



U.S. House of Representatives

COMMITTEE ON THE BUDGET

Washington, DC 20515

March 26, 2001

Dear Democratic Colleague:

Tomorrow, the House will begin debate on the FY2002 House Republican budget resolution which the Budget Committee passed on a strict party line vote last Wednesday evening. Every Democrat voted against, and every Republican voted for, the plan. Attached is a House Budget Committee Democratic staff report that summarizes and analyzes the Republican resolution.

The House Republican budget resolution closely follows President Bush's program. Thus, it comes as no surprise that the resolution shares all of the faults of the preliminary budget document sent by the President to Congress at the end of February.

At best, the plan misses an opportunity to use our extraordinary prosperity to address enduring problems, particularly the costs of paying for the retirement of the baby-boom generation. At worst, it gambles the very prosperity that is at the heart of that economic opportunity on a \$2 trillion tax cut.

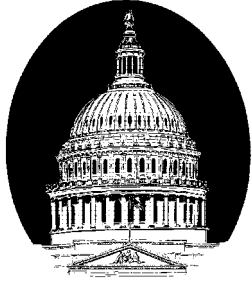
To pay for their tax cuts, Republicans cut important domestic initiatives such as child care, heating assistance for the poor, and environmental protection. Even the Republican Chairman of the Senate Budget Committee said that "some functions of government just can't take as big a cut as they're [the Bush Administration] talking about." Because of their oversized tax cuts, they also tap the Medicare Trust Fund to pay for their Medicare prescription drug plan, thereby shortening the solvency of Medicare. Moreover, they offer only \$153 billion for their Medicare reform and prescription drug plan, even though the sum is clearly inadequate. It is less than the amount they supported last year, and even the Republican chairman of the House Commerce Committee publicly admitted that the sum is too small.

By contrast, the Democrats offer a prudent budget framework. Our budget provides a substantial tax cut, but one that is affordable. It addresses the nation's priorities, including education, prescription drug coverage for seniors, and the solvency of Social Security and Medicare. Twenty years ago, the nation began to incur growing budget deficits, due in large part to the 1981 tax cut. We have finally reversed course and put the budget in surplus. We do not want to run the risk of backsliding into deficits again or spending the Social Security and Medicare trust funds. On the eve of the retirement of the baby boomers, we cannot afford that gamble, but that is precisely the risk the Republican budget takes.

I hope the attached information is helpful. Please feel free to call me or the House Budget Committee's Democratic staff if you have any questions.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member



HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. # Ranking Democratic Member

214 O'Neill HOB # Washington, DC 20515 # 202-226-7200 # www.house.gov/budget_democrats

March 26, 2001

OVERSIZED TAX CUTS THREATEN AMERICA'S PRIORITIES

A Summary and Analysis of the House Republican Budget Resolution

**John M. Spratt, Jr.
Ranking Member**

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

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.
- ! Unless otherwise noted, comparisons of the 2001 level of funding for discretionary programs are comparisons with the President's February Blueprint and/or CBO's baseline estimate of what is needed to maintain purchasing power at the 2001 level, and not with the actual 2001 appropriated level.
- ! On March 19, the Office of Management and Budget (OMB) released a list of revisions to the February Blueprint. These revisions will be part of the President's complete and final 2002 budget, which he plans to release on April 9. In general, the revisions make minimal changes to 2002 appropriations, but they do mechanically increase funding for 2003 through 2006 while decreasing funding for 2007 through 2011.
- ! Throughout the document, the Congressional Budget Office is abbreviated to CBO. The Office of Management and Budget is abbreviated to OMB.
- ! Numbers may not add due to rounding.

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Overview

The House Republican budget resolution closely follows President Bush's February Blueprint program. Thus, it comes as no surprise that the resolution shares all of the faults of the preliminary budget document sent from the White House to Congress.

In sum, the Republican budget resolution is imprudent and risky. At best, it misses a unique opportunity to use our extraordinary prosperity to address enduring problems and to prepare for future challenges. At worst, it gambles the very prosperity that is at the heart of that economic opportunity.

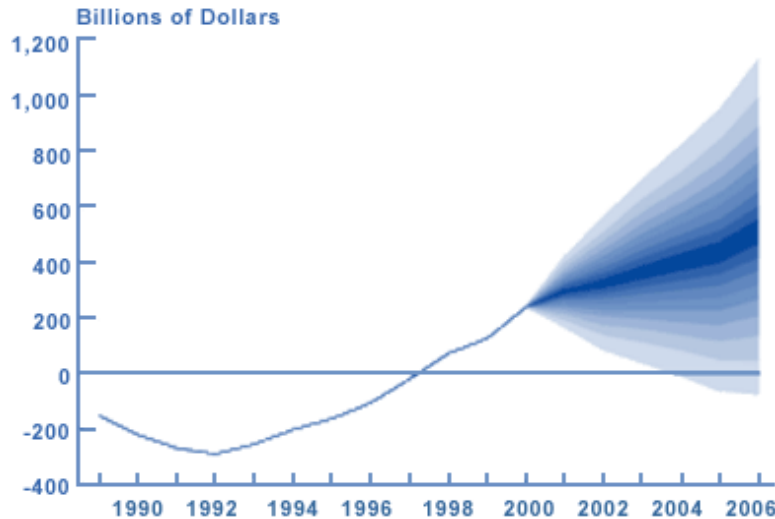
Democrats approach fiscal policy today from fundamental principles that are shared by an overwhelming majority of Americans. First, the Social Security Trust Fund surplus should be protected and should be used to reduce the public debt, because these funds are encumbered by commitments for future Social Security benefits. Second, the Medicare Part A (or Hospital Insurance) Trust Fund surplus should be treated in exactly the same way, for exactly the same reason. Instead, the Republican resolution specifically uses the already encumbered funds of the Medicare Trust Fund surplus to finance a new program — thereby reducing the solvency of Medicare. It seems elementary that the first step in dealing with programs facing funding challenges should be not making the problems worse.

The following table shows the ten-year course of the budget under Congressional Budget Office (CBO) assumptions and estimates. This presentation makes clear just how little margin for error this budget plan leaves for the next ten years.

BUDGET RESOLUTION

(Billions of Dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-06	2002-11
Baseline Unified Surplus	312.9	359.1	396.8	432.9	505.0	572.7	635.1	710.4	796.0	888.7	2,006.8	5,609.7
Social Security	170.8	187.9	201.1	221.3	238.2	256.5	275.9	293.7	311.7	330.5	1,019.4	2,487.7
Medicare Part A	36.0	39.0	41.0	40.0	44.0	41.0	41.0	39.0	37.0	34.0	200.0	392.0
Available Surplus	106.1	132.3	154.7	171.6	222.8	275.2	318.2	377.7	447.3	524.2	787.5	2,730.0
Tax Cut	67.7	83.1	108.6	133.0	167.4	187.2	201.1	217.0	232.7	240.9	559.9	1,638.7
Spending Increases	15.6	16.3	15.9	17.3	20.3	24.9	29.7	33.2	39.1	44.0	85.5	256.4
Net Interest	2.7	7.2	13.7	21.9	32.3	45.1	60.0	76.5	95.2	115.8	77.9	470.5
On-Budget Surplus	20.1	25.6	16.5	-0.6	2.7	18.1	27.4	51.0	80.2	123.5	64.2	364.4



From CBO's *The Budget and Economic Outlook: Fiscal Years 2002-2011*, January 2001

The Uncertainty of Surplus Projections

For perspective, CBO reported in its most recent annual budget projection volume that its average error in estimating the budget surplus or deficit **for a fiscal year already in progress** has been about 0.5 percent of the GDP — at the current size of the economy, about \$54 billion, rising to about \$85 billion by 2011. The budget resolution dissipates the available surplus to less than this margin of error in the first eight years of the ten-year budget window, and

barely surpasses it in the last two years. Given the widely escalating range of uncertainty as projections become more distant — CBO reports that its average error for a fiscal year five years in the future rises sixfold to 3.1 percent of GDP — it is clear that the projected small surpluses under the resolution could easily change to substantial deficits. If the economy should weaken, for this or any other reason, the budget will again drain the Social Security and Medicare surpluses that should instead be reserved for the demographic challenge that begins just seven years from now.

The impatience that drives this resolution is not justified and is especially risky. As of the budget resolution mark-up, the Joint Committee on Taxation still maintained that it had too little information to estimate the cost of the President's proposed tax cut. The Republican resolution reserves the right to revisit the Department of Agriculture's budget. The Department of Defense's request in the budget is still tentative, pending the completion of a strategic review. The Administration and Republicans on the Budget Committee have taken great pride in their restraint in waiting to finalize the Defense budget until a broad, comprehensive review of all needs and costs is completed. One can only wonder why the same standard of care should not extend to the budget as a whole.

The Republican resolution's tax cut is unbalanced (as discussed in the *Tax Cut* section that follows) and impinges on priorities for the government's services to the people. The tentative defense budget may go higher, which could swing the budget numbers by hundreds of billions of dollars over the ten-year budget window. To illustrate this point, the resolution includes no figure for the President's desired missile defense program; impartial estimates suggest that the cost of a system that would meet the President's objectives could be in excess of \$100 billion. Meeting

the President’s campaign goal of holding constant or increasing defense spending as a percentage of GNP would increase ten-year costs by more than \$650 billion — almost double the true ten-year reserve of \$364 billion in the resolution.

The non-defense part of the budget is excessively constrained because of the size of the tax cut. While ostensibly funding the President’s new initiatives in education and health research, the budget allows total non-defense spending to grow at slightly less than the rate that CBO identifies as necessary to maintain current program levels. Thus, if the new proposals are to be funded, the current core government activities must be cut back — not only in inflation-adjusted terms, but also lower than the rate of growth Republican Congresses of recent years have allowed. There is little indication of where those cuts should fall; they are left to future appropriations cycles, in a manner reminiscent of the 1981 Reagan budget’s reliance on “program savings to be identified later” — the notorious “magic asterisk.”

According to Committee materials, the resolution covers these and other potential costs with a “contingency reserve” of \$517 billion. However, this figure is achieved only by funding the President’s prescription drug initiative out of the Medicare Part A surplus, thereby shortening Medicare’s solvent life. If one instead attributes the prescription drug costs to the general fund, the size of the reserve falls to \$364 billion. That is not nearly enough to cover the many conceivable

The Incredible Shrinking Contingency Fund
Claimed Contingency Fund \$517 billion
Save the Medicare Surplus \$364 billion

Individual Social Security Accounts \$??? billion

Boost Defense as a % of GDP \$??? billion

Agriculture Policy Changes \$??? billion

National Missile Defense \$??? billion

Economic Downturn \$??? billion

Estimating Errors \$??? billion

Bigger Tax Cut \$??? billion

contingencies: the creation of Social Security individual accounts; defense expansions; economic misfortune; or estimating errors. If defense funding increases by as much as the President’s campaign promises would suggest, and if the Republican Congress increases appropriations at a rate more like its spending of the last few years rather than what President Bush now requests, then there will be no source for individual Social Security accounts or Medicare prescription drug coverage other than the Social Security and Medicare surpluses, which are already committed to pay existing benefits.

Some would argue that today, with the budget in surplus, our leaders have less need for fiscal prudence than did those in the days of routine deficits in the 1970s and the early 1980s. But in 1981, our debt was only about 25 percent of GDP, not the near 35 percent of today; and the retirement of the baby-boom generation was decades away, not the mere seven years that we now

have to prepare. Because of the considerable lag between economic developments and budget results, the Congress could enact a large tax cut now only to learn after a couple of years that it had seriously overstepped. One economic downturn and the time needed for the economy to recover could further cut our remaining lead time before the baby boom's retirement. The opportunity for sound preparation for the budgetary pressure of the baby boom's retirement could be squandered for good.

The Republican resolution follows the Bush Blueprint in betting the nation's fiscal future on ten-year projections just to achieve its large tax cut. But with the retirement of the baby boom just seven years away, this is no time for such risks.

Instead, Democrats support a prudent budget framework. It provides a tax cut, but one that is affordable. It addresses the nation's priorities, including education, prescription drug coverage for seniors, and the solvency of Social Security and Medicare. But it leaves more margin for the inevitable bumps in the road over a long ten-year horizon. It does so because Democrats recognize that the future is longer than ten years. By the end of this formal budget window, the new world of an aging population will just be beginning; and this new world will be just as unpredictable as the world was ten years ago. Twenty years ago, the nation began to bear the enormous costs of overreaching to provide a large tax cut. The country must not make that mistake again, certainly not now. But that is precisely what the House Republican Budget resolution does.

Tax Cuts

The centerpiece of the Republican budget plan is a package of tax cuts modeled on those proposed by the President. The resolution stipulates that the tax package reduces revenues by at least \$1.626 trillion over ten years. The resolution gives the Chairman of the Budget Committee authority to increase the size of the tax cut if CBO increases the projected surplus in its summer budget update. If CBO's summer update reduces the projected surplus there is no symmetric authority to trim the tax cut, even if failing to do so would mean invading the Social Security and Medicare HI surpluses.

Republicans claim that the tax cuts in their budget are something of an afterthought, merely returning government "overcharges" to the taxpayers after funding basic needs and reducing public debt. In reality, tax cuts appear to be the budget's overriding priority. The House passed the President's proposed rate cuts, costing more than \$1 trillion, before the Budget Committee had even considered the budget resolution. In addition, the House will consider a second \$400 billion tax package long before the Congress passes a budget resolution conference report, even though the Congressional Budget Act holds that a budget resolution should pass both Houses before Congress commits the public's money.

Although Republicans have argued that the "sputtering" economy is the justification for this huge tax cut, their numbers do not support this. The resolution calls for a cut of only \$5.8 billion in 2001. This amounts to a mere 0.05 percent of GDP, a trivial stimulus. The tax cut in the budget resolution is extremely back-loaded, with two-thirds of the revenue loss in the second five years. This is also when two-thirds of the projected surplus occurs and when projections are most uncertain.

Tax Cut in Republican Budget Resolution

Millions of Dollars

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2001-2006</u>	<u>2001-2011</u>
5,783	64,427	80,036	106,584	130,973	165,166	552,969	1,625,951

As in the past, this year's Republican tax package overwhelmingly benefits taxpayers in the upper-income brackets. Although the budget resolution is silent on the exact composition of the tax cut, Congressional Republicans have made clear that they intend at least to start with the elements in the President's tax package, which awards 45 percent of its benefits to the top one percent of taxpayers. In addition to the President's proposals, the Republican leadership has made clear that

they would like to cut capital gains and business taxes, which also would disproportionately benefit people in the top brackets.

The True Cost of Republican Tax Cuts

The President and Congressional Republicans contend that this year’s tax package should total \$1.6 trillion—no more, no less—unless CBO increases the size of projected surpluses. However, H.R. 3 and H.R. 6, which ostensibly embody the President’s proposals to cut tax rates, increase the child tax credit, and reduce the marriage penalty, together cost \$242 billion more than the President’s proposal in his February Blueprint. If one accepts the President’s cost estimates for the rest of his tax package, this additional \$242 billion boosts the total cost to \$1.8 trillion without debt service.

Unfortunately, cost estimates from the Joint Committee on Taxation (JCT), Congress’s official scorekeeper for tax proposals, are likely to exceed the President’s for the items not included in H.R. 3 or H.R. 6 and the Administration has so far declined to provide the JCT with the details of their tax cuts so the cost can be estimated. House Ways and Means Democrats have attempted to replicate JCT scoring for all the elements of the Bush tax package. As shown in the table below, they conclude that the direct revenue loss from the President’s basic tax package is \$1.8 trillion.

The President’s Major Tax Proposals Billions of Dollars, 2002-2011

Basic Bush Tax Package:

Rate Cuts (H.R. 3)	958
Child Credit and Ostensible Marriage Penalty Relief (H.R. 6)	400
Estate Tax Repeal as Proposed in Bush Budget	263
Permanent Extension of R&E Credit	32
Charitable Deduction for Non-Itemizers	100
Other Bush Tax Cuts	<u>9</u>
Total Cost of Bush Tax Package as Proposed:	1,762
Cost of Fixing AMT Problems Caused by Bush Tax Cut	<u>292</u>
Revenue Loss of the Basic Bush Tax Package	2,054

The table also shows the added cost of fixing the Bush tax cut's interactions with the alternative minimum tax (AMT). Under current law, the number of taxpayers subject to the AMT is projected to increase, but the Bush tax cut makes this problem much worse. If the Bush tax cut were passed as is, the number of filers subject to the AMT would rise from about 2 million today to 35 million in 2011, including more than half of all families of four. Just to keep the Bush tax cut from increasing the number of filers subject to the AMT under current law adds \$292 billion to the cost. That is, the President has promised taxpayers \$292 billion in tax cuts that they will not get, and he will have to acknowledge this cost to keep his promise.

In addition to his basic package, the President has proposed a host of other tax initiatives—for health care coverage, long-term care, teachers' out-of-pocket expenses, school construction, school volunteers, housing, conservation, pollution remediation, solar energy, internet access, adoption, medical scholarships, farmers, and nuclear de-commissioning.

On top of this, many Congressional Republicans have stated that the Bush tax proposals do not go far enough. Various prominent Republicans have urged passage of expanded IRAs and 401(k)s, a cut in capital gains taxes, and small business tax cuts, to name a few. The table below illustrates how the addition of just some of these items could cause the cost of all tax cuts to rise above \$3 trillion, once debt service is included.

The Mounting Cost of Republican Tax Proposals
Billions of Dollars, 2002-2011

Revenue Loss of the Basic Bush Tax Package	2,054
<i>Plus:</i>	
Bush Proposal for Refundable Health Care Credit	100
Last Year's Pension and IRA Expansion Bill	64
Last Year's Cut in Taxes on Social Security Benefits	117
Repeal Telephone Excise Tax	55
Cut Capital Gains Rate to 15 Percent	103
Additional Interest Payments on Government Debt	<u>580</u>
Total Budgetary Impact of Republican Tax Proposals	3,073

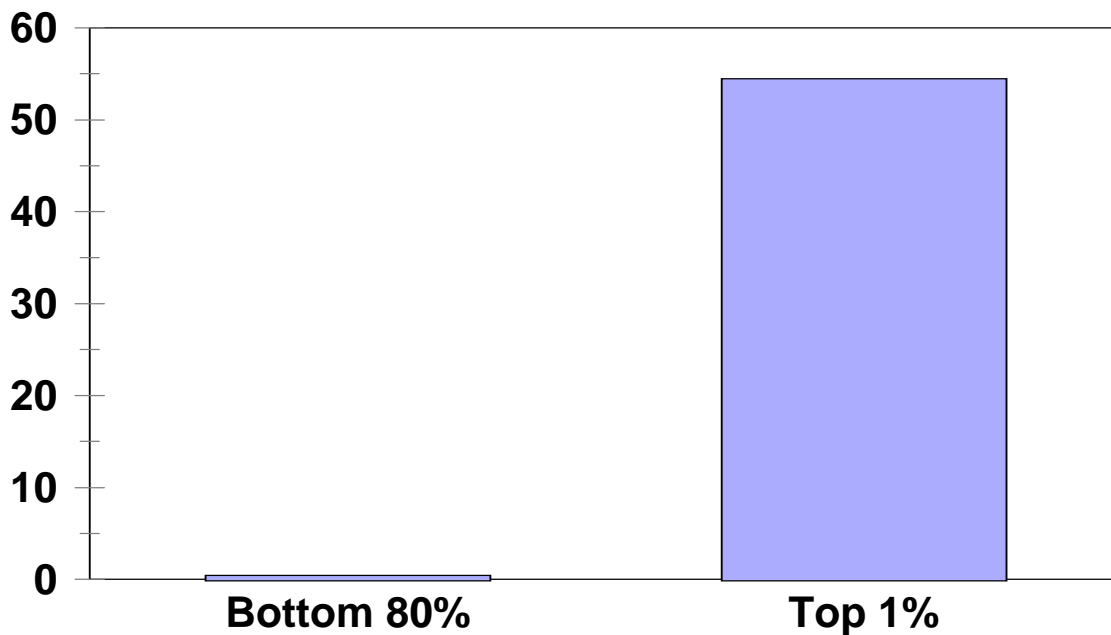
The Uneven Distribution of the Bush Tax Cut

Congressional Republicans appear to be making every effort to pass first the basic elements of the President's tax package: across-the-board rate cuts, increased standard deduction and wider 15 percent bracket for couples, increased child credit, and estate tax repeal. Together, these items account for 90 percent of the Bush tax cut, and as a consequence, whatever tax package emerges from the Congress is likely to reflect the lopsided distribution of the President's plan.

Congressional Republicans, like the President, continue to downplay the uneven nature of their tax cuts. For instance, the President claims that his tax cut is fair because the percentage tax reductions in his plan are largest at the bottom of the income distribution. However, that amounts to saying that a restaurant worker whose income tax liability of \$200 is totally eliminated gets a larger benefit than a lawyer whose \$20,000 tax liability is cut in half.

Citizens for Tax Justice (CTJ) estimates that the top one percent, with incomes averaging more than \$900,000 per year, will get an average tax cut of \$54,480 from the Bush tax cut. CTJ estimates that the top one percent receives 45 percent of the tax cut's benefits even though they pay only 21 percent of federal taxes. The tax cut received by the top one percent in the Bush plan exceeds that received by the bottom 80 percent, who get only 28 percent of the benefits, or \$430 on average.

Who Gets the Bush Tax Cut? Average Cut, Thousands of Dollars



The President claims that "the typical family of four will be able to keep at least \$1,600 more of their own money when the plan is fully effective." However, more than 85 percent of taxpayers will get tax cuts less than that amount, and many will get nothing. For instance, the Center on Budget and Policy Priorities (CBPP) estimates that one-third of families with children would receive no tax cut. CBPP estimates that more than half of all black and Hispanic families receive nothing from the Bush plan, even though three-fourths of such families include at least one worker.

The President's focus on a "typical family of four" also deflects attention from the fact that many people are not like this archetypal family. It is true that a married couple with two children and annual income of \$50,000 would get a \$1,600 tax cut, though only after 2005 when the plan was fully phased-in. However, a single mother with two children and a \$22,000 annual income would get nothing. A retired widow with no children and an income of \$30,000 would get a mere \$300. By comparison, a couple making \$550,000 with no kids would get a \$19,000 tax break.

The Administration has argued that the top one percent actually receive only 22 percent of the Bush tax cut. There are two problems, though, with this calculation. First, the estimate is based on 2006, before many of the tax cuts that benefit the very affluent are fully phased-in. Second, the estimate does not include estate tax repeal, even though it accounts for a quarter of the cost of the Bush tax cut when fully phased-in. Career staff at the Treasury Department have a model for calculating the distributional consequences of estate tax repeal, but the Administration declines to use it.

The Administration has defended its exclusion of estate tax repeal from its calculations by arguing that even though taxable estates belong to wealthy decedents, their heirs, not the decedents, get the benefits of estate tax repeal. They argue that, while we may know the income and wealth of the decedent, it is difficult to assess the economic status of the heirs.

The Administration's claim that we do not know much about the economic status of heirs is not supportable. Not surprisingly, the children of decedents with very large estates tend to have very high incomes. A 1998 Treasury study showed that children receiving bequests in 1981 from estates valued between \$2.5 million and \$10.0 million had taxable incomes averaging \$123,452, while those receiving bequests from estates over \$10.0 million had average taxable incomes of \$271,254.

In 1981 these income levels were easily within the top five percent and top one percent, respectively. Since then, inflation has doubled prices, and real incomes have grown as well, especially at the top. We might thus infer that heirs of large estates today have incomes twice or even three times as large as they were in 1981.

The Bush tax cut package seems designed as if the income tax were the only federal tax. In fact, three-quarters of all taxpayers pay more payroll taxes than income taxes, and the Bush budget does nothing to address this burden. This is because the Bush tax package makes no changes to the earned income tax credit (EITC), which was originally designed in part to offset the impact of payroll taxes on low-income workers.

In H.R. 6, Republicans have included a small EITC piece that was not included in the President's plans. Unfortunately, it only comes to \$13 billion over ten years, a mere 0.8 percent of the total Bush package. Thus, it is far too small to materially affect the lopsided distribution of the basic Bush tax cut.

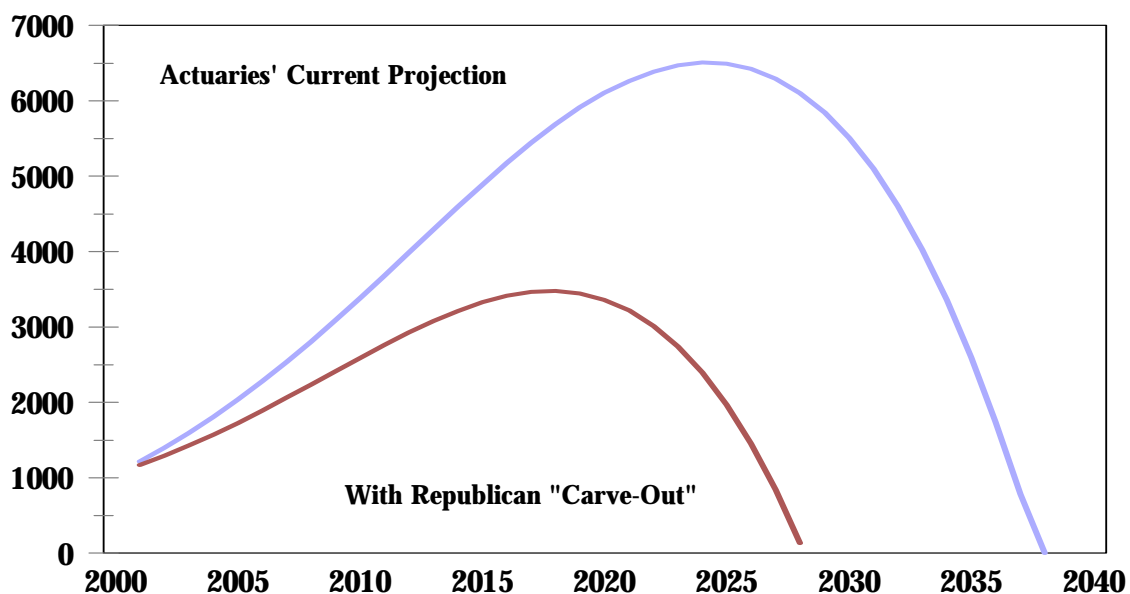
Shortening the Solvency of Social Security and Medicare

The House Republican budget shortens the solvency of both Social Security and Medicare by diverting surpluses dedicated to paying benefits promised in existing law and using the money for new purposes. Following the President's lead, the website of the House Budget Committee Republicans suggests that they propose to take about \$600 billion out of the ten-year Social Security surplus to create private retirement accounts invested in the stock market. They also propose to divert \$153 billion from the Medicare HI surplus to create a new prescription drug benefit and finance undefined "reforms."

Because the Social Security and Medicare surpluses are already committed to paying benefits promised in existing law, diverting money from the trust funds for new purposes can mean only one of two things. Either Republicans are double counting, or they are shortening the solvency of the Social Security and Medicare HI Trust Funds, which eventually will require severe benefit cuts or tax increases. If one accepts that the same dollars cannot be used twice, then the only possible conclusion is that their budget shortens the solvency of the Social Security and Medicare Trust Funds.

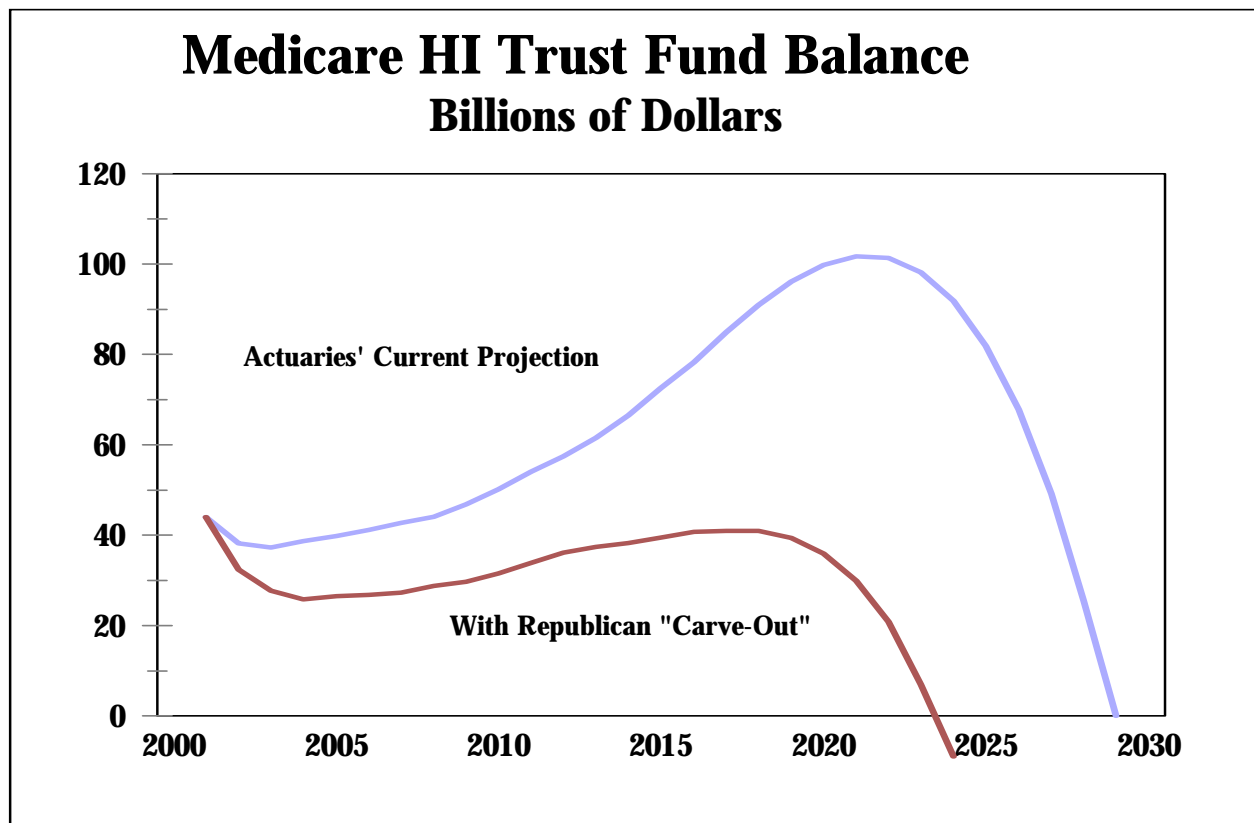
If Republicans in fact follow through with the Social Security privatization, it will shorten the program's life. The chart below shows the impact on the Social Security Trust Fund if \$600 billion over the next ten years is diverted for new stock market retirement accounts. The Social Security actuaries currently project that the trust fund will run dry 37 years from now in 2038.

Social Security Trust Fund Balance Billions of Dollars



Taking \$600 billion away from the Social Security Trust Fund over the next ten years corresponds to a “carve-out” of 1.1 percentage points from payroll taxes. Such a “carve-out” shortens the solvency of the Social Security Trust Fund by nine years, bringing the date of insolvency back to 2029.

The chart below shows a similar effect on the Medicare HI Trust Fund from Republicans’ proposed diversion of \$153 billion over ten years. Currently, the Medicare actuaries project that the HI Trust Fund will run dry in 2029. However, diverting \$153 billion out of the Medicare HI Trust Fund shortens its solvency by 2024, five years sooner.



The Republican budget fails to specify how their proposed “reforms” to these programs would work. However, it is clear that these “reforms” would somehow have to compensate for the drastic effect that diverting resources from the trust funds has on the existing Social Security and Medicare benefits. It is conceivable, though perhaps unlikely, that stock market returns for individual retirement accounts or efficiency gains due to competition with private medical accounts might offset the severe benefit cuts from the existing programs that shortened solvency would require. Without even a tentative sketch of how such programs might work, though it is a mistake to put forward a tax cut so large that it cuts off all other options.

By contrast, Democrats have advocated putting more resources into Social Security and Medicare to extend, rather than shorten, the solvency of these two bedrock programs for the elderly. Social

Security and Medicare are our most successful government programs, ensuring that millions of seniors live out their years in dignity. Democrats are reluctant to sacrifice the important protections these programs provide to fund unknown and untested innovations.

The Reserve Funds

The Republican budget resolution provides four broad reserve funds, which give the Budget Committee Chairman the power to dissipate the entire projected non-Social Security, non-Medicare surplus for the eleven fiscal years from 2001 through 2011.¹ The reserve funds also give the Chairman the power to dissipate the entire Medicare surplus for any purpose called “Medicare reform.” In the extreme, these reserve funds could allow the Chairman to drain the Social Security surplus.

These four broad reserve funds are:

- ***Strategic Reserve Fund for 2002*** — Through July 25, 2001, the Chairman is empowered to increase 2002 spending for national defense, agriculture, and “other appropriate legislation” reported by July 11, 2001. The amount of the increase is limited to the surplus outside of the Social Security and Medicare surplus, but the Republican lockbox bill permits the Medicare HI surplus to be dissipated by the President’s proposed prescription drug program. Although any resulting increases in discretionary funding would affect only 2002 budget authority, such increases would add to the cost of debt service in future years. In addition, the increases would be added to the budget baseline, and they would most likely be accommodated in budget resolutions and appropriations in future years. The budget resolution is silent about the effects in future years if Congress uses the strategic reserve fund to increase mandatory spending.
- ***Supplemental Reserve Fund for Medicare*** — This reserve fund allows the Chairman to increase 2002-2011 spending for prescription drug coverage and Medicare reform. This reserve fund will be tapped if CBO’s estimate of the President’s prescription drug plan exceeds the \$153 billion assumed in the resolution. Thus, in theory, the additional amounts made available under this provision could dissipate the entire Medicare surplus, and then go further to drain the Social Security surplus.
- ***Reserve Fund for Fiscal Year 2001*** — The resolution gives the Chairman the authority to increase 2001 spending for defense, agriculture, and “other critical needs.” These allocations are limited to the amount of the non-Medicare, non-Social Security surplus (adjusted for legislation purporting Medicare “reform,” as provided in the Republican lockbox bill). This limit provided by the resolution makes no reference to the implications of such an allocation on the surpluses for years after 2001.

¹ The resolution provides two narrower reserve funds for non-national security emergencies and for special education that are not discussed here.

- ***Reserve Fund For Additional Tax Cuts and Debt Reduction*** — The resolution grants the Chairman the authority to allocate any and all increases in projected surpluses in the CBO mid-year update to either additional tax cuts or additional debt reduction. Without this provision, any increases in projected surpluses would be used for debt reduction. Therefore, the purpose of this provision is solely to allow further tax cuts.

The Budget Committee's materials claim a rhetorical "contingency reserve" of \$517 billion that is not included in the resolution and therefore without standing in law. This amount is the Committee's estimate of the projected non-Medicare, non-Social Security surplus. However, this figure is achieved only by funding the President's prescription drug initiative out of the Medicare Part A surplus, using the "trap door" provided in the Republican Medicare lockbox bill (H.R. 2).

Dissipating the trust fund in this way shortens Medicare's solvency. Assuming instead that prescription drug funding comes out of the general fund, the size of the contingency reserve falls to \$364 billion. That is not nearly enough to cover the many conceivable contingencies explicitly or implicitly covered by the reserve funds described above: defense expansions; greater agriculture funding; the creation of Social Security individual accounts; economic misfortune; or estimating errors. If defense funding increases to meet the President's campaign standard of maintaining a constant percentage of the GNP, for example, this contingency reserve would be spent twice over.

From a comprehensive perspective, these reserve funds threaten the budget surplus and fiscal discipline. Even if one assumes these four reserve funds will be used only for their intended purpose and will not exceed budget constraints, the budget's funding for Republicans' own priorities is limited to impossibly low levels. As suggested in the *Overview* of this document, the remaining surplus in fiscal year 2005 is negative. Overlooking the dissipation of the Medicare Part A surplus and using the resolution's own accounting, the available contingency reserve in fiscal year 2005 is no more than \$13 billion. That leaves precious little room for defense expansion, agriculture reform, and any other contingency or emergency. This is just one more indication that the budget plan encompassed in the resolution began with the tax cut and was built around the tax cut, leaving insufficient room for even the Republicans' own non-tax priorities.

And there is one more sense in which the reserve funds pose a challenge to the overall framework of the Republicans' budget resolution. The supporting argumentation claims both that the reserve funds provide resources to make up for the apparent funding shortfalls in the resolution, and that the resolution attains the maximum feasible level of debt reduction (though experts on the federal debt argue that still more debt reduction can easily be achieved). However, the resolution counts the reserve funds as debt reduction. So every dollar the Budget Committee Chairman allocates to make up for funding inadequacies for defense, agriculture and "other appropriate" purposes directly detracts from the budget resolution's debt reduction — and also adds to net interest costs, which further add to the debt.

Appropriated Programs

Appropriated programs, also known as “discretionary” programs, are those controlled by the annual appropriations process. The House Republican budget resolution provides \$660.6 billion in budget authority for appropriated programs for 2002, which is \$2.8 billion below the level needed, according to CBO, to maintain purchasing power for these programs at their 2001 levels. Looking at non-defense appropriations only, the budget for 2002 is \$6.0 billion below the level needed to maintain purchasing power at the 2001 level.

The 2002 Appropriations Picture

As Table One indicates, the non-defense portion of appropriated programs is cut \$6.0 billion below the 2001 level. This occurs because the non-defense portion bears the entire burden of the \$2.8 billion overall cut and then must be cut an additional \$3.2 billion to accommodate the increase for defense (see *Function 050 (National Defense)* for discussion of the defense budget). The level for appropriated programs includes an emergency reserve fund that totals approximately \$64 billion over ten years. See *Function 920 (Allowances)* for discussion.

Table One:
Comparing the Republican Resolution for 2002 Appropriated Programs to
CBO’s Estimate of Amounts Needed to Maintain Purchasing Power at 2001 Levels
 (discretionary budget authority in billions)

	<u>Republican Budget</u>	<u>CBO Estimate</u>	Budget Above/Below <u>CBO Estimate</u>
Defense	324.9	321.7	+ 3.2
Non-Defense	<u>335.7</u>	<u>341.7</u>	<u>-6.0</u>
Total Appropriations	660.6	663.4	-2.8

Winners and Losers in the Republican Budget

Tables Two and Three on the following pages show the amounts by which the functions in the budget resolution are either above or below CBO’s estimate of 2001 purchasing power. Table Two shows the dollar levels of changes, while Table Three shows the change in percentage terms. As these tables indicate, the budget protects defense and a select few non-defense functions (International Affairs, General Space and Science, Education and Training, and Health) from any net cuts to their purchasing power over the ten year period (2002 - 2011). Meanwhile, all of the remaining “unprotected” functions are cut, and some are cut drastically. Like the February Blueprint, the budget resolution provides little information about what specific programs will be cut.

**TABLE 2: DISCRETIONARY COMPARISON, HOUSE REPUBLICAN
BUDGET ABOVE(+)/BELOW(-) LEVEL NEEDED TO MAINTAIN
CONSTANT 2001 PURCHASING POWER*
(In billions of dollars)**

	2002	2003	2004	2005	2006	5 Yr. Total	10 Yr. Total
Total Discretionary							
Budget Authority	-2.8	-2.4	-1.3	0.9	2.9	-2.6	46.7
Outlays	3.3	-0.0	-2.3	-0.6	1.9	2.2	52.1
Non-defense discretionary							
Budget Authority	-6.0	-5.5	-5.2	-4.1	-3.1	-23.9	-20.8
Outlays	-2.3	-3.1	-5.0	-4.4	-2.9	-17.6	-9.0
050 National Defense							
Budget authority	3.2	3.1	3.9	5.0	6.1	21.3	67.5
Outlays	5.6	3.0	2.6	3.8	4.8	19.8	61.1
150 International Affairs							
Budget authority	0.7	0.1	0.3	0.5	0.6	2.2	7.5
Outlays	0.7	0.3	0.3	0.4	0.5	2.2	6.7
250 General Science, Space							
Budget authority	0.6	0.6	0.8	0.8	1.0	3.8	10.7
Outlays	0.4	0.6	0.6	0.7	0.9	3.1	9.5
270 Energy							
Budget authority	-0.5	-0.6	-0.4	-0.3	-0.3	-2.1	-1.4
Outlays	-0.2	-0.4	-0.4	-0.4	-0.4	-1.9	-1.7
300 Natural Resources and Environment							
Budget authority	-3.3	-4.0	-4.2	-4.8	-5.6	-22.0	-52.8
Outlays	-1.9	-3.1	-3.7	-4.4	-5.1	-18.2	-48.0
350 Agriculture							
Budget authority	-0.2	0.1	-0.0	-0.1	-0.0	-0.2	-0.7
Outlays	-0.1	0.1	-0.1	-0.1	-0.0	-0.2	-0.7
370 Commerce and Housing Credit							
Budget authority	-2.7	-2.8	-3.2	-3.4	-3.5	-15.6	-24.2
Outlays	-2.3	-2.8	-3.1	-3.4	-3.4	-15.0	-23.9
400 Transportation							
Budget authority	-3.5	-3.6	-3.8	-3.9	-4.0	-18.7	-41.1
Outlays	-0.5	-2.2	-2.3	-2.2	-2.0	-9.2	-15.2
450 Community and Regional Development							
Budget authority	-1.8	-1.7	-1.8	-1.7	-1.7	-8.7	-16.8
Outlays	-0.3	-0.7	-1.3	-1.6	-1.7	-5.6	-13.9
500 Education and Training							
Budget authority	0.9	-0.1	0.5	1.1	1.8	4.2	21.4
Outlays	-0.4	0.6	-0.5	-0.2	0.5	0.1	10.7
550 Health							
Budget authority	1.2	4.8	5.4	6.0	6.6	23.9	61.4
Outlays	0.4	2.3	4.3	5.2	5.9	18.0	53.5
570 Medicare							
Budget authority	-0.1	-0.2	-0.3	-0.3	-0.3	-1.3	-4.3
Outlays	-0.1	-0.1	-0.2	-0.3	-0.4	-1.1	-4.3
600 Income Security							
Budget authority	-2.0	-2.0	-1.7	-1.1	-0.9	-7.7	-9.4
Outlays	0.1	-0.3	-1.0	-1.0	-0.9	-3.1	-4.9
650 Social Security							
Budget authority	-0.1	-0.2	-0.2	-0.3	-0.3	-1.1	-3.1
Outlays	-0.0	-0.2	-0.2	-0.3	-0.2	-0.9	-2.7
700 Veterans							
Budget authority	0.7	-0.8	-0.9	-1.0	-1.1	-3.1	-11.6
Outlays	0.7	-0.6	-0.8	-1.0	-1.0	-2.7	-11.0
750 Administration of Justice							
Budget authority	-1.6	-0.6	-1.8	-1.8	-1.8	-7.6	-19.3
Outlays	-1.1	-0.7	-1.5	-1.6	-1.7	-6.7	-18.0
800 General Government							
Budget authority	0.2	-0.3	-0.4	-0.5	-0.6	-1.6	-6.4
Outlays	0.2	-0.2	-0.3	-0.5	-0.5	-1.4	-6.0
920 Allowances							
Budget authority	5.5	6.0	6.5	6.7	6.9	31.6	69.3
Outlays	2.2	4.5	5.3	6.2	6.6	24.8	60.6

* As estimated by CBO.

**TABLE 3: DISCRETIONARY COMPARISON: HOUSE REPUBLICAN BUDGET
ABOVE(+)/BELOW(-) LEVEL NEEDED TO MAINTAIN
CONSTANT 2001 PURCHASING POWER*
(In Percentage Terms)**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
050 National Defense										
Budget authority	1.0%	0.9%	1.2%	1.4%	1.7%	1.9%	2.2%	2.4%	2.6%	2.9%
Outlays	1.8%	0.9%	0.8%	1.1%	1.4%	1.7%	1.9%	2.2%	2.4%	2.7%
150 International Affairs										
Budget authority	3.0%	0.4%	1.1%	1.9%	2.5%	3.1%	3.7%	4.1%	3.4%	5.5%
Outlays	3.2%	1.2%	1.2%	1.6%	2.1%	2.7%	3.1%	3.6%	3.4%	4.6%
250 General Science, Space										
Budget authority	2.7%	2.9%	3.4%	3.5%	4.4%	4.7%	5.1%	5.8%	5.2%	7.2%
Outlays	1.7%	2.6%	2.7%	3.3%	3.8%	4.6%	5.0%	5.4%	5.2%	6.2%
270 Energy										
Budget authority	-15.4%	-18.1%	-11.0%	-9.9%	-9.0%	-8.1%	9.0%	6.6%	6.9%	4.6%
Outlays	-7.7%	-13.2%	-13.3%	-12.3%	-10.9%	-10.0%	-0.9%	5.1%	5.4%	5.9%
300 Natural Resources and Environment										
Budget authority	-11.2%	-13.2%	-13.3%	-14.9%	-17.1%	-17.2%	-17.3%	-17.0%	-17.8%	-16.8%
Outlays	-6.6%	-10.4%	-12.1%	-13.8%	-15.9%	-16.6%	-16.9%	-17.1%	-17.6%	-17.1%
350 Agriculture										
Budget authority	-3.1%	2.2%	-0.6%	-1.2%	-0.3%	-1.1%	-2.0%	-1.3%	-2.3%	-1.7%
Outlays	-1.2%	1.7%	-1.2%	-1.8%	-0.7%	-1.5%	-0.6%	-1.6%	-2.6%	-1.9%
370 Commerce and Housing Credit										
Budget authority	-107.9%	-107.7%	-118.5%	-121.5%	-120.8%	-89.9%	-83.8%	-68.6%	63.9%	-94.1%
Outlays	-95.8%	-112.0%	-123.8%	-131.3%	-130.5%	-93.4%	-89.6%	-79.6%	32.1%	-68.0%
400 Transportation										
Budget authority	-17.6%	-17.9%	-18.2%	-18.1%	-18.0%	-18.1%	-18.6%	-18.7%	-19.8%	-18.8%
Outlays	-0.9%	-3.7%	-3.9%	-3.6%	-3.1%	-2.4%	-1.9%	-1.6%	-1.8%	-1.2%
450 Community and Regional Development										
Budget authority	-14.8%	-14.1%	-14.3%	-13.7%	-13.1%	-12.6%	-12.2%	-11.8%	-12.2%	-10.4%
Outlays	-2.9%	-6.0%	-10.3%	-12.9%	-13.3%	-13.4%	-12.9%	-12.4%	-12.0%	-11.6%
500 Education and Training										
Budget authority	1.4%	-0.2%	0.8%	1.6%	2.5%	3.3%	4.2%	4.8%	4.3%	6.5%
Outlays	-0.7%	1.0%	-0.7%	-0.3%	0.8%	1.6%	2.1%	3.2%	3.3%	4.2%
550 Health										
Budget authority	2.9%	11.7%	12.9%	14.0%	15.2%	15.7%	15.8%	16.3%	15.5%	17.3%
Outlays	1.1%	5.8%	10.6%	12.5%	13.9%	14.9%	15.6%	16.0%	15.8%	16.3%
570 Medicare										
Budget authority	-2.9%	-6.6%	-7.5%	-8.5%	-7.2%	-8.8%	-10.6%	-12.5%	-16.5%	-16.5%
Outlays	-1.8%	-3.6%	-6.5%	-7.5%	-8.7%	-10.1%	-11.8%	-13.6%	-15.5%	-17.5%
600 Income Security										
Budget authority	-4.6%	-4.3%	-3.5%	-2.2%	-1.8%	-1.3%	-0.9%	-0.4%	-0.7%	0.1%
Outlays	0.2%	-0.6%	-2.0%	-2.0%	-1.7%	-1.4%	-0.8%	-0.7%	-0.7%	0.0%
650 Social Security										
Budget authority	-2.7%	-5.8%	-6.2%	-6.5%	-7.0%	-7.5%	-8.1%	-8.8%	-9.5%	-10.4%
Outlays	-1.2%	-4.7%	-4.8%	-7.7%	-5.6%	-6.1%	-6.7%	-7.4%	-10.4%	-9.0%
700 Veterans										
Budget authority	3.1%	-3.4%	-3.7%	-3.8%	-4.1%	-4.5%	-5.0%	-5.6%	-7.5%	-6.3%
Outlays	3.1%	-2.6%	-3.3%	-3.7%	-3.9%	-4.3%	-5.1%	-5.6%	-7.2%	-6.3%
750 Administration of Justice										
Budget authority	-5.1%	-1.9%	-5.4%	-5.4%	-5.2%	-5.4%	-5.7%	-5.8%	-7.3%	-6.1%
Outlays	-3.7%	-2.1%	-4.4%	-4.8%	-5.0%	-5.2%	-5.5%	-5.9%	-6.8%	-6.3%
800 General Government										
Budget authority	1.2%	-1.9%	-2.6%	-3.0%	-3.6%	-4.2%	-4.4%	-5.2%	-6.6%	-6.0%
Outlays	1.2%	-1.6%	-2.1%	-2.9%	-3.1%	-4.1%	-4.7%	-4.8%	-6.1%	-6.0%

* As estimated by CBO.

In addition to the “protected” non-defense functions mentioned above, the Veterans function is not cut in 2002, although it is cut relative to the 2001 level of purchasing power every year thereafter. Although the cuts to the “unprotected” functions fluctuate greatly, as Table Four indicates, the average cut for 2002 to “unprotected” functions is 6.7 percent. Not surprisingly, this number is almost identical to the 6.6 percent cut contained in the President’s February Blueprint, and differs primarily because of the slight change produced by sparing the veterans function. See *Function 700 (Veterans)* for discussion of cuts to veterans programs after 2002.

Table Four:
Calculating the Impact of the Non-Defense Cut in the Republican Budget in 2002
 (discretionary budget authority in billions)

	<u>Subtotals</u>	<u>Totals</u>
CBO Estimate, Total Non-Defense		341.7
<i>Less: “Protected” Non-Defense</i>		<u>176.8</u>
“Unprotected” Non-Defense		164.9
Starting Amount Below CBO Estimate	2.8	
Cut Caused by Defense Increase	<u>3.2</u>	
Subtotal, Starting Non-Defense Cut	6.0	
Non-Defense Increases:		
Function 150 (International)	0.7	
Function 250 (Science)	0.6	
Function 500 (Education)	0.9	
Function 550 (Health)	1.2	
Function 700 (Veterans)	0.7	
Function 920 (Emergency Reserve)	<u>0.9</u>	
Subtotal, Increases	5.0	
Total Cuts to Unprotected Non-Defense		11.0
Percentage Cut		6.7%

As the table indicates, the total of the increases to “protected” non-defense programs is \$5.0 billion.² The overall level of appropriations in the budget resolution is \$2.8 billion less than the amount CBO estimates is needed to maintain the 2001 level of purchasing power. In addition,

²The CBO estimate of the levels needed to maintain purchasing power at the 2001 levels includes \$4.7 billion for emergencies within functions that are not being increased above baseline. This analysis assumes that this \$4.7 billion is part of the “protected” non-defense base, and the \$0.9 billion difference between this level and the emergency reserve fund created in the Republican budget is treated as an increase.

the \$3.2 billion increase in defense funding comes at the expense of non-defense programs. The combined effect is an overall reduction of \$11.0 billion (6.7 percent) to the “unprotected” functions.

Unfortunately, the picture the budget paints for 2002 non-defense programs is continued virtually unchanged into the future: modest increases for defense and consistent cuts to non-defense. The budget resolution claims to have provided a “strategic reserve” to meet increased funding for defense, agriculture, and other “appropriate” needs, but this reserve is woefully inadequate. See *Reserve Funds* for full discussion.

Anticipated Revisions to Bush Budget

On March 19, the Office of Management and Budget (OMB) released a list of revisions to the February Blueprint. These revisions will be part of the President’s complete and final 2002 budget, which he plans to release on April 9. The revisions make minimal changes to 2002 appropriations, but they do mechanically increase funding for 2003 through 2006 while decreasing funding for 2007 through 2011. While the ten-year level for appropriations is just slightly below the February Blueprint level, approximately \$7.7 billion was shifted out of the emergency reserve fund contained within Function 920 and used to increase several functions, including Function 050 (National Defense), Function 500 (Education and Training), and Function 750 (Administration of Justice).

Conclusion

Like the February Blueprint upon which it is based, the level of appropriations in the budget resolution is unrealistically low. Even the Republican Chairman of the Senate Budget Committee said that “some functions of government just can’t take as big a cut as they’re [the Bush Administration] talking about.” Defense funding in the resolution and the February Blueprint is described not as a statement of policy but rather as a placeholder until the Department of Defense completes a review of its needs. Like the February Blueprint, the budget resolution increases a select few non-defense functions, but that increase requires a 6.7 percent cut to the remaining “unprotected” programs for 2002 alone.

The Senate Budget Committee Chairman is right. These cuts are too large, and they will not be enacted. The budget assumes these cuts to make room for the first priority of the Bush Administration and the Republican Congress: tax cuts. Even defense funding takes a back seat to this priority. However, if Congress approves the tax cuts but does not make these non-defense cuts, it risks raiding the Social Security and Medicare surpluses.

Reconciliation Instructions in the Republican Budget Resolution

The Ways and Means Committee and The Energy and Commerce Committee

- ! **Medicare Prescription Drug Benefit and Medicare Reform**— The Energy and Commerce Committee and the Ways and Means Committee are each given a reconciliation instruction to report a Medicare prescription drug and Medicare reform bill by July 24, 2001, totaling \$153 billion over 10 years. It is described in Budget Committee Majority materials in the context of the President’s program of grants to states for the first four years, followed by unspecified reforms. The Republican resolution establishes a “reserve fund” to increase this allocation, at the discretion of the Budget Committee Chairman, by the amount that CBO’s cost estimate of the President’s proposal exceeds \$153 billion.

The Ways and Means Committee

- ! **Tax Cut**— Ways and Means is given four reconciliation instructions (with deadlines of May 2, May 23, June 20, and September 11) to cut taxes by \$1.626 trillion over 10 years, a number that is very close to the President’s request. Chairman Nussle indicated that this number is not subject to revision for higher cost estimates by Joint Committee on Taxation. However, the Republican resolution permits additional tax cuts (or debt reduction), at the discretion of the Budget Committee Chairman, if the mid-year estimate by CBO increases the revenue or surplus projections.
- ! **Other Ways and Means**— Ways and Means is also given a reconciliation instruction to report legislation spending \$39.5 billion over 10 years by September 11, 2001. This instruction assumes several items:

	Cost in Billions of Dollars
Refundable Health Care Tax Credits	18.7
Refundable Portion of Expansion of Existing Child Tax Credit	7.7
Effect of H.R. 3 on Refundable Portions of EITC and Child Tax Credit	10.8
President’s Proposal for “Promoting Safe and Stable Families”	1.8
President’s Proposal for Education for Foster Care “Graduates”	0.5
TANF / Charity Tax Credit	*
Total	39.5

Numbers do not add due to rounding

* Less than \$100 million

Refundable Health Care Tax Credits — The reconciliation instruction for Ways and Means assumes \$18.7 billion for the President's new tax credit to help individuals without employer-sponsored health insurance. During the presidential campaign, Candidate Bush proposed refundable tax credits of \$2,000 for families and \$1,000 for individuals who purchase health insurance on their own.

Refundable Child Tax Credits — Under current law, the child tax credit is refundable for families with three or more children (but only to the extent that their payroll and income tax liability exceeds their Earned Income Tax Credit). The reconciliation total for Ways and Means assumes adoption of the Administration's proposal to double the child tax credit to \$1,000. Because this change increases the amount of the credit that is refundable in some cases, it increases the outlays for the refundable portion of the child credit by \$7.7 billion over ten years.

Effect of H.R. 3 on Refundable Portions of EITC and Child Credit — The reconciliation instruction assumes provisions of H.R. 3 which spend \$10.8 billion over ten years on limited correction of interactions among the alternative minimum tax (AMT) and the refundable portions of the Earned Income Tax Credit (EITC) and Child Tax Credit, rate reductions and income bracket alterations. This is not part of President's child tax credit proposal (see above), and it neither remedies the AMT's adverse effects on middle-income taxpayers in general, nor in other instances where the President's tax proposals increase the number of taxpayers who must pay, or the amount of, the AMT.

Child Welfare Initiatives — The reconciliation instruction also assumes increased spending for the Promoting Safe and Stable Families program. This program helps to create stable living situations for children with their biological families, if possible, or with adoptive families. Increased spending for this initiative is nearly \$1.8 billion over the next ten years. Also included is increased spending for education and training vouchers for older foster children preparing to leave the foster-care system. Increased spending for the foster care initiative totals \$533 million over 2002-2011.

TANF/Charity State Tax Credit — The reconciliation instruction to Ways and Means assumes the President's proposal amending the Temporary Assistance for Needy Families (TANF) program to permit states to use TANF block grant funds to offset any revenue losses because of state income tax credits for charitable contributions. This proposal accelerates spending over the short term, but the change in spending nets to just \$60 million over ten years.

The Energy and Commerce Committee

- ! ***Family Opportunity Act***— Energy and Commerce is given a September 11 reconciliation instruction totaling \$7.9 billion over 10 years for the Family Opportunity Act, which was not included in the President’s Blueprint. This bipartisan proposal allows states to expand Medicaid coverage to children with disabilities provided that family income does not exceed 300 percent of poverty.

The Education and Workforce Committee

- ! ***Student Loan Forgiveness*** — Education and Workforce is given a September 11 reconciliation instruction totaling \$87 million over 10 years to fund the President’s proposal for student loan forgiveness for math and science teachers.

The Government Reform and Oversight Committee

- ! ***Agency Contributions for Federal Employee Retirement***— Government Reform is given a September 11 reconciliation instruction to continue the higher agency contribution to the federal employee retirement trust fund. This offset saves \$3.9 billion over ten years, and was in the President’s February Blueprint. It has the effect of increasing agency personnel costs, with no explicit compensating increase in agency operating budgets.

The Veterans Affairs Committee

- ! ***Veterans Increases and Offsets***— Veterans Affairs is given a September 11 reconciliation instruction that totals \$7.1 billion over ten years. This is a net number that assumes both initiatives and offsets. The initiatives are: expanding the monthly GI Bill education benefit from \$650 to \$800 in 2002, \$950 in 2003, and \$1,100 in 2004 and thereafter; and a package of burial and other benefit increases similar to those in H.R. 801. The resolution assumes three offsets in its reconciliation instruction that were also included in the President’s budget: continuation of IRS income verification on means-tested benefits; continuation of current housing loan fees (in 2009 - 2011); and continuation of limits on VA pensions to Medicaid recipients in nursing homes. According to CBO, those offsets total \$2.6 billion over ten years, meaning that the expansion of benefits can total \$8.6 billion.

The Financial Services Committee

- ! ***Federal Reserve Interest Payments*** — Financial Services is given a September 11 reconciliation instruction that totals \$1.1 billion over 10 years. This instruction assumes

the enactment of a proposal to require the Federal Reserve to pay interest on deposits banks must pay to comply with reserve requirements.

! ***Reduction of SEC Fees***— The budget resolution assumes revenue losses from a reduction in SEC fees, but it does not issue a reconciliation directive for this change.

Reconciliation Timetable

Not later than:

May 2 First Ways and Means reconciliation tax bill reported directly to the House

May 23 Second Ways and Means reconciliation tax bill reported directly to the House

June 20 Third Ways and Means reconciliation tax bill reported directly to the House

July 24 Ways and Means and Energy and Commerce submit reconciliation bills to Budget Committee for Medicare reform and prescription drug coverage.

September 11 Ways and Means submits reconciliation bills to Budget Committee regarding tax cuts and spending increases, and

All other committees with reconciliation instructions submit their reconciliation bills to the Budget Committee:

Education and Workforce

Energy and Commerce

Financial Services

Government Reform

Veterans Affairs Reconciliation Instructions....

The Budget by Function

The following three tables show the House Republican budget plan broken down by function. The first table shows the total budget (mandatory and discretionary) for each budget function. The second table shows the budget for appropriated (discretionary) funding, which is funding controlled by the annual appropriations process. The final table shows the budget for mandatory spending, which is spending provided through authorizing legislation. Mandatory spending includes entitlement programs such as Medicare, Medicaid, and Social Security, as well as interest payments on the federal debt. Detailed descriptions of each function (except *Function 900: Net Interest*, which is directly tied to the funding levels in the other budget functions and revenues) follow the tables.

HOUSE REPUBLICAN FY 2002 BUDGET RESOLUTION
TOTAL BUDGET
(In billions of dollars)

	2001	2002	2003	2004	2005	2006	5 Yr. Total
Budget Authority	1,906.9	1,977.3	2,035.5	2,112.7	2,200.7	2,264.8	10,591.0
Outlays	1,856.8	1,941.2	2,007.4	2,085.8	2,176.1	2,236.5	10,447.0
Revenues	2,128.8	2,168.1	2,259.9	2,344.4	2,436.8	2,521.4	11,730.6
Surplus	272.0	226.9	252.5	258.6	260.7	284.9	1,283.6
<hr/>							
050 National Defense							
Budget authority	310.3	324.6	333.3	342.6	352.2	362.1	1,714.8
Outlays	300.6	319.3	325.5	334.0	347.2	354.6	1,680.6
150 International Affairs							
Budget authority	22.4	23.9	23.9	24.5	25.4	26.2	123.9
Outlays	19.7	19.6	19.9	20.4	20.8	21.4	102.1
250 General Science, Space							
Budget authority	21.0	22.2	22.6	23.1	23.6	24.3	115.8
Outlays	19.6	21.0	21.9	22.6	23.2	23.7	112.4
270 Energy							
Budget authority	1.2	0.8	0.8	0.9	0.9	1.0	4.4
Outlays	(0.1)	(0.2)	(0.5)	(0.6)	(0.5)	(0.4)	(2.2)
300 Natural Resources and Environment							
Budget authority	28.8	26.7	26.8	27.7	27.9	28.0	137.1
Outlays	26.4	26.4	27.0	27.5	27.7	27.8	136.4
350 Agriculture							
Budget authority	26.3	19.1	18.6	18.5	18.3	17.9	92.4
Outlays	23.7	17.5	17.0	17.1	16.9	16.3	84.8
370 Commerce and Housing Credit							
Budget authority	3.5	8.7	8.5	14.1	12.7	12.7	56.7
Outlays	0.2	5.7	3.1	9.9	9.0	8.4	36.1
400 Transportation							
Budget authority	62.1	61.0	58.7	59.2	59.7	60.3	298.9
Outlays	51.7	55.6	58.3	60.2	62.0	63.7	299.8
450 Community and Regional Development							
Budget authority	11.2	10.1	10.3	10.6	10.9	11.2	53.1
Outlays	11.4	11.4	11.0	10.7	10.4	10.3	53.8
500 Education and Training							
Budget authority	76.9	82.1	82.0	83.9	87.3	90.2	425.5
Outlays	69.8	76.2	81.7	82.3	84.8	87.7	412.7
550 Health							
Budget authority	182.6	204.0	229.7	246.5	253.8	266.8	1,200.8
Outlays	175.5	201.1	225.8	244.7	251.5	264.6	1,187.7
570 Medicare							
Budget authority	217.5	229.1	243.9	260.2	291.8	309.9	1,334.9
Outlays	217.7	229.1	243.7	260.4	291.7	309.7	1,334.6
600 Income Security							
Budget authority	255.9	271.5	281.8	293.3	308.1	315.9	1,470.6
Outlays	256.9	272.1	282.3	292.5	306.7	314.4	1,468.0
650 Social Security							
Budget authority	435.2	457.2	479.6	503.8	529.2	555.8	2,525.6
Outlays	433.1	455.0	477.2	501.5	526.9	553.4	2,514.0
700 Veterans							
Budget authority	46.7	52.3	53.0	55.3	59.3	58.8	278.7
Outlays	45.9	51.6	52.8	54.9	58.9	58.3	276.5
750 Administration of Justice							
Budget authority	30.6	30.9	31.9	33.6	34.6	35.7	166.7
Outlays	30.0	30.3	32.1	34.1	34.7	35.3	166.5
800 General Government							
Budget authority	16.3	16.7	16.3	16.7	17.0	17.5	84.2
Outlays	16.1	16.3	16.3	16.6	16.7	17.1	83.0
900 Net Interest							
Budget authority	205.1	182.2	169.8	155.3	138.0	122.0	767.3
Outlays	205.1	182.2	169.8	155.3	138.0	122.0	767.3
920 Allowances							
Budget authority	(0.5)	5.0	5.5	6.0	6.2	6.4	29.1
Outlays	(0.3)	1.8	4.0	4.8	5.7	6.1	22.4
950 Undistributed Offsetting Receipts							
Budget authority	(46.2)	(50.8)	(61.5)	(63.1)	(56.2)	(57.9)	(289.5)
Outlays	(46.2)	(50.8)	(61.5)	(63.1)	(56.2)	(57.9)	(289.5)

Table 1

HOUSE REPUBLICAN FY 2002 BUDGET RESOLUTION
TOTAL BUDGET
(In billions of dollars)

	2007	2008	2009	2010	2011	Second 5 10 Yr. Total	
Budget Authority	2,343.6	2,437.7	2,532.5	2,634.0	2,743.5	12,691.3	23,282.3
Outlays	2,312.9	2,409.9	2,505.9	2,609.7	2,718.2	12,556.6	23,003.6
Revenues	2,628.5	2,754.2	2,889.6	3,038.6	3,206.2	14,517.1	26,247.7
Surplus	315.6	344.3	383.7	428.9	488.0	1,960.5	3,244.1
<hr/>							
050 National Defense							
Budget authority	372.2	382.7	393.5	404.5	416.3	1,969.2	3,684.0
Outlays	361.9	375.6	386.5	397.6	409.2	1,930.8	3,611.4
150 International Affairs							
Budget authority	26.9	27.4	28.0	28.4	29.6	140.3	264.2
Outlays	22.1	22.8	23.6	24.2	25.0	117.7	219.8
250 General Science, Space							
Budget authority	24.9	25.6	26.2	26.7	27.8	131.2	247.0
Outlays	24.3	24.9	25.6	26.1	26.9	127.8	240.2
270 Energy							
Budget authority	1.1	2.2	2.3	2.3	2.2	10.1	14.5
Outlays	(0.2)	0.4	0.8	1.0	0.9	2.9	0.7
300 Natural Resources and Environment							
Budget authority	28.6	29.3	30.6	31.2	32.4	152.1	289.2
Outlays	28.3	28.8	29.9	30.5	31.5	149.0	285.4
350 Agriculture							
Budget authority	16.5	15.6	15.8	15.9	16.1	79.9	172.3
Outlays	14.9	14.1	14.4	14.5	14.7	72.6	157.4
370 Commerce and Housing Credit							
Budget authority	13.5	13.9	14.3	18.7	13.5	73.9	130.6
Outlays	9.2	9.3	9.6	12.8	9.8	50.7	86.8
400 Transportation							
Budget authority	60.8	61.3	61.8	62.2	63.1	309.2	608.1
Outlays	64.9	66.4	68.0	69.3	71.2	339.8	639.6
450 Community and Regional Development							
Budget authority	11.5	11.8	12.1	12.3	12.8	60.5	113.6
Outlays	10.5	10.8	11.0	11.3	11.6	55.2	109.0
500 Education and Training							
Budget authority	92.8	95.7	98.4	100.5	104.6	492.0	917.5
Outlays	90.4	93.0	95.9	98.4	101.4	479.1	891.8
550 Health							
Budget authority	287.0	307.6	329.7	334.2	382.4	1,660.9	2,861.7
Outlays	284.2	305.2	327.6	352.5	380.2	1,649.7	2,837.4
570 Medicare							
Budget authority	336.1	362.8	391.1	423.4	459.4	1,972.8	3,307.7
Outlays	336.4	362.7	390.8	423.7	459.4	1,973.0	3,307.6
600 Income Security							
Budget authority	323.4	337.9	349.3	359.9	371.6	1,742.1	3,212.7
Outlays	321.9	336.5	347.6	358.2	369.4	1,733.6	3,201.6
650 Social Security							
Budget authority	584.1	614.7	649.5	686.2	725.5	3,260.0	5,785.6
Outlays	581.5	611.7	646.3	683.5	722.8	3,245.8	5,759.8
700 Veterans							
Budget authority	58.1	62.0	63.4	64.7	67.1	315.3	594.0
Outlays	57.7	61.6	63.0	64.4	66.7	313.4	589.9
750 Administration of Justice							
Budget authority	36.6	37.6	38.5	39.2	40.8	192.7	359.4
Outlays	36.1	37.1	38.1	38.8	40.2	190.3	356.8
800 General Government							
Budget authority	17.9	18.0	18.4	18.7	19.4	92.4	176.6
Outlays	17.5	17.7	18.0	18.3	18.9	90.4	173.4
900 Net Interest							
Budget authority	105.4	87.1	66.8	44.6	20.9	324.8	1,092.1
Outlays	105.4	87.1	66.8	44.6	20.9	324.8	1,092.1
920 Allowances							
Budget authority	6.6	6.7	7.0	7.2	7.5	35.0	64.1
Outlays	6.3	6.4	6.6	6.8	7.0	33.1	55.5
950 Undistributed Offsetting Receipts							
Budget authority	(60.4)	(62.2)	(64.2)	(66.8)	(69.5)	(323.1)	(612.6)
Outlays	(60.4)	(62.2)	(64.2)	(66.8)	(69.5)	(323.1)	(612.6)

Table 1 (Continued)

HOUSE REPUBLICAN FISCAL YEAR 2002 BUDGET RESOLUTION
DISCRETIONARY TOTALS
(In billions of dollars)

	2001	2002	2003	2004	2005	2006	5 Yr. Total
Total Discretionary							
Budget Authority	635.5	660.6	678.7	697.5	717.0	737.0	3,490.8
Outlays	645.5	683.8	707.7	725.3	747.8	765.8	3,630.4
Non-defense discretionary							
Budget Authority	324.4	335.7	345.3	354.7	364.6	374.7	1,775.0
Outlays	344.2	364.1	382.0	391.0	400.4	411.1	1,948.6
050 National Defense							
Budget authority	311.1	324.9	333.4	342.8	352.4	362.3	1,715.8
Outlays	301.3	319.7	325.7	334.3	347.4	354.7	1,681.8
150 International Affairs							
Budget authority	22.6	23.9	23.8	24.5	25.2	25.9	123.3
Outlays	23.3	23.2	23.5	24.0	24.3	24.9	119.9
250 General Science, Space							
Budget authority	20.9	22.0	22.5	23.1	23.6	24.3	115.5
Outlays	19.6	21.0	21.8	22.4	23.0	23.6	111.8
270 Energy							
Budget authority	3.1	2.8	2.7	3.0	3.1	3.2	14.8
Outlays	3.1	2.9	2.8	2.9	3.0	3.1	14.7
300 Natural Resources and Environment							
Budget authority	28.7	26.4	26.5	27.2	27.4	27.4	134.9
Outlays	26.4	26.2	26.6	27.0	27.2	27.3	134.3
350 Agriculture							
Budget authority	4.8	4.8	5.2	5.2	5.3	5.5	26.0
Outlays	4.7	4.8	5.1	5.1	5.2	5.4	25.6
370 Commerce and Housing Credit							
Budget authority	1.4	(0.2)	(0.2)	(0.5)	(0.6)	(0.6)	(2.1)
Outlays	2.0	0.1	(0.3)	(0.6)	(0.8)	(0.8)	(2.4)
400 Transportation							
Budget authority	19.0	16.2	16.6	17.0	17.5	18.0	85.3
Outlays	49.7	53.9	56.2	58.2	59.9	61.7	289.9
450 Community and Regional Development							
Budget authority	11.6	10.1	10.4	10.6	10.9	11.2	53.2
Outlays	12.0	11.7	11.5	11.1	10.8	10.8	55.9
500 Education and Training							
Budget authority	61.2	65.3	65.6	67.6	69.5	71.5	339.5
Outlays	54.0	59.7	65.4	66.0	67.6	69.6	328.3
550 Health							
Budget authority	38.8	41.0	45.5	47.0	48.5	50.1	232.1
Outlays	33.8	38.1	41.5	44.7	46.5	48.1	218.9
570 Medicare							
Budget authority	3.4	3.4	3.4	3.5	3.6	3.8	17.7
Outlays	3.3	3.4	3.5	3.5	3.6	3.7	17.7
600 Income Security							
Budget authority	39.5	42.8	44.5	46.2	48.0	49.4	230.9
Outlays	44.0	45.9	47.2	47.5	48.5	49.7	238.8
650 Social Security							
Budget authority	3.4	3.5	3.5	3.6	3.7	3.8	18.1
Outlays	3.4	3.5	3.5	3.6	3.6	3.8	18.0
700 Veterans							
Budget authority	22.5	24.2	23.4	24.1	24.8	25.5	122.0
Outlays	22.1	23.9	23.5	24.0	24.6	25.3	121.3
750 Administration of Justice							
Budget authority	30.0	29.7	31.6	31.4	32.3	33.3	158.3
Outlays	29.3	29.5	31.5	31.8	32.4	33.1	158.3
800 General Government							
Budget authority	14.0	14.8	14.8	15.2	15.6	16.0	76.4
Outlays	13.8	14.5	14.7	15.0	15.3	15.7	75.2
920 Allowances							
Budget authority	(0.5)	5.0	5.5	6.0	6.2	6.4	29.1
Outlays	(0.3)	1.8	4.0	4.8	5.7	6.1	22.4
950 Undistributed Offsetting Receipts							
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table 2

HOUSE REPUBLICAN BUDGET RESOLUTION
MANDATORY, NET INTEREST, AND OFFSETTING RECEIPTS ONLY
(In billions of dollars)

	2001	2002	2003	2004	2005	2006	5 Yr. Total
Budget Authority	1,271.8	1,316.5	1,357.1	1,415.2	1,483.9	1,527.7	7,100.4
Outlays	1,211.5	1,257.6	1,299.7	1,360.6	1,427.9	1,470.6	6,816.4
050 National Defense							
Budget authority	(0.7)	(0.4)	(0.2)	(0.2)	(0.2)	(0.2)	(1.2)
Outlays	(0.7)	(0.4)	(0.2)	(0.2)	(0.2)	(0.2)	(1.2)
150 International Affairs							
Budget authority	(0.2)	0.0	0.0	0.0	0.2	0.2	0.4
Outlays	(3.6)	(3.6)	(3.7)	(3.6)	(3.5)	(3.5)	(17.9)
250 General Science, Space							
Budget authority	0.1	0.2	0.2	0.0	0.0	0.0	0.4
Outlays	0.1	0.1	0.1	0.1	0.2	0.1	0.6
270 Energy							
Budget authority	(1.9)	(1.9)	(2.0)	(2.1)	(2.2)	(2.2)	(10.4)
Outlays	(3.2)	(3.2)	(3.3)	(3.5)	(3.5)	(3.5)	(17.0)
300 Natural Resources and Environment							
Budget authority	0.1	0.3	0.4	0.5	0.5	0.6	2.3
Outlays	0.0	0.2	0.4	0.4	0.5	0.5	2.0
350 Agriculture							
Budget authority	21.5	14.3	13.4	13.3	13.0	12.4	66.4
Outlays	19.0	12.7	11.9	12.0	11.6	10.9	59.1
370 Commerce and Housing Credit							
Budget authority	2.2	8.9	8.7	14.6	13.4	13.3	58.9
Outlays	(1.8)	5.5	3.4	10.5	9.8	9.2	38.4
400 Transportation							
Budget authority	43.2	44.8	42.2	42.2	42.2	42.3	213.7
Outlays	2.0	1.7	2.1	2.1	2.0	2.0	9.9
450 Community and Regional Development							
Budget authority	(0.4)	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	(0.7)	(0.3)	(0.5)	(0.4)	(0.5)	(0.5)	(2.2)
500 Education and Training							
Budget authority	15.7	16.8	16.4	16.3	17.9	18.7	86.1
Outlays	15.8	16.6	16.3	16.3	17.2	18.1	84.5
550 Health							
Budget authority	143.8	163.0	184.2	199.6	205.3	216.7	968.8
Outlays	141.7	163.0	184.3	200.0	205.0	216.5	968.8
570 Medicare							
Budget authority	214.2	225.7	240.5	256.7	288.1	306.2	1,317.2
Outlays	214.4	225.7	240.3	256.9	288.1	305.9	1,316.9
600 Income Security							
Budget authority	216.5	228.7	237.4	247.1	260.1	266.5	1,239.8
Outlays	213.0	226.2	235.1	245.0	258.2	264.7	1,229.2
650 Social Security							
Budget authority	431.7	453.7	476.1	500.2	525.5	552.0	2,507.5
Outlays	429.7	451.6	473.7	498.0	523.2	549.7	2,496.2
700 Veterans							
Budget authority	24.2	28.0	29.6	31.1	34.5	33.3	156.5
Outlays	23.9	27.7	29.3	30.9	34.3	33.0	155.2
750 Administration of Justice							
Budget authority	0.6	1.1	0.3	2.2	2.3	2.3	8.2
Outlays	0.7	0.8	0.6	2.3	2.3	2.2	8.2
800 General Government							
Budget authority	2.3	1.9	1.6	1.5	1.5	1.5	8.0
Outlays	2.3	1.9	1.6	1.6	1.4	1.4	7.9
900 Net Interest							
Budget authority	205.1	182.2	169.8	155.3	138.0	122.0	767.3
Outlays	205.1	182.2	169.8	155.3	138.0	122.0	767.3
920 Allowances							
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0	0.0
950 Undistributed Offsetting Receipts							
Budget authority	(46.2)	(50.8)	(61.5)	(63.1)	(56.2)	(57.9)	(289.5)
Outlays	(46.2)	(50.8)	(61.5)	(63.1)	(56.2)	(57.9)	(289.5)

Table 3

HOUSE REPUBLICAN BUDGET RESOLUTION
MANDATORY, NET INTEREST, AND OFFSETTING RECEIPTS ONLY
(In billions of dollars)

	2007	2008	2009	2010	2011	Second 5 10 Yr. Total	
Budget Authority	1,585.7	1,658.1	1,731.1	1,810.2	1,896.4	8,681.5	15,781.9
Outlays	1,528.3	1,600.2	1,673.6	1,753.7	1,839.8	8,395.6	15,212.0
050 National Defense							
Budget authority	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(1.0)	(2.2)
Outlays	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(1.0)	(2.2)
150 International Affairs							
Budget authority	0.3	0.1	0.0	0.0	0.0	0.4	0.8
Outlays	(3.4)	(3.4)	(3.3)	(3.3)	(3.3)	(16.7)	(34.6)
250 General Science, Space							
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Outlays	0.1	0.0	0.0	0.0	0.0	0.1	0.7
270 Energy							
Budget authority	(2.2)	(1.8)	(1.8)	(1.8)	(1.9)	(9.5)	(19.9)
Outlays	(3.5)	(3.2)	(3.1)	(3.1)	(3.2)	(16.1)	(33.1)
300 Natural Resources and Environment							
Budget authority	0.5	0.5	0.9	1.0	1.0	3.9	6.2
Outlays	0.5	0.5	0.9	0.9	0.9	3.7	5.7
350 Agriculture							
Budget authority	10.9	9.9	9.9	9.9	9.9	50.5	116.9
Outlays	9.4	8.4	8.5	8.6	8.6	43.5	102.6
370 Commerce and Housing Credit							
Budget authority	13.3	13.3	13.3	13.3	13.3	66.5	125.4
Outlays	9.0	9.0	9.0	8.9	8.8	44.7	83.1
400 Transportation							
Budget authority	42.3	42.4	42.4	42.5	42.5	212.1	425.8
Outlays	1.9	2.0	2.0	2.0	2.0	9.9	19.8
450 Community and Regional Development							
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	(0.5)	(0.5)	(0.5)	(0.6)	(0.6)	(2.7)	(4.9)
500 Education and Training							
Budget authority	19.4	20.1	21.0	21.8	22.7	105.0	191.1
Outlays	18.8	19.5	20.3	21.2	22.0	101.8	186.3
550 Health							
Budget authority	235.6	255.0	275.7	299.4	325.5	1,391.2	2,360.0
Outlays	234.6	254.2	275.3	299.1	325.4	1,388.6	2,357.4
570 Medicare							
Budget authority	332.3	358.9	387.1	419.3	455.1	1,952.7	3,269.9
Outlays	332.6	358.8	386.8	419.6	455.2	1,953.0	3,269.9
600 Income Security							
Budget authority	272.6	285.7	295.5	304.8	314.4	1,473.0	2,712.8
Outlays	270.9	284.0	293.9	303.3	312.9	1,465.0	2,694.2
650 Social Security							
Budget authority	580.1	610.7	645.4	682.0	721.1	3,239.3	5,746.8
Outlays	577.6	607.8	642.2	679.3	718.5	3,225.4	5,721.6
700 Veterans							
Budget authority	31.9	35.1	35.7	36.8	37.9	177.4	333.9
Outlays	31.7	34.9	35.7	36.7	37.8	176.8	332.0
750 Administration of Justice							
Budget authority	2.4	2.4	2.5	2.5	2.6	12.4	20.6
Outlays	2.3	2.3	2.4	2.4	2.5	11.9	20.1
800 General Government							
Budget authority	1.5	1.1	1.1	1.1	1.1	5.9	13.9
Outlays	1.5	1.2	1.1	1.1	1.1	6.0	13.9
900 Net Interest							
Budget authority	105.4	87.1	66.8	44.6	20.9	324.8	1,092.1
Outlays	105.4	87.1	66.8	44.6	20.9	324.8	1,092.1
920 Allowances							
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0	0.0
950 Undistributed Offsetting Receipts							
Budget authority	(60.4)	(62.2)	(64.2)	(66.8)	(69.5)	(323.1)	(612.6)
Outlays	(60.4)	(62.2)	(64.2)	(66.8)	(69.5)	(323.1)	(612.6)

Table 3 (Continued)

Function 050: National Defense

Function 050 includes funding for the Department of Defense (DOD), the nuclear weapons-related activities of the Department of Energy (DOE), and miscellaneous national security activities in various other agencies such as the Coast Guard and the Federal Bureau of Investigation. Most of this function is funded through annual appropriations, but the function includes small amounts of mandatory spending which is more than offset by receipts received from sales of used non-armament equipment. Neither the resolution nor the President's February Blueprint makes any changes in Function 050 mandatory accounts.

Republican Budget Adopted by the Committee

- ! ***The Defense Budget is Still Undetermined But Likely to Increase*** — The Republican budget resolution is consistent in all years with the President's February Blueprint. However, both the resolution and the February Blueprint make clear that the appropriated defense levels are preliminary and may be revised after the Bush Administration completes its review of defense strategy and requirements. The review is being conducted by Secretary of Defense Donald Rumsfeld, but it is unclear when it will be finished. In all likelihood, the "placeholder" budget levels for defense in both the President's Blueprint and the House budget resolution will be increased significantly after the review is completed. The resolution claims to have set aside a "strategic reserve" for defense and other "appropriate" spending priorities, but this strategic reserve is flawed (see *Reserve Funds* and *Overview* for further discussion). The resolution permits the contingency reserve to be used as long as a defense appropriations bill for 2002 is reported by July 11, 2001.

- ! ***Defense Funding for 2002*** — The Republican budget presumably maintains the same levels for DOD, DOE, and the other defense activities as the February Blueprint. If so, the resolution provides \$310.5 billion for DOD, which appears to be \$4.1 billion above the level needed, according to CBO, to maintain purchasing power at the 2001 level. However, as the table below indicates, \$3.9 billion of this amount is required to provide health care benefits to Medicare-eligible military retirees for 2002 in accordance with last year's National Defense Authorization Act, so the budget resolution provides only \$200 million more than the amount needed to maintain purchasing power at the 2001 level, and only \$100 million more than the level recommended by former President Clinton.³

³Since there was no legal requirement to provide health care to Medicare-eligible military retirees in 2001, an "apples-to-apples" comparison of funding between 2001 and 2002 should exclude this \$3.9 billion.

Comparing the 2002 Budget with the 2001 Budget and the Clinton Budget

(discretionary budget authority in billions of dollars)

2002 Republican Budget	\$310.5
<i>Less: Military Retiree Health Care</i>	<i>- \$3.9</i>
Adjusted Republican Budget	\$306.6
Maintaining 2001 Purchasing Power*	\$306.4
Republican Increase Above 2001, Adj. for Inflation	+ \$0.2
2002 Clinton Budget**	\$310.4
<i>Less: Military Retiree Health Care</i>	<i>- \$3.9</i>
Adjusted Clinton Budget	\$306.5
Republican Increase Above Clinton	+ \$0.1

**The 2001 appropriations bill for defense did not contain funding to expand military retiree health benefits.*

***Source: Annual Report to the President and Congress, p. 244, January 2001, and the Department of Defense.*

- ! **Department of Energy Funding for 2002** — The budget does not include specific information on funding for the nuclear weapons-related activities of the DOE. However, because the total discretionary amount for the defense function is \$324.9 billion, and the Department of Defense level is \$310.5 billion, it is reasonable to assume that the funding for DOE's national security activities is approximately \$13.4 billion.⁴ The \$13.4 billion budget level is approximately \$480 million (3.4 percent) below the level needed, according to CBO, to maintain purchasing power for these national security activities at their 2001 levels.

For a more complete discussion of this function in the President's February Blueprint, see the National Defense section (page 29) of *The Bush Budget: Big Tax Cuts and Fuzzy Math, An Analysis of President Bush's 2002 Budget* which can be found at the following URL:

http://www.house.gov/budget_democrats/pres_budgets/fy2002/bush_budget_march6.pdf

⁴Funding for miscellaneous defense activities totaled \$1.3 billion for 2001. If one assumes that funding for these activities is cut to \$1.0 billion, about the pre-2001 average, that leaves \$13.4 billion for DOE's national security activities.

Anticipated Revisions to Bush Budget

On March 19, the Office of Management and Budget (OMB) released a list of revisions to the February Blueprint. These revisions will be part of the President's complete and final 2002 budget, which he plans to release on April 9. The revisions make minimal changes to 2002 appropriations, but they do mechanically increase funding for 2003 through 2010, resulting in a net increase of \$2.1 billion in appropriations over the 2002-2011 period. However, until the Secretary of Defense completes a strategic review, the actual Bush Administration plan for defense funding for is unknown. Therefore, neither the revised numbers nor the February Blueprint is an accurate indicator of the President's final budget for national defense. (See *Overview* for related discussion).

Function 150: International Affairs

Function 150 includes virtually all U.S. international activities, such as: operating U.S. embassies and consulates throughout the world; providing military assistance to allies; aiding underdeveloped nations; offering economic assistance to fledgling democracies; promoting U.S. exports abroad; making U.S. payments to international organizations; and providing U.S. contributions to international peacekeeping efforts. Funding for all of these activities only represents about one percent of the federal budget. This function is funded primarily through appropriations. The function includes small amounts of mandatory spending, but this is more than offset by receipts from loan repayments and interest earned on the Exchange Stabilization Fund.

Republican Budget Adopted by the Committee

The Republican budget resolution is identical in all years to the President’s February Blueprint. Neither the resolution nor the President’s February Blueprint make any changes in Function 150 mandatory accounts. The rest of this section focuses on appropriations funding.

International Affairs Funding (discretionary budget authority in billions)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Bush Budget	22.6	23.9	23.8	24.5	25.2	25.9
Nominal Increase	NA	+ 1.2	-0.1	+ 0.7	+ 0.7	+ 0.7
Nominal Yearly % Inc.	NA	5.3%	-0.004%	2.9%	2.9%	2.8%

Numbers may not add due to rounding.

- ! ***Apparent Increase for 2002 Not As Large As Advertised*** — The 2002 level is about \$1.2 billion (5.3 percent) more than the 2001 level as appropriated, but only \$700 million (3.1 percent) above the level needed, according to CBO, to maintain purchasing power for international programs at the 2001 level. However, even this increase is overstated because the 2001 appropriations did not contain any funding for the Andean counter-narcotics initiative (Plan Colombia). Funding for the Andean Initiative was \$1.0 billion for 2000, and Secretary of State Colin Powell testified that it will be funded at \$400 million for 2002. An “apples-to-apples” comparison of 2001 appropriations with the 2002 budget should exclude the funding for this initiative, and as a result, the budget’s increase for 2002 is only about \$300 million.

- ! ***Export Import (Ex-Im) Bank of the United States*** — The Ex-Im Bank, the official credit agency of the U.S., provides financing assistance to U.S. exporters and, when necessary,

matches foreign subsidies so U.S. companies can compete for business on equal footing (approximately 77 countries provide export credit or subsidies). For 2000, the Ex-Im Bank appropriation of just over \$750 million supported \$15.5 billion in U.S. exports. The President's February Blueprint cuts the Ex-Im Bank's credit subsidy funding by 25 percent, a cut of approximately \$220 million from the level CBO estimates is needed to maintain the Ex-Im Bank's activities at the 2001 level. The budget could thus reduce 2002 U.S. exports by up to \$4 billion.⁵ However, during the mark-up of the House Republican budget resolution, the Chairman indicated that the resolution does not make any assumptions regarding the cut to the Ex-Im Bank. If the Ex-Im Bank is not cut, the resolution therefore assumes that other Function 150 programs will be cut instead.

Anticipated Revisions to Bush Budget

On March 19, the Office of Management and Budget (OMB) released a list of revisions to the February Blueprint. These revisions will be part of the President's complete and final 2002 budget, which he plans to release on April 9. The revisions make minimal changes to 2002 appropriations, but they do mechanically increase funding for 2003 through 2006 while decreasing funding for 2007 through 2011. Function 150 gains \$500 million in funding over the ten year period, 2002 - 2011.

⁵The precise loss of U.S. exports for 2002 is difficult to estimate because the level of exports supported by a given appropriation varies from year to year.

Function 250: General Science, Space, and Technology

This function includes the National Aeronautics and Space Administration (NASA), the National Science Foundation (NSF), and general science programs within the Department of Energy (DOE).

Republican Budget Adopted by the Committee

- ! ***Resolution Matches President's February Blueprint*** — For Function 250, the Republican resolution adopted by the Budget Committee matches the President's February Blueprint. It provides \$22.2 billion in budget authority for 2002, and \$247 billion over the ten-year period (2002-2011). Funding for 2002 represents a \$1.2 billion increase over the enacted level for 2001, and \$600 million over the amount needed, according to CBO, to maintain current services.

- ! ***But Further Cuts Possible, Because Republican Committee Numbers Don't Add Up*** — The resolution adopted by the Committee indicates an increase of \$1.2 billion for Function 250 over the 2001 enacted level. Yet, the Committee report accompanying the resolution matches the Bush Blueprint in indicating only a \$56 million increase for NSF, and an increase of roughly \$215 million for NASA over 2001 enacted levels. Function 250 contains only NASA, NSF, and general science programs at the Department of Energy. Therefore, for the numbers in the resolution and the accompanying report to add up, the Committee would need to assume an increase of more than \$900 million for the Department of Energy's Office of Science. Nowhere in the resolution or the accompanying report is such an increase indicated. More likely, the resolution has repeated an accounting error made in the Bush Blueprint that incorrectly assigns an additional \$800 million for 2002 to Function 250. *Correcting this mistake would require cuts in programs for this function.* The accounting mistake and the consequences of correcting it are described below in "Anticipated Revisions to Bush Budget."

- ! ***NASA and NSF Budgets Fail to Maintain Current Services*** — The Committee report accompanying the resolution indicates specific funding levels for NASA and NSF which fail to maintain purchasing power for existing programs. The Committee report matches the Bush Blueprint in providing NASA with \$14.5 billion for 2002. This funding is \$160 million below the level needed, according to CBO, to maintain purchasing power at the 2001 level. Like the Bush blueprint, the Committee report calls for providing NSF with \$4.5 billion for 2002, a level just slightly below the amount needed, according to CBO, to maintain purchasing power at the 2001 level.

- ! ***Democrats Try to Increase Research Funding*** — During the Committee's mark-up of the Republican plan, Democrats offered an amendment that would have increased funding for

Function 250. Democrats unanimously supported the amendment, but Republicans voted it down.

Anticipated Revisions to Bush Budget

On March 19, the Office of Management and Budget (OMB) released a list of revisions to the February Blueprint. These revisions will be part of the President's complete and final 2002 budget, which he plans to release on April 9.

! ***Revised Bush Numbers Cut Science and Space*** — The President's February Blueprint incorrectly counted more than \$800 million for NASA's aviation programs in Function 250; the funding actually belongs in Function 400 (*Transportation*). OMB has now indicated that the error will be corrected in the President's April budget.

The revised OMB figures for Function 250 reduce budget authority for 2002 by \$804 million, and by \$8.9 billion over the ten-year period (2002-2011). The revised level for 2002, \$21.4 billion, represents a cut of \$200 million below the amount needed, according to CBO, to maintain purchasing power at the 2001 level.

If the Republicans alter their budget resolution to incorporate these revisions at any point in the budget process, their resolution would then also fund Function 250 below the amount needed, according to CBO, to maintain purchasing power at the 2001 level. As described in the section above, the numbers in their budget resolution and the Committee report do not add up, suggesting that this revision is likely.

Function 270: Energy

Function 270 comprises energy-related programs including research and development (R&D), environmental clean-up, and rural utility loans. Most of the programs are within the Department of Energy (DOE), although the rural utility program is part of the Department of Agriculture.

Republican Budget Adopted by the Committee

- ! ***The President's Plan Revisited***— The Republican budget resolution is exactly the same as the President's February Blueprint with regard to funding levels for energy.
- ! ***Energy Funding Sharply Curtailed***— Both the Republican resolution and the President's Blueprint cut appropriated energy programs for 2002 by \$500 million (15.1 percent) below the level needed, according to CBO, to maintain constant purchasing power. Under the Republican resolution and the President's Blueprint, Function 270 faces cuts of \$2.1 billion over five years and \$1.4 billion over ten years. These unwise cuts are proposed even though the nation currently is struggling with high energy costs and regional energy shortages, particularly in California. Because President Bush has pledged to support renewable energy research and development, other programs within the energy function are likely to face even larger cuts.
- ! ***One Step Forward, Two LIHEAPs Back: Republicans Cut Overall Energy Assistance for the Poor***— The Republican resolution assumes the President's proposal to increase funding for the Weatherization Assistance Program (WAP), a program which seeks to make homes more energy-efficient. Like the President's Blueprint, the Republican resolution provides a \$120 million increase for 2002 and a \$1.4 billion increase over ten years for WAP. However, the Republican resolution makes a \$300 million cut for 2002 to the Low Income Home Energy Assistance Program (LIHEAP), which helps families pay their heating and cooling bills. See *Function 600 (Income Security)* for further details.

Anticipated Revisions to Bush Budget

On March 19, the Office of Management and Budget (OMB) released a list of revisions to the February Blueprint. These revisions will be part of the President's complete and final 2002 budget, which he plans to release on April 9. In general, the revisions make minimal changes to 2002 appropriations, but they do mechanically increase funding for 2003 through 2006 while decreasing funding for 2007 through 2011.

- ! ***Funding Shift***— Funding for Energy is generally shifted from the second five years to the first five years. While the funding level over ten years is increased slightly according

to OMB estimates, the overwhelming cut to energy funding is left unaddressed.

- ! ***Elk Hills School Land Fund Change***— The April budget submission will include a shift away from advance appropriations for the settlement of longstanding “school lands” claims to certain Elk Hills school district lands by the State of California. The agreement between DOE and California provided for five yearly payments of \$36 million. To eliminate the accounting practice of advance appropriations, the budget will reclassify funds to be disbursed in 2003 into the budget for 2002. This accounting technicality creates the appearance of a \$36 million increase for 2002, but in fact represents no real change in the overall cost of this program.

Function 300: Natural Resources and Environment

Function 300 includes programs in a variety of federal agencies concerned with the development and management of the nation's land, water, and mineral resources; recreation and wildlife areas; and environmental protection and enhancement. This function does not include the large-scale environmental clean-up programs at the Departments of Energy and Defense. For information on those programs, see *Function 050 (Defense)* and *Function 270 (Energy)*.

Almost all of the funding in this function is appropriated funding. Mandatory spending in this function is a combination of spending by the land management agencies and receipts related to the use of public lands.

Republican Budget Adopted by the Committee

- ***Republican Resolution Same as the President's Blueprint*** — For both mandatory and appropriated spending in Function 300, the Republican budget resolution is the same as the President's February Blueprint.
- ***Resolution Contains Large Cuts for Environmental Appropriations*** — For 2002, the Republican budget resolution includes \$26.4 billion in appropriated funding, a significant cut of \$2.3 billion (8.0 percent) from the 2001 level. This level of appropriations is \$3.3 billion (11.1 percent) below the level needed, according to CBO, to maintain current purchasing power.

Function 300 Appropriations

(CBO estimates, billions of dollars)

	2002	2002-2006	2002-2011
Maintain current purchasing power	29.7	156.9	335.9
Maintain current purchasing power, excluding 2001 emergency funding from baseline	27.9	147.2	315.1
Republican budget resolution	26.4	134.9	283.1

Over the ten-year span of the resolution, the Republican plan provides far less in appropriations for Function 300 than the amount required to maintain current purchasing power. The Republicans claim that this decrease is justifiable because there is no need to repeat funding for 2001 emergencies in the Function 300 totals.⁶ However, even after

⁶ The Republican resolution contains a reserve fund for emergencies; see *Function 920 (Allowances)* and *Appropriated Programs* for details.

backing out emergency funding, the levels in the Republican resolution still translate into cuts in purchasing power for natural resources and environmental programs (see table above). Even after adjusting for emergencies, the average annual cut in purchasing power for this function is 10 percent. The Republican resolution claims to accommodate a number of increases for specific programs included in Function 300, which means only larger cuts for other programs.

- ***Democrats Offered Amendments to Boost Environmental Funding*** — During the committee mark-up of the resolution, Democrats offered two amendments to increase appropriations for natural resources and environmental programs. The first amendment would have ensured adequate funding for the conservation, preservation, and recreation programs that were part of last year’s landmark conservation agreement. The second amendment would have reversed the cut to the Army Corps of Engineers. The Republicans rejected both amendments. See the bullets below for details.
- !
- No Room for Last Year’s Conservation Agreement*** — As part of last year’s Interior Appropriations bill, Congress agreed to provide \$12 billion in dedicated funding over six years for conservation, preservation, and recreation programs. This funding was set aside in a new “conservation” budget category that started at \$1.6 billion in 2001 and is scheduled to increase by \$160 million each year until it reaches \$2.4 billion in 2006.

The President’s February Blueprint backtracked on last year’s agreement and rewrote the funding schedule for the conservation category, effectively skimming \$2.7 billion from it over 2002-2006 to pay for the oversized tax cut. The Republican budget resolution does not specifically reject this aspect of the President’s Blueprint, and the discretionary funding for Function 300 is the same as in the Blueprint.⁷ Therefore, it is safe to assume that Republican resolution fails to provide the funding promised in last year’s agreement.

Both the President’s Blueprint and the resolution claim to fully fund at \$900 million the federal and state land acquisition programs funded out of the Land and Water Conservation Fund. These programs are part of the conservation category. If this claim is true, it means that all other programs within the conservation category will absorb the cuts made to the overall funding levels for category. These other programs include state wildlife grants, urban and historic preservation programs, payments-in-lieu-of-taxes, and coastal protection programs.

- ***Environmental Protection Agency (EPA)*** — Both the President’s February Blueprint and the Republican resolution cut EPA’s budget to \$7.3 billion, \$500 million (6.8 percent) less

⁷ Although the conservation funding is in a separate budget category, for purposes of the budget resolution the funding is included in Function 300.

than the 2001 enacted level. This decrease flies in the face of recent Congressional actions. For example, last year Congress authorized new EPA grants to states to deal with the problem of sewer overflows. Rather than provide new money, the resolution provides the same funding as last year for all of EPA's water infrastructure grants and assumes that money for the sewer overflow grants will come from within that total.

In addition, the House and Senate are likely to approve brownfields legislation this year, which will authorize around \$200 million annually for grants to states. Because of the low funding levels in the budget resolution, these new grants will have to compete with existing programs for funding.

- ! ***Army Corps of Engineers*** — Like the President's Blueprint, the resolution assumes a cut for 2002 of \$600 million (-14 percent) to the Army Corps of Engineers.

Anticipated Revisions to Bush Budget

On March 19, the Office of Management and Budget (OMB) released a list of revisions to the February Blueprint. These revisions will be part of the President's complete and final 2002 budget, which he plans to release on April 9. In general, the revisions make minimal changes to Function 300 appropriations, but they do mechanically increase funding for 2003 through 2006 while decreasing funding for 2007 through 2011.

Function 350: Agriculture

Farm income stabilization, agricultural research, and other services administered by the U.S. Department of Agriculture (USDA) are funded within Function 350. The discretionary programs include: research, education, and rural development programs; economics and statistics services; meat and poultry inspection; a portion of the Public Law (P.L.) 480 international food aid program; and administrative costs. The mandatory programs include commodity programs, crop insurance, and certain farm loans.

Republican Budget Adopted by the Committee

- ! ***Guns, Butter, or Debt Reduction?*** — Like the President’s February Blueprint, the Republican budget resolution provides no additional money for income assistance for farmers, and leaves the baseline for agriculture unchanged. Instead, the Republican resolution forces agriculture to compete with defense needs and “other appropriate legislation” through a strategic reserve fund. Any funding for defense, agriculture, or anything else from this reserve fund would reduce the amount of debt reduction achievable under the Republican plan.

- ! ***Hurry Up and Spend*** — The strategic reserve fund in the Republican resolution creates undesirable pressures on the agriculture community. First, the reserve only applies to legislation reported by July 11 of this year. If the Agriculture Committee has not acted by then, the money is no longer available. While the Agriculture Committee is holding hearings on reauthorization of the Farm Bill, the Committee may be hard-pressed to complete work on even the commodity title by July 11. On March 14, when asked by Chairman Nussle if Farm Bill authorization was possible this year, Ranking Member Stenholm replied:

I wish I could say yes. Because I share your desire and the importance of accomplishing that goal . . . But I think practically speaking, given the difficulty of the task that you have outlined for us, it will be very difficult to complete work this year . . . And I would also say, and I say this in deference to the Administration, as you heard Secretary Veneman a moment ago she’s only been on board for 60 days. It is not realistic for us to expect — since she doesn’t have her full team in place, as yet — it is not realistic for us to expect the kind of guidance and the input of — which I believe she will be providing in a very active role as Secretary — for us to be able to get that kind of input from the Administration in time to do it this year also.

- ! ***The Hourglass Problem*** — The amount of money in the strategic reserve fund, from which additional agriculture and defense needs are to be taken, is based on the non-Social Security, non-Medicare surplus. However, under the Republican resolution there is *virtually no surplus* in 2005 and 2006, if the tax cut totals \$1.6 trillion and if current projections hold true. These are very big “ifs,” and actual results could easily be even worse. Crafting a long-term agriculture strategy is nearly impossible when the funding stream dries up in the middle of the period in question.

- ! ***Short-changing the Delivery System*** — Like the President’s February Blueprint, the Republican resolution cuts funding for appropriated programs by \$200 million (4 percent) relative to the amount needed, according to CBO, to maintain constant purchasing power for 2002. Over ten years, appropriated agriculture programs in the Republican resolution are cut by \$700 million below the level of current services. This reduction could hamper USDA’s ability to improve staffing levels and modernize field offices, an item President Bush has claimed is a priority. Cuts to appropriated programs could also jeopardize the Animal and Plant Health Inspection Service, which is instrumental in the USDA’s battle to keep foot-and-mouth disease (and other diseases and infestations) out of the country.

Anticipated Revisions to Bush Budget

On March 19, the Office of Management and Budget (OMB) released a list of revisions to the February Blueprint. These revisions will be part of the President’s complete and final 2002 budget, which he plans to release on April 9. In general, the revisions make minimal changes to 2002 appropriations, but they do mechanically increase funding for 2003 through 2006 while decreasing funding for 2007 through 2011.

- ! ***Crop Insurance Unchanged*** — As anticipated, President Bush has abandoned the effort to reduce the reimbursement rate paid to insurance companies that offer crop insurance policies.

Function 370: Commerce and Housing Credit

Function 370 includes deposit insurance and financial regulatory agencies; the mortgage credit programs of the Department of Housing and Urban Development (HUD); the Department of Commerce's Census Bureau, its business promotion programs and its technology development programs; rural housing loans; the Small Business Administration's business loans; the Postal Service; and other regulatory agencies such as the Federal Communications Commission (FCC).

Republican Budget Adopted by the Committee

The Republican plan makes no net changes to mandatory spending for this function, which is the same as in the President's Budget Blueprint.

Under the House Republican budget plan, appropriated funding for Function 370 drops to a negative \$200 million for 2002, a decrease of \$1.6 billion from the 2001 level of \$1.4 billion. Negative spending levels in Function 370 are relatively commonplace, because the credit programs and the fee-funded programs in the function often receive more in collections than they spend. The decrease in the Republican resolution is very similar to the level in the President's Blueprint. As re-estimated by the Congressional Budget Office (CBO), the President's Blueprint decreased appropriated funding for this function from \$1.4 billion to negative \$300 million, a decrease of \$1.7 billion. Neither the President's Blueprint nor the Republican budget resolution fully explain this sharp decrease, but it likely includes the following changes:

- ***Increase in Current Fees and Premiums*** — Several agencies included in this function collect more in fees or premiums in a given year than they spend. The excess fee collections offset other spending shown in the function. Some of the drop in discretionary spending for this function is likely due to an assumed increase in collections over the amounts collected last year. Examples of such agencies include the Federal Housing Administration (FHA), the Securities and Exchange Commission, and the Patent and Trademark Office.
- ***Changes to FHA*** — The President's Blueprint gives FHA the authority to insure hybrid adjustable-rate mortgages, resulting in higher fee and premium collections. These higher collections offset other appropriated spending for this function. The Republican resolution does not explicitly accept or reject this proposal, but because the resolution's Function 370 totals closely track the President's, the resolution may include it. Like the President's Blueprint, the resolution increases premiums for some FHA programs, which also has the effect of lowering the total for Function 370 appropriations.

- ***Completion of 2000 Census*** — The Census Bureau in the Department of Commerce receives a significant increase in appropriations in the years before and after the turn of the decade for completion of the decennial census. Some of the decline in this function probably results from an expected decline in funding for the Census Bureau.

Anticipated Revisions to Bush Budget

On March 19, the Office of Management and Budget (OMB) released a list of revisions to the February Blueprint. These revisions will be part of the President's complete and final 2002 budget, which he plans to release on April 9. The revisions make minimal changes to 2002 appropriations. Changes to appropriated spending and mandatory spending over 2002-2011 are relatively small and are unexplained.

Function 400: Transportation

Function 400 is comprised mostly of the programs administered by the Department of Transportation (DOT), including programs for highways, mass transit, aviation, and maritime activities. The function also includes several small transportation-related agencies and the civilian aviation research program of the National Aeronautics and Space Administration (NASA).

Republican Budget Adopted by the Committee

- ***Resolution Contains Mistakes Made by the President*** — The funding totals for Function 400 appropriations in the Republican budget resolution are very similar to those in the President’s February Blueprint. As noted below, however, the President has indicated that there were mistakes in the Function 400 totals in his Blueprint and that his April budget will make the necessary corrections.

In the committee report accompanying the Republican resolution, the Republicans state that they “intend to make every effort to address these errors during conference.” If they do not, there is no way to accommodate the President’s transportation requests within the constraints of the resolution. To fix these mistakes without changing the overall level of spending in the budget resolution, the Republicans will have to take money away from non-transportation programs.

- ***Highways and Mass Transit*** — For 2002, both the President’s Blueprint and the Republican resolution claim to provide the full amounts authorized for highways and mass transit by the Transportation Equity Act for the 21st Century (TEA-21). For highways, full funding totals \$32.3 billion, and for mass transit, full funding is \$6.7 billion. Highway funding and most mass transit funding take the form of mandatory contract authority, which is constrained by obligation limitations set by the Appropriations Committee. Outlays resulting from the use of the mandatory contract authority are considered discretionary.
- ***Federal Aviation Administration (FAA)*** — For 2002, both the President’s Blueprint and the Republican resolution claim to provide the full amounts authorized for FAA under the Aviation Investment and Reform Act for the 21st Century (AIR-21). The 2002 level authorized in AIR-21 is \$13.3 billion, an increase of nearly \$700 million (5.2 percent) from 2001. Of the \$13.3 billion, \$10.0 billion is discretionary budget authority and \$3.3 billion is mandatory contract authority.
- ***Other Transportation Programs*** — Federal highway programs, grants to airports, and most of the federal mass transit program are funded with mandatory contract authority.

Other transportation programs, such as Coast Guard, rail, DOT's general administrative operations, and most of FAA are funded primarily through discretionary budget authority. The resolution provides \$16.2 billion in discretionary budget authority for 2002, \$2.8 billion (14.7 percent) less than the 2001 level. The Republican resolution claims that this decrease results solely from the elimination of one-time earmarks and special projects. However, within this lower amount, the Republican resolution provides \$600 million more in discretionary budget authority for FAA and \$800 million more for the Coast Guard. One can only wonder exactly which transportation programs will have to be cut to make up the difference.

Anticipated Revisions to Bush Budget

On March 19, the Office of Management and Budget (OMB) released a list of revisions to the February Blueprint. These revisions will be part of the President's complete and final 2002 budget, which he plans to release on April 9.

- ! ***NASA Civilian Aviation Research*** — The President's February Blueprint incorrectly counted funding for NASA's aviation programs in Function 250 when the funding actually belongs in Function 400. OMB has now indicated that it will correct this error in the President's April budget. For 2002, this change adds \$890 million in discretionary budget authority and \$457 million in outlays to Function 400. Over 2002-2011, the revision will add \$8.8 billion in discretionary budget authority and \$8.4 billion in discretionary outlays to Function 400.

- ! ***Unexplained FAA Increase*** — OMB has indicated that it will add more discretionary budget authority and outlays to Function 400 for FAA. There is no addition for 2002, but for the period 2003-2011, the revision will add \$3.4 billion in discretionary budget authority and \$3.7 billion in outlays. The OMB documents do not indicate the reason for this change.

- ! ***Unexplained Cut in Discretionary Outlays*** — While adding discretionary budget authority and outlays for NASA and FAA, OMB has indicated that it will cut discretionary outlays for other, unspecified transportation programs. For 2002, the cut is \$147 million in outlays; over ten years (2002-2011), the cut totals \$6.7 billion. This cut offsets over half of the discretionary outlays added to the function for NASA and FAA.

- ***Change in Mandatory Contract Authority*** — OMB has indicated that the President's April budget will reduce the levels of mandatory budget authority in years 2003 through 2011 by a total of \$44 billion. This change corrects an error in the way OMB projected future levels of highway contract authority in its baseline.

Function 450: Community and Regional Development

Federal support for community and regional development helps economically distressed urban and rural communities. Major agencies and programs included in this function are the Empowerment Zones, the Community Development Block Grant (CDBG) program, the Economic Development Administration, the Appalachian Regional Commission, rural development programs in the Department of Agriculture, the Bureau of Indian Affairs, the Federal Emergency Management Agency, the Small Business Administration's disaster loan program, and the Community Development Financial Institutions Fund (CDFI) program.

Republican Budget Adopted by Committee

- ***Comparison to President Bush's February Blueprint*** — Like President Bush's February Blueprint, the Republican budget resolution decreases appropriations for Community and Regional Development programs by \$1.8 billion in 2002 and by approximately \$16.8 billion over years 2002 through 2011.
- ***Cuts Assumed in President Bush's February Blueprint and the Republican Budget*** — The President's February Blueprint lists only a few of the cuts assumed for 2002. Because the Republican resolution decreases discretionary funding by the same amount as the Blueprint, the same cuts may be assumed. The President's Blueprint decreases FEMA appropriations to \$2.0 billion, \$500 million below the level needed to maintain purchasing power at the 2001 level. The Blueprint also decreases funding for the CDBG program by \$112 million below the level needed to maintain purchasing power at the 2001 level. In addition, the Blueprint includes unspecified cuts for CDFI.

Anticipated Revisions to Bush Budget

On March 19, the Office of Management and Budget (OMB) released a list of revisions to the February Blueprint. These revisions will be part of the President's complete and final 2002 budget, which he plans to release on April 9. In general, the revisions make minimal changes to 2002 appropriations but they do mechanically increase funding for 2003 through 2006 while decreasing funding for 2007 through 2011.

- The March 19 OMB document also adjusts mandatory totals due to anticipated delays in realizing savings from flood insurance reform proposals. These proposals, as outlined in the February Blueprint, include discontinuing subsidized premiums for non-primary residences and businesses and removing from the flood insurance program properties that have been repeatedly flooded and rebuilt. These proposals, however, are not included in the Republican budget resolution.

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

Function 500 includes funding for the entire Department of Education, social services programs within the Department of Health and Human Services, and employment and training programs within the Department of Labor. It also contains funding for the Library of Congress and independent research and art agencies such as the Corporation for Public Broadcasting, the Smithsonian Institution, the National Gallery of Art, the JFK Center for the Performing Arts, the National Endowment for the Arts, and the National Endowment for the Humanities.

Republican Budget Adopted by the Committee

- ! ***House Budget Resolution the Same as President's February Blueprint*** — The House Republican budget resolution matches the President's February Blueprint. For 2002, it provides budget authority of \$65.3 billion for appropriated programs. This represents an increase of only \$900 million (1.4 percent) above the amount necessary to maintain programs at their current levels, and \$2.0 billion above a freeze at the 2001 level of funding. Neither the February Blueprint nor the Republican resolution provides sufficient outlays to match the 2002 budget authority. The outlays provided for 2002 fall \$400 million below the amount needed to maintain current services and \$100 million below a freeze at the 2001 level.

- ! ***Cuts for Programs Other than Education*** — The President's February Blueprint increased appropriations for the Department of Education by \$2.4 billion over a freeze at the 2001 level. The Committee report accompanying the Republican resolution indicates that the resolution matches this commitment. This level of increase for the Department of Education requires cuts in other programs in the function. Given that the overall increase for Function 500 is only \$2.0 billion over a freeze, a \$2.4 billion increase for the Department of Education requires cutting other programs within Function 500 by \$400 million for 2002. These programs could include Head Start, job training programs in the Department of Labor, and programs for seniors such as "meals on wheels."

- ! ***Special Education Reserve Account of \$1.25 Billion*** — For 2002, the Republican resolution creates a "reserve account" for special education that holds back \$1.25 billion of the resolution's appropriations total of \$660.6 billion. The Appropriations Committee receives this \$1.25 billion only if it increases special education funding for 2002 by that amount. If the Appropriations Committee increases special education by less than \$1.25 billion, the Committee's overall allocation goes up by only that smaller amount. The resolution is silent on whether this \$1.25 billion is counted as part of the total for Function 500. If so, then 62.5 percent of the increase in Function 500 is earmarked for special

education. If the reserve account is not counted as part of Function 500, then the Appropriations Committee needs to cut funding from other programs to give special education this increase.

- ! ***Resolution Guts School Renovation Funding*** — According to the Committee report, the resolution assumes the Blueprint's changes in funding for school renovation. The Bush Blueprint allows states to divert \$1.2 billion in 2001 school renovation funds to technology or special education. The Blueprint and the Committee report state that in 2002 these school renovation funds can be diverted to fund a number of education programs.

- ! ***Mandatory Initiatives*** — The budget resolution includes three new mandatory initiatives proposed in the President's Blueprint, two in child welfare and another in education. One initiative provides \$30 million for 2002 and nearly \$1.8 billion over the ten-year period (2002-2011) for the Promoting Safe and Stable Families program. The program helps to create stable living situations for children with their biological families, if possible, or with adoptive families. A second initiative provides education and training vouchers through the Independent Living Program to promote skills development among young people who are aging out of the foster care system. This initiative provides \$9 million for 2002 and \$533 million over the ten-year period (2002-2011). A third small initiative is designed to increase the pool of math and science teachers by expanding student loan forgiveness.

- ! ***Resolution Does Not Provide Increased Funds for Social Services Block Grant (Title XX)*** — The Social Services Block Grant (SSBG) provides states with flexible funds that can be used to meet their most pressing social services needs. These funds are used for services including: child day care; services to the disabled; services to the elderly; employment; housing; and transportation. Funding for SSBG has dropped in recent years from \$2.38 billion for 1996 to \$1.725 billion for 2001. The Republican budget resolution provides no resources to increase the level of funding for SSBG. (The Committee report indicates a mandatory spending total for Function 500 of \$186.3 billion over the period 2002-2011. This represents an increase of \$2.4 billion above spending under current law. This increased level exactly matches the spending provided for the three mandatory initiatives described above, leaving no room for an SSBG increase.)

- ! ***Democrats Try to Increase Funding for High-Priority Education Programs*** — During Committee consideration of the Republican budget resolution, Democrats offered an amendment to provide \$4.2 billion more for 2002 (\$79.1 billion over the period 2002-2011) to: (1) improve student achievement by training teachers, recruiting new teachers to reduce the average size of classes in the early grades, and increasing compensation to qualified teachers; (2) provide assistance for school renovation and construction through loans, grants, and tax credits; and (3) increase the maximum Pell Grant award to \$4,350. No Republicans supported the amendment, and it was defeated.

- ! ***Democrats Offer “Full Funding” for Special Education*** — During the Committee’s mark-up of the Republican resolution, the Democrats offered an amendment to provide “full funding” of the federal government’s maximum authorized contribution for special education. The amendment would have increased special education funding by \$2.5 billion each year, reaching full funding in 2007 and maintaining it thereafter. All Democrats present voted for the amendment, and all Republicans present voted against it.

Anticipated Revisions to Bush Budget

On March 19, the Office of Management and Budget (OMB) released a list of revisions to the February Blueprint. These revisions will be part of the President’s complete and final 2002 budget, which he plans to release on April 9. In general, the revisions make minimal changes to 2002 appropriations, but they do mechanically increase funding for 2003 through 2006 while decreasing funding for 2007 through 2011.

- ! ***Changes to Appropriations*** — The OMB revision to the President’s Blueprint modestly increases appropriations for Function 500 for 2002 through 2007 and modestly cuts them thereafter. Over ten years, the funding is slightly higher than in the Blueprint.
- ! ***Advance Appropriations Counted as Mandatory Spending in Current Year*** — The OMB revision appears to increase the mandatory budget authority by \$18.6 billion for 2002 and by the same amount over the ten-year period 2002-2011. These apparent increases also contribute to increases in the overall function total for budget authority. But, these apparent increases in mandatory budget authority reflect a change in accounting, not any actual increase in program levels. Indeed, outlays for mandatory programs are virtually unchanged in the OMB revision. The apparent change results from OMB’s efforts to end the practice of advance appropriations. Ending this practice involves a one-time accounting shift that appears to increase the mandatory budget authority for 2002, but it in fact causes no actual change in program funding.

Function 550: Health

In Function 550, discretionary programs include most federal programs that provide direct health care services. Other health programs in the function fund national biomedical research, 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. The major mandatory programs in this function are Medicaid and the State Children's Health Insurance Program (S-CHIP) which together account for most of the mandatory spending in Function 550. For 2002, funding for the National Institutes of Health (NIH) represents over half (56.3 percent) of all discretionary funding.

Republican Budget Adopted by the Committee

- **Overview** — The Republican budget resolution provides an overall funding level of \$204 billion in budget authority and \$201 billion in outlays for 2002 for health-related programs. Over ten years (2002-2011), the resolution provides \$2.9 trillion in budget authority and \$2.8 trillion in outlays for these programs.

For health-related programs subject to annual appropriations, the resolution provides a funding level of \$41.0 billion for 2002 and \$501.8 billion over ten years (2002-2011). For entitlement programs such as Medicaid, the resolution provides a spending level of \$163 billion in 2002 and \$3.3 trillion over ten years (2002-2011).

Programs Subject to Appropriations

- **The Resolution Equals the President's February Blueprint** — The funding levels for appropriated health programs in the 2002 Republican budget resolution are identical to those included in the President's February Blueprint. Although there are very few stated assumptions in the resolution, those that are included are virtually identical to those outlined in the February Blueprint.
- **National Institutes of Health (NIH)** — For 2002, the resolution increases NIH funding by \$2.8 billion over the 2001 enacted level. This increase is the fourth installment in a five-year commitment to double the NIH budget relative to the 1998 level. Under the budget resolution and the President's February Blueprint, NIH consumes 56 percent of the 2002 funds for health programs subject to appropriations.
- **Unspecified Cuts in Other Health Programs** — Once the NIH increase is excluded from the funding level in the resolution, the remaining funds are insufficient to maintain other appropriated health programs at their current level of services, according to CBO. Given

the budget resolution's overall 2002 funding level of \$41 billion and the magnitude of the NIH increase, appropriated programs other than NIH must be cut by at least 5 percent.

Because the budget assumes increases in a few other programs, such as community health centers, the depth of the cuts for the remaining programs may be greater than 5 percent. These cuts may apply to health programs such as Ryan White AIDS grants, maternal and child health, Centers for Disease Control, consumer health and safety programs, or the Food and Drug Administration. These cuts, however, are not specified in either the Republican budget resolution or the President's February Blueprint.

Medicaid

- ***Medicaid Coverage for Disabled Children*** — The resolution assumes enactment of “The Family Opportunity Act,” a proposal not included in the President's February Blueprint. This is a bipartisan proposal allowing states to expand Medicaid coverage to children with disabilities provided that family income does not exceed 300 percent of poverty. The resolution increases Medicaid spending by \$200 million in 2002 relative to current law and \$8 billion over ten years (2002-2011) for this purpose. The reconciliation directives also reflect increased spending for this proposal.
- ***Resolution Rejects President's Medicaid Cuts*** — The resolution does not include additional constraints on Medicaid's upper payment limit (UPL) included in the President's February Blueprint. The February Blueprint cut Medicaid spending by \$813 million in 2002 relative to current law and \$10.7 billion over ten years (2002-2011) by further tightening the UPL. Last year, Congress closed loopholes to prevent states from increasing their federal Medicaid payments without increasing health services.
- ***Block Grant for Prescription Drugs for Low-Income Seniors*** — The resolution increases mandatory spending by \$11.2 billion in 2002 relative to current law and \$43 billion over four years (2002-2005). This spending reflects the President's so-called “immediate helping hand” proposal for a prescription drug benefit outside of the Medicare program, and unspecified reform of the Medicare program. The remaining \$110 billion over seven years (2005-2011) is included in Function 570 (Medicare).

Anticipated Revisions to Bush Budget

On March 19, the Office of Management and Budget (OMB) released a list of revisions to the February Blueprint. These revisions will be part of the President's complete and final 2002 budget, which he plans to release on April 9.

- ***National Institutes of Health (NIH)*** — The 2002 revisions appear to maintain the doubling of NIH funding relative to 1998 by 2003. However, it is unclear if the increase is sustained in 2004 and thereafter.
- ***Other Appropriated Health Programs*** — In general, the revisions make minimal changes to 2002 and 2003 appropriations, but they do decrease funding for 2004 through 2011.
- ***Specified Program Cuts*** — Unlike the February Blueprint, the President's April budget will contain specified program cuts. Although the revisions received on March 19 do not contain those details, early media reports indicate that the April budget may severely cut general medical education funds that are used by pediatric and children's hospitals for physician training.
- ***Entitlement Programs*** — Without explanation, the revisions also make minimal changes to the entitlement or mandatory program proposals outlined in the February Blueprint.

Function 570: Medicare

Function 570 includes only the Medicare program. Appropriated funds are used to administer and monitor the Medicare program. Medicare benefits comprise almost all of the mandatory spending in this function.

Republican Budget Adopted by the Committee

- ***Administration of Medicare*** — The Republican budget resolution freezes Medicare administrative funds at \$3.4 billion for 2002, the same as the 2001 level. This is identical to the funding level included in the President's February Blueprint for Medicare administration. Over ten years (2002-2011), the resolution provides \$38.1 billion for this purpose. This is \$4.3 billion below the level required to maintain the current services level over the same period, according to CBO.
- ***Prescription Drugs and Unspecified Medicare Reform*** — The resolution provides two separate pools of money for the President's prescription drug benefit and undefined Medicare reform.

Within the Medicare function, the resolution provides \$8.3 billion in 2005 for a prescription drug benefit coupled with Medicare reform. Like the February Blueprint, the resolution begins to add extra resources to Medicare only in 2005. Over seven years (2005- 2011), Medicare spending is \$110 billion higher than it would otherwise be for these combined purposes. An additional \$43 billion is included in Function 550 (Health) for this purpose in the earlier years (2002-2005). The resolution is identical to the President's February Blueprint, which provides a total of \$153 billion over ten years (2002-2011) for these purposes in the same manner.

- ***Inadequate Resources for Prescription Drugs*** — When combined, these pools of money provide only \$153 billion for a token prescription drug benefit and unspecified Medicare reform over ten years (2002-2011). Last year's House Republican plan was only for prescription drugs. It carried a ten-year price tag of \$159 billion, and it would cost more than \$200 billion if it were offered today because prescription drug prices have increased in the last year. The amount provided in the resolution is clearly inadequate to provide a real Medicare prescription drug benefit, unless existing benefits and provider payments are cut or payroll taxes are increased.
- ***Spending the Medicare Hospital Insurance (HI) Trust Fund Surplus*** — The Republican resolution allows the HI (Part A) Trust Fund to be spent for prescription drugs and Medicare reform, thereby shortening the solvency of the Trust Fund.

Under current law, the HI (Part A) Trust Fund is dedicated to pay solely for benefits related to hospital, skilled nursing home, hospice, and certain home health services. Monies diverted from the Trust Fund for any purpose must be paid back with interest. However, neither the resolution nor the President's February Blueprint requires revisions in current law. It is unclear if either the February Blueprint or the Republican budget intend to eliminate the payback requirement.

Unlike the President's February Blueprint, the resolution does not allow the HI Trust Fund to be used to pay for contingencies unrelated to the prescription drug/Medicare reform proposal.

- ***Shortening the Solvency of the HI Trust Fund*** — Both the Republican resolution and the February Blueprint shorten the solvency of the HI Trust Fund by allowing it to be tapped for the prescription drug benefit/Medicare reform proposal. Although it is known that Medicare requires resources outside the Medicare program to ensure its future long-term solvency, the Republican resolution and the President's February Blueprint ignore this fact and tap the Trust Fund. This further depletes the resources necessary to pay for specific benefits defined in current law, and hastens the day when the Trust Fund will not be solvent.

Anticipated Revisions to Bush Budget

On March 19, the Office of Management and Budget (OMB) released a list of revisions to the February Blueprint. These revisions will be part of the President's complete and final 2002 budget, which he plans to release on April 9. In general, the revisions make minimal changes to 2002 appropriations, and the remaining years through 2011. In addition, no major revisions are expected in the prescription drug/Medicare reform proposal.

Function 600: Income Security

Function 600 consists of 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 benefits to certain retirees, persons with disabilities, and the unemployed. Major federal entitlement programs in this function include Supplemental Security Income (SSI), food stamps, Temporary Assistance to Needy Families (TANF), and child care. Section 8 housing and other housing assistance programs account for the largest share of discretionary spending in this function. Other key discretionary programs include the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), the Low Income Home Energy Assistance Program (LIHEAP), and the Child Care and Development Block Grant.

Republican Budget Adopted by the Committee

The Republican resolution adopts the funding levels in the President's February Blueprint for Function 600, adding just one new initiative to reflect a tax proposal not included in the President's Blueprint. As in the Blueprint, the House Republican budget plan provides \$42.8 billion in discretionary funding for Function 600 for 2002. This amount is \$2.0 billion (4.7 percent) less than the amount, according to CBO, necessary to maintain constant purchasing power for the programs in this function. Over ten years, the resolution cuts funding for these programs by \$9.4 billion relative to current services. Given that the Blueprint proposes new initiatives requiring additional funding, the actual cut to existing programs must be greater than even these amounts. Assuming that the Republican resolution reflects the President's policy assumptions as well as his funding levels, it includes the following detrimental cuts.

- ***One Billion Dollars in Cuts to Low-Income Housing Programs*** — The Republican resolution cuts over \$1 billion from funding for critical building repairs and anti-crime activities in public housing, completely doing away with the Drug Elimination Program. These cuts undermine bipartisan Congressional efforts to ensure the vitality of public housing communities and the safety of the 1.3 million families who live there, over 40 percent of whom are seniors or disabled. The resolution also eliminates the \$25 million Rural Housing and Economic Development program.
- ***Energy Crunch: \$300 Million Reduction in LIHEAP Home Energy Assistance*** — The resolution provides \$1.4 billion for the Low-Income Home Energy Assistance Program (LIHEAP) within Function 600, \$300 million (18 percent) less than the amount provided by Congress in 2001. The resolution eliminates the dedicated emergency reserves normally provided for LIHEAP, which were funded at \$300 million for 2001. A \$300 million reduction in LIHEAP program funding would eliminate heating and cooling assistance to one million low-income families and seniors in the event of skyrocketing energy costs. Release of all

available LIHEAP emergency funds was a cornerstone of then-candidate Bush's proposed response to this winter's energy cost crisis.

! ***New Compassion Initiatives Reduce Existing Effective Programs and State Flexibility***— The Administration's Blueprint includes several initiatives designed to reach out to low-income families. Rather than allocate new funding to these programs, however, the Administration has chosen to carve out funding for them from existing, effective programs. These initiatives also seem to be one area in which the administration seeks to *limit* states' flexibility, creating mandated set-asides out of flexible grant programs. Examples include:

- ▶ *Child Care* — Although the Blueprint nominally increases funding for the Child Care and Development Block Grant (CCDBG) by \$200 million compared to 2001 levels, it carves out \$400 million of the new total for its after-school care voucher initiative, actually *cutting* state funding for the current child care program by \$200 million compared to 2001.
- ▶ *Homeownership* — The Administration reduces the HOME Investment Partnerships program by \$200 million to fund its new Down Payment Assistance Initiative. State and local governments use flexible HOME funds to provide a range of low-income homeownership and rental housing opportunities.

Overall mandatory spending in the resolution is \$686 million higher in 2002, and \$18.7 billion higher over ten years, than CBO's estimate of the level necessary to maintain constant purchasing power. The majority of this increase is attributable to spending associated with refundable portions of income tax credit proposals. (Refundable tax credits provide a payment to an eligible family when the value of the credit exceeds the family's tax liability.) The resolution includes \$7.7 billion over ten years for spending associated with the President's proposal to double the child tax credit. The resolution also includes \$10.8 billion over ten years for spending associated with House Republican proposals to reduce income tax rates and alter the income brackets at which they apply and to correct interactions between certain tax credits and the alternative minimum tax (AMT). See *Reconciliation Instructions* for more information on these proposals.

The resolution has two important, detrimental impacts on the Temporary Assistance for Needy Families (TANF) block grants to states. TANF is the nation's primary welfare program, providing child care, case management, welfare-to-work and other critical assistance to needy families with children.

- The resolution includes the President's proposal to permit states to use TANF funds to cover any revenue losses incurred from state income tax credits for charitable contributions, without providing funding to replace funds diverted from current activities.

- This level of spending is insufficient to fulfill other claims on this funding and renew the TANF Supplemental Grants for 2002. The Supplemental Grants, which provide additional funding to 17 states that have low per-child allocations under the standard TANF grant, will expire in 2001 unless reauthorized and funded in the 2002 budget.

Anticipated Revisions to Bush Budget

On March 19, the Office of Management and Budget (OMB) released a list of revisions to the February Blueprint. These revisions will be part of the President's complete and final 2002 budget, which he plans to release on April 9. In general, the revisions make minimal changes to 2002 appropriations, but they do mechanically increase funding for 2003 through 2006 while decreasing funding for 2007 through 2011.

The anticipated revisions appear to increase total budget authority for Function 600 by \$12.1 billion, but actually increase total outlays by only \$232 million over ten years. The great disparity between budget authority and outlays suggests that the revisions will not actually lead to significant additional program spending.

- ! The anticipated revisions would add \$1.1 billion in funding for the Function 600 appropriated programs over ten years. Despite the increase, the revised budget would still leave the function with \$8.3 billion less than the level necessary to maintain programs over ten years.
- ! The anticipated revisions would actually reduce mandatory outlays by \$694 million. The revisions increase the level of mandatory budget authority associated with the reduced outlay level by \$11 billion. Of that amount, \$5.4 billion appears to be attributable to an accounting change that would move advance appropriated funding for 2002 to the mandatory side of the budget. The source of the remaining \$5.6 billion increase is not apparent; however, as the budget authority increase is not accompanied by an equivalent increase in projected *outlays*, it likely would not lead to an increase in families served by the programs of this function.

Function 650: Social Security

Function 650 includes mandatory spending to pay Social Security retirement and disability benefits to 45 million people, and appropriated funding to administer these programs.

Republican Budget Adopted by the Committee

- **Overview** — The Republican budget resolution provides an overall funding level of \$457.2 billion in budget authority and \$455 billion in outlays for 2002 for Social Security benefits and administration. Over ten years (2002-2011), the resolution provides \$5.8 trillion in budget authority and \$5.8 trillion in outlays for these purposes. Almost all of these funds are for Social Security retirement, disability, or survivors' benefits.

For administration of these programs, the resolution provides \$3.5 billion, \$100 million less than the level required to maintain current services for 2002. Over ten years (2002-2011), the resolution provides \$38.6 billion for administration, \$3.2 billion less than the level required to maintain current services.

- **Lock-Box** — The Republican budget resolution assumes the provisions of H.R. 2, the Social Security and Medicare Lock-Box Act of 2001, as passed by the House.
- **No Benefit or Payroll Tax Changes** — The resolution does not assume any changes in current benefits or payroll tax rates.
- **Shortening Solvency of the Trust Fund and No Long-Term Reform** — The resolution does not propose any specific reforms for Social Security, and in fact it shortens the solvency of the Social Security Trust Funds if private accounts are financed with Social Security surplus funds. The report notes the President's intent to establish a bipartisan commission on Social Security reform. The resolution includes approximately \$600 billion as a placeholder for structural reform recommendations that may be submitted to Congress by the yet-to-be-appointed Commission. In fact, information provided by the House Budget Committee Republicans suggests those funds will be used to fund private retirement accounts.

See *Shortening the Solvency of Social Security and Medicare* for further discussion.

Anticipated Revisions to Bush Budget

On March 19, the Office of Management and Budget (OMB) released a list of revisions to the February Blueprint. These revisions will be part of the President's complete and final 2002 budget, which he plans to release on April 9.

In general, the revisions make minimal changes to 2002 appropriations, but they do mechanically increase funding for 2003 through 2006 while decreasing funding for 2007 through 2011. Without explanation, the revisions also make a minimal change to the 2002 mandatory level outlined in the February Blueprint. The revisions include a one-time increase of \$415 million in 2002.

Function 700: Veterans

Function 700 includes the programs of the Department of Veterans Affairs (VA), such as veterans compensation and pensions, education and rehabilitation benefits, medical care, and housing programs.

Republican Budget Adopted by the Committee

- ! ***The Montgomery GI Bill and Burial Benefits***— The Republican budget resolution adds \$200 million in 2002 and \$5.9 billion over ten years to veterans mandatory programs. Because the Republican resolution also includes offsets (see below), the price tag of benefit increase is actually about \$8.6 billion over ten years.
- ! ***Offsets in the Republican Resolution*** — Like the President's February Blueprint, the Republican resolution assumes the extension of the following expiring policies: IRS income verification for means-tested veterans and survivor benefits, limitation of VA pensions to Medicaid recipients in nursing homes, and continuation of current housing loan fees. Unlike President Bush, the House Republicans do not extend the provision in current law that rounds down cost-of-living increases for compensation and pensions to the nearest dollar. The Republican resolution also abandons President Bush's proposal to eliminate the Vendee loan program.
- ! ***Increase Today But Take Away Tomorrow***— While providing an increase of \$700 million for appropriated programs for 2002, over ten years the Republican resolution cuts discretionary funding for veterans by \$11.6 billion relative to the level CBO estimates the VA will need to maintain constant purchasing power.

Anticipated Revisions to Bush Budget

On March 19, the Office of Management and Budget (OMB) released a list of revisions to the February Blueprint. These revisions will be part of the President's complete and final 2002 budget, which he plans to release on April 9. In general, the revisions make minimal changes to 2002 appropriations, but they do mechanically increase funding for 2003 through 2006 while decreasing funding for 2007 through 2011.

- ! ***Funding Shift***— Veterans funding is generally shifted from the second five years to the first five years. While the funding level over ten years is increased slightly according to OMB estimates, the cut in purchasing power to appropriated programs for veterans is left generally unchanged.

Function 750: Administration of Justice

The Administration of Justice function consists of federal law enforcement programs, litigation and judicial activities, correctional operations, and state and local justice assistance. Agencies that administer programs within this function include the following: the Federal Bureau of Investigation (FBI); the Drug Enforcement Administration (DEA); the Immigration and Naturalization Service (INS); the United States Customs Service; the Bureau of Alcohol, Tobacco, and Firearms (ATF); the United States Attorneys; legal divisions within the Department of Justice; the Legal Services Corporation; the Federal Judiciary; and the Federal Bureau of Prisons.

Republican Budget Adopted by Committee

- ***Comparison to President Bush's February Blueprint*** — Like President Bush's February Blueprint, the Republican budget resolution cuts appropriations for Administration of Justice programs by \$1.6 billion in 2002 and \$19.3 billion over years 2002 through 2011, relative to the amount needed, according to CBO, to maintain constant purchasing power.
- ***Cuts Assumed in President Bush's February Blueprint and the Republican Budget*** — The President's February Blueprint specifies only a few of the cuts assumed for 2002. Because the Republican resolution decreases funding by the same amount as the Blueprint, the same cuts may be assumed. The Blueprint redirects \$1.5 billion in state and local justice assistance to federal law enforcement agencies and other selected state and local grants. The Blueprint also decreases funding for the Equal Employment Opportunity Commission by \$9 million below the level needed to maintain current services. In addition, the Blueprint decreases funding for the Legal Services Corporation by \$8 million below the level needed to maintain current services. Although the Blueprint includes initiatives within the INS to process immigration applications more quickly, to hire border patrol agents, and to provide additional detention bed spaces, the Blueprint does not increase overall spending for the agency, leaving open how the necessary resources would be found.

Anticipated Revisions to Bush Budget

On March 19, the Office of Management and Budget (OMB) released a list of revisions to the February Blueprint. These revisions will be part of the President's complete and final 2002 budget, which he plans to release on April 9. In general, the revisions make minimal changes to 2002 appropriations but they do mechanically increase funding for 2003 through 2006 while decreasing funding for 2007 through 2011. The revised plan increases mandatory totals by \$5.4 billion over years 2002 to 2011, largely due to changes in baseline estimates for immigration processing.

Function 800: General Government

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.

Republican Budget Adopted by the Committee

- ! For 2002, the House Republican budget resolution provides the same funding level as the President in appropriated funding for general government. Although this represents an increase of \$206 million over the current services baseline for 2002, overall appropriated funding for this function is cut by \$6.4 billion below the amount needed to maintain the current purchasing power of programs from 2003 - 2011.

Anticipated Revisions to Bush Budget

On March 19, the Office of Management and Budget (OMB) released a list of revisions to the February Blueprint. These revisions will be part of the President's complete and final 2002 budget, which he plans to release on April 9. In general, the revisions make minimal changes to 2002 appropriations, but they do mechanically increase funding for 2003 through 2006 while decreasing funding for 2007 through 2011.

- ! **Funding Shift** - General government funding is shifted from the second five years to the first five years, while steadily decreasing discretionary funding by \$120 million over the ten-year period.

Function 920: Allowances

Function 920 displays the budgetary effects of proposals that cannot easily be distributed across other budget functions. In the past, this function has included funding for emergencies or proposals contingent on certain events.

Republican Budget Adopted by the Committee

- ! The House Republican budget resolution assumes a \$5.6 billion emergency reserve for 2002. However, this function includes only \$5.0 billion, indicating that either \$600 million in unspecified cuts have been applied to other discretionary programs or the emergency reserve is actually only \$5.0 billion. Although the Republican budget provides \$64.1 billion over ten years for Function 920, the budget does not specify the level of the emergency reserve after 2002.

Anticipated Revisions to Bush Budget

On March 19, the Office of Management and Budget (OMB) released a list of revisions to the February Blueprint. These revisions will be part of the President's complete and final 2002 budget, which he plans to release on April 9. In general, the revisions make minimal changes to 2002 appropriations, but they do mechanically increase funding for 2003 through 2006 while decreasing funding for 2007 through 2011.

- ! ***Using the Emergency Reserve***—The President's revised plan appears already to have dipped into the emergency reserve to increase funding for other appropriated programs. The revised budget includes additional cuts to the reserve of \$7.7 billion over the next ten years.

Function 950: Undistributed Offsetting Receipts

This function comprises major offsetting receipt items that would distort the funding levels of other functional categories if the receipts 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 from broadcast spectrum auctions by the Federal Communications Commission.

Offsetting receipts are recorded as “negative outlays” 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 agency of a payment made by another.

Republican Budget Adopted by the Committee

- ! For 2002, the House Republican budget plan assumes offsetting receipts of \$50.8 billion. The resolution assumes offsetting receipts of \$289.5 billion over five years (2002-2006), and \$612.6 billion over ten years (2002-2011). This is the same as projected under current law. However, the level of receipts in the Republican budget plan is lower than in the President’s February Blueprint.
- ! **Agency Contributions** — Like the President’s February Blueprint, the budget resolution extends a provision in current law that increases agency contributions for employees covered by the civil service retirement system. That provision is scheduled to expire in 2002. By extending the provision, the budget increases mandatory offsetting receipts by about \$3.9 billion over ten years. The higher agency contributions will have to be paid with funds appropriated to agencies for other budgetary needs.
- ! **Offsets Not Included** — The President’s February Blueprint assumed the opening of the Arctic National Wildlife Refuge (ANWR) for oil drilling, a shift in the spectrum auction deadlines, and the imposition of new lease fees on television broadcasters for using the “analog spectrum.” The budget resolution does not include these offsets.

Anticipated Revisions to Bush Budget

On March 19, the Office of Management and Budget (OMB) released a list of revisions to the February Blueprint. These revisions will be part of the President’s complete and final 2002 budget, which he plans to release on April 9. The President’s April budget will assume \$1.8 billion more receipts in Function 950 than the February Blueprint, due mostly to a reestimate of the increased agency contributions to the retirement trust fund.