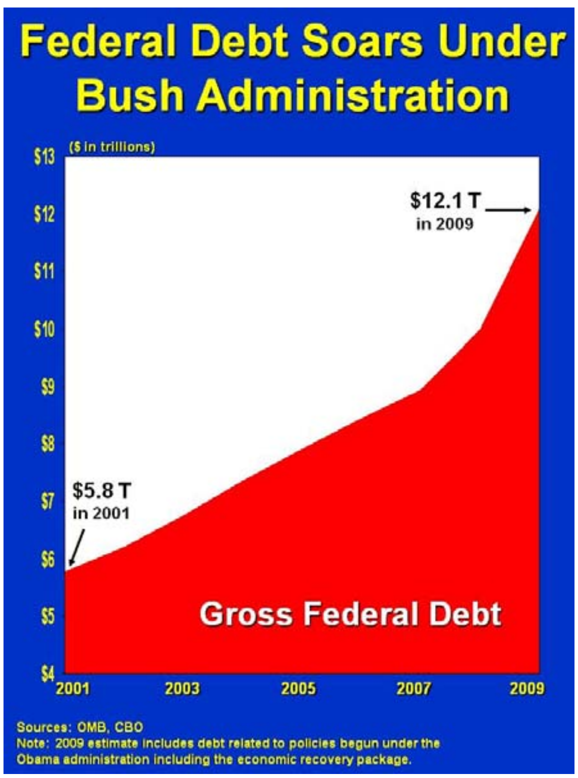
THE CHAIRMAN'S MARK: FY 2010 SENATE BUDGET RESOLUTION

Overview

The Chairman's Mark for the Fiscal Year 2010 Senate Budget Resolution is a fiscally responsible budget plan that addresses the fiscal and economic crises inherited by the Obama Administration and lays the foundation for long-term economic security. It preserves the major priorities in President Obama's budget proposal: reducing our dependence on foreign energy; striving for excellence in education; and reforming our health care system. It provides significant middle-class tax relief, directed at families with incomes under $250,000. And it cuts the deficit in half by 2012, and by two-thirds by 2014.

Inheriting Fiscal and Economic Crises
Unfortunately, President Obama and the Democratic Congress have been handed a colossal mess. We are now in the midst of the worst recession since the Great Depression. We face housing and financial market crises that have wiped out home values and weakened our credit markets. We have lost 3.3 million jobs in the last six months. And we have ongoing wars in Iraq and Afghanistan.



Spending nearly doubled under the prior administration and revenues have now fallen to the lowest level as a share of the economy since 1950. Not surprisingly, we have seen record deficits and a doubling of the national debt over the last eight years. Gross debt rose from $5.8 trillion in 2001 to an estimated $12.1 trillion in 2009. While that $6.3 trillion includes some debt resulting from the American Recovery and Reinvestment Act of 2009 (hereafter referred to as the economic recovery package), the additional debt load is directly a function of the collapsed economy – a collapse that occurred under the watch of President Bush.

Regrettably, the economic mess left for the Obama Administration is making the budgetary outlook even worse than originally believed. The Congressional Budget Office's re-estimate of the President's budget shows the 10-year deficits will be $2.3 trillion more than originally projected by the administration. The Chairman's Mark responds to this worsening situation by making adjustments in the President's budget proposal, while maintaining the President's core priorities.

Restoring Economic Growth
President Obama and the Democratic Congress acted swiftly in February to adopt an economic recovery package to jumpstart the economy, create jobs, and begin laying the foundation for long-term economic growth. The package included investments in infrastructure, energy, health, and education. It provided tax cuts for 95 percent of working Americans. The package strengthened the economy by increasing food stamp and unemployment insurance benefits, which have a strong stimulative effect on the economy.

The Obama Administration has also presented plans to address both the housing and financial market crises, which are being coordinated with additional actions by the Federal Reserve and other agencies. As these plans take effect, we should begin to see a positive impact on our nation's economy.

Preserving Major Priorities in Obama Budget
The Chairman's Mark includes President Obama's budget proposals that focus on areas that will lay the foundation for our nation's long-term economic security, including: reducing our dependence on foreign energy; striving for excellence in education; and reforming our health care system.

It has never been more clear that our nation's economic and national security are directly linked to our energy policy. We must address our dangerous addiction to foreign oil and confront the challenges of global climate change. In the process, we can create new "green collar" jobs that will help our nation's economic recovery. To meet these challenges, the Chairman's Mark builds on the energy initiatives in the economic recovery package with continued investments in alternative and clean energy technology, energy efficiency, and modernization of our energy infrastructure.

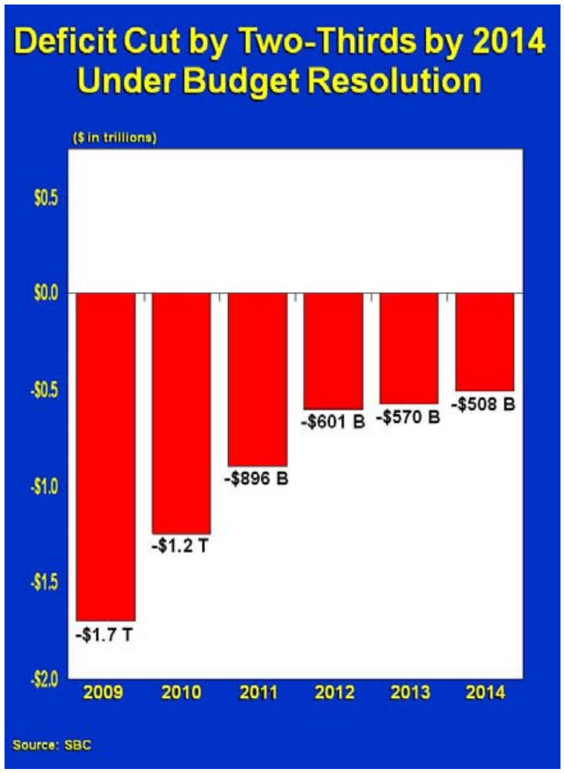
The Chairman's Mark also recognizes that education is crucial to our nation's future economic strength. For too long, we have been falling behind our competitors in educating our citizens. The Chairman's Mark responds with investments in education and training programs that will help our economic growth and build a highly skilled workforce to compete in the global marketplace. Increasing access to higher education is central to this effort. This is why the Chairman's Mark assumes a Pell grant level of $5,550 in 2010 and includes a deficit neutral reserve fund to allow for increases in Pell grants in line with those proposed in President Obama's budget. This will make college more affordable and thus more accessible for millions of Americans.

The Chairman's Mark recognizes that reforming our nation's health care system is essential to ensuring our long-term fiscal stability and economic strength, in addition to the well-being of our citizenry. Soaring health care costs are the biggest source of the projected explosion in federal debt in our long-term budget outlook. Rapidly rising health costs make it harder for our businesses to compete globally, while putting a tremendous strain on family budgets. The Chairman's Mark follows up on the health investments made in the economic recovery package, and includes, as requested by the President, a reserve fund to allow for a major health reform initiative. This deficit-neutral reserve fund is in keeping with President Obama's commitment to paying for the cost of health reform.

Returning to a Sound Fiscal Course

The Chairman's Mark begins to return the nation to a sound fiscal course by cutting the deficit by more than half by 2012, and by two-thirds by 2014. The Congressional Budget Office (CBO) estimates the deficit will reach $1.67 trillion in 2009 (before assuming additional policies). The vast majority of that amount – about $1.3 trillion – represents the deficit handed to President Obama when he took office. Under the Chairman's Mark, the deficit will be cut to -$601 billion in 2012 and to -$508 billion in 2014.

Spending as a share of GDP will decline significantly under the Chairman's Mark, from 27.6 percent in 2009 to 22 percent in 2014. And the plan retains crucial budget enforcement provisions, such as a strong paygo rule and allowing reconciliation for deficit reduction only.



Providing Tax Relief for Middle Class

The Chairman's Mark provides significant middle-class tax relief. In total, the Chairman's Mark cuts taxes by $825 billion over the next five years. This tax relief includes: an extension of the 2001 and 2003 income tax cuts for those taxpayers making under $250,000 each year; AMT relief; estate tax reform; and business tax relief and extenders. The changes will help restore balance and fairness to the tax code.

The Chairman's Mark also assumes the enactment of loophole closers and enforcement efforts to help close the tax gap, address the abuse of offshore tax havens, and shut down abusive tax shelters.

Supporting Our Troops and Accounting for War Costs
The Chairman's Mark matches President Obama's core defense budget and the President's request for additional war costs. Unlike Bush administration budgets, which repeatedly left out or understated likely war costs, President Obama's budget includes a far more honest accounting of the likely costs of overseas contingency operations including the wars in Iraq and Afghanistan. The Chairman's Mark follows this approach, which will enhance oversight of war funds and save vital defense resources.

Addressing Long-Term Fiscal Challenge
The combination of our retiring baby boom generation, soaring health care costs, and an outdated and inefficient revenue system are projected to explode federal debt over the long-term. CBO's long-term debt outlook released in December 2007 showed that on our current course federal debt will rise to 400 percent of GDP by 2058. That is clearly unsustainable. The economic downturn over the last year has only worsened that long-term debt outlook.

As noted above, to begin addressing our soaring health care costs – the biggest source of the projected debt explosion – the Chairman's Mark provides for a major health care reform initiative to be done on a deficit-neutral basis.

It will be critical for that effort to follow up on the health care investments made in the recently passed economic recovery package, such as funding for health information technology, prevention and wellness interventions, and comparative effectiveness research. Over time, these investments and other steps can help us to bend the cost curve on health care and put our health care accounts back on a sustainable course.

President Obama's Fiscal Responsibility Summit – which occurred within roughly the first month of his administration – initiated an open bipartisan dialogue on ways to address this long-term fiscal challenge. That dialogue will hopefully lead to a consensus on establishing a special bipartisan process to deal with these issues. No matter how successful we are in pulling out of the current economic downturn, our long-term economic security will remain in jeopardy until we address this projected long-term fiscal imbalance.

The Congressional Budget Resolution
The annual budget resolution allows Congress to express its collective judgment on the overall level of spending, revenue, deficit, and debt, and the priorities and values within those totals. Upon adoption by the House and Senate, the budget resolution serves as a blueprint that guides subsequent Congressional consideration of legislation.

Section 301 of the Congressional Budget Act of 1974 sets forth the requirements of the budget resolution. As a concurrent resolution – a special legislative vehicle that applies only to the operations of the House and Senate – a budget resolution is not presented to the President for signature and does not have the force of law. As such, it does not directly change spending, revenues, or debt levels, but does establish levels which are enforced by congressional points of order.

The Baseline
The baseline is a neutral benchmark of spending, revenues, deficits, and debt under current laws and policies, and is the starting point for developing the annual budget resolution.

The Budget Committee uses as its baseline the projections made by the Congressional Budget Office (CBO) in its January 2009 *The Budget and Economic Outlook: Fiscal Years 2009 to 2019*, as revised and updated in CBO's March 2009 *Preliminary Analysis of the President's Budget Request for 2010*. In preparing those projections, CBO followed the rules and guidelines contained in section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985 (the Deficit Control Act). The Committee expresses its continued support for adhering to the rules and guidelines contained in section 257.

For discretionary spending (which is controlled by annual appropriations acts), the baseline rules provide that projections assume that discretionary appropriations are maintained at the level enacted in the current year (in this case, fiscal year 2009), adjusted for inflation. These rules are the same for both emergency and nonemergency appropriations. For instance, the CBO March 2009 baseline projects throughout the baseline period the $65.9 billion in emergency funding already provided for ongoing military operations and related defense spending in 2009, but does not assume the President's request for $75.5 billion in additional supplemental funding in 2009 for ongoing overseas contingency operations. (Per agreement among the four sides of the Senate and House Budget Committees, CBO's March 2009 baseline does not project forward the $289 billion in discretionary funding appropriated in 2009 as part of the economic recovery package.)

For mandatory spending and revenues, which are usually governed by permanent law and do not require annual Congressional action, the baseline rules generally require that projections reflect current law. There are exceptions. In the case of mandatory spending, programs in place in 1997 with outlays of $50 million or more in the current year are assumed to continue throughout the baseline period even if they actually expire under current law. In the case of revenues, any excise tax dedicated to a trust fund is assumed to continue in the baseline even if it is scheduled to expire under current law. The Committee notes that the baseline and scoring rules combine to treat mandatory spending and revenues in a symmetrical and equivalent manner. Whether spending *or* revenue, the budget rules ensure consistency. That is, sunset dates are either *ignored* at both stages (scoring of legislation and baseline) or *recognized* at both stages.

Although section 257 of the Deficit Control Act expired on September 30, 2006, CBO continues to follow its guidelines and rules in constructing the baseline. The Committee expects CBO to continue this practice until Congress replaces or amends section 257.

Spending

The Chairman's Mark strikes a careful balance on spending, providing an appropriate increase for national priorities in 2010 while reducing discretionary spending as a share of the economy over the course of the budget.

Discretionary

The Chairman's Mark provides $1,080.9 billion in budget authority and $1,269.8 billion in outlays for discretionary programs in 2010. This is 2.8 percent over the level needed to keep pace with inflation. It is $15.0 billion less than the President's request. Over the five-year period, this spending will fall from 9.5 percent of GDP in 2010 to 7.3 percent in 2014. These totals exclude emergency and supplemental war funding.

The Chairman's Mark enhances fiscal responsibility by establishing discretionary spending limits on budget authority and outlays for 2009 and 2010. For 2009, it imposes a cap of $1,391.5 billion in budget authority and $1,220.8 billion in outlays. For 2010, it imposes a cap of $1,079.2 billion in budget authority and $1,268.2 billion in outlays. For 2010, the Chairman's Mark permits adjustments to this cap for certain program integrity efforts. These adjustments would bring funding, excluding emergency and war funding, up to the level assumed in the Mark (further discussion of cap adjustments is included in the "Budget Enforcement" section of this document).

Discretionary Spending (budget authority)

($ billions)	2009*	2010 Pres.**	2010 Mark	Mark v. 2009		Mark v Pres.	
				$	%	$	%
Defense	535.8	556.1	556.1	20.4	3.8%	0.0	0.0%
Non-defense	490.4	539.8	524.8	34.3	7.0%	-15.0	-2.8%
Total	**1,026.2**	**1,095.9**	**1,080.9**	**54.7**	**5.3%**	**-15.0**	**-1.4%**

*The 2009 level is adjusted to reflect $4.1 billion in enacted emergency international affairs funding in recognition that these funds support ongoing efforts.

**For comparability purposes, President's requested level is adjusted to remove $55.4 billion in budget authority associated with President's proposal to score transportation obligation limitations as budget authority and to include $17.4 billion for Pell Grant funding.

Domestic Discretionary

The Chairman's Mark provides $475.0 billion for overall domestic discretionary funding in 2010 (excluding emergencies and war costs).

Energy

Over the past year, the economic downturn has resulted in a significant decrease in energy prices in the United States. Lower energy prices have temporarily decreased the burden that gas and heating prices have placed on families, but our nation continues to face significant energy challenges. In 2008, we relied on imports for 57% of our oil, and petroleum imports still account for well over half of our trade deficit. As a result, we are becoming increasingly vulnerable to oil supply disruptions and instability in other parts of the world. At the same time, scientists have concluded that the evidence that global warming is occurring is clear and that, if current emissions trends continue, there will be a significant environmental impact. Unfortunately, the combination of declining energy prices and the credit crisis has contributed to a significant decline in private sector investment in alternative energy technology.

Our nation's economic and national security are directly linked to our energy policy. We must confront the challenges of global climate change and our nation's addiction to foreign oil. By doing so, we can also create the green jobs that will drive our nation's economic recovery. To meet these challenges, President Obama and the Congress have responded with a historic investment of resources in a strategy to reduce our dependence on imported energy.

The economic recovery package included $38.7 billion to fund important energy priorities such as modernizing the electric grid, renewable energy and transmission loan guarantees, local government energy efficiency and conservation grants, weatherization assistance, carbon capture and sequestration technology, energy efficiency and renewable energy research and development, and advanced battery development. When the emergency funding provided in the stimulus and other bills is included, overall funding for the Department of Energy climbed from approximately $24 billion in 2008 to $73 billion in 2009. This $73 billion 2009 funding level represents the largest budget in the history of the Department of Energy.

The Chairman's Mark builds on the investments in the economic recovery package by fully funding the President's request for 2010 energy discretionary funding. The energy funding level in the Chairman's Mark will provide increases for the Energy Efficiency and Renewable Energy program. These increases will accommodate investments in important priorities such as wind, solar, geothermal, biomass and biorefinery R&D, hydrogen, vehicle/ building technologies and the weatherization assistance program. The Mark supports increased funding for the Energy Efficiency and Conservation Block Grant Program. The Chairman's Mark also includes increases to invest in the development of low carbon coal technologies such as carbon capture and sequestration. The Mark supports continued funding increases for the Department of Energy's loan guarantee program.

The Chairman's Mark would increase funding for electricity delivery and energy reliability. The funding increase could be used to modernize the electric grid, enhance security and reliability of energy infrastructure, and facilitate recovery from disruptions to energy supply.

The Chairman's Mark includes an energy reserve fund to accommodate legislation that advances important priorities such as reducing our Nation's dependence on imported energy, producing green jobs, promoting renewable energy development, improving electricity transmission, creating a clean energy investment fund, and encouraging conservation and efficiency. The legislation could also include energy tax proposals. This reserve fund could be used for legislation such as a proposal to extend the permissible term of power purchase agreements used by federal agencies to acquire renewable energy. It could also be used for a proposal to expand the economic recovery package's investments in transmission infrastructure and smart grid technology. Additionally, the reserve fund could accommodate a proposal to create a Clean Energy Investment Fund. That type of proposal could aid in the transition to a low-carbon economy by using financing tools such as direct loans and loan guarantees to invest in clean energy technologies.

LIHEAP
The Chairman's Mark provides funding for the Low Income Home Energy Assistance Program consistent with the President's request. These funds for LIHEAP will help to continue providing heating and cooling assistance to over five million low-income households, including the working poor, disabled persons, elderly, and families with young children.

Environmental Protection and Water Infrastructure
The Chairman's Mark fully funds the President's request for the Environmental Protection Agency (EPA). The Mark includes $3.9 billion for EPA's Clean Water and Drinking Water State Revolving Funds. The overall EPA funding level could accommodate significant increases for Superfund, the brownfields program and a variety of other EPA programs. The Chairman's Mark would accommodate increases for water infrastructure priorities at the Army Corps of Engineers and the Bureau of Reclamation.

Everglades
The Chairman's Mark includes increases for the Army Corps of Engineers and the Department of Interior which are sufficient to fully fund ongoing Everglades Restoration activities, including construction of authorized projects contained in the Comprehensive Everglades Restoration Plan and the Everglades National Park Expansion Act.

Oceans
The funding levels in the Chairman's Mark allow for increases for the National Oceanic and Atmospheric Administration (NOAA).

Public Lands
The Chairman's Mark assumes increases for the Department of the Interior and the Forest Service. The Mark also includes the President's proposal to increase funding for land acquisition programs.

Fire Suppression
The Chairman's Mark fully funds wildfire suppression activities at the Forest Service and the Department of the Interior. The Mark commends the President for taking steps to budget for growing annual fire suppression costs. It provides the 10-year average for fire suppression costs and assumes that an additional $357 million will be provided if appropriated funds are exhausted and the severity of the fire season requires additional funding.

Great Lakes Restoration
The Chairman's Mark recognizes the need to address significant and long-standing problems affecting the major large scale aquatic, estuarine, and coastal ecosystems nationwide. The Chairman's Mark includes funding for a new inter-agency initiative to address such regional ecosystems. It assumes the President's request of $475 million to work with Great Lakes states, tribes, and local communities and organizations to address issues prioritized in the Great Lakes Regional Collaborative. This initiative could address issues such as invasive species, non-point source pollution, habitat restoration and contaminated sediment. The Mark also

supports the President's proposal to use outcome-oriented performance goals and measures to target the most significant problems and track progress in addressing these ecosystems.

Education and Training

Building on the investments in education and training provided in the economic recovery package, the Chairman's Mark fully funds the President's request for education and training programs over the five-year budget window.

Investments in these programs have sound economic benefits and the budget provides Americans a complete and competitive education from cradle to career. There is increasing evidence that investing in high quality early childhood education programs, such as Head Start, is a solid investment, yielding $10 in reduced social costs for every dollar invested. Despite these benefits, many preschool students do not have access to quality early education programs. The budget provides expanded resources to address this issue and invest in the long-term returns of early education.

Moreover, decreased federal funding for education has implications at the state and local level. When the federal government reduces its share of funding for the Individuals with Disabilities Education Act, state and local governments have to cut other programs to cover the decreasing share of special education.

The competitive educational advantage we used to enjoy, relative to other nations, has eroded significantly in recent years. Our global competitors spend less money per student, but have better educational outcomes; the U.S. economy cannot afford to have its students being out-performed. The Chairman's Mark calls for a significant investment to build our human capital through programs targeting low-income students, such as Title I, and for innovative and effective strategies to reduce achievement gaps and improve student learning in grade schools, middle schools, and high schools.

Many low- and moderate-income high school graduates who are fully prepared to go to college do not because of financial barriers. Employers indicate that we are not producing enough trained workers with the skills for the modern workplace, particularly in high-growth sectors such as health care and green energy technologies. Increasingly, these sectors require some form of post-secondary education or job re-training.

The Chairman's Mark proposes to reduce barriers to higher education by accommodating the President's student aid proposals, such as expanding Pell grants or providing education tax incentives.

The Chairman's Mark recognizes that effective education and training programs are necessary to restart US economic growth and allow our citizens to compete in the global economy. It makes this effort a high priority.

National Service

The Chairman's Mark provides the President's requested level for the Corporation for National and Community Service to encourage Americans to serve their community and country.

Veterans

President Obama's budget provides a significant increase in funding at the Department of Veterans Affairs (VA). The Bush Administration consistently underestimated the needs of veterans, and Congress made up the shortfall. President Obama's budget includes a 10% increase for the VA, and continues that commitment by increasing funding for the VA by $25 billion over the next five years. The Chairman's Mark supports that increase and provides additional resources to the VA so that veterans' insurance need not be billed for service-connected VA care.

Once again, the Chairman's Mark recognizes the deep debt our nation owes to those who have served in defending our country and continues to provide critical resources to ensure that they get the quality health care they deserve. The funding in the Chairman's Mark will ensure that the Veterans Health Administration within the VA can provide the highest quality health care for all veterans.

In addition, the Chairman's Mark understands that there is an urgent need for funding of Grants for State Veteran Cemeteries with the aging of the WWII generation. Unfortunately, funding levels have not kept up with need. Therefore, the Chairman's Mark supports adequate funding that can address the costs of constructing new cemeteries as well as the needs of existing State Veteran Cemeteries.

Social Security Administration

The Chairman's Mark assumes the President's full funding request of $11.6 billion for administrative expenses at the Social Security Administration (SSA). The Mark commends the Administration for proposing bold action to address the massive backlog of disability claims and hearings, as well as other backlog workloads, and to significantly expand program integrity efforts in the Social Security and Supplemental Security Income (SSI) programs. This funding will help to reduce unacceptable delays for disabled individuals in receiving benefits and to ensure that program dollars are spent wisely at a time when SSA is facing a significant increase in new claims for disability and retirement benefits during the recent economic downturn.

Community Health Centers

The Chairman's Mark provides $2.9 billion for Federally Qualified Health Centers (FQHCs) in 2010. This is $798 million above the 2009 enacted level. These health centers are community-based providers of comprehensive primary and preventive health care that serve more than 16 million people, many of whom are uninsured or on Medicaid.

Health Professions & National Health Service Corp

The Chairman's Mark provides funding for the Health Professions program and the National Health Service Corps to increase the number of health professionals practicing in medically underserved areas.

National Institutes of Health

The economic recovery package included important investments for biomedical research at the National Institutes of Health (NIH). The Chairman's Mark continues to support funding for NIH in 2010 including support for cancer research.

NASA
The Chairman's Mark funds the National Aeronautics and Space Administration (NASA) at $18.7 billion. This level of funding recognizes the importance of our nation's space program and endorses the agency's balanced goals of exploration, science, and aeronautics. This level of funding also reflects the vital role our space program plays in driving scientific and technological advancements critical to our economy.

NASA currently intends to retire its Space Shuttles at the end of 2010, after completing the current manifest of flights plus an additional flight to transport scientific payloads to the International Space Station. The criteria for Shuttle retirement, however, remains the completion of scheduled flights, and a fixed retirement date could create dangerous scheduling pressures. Consequently, the Chairman's Mark recognizes the possibility that currently planned Shuttle missions may continue beyond the end of 2010, and provides $2.5 billion above the President's request for 2011.

It remains the policy of the United States to possess the capability for human access to space on a continuous basis and to launch the follow-on Crew Exploration Vehicle (CEV) as close to 2010 as possible. NASA currently projects that the CEV will not be operational before 2015, leaving a five-year gap in U.S. human space flight capability. During that gap the United States will need to purchase space flight services from Russia, costing in excess of $500 million. The Chairman's Mark recognizes the strategic importance of uninterrupted access to space and supports efforts to reduce or eliminate this five-year gap in U.S. human space flight.

Infrastructure
This year's economic recovery package made investments in American infrastructure not seen since the 1950's. The funding of "ready-to-go" projects throughout the country will create badly needed jobs. Those projects are already being implemented and will help sustain the recovery. The investment in these projects will not only repair roads and bridges, but it will create jobs, improve economic growth, and start the process of reversing the Bush Administration's underfunding of infrastructure.

The Chairman's Mark recognizes that continued funding of significant long-term infrastructure projects is also needed to continue the progress that began with enactment of the economic recovery package and includes a reserve fund for infrastructure investment in areas including, but not limited to, energy, water and public housing. The Chairman's Mark also realizes that surface transportation programs are at a crossroads. The growing costs of repairing highways and bridges are outpacing revenue dedicated to the programs for that purpose. One of the primary methods of financing surface transportation investments – the highway account of the Highway Trust Fund – required an $8 billion infusion from the General Fund in 2008.

Recognizing that surface transportation programs will be reauthorized this year, the infrastructure reserve fund would also be available for surface transportation, and anticipates future investments will be paid for and the solvency of the Highway Trust Fund will be maintained for the length of the surface transportation authorization. The Chairman's Mark understands that the surface transportation reauthorization will augment current investments, and provides funding levels for highways, transit, and safety programs which will be adjusted when a reauthorization bill is reported. The Chairman's Mark does not adopt the administration's proposed change to scoring of contract authority.

In addition, the infrastructure reserve fund would be available for deficit-neutral legislation authorizing multimodal transportation projects, an important element of future transportation investments. Such projects should be defined by a set of performance measures that seek to increase economic growth, efficiency and public safety, provide cost savings, and reduce transportation related fatalities, traffic congestion, greenhouse gas emissions and energy fuel consumption. In addition, these projects should require a cost benefit analysis be conducted to ensure accountability and provide flexibility for states, cities and localities to create strategies that meet the needs of their community.

High Speed Rail
As part of the recognition that investments in infrastructure are important to economic growth, the Chairman's Mark continues the unprecedented commitment to high speed rail made in the economic recovery package by providing $1 billion for high speed rail in 2010.

Financial Fraud
The failure or near failure of so many financial institutions has caused enormous damage to the national and global economy, wiped out savings for millions of investors, and required an unprecedented level of support by the taxpayer through government rescue plans. This unprecedented level of apparent corporate malfeasance will require a sustained level of attention by regulators and law enforcement officials to uncover and address wrongdoing administratively, through civil law, and, where warranted, through criminal prosecution. The Chairman's Mark includes sufficient resources for federal agencies charged with these responsibilities to carry out their investigatory and prosecutorial duties.

Community Development
The Chairman's Mark recognizes the importance of providing investments in our communities. This is especially important now as communities struggle to help their citizens cope with the negative side effects of the economic downturn. The Chairman's Mark includes increased funding for the Community Development Block Grant (CDBG), the largest source of federal grant assistance in support of state and local government housing and community development efforts.

Housing
The Chairman's Mark applauds the Administration's plan to provide coordinated assistance to homeowners through "Making Home Affordable," but recognizes that further assistance may be necessary in 2010. The Chairman's Mark includes a deficit-neutral reserve fund that would allow for additional investments in housing assistance.

The Chairman's Mark continues to support funding for the Public Housing Capital Fund, Hope VI Distressed Housing Program, Housing for the Disabled, Housing for the Elderly, and the Section 8 tenant-based Housing Choice Voucher program and the project-based Section 8 program.

Native American Programs
The United States has a trust responsibility for the provision of public safety and care to Indian people. The Native American population is facing a public safety and health care crisis. In response, the Chairman's Mark supports funding for public safety, health care and water priorities benefitting American Indians and Alaska natives. Additionally, the Chairman's Mark supports funding for Indian education, including at tribal colleges.

Small Business

The Chairman's Mark recognizes the critical role small businesses play in job creation, and seeks to build upon the important small business investments contained in the recently enacted economic recovery package. That package raised the maximum guarantee on loans in the Small Business Administration's largest program to 90%, eliminated costly fees for borrowers and lenders, and included a series of tax cuts for small businesses and tax incentives to encourage investment in small businesses. In addition, as part of the President's Financial Stability Plan, the Treasury Department will begin purchasing up to $15 billion of Small Business Administration (SBA) loans. To continue the hard work began under these two programs and to continue our commitment to a strong small business sector, the Chairman's Mark adopts the Administration's level for SBA.

Manufacturing

The Chairman's Mark acknowledges the need to help American manufacturers and businesses remain competitive in the global marketplace by adopting advanced manufacturing technologies. Therefore, the Chairman's Mark adopts the Administration's budget level for the Manufacturing Extension Program (MEP), which is authorized in the America COMPETES Act and dedicated to ensuring American small- and medium-sized manufacturers create jobs in the U.S.

Consolidation in the U.S. manufacturing sector poses unique challenges to communities hit hardest by the closing of manufacturing facilities. Therefore, the Chairman's Mark supports increased funding for Economic Development Administration grants to local governments to revitalize closed manufacturing plants. In addition, a deficit-neutral reserve fund is provided to support legislation that would further aid local communities in redeveloping closed manufacturing plants and the retraining of manufacturing workers for advanced technology jobs.

Law Enforcement Assistance

The Chairman's Mark recognizes the important role the partnership between federal, state, and local law enforcement entities plays in maintaining safe communities. For example, the Community Oriented Policing Service (COPS) grant program provides funding that is critical in many urban and rural areas in maintaining police presence, carrying out criminal investigations, and in training and equipping law enforcement officers. This and other support for local law enforcement remain a priority.

Pay Parity

The Chairman's Mark assumes that rates of compensation for civilian employees of the United States should be adjusted at the same time, and in the same proportion, as are rates of compensation for members of the uniformed services.

Defense Discretionary and War Costs

The Chairman's Mark fully funds the President's core defense budget request over the five-year budget window. Total national defense discretionary funding in the Mark is $556.1 billion. This includes $533.7 billion in 2010 for the Department of Defense, $20.3 billion more than the 2009 enacted level (exclusive of war funding and defense spending in the economic recovery package). Defense budgets have now grown in inflation adjusted terms every year since 1998 (excluding supplementals).

The Chairman's Mark includes a reserve fund to facilitate enactment of the President's proposal to expand "concurrent receipt" of military retired pay and veterans disability compensation to retirees who were medically retired from active service. While full programmatic details will be provided later, the administration has indicated that the budget funds the expansion of the Army and Marine Corps in order to enhance military readiness and reduce the strain of multiple, extended deployments on current servicemembers. Additionally, the President's request includes funding to modernize military barracks and dormitories, and to improve medical care and housing for wounded servicemembers. The Chairman's Mark supports these objectives.

The Chairman's Mark reflects the President's request for additional 2009 war funding of $82.6 billion – $75.5 billion for the Defense Department and $7.1 billion in international affairs funding. If enacted, this will bring total war funding for 2009 to $152.6 billion. Under President Bush, the total cost of the wars reached $864 billion. (Consistent with CBO's re-estimate of the President's request, the Mark shows $7.3 billion in 2009 budget authority – but no outlays – to account for the pending request to implement the International Monetary Fund quota increase negotiated by the previous administration.)

The Chairman's Mark also provides for the 2010 war request of $130 billion. The Chairman commends the Obama Administration for its commitment to budgetary transparency when it comes to funding for overseas contingency operations. The Bush Administration failed to honor its commitment to include war costs in its budget request and obscured the fiscal situation by seeking war funding as an emergency even after five years of war in Iraq. The Obama Administration, on the other hand, has provided a good faith estimate of war costs for 2010 and an annual allowance of $50 billion for potential future costs of overseas contingency operations from 2011 onward.

In keeping with how the past two budget resolutions have handled war costs, the Chairman's Mark includes a $130 billion cap adjustment provision for 2010 that allows the Chairman to revise the discretionary spending cap for non-emergency appropriations related to overseas contingency operations such as the wars in Iraq and Afghanistan. The Chairman's Mark assumes the use of this cap adjustment. However, the cap adjustment would not prevent further war funding on an emergency basis if war costs exceed the allotted level.

The National Guard has a long history of outstanding service to our nation, and our nation's reliance on the Guard has only increased since September 11, 2001. The Chairman's Mark encourages the Appropriations Committee to identify additional resources within the defense budget to address needs for National Guard equipment.

The Chairman's Mark also assumes no less than $5.55 billion in funding for the Defense Environmental Cleanup account. The environmental management program is charged with efficiently cleaning up the environmental damage resulting from 50 years of nuclear weapons production. The Chairman's Mark provides for increased funding at several major sites addressed under this program including Hanford, Idaho Falls, Oak Ridge, and Savannah River. This increase brings total environmental management funding for nuclear site cleanup (including amounts in other budget functions) to $6.5 billion.

The Chairman's Mark recognizes the serious inequity in how the military death benefits system treats widows and orphans whom our servicemembers and veterans leave behind. The Mark provides a deficit-neutral reserve fund to facilitate the repeal of the law that requires a dollar-for-dollar reduction in Department of Defense Survivor Benefit Plan (SBP) annuity benefit payments by benefits received under the Department of Veterans Affairs Dependency and Indemnity Compensation (DIC) program. Repeal of the offset would allow the widows and orphans whom our servicemembers and veterans leave behind to receive the full SBP amount due to them. Congress recognized the injustice of the SBP-DIC offset in the National Defense Authorization Act for Fiscal Year 2008 when it authorized a special payment to SBP-DIC-affected survivors, but this payment is far below the full amount that is offset.

The ability of the United States military to project power worldwide depends on the aerial refueling tanker fleet. The backbone of this fleet is the KC-135, which is rapidly approaching its 50th year in service. Further postponement of the tanker re-capitalization program will have an adverse effect on our ability to achieve the requirements of the National Military Strategy. Accordingly, the Chairman's Mark assumes that the Air Force will receive not less than $2.37 billion in 2010, and not less than $13 billion across the Future Years Defense Plan to fund the development and procurement of a next generation aerial refueling tanker.

Savings from Defense Acquisition and Contracting Reform Reserved for Deficit Reduction

Defense funding remains at record levels, even after adjusting for inflation. The Department of Defense has had serious trouble with cost growth in its weapons acquisition programs. The Government Accountability Office has found that the total acquisition cost of the Pentagon's 2007 portfolio of major programs has exceeded initial estimates by nearly $300 billion.

The Obama Administration has announced that it will make reform of the acquisition process a top priority in order to get the best possible value for defense spending. The Chairman's Mark supports that reform effort by including a reserve fund for defense contracting reform. Additionally, the Chairman's Mark assumes not less than $500 million for the Acquisition Workforce Development Fund, which is already showing great promise as a mechanism for enhancing the capability of the Department of Defense to oversee acquisition programs and get better value for our defense dollar. While the Chairman's Mark does not project savings from acquisition reform or the contracting reform initiatives announced by the President, successful implementation of those initiatives could result in significant savings in future years that should be reserved for deficit reduction.

International Affairs

The President's request for international affairs activities, as re-estimated by CBO, is $53.8 billion. This represents an increase of $15.6 billion above the non-emergency 2009 level.

The size of the year-over-year increase requested by the President's budget is somewhat misleading, as the President seeks to transfer international affairs funding in support of overseas contingency operations and programs with predictable and recurring funding requirements that have previously been funded in supplementals to the base budget. This more transparent budgeting is commendable.

Typically, the baseline used for year-over-year comparisons in the Congressional budget resolution excludes all supplementals and emergency funding. Therefore, the President's decision to reduce or eliminate emergency requests for international affairs in 2010 artificially inflates the year-over-year increase. A more realistic comparison, including enacted bridge funding in the 2009 level, shows a year-over-year increase of $11.5 billion for the President's request.

In light of the large increases provided for international affairs funding over the past several years and the nation's fiscal situation, the Chairman's Mark assumes a somewhat slower rate of growth in this area. The Mark assumes $49.8 billion in budget authority for 2010, an increase of $7.5 billion over the 2009 level adjusted for a more realistic comparison.

The Chairman's Mark assumes that the top priorities in allocating the increase for international affairs will be related to core national security concerns such as counter-proliferation and anti-terrorism, as well as enhancing the capacity of the State Department and USAID to assume responsibilities that have been taken on by the military.

Mandatory

Health Reform Legislation

The President and the Chairman's Mark believe that we have an obligation to tackle fiscally-responsible comprehensive health care reform this year. To that end, the Chairman's Mark includes a deficit-neutral reserve fund to facilitate legislation that transforms and modernizes our health care system and achieves the common goals of constraining costs, expanding access, and improving quality. Reflecting the eight principles for health reform outlined in the President's budget, the reserve fund provides maximum flexibility to the authorizing Committees to determine the appropriate level of spending and the offsets required to pay for these investments.

In recognition that some upfront investments may be necessary and that delivery system reforms or potential revenue changes may not reap immediate savings, the reserve fund provides flexibility to allow such legislation to be fully offset only over the period of 2009 to 2019 and provides that such legislation be fiscally sustainable over the long-term.

The number of uninsured Americans is expected to grow from 48 million today to 54 million in just 10 years. At the same time, excess cost growth in health care spending is harming our global competitiveness, hurting the pocketbooks of American families, and threatening the economic security/fiscal integrity of the federal and state governments. It is critically important that both cost and coverage be addressed simultaneously if we are to bend the health care cost curve successfully.

Our nation's long-term fiscal gap is driven in large part by excess growth in health care spending. Reforming our overall health care system is the key to addressing our spending challenges in our health entitlement programs – Medicare and Medicaid. The President's budget offered constructive proposals that would achieve savings by driving delivery system and provider payment reforms in Medicare and Medicaid. Specifically, the President's budget proposes steps to realign provider payment incentives away from volume and toward quality, to promote efficiency and greater accountability across provider and plan settings, and to encourage shared responsibility. The reserve fund in the Chairman's Mark allows for the consideration of these and other proposals that will bend the cost curve in health care, put our federal health programs on a fiscally sustainable path, and make health care affordable for families, businesses and federal, state and local governments.

Climate Change Legislation

The Chairman's Mark believes that we have an obligation to current and future generations to take meaningful action to reduce greenhouse gas emissions. The Mark includes a reserve fund to accommodate legislation that would invest in clean energy technology initiatives, decrease greenhouse gas emissions, or help families, workers, communities, and businesses make the transition to a clean energy economy.

The Chairman's Mark includes no specific assumptions regarding the policy details of such a proposal. The details of the proposal will be left to the committees of jurisdiction and the legislative process.

If climate change legislation brings new revenues into the Treasury, the Chairman's Mark would support the President's proposal to invest $15 billion per year in a variety of clean energy technology initiatives. These initiatives would accelerate the widespread deployment of energy efficient technologies, increase our reliance on clean and renewable energy sources, and move America forward on the path to energy security.

Education and Training

The President has challenged our students to commit to at least one year of post-secondary study and proposes to expand Pell grants. To help achieve this goal, the Chairman's Mark provides a deficit-neutral reserve fund for higher education. This will make college more affordable and enable students and families to meet the challenge of preparing America to compete in the 21st century marketplace.

Agriculture Programs

The Chairman's Mark leaves the nutrition, conservation, renewable energy, and farm safety net improvements included in the 2008 Farm Bill unchanged. However, given our current fiscal situation, the Chairman's Mark recognizes that all areas of the federal budget need to be examined for savings. Even though the 2008 Farm Bill received over 80 votes in the Senate and was fully paid for, the Chairman's Mark would support targeted savings in agriculture, including the President's proposal for market access, and some savings in the Environmental Quality Incentives Program and the federal crop insurance program.

Revenues

The Chairman's Mark provides $825 billion of tax relief over the next five years targeted largely on the middle class. At the same time, the Mark seeks to restore fairness to the tax code and close loopholes to shore up the revenue base. In 2009, revenues are projected to fall to 15.4 percent of GDP, their lowest level since 1950. While more revenue will flow into the Treasury as the economy recovers, one of our largest challenges will be to raise enough revenue to meet the nation's urgent needs, encourage economic growth, and put the budget on a more sustainable long-term fiscal path.

Tax reform is badly needed because the type of tax system our 21st Century economy needs cannot be achieved by adjusting the contours of our outdated system. Instead, we need to address the fundamental flaws in the tax code. Only through tax reform can we ensure the nation has a sustainable revenue base, that our tax system is both simpler and fairer than the current code, and that it will help make American businesses more competitive. The Mark supports moving towards fundamental tax reform as quickly as possible.

Revenue Changes in Chairman's Mark
($ in billions)

($ billions)	**2010-2014**
Middle-Class Tax Relief	-601
AMT reform	-216
Estate tax reform	-72
Business provisions, extenders	-69
Subtotal, tax relief	-958
Loophole closers, other raisers	133
Total Tax Cuts	**-825**

Tax Relief for the Middle Class

The Chairman's Mark provides substantial tax relief for the middle class. The middle class experienced few of the benefits of economic growth in recent years; indeed, the median income of working households fell in adjusted terms by nearly $2,000 between 2000 and 2007. And of course that situation has further worsened during the current recession.

To address these concerns, Congress provided temporary tax relief that benefitted 95 percent of working Americans in the economic recovery package. All of this tax relief, as well as provisions enacted in 2001, will expire in 2010 without further action by Congress.

Consistent with the President's budget, the Chairman's Mark includes the following tax relief provisions that target the middle class:

- *10 percent bracket, Child Tax Credit, marriage penalty relief* – The Mark would make permanent these three provisions, which were the core middle-class provisions enacted in 2001. The Mark also assumes that the related expansions of the Child Tax Credit and the Earned Income Tax Credit included in the economic recovery package are extended.
- *Education tax incentives* – The Mark would make the American Opportunity Tax Credit permanent. Enacted as part of the economic recovery package, it provides a $2,500 credit for higher education, with a portion of the benefit available through a refundable credit. The Mark also assumes permanent extension of a variety of education-related tax incentives enacted in 2001, including those dealing with education savings accounts and the deduction of student loan interest.
- *Savings incentives* – The Mark would expand the existing "savers credit," making it more accessible to lower-income working families. The Mark also reflects a new policy to require employers that do not offer 401(k)s to offer automatic enrollment in IRAs.

The Mark follows the President's proposals to extend other 2001 and 2003 tax changes for couples with incomes under $250,000 and singles with incomes under $200,000, including the 25 percent and 28 percent brackets and the preferential rates for capital gains and dividend income.

AMT Relief

The Chairman's Mark assumes three years of Alternative Minimum Tax relief, through 2012, without offsets.

The President's budget calls for permanent AMT relief, but the cost of this proposal makes it unaffordable given the long-term budget outlook. The Mark provides this temporary extension to ensure that the cost of AMT relief does not have to be offset while the economy is in recession as well as to create an incentive for tax reform.

Estate Tax Reform

The Chairman's Mark assumes permanent reform of the estate tax to create more certainty in estate planning for families and small businesses. The Mark reflects continuation of the 2009 estate tax parameters, with an exemption of $3.5 million ($7 million for a couple) indexed to inflation and a top rate of 45 percent.

Extenders

The Chairman's Mark would extend through 2011 those tax provisions that are slated to expire in 2009 or 2010, but that have been routinely extended in the past. These provisions (referred to as "extenders") include, among others, the research and experimentation tax credit, the deduction for state and local sales taxes, the deduction for teacher classroom expenses, and the exception for active financing income.

Business Provisions
The Chairman's Mark calls for small business tax relief. It assumes the permanent extension of the section 179 expensing provision for small businesses. In addition, it includes a new proposal to eliminate capital gains taxes for small businesses, going beyond the current 75 percent exclusion. Finally, the Mark calls for expanding the net operating loss carryback rules.

Tax Relief and Tax Reform Reserve Funds
Within the reserve fund to promote economic stabilization and growth, the Chairman's Mark includes two reserve funds for tax relief and tax reform. The first is specifically designed to accommodate any tax relief, including the extension of expiring provisions and refundable tax credits – some of which were first provided in the economic recovery package – as long as the cost of this tax relief is offset. The second reserve fund would provide for comprehensive tax reform that would ensure a sustainable revenue base in a tax system that promotes simplicity, fairness, and competitiveness.

Loophole Closers and Other Revenue Raisers
The Chairman's Mark assumes enactment of loophole closers and other revenue-raising provisions consistent with levels in the President's budget. The Mark assumes that the Finance Committee will work closely with the Administration to develop the proposals to achieve the revenue levels assumed in the resolution.

Overall, the Administration should be applauded for efforts to close the tax gap. The IRS estimated that the tax gap totaled $345 billion in 2001. In the years since, the total has surely grown larger. Moreover, this figure does not include the revenue that is lost each year as a result of the billions of dollars hidden in offshore tax havens and shelters. The previous administration blocked efforts to address the tax gap. Yet failure to address this problem only means that honest taxpayers face a higher burden.

Long-Term Fiscal Challenges

As the retirement of the baby boom generation accelerates, our nation faces a significant long-term imbalance between revenues and spending. While the Chairman's Mark achieves the important near-term goal of cutting the deficit in half by 2012 and by two-thirds by 2014, this represents only a first step in the difficult path of restoring our long-term fiscal security.

As many budget and economic experts have warned, beyond the current budget window, things worsen considerably. Excessive growth in health care spending, combined with the aging of the population, will put substantial additional pressure on the budget over the long-term. A substantial reduction in spending growth and a more sustainable revenue path will be necessary to maintain the nation's long-term fiscal stability and economic security.

President Obama has stated his commitment to working with Congress in a bipartisan manner to address our long-term fiscal imbalances. By hosting a Fiscal Responsibility Summit on February 23rd, the President demonstrated the leadership that will be needed to tackle the long-term fiscal imbalance confronting our nation. As President Obama noted at the Summit:

> *"While we are making important progress towards fiscal responsibility this year, in this budget, this is just the beginning. In the coming years, we'll be forced to make more tough choices, and do much more to address our long-term challenges."*

The Summit was an important first step towards addressing these challenges.

In the Summit's Budget Process Reform breakout group, there was general consensus among key stakeholders and Congressional leaders that the current process is not conducive to producing comprehensive, transformative results and that a special process will be required. Addressing our nation's long-term fiscal challenges in a comprehensive, lasting manner will require a bipartisan process that brings together members of Congress and administration officials to make balanced changes to both spending and revenues – and that ensures these changes will be considered and voted on in a manner that guarantees a bipartisan outcome.

On February 11th, Treasury Secretary Timothy Geithner testified before the Senate Budget Committee and echoed the need for a new approach to addressing our long-term fiscal challenges:

> *". . . [I]t is going to require a different approach if we're going to solve [the long-term fiscal imbalance] . . . It's going to require a fundamental change in approach, because I don't see realistically how we're going to get there through the existing mechanisms."*

The Chairman and Ranking Member of the Senate Budget Committee have proposed the creation of a task force that represents one such model for carrying out a bipartisan approach. The Chairman will continue to engage with the President and Congressional Leaders in the House and Senate to find common ground on an approach for addressing these challenges comprehensively.

In the interim, the Chairman's Mark takes important steps to encourage health care reform and important program integrity measures as a way of beginning to address our long-term fiscal challenges.

Deficit-Neutral Reserve Fund to Transform and Modernize America's Health Care System
In 2009, the U.S. is expected to spend 17.6 percent of its GDP on health care. Within 10 years, health care spending is expected to reach 20.3 percent of our nation's GDP. By 2050, CBO projects that national health expenditures will reach 37 percent of GDP.

There is widespread agreement that Americans are not getting good value for the money we are already spending on health care. According to work by the Dartmouth Atlas Project, nearly 30 percent of total spending in our health care system is wasteful and does nothing to improve health outcomes.

Indeed, the U.S. spends twice as much as other OECD nations on health care, yet Americans have shorter average life expectancies and higher average mortality rates than residents of other OECD countries. OECD data show that the U.S. has one of the highest rates of medical errors among industrialized nations and that U.S. patients are more likely to receive duplicate tests and more likely to visit an emergency room for a condition that could have been treated in a regular office visit than most other nations in the comparison. Similarly, a 2008 Commonwealth Fund report found that the U.S. is last among 19 industrialized nations in preventable mortality, or deaths that could have been prevented if individuals had access to timely and effective care.

The challenge of the U.S. health care system is to address the twin problems of coverage and cost in a fiscally-responsible manner. According to CBO, the average number of nonelderly uninsured will rise from 48 million in 2009 to 54 million in 2019. However, efforts to provide near universal coverage without initiatives to control costs will make coverage expansion financially unsustainable to households, employers, and federal and state governments in the long run.

The President's budget laid down a strong marker for transforming and modernizing our health care system in a fiscally-responsible manner that achieves the common goals of constraining costs, expanding access, and improving quality. Importantly, the President's budget commits to addressing comprehensive health reform on a deficit-neutral basis. The President has made clear that he wants to work with Congress in a bipartisan way moving forward to meet the eight principles for health reform that he has identified in his budget.

The Chairman's Mark reflects the President's commitment to a comprehensive and fiscally-responsible approach to health reform. It includes a deficit-neutral reserve fund for legislation that transforms and modernizes our health care system. The reserve fund provides flexibility to the authorizing committees to determine the level of spending and the mix of offsets that may be required to pay for these investments. In recognition that some upfront investments may be necessary and that delivery system reforms or potential revenue changes may not reap immediate savings, the reserve fund contemplates health reform paid for over 11 years.

This reserve fund provides a critically important opportunity to address excess cost growth in our health care entitlement programs. This excess cost growth is the largest spending factor driving our long-term fiscal imbalance and it is crucial that we take steps to control costs in these entitlement programs. Today, Medicare and Medicaid account for 4.9 percent of our GDP and are expected to consume 12 percent of our GDP by 2050.

President Obama recently noted in a speech before the Business Roundtable on March 12th:

"Medicare costs are consuming our federal budget. Medicaid is overwhelming our state budgets. At the fiscal summit we held in the White House a few weeks ago, the one thing on which everyone agreed was that the greatest threat to America's fiscal health is not the investments we've made to rescue our economy. It's the skyrocketing cost of our health care system."

At a Senate Budget Committee hearing in January, former CBO Director and former OMB Director Alice Rivlin issued a similar warning:

"If policies are not changed, Medicare and Medicaid . . . will drive federal spending up considerably faster than the rate at which the economy is likely to grow. Unless Americans consent to tax burdens that rise as fast as spending, a widening gap will open up. We will not be able to finance these continuously growing deficits.

Vigorous efforts should also be made to make Medicare more cost effective and slow the rate of growth of Medicare spending, which contributes so much to projected deficits. While restraining health spending growth should be a major feature of comprehensive health reform, Medicare is an ideal place to start the effort. Medicare is the largest payer for health services and should play a leadership role in collecting information on the ... effectiveness of alternative treatments and ways of delivering services, and designing reimbursement incentives to reward effectiveness and discourage waste."

The President's budget offered constructive proposals for consideration that would help to address excessive cost growth in Medicare and Medicaid. This reserve fund allows for the consideration of these and other proposals as part of health reform that could bend the cost curve by:

- encouraging provider payment reforms that drive efficiency and quality, by encouraging collaboration across different providers and health care settings and rewarding positive health outcomes rather than service volume;
- making infrastructure investments, such as health IT, electronic health records and comparative effectiveness research, that can drive evidence-based medicine and build a rapidly-learning health care system; and
- investing in the health care workforce in ways that refocus care on patient-centered primary care and prevention and wellness.

Program Integrity

In an effort to achieve savings over the long term, reduce fraud, and encourage government efficiency, the Chairman's Mark includes funding for important program integrity initiatives in programs, such as Medicare, Medicaid, unemployment insurance, and Social Security.

In addition to supporting ongoing efforts at the Social Security Administration, the Mark, for example, provides for a discretionary cap adjustment of $485 million to fund the processing of additional Continuing Disability Reviews (CDRs) and Supplemental Security Income (SSI) redeterminations. CDRs save approximately $11 for every $1 spent, and redeterminations save approximately $7 for every $1 spent. In addition to being "good government" initiatives, the additional short-term funding will result in long-term savings.

The Mark also supports enhanced Internal Revenue Service (IRS) tax enforcement to address the tax gap. The Chairman's Mark fully funds the President's budget request for the IRS and includes the President's request for additional resources for IRS enforcement. By including a discretionary cap adjustment of $890 million, the budget resolution would direct approximately $8 billion to IRS enforcement activities. A similar cap adjustment was included in the 2009 budget resolution.

Budget Process

While budget procedures are no substitute for a bipartisan commitment to fiscal discipline, there are a number of budget enforcement provisions that can help to put us back on a sound fiscal path.

The 2008 and 2009 budget resolutions included many important enforcement provisions which remain in effect. These include:

2008 Budget Resolution (S. Con. Res. 21)

- **The Senate pay-as-you-go point of order** (Sec. 201);

- **The 60-vote point of order against reconciliation increasing the deficit** (Sec 202); and

- **Continued 60-vote enforcement of budgetary points of order in the Senate** (Sec. 205).

2009 Budget Resolution (S. Con. Res. 70)

- **The 60-vote point of order against legislation increasing long-term deficits** (Sec. 311); and

- **The 60-vote point of order against provisions of appropriations legislation that constitute changes in mandatory programs** (Sec. 314).

The Chairman's Mark continues the strong budget enforcement practices of the last two budget resolutions with these modifications:

Discretionary Spending Caps

The Chairman's Mark would strengthen fiscal responsibility by establishing discretionary spending limits for 2009 and 2010, and enforcing them with a point of order in the Senate that could only be waived with 60 votes. For 2009, it provides a cap of $1,391.5 billion in budget authority and $1,220.8 billion in outlays. For 2010, it sets a cap of $1,079.2 billion in budget authority and $1,268.2 billion in outlays. As in past years, the Chairman's Mark permits adjustments to the discretionary spending limits in 2010 for program integrity initiatives, such as Social Security Administration continuing disability reviews (CDRs) and Supplemental Security Income redeterminations, enhanced Internal Revenue Service tax enforcement to address the tax gap, appropriations for Health Care Fraud and Abuse Control (HCFAC) program at the Department of Health and Human Services, and unemployment insurance improper payments reviews at the Department of Labor. It also provides for adjustments in 2010 for expenses related to the wars in Iraq and Afghanistan.

Revised Appropriations for Fiscal Year 2010

The Chairman's Mark permits the Chairman to adjust the discretionary spending limits, budget aggregates, and allocations, if the CBO re-estimates the President's 2010 request for discretionary spending at an aggregate level different from the CBO preliminary estimate dated March 20, 2009.

Advance Appropriations
As in past years, the Chairman's Mark provides a supermajority point of order in the Senate against appropriations in 2010 bills that would first become effective in any year after 2010, and against appropriations in 2011 bills that would first become effective in any year after 2011. It does not apply against appropriations for the Corporation for Public Broadcasting, nor does it apply against changes in mandatory programs or deferrals of mandatory budget authority from one year to the next. There is an exemption for each of 2010 and 2011 of up to $28.852 billion (the same level as provided for in the 2009 Budget Resolution) for the following:

ACCOUNTS IDENTIFIED FOR ADVANCE APPROPRIATIONS IN THE SENATE

Labor, HHS:
- Employment and Training Administration
- Job Corps
- Education for the Disadvantaged
- School Improvement
- Children and Family Services (Head Start)
- Special Education
- Career, Technical, and Adult Education

Financial Services and General Government: Payment to Postal Service
Transportation, Housing and Urban Development: Tenant-based Rental Assistance
Project-based Rental Assistance

Point of Order Against Legislation Increasing Short-term Deficit
The Chairman's Mark updates the expiration date in the point of order against legislation that increases the short-term deficit.

Emergency Legislation
The Chairman's Mark makes technical changes in the emergency legislation designation to provide consistent treatment for emergency legislation with respect to enforcement of various points of order and revisions pursuant to deficit-neutral reserve funds.

Application and Effect of Changes in Allocations and Aggregates
The Chairman's Mark details the adjustment procedures required to accommodate legislation provided for in this resolution, and requires adjustments made to be printed in the Congressional Record. For purposes of enforcement, the levels resulting from adjustments made pursuant to this resolution will have the same effect as if adopted in the levels of Title I of this resolution. The Committee on the Budget determines the budgetary levels and estimates required to enforce budgetary points of order, including those pursuant to this resolution and the Congressional Budget Act of 1974.

Adjustments to Reflect Changes in Concepts and Definitions
The Chairman's Mark allows the Chairman of the Committee on the Budget to adjust levels in this resolution upon the enactment of legislation that changes concepts or definitions.

Exercise of Rulemaking Powers
This section of the Chairman's Mark recognizes that the provisions of this resolution are adopted pursuant to the rulemaking power of the Senate, and also recognizes the Constitutional right of the Senate to change those rules as they apply to the Senate.

Economics

Chairman's Mark Based on CBO's Economic Assumptions

The Chairman's Mark is built on CBO's assumptions about the future path of the U.S. economy. In March, CBO updated its economic outlook to include its reassessment of the near-term outlook in light of recent economic indicators, as well as the economic recovery package signed into law by the President in February. CBO now expects that the U.S. recession will end in the second half of this year with economic activity beginning to recover next year and continue rising toward its trend pace in subsequent years. However, as CBO notes, the economic environment is extraordinarily unsettled at the moment, both here and abroad, and that subjects all economic forecasts to more than the usual amount of uncertainty.

<u>CBO's economic assumptions</u>

CBO expects that real (inflation-adjusted) GDP will decline by 3.0 percent in 2009, before a recovery takes hold in 2010 which will lift growth to 2.9 percent in 2010 and 4.0 percent in 2011. The unemployment rate is likely to continue rising through this year before peaking at 9.0 percent in 2010 (on average for the year) and declining toward its trend level thereafter. Consistent with its forecast pattern of recession and recovery in production and unemployment, CBO expects inflation in the consumer price index (CPI) to decline 0.7 percent this year before rising toward its trend pace in subsequent years. Interest rates are also expected to reflect the cyclical pattern, remaining very low this year and next, before rising steadily to their long-term projected levels thereafter.

CBO's baseline now includes the fiscal stimulus enacted in February. The economic recovery package will work to boost economic activity over the near term. CBO has calculated a range of potential effects of stimulus. CBO estimates that the economic recovery package would raise the level of employment by between 1.2 and 3.6 million jobs by the end of next year, relative to what would have prevailed in the absence of the stimulus.

<u>Comparison with other forecasts</u>

CBO assumes a somewhat larger contraction in economic activity this year than do most of the private-sector forecasters surveyed for the Blue Chip consensus, but a stronger recovery beginning next year (see table). Reflecting those differences in growth assumptions, CBO expects the unemployment rate to be higher than the Blue Chip consensus this year, only slightly lower than the Blue Chip next year, and lower yet in 2011. CBO has lowered its near-term forecast for inflation to be consistent with the unusually rapid runup in the unemployment rate since mid-2008 which leaves expected unemployment higher this year. As a result, CBO's forecast for inflation in the consumer price index (CPI) is now consistently below the average of the Blue Chip forecasts beginning in 2011. Reflecting its assumption for high unemployment and subdued inflation, CBO's near-term forecasts for interest rates are generally lower than those of most of the Blue Chip forecasters.

CBO's forecast for real growth is substantially lower than the Administration's this year, slightly lower next year, and the same in 2011. CBO expects the unemployment rate to be well above the Administration's forecast through the near term which, in turn, implies lower expected inflation and interest rates.

One way of summarizing the potential net impacts of those various cyclical forecasts on near-term budget revenues is to compare forecasts for the level of nominal GDP in 2010. CBO expects nominal GDP to average $14,576 billion next year – that is 2.2 percent below the Administration's forecast. CBO's forecast is $71 billion (0.5 percent) higher than the typical (median) Blue Chip forecast for nominal GDP in 2010 ($14,505 billion) and well inside the range of Blue Chip forecasts.

For the longer term (2016-2019), CBO assumes that the economy sustains growth at an average annual rate of 2.3 percent, a pace that CBO estimates to be consistent with a stable CPI inflation rate of 1.9 percent per year. Both the Administration and the Blue Chip forecasters project a higher 2.6 percent annual growth rate for real GDP and higher inflation as well.

<u>Forecast uncertainty</u>
While forecasts of the level of economic activity are always uncertain, the level of uncertainty grows significantly during periods of economic volatility, and that near-term uncertainty inevitably compounds over the longer term.

CBO made this point in a November 2007 report on its own economic forecasting record. The agency stated: *"Inaccuracies in a forecast increase when the economy is more volatile and when economic trends change. All three groups of forecasters – CBO, the Blue Chip, and the Administration – made relatively large errors when forecasting for periods that included turning points in the business cycle …"*

We are facing such a period of volatility right now. However, in addition to the heightened uncertainty due to the economic downturn, economic forecasts are currently subject to an extraordinary degree of downside risk. For example, by assuming some degree of recovery from the recession in 2010, most private-sector forecasters (as well as the Administration and CBO) are necessarily assuming that financial market conditions will stabilize to some degree by early next year. If financial markets are not significantly stabilized by then, the recovery may be delayed.

In addition, the global economic environment is currently more precarious than at any time in the postwar period. Leading forecasters of global economic activity, such as the IMF, OECD, and the World Bank have dramatically downgraded their near-term forecasts of world growth over the past year. Last November, for example, the IMF expected world economic growth to average 2.2 percent in 2009. By contrast, the IMF now expects that global output will contract by one-half to one percent this year, which would be the worst performance since the end of World War II.

The global environment is particularly fluid with economic activity in Western Europe and Japan contracting sharply, and with even more significant deteriorations in Central and Eastern Europe. Whether those trends continue depends critically on the scale and scope of countercyclical policies, particularly in Western Europe. The economic and financial crises overseas have a direct effect on the U.S. economy (inhibiting demand for U.S. exports) and banking system. As a result, the risks of greater-than-expected deterioration overseas further widen the uncertainty attending the near-term U.S. outlook.

In its reestimate of President Obama's budget, released on March 20, CBO noted the higher-than-normal degree of uncertainty of its current forecast. The agency stated: *"CBO's current forecast, particularly for the near term, is subject to a greater than normal degree of uncertainty. … Both the magnitude of the contractionary forces operating in the economy and the magnitude* *of the government's actions to stabilize the financial system and stimulate economic growth are outside the range of recent experience."*

Economic Uncertainty Affects Long-Term Projections
As part of its effort to increase transparency, the Obama administration returned to the practice of presenting a 10-year budget this year. However, there is a great deal of uncertainty in the economic forecast right now. The Chairman's Mark, therefore, follows the more common practice – and the statutory requirement – of presenting a five-year budget plan.

The reality is we simply don't know how long the current downturn will last and how severe it will be. And the uncertainty surrounding our near-term economic projections makes long-term projections even more uncertain than they normally are.

In using a five-year window, the Chairman's Mark is following the more common framework for Congressional budget resolutions. In fact, in the 34 years since the Congressional budget process was started, the Senate has only had four budget resolutions covering 10 years. And since 2003, all budget resolutions have been five-year resolutions.

It is also important to note that although the Chairman's Mark covers five years, the enforcement rules of the resolution cover a 10-year period. For example, the paygo rule requires that legislation be fully offset over six and 11 years, even though those last five years are not projected out in the budget resolution.

Returning to Fiscal Responsibility: The Current Crisis and Beyond
The extraordinary uncertainty over the ultimate duration and depth of the current U.S. downturn complicates both monetary and fiscal policy over the near term. The legacy of fiscal irresponsibility left behind by the Bush administration further complicates fiscal policy for the Obama Administration and the new Congress.

Against this current backdrop of uncertainty, history has provided some clear lessons for the role of fiscal policy during crises and their aftermaths. The Chairman's Mark responds to the challenge of reversing eight years of fiscal irresponsibility. Over the near term, fiscal responsibility demands that the government take strong and effective steps to offset the adverse effects of the economic downturn and the crises in financial and housing markets. Over the longer term, fiscal responsibility demands a return to fiscal discipline that will be necessary to support sustained growth in living standards for all Americans. Along with fiscal discipline, the composition of the federal budget must be shifted toward productivity-enhancing initiatives that would further enhance growth in living standards.

<u>The Bush legacy of fiscal irresponsibility</u> In 2001, the Bush administration inherited a record budget surplus, the hard-won result of fiscal discipline achieved over the previous decade. By the time President Bush left office, the structural budget had swung from surplus to unrelenting deficits. The staggering rise in the debt largely reflected years of deficit-financed war spending and tax cuts for the wealthiest Americans.

The Bush administration and its fiscal profligacy left their mark on national investment and savings. In 2000, net U.S. investment was 8.7 percent of GDP, with more than two-thirds of that investment financed by domestic savings and the remainder by foreign borrowing. That profile was similar to the U.S. average over the 1950-2000 period. However, the U.S. saving-investment balance shifted adversely under Bush Administration policies. Net U.S. investment dropped to only 6.3 percent of GDP in 2007. Moreover, that investment was financed far more heavily by foreign borrowing, which accounted for more than 80 percent of net domestic investment in 2007. The foreign financing of growth in domestic investment contributes little to growth in domestic living standards.

The Bush administration's legacy of deficits and debt were not particularly effective in promoting economic growth. Moreover, they depleted federal balances that might otherwise have been used to offset the effects of the current economic downturn and the crises in financial and housing markets.

<u>Fiscal responsibility during times of crisis</u>

The history of financial crises has yielded a number of stylized facts that provide guidance for fiscal policy in the current crisis. Among the most robust of those stylized facts are: (1) financial crises tend to make the concurrent economic downturns both longer and deeper than recessions that occur without extraordinary financial stress; and (2) during financial crises and their immediate aftermath, nations experience substantial increases in their national debt. Importantly, such increases in public debt during and following financial crises are all but inevitable. That is to say, the public debt will tend to rise when nations choose to offset the economic effects of the financial crisis with fiscal policy; alternatively, if nations choose to not offset those economic effects, the public debt rises because the economic downswing is both deeper and longer than it would otherwise have been, and government revenues diminish substantially.

It would be fiscally irresponsible for the federal government to not step in to help stabilize the economy and financial markets. So far this year, under the leadership of the Obama Administration, the Congress has already enacted a substantial stimulus package as well as a variety of initiatives to mitigate mortgage foreclosures and help stem the declines in home prices.

<u>Fiscal responsibility during stable times</u>

By lowering the deficit, the Chairman's Mark will reduce the federal government's drag on national saving, and will thereby open opportunities for households and businesses to finance productive investments that otherwise might not be made. Ultimately, reducing the deficit will also stem the explosive rise in federal borrowing that has substantially raised U.S. indebtedness to foreign lenders in recent years.

Even as the nation moves toward fiscal discipline, the composition of the federal budget must also change so that it is more supportive to long-term growth than it has been during the Bush era. The Chairman's Mark will aid the economy over the longer-term by increasing the effectiveness of the provision of health care and ensuring that more Americans will have access to quality health care. Additionally, the Chairman's Mark provides for important investments in energy, education, and infrastructure. Over the long term, such investment would work to improve U.S. productivity and living standards.

Comparison of Economic Assumptions

	2009	2010	2011	Annual Average 2012 to 2015	Annual Average 2016 to 2019
Percent change, calendar year over calendar year					
Nominal GDP					
President's Budget	0.1	4.3	5.5	5.4	4.4
CBO	-1.5	3.8	4.5	4.5	3.9
Blue Chip Survey	-1.4	3.2	5.1	5.2	4.9
Real GDP					
President's Budget	-1.2	3.2	4.0	3.6	2.6
CBO	-3.0	2.9	4.0	3.6	2.3
Blue Chip Survey	-2.6	1.9	3.4	3.0	2.6
GDP Price Index					
President's Budget	1.2	1.1	1.5	1.8	1.8
CBO	1.5	0.8	0.5	0.9	1.6
Blue Chip Survey	1.2	1.2	1.7	2.2	2.3
Consumer Price Index (CPI-U)					
President's Budget	-0.6	1.6	1.8	2.1	2.1
CBO	-0.7	1.4	1.2	1.2	1.9
Blue Chip Survey	-0.8	1.6	2.1	2.4	2.5
Percent, calendar year average					
Unemployment Rate					
President's Budget	8.1	7.9	7.1	5.3	5.0
CBO	8.8	9.0	7.7	5.6	4.8
Blue Chip Survey	8.6	9.1	8.1	6.3	5.5
3-Month Treasury Bill Rate					
President's Budget	0.3	1.6	3.4	4.0	4.0
CBO	0.3	0.9	1.8	4.0	4.7
Blue Chip Survey	0.3	1.0	2.8	4.0	4.2
10-Year Treasury Note Rate					
President's Budget	2.8	4.0	4.8	5.2	5.2
CBO	2.9	3.4	4.0	5.1	5.6
Blue Chip Survey	2.9	3.7	4.5	5.2	5.4

Sources: OMB, *A New Era of Responsibility: Renewing America's Promise* (February 2009); CBO, *A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook* (March 2009); and Aspen Publishers, *Blue Chip Economic Indicators* (March 2009).

Reserve Funds

The Chairman's Mark includes a number of reserve funds that will allow the Chairman to revise committee allocations, budgetary aggregates, limits, and other levels in the resolution for deficit-neutral legislation to address the following priorities.

MODERNIZING AND TRANSFORMING AMERICA'S HEALTH CARE SYSTEM: The Chairman's Mark includes a reserve fund for health reform legislation that expands affordable coverage, improves health care quality and health outcomes, and constrains costs, provided that such legislation is deficit-neutral over 11 years, reduces excess cost growth in health care spending, and is fiscally-sustainable over the long-term. The reserve fund reflects the eight principles for health reform outlined in the President's budget and provides maximum flexibility to the authorizing Committees to determine the appropriate level of spending and the offsets that may be required to pay for these investments. The Chairman's Mark also includes a reserve fund to increase the reimbursement rate for physician services under Medicare Part B or to encourage physicians to train in primary care residencies and ensure an adequate supply of residents and physicians, provided that such legislation is deficit-neutral over six years and 11 years.

INVESTING IN CLEAN ENERGY AND PRESERVING THE ENVIRONMENT: The Chairman's Mark includes a deficit-neutral reserve fund for legislation that would invest in clean energy or preserve the environment. The reserve fund could be used for legislation to reduce our Nation's dependence on imported energy, produce green jobs, promote renewable energy development, create a clean energy investment fund, improve electricity transmission, encourage conservation and efficiency, make improvements to the Low-Income Home Energy Assistance program, implement water settlements, or preserve or protect national parks. The legislation could include tax proposals. The reserve fund could also be used for legislation that would invest in clean energy technology initiatives, decrease greenhouse gas emissions, or help families, workers, communities and businesses make the transition to a clean energy economy.

IMPROVING HIGHER EDUCATION: The Chairman's Mark includes a reserve fund for deficit-neutral legislation that would make higher education more accessible or more affordable, which may include legislation to expand and strengthen student aid, such as Pell grants, or increase college enrollment and completion rates for low income students, or provide tax incentives.

STRENGTHENING CHILD NUTRITION AND WIC: The Chairman's Mark includes a reserve fund for deficit-neutral legislation that would reauthorize child nutrition programs and/or the Special Supplemental Nutrition Program for Women, Infants, and Children (the WIC program),

INVESTING IN INFRASTRUCTURE: The Chairman's Mark provides a reserve fund for deficit-neutral legislation that would provide a sustained robust federal investment in infrastructure, which may include public housing, energy, water, or other infrastructure projects; would provide new budget authority for surface transportation programs to the extent such new budget authority is offset by an increase in receipts to the Highway Trust Fund (excluding transfers from the general fund of the Treasury into the Highway Trust Fund not offset by a similar increase in receipts); and that would authorize multimodal transportation projects.

PROMOTING ECONOMIC STABILIZATION AND GROWTH: The Chairman's Mark provides a reserve fund for deficit-neutral legislation that would; revitalize and strengthen the domestic manufacturing sector; provide tax relief; provide for comprehensive tax reform; or provide for flood insurance reform. The fund could also be used for deficit-neutral legislation related to housing assistance or trade.

INVESTING IN AMERICA'S VETERANS AND WOUNDED SERVICE MEMBERS: The Chairman's Mark includes a deficit-neutral reserve fund for legislation that would expand the number of disabled military retirees who receive both disability compensation and retired pay, or would accelerate the date by which eligible retirees under section 1414 of title 10, United States Code, will fully receive both veterans' disability compensation and retired pay; eliminate the offset between Survivor Benefit Plan annuities and Veterans' Dependency and Indemnity Compensation; or expand veteran's benefits (including enhancing programs and activities to increase the availability of health care and other veterans services for veterans living in rural areas).

JUDICIAL PAY, JUDGESHIPS, AND ASSISTING POSTAL RETIREES: The Chairman's Mark includes a reserve fund for deficit-neutral legislation that authorizes salary adjustments for justices and judges of the United States or increases the number of federal judgeships. The reserve fund would also apply to deficit-neutral legislation relating to funding adjustments for United States Postal Service retiree health coverage.

REFORMING DEFENSE ACQUISITION AND CONTRACTING: The Chairman's Mark includes a reserve fund for deficit-neutral legislation that would reform Department of Defense processes for acquiring weapons systems or reduce the use of no-bid and cost-plus contracts. The reserve fund could be used for legislation that enhances the capability of the acquisition or contracting workforce in any Federal department to achieve better value for taxpayers.

INVESTMENTS IN OUR NATION'S COUNTIES AND SCHOOLS: The Chairman's Mark includes a reserve fund for deficit-neutral legislation that would reauthorize the Secure Rural Schools and Community Self Determination Act of 2000 (Public Law 106–393), make changes to the Payments in Lieu of Taxes Act of 1976 (Public Law 94–565), or both.

STRENGTHENING THE FOOD AND DRUG ADMINISTRATION: The Chairman's Mark includes a reserve fund for deficit-neutral legislation that would authorize the Food and Drug Administration to (1) regulate products and assess user fees on manufacturers and importers of those products to cover the cost of the Food and Drug Administration's regulatory activities, and/or (2) permit the safe importation of prescription drugs approved by the Food and Drug Administration from a specified list of countries.

NOTE: All years are fiscal years unless otherwise noted.