HOUSE BUDGET COMMITTEE
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A SUMMARY OF
PRESIDENT CLINTON'S
FISCAL YEAR 2000 BUDGET

This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and therefore may not necessarily reflect the views of all the members of the caucus.

General Notes:

- All years are fiscal years unless otherwise noted.
- Unless otherwise noted, funding levels for discretionary programs are stated in budget authority, and funding levels for entitlements and other direct spending programs represent outlays.
- All figures are OMB estimates.
- Numbers may not add due to rounding.
- Funding levels for 1999 are estimates and include emergency funding unless otherwise noted.

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Overview

President Clinton's budget is far more than a plan for fiscal year 2000 — it is an important statement of fiscal and budgetary policies to improve the lives of future generations of Americans. Unlike prior budgets, the plan has a 15-year time horizon. And the budget attempts to address the health of the Social Security Trust Fund over a 75-year period.

An Explosion of Surpluses

The long-term picture is more favorable than it has been in decades — large and growing surpluses allow the nation to prepare for the economic and budgetary effects of an aging population. Both the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB) project surpluses so large and so long-lasting that the government could, if it followed the existing budget path for two decades, pay back every dollar it has borrowed from the public.

President Clinton proposes not a one-year or five-year budget plan, but a 15-year plan. In spite of large projected surpluses, the watchword for his budget is restraint, for two reasons: demographic pressures are inexorable, and budget forecasts are unreliable and extremely volatile. The President's 15-year budget plan responds to the projected surpluses and the threats against them in five ways.

Prepare the Economy and the Budget for the Future by Reducing Federal Debt from $3.7 Trillion to $1.3 Trillion

President Clinton uses the bulk of projected surpluses to reduce federal debt. As a result, both the economy and the budget will be better positioned to bear the coming demographic strains. Debt reduction is the only sure way to achieve that result.

The Treasury uses surplus funds to buy back securities it previously issued in years of war, recession, or profligacy.[1] Most economists — from Alan Greenspan and June O'Neill to Henry Aaron and Bob Reischauer — strongly support reducing debt, because businesses, pension funds, and other private investors will instead turn their savings to more productive uses, such as modernizing factories and expanding research and development. The likely outcome is even faster gains in productivity and economic growth. Under the President's plan, the publicly held federal debt shrinks from 42 percent of GDP to 7 percent by 2015.[2]

[1] Technically, the Treasury does not have to "buy back" its securities on the open market to the extent that the securities mature and are turned in to the Treasury.

[2] Publicly held federal debt, or "debt held by the public," is the total of all outstanding government securities held by people or entities outside the federal government. It tends to represent the net total of all prior surpluses and deficits; it is the amount of private saving that the government has withdrawn from the credit

Publicly Held Debt
as a percent of GDP

	1946-1981	1982-1993	1994-1999	2000-2014
Start	**109%**	**26%**	**50%**	**42%**
End	**26%**	**50%**	**42%**	**7%**
Increase/Decrease	**-83%**	**+24%**	**-8%**	**-35%**

The budgetary results are just as favorable; by paying back debt, the federal government will greatly reduce its interest costs. Even with the demographically fueled growth in Social Security, Medicare, and Medicaid, by 2015 total federal spending will be a smaller share of the economy than in any year since 1965. (See the graph *Spending Continues to Fall*, page 7.) And interest costs will drop from 13 percent of the budget to less than 3 percent.

Use Debt Reduction to Extend the Social Security and Medicare Trust Funds

From 2001 through 2014, but not afterwards, the Treasury securities bought back from the public — as described above — will be transferred to the Social Security Trust Fund and the Hospital Insurance (Medicare Part A) Trust fund. Almost $2.8 trillion will be transferred to Social Security and almost $0.7 trillion will be transferred to Medicare. These transfers are *in addition* to amounts those trust funds will receive under existing law, and will greatly enhance their solvency.

The transfers do not, by themselves, reduce debt; surpluses reduce debt. But the transfers achieve two results: they enhance trust fund solvency, and they create a "lockbox" against spending increases or tax cuts beyond those in the budget.

! ***Trust Fund Solvency* —** Transfers from the general fund to the Social Security and Medicare Trust Funds will increase the solvency of the trust funds, as noted. These transfers by themselves will extend the length of time during which full benefits can be paid to 2049 in the case of the Social Security Trust Fund and 2020 in the case of the Medicare Trust Fund.

! ***Lockbox* —** By "locking up" the proceeds of debt reduction in the Social Security and Medicare trust funds, the risk of very large tax cuts or spending increases should be substantially diminished. This lockbox mechanism is not a legal constraint as much as a method of making a policy issue clear: as long as the two trust funds are designed to save

markets.

money for future use, any large spending increases or tax cuts would defeat that purpose; they would evade the lockbox.

Because President Clinton's goal is to extend the life of the Social Security Trust Fund through 2075, the budget envisions two additional actions.

! ***Investment in Equities —*** The budget invests a small portion (about 9 percent) of Social Security assets in a broad-based, politically insulated, index fund of stock equities, rather than in Treasury securities.[3] The additional earnings of such an approach further extend the life of the trust fund; in combination with the transfer of Treasury securities discussed above, the Social Security Trust Fund will be able to pay full benefits through 2055; currently, full benefits can only be paid through 2032.

! ***Structural Reform —*** The President has invited the congressional leadership to engage in bipartisan discussions of structural Social Security reform to extend the program's life until 2075. The budget does not include specific policy or numerical targets, however.

Create Universal Savings Accounts: Progressive, Broad-based Tax Cuts

President Clinton's budget proposes a significant tax cut in the form of new Universal Savings Accounts (USAs). This tax cut would be enacted only *after* agreement to a plan to restore Social Security solvency for the next 75 years. Because this tax cut will be designed in consultation with the Congressional leadership, the Administration has only made suggestions about its structure. The basic suggestions are quite progressive — the USAs could combine a flat tax credit and an additional tax credit in the form of a government match for added personal contributions to the accounts (see *Revenues*).

Increase Funding for Defense and Other Non-entitlement Programs

The current path for discretionary programs is severely constrained.[4] OMB projects that, under current law, the combined level of defense and non-defense discretionary spending will fall from 6.6 percent of the economy to 4.8 percent by 2015, the lowest level since 1931. The budget addresses this constraint in two ways. (See *Discretionary Programs* for more details.)

! ***Funding Increases, Offset Within the Caps —*** The budget increases discretionary spending by $17 billion in 2000, relative to the existing caps, and by similar amounts thereafter. But it fully pays for these increases, and therefore maintains the discipline of the 1997 Balanced

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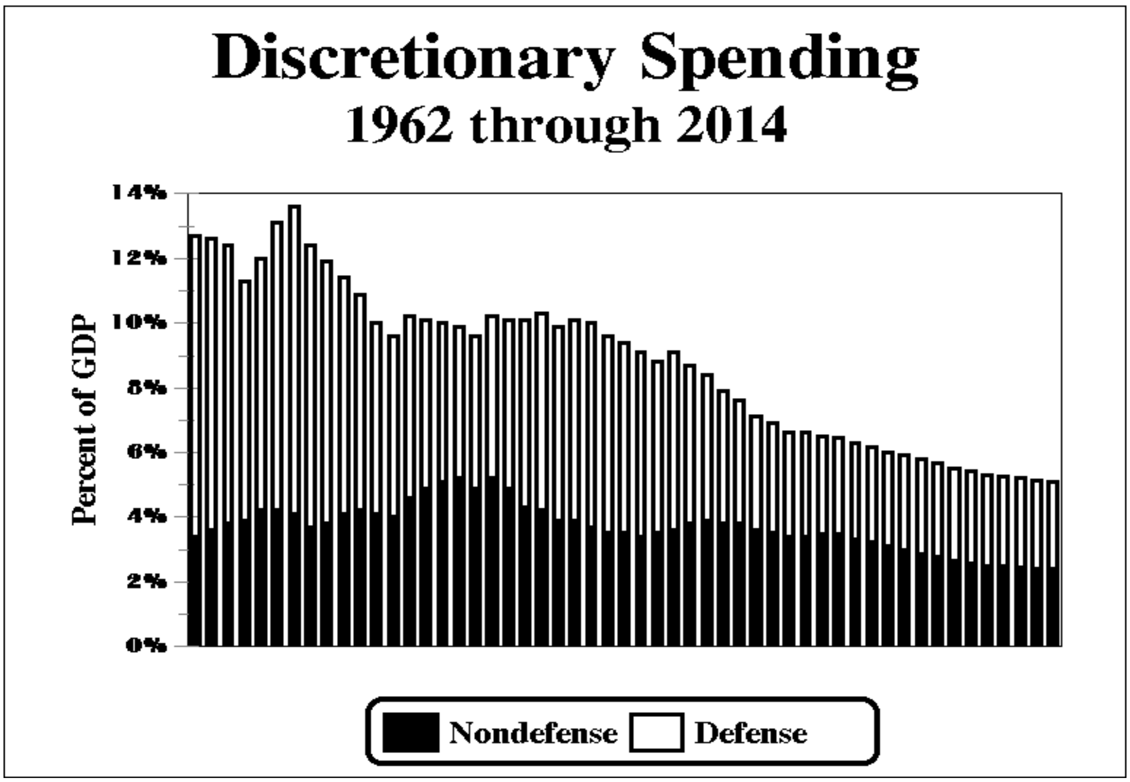
[3]The Administration invests $0.6 trillion in equities, which represents 9.2 percent of the amount of the Treasury securities the Social Security Trust Fund would otherwise hold at the end of 2014.

[4]Discretionary programs are non-entitlements funded through annual appropriation bills, for such activities as defense, education, environmental protection, civilian research, subsidized housing, transportation, veterans' hospitals, and law enforcement.

Budget Agreement, through offsetting reductions in entitlement spending and increases in revenues.

! ***New Resources, Contingent on Social Security Reform —*** The budget further increases discretionary spending by $481 billion over the period 2001-2014. Like the USA tax cut, this spending increase depends upon agreement to an overall Social Security solvency plan.

In addition, this increase does not become effective until 2001, so this year's appropriation bills can proceed on the basis of the figures for 2000. This increase — $481 billion — represents less than 5 percent of the 15-year discretionary budget. Even with this increase and the increases funded by offsets, discretionary spending will decline to 6.0 percent of the economy by 2004 and 5.1 percent by 2014. (See *Discretionary Programs* for more details.)



Enact New Entitlement and Tax Initiatives, Offset by Entitlement and Revenue Savings

The budget includes a number of tax and entitlement initiatives, discussed in subsequent sections. These include child care and the Early Learning Fund; tax relief (including tax "extenders" and relief from the Alternative Minimum Tax); school construction and reduced classroom size; long-

Entitlement and Revenue Proposals
(in billions)

	2000	2001	2002	2003	2004	TOTAL 2000-04
Initiatives:						
Child Care and Early Learning Fund	1.2	1.6	1.9	2.1	2.5	9.4
Child Care Tax Credits	0.4	1.7	1.5	1.6	1.6	6.8
Tax Relief and Tax Extenders	2.6	2.1	0.8	0.6	0.3	6.4
School Construction and Other Education	0.6	1.4	1.3	1.2	1.2	5.6
Long-Term Care	0.1	1.2	1.3	1.5	1.6	5.6
Medicare Buy-In, Health Costs	0.0	0.3	0.4	0.4	0.3	1.4
Other Health Care	0.2	1.1	1.2	0.9	0.6	4.0
Energy Efficiency and the Environment	0.6	0.9	1.0	1.1	1.4	5.0
Empowerment Zones and Community Tax Credits	0.1	0.4	0.8	1.1	1.4	3.8
Restore Benefits for Legal Immigrants	0.0	0.1	0.2	0.4	0.6	1.3
Welfare-to-Work Program	0.2	0.6	0.4	0.0	0.0	1.1
Retirement Savings, Security, and Portability	0.1	0.2	0.2	0.2	0.2	1.0
TAA Amendments and UI Reform	0.2	0.3	0.3	0.0	0.0	0.9
Other Spending Initiatives	0.3	0.3	0.4	0.5	0.5	2.0
Subtotal, initiatives	6.5	12.2	11.8	11.6	12.4	54.4
Offsets:						
Federal Tobacco Taxes	-8.0	-7.1	-6.6	-6.4	-6.4	-34.5
Elimination of Unwarranted Tax Benefits	-4.7	-6.9	-7.1	-7.3	-7.4	-33.4
Tobacco Recoupment Policy	0.0	-2.8	-3.9	-4.6	-4.7	-16.0
Health Care Savings	-1.3	-2.0	-2.3	-2.5	-2.7	-10.9
Superfund Tax Extensions	-1.5	-1.2	-1.2	-1.2	-1.3	-6.5
FAA User Fees	-1.1	-1.2	-1.1	-1.0	-0.9	-5.3
Student Loan Program Efficiencies	-2.4	-0.8	-0.7	-0.6	-0.4	-4.9
Harbor Services User Fees	-1.0	-1.0	-1.0	-1.0	-1.0	-4.9
Other Offsets	-1.1	-1.2	-1.3	-1.6	-3.1	-8.3
Subtotal, offsets	-21.2	-24.2	-25.2	-26.3	-27.8	-124.7
Net Increase in the Surplus, Used to Offset Discretionary Initiatives	14.8	12.0	13.4	14.7	15.3	70.2

term health care, a Medicare buy-in, and other health benefits; Superfund orphan shares and energy efficiency tax credits; empowerment zones and community tax credits; and expanded program eligibility for certain legal immigrants.

These initiatives are more than fully offset by other entitlement reductions and revenue increases, consistent with President Clinton's determination to reserve *all* surpluses until an agreement has been reached on Social Security. As noted, the excess is used to offset discretionary initiatives while keeping total discretionary spending within the existing caps.

Summary of the Overall Budget Plan

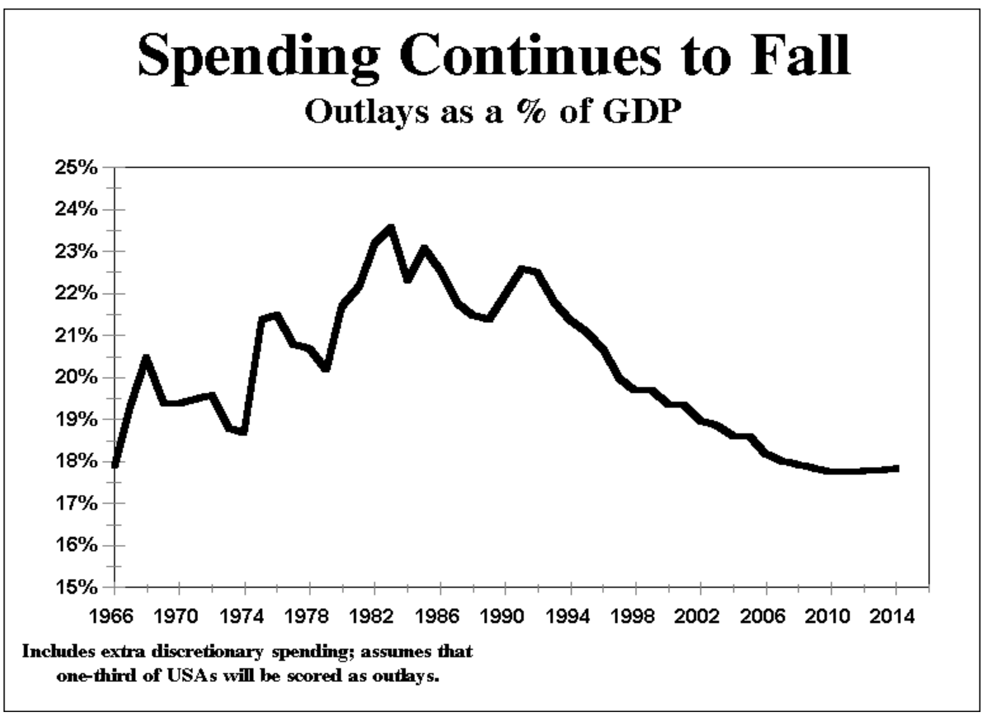
President Clinton's Budget can be viewed as a two-step plan. In the first step, priorities are modified in a budget-neutral way: all projected surpluses are preserved, pending agreement to a plan to preserve, extend, and reform Social Security. In the second step, following agreement to a Social Security plan, the USA tax cut is enacted and additional discretionary spending is allowed. The following table shows how this two-step plan would affect spending, revenues, and surpluses.

President Clinton's Two-Step Budget Plan
(Effect on the Budget Surplus, in billions of dollars)

	2000	2001	2002	2003	2004	2000-2004	2005-2009	2010-2014	2000-2014
Baseline Surpluses	117	134	187	182	208	827	1,581	2,444	4,852
1st Step: Setting Priorities*									
Discretionary increases	-17	-13	-14	-16	-15	-75	-72	na	na
Entitlement savings (net)	4	3	4	6	7	24	33	na	na
Revenue increases (net)	11	9	9	9	8	46	39	na	na
Delete PAYGO credits	3	1	0	1	0	5	0	0	0
Effect on Surplus	0	0	0	0	0	0	0	0	0
2d Step:*									
Discretionary increases		-26	-41	-37	-34	-138	-180	-164	-481
Universal Savings Accts	-14	-16	-22	-21	-24	-96	-176	-264	-536
Debt Service costs	-0	-2	-4	-7	-11	-24	-114	-248	-387
Resulting Surpluses	103	90	120	117	139	569	1,108	1,769	3,447

** Note: Spending increases are shown with a minus sign because they decrease the surplus.*

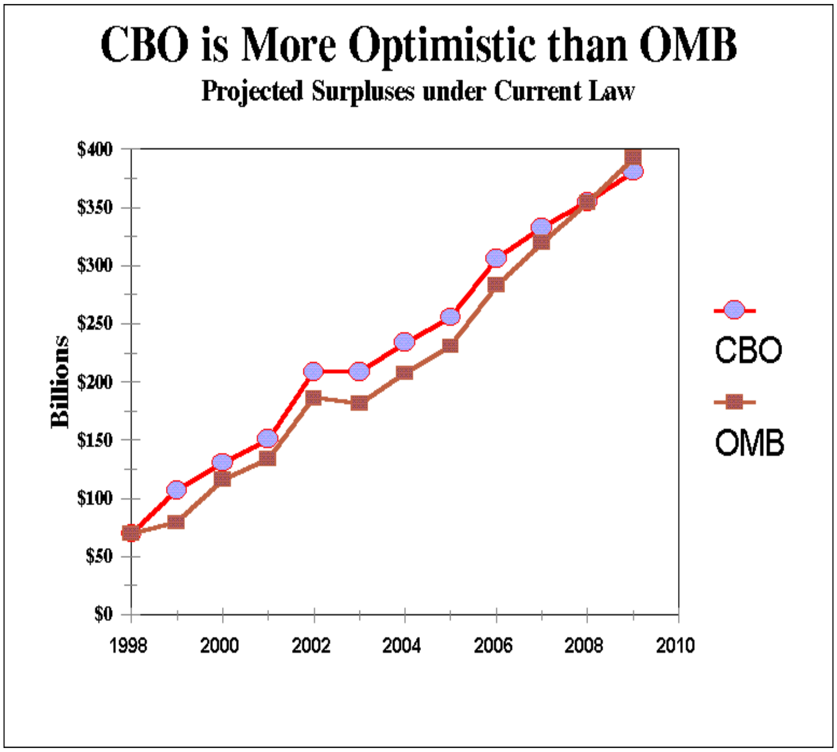
Because the President's plan envisions growing surpluses (which lead to shrinking interest costs) and a restrained level of discretionary spending, total outlays will continue to fall as a share of GDP, to levels not seen since 1965. At 19.7 percent of GDP, outlays are already lower than they have been in any year since 1974.



What Might CBO Say?

CBO projects slightly higher surpluses than does the Administration through 2007, although its long-term projections become somewhat less favorable than OMB's thereafter. Even so, CBO and OMB are in remarkable agreement about the size of current-law surpluses over the next 15 years.

However, CBO is likely to say that the President's budget falls somewhat short of its goal of budget neutrality (even excluding USAs and discretionary spending contingent on a Social Security agreement). First, CBO's cost estimates of presidential entitlement and tax initiatives are generally higher than OMB's, and its estimates of offsets are generally lower. Likewise, CBO usually estimates that discretionary funding will spend at a faster pace than does OMB.



Second, CBO is unlikely to count some of the President's proposed offsets. For example, CBO is not expected to count the President's proposal to remove credits from the "Pay-As-You-Go scorecard" as an offsetting savings, on the grounds that these credits represent savings already achieved, not newly proposed savings. And CBO is unlikely to count the budget's expectation of recouping some tobacco settlement funds from the states, on the grounds that any such recoupment is already required by existing law.

For these reasons, it is not clear if CBO's reestimate of President Clinton's budget will show higher or lower surpluses than OMB expects.

In addition, CBO may note that Congressional rules do not allow revenue increases to be used to offset discretionary increases, even if the revenue increases fully offset the appropriation increases and are enacted in appropriation bills. CBO would likely portray such a budget plan as exceeding the discretionary caps and simultaneously producing extra "pay-as-you-go" savings; CBO would place the costs and the offsets on separate scorecards. OMB, in contrast, interprets the Budget Enforcement Act of 1990 as allowing such budget-neutral tradeoffs within the discretionary caps.

The Budget Surpluses and Saving Social Security

President Clinton's budget proposes a new framework to allocate $4.9 trillion in projected unified budget surpluses over the next fifteen years. The top priority is to reserve the surpluses to protect and preserve Social Security and Medicare.

Most of the budget surpluses are used to retire publicly held federal debt that takes the form of U.S. Treasury obligations. These U.S. Treasury obligations are then reissued to the Social Security and Medicare trust funds.

- ***Uses of budget surpluses* —** Of the 15-year unified budget surpluses, the President recommends transferring $2.8 trillion to the Social Security trust funds and $0.7 trillion to the Medicare Trust Fund. If the President's long-range Social Security proposal is approved by Congress, then the budget will dedicate $0.5 trillion to accommodate a tax cut for new individual retirement savings accounts, Universal Savings Accounts (USAs), and $0.5 trillion for military readiness and other pressing domestic discretionary priorities.[5]

- ***Social Security and Medicare Solvency* —** This proposal extends Social Security's solvency by 23 years, from 2032 to 2055, a little more than halfway toward the goal of 75-year solvency. Transferring 62 percent of the surplus extends the Social Security Trust Fund's solvency for 17 years until 2049. The President extends the Trust Fund's solvency for six additional years by using 21 percent of the amount transferred to Social Security to buy corporate equities, aimed at gaining a higher rate of return on trust fund balances. The transfer of $0.7 trillion to the Medicare Trust Fund extends Medicare's solvency until 2020, an additional 12 years.

- ***Non-trust fund purposes are contingent* —** Once the President and the Congress reach a bipartisan agreement on restoring full 75-year financial balance to Social Security, budget surpluses would then be used for non-trust fund purposes: the USAs and spending on defense and other pressing domestic discretionary priorities.

- ***A challenge to find a bipartisan solution* —** The President's framework seeks to encourage the Congress to work with him in a bipartisan fashion to solve the long-range Social Security financing problem. The President acknowledges that additional steps must be taken to fully solve Social Security's 75-year financial problem. Accordingly, the budget does not include details for the USAs.

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[5] The sum of these allocations does not add up to the full $4.9 trillion surplus because using surpluses for retirement accounts and additional spending raises net interest costs. The added interest costs account for $0.4 trillion of the $4.9 trillion. The allocations of the surplus are sometimes described as 62 percent for Social Security, 15 percent for Medicare, 12 percent for savings accounts and 11 percent for spending. These percentages apply to the $4.5 trillion of surpluses available after accounting for higher interest costs.

- ***Lock Box —*** The President recommends that budget surpluses be locked up now for later use by the Social Security and Medicare trust funds. As budget surpluses are used to reduce federal debt held by the public, the trust funds will be credited with new assets. For purposes of looking at the unified budget, these transfers will be depicted as "using up" the surpluses. The trust funds will be credited with assets so that when they need resources to pay benefits in the future, they will have *first claim* on the U.S. Treasury, which will no longer owe trillions to private parties.

  There is no "double-counting." The value of additional assets credited to the trust funds essentially equals the reduction in federal debt held by the public (or strictly speaking, the improvement in the federal government's net fiscal position).[6] [7]

- ***Prefund future retirement —*** Retiring debt and locking up surpluses in the trust funds will prefund future benefits. Prefunding keeps the interests of our children uppermost, because it reduces the amount of tax financing needed from future workers to pay for retiree benefits. The economy will be improved by retiring debt (i.e., running budget surpluses and supplementing savings) so that there will be more resources in the future. These greater resources can then be tapped to finance trust fund benefits. This is why Federal Reserve Chairman Alan Greenspan supports "letting the surpluses run."

- ***An opportunity to preserve and protect Social Security and Medicare —*** The President's total-budget lock box approach takes advantage now of good economic performance and budget surpluses to protect and preserve Social Security and Medicare in the future. This framework locks up a great deal more for the future in the form of debt retirement and national savings than would a massive tax cut.

  The President's policy also locks up more for the future than saving *only* the Social Security trust fund surpluses and using non-Social-Security budget surpluses for some combination of

[6] Investing part of the Social Security trust fund in corporate equities may make it appear as though publicly held debt has not decreased by as much as the transfers to the trust funds; however, this appearance is misleading. When corporate equities are purchased, publicly held debt goes up, but there is an equal increase in trust fund assets, namely the corporate equities. So, the increase in debt is *not* an indication of an increase in net liabilities, which is what matters. The government's "net financial position" has improved by the size of the debt reduction prior to the purchase of equities.

[7] A substantial portion of unified budget surpluses will be due to surpluses in the Social Security trust funds. Total budget surpluses, from whatever source, are fully allocated under the President's framework and the allocations include a major one to the Social Security trust funds. Some critics have called this "double counting." But double counting has been implicit in past discussions of the "unified" budget because Social Security surpluses have been, in effect, lent to the rest of the budget and, in terms of the unified budget, helped finance other purposes. On the other hand, under the President's plan, the size of the transfers to the Social Security and Medicare trust funds is limited to the size of the improvement in the government's net financial position (i.e., the sum of the reduction in publicly held debt plus the corporate equities bought by Social Security).

spending and tax cuts. Under the latter scenario, only about $2.8 trillion of surpluses would be saved. The President's plan saves significantly more.

- ***Universal Savings Accounts (USAs) add to Social Security rather than subtract from it —*** The Administration has stressed that the USAs are contingent on solving the Social Security financing imbalance and are separate from the traditional Social Security system. They do not divert dedicated tax revenues from the Social Security system.

  Many Americans already take advantage of current tax preferences for savings accounts or employer-sponsored pensions. Some Americans do not, however, because they are not financially able to save or because their employers do not sponsor pension plans. The USAs create a tax incentive for these Americans by encouraging them to save and build wealth for retirement. (For more details, see *Revenues*.)

- ***Program improvements —*** Although not included as part of this year's budget figures, the President recommends other changes to Social Security. For example, he suggests liberalizing the Social Security earnings test, which reduces benefits for people with wage or salary incomes above $30,000. He also suggests improving protections for elderly women and other vulnerable beneficiaries.

Discretionary Programs

President Clinton's budget proposes to use "11 percent of the surplus," beginning in 2001, to increase funding for discretionary programs *if* Congress approves an overall agreement to devote most projected surpluses to the Social Security and Medicare trust funds over the next fifteen years. In 2000, the budget remains within the discretionary caps but manages to provide additional resources for discretionary programs through the use of offsets. This section addresses both the near-term and long-term issues for discretionary programs that are raised by the President's budget.

! ***Background —***"Discretionary" programs are those controlled by the annual appropriations process. In the Bipartisan Summit Agreement of 1990, statutory dollar limits or "caps" were placed on discretionary budget authority and outlays for 1991-1995. A "sequestration" mechanism was created to make across-the-board cuts automatically if, at the end of each session of Congress, OMB determined that Congress had breached the caps. The discretionary caps were extended through 1998 when President Clinton's first budget was enacted in 1993, and the 1997 Bipartisan Budget Agreement revised and extended these caps through 2002.

Discretionary Programs in the Near-Term

! ***Discretionary Programs in 2000 —*** President Clinton's budget increases both defense and non-defense discretionary funding levels, but consistent with the President's pledge to "Save Social Security First," the budget does *not* spend any of the 2000 surplus. Instead, as the table on the next page indicates, the budget remains within the discretionary caps in 2000 through the use of several different offsets:

—$4.6 billion in mandatory program cuts and user fee increases (enacted, presumably, by the Appropriations Committee);

—$2.9 billion in existing credits on the PAYGO scorecard, which are mandatory reductions and revenue increases already enacted by Congress; and

—$10.2 billion in revenue increases, of which $8.0 billion is from tobacco taxes, $1.5 billion is from Superfund taxes, and the remainder is from other revenue increases. (See the discussion in *Revenues*.)

! ***How Do Offsets Finance Discretionary Increases? —*** While there are several methods by which Congress can offset discretionary increases, the most common is to enact legislative provisions that make changes in mandatory programs in the appropriations bills. If these changes reduce the costs of mandatory programs, these savings are credited

Discretionary Programs and the Caps

(In billions of dollars)

	2000		2001		2002	
	BA	**O**	**BA**	**O**	**BA**	**O**
Discretionary Program Levels:						
National Defense	281.6	274.8	301.3	282.7	303.2	292.8
Non-defense Discretionary	273.4	316.7	286.6	328.1	285.6	325.7
Reserve for Priority Initiatives	…	…	3.0	1.6	6.0	4.1
Total, Discretionary Funding	555.0	591.5	587.9	612.4	594.8	622.6
Offsets to Discretionary Spending:						
Mandatory Offsets	-4.6	-4.6	-3.0	-3.0	-3.2	-3.2
Transfer of 2000 PAYGO Balances	-2.9	-2.9	-0.8	-0.8	-0.2	-0.2
Federal Tobacco & Other Revenues	-10.2	-10.2	-9.0	-9.0	-8.4	-8.4
Tobacco Recoupment Policy	…	…	…	…	-3.4	-1.8
Total, Offsets to Discretionary Spending	-17.8	-17.7	-12.9	-12.9	-15.1	-13.5
Net Discretionary Funding Level (Includes offsets)	**537.2**	**573.8**	**575.0**	**599.5**	**579.7**	**609.1**
Current Discretionary Spending Caps	**537.2**	**574.4**	**541.9**	**573.3**	**551.0**	**568.2**
Resources Contingent Upon Social Security Reform:						
National Defense	…	…	14.2	9.6	12.8	17.1
Non-defense Discretionary	…	…	33.5	15.1	28.8	19.7
Reserve for Priority Initiatives	…	…	3.0	1.6	6.0	4.1
Total Contingent Adjustments	…	…	50.7	26.3	47.6	40.9
Adjusted Caps	**537.2**	**574.4**	**592.6**	**599.6**	**598.6**	**609.1**
Budget under caps	**0.0**	**-0.6**	**-17.6**	**-0.1**	**-18.9**	**0.0**

to the Appropriations Committee.[8] The Appropriations Committee can thus provide up to the total amount of these credits in additional funding to discretionary programs without breaching the discretionary caps. Last year, $4.6 billion in savings from changes to mandatory programs was credited to Appropriations Committee for 1999, and Congress enacted almost $7 billion in 1997.[9]

Under Office of Management and Budget (OMB) rules, offsets contained in appropriations acts count against discretionary caps whether they reduce mandatory spending or increase revenues. Under Congressional rules, revenue increases do not count for that purpose, which makes the tobacco and other revenue offsets contained in the budget problematic.[10] In 1995, however, House Republicans passed the "Contract with America" Tax Act, which proposed cutting the discretionary caps and using the resulting savings to finance a very large tax cut (favoring high-income individuals). Last year's House Republican Budget Resolution, which passed the House but died without going to conference, also proposed cutting discretionary spending to finance a tax cut. This raises an obvious question: why is it acceptable to cut discretionary spending to finance tax cuts, but unacceptable to use revenue increases to raise discretionary spending?

! ***The "Firewalls" Come Down in 2000 —*** The Bipartisan Budget Agreement of 1997 (BBA) established separate caps for discretionary defense and non-defense programs in 1998 and 1999. Known as "firewalls," these separate caps prevented defense resources from being transferred to non-defense programs, and vice versa, in the appropriations process. Under the BBA, the firewalls cease to exist after 1999, although there are separate caps for three other categories of discretionary programs: the Violent Crime Reduction Trust Fund (VCRTF), Highways, and Mass Transit. The VCRTF category ceases to exist after 2000, and is only $4.5 billion in 2000. The two transportation categories are discussed in greater detail below.

If the offsets are not enacted by Congress, it will not be possible to fully fund the President's discretionary increases. If this occurs, the lack of firewalls means that non-defense programs are at risk of large cuts given support among some Members for increasing defense funding significantly above the $112 billion increase in the budget. (See the discussion in *Function 050: National Defense* for details on the defense budget.) If offsets are not enacted, and the defense level in the budget is matched, non-defense discretionary funding in the budget will have to be cut by almost $18 billion for 2000.

[8] The underlying principle is that each committee must be given the credit or blame for all of the legislation it enacts. This principle dates from even before the Congressional Budget Act of 1974. It was written in the scorekeeping guidelines (Rule 3) agreed upon by Congress and the Bush Administration in the 1990 Summit Agreement, and was reaffirmed by Congress and the Clinton Administration in the 1997 Bipartisan Budget Agreement.

[9] Based on information from the Congressional Budget Office, excluding emergencies.

[10] User fee increases are often viewed as reductions in mandatory spending rather than as increases in revenue, and are thus consistent with Congressional rules.

! ***The Transportation Categories* —** The Transportation Equity Act for the 21st Century (TEA-21) created two separate discretionary categories for transportation programs, highways and mass transit. TEA-21 directly appropriates amounts from the Highway Trust Fund, which includes accounts for both highways and mass transit. The amounts directly appropriated by TEA-21 are often called contract authority. Annual appropriation bills, however, place obligation limits on the use of those amounts. Consequently, the outlays (cash disbursements) that are associated with these obligation limits are considered discretionary.

Unlike other discretionary categories, such as defense in 1998 and 1999 or the VCRTF in 1995-2000, there is no enforcement mechanism in Congress to prevent the Appropriations Committee from exceeding the transportation category ceilings. The category levels thus serve as targets, not caps. If the Appropriations Committee provides spending in excess of either of the transportation category levels, the excess is charged against general purpose discretionary programs (which includes defense and non-defense programs in 2000-2002). To avoid an across-the-board sequester, an increase in highway spending above the highway category level would likely result in a decrease in other discretionary programs, such as environmental programs, education, housing, and veterans' medical care.

TEA-21 has effectively protected transportation from sequestration, which, when combined with the lapse of firewalls as discussed above, may put even more pressure on other non-defense discretionary programs if the President's discretionary offsets are rejected by Congress.

The Long-term Discretionary Picture

! ***Other Resources Provided to Discretionary Programs* —** Although the caps expire at the end of 2002, the budget continues to use the offsets discussed above to provide more resources for discretionary programs after 2000. Beginning in 2002, a portion of the recoupment of Medicaid funds related to the 1998 multi-state tobacco settlement is also used to offset discretionary program increases. Between 2002 and 2004, the budget uses $11.9 billion in funding recovered from tobacco recoupment to offset discretionary programs. (See the discussion of this issue in *Function 550: Health*.)

! ***Using the Surplus for Discretionary Programs* —** As the previous chart indicates, the President proposes to use a portion of the surplus to fund discretionary programs beginning in 2001 and raises the discretionary caps in 2001 and 2002 and overall levels of discretionary funding thereafter. Of course, the use of these funds is contingent upon Congressional approval of an overall agreement to devote most projected surpluses to the Social Security and Medicare trust funds over the next fifteen years. (See the discussion of these issues in the *Overview* and *The Budget Surplus and Savings Social Security*.)

From 2001 through 2014, the budget devotes $481 billion of the surplus[11] to discretionary program outlays as follows ("priority initiatives" may be either defense or non-defense discretionary programs):

$164 billion for defense
$226 billion for non-defense
$ 91 billion for priority initiatives
$481 billion total

! ***How much does the Surplus Really Add to Discretionary Programs*? —** While $481 billion appears to be a large spending increase, it is less than 5 percent of the 15-year discretionary budget. The table on the following page analyzes the President's long-term discretionary budget in several ways. First, it summarizes the budget's defense and non-defense discretionary outlay levels, both with and without the use of the surplus, from 2000-2009. Second, the table provides annual growth rates under both scenarios, and the percent increase by using the surplus for both categories of discretionary programs. Third, the table measures discretionary programs under both scenarios as a percentage of Gross Domestic Product (GDP). Discretionary outlays are used because much of transportation spending is not based on discretionary budget authority (see above discussion of the transportation categories) and because of other anomalies associated with discretionary budget authority.[12] The table serves as the basis for the discussion that follows.

! ***The Budget Without Using the Surplus to Increase Discretionary Programs* —** The "Budget Without Surplus" column of the table represents President Clinton's budget without using the surplus to increase discretionary resources. As the table indicates, discretionary outlays dip in 2001 and 2002 and then grow modestly thereafter. However, the growth is primarily attributable to defense outlays from 2003-2009. Total discretionary spending falls as a percentage of GDP, declining from 6.6 percent in 1999 to 5.2 percent in 2009.[13]

[11] The $481 billion is commonly referred to as being "11 percent of the surplus." The budget uses part of the baseline surplus for two purposes other than buying down debt held by the public (increasing discretionary programs and establishing Universal Savings Accounts). As a result, interest payments naturally increase because the debt held by the public is higher than it would be if the surplus were entirely devoted to debt reduction. The "11 percent" refers to the surplus *after* adjusting for the increased interest payments caused by these two proposals.

[12] Other examples include budget authority for Section 8 Housing, which has "spikes" in budget authority due to the nature of renewing multi-year housing contracts, and U.S. transactions with the International Monetary Fund, which are exchanges of equal-value assets but are recorded as budget authority primarily for Congressional jurisdiction purposes.

[13] Measuring government programs or categories as a percentage of GDP is widely used but has flaws. For example, if the economy is growing, but defense and non-defense requirements hold steady, their share of GDP will naturally decline without any adverse effects. But while defense requirements are linked to variables external to the U.S. economy, many non-defense programs are affected by economic conditions, or are investments that improve the future earning potential of the economy. There is thus particular merit in using percentage of GDP as a measurement of non-defense, and it is a useful indicator of the relative affordability of both defense and non-defense programs to society as a whole.

Using the Surplus to Increase Discretionary Programs:
A Long-Term Analysis of Discretionary Outlays
(Dollars in billions)

	Year	Budget Without Surplus	Annual Percent Growth	Percent of GDP	Budget With Surplus	Annual Percent Growth	Percent Increase by Using Surplus	Percent of GDP
Non-Defense:	**1999**	303.6	N/A	3.5%	303.6	N/A	N/A	3.5%
	2000	316.7	4.3%	3.5%	316.7	4.3%	N/A	3.5%
	2001	313.0	-1.2%	3.3%	329.7	4.1%	5.3%	3.5%
	2002	306.0	-2.2%	3.1%	329.8	0.0%	7.8%	3.3%
	2003	308.1	0.7%	3.0%	331.6	0.6%	7.6%	3.2%
	2004	315.8	2.5%	2.9%	334.9	1.0%	6.0%	3.1%
	2005	312.4	-1.1%	2.8%	338.0	0.9%	8.2%	3.0%
	2006	311.8	-0.2%	2.6%	339.5	0.4%	8.9%	2.9%
	2007	314.5	0.9%	2.5%	341.2	0.5%	8.5%	2.8%
	2008	320.8	2.0%	2.5%	343.2	0.6%	7.0%	2.7%
	2009	325.1	1.3%	2.4%	345.6	0.7%	6.3%	2.6%
Subtotal, 2000-2009		3,447.9			3,653.9			
Defense:	**1999**	277.5	N/A	3.2%	277.5	N/A	N/A	3.2%
	2000	274.8	-1.0%	3.0%	274.8	-1.0%	N/A	3.0%
	2001	273.1	-0.6%	2.9%	282.7	2.9%	3.5%	3.0%
	2002	275.7	0.9%	2.8%	292.8	3.6%	6.2%	3.0%
	2003	291.7	5.8%	2.8%	304.7	4.1%	4.5%	2.9%
	2004	299.4	2.6%	2.8%	314.4	3.2%	5.0%	2.9%
	2005	320.1	6.9%	2.8%	332.1	5.6%	3.7%	2.9%
	2006	333.0	4.0%	2.8%	345.9	4.1%	3.9%	2.9%
	2007	346.2	4.0%	2.8%	358.7	3.7%	3.6%	2.9%
	2008	359.4	3.8%	2.8%	369.9	3.1%	2.9%	2.9%
	2009	374.4	4.2%	2.8%	384.0	3.8%	2.6%	2.9%
Subtotal, 2000-2009		3,425.5			3,537.7			
Total Discretionary:	**1999**	581.2	N/A	6.6%	581.2	N/A	N/A	6.6%
	2000	591.5	1.8%	6.5%	591.5	1.8%	N/A	6.5%
	2001	586.2	-0.9%	6.2%	612.5	3.5%	4.5%	6.5%
	2002	581.7	-0.8%	5.9%	622.6	1.7%	7.0%	6.3%
	2003	599.9	3.1%	5.8%	636.4	2.2%	6.1%	6.2%
	2004	615.2	2.6%	5.7%	649.3	2.0%	5.5%	6.0%
	2005	632.5	2.8%	5.6%	670.1	3.2%	5.9%	5.9%
	2006	644.7	1.9%	5.5%	685.3	2.3%	6.3%	5.8%
	2007	660.7	2.5%	5.3%	699.9	2.1%	5.9%	5.7%
	2008	680.2	3.0%	5.3%	713.1	1.9%	4.8%	5.5%
	2009	699.5	2.8%	5.2%	729.6	2.3%	4.3%	5.4%
Subtotal, 2000-2009		6,873.4			7,191.6			

Memorandum, 2000-2009 Discretionary Increaseses from Using the Surplus:

Non-Defense:	**206.0**
Defense:	**112.2**
Total Discretionary:	**318.2**

Note:* *Based on OMB estimates in the FY 2000 budget.
Outlays are used because Transportation does not have BA.

HBC Democratic Staff, February 3, 1999

! ***The Budget Using the Surplus to Increase Discretionary Programs —*** While the $481 billion infusion into discretionary programs between 2001 and 2014 appears to be a large increase, it will have a modest effect on discretionary spending over the long term.

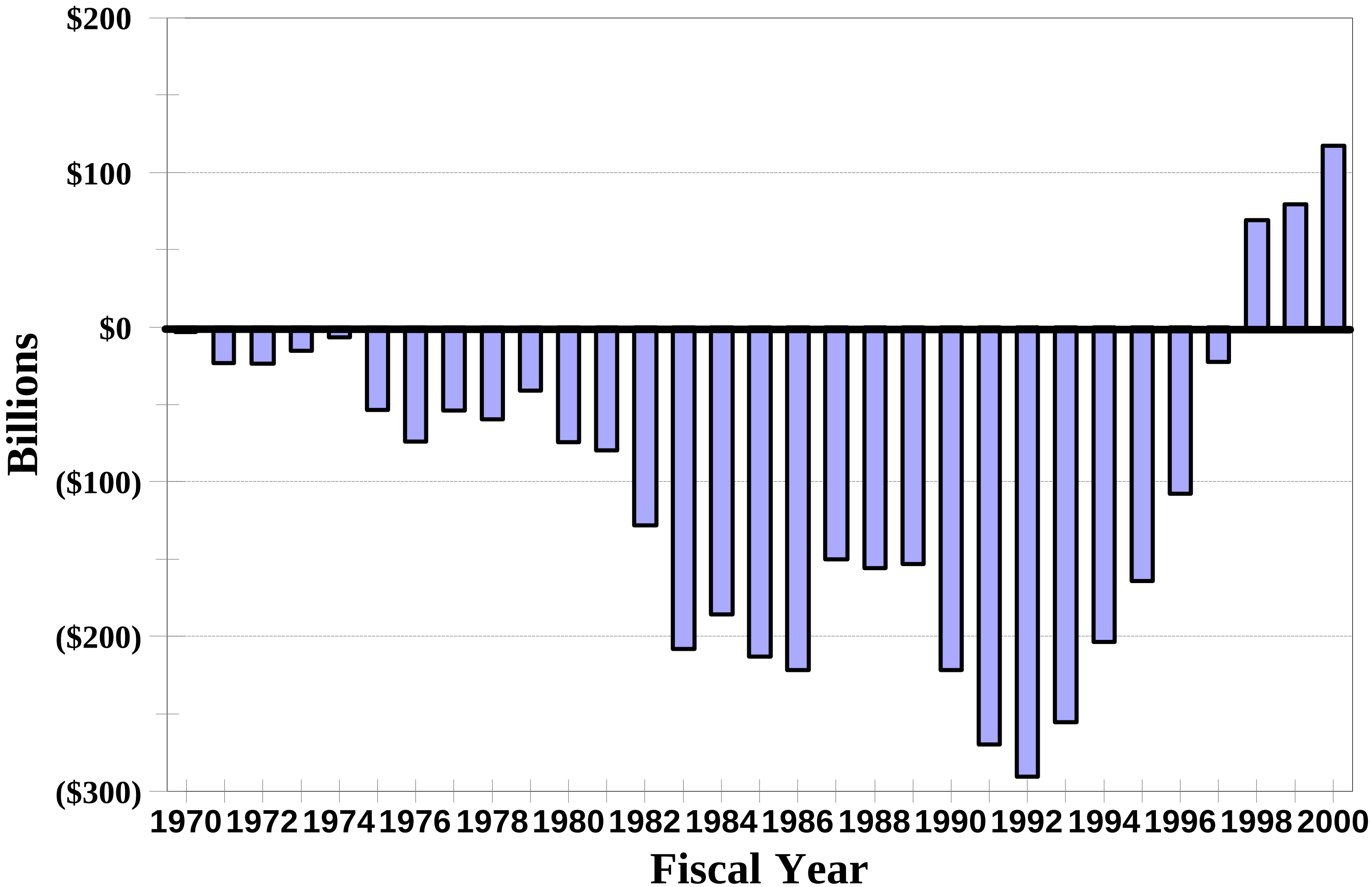
As the "Annual Percent Growth" column on the surplus side of the table indicates, non-defense programs benefit from the additional resources in 2001, but experience low annual growth rates in the years that follow. The resources from the surplus mitigate the cuts to non-defense programs that the budget otherwise plans. In 2009, non-defense outlays are $20 billion more than they would be if none of the surplus is used for discretionary programs.

The increase in the annual growth rate of defense outlays from using the surplus for discretionary programs is modest. By 2009, defense outlays are $10 billion more than they would be if none of the surplus is used for discretionary programs. Defense outlays as a percentage of GDP are one-tenth of one percentage point higher in 2009 than they would be if none of the surplus is used for discretionary programs.

The Discretionary Bottom Line

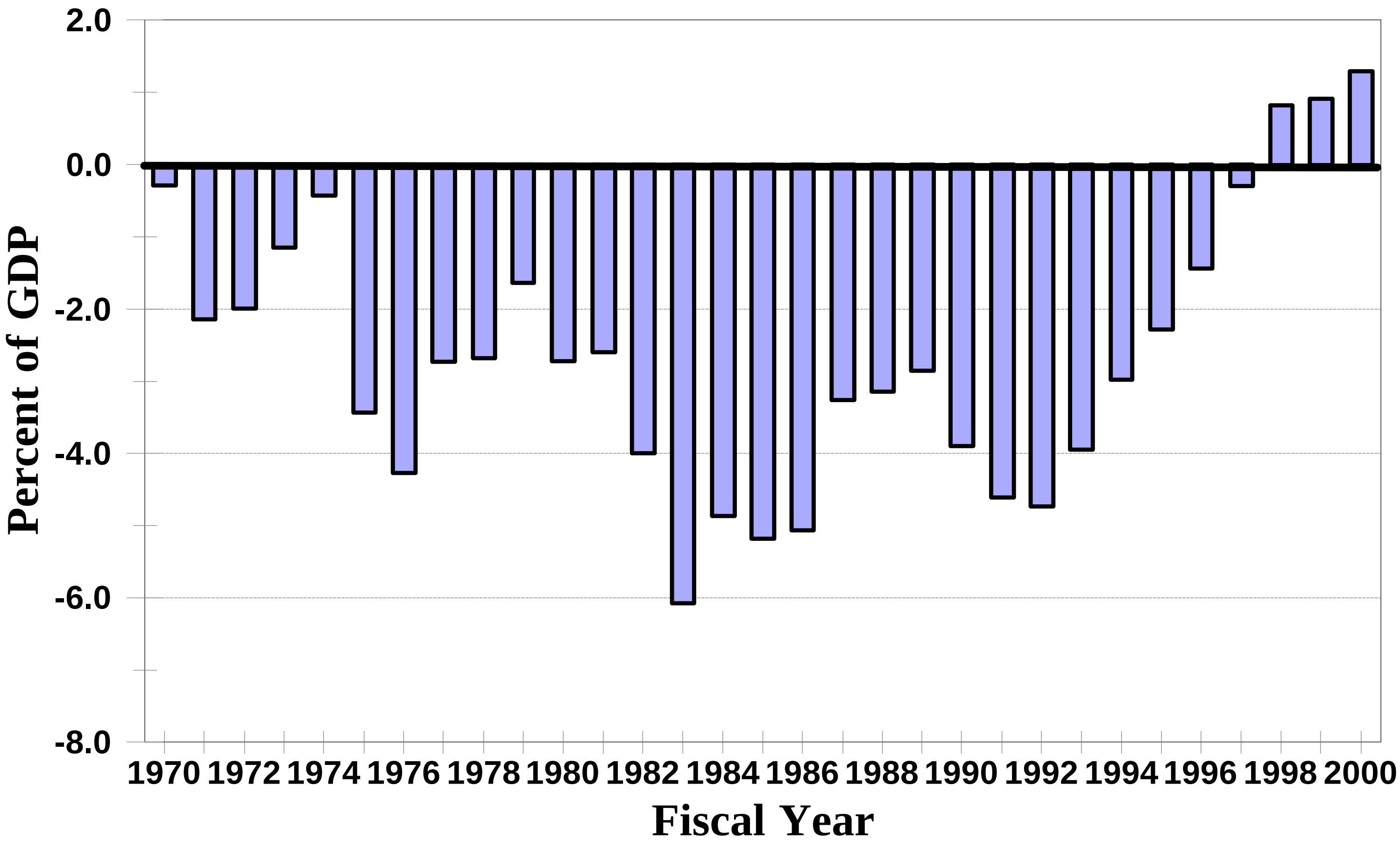
Assuming Congressional approval of an overall agreement to devote projected surpluses to the Social Security and Medicare trust funds over the next fifteen years, the budget's use of "11 percent of the surplus" for discretionary programs will soften the cuts in non-defense discretionary programs that are planned in the next few years. This relief is particularly sharp for non-defense discretionary programs in 2001. Using the surplus also benefits defense for several years. Even assuming the budget's use of the surplus, however, discretionary spending will steadily decline as a percentage of GDP.

Deficits and Surpluses



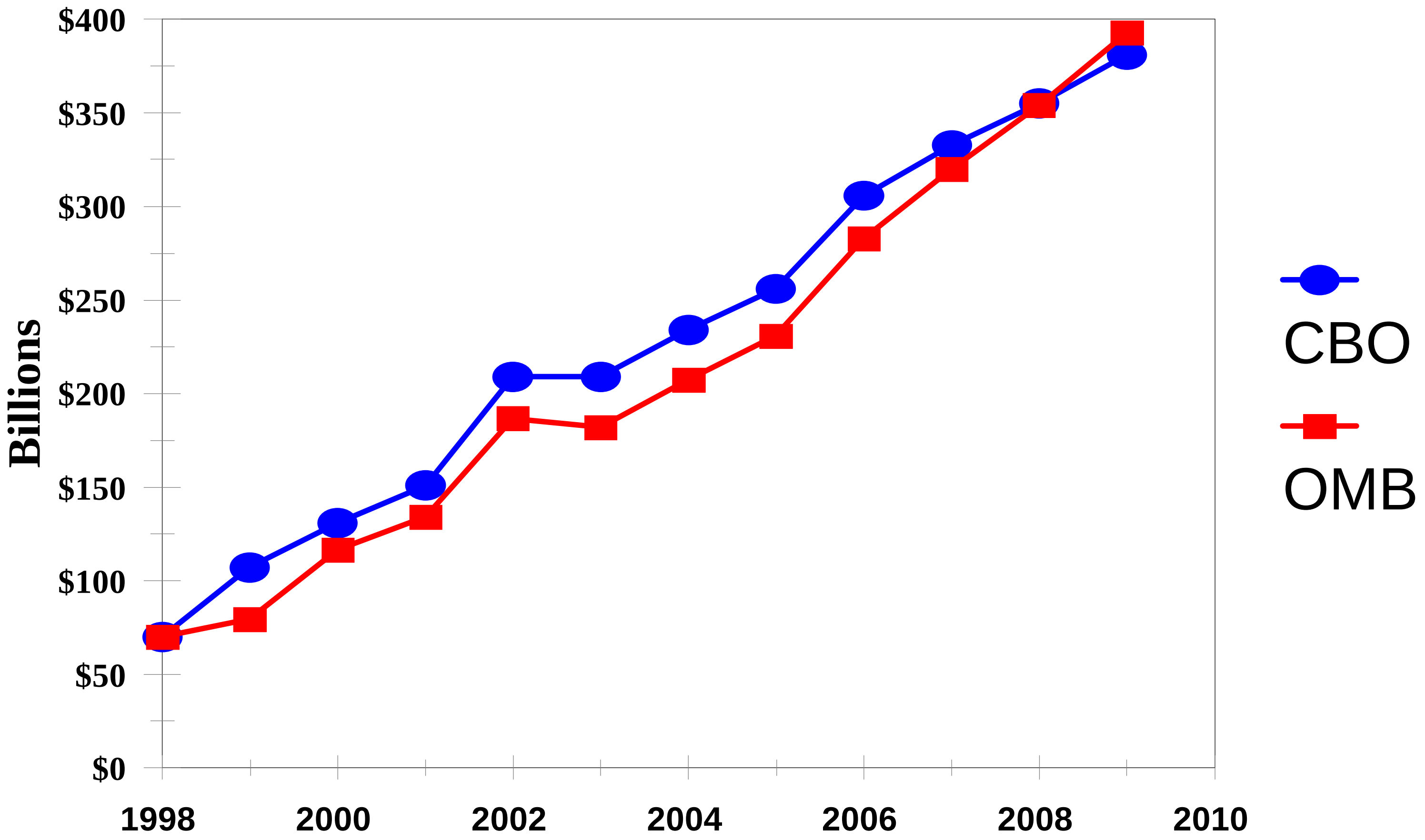
Deficits and Surpluses

as a percent of GDP



CBO is More Optimistic than OMB

Projected Surpluses under Current Law

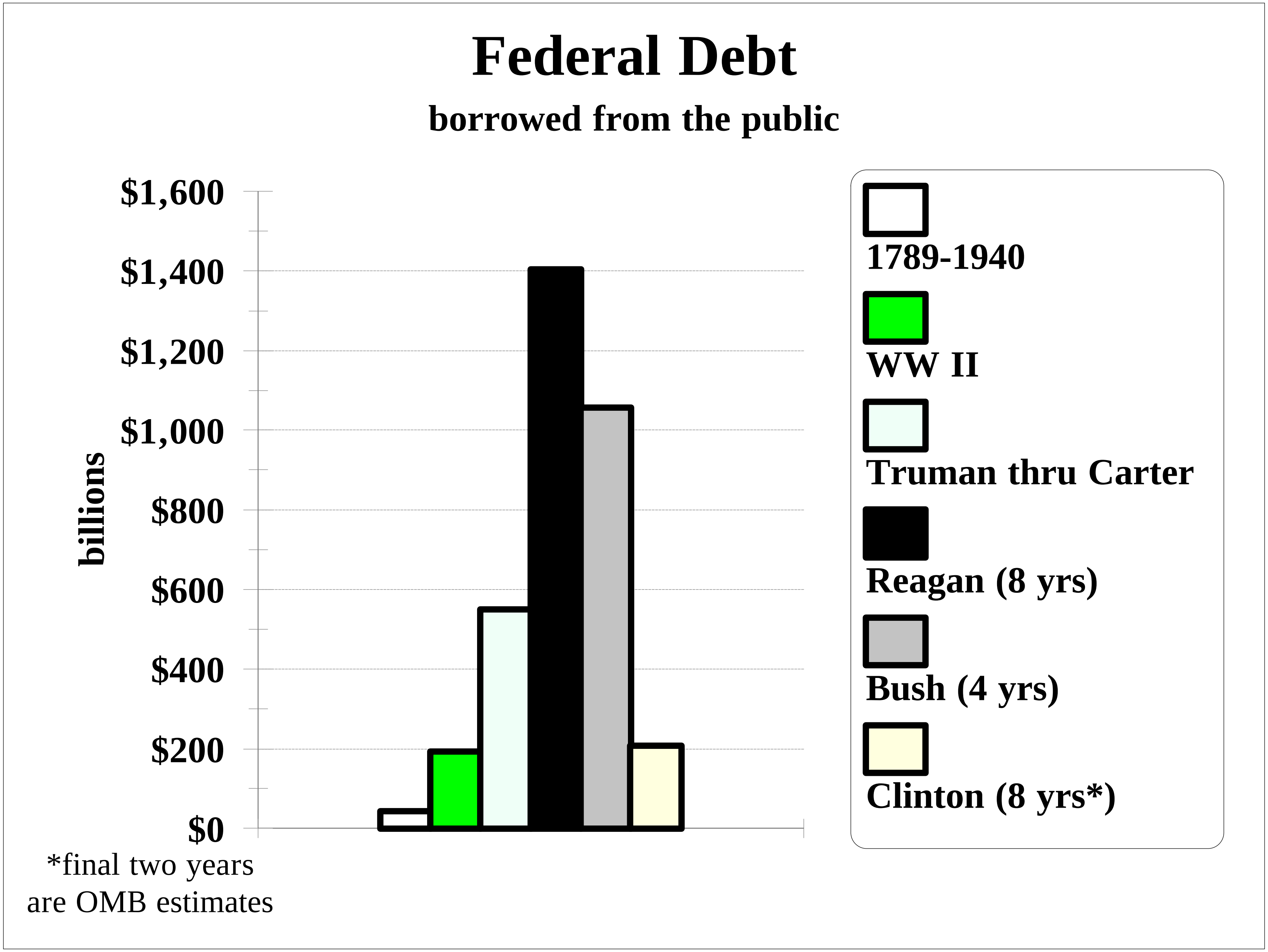


Deficits as a % of GDP: The Ten Biggest Since 1970

FY	Deficit	% GDP	President	Rank
1983	-207.8	-6.1	Reagan	1
1985	-212.3	-5.2	Reagan	2
1986	-221.2	-5.1	Reagan	3
1984	-185.4	-4.9	Reagan	4
1992	-290.4	-4.7	Bush	5
1991	-269.4	-4.6	Bush	6
1976	-73.7	-4.3	Ford	7
1982	-128.0	-4.0	Reagan	8
1993	-255.0	-3.9	Bush	9
1990	-221.2	-3.9	Bush	10

Deficits since 1970:
The Ten Biggest

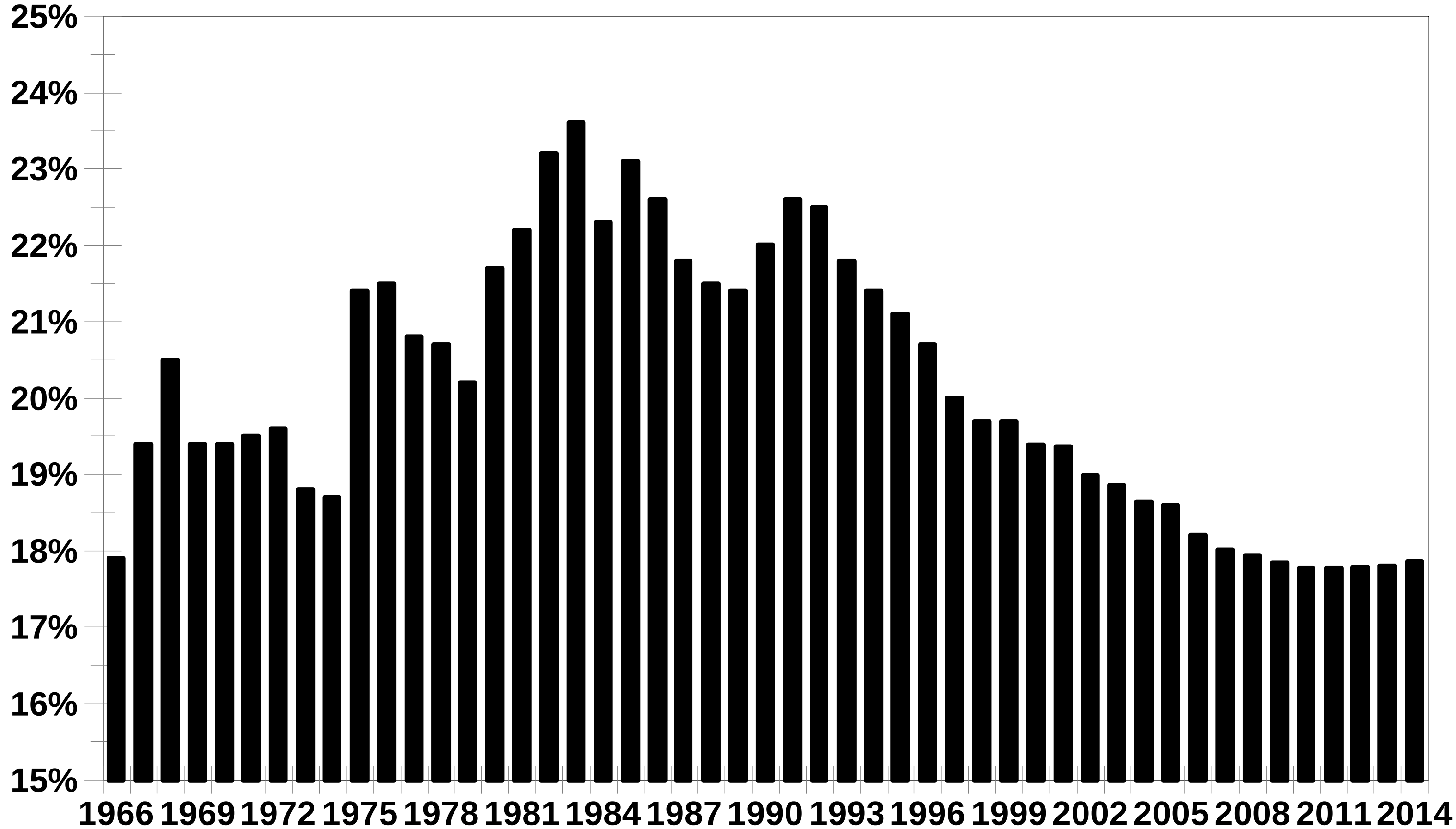
FY	Deficit	% GDP	President	Rank
1992	-290.4	-4.7	Bush	1
1991	-269.4	-4.6	Bush	2
1993	-255.0	-3.9	Bush	3
1986	-221.2	-5.1	Reagan	4
1990	-221.2	-3.9	Bush	5
1985	-212.3	-5.2	Reagan	6
1983	-207.8	-6.1	Reagan	7
1994	-203.1	-3.0	Clinton	8
1984	-185.4	-4.9	Reagan	9
1995	-163.9	-2.3	Clinton	10



Federal Debt
borrowed from the public
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
billions
1789-1940
WW II
Truman thru Carter
Reagan (8 yrs)
Bush (4 yrs)
Clinton (8 yrs*)
*final two years
are OMB estimates

Spending Continues to Fall

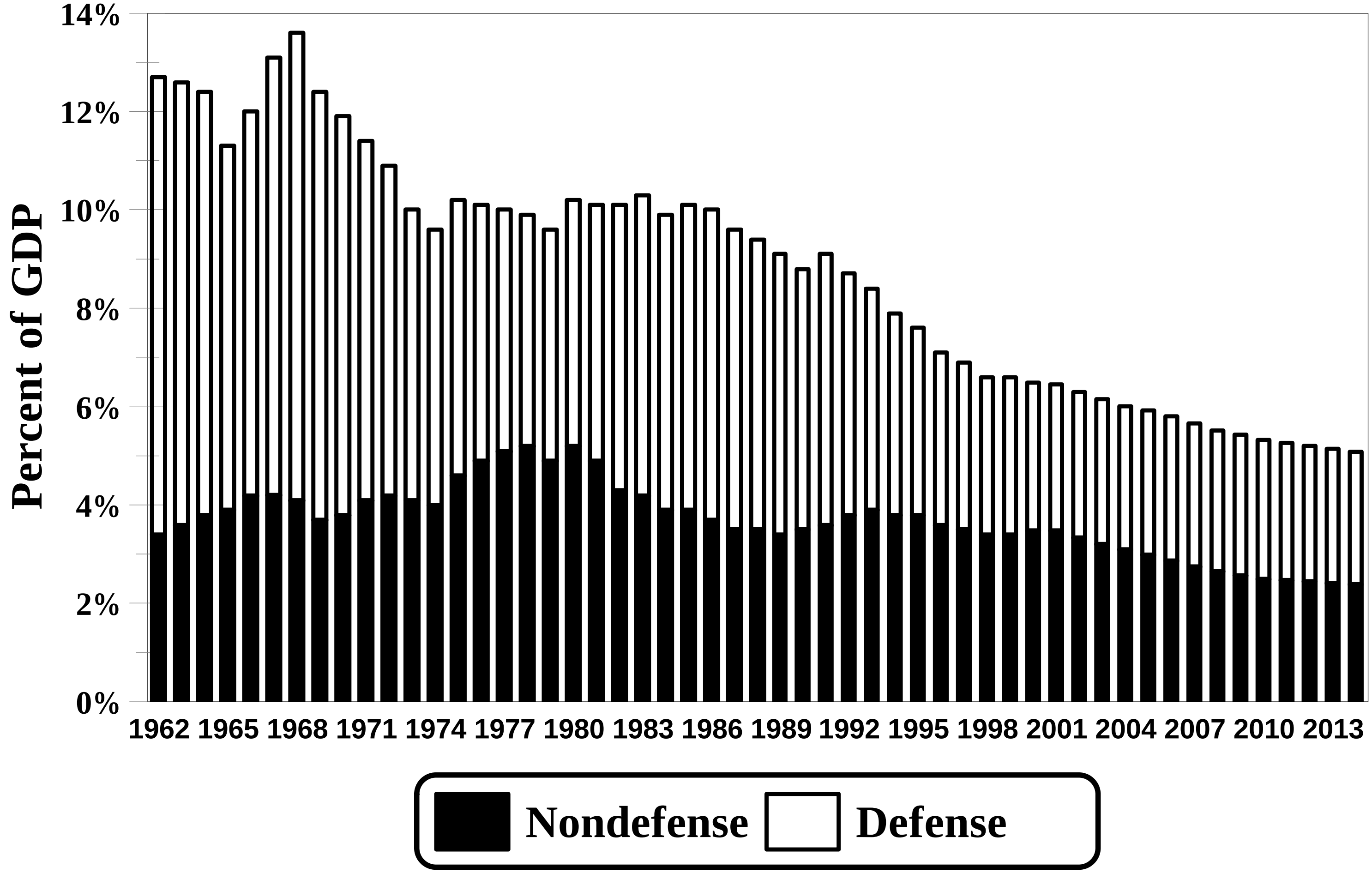
Outlays as a % of GDP



Includes extra discretionary spending; assumes that one-third of USAs will be scored as outlays.

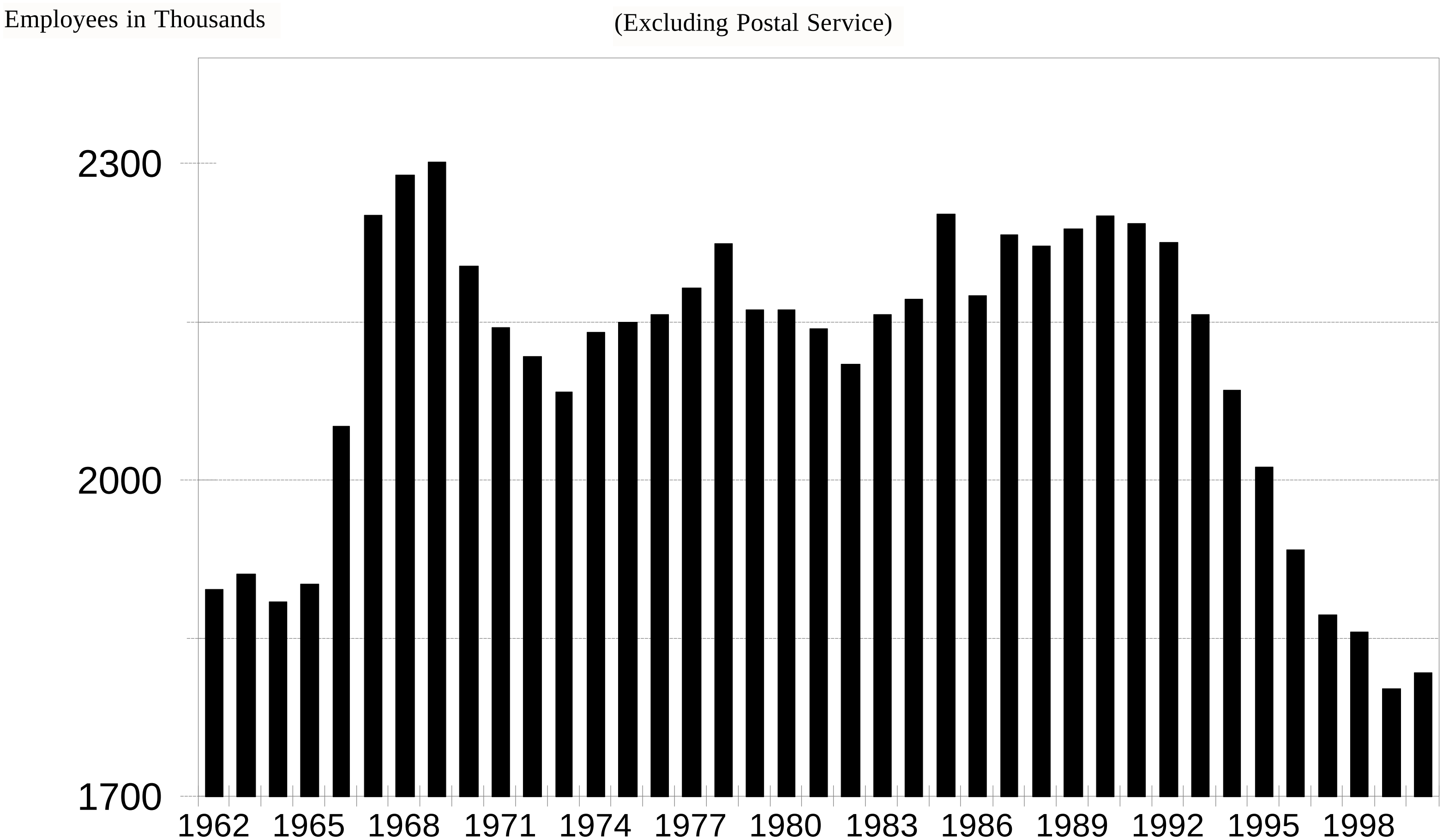
Discretionary Spending

1962 through 2014

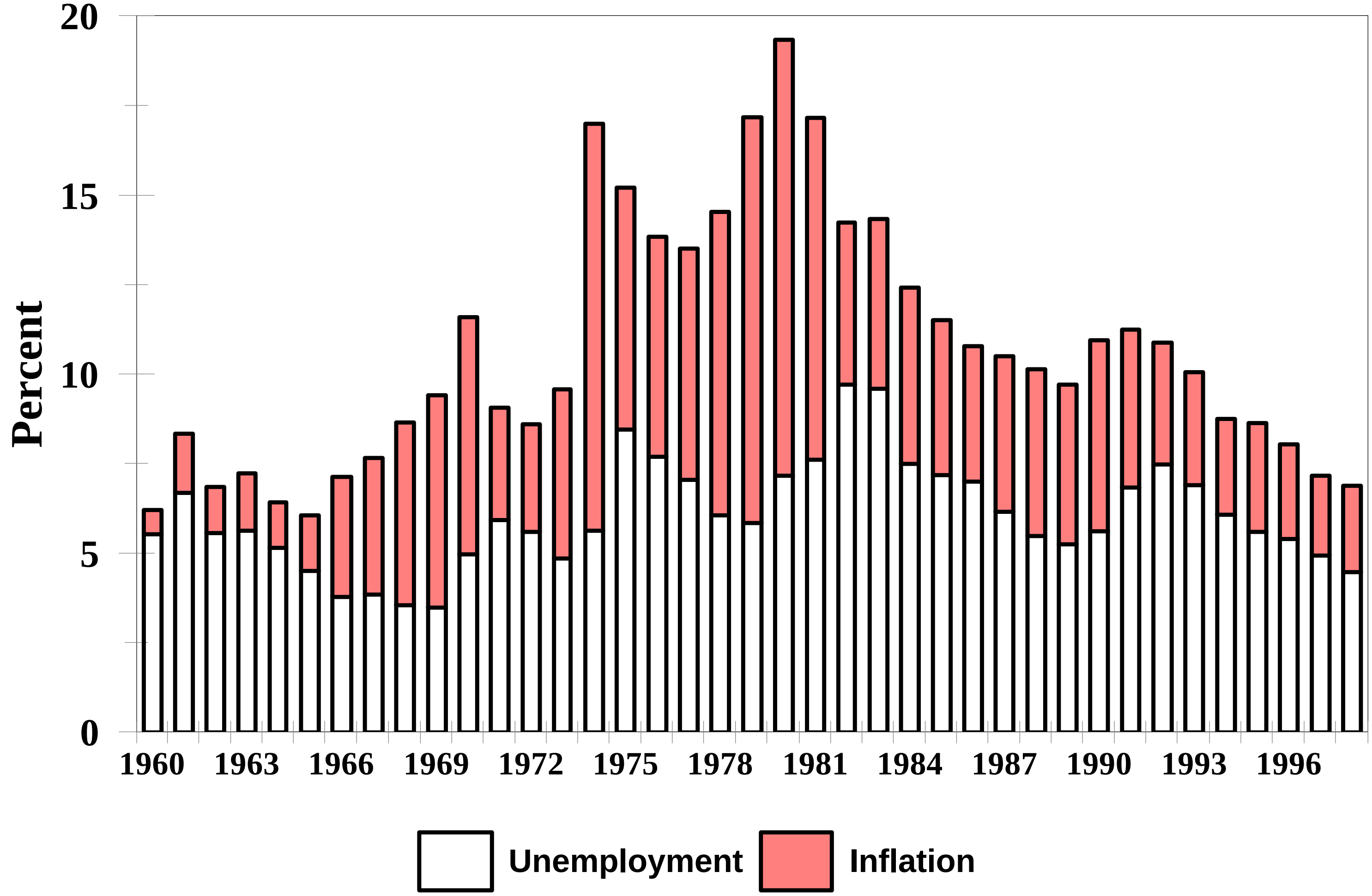


Federal Workforce

1962 to Present



The Misery Index
is at its lowest since the 1960s



Revenues

Summary

President Clinton's budget raises $46 billion in *net* revenues over the next five years (2000- 2004) to offset a variety of initiatives and to defray federal costs associated with smoking-related illnesses.

The budget pursues a *pay-as-you-go* approach by raising net revenues to pay for initiatives. In this way, projected budget surpluses after 1999 can be reserved until the President and the Congress address the long-range financing of Social Security. To pursue initiatives without paying for them would dissipate these surpluses before action was taken to save Social Security.

- ***Tax cuts*** — The Administration's revenue package includes tax cuts totaling $33 billion over five years. Some of the tax cuts complement spending initiatives such as those for improved child care, elementary and secondary education, energy conservation research, livable communities, and improved long-term care.

- ***Elimination of so-called "unwarranted" tax benefits*** — The budget eliminates so-called "unwarranted" tax benefits, raising $33 billion over five years to pay for the $33 billion in tax cuts.

- ***Other revenue increases or reinstatements of taxes*** — These changes account for the positive five-year net total of $46 billion in revenues. Within this category, the major revenue raisers are $35 billion from tobacco revenues, $5 billion from a transition to a "cost-based" airport and airways system, and $6 billion from reinstatement of the taxes dedicated to Superfund, which is used to clean up polluted sites. The Superfund taxes were in place until recently and are not new sources of revenue.

The President's Framework for Dedicating Budget Surpluses to Social Security, Medicare Solvency, and Other Purposes

As part of the overall budget policy, the President proposes a framework that includes a tax cut to create incentives for new individual savings accounts, Universal Savings Accounts (USAs).

The President's framework proposes reserving three-fourths of the projected unified budget surpluses over fifteen years for future Social Security and Medicare needs. After action is taken to restore 75-year financial balance to Social Security, remaining portions of the projected unified budget surpluses would be used for programs subject to annual appropriation and for a tax incentive for USAs outside of the Social Security system. (See the first two sections of this document for more details.)

Perspective on Revenues

The $46 billion net increase in revenues over 2000-2004 amounts to a one-half of one percent increase in total federal revenues.

The Administration projects that under its proposals, revenues will be 20.0 percent of Gross Domestic Product (GDP) in 2004, not a low level by historical standards. However, under the budget, future revenues will *fall* as a percentage of GDP. Total revenues (including those for Social Security) drop from 20.5 percent of GDP in 1998 to 20.0 percent in 2004.

The budget maintains revenues to this extent so that surpluses are available to retire publicly held federal debt and to preserve and strengthen Social Security and Medicare. This plan partially prefunds future retirement benefits so that the necessary contributions from future workers are not as high.

As a matter of history, when revenues were lower, the federal government had large budget deficits. In 1992, for example, the deficit was 5.5 percent of GDP. To eliminate this deficit, revenues were raised and spending was cut even more. Federal spending declined from 22.5 percent of GDP in 1992 to 19.6 percent in 1998. Under the new budget, federal spending will fall to 18.1 percent of GDP in 2004. Under the budget, revenues will be used to prefund future Social Security and Medicare benefits, rather than to expand current spending relative to the size of the economy.

Tax Cut for Universal Savings Accounts

The President's new framework for reserving budget surpluses is an effort to work with the Congress to fashion a bipartisan solution to the long-range Social Security financing problem. As part of that effort, the President has suggested a tax incentive for Universal Savings Accounts (USAs).

The USAs would provide a very large tax cut. The budget proposes to reserve the following amounts from future budget surpluses for USAs: $96 billion over 2000-2004, $176 billion over 2005-2009, and $536 billion in total over fifteen years,

The President believes that USAs should be *contingent* on solving the long-range financing problems of Social Security, and accordingly does not include details on the USAs in this year's budget. The Administration suggests, however, that these accounts be used *outside* of Social Security, rather than as even a partial replacement for Social Security. The new accounts would not divert revenues from the Social Security Trust Fund.

The Administration's goal is to extend tax-preferred savings to people who do not typically enjoy that advantage now through participation in employer-sponsored pension plans or individual retirement accounts. This could be achieved by a flat tax credit that does not increase with income and an additional tax credit to match individual savings, with a larger match for lower-income people. The entire package of tax benefits could phase out for upper-income taxpayers. The tax credits could be made available to non-affluent people for whom the amount of the credit exceeds the amount of income taxes they would otherwise pay.

The President has deliberately left vague the details on the USAs. Instead, he intends to work with Congress to develop the specifics of the USAs once Congress has accepted his proposal to save Social Security.

SUMMARY OF REVENUE CHANGES IN THE PRESIDENT'S BUDGET

	(Fiscal Years, Billions of dollars)						Five-years
	1999	2000	2001	2002	2003	2004	2000-2004
TAX CUTS AND EXTENSIONS OF EXPIRING TAX BENEFITS:		**-4.1**	**-7.7**	**-6.6**	**-6.9**	**-7.3**	**-32.6**
Make health care more affordable:		**-0.1**	**-1.3**	**-1.3**	**-1.5**	**-1.6**	**-5.8**
Provide tax relief for long-term care needs		-0.1	-1.1	-1.1	-1.3	-1.4	-5.0
Other: tax relief for workers with disabilities and for small business health plans		-0.0	-0.2	-0.2	-0.2	-0.2	-0.8
Expand education initiatives:	**-0.1**	**-0.5**	**-1.4**	**-1.3**	**-1.2**	**-1.2**	**-5.6**
Provide incentives for public school construction and modernization		-0.1	-0.6	-0.9	-1.0	-1.0	-3.7
Extend employer-provided educational assistance and include graduate education	-0.1	-0.3	-0.7	-0.2	0.0	0.0	-1.2
Other: includes workplace literacy and a variety of student loan related proposals		-0.0	-0.1	-0.1	-0.1	-0.1	-0.6
Make child care more affordable:		**-0.4**	**-1.7**	**-1.5**	**-1.6**	**-1.6**	**-6.8**
Increase, expand, and simplify child and dependent care credit		-0.3	-1.6	-1.4	-1.5	-1.5	-6.3
Provide tax incentives for employer-provided child care		-0.0	-0.1	-0.1	-0.1	-0.1	-0.5
Provide incentives to revitalize communities:		**-0.1**	**-0.3**	**-0.7**	**-1.0**	**-1.3**	**-3.3**
Increase low-income housing credit per capita cap		-0.0	-0.2	-0.3	-0.5	-0.6	-1.7
Provide Better America Bonds to improve the environment		-0.0	-0.0	-0.1	-0.2	-0.3	-0.7
Other: New Markets Tax Credit, SSBICs, and extend wage credit for two new EZs		-0.0	-0.1	-0.2	-0.3	-0.4	-1.0
Promote energy efficiency and improve the environment:		**-0.4**	**-0.7**	**-0.7**	**-0.8**	**-1.1**	**-3.6**
Provide tax credits for energy-efficient building equipment and new homes		-0.3	-0.5	-0.5	-0.5	-0.2	-2.0
Extend electric vehicle tax credit; provide tax credit for fuel-efficient vehicles		0.0	0.0	-0.0	-0.2	-0.7	-0.9
Other: tax credits for CHP systems, rooftop solar, and expend wind/biomass credits		-0.1	-0.2	-0.2	-0.2	-0.1	-0.8
Extend expiring provisions:	**-0.4**	**-1.7**	**-1.7**	**-0.6**	**-0.3**	**-0.2**	**-4.6**
Allow personal tax credits against the AMT	-0.1	-0.7	-0.7	0.0	0.0	0.0	-1.4
Extend R&E tax credit	-0.3	-0.9	-0.7	-0.3	-0.1	-0.1	-2.1
Other: includes work-opportunity & welfare-to-work credits, brownfields expensing, and first-time DC homebuyers credit		-0.1	-0.3	-0.3	-0.2	-0.2	-1.1
Modify international trade provisions:	**-0.1**	**-0.5**	**-0.1**	**0.0**	**-0.0**	**-0.1**	**-0.6**
Extend and modify Puerto Rico tax credit; extend GSP, levy tariffs on certain textiles and apparel from the CNMI, and other trade changes							
Other	**-0.1**	**-0.5**	**-0.5**	**-0.6**	**-0.4**	**-0.2**	**-2.3**
Promote retirement plans, tax simplification, $2,000 severance pay exemption, steel companies, and electricity restructuring							
Universal savings accounts (USAs) tax incentive							

SUMMARY OF REVENUE CHANGES IN THE PRESIDENT'S BUDGET

	(Fiscal Years, Billions of dollars)						Five-years
	1999	2000	2001	2002	2003	2004	2000-2004

Tax reduction for USAs is contingent on restoring long-range financial balance to Social Security. For comparison note that the contingent budget for USAs is $96 billion for the years 2000 through 2004.

	1999	2000	2001	2002	2003	2004	2000-2004
OFFSETS FOR TAX RELIEF PROVISIONS: (Eliminate unwarranted benefits and adopt other revenue measures:)	**0.3**	**4.7**	**6.9**	**7.1**	**7.3**	**7.4**	**33.4**
Limit benefit of corporate tax shelter transactions:	**0.1**	**1.1**	**1.3**	**1.5**	**1.6**	**1.7**	**7.2**
Modify Corporate-owned-life-insurance rules	0.0	0.2	0.4	0.4	0.4	0.5	1.9
Other reductions in corporate tax shelters	0.1	0.8	0.9	1.1	1.2	1.3	5.3
Other proposals:	**0.2**	**3.7**	**5.6**	**5.6**	**5.7**	**5.7**	**26.2**
Modify rules for capitalizing policy acquisition costs of life insurance companies		0.4	1.0	0.9	0.9	0.9	4.1
Replace sales-source rules with activity-based rules		0.3	0.5	0.6	0.6	0.6	2.7
Eliminate non-business valuation discounts		0.2	0.4	0.4	0.5	0.5	2.0
Repeal lower-of-cost-or-market inventory accounting method		0.4	0.5	0.4	0.4	0.2	2.0
Repeal installment method for accrual basis taxpayers		0.7	0.8	0.4	0.1	0.0	2.0
Subject investment income of trade associations to tax		0.2	0.3	0.3	0.3	0.3	1.4
Reinstate Oil Spill Liability Trust Fund tax		0.3	0.3	0.3	0.3	0.3	1.3
Require recapture of policyholder surplus accounts		0.1	0.2	0.2	0.2	0.2	1.0
Limit pre-funding of welfare benefits for 10 or more employer plans		0.1	0.2	0.2	0.2	0.1	0.7
Deny deduction for punitive damages		0.1	0.1	0.1	0.1	0.1	0.6
Tax issuance of tracking stock		0.1	0.1	0.1	0.1	0.1	0.6
Modify and clarify certain rules relating to debt-for-debt exchanges		0.1	0.1	0.1	0.1	0.1	0.5
Repeal percentage depletion for non-fuel minerals mined on Federal and formerly Federal lands		0.1	0.1	0.1	0.1	0.1	0.5
Modify rules relating to foreign oil and gas extraction income		0.0	0.1	0.1	0.1	0.1	0.4
Other	0.2	0.9	1.1	1.5	1.8	2.1	7.4
REVENUES THAT OFFSET COSTS ELSEWHERE IN THE BUDGET	**0.0**	**10.6**	**9.5**	**8.6**	**8.3**	**8.1**	**45.1**
Receipts from tobacco legislation	-0.1	8.0	7.1	6.6	6.4	6.4	34.5
Convert Airport and Airway Trust Fund taxes to a cost-based user fee system		1.1	1.2	1.1	1.0	0.9	5.3
Reinstate Superfund excise taxes	0.1	0.7	0.7	0.8	0.8	0.8	3.8
Reinstate Superfund tax on corporate taxable income		0.8	0.5	0.5	0.5	0.5	2.7
Other: includes bank exam fees, unemployment solvency incentive, revenue loss from replacing harbor maintenance tax with a fee that offsets spending		-0.1	-0.0	-0.3	-0.4	-0.4	-1.2
TOTAL EFFECT OF PROPOSALS	**-0.3**	**11.2**	**8.7**	**9.1**	**8.7**	**8.2**	**45.8**

Highlights of Major Tax Cuts

- ***Make health care more affordable*** — The budget includes several tax recommendations related to long-term care and disabled workers as part of a larger set of initiatives including full funding for the Work Improvement Act and eliminating barriers to Medicaid buy-ins. Highlights of the tax provisions are as follows:

  Tax Credits for Long-Term Care — ($5.0 billion over 2000-2004). The President's budget provides eligible people with long-term care needs (e.g., those unable to perform at least three activities of daily living) or their care-givers with a $1,000 tax credit beginning in 2002. This credit helps about two million people. The credit is subject to a higher-income-related phase-out and, for this purpose, is coordinated with the current childrens' credit and the proposed disabled worker credit. The thresholds for the phase-out are $110,000 of adjusted gross income (AGI) for married taxpayers filing a joint return and $75,000 of AGI for a single taxpayer or head of household. The credit is partly refundable in a manner similar to the children's credit and is coordinated with the children's credit for that purpose.

  Tax Credits for Disabled Workers — ($0.7 billion over 2000-2004). The budget also provides workers with significant disabilities with a $1,000 tax credit to help cover work-related expenses. The same higher-income phase-out for the long-term care and children's credit applies to this credit. The credit is partly refundable, similar to the children's credit, and is coordinated with the children's credit for that purpose.

  Tax Credit for Forming Small-Business Health Purchasing Cooperatives — ($0.1 billion over 2000-2004). The budget includes a temporary tax credit for businesses with 50 or fewer employees. A 10 percent credit applies to business that purchase health insurance through qualified cooperative contributions to employee health plans, subject to limits on the amount of qualified expenditures per family and per single person. The credit applies for up to two years, only for businesses that have not previously supported employer-based health plans.

- ***Expand education initiatives*** — The budget includes a number of education initiatives. (See *Function 500: Education* for more details.) Highlights of the tax provisions are as follows:

  School construction assistance — ($3.7 billion over 2000-2004). The budget includes a tax credit related to the purchase of bonds issued to finance school construction and rehabilitation. The credit lowers the cost of borrowing for this purpose. The budget allows state and local governments to issue up to $22 billion of "qualified school modernization bonds," $11 billion in each year 2000 and 2001.

The budget also expands the Qualified Zone Academy Bond program enacted in 1997. The tax credit mechanism is similar to that for school construction. The proposal expands the purposes for which this kind of borrowing is allowed, to cover school construction (in addition to teacher training, equipment, curriculum development, and repairs). The proposal allows additional academy bonds of $1.0 billion in 2000 and $1.4 billion in 2001. There is also a tax credit for contributions to a qualified zone academy.

Extend the expiring exclusion for employer-paid education and reinstate graduate education — ($1.2 billion over 2000-2004). The budget extends the current tax benefit for 18 months through the end of December 2001, and expands it, once again, to cover graduate education starting after June 30, 1999, through December 2001.

Other — ($0.6 billion over 2000-2004). The budget includes a 10 percent tax credit for employers who provide their workers with literacy programs, English as a Second Language programs, or basic education programs. The budget liberalizes the time limit for deduction of student loans and eliminates tax on the forgiveness of student loans granted to those who perform public service of certain kinds.

! ***Make child care more affordable*** — The child care tax recommendations are part of a larger set of child care initiatives. (See *Function 600: Income Security* for more details.) Highlights of the tax provisions are as follows:

Expand the Child and Dependent Care Tax Credit — ($6.3 billion over 2000-2004).

The budget expands the Child and Dependent Care Tax Credit for families earning less than $60,000 a year and expands access to the credit for families with a stay-at-home parent and an infant. All families with an infant are deemed, for purposes of the credit, to have expenses of $500 per infant, for up to two infants, in addition to out-of-pocket child care expenses.

Currently, this non-refundable credit starts at 30 percent of qualified child care expenses and is phased down to 20 percent for families with adjusted gross income between $10,000 and $30,000. (The maximum employment-related expenses eligible for the credit are $2,400 for one dependent and $4,800 for two or more, and the maximum eligible amount is limited by the size of the earnings of the spouse with the least earnings.)

The budget raises the credit to 50 percent for families with incomes up to $30,000 and phases down the credit rate to 20 percent for families with incomes between $30,000 and $60,000.

Create a New Child Care Tax Credit for Businesses — ($0.5 billion over 2000-2004). The budget provides a new child care tax credit for businesses for the direct costs of providing child care services to their employees or for child care resource and referral services. The credit is 25 percent of up to $150,000 in annual spending on child care. There is also a 10 percent credit for spending on child care resource and referral services.

- ***Provide incentives to revitalize communities*** — The budget includes initiatives to revitalize and aid communities. Highlights of the tax provisions are as follows:

Expand the low-income housing tax credit — ($1.7 billion over 2000-2004). The low-income housing credit is subject to a state-by-state allocation method. Under current law, the credit allocation is $1.25 per capita per year for each state. The Administration recommends a 40 percent increase to $1.75 per capita.

Tax Credits for Better America Bonds — ($0.7 billion over 2000-2004). The budget proposes a new tax incentive, similar to that used for qualified zone academy bonds, to generate $9.5 billion in bond revenue for community environmental and economic enhancement. The bond revenue can be used to preserve green space, create or restore urban parks, protect water quality, and clean up brownfields (abandoned industrial sites).

Other — ($1.0 billion over 2000-2004). The Administration proposes "New Market" tax incentives to encourage investments in community development entities selected by the Treasury Department, expanded incentives for Specialized Small Business Investment Companies (SSBICs), and an extension of the wage credit available in other Enterprise Zones to two new Enterprise Zones.

- ***Promote energy efficiency and improve the environment*** — ($3.6 billion over 2000-2004). The budget provides temporary tax credits for the purchase of energy-efficient building equipment such as fuel cells systems, high efficiency gas heat pumps, or heat pump water heaters, and the purchase of new energy-efficient homes and rooftop solar equipment. There is a tax break for the purchase of electric vehicles and vehicles with greatly improved gas mileage. The budget also extends the tax credit for electricity-producing wind and biomass, and provides a tax credit for investments in heat/electricity co-generation (CHP) facilities. The energy/environmental tax recommendations are part of a larger set of initiatives that also include energy conservation research.

- ***Extend other expiring tax benefits***

Extend last year's one-year alternative minimum tax (AMT) waiver for personal credits — ($1.4 billion over 2000-2004). The President's budget makes personal tax credits including the children’s credit, education credits, and the dependent care credit available under the AMT for tax years 1999 and 2000.

Extend the expiring Research and Experimentation credit — ($2.1 billion over 2000-2004). The budget extends the credit from the end of June 1999 through the end of June 2000.

Extend the Work Opportunity and Welfare-to-Work credits — ($0.5 billion over 2000-2004). The budget extends the work opportunity credit and the welfare-to-work credit through the end of June 2000.

! ***Modify international trade provisions*** — ($0.6 billion net over 2000-2004). The budget extends for one year the Generalized System of Preferences (i.e., tariff reductions for countries with less developed economies) through June 30, 2000, levies tariffs on certain textiles and apparel from the Commonwealth of the Norther Mariana Islands (CNMI), lowers tariffs on certain textile and apparel goods coming from Caribbean Basin nations, and accommodates other trade changes. The budget also modifies the Puerto Rico economic activity credit so that it applies to certain newly established business operations and extends the credit for three years.

! ***Other*** — ($2.3 billion over 2000-2004). The budget includes tax incentives for small businesses to set up retirement plans for their employees, some tax changes to accommodate electricity industry restructuring, a variety of tax simplification measures, an income tax exclusion of up to $2,000 to help displaced workers, and tax assistance for the steel industry in the form of five-year net-operating-loss carrybacks and twenty-year carryforwards.

The States Attorneys General Tobacco Settlement

In November 1998, attorneys general from 46 states signed an agreement with the major tobacco companies to settle state law suits to recover the states' public health costs of treating smokers. The states incurred at least some of these costs in the form of higher Medicaid expenses. Under the settlement, the companies would pay about $206 billion for the first twenty-five years. The settlement must be approved by courts in each state. Unlike the prior state attorneys general proposal, this plan does not require Congressional action for implementation. Some analysts estimate that the settlement will raise the price of a pack of cigarettes by 45 cents, considerably less than the $1.10 or $1.50 under consideration last year in the Congress.

Related to the settlement between the states and tobacco companies is the issue of "tobacco recoupment." The federal government pays a significant part of Medicaid costs. Because the settlement is partially compensating states for Medicaid expenses, the federal government believes it is legally entitled to recoup the portion of the settlement which represents its tobacco-related Medicaid expenses.

Major Revenue Raisers

(Note: This section first discusses revenues that offset costs elsewhere in the budget and then discusses offsetting the revenue loss from tax cuts by reducing so-called "unwarranted" tax benefits).

- ***Revenues that offset costs elsewhere in the budget*** —

  Increase the federal excise tax on tobacco products — ($34.5 billion over 2000-2004). The budget includes a tax increase to reduce smoking, especially among youth, and to offset federal costs associated with smoking in the Department of Veterans Affairs, the Indian Health Service, and federal civilian and military agencies.

  Under this proposal, the tax on a pack of cigarettes increases 55 cents beyond the level established under current law.

  The federal tax on cigarettes is currently 24 cents a pack and will rise under current law to 34 cents in 2000 and to 39 cents in 2002, for a total increase of 15 cents. The budget also accelerates the already scheduled 15 cent increase to make it effective October 1, 1999.

  Reinstate the corporate tax and the excise taxes dedicated to Superfund — ($6.5 billion over 2000-2004). The budget reinstates these taxes, which lapsed at the end of 1995. The corporate income-related tax begins again in 1999 and continues through 2009. The excise taxes continue from the date of enactment through the end of September 2009.

  Convert the Aviation Trust Fund taxes to a cost-based user fee system — ($5.3 billion over 2000-2004). The Administration believes that users of federal aviation services should fully pay their own way but that, historically, they have not. The budget changes the structure of dedicated revenues so that the FAA will operate more like a business and users will fully pay their own way. Dedicated taxes are phased out in favor of user fees. During the transition period, aviation service users will pay more into the system than the corresponding funding for services to them.

- ***Reductions in So-called "Unwarranted Tax Benefits"*** — This category in the Administration's budget accounts for $33.1 billion in increased revenues over five years and includes over 60 items, most of which affect corporations and are quite technical. Their purpose is generally to close loopholes and to cut down on tax avoidance. The following discussion highlights some of the items that raise the most revenue:

Modify corporate-owned life insurance tax rules — ($1.9 billion over 2000-2004). Unless restrictions apply, corporations can avoid taxes by using life insurance policies on their employees or customers as a tax-preferred investment vehicle, while financing the purchase of these contracts with borrowed funds. Tax on the investment return is deferred while the interest cost of borrowed funds is currently deductible. The Congress has acted twice since 1996 to reduce this form of tax avoidance. However, some of the tracing rules used to determine whether funds have been borrowed to buy insurance do not work well in the case of financial intermediaries that customarily borrow and lend, or invest, for other reasons as well. The Administration's proposal addresses this issue.

Modify rules for capitalizing policy acquisition costs of life insurance companies — ($4.1 billion over 2000-2004). Under current law, the costs of acquiring income-producing assets or contracts cannot be deducted immediately, but must be depreciated, amortized, or capitalized over the life of the asset or contract. In the 1980s, life insurance companies were required to capitalize a portion of their policy-acquisition expenses. The budget increases the portion that is required to be capitalized.

Replace the sales-source "title passage" rules with activity-based rules — ($2.7 billion over 2000-2004). Currently, multinational companies that would otherwise have "excess" foreign tax credits and that export from the U.S. may use the "title passage" rule to their advantage. "Excess" foreign tax credits arise when the foreign tax on activity in the foreign country exceeds what U.S. tax would be, because the U.S. credit for foreign tax paid is limited to what the U.S. tax would be on income from foreign sources.

The title passage rule allows companies to assign to a foreign export location some of the income from producing these exports, regardless of where the actual production occurred. This assignment of income boosts the measurement of what the U.S. tax would be on foreign income, and therefore increases the amount of the allowable foreign tax credit.

There was concern many years ago that foreign governments were too aggressively asserting tax authority over U.S. exporters, based only on the nexus of export sales. Since the title passage rule was created 70 years ago, this problem has been resolved by international tax treaties covering more than 50 countries.

Eliminate non-business valuation discounts. — ($2.0 billion over 2000-2004). This proposal affects the unified gift/estate tax. Under current law, taxpayers may claim valuation discounts for fractional interests in entities such as active non-publicly traded businesses. The rationale is that a minority share is not worth the corresponding pro-rata value of the total business. The Administration argues that family estate planners are now exploiting this practice too aggressively. For example, marketable assets are transferred to family limited partnerships or limited liability entity and then gifts of fractional shares of these entities are made to family members. This allows the value of the assets to be marked down for purposes of the gift/estate tax. The budget eliminates valuation discounts, except for active businesses.

Repeal lower of cost or market inventory accounting method — ($2.0 billion over 2000-2004). Currently, taxpayers using first-in-first-out (FIFO) inventory accounting may account for goods at the lower of cost or market. For tax purposes, the taxpayer is now able to recognize unrealized losses on inventories, but does not have to recognize gains. The Administration believes that this treatment is one-sided, and recommends that goods be accounted for on the basis of cost alone.

Repeal installment method for accrual basis taxpayers — ($2.0 billion over 2000-2004). The installment method permits deferral of tax on the property when the taxpayer helps finance the sale with an installment note. This tax deferral method is no longer available for sales of inventory. The budget does not permit this method for any taxpayer using an accrual method of accounting. (Almost all individuals use the cash method of accounting and would not be affected.)

Subject investment income of trade associations to tax — ($1.4 billion over 2000-2004). Under current law, some tax-exempt organizations, such as political organizations and clubs, are required to pay tax on their investment income notwithstanding their otherwise tax-exempt status. The Administration would extend this treatment to trade associations.

Reinstate oil spill liability trust fund tax — ($1.3 billion over 2000-2004). This tax expired at the beginning of 1995. The budget reinstates the tax of five cents per barrel through September 31, 2007, subject to suspension if the unobligated balance in the trust fund exceeds $5 billion (up from the previous amount of $1 billion). The tax is dedicated to cleaning up oil spills.

Require recapture of policyholder surplus accounts — ($1.0 billion over 2000-2004). In 1984, Congress changed the tax treatment of life insurance companies. For decades prior to then, stock life insurance companies deferred taxes on income and this untaxed income was deposited into "policyholder surplus accounts." The 1984 legislation eliminated the tax benefits companies could previously gain by using policyholder surplus accounts, but it generally grandfathered existing accounts. The budget repeals this grandfather treatment.

Limit pre-funding of welfare benefits for 10 or more employer plans — ($0.7 billion over 2000-2004). Current law generally limits the ability of employers to claim a current deduction for future welfare benefits; that is, to take current deductions for prefunding. An exception is provided for certain arrangements where ten or more employers participate. The budget limits the ten or more employer plan funding exception to medical, disability, and group-term life insurance benefits, because these benefits do not present the same risk of prefunding abuse as deductions for supplemental unemployment benefits, severance pay, or life insurance (other than group life insurance).

Deny deduction for punitive damages — ($0.6 billion over 2000-2004). The Administration argues that the current deductibility of most punitive damage payments undermines the role of such damages in discouraging and penalizing certain undesirable actions or activities. The budget disallows any deduction for punitive damages paid or incurred by the taxpayer, whether upon a judgment or in settlement of a claim.

Tax issuance of tracking stock — ($0.6 billion over 2000-2004). The budget defines "tracking stock" as stock that is linked to the performance of assets of the issuing corporation with one or more identified characteristics. The budget further provides that the gain will be recognized on the issuance of tracking stock in an amount equal to the excess of the fair market value of the tracked asset over its adjusted basis.

Modify and clarify certain rules relating to debt-for-debt exchanges — ($0.5 billion over 2000-2004). The Administration believes that under current law, an issuer can inappropriately accelerate interest deductions by refinancing a debt instrument in a debt-for-debt exchange. The issuer can do this at a time when its cost of borrowing has declined because it can now take an up-front deduction for bond repurchase premiums in this circumstance. The budget spreads the issuer's net deduction for bond repurchase premiums over the term of the new debt instrument.

Repeal percentage depletion for non-fuel minerals mined on Federal and formerly Federal lands — ($0.5 billion over 2000-2004). The Administration argues that such extraction activities are getting favorable tax treatment, relative to cost-based depletion deductions, after having gotten a previous federal benefit in the form of rights to mine on federal lands at the cost of $5.00 per acre or less because of the 1872 Mining Act.

Modify rules relating to foreign oil and gas extraction income — ($0.4 billion over 2000-2004). Under the budget, multinational oil and gas corporations no longer get a tax credit for payments to governments in countries that do not have a generally applicable corporate income tax. Instead, these payments are treated as royalties and are deductible.

Civilian and Military Pay and Retirement

President Clinton's budget contains several proposals affecting civilian and military pay and retirement. The budget includes pay raises for federal employees and military personnel, buyout incentives, contraceptive coverage under the FEHB program, long-term care insurance for federal employees, and immediate participation in the Thrift Savings Plan (TSP) for new and rehired federal employees.

! ***Federal Employees Pay Raise* —** The budget increases federal civilian pay rates by 4.4 percent in January 2000, the same as the raise for military personnel. This is the largest pay raise since 1981 for civilian employees.

! ***Federal Workforce* —** The budget continues the effort to create a leaner government workforce. The 1994 Federal Workforce Restructuring Act required cuts of 272,900 positions by the end of this decade. Thus far, the Administration has exceeded this goal, cutting the size of the federal workforce by 365,000 employees (224,000 in DoD civilian employees). The federal government is estimated to have 1.8 million civilian employees in 1998, making it the smallest federal workforce in 36 years and, as a share of the nation's total workforce, the smallest since 1933 (See graph on next page.)

! ***Buyouts* —** The budget seeks renewals of the authority to offer government-wide voluntary separation incentives to support agency downsizing efforts without layoffs. The Administration will extend buyouts on an as-needed basis to any federal agency that is downsizing or reinventing, as is the case with DoD, the Department of Energy, and the IRS. Buyouts would permit older employees to volunteer to take regular or early retirement in return for a buyout payment of up to $25,000.

! ***Long-term Care Insurance* —** The budget makes private long-term care insurance available at negotiated group rates to federal employees and retirees; their parents, parents-in-law, and spouses; and former spouses who are entitled to annuities under a federal retirement system. OPM will administer the program, select private insurance carriers to provide the policies, and cover the administrative costs. OPM anticipates long-term care policies being available to the federal community at 15 to 20 percent below private insurance rates. OPM's costs of administering this benefit are estimated to be $15 million over five years. The costs of coverage will be paid entirely by federal employees who choose it.

! ***Thrift Savings Plan (TSP)* —** The budget allows immediate participation in the Thrift Savings Plan (TSP) by new federal employees. Under current law, new or rehired federal employees are required to wait six to twelve months before they can contribute to the TSP.

- **_Federal Employees Health Benefits program (FEHB)_ —** The budget continues the requirement enacted in the 1999 Omnibus Appropriations bill that FEHB offer contraceptive coverage.

- **_Military Pay_ —** The budget includes a number of military pay provisions that increase costs approximately $20.5 billion over the 2000-2005 according to DoD. The budget increases military personnel basic pay by 4.4 percent in January 2000, which equals the pay raise for federal civilians.[14] This pay raise is 2.1 percentage points above the inflation rate for 2000 as measured by the Consumer Price Index (CPI). The budget increases military personnel pay by 3.9 percent each January from 2001-2005. The 2001-2005 raises match the Employment Cost Index, which is the Department of Labor's measure of civilian wage growth. In addition to the across-the-board raises, the budget changes the military pay table to increase promotion raises for mid-grade officers and non-commissioned officers by as much as 5.5 percent. These one-time increases to the pay table, effective July 1, 2000, will better reward performance and encourage talented individuals to stay in the military.

- **_Military Retirement_ —** The Military Retirement Reform Act of 1986 (also known as REDUX), governs the retirement benefits of military personnel who initially entered the Armed Forces on or after August 1, 1986. Under REDUX, retirees with 20 years of service receive 40 percent of base pay, while retirees who entered the service prior to August 1, 1985, receive 50 percent.[15] The budget reverses this provision of REDUX so that all military members with 20 years of service will receive 50 percent of basic pay. REDUX also reduced cost-of-living adjustments (COLAs) for retirees to 1.0 percentage point below the CPI. The President's budget retains this COLA calculation, but guarantees military retirees a minimum 2.0 percent COLA regardless of the CPI. For example, if the CPI is 2.5 percent, the military retiree COLA is 2.0 percent rather than 1.5 percent. The DoD estimates that these provisions cost $6.0 billion between 2000-2005.[16]

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[14] According to GAO, basic pay averages about 72 percent of regular military compensation, which also includes housing and subsistence allowances.

[15] Under REDUX, the 40 percent retirement benefit is based on the average of the highest three years ("High Three") of an individual's basic pay. Military personnel who entered the Armed Forces after September 8, 1980, but before August 1, 1986, receive 50 percent of the individual's "High Three." Military personnel who entered the Armed Forces prior to September 8, 1980, receive 50 percent of the individual's highest year of basic pay.

[16] These increased costs are the result of higher accrual payments from DoD to the Military Retirement Trust Fund to account for the more generous future benefits. The actual increases in retirement payments occurs gradually over time as military personnel who enlisted on or after August 6, 1986, begin to retire.

Economic Assumptions

Recent Economic Performance

The U.S. is now enjoying its **longest peacetime economic expansion of the twentieth century**. The expansion is extraordinary — not just because of its length — but also because of the persistent combination of low inflation and a historically low rate of unemployment (see graph on next page). Federal Reserve Chairman Greenspan has repeatedly characterized the performance of the economy as "unprecedented."

Not all groups have benefitted from this prosperity, and economic disparities remain. Nevertheless, due to high labor demand (shown by persistently low unemployment rates), even many hard-to-employ people have been getting jobs.

The post-1990 and especially the post-1992 economic records have been outstanding in a number of ways, including:

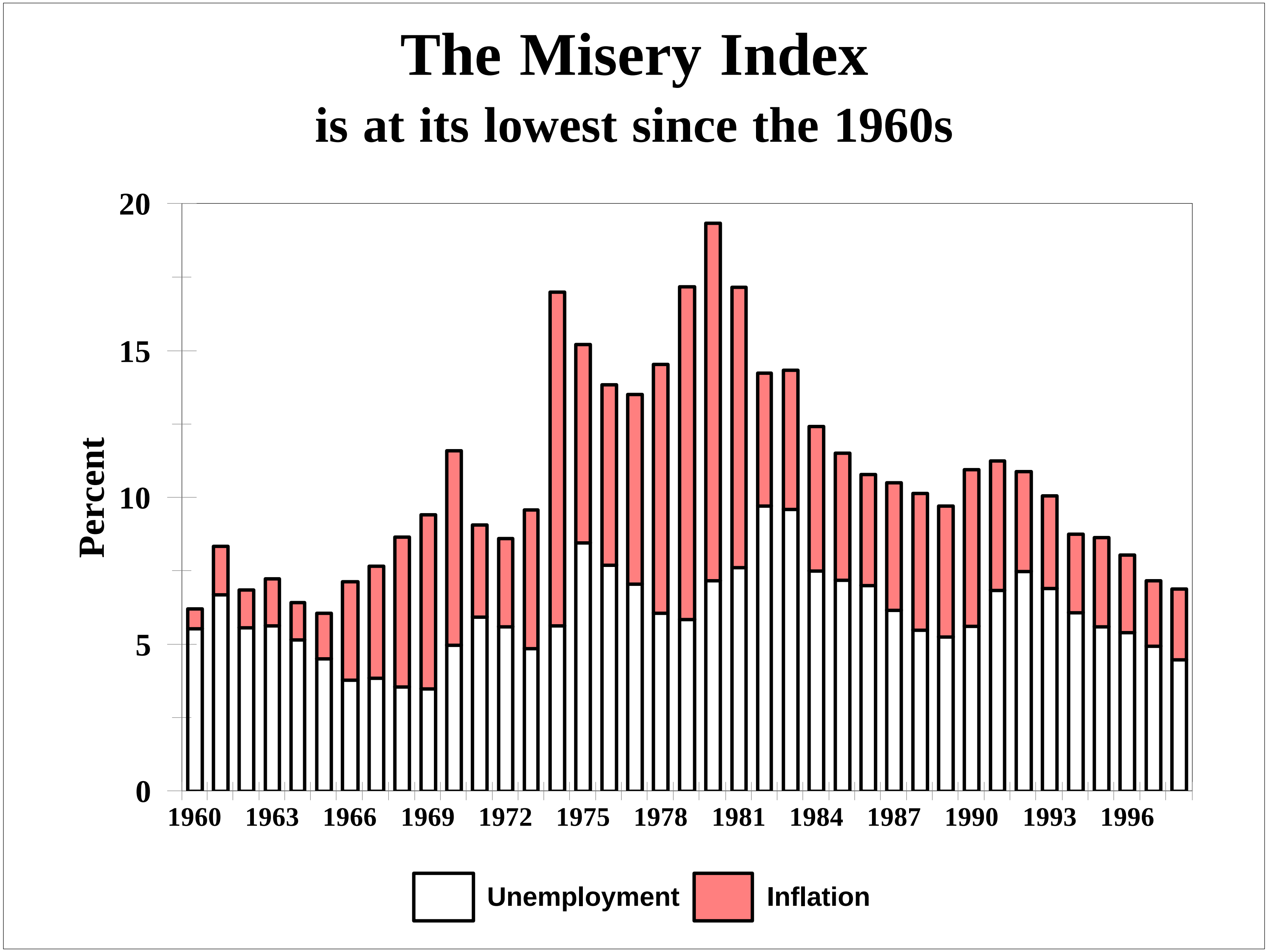
- ***Declining Inflation* —** During this economic expansion, consumer inflation is now running below 2 percent per year, compared with 6.1 percent in 1990 and 3.1 percent in 1991.[17] Inflation has not been this low since the mid-1960s.

- ***Simultaneous Low Unemployment* —** At the same time, the unemployment rate has fallen from about 7.5 percent in 1992 to less than 5 percent, which is unusually low by historic standards. The unemployment rate has been at or below 5 percent for 22 months. The last monthly unemployment rate figure was 4.3 percent, a 29-year low. Since President Clinton took office, the economy has added 17.7 million new jobs — 1.7 million more new jobs in 71 months than were created during the entire 96 months of the Reagan Administration (17.7 million under President Clinton versus 16.0 million under President Reagan).

- ***Investment-Led Expansion* —** Real economic growth was about 3.9 percent in 1998 and has exceeded 3 percent per year since 1992. The economic expansion has been investment-led, rather than government-led. During the current economic expansion, the contribution of investment to growth has been almost twice as great as it was in the expansions of the 1960s and 1980s.

- ***Growth in Wages and Compensation* —** Wages and compensation (wages plus fringe benefits) have recently grown in real terms. This is better performance than during the last long economic expansion from 1982 to mid-1990. Real wage and compensation change was *negative* during the later years of the 1982-1990 expansion (down 1.5 percent between 1986 and 1990).

[17] In this section, dates refer to calendar years rather than fiscal years.


The Misery Index
is at its lowest since the 1960s
Percent
20
15
10
5
0
1960
1963
1966
1969
1972
1975
1978
1981
1984
1987
1990
1993
1996
Unemployment
Inflation

! ***The 1993 Budget Legislation —*** The economy has done exceptionally well since the 1993 budget legislation.[18] Yet, that legislation was vilified by many Republicans. For example, in 1993 one House Republican said that the 1993 Clinton budget "was a recipe for economic and fiscal disaster." Another House Republican said the package "would put the economy in the gutter." Former Speaker Gingrich said that the Clinton budget would "lead to a recession next year, … the Democrat machine's recession." Not a single Republican voted for the legislation in the House or the Senate.

Administration Economic Assumptions

The Administration, like most other forecasters, expects the U.S. economy to revert to a more normal trend performance over the next five years. The Administration views its forecast as a conservative set of economic assumptions close to the consensus of private sector forecasts.

In general, Administration assumptions appear to be slightly more optimistic than those of the Congressional Budget Office (CBO). That is, other things being equal, the Administration's economic differences could make its budget outlook a little more favorable than CBO's. However, CBO has recently made some non-economic technical changes that move in the opposite direction. Indeed, CBO's budget surplus projections for the next five years are somewhat more optimistic than the Administration's. Overall, differences in economic and budget projections should not be as contentious this year as in the past.

Both the Administration and CBO forecasts are predicated on favorable feedback to the economy from budget surpluses and reduction in publicly held federal debt. These economic developments further improve the budget picture.

There are always risks to any forecast. There are two major sources of risk in the Administration's forecast. One risk is an economic recession. The forecast assumes that the current expansion dating from 1990 will continue indefinitely without a recession. The other risk is that financial and economic turmoil in some Asian countries, Russia, and Brazil could become worse and adversely affect the U.S. economy.

[18] In January 1993, when President Clinton took office, CBO forecast that the 1998 federal budget deficit would be $357 billion. Instead, six years later, the budget was in surplus by $69 billion (including Social Security). There were two reasons: legislation enacted by *Democratic* Congresses, and improvements in the economy that were not foreseen by CBO in early 1993. CBO estimates show that while the Democratic 103rd Congress substantially reduced deficits, legislation enacted by the later Republican Congresses made the 1998 deficit outlook slightly worse. CBO also found that more than half of deficit reduction from the 1993 budget legislation was from lower spending and less than half came from higher revenues. Contrary to charges at the time, that legislation did not just increase taxes. The legislation also put spending on a downward trajectory as a percentage of the size of the economy.

On the other hand, forecasters have been surprised over the last several years by exceptional short-term economic performance and strong revenue growth, a trend that could continue longer than the Administration expects.

COMPARISON OF ADMINISTRATION, CBO, AND PRIVATE ECONOMIC ASSUMPTIONS

	(Calendar years)						
	1998 \1	1999	2000	2001	2002	2003	2004
Percent change, real GDP \2							
Administration	3.5	2.0	2.0	2.0	2.4	2.4	2.4
CBO January	3.6	1.8	1.9	2.3	2.4	2.5	2.4
Blue Chip private survey \3	3.5	2.1	2.4	2.4	2.6	2.6	2.6
Percent change, GDP prices \2							
Administration	0.9	1.9	2.1	2.1	2.1	2.1	2.1
CBO January	1.0	2.1	2.0	2.2	2.1	2.1	2.1
Blue Chip private survey \3	1.0	1.7	2.0	2.5	2.4	2.4	2.4
Percent change, CPI - U \2							
Administration	1.6	2.3	2.3	2.3	2.3	2.3	2.3
CBO January	1.6	2.7	2.6	2.6	2.6	2.6	2.6
Blue Chip private survey \3	1.6	2.1	2.5	2.8	2.7	2.7	2.7
Unemployment rate (%)							
Administration	4.6	4.8	5.0	5.3	5.3	5.3	5.3
CBO January	4.5	4.6	5.1	5.4	5.6	5.7	5.7
Blue Chip private survey \3	4.5	4.7	4.9	5.4	5.4	5.2	5.2
3-month Treasury rate (%)							
Administration	4.8	4.2	4.3	4.3	4.4	4.4	4.4
CBO January	4.8	4.5	4.5	4.5	4.5	4.5	4.5
Blue Chip private survey \3	4.8	4.2	4.4	5.1	5.0	5.0	5.0
10-year Treasury rate (%)							
Administration	5.3	4.9	5.0	5.2	5.3	5.4	5.4
CBO January	5.3	5.1	5.3	5.4	5.4	5.4	5.4
Blue Chip private survey \3	5.3	4.9	5.2	5.7	5.8	5.8	5.8

\1 Table prepared prior to January 29, 1999, Commerce Dept. release of estimate for 4th quarter 1998 GDP.

\2 Percent change, fourth quarter to fourth quarter.

\3 For 1998-2000, January Blue Chip Consensus forecast; for 2001-2004 forecast, Blue Chip's October 19 semiannual long-range extension. (Note: There is a 2000/2001 disconnect in the levels of unemployment and interest rates.)

- ***Real Growth in GDP* —** The Administration expects that the rapid pace of real growth for 1998 will slow to 2.0 percent for three years, 1999-2001, and then rise slightly to the rate that the Administration believes is consistent with stable inflation, 2.4 percent per year. The Administration's projection is slightly more optimistic than CBO's in the near term.

- ***GDP Prices* —** Over the next two years, the rate of GDP price inflation rises, moving from the current extraordinarily low rate to a rate that is historically more typical of periods with sustained real growth of 2 percent or more and with unemployment of less than 5.5 percent. After 2000, the Administration's projection for GDP price inflation is generally lower than the Blue Chip consensus by several tenths of a percentage point.

- ***CPI Inflation* —** The CPI inflation rate rises, moving from the current extraordinarily low rate to a rate that is closer to a rate historically more typical of periods with sustained real growth of 2 percent or more and with unemployment of less than 5.5 percent. The Administration's projections for CPI inflation are generally lower than CBO's by several tenths of a percentage point. Further, the Administration's CPI-GDP inflation differential is generally lower than CBO's, which means that the cost of inflation-indexed benefit programs is lower relative to nominal tax revenues and that the budget outlook will be more favorable.

- ***Unemployment* —** The unemployment rate climbs slowly to 5.3 percent in 2001 and continues at that rate thereafter. This change is a movement toward a more typical historical norm. This projection is slightly more optimistic in later years than CBO's, by about 0.3 to 0.4 percentage points, although this difference by itself does not have a great effect on the budget outlook.

- ***Interest Rates* —** The Administration projects that short-term interest rates will fall slightly and remain low. The Administration expects that long-term rates, which were pushed down last year by a "flight to safety," will stay very low. The Administration expects beneficial feedback from an evolving budget surplus, lower interest rates, and lower debt service costs in the budget. This phenomenon is sometimes called the "virtuous cycle." Administration interest rates, both short- and long-term, are somewhat lower than CBO's, factors that tend to create a more favorable Administration budget outlook.

The Budget By Function

The following three tables show the President's budget broken down by budget function, which correspond with the major areas of federal government activity. The first table shows the budget for discretionary spending, which is spending controlled by the annual appropriations process. The second table shows the budget for mandatory spending, which is spending provided for through authorizing legislation. Mandatory spending includes entitlement programs such as Medicare, Medicaid, and Social Security, as well as interest payments on the federal debt. The last table shows total spending (discretionary and mandatory) for each budget function. Detailed descriptions of each function follow the tables.

PRESIDENT'S 2000 BUDGET REQUEST: DISCRETIONARY SPENDING
(In billions of dollars)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
050: DEFENSE					
Budget Authority	281.588	301.321	303.208	313.581	322.343
Outlays	274.835	282.736	292.818	304.715	314.427
150: INTERNATIONAL AFFAIRS					
Budget Authority	21.311	21.165	20.815	20.965	21.115
Outlays	19.988	20.632	21.241	20.882	20.977
250: GENERAL SCIENCE, SPACE AND TECHNOLOGY					
Budget Authority	19.202	19.408	19.372	19.339	19.335
Outlays	18.491	18.899	19.114	19.255	19.297
270: ENERGY					
Budget Authority	2.836	3.169	3.020	2.992	2.965
Outlays	3.147	3.274	3.222	3.183	3.111
300: NATURAL RESOURCES AND ENVIRONMENT					
Budget Authority	23.812	23.987	23.886	23.911	23.964
Outlays	23.790	24.348	24.076	24.165	24.186
350: AGRICULTURE					
Budget Authority	4.140	4.140	4.153	4.140	4.140
Outlays	4.224	4.127	4.128	4.164	4.150
370: COMMERCE AND HOUSING CREDIT					
Budget Authority	5.369	3.343	2.863	2.902	2.941
Outlays	5.259	3.729	3.130	3.068	3.043
400: TRANSPORTATION					
Budget Authority	13.518	14.159	14.709	15.333	15.844
Outlays	44.019	46.771	48.165	49.929	51.524
450: COMMUNITY AND REGIONAL DEVELOPMENT					
Budget Authority	8.902	8.902	8.902	8.902	8.902
Outlays	10.807	10.567	10.091	9.816	9.681
500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES					
Budget Authority	52.138	54.152	54.160	54.108	54.025
Outlays	50.191	53.957	54.156	54.252	54.278
550: HEALTH					
Budget Authority	30.611	30.971	30.846	30.836	30.836
Outlays	29.553	30.495	30.785	30.843	30.850
570: MEDICARE					
Budget Authority	2.926	2.926	2.926	2.926	2.926
Outlays	2.898	2.916	2.922	2.914	2.938
600: INCOME SECURITY					
Budget Authority	30.152	36.396	36.196	36.196	36.196
Outlays	42.356	42.042	40.108	39.273	38.352
650: SOCIAL SECURITY					
Budget Authority	3.226	3.225	3.225	3.225	3.225
Outlays	3.341	3.297	3.239	3.225	3.225
700: VETERANS BENEFITS AND SERVICES					
Budget Authority	19.282	19.279	19.274	19.292	19.293
Outlays	19.075	19.357	19.224	19.291	19.282
750: ADMINISTRATION OF JUSTICE					
Budget Authority	26.376	26.754	26.915	26.734	26.833
Outlays	26.733	28.197	27.074	27.146	27.002
800: GENERAL GOVERNMENT					
Budget Authority	12.722	13.509	13.181	13.259	13.224
Outlays	12.974	13.482	13.379	13.328	13.261
900: NET INTEREST					
Budget Authority	0.000	0.000	0.000	0.000	0.000
Outlays	0.000	0.000	0.000	0.000	0.000
920: ALLOWANCES					
Budget Authority	-0.307	3.000	6.000	9.000	12.000
Outlays	2.631	2.519	4.592	7.064	9.904
950: UNDISTRIBUTED OFFSETTING RECEIPTS					
Budget Authority	-2.800	1.100	1.100	-0.200	-0.200
Outlays	-2.800	1.100	1.100	-0.200	-0.200

PRESIDENT'S 2000 BUDGET REQUEST: MANDATORY SPENDING
(In billions of dollars)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
050: DEFENSE					
Budget Authority	-0.788	-0.810	-0.797	-0.757	-0.686
Outlays	-0.766	-0.614	-0.743	-0.710	-0.660
150: INTERNATIONAL AFFAIRS					
Budget Authority	-3.943	-3.656	-4.123	-2.406	-1.477
Outlays	-3.886	-3.680	-3.393	-3.150	-3.057
250: GENERAL SCIENCE, SPACE AND TECHNOLOGY					
Budget Authority	0.078	0.068	0.034	0.034	0.034
Outlays	0.078	0.068	0.034	0.034	0.034
270: ENERGY					
Budget Authority	-5.096	-4.366	-4.310	-4.092	-4.231
Outlays	-5.142	-4.404	-4.336	-4.244	-4.281
300: NATURAL RESOURCES AND ENVIRONMENT					
Budget Authority	0.140	0.082	0.217	0.287	0.342
Outlays	-0.044	0.062	-0.076	0.134	0.131
350: AGRICULTURE					
Budget Authority	10.008	8.353	6.420	6.500	6.731
Outlays	10.922	8.720	7.309	6.002	6.160
370: COMMERCE AND HOUSING CREDIT					
Budget Authority	9.103	9.308	9.177	8.805	8.427
Outlays	1.093	3.959	6.121	6.451	6.901
400: TRANSPORTATION					
Budget Authority	39.905	39.588	40.174	41.840	42.572
Outlays	2.416	2.046	1.437	1.904	1.858
450: COMMUNITY AND REGIONAL DEVELOPMENT					
Budget Authority	0.205	1.127	1.435	0.165	0.583
Outlays	-0.573	-0.585	-0.540	-0.538	-0.584
500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES					
Budget Authority	13.146	13.326	12.873	14.859	16.208
Outlays	13.160	13.804	12.748	14.477	15.691
550: HEALTH					
Budget Authority	124.872	133.104	141.349	152.405	163.922
Outlays	122.717	132.318	142.552	153.854	165.721
570: MEDICARE					
Budget Authority	213.518	227.462	232.105	249.382	263.144
Outlays	213.701	227.686	231.669	249.571	263.377
600: INCOME SECURITY					
Budget Authority	220.808	231.178	239.609	247.097	255.690
Outlays	215.673	225.298	234.558	243.076	252.889
650: SOCIAL SECURITY					
Budget Authority	405.587	425.193	445.802	466.903	489.326
Outlays	405.234	423.597	444.059	465.092	487.378
700: VETERANS BENEFITS AND SERVICES					
Budget Authority	24.380	25.590	26.471	27.508	28.379
Outlays	24.949	25.957	26.815	27.550	28.575
750: ADMINISTRATION OF JUSTICE					
Budget Authority	0.549	0.502	0.611	0.592	0.595
Outlays	0.796	0.611	0.574	0.546	0.540
800: GENERAL GOVERNMENT					
Budget Authority	1.243	1.257	1.313	1.335	1.351
Outlays	1.516	1.240	1.165	1.227	1.442
900: NET INTEREST					
Budget Authority	215.487	207.605	199.041	190.737	183.559
Outlays	215.487	207.605	199.041	190.737	183.559
920: ALLOWANCES					
Budget Authority	…	-4.600	-4.700	-4.800	-4.800
Outlays	…	-2.824	-3.917	-4.553	-4.688
950: UNDISTRIBUTED OFFSETTING RECEIPTS					
Budget Authority	-42.856	-46.117	-52.176	-46.836	-47.682
Outlays	-42.856	-46.117	-52.176	-46.836	-47.682

PRESIDENT'S 2000 BUDGET REQUEST: TOTAL SPENDING

(In billions of dollars)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
050: DEFENSE					
Budget Authority	280.800	300.511	302.411	312.824	321.657
Outlays	274.069	282.122	292.075	304.005	313.767
150: INTERNATIONAL AFFAIRS					
Budget Authority	17.368	17.509	16.692	18.559	19.638
Outlays	16.102	16.952	17.848	17.732	17.920
250: GENERAL SCIENCE, SPACE AND TECHNOLOGY					
Budget Authority	19.280	19.476	19.406	19.373	19.369
Outlays	18.569	18.967	19.148	19.289	19.331
270: ENERGY					
Budget Authority	-2.260	-1.197	-1.290	-1.100	-1.266
Outlays	-1.995	-1.130	-1.114	-1.061	-1.170
300: NATURAL RESOURCES AND ENVIRONMENT					
Budget Authority	23.952	24.069	24.103	24.198	24.306
Outlays	23.746	24.410	24.000	24.299	24.317
350: AGRICULTURE					
Budget Authority	14.148	12.493	10.573	10.640	10.871
Outlays	15.146	12.847	11.437	10.166	10.310
370: COMMERCE AND HOUSING CREDIT					
Budget Authority	14.472	12.651	12.040	11.707	11.368
Outlays	6.352	7.688	9.251	9.519	9.944
400: TRANSPORTATION					
Budget Authority	53.423	53.747	54.883	57.173	58.416
Outlays	46.435	48.817	49.602	51.833	53.382
450: COMMUNITY AND REGIONAL DEVELOPMENT					
Budget Authority	9.107	10.029	10.337	9.067	9.485
Outlays	10.234	9.982	9.551	9.278	9.097
500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES					
Budget Authority	65.284	67.478	67.033	68.967	70.233
Outlays	63.351	67.761	66.904	68.729	69.969
550: HEALTH					
Budget Authority	155.483	164.075	172.195	183.241	194.758
Outlays	152.270	162.813	173.337	184.697	196.571
570: MEDICARE					
Budget Authority	216.444	230.388	235.031	252.308	266.070
Outlays	216.599	230.602	234.591	252.485	266.315
600: INCOME SECURITY					
Budget Authority	250.960	267.574	275.805	283.293	291.886
Outlays	258.029	267.340	274.666	282.349	291.241
650: SOCIAL SECURITY					
Budget Authority	408.813	428.418	449.027	470.128	492.551
Outlays	408.575	426.894	447.298	468.317	490.603
700: VETERANS BENEFITS AND SERVICES					
Budget Authority	43.662	44.869	45.745	46.800	47.672
Outlays	44.024	45.314	46.039	46.841	47.857
750: ADMINISTRATION OF JUSTICE					
Budget Authority	26.925	27.256	27.526	27.326	27.428
Outlays	27.529	28.808	27.648	27.692	27.542
800: GENERAL GOVERNMENT					
Budget Authority	13.965	14.766	14.494	14.594	14.575
Outlays	14.490	14.722	14.544	14.555	14.703
900: NET INTEREST					
Budget Authority	215.487	207.605	199.041	190.737	183.559
Outlays	215.487	207.605	199.041	190.737	183.559
920: ALLOWANCES					
Budget Authority	-0.307	-1.600	1.300	4.200	7.200
Outlays	2.631	-0.305	0.675	2.511	5.216
950: UNDISTRIBUTED OFFSETTING RECEIPTS					
Budget Authority	-45.656	-45.017	-51.076	-47.036	-47.882
Outlays	-45.656	-45.017	-51.076	-47.036	-47.882

Function 050: National Defense

(in billions of dollars)

		1999	2000	2001	2002	2003	2004	00-04 Total
Discretionary	BA	277.0	281.6	301.3	303.2	313.6	322.3	1,522.0
	O	277.5	274.8	282.7	292.8	304.7	314.4	1,469.5
Mandatory	BA	-0.8	-0.8	-0.8	-0.8	-0.8	-0.7	-3.9
	O	-0.8	-0.8	-0.6	-0.7	-0.7	-0.7	-3.5
Total	**BA**	**276.2**	**280.8**	**300.5**	**302.4**	**312.8**	**321.7**	**1,518.2**
	O	**276.7**	**274.1**	**282.1**	**292.1**	**304.0**	**313.8**	**1,466.0**

President Clinton's budget for 2000 provides $281.6 billion in discretionary funding for national security activities, including $268.2 billion for the Department of Defense (DoD), $12.4 billion for nuclear weapons-related activities of the Department of Energy, and $1.0 billion for defense activities in various other agencies (such as the Coast Guard and the Federal Bureau of Investigation).

The discretionary levels in the table above are misleading because the 1999 levels include $5.0 billion in emergency funding, of which almost $3.0 billion is for contingency operations in Bosnia and Iraq.[19] The 2000 budget includes funding for the ongoing operations in Bosnia and Iraq, so the clearest comparison between 1999 and 2000 discretionary funding levels should exclude all 1999 emergencies except Iraq and Bosnia. After making these adjustments, the 1999 discretionary funding level is $274.9 billion, so the 2000 budget actually increases discretionary defense funding by $6.7 billion (2.4 percent) over the 1999 level.

! ***Military Pay*** — The budget includes a number of military pay provisions that increase costs approximately $20.5 billion over the 2000-2005 according to DoD. The budget increases military personnel basic pay by 4.4 percent in January 2000, which equals the pay raise for federal civilians.[20] This pay raise is 2.1 percentage points above the inflation rate for 2000 as measured by the Consumer Price Index (CPI). The budget increases military personnel pay by 3.9 percent each January from 2001-2005. The 2001-2005 raises match the

[19] The 1999 appropriated level included $8.3 billion in emergency funding, but not all of this funding is reflected in the table because OMB does not record contingent emergency funding until it is actually released.

[20] According to GAO, basic pay averages about 72 percent of regular military compensation, which also includes housing and subsistence allowances.

Employment Cost Index, which is the Department of Labor's measure of civilian wage growth. In addition to the across-the-board raises, the budget changes the military pay table to increase promotion raises for mid-grade officers and non-commissioned officers by as much as 5.5 percent. These one-time increases to the pay table, effective July 1, 2000, will better reward performance and encourage talented individuals to stay in the military.

! ***Military Retirement*** — The Military Retirement Reform Act of 1986 (also known as REDUX), governs the retirement benefits of military personnel who initially entered the Armed Forces on or after August 1, 1986. Under REDUX, retirees with 20 years of service receive 40 percent of base pay, while retirees who entered the service prior to August 1, 1985, receive 50 percent.[21] The budget reverses this provision of REDUX so that all military members with 20 years of service will receive 50 percent of basic pay. REDUX also reduced cost-of-living adjustments (COLAs) for retirees to 1.0 percentage point below the CPI. The President's budget retains this COLA calculation, but guarantees military retirees a minimum 2.0 percent COLA regardless of the CPI. For example, if the CPI is 2.5 percent, the military retiree COLA is 2.0 percent rather than 1.5 percent. The DoD estimates that these provisions cost $6.0 billion between 2000-2005.[22]

[21]Under REDUX, the 40 percent retirement benefit is based on the average of the highest three years ("High Three") of an individual's basic pay. Military personnel who entered the Armed Forces after September 8, 1980, but before August 1, 1986, receive 50 percent of the individual's "High Three." Military personnel who entered the Armed Forces prior to September 8, 1980, receive 50 percent of the individual's highest year of basic pay.

[22]These increased costs are the result of higher accrual payments from DoD to the Military Retirement Trust Fund to account for the more generous future benefits. The actual increases in retirement payments occurs gradually over time as military personnel who enlisted on or after August 6, 1986, begin to retire.

! ***How Much Has Defense Been Increased?*** — As the table below indicates, President Clinton's budget increases funding for the DoD by $112 billion over the next six years.

Department of Defense Discretionary Budget Authority
(in billions of dollars)

	2000	2001	2002	2003	2004	2005	00-05 Total
1999 Budget	264.1	272.3	275.5	285.2	292.1	299.4	1,688.7
2000 Budget	268.2	287.4	289.3	299.7	308.5	319.8	1,773.0
Topline Increase	*4.1*	*15.1*	*13.8*	*14.5*	*16.3*	*20.5*	*84.3*
Program Savings	*5.4*	*3.9*	*4.1*	*4.5*	*4.7*	*5.1*	*27.7*
Milcon Shift	*3.1*	*-3.1*	--	--	--	--	--
Total Increase	**12.6**	**15.9**	**17.9**	**19.0**	**21.0**	**25.6**	**112.0**

The table compares the 1999 long-term defense plan with the 2000 long-term defense plan. Of the $112 billion increase, $84.3 billion (75 percent) represents a net increase in funding and $27.7 billion (25 percent) comes from program savings. (See *Discretionary Programs* for a discussion of the use of the surplus to increase funding for discretionary programs.) In 2000, $1.6 billion of the total $5.4 billion in program savings comes from unspecified rescissions of prior year appropriations that will occur after October 1, 1999. Lower inflation estimates and other technical adjustments account for the remaining program savings in 2000 and the subsequent years. Critics who believe defense funding should be higher than the levels in the budget claim that inflation savings are not as legitimate as top-line increases. However, inflation has consistently been lower than OMB projections every year since 1995, and if this trend holds, the program savings in the budget are real.

On a one-time-only basis in 2000, DoD will incrementally fund rather than fully fund its Military Construction (MilCon) program, creating $3.1 billion in savings. The MilCon projects started in 2000 will receive the $3.1 billion needed to complete these projects in 2001, and all new MilCon projects in 2001 and after will again be fully funded. While this one-time shift in policy does not create savings over time, it *does* create savings in 2000 that can be used for higher defense priorities without any adverse effect on construction schedules.

! ***Readiness*** **—** Operation and Maintenance (O&M), an account critical to readiness, is funded for 2000 at $103.3 billion, an increase of $5.5 billion (5.6 percent) over the 1999 level. A total of $13 billion is added to O&M in 2000-2004 above the levels assumed in the 1999 long-term defense plan. In constant 1999 dollars, the 2000 budget will provide $73,000 in O&M funds per active duty member, which is $2,700 (3.8 percent) more than the 1999 level. O&M per active duty member in 2000 will be 48 percent more in real (inflation-adjusted) terms than 1985, the peak year of the Reagan defense buildup. While O&M per active duty member is a crude measurement of readiness, the level in the 2000 budget is at its all-time high.

! ***Weapons of Mass Destruction*** **—** The budget includes $476 million for the Cooperative Threat Reduction (Nunn-Lugar) program, an increase of $36 million (8.2 percent) over the 1999 level. This program is part of a $1.0 billion government-wide effort to:

(1) prevent the proliferation of highly enriched uranium and plutonium from loosely-guarded facilities in the states of the former Soviet Union (FSU);

(2) halt or prevent FSU weapons scientists and engineers from assisting nations and terrorist groups hostile to the U.S.; and

(3) respond effectively in the event a weapon of mass destruction is used against the United States.

Included within this $1.0 billion is $241 million for states of the FSU administered by the Department of State, and $296 million controlled by the Department of Energy. This initiative represents the “first line of defense” against weapons of mass destruction.

! ***National Missile Defense (NMD)*** **—** The budget includes $1.3 billion for development of a ground-based national missile defense system, which is $203 million (19 percent) more than the 1999 level. The 2000 budget includes $450 million from 1999 emergency funding earmarked for ballistic missile defense. The Administration’s NMD policy is to develop a ground-based system capable of intercepting a small number of unsophisticated warheads, such as those that may be found on North Korean intercontinental ballistic missiles in the future. While the Administration hopes the NMD technology is mature enough by 2000 to be deployed in 2003 if required, DoD officials believe the technology is so daunting that it is unlikely that a system could be deployed before 2005. Unlike past long-term defense budgets, the budget includes procurement funding (beginning in 2001) to field a ground-based NMD system contingent upon a decision to deploy by the Administration.

! ***Theater Missile Defense (TMD)*** — The 2000 budget contains $2.2 billion for TMD research and development programs controlled by the Ballistic Missile Defense Office (BMDO), which equals the 1999 level. Theater missile defense systems are designed to intercept short- and medium-range tactical ballistic missiles (and are incapable of intercepting intercontinental ballistic missiles). The 2000 funding level includes $100 million from 1999 emergency funds earmarked for ballistic missile defense. The major TMD research programs are as follows:

Theater High Altitude Area Defense (THAAD)	$612 million
Navy Area Defense	$268 million
Navy Theater Wide Defense	$350 million
Patriot PAC-3	$109 million

The Patriot PAC-3 and the Navy Area Defense programs are the most mature of these programs. The budget includes $301 million to begin PAC-3 procurement (including 32 missile interceptors) and $55 million for Navy Area Defense procurement (including 7 missile interceptors). In addition to the BMDO programs, the Air Force research and development budget contains $309 million for the Airborne Laser and $64 million for the Space Based Laser in 2000 (which also receives $75 million from BMDO, for a total of $139 million).

! ***Modernization*** — The budget is on track to meet the Quadrennial Defense Review goal of $60 billion for procurement funding for 2001.[23] For 2000, procurement funding is $53 billion, $4 billion (8.2 percent) more than the 1999 level. The chart below shows total program acquisition costs — procurement, research and development, and military construction (if necessary) — in 2000 for selected major weapons programs.

[23]Mandated by Congress, the Quadrennial Defense Review (QDR) was the fourth major attempt by the Pentagon to reassess the size and composition of U.S. Armed Forces since the end of the Cold War. Released in May, 1997, the QDR reaffirmed that the guiding principle behind U.S. military force structure should be the ability to win two major regional contingencies nearly simultaneously.

Selected Major Acquisition Programs

(Funding in millions of dollars)

Service	Program	Qty	Funding
Air Force	C-17 Airlift Aircraft	15	3,561.9
Air Force	F-22 Advanced Fighter	6	3,074.3
Navy	F/A-18E/F Hornet	36	3,066.3
Navy	DDG-51 Aegis Destroyer	3	2,928.0
Navy	LPD-17 S.A. Amphibious Ships	2	1,523.1
Marine Corps	V-22 Osprey	10	1,168.7
Army	Abrams M-1 Tank Upgrades	120	658.3
Navy	Trident II D-5 Missile	12	537.0
Air Force	F-16 Falcon	10	440.8
Navy	E-2C Hawkeye	3	411.6
Army	Javelin Antitank Missile	2,682	411.1
Navy	T-45 Training Aircraft	15	357.9
Navy	AV-8B Harrier	12	346.4
Navy/Air Force	Joint Standoff Weapon	808	275.9
Navy/Air Force	Joint Strike Fighter	N/A	476.9
Air Force	B-2 Stealth Bomber	N/A	374.6
Air Force	Milstar	N/A	361.3
Air Force	SBIRS High	N/A	328.7
Air Force	SBIRS Low	N/A	229.0

NOTE: Includes procurement, research and development, and military construction funding in 2000.

! ***Department of Energy*** — The budget includes $12.4 billion for the Department of Energy's nuclear weapons-related activities, which is $168 million (1.3 percent) less than the 1999 level. The budget includes $5.8 billion for cleaning up the radioactive and other hazardous waste associated with nuclear weapons production, which is slightly above the 1999 level.

The budget contains $4.5 billion for the Stockpile Stewardship program, which maintains the reliability and safety of our nuclear arsenal in the absence of underground testing. This level is $131 million more than the 1999 level, and the Administration considers this program crucial to its top foreign policy priority this year, Senate ratification of the Comprehensive Test Ban Treaty. The Administration believes that the Senate will not ratify the treaty unless there is widespread confidence in the ability of the Stockpile Stewardship program to maintain U.S. nuclear weapons in good and safe condition for the foreseeable future.

Function 150: International Affairs

(in billions of dollars)

		1999	2000	2001	2002	2003	2004	00-04 Total
Discretionary	BA	22.5[24]	21.3	21.2	20.8	21.0	21.1	105.4
	O	19.8	20.0	20.6	21.2	20.9	21.0	103.7
Mandatory	BA	-3.3	-3.9	-3.7	-4.1	-2.4	-1.5	-15.6
	O	-4.4	-3.9	-3.7	-3.4	-3.2	-3.1	-17.2
Total	**BA**	**19.2**	**17.4**	**17.5**	**16.7**	**18.6**	**19.6**	**89.8**
	O	**15.5**	**16.1**	**17.0**	**17.8**	**17.7**	**17.9**	**86.6**

President Clinton's budget includes $21.3 billion in discretionary funding for international affairs in 2000. This level is a decrease of $1.1 billion (4.6 percent) from the 1999 level, which included $1.8 billion in emergency funding (primarily to enhance and improve embassy security). As the graph on the next page indicates, funding for all activities in the International Affairs function — State Department diplomatic and consular operations (including embassies and consulates throughout the world), military assistance to allies, assistance to underdeveloped nations, economic assistance to fledgling democracies, promotion of U.S. exports abroad, U.S. payments to international organizations, peacekeeping efforts, and more — amount to less than one percent of all federal outlays.[25]

According to the most recent foreign aid figures from the Organization for Economic Cooperation and Development (OECD), the U.S. has fallen behind Japan as the largest provider of foreign aid in absolute terms, and ranks 21st in the world in terms of foreign aid as a percent of gross national product (GNP). Countries that provide more foreign aid as a percent of GNP than the U.S. include Australia, France, Ireland, Italy, Luxembourg, New Zealand, Portugal, and Spain.[26]

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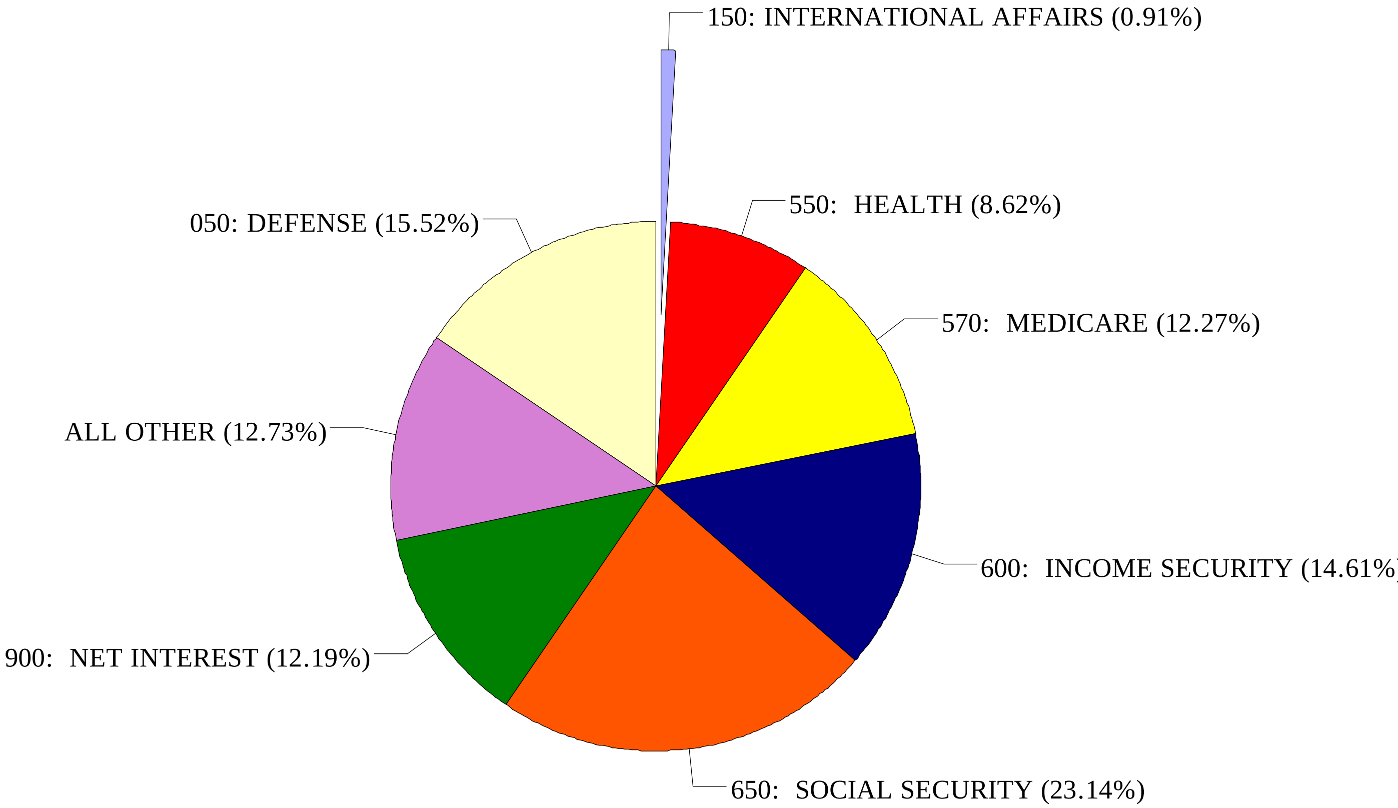
[24] Excludes the U.S. contribution to the International Monetary Fund. U.S. contributions to the International Monetary Fund are exchanges of equal-value assets and thus do not represent an increase in costs. Discretionary budget authority is recorded for these transactions, but primarily for Congressional jurisdiction purposes.

[25] Outlays, rather than budget authority, were used because some programs, notably in the transportation function, are not measured in terms of budget authority.

[26] Data is from the OECD 1998 Development Cooperation Report, February, 1999. The OECD measurement is based on its definition of "official development assistance," consisting of grants or concessional loans to developing countries to promote economic development. Military assistance is not considered official development assistance.

President Clinton's 2000 Budget:

Total Outlays by Function



- ***Embassy Security —*** The budget includes $3 billion in advance, non-emergency appropriations for 2001-2005 (no funding for 2000) to enhance and improve embassy security in the wake of the devastating terrorist attacks against U.S. embassies in Kenya and Tanzania. The advance appropriations package provides $300 million for embassy security improvements for 2001, and increases funding by increments of $150 million per year until $900 million is provided for embassy security for 2005.

- ***Middle East Peace Process*** — The budget includes $1.9 billion to implement the Wye River Memorandum, which is an agreement between Israel and the Palestinians as part of the Oslo Peace Accord. The Wye River package represents a $900 million emergency supplemental for 1999, $500 million for 2000, and a $500 million advance appropriation for 2001. The Administration requests that the entire package be enacted *prior* to the regular appropriations process.

  The $900 million emergency supplemental package for 1999 is distributed as follows:

  $600 million in Foreign Military Financing (FMF) for Israel;
  $200 million in Economic Support Funds (ESF) for the Palestinians; and
  $100 million in FMF for Jordan.

  The $500 million packages for 2000 and 2001 are distributed identically as follows:

  $300 million in FMF for Israel;
  $100 million in ESF for the Palestinians;
  $ 50 million in ESF for Jordan; and
  $ 50 million in FMF for Jordan.

  Although the 1999 supplemental is designated as an emergency, and does not require offsets under budget rules, the Administration offsets the package. The offsets for this spending include rescinding:

  $652 million of 1999 emergency funding for classified programs;
  $230 million of 1999 emergency funding for ballistic missile defense; and
  $ 18 million of prior-year FMF assistance for Eastern Europe.

  The budget provides an advance appropriation of $230 million in 2001 to “repay” the Department of Defense for the ballistic missile defense funding, and “repays” the classified programs within the budget over 2001-2005.

- ***Economic Support Fund (ESF) and Foreign Military Financing (FMF)*** — Last year, Israeli Prime Minister Benjamin Netanyahu proposed phasing out ESF assistance to Israel if half of the reductions was used to increase FMF assistance. In the negotiations over ESF and FMF levels that ensued, the traditional earmarks of $1.2 billion in ESF and $1.8 billion in FMF for Israel were changed in 1999 for the first time since 1986. The 2000 budget includes $930 million in Israeli ESF assistance, and $1.920 billion in FMF assistance for Israel. The ESF assistance is $150 million below the 1999 level, and the FMF assistance is $60 million more than the 1999 level. These funds are in addition to the assistance associated with the Wye River Memorandum.

  The ESF level for Egypt had been $815 million since 1986, but was lowered to $775 million in 1999 and is $715 million for 2000. Egypt's traditional earmark of FMF assistance is unchanged, and remains at $1.3 billion in 2000.

  The budget includes a total of $2.4 billion in ESF assistance for 58 countries and organizations, which is slightly below the 1999 level. Total FMF assistance for 2000 is $3.4 billion (slightly above the 1999 level), and goes to 30 countries and organizations.

- ***Agency for International Development*** — The budget includes $2.6 billion for the Agency for International Development (AID), which is $90 million (3.6 percent) above the 1999 level. The budget includes $1.8 billion for Sustainable Development programs, which is $59 million (3.3 percent) above the 1999 level. Included within this amount is $555 million for Child Survival and $513 million for the Development Fund for Africa.

- ***New Independent States and Eastern Europe*** — The budget includes a little more than $1.0 billion for New Independent States (NIS) that were part of the former Soviet Union. Included in this assistance is $241 million to help prevent the spread of weapons of mass destruction and their components. (See *Function 050: National Defense* for further discussion.) The budget also includes $393 million in funding for the Support Eastern European Democracy program, which includes $175 million for Bosnia. Total funding for these efforts for 2000 is $148 million (11.6 percent) more than the 1999 level.

Function 250: General Science, Space, and Technology

(in billions of dollars)

		1999	2000	2001	2002	2003	2004	00-04 Total
Discretionary	BA	18.8	19.2	19.4	19.4	19.3	19.3	96.7
	O	18.5	18.5	18.9	19.1	19.3	19.3	95.1
Mandatory	BA	0.1	0.1	0.1	0.0	0.0	0.0	0.2
	O	0.1	0.1	0.1	0.0	0.0	0.0	0.2
Total	**BA**	**18.8**	**19.3**	**19.5**	**19.4**	**19.4**	**19.4**	**96.9**
	O	**18.5**	**18.6**	**19.0**	**19.1**	**19.3**	**19.3**	**95.3**

Function 250 comprises funding for general science, space, and technology programs including the National Aeronautics and Space Administration (NASA), the National Science Foundation (NSF), and general science programs at the Department of Energy (DOE). Overall, President Clinton's budget funds these programs at $19.3 billion for 2000, an increase of $433 million (2.3 percent) above the 1999 level.

! ***National Aeronautics and Space Administration (NASA) —*** The President's budget provides $12.5 billion for NASA science activities for 2000, a $40 million (0.3 percent) increase over the 1999 level. Additionally, part of NASA's funding for science, aeronautics, and technology and accompanying mission support is provided in Function 400, Transportation. Including this additional $1.1 billion for aeronautical research and technology, the agency total for 2000 is $13.6 billion, a decrease of $86 million (0.6 percent) below the 1999 level. The International Space Station receives $2.5 billion in 2000, a $178 million (7.7 percent) increase above the 1999 level. Science, aeronautics, and technology receive $5.4 billion in 2000, a $229 decrease (4.1 percent) below the 1999 level.

! ***National Science Foundation (NSF) —*** The President's budget provides $3.9 billion for NSF for 2000, an increase of $256 million (7.0 percent) over the 1999 level.[27] Most of this

[27]These amounts include $27 million in 1999 and $33 million in 2000 from offsetting collections of H-1B nonimmigrant petitioner fees. Also, agency budget totals reflect an additional $63 million annually for U.S. Antarctic logistical support activities provided by the Department of Defense. Agency budget totals reflect an additional $41 million in 1999 of unobligated balances carried over from the previous year.

increase is for research and related activities, including $110 million to lead the Administration's Information Technology for the 21st Century (IT^2) initiative. The budget provides $36 million for development of terascale computing systems, also part of IT^2, to help researchers gain access to leading edge computational systems. NSF is also undertaking a multidisciplinary biocomplexity initiative.

- ***Department of Energy (DOE) General Science* —** The President's budget provides $2.8 billion for DOE general science programs for 2000, an increase of $138 million (5.1 percent) over the 1999 level. DOE general science includes basic energy sciences, biological and environmental research, high energy and nuclear physics, fusion energy sciences, and computational and technology research. Through general science programs, DOE contributes to the following Administration initiatives: Information Technology for the 21st Century (IT^2), Climate Change Technology, and Next Generation Internet. DOE general science also supports Oak Ridge National Laboratory's spallation neutron source, which is used for physical, chemical, materials, biological, and medical research.

Function 270: Energy

(in billions of dollars)

		1999	2000	2001	2002	2003	2004	00-04 Total
Discretionary	BA	2.9	2.8	3.2	3.0	3.0	3.0	15.0
	O	3.2	3.1	3.3	3.2	3.2	3.1	15.9
Mandatory	BA	-3.2	-5.1	-4.4	-4.3	-4.1	-4.2	-22.1
	O	-3.2	-5.1	-4.4	-4.3	-4.2	-4.3	-22.3
Total	**BA**	**-0.3**	**-2.3**	**-1.2**	**-1.3**	**-1.1**	**-1.2**	**-7.1**
	O	**0.0**	**-2.0**	**-1.1**	**-1.1**	**-1.1**	**-1.2**	**-6.5**

Function 270 comprises energy-related programs including research and development, environmental clean-up, and rural electric loans. Receipts from the marketing of federally produced electric power and the fee assessed on electricity produced by commercial nuclear reactors are accounted for in this part of the budget. Consequently, the mandatory amounts are negative.

! ***Energy Supply Research and Development*** — The budget includes $842 million for energy supply research and development programs, an increase of $72 million over the 1999 level. Within this account, the budget provides $446 million for solar and renewable energy research (up $62 million over 1999) and $269 million for nuclear energy research (up $2 million over 1999).

! ***Non-Defense Environmental Management*** — The budget provides $331 million for 2000 for non-defense environmental management. This account manages the clean-up of environmental damage resulting from the Department of Energy's nuclear energy and research activities. This amount represents a reduction of $100 million below the 1999 level.

! ***Fossil Energy Research and Development*** —The budget includes $364 million for fossil energy research and development, a decrease of $20 million below the 1999 level.

! ***Nuclear Waste Disposal Program*** — The budget includes $409 million to continue efforts to determine the viability of Yucca Mountain, Nevada, as the site for a proposed permanent repository for commercial and military spent nuclear fuel and high-level radioactive waste. This represents an increase of $51 million above the 1999 level. Of this amount, $297 million is derived from the Nuclear Waste Disposal Fund. The remaining defense-related funding for the project is $112 million, $73 million in new funding and $39 million from funds appropriated, but not released, for the nuclear waste disposal program in 1996.

- ***Energy Conservation*** — The budget includes $838 million for energy conservation programs for 2000, an increase of $210 million above the 1999 level.

- ***Power Marketing Administrations (PMAs)*** — PMAs market federally produced electric power to public utilities and cooperatives. In addition, PMAs arrange to buy and retransmit, or "wheel," electricity from other electric power producers on behalf of their customers, who then reimburse the PMAs for this expense. The budget eliminates this service. Since this proposal reduces spending on the PMAs' part and reduces reimbursements to PMAs by an equivalent amount, it is budget neutral.

- ***Rural Utility Service*** — The President's budget provides an overall level of $1.0 billion for the Rural Utility Service's (RUS) electric loan program, the same level as in 1999. The budget authority, or cost to the federal government for making these loans, is $10 million, a decrease of $25 million below the 1999 level. This reduction in federal programs costs stems from the Administration's proposal to reduce the highly subsidized direct 5 percent loan and municipal loan programs and establish a new Treasury rate direct loan program.

Function 300: Environment and Natural Resources

(in billions of dollars)

		1999	2000	2001	2002	2003	2004	00-04 Total
Discretionary	BA	23.4	23.8	24.0	23.9	23.9	24.0	119.6
	O	23.2	23.8	24.3	24.1	24.2	24.2	120.6
Mandatory	BA	0.6	0.1	0.1	0.2	0.3	0.3	1.0
	O	1.0	0.0	0.1	-0.1	0.1	0.1	0.2
Total	**BA**	**24.0**	**24.0**	**24.1**	**24.1**	**24.2**	**24.3**	**120.7**
	O	**24.3**	**23.8**	**24.4**	**24.0**	**24.3**	**24.3**	**120.8**

For 2000, the budget includes $23.8 billion in discretionary funding, an increase of $400 million above the 1999 level. Mandatory spending in this function is a combination of spending by the nation's land management agencies and receipts related to the use of public lands. For 2000, mandatory spending and receipts essentially cancel each other out. The President's budget includes a variety of proposals to protect natural resources and improve the environment. Among these proposals are the Lands Legacy Initiative, Superfund orphan shares, support for salmon habitat, and continued support of the California Bay-Delta initiative.

! ***National Park Service (NPS)*** — The budget includes $2.3 billion for the NPS, an increase of $321 million above the 1999 level. Approximately one-third of this increase is directed toward park operations, and the remaining two-thirds are associated with the President's Lands Legacy Initiative.

! ***Fish and Wildlife Service*** — The budget includes $1.6 billion for Fish and Wildlife Service programs for 2000. This represents an increase of $56 million above the 1999 level. Within this amount, the budget includes $724 million for resource management, an increase of $63 million above the 1999 level.

! ***Forest Service*** — The budget includes $3.5 billion for the Forest Service, an increase of $82 million above the 1999 level. Within this amount, the budget includes $1.4 billion for Forest Service operations, an increase of $58 million above the 1999 level.

- ***Bureau of Land Management (BLM)*** — The budget includes $1.4 billion for BLM, an increase of $92 million over the 1999 level. Within this amount, the budget includes $641 million for management of lands and resources, an increase of $22 million above the 1999 level.

- ***Lands Legacy Initiative*** — For 2000, the budget includes $1 billion for the Lands Legacy Initiative. This represents a $571 million increase above 1999. This initiative devotes increased resources to acquiring land for our national parks, forests, and wildlife refuges. It also provides significant new resources to states and communities for preservation of local green spaces and increases protection of our oceans and coasts. The majority of funding for this initiative ($900 million) comes from the Land and Water Conservation Fund (LWCF), marking the first time any administration has requested full funding from the LWCF. Overall, for 2000, the budget more than doubles funding for programs included in this initiative above the 1999 level.

Lands Legacy Initiative
(in millions of dollars)

	1999	2000	Change from 1999	Funds from LWCF
Great Places				
Federal Land Acquisition				
National Park Service	148	172	25	172
Fish & Wildlife Service	48	74	26	74
Bureau of Land Management	15	49	34	49
Forest Service	118	118	0	118
National Marine Sanctuaries	14	29	15	15
Great Places Subtotal	**343**	**442**	**99**	**428**
Green Spaces/ Smart Growth				
Open Space Planning Grants	0	50	50	50
Conservation Grants	0	150	150	150
Cooperative Endangered Species Conservation Fund	14	80	66	66
Forest Legacy Program	7	50	43	43
Urban & Community Forestry	31	40	9	9
Farmland Protection Program	0	50	50	50
Smart Growth Partnership	0	10	10	10
Urban Parks & Recreation Recovery	0	4	4	4
Coastal Zone Management Act Program	58	90	32	32
National Estuarine Research Reserves System	4	19	15	15
Coral/Coastal Dredge/Fisheries Habitat Restorations	2	45	43	43
Green Spaces/ Smart Growth Subtotal	**116**	**588**	**472**	**472**
Total	**459**	**1,030**	**571**	**900**

Sources: FY00 Interior Budget in Brief, FY00 Budget Appendix

! ***Natural Resources Conservation Service*** — The President's budget includes $1.4 billion for the Natural Resources Conservation Service (NRCS), an increase of $151 million above the 1999 level. The NRCS carries out many of the Department of Agriculture's efforts to provide locally led conservation assistance for land users. Major programs carried out by the NRCS are the Wetlands Reserve Program and the Wildlife Habitat Incentives Program.

- ***Bureau of Reclamation*** — The budget includes $900 million for 2000 for the Bureau of Reclamation, an increase of $100 million over the 1999 level. The budget increases funding for the California Bay-Delta initiative by $20 million above the 1999 level, for a total of $95 million.

- ***Army Corps of Engineers*** — The budget includes $1.2 billion for Army Corps of Engineers general construction, a decrease of $200 million below the 1999 level. For operations and maintenance, the budget includes $1.8 billion, an increase of $182 million above the 1999 level.

- ***Harbor Services User Fee*** **—** The Administration proposes to impose a Harbor Services User Fee to replace the Harbor Maintenance Tax, which was found unconstitutional last year as it applied to exports. The fee will raise an average of $980 million annually through 2004. The budget deposits receipts from this fee into a Harbor Services Fund and uses the proceeds to offset Army Corps of Engineers costs associated with maintaining ports.

- ***United States Geological Survey (USGS)*** — The budget includes $839 million for 2000 for the USGS, an increase of $38 million above the 1999 level.

- ***National Oceanic and Atmospheric Administration (NOAA)*** — The budget includes $2.5 billion for NOAA, an increase of $303 million above the 1999 level. Within this amount, the budget includes $100 million for a new program that provides grants to states, tribes, and localities to assist in the recovery of Pacific coastal salmon stocks.

- ***Environmental Protection Agency (EPA) Operating Programs*** **—** The President's budget provides $3.7 billion for the EPA's operating programs for 2000, which include most of the agency's research, regulatory, and enforcement programs. Also included are grants to state, local, and tribal governments to assist them in enforcing environmental laws and measuring environmental improvements. This is an increase of $191 million above the 1999 funding level.

- ***Superfund*** **—** The President's budget provides $1.5 billion in funding for the Superfund program, an amount equal to the 1999 level. Combined with continuing administrative reforms of the program, this funding level will help meet the President's pledge to complete the clean-up of two-thirds of Superfund hazardous waste sites by 2002.

  The President's budget includes the reinstatement of the Superfund excise taxes, which expired in 1995. In addition, the Administration proposes that $200 million be made available from Superfund annually without further appropriation to cover cleanup costs allocated to "orphan shares." Orphan shares are the portions of cleanup costs attributed to private parties that are no longer viable. This is the third year that the orphan share proposal has been included in the budget.

- ***Water Infrastructure Financing —*** Overall, the President's budget includes $1.8 billion for water infrastructure financing programs, a decrease of $774 million from the 1999 level. These programs provide grants to states, tribes, and local governments to protect water resources and provide safe drinking water. Within this account, the budget provides $825 million for state and tribal drinking water revolving funds, an increase of $50 million from last year's funding level. For grants to clean water revolving funds, the budget provides $800 million, a significant decrease of $550 million from the 1999 funding level. The Administration believes that this decrease will have a limited impact on the program and will still allow EPA to meet its long-term goal of having the clean water revolving funds provide an average of $2.0 billion in financial assistance annually.

Function 350: Agriculture

(in billions of dollars)

		1999	2000	2001	2002	2003	2004	00-04 Total
Discretionary	BA	4.3	4.1	4.1	4.2	4.1	4.1	20.7
	O	5.0	4.2	4.1	4.1	4.2	4.2	20.8
Mandatory	BA	20.1	10.0	8.4	6.4	6.5	6.7	38.0
	O	16.4	10.9	8.7	7.3	6.0	6.2	39.1
Total	**BA**	**24.4**	**14.1**	**12.5**	**10.6**	**10.6**	**10.9**	**58.7**
	O	**21.4**	**15.1**	**12.9**	**11.4**	**10.2**	**10.3**	**59.9**

President Clinton's budget provides $14.1 billion for 2000 for farm income and agricultural research programs, a decrease of $10.3 billion from the 1999 level. The 1999 funding level, however, included $5.9 billion in emergency farm aid due to high worldwide production, low commodity prices, and localized unfavorable growing conditions. The Administration has pledged to work with Congress to improve farm income assistance programs to prevent the need for this amount of emergency aid to farmers in the future.

- ***Research, Education, and Economics*** — The budget provides $2.1 billion for 2000, an increase of $142 million from the 1999 program level. Of this amount, the Agriculture Research Service receives $901 million, up from $890 million for 1999, and the Cooperative State Research, Education and Extension Service receives $1.1 billion, an increase of $143 million from 1999. The budget decreases funding for the National Agricultural Statistics Services by $3 million to $101 million and also decreases funding for the Economic Research Service by $9 million to $56 million.

- ***Farm Service Agency (FSA)*** — The budget provides $12 billion in spending for 2000. This reflects a decrease of $5.3 billion (31 percent) from the 1999 level, primarily mandatory funding in commodity programs. The FSA administers commodity, credit, insurance, export, and conservation programs, most of which are funded by the Commodity Credit Corporation (CCC). The CCC supports farmers through a system transitioning from one that paid farmers when crop prices fell below a certain level to one with fixed and declining levels of support regardless of price levels. The high 1999 spending level ($6.3 billion, or

57 percent, above the 1998) level reflects $5.9 billion in emergency funding. Almost half of the emergency aid paid farmers for crop losses due to natural disasters while the rest compensated farmers for loss of income due to lower market prices.

! ***Crop Insurance —*** The budget provides $1.7 billion in spending for the Risk Management Agency for 2000, an increase of $300 million (22 percent) over the 1999 level. The government subsidizes private crop insurance premiums for farmers. The total subsidy costs are currently increasing as more acres are enrolled. The Department of Agriculture is developing insurance policies for new crops and expanding coverage that guarantees farm income based on a combination of crop prices and production levels. The Administration is committed to working with Congress to reform crop insurance to protect farm income without requiring repeated infusions of additional aid.

! ***Export programs —*** The budget provides a program level of $6.5 billion for international programs for 2000, a decrease of $1.9 billion (23 percent) from the 1999 level. The 2000 program level includes $4.5 billion for the CCC export credit guarantees, $90 million for the Market Access Program, and $494 million for the Export Enhancement Program.

! ***Marketing and Regulatory Programs*** — The budget includes $825 million for 2000 for marketing and regulatory programs, a decrease of $77 million from the 1999 level. This amount includes $256 million for the Agricultural Marketing Service (up $14 million), $499 million for the Animal and Plant Health Inspection Service (APHIS) (down $91 million), and $70 million for the Grain Inspection, Packers, and Stockyard Administration (the same as for 1999).

! ***User Fees*** — The budget creates new user fees for APHIS animal welfare inspections and biotechnology certificates, and for grain inspection, meat packing, and stockyard activities. Together, the user fees provide $28 million in budget authority for 2000.

Function 370: Commerce and Housing Credit

(in billions of dollars)

		1999	2000	2001	2002	2003	2004	00-04 Total
Discretionary	BA	3.7	5.4	3.3	2.9	2.9	2.9	17.4
	O	3.5	5.3	3.7	3.1	3.1	3.0	18.2
Mandatory	BA	1.5	9.1	9.3	9.2	8.8	8.4	44.8
	O	-3.1	1.1	4.0	6.1	6.5	6.9	24.5
Total	**BA**	**5.2**	**14.5**	**12.7**	**12.0**	**11.7**	**11.4**	**62.2**
	O	**0.5**	**6.4**	**7.7**	**9.3**	**9.5**	**9.9**	**42.8**

President Clinton's budget provides $14.5 billion for commerce and housing credit programs for 2000, an increase of $9.3 billion (179 percent) over the 1999 level. The $1.7 billion increase in discretionary funding is for the 2000 decennial census. The large increase in mandatory spending is due partly to $5.3 billion less in projected offsetting income from mortgage credit activities. It is also partly due to $1.9 billion in additional spending for the Universal Service Fund (funded on the revenue side of the budget by contributions from interstate telecommunications carriers) to provide universal service to information networks.

! ***Bureau of the Census*** — The budget increases funding for the Bureau of the Census to $3.1 billion for 2000, an increase of $1.7 billion (129 percent) over the 1999 level. The increase supports efforts to prepare for and conduct the 2000 decennial census, funded at $2.8 billion for 2000. The Bureau's funding declines to $870 million for 2001, and $445 million for 2002. The budget assumes the use of sampling methods that the U.S. Supreme Court ruled in late January cannot be used to apportion Congressional districts. The Administration will shortly issue a revised plan without the sampling methods, using instead an actual enumeration of households; this labor-intensive approach will require an estimated $1.6 billion to $2.2 billion in additional funds.

! ***National Institute of Standards and Technology*** — The budget includes $735 million for 2000, an increase of $73 million over the 1999 level. This total includes an increase of $36 million for the Advanced Technology Program and a decrease of $28 million for the Manufacturing Export Partnership reflecting its completion of a Y2K initiative.

- ***Patent and Trademark Office*** — The budget increases funding by $116 million (15 percent) to $902 million for 2000 for this fee-funded office. The budget raises fees to collect $20 million to cover employees' retirement health and life insurance costs, the only fee-funded agency to adopt this practice for 2000.

- ***Small Business Administration (SBA)*** — The budget provides $553 million for the SBA for 2000. This includes $279 million for SBA business loans, an increase of $20 million over the 1999 level. The 2000 funding level will allow SBA to increase the loan volume by $3.4 billion, from $12.7 billion to $16.1 billion in 2000.

- ***Other Department of Commerce programs*** — The budget provides $305 million for the International Trade Administration for 2000, $20 million (7.2 percent) over the 1999 level. Almost three quarters of the increase funds a stronger commercial service presence at U.S. embassies and consulates in South Africa, Latin America, and China. The budget also includes $60 million for the Bureau of Export Administration, an increase of $8 million over the 1999 level, and $28 million for the Minority Business Development Agency, an increase of $1 million.

- ***Rural Housing Loans*** — The budget includes $560 million for rural housing loans for 2000, an increase of $2 million from the 1999 level. This funding level supports the subsidy and administrative costs of an estimated $4.7 billion in rural housing loans ($1.2 billion in direct loans and $3.4 billion in guaranteed loans), an increase of $0.5 billion in loans over the 1999 program level.

Function 400: Transportation

(in billions of dollars)

		1999	2000	2001	2002	2003	2004	00-04 Total
Discretionary	BA	13.3	13.5	14.2	14.7	15.3	15.8	73.6
	O	40.6	44.0	46.8	48.2	49.9	51.5	240.4
Mandatory	BA	37.9	39.9	39.6	40.2	41.8	42.6	204.1
	O	2.1	2.4	2.1	1.4	1.9	1.9	9.7
Total	**BA**	**51.2**	**53.4**	**53.7**	**54.9**	**57.2**	**58.4**	**277.6**
	O	**42.6**	**46.4**	**48.8**	**49.6**	**51.8**	**53.4**	**250.1**

President Clinton's budget provides $53.4 billion in budget authority for transportation programs, an increase of $2.2 billion (4.3 percent) above the 1999 enacted level. The enactment last year of the Transportation Equity Act for the 21st Century (TEA-21) marked a major shift in the funding of highway and mass transit programs. TEA-21 constrains the role of the annual budget and appropriations process with respect to transportation funding. For example, TEA-21 ties obligation limitations for federal-aid highways for each year to the excise tax revenues that accrue to the Highway Trust Fund during the prior year and requires the guaranteed minimum level of highway resources to be adjusted annually. Following the rules in TEA-21, the Administration adjusted the 2000 funding level upward by $1.5 billion. The President's budget diverts $1.1 billion of the $1.5 billion adjustment for 2000 to highway safety activities, transit programs, the Congestion Mitigation and Air Quality Improvement (CMAQ) program, and research and development programs. Overall, surface transportation programs receive a $2.3 billion (6.5 percent) funding increase above the 1999 enacted level.

! ***Federal Highway Administration (FHWA) —*** The President's budget provides $28.5 billion for the FHWA for 2000, including an obligation limitation of $27.3 billion for federal-aid highways. This obligation limitation is $1.8 billion more than the 1999 enacted amount of $25.5 billion and $1.1 billion more than the obligation limitation set forth for 2000 in TEA-21. As stated above, the budget diverts $1.1 billion of the $1.5 billion adjustment in 2000 from core highway programs to other transportation priorities.

- ***Federal Transit Administration (FTA) —*** The President's budget provides $6.1 billion for the FTA for 2000, $700 million (13 percent) more than the 1999 enacted level. Of this amount, $291 million is reallocated from the "revenue aligned budget authority" for highways. The budget provides $3.3 billion for formula grants, available for all transit purposes, and $2.5 billion for capital investment grants. The budget doubles funding for the job access and reverse commute program, which helps localities develop transportation services to improve access to employment opportunities, from $75 million in 1999 to $150 million in 2000.

- ***Federal Aviation Administration (FAA) —*** The budget includes $10.1 billion for FAA funding for 2000, $96 million (1.0 percent) more than the 1999 level. The budget funds grants-in-aid for airports at $1.6 billion, $350 million (18 percent) below the 1999 enacted level. To make up for this reduction, the budget increases the amount airports may raise through passenger facility charges. The budget imposes $1.5 billion in new aviation user fees in 2000 and assumes that service-based charges will increase over time as aviation excise taxes, such as the passenger ticket tax, are reduced. FAA budgetary resources for each year will equal the amount collected each prior year in service-based charges and excise taxes combined. Additionally, the budget provides $2.3 billion for facilities and equipment, $232 million (11 percent) above the 1999 level, to improve and modernize air traffic control.

- ***Federal Railroad Administration (FRA) —*** The budget provides $746 million for FRA for 2000, $32 million (4.1 percent) less than the 1999 level. Of the total amount provided for 2000, $87 million is offset by rail user fees. For Amtrak the budget provides $571 million, $36 million (6.2 percent) less than the 1999 amount.

- ***National Highway Traffic Safety Administration (NHTSA) —*** The President's budget increases NHTSA funding to $404 million for 2000, $44 million (12 percent) more than the 1999 level.

- ***Coast Guard —*** The budget provides $4.2 billion for the Coast Guard, $208 million (4.7 percent) less than the 1999 enacted level. Included in the 2000 total are $2.9 billion for operations and maintenance; $350 million for recapitalization of vessel and aircraft fleets, including $41 million in new offsetting user fees for navigational assistance; $64 million for boat safety; $61 million for oil spill cleanup; and $20 million for environmental compliance and restoration.

Function 450: Community and Regional Development

(in billions of dollars)

		1999	2000	2001	2002	2003	2004	00-04 Total
Discretionary	BA	8.9	8.9	8.9	8.9	8.9	8.9	44.5
	O	10.9	10.8	10.6	10.1	9.8	9.7	51.0
Mandatory	BA	0.2	0.2	1.1	1.4	0.2	0.6	3.5
	O	-0.5	-0.6	-0.6	-0.5	-0.5	-0.6	-2.8
Total	**BA**	**9.1**	**9.1**	**10.0**	**10.3**	**9.1**	**9.5**	**48.0**
	O	**10.4**	**10.2**	**9.9**	**9.6**	**9.3**	**9.1**	**48.1**

For 2000, overall funding for community and regional development programs remains at the 1999 level of $9.l billion. Federal support for community and regional development helps economically distressed urban and rural communities. Major agencies and programs included in this function are the Community Development Block Grant, the Economic Development Administration, the Appalachian Regional Commission, rural development programs in the Department of Agriculture, the Federal Emergency Management Agency, and the Small Business Administration's disaster loan program.

! ***Community Development Block Grants (CDBG)*** **—**The budget includes $4.8 billion for the CDBG program, an increase of $25 million above the 1999 level. The budget also cuts set-asides for other programs within CDBG by $105 million. As a result, funding available by formula to state and local governments effectively increases by $130 million above the 1999 level.

! ***Economic Development Programs*** **—** The budget provides $393 million for the Economic Development Administration, the same amount as for 1999. Within this amount, the budget includes a reduction of $20 million for defense adjustment since no new base closures are imminent. This allows for an equivalent increase for Economic Adjustment Assistance Grants to help distressed communities recover from sudden or severe economic downturns.

For Tennessee Valley Authority (TVA) non-power programs, the budget includes $7 million for 2000, a reduction of $43 million (86 percent) below the 1999 level. This funding level is consistent with the President's proposal to eliminate federal support for all TVA non-power activities except for the Lakes National Recreation Area. Last year's omnibus appropriations bill allowed TVA to restructure its debt, saving the agency over $100 million per year. Even so, supporters of TVA point out that reduced federal funding for TVA non-power activities means these activities will now be paid for by TVA ratepayers despite the fact that these programs benefit a much broader range of people.

The budget includes $66 million for the Appalachian Regional Commission, the same amount as for 1999.

- ***Rural Development Programs*** — The budget funds a total of $3.0 billion in loans and grants by the Rural Community Advancement Program. This account consolidates funds for twelve rural development programs and allows up to 25 percent of the funds to be transferred among these programs. Overall, this represents an increase of $247 million above the 1999 level.

- ***Bureau of Indian Affairs (BIA)*** — The budget includes $952 million for 2000 for BIA program operations related to rural development, an increase of $69 million above the 1999 level. For BIA construction programs, the budget includes $174 million, an increase of $51 million above the 1999 level. For Indian land and water claim settlements, the budget provides $28 million, a slight decrease ($1 million) below the 1999 level.

- ***FEMA Disaster Relief*** — The budget includes $2.8 billion in disaster relief for 2000, an increase of $1.6 billion above the 1999 level. Of this amount, the budget includes $2.5 billion in contingent emergency funding and $297 million in non-emergency assistance. The President's budget also includes a $15 mortgage transaction fee, which will support a multi-year effort to update and modernize FEMA's inventory of flood maps.

- ***SBA Disaster Loans*** — The budget includes $161 million for administrative expenses for SBA's disaster loan program, and $197 million to support the 10-year average loan volume of $934 million. Approximately 65 percent of the funding for both administrative expenses and disaster loans is designated as contingent emergency appropriations.

Function 500: Education, Training, Employment, and Social Services

(in billions of dollars)

		1999	2000	2001	2002	2003	2004	00-04 Total
Discretionary	BA	46.6	52.1	54.2	54.2	54.1	54.0	268.6
	O	46.0	50.2	54.0	54.2	54.3	54.3	266.8
Mandatory	BA	14.3	13.1	13.3	12.9	14.9	16.2	70.4
	O	14.0	13.2	13.8	12.7	14.5	15.7	69.9
Total	**BA**	**60.9**	**65.3**	**67.5**	**67.0**	**69.0**	**70.2**	**339.0**
	O	**60.1**	**63.4**	**67.8**	**66.9**	**68.7**	**70.0**	**336.7**

President Clinton's budget increases budget authority for 2000 for education, training, and social service programs by $4.4 billion over the 1999 level.[28] The budget continues to emphasize improving student achievement by increasing the number of teachers and improving their skills, creating tax credits to modernize or build new schools, and helping students and adult workers prepare for postsecondary education. It also includes initiatives to improve the skills and support employment of American workers. The budget's education and training initiatives are shown in the table on the next page.

The budget's revenue provisions provide federal tax credits to pay interest on approximately $25 billion in bonds for local communities to build or renovate school facilities, at a cost of $3.7 billion over five years. (See discussion of tax credits in *Revenues* for more details.)

Elementary and Secondary Education Programs

! ***Reducing Class Size*** — The President's budget includes $1.4 billion in discretionary funding to help reduce the average size of first through third grade classes to 18 students. Last year, Congress provided $1.2 billion for school districts to hire 30,000 new teachers

[28]The 1999 budget does not include $6.1 billion advanced from the 2000 budget for Education for the Disadvantaged (Title I). The 2000 budget does not include advance appropriations of $8.1 billion ($6.1 billion again for Title I and $1.9 billion for special education) from the 2001 budget. The advance funding becomes available on October 1 of the following fiscal year but is counted in the programmatic totals of the current fiscal year when discussing program funding below. In essence, the 1999 budget is $6.1 billion larger than the total shows, and the 2000 budget is $1.9 billion larger than it shows.

Table 3-1. THE BUDGET INCREASES RESOURCES FOR SELECTED EDUCATION AND TRAINING PROGRAMS BY $5 BILLION, OR 10.9 PERCENT OVER 1999, AND BY A TOTAL INCREASE OVER 1993 OF 101 PERCENT

(Dollar amounts in millions)

	1993 Actual	1999 Estimate	2000 Proposed	Dollar Change: 1999 to 2000	Percent Change: 1993 to 2000
TAX EXPENDITURES:					
Hope Scholarships Credit	....	4,015	4,855	+840	NA
Lifetime Learning Credit	....	2,510	2,655	+145	NA
Student Loan Interest Deduction	....	245	283	+38	NA
School Construction	....	....	146	+146	NA
Work Opportunity Tax Credit (Targeted Jobs Tax Credit in 1993)	160	358	446	+88	+179%
Welfare/Jobs Tax Credit	....	38	54	+16	NA
Total, tax expenditures	**160**	**7,140**	**8,426**	**+1,260**	**+5,116%**
MANDATORY OUTLAYS:					
Welfare-to-Work Grants	....	872	1,597	+725	NA
Early Learning Fund (see Chapter 4)	....	....	372	+372	NA
DISCRETIONARY BUDGET AUTHORITY:					
Pre-School: Head Start (see Chapter 4)	2,776	4,660	5,267	+607	+90%
Elementary and Secondary Education:					
Class Size Reduction	....	1,200	1,400	+200	NA
America Reads/Reading Excellence	....	260	286	+26	NA
Goals 2000	....	491	491	....	NA
Education Technology (Education Department grant programs)	23	698	801	+103	+3,383%
Title I - Education for the Disadvantaged/Accountability	6,709	8,371	8,744	+373	+30%
Special Education	2,966	5,334	5,450	+116	+84%
Bilingual and Immigrant Education	213	380	415	+35	+95%
Safe and Drug Free Schools Communities	582	566	591	+25	+2%
Charter Schools	....	100	130	+30	NA
Troops to Teachers	....	....	18	+18	NA
Comprehensive School Reform Demonstration	....	145	175	+30	NA
21st Century Community Learning Centers	....	200	600	+400	NA
Postsecondary Education:					
Pell Grants	6,372	7,704	7,463	-241	17%
Pell Grant maximum award (non-add, in dollars)	*2,300*	*3,125*	*3,250*	*+125*	*+41%*
College Work-Study	617	870	934	+64	+51%
Other Campus-based Aid	764	749	761	+12	-*
College Completion Challenge Grant	....	....	35	+35	NA
Teacher Quality Enhancement	....	75	115	+40	NA
GEAR-UP	....	120	240	+120	NA
Preparing for College Campaign	....	7	15	+8	NA
Work Force Development:					
Learning Anytime, Anywhere Partnerships (Education and Labor Departments)	....	20	30	+10	NA
Right Track Partnerships	....	....	100	+100	NA
Job Corps	966	1,309	1,347	+38	+39%
Youth Opportunity Grants/Rewarding Achievement in Youth	....	250	250	....	NA
Vocational Education	1,170	1,154	1,163	+9	-1%
Adult Education	305	385	575	+190	+89%
Veterans Employment Services and Training	167	167	169	+2	+1%
Dislocated Worker Training	517	1,406	1,596	+190	+209%
Employment Service and One-Stop Centers	895	968	1,048	+80	+17%
Total, budget authority	**25,042**	**37,589**	**40,209**	**+2,620**	**+61%**
TOTAL RESOURCES FOR SELECTED PROGRAMS (tax expenditures; receipts; mandatory outlays; and budget authority)	**25,202**	**45,601**	**50,604**	**+4,977**	**+101%**
STUDENT LOANS (face value of loans issued):					
Direct loans	....	11,363	12,078	+715	NA
Guaranteed Loans	16,089	20,921	22,243	+1,322	+38%
Consolidated Loans	1,540	7,525	6,840	-685	+344%
Total, student loans	**17,629**	**39,809**	**41,161**	**+1,352**	**+133%**
DEPARTMENT OF EDUCATION:					
Discretionary Program Level	23,977	33,467	34,711	+1,244	+45%
DEPARTMENT OF LABOR:					
Discretionary Budget Authority	6,019	6,986	7,285	+299	+21%

NA = Not applicable.
* Less than 0.5 percent.

Source: Budget of the United State Government, Fiscal Year 2000 as part of a seven-year initiative to hire 100,000 new teachers. This budget requires school districts (except those with high child poverty) to provide a 35 percent match for funds above their previous year's allocation. The combination of $1.4 billion plus the local match allows districts to support the first 30,000 teachers and hire at least 8,000 more.

! ***21st Century Learning Centers*** — The budget triples funding for after-school programs from $200 million to $600 million for 2000. Grants will be targeted to school districts with comprehensive policies to end social promotion.

! ***Education for the Disadvantaged (Title I)*** — The President's budget provides $8.7 billion for 2000 for programs to help children in high-poverty school districts, an increase of $373 million over the 1999 program level. Because of accounting and timing anomalies, the 1999 budget of $3.7 billion does not represent the total available to the program for 1999. Both the 1999 and 2000 budgets include $6.1 billion in advance appropriations from the subsequent year. The largest Title I program provides grants to local education agencies, funded at $8 billion for 2000. The budget provides $402 million for migrant education (an increase of $34 million), and $150 million for school reform demonstration grants for schools using research-based improvement programs (an increase of $30 million).

! ***Special Education*** — The budget increases special education funding from the 1999 level of $5.3 billion to $5.4 billion including an advance appropriation of $1.9 billion from the 2001 budget. It includes a new $50 million Primary Education Intervention initiative to target young children with difficulty reading, developmental delays, and behavioral problems.

! ***Educational Technology*** — The budget includes $801 million to expand access to educational technology, an increase of $103 million (15 percent) over the 1999 level. This total funding level includes: (1) $450 million for the Technology Literacy Challenge Fund to help schools incorporate technology into curricula (an increase of $25 million); (2) $177 million for teacher training, technology centers in low-income neighborhoods, a new Middle School Teacher Training initiative, a new Software Development initiative, and other teacher leadership activities (an increase of $90 million); and (3) $110 million for Technology Innovation Challenge Grants (a decrease of $5 million).

! ***Improving Student Achievement*** — As part of an initiative to increase accountability for student achievement, the budget provides $200 million in Title I funds to help states improve their weakest schools. It maintains funding for Goals 2000 at $491 million.

! ***Teacher Quality*** — The budget provides $583 million for 2000 to improve teacher quality, an increase of $100 million above the 1999 level. This total includes: (1) $335 million for

Eisenhower Professional Development State Grants (the same as last year); (2) $115 million for Teacher Quality Enhancement Grants (up $40 million); (3) $75 million for bilingual teachers (an increase of $25 million); (4) $10 million to create an American Indian Teacher Corps to recruit and train 1,000 teachers for Native American communities; (5) $18 million for a Troops to Teachers initiative to train former military personnel and other professionals to become teachers; and (6) $30 million for activities that include helping 105,000 teachers earn national certification by 2006 (an increase of $6.7 million).

- ***Impact Aid*** **—** The budget provides $736 million to support school districts affected by federal activities, a decrease of $128 million. The budget eliminates payments for children who either live on *or* have a parent working on federal property. Children are covered if they live on *and* have a parent working on federal property. The budget also eliminates payments made to school districts solely because federal property was removed from their tax base years ago.

- ***Safe and Drug-Free Schools*** — The President's budget provides $591 million for this program for 2000, up $25 million from the 1999 level.

- ***Bilingual and Immigrant Education*** **—** The budget increases funding for bilingual and immigrant education programs from $380 million to $415 million. Most of the increase is for professional development for teachers whose students have limited English proficiency.

- ***Charter Schools*** — The budget includes $130 million for charter schools, an increase of $30 million above the 1999 level, to expand public school choice by supporting 1,700 new charter schools.

- ***Adult and Vocational Education*** — The budget increases adult education funds by $190 million (49 percent) above the 1999 level to $575 million, with a new emphasis on literacy programs for non-English speakers. The budget freezes funding for vocational education programs at $1.2 billion. It also includes $55 million each for the Departments of Education and Labor for the final year of federal funding for School-to-Work programs, a decrease of $70 million for each department.

Postsecondary Education Programs

The budget provides $52.1 billion in financial aid for students ($2 billion above the 1999 level).

- ***Pell Grants*** **—** The budget increases the maximum Pell Grant award by $125 to $3,250. Although the funding for Pell Grants is less than the 1999 level, the budget uses projected surpluses from prior years to increase the total resources by $200 million to $7.9 billion. This level will provide Pell grants to an additional 53,000 students.

- ***Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)*** — The budget includes $240 million (a 100 percent increase) for a program to increase the number of low-income students attending college by providing information about college preparation and academic support in almost 1,000 high-poverty middle schools.

- ***College Preparation and Completion*** — The budget includes several new programs to increase the number of students graduating from college: (1) $35 million for College Completion Challenge Grants to help students at risk of dropping out; (2) up to $17 million for D.C. Resident Tuition Support to let students from the District of Columbia attend Maryland and Virginia public postsecondary institutions at in-state rates; and (3) $15 million for Preparing for College awareness activities.

- ***Work-Study and other Campus-based Programs*** — The budget includes $934 million for the work-study program, an increase of $64 million or 7 percent over the 1999 level. Supplemental Education Opportunity Grants receive an increase of $12 million to $631 million, and Perkins Loans are frozen at a volume of $1.1 billion.

- ***Higher Education Programs*** — The budget increases funding for the TRIO programs (a number of programs that help economically disadvantaged students enter and graduate from college) by $30 million, providing $630 million for 2000. The budget provides $181 million for Historically Black Colleges, Universities, and Graduate Institutions (an increase of $16 million over the 1999 level), and $42 million for Hispanic-serving Institutions (an increase of $14 million). It doubles funding to $20 million for the Learning Anytime Anywhere Partnerships.

- ***Student Loans*** — The budget includes provisions to reduce costs in the Federal Family Education Loan and the Direct Loan programs. These changes reduce program costs by $2.3 billion in 2000 and $4.6 billion over 2000-2004 relative to a baseline projection of current law. They include: (1) using a national database of new hires to help find student loan defaulters ($879 million savings in 2000); (2) recalling $1.6 billion in reserve funds held by guaranty agencies ($868 million savings in 2000); (3) reducing the percentage that guaranty agencies retain from collections of defaulted loans from 24 percent to 18.5 percent ($481 million savings in 2000); (4) eliminating the "complement percentage"that guaranty agencies charge on top of what they retain from default collections ($41 million savings in 2000); and (5) reducing interest subsidy payments to lenders by 30 basis points for loans funded through tax-exempt securities ($132 million savings in 2000).

These savings are partly offset by a proposal to extend until October 2000 the interest rate basis for Direct Consolidation Loans; it costs $91 million in 2000. The proposal saves money both for students who continue to pay 0.79 percent less on their consolidated loans, and for loan holders and lenders who continue to pay a reduced offset fee.

Employment and Training

- ***Training and Employment Services Overview —*** Overall, the budget provides $5.5 billion for discretionary training and employment services for 2000. This reflects a $179 million increase above the 1999 level, an increase of 3.4 percent. This funding level assumes the enactment of legislation concerning Alien Labor Certification applications, which reduces required funding by $40 million in 2000. A major focus of this year's budget is the President's Universal Reemployment Initiative, which includes increases for dislocated workers, reemployment services grants, and work incentives grants (see below). This initiative aims to ensure that within five years all dislocated workers — any workers losing their jobs through no fault of their own — are eligible to receive training if they want and need it. The training and employment budget also includes a focus on youth (see below).

- ***Welfare-to-Work Grants —*** The budget includes $1 billion for 2000 to extend the Welfare-to-Work program for one additional year. The mandatory Welfare-to-Work program was initially created by the Balanced Budget Agreement (BBA) and was funded at $1.5 billion each year for 1998 and 1999. This program is designed to help states and local communities move welfare recipients who are hardest to employ into permanent, unsubsidized jobs. The program targets long-term welfare recipients in areas of high poverty. The 2000 budget continues the current program and includes a stronger focus on providing employment services to low-income non-custodial fathers of children on welfare. This new funding serves an estimated 200,000 additional people.

- ***Trade Adjustment Assistance (TAA)*** — The budget makes several changes to TAA that increase costs by $101 million in 2000 and $332 million over 2000-2004, relative to a baseline projection of spending under current law. Of the total costs, roughly half ($164 million over five years) are associated with increased costs for training and relocation allowances. The remaining savings are associated with income support and cash allowances (see *Function 600: Income Security*). The budget consolidates the TAA and NAFTA-TAA programs and extends the consolidated program through September 30, 2001. It also: (1) extends eligibility for TAA to people losing their jobs due to shifts in production abroad (similar to the current NAFTA-TAA provision for production shifts to Canada and Mexico); (2) raises the cap on TAA training expenditures to support the expected increase in program participation; and (3) adds a contingency funding provision to ensure sufficient funds to cover any unexpected increases in benefits for covered workers.

- ***Dislocated Workers —*** The budget provides $1.6 billion for dislocated workers for 2000, an increase of $190 million (14 percent) above the 1999 level. This funding provides readjustment services and job search assistance and training to help dislocated workers quickly find new jobs, including workers displaced by trade and related causes. This funding level supports 858,000 participants.

- ***Reemployment Service Grants —*** The budget provides $848 million for 2000 for services to workers receiving Unemployment Insurance benefits. This amount includes a $53 million increase for new Reemployment Services Grants to state Employment Service Agencies. These grants will increase reemployment services to Unemployment Insurance claimants.

- ***One-Stop Career Centers —*** The budget provides $149 million for 2000 for One-Stop Career Centers, only slightly more than the 1999 level of $146 million. The 2000 funding level includes $65 million to develop new ways to provide employment information through America's Labor Market Information System and the One-Stop system.

- ***Work Incentive Assistance Grants —*** The budget provides $50 million for new Work Incentive Assistance Grants. These competitive grants to states provide a wide range of high quality services to individuals with disabilities to help them return to work.

- ***Job Corps —*** The President's budget provides $1.3 billion for 2000 for Job Corps, an increase of $38 million (2.9 percent) above the 1999 level. This maintains Job Corps' capacity to serve approximately 70,000 disadvantaged youth in 121 centers nationwide and funds the completion of four new centers.

- ***Right Track Partnerships (RTP) —*** The budget provides $100 million for 2000 for competitive grants to prevent youth from dropping out of school and encourage those who have dropped out to re-enroll. Special emphasis is placed on limited-English proficient youth.

- ***National Labor Relations Board (NLRB)*** — The budget includes $210 million for 2000 for the NLRB, an increase of $26 million (16 percent) above the 1999 level. This includes an additional $20 million to strengthen field investigations of unfair labor practice charges and election petitions to resolve representation disputes. The increased funding will address the current backlog in the NLRB's regional offices and provide training to employees.

Social Services

! ***Head Start*** — The budget funds Head Start at $5.3 billion for 2000, an increase of $607 million or 13 percent above the 1999 level. This increase will serve an additional 42,000 children, thereby increasing Head Start enrollment to 877,000 children in 2000, consistent with the President's goal of serving one million children in Head Start by 2002. The 2000 funding level includes $420 million for Early Head Start and serves 45,000 infants and toddlers through this program.

! ***Social Services Block Grant (SSBG)*** — The President's budget fully funds the mandatory SSBG (Title XX) program at the authorized level of $2.4 billion for 2000. This reflects an increase of $471 million over the 1999 level. In 1999, SSBG also had been authorized at $2.4 billion, but funding was reduced to $1.9 billion by legislation enacted during the year. SSBG entitlement funds are distributed to states by formula and used to provide a wide range of social services usually to low-income families, including child care, child welfare, elder care, drug abuse prevention and treatment activities, employment services, and services for the disabled.

! ***Foster Care and Independent Living Programs*** — The budget increases mandatory funding over the next five years by $225 million ($40 million in 2000) for employment training and transitional living expenses for youth transitioning out of foster care, relative to a projection of costs under current law. The budget also increases funds to: (1) allow States to expand Medicaid eligibility to youths up to age 21 who were eligible for foster care at age 18 ($5 million in 2000 and $45 million over five years), and (2) provide $5 million in additional discretionary funds in 2000 for Runaway and Homeless Youth services for youth who may no longer be eligible for foster care.

! ***Corporation for National and Community Service/AmeriCorps*** — The budget increases funding for the Corporation for National and Community Service by $133 million for 2000, an increase of more than 18 percent above the 1999 level. Nearly half of this increase ($65 million) is associated with an expansion of AmeriCorps to 66,000 participants.

! ***Community Services Programs*** — The budget provides $520 million for Community Services Programs for 2000, a decrease of $44 million from the 1999 level. The 2000 funding level maintains the State Block Grant at $500 million (the same level as 1999) and provides $20 million (double the 1999 level) for Individual Development Accounts to help low-income people save for a first home, pay for postsecondary education, or capitalize a business. The budget also eliminates funding for the following discretionary programs that were funded at $54 million in 1999: Community Economic Development, National Youth

Sports, Rural Community Facilities, and Community Food and Nutrition. The states, however, can continue to support these services through use of the Block Grant.

- ***Administration on Aging*** — The budget increases funding for the Administration on Aging to $1.0 billion for 2000, an increase of $166 million (almost 19 percent) above the 1999 level. Most of this increase funds two new programs — the National Family Caregiver Support Program and the Health Disparity Interventions Program. The National Family Caregiver Support Program, funded at $125 million in 2000, is part of the Administration's Long-Term Care initiative. This program offers a range of services to caregivers, including respite care, assistance in locating services, and home care services. Providing support for caregivers can delay or prevent the need for institutional or nursing home care. The Health Disparity Interventions Program is funded at $4 million in 2000 to reduce the higher incidence of disability and disease among minority elders. Efforts will target three areas of concern: cardiovascular disease, diabetes and adult immunizations. This new program is part of a broader HHS focus on racial health disparities. Also, an increase of $35 million above the 1999 level (31 percent) is included for Home-Delivered Meals.

- ***Violence Against Women*** — The budget provides $119 million for the Administration for Children and Families' Violence Against Women programs. This reflects a $14 million increase above the 1999 level and is part of a larger initiative to curtail violence against women. These funds will enhance services to battered women and their families, including shelter.

Function 550: Health

(in billions of dollars)

		1999	2000	2001	2002	2003	2004	00-04 Total
Discretionary	BA	30.1	30.6	31.0	30.8	30.8	30.8	154.1
	O	27.6	29.6	30.5	30.8	30.8	30.9	152.5
Mandatory	BA	112.3	124.9	133.1	141.3	152.4	163.9	715.7
	O	115.5	122.7	132.3	142.6	153.9	165.7	717.2
Total	**BA**	**142.4**	**155.5**	**164.1**	**172.2**	**183.2**	**194.8**	**869.8**
	O	**143.1**	**152.3**	**162.8**	**173.3**	**184.7**	**196.6**	**869.7**

President Clinton's budget for 2000 includes discretionary budget authority of $30.6 billion, an increase of $541 million (2 percent) over the 1999 level. For 2001 and thereafter, funding is basically frozen at the 2000 level. In Function 550, discretionary programs include most federal programs that provide direct health care services. Other health programs included in the function are designed to further national biomedical research goals, protect the health of the general population and workers in their places of employment, provide health services for under-served populations, and promote training for the health care workforce.

For mandatory programs, the budget decreases projected spending by $52 million for 2000, relative to baseline projections. Over five years (2000-2004), projected spending increases by $3.0 billion. The major mandatory programs in this function are Medicaid and the Children's Health Insurance Program (CHIP). The Medicaid program accounts for 93.4 percent of the mandatory spending in this function.

Growth in Medicaid Spending

According to the Office of Management and Budget (OMB), Medicaid spending rose dramatically at an average annual rate of 15.6 percent from 1989 through 1996. This unprecedented growth was primarily due to increased spending for disproportionate share hospitals (DSH) payments. Several DSH payment reforms were enacted by Congress and the growth in spending slowed considerably. Growth in spending slowed to less than 12 percent in 1993, followed by 8 percent in 1994. In 1997, the growth in Medicaid spending was 3.9 percent, followed by 5.9 percent in

1998. These rates are the lowest growth rates since the early 1980s. The decline in Medicaid spending growth is due to several factors, including federal legislative limitations (e.g. cut and cap all DSH payments), a decline in the projected growth of Supplemental Security Income caseloads, higher employment, and state efforts to control costs (e.g. through the implementation of managed care).

For future years, OMB's growth projections as well as those of the Congressional Budget Office (CBO) are higher than the exceptionally low rates of the late 1990s. For 1998-2004, OMB projects Medicaid spending to increase at an average annual rate of 7.1 percent and CBO projects an average annual increase of 8.0 percent.

Medicaid and Children's Health Insurance Programs (CHIP) Expansions

! ***Restore Coverage for Certain Legal Immigrants —*** President Clinton's budget restores Medicaid coverage to three groups of legal immigrants who lost eligibility under the 1996 welfare law. It also makes legal immigrant children eligible for CHIP. This restoration increases Medicaid and CHIP spending by $31 million for 2000, relative to baseline projections of current Medicaid and CHIP spending. Over five years (2000-2004), projected spending increases by $667 million.

  The budget gives states the *option* of providing health care coverage to children and pregnant women who entered the country legally after enactment of welfare reform (August 22, 1996). States also have the option of serving these children under either Medicaid or CHIP. However, the budget *requires* Medicaid coverage for disabled, legal immigrants made eligible for Supplemental Security Income (SSI) by the budget's SSI restoration. *(*For SSI restoration, see *Function 600: Income Security)*

! ***Children's Health Insurance Program (CHIP) Outreach Expansion —*** Under current law, state spending for administration, outreach, and direct services is limited to 10 percent of total spending for benefits. Beginning in 2001, the budget removes outreach from the 10 percent cap and allows states to use up to three percent of their CHIP benefit funds for outreach activities. States are expected to increase their CHIP enrollment faster than would otherwise occur because of increased outreach. Therefore, states will use their full allotments more quickly than anticipated and increase projected CHIP spending by $875 million over four years (2001-2004).

! ***Higher Medicaid Income Eligibility Standard for People Needing Institutional Care —*** The budget gives states the option of extending Medicaid to individuals with incomes up to 300 percent of the Supplemental Security Income (SSI) level (about $1,500 monthly in

1999) who need nursing home care but choose to live in their communities. This allows states to treat individuals the same regardless of the setting and allows people to exercise their choice of staying home or going into a nursing home.

! ***Health Care for the Working Disabled —*** Under current law, states may expand Medicaid eligibility to workers with disabilities with earned income up to 250 percent of poverty, and they may require the disabled to pay a state-established premium to qualify. The budget expands the current Medicaid buy-in in two ways: (1) by allowing states to provide coverage to those with disabilities who have earned income above 250 percent of poverty; and (2) by allowing states to lift or relax current limits on assets and on unearned income. This increases projected Medicaid spending by $325 million over five years (2000-2004).

! ***District of Columbia —*** Under the Balanced Budget Act of 1997, the federal share of the District of Columbia's Medicaid payments was increased from 50 to 70 percent. However, the statutory allotments for disproportionate share hospital (DSH) payments were not increased accordingly. For one year only (2000), the budget increases D.C.'s DSH payments to reflect the higher federal matching rate. This increases projected Medicaid spending by $9 million.

Medicaid Reductions

! ***Reduction in Medicaid Cost Allocation —*** The budget reduces projected Medicaid spending by $1.2 billion over five years (2000-2004) by limiting Medicaid payments to states.

Prior to the 1996 welfare law, the federal government shared administrative costs with the states on a 50 percent matching basis. States determined families' eligibility for the Food Stamp program, Medicaid, and Aid to Families with Dependent Children (AFDC) simultaneously. Under the 1996 welfare law, the Temporary Assistance to Needy Families (TANF) block grant replaced AFDC. Each state's TANF block grant was set at a level that includes the cost of benefits and administration, including those costs shared with the Food Stamp and Medicaid programs that were previously charged to AFDC. The Medicaid and Food Stamp programs retained the 50 percent federal match for administrative costs. Under current law, states charge previously shared costs, such as income verification, to the Medicaid program even though those costs are already reflected in the TANF block grant.

To address this issue, the budget reduces each state's Medicaid grant by the amount of Medicaid-related costs that were previously charged to the former AFDC program. To address concerns raised by the states, the reduction in the Medicaid grant is calculated on a state-by-state basis. States are also given flexibility to use TANF block grant funds to cover shared TANF-Medicaid costs.

- ***Rebates from Generic Drug Manufacturers —*** Under current law, brand name drug manufacturers must pay an additional dollar–for-dollar rebate to the Medicaid program if they increase the price of their drugs in excess of increases in the consumer price index-urban (CPI-U). Generic drug manufacturers are not currently subject to this requirement. The budget imposes a rebate requirement on generic drug manufacturers and treats them more like the brand name manufacturers. This decreases projected Medicaid spending by $125 million over five years (2000-2004).

Medicaid Tobacco Recoupment

For 2000, the budget does not include recoupment funds. Beginning in 2001, based on anticipated negotiations with the states, the budget includes recoupment of Medicaid funds of $4.6 billion related to the 1998 multi-state tobacco settlement. Over four years (2001-2004), recoupment of $18.9 billion is included in the budget. Currently the federal government's share of Medicaid benefits averages 57 percent. Under current law, if states recover any Medicaid funds, the recoveries must be shared with the federal government.

Discretionary and Other Health Highlights

- ***Patients' Bill of Rights —*** Unlike last year's budget, President Clinton's budget does not include the Patients' Bill of Rights. The Administration continues to express its support for strong and enforceable legislation in this area, but does not think it necessary to include such legislation in the 2000 budget.

- ***Expanding Retiree Health Insurance Coverage —*** The budget expands the availability of health insurance for retirees by building on employer continuation coverage in current law (COBRA). Under the President's budget, retirees ages 55-64 whose employers eliminate retiree health benefits may buy in to their employers' current group health insurance plan. Health insurance under this option is available until the retiree is 65 and eligible for Medicare.

- ***National Institutes of Health (NIH) —*** For 2000, the budget funds NIH at $15.9 billion, an increase of $320 million (2.1 percent) over the 1999 level. NIH represents over half (52 percent) of all discretionary funding in Function 550. At the function level, the budget essentially freezes funding for health programs after 2000.

In 1999, Congress increased NIH funding by 15 percent over the 1998 level. The President continues to state that his goal is to increase NIH funds by 50 percent over five years (1999-2003). The research community is seeking a 100 percent increase over the same time frame.

- ***Title X Family Planning —*** The budget funds Title X family planning grants at $240 million for 2000, an increase of $25 million (12 percent) over the 1999 level.

- ***Ryan White AIDS Activities —*** For 2000, the budget funds Ryan White programs at $1.5 billion. This is an increase of $100 million (7 percent) over the 1999 level. Of the total funds, $783 million is for formula grants to the states. More than half of those funds ($496 million) is earmarked for the AIDS Drug Assistance Programs (ADAP). This represents an increase of $35 million (8 percent) in ADAP funding.

- ***Health Professions —*** The budget funds health professions at $212 million for 2000, a decrease of $90 million (30 percent) below the 1999 level. A new program of assistance for Children's Hospitals graduate medical education programs is funded at $40 million for 2000, and is in addition to the $212 million for health professions.

- ***Maternal and Child Health Block Grant (MCH) and Healthy Start —*** For 2000, the budget maintains funding for both of these block grants at the 1999 level. The MCH block grant is funded at $695 million and Healthy Start at $105 million.

- ***Consolidated Health Centers —*** For 2000, the budget funds consolidated health centers at $945 million, a $20 million increase over the 1999 level. Consolidated health centers serve low-income and uninsured individuals and families. There are 746 community and migrant health centers with 3,000 sites, including 128 health care programs for the homeless and 20 health care programs for residents of public housing.

- ***Substance Abuse and Mental Health Services Administration (SAMHSA) —*** The budget funds SAMHSA programs at $2.6 billion in 2000. This is $139 million (5.6 percent) more than the 1999 level. Of the $139 million increase, $70 million is for the mental health block grant. The bulk of the remaining increase is directed toward substance abuse programs ($59 million) and other mental health activities ($5 million). A small portion ($5 million) of the increase is for program management.

- ***Food Safety and Inspection Service (FSIS) —*** For 2000, the budget levies user fees of $504 million on the meat, poultry, and egg industries to fund FSIS inspection activities. The budget shifts the cost of in-plant inspection for meat, poultry, and egg products from the federal government to private industry. Over five years (2000-2004), the budget levies user fees of $2.5 billion on the affected industries. Shifting the costs of in-plant inspections from the federal government to private industry was proposed in last year's budget.

- ***Occupational Safety and Health Administration (OSHA) —*** For 2000, the budget funds OSHA activities at $388 million, an increase of $35 million (9.9 percent) over the 1999 level.

- ***Mine Safety and Health Administration (MSHA) —*** The budget funds MSHA activities at $228 million for 2000. This is an increase of $13 million (6.1 percent) over the 1999 level.

- ***Food and Drug Administration (FDA) —*** The budget funds FDA at $1.1 billion. Combined with user fees, the budget brings FDA's program level to $1.3 billion for 2000, an increase of $205 million (18 percent) over the 1999 program level. A portion of the increase will be used to combat youth smoking, develop health strategies to improve food safety, and address a range of issues arising from possible bioterrorism.

- ***Centers for Disease Control (CDC) —*** For 2000, CDC's program level is $3.1 billion, an increase of $201 million (7 percent) over the 1999 level. CDC's funding level for 2000 is $2.8 billion, an increase of $178 million (7 percent) over the 1999 level. The program level is achieved with funds from other sources, such as the Environmental Protection Agency (toxic substances research).

- ***Childhood Immunizations —*** For 2000, the budget funds childhood immunizations at $1.1 billion. This total includes funds for CDC's discretionary immunization program ($526 million) and spending from the Vaccines for Children mandatory program ($545 million). In 1997, the nation surpassed its goal of fully immunizing 90 percent or more of America's toddlers. For global eradication of measles and polio, the budget includes $99 million, an increase of $17 million (21 percent) over the 1999 level. According to the Department of Health and Human Services (HHS), world-wide cases of polio were reduced by 85 percent between 1988 and 1998. However, an increased, major international effort will be required to reach the World Health Organization's goal to eliminate polio in the year 2000.

- ***Indian Health Service (IHS) —*** For 2000, the budget funds IHS at a program level of $2.8 billion, an increase of $170 million (6.4 percent) over the 1999 level. IHS's funding level for 2000 is $2.4 billion, an increase of $170 million (7.6 percent) over the 1999 level. The program level is achieved with funds from sources other than appropriations. The bulk of the increase ($118 million) for 2000, is for clinical, preventive, and environmental health activities.

- ***Agency for Health Care Policy and Research (AHCPR)—*** The budget funds AHCPR at a program level of $206 million, an increase of $35 million (20 percent) over the 1999 level. AHCPR's funding level for 2000 is $27 million, a decrease of $73 million below the 1999 level. For 2000, $170 million will be transferred to AHCPR from other agencies to achieve the program level of $206 million. AHCPR's mission is the translation of research knowledge into measurable improvements in the American health care system.

Function 570: Medicare

(in billions of dollars)

		1999	2000	2001	2002	2003	2004	00-04 Total
Discretionary	BA	3.0	2.9	2.9	2.9	2.9	2.9	14.6
	O	2.9	2.9	2.9	2.9	2.9	2.9	14.6
Mandatory	BA	202.6	213.5	227.5	232.1	249.4	263.1	1,185.6
	O	202.0	213.7	227.7	231.7	249.6	263.4	1,186.0
Total	**BA**	**205.6**	**216.4**	**230.4**	**235.0**	**252.3**	**266.1**	**1,200.2**
	O	**205.0**	**216.6**	**230.6**	**234.6**	**252.5**	**266.3**	**1,200.5**

Function 570 includes only the Medicare program. Discretionary funds are used to administer and monitor the Medicare program (Parts A and B). President Clinton's budget for 2000 includes discretionary budget authority of $2.9 billion, a decrease of $189 million (2 percent) below the 1999 level. Thereafter, funds for program administration are frozen at the 2000 level.

Medicare benefits comprise almost all of the mandatory spending in Function 570. For 2000, the budget decreases mandatory spending by a net of $1.2 billion (gross of $1.4 billion) relative to projected baseline spending. Over five years (2000-2004), projected mandatory spending decreases by a net of $7.8 billion ($10.4 billion gross).

Growth in Medicare Spending

The growth in Medicare spending varied widely in the past and such fluctuations are expected in the future. In the early 1990s, Medicare spending grew at rates in excess of 10 percent annually. According to the Office of Management and Budget (OMB), growth in Medicare spending dropped dramatically during the latter part of the decade. In 1998, Medicare spending grew at a rate of 1.5 percent, the lowest since the inception of the program in 1965. This low growth in spending is thought to be the result of less utilization of services, a stepped up crackdown on fraud and abuse activities, and the implementation of several payment reductions required by the Balanced Budget Act of 1997 (BBA). However, most analysts are still unsure as to the underlying causes of this steep decline in Medicare spending. Moreover, most analysts do not expect the rate of growth to stay at this abnormally low rate.

For the near term (1998-2004), OMB projects Medicare's spending to increase at an average annual rate of 5.6 percent. Over the next decade, the Congressional Budget Office (CBO) projects a higher average annual growth rate of 7.3 percent in Medicare spending. Through 2003, however, CBO projects a somewhat lower average annual growth rate of 6.4 percent because most of the changes required by the BBA will be implemented during this time.

Medicare Trust Fund and the Surplus

President Clinton's budget extends the life of the Medicare Part A Trust Fund to 2020 by dedicating 15 percent ($686 billion) of the unified budget surplus over 15 years to the Part A Trust Fund. Under current law, the Medicare Part A Trust Fund will be exhausted in 2008.

Medicare Reductions

! ***Amount and Source of Reductions —*** The President's budget reduces Medicare spending by a gross of $1.4 billion (net of $1.2 billion) in 2000, relative to projected baseline spending. Over five years (2000-2004), projected spending is reduced by a gross of $10.4 billion (net $7.8 billion). The largest five-year reduction in projected spending ($3.9 billion) results from freezing the hospital market basket update for one year (2000). Reducing bad debt payments for all providers accounts for $2.5 billion of the five-year savings. The remaining five-year savings of $4 billion are derived from a variety of sources similar to those in last year's budget, such as improving program integrity procedures (Medicare Secondary Payer), reducing drug prices, extending Centers of Excellence, lowering the lab fee schedule ceiling from 74 to 72 percent of the national median, reducing use of partial hospitalization services, and limiting payments for orthotics and prosthetics to the national median.

! ***Use of Reductions —*** A portion of the Medicare savings is used to finance Medicare expansions. For example, of the gross five-year savings of $10.4 billion, $1.4 billion is spent over four years (2001-2004) to finance the Medicare Buy-In (see below). However, a significant portion of the savings is used to fund other programs. For example, in 2000, $1.1 billion in mandatory health program savings (mandatory health programs are primarily Medicare and Medicaid) is used to offset increases in discretionary programs (programs subject to annual appropriations). Over five years (2000-2004), the budget uses $5.1 billion in mandatory health savings to fund discretionary programs.

Medicare Buy-In

This year's budget again allows two groups of uninsured people between the ages of 55-64 to buy in to the Medicare program beginning in 2001. This expansion of Medicare increases Medicare spending by $322 million in 2001, relative to current baseline projections of Medicare spending. Over four years (2001-2004), projected Medicare spending increases by $1.4 billion.

The Medicare buy-in also increases projected spending for Social Security by $64 million for 2001 and by $474 million over four years (2001-2004). These costs are attributable to early retirements that would not occur without the opportunity to purchase health insurance.

! ***Persons Ages 62-64 without Employer Sponsored Health Insurance —*** Like last year's proposal, the budget allows this group of uninsured people to buy Medicare coverage. Until age 65, a premium is charged reflecting the average expected Medicare costs for people this age. Once the beneficiary becomes eligible for the regular Medicare program at age 65, the buy-in premium is replaced with a supplemental premium for each year the beneficiary had participated in the buy-in program. The supplemental premium is paid until age 85 and is in addition to Medicare's regular, Part B premium ($45.50 monthly in calendar year 1999). The supplemental premium protects the Medicare Trust Fund from additional costs arising because the buy-in will attract people who are likely to cost more than a typical person age 62-64 (adverse risk selection). Last year, the Congressional Budget Office (CBO) estimated the buy-in premium at about $300 monthly and the supplemental premium at $16.00 monthly for each year a person participated in the buy-in.

! ***Persons Ages 55-61 Who Involuntarily Lose Their Jobs and Health Insurance —*** The budget offers this group a Medicare buy-in option similar to the one described above. Under this proposal, workers and their spouses between the ages of 55-61 who lose health insurance when they lose their jobs may buy in to Medicare by paying a premium. Last year, CBO estimated the buy-in premium at about $400 monthly. At age 62, people could choose the option outlined above to continue buying Medicare coverage.

Other Medicare Expansions

! ***Cancer Clinical Trials —*** The budget funds a four-year demonstration program for cancer clinical trials. For 2000, the demonstration program increases projected spending by $10 million. Over four years (2000-2003), projected spending increases by $750 million.

• ***Removing Barriers to Employment for the Working Disabled —*** Under current law, disabled individuals who return to work must pay the full Part A premiums after 39 months in order to continue receiving Medicare benefits. As part of the Administration's larger initiative to remove employment barriers for the disabled, the budget provides lifetime coverage under Medicare Part A to those who leave the Social Security disability rolls and return to work. Over five years (2000-2004), this expansion increases projected Medicare spending by about $300 million.

Long-Term Care

The Administration's budget establishes a four-part long-term care program. Over five years (2000-2004), the initiative costs $6.2 billion, of which $5.5 billion is on the revenue side of the budget. The initiative includes: (1) establishing a tax credit (a maximum of $1,000); (2) developing a national family caregivers support program; (3) educating Medicare beneficiaries about the program's limited long-term care coverage and how to evaluate long-term care options; and (4) creating a federal model by offering private long-term care insurance to federal employees at group rates. *(For tax credit, see Revenues)*

User Fees

The budget levies user fees of $245 million on Medicare providers and suppliers in 2000. Over five years (2000 to 2004), user fees of $1.5 billion are imposed. With the exception of the increased Medicare+Choice fee, all user fees are new in 2000. For 2000, the fees are: (1) physician, provider, and supplier enrollment registration ($20 million); (2) managed care organization application and renewal ($37 million); (3) initial provider certification ($10 million); (4) provider recertification ($55 million); (5) paper claims submission ($55 million); (6) duplicate and unprocessable claims ($18 million); and (7) increase Medicare+Choice ($50 million).

National Medicare Commission

The Balanced Budget Act of 1997 established the National Bipartisan Commission on the Future of Medicare. The Commission is charged with reviewing and analyzing the financial integrity and the provision of appropriate benefits under the program. It is supposed to develop solutions to problems that compromise Medicare's integrity. By law, the Commission's recommendations to preserve Medicare for the long term are due not later than March 1, 1999, and they must be supported by 11 of the 17 members on the Commission.

Function 600: Income Security

(in billions of dollars)

		1999	2000	2001	2002	2003	2004	00-04 Total
Discretionary	BA	32.8	30.2	36.4	36.2	36.2	36.2	175.1
	O	40.7	42.4	42.0	40.1	39.3	38.4	202.1
Mandatory	BA	210.3	220.8	231.2	239.6	247.1	255.7	1,194.4
	O	202.4	215.7	225.3	234.6	243.1	252.9	1,171.5
Total	**BA**	**243.1**	**251.0**	**267.6**	**275.8**	**283.3**	**291.9**	**1,369.5**
	O	**243.1**	**258.0**	**267.3**	**274.7**	**282.3**	**291.2**	**1,373.6**

Function 600 includes a range of income security programs that provide cash or near-cash assistance (e.g., housing, food, and energy assistance) to low-income persons and families, and benefits to certain retirees, persons with disabilities, and the unemployed. President Clinton's 2000 budget contains several expansions to income security programs, including a major child care initiative, restoration of food stamp and Supplemental Security Income benefits to certain legal immigrants, increases in unemployment benefits, and additional funding for housing assistance for the homeless, the elderly, and families moving from welfare to work. The budget also includes several changes that reduce spending on income security programs — in Temporary Assistance to Needy Families (TANF) and Child Support Enforcement — as discussed below under Income Assistance.

Major Initiatives

! ***Child Care*** — President Clinton's budget includes a major child care initiative similar to the one he offered last year. This initiative increases funding for mandatory child care programs by $1.8 billion in 2000 and $10.5 billion over the five year period 2000-2004. For the mandatory portion of the Child Care and Development Fund (CCDF), the increase of $1.2 billion for 2000 (nearly a 50 percent increase over the currently authorized level) brings total funding to $3.5 billion. The five-year increase for the CCDF is $7.5 billion. This increase will serve an additional one million low-income children, for a total of 2.4 million children by 2004. The CCDF provides funds to states for child care subsidies to low-income families, but since funds are fixed, many eligible families do not receive assistance.

The budget creates a mandatory Early Learning Fund and provides $600 million for 2000 and $3.0 billion in funding over five years. This new program provides states with funding for community grants to enhance early childhood development and school readiness for children up to age five.

Other components of the President's child care initiative include: (1) increased funding for Head Start; (2) $600 million for the 21st Century Community Learning Center Program for 2000 (triple the 1999 level); and (3) a total of $6.8 billion over five years to expand child care tax credits for families and businesses and to provide a tax credit for stay-at-home parents. (See *Function 500: Education, Training, Employment, and Social Services* and *Revenues* for more details.)

! ***Restoring Benefits for Certain Legal Immigrants*** — The President's budget restores Supplemental Security Income (SSI), Food Stamp, and Medicaid benefits to certain legal immigrants who lost eligibility due to enactment of the 1996 welfare law. It provides SSI to immigrants who enter the country after the legislation was enacted (August 22, 1996) if they live in the country for more than five years and become disabled after entry. Under current law, only legal immigrants who were residing in the United States prior to August 22, 1996, can become eligible for SSI disability benefits. This extension of benefits costs $77 million in 2002 and $585 million over the three-year period 2002-2004. An estimated 54,000 additional immigrants will receive SSI in 2004 as a result.

Effective November 1, 1998, food stamp eligibility was restored to immigrant children and elderly and disabled immigrants who entered this country before enactment of the 1996 welfare legislation. The President's budget further extends food stamp benefits to legal immigrants in the country as of August 22, 1996, who subsequently reach age 65. This change increases Food Stamp Program costs by $10 million in 2000 and $60 million over 2000-2004, relative to a baseline projection of spending under current law.

In addition, the budget extends Medicaid coverage to three groups of legal immigrants who lost eligibility under welfare reform. States are given the *option* of serving children and pregnant women who enter the country legally after enactment of welfare reform (August 22, 1996). (These children could be served under either Medicaid or the Children's Health Insurance Program (CHIP).) However, the budget *requires* the provision of Medicaid coverage to disabled, legal immigrants made eligible for SSI by the budget's SSI restoration. (See *Function 550: Health* for more details.)

Income Assistance

Discretionary income assistance programs in Function 600 consist of the Low Income Home Energy Assistance Program (LIHEAP), Refugee and Entrant Assistance, a portion of the Child Care and Development Block Grant (CCDBG), and administrative expenses for the Supplemental Security Income (SSI) program. The budget provides $5.1 billion for these four programs in 2000, an increase of $247 million (5.1 percent) above 1999 funding levels.

- ***Refugee and Entrant Assistance*** — Funding for this program increases by $8 million for 2000 to $443 million to fully fund the domestic treatment activities newly authorized by the Torture Victims Relief Act.

- ***Low-Income Home Energy Assistance (LIHEAP)*** — The budget includes $1.1 billion for LIHEAP as an advance appropriation for 2001, the same level appropriated in advance for 2000 and provided for 1999. The budget also includes $300 million in emergency funds for LIHEAP (which are contingent upon their designation as emergency funding).

- ***Supplemental Security Income (SSI) Administrative Expenses*** — The budget increases funding for SSI administrative expenses from $2.3 billion for 1999 to $2.4 billion for 2000. Funding for SSI administrative expenses is related to workload growth, including plans to increase the number of non-disability redeterminations of eligibility in 2000. These reviews ensure that those receiving SSI continue to meet the program's requirements and are receiving the correct benefit amount.

- ***Child Care and Development Block Grant*** *(CCDBG)* — The budget includes $1.2 billion for discretionary CCDBG funds as an advance appropriation for 2001, the same level appropriated in advance for 2000. The 2000 level is an increase of $183 million above the 1999 level for discretionary child care funding. From these funds, $173 million will support activities to improve the quality of child care, and $10 million will be used for research, demonstration, and evaluation activities.

The budget includes a number of changes to mandatory spending for income assistance programs. It expands the mandatory portion of the Child Care and Development Fund and creates a new mandatory Early Learning Fund, reduces spending for Temporary Assistance for Needy Families (TANF) and Child Support Enforcement (CSE), and extends SSI benefits for certain legal immigrants. It also includes replacement of the current capped Contingency Fund for State Welfare Programs with a new uncapped fund, as discussed below.

! ***Child Care*** — As noted above, the President's budget includes a major child care initiative that increases mandatory child care funding by $1.8 billion in 2000 and $10.5 billion over the five year period 2000-2004, relative to a baseline projection of current law. It will expand child care subsidies and establish a new program to enhance early childhood development. In addition, the budget increases child care tax credits to families and businesses.

! ***Supplemental Security Income (SSI)*** — The budget includes three changes that affect SSI spending, the net effect of which is a decrease of $14 million in 2000 and an increase of $368 million over the five-year period 2000-2004, relative to a baseline projection of current law. First, the budget restores SSI benefits to immigrants who enter the country after welfare reform legislation was enacted (August 22, 1996) if they live in the country for more than five years and become disabled after entry. This extension of benefits costs $77 million in 2002 and $585 million over the three-year period 2002-2004. The budget also reflects two changes that reduce SSI spending. First, the budget expands the government's authority to collect SSI overpayments and implements other initiatives to improve SSI program integrity. These changes save $14 million in 2000 and $202 million over the five-year period 2000-2004, relative to a baseline projection of current law. Second, the budget includes a return-to-work initiative for recipients of disability benefits, which reduces SSI spending by $5 million each year beginning in 2002.

! ***Temporary Assistance for Needy Families (TANF)*** — The budget includes two changes that reduce TANF spending by $645 million in 2000 and $741 million over the five-year period 2000-2004, relative to a baseline projection of current law. The budget freezes the TANF Supplemental Grants for Population Increases at the 1999 level, reducing TANF costs by $45 million in 2000 and $241 million over 2000-2004. In 2000, 17 states are eligible for these grants.

The budget also reduces the amount of TANF funds that states may transfer to the Social Services Block Grant (SSBG) in 2000 from 10 percent to 4.25 percent. This change *reduces* spending by $600 million in 2000 but *increases* spending by $100 million in 2004, relative to a baseline projection of current law. Therefore, the net savings from this provision are $500 million over five years. Under current law, the cap on TANF transfers to SSBG falls from 10 to 4.25 percent in 2001, so this provision achieves no savings in subsequent years. It does, however, increase TANF spending by $100 million in 2004 because the limit on the transfers does not change the *overall* TANF funding level. Therefore, the same amount of funds remains available; states simple spend less of them in 2000 and increase spending in later years. Thus, acceleration of the reduction in the transfer cap to 4.25 percent from 2001 to 2000 has net savings of $500 million over the five year period, 2000-2004.

- ***Contingency Fund for State Welfare Programs*** **—** The budget replaces the current capped Contingency Fund for State Welfare Programs with a new uncapped fund. This proposal reduces the scored budget authority for 2000 by $1.6 billion, but has no effect on projected *spending* of contingency funds. The savings in budget authority from this change are designated as offsets for discretionary program increases.

- ***Child Support Enforcement*** **—** The budget proposes three changes to the child support enforcement program that reduce spending by $409 million over the five-year period 2000-2004, relative to a baseline projection of current law. First, the budget reduces the match rate for paternity establishment laboratory tests from 90 percent to 66 percent, reducing program costs by $9 million in 2000 and $45 million over the five-year period 2000-2004. 66 percent is the match rate for most of this program. Second, the budget repeals the "hold harmless" provision enacted by the 1996 welfare law, which allows states to recoup payments from the federal government if their child support collections fall below their 1995 level. Repealing this provision saves $65 million in 2000 and $279 million over 2000-2004. Finally, the budget requires states to conduct periodic reviews and adjustments of child support orders every three years for families receiving TANF assistance. This change takes effect in 2001 and produces child support savings of $25 million over 2001-2004. It also reduces Medicaid costs by $60 million over the four-year period.

Food and Nutrition Assistance

The budget provides $4.7 billion for discretionary food and nutrition assistance programs for 2000. This reflects an increase of $291 million (6.6 percent) above the 1999 funding level. Included are increases of $181 million for the Women, Infants, and Children program; $13 million for a universal school breakfast pilot program; and $10 million to increase funding for congregate feeding and "meals on wheels" programs for low-income elderly persons. The budget also extends Food Stamp benefits to certain legal immigrants.

- ***Food Stamps*** **—** The budget extends food stamp benefits to legal immigrants in the country on August 22, 1996, who subsequently reach age 65. This change increases Food Stamp Program costs by $10 million in 2000 and $60 million over 2000-2004, relative to a baseline projection of spending under current law.

- ***Child Nutrition*** **—** The budget allows USDA to count the value of bonus commodities provided to school lunch programs toward the required level of commodity assistance.

Current law requires that 12 percent of total federal support for the school lunch program be provided in the form of commodities. This provision counts the value of USDA *bonus* commodities, acquired through price support or surplus removal programs, toward this requirement, reducing program costs by $57 million in 2000 and by $316 million over the five-year period 2000-2004, relative to a baseline projection of spending current law. A similar provision was included in USDA's 1999 appropriation.

The budget includes $13 million in discretionary funding for 2000 for a universal school breakfast pilot program. This program, which was authorized as part of last year's Child Nutrition reauthorization, will serve breakfast to all children regardless of family income. The 2000 funding level will support pilot programs in six school districts.

! ***Special Supplemental Nutrition Program for Women, Infants and Children (WIC)*** — The budget increases funding for WIC by $181 million for 2000, to $4.1 billion, an increase of 4.6 percent above the 1999 funding level. This will enable WIC to improve the health and nutrition of 7.5 million low-income women, infants, and children.

Housing Assistance

The budget maintains past commitments to ensure that all eligible families receiving assistance continue to do so, and it includes several expansions in housing assistance programs for the elderly, the homeless, and other low-income families.

! ***Renewals of Section 8 Expiring Contracts*** — The budget fully funds all renewals of expiring Section 8 rental assistance contracts, providing funding of $13 billion for 2000. Over three million families currently depend on the annual renewal of rental assistance, either directly, through contracts with private landlords, or through subsidies administered by Public Housing Authorities on behalf of individual families.

! ***New Housing Vouchers*** — The budget provides $578 million for 2000 to fund 100,000 incremental housing vouchers. This includes $491 million in discretionary funds for: 25,000 vouchers for families moving from welfare to work; 18,000 vouchers for the homeless; and 42,000 non-targeted vouchers. It also includes $87 million in mandatory funding for 15,000 permanently authorized vouchers for the elderly.

! ***Homeless Assistance Grants*** — The budget provides $1.0 billion for Homeless Assistance Grants for 2000, an increase of $45 million over the 1999 level. This is part of a strategy for reducing homelessness by requiring communities to establish a "Continuum of Care" — a coordinated, inclusive community approach to ensure that homeless persons move into jobs as well as permanent housing. The budget also includes $5 million for Multi-Agency Demonstrations that will test new ways to link homeless assistance program to better serve homeless families.

! ***Housing for the Elderly (Section 202)*** — The budget maintains funding for Housing for the Elderly programs for 2000 at the 1999 level of $660 million. This includes $100 million for a new grant program to convert elderly housing to assisted living facilities to meet the growing need for additional services. It also includes an increase of $35 million (from $15 million in 1999 to $50 million for 2000) for Service Coordinators who coordinate outside services for low-income elderly persons.

! ***HOME Investment Partnership Program (HOME)*** — The budget includes $1.6 billion for HOME for 2000, an increase of $10 million from the 1999 level. This program finances construction and rehabilitation of multifamily rental housing, improvements to substandard housing for current owners, and assistance to new home buyers. Included in the total for 2000 is $25 million for a new pilot program — the Regional Affordable Housing Initiative — for targeted regions that develop new inter-jurisdictional housing strategies to address critical housing needs.

! ***Housing Opportunities for Persons with AIDS (HOPWA)*** — The budget increases funding for HOPWA by $15 million (6.7 percent) to $240 million for 2000. This increase is based on growth in the number of AIDS cases (and the commensurate increased demand for services) and the increase in the number of jurisdictions eligible for funding. To prevent homelessness, HOPWA funds are used to provide short-term rental assistance, mortgage assistance, and utility payments for low-income persons with AIDS and their families. Funds also can be used for facility-based assistance and to develop housing resources.

! ***YouthBuild*** — The budget includes $75 million for the YouthBuild program for 2000, an increase of $33 million, or more than 75 percent, from the 1999 level. This will expand opportunities for disadvantaged young adults to obtain education and employment skills by rehabilitating and building housing for low-income and homeless people.

Unemployment Compensation

! ***Unemployment Insurance*** — The budget provides additional mandatory funding for Unemployment Insurance (UI) program administration and changes the trigger for extended unemployment benefits. Together, these changes increase program costs by $90 million for 2000 and $600 million over 2000-2004. The Administration includes these changes as an initial step toward broader UI reform and states its desire to work with the Congress to develop UI legislation to: (1) expand eligibility for benefits; (2) streamline filing and reduce tax burden; (3) emphasize reemployment; (4) combat fraud and abuse; and (5) improve administration.

The budget offsets the cost of the UI changes with an initiative to encourage states to improve the solvency of their trust funds. This initiative increases revenues by $224 million in 2000 and by $632 million over 2000-2004.

The budget also provides a $71 million increase for 2000 for Unemployment Trust Fund (UTF) integrity activities, earmarking a total of $91 million for this purpose. This funding supports efforts to ensure benefit payment accuracy and collection of under-paid state taxes, resulting in savings of $118 million in 2000 and $758 million over 2000-2004. In addition, the budget includes $40 million for a Wage Record Initiative to improve computer capacity for the National Directory of New Hires.

- ***Trade Adjustment Assistance (TAA)*** — The budget makes several changes to TAA that increase costs by $101 million in 2000 and $332 million over 2000-2004, relative to a baseline projection of spending under current law. Of the total costs, roughly half ($168 million over five years) are associated with increased costs for income support and cash allowances. The remaining savings are associated with training and relocation allowances (see *Function 500: Education, Employment and Training, and Social Services*). The budget consolidates the TAA and NAFTA-TAA programs and extends the consolidated program through September 30, 2001. It also: (1) extends eligibility for TAA to people losing their jobs due to shifts in production abroad (similar to the current NAFTA-TAA provision for production shifts to Canada and Mexico); (2) raises the cap on TAA training expenditures to support the expected increase in program participation; and (3) adds a contingency funding provision to ensure sufficient funds to cover any unexpected increases in benefits for covered workers.

Function 650: Social Security

(in billions of dollars)

		1999	2000	2001	2002	2003	2004	00-04 Total
Discretionary	BA	3.2	3.2	3.2	3.2	3.2	3.2	16.1
	O	3.5	3.3	3.3	3.2	3.2	3.2	16.3
Mandatory	BA	388.2	405.6	425.2	445.8	466.9	489.3	2,232.8
	O	389.2	405.2	423.6	444.1	465.1	487.4	2,225.4
Total	**BA**	**391.4**	**408.8**	**428.4**	**449.0**	**470.1**	**492.6**	**2,248.9**
	O	**392.6**	**408.6**	**426.9**	**447.3**	**468.3**	**490.6**	**2,241.7**

President Clinton proposes allocating $2.8 trillion from the unified budget surpluses over the next fifteen years to the Social Security Trust Fund in order to protect and preserve the Social Security program. (See *The Budget Surpluses and Saving Social Security* for discussion of the President's plan.)

! ***Benefit Payments*** — The Administration proposes no change in Social Security Old Age, Survivors and Disability benefits in this budget. However, in requesting a bipartisan negotiation with Congress to achieve 75-year solvency for Social Security, the President has indicated that any structural changes to the system should include improved benefits to widows and a repeal of the earnings test.

The Administration projects that benefits will be $405 billion in 2000, an increase of $16 billion (4 percent) above the 1999 level. This amount is 23 percent of total federal spending. Benefit costs are higher in 2000 because of increases in the number of beneficiaries, higher benefit amounts due to higher earnings of new beneficiaries, and annual cost-of-living adjustments. The Social Security program will pay benefits to 45 million people in 2000.

The budget projects a January 2000 cost-of-living increase of 2.4 percent for Social Security benefits, based on the budget's economic assumptions.

The budget includes Return-to-Work initiatives that will enable more beneficiaries with disabilities to participate in the workforce by giving them flexibility to secure employment support services tailored to their needs. These initiatives cost $10 million in 2000 and $167 million over five years, 2000-2004, relative to a baseline projection of spending under current law. The budget also includes savings of $7 million in 2000 related to program integrity improvements from data matching activities. The five-year savings for the program integrity changes is $56 million.

! ***Administrative Costs*** **—** Social Security administrative costs are on budget. The budget includes $3.2 billion for 2000, an increase of $62 million above the 1999 level, to fund administrative expenses for the Old Age, Survivors, and Disability benefits programs. The budget increases program management and payment safeguard activities, including additional continuing disability reviews to verify that individuals receiving disability benefits continue to remain eligible. The budget includes savings of $19 million from fees assessed on attorneys who represent claimants and receive direct payment services from the Social Security Administration (SSA). SSA can certify direct payment, from beneficiary past-due benefits, of approved fees charged by attorneys for their representation of beneficiaries. This fee covers administrative costs of these services for attorneys.

Function 700: Veterans' Benefits and Services

(in billions of dollars)

		1999	2000	2001	2002	2003	2004	00-04 Total
Discretionary	BA	19.3	19.3	19.3	19.3	19.3	19.3	96.5
	O	19.2	19.1	19.4	19.2	19.3	19.3	96.3
Mandatory	BA	24.2	24.4	25.6	26.5	27.5	28.4	132.4
	O	24.3	24.9	26.0	26.8	27.6	28.6	133.9
Total	**BA**	**43.5**	**43.7**	**44.9**	**45.7**	**46.8**	**47.7**	**228.8**
	O	**43.5**	**44.0**	**45.3**	**46.0**	**46.8**	**47.9**	**230.0**

For 2000, the President's budget provides $43.7 billion for veterans' benefits and services. This represents an increase of $200 million above the 1999 level. The budget includes initiatives that expand emergency care coverage, help veterans quit smoking, and increase benefits for Filipino veterans living in the U.S.

! ***Medical Care*** — Overall, the President's budget includes $18.1 billion for 2000 for veterans' medical care. This amount includes $17.3 billion in discretionary budget authority, the same level as for 1999. In addition, the budget assumes the Department of Veterans' Affairs (VA) will receive $749 million in reimbursements from private insurance companies for treatment of veterans' non-service-connected conditions. This represents an increase of $124 million above the 1999 level.

! ***Expanded Emergency Care Coverage*** — With few exceptions, current law prohibits the VA from paying for comprehensive emergency care services provided in non-VA facilities. Consequently, veterans must rely on other insurance or pay out of pocket for emergency services when VA health care is unavailable to them. The President's budget expands emergency care benefits in 2000 for all service-disabled veterans enrolled in the VA health care plan. As a result, veterans with priority status for VA health care will be covered for emergency care even when treatment in VA facilities is not available. The budget provides $244 million for this initiative for 2000 and offsets the cost with increased efficiencies elsewhere in VA's medical care budget.

- ***Filipino Veterans*** — The President's budget eliminates the disparity between disability compensation benefits paid to Filipino veterans living in the United States and other veterans. Under current law, Filipino veterans receive compensation benefits equal to one-half of the amount paid to other veterans. This proposal increases benefits by $5 million in 2000 and by $25 million over 2000-2004.

- ***Medical and Prosthetic Research*** — The President's budget includes $316 million for medical and prosthetic research for 2000, the same level as for 1999.

- ***Smoking Cessation*** — The budget includes $56 million for a new smoking cessation program. Veterans are eligible if they began smoking while in the military and were honorably discharged.

- ***Compensation and Pension COLA*** — The President's budget includes a 2.4 percent cost-of-living adjustment for disability compensation and pension benefits.

- ***Medical Construction*** — Overall, the President's budget includes $225 million for VA construction funding. For major medical construction (i.e., projects that cost $4 million or more), the budget provides $60 million, a decrease of $82 million below the 1999 level. For minor construction projects (i.e., projects that cost less than $4 million), the President requests $175 million, the same as the 1999 level.

- ***Mandatory Savings Proposals*** — The budget permanently extends three provisions included in the Balanced Budget Act of 1997 that are set to expire at the end of 2002. Together, these provisions save $622 million over the period 2003-2004. These provisions include: (1) rounding down disability compensation COLA adjustments to the next whole dollar amount (saving $15 million in 2003 and $24 million in 2004); (2) extending authority to verify income of beneficiaries with the IRS and the Social Security Administration (saving $3 million per year in 2003 and 2004); and (3) extending the $90 pension limitation for veterans without dependents who receive nursing home care that is covered by Medicaid (saving $50 million in 2003 and $527 million in 2004).

Function 750: Administration of Justice

(in billions of dollars)

		1999	2000	2001	2002	2003	2004	00-04 Total
Discretionary	BA	26.1	26.4	26.8	26.9	26.7	26.8	133.6
	O	23.4	26.7	28.2	27.1	27.1	27.0	136.1
Mandatory	BA	0.7	0.5	0.5	0.6	0.6	0.6	2.8
	O	1.0	0.8	0.6	0.6	0.5	0.5	3.0
Total	**BA**	**26.9**	**26.9**	**27.3**	**27.5**	**27.3**	**27.4**	**136.4**
	O	**24.5**	**27.5**	**28.8**	**27.6**	**27.7**	**27.5**	**139.1**

The Administration of Justice function includes funding for federal law enforcement, litigation and judicial activities, correctional operations, and state and local justice assistance. Agencies that administer programs within these categories include the following: the Federal Bureau of Investigation (FBI); Drug Enforcement Administration (DEA); the Immigration and Naturalization Service (INS); the U. S. Customs Service; the Bureau of Alcohol, Tobacco, and Firearms (ATF); the United States Secret Service; the United States Attorneys; the U.S. Marshals Service; legal divisions within the Department of Justice; the Legal Services Corporation; the Federal Judiciary; and the Federal Bureau of Prisons. President Clinton's budget provides $26.9 billion for the Administration of Justice function, the same level enacted in 1999.

The following list outlines highlights in the President's Administration of Justice budget for 2000.

! ***Violent Crime Reduction Trust Fund (VCRTF) —*** Congress created the Violent Crime Reduction Trust Fund (VCRTF) in 1994 to dedicate funds to state, local, and federal programs that focus on crime prevention and law enforcement. For 1995 through 1999, Congress appropriated a total of $22.6 billion to programs from the fund. The budget provides $4.5 billion for VCRTF programs for 2000. These programs include grants to states and localities and law enforcement programs administered by the Immigration and Naturalization Service, the Customs Service, the Drug Enforcement Agency, the Federal Bureau of Investigation, and the United States Marshals Service. The VCRTF expires after 2000 under current law.

- ***Community Oriented Policing Services (COPS) —*** The VCRTF also funds the President's Community Oriented Policing Services (COPS) initiative, a program designed to put 100,000 new police officers on the street by 2000. For 1995 through 1999, Congress appropriated a total of $6.9 billion from the VCRTF to the COPS program, nearly one-third of the total VCRTF funds. COPS will achieve its goal of putting 100,000 police officers on the street in 1999. Beginning in 2000, the President's budget continues efforts begun under COPS by merging the program into its 21st Century Policing Initiative described below.

- ***21st Century Policing Initiative —*** The President's budget establishes a new program — the 21st Century Policing Initiative — to continue law enforcement efforts begun under the COPS program. The 21st Century Policing Initiative builds on the COPS program by providing $600 million for 2000 to help state and local law enforcement agencies hire and retain police officers. In addition, the initiative provides $350 million for 2000 to help states and localities improve crime-fighting technology. The initiative also provides $325 million for 2000 for new community-based prosecutors and other programs and organizations that focus on community crime prevention. Most of the funding for the 21st Century Policing Initiative comes from the VCRTF for 2000. Funding for the 21st Century Policing Initiative totals $6.4 billion over the next five years.

- ***Civil Rights Enforcement —*** The President's budget increases funding for civil rights enforcement over 1999 enacted levels. The budget provides $312 million for the Equal Employment Opportunity Commission (EEOC), a 12 percent increase over the $259 million enacted last year, to help reduce the backlog of private sector complaints from 57,000 to 28,000 by the end of 2000. The budget provides $82 million for the Department of Justice's Civil Rights Division, a 19 percent increase over the $69 million appropriated for 1999, to aid the division's efforts to investigate and prosecute hate crimes, police misconduct, fair housing and lending cases, and violations of the Americans with Disabilities Act. The President's budget provides $47 million to aid the Department of Housing and Urban Development's efforts to reduce housing discrimination. This represents a 17 percent increase over the $40 million appropriated last year. The President's budget also provides $73 million for the Department of Education's Office for Civil Rights, an 11 percent increase over the $66 million appropriated for 1999.

- ***Immigration Services —*** The President's budget provides $4.3 billion for the Department of Justice's Immigration and Naturalization Service (INS) for 2000, $400 million over the 1999 level. The increased INS budget includes $50 million for "force-multiplying" border enforcement to enable the agency to monitor borders with high resolution color and infrared cameras and state-of-the-art command centers. The INS budget includes $71 million to expand and construct border and detention facilities. The INS budget also includes $124 million for naturalization processing assistance to help reduce the waiting time for naturalization from nine to six months in 2000.

- ***Drug Enforcement* —** The President's budget provides $7.9 billion to address illegal drug trafficking and use for 2000, a $133 million (2.5 percent) increase above the 1999 level. The President's budget provides $1.5 billion for the Drug Enforcement Agency (DEA), which includes $23 million for program enhancement within the agency. The President's budget also includes a $215 million "Zero Tolerance" drug supervision program to monitor and treat drug use among criminal offenders. In addition, the budget provides $20 million for drug prevention within the Juvenile Justice Program.

- ***State and Local Grant Reductions* —** The President's budget, while increasing funding for federal law enforcement programs and adding several justice initiatives, reduces state and local justice assistance by $1.3 billion in 2000. These reductions in the budget stem from the elimination of the Local Law Enforcement Block Grant, the state prison construction program, and the Juvenile Accountability block grant program. The President's budget for 2000 reduces the Byrne Law Enforcement program to $460 million ($92 million below the 1999 level) and the State Criminal Alien Assistance Program to $500 million ($85 million below the 1999 level).

- ***Legal Services Corporation* —** The Legal Services Corporation distributes funds to non-profit legal organizations that offer legal assistance to people living in poverty. The President's budget includes $340 million for the Legal Services Corporation for 2000, $40 million above last year's level.

- ***Customs Service Fee Increases* —** The President's budget includes proposals to collect new and added Customs Service fees. The budget increases fees for commercial travelers entering the United States and removes certain exemptions from this fee. Proceeds from this increased fee help offset passenger processing costs. The budget also establishes a fee for users of Customs' automated systems. Proceeds from this fee help offset automation modernization. Both fees are contingent upon the enactment of authorizing legislation.

Function 800: General Government

(in billions of dollars)

		1999	2000	2001	2002	2003	2004	00-04 Total
Discretionary	BA	13.2	12.7	13.5	13.2	13.3	13.2	65.9
	O	12.4	13.0	13.5	13.4	13.3	13.3	66.5
Mandatory	BA	2.4	1.2	1.3	1.3	1.3	1.4	6.5
	O	2.5	1.5	1.2	1.2	1.2	1.4	6.5
Total	**BA**	**15.6**	**14.0**	**14.8**	**14.5**	**14.6**	**14.6**	**72.5**
	O	**14.9**	**14.5**	**14.7**	**14.5**	**14.5**	**14.7**	**72.9**

This function includes the activities of the White House and the Executive Office of the President, the legislative branch, and programs designed to carry out the legislative and administrative responsibilities of the federal government, including personnel management, fiscal operations, and property control.

! ***Legislative Branch*** **—** The budget includes $2.3 billion for 2000 for the Legislative Branch, which includes the operations of the House and Senate as well as support agencies such as the General Accounting Office, the Library of Congress, and the Congressional Budget Office.

! ***Executive Office of the President*** **—** The budget provides $263 million for the Executive Office of the President (EXOP), which includes the White House and supporting agencies such as the Office of Management and Budget, National Security Council, and Council of Economic Advisors. The budget also includes $454 million for the Office of National Drug Control Policy, which provides executive branch support for drug policy development and coordinates drug control programs within fifty federal agencies and departments. The salaries and expenses account ($43 million) for this office is included within the budget for EXOP.

! ***Internal Revenue Service (IRS)*** **—** The budget includes $8.0 billion for the Internal Revenue Service. No funds are requested for the IRS capital investment account to upgrade information technology investments for 2000 because existing balances will meet expected needs through 2000. However, the budget provides $325 million in advanced appropriations for fiscal year 2001 to continue funding to improve the legacy computer system (including the Year 2000 conversion). The budget also includes $197 million to improve customer services, develop training programs, and realign the agency's organizational structure and workforce to better reflect the needs of the taxpayers.

- ***General Services Administration (GSA)*** — The budget includes $161 million for the GSA. The GSA is the central provider of supplies, general administrative services, telecommunication services, and office space to federal agencies. Over $122 million is requested for its Office of Government-wide Policy and $34 million for the Office of the Inspector General. However, about $14 billion of GSA's activities are financed by other federal agencies through its revolving funds, which provide services to agencies on a reimbursement basis.

- ***District of Columbia*** — The budget includes $648 million for the District of Columbia's criminal justice system, which was assumed as a federal responsibility under the D.C. Revitalization Act. The budget also includes $407 million in mandatory funding for federal benefit payments for retired D.C. law enforcement officers, firefighters, and teachers. The Revitalization Act requires that such payments be offset by the transferred assets associated with the retirement system for these employees until those assets are depleted.

Function 900: Net Interest

(in billions of dollars)

		1999	2000	2001	2002	2003	2004	00-04 Total
Discretionary	BA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	O	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mandatory	BA	227.2	215.5	207.6	199.0	190.7	183.6	996.4
	O	227.2	215.5	207.6	199.0	190.7	183.6	996.4
Total	**BA**	**227.2**	**215.5**	**207.6**	**199.0**	**190.7**	**183.6**	**996.4**
	O	**227.2**	**215.5**	**207.6**	**199.0**	**190.7**	**183.6**	**996.4**

Interest on the debt reflects the cost of financing the outstanding amount the federal government has borrowed from the public. That is, net interest represents interest payments to non-federal owners of Treasury securities. For this purpose, the Federal Reserve is treated as a non-federal entity; if it were treated as a federal agency, net interest costs would be shown as $25 to $30 billion per year lower than in the table.

The figures in this table, like those in the rest of this analysis, are consistent with the enactment of a Social Security reform plan. Enactment of such a plan leads to a tax cut in the form of Universal Savings Accounts and additional spending for defense and non-defense discretionary programs (see *Overview)*. Without that tax cut and discretionary spending increase, net interest costs would drop to $173.0 billion by 2004.

! ***Interest Shrinks as a Share of GDP —*** By 2004, net interest costs decline from 2.6 percent of Gross Domestic Product today to only 1.7 percent, the lowest level since 1979.

! ***Interest Shrinks as a Share of the Budget —*** By 2004, net interest costs decline from 13 percent of total federal spending today to only 9.1 percent, the lowest level since 1980.

Function 920: Allowances

(in billions of dollars)

		1999	2000	2001	2002	2003	2004	00-04 Total
Discretionary	BA	7.6	-0.3	3.0	6.0	9.0	12.0	29.7
	O	3.1	2.6	2.5	4.6	7.1	9.9	26.7
Mandatory	BA	…	…	-4.6	-4.7	-4.8	-4.8	-18.9
	O	…	…	-2.8	-3.9	-4.6	-4.7	-16.0
Total	**BA**	**7.6**	**-0.3**	**-1.6**	**1.3**	**4.2**	**7.2**	**10.8**
	O	**3.1**	**2.6**	**-0.3**	**0.7**	**2.5**	**5.2**	**10.7**

This function includes funding for emergencies, adjustments to certain accounts, resources contingent upon Social Security reform, reserves for priority initiatives, and tobacco recoupment.

! ***Contingency for Emergencies*** — The Administration's 1999 budget included allowances for unanticipated emergencies. This year's budget reflects the release of amounts already appropriated as contingent emergencies that are expected to be released during 2000.

! ***Adjustments to Certain Accounts*** — The budget includes savings of $307 million in 2000 from adjustments to the legislative and judicial branch accounts for excessive funding requests. Each year, these branches make a request to OMB to cover their funding needs. OMB, in turn, adjusts the overall funding level to better reflect the historical funding levels for these branches of government. However, these reductions are reflected in this function rather than in the budget functions that contain the judicial and legislative branches to better maintain a sprit of comity among the three branches of government.

! ***Reserve for Priority Initiatives*** — The budget includes $30 billion in reserve from 2001 to 2004 for discretionary priority initiatives, such as increased funding for NIH and other unspecified defense and domestic programs.

! ***Tobacco Recoupment Policy*** — The budget includes savings of $19 billion from 2001 through 2004 for the federal government's recoupment of its share of funds from the tobacco settlement. The funding will be used to offset both mandatory and discretionary spending. (See the discussion of this issue in *Function 550: Health* for further details.)

Function 950: Undistributed Offsetting Receipts

(in billions of dollars)

		1999	2000	2001	2002	2003	2004	00-04 Total
Discretionary	BA	…	-2.8	1.1	1.1	-0.2	-0.2	-1.0
	O	…	-2.8	1.1	1.1	-0.2	-0.2	-1.0
Mandatory	BA	-40.0	-42.9	-46.1	-52.2	-46.8	-47.9	-235.9
	O	-40.0	-42.9	-46.1	-52.2	-46.8	-47.7	-235.7
Total	**BA**	**-40.0**	**-45.7**	**-45.0**	**-51.1**	**-47.0**	**-48.1**	**-236.9**
	O	**-40.0**	**-45.7**	**-45.0**	**-51.1**	**-47.0**	**-47.9**	**-236.7**

This function comprises major offsetting receipt items that would distort the funding levels of other functional categories if they were distributed to them. This function currently includes three major items: rents and royalties from the Outer Continental Shelf (OCS); the receipt of agency payments for the employer share of federal employee retirement benefits; and other offsetting receipts, such as those obtained from broadcast spectrum auctions by the Federal Communications Commission (FCC).

Offsetting receipts are recorded as "negative outlays" either because they represent voluntary payments to the government in return for goods or services (e.g., OCS royalties and spectrum receipts) or because they represent the receipt by one government agency of a payment made by another.

! ***Federal Employee Retirement System*** — In 2000, federal agencies will pay $37.5 billion to the federal employee retirement funds (Civil Service Retirement System, Military Retirement System, and the Federal Employees Retirement System). Employers also make payments to the Medicare health insurance trust fund and the Social Security trust funds on behalf of federal employees. As employees' pay increases, agencies are required to increase their payments to these funds.

! ***Spectrum Auctions and Fees*** — The President's budget establishes a $200 million annual fee on commercial television broadcasters. Under the terms of the new spectrum "lease fee," the Federal Communications Commission (FCC) will charge broadcasters for using electromagnetic spectrum for analog television broadcasts. Individual broadcasters will be exempt from the fee upon returning their existing analog channels to the FCC (and thus completing their transition from analog to digital broadcasting). The fee will be used by the Department of Justice, the Department of the Treasury, and the Bureau of Indian Affairs to offset the cost of promoting and upgrading federal, state, and local public safety wireless communications equipment and facilities.

The budget does not propose any new spectrum auctions, but it does move up the beginning auction date from 2001 to 1999 of 36 megahertz of spectrum formerly assigned to television channels 60–69. The original auction date was set in the Balanced Budget Act of 1997. The acceleration does not result in any net gain or loss of auction receipts over time, but an estimated $2.6 billion in receipts will accrue in 2000 instead of 2001–2002.