



**The Federal Budget Debate  
(What it could mean for the Commonwealth)**



**Virginia State Senate**

November 17, 2011

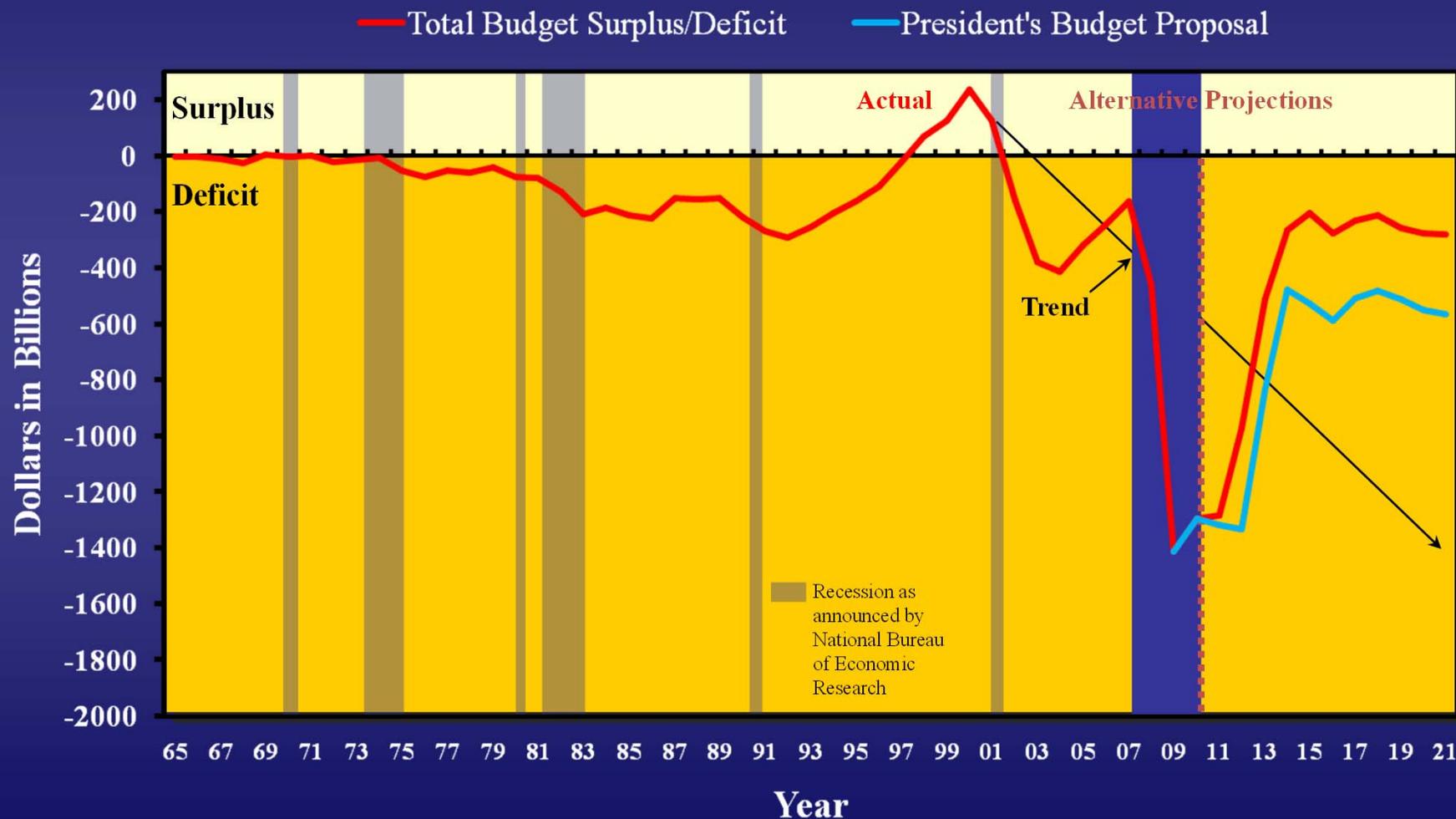
G. William Hoagland

How we got here?  
Where are we going?

# Total Budget Surplus/Deficit

CBO Baseline Projection (Aug. 2011) -- President's 2012 Proposal (Sept. 2011)

FY 1965 - 2021



Source: The Budget and Economic Outlook: Fiscal Years 2011 to 2021" Congressional Budget Office, August 2011.  
 Living Within Our Means & Investing in the Future, Office of Management and Budget; September 2011.



# Budget Outlook

## FY 2010 – 2015

(In Billions of Dollars – % of GDP)



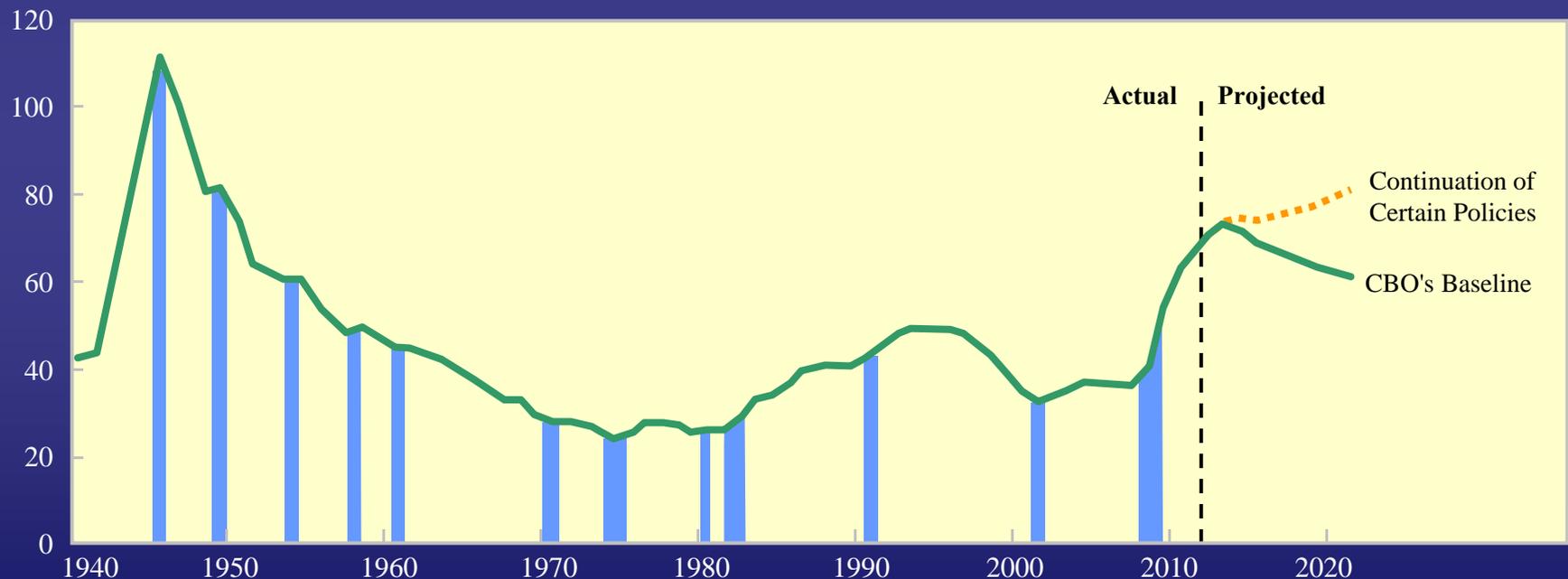
	<b>2010</b> Actual	<b>2011</b> Est	<b>2012</b> Proj →	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>% Δ annual</b> 2011-2016
<b>Receipts</b>	2,163	2,314	2,635	3,069	3,423	3,665	3,847	+ 10.7 %
<b>Spending</b>	3,456	3,597	3,609	3,692	3,803	3,988	4,249	+ 4.2 %
<b>Deficits*</b>	1,294	1,284	973	623	380	322	402	NA
<b>% of GDP</b>	8.9%	8.5%	6.2%	3.9%	2.2%	1.8%	2.1%	NA
<b>Public Debt**</b>	9,019	10,164	11,153	11,773	12,148	12,463	12,840	+ 4.8%
<b>% GDP</b>	62%	67%	71%	73%	72%	69%	67%	
<b>Debt Subject Limit**</b>	13,511	14,779	15,910	16,646	17,162	17,664	18,261	+ 4.39%
<b>% GDP</b>	93%	98%	102%	103%	101%	97%	96%	

Sources: Congressional Budget Office. *The Budget and Economic Outlook: An Update*, August 2011. \* = Excluding Effect of Provisions Related to Joint Select Committee on Deficit Reduction. \*\* = Includes Effect of Provisions Related to Joint Select Committee on Deficit Reduction.

# Federal Debt Held by the Public

If certain provisions of current law do not expire as scheduled, debt held by the public would rise to 82% of GDP by the end of 2021, which would be the highest level since 1948.

Percentage of GDP



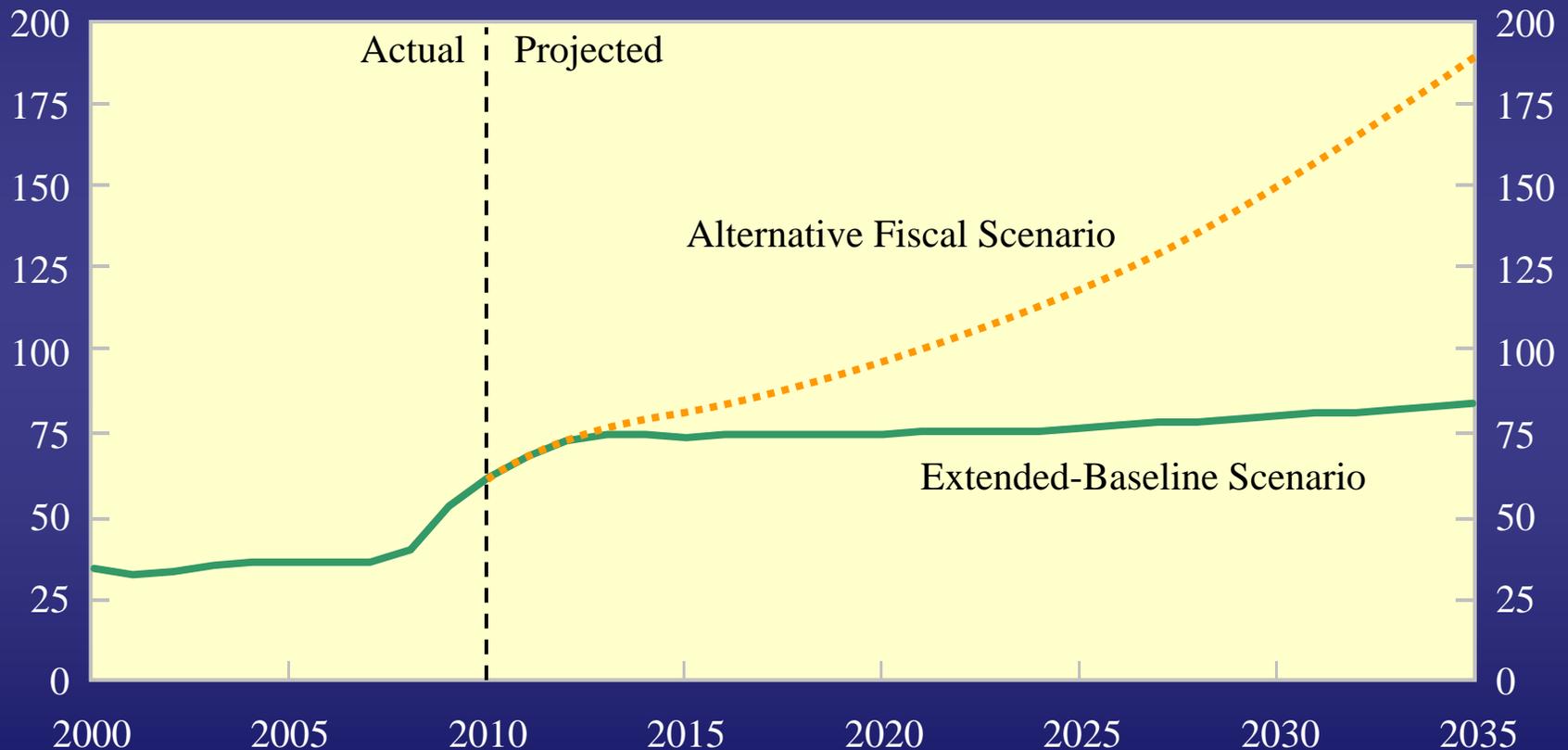
Source: Congressional Budget Office.

Note: The projected debt with the continuation of certain policies is based on several assumptions: First, that most of the provisions of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 that originally were enacted in 2001, 2003, 2009, and 2010 do not expire on December 31, 2012, but instead continue; second, that the alternative minimum tax is indexed for inflation after 2011; and third, that Medicare's payment rates for physicians are held constant at their 2011 level. Shaded bars indicate periods of recession.

# Federal Debt Held by the Public Under Two Budget Scenarios

## Long-Term Budget Outlook

Percentage of gross domestic product

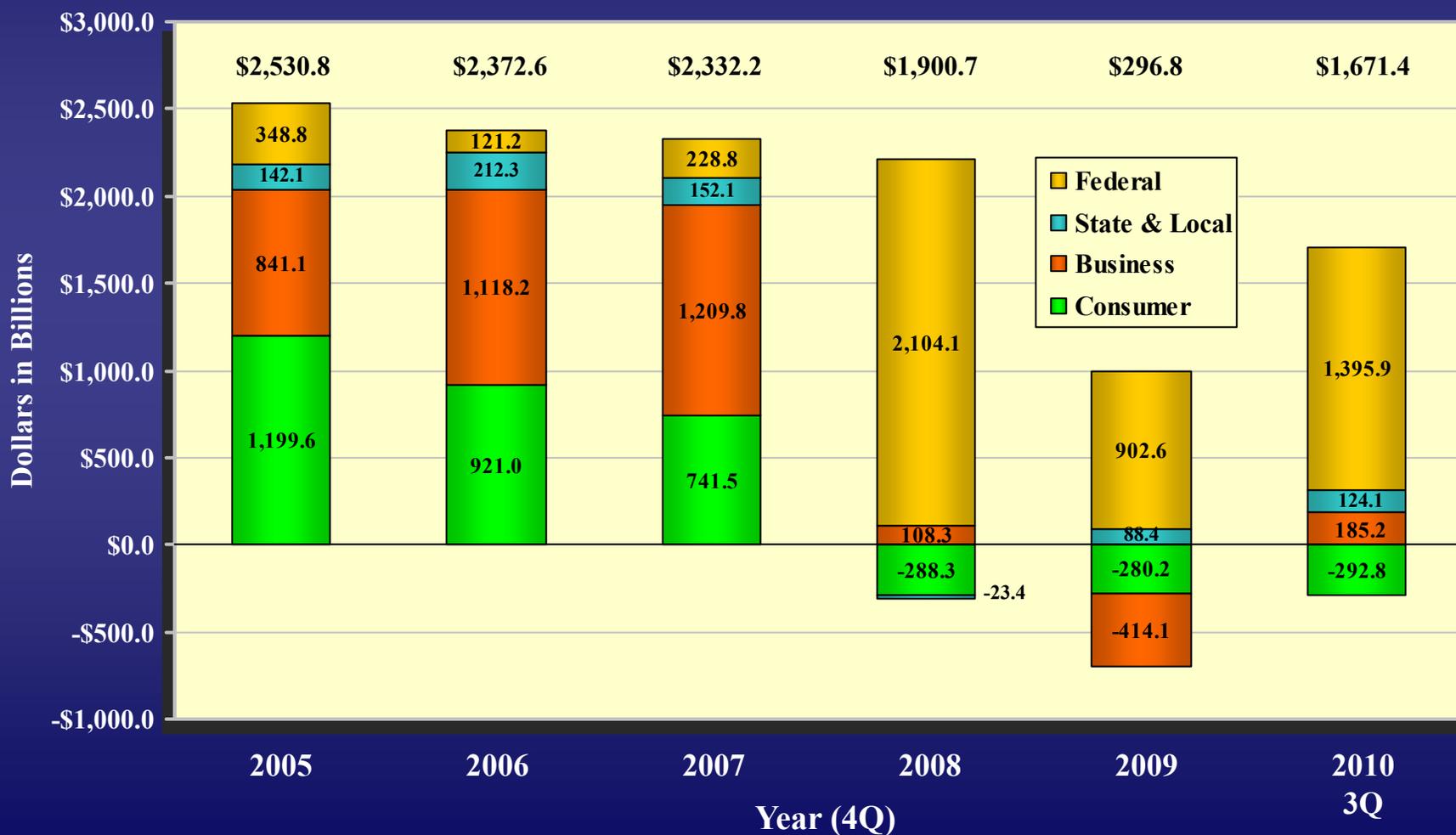


Source: Congressional Budget Office. June 2011

Note: The extended-baseline scenario adheres closely to current law, following CBO's 10-year baseline budget projections through 2021 and then extending the baseline concept for the rest of the long-term projection period. The alternative fiscal scenario incorporates several changes to current law that are widely expected to occur or that would modify some provisions that might be difficult to sustain for a long period.

# Borrowing by Domestic Non-Financial Sector

Billions of Dollars, Quarterly Figures  
(Seasonally adjusted annual rates)

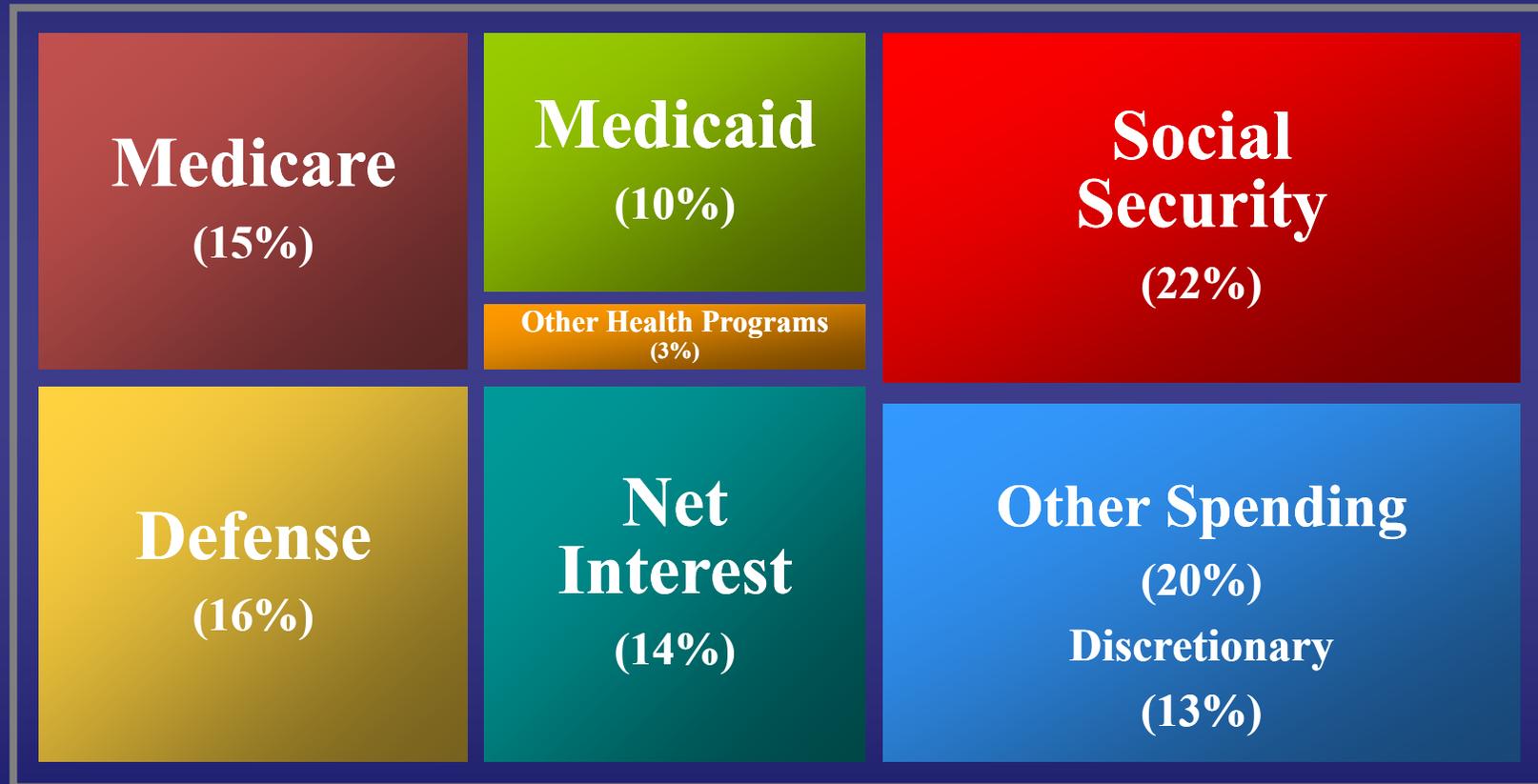


Source: Federal Reserve



# Federal Spending Projected for 2020

CBO -- January 2011 Est.

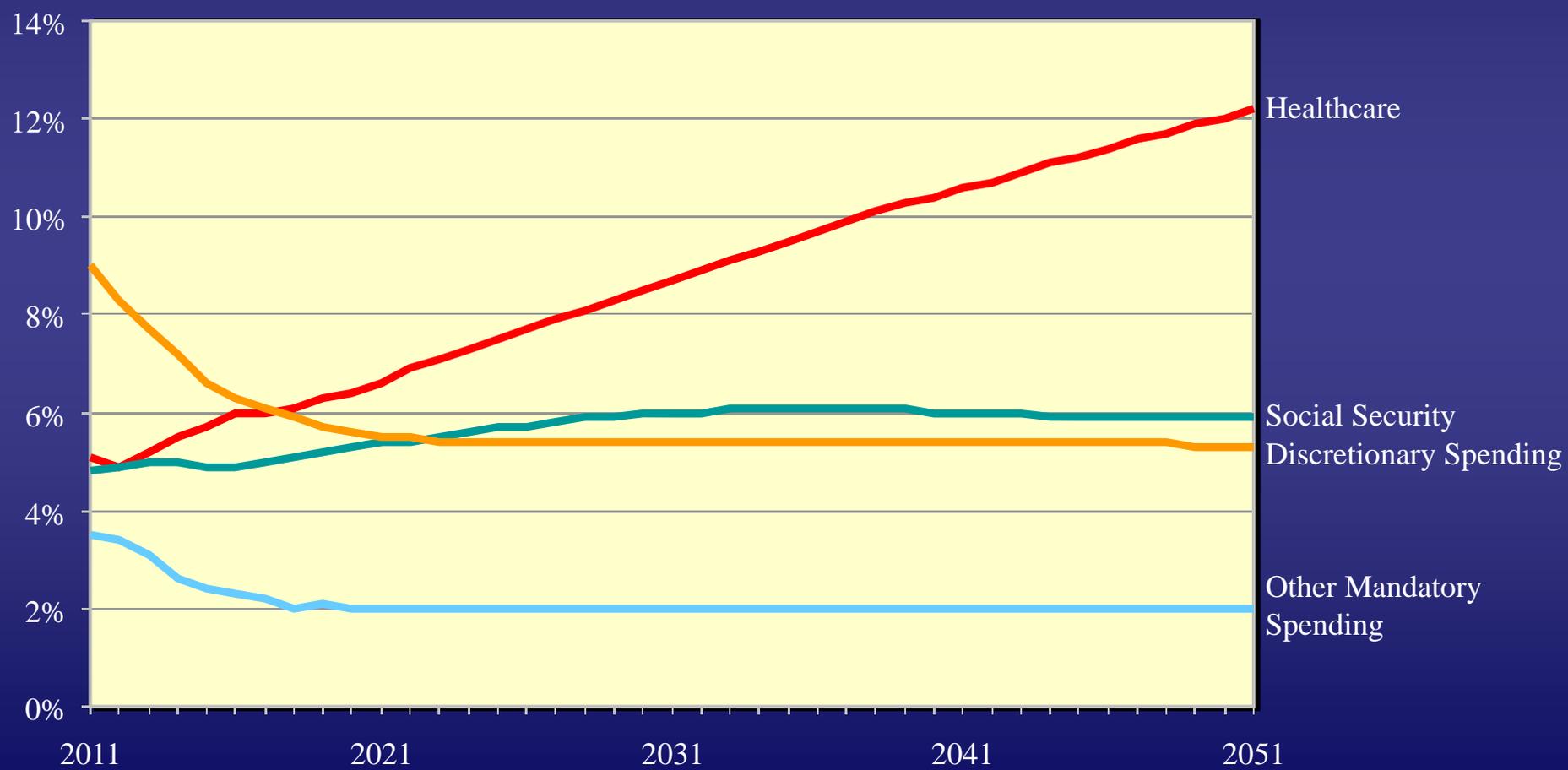


“Other Health Programs” includes: Health insurance subsidies, exchanges, and related spending; Department of Defense Medicare-Eligible Retiree Health Care Fund (including TRICARE for Life); Children’s Health Insurance Program, and other programs.

# Major Components of Federal Expenditures

## Percentage of GDP 2011-2051

% of GDP



Source: Congressional Budget Office.

How we might get out of it?

Legislative

Joint Select Committee on Deficit Reduction



# The Budget Control Act of 2011

## Timeline for Debt Increases & Joint Select Committee on Deficit Reduction

The final measure sets in motion a plan to raise the debt ceiling in three steps. A look at what comes next:

### RAISING THE DEBT CEILING

#### IMMEDIATELY **+\$400 billion**

The measure immediately grants the Treasury \$400 billion in additional borrowing authority.

August 16 members appointed to Special Fiscal Committee

2011



or

#### IN COMING MONTHS **+\$500 billion**

An additional \$500 billion will come in the fall. Congress could vote to disapprove the rise, but the president could veto their resolution and it would require two-thirds of both chambers of Congress to override his veto.



or

#### EARLY NEXT YEAR **+\$1.2 trillion**

The final increase – also subject to the congressional vote and presidential veto process – provides the Treasury with enough borrowing power to pay the bills into early 2012.

2012

2013



### REDUCING THE DEFICIT

BY OCT. 1

Spending limits begin. About \$917 billion over the next decade, starting with a \$21 billion reduction in the fiscal year that will begin in October.

BY THANKSGIVING

A second stage of reductions will come later this year, with the special committee finding \$1.2 trillion more over the next decade. The committee must recommend a plan by Nov. 23.

BY DEC. 23

House and Senate vote. Each chamber needs to consider the special committee's proposal on an up-or-down basis without any amendments.



or

BY DEC. 31

Congress needs to vote by the end of the year on a balanced budget amendment to the Constitution. The measure would need a two-thirds vote in each chamber, and then ratification by 38 states, to succeed.



or

JAN. 1, 2013

If the special committee does not act – or if Congress does not adopt its recommendations – government spending would be cut across the board by \$1.2 trillion over 10 years, with the reductions split 50-50 between domestic programs and defense.

# Joint Select Committee on Deficit Reduction Members



## House of Representatives



- 5<sup>th</sup> Term/Elected 2002
- Conference Chairman
- Republican Study Committee
- Finance Services
- **NO – PPACA**

**Jeb Hensarling**  
(Texas)  
**Co-Chair**

- YES - BCA



- 10<sup>th</sup> Term/Elected 1992
- Asst. Minority Leader
- Democratic Steering & Policy Committee
- **YES – PPACA**
- YES – BCA

**James Clyburn**  
(South Carolina)



- 3<sup>rd</sup> Term/Elected 1994
- Assit. Minority Leader
- Finance, Judiciary
- **NO – PPACA**
- YES – BCA
- Retiring end of 2012

**Jon Kyl**  
(Arizona)



- 4<sup>th</sup> Term/Elected 1992
- Democratic Conference Chairman
- DSCC Chairman
- Budget,Approp,HELP
- **YES – PPACA**
- YES - BCA

**Patty Murray**  
(Washington)  
**Co-Chair**



- 11<sup>th</sup> Term/Elected 1990
- Chairman Ways & Means
- Republican Steering Committee
- **NO – PPACA**
- YES - BCA

**Dave Camp**  
(Michigan)



- 10<sup>th</sup> Term/Elected 1992
- Caucus Vice Chairman
- Democratic Steering & Policy Committee
- Ways & Means
- **YES – PPACA**
- NO – BCA

**Xavier Becerra**  
(California)



- 1<sup>st</sup> Term/Elected 2010
- Budget, Approp, Banking
- Former President Club for Growth
- NO – BCA
- **NA - PPACA**

**Pat Toomey**  
(Pennsylvania)



- 6<sup>th</sup> Term/Elected 1978
- Chairman Finance
- Finance,E&PW,Ag
- **YES – PPACA**
- YES - BCA

**Max Baucus**  
(Montana)



- 13<sup>th</sup> Term/Elected 1986
- Chairman Energy & Commerce Committee
- Republican Steering Committee
- **NO – PPACA**
- YES – BCA

**Fred Upton**  
(Michigan)



- 5<sup>th</sup> Term/Elected 2002
- Ranking Budget Committee
- Democratic Steering & Policy Committee
- **YES – PPACA**
- YES – BCA

**Chris Van Hollen**  
(Maryland)



- 1<sup>st</sup> Term/Elected 2010
- Budget, Energy, Armed Services, Homeland Security
- Former OMB Dir. Budget Committee
- YES – BCA
- **NA - PPACA**

**Rob Portman**  
(Ohio)



- 5<sup>th</sup> Term/Elected 1984
- Chairman Foreign Relations
- Foreign Relations, Finance, Approp, Commerce
- **YES – PPACA**
- YES - BCA

**John Kerry**  
(Massachusetts)

# Post “Super” Committee Reporting

**Congress and President  
Must Approve Legislation by December 23**

Yes, saves at  
least  
\$1.2 trillion



**Process Ends**

Yes, but  
does *not*  
save all  
\$1.2 trillion



**Achieve Balance of  
Savings via  
Across-the-Board Cuts  
FYs 2013-2021**

50% Defense/50% Non-Defense

Excl. Medicaid, Social Security; limits  
Medicare cuts to 2%

**Process Ends**

No  
Agreement



**Automatic Cuts are  
“Triggered” for  
FYs 2013-2021**

Excl. Medicaid, Social Security;  
Medicare cuts to 2% (\$123 b)  
10% atb defense (\$492 b)  
7.8% atb nondefense (\$322 b)  
7.8% atb entitlement (\$47 b)

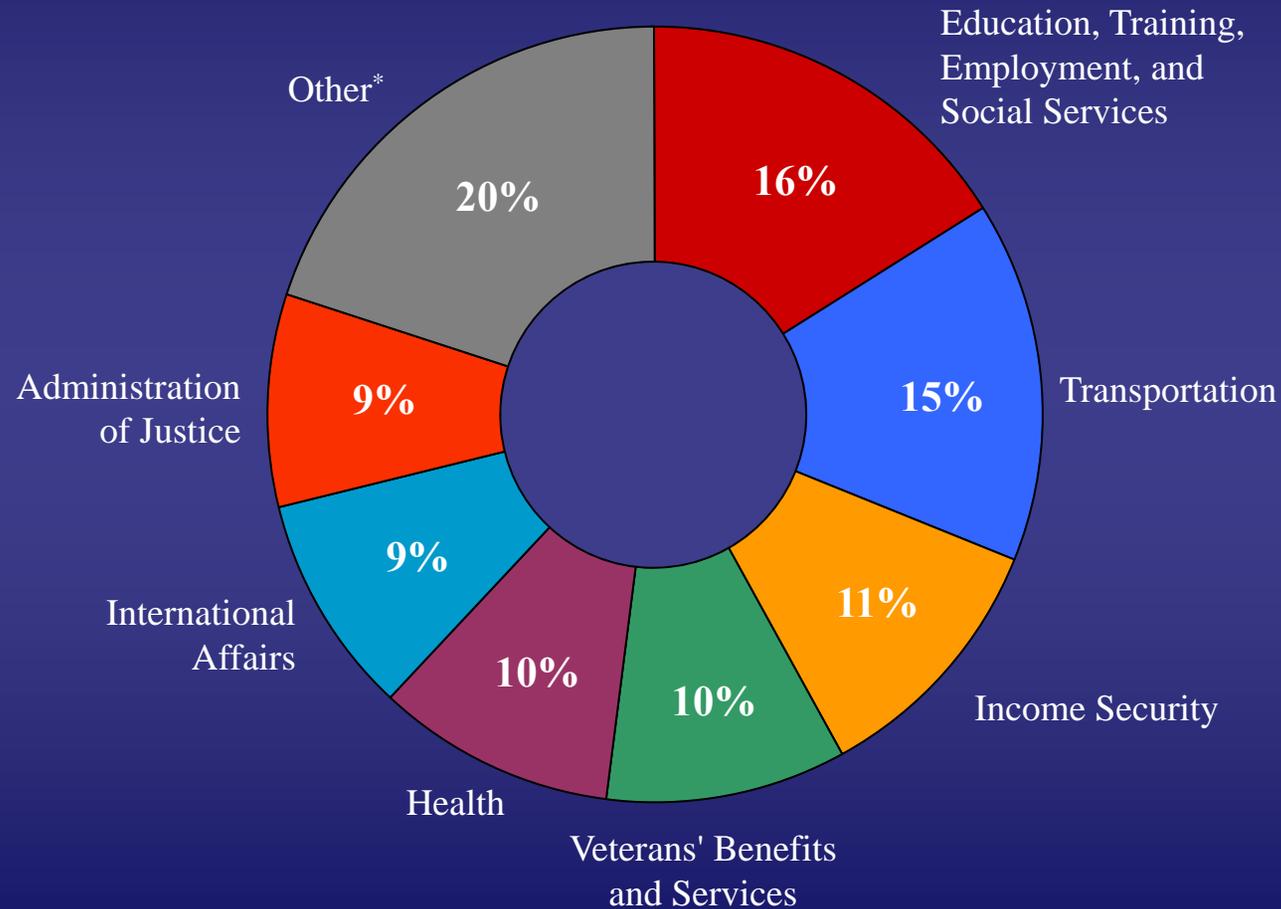
**Process Ends**

What might that mean for Virginia?

# One Proposal: Super Democrats \$ in Billions

POLICY	SAVINGS
<b>SPENDING</b>	
<b>Other Mandatory</b> <ul style="list-style-type: none"> <li>• Provisions being discussed by JSC</li> </ul>	<b>\$200</b>
<b>Medicare Reforms</b> <ul style="list-style-type: none"> <li>• Providers (\$250B)                      • Beneficiaries (\$100B)</li> </ul>	<b>\$350</b>
<b>Medicaid and Other Miscellaneous</b> <ul style="list-style-type: none"> <li>• DME (\$5B)                              • Reduction of prevention and public health trust fund (\$8B)</li> <li>• DSH (\$4B)                              • Increase inflationary rebate (\$20B)</li> <li>• Provider tax (\$13B)</li> </ul>	<b>\$50</b>
<b>Discretionary</b> <ul style="list-style-type: none"> <li>• Defense (\$200B)                      • Non-Defense (\$200B)</li> </ul>	<b>\$400</b>
<b>SPENDING SUBTOTAL:</b>	<b>\$1,000</b>
<b>REVENUE</b>	
<b>Down Payment</b> <ul style="list-style-type: none"> <li>• Miscellaneous revenue provisions</li> </ul>	<b>\$350</b>
<b>Fast Track Procedures For Tax Reform</b> <ul style="list-style-type: none"> <li>• Tax Reform generating \$650 billion in revenues from the current policy baseline</li> <li>• The down payment of \$350 does not count toward the \$650 billion</li> <li>• Tax reform instructions to include (a) corporate tax reform to enhance competitiveness, (b) an individual rate no higher than 35%, and (c) a distribution of changes that ensures a tax code as progressive as current law</li> </ul>	<b>\$650</b>
<b>Trigger</b> <ul style="list-style-type: none"> <li>• If legislation is not enacted that meets the instructions for tax reform by January 1, 2013, there would be trigger that would raise revenue by \$650 billion with two policies taking effect January 1, 2013: (A) Feldstein-type limitation on itemized deductions for higher income taxpayers (\$325B) and (B) a deficit reduction charge on income tax liability before application of credits (\$325)</li> <li>• The entitlement cuts go into effect only when either tax reform is enacted or the trigger is implemented</li> </ul>	<b>\$650</b>
<b>REVENUE SUBTOTAL:</b>	<b>\$1,000</b>
<b>OTHER</b>	
<b>Interest</b>	<b>\$300</b>
<b>Fiscal Dividend</b>	<b>\$</b>
<b>TOTAL</b>	
<b>Total Package</b>	<b>\$2,300</b>

# Nondefense Discretionary Spending 2011



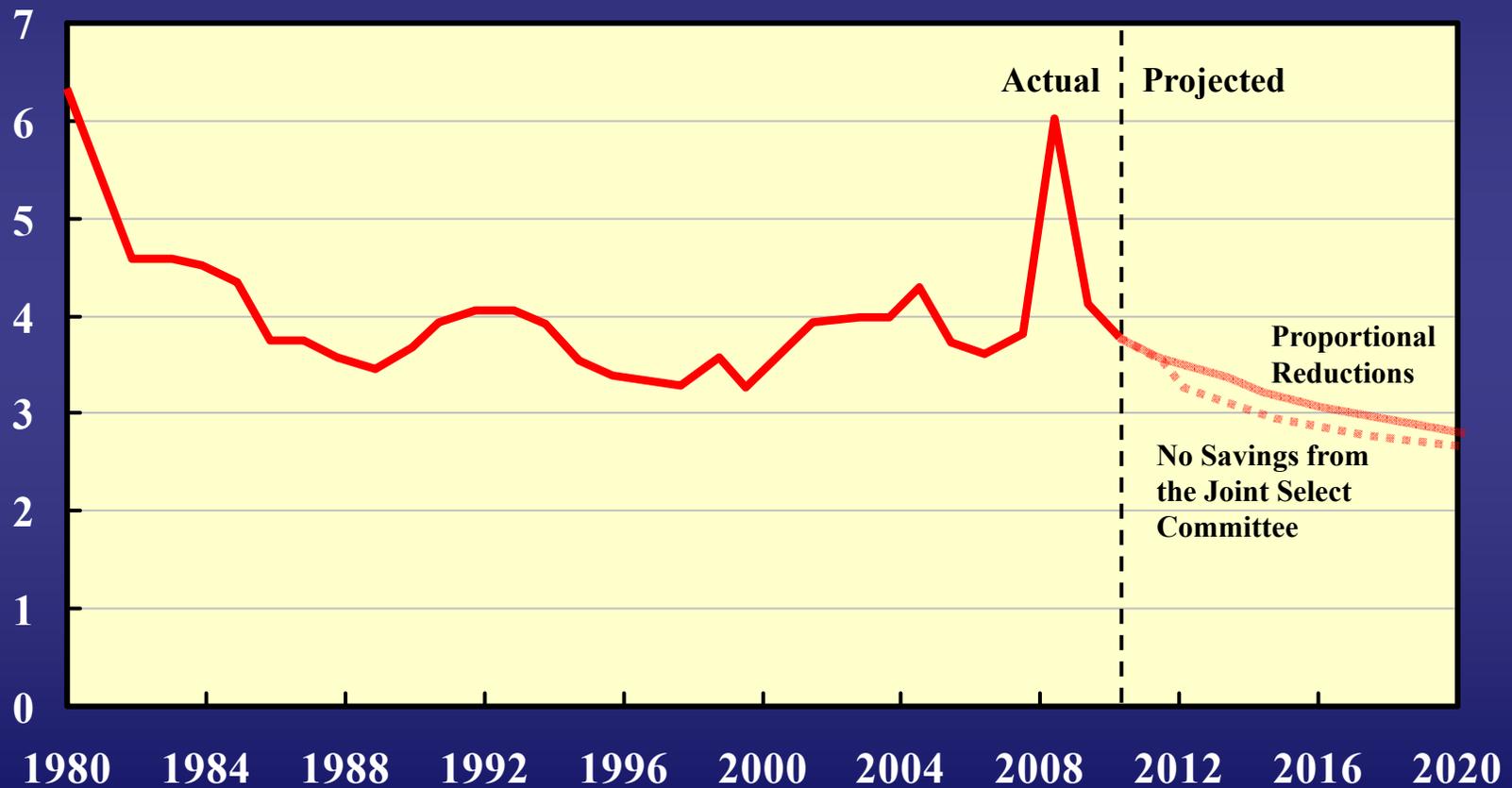
Source: Congressional Budget Office.

Note: Nondefense discretionary funding includes budgetary resources provided by obligation limitations for certain ground and air transportation programs.

\* Includes funding for natural resources and environment; general science, space, and technology; general government; community and regional development; agriculture; Medicare and Social Security (for administrative activities); energy; and commerce and housing credit.

# Nondefense Discretionary Funding 1980-2021

Percentage of gross domestic product



Source: Congressional Budget Office. October 26, 2011

Note: Funding includes budget authority as well as budgetary resources provided by obligation limitations for certain ground and air transportation programs.

# Projections of Discretionary Budget Authority for Nondefense Programs

Billions of Dollars

	2011	2012	2013	2021	Total	
					2012-2016	2012-2021
<b>Projected Budget Authority</b>						
Funding for 2011 Adjusted Inflation	511	528	538	656	2,753	5,867
Potential Paths for Nondefense Discretionary Budget Authority Subject to the Caps as Set in the Budget Control Act of 2011						
All reductions from nondefense	511	481	473	534	2,414	5,004
Proportional reductions	511	505	506	597	2,589	5,449
No reductions from nondefense	511	511	516	656	2,715	5,828
If no Savings Result from the Joint Select Committee	511	505	462	557	2,416	5,072
<b>Reduction in Budget Authority Relative to the Funding for 2011 Adjusted for Inflation</b>						
Potential Path for Nondefense Discretionary Budget Authority Subject to the Caps as Set in the Budget Control Act of 2011						
All reductions from nondefense	0	-47	-65	-122	-340	-863
Proportional reductions	0	-23	-31	-59	-164	-418
No reductions from nondefense	0	-17	-22	0	-38	-38
If no Savings Result from the Joint Select Committee	0	-23	-76	-99	-338	-794

# Virginia State Budget

## Federal Revenues & Expenditures

(2007-2011: \$ in thousands)

	2011	2010	2009	2008	2007
<b>Revenues</b>	<b>\$41,156</b>	<b>\$40,617</b>	<b>\$37,250</b>	<b>\$36,780</b>	<b>\$36,112</b>
Of which Federal Grants & Contracts (Medical Assistance)	\$10,761 (\$4,224)	\$10,795 (\$4,007)	\$8,291 (\$3,230)	\$7,045 (\$2,727)	\$6,667 (\$2,536)
<b>Expenditures</b>	<b>\$42,283</b>	<b>\$40,839</b>	<b>\$40,721</b>	<b>\$38,481</b>	<b>\$35,426</b>
<b>Memo:</b> American Recovery and Reinvestment Act of 2009 “revenues”	\$763	\$717	(*)	NA	NA
<b>Federal Grants &amp; Contracts % of revenues</b>	<b>26.1%</b>	<b>26.5%</b>	<b>22.3%</b>	<b>19.2%</b>	<b>18.4%</b>

# Other Policy Options



# 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
<p><i>Consensus</i></p> <p><i>Fiscal Measures</i></p> 	<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 23.0% GDP</li> <li>• In 2020 – revenues 21.4% GDP</li> <li>• In 2020 – deficit 1.6% GDP</li> </ul>
<p><i>Economic Recovery</i></p> 	<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>
<p><i>Tax Expenditures</i></p> 	<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>
<p><i>Revenues</i></p> 	<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>
<p><i>Domestic Discretionary</i></p> 	<ul style="list-style-type: none"> <li>• Proposes 4 years of cuts, then 5 years held to growth at 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>
<p><i>Defense</i></p>	<ul style="list-style-type: none"> <li>• Proposes 4 years of cuts, then 5 years held to growth at 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
<p><i>Health</i></p> 	<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>• <b>Strengthens IPAB Provides illustrative option of premium support</b></li> <li>• <b>Converts FEHB program from defined-benefit to defined-contribution with support growing GDP+1</b></li> <li>• <b>In 2020, global cap on all federal health spending and limit growth GDP+1%</b></li> <li>• <b>Reduces provider payments</b></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>• <b>In 2018, transforms Medicare to premium-support model, but maintains traditional Medicare as default option. Limits federal support per beneficiary to GDP+1%</b></li> <li>• <b>Limit Medicaid growth: end federal matching payments in Medicaid by decoupling the system</b></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>
<p><i>Social Security</i></p> 	<ul style="list-style-type: none"> <li>• <b>Raises retirement ages slowly over time</b></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>• <b>Makes benefit adjustment, protecting the bottom 50% of beneficiaries</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Adjusts benefit formula to account for increases in longevity (but does not raise the retirement age)</b></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>• <b>Makes a modest benefit adjustment, protecting the bottom 75% of beneficiaries</b></li> </ul>
<p><i>Other Spending</i></p> 	<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>

