

# United States Senate

COMMITTEE ON THE BUDGET

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Tuesday, March 4, 2014

Dear Colleagues,

Although there is a two-year budget in place and we have taken the possibility of another fiscal crisis off the table through fiscal year 2015, we in Congress owe it to the families and communities we serve to work together to build on the bipartisan foundation set in the agreement we reached last year. There is much more we need to do to get workers back on the job, create opportunity, and lay a foundation for broad-based economic growth over the long term.

That is why I am pleased with the strong blueprint President Obama has put forward in his administration's fiscal year 2015 budget proposal. The President's proposal would build on the bipartisan budget agreement with a new Opportunity, Growth, and Security Initiative. This initiative is fully paid for with a combination of new revenue from those who can most afford it and spending reforms, and would allow Congress to expand investments in education, research and innovation, job training, and military readiness if passed by the House and Senate.

These are the kinds of investments that would help families across the country get ahead, including our military and defense workers. Rather than protecting special tax breaks for the wealthiest Americans and biggest corporations, I sincerely hope our Republican colleagues will join us to bring this proposal up and supplement the work the Appropriations Committees are currently doing to fill out the details of the Bipartisan Budget Act for fiscal year 2015.

The President's proposal also includes important policies to help families, communities and the economy through a national preschool initiative, an expansion of the Earned Income Tax Credit, new investments in our health care workforce, and investments in critical infrastructure. Importantly, it continues the push for comprehensive reform of our broken immigration system.

At the same time, the President's proposal would continue to build on the significant deficit reduction put in place since August 2010 with additional balanced deficit reduction. Combined with previous deficit reduction, savings in the President's budget would more than exceed the bipartisan goal of \$4 trillion set by the Simpson-Bowles Commission in 2010.

The attached memo provides information on the President's budget proposals for creating jobs, expanding opportunity and tackling our long-term budget challenges fairly and responsibly. Please feel free to reach out to my office if any additional information would be useful.

Sincerely,



Patty Murray  
Chairman, Senate Budget Committee

## MEMORANDUM

To: Senate Colleagues

From: Senator Patty Murray (D-WA) and Senate Budget Committee majority staff

Re: President Obama's fiscal year 2015 budget proposal

Date: March 4, 2014

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### I. The President's vision for building on the Bipartisan Budget Act of 2013 to create jobs and opportunity

The two-year bipartisan budget agreement reached last year put in place spending levels for fiscal years 2014 and 2015, allowing the Appropriations Committees to begin their work on time and providing families and businesses across the country with the certainty of knowing there will not be another artificial budget crisis this year. While the budget agreement was an important step forward, we need to build on this bipartisan foundation and do more to get workers back on the job and make critical investments in our country's future.

#### Proposals in the President's budget to expand opportunity and lay the foundation for broad-based growth

The President's budget puts forward a range of proposals that would address the nation's serious jobs and opportunity deficits. They are fully paid for with a mix of spending reforms and new revenue from the wealthiest Americans and biggest corporations.

- Opportunity, Growth, and Security Initiative. The President's budget sets aside a total of \$56 billion, split evenly between defense and non-defense discretionary funding, for new investments that will expand opportunity, encourage economic growth and protect our national security. Rather than re-litigating the topline funding level of \$1.014 trillion for fiscal year 2015 that was agreed to in the Bipartisan Budget Act, the President's budget recognizes that this new funding is contingent on Congress reaching bipartisan agreement on a package of investments and offsets to supplement the agreed-upon spending levels.

Funding for the Opportunity, Growth, and Security Initiative is fully offset over ten years by an equal combination of spending reforms and new revenue from the wealthiest, including reducing subsidies for crop insurance companies, reforms to TSA passenger security fees, offsetting disability insurance benefits for periods of simultaneous unemployment insurance, enacting the Spectrum License User Fee, and limiting to about \$3 million the amount that can be set aside by individuals in tax-preferred retirement accounts.

- Investing in early childhood education. The President's budget includes the administration's proposal to ensure four-year-olds across the country have access to high-quality preschool education through a landmark new initiative in partnership with the states. It also increases the availability of early learning opportunities for our youngest children.

This proposal, which costs \$66 billion over 10 years, is fully paid for by raising taxes on cigarettes and other tobacco products. The President's budget also proposes extending and expanding the Maternal, Infant, and Early Childhood Home Visiting Program Act, funded through the same tobacco tax increase, which would cost an additional \$10 billion over 10 years.

- Expanding tax relief for working Americans who are struggling to make ends meet. The President's budget includes a new proposal to expand the Earned Income Tax Credit (EITC) for childless workers (and workers who no longer have qualifying children) in order to incentivize work and increase opportunity for more Americans. Under current law, the maximum EITC applicable to this segment of the population is a tiny fraction of the maximum EITC applicable to individuals with children.

The proposal would cost \$60 billion over 10 years, and is fully paid for by closing tax loopholes used by the wealthiest Americans, including taxing carried interests as ordinary income and ensuring wealthy business

owners cannot avoid employment taxes by mischaracterizing their income as business profits rather than salary (known as the “John Edwards” loophole).

- *Investing in much-needed repairs to our transportation infrastructure.* The President’s budget proposes using \$150 billion in new revenue, generated during the transition to a fairer and more competitive corporate tax system, to invest in the next surface transportation reauthorization and to ensure the continued solvency of the Highway Trust Fund. The Highway Trust Fund is facing a \$60 billion shortfall over the next several years, which could by mid-August result in stalled projects and harm to our economic growth. In the recently released House Republican tax reform plan, House Ways and Means Chairman Dave Camp (R-MI) offered a proposal similar to President Obama’s to resolve the shortfall and invest in our transportation infrastructure.
- *Supporting the growing health care workforce.* The budget also proposes to invest about \$14.6 billion in the nation’s healthcare workforce over the next ten years. Among other programs, the President’s proposal includes critical initiatives in new clinical training for community health-based programs, as well as new rural physician training grants.
- *Enacting comprehensive immigration reform.* The President’s budget continues the push for comprehensive immigration reform, which would allow millions of families to take part in a real path to citizenship, giving them the opportunity to fully contribute to and participate in all our country has to offer. Enacting comprehensive immigration reform would save about \$160 billion over the next ten years, and over the next twenty years, the Congressional Budget Office estimates it would save nearly \$850 billion. Further, it would close eight percent of the long-range Social Security shortfall, as estimated by the Social Security Actuaries.

The critical investments the President proposed—from job-creating infrastructure repairs to expanding early learning—would help to solve critical employment and opportunity deficits for families and communities across the country. Rather than protecting the wealthiest American and biggest corporations from paying their fair share, Republicans should work with Democrats to eliminate waste and abuse in our tax code and put some of the savings towards offering more Americans a fair shot at getting ahead.

Revenue from those who can most afford it for investments in job creation and tackling our long-term budget challenges

The President’s budget proposal includes new revenue from the wealthiest Americans and biggest corporations to both invest in job creation and help reduce our long-term debt and deficits fairly and responsibly. Below is a list of the major revenue proposals included in the President’s budget plan.

| <b>Revenue in the President’s Fiscal Year 2015 Budget</b>                                   |               |
|---------------------------------------------------------------------------------------------|---------------|
| Upper-income tax reforms, used for deficit reduction                                        | \$651 billion |
| <i>Revenue for dedicated purposes</i>                                                       |               |
| Loophole closing to fund the Opportunity, Growth and Security Initiative                    | \$28 billion  |
| Transition revenue from business tax reform to fund infrastructure investments              | \$150 billion |
| Increase in tobacco tax to fund early childhood investments                                 | \$78 billion  |
| Loophole closing to offset EITC expansion                                                   | \$60 billion  |
| Other net tax changes used to offset increases in 2016-2021 discretionary caps <sup>1</sup> | \$176 billion |

<sup>1</sup> To offset increases in discretionary caps, the President’s fiscal year 2015 budget proposal includes a combination of spending reforms, including mandatory savings, and new revenue.

## II. Building on the improved fiscal outlook with additional, balanced deficit reduction

As detailed in a recent Senate Budget Committee memo,<sup>2</sup> the near and medium-term budget picture has improved substantially compared to what it was just a few years ago. This year's deficit is now expected to be about one-third the size of the deficit when President Obama took office. Deficits over the next decade are now projected to be far lower than would have been expected as recently as 2010 or 2011.

### Improvements in our fiscal outlook as a result of spending reductions, slower growth in health care costs, and new revenue from the wealthiest Americans

Much of the fiscal improvement is due to deliberate action taken by Congress and the President to reduce spending and ask the wealthiest to pay their fair share. The Senate Budget Committee estimated that these actions taken since August 2010 combined to produce approximately \$3.3 trillion in deficit reduction over the 2015-2024 period. The President's budget reports a total of \$3.1 trillion in deficit reduction over this same time frame. The difference between these two estimates lies mainly in the treatment of the mandatory portion of automatic spending cuts from sequestration. The Senate Budget Committee estimate includes the ten-year effects of these cuts, while the administration total only counts savings through 2015.

In addition to the explicit policy changes enacted into law by Congress and President Obama, the budget outlook has also benefited tremendously from a historic slowdown in the growth of health care costs. Over the past few years, the economy-wide cost of health care grew at rates far below expectations. Because the cost of Medicare, Medicaid, and other federal health programs are tied closely to the underlying cost of health care, this slowdown means that the federal government is already spending less on those programs than was predicted in 2010, and that projections of federal spending on health care going forward are significantly lower than previously expected. The Congressional Budget Office estimated that this trend has produced \$1.2 trillion in savings over the 2011-2020 period. The President's budget estimates that the health care cost slowdown has produced \$1 trillion in savings over the 2014-2020 period compared to the administration's 2011 Mid-Session Review estimate.

With \$3.3 trillion in enacted deficit reduction, plus the roughly \$1 trillion in savings stemming from the slowdown in health care costs, the budget outlook is now dramatically improved from what it was fewer than four years ago. The Office of Management and Budget baseline projection—even without the effects of the President's proposed budget policies—expects deficits to fall further from this year's level of 3.6 percent of GDP, and average 3.1 percent of GDP over the next ten years, almost exactly the same level as the average budget deficit over the last 40 years.<sup>3</sup>

### The President's fiscal year 2015 budget builds on the improved fiscal outlook with additional deficit reduction and puts the debt on a downward path as a share of the economy

The President's budget builds on the fiscal improvement by proposing approximately \$1.4 trillion in additional measures dedicated solely for deficit reduction. These measures are separate from those that reduce spending or raise revenue specifically to pay for other initiatives, such as those highlighted in section I of this memo. The President's additional deficit reduction proposals fall into three categories.

- 1) Proposals that build on the progress we have made in holding down health care costs. The President's budget includes about \$400 billion in net savings from further reforms to federal mandatory health care programs.

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<sup>2</sup> Senate Budget Committee, Memo from Chairman Murray on Our Current Fiscal Outlook, [February 27, 2014](#).

<sup>3</sup> The Office of Management and Budget's underlying economic assumptions are somewhat more optimistic than the most recent Congressional Budget Office projections, though they are very similar to the CBO's previous economic projections and to current Blue Chip consensus. The main fiscal consequence of the difference between OMB and CBO economic projections is that the OMB baseline level of revenues over the 2015-2024 period is about \$1.4 trillion higher than the CBO baseline.

- 2) Proposals to reform the individual income tax to better target existing tax breaks and ensure that high-income Americans do not unfairly pay lower rates than many middle-income Americans. The President's reforms would raise about \$650 billion.
- 3) Fixing our broken immigration system through comprehensive immigration reform. The President's budget includes the revenue and spending effects from the Senate-passed immigration reform bill as scored by the Congressional Budget Office. Enacting comprehensive immigration reform would reduce the deficit by about \$160 over ten years. Over the next twenty years, the Congressional Budget Office estimates it would save about \$850 billion.

In combination, these measures also reduce expected interest payments by about \$190 billion for a total of \$1.4 trillion in deficit reduction over 2015-2024.<sup>4</sup> Combined with the \$3.3 trillion in already enacted deficit reduction, new deficit reduction in the President's budget easily exceeds the bipartisan \$4 trillion target set by the Simpson-Bowles Commission in 2010.

#### Savings to offset raising sequestration caps in 2016 through 2021

Separate from this deficit reduction package, the President's budget identifies roughly \$215 billion in additional revenue changes and mandatory spending reforms. These savings are used to offset the effects of increasing discretionary funding levels above the limits put in place by sequestration in 2016 through 2021. The President's proposal is to increase the discretionary caps for both defense and nondefense by equal amounts in each year. The overall effect is to set discretionary funding levels higher than would be the case with sequestration in effect, but lower than the original Budget Control Act caps.

#### Overall fiscal impacts of the President's budget

The overall fiscal effect of the President's budget would be to further reduce deficits and to put debt as a share of GDP on a downward path. According to the Office of Management and Budget, deficits under the President's plan would average 2.2 percent of GDP over 2015-2024 and reach 1.6 percent of GDP by 2024. Publicly held debt would also decline as a share of the economy, dropping from 74 percent this year to under 70 percent by the end of the ten year period. In fact, both deficits and debt are lower in this year's budget request than they were in the President's budget last year—which included the President's bipartisan offer to Speaker Boehner.

### **III. With a year free from constant manufactured crises, we should work together on proposals to create jobs, opportunity, and growth**

The Bipartisan Budget Act provides a strong foundation for continued work across the aisle. We should seize the opportunity we have to build on this progress and do more to create jobs, expand opportunity, and lay the groundwork for broad-based economic growth. President Obama's fiscal year 2015 budget proposal is a strong blueprint to do exactly this—and I hope that Republicans will be ready to rejoin us at the table and get to work.

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<sup>4</sup> The President's budget also includes substantial reductions to Overseas Contingency Operations spending as operations in Afghanistan draw to a close. Because the baseline used by the Office of Management and Budget assumes that costs for OCO continue in perpetuity—as does the Congressional Budget Office's official baseline—those reductions appear as deficit savings. The president's budget generally separates those savings from the rest of their proposals, but they do total nearly \$700 billion over ten years.

#### IV. Summary tables

Please find below summary tables related to the major elements of the President's budget, including discretionary spending for fiscal years 2015 and 2016.

| <b>Major Elements of the President's Fiscal Year 2015 Budget</b> |      |
|------------------------------------------------------------------|------|
| <i>Effect on 2015-2024 deficits in billions</i>                  |      |
| <u>Fully offset investments in growth and opportunity</u>        |      |
| Opportunity, Growth and Security Initiative                      | 55   |
| Mandatory spending reforms                                       | -28  |
| Tax loophole closers                                             | -28  |
| Early childhood investments                                      | 76   |
| Tobacco tax financing                                            | -78  |
| Earned Income Tax Credit expansion                               | 60   |
| Tax loophole closers                                             | -60  |
| Infrastructure investment                                        | 70   |
| Transition revenue from business tax reform                      | -150 |
| <u>Deficit reduction</u>                                         |      |
| Health savings                                                   | -402 |
| High-income tax reforms                                          | -651 |
| Immigration reform                                               | -158 |
| Debt service                                                     | -188 |
| <u>Other</u>                                                     |      |
| Reduce Overseas Contingency Operations*                          | -695 |
| Replace mandatory sequestration                                  | 171  |
| Adjust discretionary caps for 2016-2021                          | 140  |
| Other mandatory and revenue proposals                            | -215 |
| Cap adjustments for disaster relief and wildfire                 | 19   |
| Debt service and other effects                                   | -103 |

\* The OCO level is a placeholder as the President makes strategic decisions on Afghanistan. The Administration remains committed to its government-wide cap of \$450 billion in OCO funding over the 2013-2021 period.

| <b>Discretionary Budget Authority in the President's Budget</b> |            |
|-----------------------------------------------------------------|------------|
| <i>Fiscal year 2015 (billions)</i>                              |            |
| <b><u>Defense</u></b>                                           |            |
| Murray-Ryan                                                     | 521        |
| OGSI                                                            | +28        |
| OCO                                                             | +79        |
| <b><i>Total defense budget authority</i></b>                    | <b>628</b> |
| <b><u>Nondefense</u></b>                                        |            |
| Murray-Ryan                                                     | 492        |
| OGSI                                                            | +28        |
| Transportation reclassification                                 | -4         |
| OCO                                                             | +6         |
| Program integrity                                               | +2         |
| Disaster relief                                                 | +7         |
| Wildfire suppression                                            | +1         |
| <b><i>Total nondefense budget authority</i></b>                 | <b>531</b> |
| Total discretionary budget authority                            | 1,159      |
| Total regular discretionary BA                                  | 1,009      |

| <b>Discretionary Budget Authority in the President's Budget</b> |            |
|-----------------------------------------------------------------|------------|
| <i>Fiscal year 2016 (billions)</i>                              |            |
| <b><u>Defense</u></b>                                           |            |
| Budget Control Act                                              | 577        |
| Sequestration                                                   | -54        |
| OCO                                                             | +89        |
| <b><i>OMB baseline</i></b>                                      | <b>612</b> |
| <b><u>Budget proposals</u></b>                                  |            |
| Increase caps                                                   | +38        |
| Reduce OCO                                                      | -59        |
| <b><i>Total defense budget authority</i></b>                    | <b>591</b> |
| <b><u>Nondefense</u></b>                                        |            |
| Budget Control Act                                              | 530        |
| Sequestration                                                   | -38        |
| OCO                                                             | +7         |
| <b><i>OMB baseline</i></b>                                      | <b>499</b> |
| <b><u>Budget proposals</u></b>                                  |            |
| Increase caps                                                   | +38        |
| Reduce OCO                                                      | -7         |
| Transportation reclassification                                 | -4         |
| Wildfire suppression                                            | 1          |
| <b><i>Total nondefense budget authority</i></b>                 | <b>527</b> |
| Total discretionary budget authority                            | 1,118      |
| Total regular discretionary BA                                  | 1,086      |