104th Congress, 2d Session – – – – – – – – House Document 104–160, Pt. 1

DEFICIT REDUCTION AND BALANCED BUDGET BY FISCAL YEAR 2002

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

PROPOSED LEGISLATION FOR DEFICIT REDUCTION AND TO ACHIEVE A BALANCED BUDGET BY FISCAL YEAR 2002

JANUARY 9 (legislative day, JANUARY 5), 1996.—Message and accompanying papers referred to the Union Calendar and ordered to be printed

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U.S. GOVERNMENT PRINTING OFFICE
21–898 WASHINGTON : 1996

To the Congress of the United States:

I hereby submit to the Congress a plan to achieve a balanced budget not later than the fiscal year 2002 as certified by the Congressional Budget Office on January 6, 1996. This plan has been prepared by Senator Daschle and if passed in its current form by the Congress, I would sign it into law.

WILLIAM J. CLINTON.

THE WHITE HOUSE, *January 6, 1996.*

BALANCED BUDGET HIGHLIGHTS

Balances The Budget In 7 Years Under Congressional Budget Office Scoring
Achieves Over $600 Billion Of Deficit Reduction
Cuts Taxes For Families With Children, Provides Deductions For Higher Education, and Increases Savings Through IRAs.
Extends The Solvency Of The Medicare Part A Trust Fund Through 2011.
Protects Medicare And Medicaid Recipients
No Cuts In Student Loans; Funds Key Investments In Education, The Environment, And Science And Technology
Contains Zero Special Interest Giveaways, Spenders, And Outyear Deficit Busters
Triggers Accelerated Deficit Reduction; Tax Cuts; And Investments In Education, And Other Priorities As CBO Deficit Targets Are Exceeded

THE INVESTMENT DIVIDEND

Triggers Dividends if Economic Performance Exceeds CBO Expectations
CBO/OMB Baseline Differences Total $194 Billion Between 1996 and 2002
Dividend Allocation:
- ⅓ For Additional Deficit Reduction
- ⅓ For Additional Tax Cuts
- ⅓ For Additional Investments

Allocation Of Dividend Results In:
- Total Tax Cuts—$147 Billion
- Investments—$23 Billion Above a Freeze
- Surplus—$29 Billion in 2002

BALANCED BUDGET PROPOSAL

[In billions of dollars]

	1996	1997	1998	1999	2000	2001	2002	7-year
CBO December Baseline	172	183	183	195	204	211	228	....
Take full BLS adjustment	0	0	−2	−2	−3	−5	−6	−17
Revised Baseline	172	182	181	193	201	206	223	....
Discretionary	−12	−7	−14	−30	−47	−75	−110	−295
Mandatory:								
Medicare	−0	−3	−6	−12	−19	−26	−35	−102
Medicaid	0	−0	−2	−7	−10	−13	−19	−52
Farm programs	0	0	0	0	0	0	0	0
FCC spectrum auction	−0	−2	−3	−4	−3	−3	−7	−21
Welfare (outlays and revenues)	−1	−5	−6	−7	−8	−8	−9	−43
EITC	−0	−0	−0	−0	−0	−0	−0	−2
Student loans	0	0	0	0	0	0	0	0
Veterans programs	−0	−0	−0	−1	−1	−1	−1	−6
Federal retirement/Postal benefits	−1	−2	−3	−3	−3	−3	−4	−19
Banking and housing	−4	0	0	0	0	0	−1	−4
Other mandatory	−1	−1	−1	−1	−1	−1	−2	−2
Total Mandatory	−8	−13	−22	−36	−46	−56	−78	−259
Tax Cuts	3	13	14	16	22	17	2	87
Corporate Loopholes and other	−2	−6	−7	−9	−10	−12	−14	−60
Total Policy Changes	−19	−13	−31	−60	−85	−131	−205	−544
Net interest	−0	−2	−3	−5	−9	−15	−24	−57
Total Changes	−20	−15	−34	−65	−93	−146	−229	−602
Plan Deficits	153	167	149	130	110	65	−1	....
Distribution of Possible Investment Dividend								
CBO/OMB baseline differences	−12	−6	7	24	38	61	82	194
Assume ⅓ for deficit reduction	−4	−2	2	−8	13	20	27	65
Assume ⅓ for tax cuts [1]	0	0	0	0	13	20	27	65
Assume ⅓ discretionary [1]	0	0	0	0	13	20	27	65
Adjusted Deficits with Dividend	157	169	147	122	98	45	−28	....
Adjusted Tax Cuts with Dividend	3	13	14	16	34	38	29	147
Adjusted Discretionary with Dividend	−12	−7	−14	−30	−34	−55	−83	−235
Comparison to BA freeze	−4	2	−3	2	14	11	1	23
Comparison to Republican Offer	6	23	25	26	34	35	26	174

[1] Effective only in last 3 years.

OTHER MANDATORY CHANGES IN BALANCED BUDGET PROPOSAL

[In billions of dollars]

	1996	1997	1998	1999	2000	2001	2002	7-year
Veterans programs:								
Health Care Per Diems and Copays	0.000	0.000	0.000	−0.058	−0.062	−0.065	−0.070	−0.255
Medical Care cost recovery	0.000	0.000	0.000	−0.190	−0.198	−0.206	−0.215	−0.809
Verify income for pension purposes	0.000	0.000	0.000	−0.010	−0.020	−0.030	−0.040	−0.100
Verify income for medical care	0.000	0.000	0.000	−0.004	−0.008	−0.012	−0.016	−0.040
Pension limitation—nursing home vets	0.000	0.000	0.000	−0.194	−0.236	−0.169	−0.212	−0.811
Fees on original loans	0.000	0.000	0.000	−0.074	−0.076	−0.078	−0.080	−0.308
Fees on later loans	0.000	0.000	0.000	−0.024	−0.025	−0.025	−0.025	−0.099
Resale losses	0.000	0.000	0.000	−0.004	−0.004	−0.004	−0.004	−0.016
Enhanced loan asset sale authority	−0.005	−0.005	−0.005	−0.005	−0.005	−0.005	−0.005	−0.035
Overturn Supreme Court Gardner decision	−0.088	−0.210	−0.328	−0.451	−0.504	−0.426	−0.457	−2.464
Withholding payments and benefits	−0.090	0.000	0.000	0.000	0.000	0.000	0.000	−0.090
Reduce COLA for MGIB benefits	−0.007	−0.025	−0.044	−0.061	−0.080	−0.099	−0.118	−0.434
Round-down compensation COLA	0.002	−0.015	−0.046	−0.081	−0.122	−0.139	−0.186	−0.587
Total, veteran programs	−0.188	−0.255	−0.423	−1.156	−1.340	−1.258	−1.428	−6.048
Federal retirement:								
Extend COLA delay for Civilian retirement	0.000	−0.309	−0.323	−0.326	−0.329	−0.342	−0.356	−1.985
Raise agency pension contributions	−0.497	−0.641	−0.615	−0.587	−0.532	−0.510	−0.486	−3.868
Revise congressional retirement benefits	(*)	(*)	−0.001	−0.001	−0.002	−0.002	−0.003	−0.009
Employee contributions (revenues)	−0.198	−0.393	−0.529	−0.570	−0.582	−0.607	−0.634	−3.513
Add prefunded health benefits	0.000	−0.850	−1.700	−1.700	−1.800	−1.800	−2.000	−9.850
USPS Transitional Appropriation	0.000	−0.009	−0.037	−0.037	−0.036	−0.036	−0.036	−0.191
Total retirement	−0.695	−2.202	−3.205	−3.221	−3.281	−3.297	−3.515	−19.416
Banking and Housing:								
Deposit insurance funds (BIF/SAIF)	−4,100	−0.500	−0.500	−0.900	−0.800	−0.800	−0.200	−0.400
Rent adjustments for operating costs	−0.018	−0.066	−0.126	−0.177	−0.210	−0.229	−0.249	−0.075
FHA single-family assignment	−0.119	−0.216	−0.234	−0.268	−0.308	−0.317	−0.317	−1.779
1% cut in housing rent adjustments	−0.042	−0.170	−0.216	−0.211	−0.198	−0.182	−0.170	−1.189
Total, banking and housing	−4.279	0.048	−0.076	0.244	0.084	0.072	−0.536	−4.443

OTHER MANDATORY CHANGES IN BALANCED BUDGET PROPOSAL—Continued

[In billions of dollars]

	1996	1997	1998	1999	2000	2001	2002	7-year
Asset sales and fees:								
Asset sales:								
U.S. Enrichment Corporation	−1,300	0.000	−0.021	−0.054	−0.055	−0.046	−0.047	−1.523
Elk Hills	0.000	0.000	0.000	0.000	0.000	0.000	−1.100	−1.100
Sale of DOE assets	−0.020	−0.015	−0.015	−0.015	−0.015	−0.015	−0.015	−0.110
Sale of Weeks Island Oil	−0.100	−0.188	−0.182	0.000	0.000	0.000	0.000	−0.470
Sale of Helium Reserve	0.000	−0.003	−0.008	−0.009	−0.009	−0.009	−0.009	−0.047
OCS deepwater royalty relief	0.000	0.000	0.000	0.000	0.000	−0.020	−0.020	−0.040
Sale of Governors Island NY	0.000	0.000	0.000	0.500	0.000	0.000	0.000	−0.500
Sale of Union Station Air Rights	0.000	−0.040	0.000	0.000	0.000	0.000	0.000	−0.040
Subtotal, asset sales	−1.420	−0.246	−0.226	−0.578	−0.079	−0.090	−1.191	−3.830
Fees and other:								
NRC charges	0.000	0.000	0.000	−0.330	−0.330	−0.330	−0.330	−1.320
U.S. Enrichment Corporation	0.306	−0.084	0.064	0.036	−0.255	−0.080	0.030	0.185
Lease of excess SPRO capacity	0.000	0.000	−0.024	−0.037	−0.064	−0.059	−0.071	−0.255
Elk Hills—lost receipts	0.000	0.000	0.000	0.000	0.000	0.000	−0.094	−0.094
Hetch Hetchy fees	−0.001	−0.001	−0.001	−0.001	−0.001	−0.001	−0.001	−0.007
Bonneville Power Administration	0.000	0.000	−0.016	−0.014	−0.012	−0.026	−0.026	−0.094
OCS	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Park fees	−0.007	−0.013	−0.014	−0.011	−0.014	−0.010	−0.014	−0.083
National Defense Stockpile sales	−0.021	−0.079	−0.079	−0.079	−0.080	−0.155	−0.156	−0.649
Vessel Tonnage Duties	0.000	0.000	0.000	−0.049	−0.049	−0.049	−0.049	−0.196
FEMA charges	−0.012	−0.012	−0.012	−0.012	−0.012	−0.012	−0.012	−0.084
Denial unemployment insurance to individuals who voluntarily leave military service	−0.235	−0.270	−0.265	−0.270	−0.275	−0.285	−0.295	−1.895
Extend patent and trademark fees	0.000	0.000	0.000	−0.119	−0.119	−0.119	−0.119	−0.476
Subtotal, fees	0.030	−0.291	−0.347	−0.886	−1.211	−1.126	−0.949	−4.780
Total, asset sales and fees	−1.390	−0.537	−0.573	−1.464	−1.290	−1.216	−2.140	−8.610

Medicare

This proposal implements reforms that strengthen and improve Medicare, reducing its rate of growth by $102 billion (net) over seven years and guaranteeing the solvency of the trust fund for more than a decade. Specific reforms provide seniors with more choices of private health plans, improve Medicare's fee-for-service program by making it more efficient and responsive to beneficiary needs, tackle fraud and abuse through programs applauded by law enforcement officials, reduce the rate of growth of provider payments, and extend the 25% Part B premium.

HIGHLIGHTS OF PROVIDER PAYMENT REFORMS AND PROGRAM SAVINGS

Hospitals ($40 B). Reduces inflation update for hospitals and payments for capital and indirect medical education; reforms payments for graduate medical education.

Managed Care ($22 B). Reforms payments by using reasonable rate of growth limits on updates for managed care payments, removing payments made for disproportionate share and medical education and reducing current geographic variation in payments.

Physicians ($15 B). Reforms physician payments by collapsing the current three conversion factors into a single update for all physicians; replaces current "volume performance standards" with a "sustainable growth rate."

Home Health Care ($9 B)/Skilled Nursing Facilities ($7 B). Implements a series of interim payment reforms before the establishment of separate prospective payment systems for home health care and skilled nursing facilities.

Fraud and Abuse ($7 B). Introduces aggressive and comprehensive policies to stamp out Medicare waste, fraud, and abuse and extends and enhances Medicare secondary payor policy.

Other Providers ($5 B). Freezes or reduces payments for durable medical equipment and ambulatory surgical centers.

Beneficiaries ($7 B). Requires beneficiaries to pay 25% of Part B costs.

PROVISIONS TO IMPROVE RURAL HEALTH CARE

This proposal implements a variety of measures to enhance access to and quality of health care in rural areas. These include an extension of Rural Referral Center program, direct Medicare reimbursement for nurse practitioners and physician assistants, improvements to the Sole Community Hospital program, and an expansion of the Rural Primary Care Hospital program.

PROGRAM IMPROVEMENTS AND PREVENTIVE BENEFITS (+$11 B)

A series of reforms transform the fee-for-service program from a bill-paying insurance program into a responsive health plan by giving Medicare the authority to adopt the same types of purchasing and quality techniques pioneered by private sector payers. The proposal also expands and improves Medicare managed care by (1) ensuring beneficiary protections while increasing the types of plans (including PPOs and PSNs) available to seniors and (2) instituting a coordinated annual open enrollment process during which beneficiaries use comparative information to choose among managed care and supplemental insurance options. A preventive benefits demonstration program provides respite care for Alzheimer's patients, annual mammograms and elimination of mammography coinsurance, and colorectal cancer screening.

MEDICAID

This proposal would reform the Medicaid program rather than repeal it, guaranteeing health and long-term care coverage for all Medicaid recipients. It achieves $51.7 billion in savings in a responsible manner by limiting spending on a per person basis (a "per capita cap") and reducing and retargetting Medicaid Disproportionate Share Hospital (DSH) payments to hospitals that serve large numbers of Medicaid and uninsured patients. The plan provides special payments for Federally Qualified Health Centers and States that have large numbers of undocumented immigrants, and gives States additional flexibility to allow them to more efficiently administer their Medicaid programs. Finally, this plan would retain current nursing home quality standards as well as spousal impoverishment protections and provisions that protect the financial resources of adult children whose parents are in nursing homes.

SAVINGS PROPOSALS

Per Capita Cap ($22.2B). A per capita cap would limit the amount of Federal spending per eligible person while retaining current eligibility and benefit guidelines. This approach guarantees that the elderly, disabled, and pregnant women and children meeting certain criteria will continue to be eligible for health benefits while reducing the rate of increase in Medicaid spending to a level that is sustainable for States and the Federal government.

Disproportionate Share Hospital Payments ($29.5B). Disproportionate Share Hospital (DSH) payments would be reduced and retargeted to specific institutions, including public hospitals, children's hospitals, Federally Qualified Health Centers and Rural Health Clinics. An additional fund is created for States with large numbers of undocumented immigrants.

PROVISIONS TO INCREASE STATE FLEXIBILITY

Boren Amendment. This plan repeals the Boren Amendment, eliminating provider payment requirements that are imposed on States.

Managed Care. This plan would allow States to move toward managed care and other types of cost-effective arrangements without Federal waivers.

Home and Community Based Care. States would be allowed to move populations needing long-term care from nursing homes to home and community based care without having to seek Federal waivers.

PROTECTIONS FOR LOW-INCOME SENIORS AND NATIVE AMERICANS

Retains current policy of assisting low-income seniors by assuming responsibility for their Medicare premiums, copayments, and deductibles and retains current payment protections for Medicaid-eligible Native Americans treated in Indian Health Service facilities.

WELFARE REFORM SAVINGS

The plan will move welfare recipients to work while protecting children saving about $45.7 billion over 7 years. The plan essentially follows the House Democratic Coalition plan with some modifications.

SSI/Disabled Children: New eligibility standards for childhood disability benefits would begin as soon as possible for new applicants. For children currently receiving SSI, a one year transition period would be granted with disability reviews beginning in 1997 to be completed by 1998. Full cash benefits for all eligible children would be retained.

Child Care: A total of $11.8 billion is included for child care, which is $3 billion above baseline ($8.8 billion) for child care assistance for those welfare recipients required to work, transitioning from welfare to work, and the working poor. This is in addition to the $1 billion per year in discretionary funding authorized under the Child Care Development Block Grant. Existing child care programs would be consolidated into the Child Care Development Block Grant.

Nutrition programs: Cuts in food stamps would be about $20.6 billion and cuts in child nutrition programs would be $3.3 billion for a total of $23.9 billion in savings. There would be no block grants under the Food Stamp program. There would be no food stamp overall cap. There would be no child nutrition block grants, but child nutrition spending would be reduced by about 6% in 2002. There would be tighter targeting of food subsidies for Family Day Care Homes and meal reimbursement rates would be rounded down to the nearest cent for child nutrition programs.

Noncitizens: About $5 billion would be saved by deeming sponsor income until citizenship.

Title XX (Social Services Block Grant): Cuts $1.9 billion.

Cash Assistance: AFDC would be terminated and replaced by a new conditional entitlement of limited duration. There would be a 5 year maximum time limit with a state option for vouchers at the end of that period to assist children.

EITC: Improved compliance and inclusion of capital gains income in determining the credit would save about $2 billion.

Dependent Care Tax Credit: As under the Coalition plan, the DCTC would be made refundable and phased out between $60,000 and $80,000 of AGI.

ESTIMATED REVENUE EFFECTS OF "MIDDLE CLASS BILL OF RIGHTS TAX RELIEF ACT OF 1996"

[By fiscal years, in millions of dollars]

Provision	Effective	1996	1997	1998	1999	2000	2001	2002	1996–2000	1996–2002
I. Middle-class bill of rights:										
1. Credit for families with young children	1/1/96	−1,451	−7,228	−7,081	−7,763	−11,096	−9,073	....	−34.619	−43.692
2. Deduction for higher education expenses	1/1/96	−1,736	−5,010	−5,996	−6,679	−6,995	−4,532	....	−26,416	−30,948
3. Provisions relating to individual retirement plans	1/1/96	235	−445	−964	−1,674	−3,443	−3,630	−2,034	−6.290	−11,954
4. Increase the self-employed health insurance deduction (35% in 1996 and 1997; 40% in 1998; 45% in 1999; 50% in 2000; and 30% thereafter).	tyba 12/31/95	−29	−91	−137	−267	−422	−358	....	−945	−1,303
II. Limitations on corporate welfare and other revenue provisions:										
1. Revision of tax rules on expatriation	2/6/95	18	29	46	65	86	102	109	244	455
2. Gain recognition for certain extraordinary dividends (Seagrams).	da 5/3/95	−56	−100	−71	−33	13	69	104	−247	−74
3. Registration of certain confidential corporate tax shelters.	aiolRSg	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(2)
4. Disallow interest deduction for corporate-owned life insurance policy loans (BBA).	Ipoaa 10/13/95	220	579	883	1,369	1,749	1,856	1,895	4,800	8,551
5. Phase out preferential tax deferral for certain large farm corporations required to use accrual accounting.	(4)	26	37	38	39	40	41	42	179	261
6. Reformulate Puerto Rico and possessions tax credit (section 936).	tyba 12/31/96	....	56	175	308	455	616	718	994	2,328
7. Further restrict like-kind exchanges involving foreign property.	eoa 12/31/95	2	5	8	11	13	15	17	39	71
8. Eliminate interest allocation exception for certain non-financial corporations (BBA).	tyba 12/31/95	41	93	107	123	141	163	187	505	855
9. Repeal section 1374 for large corporations ($5 million fair market value).	12/7/95	21	42	44	47	49	51	54	203	308
10. Modification of loss carry-back and carry-forward rules; restrict to 1-year carry-back.	NOLgtyba 12/31/99	....	....	....	....	−165	1,360	1,695	−165	2,890
11. Require recognition of gain for certain transactions	....	100	100	100	100	100	100	100	500	700
12. Extend pro rata disallowance of tax-exempt interest expense to all corporations.	(5)	24	43	49	56	64	70	73	238	381
13. Reduce dividends received deduction to 50%	dpa 1/31/96	241	383	402	422	443	465	488	1,891	2,844
14. Modify holding period for dividends received deduction [6].	dpa 1/31/96	6	14	16	17	18	19	20	71	109
15. Treat certain preferred stock as "boot"	12/7/95	80	147	150	154	160	104	33	692	829

16. Deny interest deduction on certain debt instruments	dia 12/7/95	25	76	136	212	262	288	303	711	1,302
17. Interaction with 50% DRD proposal	dia 12/7/95	1	3	5	8	11	12	12	28	52
17. Defer original issue discount deduction on convertible debt.	dia 12/7/95	5	17	36	53	64	78	90	175	343
18. Modification of rule relating to foreign trusts having one or more United States beneficiaries.	2/6/95	93	162	171	180	188	197	206	794	1,197
19. Expand subpart F provisions regarding income from notional principal contracts and stock lending transactions.	tyba 12/31/95	11	15	10	10	11	12	12	57	80
20. Treat foreign taxes on oil and gas extracted income as royalties (with treaty override).	1/1/96	800	2,000	2,000	2,400	2,600	2,800	3,000	10,000	15,800
21. Repeal section 911	tyba 12/31/95	300	1,300	1,400	1,500	1,600	1,700	1,800	6,100	9,600
22. Require thrifts to account for bad debts in the same manner as banks.	tyba 12/31/95	63	95	216	280	277	272	260	931	1,462
23. Reform depreciation under the income forecast method.	ppisa 9/13/95	18	83	29	13	14	16	19	157	192
24. Repeal lower of cost or market method	tyba 12/31/98	....	....	....	55	306	330	336	361	1,027
25. Repeal advance refunds of diesel fuel tax for diesel cars and light trucks (BBA).	1/1/96	8	19	19	19	19	19	19	84	122
26. Increase penalties for failure to file correct information returns.	rda 90 daDOE	12	20	21	22	23	24	25	97	147
27. Modify basis adjustment rules under section 1033	icoa 9/13/95	2	4	7	11	16	23	31	40	94
28. Intermediate sanctions	9/14/95 & 1/1/96	4	4	4	5	5	5	6	22	33
29. Extend Superfund AMT permanently	1/1/96	351	612	633	647	672	700	729	2,915	4,345
30. Extend Oil Spill Liability Trust Fund tax through 9/30/02.	1/1/96	....	....	....	....	....	63	65	....	128
31. Extend 0.2% FUTA surtax through 2002 (under current law; scheduled to expire 12/31/98).	....	....	....	....	877	1,199	1,218	1,237	2,076	4,531
32. Provide that rollover of gain on sale of a principal residence cannot be elected unless the replacement property purchased is located within the United States (limit to resident aliens who terminate residence within 2 years) (BBA).	sea 12/31/95	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
33. Repeal exemption for withholding on gambling winnings from bingo and keno where proceeds exceed $5,000 (BBA).	1/1/96	20	6	6	6	6	7	7	44	58
34. Repeal 15-day tax-free vacation home rental	tyba 12/31/95	11	22	23	23	24	26	27	103	155
35. EIC compliance and self-employment taxes	tyba 12/31/95	13	252	261	265	272	276	282	1,062	1,619
36. Modify definition of disqualified investment income test.	tyba 12/31/95	11	111	122	132	143	158	171	519	846

ESTIMATED REVENUE EFFECTS OF "MIDDLE CLASS BILL OF RIGHTS TAX RELIEF ACT OF 1996"—Continued

[By fiscal years, in millions of dollars]

Provision	Effective	1996	1997	1998	1999	2000	2001	2002	1996–2000	1996–2002
37. Modify dependent care credit	1/1/97	....	128	377	433	493	544	622	1,431	2,597
Net Total		−507	−6,414	−6,552	−6,551	−10,582	−3,793	12,763	−30,604	−21,638

[1] Gain of less than $5 million.
[2] Gain of less than $25 million.
[3] Gain of less than $30 million.
[4] No new suspense accounts could be established in taxable years ending after 9/13/95. The income in existing suspense accounts would be recognized in equal installments over a 20-year period beginning with the first taxable year beginning after 9/13/95.
[5] Effective for taxable years beginning after 12/31/95 with respect to obligations acquired after 12/7/95.
[6] Includes interaction with 50% DRD provision.
[7] Gain of less than $500,000.

Note.—Details may not add to totals due to rounding.

Legend for "Effective" column: aiolRSg=after issuance of Internal Revenue Service guideline; da=distributions after; dia=debt issued after; DOE=date of enactment; dpa=dividends paid after; eoa=exchanges on or after; icoa=involuntary conversions occurring after; ipoaa-interest paid or accurred after; NOLgtyba=NOLs generated taxable years beginning after; ppisa=property placed in service after; rda 90 daDOE=returns due after 90 days after date of enactment; sea=sales and exchanges after; tyba=taxable years beginning after.

Source: Joint Committee on Taxation.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, January 6, 1996.

Hon. NEWT GINGRICH,
Speaker of the House of Representatives, Washington, DC.

DEAR MR. SPEAKER: The Congressional Budget Office (CBO) has prepared a preliminary analysis of the President's budgetary submission of this date. The analysis is based on draft legislative language or on other descriptive material provided by staff. It employs CBO's updated economic and technical estimating assumptions, which incorporate the economic effects of balancing the federal budget by 2002 and are described in the CBO memorandum "Economic and Budget Outlook: December 1995 Update." The analysis also assumes, as specified by staff, that the projected adjustment to reduce the formula bias in the consumer price index (CPI) will reduce the rate of growth of the CPI by 0.3 percentage points a year, which is the upper end of the range estimated by the Bureau of Labor Statistics. CBO's December baseline assumes a reduction near the middle of the range.

Under these assumptions, the proposal would result in deficits of $153 billion in 1996 and $167 billion in 1997 and a surplus of $1 billion in 2002. Compared to the CBO baseline, the proposal would reduce the deficit by $220 billion over the next five years and by $583 billion over the 1996–2002 period. Table 1 summarizes the proposed policy changes. Table 2 shows the estimated savings from the changes in direct spending and revenues that would result from enactment of each title of the proposal.

Sincerely,

PAUL VAN DE WATER
(For June E. O'Neill, Director).

Attachments.

TABLE 1.—DEMOCRATIC PLAN CHANGES FROM CBO'S DECEMBER BASELINE

[By fiscal years, in billions of dollars]

	1996	1997	1998	1999	2000	2001	2002	Total 1996–2002
CBO December Baseline Deficit [1]	172	182	183	195	204	211	228	*
Baseline Adjustments [2]	0	0	−2	−2	−3	−6	−6	−19
Adjusted December Baseline	172	182	181	193	201	205	222	*
Democratic Plan Policies:								
Outlays:								
Discretionary [3]:								
Freeze [4]	−8	−9	−11	−32	−49	−66	−84	−258
Savings relative to freeze	−4	2	−3	2	2	−9	−26	−37
Subtotal	−12	−7	−14	−30	−47	−75	110	−295
Mandatory:								
Medicare	([5])	−3	−6	−12	−19	−26	−35	−102
Medicaid	0	([5])	−2	−7	−10	−13	−19	−52
Other	−7	−9	−12	−15	−15	−15	−22	−95
Subtotal	−7	−12	−21	−34	−45	−54	−76	−249

TABLE 1.—DEMOCRATIC PLAN CHANGES FROM CBO'S DECEMBER BASELINE—Continued

[By fiscal years, in billions of dollars]

	1996	1997	1998	1999	2000	2001	2002	Total 1996–2002
Net Interest	(5)	−2	−3	−5	−9	−14	−23	−56
Total Outlays	−20	−21	−37	−69	−100	−143	−209	−599
Revenues [6]	(5)	6	6	6	10	3	−14	17
Total Policies	−20	−15	−32	−63	−90	−140	−223	−583
Democratic Plan Deficit	153	167	149	130	110	65	−1	*

[1] Projections assume that discretionary spending is equal to the spending limits that are in effect through 1998 and will increase with inflation after 1998.
[2] The Democratic plan assumes that the anticipated change in the consumer price index (CPI) methodology used by the Bureau of Labor Statistics (BLS) will reduce the rate of growth of the CPI by 0.3 percentage points a year, which is the upper end of the range estimated by the BLS. CBO's December baseline assumes a reduction near the middle of the range.
[3] Discretionary savings specified by staff.
[4] Savings from freezing 1996–2002 appropriations at the nominal level appropriated for 1995.
[5] Less than $500 million.
[6] Revenue increases are shown with a negative sign because they decrease the deficit. Includes Earned Income Credit outlays.

Notes.—*=not applicable. Numbers may not add to totals because of rounding.

Sources: Congressional Budget Office: Joint Committee on Taxation.

TABLE 2.—SAVINGS FROM POLICY CHANGES IN THE DEMOCRATIC PLAN BASED ON CBO'S DECEMBER BASELINE ASSUMPTIONS, BY TITLE

[By fiscal years, in billions of dollars]

Title	1996	1997	1998	1999	2000	2001	2002	Total, 1996–2002
I—Banking and Housing:								
Outlays	−4.3	(1)	−0.1	0.2	0.1	0.1	−0.5	−4.4
II—Spectrum Allocation:								
Outlays	−0.2	−1.8	−2.7	−3.6	−3.1	−2.7	−7.4	−21.3
III—Medicaid:								
Outlays	0	−0.4	−2.4	−6.7	−10.3	−13.2	−18.6	−51.7
IV—Medicare:								
Outlay	(1)	−2.7	−6.1	−12.3	−19.1	−26.0	−35.4	−101.5
V—Welfare Reform:								
Outlays	−0.9	−4.8	−5.8	−6.3	−6.9	−6.9	−7.6	−39.1
Revenues [2]	−0.1	−0.3	−0.6	−0.7	−0.8	−0.8	−0.9	−4.2
Deficit	−1.0	−5.1	−6.4	−7.0	−7.6	−7.7	−8.5	−43.3
VI—Federal Retirement:								
Outlays	−0.5	−1.8	−2.7	−2.7	−2.7	−2.7	−2.9	−15.9
Revenues [2]	−0.2	−0.4	−0.5	−0.6	−0.6	−0.6	−0.6	−3.5
Deficit	−0.7	−2.2	−3.2	−3.2	−3.3	−3.3	−3.5	−19.4
VII—Veterans Provisions:								
Outlays	−0.2	−0.3	−0.4	−1.2	−1.3	−1.3	−1.4	−6.1
VIII—Asset Sales, User Fees, and other Mandatory Provisions:								
Outlays	−1.3	−0.5	−0.6	−1.5	−1.3	−1.3	−2.2	−8.7
IX—Revenues:								
Revenues [1, 3]	0.5	6.5	6.9	7.0	11.1	4.3	−12.1	24.2
X—Budget Enforcement:								
Outlays	0	0	0	0	0	0	0	0
Total:								
Outlays	−7.3	−12.3	−20.7	−33.9	−44.6	−53.8	−76.0	−248.7
Revenues [2, 3]	0.2	5.8	5.8	5.8	9.7	2.9	−13.7	16.5
Deficit	−7.1	−6.5	−14.9	−28.2	−34.9	−60.9	−89.7	−232.2

[1] Less than $50 million.
[2] Revenue increases are shown with a negative sign because they reduce the deficit.
[3] Includes Earned Income Credit outlays.

Sources: Congressional Budget Office; Joint Committee on Taxation.

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