

INFORMED BUDGETEER

**ARE RESERVE FUNDS USED AS INTENDED?
 S.1 – A CASE STUDY**

The 2004 budget resolution included six reserve funds that set aside spending allocations to be released to various committees under certain conditions. The largest one (and the only to be released thus far) is \$400 billion for 2004-2013 for the Senate Finance Committee after it reported S.1 – the Medicare prescription drug bill. Leading up to Senate debate on that bill, there was significant confusion about how the reserve fund would be released and what the release would mean for points of order against the bill or any amendments offered to it. This *Bulletin* reviews the history of reserve funds as well as how they were designed to work under the 2004 budget resolution. Next week's *Bulletin* will examine how the Medicare legislation flirted with reform after release of the reserve fund, rather than before its release as was required by the budget resolution.

RELEASE OF Rx RESERVE LEADS TO...

As budgeteers know, an unadorned budget resolution sets out fixed levels of revenue and spending that are used to measure legislative compliance. Committees receive allocations based on those spending levels and may only move legislation that is consistent with those allocations without facing a point of order. But, beginning with the 1984 budget resolution, congressional budgets (meaning, conference agreements) have included nearly 90 reserve funds that provided the flexibility to adjust the otherwise fixed levels of budgetary aggregates and/or committee allocations.

HISTORY OF RESERVE FUNDS		
Fiscal Year	# of Reserve Funds	# of Reserve Funds in Senate
1984	10	10
1985	--	--
1986	--	--
1987	2	2
1988	3	2
1989	2	2
1990	2	2
1991	1	1
1992	5	5
1993	5	5
1994	7	7
1995	12	11
1996	2	2
1997	2	2
1998	4	3
1999	no conference	no conference
2000	7	7
2001	10	9
2002	8	7
2003	no resolution	no resolution
2004	6	6
Total	88	83

Source: SBC Republican Staff

A Brief History of Reserve Funds. Reserve funds originated in the 1984 budget resolution. While many believe that reserve funds started out as deficit neutral and not reflected in the spending and revenue aggregates of the budget resolution, the 1984 resolution did not begin that trend. Instead, the 1984 resolution appears to have invented 10 reserve funds (showing two sets of figures that excluded and included the \$6 billion total reserved for the 10 programs) as part of the evolution from multiple budget resolutions per year to just one concurrent budget resolution. These 10 reserves were not to be released until the relevant committee-reported legislation that provided the spending for the specified program. In this way, the budget resolution could make sure that committees provided funds for specific purposes, which might not have happened if the budget

provided general allocations that committees could spend in any way.

- For the following two years, the budget resolutions did not include any reserve funds. In the 1987 resolution, a different kind of reserve fund provided the Congress flexibility to adjust its budgetary aggregates under certain conditions. These reserve funds provided an exception to the budget rules so that revenue increases could offset increases in direct spending for specific purposes, as long as the legislation on the whole did not increase the deficit. (Normally, committees are not permitted to increase taxes in order to offset legislation that increases spending.) This type of reserve fund was employed in budget resolutions covering 1987-1998.
- With the emergence of surpluses, reserve funds became a method (in the resolutions for 2000-2002) for “setting aside” a portion of projected future on-budget surpluses for either tax cuts or increasing spending for specific programs. And those reserve funds pretty much worked as intended, with six out of 25 of them actually being released when legislation was developed as contemplated and other reserve conditions were met (except in the case of the farm bill reserve fund, which was released even though it increased the on-budget deficit and violated the condition in the 2002 resolution of not using the Medicare surplus).
- Even after projected surpluses turned to deficits, the use of reserve funds (in the 2004 budget resolution) came full circle back to the approach for which they were originally designed in the 1984 resolution – to allow the budget process to exercise some control over some of the purposes for which spending allocations are provided.
- **Medicare Reserve Fund.** One example of a reserve fund is section 401(b) of the 2004 budget resolution (H. Con. Res. 95), which sets out the reserve fund as it applies in the Senate for its consideration of Medicare and prescription drug legislation. Section 401(b) provided the Chairman of the Senate Committee on the Budget with the discretion to adjust the section 302(a) allocation (by not to exceed \$7 billion in BA and outlays for 2004 and \$400 billion in BA and outlays for the 2004-2013 period) for the Committee on Finance, if the Committee reports legislation that “strengthens and enhances [code words for reform that improves sustainability] the Medicare Program . . . and improves access of beneficiaries under that program to prescription drugs[.]”
- It is important to note that release of the reserve fund was not, as some have suggested, conditioned on the requirement that the bill itself not cost more than \$7 billion in 2004 and \$400 billion for 2004-2013. Nor did the reserve fund guarantee that the total amounts in the two parts of the reserve would be released. Instead, the reserve fund simply provided the Budget Chairman with the discretion to increase the Finance Committee’s allocation by not more than those two amounts for the two periods.
- Another misconception was that as long as the cost of the reported bill was less than \$7 billion and \$400 billion for the relevant periods, the bill would be free of points of order. The first line of the following table shows that was not the case. The Congress had already enacted legislation under the jurisdiction of the Finance Committee this year (namely the unemployment benefits extension) that put the Committee on Finance over its allocation by \$4.7 billion for both 2004 and the 2004-2008 period. CBO’s cost estimate indicated that the

modified amendment for S.1 would result in a small amount of savings in 2004 (approximately \$200 million) and increased spending of \$108.8 billion for 2004-2008 and \$389.0 billion for 2004-2013 (see second line).

**CHANGE IN FINANCE COMMITTEE ALLOCATION
RESULTING FROM S.1
(\$ billions)**

	2004		2004-2008		2004-2013	
	BA	O	BA	O	BA	O
Amount that Finance Comm. is over (+)/under(-) its allocation before S.1	4.7	4.7	4.7	4.7	-8.5	-8.4
CBO Estimate of S.1 (reported)	-0.1	-0.2	108.8	108.2	389.0	389.0
Increase in allocation from Budget Comm.	--	--	-113.5	-113.6	-400.0	-400.0
Amount that Finance Comm. is over (+)/under(-) its allocation for floor consideration of S.1	4.6	4.5	--	--	-19.5	-19.3

Source: SBC Republican Staff

- Given the bill's content and this cost estimate, how would the Budget Chairman adjust the allocation? Although the Finance Committee's product, S.1, did not include a whiff of reform measures to strengthen and enhance Medicare (which the reserve fund set out as a condition for its release), advocates of moving the process forward suggested there would still be opportunities during consideration of the measure on the floor to add such measures (see next week's *Bulletin* article about the Senate's consideration of S.1).
- With this expectation, the Chairman of the Budget Committee used his authority under section 401(b) and filed with the Senate adjustments to the Finance Committee's allocation (see line 3). In making the reserve fund adjustments, the Chairman made no change for 2004 because the bill did not have a cost in that year. For the 2004-2008 period, the Chairman adjusted Finance's allocation by \$113.5 billion in BA and \$113.6 billion in outlays, which is the sum of the cost of the bill and the amount needed to fill in the pre-existing \$4.7 billion hole created by previously enacted legislation. Finally, for the marquee 10-year period, the Chairman made available the entire \$400 billion even though the bill cost only \$389 billion, in order to provide sufficient room to cover the cost of promised floor amendments that would deliver the reform overlooked in the Finance Committee.
- Note that the purpose of the Medicare reserve fund (or any reserve fund, for that matter) was not to help the Finance Committee get out of the hole that the Senate put it in when it cleared legislation that had not been assumed in the budget resolution. (The only reason S.1, as reported, did not face a point of order in 2004 was because it saved money rather than cost money in 2004.) Because there was no 2004 cost, there was nothing to adjust for, so it was impossible to use the \$7 billion held in reserve to make the Finance Committee's deficiency go away for that enforcement period.
- If the Chairman had adjusted the 2004-2008 allocation for only the amount of the cost of S.1 for the 2004-2008 period, then S.1 would have faced a point of order because the Senate had already overspent Finance's allocation for that period before it turned to S.1. But the Budget Chairman exercised his

flexibility (within the adjustment to be made for the entire 10-year period) to specifically allocate some of the 10-year adjustment into the first five years and thus eliminate the point of order that would have applied.

- As a result (see last line of table), there was no point of order against consideration of S.1 on the floor. But for consideration of amendments, the Finance Committee still exceeded its allocation for 2004, and because of the Budget Committee adjustment, was just at its allocation for 2004-2008. For the 2004-2013 period, however, the committee still had \$19.5 billion of room under its allocation. (More technically – while approximately \$19.5 billion was available over the entire ten-year period of 2004-2013 period, because nothing was available during the first five years, the \$19.5 billion of room was effectively available for just the latter half of the ten-year period.)
- Therefore, a section 302(f) point of order applied against any amendment that, on net, would increase direct spending by any amount in 2004 or over the 2004-2008 period. Also, a 302(f) point of order applied against any amendment that, on net, would increase direct spending by more than \$19.5 billion in BA and \$19.3 billion in outlays over the 2004-2013 period (as adjusted downwards by the sum of the cost of all previously agreed-to amendments).
- While CBO is still working on the cost estimate of the Medicare bill that passed the Senate and is headed to conference, note that section 401(b) authorizes the Budget Chairman to revise the Finance Committee's allocation once again, when a conference report is brought before the Senate. That means that in the apparently unlikely event that the conferees report a bill that spends less than \$400 billion, the Finance Committee would not be permitted to sop up the leftover Medicare allocation for other legislation. (To be continued next week...)

EDITOR'S NOTE

Recently, the *Bulletin* has run longer pieces about underappreciated budget issues such as reserve funds and the paygo process. If *Bulletin* readers have questions about other mystifying budget operations they would like to see addressed in the future, please E-MAIL suggestions to:

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CORRECTION

Printed versions of the *Bulletin* (June 23, 2003) included a table in which some of the numbers were incorrect. The corrected table follows:

YEAR	DISCRETIONARY BA IN BUDGET RES. CONFERENCE AGREEMENTS WRITTEN BY CONGRESSES UNDER DEMOCRATIC CONTROL (\$ in billions)			OFFSET AS A % OF GROSS
	GROSS	920 OFFSET	NET	
1990	502.0	-19.4	482.6	3.9
1992	513.2	-0.2	513.0	0.0
1993	510.2	-4.1	506.1	0.8
1995	517.4	-6.6	510.8	1.3

Source: SBC Republican Staff based on conference reports on budget resolution for years shown. NOTE: 1991 & 1994 are not shown because the respective conference reports did not display a discretionary level for those years and the 920 offset was zero.