being screened upon entry into the United States.

Health

The President's 2008 budget requests $69.3 billion in budget authority for the Department of Health and Human Services, which represents a 0.3% increase over the 2007 level.

Pandemic Influenza: The President's 2008 budget request includes $1.2 billion to continue our Nation's preparations for a pandemic influenza. Of this amount, $870 million will support the continued R&D on a pandemic influenza vaccine and rapid diagnostics and the purchase of antivirals for the Strategic National Stockpile. The budget also includes $322 million for pandemic influenza activities at NIH, CDC, FDA and the Office of the Secretary.

Bioterrorism Preparedness: The budget requests almost $4.3 billion for bioterrorism preparedness and response activities, including almost $2.5 billion for R&D and production of biodefense countermeasures. It also includes $1.1 billion for State and local governments and hospitals for bioterrorism preparedness and other public health emergencies. It includes increased funding for the National Disaster Medical System and Commissioned Corps volunteer medical response teams.

FDA: The President's budget includes an increase of $151 million, for a total budget of $1.6 billion. This includes a $16 million increase to strengthen and modernize FDA's drug safety review system. The budget also includes a new proposal for an industry funded generic drug user fee, which will generate $16 million in 2008 to expedite review times for generic drugs.

The President's priorities also include enhancing the safety of our Nation's defenses against food-borne illness and contamination.

NIH: The President's budget includes an increase of $232 million the National Institutes of Health, for a total 2008 budget of $28.7 billion. Funding will support programs established to attract new scientific investigators into the field, increase the number of research grants awarded to universities and other research facilities, and enhance unique biomedical research initiatives for the 21st century.

Health Information Technology: The 2008 budget provides $118 million for the Office of the National Coordination for Health IT (ONCHIT) – an increase of $57 million. ONCHIT will lead the Federal Government's efforts to increase transparency in pricing and quality in medical care services. Funding will be used to reach the President's goal of making electronic health records available to most Americans by 2014.

Ryan White HIV/AIDS Program: The President's budget includes an increase of $95 million for a total of $2.2 billion for the Ryan White program. The request would support a comprehensive approach to address the healthcare needs of those living with HIV/AIDS, with approximately $70 million going towards the AIDS Drug Assistance Program.

Education

No Child Left Behind - Title I Funding. Title I grant aid for high-poverty elementary and secondary schools would increase by $1.2 billion (9.4 percent) to $13.9 billion under the President's 2008 budget proposal.

Pell Grants. The President's budget requests $13.2 billion (plus $2.2 billion in mandatory funds) to support a maximum 2008 Pell Grant of $4,600, an increase of $550 from the 2007 level. The $13.2 billion request includes $0.2 billion that is needed to fund a shortfall in the funds appropriated for Pell Grants in 2007. The combined mandatory and discretionary funding request of $15.4 billion for Pell Grants represents an increase of $2.8 billion over the 2007 funding level and will provide grants to an additional 200,000 students in 2008. The President also proposes to increase Pell Grant funding over five years by $19.8 billion to support annual increases of $200 beginning in 2009, producing a grant level of $5,400 by 2012.

IDEA. The President's request for grants under Part B of the Individuals with Disabilities Education Act (IDEA, aka Special Education) is $10.5 billion, the same as the 2007 funding level in the CR in effect until February 15. This funding level represents a $91 million reduction from the 2006 funding level.

Transportation

The President's budget requests $63.7 billion in budgetary resources for the Department of Transportation for 2008, an increase of $5.7 billion, or 9.9 percent, over 2007. Most of this results from an increase in the obligation limitation for the Federal Highway Administration. The request includes obligation limitations totaling $47.5 billion for spending from the

Highway Trust Fund, of which $40.9 billion is for the Federal-aid highways program, and $7.9 billion is for transit programs.

The request for the Federal Aviation Administration (FAA) is $14.1 billion, or $154 million less than 2007, including $11.3 billion for operations, capital, and research programs and an obligation limitation of $2.8 billion for the FAA. The current authorization for aviation programs and taxes expires on October 1, 2007. The budget assumes the current system of taxes continues in 2008, but proposes a new mix of taxes and user fees to finance aviation programs effective 2009. The new system relies less on passenger ticket taxes that are based the sales price of tickets and more on fuel taxes and user fees charged to operators calibrated to FAA's cost of managing airspace. These costs including developing and deploying the Next Generation of Air Transportation System by 2025 to replace the current system of ground-based radars.

Science

DOE Office of Science. The President proposes $4.4 billion for the Department of Energy's (DOE) Office of Science, a $300 million, or 7.3 percent, increase over the 2007 level of $4.1 billion to focus research and contributions in expanding supercomputer facilities, supporting design and construction for cutting edge light sources and building a major international fusion energy program.

National Science Foundation. The President proposes $6.4 billion for the National Science Foundation, an increase of $0.4 billion or 6.7 percent, over the 2007 level of $6 billion to continue supporting researchers' and students' further study in the fields of science and engineering generally with special emphasis on information technology, nanotechnology, physical sciences and oceans.

Other Programs

IRS. The President requests $12.1 billion for the Department of Treasury for 2008, an increase of $1 billion, or 6 percent, over 2007. Most of this increase would go to the Internal Revenue Service (IRS). As with previous budget requests, increases related to IRS's tax enforcement activities are part of the Administration's program integrity initiative and are sought in the form of a discretionary cap adjustment to ensure this requested increase is spent exclusively on IRS tax enforcement.

Assistance to State and Local Communities. The Department of Justice also proposes to realign the $1.2 billion in grant funding given to state and local communities in 70 fragmented grant programs into four flexible and competitive grant programs, eliminating $544 million in annual earmarks.

CDBG. Community Development Block Grants (CDBG) would total $2.7 billion in 2008, a decrease of 57 percent compared to 2007 CR levels. The decrease is re-proposed because of the results of a 2004 OMB review which found that many CDBG programs had unclear objectives, did not coordinate effectively, were duplicative, and were unable to demonstrate measurably and sustained economic gains for communities. The Administration proposes a modified version of its 2006 and 2007 proposals (which Congress did not enact) that would consolidate many of the programs and subsequently terminate several duplicative grant programs such as the Community Development Loan Guarantee Program and Rural Housing and Economic Development programs.

DC. The President requests $597 million for the District of Columbia for 2008, an increase of $45 million, or 8 percent, over 2007. This increase is divided between general payments to the District for activities such as constructing a forensic laboratory and funding for the Court Services and Offender Supervision Agency which is responsible for the District's pre-trial services, adult probation, and parole supervision programs.

REVENUES

U.S. Senate Budget Committee

Federal revenues are taxes and other collections from the public that result from the sovereign power of the government. This section provides an overview of President Bush's revenue proposals for the period 2008-2012. Under the President's budget, revenues in 2012 are expected to be $767 billion, or 30 percent, higher than this year (2007).

The President's proposal to prevent tax increases (by making permanent tax cuts enacted in 2001 and 2003 that would otherwise expire at the end of 2010 under current law) would result in $374 billion of continued tax relief over the next five years (as well as $13.2 billion in additional outlays due to refundable tax credits); this proposal, which must be enacted into law to take effect, is already reflected in OMB's adjusted baseline. In addition, over the 2008-2012 period, President Bush's 2008 budget recommends other net tax relief (beyond than making permanent certain 2001 and 2003 tax cuts) totaling $225 billion over five years.

OMB adjusted baseline revenues are projected to be 18.7 percent of GDP in 2008 and 18.8 percent of GDP in 2012. If President Bush's revenue proposals are adopted, the level of taxes collected are projected to be 18.6 percent of GDP in 2012, well above the long-term average of about 18.2 percent of GDP.

FEDERAL REVENUES
($ Billions)

	2007	2008	2009	2010	2011	2012	2008-12
BEA Baseline 1/	2,549	2,715	2,832	3,021	3,298	3,559	15,425
Adjustment for expiring tax relief	--	-1	-2	-14	-147	-211	-374
OMB Adjusted Baseline 2/	2,550	2,714	2,831	3,008	3,151	3,348	15,051
President's Budget	2,540	2,662	2,798	2,955	3,104	3,307	14,826
Budget compared to Adjusted Baseline	-10	-52	-32	-53	-48	-41	-225
Budget compared to Unadjusted Baseline	-9	-52	-34	-67	-194	-252	-599
(Percent of GDP)							
President's Budget	18.5	18.3	18.3	18.3	18.3	18.6	
OMB Adjusted Baseline	18.5	18.7	18.5	18.7	18.6	18.8	

1/ Baseline prepared according to the constructs established in the Budget Enforcement Act of 1997 (BEA). For revenues other than excise taxes dedicated to trust funds, tax provisions that expire in law expire in the baseline.
2/ The adjusted baseline assumes that certain provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 are extended in the baseline, even though the provisions expire under current law.

Major Proposals

Extend Expiring Tax Relief. The President proposes to **make permanent the tax cuts** included in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and most of the provisions in the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), which will prevent taxes from rising by $381.2 billion over the next five years (including the Section 179 expansion).

- **Expiring after 2009:** On December 31, 2009, the provision of JGTRRA allowing small businesses to expense up to $100,000 of the cost of purchasing qualified property is scheduled to expire. The President's budget proposes to make this provision permanent and increase the maximum amount a small business owner may be able to deduct to $200,000 in order to prevent a tax increase on small businesses and to further increase investment and job growth.

- **Expiring after 2010:** On December 31, 2010, the provisions of EGTRRA reducing marginal rates across the board (including creation of a new 10-percent bracket), raising the child tax credit to $1,000, reducing the marriage penalty, creating education and pension savings incentives, and repealing the estate tax are scheduled to expire. The provisions of JGTRRA reducing to 15 percent the tax rate on dividends paid by corporations and on capital gains for individuals are also scheduled to expire. The President's budget proposes to make these provisions permanent in order to prevent a huge tax increase on American working families and prevent a tax increase that would depress economic growth and investment.

Encourage Saving. The President is again proposing a major new initiative to encourage Americans to save and to simplify the complicated rules governing employer-provided and individual savings vehicles. The entire savings initiative would increase revenues by $7.2 billion over the next five years. The proposals result in increased revenues in the early years, as people "roll over" savings from current accounts and pay the tax owed on the roll-over.

- **Retirement Savings Accounts (RSAs)/Lifetime Savings Accounts (LSAs)**. The budget proposes to consolidate the three types of IRAs available under current law into a single account and permit individuals, regardless of age or income, to make non-deductible contributions of up to $5,000 per year to an RSA. RSAs are dedicated solely to retirement savings, and distributions after age 58 would be tax-free. The proposal also would allow non-deductible contributions of up to $5,000 per year to an LSA. Individuals would be permitted to withdraw funds from an LSA at any time for any purpose without penalty. Contributions could be made to RSAs and LSAs beginning in 2008. The RSA and LSA savings proposals would increase revenues by $7.9 billion over 2008-2012.

- **Employer Retirement Savings Accounts (ERSAs).** The proposal would consolidate the various tax-preferred, employer-based defined contribution savings accounts (such as 401(k), 403(b), 457 and thrift plans) into one account that can be offered by any employer beginning in 2007. The President is proposing to simplify the pension system by consolidating all of these plans into one with one set of rules.

ERSAs will follow the existing rules for 401(k) plans, but these rules will be greatly simplified in order to encourage participation. Employees will be permitted to contribute up to $15,500 per year in pre-tax dollars to an ERSA beginning in 2008. Employees aged 50 or older would be permitted to make "catch up" contributions of an additional $5,000 per year. This proposal will provide $0.6 billion in tax relief over 2008-2012.

Invest in Health Care. The President proposes four measures to invest in health care, totaling $139 billion in tax relief (and $14 billion in related outlays) over the next five years. The two main proposals are:

- **Standard deduction for health insurance (SDHI).** The SDHI would replace the existing exclusion for employer-based health insurance. Taxpayers would receive a deduction of $15,000 for family coverage or $7,500 for individual coverage. The SDHI would eliminate the incentive to purchase more expensive coverage currently engendered in the tax code by breaking the link between the value of the tax subsidy and the amount of health insurance and individual purchases. Treasury estimates that the new tax reform would decrease the number of uninsured by 3-5 million people. This proposal provides $136 billion in tax relief over 2008-20012 (including related outlays).

- **Expand health savings accounts (HSAs).** Under current law, the maximum annual HSA contribution for 2007 is $2,850 for individual plans or $5,650 for family coverage. The proposal would (1) expand the definition of an HDHP to include health plans with 50% coinsurance, (2) permit larger contributions by employers for the chronically ill, (3) allow qualified medical expenses incurred prior to the purchase of an HSA if it established in the same tax year, (4) embed individual deductibles within family deductibles, (5) permit both spouses to contribute catch up contributions into a single HSA, and (6) facilitate taxpayers with an FSA or HRA to convert their existing plan into an HSA. This proposal provides $4 billion in tax relief over 2008-2012.

Providing Charitable Incentives. The President's Budget includes eight proposals to expand individual and corporate contributions to charity through the tax code that would reduce revenues by $3 billion over the next five years. The two main proposals are discussed below:

- **Make permanent tax-free IRA withdraws to charity.** Under current law, individuals may exclude otherwise taxable distributions from their income made after age 70 ½ if the funds are contributed to a qualified charitable institution. This provision reduces unnecessarily complicated calculations and eliminates a tax disincentive toward charitable giving. Making it permanent will increase charitable contributions. This provision would reduce revenues $0.9 billion over the next five years.

- **Permanently extend corporate donations of computers.** Originally enacted under the Taxpayer Relief Act of 1997, this provision provides a corporate deduction equal to the cost of the computer inventory contributed to the charity. As technology constantly evolves, schools and other educational institutions will continually need to upgrade their computer technology to keep pace. Making this deduction permanent will achieve that objective. Over the 2008-2012 budget window this provision would reduce revenues $0.6 billion.

Promoting Education. The Budget includes two provisions designed to promoted education. The first would permanently extend the $250 classroom deduction for K-12 teachers. The second provision would expand the existing Savers' Credit for contributions to qualified tuition programs (Sec. 529 Plans). Under current law, taxpayers can receive a graduated tax credit of 50 percent, 20 percent or 10 percent up to a maximum amount of $2,000 for those with incomes under $26,000 for singles ($52,000 for married) for contributions to an elective deferral plan or IRA. Under the President's proposal the maximum amount of the credit would remain the same but could count toward contributions to a Section 529 Plan. The two provisions would reduce revenues $1.5 billion over five years.

Improving the Environment. The President proposes to permanently extend expensing of brownfields remediation and eliminate the cap on tax preferred water infrastructure bonds. Under current law taxpayers would be required to depreciate the cost of hazardous waste remediation and abatement after 2007. This proposals would make permanent a taxpayers ability to immediately deduct the costs against their income and removes doubt that the provision will not exist in future years enabling one to engage in long-term remediation efforts. The President also proposes to exempt water projects from the annual volume cap placed on states to restrict the number of private activity bonds they can issue. Under current law a cap exists because taxpayers who purchase such bonds pay no tax on the interest income they receive. Removing the cap for infrastructure projects encourages private investment in upgrading and expanding facilities that treat waste water. Together both proposals reduce revenues $1.7 billion between 2008-2012.

Assistance to New York. The President proposes to restructure the post 9/11 incentives that were intended to stimulate investment in lower Manhattan and covert them into an annual $200 million dollar tax credit the State and City of New York could use against the excise, social security and Medicare payroll taxes they would otherwise pay to the federal government. The proposal essentially constitutes a new transfer to a state and local government that permits spending through the tax code. The provision reduces revenues $1.0 billion over the next five years.

Modify Financing of the Airport and Airway Trust Fund. The Budget includes a proposed change to the Federal Aviation Administration's financing system. Excise taxes on air passenger transportation would continue to be collected through FY 2008; beginning in FY 2009, the FAA would collect user fees (which the Administration counts as negative outlays on the spending side of the budget) for air traffic control services. Aviation fuel taxes would continue to be collected, but the rates would be adjusted (beginning in 2009) to provide appropriate levels of support for FAA air traffic control services and for the Airport Improvement Program. The proposal would reduce revenues by $27 billion over five years, but would be matched with a corresponding reduction in appropriations on the discretionary side of the budget. Because the new user fees would be offsetting collections that would be spent on FAA activities, this proposal is expected to have little overall net effect on the federal deficit.

Extend Expiring Provisions

The President proposes a one-year hold-harmless fix (for tax year 2007) for the alternative minimum tax (AMT), which would extend the higher AMT exemption levels through 2007 and allow an individual to reduce 2007 tax liability by the full amount of nonrefundable personal credits. This proposal provides $9.1 billion in tax relief in 2007 and $47.9 billion in tax relief in 2008.

The President proposes to permanently extend the research and experimentation tax credit, which expires December 31, 2007. This proposal provides $41.8 billion in tax relief over 2008-2012 (and $3.2 billion in 2008).

The President proposes to extend other provisions scheduled to expire after 2007. The combination of these extensions would provide $0.8 billion in tax relief over five years. Specifically:

- Modified Work Opportunity tax credit and Welfare-to-Work tax credit (1 year)
- District of Columbia First-Time Homebuyer Credit (1 year)
- Authority to issue Qualified Zone Academy Bonds (1 year)
- Provisions permitting disclosure of tax return information relating to terrorist activity
  (1 year)
- Excise tax on coal at current rates (until Black Lung Disability Trust Fund debt is repaid)

Revenue Raising Provisions in the President's Budget

- **Tax Simplification.** The President proposes three family-oriented tax simplification measures: clarify the uniform definition of a child, simplify the Earned Income Tax Credit (EITC) eligibility requirements, and reduce the complexity of computing the refundable child credit. These measures would increase revenues by $0.1 billion (and reduce spending by $2.8 billion).

- **Improving Tax Compliance.** The President proposes four tax policy changes to begin to chip away at the "tax gap," the difference between the amount of taxes owed and the amount paid. The changes would raise revenue by a cumulative total of $9 billion over the 2008-2012 period. The President's budget would require increased information reporting, including business-to-business transactions, broker reporting, merchant payment card reporting, contractor taxpayer ID reporting and reporting for certain government contracts. The budget also proposes to increase fines and penalties for fraudulent filing.

- **Unemployment Insurance**. The 2008 Budget proposes to strengthen the financial integrity of unemployment insurance by increasing incentives available for the recovery of state unemployment benefit overpayments and delinquent employer taxes. It also proposes to extend the 0.2 percent unemployment surtax (currently scheduled to expire after 2007) through December 31, 2012. These proposals would increase revenues by $7.4 billion over 2008-2012.

- **Modify Energy Provisions**. The President proposes to modify two tax provisions of the Energy Policy Act of 2005: repeal the reduced recovery period for natural gas distribution lines and modify amortization for certain oil and gas exploration expenditures. These proposals would increase revenues by $0.3 billion over five years.

Finally, as the budget did last year, the President's 2008 budget requests $0.6 million to create a new Dynamic Analysis Division within the Treasury Department's Office of Tax Policy. The new division would build modeling capacity for more complete economic analysis of broad tax policy proposals, including the impact of tax reform policies on economic growth.

PRESIDENT'S TAX PROPOSALS IN 2008 BUDGET

($ Billions)

	2007	2008	2009	2010	2011	2012	2008-12
Tax relief included in adjusted baseline:							
Extend certain EGTRRA and JGTRRA provisions permanently a/	0.2	-0.7	-1.6	-13.8	-146.5	-211.4	-373.9
Additional tax relief proposals:							
Simplify and encourage savings	--	1.5	3.4	2.9	0.9	-1.5	7.2
Increase expensing for small business	--	-1.6	-2.2	-1.5	-1.1	-0.8	-7.3
Invest in health care a/	--	-0.3	-32.0	-39.7	-31.8	-21.1	-124.9
Incentives for charitable giving	--	-0.3	-0.6	-0.6	-0.6	-0.6	-2.8
Provisions to strengthen education	--	-0.1	-0.3	-0.4	-0.4	-0.4	-1.5
Modify financing of Airport and Airway trust fund	--	--	-6.4	-6.7	-7.0	-7.3	-27.4
AMT patch for 2007	-9.1	-47.9	11.4	--	--	--	-36.5
Extend R&E tax credit permanently	--	-3.2	-7.1	-9.1	-10.6	-11.8	-41.8
Extend other expiring provisions b/	-0.1	-0.1	-0.3	-0.2	-0.1	-0.1	-0.8
Promote trade c/	--	-0.2	-0.5	-0.8	-1.0	-1.2	-3.7
Permanent ext of brownfields remediation costs	0.1	-0.2	-0.4	-0.4	-0.4	-0.3	-1.7
Other proposals	-0.4	-0.3	-0.1	*	0.2	*	-0.1
Subtotal, tax relief including baseline Adjustments	**-9.4**	**-53.6**	**-36.6**	**-70.3**	**-198.5**	**-256.5**	**-615.6**
Subtotal, tax relief excluding baseline Adjustment	***-9.6***	***-52.9***	***-35.0***	***-56.5***	***-52.0***	***-45.2***	***-241.7***
Proposed revenue raisers:							
Improve tax compliance	--	0.4	1.2	1.9	2.5	2.9	8.9
Strengthen unemployment insurance	--	1.1	1.6	1.6	1.6	1.6	7.4
Modify Energy Policy Act of 2005	--	*	0.1	*	0.1	0.1	0.3
Subtotal, revenue raisers	**--**	**1.5**	**2.8**	**3.5**	**4.2**	**4.6**	**16.6**
Total Revenue Proposals, including proposals assumed in the baseline	**-9.4**	**-52.2**	**-33.8**	**-66.8**	**-194.3**	**-251.9**	**-599.0**
Total Revenue Proposals, excluding proposals assumed in the baseline	***-9.6***	***-51.5***	***-32.2***	***-53.0***	***-47.8***	***-40.6***	***-225.1***

*Less than $50 million
a/ Affects both receipts and outlays; only the receipt effect is shown here.
b/ Includes work opportunity & DC homebuyer tax credits, qualified zone academy bonds, deferral of gains from sales of electric transmission property and excise tax on coal.
c/ Implementation of free trade agreements with Panama, Peru and Columbia beginning in 2008. Agreements with Korea, Malaysia and the United Arab Emirates are currently being negotiated and could be implemented in 2009.

Details may not add to totals due to rounding.

Recent Developments

The economy has now expanded for 21 consecutive quarters. Real Gross Domestic Product (GDP) increased by 3.4 percent in 2006. Over the last five years, growth has averaged 3.0 percent per year. The continued downward trend in residential investment appears to have reached its trough. Continued strong economic growth suggests the Fed has successfully navigated through the bursting of the recent housing market bubble and energy price shock stemming from Hurricane Katrina and engineered a soft landing.

Economists had expected the economy to grow around 3.0 percent in the fourth quarter, but strong holiday sales and a significant improvement in our trade balance pushed growth to 3.5 percent. Consumption growth accelerated 1.6 percentage points in the fourth quarter to 4.4 percent, with much of the growth attributable to a 15.2 percent increase in production of household goods, more than double its third quarter rate of growth.

The trade balance in recent months has been the big surprise. After several years of a depreciating US dollar, exports are picking up steam and import growth is decelerating. The Bureau of Economic Analysis (BEA) reported that fourth quarter trade deficit declined from $628.8 billion to $581.4 billion (adjusted for inflation), an improvement of $47.4 billion – the single largest decline on record. Real exports increased $32 billion (10.0 percent) to $1.3 trillion. Exports have now increased for 14 consecutive quarters, increasing nearly $343 billion since the second half of 2003. Imports declined by $16 billion (-3.2 percent) to $1.9 trillion, registering their first absolute decline in 14 quarters.

Consistent with this experience, job growth has been strong. On February 2, 2007, the Bureau of Labor Statistics (BLS) reported that the economy created 111,000 additional jobs in January, marking the 41st consecutive month of job creation. The Payroll Survey indicates employers have added 7.4 million jobs to the economy since August 2003. The Household Survey, which economists consider less accurate than the Payroll Survey, shows the economy added even more jobs, totaling 8.7 million since August 2003. The unemployment rate, which is calculated from the Household Survey, declined 0.1 percentage points to 4.6% compared with the same month a year ago.

Average hourly earnings increased 0.2% to $17.09 in January 2007. On a year over year basis, hourly earning increased 4.0%. Average weekly earnings are also up 4.0% from January 2006.

The growing economy continues to underpin strong tax collections. The Daily Treasury Statements (DTS) for January 2007 indicate that revenues increased 13.5 percent or $31 billion from the same month last year. Part of the gain reflects an additional business day this January. Adjusting for this extra day, revenues still increased 8.2 percent or $19 billion. Withheld income increased $10 billion, or 6.7 percent, in January from a year ago and accounts for 55 percent of the adjusted gain. Non-withheld income, which is composed of interest, rental, bonus and capital gains income, increased a healthy $9 billion or 16.8 percent. Corporate income tax collections registered a solid $2 billion or 13.4 percent gain.

The Economic Forecast

The Administration, CBO and Blue Chip (consensus of private economists) all forecast a modest deceleration of ***real GDP*** growth in 2007 from 2006. The Administration forecast an increase of 2.7 percent. CBO and Blue chip forecast even slower growth of 2.3 percent and 2.4 percent, respectively. All three forecast a pick up in growth next year to 3.0%, matching the average of the past five years and remain at that rate of growth over the next five years.

CBO and Blue Chip both forecast that the ***unemployment rate*** increases by at least another one-tenth of a percentage point this year. The Administration forecasts that the unemployment rate will remain at its current level of 4.6 percent for the entire year. Over the medium-term, CBO is the most pessimistic; projecting that unemployment will rise steadily to 5.0 percent in 2009 and remaining at that level throughout the remaining three years. Blue Chips's projection remains slightly lower on average over the 2008-2012 period settling just below CBO and just above the private sector. OMB projects unemployment will average 4.8 percent through out the budget window.

Inflation is anticipated to decelerate from 2006 through 2007. OMB, CBO and Blue Chip all estimate inflation declines at least one full percentage point this year. CBO forecasts a slightly faster rate of deceleration to 1.9 percent. As economic growth rebounds in 2008, inflation is also forecast to pick up. The administration forecasts a half of a percentage point pick up in inflation in 2008 to 2.6 percent compared with 2007. CBO and the private sector both forecast inflation will accelerate to 2.3 percent. In the medium term, the Administration projects inflation falling roughly in line with its past ten-year average of 2.5 percent. CBO forecasts that inflation will the fall one-tenth of a percentage point in 2009 settling in at steady state rate of growth of 2.2 percent. The private sector estimates that inflation will average 2.3% through the remainder of the projection.

It is important to note that OMB's faster assumed level of inflation relative to CBO in part explains why its projection of nominal GDP is higher and as a result why more revenues are collected under the President's Budget. Since the underlying base of economic resources is larger under the President's Budget any given level of effective tax rates will generate more revenue.

All three forecasts indicate short- and long-term ***interest rates*** remain relatively stable in 2007. CBO and Blue Chip both forecast that short-term interest rates increase around one-tenth of a percentage point. OMB forecasts short-term interest rates will remain unchanged at 4.7 percent from last year. Both the Administration and CBO's projections assume short-term rates gradually fall averaging around 4.3 percent through 2012. The private sector projects short-term rates remain consistently higher than either OMB or CBO in each year of the projection, running at least two-tenths of a percentage point faster and averaging 4.6 percent through 2012.

Since the Federal Reserve initiated its tightening cycle in June 2004, the rate on 10-year Treasury notes has remained below 5.0 percent, suggesting financial markets remain confident that inflation remains in check. And although all three projections show the rate on 10-year notes increasing gradually to around 5.3 percent, yields remain significantly below their 2000 level of 6.0 percent when the nation recorded a $255 billion budget surplus.

Income shares receive far less attention than other portions of the forecast but are important because they underpin revenue projections. Income shares depict the breakdown of national income between wages and salaries, benefits, corporate profits, proprietors' income, rental income, and net interest. Income shares are expressed as a percentage of GDP.

If all types of national income were taxed at the same rate, the division between income categories would make little budgetary difference. But not all income is taxed the same. Wages and salaries and corporate profits are taxed at a higher effective tax rate than other sources of national income -- as such, the more they grow relative to the other income categories, the higher the projected revenue stream. Corporate profits and wages and salaries are termed the "highly-taxed shares."

Wages and salaries are projected to rise gradually in both forecasts through 2012. Although in CBO and OMB's projections of the wages and salaries share both rise, they differ in level and magnitude. CBO's projection of the wages and salaries share is on average eight-tenths of a percentage point lower than OMB's. In addition, CBO's projection of wages and salaries only grows three-tenths of a percentage point to 46.0 percent of GDP in 2012, whereas OMB's projection rises three-tenths of a percentage point to 46.8 percent of GDP.

Corporate profits as a share of GDP jumped in 2005 and 2006 as a result of the expiration of bonus depreciation, which permitted firms to deduct a larger-than-usual percentage of their capital expense from their profits. Steadily declining corporate profits as a share of GDP largely accounts for the overall downward trend in taxable income after 2007 under both projections.

Though OMB's economic assumptions are in line with CBO and the private sector, OMB estimates a 2007 ***baseline budget deficit*** of $186 billion versus CBO's estimate of $172 billion. In the aggregate and in the components, these two deficit forecasts are nearly identical. Only $7 billion of the discrepancy is attributable to different assumptions about how much tax revenue will be generated by a given level of economic output; not much difference on a base of $2.5 trillion in revenue. Economic and technical differences in mandatory programs accounts for the remaining $21 billion of the difference.

Sensitivity to Economic Changes

There is uncertainty in any economic forecast. According to an analysis by OMB, a reduction in the real GDP growth rate of 1.0 percentage point would increase the 2007-2012 deficits by $689.4 billion. CBO conducted the same "rule of thumb" analysis and found similar results. However, it is important to note that the rule of thumb works in the other direction as well. Higher real growth would reduce the projected deficits by corresponding amounts.

ECONOMIC PROJECTIONS COMPARISON

	2007	2008	2009	2010	2011	2012	Average
Administration	13,946	14,711	15,507	16,316	17,148	18,003	
CBO	13,805	14,472	15,196	15,926	16,647	17,395	
Blue Chip	13,843	14,561	15,323	16,116	16,937	17,805	
Year over Year % Change:							
Real GDP Growth							
Administration	2.7	3.0	3.1	3.0	3.0	2.9	3.0
CBO	2.3	3.0	3.1	3.0	2.7	2.7	2.9
Blue Chip	2.4	3.0	3.1	3.0	2.9	3.0	3.0
GDP Price Index							
Administration	2.5	2.4	2.2	2.1	2.0	2.0	2.1
CBO	1.9	1.8	1.8	1.8	1.8	1.8	1.8
Blue Chip	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Consumer Price Index							
Administration	2.1	2.6	2.5	2.4	2.3	2.3	2.4
CBO	1.9	2.3	2.2	2.2	2.2	2.2	2.2
Blue Chip	2.0	2.3	2.3	2.3	2.3	2.4	2.3
Annual Rate:							
Unemployment							
Administration	4.6	4.8	4.8	4.8	4.8	4.8	4.8
CBO	4.7	4.9	5.0	5.0	5.0	5.0	5.0
Blue Chip	4.8	4.9	4.9	4.9	4.9	4.9	4.9
Three-Month T-Bill							
Administration	4.7	4.6	4.4	4.2	4.1	4.1	4.3
CBO	4.8	4.5	4.4	4.4	4.4	4.4	4.4
Blue Chip	4.9	4.8	4.7	4.5	4.5	4.6	4.6
Ten-Year T-Note							
Administration	5.0	5.1	5.2	5.3	5.3	5.3	5.2
CBO	4.8	5.0	5.1	5.2	5.2	5.2	5.1
Blue Chip	4.8	5.0	5.2	5.2	5.2	5.3	5.2
Share of GDP:							
Corporate Profits							
Administration	12.8	12.3	11.9	11.3	10.8	10.4	11.4
CBO	12.9	12.3	11.6	10.9	10.5	10.1	11.1
Wage and Salaries							
Administration	46.5	46.6	46.7	46.8	46.9	47.0	46.8
CBO	45.9	45.9	46.0	46.1	46.1	46.1	46.0

BUDGET PROCESS REFORM PROPOSALS

The President's 2008 budget updates previous budget process reform proposals and introduces new proposals in an effort to control spending by making the process more transparent and accountable. In addition, the budget advocates the re-enactment of the Budget Enforcement Act of 1990 (BEA), which expired in 2002, with some modifications.

The following proposals could be included by Congress as part of the 2008 concurrent budget resolution or other House or Senate resolutions:

- A point of order against legislation that worsens the long-term unfunded obligations of major entitlement programs. Specific programs include those with long term actuarial projections (Social Security, Medicare, Federal civilian and military retirement, veteran's disability compensation, and Supplemental security Income).

- Upward adjustments to discretionary congressional allocations (and also to parallel statutory caps if the President's proposal to reinstate statutory caps on discretionary spending is enacted; see below) totaling $0.9 billion in budget authority in 2008 for Program Integrity Initiatives. These adjustments would ensure resources are available for activities that reduce errors and generate program savings, specifically for the following programs: continuing disability reviews and re-determination of eligibility in the SSA, Internal Revenue Service tax enforcement, Health Care Fraud and Abuse Control Program in the Centers of Medicare and Medicaid Services and Unemployment Insurance improper payments in the Department of Labor.

- Proposes a scoring change for the cap on Advance Appropriations of $23.174 billion for 2009. If total funding for advance appropriations (including obligation delays in mandatory programs from the budget year to the following year) exceeds the limit for 2009, Office of Management and Budget (OMB) will count the excess against the discretionary cap in the year enacted, not against the year the funds first become available.

- Continue support for scoring rules in the Pell Grant program.

- Proposes earmark reform by requesting that Congress fully disclose all earmarks to reduce the amount of wasteful and unnecessary spending. Specifically calls on Congress to identify the sponsor, costs and recipients of each project; eliminate earmarks in report language; and cut the number and cost of earmarks by 50 percent.

The President's budget also proposes reforms that cannot be adopted in a budget resolution because they need to be enacted into law to take effect:

- Pay-as-you-go requirement for mandatory spending. The cumulative effect of all legislation that changes mandatory spending must be deficit neutral. Any increases to the deficit in the current year and the budget year would trigger a sequestration of direct spending programs. Would not apply to changes in taxes and does not permit mandatory spending increases to be offset by tax increases.

- Supports the extension of section 257 of the BEA (which expired Sept. 30, 2006) governing baseline calculations, with the following changes: assume the extension of all expiring tax provisions from 2001 and some from 2003; does not continue current-year discretionary funding for emergencies into the out years; fix the overcompensation of baseline budgetary resources for pay raise-related costs due to the way costs are inflated; and eliminate the adjustments for expiring housing contracts and social insurance administrative expenses.

- Mechanisms to address the long-term unfunded obligation of major entitlement programs:

  - The Medicare Modernization Act (MMA) of 2003 requires the Medicare trustees to issue a warning when general revenue Medicare funding is projected to exceed 45 percent of total Medicare expenditures. The President's budget process reform proposal would require an automatic reduction in the rate of Medicare growth if the MMA threshold is exceeded. The reduction would start as a four-tenths of a percent reduction to all payments to providers in the year threshold is exceeded, and would grow by four-tenths of a percent every year the shortfall continues to occur;

  - A new Funding Warning is to be issued by the trustees of Social Security's Disability Insurance (DI) program when Social Security Administration's (SSA) actuaries project negative DI cash flow more than 10 percent of program cost for four consecutive years in the upcoming 10 years. The warning would require the President to propose legislation within 15 days after the date of the next President's budget for Congress to consider; and

- Discretionary spending caps for 2007-2012 equal to the levels for each of those years in the 2008 budget request. If legislation exceeds those caps, OMB would have to implement a sequester of programs within the category whose cap was exceeded. Separate categories are included for defense and non-defense for 2007 thru 2009, and a single cap for 2010 thru 2012 for all discretionary spending. Discretionary caps include separate outlay categories for spending on Federal Highway and Mass Transit programs. The president also proposes a separate BEA category for budget authority for Project BioShield.

- A statutory standard for all emergency designations that echoes the definition used to enforce congressional points of order pursuant to congressional budget resolutions, plus the requirement that the President and the Congress concur in such designations (see box on the shadow budget on p. 4 of this Overview).

- The President has proposed that Congress provide him with a line item veto that would withstand constitutional challenge, such as the Legislative Line Item Veto proposal he submitted in March of 2006. The proposal would allow presidents to propose legislation to rescind wasteful spending and obligate Congress to vote quickly on that package of rescissions without amendment. All savings from the line-item veto would be used for deficit reduction, and could not be used to augment other spending.

- A joint budget resolution to set overall levels of discretionary and mandatory spending, receipts, and debt in a simple document that would have the force of law. The President suggests the resolution could be enforced by sequesters requiring automatic across-the-board cuts to offset excess spending.

- Biennial Budgeting and Appropriations. Under the President's proposal, funding decisions would be made in odd-numbered years with even-numbered years devoted to authorizing legislation.

- To avoid government shutdown if an appropriation bill is not signed by October 1 of a new fiscal year, funding would automatically be provided at the lower of the President's budget request or the prior-year level.

- The President proposes to establish an expedited procedure for Congress to consider and the President to implement recommendations of "results and sunset" commissions established to study duplication and overlapping jurisdiction of government entities. Programs would be reviewed or would be automatically terminate according to a schedule unless Congress took action to reauthorize them.

FY 08

SUMMARY TABLES

U.S. Senate Budget Committee

TABLE 1: PRESIDENT'S BUDGET SUMMARY
($ in billions)

	2006 Actual	2007 Estimate	2008 Request	2009	2010	2011	2012	2008-2012 Total
Total Spending	2,655.4	2,784.3	2,901.9	2,985.5	3,049.1	3,157.3	3,246.3	15,340.1
% change/*average annual growth*		4.9%	4.2%	2.9%	2.1%	3.6%	2.8%	*3.1%*
Total Revenues	2,407.3	2,540.1	2,662.5	2,798.3	2,954.7	3,103.6	3,307.3	14,826.4
% change/*average annual growth*		5.5%	4.8%	5.1%	5.6%	5.0%	6.6%	*5.4%*
Total Surplus/Deficit(-)	-248.2	-244.2	-239.4	-187.2	-94.4	-53.8	61.0	-513.7
On-budget deficit	-434.5	-427.0	-450.9	-412.7	-339.1	-318.0	-187.1	-1,707.9
Off-budget surplus	186.3	182.8	211.6	225.6	244.7	264.3	248.1	1,194.3
Gross Federal Debt	8,451	9,008	9,575	10,138	10,638	11,115	11,487	
Debt Held by the Public	4,829	5,083	5,345	5,554	5,671	5,748	5,711	
Gross Domestic Product	13,061	13,761	14,515	15,306	16,112	16,938	17,786	
(as a % of Gross Domestic Product)								
Total Spending	20.3%	20.2%	20.0%	19.5%	18.9%	18.6%	18.3%	
Total Revenues	18.4%	18.5%	18.3%	18.3%	18.3%	18.3%	18.6%	
Total Surplus/Deficit(-)	-1.9%	-1.8%	-1.6%	-1.2%	-0.6%	-0.3%	0.3%	
On-budget deficit	-3.3%	-3.1%	-3.1%	-2.7%	-2.1%	-1.9%	-1.1%	
Off-budget surplus	1.4%	1.3%	1.5%	1.5%	1.5%	1.6%	1.4%	
Gross Federal Debt	64.7%	65.5%	66.0%	66.2%	66.0%	65.6%	64.6%	
Debt Held by the Public	37.0%	36.9%	36.8%	36.3%	35.2%	33.9%	32.1%	

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

TABLE 2: PRESIDENT'S BUDGET BY MAJOR SPENDING CATEGORY
($ in billions)

	2006 Actual	2007 Estimate	2008 Request	2009	2010	2011	2012	2008-2012	% change 2007-2008	Average Annual Growth 2007 - 2012
Discretionary Outlays	1,016.7	1,079.9	1,113.8	1,098.5	1,056.2	1,044.7	1,038.8	5,352.0	3.1%	-0.8%
Security	*565.7*	*622.1*	*657.6*	*655.4*	*617.1*	*609.0*	*603.4*	*3,142.4*	*5.7%*	*-0.6%*
Non-Security	*451.0*	*457.7*	*456.2*	*443.1*	*439.1*	*435.7*	*435.4*	*2,209.6*	*-0.3%*	*-1.0%*
Mandatory Outlays	1,412.1	1,465.3	1,526.8	1,612.8	1,712.0	1,829.0	1,922.5	8,603.2	4.2%	5.6%
Social Security current program	*543.9*	*581.9*	*607.7*	*639.7*	*677.6*	*716.6*	*760.5*	*3,402.1*	*4.4%*	*5.5%*
Social Security personal accounts	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*29.3*	*29.3*	-	-
Medicare	*324.9*	*367.5*	*386.5*	*409.2*	*434.2*	*475.4*	*481.6*	*2,186.9*	*5.2%*	*5.6%*
Medicaid and SCHIP	*186.1*	*197.5*	*208.6*	*223.4*	*239.0*	*257.1*	*276.9*	*1,204.9*	*5.6%*	*7.0%*
Other	*357.2*	*318.4*	*324.1*	*340.5*	*361.3*	*380.0*	*374.2*	*1,780.0*	*1.8%*	*3.3%*
Net Interest	226.6	239.2	261.3	274.2	280.8	283.7	284.9	1,384.9	9.3%	3.6%
Subtotal mandatory and net interest	*1,638.7*	*1,704.4*	*1,788.1*	*1,887.0*	*1,992.9*	*2,112.7*	*2,207.5*	*9,988.1*	4.9%	5.3%
Total Outlays	2,655.4	2,784.3	2,901.9	2,985.5	3,049.1	3,157.3	3,246.3	15,340.1	4.2%	3.1%
Total Revenues	2,407.3	2,540.1	2,662.5	2,798.3	2,954.7	3,103.6	3,307.3	14,826.4	4.8%	5.4%
Surplus/Deficit(-)	-248.2	-244.2	-239.4	-187.2	-94.4	-53.8	61.0	-513.7		

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

TABLE 3: IMPACT OF PRESIDENT'S BUDGET POLICY ON THE DEFICIT
($ in billions)

	2007	2008	2009	2010	2011	2012	2008-2012
OMB Adjusted Baseline Deficit a/	-185.3	-38.2	-35.1	34.2	35.5	147.0	143.4
Budget Proposals:							
Discretionary b/							
Security	39.7	143.8	128.6	84.1	64.3	46.0	466.8
Non-Security	8.2	8.7	-6.5	-14.9	-27.4	-34.9	-75.0
Subtotal, Discretionary	47.9	152.5	122.1	69.2	36.9	11.1	391.8
Mandatory b/							
Medicare	0.0	-4.7	-9.1	-13.1	-17.5	-21.7	-66.0
Medicaid and SCHIP	0.0	-0.3	-0.9	-1.8	-1.8	-2.0	-6.8
PBGC	0.0	0.0	-1.4	-1.4	-1.4	-1.3	-5.5
ANWR reciepts (federal share)	0.0	0.0	-3.5	0.0	-0.5	0.0	-4.0
Higher education (lenders, guarantee agencies)	0.0	-3.9	-2.7	-3.2	-3.5	-3.7	-16.9
Perkins loans	0.0	-0.4	-0.5	-0.7	-0.8	-0.8	-3.2
Increase maximum Pell Grant	0.0	0.5	2.4	3.3	4.1	5.0	15.3
Social Security personal accounts	0.0	0.0	0.0	0.0	0.0	29.3	29.3
Farm bill reauthorization	0.0	0.5	0.5	0.5	0.5	0.5	2.5
Outlay effects of tax proposals	0.0	-0.4	-0.3	4.0	4.1	4.1	11.5
Other mandatory proposals	-0.1	-1.8	-2.6	-3.0	-4.7	-5.2	-17.2
Subtotal, Mandatory c/	-0.1	-10.5	-18.1	-15.3	-21.4	4.3	-60.9
Revenues d/							
Tax incentives for saving	0.0	1.4	3.4	2.9	0.9	-1.5	7.2
Improve tax compliance	0.0	0.4	1.2	1.9	2.5	2.9	8.9
Health care tax incentives	0.0	-0.3	-32.0	-39.7	-31.8	-21.1	-124.9
Research and experimentation tax credit	0.0	-3.2	-7.1	-9.1	-10.6	-11.8	-41.8
One-year AMT patch (2007)	-9.1	-47.9	11.4	0.0	0.0	0.0	-36.5
Modify airport and airway trust fund financing	0.0	0.0	-6.4	-6.7	-7.0	-7.3	-27.4
Other revenue proposals	-0.5	-1.8	-2.8	-2.2	-1.9	-1.9	-10.6
Subtotal, Revenues	-9.6	-51.5	-32.2	-53.0	-47.8	-40.6	-225.1
Net interest	1.5	7.7	15.8	21.7	25.9	30.0	101.2
Subtotal, budget proposals e/	58.9	201.2	152.0	128.6	89.2	86.0	657.1
Surplus/Deficit(-)	-244.2	-239.4	-187.2	-94.4	-53.8	61.0	-513.7

a/ The baseline includes adjustments for the permanent extension of certain of the President's 2001 and 2003 tax cuts, and does not extend emergency spending.

b/ A positive value in outlays indicates an increase in outlays and the deficit; a negative value indicates a decrease in outlays and the deficit.

c/ Differs from OMB summary table S-5 because OMB figures are net of interest impacts for FHA, PBGC, and FEHB proposals, which are captured as part of the "Net interest" line item above.

d/ A negative value for revenues reflects a decrease in revenues; a positive value reflects a revenue increase.

e/ A positive value indicates an increase in the deficit.

TABLE 4: COMPARISON OF DISCRETIONARY RESOURCES IN THE PRESIDENT'S BUDGET
(Budget authority and obligation limitations, $ in billions)

	2006 Actual	2007 Estimate	2008 Policy	2007-2008 Difference	2007-2008 % Change
Discretionary Budget Authority					
Security	**594.7**	**670.0**	**699.1**	**29.0**	**4.3%**
Defense (DoD and War)	531.1	605.1	626.6	21.5	3.5%
Department of Defense Regular	*410.7*	*435.5*	*481.4*	*45.9*	*10.5%*
Global War on Terror (Defense and Non-Defense) a/	*120.4*	*169.6*	*145.2*	*-24.5*	*-14.4%*
Security, Non-DoD, Non-War	63.5	64.9	72.5	*7.5*	*11.6%*
Homeland Security (Non-DoD)	*32.4*	*34.1*	*36.4*	*2.3*	*6.7%*
International Affairs (Non-Homeland Security)	*31.1*	*30.9*	*36.1*	*5.3*	*17.1%*
Non-Security	**369.1**	**372.3**	**375.9**	**3.6**	**1.0%**
Total Discretionary Budget Authority	**963.8**	**1,042.4**	**1,075.0**	**32.6**	**3.1%**
Non-War Budget Authority	843.4	872.8	929.8	*57.0*	*6.5%*
NOTE:					
Highway Obligation Limitations	*36.8*	*36.8*	*40.9*	*4.1*	*11.1%*
Transit Obligation Limitations	*6.9*	*6.9*	*7.9*	*1.0*	*13.9%*
Emergency Supplemental Appropriations					
Response to Hurricanes	24.7	3.6			
Homeland and Border Security	1.9	1.8			
Pandemic Flu Preparedness	6.1	0.0			
Other	0.3	0.0			
Emergency Supplemental Appropriations (Enacted and Requested) b/	**32.9**	**5.4**			
TOTAL, All Discretionary Budget Authority	**996.7**	**1,047.8**	**1,075.0**		

a/ An additional $50 billion is included in the President's Budget for Global War on Terror funding in 2009.

b/ All emergency supplemental appropriations are enacted except $3.4 billion that is requested for further hurricane recovery in 2007.

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

TABLE 5: PRESIDENT'S BUDGET: SPENDING BY FUNCTION
SUMMARY TOTALS
($ in billions)

Function		2006 Actual	2007 Estimate	2008 Request	2009	2010	2011	2012	2007-2008 % change
050: Defense	BA	617.2	622.4	647.2	584.7	545.0	551.5	560.7	4.0%
	OT	521.8	571.9	606.5	601.8	565.3	556.4	549.5	6.1%
150: International Affairs	BA	32.8	34.1	38.3	36.3	36.6	37.1	37.5	12.5%
	OT	29.5	35.1	36.1	36.1	34.9	34.9	35.5	3.1%
250: Science & Technology	BA	25.1	24.9	27.5	28.5	29.7	31.0	32.3	10.3%
	OT	23.6	24.9	26.6	28.4	28.9	29.3	31.0	7.1%
270: Energy	BA	0.3	1.2	1.6	1.5	2.0	2.3	2.3	37.7%
	OT	0.8	1.8	1.4	1.7	2.2	2.3	2.3	-23.5%
300: Natural Resources	BA	38.1	29.7	30.4	29.7	30.0	30.8	31.2	2.1%
	OT	33.1	35.2	32.9	30.7	31.0	31.1	31.5	-6.5%
350: Agriculture	BA	25.6	19.1	19.9	19.4	20.0	20.4	20.8	4.2%
	OT	26.0	20.1	19.9	19.5	19.8	20.3	20.5	-1.2%
370: Commerce & Housing	BA	14.3	11.1	10.4	9.6	13.0	8.7	7.6	-6.3%
	OT	6.2	0.2	-2.0	0.6	2.3	-1.1	-1.5	-1071.4%
400: Transportation	BA	75.7	77.7	79.9	75.4	75.8	76.4	76.9	2.7%
	OT	70.2	74.6	79.3	72.5	73.8	74.4	75.6	6.3%
450: Community Development	BA	31.2	16.1	10.4	10.4	10.5	10.8	11.0	-35.4%
	OT	54.5	32.6	24.7	19.7	15.5	15.0	11.2	-24.4%
500: Education & Training	BA	125.9	91.2	85.5	87.7	88.8	89.5	91.3	-6.3%
	OT	118.6	94.0	82.7	86.6	87.2	87.6	88.3	-11.9%
550: Health	BA	295.2	242.3	281.5	298.9	316.1	337.0	358.8	16.1%
	OT	252.8	268.5	280.6	298.2	312.3	331.5	353.8	4.5%
570: Medicare	BA	365.4	371.9	391.6	414.8	439.0	480.5	487.3	5.3%
	OT	329.9	372.3	391.6	414.4	439.3	480.6	486.9	5.2%
600: Income Security	BA	351.1	361.0	376.9	388.1	402.7	421.4	419.2	4.4%
	OT	352.5	365.4	380.8	386.8	399.3	414.0	413.4	4.2%

Function		2006 Actual	2007 Estimate	2008 Request	2009	2010	2011	2012	2007-2008 % change
650: Social Security	BA	552.2	589.2	614.6	647.6	685.8	724.9	798.8	4.3%
	OT	548.5	586.5	612.5	644.6	682.5	721.6	794.9	4.4%
700: Veterans Benefits	BA	71.0	74.5	84.5	86.7	89.4	93.4	96.8	13.3%
	OT	69.8	72.4	83.4	86.0	88.8	96.8	92.1	15.1%
750: Administration of Justice	BA	42.7	43.8	46.1	45.6	45.7	46.8	47.5	5.2%
	OT	41.0	45.3	47.0	47.0	46.5	46.6	47.3	3.6%
800: General Government	BA	19.7	18.6	20.4	24.4	20.9	21.7	21.6	9.9%
	OT	18.2	18.8	20.7	24.0	20.5	21.5	21.7	10.5%
900: Net Interest	BA	226.6	239.2	261.3	274.2	280.8	283.7	284.9	9.3%
	OT	226.6	239.2	261.3	274.2	280.8	283.7	284.9	9.3%
920: Allowances a/	BA	0.0	13.1	-0.3	-0.3	-0.3	-0.3	-0.3	-102.2%
	OT	0.0	7.4	2.1	1.4	1.0	0.0	-0.3	-72.3%
950: Undistributed Offsetting	BA	-68.3	-81.8	-86.3	-88.7	-82.8	-89.2	-92.4	5.4%
Receipts	OT	-68.3	-81.8	-86.3	-88.7	-82.8	-89.2	-92.4	5.4%
Total	BA	2,841.7	2,799.4	2,941.1	2,974.3	3,048.8	3,178.4	3,293.9	5.1%
	OT	2,655.4	2,784.3	2,901.9	2,985.5	3,049.1	3,157.3	3,246.3	4.2%
On-budget	BA	2,411.1	2,339.7	2,470.5	2,485.5	2,537.0	2,643.6	2,702.8	5.6%
	OT	2,233.4	2,333.0	2,439.3	2,499.7	2,540.5	2,625.8	2,659.1	4.6%
Off-budget	BA	430.5	459.6	470.7	488.8	511.8	534.8	591.1	2.4%
	OT	422.1	451.3	462.5	485.8	508.6	531.5	587.2	2.5%
Revenues		2,407.3	2,540.1	2,662.5	2,798.3	2,954.7	3,103.6	3,307.3	4.8%
On-budget		1,798.9	1,906.0	1,988.4	2,086.9	2,201.4	2,307.8	2,472.0	4.3%
Off-budget		608.4	634.1	674.1	711.4	753.3	795.8	835.3	6.3%
Surplus/Deficit (-)		-248.2	-244.2	-239.4	-187.2	-94.4	-53.8	61.0	
On-budget		-434.5	-427.0	-450.9	-412.7	-339.1	-318.0	-187.1	
Off-budget		186.3	182.8	211.6	225.6	244.7	264.3	248.1	

a/ Because action on the 2007 appropriations is not complete, the President's budget includes an allowance in function 920 to reflect the difference between the annualized cost of the continuing resolution that is in effect until February 15 and the $873 billion that is ultimately expected to be enacted for fiscal year 2008.

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

TABLE 6: PRESIDENT'S BUDGET: SPENDING BY FUNCTION (EXCLUDING EMERGENCIES)
DISCRETIONARY SUMMARY
($ in billions)

Function		2006 Actual	2007 Enacted	2008 Request	2009	2010	2011	2012	2007-2008 % change
050: Defense	BA	432.4	455.8	501.9					10.1%
	OT	520.0	493.6	462.2					-6.4%
150: International Affairs	BA	31.4	30.9	36.2					17.1%
	OT	36.1	36.9	35.0					-5.1%
250: Science & Technology	BA	24.5	24.8	27.3					10.4%
	OT	23.5	24.7	26.5					7.2%
270: Energy	BA	3.8	3.6	4.2					16.2%
	OT	3.3	3.8	4.0					5.5%
300: Natural Resources	BA	30.2	27.9	28.7					3.1%
	OT	34.0	33.3	31.7					-4.7%
350: Agriculture	BA	6.0	5.6	5.8					2.2%
	OT	6.0	5.8	6.1					5.7%
370: Commerce & Housing	BA	1.8	2.6	3.0					14.5%
	OT	1.8	2.7	2.9					9.6%
400: Transportation	BA	24.7	21.5	23.4					8.5%
	OT	68.9	72.4	76.7					5.9%
450: Community Development	BA	13.2	12.8	10.7					-16.5%
	OT	38.3	28.5	23.6					-17.1%
500: Education & Training	BA	78.8	78.7	76.2					-3.1%
	OT	80.7	81.5	76.4					-6.3%
550: Health	BA	50.9	51.0	52.3					2.6%
	OT	51.4	53.6	53.9					0.4%
570: Medicare	BA	4.9	4.8	5.2					9.1%

Function		2006 Actual	2007 Enacted	2008 Request	2009	2010	2011	2012	2007-2008 % change
	OT	5.0	4.8	5.2					7.8%
600: Income Security	BA	47.0	46.7	49.2					5.4%
	OT	54.4	55.4	56.0					1.1%
650: Social Security	BA	4.6	4.6	4.9					4.8%
	OT	4.6	4.6	4.8					3.8%
700: Veterans Benefits	BA	33.0	33.3	39.6					18.8%
	OT	32.4	33.5	38.6					15.3%
750: Administration of Justice	BA	39.5	39.3	43.6					11.0%
	OT	40.3	41.6	44.2					6.3%
800: General Government	BA	16.6	15.7	17.6					12.2%
	OT	16.0	16.3	17.8					9.5%
920: Allowances a/	BA	0.0	13.1	0.0					-
	OT	0.0	7.4	2.3					-
Non-defense (050) subtotal	*BA*	*411.0*	*417.0*	*427.9*					2.6%
	OT	*496.7*	*506.8*	*505.8*					-0.2%
Total	BA	843.4	872.8	929.8	959.4	973.0	984.3	998.5	6.5%
	OT	1,016.7	1,000.4	968.0	1,008.1	1,020.0	1,033.2	1,035.6	-3.2%
On-budget	BA	838.9	868.1	924.9					6.5%
	OT	1,012.1	995.7	963.2					-3.3%
Off-budget	BA	4.6	4.6	4.9					4.8%
	OT	4.6	4.6	4.8					3.8%

a/ Because action on the 2007 appropriations is not complete, the President's budget includes an allowance in function 920 to reflect the difference between the annualized cost of the continuin resolution that is in effect until February 15 and the $873 billion that is ultimately expected to be enacted for fiscal year 2008.

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

TABLE 7: TAX REVENUES BY SOURCE IN THE PRESIDENT'S BUDGET
($ in billions)

	2006 Actual	2007	2008	2009	2010	2011	2012
Individual Income Taxes	1,043.9	1,168.8	1,246.6	1,331.1	1,428.3	1,517.3	1,636.6
Corporate Income Taxes	353.9	342.1	314.9	319.8	325.5	340.6	366.6
Social Insurance Taxes	837.8	873.4	927.2	974.2	1,029.3	1,085.7	1,138.8
(On-budget)	229.4	239.2	253.1	262.8	276.0	289.9	303.4
(Off-budget)	608.4	634.1	674.1	711.4	753.3	795.8	835.3
Excise Taxes	74.0	57.1	68.1	63.1	63.6	68.6	71.3
Estate and Gift Taxes	27.9	25.3	25.7	27.4	21.7	1.7	0.5
Customs Duties	24.8	26.8	29.2	30.7	32.7	34.3	35.7
Miscellaneous Receipts	45.0	46.7	50.7	52.0	53.6	55.5	57.8
Total Receipts	2,407.3	2,540.1	2,662.5	2,798.3	2,954.7	3,103.6	3,307.3
(On-budget)	1,798.9	1,906.0	1,988.4	2,086.9	2,201.4	2,307.8	2,472.0
(Off-budget)	608.4	634.1	674.1	711.4	753.3	795.8	835.3