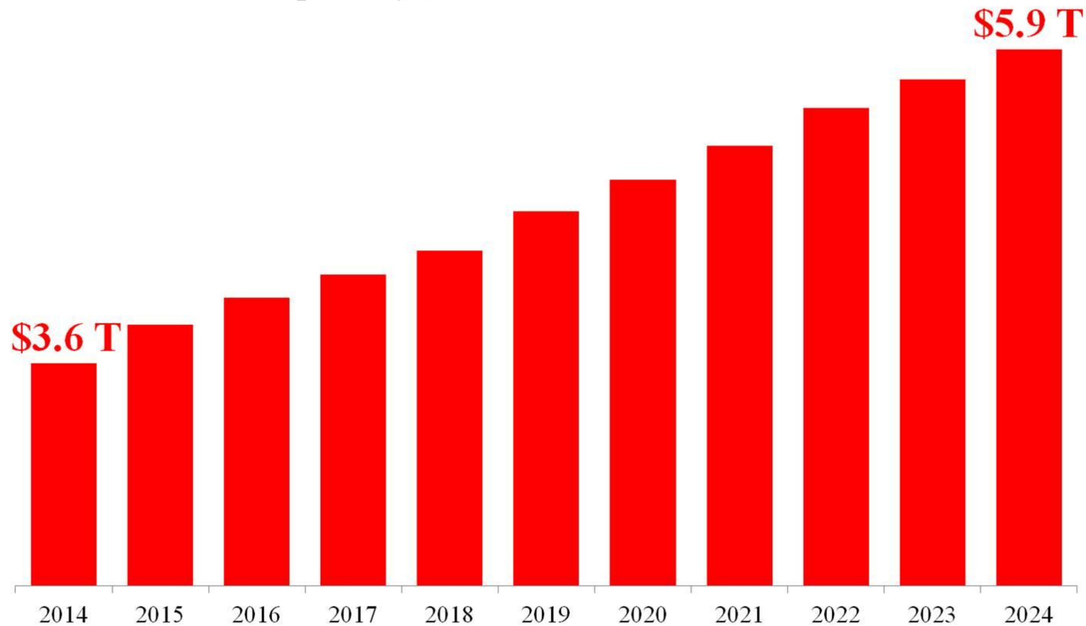
United States Senate Budget Committee

JEFF SESSIONS | Ranking Member

The President's FY 2015 Budget:

GROWING THE GOVERNMENT AND SHRINKING THE MIDDLE CLASS



THE PRESIDENT'S FY 2015 BUDGET:
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Please note:

- *All years are fiscal years unless otherwise noted.*
- *Tables may not add due to rounding.*

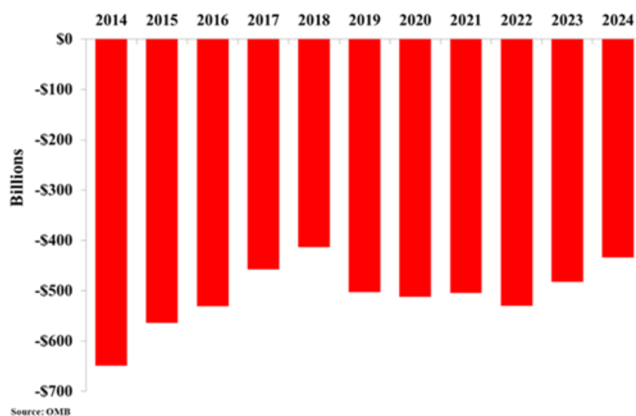
Overview

The Office of Management and Budget (OMB) projects that the deficit will be $649 billion in the current year (2014) and $564 billion in 2015. This compares with deficits in the baseline scenario of the Congressional Budget Office (CBO) of $514 billion in 2014 and $478 billion in 2015.

OMB's deficits are much higher than CBO's for two reasons. First, the President calls for higher spending in his budget—$114 billion more in 2015 alone. Second, OMB does not expect baseline revenue collections will be as robust as CBO; over the two years 2014 and 2015, OMB projects baseline tax collections will be $78 billion below CBO's estimate.

Under the President's fiscal policies, deficits decline from their high point of $649 billion in the current fiscal year, to a low point of $413 billion in 2018. Thereafter, they average $494 billion per year. In 2024, the President's budget would result in deficits of $434 billion.

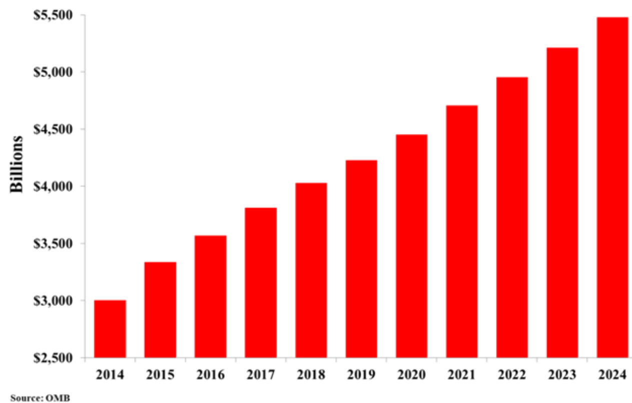
Deficits total $4.9 trillion over the 10 years covered by the budget. Total deficits are $3.0 trillion below CBO's February baseline estimate of $7.9 trillion. Of that difference, $1.0 trillion is the net effect of the President's tax increases minus the President's spending increases, and $2.0 trillion is the effect of different baseline assumptions.



Spending Surges

Spending in the current year would increase by $29 billion relative to OMB's baseline, to a total of $3.651 trillion. About $15 billion of that increase would come from extending Emergency Unemployment Compensation (EUC), $6 billion from extending the Medicare "doc fix," $5 billion from relieving the Postal Service from certain payments required under current law, and $2 billion as a reserve for additional federal assistance for relief and reconstruction following major disasters.

Spending in 2015 would total $3.901 trillion under the President's policies, an increase of nearly 8 percent ($279 billion) above today's levels. This is $114 billion more than the OMB baseline, which assumes compliance with the Budget Control Act (BCA) as revised by the Ryan-Murray spending agreement.



Much of the new spending in 2015 would stem from the President's proposed "Opportunity, Growth, and Security Initiative," which would provide an additional $28 billion for non-defense and $28 billion for defense above the discretionary spending caps set just two months ago in the Ryan-Murray spending agreement. The budget does not allocate the additional funds among programs, but rather provides a laundry list of items that the new spending could support. **The President uses his stimulus initiative to call for an increase in the discretionary spending caps while still claiming that he adheres to the agreement that he recently signed.**

Other noteworthy new spending in 2015 includes $10 billion for education (principally student loan forgiveness); $8 billion for training the long-term unemployed, displaced workers, and summer jobs for youth; $6 billion for immigration reform; $5 billion for Medicaid enhancements related to provider shortages; and about $25 billion to continue the Medicare "doc fix," EUC, and Postal Service policies that the President would start in 2014.

For 2016–2021, the remaining years of the BCA time period, the administration proposes increasing the discretionary limits by $315 billion, split evenly between defense and non-defense. When the discretionary spending increase from the President's 2015 Initiative is included, the President's budget would exceed current law BCA limits by $371 billion over the 2015–2021 period.

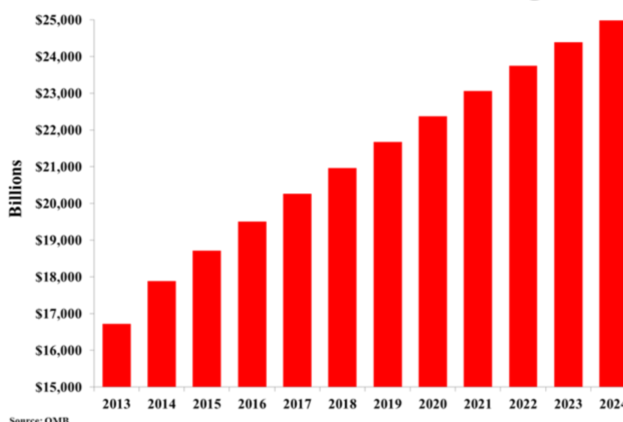
By 2024, total spending would reach $5.912 trillion under the President's policies, an increase of 63 percent from today's levels. Spending in 2024 would be $60 billion below baseline levels under the President's policies. However, cuts to Medicare providers in that year of $71 billion would account for more than the amount of net spending reduction.

Mandatory spending, largely on entitlement programs such as Social Security, Medicare, and Medicaid, will grow from $2.2 trillion this year to $3.9 trillion in 10 years—a total increase of 78 percent (with an annual growth rate of 5.9 percent). Growth in mandatory spending is driven by two factors: rapidly rising health care costs and an aging population that is moving into retirement.

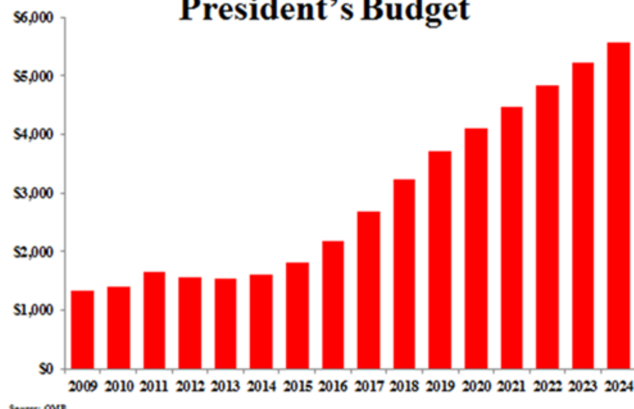
Spending on the combined Social Security program (retirement plus disability) will exceed $1 trillion for the first time in 2017. Spending on Medicare and Medicaid, combined, will exceed $1 trillion by 2019.

Debt Explodes and Interest Skyrockets

Gross federal debt, which includes amounts owed to the Social Security and Medicare trust funds, will climb from $16.7 trillion at the end of 2013 to $25.0 trillion at the end of 2024. Five years ago, at the end of 2008, gross debt totaled $10.0 trillion. Our debt is also reaching outsized proportions of the economy. Under OMB's forecast, total debt in 2024 would be 91 percent of gross domestic product (GDP).



The federal government will spend $223 billion this year to cover interest costs on the debt. By 2020, interest payments will total $616 billion and will exceed the costs of national defense. By 2024, interest costs reach a staggering $812 billion. Despite historically low interest rates, interest costs on federal debt increase every year in the President's budget, rising at an annual average rate of about 14 percent (over six times the rate of inflation).



The per worker interest burden would increase to $424 per month (more than $5,000 per year) under the President's policies in 2024—a more than fourfold increase. The per worker interest burden was $111 per month when President Obama took office.

Revenues

The President's budget recommends $1.759 trillion in higher revenues over the next 10 years. This includes $456 billion more in tax collections presumed under broad-based immigration reform. The budget also includes $245 billion in new spending through tax policies such as expanding the Earned Income Tax Credit (EITC) to childless adults and changes to refundable tax credits originally included in the 2009 stimulus bill. The budget also assumes $1.386 trillion in higher revenues from generous economic assumptions that have inflated the President's revenue baseline. The total difference between the new revenues included in the President's budget and the CBO baseline is $3.145 trillion over 10 years.

Policies Affecting Individuals

Additional Limitations on Deductions and Exclusions: The President's budget includes a proposal that would limit the tax benefit of deductions and certain exclusions to 28 percent of the value of those deductions and exclusions. Exclusions subjected to the limitation include contributions to employer-sponsored health insurance and health savings accounts, as well as employee contributions to retirement accounts. Over 10 years, OMB estimates that this proposal will raise $598 billion. This limitation would be applied after the limitation on itemized deductions in current law known as "Pease." The Pease limitation on deductions was eliminated by the Economic Growth and Tax Relief Reconciliation Act of 2001 and restored in 2013 as part of the American Taxpayer Relief Act (ATRA).

The President's proposed 28 percent cap on deductions on top of the Pease limitation would reduce the tax savings from applicable itemized deductions to 5.6 percent for higher income taxpayers (or the 20 percent minimum deduction allowed under Pease multiplied by the 28 percent cap). This would significantly increase the progressivity of the tax system as those with incomes less than the Pease limitation (the 33 percent tax bracket) would be able to claim the full value of the deductions and exclusions. CBO has reported, however, that many small businesses would shoulder this new tax increase because 94 percent of U.S. businesses are organized as pass-through entities (LLC's, S-corporations, partnerships) and subject to the individual income tax.

Impose of a Minimum Tax on High Income Taxpayers: Similar to last year, the President's budget includes the "Buffett rule," which is a new tax on individuals making more than $200,000 and couples making more than $250,000. This new tax would be applied so that total taxes paid would equal at least 30 percent of income and would be applied after (1) the 39.6 percent maximum marginal tax rate and (2) the 3.8 percent tax on investment income that was included in the Patient Protection and Affordable Care Act (PPACA). Over 10 years, OMB estimates that this proposal would increase taxes by $53 billion, in combination with the limitation on itemized deductions.

Estate Tax Increase: The President also seeks to resurrect the estate tax debate that was settled last year as part of the American Taxpayer Relief Act of 2012 (ATRA). The 2010 Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act set a single rate of 35 percent and a $5 million exemption (indexed for inflation) through 2012. The ATRA increased the rate to 40 percent and set the exemption at $5.12 million, indexed for inflation (the exemption in tax year 2014 is $5.34 million). The President proposes to return to the 2009 rate of 45 percent with a $3.5 million exemption, *not* indexed for inflation, beginning in 2018. Over 10 years, OMB estimates that this proposal would increase death taxes by $131 billion.

Tobacco Tax: Similar to last year, the President's budget includes a new tax on tobacco. He proposes to raise the current federal tax from $1.01 per pack to $1.95 and index it to inflation, and he would increase taxes on rolling paper and loose tobacco as well. OMB expects the tobacco taxes would raise $78 billion over 10 years.

Expanded Refundable Tax Credits for Young Workers: Under current policy, childless adults under the age of 25 are ineligible for the Earned Income Tax Credit (ETIC). The President's budget would lower to 21 the age of eligibility for the EITC, increase the phase-in rate for the credit, and increase the maximum benefit for childless adults. Over 10 years, OMB estimates that this proposal would increase spending by $51 billion and reduce revenues by $9 billion.

More Tax Breaks for Alternative Energy: The President's budget creates two more tax credits for vehicles that use alternative sources of energy, extends credits for biofuel, and reduces the excise tax on liquefied natural gas. OMB estimates that these tax breaks will reduce revenues by $7.1 billion over the next 10 years.

Continue 2009 Stimulus Policies: The President's budget recommends making permanent several changes to refundable tax credits that were originally included in the 2009 stimulus law and extended through 2017 by the ATRA. These credits include the creation of the American Opportunity Tax Credit for education, the reduced earnings threshold for the Child Tax Credit, and the additional phase-out range for married couples, and the additional credit for larger families for the EITC. OMB estimates that these proposals would increase spending by $110 billion and reduce revenue by $43 billion over 10 years.

Policies Affecting Businesses

Business Tax "Reform": The President's budget includes many of the same proposals found in previous budgets that would raise taxes on multinationals and oil/gas companies, provide additional welfare through low-income housing credits, or lower taxes by making the research and development tax credit permanent. Similar to last year, the budget proposes a

deficit neutral reserve fund for "business tax reform" that could be used to replace current tax preferences with lower tax rates. However, rather than lowering rates, the President proposes using the process to replace current tax preferences with other tax preferences. For instance, the proposal increases taxes on companies that produce oil, gas, and coal (which would also increase energy prices), while simultaneously providing tax advantages to New York City for transportation projects.

The President's business tax proposal is front-loaded with most of the tax breaks implemented over the first few years, while the larger tax increases begin later. **The business tax "reform" proposal would not lower rates, but would increase taxes on businesses by a total of $248 billion over 10 years, according to OMB.**

In addition, the President claims to set aside $150 billion in revenue raised from business tax reform to provide for new transportation spending. Therefore, any revenue left over would significantly hurt any possibility of using the President's businesses tax reform to lower rates.

<u>Unemployment Insurance Surtax and Wider Tax Base:</u> The President's budget recommends reinstating the 0.2 percent surtax on the federal payroll tax used to fund unemployment benefits. The surtax expired on July 1, 2011. The budget also expands the annual wage base used in assessing the payroll tax used to fund unemployment insurance from $7,000 to $15,000 per worker. OMB estimates that these two policies together will increase revenues by $74 billion over the next 10 years.

<u>Tax on Financial Companies:</u> The President's budget includes several taxes on financial companies, including a new fee on businesses that received money under the Troubled Asset Relief Program (TARP) and that have at least $50 billion in assets. OMB estimates that new direct taxes on financial companies will raise $56 billion over the next 10 years.

<u>Delay the Employer Mandate Penalty:</u> The budget supports the President's unilateral delay of the employer mandate penalty for businesses with less than 100 employees until tax year 2016 and for businesses with 100 or more employees until 2015. Included in PPACA, the employer mandate penalty was originally supposed to go into effect in 2014.

PRESIDENT'S TAX PROPOSALS IN FY 2015 BUDGET

(Revenue Increases (+) or Decreases (-) $ billions)

	2015	2015-24
CBO Baseline Revenue Level	**3,305**	**40,630**
OMB Baseline Revenues from Generous Economic Assumptions	**-54**	**1,386**
OMB Baseline Revenue Level	**3,251**	**42,016**
Revenue Put into the Baseline[a,b]	**-0**	**-43.4**
OMB Adjusted Baseline	**3,251**	**41,973**
Policies Affecting Individuals:		
28% Limitation on Itemized Deductions and Exclusions	27	598
"Buffett Rule" / Minimum Tax	11	53
Raise Estate and Gift Taxes	0	131
Limit Accrual of Retirement Plans	1	29
Tobacco Tax	8	78
Tax carried interest as income	2	14
Expanded EITC for Childless Adults[b]	0	-9
Expanded Child and Dependent Care Tax Credit[b]	0	-6
Automatic enrollment in IRAs and related[b]	0	-15
Other	-9	-45
Subtotal	40	828
Policies Affecting Businesses		
"Transition to Reformed Business Tax System"	38	150
Fee on Financial Companies	0	56
Raise Unemployment Surtax / Tax Base	-2	74
Conform SECA taxes for service business	2	38
Stimulus	-1	-28
Other	5	48
Subtotal	42	338
Tax Gap Changes	1	17
Tax System Changes	1	11
Taxes Paid Via Policy To Legalize Illegal Immigrants, and Other Immigration Changes	2	456
Revenue Effects from Other Mandatory Proposals	1	67
Business tax proposals not included in the revenue aggregate	10	248
Other	0	42
Total, net effect of budget proposals on revenues relative to OMB unadjusted baseline	*86*	*1,759*
Total, net effect of budget proposals on revenues relative to OMB adjusted baseline	*86*	*1,802*
President's Budget Revenues	**3,337**	**43,775**
% of GDP	18.3%	19.2%

(a) The President's budget makes permanent the American Opportunity Tax Credit as well as changes made to the Earned Income Tax Credit and the Child Tax Credit as part of the 2009 stimulus.

(b) Proposal affects outlays, only the receipt effects are shown here. New spending embedded in the President's tax proposals equals $245 billion over 10 years.

(c) Spending proposals that have a revenue impact like the financial crisis fee, UI reforms and the IRS cap adjustment.

Note: Totals may not add due to rounding.

Stimulus Spending

The President's budget proposes to spend an additional $56 billion in 2015, split evenly between defense and non-defense, a breach of the discretionary spending caps set by the Ryan-Murray Bipartisan Budget Act (BBA) of 2013. That spending agreement increased the discretionary spending caps established by the 2011 Budget Control Act (BCA) by $45 billion in 2014 and $18 billion in 2015, respectively.

The President claims that his "Opportunity, Growth, and Security Initiative" is "fully paid for" and that his budget still abides by the BBA caps he signed into law on December 26, 2013. However, just 10 weeks later, the President has proposed a budget that vitiates these spending caps simply because he characterizes it as "stimulative." The President also fails to propose any offsets for, or specifically list individual allocations of, the billions of dollars he hopes to spend.

Components of the President's Stimulus Plan

"Race to the Top" for Energy Efficiency: The President's budget includes one-time stimulus funding for an energy efficiency "race to the top" program that would award states grants based on their proposals to create energy efficiency programs. However, States already are enacting the laws and regulations to enable such projects to move forward—and without the financial risks of a Solyndra-like loss for taxpayers.

Manufacturing Institutes: The President requests $5 million as part of regular appropriations and an unspecified amount in stimulus funding to create a "National Network of Manufacturing Innovation." The network is envisioned to be a consortium of public-private centers of innovation in the manufacturing field. The National Institute of Standards and Technology would help oversee the program, provide start-up funding for projects, and help coordinate collaboration among stakeholders. Other federal agencies would also participate financially, particularly the Departments of Energy, Defense, and Agriculture, as well as NASA and the National Science Foundation. There are currently four such institutes and the President has committed to launching five more, with a goal of reaching 45 total institutes spread across the county.

Job Training: The President intends that a portion of the increase in non-defense discretionary go to provide additional funds to community colleges and on-the-job training initiatives, including a new apprenticeship program. These initiatives are in addition to the nearly 50 job training programs currently funded by the federal government.

Education: OMB has yet to release exact figures, but the Administration has stated that of the $28 billion in non-defense discretionary spending, approximately $750 million would be

allocated to education. These funds would go towards enhancing his RESPECT grant initiative, which provides teachers in 500 districts with more access to professional development, and would increase Early Childhood Education with Preschool Development Grants by $250 million. These amounts are on top of the $5 billion mandatory increase over 10 years for RESPECT grants proposed in the Department of Education's budget.

More Taxes To Pay for More Spending

The President would pay for the $56 billion in new spending by increasing taxes and fees (approximately two-thirds of the offset) and cutting payments to farmers and crop insurance companies by re-writing the farm bill that he just signed (the remaining one-third of the offset). OMB estimates that establishing a new spectrum licensing fee, allowing the FCC to auction satellite services, limiting the total accrual of tax-favored retirement benefits, and increasing the aviation security fee, combined with the revenue effects of eliminating the concurrent receipt of disability payments and unemployment insurance, would increase revenues by $38.4 billion over 10 years. Some of these provisions would have an impact on spending as well. OMB estimates that reducing subsidies to crop insurance companies and payments to farmers, as well as eliminating concurrent receipt of DI and UI, would reduce spending by $17.7 billion over 10 years.

Long-Term Effects of Economic Stimulus

Prior to the 2009 passage of the stimulus bill (the American Recovery and Reinvestment Act, or ARRA), the Congressional Budget Office warned that the legislation would provide nothing less than a temporary "sugar high." Specifically, CBO warned: "in contrast to its positive near-term macroeconomic effects, the legislation would reduce output slightly in the long run."

Those negative estimates are beginning to materialize. CBO recently released a report coinciding with the five-year anniversary of the law's passage in which it observed that "the effects of ARRA on output peaked in the first half of 2010 and have since diminished… ARRA will reduce output slightly in the long run, CBO estimates—by between zero and 0.2 percent after 2016." In other words, CBO finds that the economy will be worse off in the long run than if the stimulus had never been passed at all.

Worse still, unlike the small, temporary economic boost that has come and gone, the stimulus' debt impact will be harmful and lasting. (It is also higher than initially forecast: the law now has an $830 billion price tag over the 10-year period ending in 2019, up from $787 billion initially.) This higher debt translates into higher interest costs, weaker growth, and diminished opportunities for future generations.

Discretionary Spending

The President's budget provides a detailed plan for $1.014 trillion in regular discretionary budget authority for 2015. Of that amount, $521 billion is allocated for defense and $492 billion for non-defense, in accordance with the limits provided in last year's Ryan-Murray spending package. (This is separate from the previously discussed $56 billion stimulus, which is above the caps.) The discretionary limit for 2015 is $1.4 billion greater than the 2014 caps, with the defense cap growing $800 million and the non-defense cap increasing by $600 million. Compared to 2008, the last full-year appropriations signed by President Bush, non-defense spending will have received an increase nearly three times larger than defense under the Ryan-Murray limits for 2015.

Discretionary Spending Levels

(Regular Appropriations, Nominal $ Billions, Budget Authority)

	2015	2008	$ Change	% Change
Defense	521	499	22	4%
Non-defense	492	434	59	14%
Total	1,014	933	81	9%

After adjusting for inflation, however, defense spending would be cut by 7 percent (or $38 billion) under this administration, while the request would provide non-defense spending with an increase of 1 percent (or $7 billion).

While the President's budget provides a detailed request at the Ryan-Murray levels for 2015, it also requests a cap increase of $56 billion, split evenly between defense and non-defense, through a proposed "Opportunity, Growth, and Security Initiative." The budget claims that this proposal is offset through a package of proposals, including spectrum reallocation, increased aviation security fees, crop insurance reform, and increased revenues. Spending through the proposed Initiative is not programmatically allocated but would allow for "investments in both defense and non-defense programs."

Opportunity, Growth, and Security Initiative:
Effect on FY 2015 Discretionary Levels

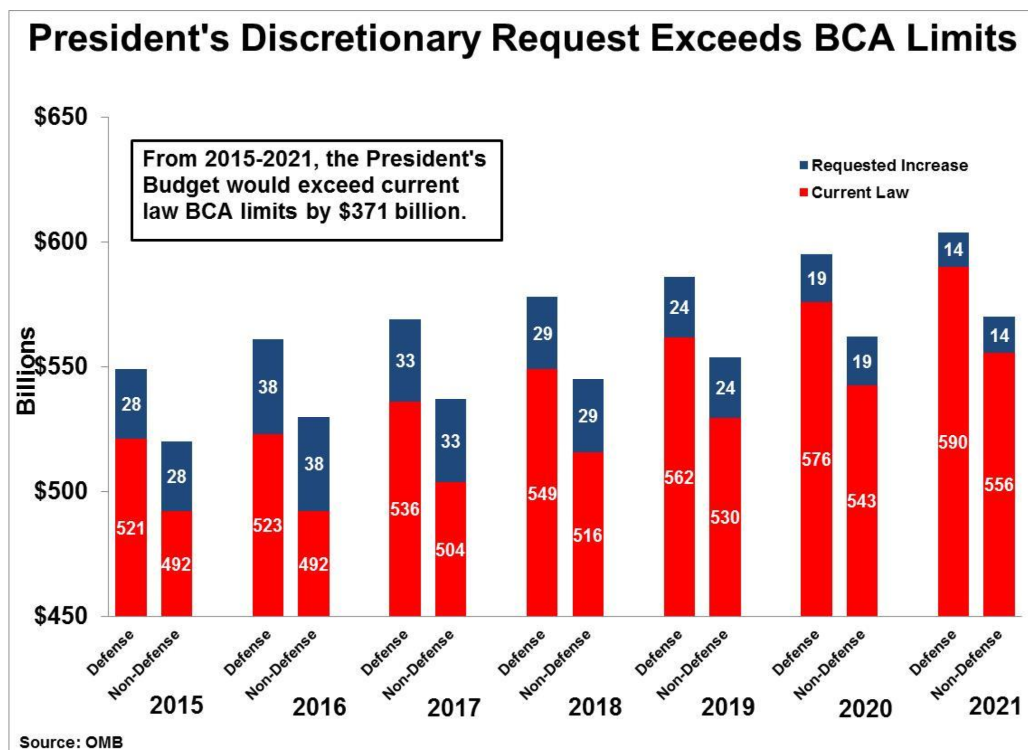
(Regular Appropriations, $ Billions, Budget Authority)

	Post-Initiative Levels	Current Law Limit	$ Change
Defense	549	521	28
Non-defense	520	492	28
Total	1,069	1,014	56

Combining the Initiative funds with the detailed discretionary request would provide a discretionary BA level of approximately $1,069 billion for 2015. Even with the inclusion of the Initiative spending, **defense spending would see a 2 percent cut and non-defense would receive a 7 percent increase in real terms from 2008 levels.**

The budget also asks for BCA cap adjustments for 2015: $85 billion for Overseas Contingency Operations (OCO), $7 billion for Disaster Relief, and $2 billion for Program Integrity initiatives. In addition to these cap adjustments, the budget proposes creating a new wildfire suppression cap adjustment, which would automatically increase the discretionary spending limits in instances when Congress appropriates more than 70 percent of the rolling 10-year average of total spending for wildfire suppression operations. The 10-year average would be calculated by the Administration and the adjustment would be capped at $2.7 billion annually. For 2015, OMB estimates that this new adjustment would increase the cap by $1 billion. Factoring in the detailed request, the Initiative, and the cap adjustments, the total discretionary request is approximately $1.164 trillion BA for 2015.

For 2016–2021, the remaining years of the BCA, the Administration proposes increasing the base discretionary limits by $315 billion, split evenly between defense and non-defense. The budget claims these increased caps are offset elsewhere in the budget through mandatory spending reductions and tax loophole closures. Including the increase from the Initiative, the President's budget would exceed current law BCA limits by $371 billion over the 2015–2021 period.



Over the 2015–2024 period, base discretionary funds requested total $11.536 trillion and $11.839 trillion when all cap adjustments are included.

Department of Defense

The President's budget proposes $495.6 billion for the Department of Defense (DoD) for 2015. This number excludes the additional $26.4 billion that would be provided to DoD for readiness and modernization efforts from the proposed Opportunity, Growth, and Security Initiative.

The DoD base budget request of $496 billion, which is approximately the same as last year's enacted amount, reflects reductions of approximately $31 billion and $45 billion from the funding requested for 2014 and 2015 in the President's budget submission last year, respectively. This roughly $75 billion difference is attributable to the previous budget submission's assumption that the BCA's cap reductions would not take place. Over the 2015–2019, the new Future Years Defense Program (FYDP) time period, this budget would provide $113 billion less than requested in the previous budget.

Department of Defense Request
(Regular Discretionary, $ Billions, Budget Authority)

	2014	2015	2016	2017	2018	2019	New FYDP 2015-2019
2014 Request	527	541	551	560	569	577	2,798
2015 Request	496	496	535	544	551	559	2,685
$ Change	-31	-45	-16	-16	-17	-18	-113

However, when compared to DoD's estimated share of current law defense limits, the current FYDP is actually $115 billion greater than sequester levels.

DoD proposes a slate of force structure, modernization, and infrastructure changes to comply with its budgetary constraints. In terms of force structure, the Army will fall from the estimated 510,000 active-duty end strength at the end of 2014 to around 450,000 soldiers in 2019 (current plans called for a reduction to 490,000), the smallest Army since before World War II. The Army National Guard and Reserves would also see a phased drawdown of 19,000 (from 354,000) and 7,000 soldiers (from 202,000), respectively. Active-duty Marines end strength will also decrease by 7,000 (from 189,000) by 2019. On the modernization front, in order to make resources available for high priority investments, other acquisitions will be slowed (armed unmanned systems) and platforms retired (A-10, U-2, Kiowa Warriors, etc.). The budget also requests a new Base Realignment and Closure (BRAC) round in 2017.

Following the inclusion of a provision in the Ryan-Murray spending package that cut pension payments for current and future military retirees, the President's budget also requests additional changes to DoD's compensation and benefits system. The budget proposes reducing the annual direct subsidy provided to domestic military commissaries by $1 billion (currently $1.4 billion) over a three-year period. It also proposes slowing the growth of tax-free housing allowances so that over time they would cover only 95 percent of housing expenses instead of the current 100 percent rate. The budget also includes proposals to increase TRICARE pharmacy copayments and Tricare-for-Life premiums, with mandatory savings of $3 billion and $1 billion, respectively.

Overseas Contingency Operations

The budget proposes $85.4 billion for OCO in 2015, a $6.5 billion reduction from the amount provided last year. The request includes $79.4 billion for activities under the Department of Defense and $5.9 billion for the Department of State and other international programs. As was the case for last year's budget submission, the request for 2015 is a placeholder, as no final agreements about the future presence of the United States in Afghanistan have been made. The Administration plans on submitting an amendment to its budget once a final determination on force levels has been made.

After 2015, the budget includes an annual placeholder of $29.9 billion for 2016–2021, reflecting the President's proposal to cap OCO budget authority at $450 billion over the 2013–2021 period. **Although placing caps on OCO is a budget gimmick, the Administration uses its OCO policy to claim nearly $700 billion in spending reductions.**

Mandatory Spending

The President's budget proposes nothing significant to arrest the disastrous fiscal trajectory of the United States, which is driven largely by federal entitlement programs. In fact, the President's mandatory spending proposals would increase this spending by $253 billion over the 11 years covered by the budget. Of that amount, $190 billion is spent between 2014 and 2016.[1]

CBO's most recent *Budget and Economic Outlook* projected a deficit of $478 billion in 2015. After this low point in President Obama's tenure, deficits resume a relentless climb, driven by ever-higher outlays:

> Because of the aging of the population, rising health care costs, and a significant expansion in eligibility for federal subsidies for health insurance, outlays for Social Security and the federal government's major health care programs are projected to rise substantially relative to the size of the economy over the next 10 years.[2]

According to the report, major health care program spending totaled 1.0 percent of GDP in 1974, growing to 4.8 percent of GDP in 2014 and 6.1 percent in 2024. For Social Security, spending has increased from 3.7 percent of GDP in 1974 to 4.9 percent today, and will increase to 5.6 percent in 10 years. As the debt continues to increase, net interest payments will rise to 3.3 percent of gross domestic product at the end of the budget window. **Without entitlement reform, this cycle of inexorably higher debt levels cannot be broken.**

Federal Employee Pensions

Unlike the President's prior two budgets, his 2015 budget makes no call for current federal employees to contribute more toward their own pensions. Earlier proposals called for federal employees to pay approximately 16 percent (up from about 6 percent) of the amount needed to fund their pensions—well below private sector standards of 50 percent. (The Ryan-Murray spending package requires new employees to contribute approximately one-third of the needed amount to fund their pensions).

Healthcare/"Doc Fix" Fix

As in the past, the President's budget relies heavily on additional cuts to health care providers that, even if enacted, are unlikely to be carried out in the future. The President's

[1] Figures taken from President's FY 2015 Budget Request, "Mandatory initiatives and savings" less "proposals' revenue effects" and proposed surface transportation offset of $150 billion through tax reform, Table S-9

[2] Congressional Budget Office, *The Budget and Economic Outlook: 2014-2024*, February 2014, page 14.

budget does retain a version of last year's proposal for further income-relating of premiums in Medicare Parts B and D. However, according to OMB's own estimates, structural reforms to the Medicare program account for less than one-sixth of the total proposed savings in the program. Furthermore, the President's budget does not include his chained CPI proposal from last year.

President Obama claims his budget will achieve $402 billion in mandatory health care savings over the next 10 years. However, the President's budget assumes a Medicare "doc fix" will occur in order to prevent the 24 percent reduction in physician payment rates scheduled to take effect at the end of this month. The budget assumes a permanent freeze in physician payment rates at their current levels and attempts to hide this new mandatory spending in the adjusted baseline, rather than including it in a more transparent way as one of the President's policy proposals. OMB estimates the "doc fix" will increase Medicare spending by $110 billion over the 10-year budget window. Therefore, based on OMB's own numbers, the budget does not contain $402 billion in mandatory health care savings relative to current law.

However, OMB's numbers still do not fully reflect all of the President's mandatory health care proposals.

The President's 2015 budget also proposes turning off the Budget Control Act (BCA) sequester. The cost of turning off the mandatory sequester is reflected in the overall levels of spending and deficits, but the impact on spending levels for individual programs is not shown in the budget. According to CBO's most recent estimate in the February 2014 baseline, turning off the mandatory sequester would increase Medicare spending by $140 billion over the 2015–2024 period. This increase in Medicare spending does not appear in OMB's estimates of mandatory health care spending.

Including both the increase in Medicare spending from the "doc fix" as well as from turning off the BCA sequester reveals the President is proposing only $152 billion in net mandatory health care savings over the 10-year period. While the President's proposals may result in modest savings relative to current law, his budget will not significantly alter the unsustainable course of spending on mandatory health programs over the long term.

Health Care Cost Growth

Although spending for health care in the United States has grown more slowly in recent years than it had previously, high and rising levels of such spending continue to pose a challenge not only for the federal government's two major health insurance programs, Medicare and Medicaid, but also for state and local governments, businesses, and households.

-CBO, The 2013 Long-Term Budget Outlook

For decades, health care costs have grown significantly faster than the economy. Spending per person has grown faster than output per person by an average of 2 percentage points per year. While health care spending has grown more slowly in recent years, there is disagreement over the factors causing this slower growth and whether—or to what extent—it will be a lasting trend in the future. Although few experts called attention to this trend until now, the slowdown in health care cost growth began more than a decade ago.

In January 2014, non-partisan actuaries at the Centers for Medicare and Medicaid Services (CMS) explained: "This low rate of increase followed a steady slowdown that began in 2003" and that "the relative stability since 2009 primarily reflects the lagged impacts of the recent severe economic recession." The actuaries note "this pattern is consistent with historical experience when health spending as a share of GDP often stabilizes approximately two to three years after the end of a recession and then increases when the economy significantly improves." The CMS report concludes:

> Recently, however, the question has arisen about whether a more fundamental change is occurring within the health sector and whether this stability will endure. From our perspective, more historical evidence is needed before concluding that we have observed a structural break in the historical relationship between the health sector and the economy.

The President's budget is clearly guided by the view that, as a consequence of slower growth in health care costs, there is no need to take meaningful action to reduce federal health care spending anytime soon. But hoping that the recent slowdown in health spending will be sustained is a risky proposition for taxpayers. As former CBO Director Douglas Holtz-Eakin recently warned, "there's a lot of reasons to suspect it is temporary." In the February 2014 baseline, CBO writes: "spending per enrollee for Medicare and Medicaid—which generally has grown faster than GDP—is very difficult to predict." CBO estimates that if per capita costs in those programs rose 1 percentage point faster or slower per year for the next decade, spending would be about $800 billion higher or lower over that time period. CBO also admits there is "great uncertainty" surrounding estimates of the President's health care law. The Administration's own actuaries at CMS observed that the slowdown in health care costs was unrelated to the President's health care law and that the new law worked against any improvements made to their projections of future health care spending since 2010.

Transportation

The President's 2015 budget incorporates his recently unveiled proposal for a four-year surface transportation reauthorization bill. The President's spending total of $302 billion far exceeds the February 2014 CBO baseline by $230.5 billion for the same period.

The President's proposal prioritizes high-speed and intercity passenger rail and other mass transit programs. Highway formula funding receives the lowest priority.

To keep the Highway Trust Fund solvent through 2019, CBO estimates it will require $83 billion in transfers. The President suggests a "pay-for" to fund his four-year highway reauthorization bill, a $150 billion one-time payment resulting from corporate tax reform. This increase covers the $70 billion increase in transportation spending—but does not ensure permanent solvency. **The Highway Trust Fund under the President's budget would be insolvent again in 2019.**

The President's proposal would spend an average of $4.8 billion annually on the Federal Railroad Administration, three times the 2014 enacted level of $1.6 billion. It also increases transit spending by 68 percent, averaging $18 billion per year, well above the 2014 enacted level of $10.7 billion. His highway bill proposal includes $2.2 billion for a new bus rapid transit program and $400 million to enhance the nation's construction workforce. The President's proposal increases spending on highways to $49.8 billion annually, including $2.5 billion spent per year on multimodal freight, an increase of 21 percent over the 2014 enacted level of $41 billion. Transportation Infrastructure Finance and Innovation Act (TIFIA) funding remains at the MAP-21 level of $1 billion per year.

Infrastructure

The President again calls for the creation of a new infrastructure financing instrument, America Fast Forward (AFF) Bonds. This proposal is an outgrowth of the Build America Bonds (BAB) program that was part of the American Recovery and Reinvestment Act and expired in 2010. Because government bonds are often tax exempt, they are not an attractive investment for already-tax exempt investors such as pension funds. So, BABs were intended to make it easier for state and municipal governments to issue attractive taxable bonds for capital projects by providing an interest subsidy for the borrower or a tax credit for the lender.

AFF Bonds reinstate BABs while expanding the program beyond state and municipalities to include some private bonds and school construction. Whereas BABs provided a 35 percent subsidy, AFF Bonds will only provide a 28 percent subsidy for state, municipal, and private bonds. Unlike BABs, which were to be used for new capital projects, AFF Bonds will be available to refinance prior capital projects.

According to the President's budget this program will cost a total of $68 billion over 10 years. However, the President assumes this cost would be offset by a corresponding reduction in the issuance of tax exempt bonds, which increases revenues.

The President also proposes reforms to the funding of inland waterways infrastructure. He proposes a fee on users of the inland waterways system to raise $1.1 billion over 10 years.

Welfare/Other Mandatory

The United States currently administers roughly 80 means-tested welfare and poverty assistance programs on which we spend approximately $750 billion per year—larger than our budget for Medicare or national defense. Unfortunately, these programs are administered with almost no oversight or guiding vision. The President's budget does not propose meaningful reforms to our nation's welfare support system, meaning millions of struggling Americans will remain trapped in a cycle of long-term poverty, joblessness, and dependence.

The federal government funds nearly 50 job training programs to help train and employ the long-term unemployed, veterans, young people, ex-prisoners, refugees and migrant workers, the disabled, displaced workers, and the elderly. Rather than consolidate these duplicative efforts, the President's budget creates new mandatory funding for five additional job training or placement programs aimed at the long-term unemployed, veterans, and young people. OMB estimates that these proposals will increase spending by $32.8 billion over the next 10 years.

The President's budget extends the Emergency Unemployment Compensation program retroactively and through the end of 2014. OMB estimates that these proposals will increase spending by $20 billion in 2014 and 2015.

The premium subsidy and insurance coverage expansion included in Obamacare will increase the demand for health care services and put a strain on the current supply of primary care providers. The President's proposal includes several new initiatives that will increase mandatory spending on programs intended to increase the supply of health care providers. These include a new medical school grant funded through the Medicare Hospital Insurance Trust Fund, an extension of the Medicaid primary care payment increase originally included in Obamacare, and additional funding for the National Health Services Corps to hire more providers. OMB estimates that these proposals will increase spending by $14.6 billion over the next 10 years.

The budget proposes to modify the recently passed Agriculture Act of 2014 through reductions in crop insurance subsidies to farmers and insurance companies. These changes are expected to yield $14 billion in savings over 10 years. Other changes proposed in agriculture

include a one-year reauthorization of Secure Rural Schools ($481 million cost) and new fees related to the Food Safety and Inspection Service, the Grain Inspection, Packers, and Stockyards Administration (GIPSA), and the Animal Plant and Health Inspection Service, raising $600 million.

Once again, the President proposes to make the full funding of the Land and Wildlife Conservation Fund mandatory, costing nearly $8 billion over 10 years.

In 2016, the National Park System will celebrate the 100th anniversary of its founding. In light of that event, the President wants to create a Works Progress Administration-like program to complete maintenance projects within the National Park System and other public lands, creating jobs for the unemployed. The budget requests $1.2 billion for the program over the next five years.

The President's 2015 budget, like his 2014 budget, creates a new Energy Security Trust, enabling $2 billion from offshore oil and gas receipts to be spent over 10 years on alternative transportation fuels. This proposal would allow the Department of Energy to invest $200 million each year in next-generation transportation fuel sources such as electricity, biofuels, and hydrogen. In addition to this change, the President seeks to increase the royalties and fees from oil and gas development on federal lands and waters by $1.7 billion over 10 years.

As he did last year, the President has proposed reinstating the assessment on civilian nuclear reactors for the Decontamination and Decommissioning Fund, despite the large balance in the fund. This generates $2.2 billion in revenue over 10 years. In addition, he proposes a nuclear waste disposal program at a $1.3 billion cost over 10 years.

The President proposes to increase the fees collected as part of the Abandoned Mine Reclamation program. Besides restoring coal fees to the level prior to 2006 when they were reduced, the budget calls for establishing new fees on hardrock mining.

The President continues to call for the creation of a National Infrastructure Bank, which would cost almost $8 billion over 10 years.

The 2015 budget request includes provisions aimed at expanding the ability of the Federal Communication Commission to collect fees from companies that hold spectrum licenses. The new fees would generate $5.1 billion over 10 years.

The budget calls for fully implementing the President's MyRA bond program, which the Treasury Department is already developing. MyRAs would be similar to a universal Roth 401(k) managed by the government. Employers would have to choose to participate in the program, but Treasury would handle the administration and manage investors' accounts. An employee could

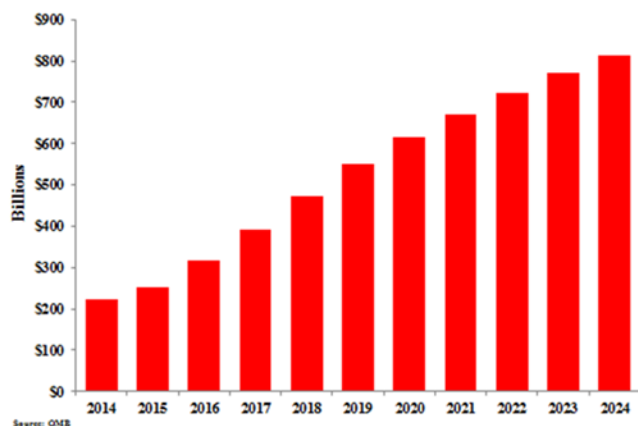
contribute to the account concurrently and consecutively through multiple jobs and use the same account for 30 years or until the balance reaches $15,000. As is consistent with the Roth structure, contributions would be after-tax, and withdrawals (including gains) made after age 59½ would be tax free. These funds would be invested only in U.S. government securities, thus generating new revenue today but creating long-term liabilities for the government.

The President proposes raising contributions to the Pension Benefit Guarantee Corporation (PBGC). PBGC contributions already have been raised twice since 2012 to help eliminate a supposed shortfall of approximately $36 billion that many employers and the American Benefits Council dispute. The $36 billion figure is calculated using Treasury interest rates, which are at historic lows. Because of trust fund accounting, increases in PBGC premiums have been used to pay for other spending. As a result, the taxpayer is assuming the risk of insuring private pension funds.

The President's budget includes provisions for reform of the Postal Service. These reforms require up-front infusions of more than $10 billion before 2016, partly offset by modest savings over the budget window. The total unified budget cost of these changes is nearly $10 billion.

Net Interest

Net interest payments were $221 billion for 2013 and the President assumes they will be $223 billion by the end of 2014. For 2015, the President's budget projects net interest payments of $252 billion, increasing to $812 billion by 2024. This represents an increase of 222 percent over the 10-year budget window, making rising interest costs—caused by the massive buildup of debt—the fastest growing item in the federal budget.



Interest payments as a share of revenue would grow from less than 8 percent today under CBO's baseline to almost 15 percent in 2024. This represents a significant opportunity cost to U.S. taxpayers as one-eighth of every tax dollar received by the government (including amounts paid into the Social Security trust fund) would go towards interest on the debt, not services to taxpayers.

How Higher Interest Rates Could Worsen Budget Outcomes

The Congressional Budget Office assumed a set of interest rates in making its projections of deficits for the budget window of 2014 through 2024. The agency clearly shows these rates in Table 2-1 of the recent *Economic and Budget Outlook*. For example, CBO assumes that the 10-year Treasury note rate will be 3.7 percent in 2015 and average 5.0 percent over the period 2018 through 2024.

However, CBO cautioned policymakers that an increase in interest rates above these assumed levels will increase interest payments on the debt. Indeed, if interest rates rose just 1 percent above the assumed levels, then borrowing costs would be over $1.5 trillion more between 2015 and 2024.

Higher interest rates would have three effects on the deficit:

Higher net interest payments on new borrowing: When the Treasury borrows new funds, it usually does so by selling Treasury bills or notes at market interest rates. Thus, a higher rate would only affect new borrowing. CBO estimates that a 1 percent increase above assumed rates would cost “only” $12 billion more in 2014, since the higher rate would relate only to new issues that year. However, a 1 percent higher rate would cost the Treasury an additional $174 billion more in 2024, when new issues and roll-over of expiring debt are much greater. Over 10 years, this adds $1.1 trillion to interest payments.

Lower remittances to the Treasury from the Federal Reserve: The Federal Reserve pays the Treasury regular remittances that equal the amount left over from earnings on its investment portfolio after the Fed pays its operating expenses and the interest on reserves kept at the Fed by member banks. These remittances can be substantial: in 2012 the total amount equaled $88.9 billion. CBO estimates that a 1 percent higher interest rate would increase lower remittances by $105 billion over 10 years.

More borrowing to meet higher deficits: Higher interest rates generate higher deficits than CBO assumes in their baseline projection. That would force the Treasury to borrow more than assumed, which CBO suggests would equal $308 billion over 10 years if interest rates were higher by 1 percent.

The total budget impact of these three effects would increase deficits by $1.5 trillion over 10 years.

Economic Assumptions

The President builds his budget on a view of robust near-term economic activity. Under his assumptions, the slowest economic recovery since the end of World War II suddenly achieves a brisk growth rate over this and the next two years. Private sector forecasters, however, still see relatively slow growth over this same period. After 2017, the President's economic outlook falls in line with those of the Congressional Budget Office (CBO) and private forecasters as reported by Blue Chip Economic Indicators.

Four economic indicators illustrate the President's economic outlook: inflation-adjusted GDP, unemployment, inflation, and a key interest rate. *(Note: all years referred to in this section are calendar years).*

Inflation-Adjusted (Real) GDP

The President assumes that the economy will grow at a 3.1 percent pace in 2014, at 3.4 percent in 2015, and at 3.3 percent in 2016. Each year is significantly higher than Blue Chip and, with respect to 2014, also CBO. Thereafter, the economy slows to an average growth rate of 2.5 percent for 2017 through 2024. That slower pace is in line with Blue Chip (2.5 percent) and CBO (2.3 percent). While the President does not explain the slower out-year pace, CBO based their projections of slower growth on an argument that the economy's potential declines thanks to an aging population and the effects of the Affordable Care Act on labor markets.

Unemployment Rate

The President is joined by CBO and Blue Chip in expecting the rate of unemployment to continue falling over the 10-year budget horizon. By 2016, each unemployment forecast is roughly at 6 percent. Thereafter, the President has the average rate over the 2017 through 2024 period at 5.4 percent, slightly below Blue Chip's 5.6 percent and CBO's 5.7 percent.

Inflation

The President expects less inflation over the 2014 through 2016 period than either Blue Chip or CBO. **This is a crucial difference because of the role played by the Consumer Price Index in the federal budget.** Increases in prices (inflation) generally lead to greater wage growth, higher profits and, eventually, higher tax revenue. But higher inflation also increases the cost of mandatory spending programs. Entitlement benefits like Social Security retirement and disability payments, food stamps, and child nutrition programs grow according to cost-of-living-adjustments (COLAs) which are indexed to inflation. Even programs like Medicaid that are not directly linked to inflation are affected by higher prices, because the cost of provding benefits under those programs (e.g. health care services) tends to grow with inflation.

CBO projects that if inflation was one percentage point higher, total revenues and spending would be approximately 6–7 percent higher than the baseline, and total deficits over the 10-year budget window would increase by more than $750 billion.

Interest Rates

The President expects interest rates to jump dramatically in 2014, though his forecasts basically agree with Blue Chip's and CBO's. The 10-year note grows by 65 basis points (or 28 percent) in 2014. Its growth in 2015 is only a little less: 50 basis points (or 17 percent) when it is expected to reach 3.5 percent. Thereafter the rate grows steadily but less dramatically until it reaches 5.3 percent in 2022. OMB also expects commercial rates to follow suit: mortgage rates increase by 253 basis points across the forecast period and the prime lending rate grows by 375 basis points.

Economic Assumptions
President's Projections Compared to CBO and Blue Chip

Real GDP Growth Rates
Year Over Year

	CY 2014	CY2015	CY2016	Average CY2017-2024
Obama	3.1	3.4	3.3	2.5
Blue Chip	2.6	2.9	2.8	2.5
CBO	2.7	3.3	3.4	2.3

Unemployment Rate
Annual Average, Percent of Civilian Labor Force

	CY 2014	CY2015	CY2016	Average CY2017-2024
Obama	6.9	6.4	6	5.4
Blue Chip	7	6.5	6.1	5.6
CBO	6.8	6.5	6.1	5.7

Inflation Rates
Annual Percent Change in the CPI-U

	CY 2014	CY2015	CY2016	Average CY2017-2024
Obama	1.6	2	2.1	2.3
Blue Chip	1.9	2.2	2.3	2.4
CBO	1.7	2	2.1	2.4

Interest Rates
10-Year Treasury Notes, Annual Average

	CY 2014	CY2015	CY2016	Average CY2017-2024
Obama	3.0	3.5	4.0	4.8
Blue Chip	3.1	3.6	4.2	4.7
CBO	3.1	3.7	4.3	5

The Economic Effects of Raising the Minimum Wage

The President's budget assumes an increase in the minimum wage to $10.10 per hour. The Congressional Budget Office (CBO) issued a report on raising the minimum wage on February 18. The agency drew deeply on mainstream economic research in building their estimate that a phased-in increase in the minimum wage to $10.10 by 2016 would reduce employment by 500,000. That is their "central estimate." The report also states that job losses could top 1 million.

Economic Effects: CBO reported that increasing the minimum wage disturbs labor markets in two fundamental ways:

- First, it increases the production costs of goods and services. Unless businesses increase their prices to absorb the higher labor costs, profit margins shrink.
- Second, a higher minimum wage encourages business owners to substitute machines for people, such as the price scanner technology in grocery stores or the food-ordering terminals at fast-food restaurants. Or, business owners might substitute higher skilled workers for lower-skilled ones.

Income Effects: CBO notes two important dimensions to the income story:

- First, the net increase in incomes will be about $2 billion over the whole economy. This estimate is composed of income gains for those who keep their employment minus income losses for those who lose their jobs and for those who see incomes shrink from higher prices or lower profits. That's $2 billion out of a forecasted $19.3 trillion dollar economy, or a change of 0.01 percent.
- Second, for the 45 million people projected to be at or below the poverty threshold in 2016, the increase in the minimum wage moves 2 percent of that population (900,000 people) above the poverty line. Income gains shrink as income rises. Those individuals with gains are the ones who still have jobs.

In a nutshell, CBO found that increases in the minimum wage cause negative employment effects and the gains in income for some come at the expense of income losses for others.

Republican staff of the Senate Budget Committee worked with the Employment Policies Institute to estimate the effects for every state of an increase in the minimum wage to $10.10 per hour. These state tables also provide state estimates of the number of workers who will be affected and the family incomes. National data also are provided. The state tables can be found at this web address: http://1.usa.gov/1f7l7sT.

The Economic Effects of Immigration Reform

The President proposes comprehensive immigration reform along the lines adopted by the Senate last summer. When the Congressional Budget Office looked at Senate bill (S. 744), they found a number of economic effects that likely would also pertain to the President's reform proposal. CBO found:

- Average wages for the first 12 years would fall below what they would be if Congress did not enact the legislation.
- Unemployment would be higher through 2020.
- Per person Gross National Product would be lower for all but three years of the 20-year forecast period.

Lower Wages: CBO estimates that a "1 percent increase in the labor force attributable to immigration has tended to lower the relative wages for all workers with less than a high school diploma by roughly 0.3 percent… and to lower the relative wages for workers with at least a college degree by roughly 0.1 percent."

What does this imply in lost wages? If a low-educated worker makes $30,000, then this reduction equals $1,170 in lost wages. For an $85,000 worker with high education, the reduction is about $1,100.

Higher Unemployment: The rapid increase in the immigrant population, especially in the low-skilled segment of the income distribution, will overwhelm the ability of the economy to produce jobs. Thus, CBO estimates that S. 744 would raise the number of unemployed Americans during the first five years by an annual average of 162,000 and that unemployment would "remain elevated through 2020."

This is a stunning conclusion, especially in light of CBO's projection in the February *Budget and Economic Outlook* that the economy will only produce 67,000 additional jobs per month during the last five years of the current budget window, 2018 through 2024.

Slower Economic Growth: As the CBO observed in its evaluation of the Senate's effort to increase immigration, the economy might be bigger because it would contain more people, but it would not be stronger. GDP per person would actually decline. CBO estimates that GNP per capita will fall below baseline (that is, without passage of the immigration bill) and stay below baseline until 2030.This decline in GNP per capita is due to the failure of the economy to grow fast enough to keep up with immigration-driven population growth.

Budget Process Reforms

Replace the BCA Sequester

The President's budget would replace the remainder of the Budget Control Act (BCA) sequester (triggered by failure of the 2011 Joint Committee to find $1.2 trillion in savings over 10 years) starting in FY 2016 with a combination of spending cuts and tax increases. Rather than apply these savings to deficit reduction, however, the President proposes new spending initiatives (under the guise of "investments") that would merely grow the size of government.

Extend the Discretionary Caps and Adjustments for Disaster Relief

The Balanced Budget and Emergency Deficit Control Act (BBEDCA), as amended, provides for an upward adjustment to discretionary spending caps for appropriations that Congress designates for disaster relief pursuant to section 102(2) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act. Under current law, the cap adjustment is not available after 2021 because there are no discretionary caps in BBEDCA after 2021. Although the President's budget does not explicitly recommend extending the discretionary caps in BBEDCA, it can be inferred from the President's data tables that the discretionary caps themselves, as well as the disaster cap adjustment, are extended to 2024 (see Tables S-8 and S-10). This is also consistent with the President's budget proposal last year.

Create a New Discretionary Cap Adjustment for Wildland Fire Suppression

The President's budget would create a new category of discretionary spending for wildland fire suppression that is independent of the fiscal controls imposed by the spending caps in BBEDCA. The Departments of the Interior and Agriculture could tap an extra $1 billion (total) in 2015 if the cost of firefighting exceeds their annual budgets. The President's budget proposes to reduce the general disaster relief cap adjustment in a given fiscal year for the amount of funds provided under the wildfire suppression cap in the prior year.

Reclassify Program Integrity Cap Adjustments as Mandatory Spending

BBEDCA, as amended by the BCA, allows discretionary cap adjustments for certain program integrity initiatives: continuing disability reviews (CDRs) and health care fraud and abuse control (HCFAC). If appropriation bills provide a minimum base amount for these efforts ($273 million for CDRs; $319 million for HCFAC), then BBEDCA permits an upward adjustment of the discretionary caps, subject to limit, for additional "bonus" spending. This mechanism was designed to prevent the "bonus" funds from supplanting the base funding, and to keep the base funding from being diverted for other purposes.

The President's budget proposes to reclassify all discretionary spending for CDRs and HCFAC after 2015 as mandatory spending, and eliminate the discretionary cap adjustments for these purposes. OMB estimates that these two proposals combined would reduce net spending on the two programs by nearly $25 billion over the next nine years, but it would also enshrine in perpetuity "bonus" spending that was intended to expire after 2021. Moreover, the "bonus" funding for CDRs in BBEDCA was capped. It is not clear whether CDR funding would be similarly constrained on the mandatory ledger.

Create New Program Integrity Cap Adjustments

The President proposes to rebrand up to $2 billion in new spending as "program integrity adjustments" that would permit increased spending above the discretionary spending caps. Program integrity cap adjustments are provided for the Internal Revenue Service to reduce the tax gap; the Department of Labor to reduce improper unemployment insurance payments; the Department of Health and Human Services to reduce Medicare and Medicaid fraud and waste; the Treasury Department to improve the collection of bad debts; and more.

Adopt a Modified Current Policy Baseline, for Limited Purposes

Currently, Congress follows the parameters outlined in section 257 of BBEDCA, as amended, to develop the baseline against which the budgetary impact of policy changes are analyzed. The President's budget proposes to change the rules and concepts governing construction of the annual baseline to (it claims) better reflect the continuation of current policy, rather than current law. While the Administration claims its proposed changes would "provide a more accurate basis for analyzing budgets," the proposal cherrypicks preferred Administration priorities to be included in the modified baseline (leaving others aside), and would disregard the modified baseline in favor of the BBEDCA baseline for the application of Statutory PAYGO and for other legal purposes.

Reclassify Transportation Infrastructure Funding

Surface transportation spending financed by the Highway Trust Fund is a unique and confusing hybrid of classifications. Contract authority is considered mandatory spending whereas outlays are classified as discretionary spending. This hybrid treatment is fodder for budget gimmicks that thwart accountability and fiscal discipline. The President proposes to treat both contract authority and outlays as mandatory spending. To the extent that this change would make it harder to deploy budget gimmicks, this would be an improvement.