
BUDGET REFORM PROPOSALS

15. BUDGET REFORM PROPOSALS

In April of last year, the Administration sent to the Congress budget enforcement legislation in the form of the proposed Spending Control Act of 2004. The Administration plans to re-propose that legislation with appropriate revisions. This chapter provides an overview of that updated legislation, and describes other budget reform proposals supported by the Administration. Certain administrative steps are planned to require agencies to propose offsets for regulatory actions that would increase mandatory spending.

In addition, the Administration requests that the Congress include the following budget enforcement proposals as part of its budget resolution:

- Discretionary caps that include separate defense, nondefense, highway and mass transit categories.
- Adjustments to the discretionary caps for program integrity activities.
- Limits on advance appropriations within the discretionary caps.
- A new scoring rule to ensure that funding shortfalls do not accumulate in the discretionary Pell Grant program in future years.
- A separate category for Project BioShield to ensure that funding is not reduced and used as an offset for other discretionary spending.
- A pay-as-you-go (PAYGO) requirement for all legislation that changes mandatory spending.
- A stricter standard for emergency designations and a requirement that the President and the Congress concur in those designations.
- Extension of expiring tax provisions in the 2001 and 2003 tax cut bills in the budget resolution baseline.
- Exclusion of discretionary funding for emergencies from the budget resolution baseline.
- A point of order against legislation that worsens the long-term unfunded obligation of major entitlement programs.

Discretionary Caps

The Administration proposes to set limits for 2005 through 2010 on net discretionary budget authority (BA) and outlays equal to the levels proposed in the 2006 Budget. Legislation that exceeds the discretionary caps would trigger a sequester of non-exempt discretionary programs. Table 15–1 displays the total levels of discretionary budget authority and outlays proposed for 2005 through 2010. This approach would put in place a budget framework for the next five years that ensures constrained, but reasonable growth in discretionary programs. For 2005 through 2007, separate defense (Function 050) and nondefense categories would be enforced. For 2008–2010, there would be a single cap for all discretionary spending. In addition, a separate category for transportation outlays, financed by dedicated revenues, would be established for 2005 through 2009. The proposal discontinues separate caps established for conservation programs in 2001 through an amendment to the Budget Enforcement Act (BEA).

Table 15–1. GENERAL PURPOSE DISCRETIONARY CAPS AND ADJUSTMENTS

(Amounts in billions of dollars)

| | 2005 ¹ | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|-------------------|-------|-------|------|------|------|
| Proposed Discretionary Spending Categories: | | | | | | |
| Discretionary Category: | | | | | | |
| Defense Category (Function 050): | | | | | | |
| Budget authority | 420.2 | 438.8 | 462.6 | NA | NA | NA |
| Outlays | 463.5 | 444.3 | 446.1 | NA | NA | NA |
| Nondefense Category: | | | | | | |
| Budget authority | 402.5 | 400.7 | 402.2 | NA | NA | NA |
| Outlays | 427.1 | 435.5 | 429.1 | NA | NA | NA |
| Proposed Cap Adjustments: | | | | | | |
| SSA Continuing Disability Reviews: | | | | | | |
| Budget authority | NA | 0.189 | 0.203 | NA | NA | NA |
| Outlays | NA | 0.166 | 0.201 | NA | NA | NA |
| IRS Tax Enforcement: | | | | | | |
| Budget authority | NA | 0.446 | 0.514 | NA | NA | NA |
| Outlays | NA | 0.415 | 0.509 | NA | NA | NA |
| Health Care Fraud and Abuse Control: | | | | | | |
| Budget authority | NA | 0.080 | 0.120 | NA | NA | NA |
| Outlays | NA | 0.080 | 0.120 | NA | NA | NA |

Table 15-1. GENERAL PURPOSE DISCRETIONARY CAPS AND ADJUSTMENTS—Continued

(Amounts in billions of dollars)

| | 2005 ¹ | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|-------------------|-------|-------|-------|-------|-------|
| Unemployment Insurance Improper Payments: | | | | | | |
| Budget authority | NA | 0.040 | 0.040 | NA | NA | NA |
| Outlays | NA | 0.034 | 0.040 | NA | NA | NA |
| Subtotal, Nondefense Category, with Adjustments: | | | | | | |
| Budget authority | 402.5 | 401.5 | 403.1 | NA | NA | NA |
| Outlays | 427.1 | 436.1 | 430.0 | NA | NA | NA |
| Discretionary Category: | | | | | | |
| Budget authority | NA | NA | NA | 886.6 | 907.9 | 919.8 |
| Outlays | NA | NA | NA | 889.3 | 905.6 | 971.4 |
| Highway Category: | | | | | | |
| Outlays | 32.1 | 34.4 | 34.9 | 36.0 | 39.3 | NA |
| Mass Transit Category: ² | | | | | | |
| Outlays | 7.2 | 6.9 | 6.5 | 6.9 | 7.0 | NA |
| Total, All Discretionary Categories: | | | | | | |
| Budget authority | 822.7 | 840.3 | 865.7 | 886.6 | 907.9 | 919.8 |
| Outlays | 929.9 | 921.7 | 917.4 | 932.2 | 951.9 | 971.4 |
| Project BioShield Category: | | | | | | |
| Budget authority | 2.5 | ..... | ..... | ..... | 2.2 | ..... |
| <i>Memorandum: 2005 Hurricane Supplemental</i> | | | | | | |
| Budget authority | 11.9 | ..... | ..... | ..... | ..... | ..... |

¹ The discretionary budget authority for Division B of the Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act, 2005 (PL 108-324) and for emergencies in the Consolidated Appropriations Act, 2005 (PL 108-447) are displayed separately on a memorandum line.

² Includes prior-year outlays from general fund budget authority provided in years prior to 2005. Outlays from general fund budget authority for 2005 and beyond are included in the Discretionary Category.

Program Integrity Cap Adjustments.—An improper payment occurs when Federal funds go to the wrong recipient, the recipient receives an incorrect amount of funds, or the recipient uses the funds in an improper manner. Approximately 92 percent of improper payments are overpayments. The Administration has made the elimination of improper payments a major focus. Federal agencies have begun to review Federal programs to evaluate the risk of improper payments, have developed measures to assess the extent of improper payments, and have initiated processes and internal control improvements to enhance the accuracy and integrity of payments. For the first time, agencies have reported the results of these efforts, pursuant to the Improper Payments Information Act of 2002 (P.L. 107-300).

The results of the agency assessment have been aggregated into a government-wide report entitled *Improving the Accuracy and Integrity of Federal Payments*. (The full text of the report can be found at http://www.whitehouse.gov/omb/financial/fia_improper.html.) In 2004, the agencies reported a total of \$45.1 billion in improper payments. This represents a 3.9 percent improper payment rate. Almost two-thirds of those improper payments are in four programs: Medicare, Un-

employment Insurance, Supplemental Security Income, and Old-Age, Survivors, and Disability Insurance.

In the context of the Administration's efforts to eliminate improper payments, the Administration is proposing adjustments for spending above a base level of funding within the discretionary levels for several program integrity initiatives, specifically those efforts for continuing disability reviews (CDRs) in the Social Security Administration, Internal Revenue Service (IRS) tax enforcement, the Health Care Fraud and Abuse Control Program (HCFAC) in the Centers for Medicare and Medicaid Services and Unemployment Insurance improper payments in the Department of Labor. These cap adjustments provide an effective way to ensure that limited resources are applied to activities that reduce error and generate program savings.

In the past decade, there have been a variety of successful efforts to ensure dedicated resources for program integrity efforts. These efforts include cap adjustment funding for Social Security continuing disability reviews and integrity efforts associated with the Earned Income Tax Credit (EITC). These initiatives have led to increased savings for the Social Security program and an increase in enforcement efforts in EITC.

Additional spending on program integrity initiatives has proven to reduce erroneous payments in these programs. For example, the Social Security Administration reports that every \$1 expended on CDRs has produced a \$10 return to taxpayers. The Administration's proposed adjustments for program integrity activities will total \$755 million in budget authority in 2006 and \$877 million in budget authority in 2007.

Transportation Category.—The Administration's proposal for discretionary caps includes separate categories for spending on Federal Highway and Mass Transit programs. The Transportation levels will be financed by dedicated revenues over the six-year period from 2004 through 2009. This structure is consistent with the estimates provided in the 2006 Budget. Table 15–2 displays the Administration's Transportation proposal. The proposal discontinues the annual adjustment reflecting updated revenue estimates that was in the previous authorization, the Transportation Equity Act for the 21st Century (TEA–21).

Advance Appropriations.—An advance appropriation becomes available one or more years beyond the year for which its appropriations act is passed. BA is recorded in the year the funds become available and not in the year of enactment. Too often, advance appropriations have been used to expand spending levels by shifting budget authority from the budget year into the subsequent year and then appropriating the BA freed up under the budget year discretionary cap to other programs. The effect of these advance appropriations is to limit the amount of discretionary BA available in subsequent years, thereby reducing future funding options available to both Congress and the President. From 1993 to 1999, an average of \$2.3 billion in discretionary budget authority was advance appropriated each year. In 1999, advance appropriations totaled \$8.9 billion and increased to \$23.4 billion in 2000.

Because this budget practice distorts the debate over Government spending and misleads the public about spending levels in specific accounts, the President's budget proposals and the 2002 Congressional Budget

Resolution capped advance appropriations at the amount advanced in the previous year. By capping advance appropriations, increases in these and other programs can be budgeted and reflected in the year of their enactment. This year, the Administration proposes that total advance appropriations, excluding Project BioShield, continue to be capped in 2006 through 2010. Instead of capping total advance appropriations at the 2002 level, the Administration will propose a cap on advance appropriations of \$22,602 million. This is the level of advance appropriations provided for 2007 in the President's 2006 Budget.

In addition, the Administration will also score the second-year effect of appropriations language that delays obligations of mandatory budget authority as advance appropriations that count against the discretionary caps. Appropriations acts often include provisions that delay obligations of mandatory BA from one year to the next. The first year is appropriately scored as a discretionary savings because it is included in an appropriations act and it reduces spending in that year. However, this is usually a temporary delay, and the funds become available for spending in the second year. Under this proposal, the second-year impact would be treated as an advance appropriation and scored against the discretionary caps. This will correct an inconsistency in the current practice where savings are scored in the first year, but the second year impact is reclassified in the subsequent budget as mandatory and not scored against the discretionary caps.

To enforce the level of advance appropriations, the discretionary cap proposal provides that total funding for advance appropriations (including obligation delays) provided in an appropriations act for 2006 through 2010 that is in excess of the Administration's limit on advance appropriations of \$22,602 million will count against the discretionary cap in the year enacted, not against the year the funds first become available.

Federal Pell Grants.—The Pell Grant program provides grant aid to more than five million postsecondary students each year to help pay for their education. Pell

Table 15–2. TRANSPORTATION CATEGORY FOR HIGHWAYS AND MASS TRANSIT SPENDING

(Amounts in billions of dollars)

| | 2004 ¹ | 2005 ¹ | 2006 | 2007 | 2008 | 2009 |
|---|-------------------|-------------------|------|------|------|------|
| Transportation Category: | | | | | | |
| Highways: | | | | | | |
| Obligation Limitations | 34.6 | 35.2 | 35.9 | 37.3 | 39.8 | 45.9 |
| Outlays | 30.7 | 32.1 | 34.4 | 34.9 | 36.0 | 39.3 |
| Mass Transit: ² | | | | | | |
| Obligation Limitations | 5.8 | 6.7 | 6.8 | 6.5 | 7.0 | 7.6 |
| Outlays | 6.8 | 7.2 | 6.9 | 6.5 | 6.9 | 7.0 |
| Memorandum: | | | | | | |
| Discretionary budget authority for mass transit not under the Transportation Guarantee: | | | | | | |
| Budget authority | 1.5 | 1.0 | 1.0 | 1.6 | 1.7 | 1.9 |

¹ The Administration's SAFETEA proposal for Highway and Mass Transit programs applies to 2004 through 2009.

² Includes prior-year outlays from general fund budget authority provided in years prior to 2005. Outlays from general fund budget authority for 2005 and beyond are included in the Discretionary Category.

Grant funding is discretionary and is provided through the annual appropriations process. If a Pell-eligible student enrolls in school, however, he or she is automatically eligible for a need-based award up to the maximum award set in appropriations (currently \$4,050). Pell Grant cost estimates are based on the February Budget's technical and economic assumptions; the Budget includes both the cost estimate for the budget year and revised cost estimates for prior years. In recent years, Pell Grant appropriations have been insufficient to cover program costs, creating an estimated \$4.3 billion funding shortfall through the 2005–2006 award year.

In the FY 2006 Budget, the Administration is proposing a comprehensive package of reforms to the Federal student aid programs, including Pell Grants. In Pell, the Budget proposes to increase the \$4,050 maximum award by \$100 in FY 2006 and \$500 over the next five years. The Budget also proposes to retire the estimated \$4.3 billion funding shortfall in Pell through the 2005–2006 award year. The Budget requests mandatory budget authority for the additional funding from these Pell Grant proposals, which are offset by reforms to the Federal student loan programs that increase benefits to students while making these programs more cost effective. This mandatory funding for Pell Grants is contingent on adoption of the scoring rule discussed below, which will prevent future underfunding of Pell Grant program costs.

The Pell Grant program would remain discretionary. With the exception of the proposed funding to increase the maximum award by \$500 over the next five years, the Administration would oppose efforts to convert Pell Grants into a mandatory program. Discretionary funding would still be required to support the cost of a \$4,050 Pell Grant maximum award. Additional discretionary appropriations would also be needed to support any cost increases in the base Pell Grant program—due to increased enrollment, maximum award increases provided in appropriations, or other policy changes.

To ensure that funding shortfalls do not accumulate in the Pell Grant program in future years, the Administration is proposing to score appropriations at the amount needed to fully fund the award level set in appropriations acts, if the amount appropriated is insufficient to fully fund all awards. This amount would be increased to cover any funding shortfalls from previous years and reduced by any surpluses carried over from previous years. If the amount appropriated exceeded the estimated full cost, the amount appropriated

would be scored against that year, and the surplus would carry over as a credit against the following year's cost estimate. The new scoring rule would only apply to Pell Grant costs beginning with the 2006–2007 award year. The existing shortfall would be funded as described above.

The Pell Grant scoring rule is a necessary component of the Administration's student aid reforms. It will ensure that Pell Grants costs are fully funded each year, which means that funding shortfalls will be paid for and will not accumulate in future years. The Administration believes that mandatory funding should not be used for Pell Grants unless this new budget scoring rule is in place.

Project BioShield Category.—The Administration proposes to create a separate BEA category for budget authority for Project BioShield, which received an advance appropriation for 2005 of \$2.5 billion and for 2009 of \$2.2 billion in P.L. 108–90, the 2004 Department of Homeland Security Appropriations Act. Because the success of this program in providing for the development of vaccines and medications for biodefense depends on an assured funding availability, it is critical that this funding not be diverted to other purposes. The Administration's proposal to create a separate category will help ensure that funding for this program is not reduced and used as an offset for other discretionary spending.

Pay-As-You-Go (PAYGO) Extension

The Administration proposes to subject all legislation that changes mandatory spending to a pay-as-you-go requirement, so that such legislation, in total, does not increase the deficit. This proposal is modeled after the PAYGO requirement in the BEA, except that it does not apply to tax legislation. It also does not permit mandatory spending increases to be offset by tax increases. The Administration does not support increasing the tax burden on the American people and, therefore, proposes to remove tax legislation from the PAYGO calculation.

The five-year impact of any proposals affecting mandatory spending would continue to be scored. Table 15–3 displays the President's mandatory spending proposals. Legislation that exceeds the pay-as-you-go requirement in the current year and the budget year would trigger a sequester of direct spending programs. The 2006 Budget identifies as "PAYGO" only legislative proposals that change mandatory spending.

Table 15-3. PAYGO PROPOSALS

(Cost/Savings(-) in millions of dollars)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2005-10 |
|---|-------|--------|--------|--------|--------|--------|---------|
| Outlay Effects of Tax Proposals ¹ ..... | ..... | -16 | 3,607 | 5,594 | 6,738 | 7,380 | 23,303 |
| Pension Benefit Guaranty Corporation Reform ¹ ..... | ..... | -2,195 | -3,702 | -3,495 | -3,226 | -2,916 | -15,534 |
| Medicaid and State Children's Health Insurance Program | 225 | 1,112 | -1,549 | -3,699 | -4,214 | -4,417 | -12,542 |
| User Fee Proposals ..... | ..... | -824 | -1,384 | -1,482 | -1,617 | -1,593 | -6,900 |
| Student Loan Reforms and Pell Grant Increase | 557 | -1,172 | -2,001 | -1,752 | -1,337 | -986 | -6,691 |
| Byrd Amendment Repeal ..... | ..... | -1,608 | -1,615 | -1,624 | -855 | -865 | -6,567 |
| Extension of Spectrum Auction Authority ..... | ..... | ..... | ..... | 1,083 | -2,156 | -3,239 | -4,312 |
| Commodity Credit Corporation and Crop Insurance ..... | ..... | -587 | -991 | -982 | -738 | -674 | -3,972 |
| Allowing Power Marketing Administrations to Charge Market Rates ..... | ..... | -40 | -157 | -446 | -1,145 | -1,406 | -3,194 |
| Southern Nevada Land Sales ..... | ..... | -227 | -418 | -636 | -641 | -642 | -2,564 |
| Temporary Assistance for Needy Families Reauthorization | 100 | 277 | 329 | 352 | 361 | 357 | 1,776 |
| Arctic National Wildlife Refuge, lease bonuses ..... | ..... | ..... | -1,201 | -1 | -101 | -1 | -1,304 |
| Other Proposals | -62 | -66 | 36 | 127 | 257 | 688 | 980 |
| Total | 820 | -5,346 | -9,046 | -6,961 | -8,674 | -8,314 | -37,521 |
| Total, 2005 and 2006 ..... | ..... | -4,526 | ..... | ..... | ..... | ..... | ..... |

¹ Affects both receipts and outlays. Only the outlay effect is shown here.

Include Stricter Standard For Emergency Designation in the BEA

When the BEA was created, it provided a “safety valve” to ensure that the fiscal constraint envisioned by the BEA would not prevent the enactment of legislation to respond to unforeseen disasters and emergencies such as Operation Desert Storm, the series of hurricanes that struck Florida this fall, or the terrorist attacks of September 11, 2001. If the President and the Congress separately designated a spending or tax item as an emergency requirement, the BEA held these items harmless from its enforcement mechanisms. Initially, this safety valve was used judiciously, but in later years its application was expanded to circumvent the discretionary caps by declaring spending for ongoing programs as “emergencies.”

The Administration proposes to include in the BEA a definition of “emergency requirement” that will ensure high standards are met before an event is deemed an “emergency” and therefore exempt. This definition should include the following elements: the requirement is a necessary expenditure that is sudden, urgent, unforeseen, and not permanent. These elements, all of which would be used for defining something as an emergency, are defined as follows:

- **necessary expenditure**—an essential or vital expenditure, not one that is merely useful or beneficial;
- **sudden**—quickly coming into being, not building up over time;
- **urgent**—pressing and compelling, requiring immediate action;
- **unforeseen**—not predictable or seen beforehand as a coming need (an emergency that is part of the average annual level of disaster assistance funding would not be “unforeseen”); and
- **not permanent**—the need is temporary in nature.

This definition codifies the criteria for an emergency that have been the standard for a number of years.

It is designed to preclude funds from being declared an emergency for events that occur on an annual or recurring basis. For example, even though it is not possible to predict the specific occurrence of fires, tornadoes, hurricanes, and other domestic disasters, it is reasonable to assume that a combination of domestic disasters will occur in any given year that require funding equal to the five-year average for disaster relief. Funding at this five-year average, therefore, should not be considered an emergency under this definition. On the other hand, the five-year average for domestic disasters will not accommodate the level of funding necessary to address a large and relatively infrequent domestic disaster, like the series of hurricanes that struck Florida this past fall. Under this definition for emergencies, spending for extraordinary events could be classified as emergency funding. In the end, classification of certain spending as an emergency depends on common sense judgment, made on a case-by-case basis, about whether the totality of facts and circumstances indicate a true emergency.

In addition, the Administration proposes that the definition of an emergency requirement also encompass contingency operations that are national security related. Contingency operations that are national security related include both defense operations and foreign assistance. Military operations and foreign aid with costs that are incurred regularly should be a part of base funding and, as such, are not covered under this definition.

The Administration proposal also would require that the President and Congress concur in designating an emergency for each spending proposal covered by a designation. This would protect against the “bundling” of non-emergency items with true emergency spending. If the President determines that specific proposed emergency designations do not meet this definition, he would not concur in the emergency designation and no discretionary cap adjustment or PAYGO exemption would apply.

Baseline

The Administration proposes several changes to Section 257 of the BEA, which establishes the requirements for the baseline:

- Assume extension of all expiring tax provisions in the Economic Growth and Tax Relief Reconciliation Act of 2001 and certain provisions in the Jobs and Growth Tax Relief Reconciliation Act of 2003. This proposal is consistent with the BEA baseline rules for expiring mandatory spending and for excise taxes dedicated to a trust fund. Except for a few relatively small mandatory programs, the BEA assumes that mandatory spending and excise taxes dedicated to a trust fund will be reauthorized and extends them in the baseline. The 2001 Act and 2003 Act provisions were not intended to be temporary, and not extending them in the baseline raises inappropriate procedural road blocks to extending them at current rates.
- Add a provision to exclude discretionary funding for emergencies from the baseline. Instead, the baseline would include emergency funding only for the year in which it was enacted. The current requirement is for the discretionary baseline estimates for the budget year and the outyears to assume the current year appropriated level, adjusted for inflation. This is reasonable for ongoing programs, where the need is expected to continue into the future. For emergencies, since the need should be for a short duration, the baseline rules build unnecessary funding into the baseline estimates for the years after the need has been addressed and passed. In effect, the current rule biases the baseline in favor of higher discretionary spending.
- Correct the overcompensation of baseline budgetary resources for pay raise-related costs due to the way in which these costs are inflated. The current requirement, which provides a full year's funding for pay raises in the budget year and beyond, was written when Federal pay raises were scheduled to take effect on October 1, at the start of each fiscal year. However, this requirement is now inappropriate because the effective date for pay raises is now permanently set by law as the first pay period in January. By treating pay raises that begin on January 1 as if they take effect for the entire fiscal year, the baseline overstates the cost of providing a constant level of services.
- Eliminate the adjustments for expiring housing contracts and social insurance administrative expenses. Most multi-year housing contracts have expired or have been addressed since the BEA was first enacted in 1990, so the adjustment is no longer needed. The adjustment for social insurance administrative expenses is also inconsistent with the baseline rules for other accounts that fund the costs of administration. These programs

should not be singled out for preferential treatment.

Long-term Unfunded Obligations

The Administration proposes new measures to prevent enactment of legislation that worsens the long-term unfunded obligations of Federal entitlement programs. As discussed in Chapter 13 of this volume, "Stewardship," spending by the Government's major entitlement programs, particularly Social Security and Medicare, is projected to rise in the next few decades to levels that cannot be sustained, either by those programs' own dedicated financing or by general revenues. The Administration's proposed measures would prevent further legislative increases in the long-run fiscal imbalance.

Congress has already acted to require a more comprehensive review of the Medicare program's finances and to require the Medicare trustees to issue a warning when general revenue Medicare funding is projected to exceed 45 percent of Medicare's total expenditures. The Budget proposes to build on this reform by establishing a new enforcement measure to analyze the long-term impact of legislation on the unfunded obligations of major entitlement programs and to make it more difficult to enact legislation that would expand the unfunded obligations of these programs over the long-run. These measures would highlight proposed legislative changes that appear to cost little in the short run but result in large increases in the spending burdens passed on to future generations.

First, the Administration proposes a point of order against legislation which worsens the long-term unfunded obligation of major entitlements. The specific programs covered would be those programs with long term actuarial projections, including Social Security, Medicare, Federal civilian and military retirement, veterans disability compensation, and Supplemental Security Income. Additional programs would be added once it becomes feasible to make long-term actuarial estimates for those programs.

Second, the Administration proposes new reporting requirements to highlight legislative actions worsening unfunded obligations. These requirements would require the Administration, as part of the President's Budget, to report on any enacted legislation in the past year that worsens the unfunded obligations of the specified programs.

Line-Item Veto

A perennial criticism of the Federal Government is that spending and tax legislation contain too many provisions benefiting a relative few which would likely not become law if considered as a stand-alone bill. The persistence of special interest items diverts resources from higher priority programs and erodes the confidence of citizens in Government. Appropriations bills, especially those considered at the end of the congressional session, often attract special interest spending items that could not be enacted on their own.

The President proposes that Congress correct this state of affairs by providing him and future Presidents with a line item veto that would withstand constitutional challenge. From the Nation's founding, Presidents have exercised the authority to not spend appropriated sums. However, Congress sought to curtail this authority in 1974 through the Impoundment Control Act, which restricted the President's authority to decline to spend appropriated sums. Although the Line Item Veto Act of 1996 attempted to give the President the authority to cancel spending authority and special interest tax breaks, the U.S. Supreme Court found that law unconstitutional. The President's proposal would correct the constitutional flaw in the 1996 Act.

Specifically, the President proposes a line-item veto linked to deficit reduction. This proposal would give the President the authority to defer new spending whenever the President determines the spending is not an essential Government priority. All savings from the line-item veto would be used for deficit reduction, and they could not be applied to augment other spending.

Other Budget Reform Proposals

Joint Budget Resolution.—A joint budget resolution would set the overall levels for discretionary spending, mandatory spending, receipts, and debt in a simple document that would have the force of law. Under the current process, the Congress annually adopts a "concurrent resolution," which does not require the President's signature and does not have the force of law.

A joint budget resolution could be enforced by sequesters requiring automatic across-the-board cuts to offset any excess spending, similar to the BEA. It would bring the President into the process at an early stage, require the President and the Congress to reach agreement on overall fiscal policy before individual tax and spending bills are considered, and it would give the budget resolution the force of law.

Biennial Budgeting and Appropriations.—Only twice in the last 50 years have all appropriation bills been enacted by the beginning of the fiscal year. Because Congress must enact these bills each year, it cannot devote the time necessary to provide oversight and fully address problems in Federal programs. The preoccupation with these annual appropriations bills frequently precludes review and action on authorization legislation and on the growing portion of the Budget that is permanently funded under entitlement laws. According to the Congressional Budget Office, the Congress has appropriated about \$170 billion for fiscal year 2005 for programs and activities whose authorizations of appropriations have expired.

In contrast, a biennial budget would allow lawmakers to devote more time every other year to ensuring that taxpayers' money is spent wisely and efficiently. In addition, Government agencies would receive more stable funding, which would facilitate longer range planning and improved fiscal management. Under the President's proposal for a biennial budget, funding decisions would

be made in odd-numbered years, with even numbered years devoted to authorizing legislation.

Government Shutdown Prevention.—For 23 out of the past 24 years, Congress has not finished its work by the October 1st deadline, the beginning of the new fiscal year. When Congress fails to enact appropriations bills, it funds the Government through "continuing resolutions" (CRs), which provide temporary funding authority for Government activities usually at current levels until the final appropriations bills are signed into law.

If Congress does not pass a CR or the President does not sign it, the Federal Government must shut down. Important Government functions should not be held hostage simply because of an impasse over temporary funding bills. In the responsible process the President envisions, there should be a back-up plan to avoid the threat of a Government shutdown, although the expectation is that appropriations bills still would pass on time as the law requires. Under the President's proposal, if an appropriations bill is not signed by October 1 of the new fiscal year, funding would be automatically provided at the lower of the President's Budget or the prior year's level.

Reserve for Fully Accruing Federal Employees' Retirement.—Both the President's 2003 and 2004 Budgets proposed to correct a long-standing understatement of the true cost of thousands of government programs. For some time, the cost of benefits accruing under the Federal Employee's Retirement System (FERS) and Military Retirement System (MRS) and a portion of the accruing benefits of the old Civil Service Retirement System (CSRS) have been properly allocated to the affected salary and expense accounts, but the remainder (a portion of CSRS, other small retirement systems, and all civilian and military retiree health benefits) has been charged to central accounts. The full cost of accruing benefits should be allocated to the affected salary and expense accounts, so that budget choices for program managers and budget decision makers are not distorted by understated cost information. The Administration recommends that this be re-examined and proposes to work with the Congress to develop a solution that addresses the concerns raised by Congress and others with the Administration's previous proposals.

The 2005 Budget included a very limited proposal that would require the Patent and Trademark Office (PTO), a fully fee-funded agency, to use the fees it collects to cover the current accruing cost of post-retirement annuities, and health and life insurance benefits. Congress enacted this provision for 2005, and the 2006 Budget proposes that this PTO provision be made permanent. Similarly, the Postal Civil Service Retirement System Funding Reform Act of 2003 (P.L. 108-18) requires the Postal Service to cover the full accruing cost of post-retirement annuities for its CSRS employees. In addition, the 2006 Budget proposes to use the pension savings provided to the Postal Service by P.L. 108-18 that would otherwise be held in escrow in 2006

and beyond, to put the Postal Service on a path that fully funds its substantial retiree health benefits liabilities.

Results Commission/Sunset Commission.—The Federal government's ability to serve the American people is often hampered by poorly designed programs or uncoordinated, overlapping programs trying to achieve the same objective. Overlapping jurisdictions in the Executive Branch and Congress provide daunting hurdles to legislative remedies to the poor performance of duplicative programs. Because the potential for savings and productivity are great, the Administration is proposing two mechanisms for realizing the opportunity to improve performance and control cost in a systematic and expedited fashion.

The Administration plans to propose legislation that gives the President the authority to propose Results Commissions. These commissions would consider and revise Administration proposals to improve the performance of programs or agencies by restructuring or consolidating them. Congress would approve individual Results Commissions to address single program or policy areas where duplication and the overlapping jurisdictions of Executive Branch agencies or Congressional committees hinder reform. Proposals approved by the commission would then be approved by the President and considered by Congress under expedited procedures.

The Administration also proposes a Sunset Commission to provide a process by which programs undergo

the regular scrutiny brought about by having to defend their existence. Programs would be reviewed according to a schedule enacted by Congress. The Commission would consider proposals to retain, restructure, or terminate programs. Programs would automatically terminate according to the schedule unless Congress took some action to reauthorize them.

Administrative Actions

Budget Discipline for Agency Administrative Actions.—A significant amount of Federal policy is made via administrative action, which can increase Federal spending, often on the order of tens of billions of dollars in entitlement programs such as Medicare or Medicaid. Although known costs are incorporated into the Budget baselines of various programs, agencies frequently launch unplanned for and costly proposals. Often, these costs are not reflected in the baseline, or are not accompanied by other actions that would pay for the proposed change. This results in increased spending and deficits.

Support for restoring a PAYGO requirement for mandatory spending is integral to the Administration's commitment to reducing the deficit and enforcing fiscal discipline. Toward that end, the Office of Management and Budget plans to establish an internal review process that requires agencies, when proposing substantial administrative decisions that increase mandatory spending, to propose other offsetting administration decisions that reduce mandatory spending.