BUDGET BULLETIN
SENATE COMMITTEE ON THE BUDGET
CHAIRMAN MIKE ENZI | @BUDGETBULLETIN

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The State of the Budget

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<u>EDITOR'S NOTE</u>: All years are fiscal years unless otherwise stated.

2016 Budget Resolution Status Report

Last year Congress adopted S. Con. Res. 11, the Concurrent Resolution on the Budget for Fiscal Year 2016. This achievement marked the first bicameral budget resolution since calendar year 2009 and the first 10-year balanced budget since calendar year 2001. The 2016 budget offered a path to balance without raising taxes, updated and expanded budget enforcement tools, and provided reconciliation instructions that were ultimately used to repeal the Affordable Care Act.

In the months following its passage, Senate Budget Committee Chairman Mike Enzi (R-WY) put the budget blueprint to work to address such legislative priorities as trade, higher education, cybersecurity, spending levels for overseas contingency operations (OCO), and appropriations levels. Chairman Enzi also used enforcement tools to focus on the compliance of proposed legislation relative to the budget, through points of order – a total of 14 times.

In order to increase transparency and allow for greater public oversight, the chairman resumed the practice of preparing scorekeeping reports. This practice is required by section 308(b) of the Congressional Budget Act of 1974, which calls for "up-to-date tabulations of congressional budget actions" to be made available. The chairman releases these reports once each work period. His last report, which captured the entire period from the passage of the budget resolution to the end of the first session of the 114th Congress, was published in the *Congressional Record* on January 11, 2016.

The scorekeeping reports help track congressional alignment with the budget resolution (as adjusted by the chairman in accordance with the resolution), specifically regarding committee allocations and aggregate levels both for spending and revenues. Since passage of the resolution, 9 of 16 Senate authorizing committees are in compliance with their spending allocations. Notably, the Armed Services Committee reduced direct spending over each enforcement window, with an overall savings of $1 billion over 10 years. At the same time, spending in the Finance Committee's jurisdiction increased over all enforcement periods, with a total breach of $152.9 billion over 10 years.

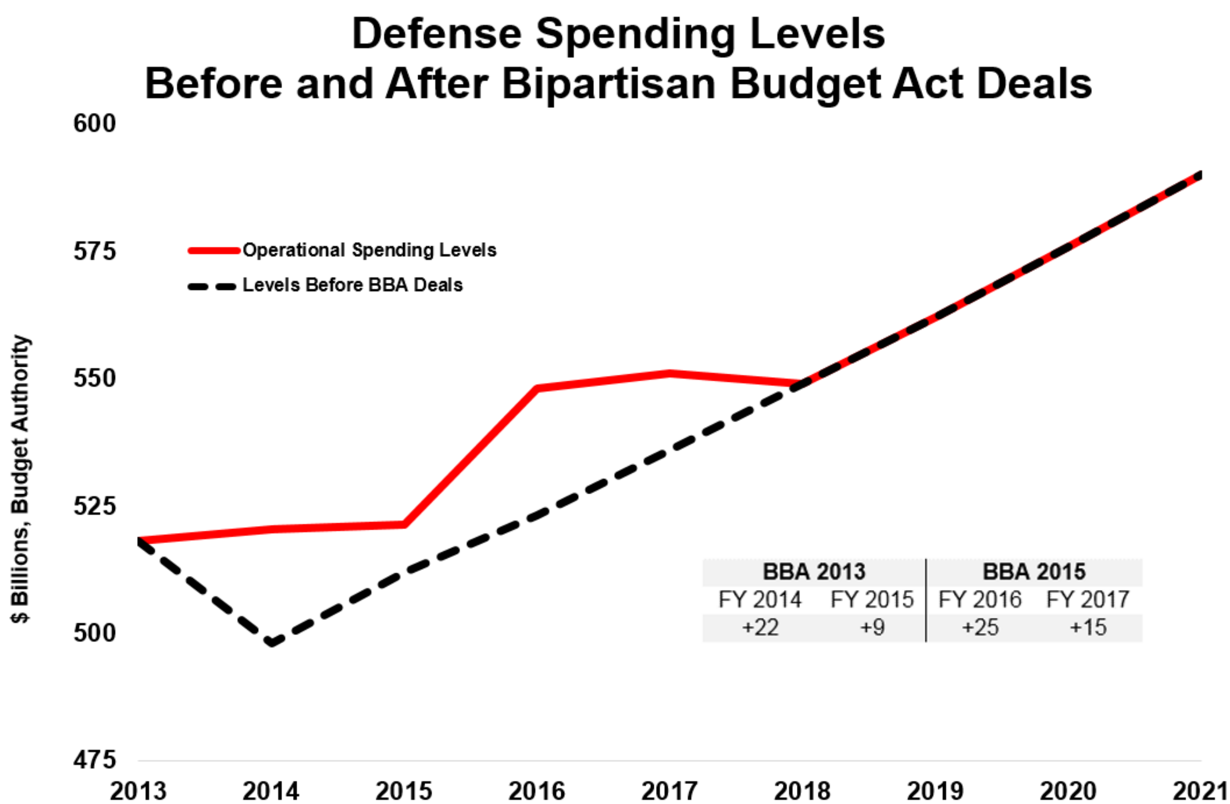
On net and over the 10-year budget window, authorizing committees increased outlays by $148 billion more than outlined in the budget resolution. In terms of aggregates, spending in 2016 has surpassed amounts assumed in the resolution by $138.9 billion and $103.6 billion for budget authority and outlays, respectively. Revenues are $155.2 billion and $478.1 billion below levels assumed for 2016 and over 10 years, respectively.

While Congress considered numerous pieces of legislation during the first session, including measures dealing with the Highway Trust Fund, national security and service members' benefits, and medical care and facilities for veterans, three bills (two enacted and one vetoed) have had a significant impact on current budget figures and will affect future budget considerations: the Bipartisan Budget Act of 2015, the Consolidated Appropriations Act, 2016, and the Restoring Americans' Healthcare Freedom Reconciliation Act of 2015.

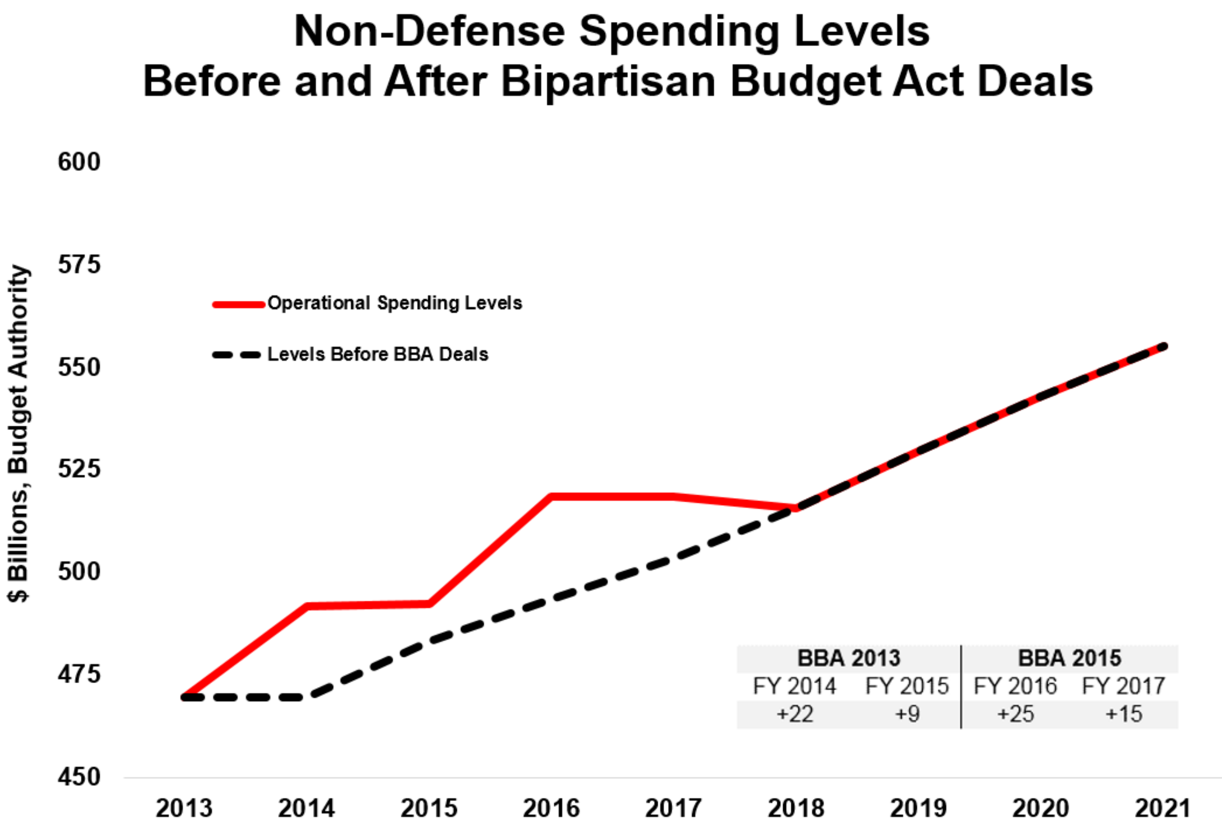
Bipartisan Budget Act of 2015**.** The budget resolution set out regular discretionary levels for 2016 consistent with the Budget Control Act of 2011 (BCA), specifically $523.1 billion for defense and $493.5 billion for non-defense spending. These levels were accompanied by a newly created OCO allocation that was pegged at $96.3 billion and enforceable with a budget point of order. While the Committee on Appropriations was able to report a bill from each subcommittee consistent with its allocation, the Senate minority refused to consider any appropriations measures on the floor unless the caps were increased.

Ultimately, Congress crafted another two-year spending deal, the Bipartisan Budget Act of 2015, modeled after the 2013 Ryan-Murray spending agreement. The 2015 budget bill, signed into law on November 2, increased discretionary spending levels preventing them from facing the full extent of fiscal discipline imposed under the BCA. To date, discretionary spending has never fully been enforced at BCA levels, as the American Taxpayer Relief Act, the Bipartisan Budget Act of 2013, and the Bipartisan Budget Act of 2015 have either reduced sequestration levels (2013) or replaced BCA spending caps with new levels (2014-2017). (For a history of discretionary limit changes, please see here.)

Specifically, the Bipartisan Budget Act of 2015 increased discretionary spending limits by $80 billion over the 2016-2017 period, split evenly between defense and non-defense spending. The bill raised caps by $50 billion in 2016, to $548.1 billion for defense and $518.5 billion for non-defense, and by $30 billion in 2017, to $551.1 billion for defense and $518.5 billion for non-defense. And unlike the Ryan-Murray spending deal, which was designed to increase spending limits each year, the 2015 budget deal causes a slight dip in the out-year spending glide path, for 2018.



Source: Senate Budget Committee Republican staff calculations based on CBO data. FY 2013 data based on enacted levels less March 1, 2013 sequester.



Source: Senate Budget Committee Republican staff calculations based on CBO data. FY 2013 data base on enacted levels less March 1, 2013 sequester.

In addition to the regular discretionary spending levels, the bill also includes proposed OCO levels of $14.9 billion and $58.8 billion both in 2016 and 2017 for international programs and defense programs, respectively. While these OCO levels were originally to be mandated in the law as the minimum OCO adjustment allowed, the final version of the 2015 bill contained modified language to lay aside an estimate of increased OCO costs. The final bill included language stating that the OCO language shall not affect the current-law treatment of adjusting the caps, relegating the OCO levels in the bill to an unenforceable agreement. The inclusion of the OCO levels language in the deal is noteworthy given the minority's opposition to the OCO approach taken in the budget resolution. Using such elevated OCO levels for State Department and U.S. Agency for International Development programs allows proponents of non-defense discretionary spending to reduce regular international affairs budgets while using OCO funds to backfill the reduction, a trend shown below. By shifting regular international affairs appropriations needs to the OCO category, spending room is made available under the cap to fund other non-defense priorities.

Function 150-International Affairs Discretionary Appropriations			
$Billions, BA	2014	2015	2016
Regular	44.1	41.7	39.7
OCO	6.5	9.3	14.9
Total	50.6	50.9	54.6

The Congressional Budget Office (CBO) has estimated that the spending subject to appropriation in the 2015 spending deal (increased discretionary caps and other changes to cap adjustments) would ultimately increase outlays by $79.4 billion over 10 years. The bill partially offsets these increased immediate discretionary costs by reducing direct spending and increasing revenue by $71.3 billion over the budget window. This disparity between the estimated savings and estimated new costs is one of the reasons the Strengthen America's Priorities deficit-neutral reserve fund, section 4302 of the budget resolution, was not used. Some of the savings in the bill have already been reversed: The agriculture-related reinsurance provision, a $3 billion offset, was undone in the Fixing America's Surface Transportation Act (P.L.114-94).

Consolidated Appropriations Act, 2016. Following passage of the Bipartisan Budget Act of 2015, the Senate was able to pass only one appropriations bill on the floor: H.R. 2029, the Military Construction and Veterans Affairs and Related Agencies Appropriations Act, 2016. This bill ultimately became the vehicle not only for a consolidated appropriations bill (Divisions A-L), but also for a reauthorization of intelligence programs (Division M), a cybersecurity bill (Division N), reauthorization of 9/11 healthcare and victim funds (Division O), reform of healthcare-related tax provisions (Division P), and tax extenders (Division Q).

Passage of the appropriations provisions of this bill resulted in total discretionary budget authority of $1.1 trillion for 2016. This includes the nearly $1.1 trillion in regular appropriations (complying with the new limits), $73.7 billion for OCO, $7.1 billion for disaster assistance, $1.5 billion in program integrity initiatives, and $700 million in emergency spending for wildfires (provided in an earlier continuing resolution). Furthermore, these divisions complied with two of the new enforcement provisions in the budget resolution related to changes in mandatory programs (CHIMPS) found in sections 3103 and 3104 of the resolution. The resolution put hard caps on the amount of CHIMPS that could be used to allow room for other spending under the caps, notably $19.1 billion for all CHIMPS and $10.8 billion for the Crime Victims Fund (CVF) CHIMP. The appropriations division came in $1.3 billion below the overall CHIMPS limit and $1.8 billion below the CVF limit.

Whereas the appropriations divisions were mostly consistent with the budget resolution, Divisions M-Q led to multiple violations and large increases in deficits. Combined, these divisions increased budget authority by $157.7 billion and outlays by $156.9 billion over 10 years, and reduced on-budget revenues by $520.1 billion over 10 years. In total, they increased on-budget deficits by $435.7 billion over 5 years and $677.1 billion over 10 years. These budgetary effects are largely responsible for the divergence from the resolution for revenue aggregates, which the resolution assumed would stay at baseline, and the Finance Committee's allocation.

Restoring Americans' Healthcare Freedom Reconciliation Act of 2015. One of the central assumptions of the budget resolution was addressing the Affordable Care Act (ACA). The budget resolution included reconciliation instructions to five House and Senate committees that enabled Congress to pass repeal legislation through the budget reconciliation process. In October 2015, the House passed its version of reconciliation legislation (H.R. 3762), which targeted a handful of ACA provisions for repeal and prohibited certain entities that provide abortions, such as Planned Parenthood and its affiliates, from receiving federal funds for a one-year period.

In December 2015, the Senate took up the House bill and passed it with a complete Senate substitute amendment. The Senate substitute was far more comprehensive than the House bill, as it repealed as much of the ACA as was reconcilable. The Senate substitute also prohibited certain abortion providers from receiving federal funds for one year.

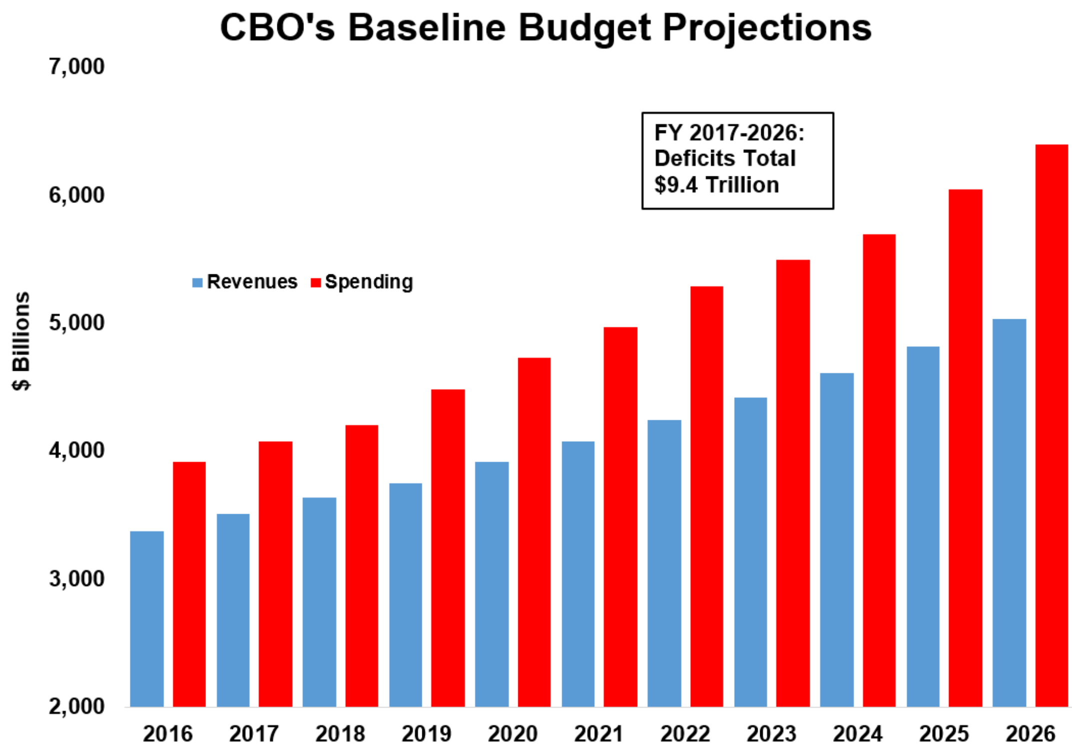
Earlier this month, the House adopted the reconciliation legislation as amended by the Senate, and for the first time Congress was able to send a repeal bill to the president's desk. CBO estimated that the final reconciliation bill would have reduced direct spending by $1.4 trillion and reduced revenues by $956.8 billion over the 10-year budget window. The legislation would have reduced on-budget deficits by $405.1 billion over 10 years. If the bill's macroeconomic effects were taken into account, according to CBO's analysis, the deficit reduction would have totaled $548.2 billion.

President Obama vetoed the reconciliation bill January 8, 2016. The inability to enact a repeal bill of any kind is one of the contributing factors that ultimately led to a breach of the spending aggregates in the budget resolution.

CBO's Budget Outlook: A Challenging Fiscal Environment

$544 billion. $9.4 trillion. Triples.

According to CBO's latest *Budget and Economic Outlook*, these figures represent, respectively, the 2016 federal budget deficit, the 10-year forecasted deficit, and what will happen to the amount of interest paid on the federal debt (reaching $830 billion, or 3 percent of gross domestic product, in 2026). For the first time since 2009, the deficit will increase as a percentage of GDP. Spending as a percentage of GDP will increase from 20.7 percent last year to 23.1 percent by the end of the forecast. Over the budget window, revenues will hover around 18 percent of GDP, which is still higher than the 17.4 percent average over the last 50 years.



Source: Senate Budget Committee Republican staff using CBO data.

During the 2016 budget cycle, CBO released three projections of cumulative deficits over the 2016-2025 window. The January projection forecast $7.6 trillion in deficits, which was revised downward in March to $7.2 trillion, and finally ended with a forecast of $7 trillion in August. These revisions were largely attributable to economic and technical assumptions, though the August update captured a significant legislative event in the form of the "Doc Fix" bill (Medicare Access and CHIP Reauthorization Act of 2015).

With CBO's latest update, combined deficits are now $1.5 trillion higher than projected just six months ago. CBO estimates that about half the change is attributable to legislative activity, particularly the tax provisions of the appropriations bill. The remaining increase in the deficit is attributable to CBO's economic forecast of lower growth, inflation, interest, and unemployment rates, which both decrease forecasted revenues and decrease outlays, and changes in technical assumptions. Changes in CBO's economic forecast account for $437 billion of projected deficit increases. The technical changes, which would increase deficits by $363 billion, are pegged to increased Medicaid enrollment due to newly eligible beneficiaries under the ACA and substantial increases in veterans' disability compensation.

86 percent of GDP. 155 percent of GDP.

These figures are CBO's warning of what the projected deficits will do to debt held by the public by the end of the 10-year period and three decades from now, respectively. According to CBO, the first figure is just over twice the average of the past five decades, while the second figure will represent the highest level of debt ever held by the public in the United States.

BudgetSpeak

302(f)

A section of the Congressional Budget Act of 1974 that prohibits consideration of legislation that exceeds an authorizing committee's fiscal amount allowed in the budget resolution for the budget year, the budget year and four ensuing years, and the total of fiscal years covered. For example, under S. Con. Res. 11, the enforcement periods were 2016, 2016-2020, and 2016-2025. For the Appropriations Committee only, 302(f) prohibits consideration of legislation that exceeds each subcommittee's discretionary spending allowed for security and non-security categories in 2016. This section can be waived with three-fifths of the Senate (60) agreeing to put it aside.