

## The Federal Budget: Process – Challenges - Options

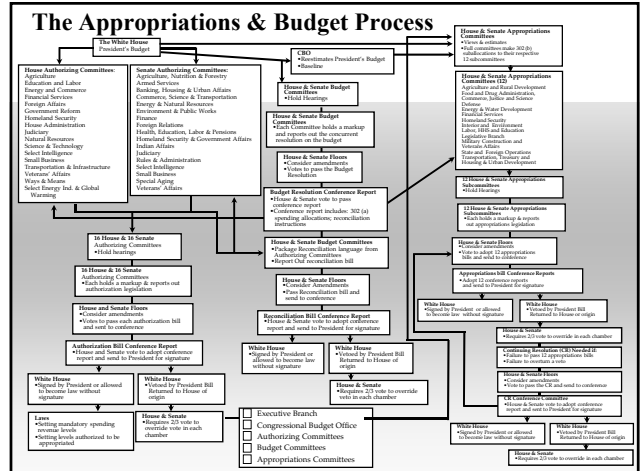
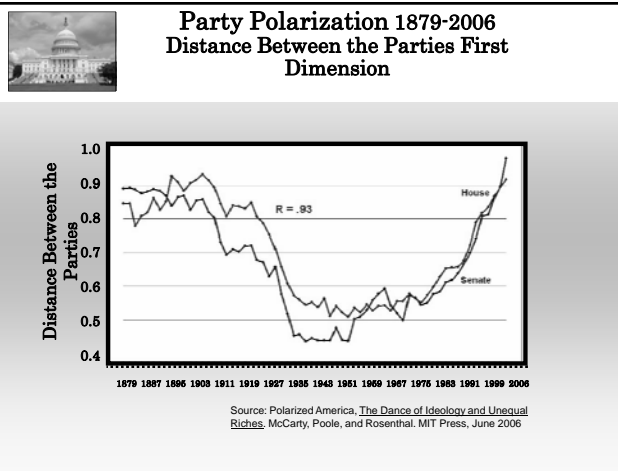
The National Association of Development Organizations

G. William Hoagland  
March 22, 2011



## U.S. Congress: 103rd to 112th

U.S. Congress	House			Senate		
	D	R	Margin	D+I	R	Margin
<b>112<sup>th</sup> (2011-2012)</b>	192 Vacant 1	241 Vacant 1	R + 49	53	47	D/I + 6
<b>111<sup>th</sup> (2009-2010)</b>	255	179	D+76	59	41	D/I + 18
<b>111<sup>th</sup> Lame Duck</b>			1 Vacant	58	42	D/I +16
110 <sup>th</sup> (2007-2008)	233	202	D +31	51	49	D +2
109 <sup>th</sup> (2005-2006)	202	232	R +30	45	55	R +10
108 <sup>th</sup> (2003-2004)	204	229	R +25	49	51	R +2
107 <sup>th</sup> (2001-2002)	212	221	R + 9	50	50	**
106 <sup>th</sup> (1999-2000)	211	223	R +12	45	55	R +10
105 <sup>th</sup> (1997-1998)	206	228	R +21	45	55	R +10
<b>104<sup>th</sup> (1995-1996)</b>	204	230	R +25	46	54	R +8
<b>103<sup>rd</sup> (1993-1994)</b>	258	176	D +84	57	43	D +14



## Continuing Appropriations 2011

Current Federal Fiscal Year: Oct 1, 2010 – September 30, 2011  
FY 2011

- Total estimated spending FY 2011: \$ 3,819 billion\*
- Spending subject to annual appropriations: \$ 1,416 billion\*

Four Continuing Resolutions since Oct 1:

- 1<sup>st</sup> CR Oct 1 to December 3, 2010
- 2<sup>nd</sup> CR Dec 3 to December 18, 2010
- 3<sup>rd</sup> CR Dec 18 to December 21, 2010
- 4<sup>th</sup> CR Dec 21 to March 4, 2011

1<sup>st</sup> thru 4<sup>th</sup> CRs funded government at an annual rate "as provided in applicable Appropriations Acts for Fiscal Year 2010"

- H.R. 1: House-passed CR March 4 to September 30, 2011 (Senate defeated)

H.R. 1 (House-Passed) includes 9 amendments to defund various aspects of the PPACA.

- 5<sup>th</sup> CR March 4 to March 18, 2011 (\$ 4 billion savings from current rate)
- 7<sup>th</sup> CR March 18 to April 8, 2011 (\$6 billion savings from current rate)

\* President's estimate submitted on February 14, 2011



## H.R. 1: Full Year Continuing Appropriations Act, 2011

Funding Levels Assumed for FY 2011 in H.R. 1  
U.S. House of Representatives – Feb. 18, 2011  
(\$ in billions)

	Budget Authority *	Outlays **
<b>H.R. 1:</b>	<b>\$ 1,028</b>	<b>\$1,354</b>
<b>President's Request 2011:</b>	<b>\$ 1,128</b>	<b>\$1,416</b>
<b>Actual 2010:</b>	<b>\$ 1,091</b>	<b>\$1,400</b>
<b>H.R. 1:</b>		
- Compared to POTUS Request	- \$ 100	- \$ 62
- Compared to 2010	- \$ 62	- \$ 46

\* CBO Estimate of H.R. 1, February 11, 2011 for "Non-Emergency Discretionary BA" excluding Contingency Operations, Defense, Homeland Security, Military Construction and VA of \$159.4 billion BA, \$75.6 billion Outlays.  
\*\* Total spending including author's estimate for "Contingency Operations and Security Discretionary Spending."

## Statutory Limits on Federal Debt

### Recent Changes in Limit:

(\$'s in billions)

Statute	Date	Increased Limit To:
121 Stat. 988	Sept 29, 2007	\$ 9,815.0
122 Stat. 2908	July 30, 2008	\$ 10,615.0
122 Stat. 3790	Oct 3, 2008	\$ 11,315.0
123 Stat. 366	Feb 17, 2009	\$ 12,104.0
123 Stat. 3483	Dec 28, 2009	\$ 12,394.0
124 Stat. 8	Feb 12, 2010	\$ 14,294.0

As of March 14, 2011 Debt Subject to Limit = **\$14,166.0**



## Federal Budget Outlook FY 2009 – 2011 (In Billions of Dollars – % of GDP)

	2009 Actual	2010 Actual	2011
Receipts	2,105	2,162	2,228
Spending	3,518	3,456	3,708
Deficits	1,413	1,294	1,480
% of GDP	9.9%	8.9%	9.8%
Public Debt	7,545	9,018	10,430
% GDP	53%	62%	69%
Debt Subject to Limit*	11,853	13,511	15,032
% GDP	83%	93%	100%

Sources: CBO January 2011, The Budget and Economic Outlook.



## Statutory Limits on Federal Debt Two Questions

### Q 1: When will the limit be reached?

A: "Because of the inherent uncertainty associated with tax receipts and refunds...it is not possible to predict with precision the date by which the debt limit will be reached. However, the Treasury Department now estimates that the debt limit will be reached as early as March 31, 2011 and most likely sometime between that date and May 16, 2011." Secretary Timothy F. Geithner, January 6, 2011. Estimated now to April 15 – May 31.

### Q 2: What happens if the limit is not increased?

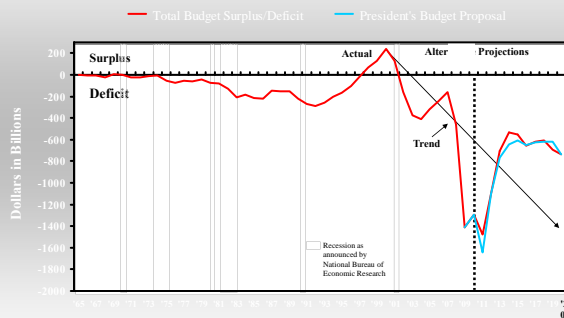
A: Treasury would default on legal obligations of U.S.  
Default would raise borrowing costs.  
Payments of benefits and U.S. obligations would be discontinued:

- U.S. military salaries and retirement benefits;
- Social Security and Medicare benefits;
- Veterans benefits;
- Federal civil service salaries and retirement benefits;
- Individual and corporate tax refunds;
- Unemployment benefits to states;
- Student loan payments; and
- Medicaid payments to states.

## FY 2012 Budget

## Total Budget Surplus/Deficit

CBO Baseline Projection/President's 2012 Proposal  
FY 1965 - 2020



Source: The Budget and Economic Outlook: Fiscal Years 2011 to 2021" Congressional Budget Office, January 2011.  
Budget U.S. Government FY 2012, Office of Management and Budget, February 14, 2011.

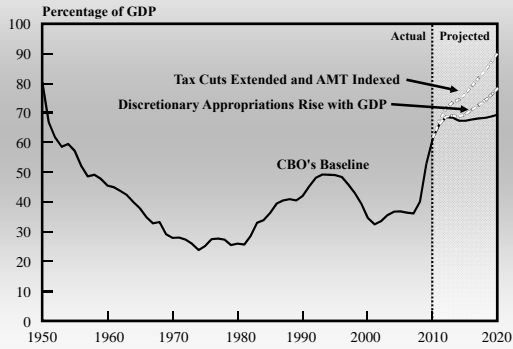
## President's FY 2012 Budget Outlook FY 2009 – 2015

(In Billions of Dollars – % of GDP)

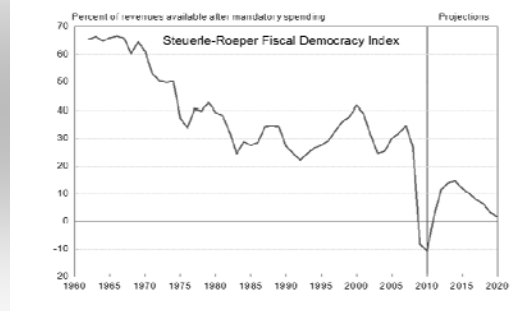
	2009 Actual	2010 Actual	2011 Est	2012	2012 Budget 2013	Request 2014	2015	% Δ annual 2010-2015
Receipts	2,105	2,162	2,174	2,627	3,003	3,333	3,583	+ 10.6 %
Spending	3,518	3,456	3,819	3,729	3,771	3,977	4,190	+ 4.0 %
Deficits	1,413	1,294	1,645	1,101	768	645	607	NA
% of GDP	9.9%	8.9%	10.9%	7.0%	4.6%	3.6%	3.2%	NA
Public Debt	7,545	9,018	10,856	11,881	12,784	13,562	14,301	+ 9.7%
% GDP	53%	62%	72%	75%	76%	76%	76%	
Debt Subject to Limit*	11,853	13,511	15,459	16,638	17,737	18,748	19,764	+ 7.9%
% GDP	83%	93%	103%	105%	106%	105%	105%	

Sources: The Budget FY 2012, Office of Management and Budget, February 14, 2011.

### Rising Burden of Federal Debt Held by the Public

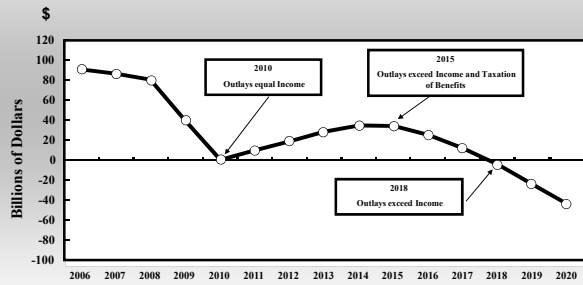


### Mandatory Programs Absorb all Federal Revenues



Source: C.E. Steuerle, S. Rappaport, T. Roper, 2010. OMB, CBO, The Gail Foster Group LLC.

### Annual Social Security Trust Fund Surpluses Excluding Interest Income 2006-2020 (\$ in Billions)



Source: Congressional Budget Office, The Budget and Economic Outlook: Fiscal Years 2010 to 2020, January 2010.

### Shares of Federal Spending Projected for 2020 CBO – January 2011 Est.

<b>Medicare</b> (15%)	<b>Medicaid</b> (10%) <small>Other Health Programs (3%)</small>	<b>Social Security</b> (22%)
<b>Defense</b> (16%)	<b>Net Interest</b> (14%)	<b>Other Spending</b> (20%) <b>Discretionary</b> (13%)

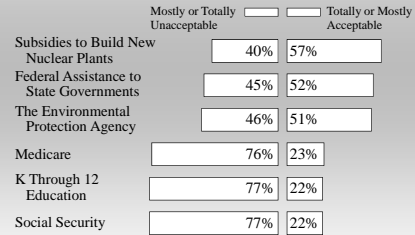
\*"Other Health Programs" includes: Health insurance subsidies, exchanges, and related spending; Department of Defense Medicare-Eligible Retiree Health Care Fund (including TRICARE for Life); Children's Health Insurance Program, and other programs.

## Possible Options

## Public Opinion on Reducing the Deficit

WSJ/NBC Poll -- March 3, 2011

Q: Which of the following programs do you think could be cut significantly?



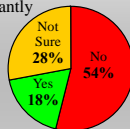
Source: WSJ/NBC News Polls

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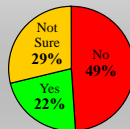
## Medicare, Social Security and Other Alternatives to Reduce the Deficit

WSJ/NBC Poll -- March 3, 2011

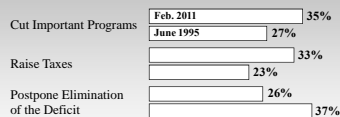
Q: Will it be necessary to cut Medicare to significantly reduce the deficit?



Q: Will it be necessary to cut Social Security to significantly reduce the deficit?



Q: If the deficit can't be eliminated by cutting wasteful spending, which of these do you favor?



Source: WSJ/NBC News Polls

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## The National Commission on Fiscal Responsibility: Moment of Truth




The Bipartisan Policy Center : Restoring America's Future

November - December 2010

POLICY	The National Commission on Fiscal Responsibility	Bipartisan Policy Center Task Force
<i>Consensus</i>	<ul style="list-style-type: none"> <li>- 11 of the 18-member supported plan</li> <li>- In 2020 - 65.5% Debt to GDP</li> <li>- In 2020 - spending 21.8% GDP</li> <li>- In 2020 - revenues 20.6% GDP</li> <li>- In 2020 - deficit 1.2% GDP</li> </ul>	<ul style="list-style-type: none"> <li>- Consensus plan of a 19-member bipartisan Task Force</li> <li>- In 2020 - 60% Debt to GDP</li> <li>- In 2020 - spending 20.0% GDP</li> <li>- In 2020 - revenues 21.4% GDP</li> <li>- In 2020 - deficit 1.6% GDP</li> </ul>
<i>Fiscal Measures</i>		
<i>Economic Recovery</i>	<ul style="list-style-type: none"> <li>- Recommends consideration of small payroll tax relief in 2011 - \$50 to \$60 billion.</li> <li>- Starts policies in 2012</li> </ul>	<ul style="list-style-type: none"> <li>- Provides 1-year payroll tax holiday for approximately 125 million workers in 2011. Cost: \$640 billion.</li> <li>- Starts policies in 2012.</li> </ul>
<i>Tax Expenditures</i>	<ul style="list-style-type: none"> <li>- Retains current law EITC and Child Tax Credit</li> <li>- Maintains current law standard deduction</li> <li>- Eliminates all itemized deductions</li> <li>- 12% non-refundable tax credit mortgage &amp; charitable contributions</li> <li>- Beginning in 2018 phases out employer provided health insurance exclusion by 2038</li> </ul>	<ul style="list-style-type: none"> <li>- Eliminates almost all tax expenditures.</li> <li>- Eliminates most tax deductions, credits and expenditures - turns EITC, child credit, charitable, mortgage, and retirement savings deductions into refundable credits</li> <li>- Beginning in 2018 phases out employer provided health insurance exclusion by 2028</li> </ul>
<i>Revenues</i>	<ul style="list-style-type: none"> <li>- Cuts individual income tax rates; creates 3 brackets 12%, 22% and 28%</li> <li>- Cuts corporate rate to 28%</li> <li>- Proposes to cap revenues at 21% of GDP</li> <li>- Raises federal gas tax by 15 cents</li> <li>- Eliminates AMT, PEP and Pease</li> </ul>	<ul style="list-style-type: none"> <li>- Cuts individual income tax rates; creates just 2 brackets of 15% and 27%</li> <li>- Cuts corporate rate to 27% (OECD average)</li> <li>- Imposes Debt Reduction Sales Tax of 6.5%</li> <li>- Eliminates the AMT</li> </ul>
<i>Domestic Discretionary</i>	<ul style="list-style-type: none"> <li>- Proposes 4 years of cuts, then 5 years held to growth as inflation</li> </ul>	<ul style="list-style-type: none"> <li>- Freezes domestic discretionary spending for 4 years, then limits growth to GDP growth</li> </ul>
<i>Defense</i>	<ul style="list-style-type: none"> <li>- Proposes 4 years of cuts, then 5 years held to growth as inflation</li> <li>- Reduces weapon systems, reforms compensation, cuts force structure cuts, and applies Gates' savings</li> </ul>	<ul style="list-style-type: none"> <li>- Freezes defense discretionary spending for 5 years, then limits growth to GDP growth</li> <li>- Reduces weapon systems, reforms compensation, cuts force structure, and applies Gates' savings</li> </ul>

**The National Commission on Fiscal Responsibility: Moment of Truth  
The Bipartisan Policy Center : Restoring America's Future**

November – December 2010

POLICY	The National Commission on Fiscal Responsibility	Bipartisan Policy Center Task Force
<b>Health</b> 	<ul style="list-style-type: none"> <li>• Medicaid: Expands managed care for dual eligibles</li> <li>• Institutes tort reform</li> <li>• Raises Medicare premiums</li> <li>• Strengthens IPAB Provides illustrative option of premium support</li> <li>• Converts FEHB program from defined-benefit to defined-contribution with support growing GDP+1</li> <li>• In 2020, global cap on all federal health spending and limit growth GDP+1%</li> <li>• Reduces provider payments</li> </ul>	<ul style="list-style-type: none"> <li>• Medicaid: Expands managed care for dual eligibles</li> <li>• Institutes tort reform</li> <li>• Raises Medicare premiums</li> <li>• In 2018, transforms Medicare to premium-support model, but maintains traditional Medicare as default option. Limits federal support per beneficiary to GDP+1%</li> <li>• Limit Medicaid growth: end federal matching payments in Medicaid by decoupling the system</li> <li>• Accommodates a permanent fix to the SGR mechanism</li> <li>• Excise tax and import tax on manufacture and importation of sweetened beverages</li> </ul>
<b>Social Security</b> 	<ul style="list-style-type: none"> <li>• Raises retirement ages slowly over time</li> <li>• Switches to Chained CPI</li> <li>• Includes state and local workers</li> <li>• Raises the minimum benefit and creates old age bump</li> <li>• Raises the cap on payroll taxes to the 90% level</li> <li>• Makes benefit adjustment, protecting the bottom 50% of beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>• Adjusts benefit formula to account for increases in longevity (but does not raise the retirement age)</li> <li>• Switches to Chained CPI</li> <li>• Includes state and local workers</li> <li>• Raises the minimum benefit and creates old age bump</li> <li>• Raises the cap on payroll taxes to the 90% level</li> <li>• Makes a modest benefit adjustment, protecting the bottom 75% of beneficiaries</li> </ul>
<b>Other Spending</b> 	<ul style="list-style-type: none"> <li>• Reforms farm programs</li> <li>• Reforms military retirement</li> <li>• Reforms civilian retirement</li> <li>• Imposes COLA change across government</li> </ul>	<ul style="list-style-type: none"> <li>• Reforms farm programs</li> <li>• Reforms military retirement</li> <li>• Reforms civilian retirement</li> <li>• Imposes COLA change across government</li> </ul>