



August 1, 2011

Honorable John A. Boehner
Speaker
U.S. House of Representatives
Washington, DC 20515

Honorable Harry Reid
Majority Leader
United States Senate
Washington, DC 20510

Dear Mr. Speaker and Mr. Leader:

The Congressional Budget Office has estimated the impact on the deficit of the Budget Control Act of 2011, as posted on the Web site of the House Committee on Rules on August 1, 2011. The legislation would:

- Establish caps on discretionary spending through 2021;
- Allow for certain amounts of additional spending for “program integrity” initiatives aimed at reducing the amount of improper benefit payments;
- Make changes to the Pell Grant and student loan programs;
- Require that the House of Representatives and the Senate vote on a joint resolution proposing a balanced budget amendment to the Constitution;
- Establish a procedure to increase the debt limit by \$400 billion initially and procedures that would allow the limit to be raised further in two additional steps, for a cumulative increase of between \$2.1 trillion and \$2.4 trillion;
- Reinstate and modify certain budget process rules;
- Create a Congressional Joint Select Committee on Deficit Reduction to propose further deficit reduction, with a stated goal of achieving at least \$1.5 trillion in budgetary savings over 10 years; and
- Establish automatic procedures for reducing spending by as much as \$1.2 trillion if legislation originating with the new joint select committee does not achieve such savings.

If appropriations in the next 10 years are equal to the caps on discretionary spending and the maximum amount of funding is provided for the program integrity initiatives, CBO estimates that the legislation—apart from the provisions related to the joint select committee—would reduce budget deficits by \$917 billion between 2012 and 2021. In addition, legislation originating with the joint select committee, or the automatic

reductions in spending that would occur in the absence of such legislation, would reduce deficits by at least \$1.2 trillion over the 10-year period. Therefore, the deficit reduction stemming from this legislation would total at least \$2.1 trillion over the 2012-2021 period.

Those amounts are relative to CBO's March 2011 baseline adjusted for subsequent appropriation action. CBO has also calculated the net budgetary impact if discretionary savings are measured relative to its January baseline projections. Relative to that baseline, CBO estimates that the legislation would reduce budget deficits by at least \$2.3 trillion between 2012 and 2021.

Discretionary Caps

The August 1, 2011, version of the Budget Control Act of 2011 would impose caps on appropriations of new discretionary budget authority that start at \$1,043 billion in 2012 and reach \$1,234 billion in 2021. For 2012 and 2013, separate caps for "security" and "nonsecurity" budget authority would be in effect; from 2014 on, only one cap would apply to total discretionary funding.¹

The caps would not apply to spending for the wars in Afghanistan and Iraq and for similar activities (sometimes referred to as overseas contingency operations) or to certain amounts of additional spending for "program integrity" initiatives, for which the act would allow upward adjustments to the caps by specified amounts. In addition, the legislation provides for adjustments to the caps in each fiscal year to account for funding designated for emergency requirements and disaster relief. The cap adjustments for disaster relief would be limited to amounts based on historical averages for such funding.

In Table 1, CBO compares estimated spending under the caps to two projections of discretionary spending:

- CBO's March 2011 baseline, with two adjustments: (1) excluding spending associated with overseas contingency operations—that is, excluding spending that was projected by assuming that the amount of funding provided in 2011 for the wars in Afghanistan and Iraq would continue to be provided for similar activities in future years, with adjustments for inflation; and (2) incorporating the effect of full-year appropriations for 2011, which were enacted after that baseline was completed.

1. For purposes of the discretionary caps, the security category comprises discretionary appropriations for the Department of Defense, the Department of Homeland Security, the Department of Veterans Affairs, the National Nuclear Security Administration, the intelligence community management account (95-0401-0-1-054), and all budget accounts in budget function 150 (international affairs). The nonsecurity category comprises all discretionary appropriations not included in the security category.

- CBO's January 2011 baseline excluding spending that was projected by assuming that the amount of funding provided in 2011 for the wars in Afghanistan and Iraq would continue to be provided for similar activities in future years, with adjustments for inflation.

In CBO's baseline projections, appropriations for discretionary programs are assumed to grow each year with inflation from the amounts provided for the most recent year. The March baseline, as adjusted, incorporates reductions in projected spending resulting from appropriation actions that occurred after the January baseline had been prepared. In particular, the Department of Defense and Full-Year Continuing Appropriations Act, 2011 (P.L. 112-10) established discretionary funding levels for the current year, while the earlier January baseline reflected funding levels that were largely a temporary extension of the 2010 appropriations.

Relative to the adjusted March baseline, proposed budget authority would be \$840 billion lower and outlays would be \$756 billion lower over the 2012-2021 period. Relative to the January baseline, excluding funding for the wars in Iraq and Afghanistan and for similar activities, the proposed caps would lower budget authority by nearly \$1.1 trillion and outlays by \$935 billion over the 2012-2021 period (see Table 1). The projected reductions in outlays are smaller than the projected reductions in budget authority because outlays generally lag behind budget authority (and thus some of the savings from the caps would occur beyond the 10-year budget window) and because some budget authority never results in outlays.

Program Integrity Initiatives

The Budget Control Act of 2011, as proposed on August 1, 2011, includes two program integrity initiatives aimed at reducing net federal spending for income security and health care programs. If funding is ultimately provided for those initiatives, their net budgetary effects would consist of an increase in discretionary spending to identify and reduce overpayments for such benefits, and some savings in the direct spending programs that provide those benefits (see Table 2).

The bill would allow adjustments to the discretionary caps that would permit additional appropriations to:

- The Social Security Administration (SSA) to conduct continuing disability reviews of beneficiaries of the Disability Insurance (DI) and Supplemental Security Income (SSI) programs and redeterminations (of the eligibility criteria other than disability) of SSI beneficiaries, and

- The Health Care Fraud and Abuse Control Account (HCFAC), which supports activities to reduce waste, fraud, and abuse in Medicare, Medicaid, and the Children’s Health Insurance Program (CHIP).

The bill provides that the annual discretionary funding caps would be adjusted by the amounts appropriated for program integrity activities in excess of specific base amounts, up to specified maximum adjustments each year. Those base amounts, however, do not equal the amounts of spending for program integrity activities currently assumed in CBO’s baseline. Accordingly, CBO’s estimates of mandatory savings from program integrity activities are based on the differences between total funding under the bill (assuming the maximum possible cap adjustment) and the spending in CBO’s baseline—rather than the total amount of the cap adjustments.

For Congressional scorekeeping purposes, the benefit savings would not be counted as an offset to direct spending, pursuant to Congressional scorekeeping guidelines published in the conference report for the Balanced Budget Act of 1997 (P.L. 105-33). Specifically, Scorekeeping Rule 3 states that “entitlements and other mandatory programs... will be scored at current law levels ... unless Congressional action modifies the authorization legislation.” In other words, even though additional discretionary funding for the administration of such programs might lead to budgetary savings (from reduced benefit payments), such savings are not counted as reductions in direct spending for scorekeeping purposes.

Social Security Administration. The annual discretionary funding caps would be adjusted by the amount by which funds appropriated for the SSA program integrity activities for a year exceed \$273 million; the maximum such adjustment would rise from \$623 million for fiscal year 2012 to \$1.309 billion a year for fiscal years 2017 through 2021. If the Congress were to appropriate the maximum amounts eligible for the cap adjustment related to SSA funding, spending for such activities would be about \$4 billion above CBO’s baseline. Based on the \$4 billion increase, CBO estimates that benefit outlays for DI, SSI, Medicare, and Medicaid would fall by nearly \$12 billion over the 2012-2021 period (see Table 2). Additional savings would accrue after 2021.

Health Care Fraud and Abuse Control. The discretionary caps would also be adjusted by the amount by which funds appropriated for HCFAC for a year exceed \$311 million, subject to a maximum adjustment that would rise from \$270 million for fiscal year 2012 to \$496 million for fiscal year 2021. If the Congress were to appropriate the maximum amounts eligible for the cap adjustment related to HCFAC, spending for such activities would be about \$3 billion above CBO’s baseline. Based on that increase, CBO estimates that benefit outlays for Medicare, Medicaid, and CHIP would fall by about \$3.7 billion over the 2012-2021 period. Additional savings would accrue after 2021.

Changes in Direct Spending for Education Programs

Title V of the Budget Control Act of 2011 would amend the Higher Education Act of 1965 to appropriate additional funds for the federal Pell Grant program and make two changes to the Federal Student Loan Program. CBO estimates that, on net, those changes would increase direct spending by \$7.4 billion over the 2012-2016 period but reduce direct spending by \$4.6 billion over the 2012-2021 period (see Table 3).

Pell Grants. The bill would directly appropriate \$10.0 billion for fiscal year 2012 and \$7.0 billion for fiscal year 2013 for Pell grants. Those funds would be used to supplement funding for the portion of the Pell Grant program that is funded through annual discretionary appropriations. CBO estimates that this provision would increase direct spending by \$17.0 billion over the 2012-2015 period (with no impact on outlays after 2015).

Student Loans. As required under the Federal Credit Reform Act of 1990, most of the costs of the federal student loan programs are estimated on a net-present-value basis.² The bill would make two changes to the student loan programs. CBO estimates those changes would reduce direct spending by \$9.6 billion over the 2012-2016 period and \$21.6 billion over the 2012-2021 period. The legislation would:

- *Eliminate the subsidized loan program for graduate students.* Beginning July 1, 2012, the bill would eliminate the interest subsidy on subsidized student loans for almost all graduate students while a borrower is in school, in the post-school grace period, and during any authorized deferment period. (Certain post-baccalaureate students would still be eligible.) The current annual and cumulative loan limits for unsubsidized loans would be adjusted to permit students to borrow additional funds in the unsubsidized loan program. CBO projects that, over the 2012-2021 period, the provision would shift approximately \$125 billion in loan volume from the subsidized to the unsubsidized loan program. Because borrowers would be responsible for the interest accrued on those loans while in school, CBO estimates that this provision would reduce direct spending by \$8.2 billion over the 2012-2016 period and \$18.1 billion over the 2012-2021 period.
- *Eliminate loan repayment incentives.* Beginning July 1, 2012, the bill would terminate, with one exception, the Secretary of Education's authority to make incentive payments to borrowers to encourage the on-time repayment of their federal loans. Specifically, the bill would eliminate the Secretary's authority to

2. Under credit reform, the present value of all loan-related cash flows is calculated by discounting those expected cash flows to the year of disbursement, using the rates for comparable maturities on U.S. Treasury borrowing. (For example, the cash flow for a two-year loan is discounted using the Treasury rate for a two-year zero-coupon note.)

offer a partial rebate of the origination fee but would still allow the current interest rate reduction for borrowers who agree to repay their loans through electronic debiting.³ Because borrowers would effectively pay a higher upfront origination fee, CBO estimates this provision would reduce direct spending by \$1.4 billion over the 2012-2016 period and \$3.6 billion over the 2012-2021 period.

Other Provisions

The legislation would allow for staggered increases in the debt limit through a series of actions by the President, which could be overturned by enactment of joint resolutions of disapproval. If the President took all such actions, the debt limit would eventually be raised by at least \$2.1 trillion; the increase could be as much as \$2.4 trillion if certain Congressional actions occurred as well. In addition, the bill would establish procedures for enforcing the caps on discretionary spending and would provide for a vote on a balanced budget amendment by the end of December 2011.

The legislation also would establish a Congressional Joint Select Committee on Deficit Reduction charged with a goal of reducing the deficit by at least \$1.5 trillion between 2012 and 2021. If, by January 15, 2012, enactment of legislation originating with the joint select committee does not achieve an estimated \$1.2 trillion in deficit reduction (including an allowance for interest savings), the bill would require reductions in both discretionary and direct spending to make up for any shortfall in that targeted savings. Those automatic reductions in spending would be spread evenly over the fiscal years 2013 through 2021; half would come from defense spending and half from nondefense spending, including both discretionary and direct spending.

Those reductions would be implemented as follows:

- The reductions in discretionary spending in 2013 would be accomplished by cutting the budgetary resources available for defense and nondefense accounts by the respective percentages necessary to achieve the required reductions for that year. The reductions in discretionary spending in 2014 through 2021 would be accomplished by lowering the caps on discretionary budget authority for those years. For the purpose of lowering those caps, the bill would set separate caps on funding for defense and nondefense purposes.

3. Under current law for the partial rebate, borrowers initially pay only 0.5 percent of the 1-percent borrower origination fee on subsidized and unsubsidized loans. If a borrower makes 12 on-time payments in the first year of repayment, the Secretary will forgive the additional 0.5 percent of the origination fee. In addition, parent and GradPLUS borrowers initially pay only 2.5 percent of their 4-percent borrower origination fee. Borrowers who make 12 on-time payments in the first year are forgiven the additional 1.5 percent of the origination fee.

- The reductions in direct spending would be implemented using the procedures specified in the Statutory Pay-As-You-Go (PAYGO) Act of 2010 (title I of P.L. 111-139). Under that act, budgetary resources available for programs subject to the automatic reductions, with the exception of Medicare, would be cut by a uniform percentage sufficient to achieve the total required outlay savings for a year. Many direct spending programs and activities would be exempt, however, including Social Security and other retirement programs, Medicaid, and certain other programs benefiting low-income people. The legislation would limit Medicare cuts to no more than 2 percent.

Overall Budgetary Impact of the Legislation

In total, if appropriations in the next 10 years are equal to the caps on discretionary spending and the maximum amount of funding is provided for the program integrity initiatives, CBO estimates that the legislation—apart from the provisions related to the joint select committee—would reduce budget deficits by \$917 billion between 2012 and 2021. In addition, legislation originating with the joint select committee, or the automatic reductions in spending that would occur in the absence of such legislation, would reduce deficits by at least \$1.2 trillion over the 10-year period. Therefore, the deficit reduction stemming from this legislation would total at least \$2.1 trillion over the 2012-2021 period (see Table 3). Those amounts are relative to CBO's March 2011 baseline adjusted for subsequent appropriation action.

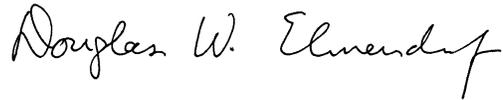
Apart from the provisions related to the joint select committee, savings in discretionary spending would amount to \$741 billion, mandatory spending would be reduced by \$20 billion, and the savings in interest on the public debt because of the lower deficits would come to \$156 billion. (CBO's cost estimates for legislation do not ordinarily include effects on debt service costs, but CBO provides such estimates, when requested, for broad budget plans.) The composition of the other \$1.2 trillion in savings over time and across budget categories would depend on the specific provisions of any legislation stemming from proposals of the joint select committee and the extent of any automatic reductions that would be triggered.

CBO has also calculated the net budgetary impact if discretionary savings are measured relative to its January baseline projections. Relative to that baseline, CBO estimates that the legislation would reduce budget deficits by at least \$2.3 trillion between 2012 and 2021. Apart from the provisions related to the joint select committee, savings in discretionary spending would amount to \$920 billion, mandatory spending would be reduced by \$20 billion, and the savings in interest on the public debt because of the lower deficits would come to \$196 billion.

Honorable John A. Boehner
Honorable Harry Reid
Page 8

I hope this information is useful to you. If you wish further details on this analysis, we will be pleased to provide them. The CBO staff contact is Jeff Holland, who can be reached at 226-2880.

Sincerely,

A handwritten signature in black ink that reads "Douglas W. Elmendorf". The signature is written in a cursive style with a large, sweeping initial "D".

Douglas W. Elmendorf
Director

Attachments

cc: Honorable Nancy Pelosi
House Democratic Leader

Honorable Mitch McConnell
Senate Republican Leader

Table 1.
Projected Savings from Discretionary Caps as Specified in the Budget Control Act of 2011, as Posted on the Web Site of the
House Committee on Rules on August 1, 2011

(By fiscal year, in billions of dollars)

		Projections of Discretionary Spending										Total,
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2021
CBO's March 2011 Baseline	BA	1,266	1,290	1,318	1,346	1,377	1,413	1,450	1,488	1,526	1,565	14,038
	OT	1,344	1,356	1,371	1,391	1,420	1,446	1,475	1,517	1,556	1,594	14,472
Adjustments												
Exclude funding for operations in Afghanistan and Iraq and for similar activities	BA	-161	-164	-167	-170	-173	-177	-180	-184	-188	-192	-1,756
	OT	-76	-131	-153	-163	-169	-172	-175	-180	-184	-187	-1,589
Incorporate final 2011 appropriations	BA	-17	-17	-18	-18	-18	-18	-19	-19	-19	-20	-183
	OT	-2	-8	-11	-12	-13	-14	-15	-15	-16	-16	-122
Adjusted March 2011 Baseline	BA	1,087	1,109	1,134	1,159	1,186	1,218	1,251	1,285	1,319	1,353	12,099
	OT	1,267	1,217	1,207	1,216	1,238	1,260	1,285	1,323	1,357	1,391	12,760
CBO's January 2011 Baseline Excluding Funding for Operations in Afghanistan and Iraq and for Similar Activities	BA	1,111	1,133	1,157	1,182	1,210	1,242	1,275	1,309	1,343	1,377	12,341
	OT	1,275	1,230	1,224	1,233	1,257	1,280	1,306	1,344	1,378	1,412	12,939
Proposal												
Proposed Discretionary Caps on Budget Authority ^a	BA	1,043	1,047	1,066	1,086	1,107	1,131	1,156	1,182	1,208	1,234	11,260
	OT	1,241	1,170	1,148	1,149	1,164	1,179	1,196	1,226	1,252	1,278	12,004
Effect of Proposed Discretionary Caps												
Relative to the Adjusted March 2011 Baseline	BA	-44	-62	-68	-73	-79	-87	-95	-103	-111	-119	-840
	OT	-25	-47	-59	-67	-74	-81	-89	-97	-104	-112	-756
Relative to the January 2011 Baseline Excluding Funding for Operations in Afghanistan and Iraq and for Similar Activities	BA	-68	-86	-92	-97	-103	-111	-119	-127	-135	-144	-1,081
	OT	-33	-60	-76	-84	-93	-101	-110	-118	-126	-134	-935

SOURCE: Congressional Budget Office.

NOTES: The calculations above do not include any adjustments for program integrity initiatives.

BA = budget authority; OT = outlays.

a. CBO calculated outlays for 2012 to 2021 by assuming an average aggregate spendout rate for all discretionary spending.

Table 2.
Estimated Effects of Program Integrity Initiatives in the Budget Control Act of 2011,
as Posted on the Web Site of the House Committee on Rules on August 1, 2011

(By fiscal year, in millions of dollars)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	Total, <u>2012-2021</u>
Cap Adjustments in the Legislation (Subject to Appropriation)^a											
SSA											
Budget Authority	623	751	924	1,123	1,166	1,309	1,309	1,309	1,309	1,309	11,130
Outlays	536	689	891	1,083	1,146	1,286	1,299	1,309	1,309	1,309	10,857
HCFAC											
Budget Authority	270	299	329	361	395	414	434	454	475	496	3,927
Outlays	238	296	325	357	391	412	432	452	472	493	3,867
Total											
Budget Authority	893	1,050	1,253	1,484	1,561	1,723	1,743	1,763	1,784	1,805	15,057
Outlays	774	985	1,216	1,440	1,537	1,698	1,731	1,761	1,781	1,802	14,724
Non-Scorable Effects on Direct Spending Outlays											
SSA ^b	-47	-248	-464	-709	-1,033	-1,340	-1,627	-1,928	-2,147	-2,327	-11,872
HCFAC	<u>-84</u>	<u>-185</u>	<u>-290</u>	<u>-402</u>	<u>-435</u>	<u>-453</u>	<u>-467</u>	<u>-475</u>	<u>-476</u>	<u>-475</u>	<u>-3,741</u>
Total	-132	-433	-754	-1,111	-1,468	-1,794	-2,094	-2,402	-2,623	-2,802	-15,614
Memorandum:											
Changes in Outlays for Program Integrity Activities above Baseline ^c											
SSA	95	179	306	456	474	566	529	487	433	375	3,900
HCFAC	<u>225</u>	<u>267</u>	<u>281</u>	<u>297</u>	<u>314</u>	<u>317</u>	<u>318</u>	<u>317</u>	<u>316</u>	<u>314</u>	<u>2,967</u>
Total	320	446	587	753	788	883	847	804	749	689	6,867

SOURCE: Congressional Budget Office.

NOTE: SSA = Social Security Administration; HCFAC = Health Care Fraud and Abuse Control Account.

- a. These amounts reflect the cap adjustments (budget authority) specified in the legislation. Because the base level of budget authority for program integrity activities specified in the bill (that is, the level of funding that is necessary to trigger a cap adjustment) is lower than the amount assumed in CBO's baseline, only part of the cap adjustment reflects potential new spending for program integrity activities over and above the amounts projected in CBO's baseline.
- b. The legislation does not allocate the proposed spending increases among the different activities. CBO assumed spending would be allocated in the same proportions as under the President's budget request. In that case, the spending proposed in this legislation would not exceed baseline spending for SSI redeterminations in any year or for SSI continuing disability reviews in fiscal years 2020 or 2021.
- c. Increased spending above CBO's baseline assuming the appropriation of the maximum cap adjustment. CBO used those amounts to estimate the mandatory program savings.

Table 3.
Effect on the Deficit of the Budget Control Act of 2011, as Posted on the Web Site of the House Committee on Rules
on August 1, 2011, Relative to CBO's March 2011 Baseline, Adjusted to Reflect Enactment of 2011 Appropriations

(By fiscal year, in billions of dollars)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	Total, <u>2012-2021</u>
Discretionary Spending											
Establishment of caps	-25	-47	-59	-67	-74	-81	-89	-97	-104	-112	-756
Program integrity ^a	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>15</u>
Subtotal	-25	-46	-58	-66	-73	-79	-87	-95	-103	-111	-741
Mandatory Spending ^b											
Program integrity	0	0	-1	-1	-1	-2	-2	-2	-3	-3	-16
Pell grants	4	8	5	0	0	0	0	0	0	0	17
Other education	<u>-1</u>	<u>-2</u>	<u>-3</u>	<u>-22</u>							
Subtotal	3	5	2	-3	-4	-4	-4	-5	-5	-5	-20
Debt Service	0	-1	-3	-6	-10	-15	-20	-26	-33	-40	-156
Total Effect on the Deficit Excluding Provisions Related to the Joint Select Committee on Deficit Reduction ^c	-21	-42	-59	-75	-87	-99	-112	-126	-141	-156	-917
Provisions Related to the Joint Select Committee on Deficit Reduction ^c	d	d	d	d	d	d	d	d	d	d	-1,200
Total Effect on the Deficit ^c	d	d	d	d	d	d	d	d	d	d	-2,117

SOURCE: Congressional Budget Office.

NOTES: The only budgetary effects in this table that are counted as changes in direct spending for Congressional scorekeeping purposes are the estimated changes in spending for Pell Grants and other education programs.

With the effects of the discretionary caps measured relative to CBO's January baseline, the legislation, apart from the provisions related to the joint select committee, would reduce budget deficits by about \$1.1 trillion between 2012 and 2021. Savings in discretionary spending would amount to \$920 billion, mandatory spending would be reduced by \$20 billion, and the savings in interest on the public debt because of the lower deficits would come to \$196 billion. Including the provisions related to the joint select committee, the legislation would reduce budget deficits by at least \$2.3 trillion relative to CBO's January baseline.

- a. These amounts reflect the cap adjustments (budget authority) specified in the legislation. Because the base level of budget authority for program integrity activities specified in the bill (that is, the level of funding that is necessary to trigger a cap adjustment) is lower than the amount assumed in CBO's baseline, only part of the cap adjustment reflects potential new spending for program integrity activities over and above the amounts projected in CBO's baseline. The amounts of potential new spending above baseline are shown in Table 2.
- b. In addition, the Joint Select Committee on Deficit Reduction could spend existing funds upon startup near the end of fiscal year 2011; CBO estimates that would constitute an increase in direct spending of less than \$500,000 in 2011.
- c. Negative numbers indicate a reduction in the deficit.
- d. The composition of the other \$1.2 trillion in savings over time and across budget categories would depend on the specific provisions of any legislation stemming from proposals of the joint select committee and the extent of any automatic reductions that would be triggered.