

Briefing: Understanding Resolutions, Reconciliation, And Other Budgetary Rules of the Road February 11, 2005

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ED HOWARD: Please take your seats and let's try to get started. I want to welcome you to this briefing. My name is Ed Howard on behalf of the Alliance for Health Reform, our Chairman Jay Rockefeller, our Vice-Chairman Bill Frist, welcome to this briefing that is designed to be sort of a school kit for you as you listen to and take part in this Fiscal 2006 Budget Debate. I want to congratulate you first of all on making it to the room. We had to change the room in order to accommodate more people and we still have some seats in the back there if people wander in, but we are happy to be able to accommodate as many of you as we could. Those of you who are coming in right now there are as usual a few seats right up front if you need to have a seat and something to write on. And along that same line, we would appreciate it if you would try and consolidate yourself and take only one seat so that folks can actually get a seat with a writing surface in front of it. You know, the Congressional Budget process is a mystery to many of us even after 30 years, and our program today is supposed to try to dispel some of that mysteriousness a bit. Our partner in today's program is the Kaiser Family Foundation; we are very happy to have Diane Rowland the Executive Vice President of the foundation with us, and we will hear from here in amount. The major purpose of the briefing today is to necessarily let you hear the pros and cons of different budget

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proposals - I am sure we will get into that especially in the questions and answers - rather we want you to understand what the rules of the road are as the briefing title suggests. Some people might say that the Congressional Budget rules are cane; others are less complementary. [Laughter] The fact is you need to understand how the game is played before you try to play or for that matter even watch closely. If you think that reconciliation is making up with your girlfriend before Valentine's Day [laughter] then you are in the right place to get the information you need. Let me just handle a couple of logistical items. A lot of background information in your packets that will be posted on our website. In fact, I think it already is posted on our website and will be available on the kaisernetwork.org website along with a video cast of this briefing - is it later today or Monday? Soon coming to a website near you. There are speaker biographies in there that are more extensive than I will be able to do. There are, if we have them, slides a very good depiction of Bill Hoagland's very colorful slides, Sue Nelson's slides are not in there we hope to post them later. There will be a transcript available a few days from now as well, and at the appropriate time we would appreciate it if you would fill out that blue evaluation form that is at the back on the right-hand side and use the opportunity when we start the Q and A and you don't want to get up to one of the microphones in the back or in the front of

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writing your questions so that our panelists can address it.

Now as I noted, we have Diane Rowland with us. She is not only the Executive Vice President of the Foundation; she is also the Executive Director at the Commission on Medicaid and the Uninsured. She is obviously one of the best-informed and most thoughtful analysts in the field of health policy today, and we are very happy to have her today with us. Diane.

DIANE ROWLAND: Well thank you, Ed, and I must say today I am really here to learn along with all of you about the budget process because I think as we do our various 101 theories with the Alliance for Health Reform sometimes on Medicare sometimes on Medicaid, this one is even more complicated than Medicaid, so let's listen hard and learn a lot from it. I also remember being at meetings with people who said, well we have this money it was in the President's budget, and I think today we are going to learn what the President's budget is and what happens to it when it goes forward to the Congress. And I think that what we really will take away today is that the process matters a lot and sometimes a little more than some of the substance in terms of what happens. So I am very pleased that we have such an excellent panel, and I think this is the real session to learn about what happens in the budget process and how that can shape policy without getting into the specifics of any of this year's budget proposal. So with that, let's learn.

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ED HOWARD: Thank you, Diane. And as Diane said we have with us speakers who are expert in that process, and frankly they know a little bit about the substance as well and I am sure we will hear evidence of that as we go through the afternoon. Let's start right off with Bill Hoagland. Bill is the Director of Budget and Appropriations in the Office of the Senate's majority leader Bill Frist, who happens to be as I said, the Vice-Chairman of the Alliance. Bill has a generation's worth of experience on the Senate Budget Committee. He was staff director at some point in that career; he was also almost an original hire when the Congressional Budget Office was set up back in 1975. So who better to walk us through the basics of how the Congressional Budget gets drafted and used than Bill Hoagland? Bill thanks for coming with us today.

BILL HOAGLAND: Is this on? Thank you, Ed. I just was thinking an expert - I remember an expert - the definition of expert was a drip under pressure so I don't know if that - anyway. [Laughter] I have not seen this much attention/interest in the Congressional Budget process in years; I can tell you that up front. I am just wondering whether or not the interest is like the celebration maybe at an Irish wake, a combination of curiosity in the deceased or whether you really, truly believe and honestly believe that the process is still alive and actually might impact the fiscal

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policy, particularly health policy. I think I know where my friend Stan Collender's feelings lie in this vein. But basically I would like to begin by saying I was asked to outline this process, flawed though it may be, and it's a real pleasure to be here with Sue Nelson who I can tell you knows much more about the process and the nuances than I do. Let me say at the outset and maybe get to my conclusions that this is mind boggling; it's head hurting not only for Congressional staff but particularly for elected officials. And my conclusion, know up front in case I get cutoff by the 10-minute time limit - despite the real frustration that goes with this process, it remains supported both for what it can do and what it can prevent from having done. It can particularly - and it can particularly in the United States Senate be used to advance a political legislative agenda and avoid a curse for some of this great deliberative body known as the filibuster and the need to find 60 votes to move controversial legislation. It is also supported because of what could happen without the process in place. First, let me just begin to say that to understand the process today, I think it's helpful to know a little bit how it came into existence. Unfortunately like so many pieces of legislation in this country to come to pass, we had to have a crisis. And the crisis goes back to President Nixon in the early 1970's who regularly impounded monies that Congress had authorized and Congress had appropriated, and out of this

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classic and continuously ongoing historic struggle over the balance of power between the two ends of Pennsylvania Avenue came this process. It has been refined; it's been modified along the way but it's basically unchanged. President Nixon argued, you should know, and to the embarrassment of many of the legislators here that we had no way of planning fiscal policy here on Capitol Hill. Some committees spent money because that was the popular thing to do, and some committees cut taxes because that was always politically popular, but if we needed up with a surplus or a deficit or a level of spending it was by pure dumb luck because we had nothing that guided the decision making process here. And only he - he the Chief Executive - of the Executive Branch knew how all the pieces fit together, and therefore he was going to wield his impoundment pen and not spend money. Congress realized he had a point at first went to work very quickly to fix the impoundment portion and issue - which by the way I might argue is right back into this year's debate by a proposal that the President has for what we call indefinite deferrals but we can get to that. And as I said this debate is going on and after 200 years we continue to have this debate about executive congressional power. But in the process of fixing that little piece of impoundment, Congress went ahead and went one step further and created - we never do away with anything up here - we created two new Budget Committees and of course the Congressional

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Budget Office. It established then, of course, in this Budget Act, the process of producing a budget resolution. Now this pack in your packet you have this chart. Unfortunately they have had to split it into three pieces up here. I will just start here with the white being the President submitting his budget, this being of course the appendix that we submitted on Monday to Congress, and the first place it comes is essentially now to the Budget Committees to start their review. But really the budget process I like to think of it as three processes, which I will come back to, the yellow portion over here being the appropriation process and the blue portion being the authorizing process. As this process begins, the President has submitted his budget here first Monday in February. As I say it comes to the Budget Committees, they begin their hearings as they have done this week, and they are required under that Congressional Budget Impoundment Act to report out a budget resolution, to debate it on the floor under some very limited and strict amendment processes and a time limit. It is privileged, it cannot be filibustered, and this budget resolution then goes to the House and it does the same. We go to conference just like a regular bill, and we come back and we pass those conference agreements hopefully. And low and behold that one thing if you learn nothing else from what I have to say up here, it stops. This is a rule. This is a blueprint upon which the fiscal house is to be built. It is a guideline.

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It does not go to the President for his signature. It stays here, stops here and becomes a rule upon which the House and Senate put together the legislation. The budget resolution is very simple in the sense that it boils down this big thick document to this little thin thing here. Lots of numbers, lots of aggregates, just a little tattered here because it's an old one - and I'll get to it and the reason why it's an old one - [laughter] but here it stops and we end up with this blueprint. And what this blueprint does if it gets enacted in terms of rule of thumb, it guides. It guides the Authorizing Committees on the blue side, and it guides the yellow committees on the right, which are the Appropriations Committees. In this budget resolution it sets broad, aggregate spending totals, revenues, and sets the deficit. It is so - supposedly - if everybody follows the blueprint in building the house that has been put into this blueprint, hopefully by the time the fiscal year begins on October the 1st, we will have fought - we will have constructed a blueprint. We will have constructed a fiscal house that follows the blueprint. So we divide this budget up into that which is associated with the spending for those under the control of the Appropriations Committee, the yellow ones, about 30 percent of the budget discretionary appropriations; annual appropriations. And then we allocate to the committees of jurisdiction on the blue side, the direct spending, the entitlements, the ones that most of you are familiar with as it

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relates to Medicare and Medicaid. What happens then? The process begins, the individual committees begins to do their work, they start to pass the bills following the blueprint of building the house, and then they come to the floor particularly in the United States legislation. At that particular point, the committee or the bad people on the Budget Committee say, are you following the blueprint? If the committee has decided somehow it wants to add a sunroom or a sauna that was not envisioned in the original blueprint of building the house, any United States Senator - I can't stand up and say, Mr. President that particular piece of legislation is not following the blueprint and therefore I raise a Budget Act point of order. In the United States Senate that is death; it's 60 votes to waive that point of order. I would recommend particularly for all the young staff here who have not been through this process before that hopefully - I have been carrying it around with me for years - there is a blue card, I hope the Budget Committee still does it. There are 26 - at last count I had - at least 26 - there is 26 Budget Act points of order that lie against violating the blueprint in building that house. It does then - is something that you have - that really is difficult to understand but the bottom line is if you are going to spend more, tax more, or tax less, then what is assumed in that budget resolution then that legislation can face points of order and you go [inaudible] and the legislation

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dies. Now let me go one step further - I don't know how to turn this thing down - but in the end of the process there is one other thing I have to - there are a couple of other issues I have to raise. Finally, it's called the process of reconciliation. First used by essentially by David Stockman and Ronald Regan, it was not used then, it was used by Jimmy Carter at the latter part of the 1980's - a small one - but a budget resolution may include an instruction to the blue committees over here, the direct spending committees, to achieve a particular outcome in their spending or their revenue activities commensurate with what was assumed in the blueprint. It is called a reconciliation instruction. We have had over I guess the course of the history we had something like about 18 resolutions that have included reconciliation instructions and 16 reconciliation bills. And this reconciliation instruction is the way to control - if you like - direct spending, entitlements and revenues. We have other mechanisms to control the appropriations process, which is the points of order against exceeding the allocations to the Appropriations Committee, but the same kind of thing applies over here to the direct spending committees, the committees on the blue side. The end product of this is that reconciliation is a fast track procedure because it is part of the budget process it is privileged. A reconciliation bill comes to the United States Senate Floor, it is time limited - I think 25 hours - strict

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limitation on the kinds of amendments, and because it is privileged, it cannot include things that are not related to the budget. In the United States Senate if you are putting in legislation that is unrelated to the budget, it would be subject to something we call "the bird rule", and again the Budget Committee staff is responsible and have very late nights at what we called "bird bath". [Laughter] We would spend nights going through the legislation to see what violated the bird rule. It's not self-executing, and a United States Senator has to stand up and raise the bird rule point of order, but that particular unrelated legislation to the reconciliation bill is automatically removed. Finally, there is something called reserve funds. Now this is a new, coming into existence, something new began in about the mid 1990's and this is a reserve fund. These are special provision included in the resolution that allows the Chairman of the Budget Committee to revise the numbers in a resolution when certain legislative actions have taken place. Usually on a deficit neutral basis, we can change - we can increase spending if we increase taxes to pay for it, but not always. And indeed, in the last budget resolution that was adopted, there was \$400 million dollars reserved for - you guessed it - the reserve fund for the prescription drug benefit. In fact most of the reserve funds in the last few budget resolutions have been healthcare related. Some quick facts to close out here and a couple of

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lessons. Over the 30-year history of this Budget Act, there have been 35 budget resolutions. Early on we had three in one year, three times, three times we had failed to enact the blueprint. Unfortunately for us sitting up here who have spent our career with the Budget Act, unfortunately two of those three have been in the last four years. One under a democratic controlled Senate, and one under a republican controlled Senate. Second fact, over the last 30 years as I say there have been something like 18 resolutions that have included 16 reconciliation instructions. The biggest and probably the most important from your prospective is 1997 that did major changes to the Medicare program, an important piece of legislation. We have also quickly undone a number of pieces of that legislation in non-reconciliation processes. Third fact, there has been something in the neighborhood of 150 reserve funds over the career of this thing, 13 of them as a peak one year; the most recent had 8 in it. So lesson number one, what happens if you do not adopt a Budget Resolution? The last one that was adopted, the one that is tattered that I keep holding up here is the last one that was adopted was in "fiscal year 2004" but was a 10-year Budget Resolution. So it covered all the way through - there are numbers in here - through fiscal year 2013. This Budget Resolution, tattered as it is, remains in effect until it has been replaced by a new Budget Resolution. That is very messy, as you can imagine right now, but literally on the

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floor of the United States Senate yesterday when we were considering the legislation as it relates to class action. A Budget Act point of order lies against that legislation; nobody raised it, but because governed by this old budget resolution somebody could have raised that point of order. Second thing - lesson that I want to highlight here is that lesson number two, May 15th, if a budget resolution has not been agreed to and conferenced by May 15th the Appropriation Committees and the House of Representatives can begin to move their Appropriation Bills. So let me just say, without a budget resolution, an appropriation process can move forward and this year, however, without any statutory caps - which I didn't even get into - but without any statutory law capping appropriations, and with the current operating resolution not having put numbers in for 2006 appropriations that really only applies to the direct spending, then the appropriation process can move forward but very messy and uncontrollable. It still lives. Third lesson is that regular authorizations can move forward as I said we saw yesterday, but again, very messy and still being scored and considered under this resolution. Finally those reconciliation process though - and I have heard so many young staffers come in and say we'll do a reconciliation bill, we'll do a reconciliation bill this year. And I keep saying yes, but there's another step we have to go through. You first have to pass a budget resolution before you have a reconciliation bill,

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and as I said, out of the last four years, we have only passed one. We failed to pass it twice. I am going to leave it to Sue to deal with some of the more stickier issues of PAGO and funds ability and all the wonderful things that she wants to deal with, but let me just say - again where I started - this is a mind numbing process, hated by some; loved by others, but in a process that unfortunately can be manipulated by its complexities, but I quite frankly don't know what we would do without it in terms of the management of fiscal policy in the United States Senate particularly as flawed as it might be. I will stop there.

ED HOWARD: Thank you very much, Bill for that excellent overview. And as Bill noted, we have here Sue Nelson who is the Deputy Director of the Senate Democratic Budget Committee staff. She revealed to me in a moment of weakness that she also has worked for republican members of the Budget Committee. [Laughter] Currently she is the top Medicare analyst for the democrats on the Budget Committee, which means she played a key role in the budget issues surrounding the 2003 Medicare Modernization Act, issues I guess that have received a certain amount of attention over the last few days. She has served a [inaudible] at OMB, she was Associate Director a few years ago of the Bipartisan National Economic Commission whose mission it was to find ways to reduce the federal deficit, and we are back at that stage in history again. Sue, thanks for

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being with us, and tell us how to do it.

SUE NELSON: I also want to thank the Alliance for extending this invitation to me. I am not sure you have actually ever had a budget confrontation or a panel, and I hope this won't be the last one. Obviously it's an extremely timely topic, in fact, just two days ago a health staffer grabbed me in the hall and said, oh this budget process is so complicated, I can't stand it. So I hope she's in the audience today, and I hope that we can help you all gain a better understanding of the process. Bill has already walked you through some of the basics, and what I would like to follow up with are some suggestions, some more concrete suggestions, about what health policy analysts need to anticipate and understand in order to have some impact on the process because that's why you are all here. You want to know what you can do to influence this process. But first, I have a final old budget cartoon, some of which you will see today. This one is probably 10 years old but somehow timeless. I have never worked on a budget that everyone has liked. In fact I am not sure I have ever worked on a budget that anyone has liked. I have heard lots of I am going to hold my nose and vote for this budget, which is a little depressing when you've spent like weeks on it and nobody likes it, but there's a reason for this. What a budget does is provide a way for the government to first collect and then allocate resources to meet national objectives in a fair,

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equitable, and efficient manner. The problem is we often disagree on what is fair and equitable, and it's not an answer you can arrive through policy analysis. It's something that, you know, the values that we have and the philosophy of governing that we believe in. However, what we do try to agree on, and I think we have done a pretty good job of it over the years, is the rules that govern the process for resolving these issues, which is called the congressional budget process, and that's what I plan to talk about today. Bill has already outlined the major steps in the budget process, this slide is my attempt to fix dates to the process - Bill you can back check that for me because you have a little more control over it than me - we have already completed the first two steps on there - the CBO budget projections, which were released January 25, the President's budget, which came this Monday. Over the next two weeks we are going to hold hearings, in fact, we are having a health hearing in the Budget Committee next Thursday. We will receive committee views and estimates, which will inform us about how each authorizing committee feels about the President's budget. Very important, CBO is going to issue a re-estimate of the President's budget we hope by March 4th, and those are the economic and technical assumptions that we will be using throughout the rest of the year. Markup on a budget could begin as early as March 7th with floor action the following week. Our official deadline for completing the

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budget resolution in statute is April 15th. Following that, if we have reconciliation and budget process legislation and of course the appropriations process, they can stretch on from May all the way through December. Now for your planning purposes; do we normally meet our budget deadline? Well, that would be a no. [Laughter] CRS has compiled some rather sobering statistics that indicate that since 1974, Congress has met the budget resolution deadline only 6 times. On average, again for your calendars, we are about 38 days late, and 3 times as Bill noted, we did not adopt the budget resolution; we relied on the previous year's. The latest date for a budget was October 9th the earliest was April 1. Now my guess is this year we will have a budget and I think there's even [laughter] Bill - I think there is even an expectation we can meet the deadline. CBO economic and budget outlook, moving to the next slide and going a little bit back in time, I wanted to tell you about this stage of the process because it really does frame the debate to come. It's eagerly anticipated, you know, the first question we asked, are we facing more deficits, are we facing surpluses? There are also the assumptions that we use in the Congressional Budget Resolution, so these are a very important set of estimates. On adhering with CBO on the budget outlook, Budget Chairman Gregg stated that these are the figures we use to make sure that we have a fair set of numbers and that everyone agrees on. No made up grossing economic assumptions

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to make deficits magically disappear. In recent years, basically we relied on CBO projections. I actually love this slide. It says - I don't know if you can read it - it says we either have to cut back and make more money, and the son says, why not just change our economic assumptions? [Laughter] In their report, CBO made it very clear that our budget outlook is not improving and will probably worsen even more as the baby boom generation begins to retire - that would be us - and particularly, it's worsened if you add the cost of expending expiring tax provisions, reform of the alternative minimum tax, and assume our current defense buildup and ongoing war costs. Those items are not normally included in the CBO baseline because the CBO baseline only reflects current law. I don't love this slide, by the way, what this shows is what deficits look like with tax cuts extended, permanent AMT reform, defense buildup and ongoing work. And as you can see, by 2015 we hit about \$527 billion. An article in Monday's *Washington Post* describes this is an era of new deficit politics. So from your prospective you need to be prepared for more cuts to come. CBO says this time, unlike last time; it's very unlikely that we will grow our way out of it. Also in the document this year - and this should be of interest to you - CBO made a point to note that the rising growth of Medicare and Medicaid were major contributors to both our short and long-term budget problem. As this next slide shows they anticipate the spending for these

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two programs will rise from 21 percent of total federal spending in 2005, to 31 percent by 2015. For domestic discretionary spending, excluding homeland security, that's where your discretionary health programs are the FDA, NIH programs like that, the share actually declines as a percent of total outlays from 17 to 13 percent. After 2015, this spending will claim an even larger share of total outlays making fiscal policy - in their words - unsustainable. I know this is a bit of a backtrack, but I think it's really important for you to understand the big picture and how your programs fit into the budget pie so you can anticipate what the next few years will bring. Medicare and Medicaid, as you can see, are sort of like that old Pac Man game consuming more and more of the pie, but if your program is in that 17 percent of the budget that is not dispensed, not international, and not homeland security, you are fighting among yourselves for a smaller and smaller piece of the pie. The President submits his budget on the first Monday in February, which this year was this Monday, February 7th. Clearly the focus of his budget was cutting spending, holding down the growth of certain entitlements, and reducing domestic discretionary appropriations to meet his goal of cutting the budget in half by 2009. As this slide shows there were no major budget proposals for Medicaid, but there were proposed changes in regulations which can have exactly the same effect, they just don't require legislation. Medicaid and

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[inaudible] were reduced over 10 years by \$60 billion with then \$15 billion added back in new spending. The Health and Human Services Agency was cut 2.6 percent between 2006 and 2007, 28 programs were eliminated. If you look out over the next 5 years relative to a baseline that allows program to grow at the rate of inflation, these health programs will be cut by roughly 14 percent by the fifth years. You are only seeing the first year cut here. In addition, a variety of tax subsidies related to expanding health insurance coverage were included in the budget. Something new this year, I don't know if most of you realized it, but the President has a Program Assessment and Funding Information or PARCH analysis which is a radiant system that was used as a justification or rationale for cutting back or terminating 150 programs in the budget. Check out table 2-5 in the analytical prospective to see if you are on the list and how your program is rated. You also need to understand that the overall cap on domestic discretionary appropriations could affect you even if you made out okay in the budget. If the appropriators accept the President's overall cap, but decide they can't do the cost estimate determinations, they are going to have to go elsewhere to look for budget savings. So don't operate under a sense of false security that because your program did okay at this point in the process; it's going to fair just as well through the appropriations. I think that's the point you were making earlier, the translation isn't always

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perfect, and it's a very tight cap. If you look at what would be required to hold your programs harmless from inflation just between 2005 and 2006 the cut is about 5.4 percent. Okay. This slide depicts where we are right now in the process. Over the next month we are going to be conducting hearings on various aspects of the budget and the economy and we will receive letters from the committees of justification providing their views on the President's budget and describing initiatives they may wish to pursue. Some are fairly informative and worth your review. Many will comment on the President's proposals, so be sure to get copies of the letters for the committees you are interest in. Also prior to markup as I noted earlier, CBO will release their own estimates of the President's budget and revised baseline projections. For health programs in particular, this is the time when CBO makes real revisions in the baseline numbers. They are going to be incorporated in new Part D Medicare Regulations, and there could be very significant differences from the January baseline. Similarly, I don't know what direction they will go in, but you can anticipate that there will be some interest in them. The majority - we use these new estimates and the new estimates to construct a budget resolution, and we will continue to use these estimates throughout the year. So the question for you really is, what happens if CBO says that certain proposals in the President's budget don't save what the administration

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thought they would? Will the targets change or will they stay the same? House Budget Committee Chairman Knuckle says, the details are on the table, but the overall limits are not negotiable. But do CBO or OMB estimates determine the overall limit? Or what are the goals of the deficit target? There is a lot of unanswered questions that will have to be resolved once the CBO estimate arrives. The one other thing I want to point out as Diane mentioned is that health in Senate Budget Resolutions are often very similar in content to the President's budget but they are not identical. So while it's too late to change what's in the President's budget, you have about a month to convey your views on what's in the President's budget to committees and members of Congress. Finally, we move on to markup of the congressional budget resolution. What is a resolution as Bill described in it's simplest terms? It's a blueprint that tells each committee in the Senate and the House how much they can spend and how much revenues will be raised or lowered. It's a concurrent resolution as Bill mentioned passed by the House and Senate. It's not a law; you can add substantive legislation that is not signed by the President. It's not divided into House and Senate Committees instead it's divided in a budget functions defense, international health, but these function totals are not binding. There's no programmatic detail below the function, so don't look for it. There's no line item for any of the smaller programs in the

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budget. In terms of how many years the budget resolution covers, we varied from one year through 1980, then we went up to 5, up to 7, down to 6 in '97, back to 5 in '99, 2000 up to 10 years, retreated to 5 in 2001, back to 10 in 2002, and I think we will probably be back to 5 this year, at least that's what's in the President's budget. As Bill noted, there is three important things to look for in a budget resolution, and it's actually very simple. First you have to look for the allocations of the Appropriation Committee, it tells how much they can spend in a budget year. The second thing is does it include reconciliation instructions, which as Bill said are directives to authorizing committees to change permanent laws regarding the level of spending for entitlement programs. And third, the resolution can include new rules to enforce budgets. Committee markups generally last about 2 days in the Senate, maybe one day in the House and in recent years, the Chairman begins markup when he believes he has a vote to pass the budget. We don't spend days struggling in public like we used to. Amendments offered by the minority is a way that we make our concerns known and if they are adopted which doesn't happen often, but it does happen, they can change the dynamic committee. No points of order apply to committee amendments, members can offer amendments to increase or decrease function totals, they can add sense of the Senate language, and from your prospective, you can also get report language included in

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the budget resolution that tries to explain to the appropriation and other committees what some of the programmatic assumptions are beneath the function totals. The language is not binding; it's not going to guarantee they will concur with that level of funding, but it does send a message it is worth thinking about. When we move to the floor the debate is limited to 50 hours equally divided. We generally don't use all that time. A motion to proceed with consideration is not debatable as Bill pointed out, it can't be filibustered, it's a fast track vehicle. Time used during votes doesn't usually count or does not count for the 50 hour total, which is why our time on the floor generally ends with hours of what we call voterama. It sounds like a lot more fun than it is, what it really involves is there can be more than 100 votes taken over a two-day period with one minute descriptions of what the vote is about because when time runs out on the bill all you can do is vote. There may be more restrictions on floor amendments - I mean there are - they must be germane, they can't reduce the Social Security surplus, a number of things. So committee amendments are much easier to do. Normally we yield time off the resolutions, so I want to suggest to you that if you have an amendment that you do want to do on the budget resolution, try to get to the floor early and try to get a score from CBO. That will expedite your process, if you wait till the end, your member may have 30 seconds maybe a minute to explain what it's

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about and the people like me will be trying to figure it out on the floor. It's quite a scramble near the end. Finally, moving to reconciliation, the budget resolution may include these instructions to one or more authorizing committees. The last time we actually reconciled spending programs was in 1997, so we are a little out of practice and the interpretation of the rules may vary according to our new parliamentarians. There is little discretion and flexibility. Let me point out one really important thing. The instructions can only be specific as to committees, amounts, and dates; they can't include specific policy goals. For example, finance can't be reconciled for Medicaid cuts. They are only reconciled for a number regardless of what is assumed in the budget resolution. There has been a lot of confusion on that point. They are given a date when they need to report out legislation to the Budget Committee. All we do is package it up and send it to the floor where again it is on a fast track, it can't be filibustered. The debate is limited to 20 hours. Bill mentioned the bird rule which most of you have probably heard of. I won't go over it again just to say that it basically allows members to strike amendments that are considered extraneous to matter in the bill. Some examples of what is extraneous, provisions that have known budgetary effects or have effects that are merely incidental. Now that's a very difficult term to define; what's merely incidental to a

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budgetary effect. That's the sort of thing we sit in the parliamentarians office doing birdbath reviews for hours to try and come up with some definition of what that means. Another example of extraneous, the finance committee cannot include provisions in its bills that are in the jurisdiction of another committee; they have to stick with the matter that's within their own committee. So my suggestion to you is that if you do have amendments you are interested in doing in reconciliation, probably better to try to get them done in committee. If you have an offset, this is a really good opportunity as I note at the bottom to get things done, to get little things done because the things we don't realize is that the reconciliation instructions to committee should be a saving instruction can be a net figure. In other words, it can accommodate pluses as long as there is also minuses. Now I didn't go into conference on the budget resolution because I sort of forgotten what they are like. Normally, the democrats haven't been very much involved in conference, but I wanted to point out several years ago when I was in a conference or during some budget debilitation - I think it was out at Andrews Air Force Base - my 8-year-old who was really missing her mom had a vision of what government conferences and budget negotiations should be like. She wrote - and I just love this - I have a dream that the government would not fight, and notice the hearts, the flowers, the okay, okay, and ladies notice there is two women

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and two men there. So this is clearly an idealized vision of [laughter] what a conference is going to look like. By the way, she got her driver's license yesterday; she is 16 so she is not missing me anymore, so don't feel too bad for her. She had her first parking ticket the first day she had her license too; it's not looking good. [Laughter] Finally, I won't go into this in any great detail but budget process reform, I think Bill mentioned some of those, there are some proposals in the President's budget that could really effect health programs, discretionary spending caps, enforced with automatic cuts through 2010, pay as you go rules. What that means is that if you have a new entitlement increase or a tax cut, it needs to be offset with automatic caps actually in the President's budget are only applied to entitlement increases. Points of order against legislation that would worsen 75 year under funded obligations; I am not sure we have room for another one on that card, but there is one more point of order. What would that make 27, 28? Line item B-2 other possibilities that have been discussed by members of the Senate in particular are entitlement caps and a cap on Part B outlays at the original CBO estimate. I think these are tough, I think you need to pay attention to process reform, but it occurred to me this year we are reforming to Social Security, we are reforming tax laws. We may be reforming Medicare so we may - this may be a lot to ask - but you never can tell. I don't - and finally

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once we finish deliberations in the budget process and the budget resolution or August - whatever comes first - we go on vacation. And I love this cartoon, it's I would like to spend 2 weeks where we never hear the word deficit. Let me make a suggestion though, right before the budget cycle started up again, I did take a vacation. I went to Belize, they were having a huge budget fight, it was unbelievably bad timing [laughter] huge. Everybody was transfixed by it, they were listening to their radios, the Prime Minister was egged. I like a country where you can - well - where it's just eggs. [Laughter] Eggs are expensive there, though. [Laughter] But the amazing thing was, you know what the battle was over? They were raising taxes by over \$41 million, it was a little sad, but anyway - that's it, and now I will turn it over to Stan.

ED HOWARD: I will be very brief. Thank you, Sue.

Stan Collender is the General Manager of the DC Office of Financial Dynamics Business Communications. He brought with him copies of this statement on the President's budget that were not in your packets, if you don't have them, you can count on it being on our website soon. And I will just say Stan is the only connection we have on the panel to the House Budget Committee where he was on the staff for a number of years as well as being on the Senate, and so you should feel the obligation to represent the House of Congress on the south side of the Capitol as well. I will note, however, that the

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American Society for Public Administration awarded Stan the Lifetime Achievement Award for Federal Budgeting, the Howard Award. I like that in a sense. [Laughter] Stan, go ahead.

STAN COLLENDER: Thank you, thank you very much. Just a quick personal note. I have been in this room a lot of times and never been on this side of the podium, and you know, it's a little scary I got to tell you. The last time I was here there was a witness that was put behind - you know, he was covered, he had a shield on so you couldn't see his face and they masked his voice. So I mean there's a lot of dramatic things that have happened in this room, and I would think this is probably one of them, a discussion of the federal budget process. First of all, being with Bill and Sue is actually a joy. Bill and I have made a career about disagreeing with each other about budget matters, so the opportunity to do it again is terrific [laughter] quite honestly. Several things, first of all, I used to write a book called *The Guide to the Federal Budget*. I did 19 annual editions of it. I used to do it update it every year for two reasons, one it was so that the kids couldn't sell it back to the book store at school [laughter] so we could circulation the next year, but also because the budget process kept changing. In some cases it was a statutory change, in other cases it was just procedural things that Congress did each year that was different from the previous year. I stopped doing it 5 years ago because Congress wasn't following it's own

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budget process and I just didn't see any reason to spend days or weeks updating a book that was describing something that was no longer what I thought particularly relevant or was describing what was actually happening. And as much as I think you should all learn these procedures, as much as I think you should be generally familiar with the way it works and the deadline, I would also urge you not to learn them too intensively because they will not be followed. They will change every year and the frustrating thing about dealing with the budget process is that it is different every year. In spite of the fact that the rules are in the statute, in spite of the fact that there are deadlines, statutory deadlines, you also need to keep in mind that there are really no penalties for missing the deadlines or for not following the rules. It's not as if members' salaries start to get garnished on, you know, April 16th, the day after the budget resolution is supposed to be adopted if it's not adopted. It's not as if all other votes are prevented from happening if the budget resolution is adopted and in fact last year was a great example. We didn't get a budget resolution and the world didn't stop spinning, the country didn't turn into a pumpkin, and somehow we got the Appropriations Bill out anyway. Now let me agree with something that Bill implied; the fiscal policy was a disaster last year. It would have been better had they followed the budget process, but the thing to keep in mind when

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you talk about process and the budget is that the budget is not a logistical problem. It is a political issue. As a result - I mean think about this. What you are basically saying is there's not enough money to go around to do what everybody wants to do. If there was, you wouldn't need a budget process you just need someone to write checks, but as soon as you say there is not enough to do everything that everybody wants to do, the question is how do you decide what gets done. And although I have got training in public policy analysis, there really is no objective way to rank programs from highest to lower priority when you are comparing defense to veterans to agriculture to education across all the functions. There really isn't a way to do that. Jimmy Carter tried to do zero-based budgeting in the 70's it failed miserably. It might have been appropriate for IBM; it wasn't for the federal government. So when you talk about a budget process with rules and procedures and deadlines and time limits and caps and whatever else, keep in mind that all of those like the rest of the budget will be subservient to the politics of the year in which it is being considered. So as much as I would urge you to have general familiarity with the budget process, don't get so wetted into it that you get like me which is angry and frustrated over the years because they are not following their own rules and procedures. I can make, you know, lots of excuses in my mind that they need to get through it, they need

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to do this, they didn't get the votes for that, but bottom line is they've got rules, they follow them sometimes, and you shouldn't get so wetted into the rules that you feel betrayed when you don't follow them as has happened for me very often over the last 20 or 30 years. This is a little different than it was back when I was in the Budget Committee, the House Budget Committee. I will take some responsibility but tell you it's not my fault, okay. [Laughter] There was at least a singular purpose for the budget process. Strategically once Grant Rudman Hollow was put in place the singular purpose was to reduce the deficit. There are 2 or 300 people in the room today, I would defy - I would bet you if we went around the room asking everybody the purpose of today's budget process for this year's budget process whether we would come up with a consensus. Is it to increase spending, decrease spending, increase taxes, decrease taxes, decrease the deficit the deficit doesn't matter, reform Social security, do something on prescription drugs or any of a dozen other things. And that's the problem. Ultimately at every step along the way we are not starting with a general consensus about what needs to be done. As a result the steps in this year's process, like almost any year's, but this year's in particular, are going to be subject to political and logistical considerations that mean that the rules will be bent or waived or ignored or changed to meet the needs. That's good news and bad news for all of you sitting

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here. The good news is there will be some structure, you will know what the budget resolution is supposed to accomplish. You can plan on it. You can put your legislative strategies behind it regardless of where you are coming from. You can try to work with it. You will need, however, to be much more nimble than the rules would seem to require because the procedures will be truncated, elongated, votes that should take 15 minutes could take 3 hours. Things that are supposed to be passed by April 15th may not get passed at all or may not get passed until December, and on and things that should be reconciliation maybe. I mean Bill gave a very good example of just because there is a rule doesn't mean it will be enforced or followed or just because there is an opportunity will it be used. Bill was talking about a budget point of order that could have been imposed or raised against a particular piece of legislation this week, but it wasn't. It's not automatic. These rules are there to be used but they are also increasingly there to be forgotten or ignored. So you need to be able to think creatively about all of this. As I see it, there are three big considerations this year that will make the budget process difficult to complete. First one is the amount of time. The official legislative calendar shows about 115 potential legislative days between now and - thank you - between now and the start of the fiscal year on October 1st. However when you look realistically at the days Congress is likely to be in

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session, particularly the House, when you subtract Mondays and Fridays and early days when they go home early or days when they are not ready to do legislation or whatever, it's not 115 days, it's only closer to about 60 between now and the end of the year. And as I look at the budget related to do list, I mean, it's extraordinary. I haven't seen a year like this in a long time, in addition to 10 or 13 Appropriation Bills depending up which House you look it. You've got a budget resolution reconciliation bill, a possibility a stand alone tax bill or a debt sealing bill, a supplemental for God knows what, maybe more than one debt sealing by the way, a highway bill, Social Security Reform and anything else that might come up in the meantime. Now let me be honest with everybody, and I think you'd all be honest with yourself, the idea of getting all that done in 65 legislative days is ridiculous. Now some of it's going to have to go by the wayside, some of it will be delayed until after October 1st, others will be truncated, they may do an ominous bill like they've done in the past, but at some point some things perhaps like a budget resolution will go away. If the leadership in both Houses decides they don't need reconciliation they don't have time, nobody wants to take votes on a budget resolution with a \$400 billion dollar deficit in it et cetera. So logistical timing considerations are one thing. Second, as much as the majorities in both Houses have gotten larger, one of the things that has happened this week we have

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seen very clearly is that there is fairly extraordinary divisions within the Republican Party on fiscal policy matters. There are those who think the spending cuts have gone too far, those who won't do it two years in a row; those who think the spending cuts should be bigger, those who want bigger tax cuts, those who won't vote for a \$400 billion dollar deficit, those who don't care. As a result, the majority that looks so big may not be that big, and in fact, as I wrote my column this week, I think the President's budget was a huge misstep because his majorities on fiscal matters may be now in jeopardy. The particular mix of votes may change from issue to issue, but there may not be 55 votes let alone 60 for many things when it comes to budget. The third thing here is political capital, and that is if the President is really looking at Social Security as his legacy issue then in my mind what you need to do is build up a steady series of victories so you can enhance your capital or at least look like you haven't lost anything as the year goes along. The budget is a steady series of political pitfalls along the way, and it may very well be that the White House doesn't what to do them particularly if they don't think they have the votes. So you put all that together and a lot of the things that Sue and Bill have talked about all of which are in statute, all of which we are supposed to do, all of which I hope gets done may easily go by the wayside. Two final things, first of all, the only deadlines for all the

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things that Bill and Sue have mentioned that is truly important is October 1. We used to say the only deadline that is really important for the President's budget when they put together is the day that it has to go to the printer, all right. The same type of thing is true here. Budget Resolutions, Appropriations Bills, Reconciliation everything else the start of the fiscal year is inevitable, it starts October 1. At least so far I haven't seen anyone propose legislation to delay it for a week or so. So the Appropriations Bills need to get done, something has to happen by then, everything else can be delayed, put off, put aside. So ultimately, that is something that is always out there looming. Second, for those of you who are thinking about how to influence the process, Sue mentioned the need for the cost estimates to offset those types of things. Bill mentioned the numbers a great deal because that's what a budget is obviously. It's numbers that reflect policy decisions, but let me urge you all - this is my public relations side talking - a public relations person who follows the budget. The budget is not a numbers game. Ultimately when you get down to the weeds when we deal with it is Alice, sure you got to reflect everything in numbers, but these tend to be emotional issues, and for every set of facts on one side about how much something is going to cost us, there is a set of facts on the other side. And the real way to win the arguments that you are talking about even in a budget process that is numbers oriented is to

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not forget that you cannot win an emotional argument with rationalizations. A column of numbers won't win these things. This is still bottom line a political process, and that's what will ultimately win the day.

ED HOWARD: Very good, thank you, Stan. Well we have a good amount of time for questions. You have wide discretion in the areas in which you will ask those questions. There are microphones in the back of the room on each side. There is one up front, there are green cards in your packets that you can fill out and hold up as some of you are already doing and our staff will pick them up for you. And let's get started - I should just note for you that we do have until 2:15 this time because we didn't start until 12:30. Yes? And let me reiterate that when you come to the microphone, we would appreciate it if you would identify yourself.

DIANE DUSTIN: Hi, I am Diane Dustin with Prudential Equity Group, and I was hoping somebody could speak to the significance of the new numbers the cost of the drug benefit, and how big a fight there might be as Senator Gregg has said the estimate was \$400 billion and that's what it will be. So how will that play out?

SUE NELSON: I can comment a little on the numbers, maybe Bill can talk about where we go from here. They were extremely confusing. Basically what happened was we got a report from the actuaries that showed a Part D benefits costing

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\$1.2 trillion over the period of 2006 to 2015, which of course, is a lot higher than the \$400 billion that you have heard or even the \$534 that was the actuary's estimates that was released last summer. When you take out some of the savings that weren't counted in that number that were counted in the original bill, those are savings for what's called a club mechanism, also the Part D premiums. You get down to a figure of \$913, which is maybe a figure that you are familiar with and heard about in the paper. And then further, when you subtract it from that the savings to the Medicaid program because Medicare is now picking up the drug benefit you got down to about \$723 which is probably the apples to apples comparison with - I know I am losing you aren't I - with the \$534 except it added two extra years. So the bottom line of all of this is that there really wasn't a big change in the numbers other than the fact that we now see what the estimate looks like over a full 10-year period. In fact, I think you need to anticipate when CBO releases their estimates in March that we may have the same confusion because they can no longer track how much Medicaid is saving because Medicare is picking up the benefits. Those savings are all now lost in the baseline, so they are never going to have a number comparable to their \$395 or \$400. In fact, their number which is comparable to the \$913 that was the number that didn't include the Medicaid savings is \$795. So, you know, on an apples to apples comparison with our

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original \$400 for the time period with two extra years, you are going to have to get used to somewhat larger numbers. Now in terms of how this will play out politically, I am not sure.

BILL HOAGLAND: Can I just say that it's amazing to me and Jonathan Weizman [misspelled?] sometimes he gets me in trouble with things that - but I am amazed that a front page *Washington Post* story about something as Stan says numbers don't matter. Something as arcane as the CBO baseline can make the front page of the *Washington Post* and that's all this was. Cut to the chase the difference, I mean, you can go to CBO's website and look at the difference is \$5 billion dollars, \$5 billion dollars. We are talking about adding years going out to the future. The significance of this is not the fact that somehow we are adding more years, the issue here is we are moving into the period of time when costs on Medicare and Medicaid and Social Security are going to naturally grow relative to where they were 10 years ago. And it is that pressure, which Sue had outlined in her comments, is really going to be - in fact I look at this as only one more addition to the equation if you like in putting pressure on entitlement spending going forward. Will it impact upon this particular debate this year, I have to be careful what I say because I work for Dr. Bill Frist, of course, and I think Stan raised issue of all the things on the table. It seems to be Social Security and the interaction with Medicare in this timeframe is

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something we want to be adding to our workload at the same time we are trying to phase in the prescription drug benefits. So I think it's going to highlight and maybe make - affirm what Stan said maybe make it a little bit more difficult the process of putting together a budget resolution, but I don't think this article this week is the issue that is creating the real problem.

STAN COLLENDER: If I can just - did you just agree with me on something? [Laughter] Yeah, that's what I thought. Several quick comments. There numbers really weren't new. I remember going on CNBC to talk about this with Steve Liezman [misspelled?] when the bill was first passed, and the reason that these are very, very good solid economists and a great reporter said, all right, Stan the first 10 years at the time we are using the \$400 billion dollar number, but has anybody looked at the second 10 years? We had the numbers and the idea that anyone is shocked by this is crazy. That's the first thing. Second, what's really ironic about this is - Bill is exactly right - you know we are looking at a different 10 year period, so the numbers aren't exactly comparable. But you know what, we are doing it over and over and over again. Let me give you one other quick example of something that is happening currently now that's the deficit. We are taking a 5 year look at the deficit, the Administration says it's going down. All right, let's just take their word for it. If you look at the

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second 10 years 2011 and 2015, which are conveniently left out of the budget, the deficit starts to shoot back up again. Does anybody think that when those numbers are starting to be included in the equation starting with next year's budget that somebody else won't express shock, shock that the deficit is crawling back up? I mean this is one of the examples of there are no facts, there are competing numbers, you can make the numbers sound any way you want, it's a political system, and a political process.

ED HOWARD: Diane?

DIANE ROWLAND: The question here is can you explain how the across the board cuts are sequesters like the 0.83 percent cut last year come about?

BILL HOAGLAND: Excellent question, excellent question. I have a theory about that. And the theory is this, that there are those - and I am not pointing fingers at anybody, this is my own comment. There are those who when you put in a discretionary spending number and you say you are going to follow that discretionary spending number that maybe the President has put forward, and you adopt that in a budget resolution, and oh by the way, even though we did not get a budget resolution last year, when the first Appropriation Bill moved that had to move which was the Defense Appropriation Bill, we went ahead and - back on the farm I would say we used bailing wire and chewing gum and we attached to that

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Appropriation Bill - what was in the budget resolution so we had an enforceable cap on appropriations. And it was the number that was in the budget resolution that was not adopted, and then we were able to enforce that later on. And what happens it seems to me is that we end up making these assumptions about discretionary spending early on in this process in a budget resolution, and it gets down to the end we cannot live up to that because we are going to cut NASA or we are going to cut NIH and we realized in the political arena we can't do it, and so it forces us into these omnibus bills at the end of the day. And for some people the omnibus bills are the best way of controlling fiscal policy spending because then you can come along and just shave across the board on the all the programs necessary to bring us back down to the cap. So these caps, interesting the across the board cut has grown the last couple of year on the omnibus bills, and I would assume, again, the reason they come about is because we start out with the wrong - I think - the wrong numbers at the beginning of the process.

ED HOWARD: Let me just remind you as we get to the end of this Q and A period it would be very helpful if you would fill out those blue evaluation forms and make some suggestions for improvements of other programs and the structure of what we are doing. Diane, go ahead.

DIANE ROWLAND: Question, how are the budget reduction

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recommendations enforced the authorizing committee?

BILL HOAGLAND: Well I guess I wasn't - I didn't do a very good job then. The -

DIANE ROWLAND: It came in advance.

BILL HOAGLAND: Oh, okay. [Laughter] There are two ways in which they are enforced on the authorizing committees, now we are talking about entitlement spending and direct spending. In that particular case, the budget resolution assumes a total amount of spending and it allocates that to the committees of jurisdiction, the committee brings the bill to the floor. If the sum of the bills under that committee's jurisdiction exceed what was assumed in the budget resolution there is a 60-vote point of order. That's the way we enforce it; that's one way of enforcing it. The second way of enforcing it is through the reconciliation process where we instruct the committee to reduce or change spending within it's jurisdiction, and we force the allocation and if they do not then there is alternative mechanisms of forcing them into it.

DIANE ROWLAND: This question is, is it correct that the President's proposal to privatize Social Security could not be passed as a part of the reconciliation due to the bird rule?

BILL HOAGLAND: Not to the bird rule by the fact that the Budget Act itself says that we shall not touch Social Security within the budget resolution.

STAN COLLENDER: Bill, didn't you -

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BILL HOAGLAND: And there's a bird rule too.

STAN COLLENDER: Yeah, but wasn't Senator Demetsky as Chairman responsible for that particular rule? [Laughter] You were Chief of Staff at the time - never mind I am sorry.
[Laughter]

ED HOWARD: There's a - by the way there is question on the card asking whether Sue can put her overheads on a website and the short answer to that question is if it is possible it will be on our website within the next few days. That's all allhavegot.org and if it's there it will also be on kaisernetwork.org with the rest of the materials that are in your kits.

DIANE ROWLAND: The budget has reached the structured Medicaid accounting to an accrual basis, this has major implications for states governments, but what implications does it have for the reconciliation process? [Laughter] The budget has restructured Medicaid budget accounting to an accrual basis. This has major implications for state governments, but what implications does it have for the reconciliation process?

SUE NELSON: I am sorry, I have to apologize I am not a Medicaid expert. Diane, I am not really sure I understand the question on the accrual.

DIANE ROWLAND: Dick?

DICK MILLER: [Inaudible - no mic]

DIANE ROWLAND: Use the mic please, Dick. Use the mic.

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ED HOWARD: Come forward or backward.

DICK HOWARD: Hi, I am Dick Miller with Federal Funds Information for States. Until this year including this year Medicaid budget authority has been the amount of payments expected to be made in that year. For 2006, the budget proposes - and I assume this has been cleared with the Hill - that the budget authority will be the accrued spending even if the expectation is that future year reimbursements will be necessary. This means the Budget Authority for Medicaid will be much larger in 2006 and the Appropriation will be much larger in 2006 than it ever has been before, and it separates the relationship between Budget Authority and allies. It's a very important distinction for the states in terms of their being able to book an obligation but I think it has real implications for the budget process too, and that's my question.

BILL HOAGLAND: How much did they - okay, does the Budget Authority on an accrual basis in Budget Authority in 2006 and over what period of time? This has to be a huge number.

DICK MILLER: No, it's for amounts - services provided, the costs of the program, but not expected to be reimbursed in that year. It's about an extra \$20 billion dollars roughly in 2006, something like that you know. So it separates the Budget Authority and outlay numbers in the process. Outlays

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are much smaller than the budgets are that have to be cut under - I don't know. It's an important change.

SUE NELSON: I'll look into it. [Laughter] I didn't know about it, thanks.

ED HOWARD: And if some of you are mystified at the difference between Budget Authority and outlays, I commend to you the glossary put together by the Senate Budget Committee staff, it's in your packets, the green material in your packets.

DIANE ROWLAND: We have a question, Bill, what was the point of order against the class action lawsuit bill and why do you think the Senate should have raised it?

BILL HOAGLAND: Number one it is early in the process, we are still operating under an old budget resolution that was adopted back in April of 2003. Number two, it was a rather small point of order and it was a small amount of money we were talking about. And number three, the reason the point of order lied is because the committee of jurisdiction in this particular case - Judiciary - had exceeded what would then be allocated to under this old budget and spending.

ED HOWARD: In the back? Okay. How do you foresee extension of the tax cuts playing out this year, extension of the cuts from dividend and capital gains seems to be the most pressing issue, though other cuts be put off until next year? And do you have any plans for new tax cuts this year from a new

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budget?

ED HOWARD: From the news organization this question comes, but this is an off the record briefing, Bill, so you don't have to worry about that.

BILL HOAGLAND: I would expect that in the process of putting together a budget resolution that there will be - we talked about it already - a reconciliation instruction probably on the spending side over the next 5 years and probably on the revenue side. And I would assume that the budget resolution - we didn't go into this - but the budget resolution probably will be a 5-year budget resolution and because it's a 5-year budget resolution, a reconciliation bill would have to be no longer than 5 years. And I would assume that it's possible that these two might be split so that we do a spending reconciliation bill first, and a revenue reconciliation bill second. And I would assume that the President's proposals for extension of the dividends and the capital gains which is interesting really getting into the budget kiki stuff now, it's interesting that you probably have to sunset for the capital gains a lot earlier than the 5 years, so you didn't have a slop over beyond 5 years which then you would be hit by the bird rule. I hope that confused the press. [Laughter]

Stan, do you want to try and join in?

STAN COLLENDER: This goes back to the long to do list I was mentioning. In the first questions whether they do tax

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cuts or tax extensions thorough reconciliation, the first question the Administration is going to ask itself or the folks on the Hill will ask is how many votes do we have? If you got 60 votes they'll do it without reconciliation and then they go forward, now the President gets a big victory early in the year, and it looks like he is back on, you know, back on track to do a lot of the other things he wants. The question beyond that it seems to start to imply well if the deficit is so big can we have another tax cut? The answer is sure, there is nothing in the law that would stop that from happening especially if you are in a situation as some members believe where a tax cut increases revenues, or at least shouldn't lose revenues as much, but it also comes down to counting votes and what can you do early versus what do you have to do later in the year. And these are heavy, heavy-duty political considerations.

ED HOWARD: Here's a question that is more qualitative than quantitative. How will governors and states affect the budget process and how have they affected it in the past? And do you expect any changes?

STAN COLLENDER: Well, yes, there will be changes. I am sorry, I just couldn't resist. There are more republican governors than democratic governors. They have more of an entree into the White House than others do. You have got some very notable governors like Arnold Schwarzenegger or Mitch

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Daniels former Director of OMB in this Administration who are now governors and they are all screaming like crazy. You started to see some of the impact of that already in terms of talking to their members of their delegation. So I am expecting that some of the things that would have the biggest negative effect on states are going to end up going by the wayside. Just set aside, not done, simply because the pain the screaming will be too significant. The question in my mind is whether there will be substitutes for them, whether as Chairman Nuzzle in the House said, all right, you don't have to like the details. If you want to change something that's fine, but the bottom line has got to stay the same, and what does that mean? You know, if it's not a community development block grants, is it something else, but the other thing you keep in mind is that this is an Administration that should not be underestimated at least the political skills should not be underestimate because these are the best hard ball players I have ever seen. They've got solid bench strength; good double plays and they hit the ball out of the ballpark more often than not. As a result, I am not sure that the Administration is giving up yet on those cuts. I just don't think governors are going to be pretty active. Interesting telling story will be the next time members of Congress get back. They are going to go home for the first time since the budget came out this weekend. Let's see what happens when they get back, after they have actually

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had a chance to talk to some of the state local officials back home.

ED HOWARD: Bill?

BILL HOAGLAND: Can I? Here we go, Stan, can I disagree with you publicly?

STAN COLLENDER: I'd be shocked.

BILL HOAGLAND: I have not heard - I am from Indiana - and I know the governor, the new governor, and I have not heard him complain about the budget, number one. Number two, I presume the question is directed primarily at Medicaid and I want to take this opportunity to just highlight something that I think needs to be highlighted. If we were to do a 5 year budget resolution, and if we were to do a 5 year reconciliation instruction, I know you are not going to believe this, but since we deal in aggregate numbers, not Medicaid program per say, but in aggregate numbers, the instruction to the Finance Committee over the next 5 years would not be to cut spending but would be to actually increase spending \$5.8 billion dollars. You say how can that possibly be? Because you go back to the charts, you reconcile if we reconcile both on revenues and on spending, there is an interaction with the health insurance expenditure on refundable tax credits that's score as an outlay and as amazing as it might sound to you, the Finance committee would actually be given the authority to raise spending over the next 5 years and even on the Medicaid

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side of it, if they only did the Medicaid, that's \$12 billion dollars over the next 5 years not the \$44 billion or \$60 billion dollar figure I have heard.

ED HOWARD: Bill, just to clarify the \$5.8 billion would be the entire Finance committee jurisdiction?

BILL HOAGLAND: Yes.

SUE NELSON: However if the tax cuts go first and the refundable tax credits are enacted first, what you are left with is the larger cuts. I don't know exactly the number without the refundables, but yeah, I mean that is presuming that the tax cuts don't happen because if they do then you have lost the big chunk of your spending. What the -

BILL HOAGLAND: It would be 18.

SUE NELSON: Right. Then it would be 18 over the 5 years, yeah. You got to keep that in mind. There are a lot of pluses and minuses in that number.

ED HOWARD: Further questions? Yes?

MALE SPEAKER: Could you go over a bit the difference between the House and Senate both in the status of the House Committee as the Leadership Committee and the Senate Committee as a Standing Committee, but also about the different committees of jurisdiction in the House and how the refundable credit would be referred to Ways & Means and the Medicaid number will be referred to Commerce?

BILL HOAGLAND: It's nice to be able to say that I am a

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Senate staffer and I have been a Senate staffer all my life and I don't have to get into the issues of the jurisdiction in the House.

ED HOWARD: But then you are the only hope we have.

[Laughter]

STAN COLLENDER: Okay, it's been 23 years in the work in the House and they have different jurisdictions. [Laughter] that's - what is it in particular that you are interested in?

MALE SPEAKER: The point is basically that Bill Stagmann [misspelled?] at the Finance Reconciliation instruction would be to increase spending, but Commerce which has Medicaid in the House would not have the offset from the tax credit because that would go to Ways & means, is that correct?

BILL HOAGLAND: Well we should have clarified this along the way is beyond the reconciliation bill would be all those committees put back together into one bill and I would think it would come out in a wash at the end of the day unless there is a separation of the revenues from the spending and there are two difference reconciliation's.

SUE NELSON: Absolutely. I think technically there's a way you can deal with that, I mean it's happened numerous times before.

MALE SPEAKER: The only point I am making is that Commerce would not have the option of reporting something other

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than Medicaid.

SUE NELSON: Right.

MALE SPEAKER: Or Medicare Part D.

STAN COLLENDER: No, in fact they would be specifically prohibited from -

SUE NELSON: Oh, I see your point.

STAN COLLENDER: Because that's outside their jurisdiction on that, yeah.

SUE NELSON: Yes, definitely.

ED HOWARD: Though I am sure John Dinklewood would welcome the extra jurisdiction [laughter] if you offer it to him. I think we have run an incredible amount of blood out of the panel we have up here. This has been a very interesting discussion. I remind you to fill out those evaluation forms if you would. We thank the Kaiser Family Foundation for its support and Diane's participation in this briefing. Thank you for showing up and sitting through what could be a boring discussion, but certainly was not, and I ask you to join me in thanking the panel for making sure that that was the case.

[Applause]

[END RECORDING]