S.O.S.: STOP OVER-SPENDING ACT OF 2006

SPENDING RESTRAINT - DEFICIT REDUCTION - BUDGET ENFORCEMENT - FISCAL RESPONSIBILITY

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http://budget.senate.gov

United States Senate
COMMITTEE ON THE BUDGET
WASHINGTON, DC 20510-6100

June 13, 2006

Dear Republican Colleague:

On Thursday, I plan to introduce the *Stop Over-Spending (SOS) Act*, a comprehensive plan to rein in spending, reduce the deficit and regain control of the federal budget process. Despite dramatic increases in tax revenue triggered by Republican pro-growth economic policies, out-of-control spending on both the discretionary and mandatory sides of the ledger threatens our economic well-being and that of our children and grandchildren. My bill, which builds on the President's Line-Item Veto proposal, offers solutions to restore fiscal discipline to the Congress and dramatically reduce the deficit, as well as find long-term solutions to the problem of unfunded obligations.

I think we can all agree that the budget process is broken. There are too many gimmicks and too much wasteful spending, and we are leaving the bill to be paid by future generations. Many of the budget enforcement tools used by our predecessors have lapsed, and the explosion of "emergency" spending has allowed for billions of dollars to be spent above the discretionary caps. We must regain control of this runaway train. My bill will ensure that when Congress spends the taxpayer's money, it is done in a straightforward, transparent, and disciplined way. And most importantly, without mortgaging our children's future.

The *Stop Over-Spending Act* provides commonsense and responsible solutions to this problem.

- It creates a line-item veto tool that allows a President to target wasteful spending, ask that it be rescinded, and send it up to Congress for expedited consideration.

- It creates a new and improved Gramm-Rudmanesque mechanism to essentially balance the budget by 2012 – procedures to automatically slow the rate of growth for mandatory programs if Congress fails to meet deficit reduction targets.

- It reinstates statutory caps on discretionary spending (and the use of all-too-convenient and burgeoning "emergency" spending), enforceable by an across the board sequester, if Congress fails to adhere to the caps.

- It creates a point of order against direct spending that is triggered when the Medicare program is projected to become insolvent in 7 years or less. Due to skyrocketing health care costs and an aging population, Medicare is projected to be the first of the large entitlement programs to become insolvent.

- It creates two new bi-partisan commissions: one to study the accountability and efficiency of government programs (in a manner similar to the BRAC Commission), and the other to examine and provide solutions to the impending entitlement crisis.

I hope you will join me in supporting this important effort. If you have any questions regarding the information in this packet or would like to be a cosponsor, please contact my Deputy Staff Director Denzel McGuire, at 228-5846.

Sincerely,

Judd Gregg

Judd Gregg
Chairman

THE PROBLEM: SPENDING IS OUT OF CONTROL

The Budget System Is Broken and Ineffective

- The Budget Enforcement Act (which included statutory caps on discretionary spending) expired in 2002 and has not been renewed.
- Congress has failed to pass a final Budget Resolution for three of the past five years.
- Last year's reconciliation bill saved $39 billion, compared to the last reconciliation bill we did 7 years ago that saved $118 billion in constant 2005 dollars over five years.
- There are no consequences if Congress does not adhere to recommended budget constraints.
- There are no consequences if Congress increases deficit spending.
- There are no provisions in place to get us to a balanced budget.
- ***Essentially, Congress and the Administration operate under a "free pass" to spend.***

Budgetary Gimmicks and a Lack Of Financial Discipline Contribute To Unrestrained Spending

- In recent years, nearly 20% of all discretionary spending has been designated as emergency and is outside the caps.
- Emergency spending is not offset - it is pure deficit spending and has led to "shadow" budgets.
- The President and Congress have used the emergency spending process to pay for items that should be in the normal budget process.
- Congress uses the spending reconciliation process (a process designed to save money) to expand or launch new mandatory spending programs.

Current Spending Levels Are Unsustainable; The Resulting Debt Threatens Our Economic Stability And That Of Our Children And Grandchildren

- Our nation is facing significant short-term deficits assumed at $360B in FY07.
- In two short years, the Baby Boom generation will begin to retire, which will lead to skyrocketing costs in Social Security and Medicare.
- In fact, the Medicare program is expected to be insolvent within the next 7 years.
- Long-term entitlement obligations will overwhelm federal resources when Baby Boomers retire. Within the next 75 years, federal obligations will cost U.S. taxpayers $46.4 trillion. To put that in perspective, our nation has collected $40 trillion in taxes over the last 217 years combined.

THE SOS SOLUTION:
A "BIG BANG" APPROACH TO SPENDING RESTRAINT

Reduces the Deficit and Effectively Balances the Budget

- **The SOS Act establishes a new and more comprehensive Gramm-Rudmanesque deficit reduction mechanism. Unlike the 1985 version, the Gregg mechanism addresses entitlement spending – the largest share of the budget.**
  - ✓ **Defines deficit reduction targets**, as a share of the U.S. economy (GDP).
  - ✓ **Puts us on a path to an essentially balanced budget (0.5% of GDP) by 2012.**

Brings Back Budget Discipline And Eliminates Gimmicks

- **The SOS Act reinstates statutory discretionary caps** – caps that both the President and Congress would be required to abide by.
- **The SOS Act builds in emergency funding assumptions within those caps.** No longer will emergency spending be "off the books" deficit spending. Embedded in those assumptions is that within 3 years the emergency funding levels return to historical levels (approximately $30 billion).
- **The SOS Act prevents reconciliation from being used as a mechanism to dramatically expand mandatory spending**.

Establishes Consequences To Overspending

- **The SOS Act establishes across-the-board reductions in discretionary spending if Congress fails to adhere to the statutory caps.**
- **The SOS Act requires Congress, if deficit reduction targets are not met, to reduce the rate of growth of mandatory spending,** either through an automatic, expedited reconciliation process, or if Congress fails to act, through an across-the-board reduction in mandatory spending.
- **The SOS Act creates a new point of order against mandatory spending**, if the Medicare program (the first of the three major entitlement programs expected to reach insolvency thresholds) is on track to insolvency within the next 7 years.

Eliminates Wasteful Spending

- **The SOS Act establishes a Line Item Veto/Expedited Rescission** process to quickly and effectively eliminate wasteful spending.
- **The SOS Act establishes a Commission on Accountability and Review of Federal Agencies to look for fraud, waste, abuse, and duplication across federal agencies and programs** and requires Congress to act on the recommendations of the Commission regarding programs that should be eliminated or realigned.

Addresses Long-Term Entitlement Insolvency Issue

- **The SOS Act creates an Entitlement Solvency Commission** and requires the Commission to make legislative recommendations to save the entitlement programs from financial ruin and requires Congress to act upon those recommendations under expedited fast track procedures.

Streamlines Budget Process

- **The SOS Act includes biennial budgeting**, converts annual budget, appropriations, and authorizing budget process into a two year cycle. The first year would be reserved for the Budget and Appropriations process. During the second year, Congress would conduct oversight and authorize legislation.
- **The SOS Act makes it easier for Congress to pass reconciliation bills –**legislation that statutorily saves money.

STOP S.O.S.: STOP OVER-SPENDING ACT OF 2006 STOP

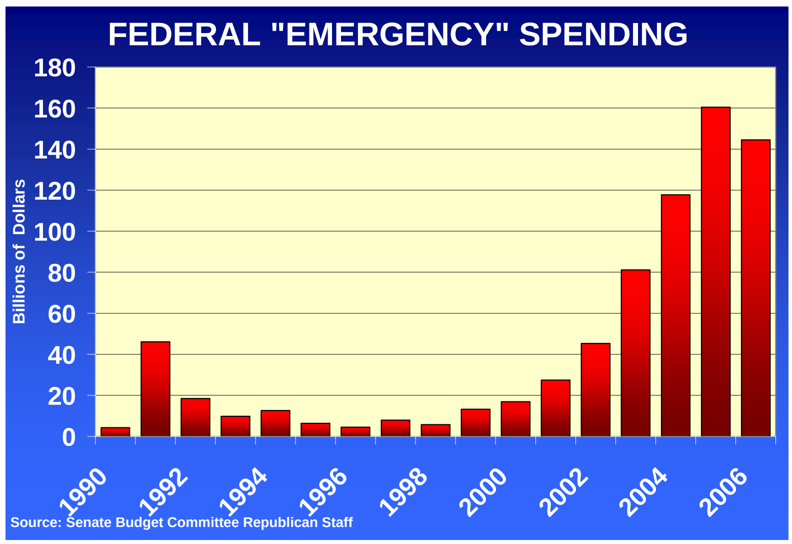
SPENDING RESTRAINT - DEFICIT REDUCTION - BUDGET ENFORCEMENT - FISCAL RESPONSIBILITY

Statutory Limits On Discretionary Spending

From 1991-2002, Congress and the President operated under statutory caps on discretionary spending. When statutory caps were put into place, Congress included an exception for emergencies to allow Congress to provide funding for unforeseen disasters. Unfortunately, a mechanism that was intended to be a safety valve for unexpected funding has become a fire hose for spending.

Today, "emergency" spending has allowed Congress to operate a "shadow budget," as emergency spending is not offset, and is considered "off the books."

The Stop Over-Spending Act of 2006 works to fix the broken budget process and put in place new, meaningful restraints with realistic enforcement mechanisms that will ensure that we hand our children, and our children's children, a government they can afford.



The SOS Act reinstates statutory caps -- last used in 2002 -- for discretionary spending and includes in that regimen caps an adjustment for a reasonable amount for emergency spending, if needed. The new caps would be enforced by sequestration (automatic, across-the-board spending reductions.)

- The statutory caps for the next three years are as follows:
  - $872.8 billion in 2007
  - $895.8 billion in 2008
  - $919.5 billion in 2009

- The following levels for emergency spending are assumed:
  - $90 billion in 2007
  - $50 billion in 2008
  - $30 billion in 2009 - *$30 billion represents historical average for annual emergency spending.*

- If Congress fails to adhere to statutory caps, as adjusted for emergency spending, then the Office of Management and Budget would be required to implement an across-the-board sequester in discretionary spending in order to ensure that spending does not exceed the spending caps prescribed in law.

STOP

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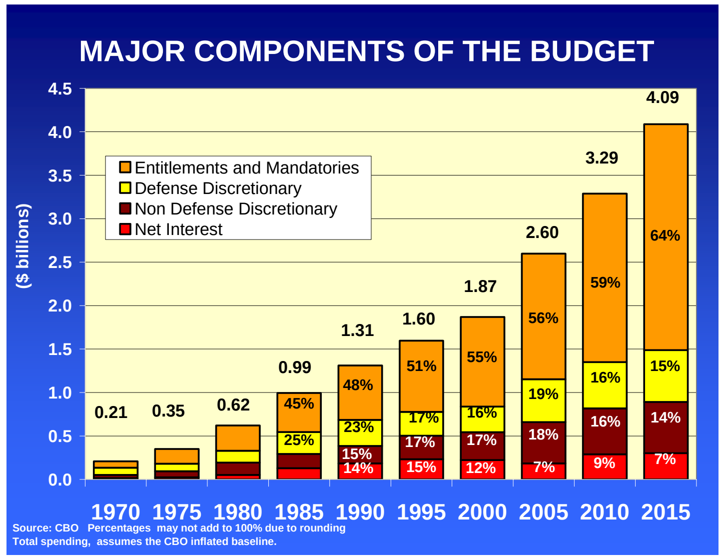
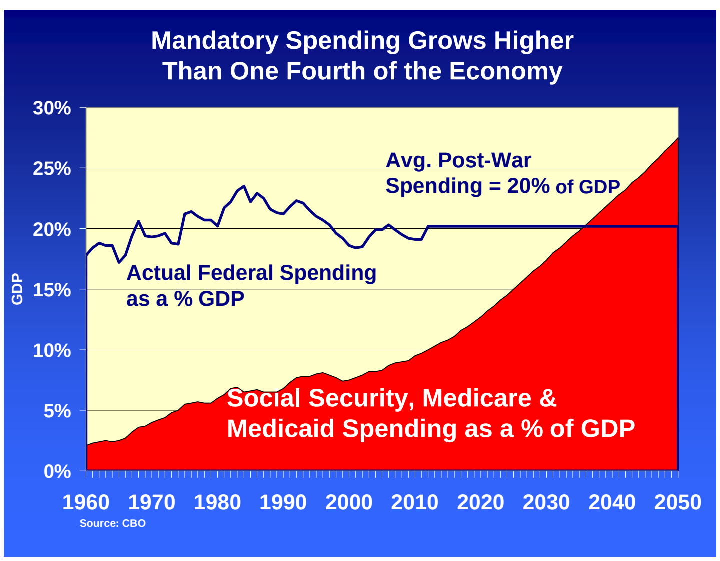
Gregg Mechanism for Automatic Deficit Reduction

Getting entitlement spending under control and reducing the federal deficit is critical to ensuring the long-term health of our nation's finances. Congress dipped its toe in the water of the entitlement problem last year, passing the Deficit Reduction Act, slowing the rate of growth of entitlements by $39 billion over the next five years. It was a good start, but more needs to be done. Entitlement spending, excluding interest on the debt, now represents 56 percent of all federal spending. Left unchecked, that will grow to more than 62 percent in 10 years.

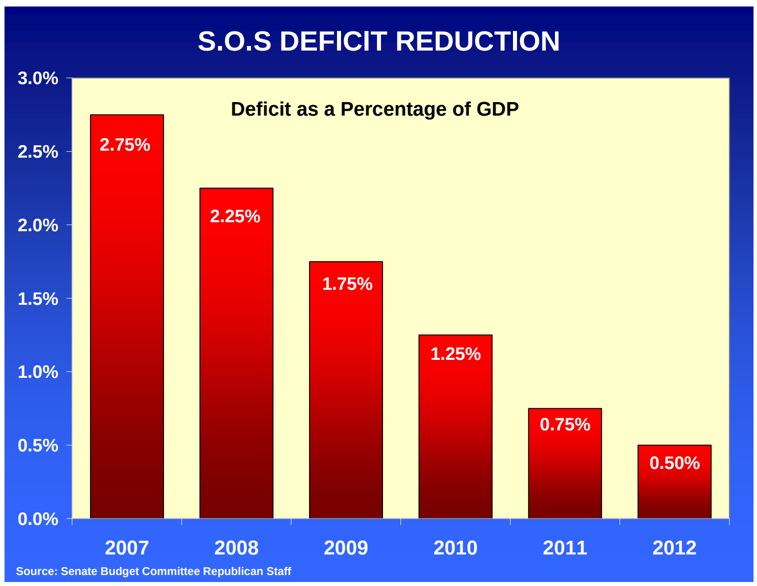




Similar to the Gramm-Rudman legislation in 1985, the Automatic Deficit Reduction Mechanism in the Stop Over-Spending Act is stronger and updated for current budget realities. It targets budget deficits and entitlement spending that threaten to overwhelm the nation's fiscal resources once the Baby Boom Generation begins to retire. The SOS sharply reduces the federal deficit as a percentage of our economy as measured through the Gross Domestic Product (GDP) through reconciliation or sequestration if necessary.

The bill requires Congress to produce entitlement spending reductions commensurate with capping the deficit at 2.75% ($379 billion) of GDP in 2007, declining to .5 in 2012. In 2006, the deficit is currently forecast to or 2.3% of GDP. Highlights include:

- The Act establishes a deficit limit based on a percentage of GDP. The deficit triggers are as follows:
  - 2.75% of GDP in 2007
  - 2.25% of GDP in 2008
  - 1.75% of GDP in 2009
  - 1.25% of GDP in 2010
  - .75% of GDP in 2011
  - .5% of GDP in 2012 and beyond



- If the limit is breached in any one year; "automatic reconciliation" goes into effect. The mandatory reconciliation procedure would be similar to the normal reconciliation procedure except:

- Each Authorizing Committee would be required to report legislation that achieves savings equal to the amount instructed by the Budget Committee. If a Committee fails to report legislation sufficient to meet its instruction the Budget Committee has the authority to include the necessary legislative language to meet the deficit reduction amount.

- If Congress fails to enact a Reconciliation bill with savings that meet the deficit target, automatic across the board reductions ("sequestration") of mandatory spending would automatically go into effect.

- The proposal exempts Social Security, net interest, prior legal obligations of funds, and funds not available for sequestration.

Line-Item Veto Authority

The Stop Over-Spending Act gives the President the opportunity to veto wasteful spending, including both discretionary spending and new mandatory spending, where all savings must be used for deficit reduction. This provision, a stronger version than President Bush's recent proposal (S. 2381), is not as far-reaching as what was enacted during the Clinton presidency. Unlike the Line-Item Veto the Republican Congress provided President Clinton in 1996, which had cancellations go into effect automatically, this version of Line-Item Veto requires Congressional affirmation for any rescission proposed by the President.

The bill gives the President line-item veto authority to rescind discretionary and mandatory funding items, as well as certain tax provisions. However, Congress must approve the President's requested rescissions under a "fast-track" procedure. Highlights of the proposal are as follows:

- Rescission savings must be used for deficit reduction.
- Rescissions may include any discretionary funding or any *new* mandatory spending.
- Rescissions may include specific tax provisions, generally those targeted to benefit a small number of beneficiaries. Under the Act, the Joint Committee on Taxation would identify targeted tax benefits that would be eligible for rescission.
- President may only submit four rescission packages a year (once with the submissions of the President's Budget and three other times at the President's discretion.)
- The President may resubmit only once a specific rescission that was in an earlier package of rescissions rejected by Congress. *Note: This is to address the issue that while Congress may have rejected the President's entire package of rescissions, they may in fact be supportive of certain rescissions that were included in the larger package of rescissions. It should also be noted that the President is restricted to resubmitting a rescission only once under both the new Line Item Veto authority and as well as existing authority the President has under Part B or the Impoundment Control Act.*

- Upon submission of the President's rescission package, if a Member of Congress introduces the President's package, the matter will be considered on the floor of the respective Member's House within eight days of the President's submission.

- The rescission package is not amendable.

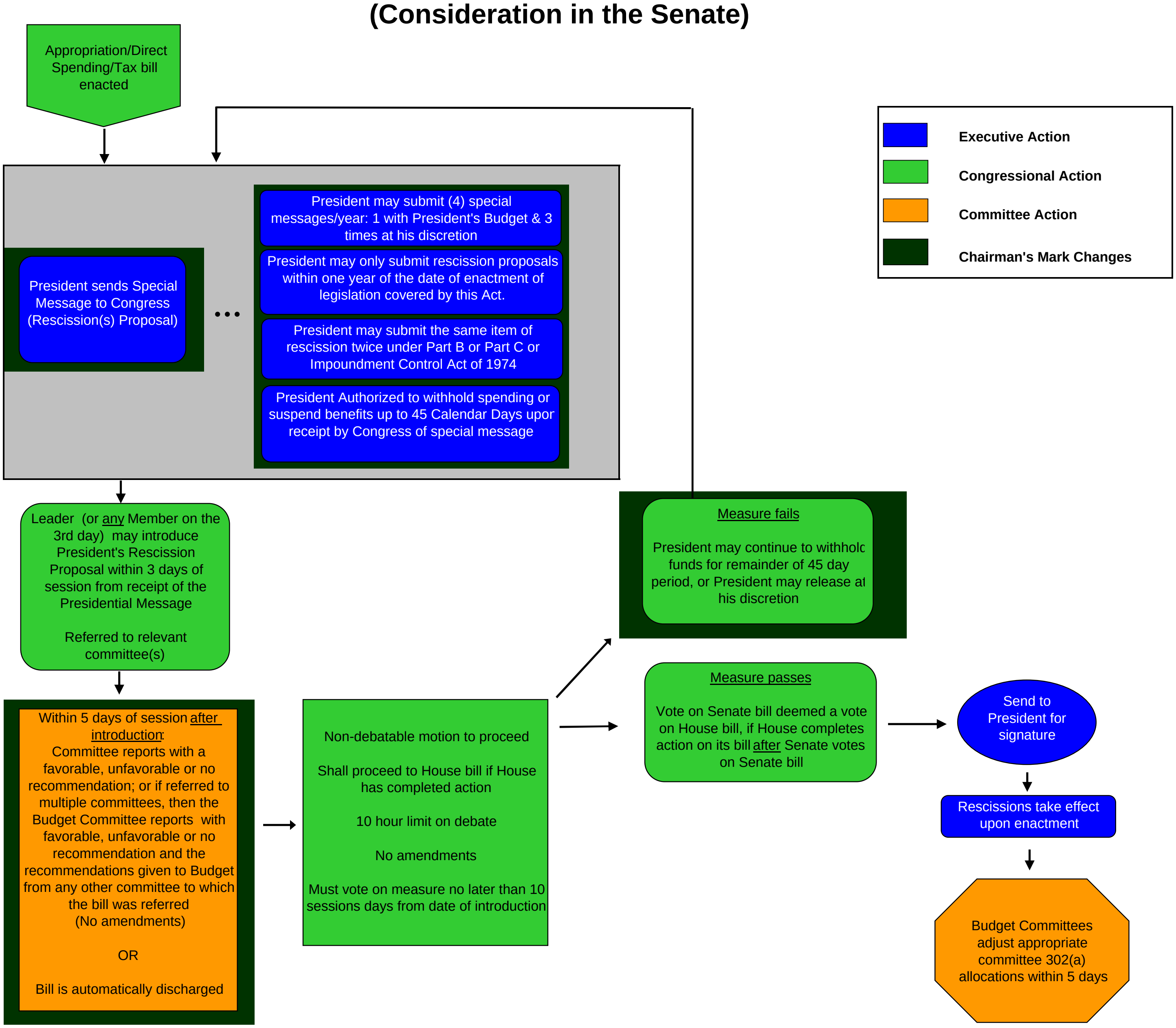
- Both the House and Senate must pass the President's rescission for the rescission to become law.

- From the time Congress receives the President's rescission package, the President is permitted to suspend funds for his recommended rescission only for 45 days. If Congress rejects his rescission prior to the expiration of the 45 days, the President may release the funds earlier.

- The authority to rescind spending or certain tax items, would apply to any discretionary or mandatory spending bill or tax bills enacted on or after September 1, 2006.

- The Line Item Veto authority expires in four years. *Note: This is to allow Congress to revaluate the merits of Line Item Veto after two Presidents (President Bush and his successor) have had the opportunity to utilize it for two years each.*

CHAIRMAN'S MARK-- S. 2381-- LEGISLATIVE LINE ITEM VETO ACT OF 2006
(Consideration in the Senate)



Source: Senate Budget committee Republican Staff

Stop Over Spending Act of 2006 Side-By-Side

Provision	S. 2381 As Introduced	Chairman's Mark
Number and Timing of Special Messages	No limit on number or timing.	President may submit 4 special messages per year: 1 with the President's budget proposal (first Monday in February); and 3 other special messages at a time of his choosing. The Special Message may include rescission proposals within one year of the date of enactment of such legislation covered by this Act.
Withholding Period for Funds in Requested Rescission	180 day withholding for funds proposed for rescission.	President Authorized to withhold spending or suspend benefits up to 45 Calendar Days. The President may not withhold/suspend any dollar amount until the special message is transmitted and received by Congress (to encourage Presidential action as quickly as possible upon enactment of spending or tax legislation.) The President may make funds available earlier if he concludes withholding or suspension of funds would not further the purposes of this Act.
Re-Submission of Rescission Request	No limit on number of times an item can be submitted.	President may resubmit some or all of the amounts of rescission proposal in no more than one additional special message under Part B or Part C of the Impoundment Control Act of 1974.

Provision	S. 2381 As Introduced	Chairman's Mark
Sunset Line Item Veto Authority	No sunset. Permanent law.	Sunset in 4 years. (Includes 2 years under Bush, and 2 yrs for President elected in '08)
Tax Application	Applies to all targeted tax benefits.	The Chairman's mark includes references to "targeted tax benefit" (TTB) throughout Part C to allow for consideration of repeal of TTB's under the same procedure as those for discretionary spending and direct spending. JCT identifies targeted tax benefits and allows the President to only rescind those TTB's on the JCT list.
Mandatory Spending Rescissions	Allows President to modify mandatory spending policies.	Does NOT allow the President "to modify" direct spending items or targeted tax benefits.
Referral and Reporting—MULTIPLE COMMITTEES	Does not specify referral procedure for a special message containing provisions from multiple committees	If a bill contains provisions in the jurisdiction of more than one committee the bill shall be jointly referred to the committees of jurisdiction and the Committee on the Budget. Requires Budget Committee to collect multiple committee recommendations on whether to report favorably, unfavorably or without recommendation the measure five days from introduction without substantive revision. Failure to meet the specified deadline would result in the bill being automatically discharged and placed on the appropriate calendar.

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Pro-Growth Economic Policies Have Resulted in Dramatic Increases In Tax Revenue

- Fiscal Year 2005 tax revenues increased $274 billion (adjusted for inflation) over FY 2004, representing the largest increase on record in real terms.

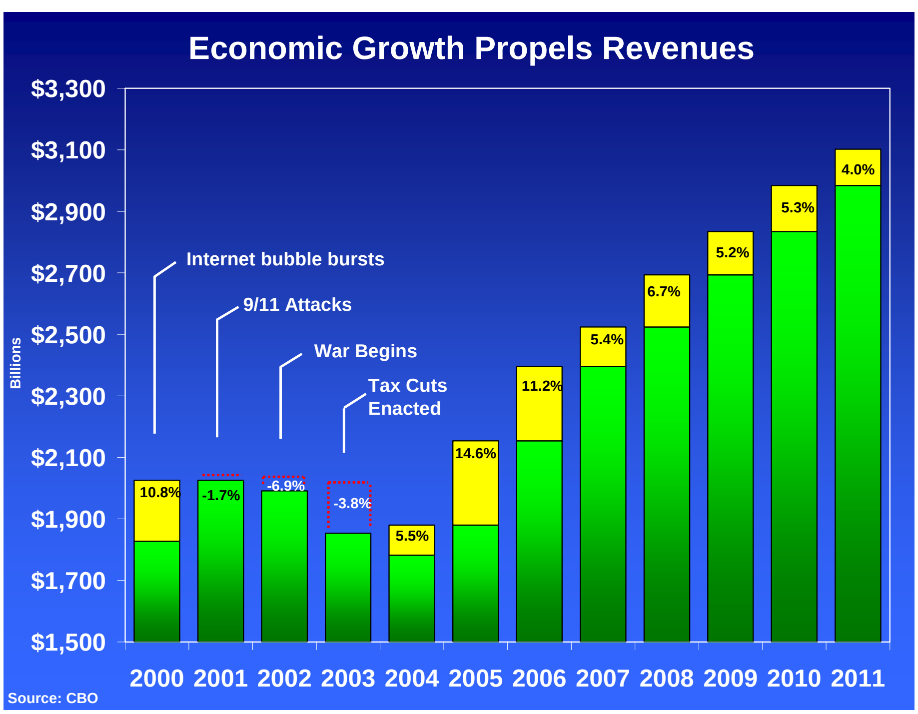
- Fiscal YTD (through April 2006) tax receipts are up $137 billion (11.2%) over a year ago.

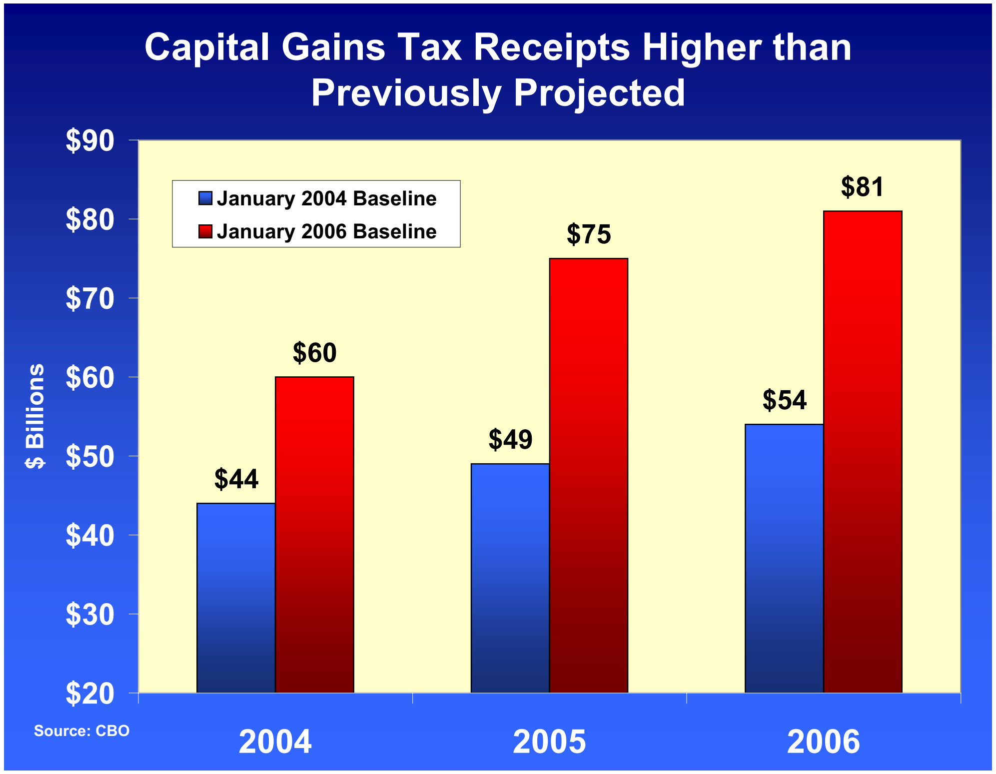
- Fiscal YTD (through April 2006) individual income tax receipts are up 10.2% over the same period a year ago; corporate tax receipts are up 29.5% over the same period a year ago.

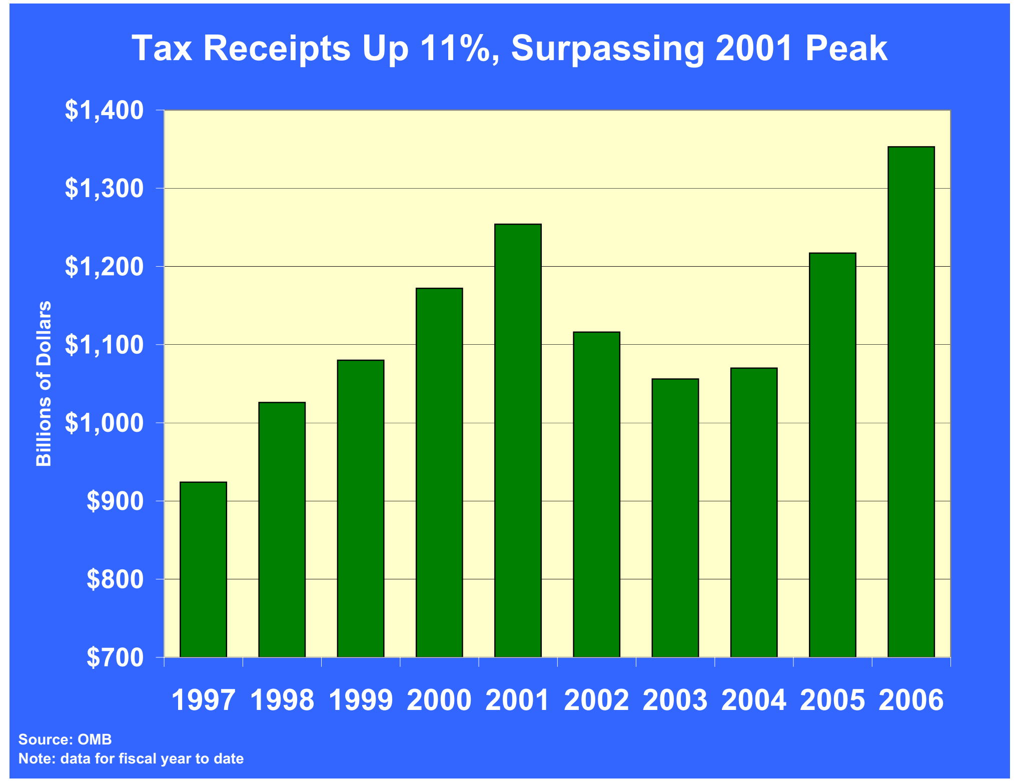
- The most recent data suggests this trend has continued through May. The daily Treasury statements indicate that tax receipts in May 2006 are up $35.5 billion over May 2005, to $166.2 billion.

- CBO expects the 2006 deficit will be significantly less than $350 billion and perhaps as low as $300 billion. CBO forecast assumes enactment of the supplemental and tax bill this year. (Senate-passed FY07 Budget Resolution assumed 2006 deficit of $372 billion)

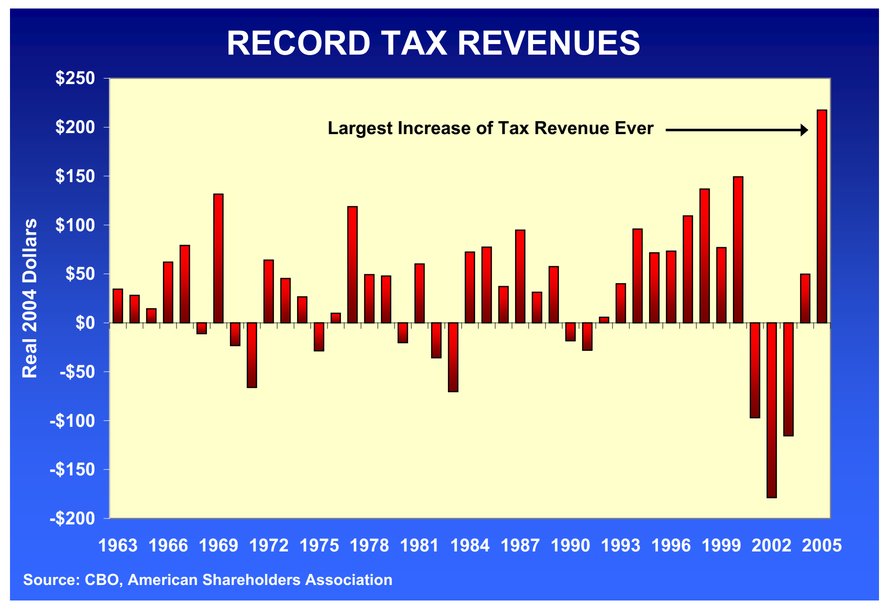
- CBO attributes much of that improvement to revenue growth.




Capital Gains Tax Receipts Higher than Previously Projected
January 2004 Baseline
January 2006 Baseline
$ Billions
$90
$80
$70
$60
$50
$40
$30
$20
$44
$60
$49
$75
$54
$81
2004
2005
2006
Source: CBO


Tax Receipts Up 11%, Surpassing 2001 Peak
Billions of Dollars
$1,400
$1,300
$1,200
$1,100
$1,000
$900
$800
$700
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
Source: OMB
Note: data for fiscal year to date


Corporate Tax Revenue Has Tripled
Billions of Dollars
$190
$170
$150
$130
$110
$90
$70
$50
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
Source: OMB
Note: data for fiscal year to date


RECORD TAX REVENUES
Largest Increase of Tax Revenue Ever
Real 2004 Dollars
$250
$200
$150
$100
$50
$0
-$50
-$100
-$150
-$200
1963
1966
1969
1972
1975
1978
1981
1984
1987
1990
1993
1996
1999
2002
2005
Source: CBO, American Shareholders Association