



U.S. HOUSE OF REPRESENTATIVES

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March 4, 2014

The President's 2015 Budget

Today President Obama submitted his fiscal year 2015 budget request that expands economic growth, makes critical investments in our future, and reduces the deficit. The President's budget adheres to the discretionary spending caps that Congress established in the Bipartisan Budget Act of 2013, demonstrating the tradeoffs required at that level of funding. However, it also shows how the President would do more in 2015 through a \$56 billion "Opportunity, Growth, and Security Initiative" (the Initiative) that is fully paid for. This additional funding would help put people back to work, sharpen our competitive edge, grow the middle class, and further strengthen our security. It illustrates budget priorities that could be addressed if Congress were not constrained by the Republican refusal to use revenue from closing even a single tax loophole.

The President's 10-year request also puts the budget on a path to sustainability. It puts federal debt on a consistently declining path as a share of the economy, and reduces the annual deficit as a share of the economy from 3.7 percent in 2014 to below 2 percent by 2023.

Key initiatives include the following:

- **The Opportunity, Growth, and Security Initiative** – The President believes the post-sequester discretionary caps are too low to address necessary investments and services, so he includes the Initiative with additional discretionary spending that is offset by targeted spending cuts and increased revenue. The budget provides some examples of how it would use this additional \$56 billion in discretionary spending for 2015, splitting it between defense and non-defense programs. It would allow investments in education, scientific research, advanced manufacturing, and vital infrastructure that, coupled with an increase in the minimum wage, will help put Americans back to work and grow the middle class.
- **Major Expansion of the Earned Income Tax Credit (EITC)** – Recognizing how effective the EITC has been at reducing poverty and encouraging work among low-income parents, the President's budget expands the program for childless workers, as the current credit leaves out some workers and is too low to ensure that work pays.
- **Major Investment in Early Childhood** – The budget includes a multi-year \$75 billion universal pre-school initiative with states, along with expansion of a highly effective home-visiting program for at-risk children – fully paid for by raising tobacco taxes.

- **Critical Funding for Infrastructure** – The budget includes a \$302 billion infrastructure proposal that will be fully funded with existing transportation trust fund revenues and a portion of the transition savings from corporate tax reform. America must modernize its critical infrastructure to help power our economy and put more Americans back to work.
- **Responsible Sequester Replacement** – The President’s budget continues to reduce the size of the discretionary sequester after 2015, and eliminates the mandatory sequester starting in 2015. It replaces the deficit reduction that would have come from the sequester savings by using targeted mandatory cuts, closing tax loopholes, and other tax reform.

President's 2015 Budget Totals in Billions of Dollars											
(OMB Estimates)											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Receipts	3,002	3,337	3,568	3,811	4,030	4,226	4,452	4,706	4,954	5,212	5,478
Outlays	<u>3,651</u>	<u>3,901</u>	<u>4,099</u>	<u>4,269</u>	<u>4,443</u>	<u>4,729</u>	<u>4,964</u>	<u>5,209</u>	<u>5,485</u>	<u>5,694</u>	<u>5,912</u>
Deficit	649	564	531	458	413	503	512	504	530	482	434
% of GDP	3.7%	3.1%	2.8%	2.3%	1.9%	2.3%	2.2%	2.1%	2.1%	1.8%	1.6%

Jobs and Growth

Helps the long-term unemployed — Emergency unemployment compensation, which provides benefits for those unemployed longer than covered by regular unemployment compensation, expired at the end of last year, immediately stopping benefits for 1.3 million people and their families. Thousands more have lost benefits in the weeks that followed. The budget extends these benefits for all of calendar year 2014. The budget also provides new mandatory funding for job training activities that can help the long-term unemployed get back to work.

Expands the EITC for childless workers — The current EITC for childless workers is an extremely small benefit provided to very low-income workers. It does little to help those near the poverty line. To better support and reward work, the budget doubles the maximum tax credit available to childless workers. It also extends the credit to younger workers (aged 21 to 24) and older workers up to the Social Security full retirement age.

Offers more job training services — To help Americans get the skills they need to find jobs in the fast-changing economy, the budget targets a variety of expanded and new job training services to adults, youth, and the long-term unemployed. It includes nearly \$4 billion in discretionary job training formula grants for 2015, including \$750 million in the Initiative. The Initiative also supports a multi-year \$6 billion competitive grant program to double the number

of apprenticeships over five years. The budget also provides multi-year mandatory funding for several new programs, including \$24 billion for a New Career Pathways program to provide 1 million workers with core services, and \$2.5 billion for year-round job opportunities for 600,000 youth.

Increases access, affordability, and quality of education — The focus on expanding growth and opportunity includes improving access to a high quality education at all ages.

- **Early childhood investments** — The budget reprises last year’s proposal for a \$75-billion, 10-year early childhood investment, including a collaboration with states to provide universal pre-school to all 4-year-olds and \$15 billion to expand a highly effective home-visiting program for at-risk children – fully paid for by raising tobacco taxes. The budget provides an additional \$750 million in discretionary funding for 2015 to support states, with \$250 million of that in the Initiative. The budget provides a total of \$1.5 billion for Early Head Start-Child Care partnerships (including \$800 million in the Initiative), as well as increases for Head Start.
- **Higher education** — Because obtaining a college education is increasingly important, the budget supports efforts to make college more affordable and ensure students achieve value for their investment. It rewards states and colleges that lower college costs and improve graduation rates, including a \$4 billion multi-year plan to help states with their higher education systems. It helps students by expanding income-based repayment plans for student loans and expanding eligibility for Pell grants.

Advances research and development (R&D) and energy — The budget invests \$135 billion for R&D, plus an additional \$5 billion in the Initiative, as part of its support for creating jobs of the future. R&D funding strengthens U.S. global competitiveness through scientific research, American manufacturing, advancing clean energy and the Administration’s “all-of-the-above” energy strategy.

Funds critical infrastructure — The budget calls for a \$302 billion four-year highway bill. It dedicates \$150 billion in one-time transition revenue from pro-growth business tax reform to address the funding gap in the highway trust fund and increase infrastructure investment by nearly \$90 billion. It also includes an infrastructure investment tax initiative (\$6.9 billion) and calls for the establishment of an infrastructure bank.

Reflects long-run revenue-neutral corporate tax reform — The budget includes a reserve for pro-growth business tax reform. The reform package would include such pro-growth items as a permanent extension of the tax credit for research and experimentation and incentives for investments by and in small businesses. Some of the temporary revenue gains from business

tax reform would be dedicated to surface transportation, allowing for additional investments in infrastructure that will help spur growth.

Supports manufacturing — The budget supports the President’s goal of creating 45 new manufacturing innovation institutes over ten years. This builds on the four institutes already launched and the five more that are expected this year. Several tax provisions will also support manufacturing, including a new Manufacturing Communities tax credit.

Endorses a higher minimum wage — The budget supports the President’s recent action raising the minimum wage to \$10.10 for federal contractors and calls upon Congress to pass a higher minimum wage for all Americans.

Other Highlights

Sequester replacement — The President’s budget changes the ongoing sequestration of spending ordered under the Budget Control Act of 2011. It eliminates the mandatory sequester starting in 2015. On the discretionary side, sequestration for 2014 and 2015 was partially replaced by higher defense and non-defense spending caps as well as savings enacted in the Bipartisan Budget Act of 2013 (BBA). For 2016 through 2021, sequestration still reflects lowered spending caps. For 2015, the President’s budget adheres to the spending caps, but includes the \$56 billion Initiative – half defense and half non-defense spending – with additional investments that would eliminate the non-defense discretionary sequester and raise the defense cap closer to the pre-sequester level. For 2016 onward, the budget continues to provide additional funding, evenly split between defense and non-defense, that would raise the caps above their post-sequester levels. This additional funding is fully offset with specific mandatory spending cuts and tax proposals.

Invests in a strong health care workforce—The budget invests \$14.6 billion over 10 years to train new health care providers and ensure that the health care workforce is prepared to deliver high-quality and efficient health care services. These investments fit into three categories:

- \$5.2 billion over 10 years for a new competitive program to support training for 13,000 physicians in pediatric care, primary care, and high-need specialties;
- \$4 billion over 10 years to expand the National Health Service Corps to 15,000 providers in the areas of the country where they are most needed, including urban, rural, and “frontier” regions; and
- The extension of the increased payment rates for primary care in Medicaid for one year, at a cost of \$5.4 billion. This is an extension of a provision of the Affordable Care Act aimed at bringing Medicaid primary care payment rates up to approximately Medicare

levels. The budget extends increased payments for primary care services delivered by certain physicians, and expands eligibility to additional primary care providers.

National defense — The “base” national defense budget (budget function 050), excluding overseas contingencies, comports with the \$521.3 billion discretionary cap for defense for 2015 set by the BBA. The Initiative includes a separate request for an additional \$27.7 billion to accelerate modernization of weapons systems and help restore readiness, which was compromised as a result of sequestration. Over the 2015 through 2024 period, including the funding in the Initiative, the budget increases defense funding by a total of \$209 billion above the post-sequester level, bringing the defense budget to \$325 billion below pre-sequester levels over that span. This year’s budget reflects lower levels of funding for national defense compared with the President’s 2014 budget by an average of \$18 billion per year.

Overseas Contingency Operations (OCO) — The budget includes \$85.4 billion of OCO funds for 2015, of which \$79.4 billion is a placeholder for defense and \$5.9 billion is for the State Department and other international programs. This is down from the 2014 level of \$91.9 billion for OCO. The Administration will submit a revised 2015 OCO budget for defense once there is greater clarity on the outcome of the U.S.-Afghanistan security agreement and final troop level decisions are made. Beyond 2015, the budget includes placeholder estimates of \$30 billion per year through 2021 and maintains its \$450 billion cap on OCO over the 2013 – 2021 period. These out-year estimates are lower than the \$37 billion per year placeholders included in last year’s budget to stay within the cap. There is no funding included for 2022 and beyond.

International affairs — The budget provides \$40.3 billion base funding to the State Department and USAID, which is equal to the 2014 enacted level. In addition, it provides \$5.9 billion within OCO. Base funding includes \$3 billion in support for UN peacekeeping missions, \$2.2 billion for embassy security – as recommended by the Benghazi Accountability Review Board, and \$1.35 billion to fight AIDS, TB and Malaria, continuing the President’s pledge to provide \$1 for every \$2 pledged by all other donors to the Global Fund.

Food aid reform — To use taxpayer dollars more efficiently, the budget begins to move away from the practice of purchasing food in the US and shipping it overseas by using some Food for Peace funding to purchase food or provide cash transfers directly in areas of crisis.

Budgetary Savings

The budget reduces the deficit by \$2.2 trillion over the 2015 – 2024 period compared with the Administration’s adjusted baseline, which already assumes extension of the ATRA tax credits and freezing Medicare physician payment rates at current levels.

Health savings — The budget reduces health care spending by \$402 billion over ten years through a variety of changes primarily affecting Medicare and Medicaid. The health savings proposals are largely the same as the President’s 2014 budget, although the specifics of some proposals have been modified. The total includes savings of \$354 billion from policies affecting Medicare provider payments (before interactions); \$68.3 billion in savings from policies affecting Medicare beneficiaries, primarily from increasing income-related premiums; \$15.3 billion in savings from policies to improve access to generic drugs; and \$15.6 billion in savings from provisions to improve efficiency and combat waste and fraud in Medicaid. The budget invests a portion of these gross savings to maintain a strong health care workforce (mentioned above), set up demonstration projects around psychiatric care, maintain access to programs for high-needs populations, and other health-related initiatives, to arrive at net savings of \$402 billion.

Revenues —The budget includes numerous revenue provisions. Many of these provisions are offsets for new proposals, including the Initiative, surface transportation reauthorization, early childhood investments, and the Earned Income Tax Credit expansion. The budget also includes a range of tax cuts for individuals and businesses, pays for \$651 billion in deficit reduction by limiting tax expenditures and implementing the Buffet Rule that restricts the ability of high earners to avoid taxes, restores the estate tax to its 2009 levels, and makes various proposals to simplify the tax code and close tax loopholes.

Immigration reform — The budget assumes savings from enactment of the bipartisan Senate-passed immigration bill which, according to CBO estimates, will shrink the deficit by almost \$160 billion over ten years and by almost \$1 trillion over the next two decades.