



HOUSE BUDGET COMMITTEE

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SUMMARY AND ANALYSIS OF PRESIDENT BUSH'S APRIL BUDGET

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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.
- ! Throughout the document, the Congressional Budget Office is abbreviated to CBO. The Office of Management and Budget is abbreviated to OMB.
- ! 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.
- ! Figures in the President's budget are OMB estimates. Unless otherwise noted, estimates used for mandatory comparisons are OMB estimates. However, comparisons with the 2001 level of funding for discretionary programs are comparisons with CBO's baseline estimate of what is needed to maintain purchasing power at the 2001 level, and not with the actual 2001 appropriated level (known as the "2001 freeze level").
- ! Numbers may not add due to rounding.

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Overview

President Bush's budget suffers from tunnel vision. It fails to see multiple risks that could easily cause disastrous results. It plows toward its overriding objective — an outsized tax cut — almost mindless of the potential consequences.

The Bush budget documents contain greater detail, but no global changes from February's *Blueprint for New Beginnings*. But since the *Blueprint* was released, circumstances have worsened, confirming concerns we raised two months ago. Meanwhile, in the Senate, the President's tax cuts were voted down by \$400 billion and spending initiatives were voted up by \$600 billion, changing radically, if not rejecting, major parts of his budget.

As in February, Democrats express two key concerns:

- First, to have his tax cut, the President's budget has to dissipate virtually all of the non-Social Security, non-Medicare surplus over the ten-year budget period. The budget leaves almost no margin for contingencies and sets in motion a large tax cut before even estimating, much less deciding, how much is required for the largest account, national defense. Even assuming no further increases in defense or agriculture, the budget still invades the Medicare surplus in 2005 and 2006, weakening Social Security and Medicare just as the baby boomers are about to retire.
- Second, to make room for the tax cut, the Administration confronts the Congress with a budgetary dilemma. We must either overspend the available surplus, risking the economy and the long-term solvency of Social Security and Medicare; or we must accept harmful cuts in programs that we and the people support. The new budget makes this dilemma even more troubling than it seemed in February; for unlike February's *Blueprint*, the full budget details key cuts in important programs. The function sections of this document give a detailed discussion of these cuts. Here are a few of the most notable and disturbing:
 - A cut in funds for training pediatricians in children's hospitals.
 - A deep cut in funds for educating physicians, nurses, and health care professionals.
 - A freeze in grants for the treatment of AIDS patients.
 - A freeze in funds to locate physicians in medically under-served parts of the country.

- A cut in funding for the Centers for Disease Control.
- A cut in the Clean Water State Revolving Fund, which makes low-interest loans to modernize water and wastewater treatment systems.
- A cut in funding for monitoring toxic substances in ground and surface water.
- Elimination of the Wetland Reserve Fund, which provides voluntary incentives for conservation by farmers.
- A cut in scientific research on clean air and pollution.
- A \$435 million cut in funds for cleaning up nuclear and hazardous waste at nuclear weapons plants.
- A \$117 cut in funds in Nunn-Lugar, the key program for impeding the spread of nuclear weapons.
- A cut in funds for training and employment services, and a freeze in participation in the WIC program, just it appears that unemployment could rise.
- A cut in the Child Care and Development Block Grant, which has helped recent welfare recipients to go to work.
- Cuts in funds that states use to provide welfare, child care, and welfare-to-work assistance.
- Elimination of funding for rental vouchers for disabled persons displaced from public housing designated for the elderly.
- A cut in funds for critical building repairs in public housing.
- Termination of the Public Housing Drug Elimination Program.
- Termination of a program to create Boys and Girls Clubs in public housing.
- A 46% cut in funding of the COPS program.

The remainder of this overview explains how the budget threatens Social Security and Medicare, and imposes risks to the economy. The following sections pinpoint the cuts and programmatic choices made by the budget.

The Bush Framework

President Bush first proposed his \$1.6 trillion tax cut on December 1, 1999. In his February 27, 2001 address to the Congress, the President explained the size of his tax cut this way:

I didn't throw darts at the board to come up with a number for tax relief. I didn't take a poll or develop an arbitrary formula that might sound good. I looked at problems in the Tax Code and calculated the cost to fix them.

In hindsight, this explanation seems curious, given the President's statements later that Congress was free to alter his plan in many ways, so long as it adhered to the \$1.6 trillion total. But in any event, the central fact is clear: The President's \$1.6 trillion tax cut came first, and the rest of the budget was built around it.

Such a method could lead to the discovery that the rest of the budget did not fit, and could not accommodate basic needs. A budget built this way could over-commit or leave out important needs. Policymakers have to be wary of this possibility, and be prepared to reconsider the single-minded commitment to anything, whether a large tax cut or a large spending initiative. The Bush Administration shows no such concern. A \$1.6 trillion tax cut is their overriding objective, and this explains the many gimmicks and insupportable cuts in their budget.

The Contingency Fund

Like the President's *Blueprint*, the President's budget purports to have a buffer against adverse developments. It claims a substantial "contingency reserve." But as one moves through the Bush budget, the contingency fund changes size at least three times. On Page 3, the President's message claims "an unprecedented \$1 trillion reserve." On page 7, the budget raises the claim to "an unprecedented \$1.4 trillion reserve." On page 223, in the numerical tables, the budget drops to \$841 billion available for "contingencies." But examine the \$841 billion fund, and you will find that it includes \$525 billion from the surplus in the Medicare trust fund. In truth, the contingency fund is \$318 billion spread over ten years, and most of this accumulates in the second five years. These are not mere discrepancies. They are built in by design to conceal just how thin the margin for error and the fund for contingencies actually are.

Table 1 below uses the budget's own figures to show how the President's new budget framework arrives at each of these four figures. The fourth variation simply observes the terms of the Medicare lockbox bill, H.R. 2, which passed the House by 407 to 2 on February 13. Version 1

shows that the budget can claim a \$1.4 trillion contingency reserve only by ignoring its own proposal for a Medicare prescription drug benefit, and the impact of its initiatives on the government's debt service costs.¹ Version 2 shows that the claim of a \$1.0 trillion contingency reserve omits the prescription drug proposal. It challenges logic and accounting to say that funds to pay for one of the budget's key proposals are also available for contingencies. Version 3 uses the framework listed at another location in the budget, to show the contingency reserve at \$841 billion; but as noted above, this includes the surplus accumulating in the Medicare HI Trust Fund.

	<u>Version 1</u>	<u>Version 2</u>	<u>Version 3</u>	<u>Version 4</u>
Unified Surplus	5,637	5,637	5,637	5,637
Less:				
Social Security Surplus	2,591	2,591	2,591	2,591
Medicare Surplus	Ignored	Ignored	Ignored	525
Tax Cut	1,612	1,612	1,612	1,612
Prescription Drug Coverage	Ignored	Ignored	153	153
Spending Increases	19	19	19	19
Resulting Debt Service	Ignored	420	420	420
Equals:				
"Contingency Reserve"	1,415	995	841	318

Items may not add to totals due to rounding, and to fluctuations in the annual surplus or deficit of the United States Postal Service.
Source: Budget, table S-1, page 223; "A Blueprint for New Beginnings," table III-1, page 14.

None of the reserve fund formulations in the budget complies with the near-unanimous decision of Congress in H.R. 2 to set aside not only the surplus for Social Security but also the surplus in the Medicare Hospital Insurance (Part A) trust fund.

Reserving the Social Security and Medicare Trust Fund surpluses has both accounting and economic significance. In accounting terms, these surpluses are encumbered already to meet future benefits to today's payroll taxpayers. In economic terms, protecting these surpluses adds

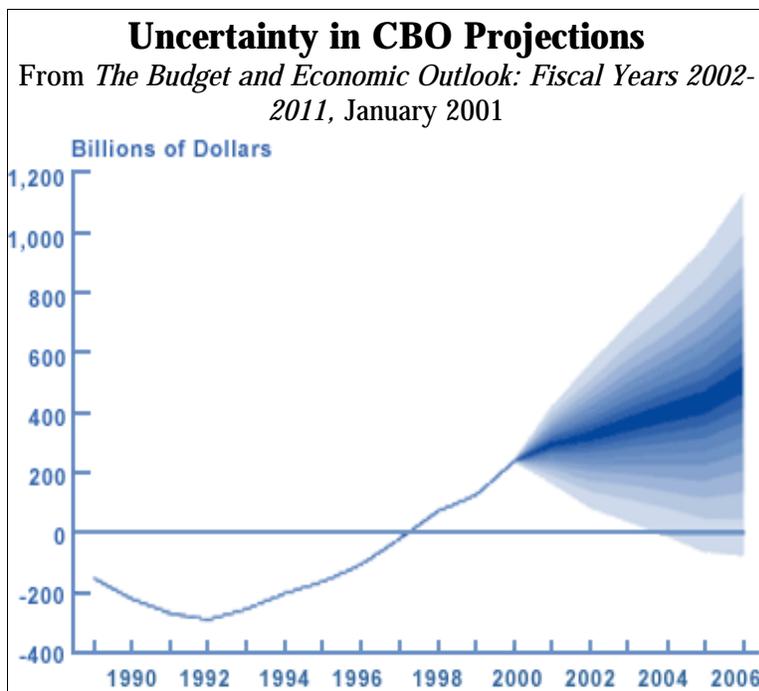
¹The budget baseline assumes that all budget surpluses reduce debt, hence debt service costs rise when surpluses are used for another purpose. Any proposal that would divert the surplus from reducing debt by either cutting taxes or increasing spending must therefore increase debt service costs relative to that baseline.

to national saving, which increases capital formation and productivity, helping us afford those benefits when they come due. Every argument for preservation of the Social Security surplus, which is accepted on all sides including the Administration, applies with equal force to the Medicare surplus.

Therefore, the contingency fund should omit both Trust Fund surpluses. Version 4 in Table 1 above omits both, and shows a contingency fund of only \$318 billion, not \$841 billion. Thus, the apparent size of the Bush contingency fund is due to the assumption that the Medicare surplus is available money, contrary to the emphatic will of the Congress. Once the Medicare surplus is protected, the Bush budget's reserve funds almost vanish.

The Contingency Fund Year-By-Year

Even more revealing is the size of the Bush contingency reserve over time. Table 2 takes the President's program at face value, showing the contingency reserve, after setting aside the Medicare HI Trust Fund surplus as well as the Social Security surplus, on a year-by-year basis.



The President's own numbers show that he would invade the trust fund surpluses in 2005 and 2006, and leave virtually no margin for error over the entire decade. The Congressional Budget Office recently estimated that its average deficit or surplus projection error *for a fiscal year already in progress* is about 0.5 percent of GDP (or a bit more than \$55 billion at 2002 levels). The President's budget projects non-trust-fund surpluses with less than that minimal margin of confidence until 2011. (CBO has also stated that its estimating errors grow enormously as projection periods extend into the

future. Its average error five years in the future is six times as large as the error for a fiscal year in progress.) The President's budget slices right to the bone over virtually the entire ten-year budget period, with almost no cushion in case of error. ***Of the President's \$318 billion ten-year non-trust-fund contingency reserve, less than nine percent is projected to occur in the first five years.***

Table 2: BUSH BUDGET FRAMEWORK AND CONTINGENCY RESERVE

(Billions of dollars)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2002-11</u>
Baseline Unified Surplus	284	283	334	387	439	515	585	651	725	814	903	5,637
Social Security	156	172	193	211	237	252	270	287	303	323	343	2,591
Medicare Part A	29	34	39	44	47	54	56	59	61	65	66	525
Available Surplus	99	77	101	133	156	209	259	305	361	425	495	2,520
Bush Tax Cut	0	29	66	99	132	169	193	208	221	243	251	1,612
Bush Spending Increases	3	21	20	14	19	13	13	16	15	20	22	172
Resulting Net Interest	0	2	6	12	20	29	40	54	69	86	104	420
"Contingency Reserve"	95	26	10	8	-14	-1	13	27	56	76	118	318

Items do not add to totals due to rounding, and to fluctuations in the annual surplus or deficit of the United States Postal Service.

Obviously, this approach to the budget leaves the contingency reserve itself, and the economy, vulnerable to a host of risks. With no significant reserve for at least the first nine years, *any* use of the contingency reserve, for whatever reason, would drive the budget into the red.

So what are the risks that the Bush budget creates?

The Bush Budget's Risks for the Economy

The federal budget at the end of 2000 was stronger than it had been in half a century. Fiscal policy was in a virtuous circle. Good fiscal policy was supporting a strong economy, and a strong economy was supporting good fiscal results. The President's proposals put that process at risk.

Omitted Costs

The Bush budget ignores risks to the budget and the economy in part because it omits inevitable costs from its calculation, and overstates its "contingency reserve," while understating the risk that the budget will revert to deficit in the near future.

A prime example of major costs omitted from the budget is defense. The Administration has claimed with some pride that it has not presented a defense request for future years because it has not yet completed "a top-to-bottom review" of the nation's needs. Although this degree of care may be admirable, one can only wonder why the same care should not have been shown for the budget as a whole. Instead, the Administration guessed how much of a ten-year commitment to tax cuts it could make, and now it would lock that guess into law, without knowing how much more spending defense might impose on the budget.

Table 3: THE BUSH CONTINGENCY RESERVE IS ALREADY OVER-COMMITTED
(Billions of Dollars Over 2002-2011)

Unified Surplus	5,637
LESS	
Social Security Surplus	2,591
Medicare Surplus	525
EQUALS	
Available Surplus	2,520
LESS	
Tax Cut	1,612
Prescription Drug Coverage	153
Spending Increases	19
Resulting Debt Service	420
EQUALS	
Bush "Contingency Reserve" (Excluding Medicare Surplus)	318
LESS OMITTED COSTS	
Defense – Add One-Percent Growth	195
AMT Fix, Tax Extenders, Other Tax Cuts	300
Senate Medicare Drug Increase	147
Senate Other Health Increase	50
Senate Education Increase	294
House / Senate Veterans Increase / Savings Reduction	31
Senate Agriculture Increase	59
Senate Energy / Environment Increase / Savings Reduction	8
Further Debt Service	271
EQUALS	
Remaining "Contingency Reserve"	Negative
Items do not add to totals due to rounding.	

No one knows precisely what the Administration's defense review will conclude, but there is no doubt it will conclude that more money, not less, is needed. For example, the budget includes no estimate of how much the President's missile defense initiatives will cost, but estimates indicate that the cost could easily run into tens of billions of dollars. If the President upheld a campaign goal of increasing defense to 3.1 percent of GNP, it would cost \$650 billion over ten years. Just increasing growth in defense spending by one percent per year would add \$195 billion to budget costs over ten years. Table 3 puts potential defense costs into the context of the Bush Administration's meager reserves. (See Function 050 (National Defense) for further discussion of the defense budget.)

Defense is not the only example of omitted costs in this budget. The Administration's proposed tax cuts would worsen the existing problem of a widening individual alternative minimum tax (AMT). Over the coming years, increasing numbers of middle-income taxpayers will become subject to the AMT in large part because its basic income exclusions are not

indexed for inflation. The AMT is burdensome not only because it imposes a higher tax liability than does the ordinary tax law, but also because it requires that individuals compute their taxes a second time according to a different set of rules. Over the next ten years with the Bush tax cuts, an additional 15 million taxpayers would be subject to the AMT, and would pay \$292 billion in AMT. Unfortunately, the Administration does not propose to address this consequence of its tax cuts. Regardless of whether the Administration accepts responsibility for correction of the additional AMT problems its tax cut package will impose, virtually every authority believes that such a correction is inevitable. Including the revenues lost to an AMT correction does no more than recognize that reality.

Senate and House Conflicts with Bush Budget

To fit its predetermined \$1.6 trillion tax cut within the available resources, the Administration chose a long list of spending cuts and minimized the projected costs of its spending-side initiatives. However, in the time between the release of the February Blueprint and the April budget, the Senate and the House have already rejected many of these savings, mainly because they are bad policy that would never have been called upon except to make room for the tax cuts. These Senate and House actions impose additional costs that are omitted from the Bush budget framework.

Table 4 enumerates some of the actions and omissions in the House and Senate budget resolutions and show how far Republicans in the Congress are from the President, and how much pressure those additional costs put on the budget.

Table 4: HOUSE AND SENATE POLICY DIFFERENCES WITH BUSH BUDGET
(Billions of dollars over 2002-2011)

Medicaid Upper-Payment Limit	Savings omitted by House	17
ANWR Oil Royalties	Savings omitted by House and Senate	1
Veterans Benefit Savings	Savings omitted by House	1
Veterans Benefit Additions	Spending added by House or Senate	30
Education	Spending added by Senate	224
Education for the Disabled	Spending added by Senate	70
Medicare Prescription Drug Coverage	Spending added by Senate	147
Agriculture	Spending added by Senate	59
Home Health	Spending added by Senate	14
Defense	Spending added by Senate	7
Other Health	Spending added by Senate	36
Environment	Spending added by Senate	7
TOTAL		613

This table shows a long list of instances where the Republican-controlled Congress does not see eye-to-eye with the President. The table also shows that a substantial amount of the budget cuts that the President counted on to make room for his tax cut are not acceptable to Congress. The Senate chose to reduce the size of the tax cut by more than \$400 billion, or almost one-fourth, to accommodate a part of these increases in spending, and so their actions did not detract dollar-for-dollar from the budget surplus. But that merely reinforces the point that the President's budget framework and his large tax cut are not acceptable at face value even to members of his own party, and when faced with an explicit choice, a Republican-controlled Senate voted to reduce the tax cut.

These actions by Congress include rejection of some of the President's proposed savings and additions of spending for prescription drug coverage under Medicare, education, and agriculture. Had the President's full budget been available, there probably would have been even more movement by the House and Senate. Outside Congress, with the arrival of the President's budget documents, there is a growing reaction against his spending cuts now that they are revealed in detail. Examples were suggested at the beginning of this overview; more will follow in the section on individual budget functions.

In a sense, important parts of the President's April budget were "dead before arrival." Democrats argued in February that the President's *Blueprint* did not have sufficient data on the spending cuts needed to accommodate the President's tax cut, but Republicans insisted on proceeding with the budget process without them. The outcome of the process has demonstrated our point. The President's spending reductions appear to be more than Congress will tolerate, and his spending initiatives, particularly for education and prescription drug coverage, are less than Congress deems needed. The amounts of the additional spending and reduced spending cuts are thus shown in Table 3 as further omitted costs.

Table 3 should not be taken to assert that the Congress will immediately and blindly overspend the budget surplus (though the 1981 experience should give us pause). However, table 3 does indicate that writing the oversized tax cut in stone first was the wrong way to proceed. More important national priorities, including fiscal responsibility, cannot coexist with a tax cut of this size. Even if the economic and budget projections prove accurate, sooner or later the Congress will reach a choice between breaking its hasty tax-cut promise and ignoring serious national needs.

Economic Risks

There are further risks in the President's budget. For example, the economy does not always perform on cue. And in recent years, non-economic estimating errors — so-called "technical re-estimates" — have been even larger than economic errors. Over the last eight years, budget projection errors have been large, but almost always in a favorable direction. During the preceding twelve years, projection errors were equally large relative to the budget, and almost

always in an unfavorable direction. It seems only prudent to leave a margin of safety so that any economic misfortune in the future or any errors in projections will not leave the budget in an untenable position. Unfortunately, this is not the course the President chose to follow. His contingency or reserve fund is less than CBO's most minimal measure of estimating errors.

Estimating Uncertainty

The President is proposing highly significant changes in policy. It is always difficult to estimate how large policy changes will affect budget outcomes. This was true in 1981 when budget outcomes were far worse than the Reagan White House (or CBO) ever expected; and it was also true in 1993 when the economy and the budget responded to the deficit reduction far better than even its staunchest advocates had hoped. Budget estimation practices may be getting better, but uncertainty is still considerable. In recent weeks, non-partisan congressional tax staff have discovered that repeal of the estate tax would open doors to wholesale reduction of individual income tax liabilities within wealthy families. As a result, estimates of the revenue cost of the President's estate tax proposal have soared. Republicans on the Ways & Means Committee have had to postpone repeal outside the ten-year budget window entirely. (Repeal would take place in the tenth year, but given the time allowed to file estate tax returns, virtually no direct effect appears in the budget estimates.) Similar increases in the estimated costs of the President's proposed income tax cuts should likewise give pause to those who care about fiscal responsibility.

Effects Beyond the Ten-year Budget Window

The Bush tax cut is heavily back-loaded. As a result, the ten-year cost understates revenue consequences in later years. Although estimates of policy effects more than a decade off are far from precise, there must be concern that the effects of a large tax cut could cascade over time, and become apparent only after the tax cut is fully phased in and thus is hardest to adjust.

The Aging of the Baby Boom

The most alarming signal on our budget radar is the impending retirement of the baby boomers. The President's tax cuts would phase in fully just as the baby boomers phase out of the labor force. The first of the baby boomers, born in 1946, become eligible for reduced Social Security benefits, at age 62, in 2008. With the non-trust fund surplus in the President's budget at virtually zero through 2010, any adversities in the economy, any estimating errors, or any other budgetary problems would leave policymakers little margin for error and no time to maneuver.

Conclusion

The history of the budget over the past few decades is full of surprises and major misjudgments that have been hard to reverse and painful to correct. The future is full of demographic changes

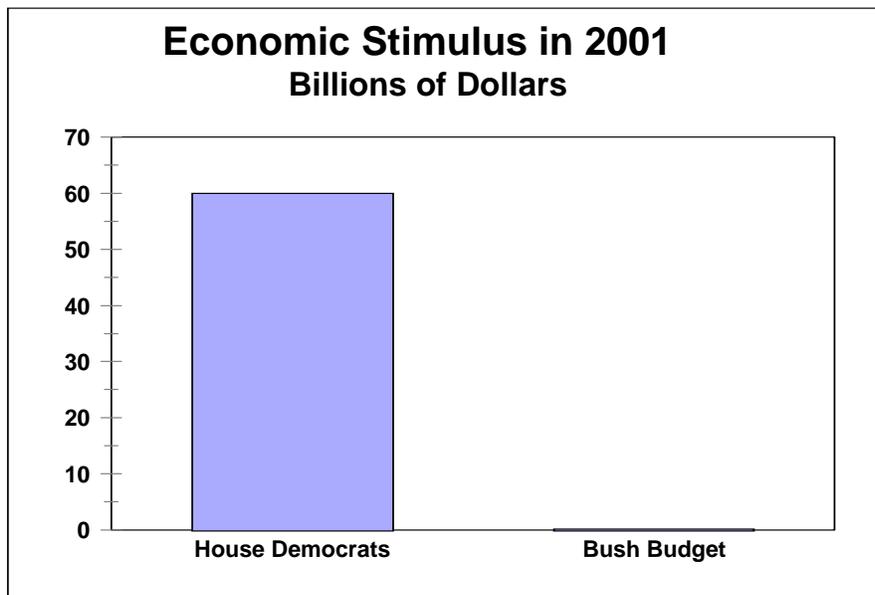
for which there is no history or experience to follow. Judgment and common sense call for caution and restraint. Instead, the President presents us a budget that leaves little margin for error and nothing for our long-term liabilities.

The budget is at its strongest in a half century. On its current track, the nation can retire all of the debt held by the public for the first time since 1835, and add three trillion dollars to net national savings. Alternatively, we can replay the dramas of the Eighties and early Nineties, and risk a return of the days when the national debt grew faster than the national income. The choice would seem clear; but it was not to those who wrote the Bush budget.

The Bush Tax Cut

The Administration often claims the tax cuts in President Bush's budget are an afterthought, merely returning government "overcharges" to the taxpayers after funding basic needs and reducing public debt. In reality, tax cuts are the budget's overriding priority. House Republicans, with the President's encouragement, have pressed ahead with the largest elements of the tax package well before the Administration figured out its budget or the Congress had passed a budget resolution.

Congressional Republicans and the President have argued that the "sputtering" economy justified such haste in pushing a huge, multi-year tax cut. However, the numbers in the President's budget do not support this. The budget calls for a cut of only \$172 million in 2001. This amounts to a mere 0.002 percent of GDP, a trivial stimulus. The President's tax package is extremely back-loaded even according to his own estimates, with almost 70 percent of the revenue loss in the second five years.



Unfortunately, the estimates of the tax cuts included in the President's budget understate their real cost. The budget claims that the total revenue loss of the President's many tax cut promises does not exceed \$1.6 trillion over ten years. However, Congress's official scorekeeper, the Joint Committee on Taxation (JCT), has found that the largest elements of the package cost

considerably more than claimed. There may be reason to believe that the remaining elements of the President's tax package that JCT has not scored are understated as well.

The True Cost of the Bush Tax Cut

The claim in the President's budget that the proposed tax cut "accounts for only one quarter of the projected ten-year budget surplus" is mistaken, even if one takes the tax cut's understated cost estimate of \$1.6 trillion at face value. In fact, the President's own numbers show that the direct

revenue loss from the tax cut amounts to 29 percent of the unified surplus. If one includes the added spending on interest payments to bondholders that the tax cut will require, the figure rises to 36 percent. As a percent of the surplus available outside of Social Security and Medicare, the tax cut with debt service consumes 75 percent of the surplus.

If one uses more realistic estimates of the tax package's cost, the tax cut and associated debt service would appear to exhaust almost all of the surplus outside of Social Security and Medicare. The table below shows the effect of (1) substituting JCT's estimates for the largest components of the Bush tax package for the Administration's estimates; (2) adjusting the tax cut to prevent it from forcing an intolerable number of middle-class taxpayers to pay the alternative minimum tax; and (3) accounting for the fact that the tax cut will require higher government spending for interest on the national debt.

JCT estimates of the two House bills, H.R. 3 and H.R. 8, that embody the President's rate cuts, the increase in the child credit, and marriage penalty relief were \$241 billion higher than the Administration claimed. Because these two bills consume close to \$1.4 trillion, House Republicans could not pass the President's proposal to repeal the estate tax without breaching the \$1.6 trillion ceiling, given that the Administration estimates its cost at \$262 billion over ten years and JCT estimated the cost of immediate repeal at \$662 billion over ten years. Instead, House Republicans introduced H.R. 8, which JCT estimated to cost less than the Administration proposal. The bill's unusually low cost results from it having very little relief for the first nine years, with full repeal postponed until 2011. This pushes the true cost of repeal outside the ten-year budgeting window.

The Cost of Bush Tax Cut Promises—So Far

Billions of Dollars

Rate Cuts (H.R. 3)	958
Child Credit and Marriage Penalty (H.R. 6)	399
Estate Tax Repeal (H.R. 8)	193
Fix AMT Problems Caused By Bush Tax Cut	292
Charity-Related Tax Preferences	56
Permanent Extension of R&E Credit	50
Expand Education Savings Accounts	6
Health, Long-Term Care, and Miscellaneous Tax Cuts	123
Total Revenue Loss	2,077
Revenue Loss Plus Added Interest Payments to Bondholders	2,560

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 to 36 million by 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.

If one adds the Administration's estimates for the rest of its tax package to JCT's estimates of H.R. 3, 6, and 8, as well as the cost of fixing the AMT problems that the Bush tax cut creates, the total revenue loss from the Bush package exceeds \$2 trillion. If JCT estimates for the charity-related, R&E, education, health insurance, and other proposals are also higher than the Administration's estimates, the revenue loss will be greater still.

In addition, the fact that the President's budget uses a substantial portion of the projected surplus for tax reduction rather than debt reduction means higher spending for interest payments to bondholders. This added debt service comes to almost half a trillion dollars and pushes the Bush tax cut's impact on the surplus up to almost \$2.6 trillion. This comes close to exceeding CBO's estimate of the non-Social Security, non-Medicare surplus and more than exhausts the Administration's estimate of it.

Finally, there are good reasons to suspect that the total cost of tax cuts this year could swell even more. First, the budget extends for only one year several popular expiring tax credits, like the work opportunity credit and the welfare-to-work credit. Congress has always renewed these credits in the past and certainly will in the future. Since these credits will unquestionably be renewed, as well they should, the budget should include an accurate accounting of their cost. This would add perhaps another \$50 billion over ten years.

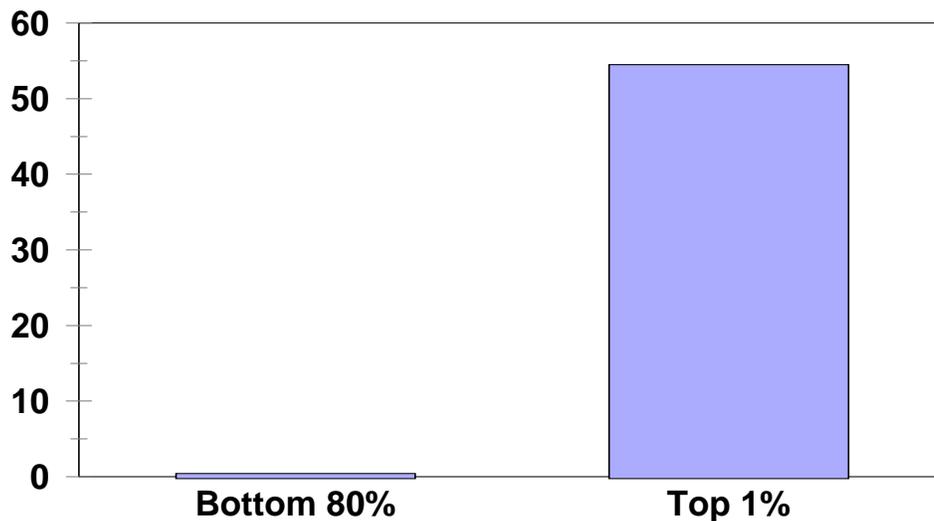
One might also worry about the ability to resist pressure to add new elements to the President's tax package that raise its overall cost. Members of Congress and the business community have already called for a variety of additional tax cuts. For instance, tax cuts passed by the House last year that do not overlap with the provisions of the Bush tax cut would add hundreds of billions of dollars to the cost over ten years. In addition, a broad consortium of industries has urged that various business tax cuts including a capital gains cut, accelerated depreciation, elimination of the corporate AMT, and lower corporate tax rates be enacted once the President's package of personal tax cuts has passed.

Tax Fairness

The President continues to downplay the lopsided nature of his tax cut. 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 \$200 income tax liability is totally eliminated gets a larger benefit than a lawyer whose \$20,000 tax liability is cut in half.

In fact, the highest income taxpayers would receive the greatest tax benefits from the Bush plan by any reasonable accounting. The share of the tax cut going to the top one percent of the income distribution exceeds the share going to the bottom 80 percent. 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. 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. By contrast, the bottom 80 percent gets 28 percent of the tax cut's benefits, with an average cut of \$430.

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



The Administration has argued that the top one percent actually receive only 22 percent of the Bush tax cut. There are two problems 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 24 percent 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 the exclusion of estate tax repeal from its distributional calculations by arguing that decedents with large estates do not get the benefits of estate tax repeal, their heirs do. And, while we may know the income and wealth of the decedent, it is difficult to assess the economic status of the heirs.

However, Treasury data show, not surprisingly, that the children of decedents with large estates tend to have 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, the price level has doubled, and real incomes have grown as well, especially at the top. We might thus infer that heirs of large estates today have incomes two or even three times as large as they were in 1981.

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 these 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 is 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 children would get a \$19,000 tax break.

The Bush budget 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.

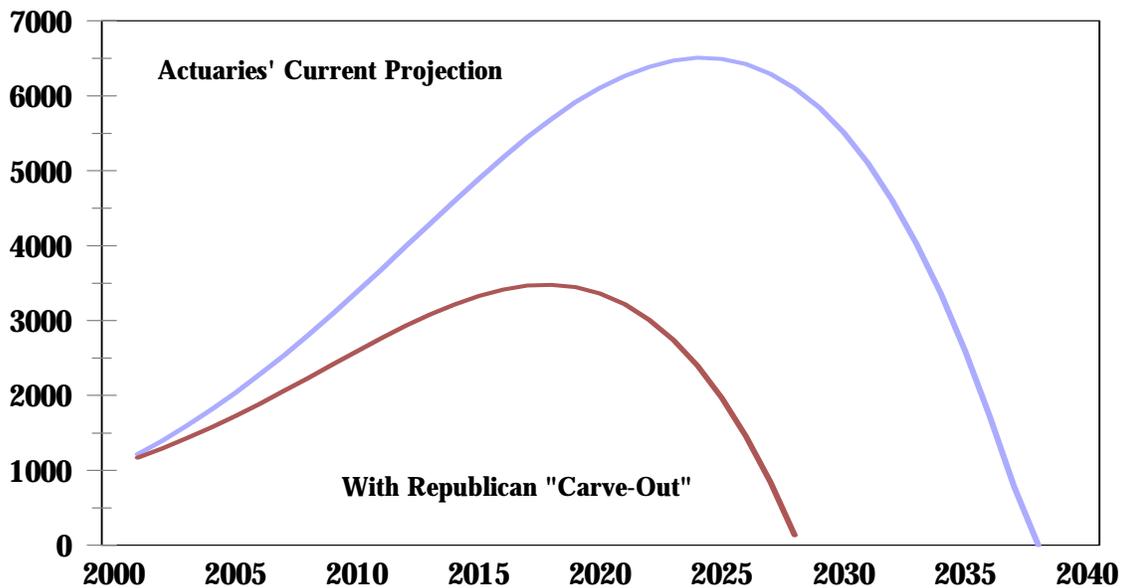
Jeopardizing the Future of Social Security and Medicare

The President's budget undermines the future of Medicare by diverting surpluses dedicated to paying benefits promised in existing law and using the money for new purposes. The budget also suggests that the President would do the same to Social Security. Over the next ten years, the President proposes to start diverting funds from the Medicare HI surplus, \$153 billion over ten years, to create a new prescription drug benefit and finance undefined "reforms." His principles for "reform" of Social Security also imply that he would use the \$600 billion of the Social Security surplus not devoted to debt reduction to institute private retirement accounts invested in the stock market.

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 the budget double counts, or it shortens the solvency of the Social Security and Medicare HI Trust Funds, which eventually will force severe benefit cuts or tax increases. If one accepts that the same dollars cannot be used twice, then the only possible conclusion is that the budget gambles the future of the Social Security and Medicare Trust Funds.

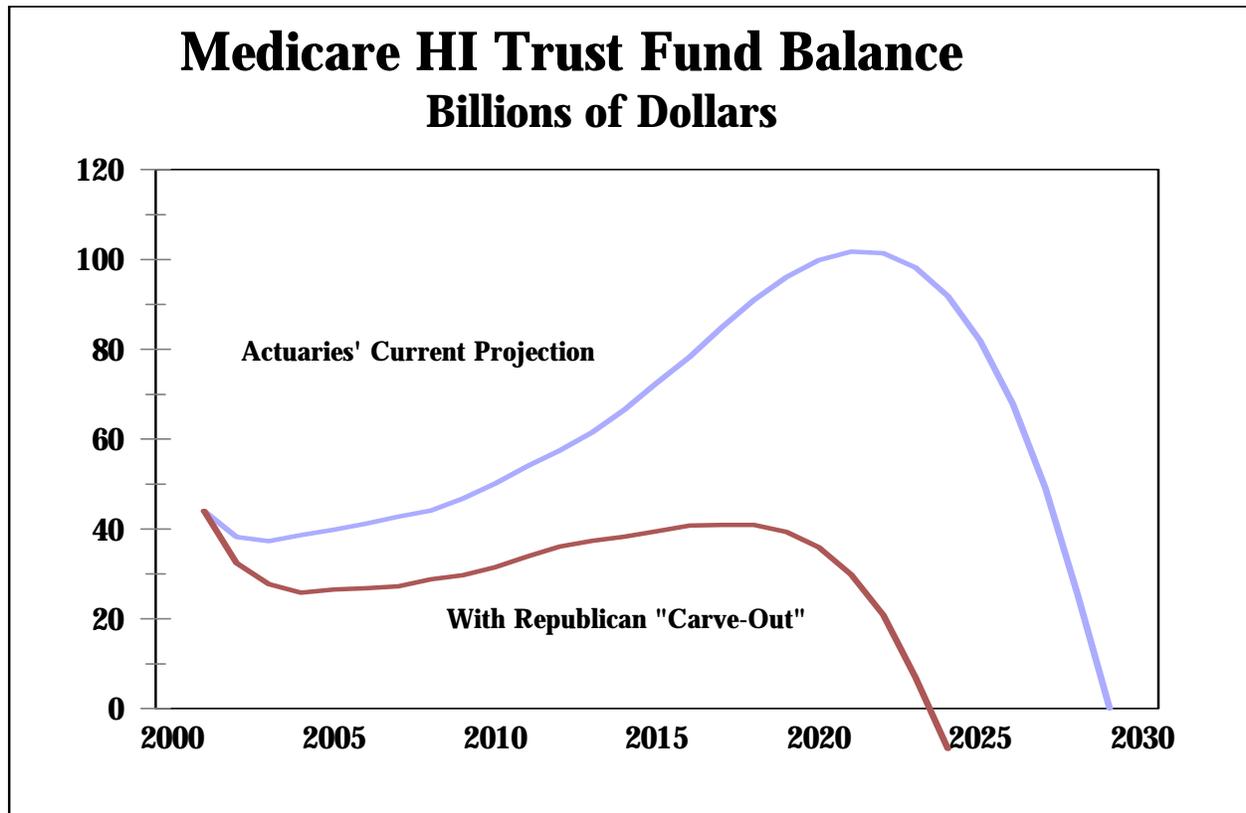
If Republicans follow through with a privatization proposal based on a "carve-out" of the Social Security surplus as the President advocated during the campaign, it will shorten the program's life. The chart below shows the impact on the Social Security Trust Fund if \$600 billion over the

Social Security Trust Fund Balance Billions of Dollars



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. 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, a “carve-out” that diverts \$153 billion over ten years out of the Medicare HI Trust Fund shortens its solvency to 2024, five years sooner.



Because the Administration provides no specifics, it is not clear how the proposed “reforms” would work. However, it is clear that these “reforms” would somehow have to compensate for the 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. However, the budget’s large tax cut undermines solvency because it consumes

essentially all resources outside of the Social Security and Medicare surpluses that might be used instead to extend solvency.

By contrast, Democrats have consistently 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.

Appropriated Programs

Appropriated programs, also known as “discretionary” programs, are those controlled by the annual appropriations process. President Bush’s budget 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.¹ However, as is explained below, the cut to domestic appropriations is much larger than the \$2.8 billion overall cut.

The 2002 Appropriations Picture

Taking the Bush budget numbers at face value, the domestic portion of appropriated programs is cut \$6.8 billion below the 2001 level. As Table 5 indicates, 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 \$4.0 billion to accommodate the increase for defense and international affairs.

Table 5:
Comparing the President’s Budget for 2002 Appropriated Programs to
CBO’s Estimate of Amounts Needed to Maintain Purchasing Power at 2001 Levels
(discretionary budget authority in billions)

	<u>Bush Budget</u>	<u>CBO Estimate</u>	<u>Budget Above/Below CBO Estimate</u>
Defense	325.1	321.7	+ 3.4
International	23.9	23.2	+ 0.7
Domestic	<u>311.7</u>	<u>318.5</u>	<u>-6.8</u>
Total Appropriations	660.6	663.4	-2.8

Numbers may not add due to rounding.

¹The budget asserts that \$660.7 billion is equal to the OMB estimate of the level needed to maintain purchasing power at the 2001 levels. However, domestic appropriations are cut using either CBO or OMB estimates of the 2001 level of purchasing power. The following analysis relies on CBO estimates because Congress traditionally uses these estimates rather than OMB’s estimates during the appropriations process.

However, the level for appropriated programs includes an emergency reserve fund that totals approximately \$62 billion over ten years, including \$5.6 billion for 2002. See *The National Emergency Reserve* below for further discussion. This new fund is only to be tapped to provide funding to respond to major natural disasters such as earthquakes, hurricanes, and floods. There is no such reserve for 2001. To obtain an apples-to-apples comparison of the budget with 2001 levels of funding for ongoing programs, one should exclude the \$5.6 billion fund from 2002 and those 2001 emergencies that do not represent ongoing programs but are rather true one-time-only costs.²

**Table 6: A Domestic Appropriations Comparison
The Bush 2002 Budget vs. 2001 Freeze Level
(Discretionary Budget Authority in Billions)**

	<u>Bush Budget</u>	<u>2001 Freeze</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Gross Level	311.7	305.2	+ 6.2	2.1%
Less Emergencies	-5.6	-1.7	na	na
Adjusted Level	306.1	303.5	+ 2.6	0.9%

As Table 6 indicates, when an adjustment for emergency funding is made, domestic appropriations are actually only \$2.6 billion (0.9 percent) more than the 2001 freeze level. This level for domestic appropriations is \$10.9 billion (3.4 percent) less than the level needed, according to CBO, to maintain purchasing power at the 2001 level.³

²Based on preliminary OMB data, the estimate of this amount is \$1.7 billion for 2001.

³These levels exclude mandatory contract authority for transportation programs that result in discretionary outlays. If this contract authority is taken into account, domestic appropriations are only \$5.1 billion (1.5 percent) more than the 2001 freeze level, but which is \$9 billion less than the level needed to maintain 2001 purchasing power. In addition, the CBO estimate of the level needed to maintain purchasing power at the 2001 level (baseline) may overstate the budget authority needed in Function 600 due to the Housing Certificate Fund (HCF). CBO may make a technical adjustment to the HCF baseline in conjunction with its reestimate of the President's budget later this Spring.

The National Emergency Reserve

The President's budget establishes a "National Emergency Reserve" to cover the costs associated with natural disasters such as earthquakes, floods, and hurricanes. The budget includes \$5.6 billion for this fund for 2002, and \$61.9 billion over the ten year period (2002 - 2011). If natural disasters do not occur in any given year, or if the fund is not fully utilized, the fund may not be used for other purposes.

While sensible in concept, the budget is silent on what happens if costs associated with natural disasters exceed the funding in the reserve in a given year. The House Republican budget resolution, which is based on the Administration's proposal, implies that any excess for emergencies would have to be offset by other appropriated programs. If this is indeed the intent of the Administration's proposal, finding offsets to fund emergencies is not only poor public policy, but could greatly delay the emergency assistance.

The "Four Percent Increase is a Mirage"

The media widely reports that the President's budget increases appropriated programs by 4.0 percent. Unfortunately, these reports have created several widespread misperceptions about the President's budget.

First, while the 4.0 percent increase is true in nominal terms for overall appropriations (defense, international, and domestic programs), it is not true for domestic appropriations. In fact, as discussed above, the President's budget increases nominal budget authority for discretionary appropriations by less than one percent compared to the 2001 freeze level. Even if one does not adjust for emergencies, domestic appropriations only increase 2.1 percent.

Second, while inflation has been modest, it still exists and erodes the purchasing power of many programs. Families plan long-

term budgets assuming college tuition costs or gasoline prices will increase, and the government must be cognizant of rising costs in its budgeting as well. Again, as explained above, when domestic programs are compared to the level needed, according to CBO, to maintain purchasing power at the 2001 level, the President's budget actually cuts funding for domestic programs by 3.4 percent.

Third, as is explained in *Winners and Losers in the President's Budget* below, the President's budget cuts the remaining domestic programs even further after taking into account the increases provided for the Health and Education and Training functions. Over the ten year period (2002 - 2011), the budget cuts these remaining domestic programs by a cumulative total of more than \$150 billion.

Finally, there is a widespread misperception that the 4.0 percent increase continues over the course of the ten year budget proposal (2002 - 2011). This is incorrect. Even using the flawed

methodology the Administration uses to calculate the 2002 increase, all appropriated programs only increase an average of 2.3 percent per year in nominal terms over the 2002 - 2011 period.

Table 7: Winners and Losers in the Bush Budget

**Appropriated Programs in the President's Budget
vs. CBO Estimate of Maintaining 2001 Purchasing Power***
(discretionary budget authority in billions)

Amount Budget is Over/Under 2001 Level of Purchasing Power

<u>Function</u>	<u>2002</u>	<u>2002-2006</u>	<u>2002-2011</u>
National Defense	3.4	22.9	69.7
International Affairs	0.7	3.5	8.1
General Science, Space	-0.2	0.2	1.8
Energy	-0.5	-1.7	-1.1
Natural Resources and Environment	-2.6	-16.8	-44.6
Agriculture	-0.1	-0.3	-1.4
Commerce and Housing Credit	-2.8	-15.2	-23.3
Transportation	-2.1	-9.8	-23.7
Community and Regional Development	-1.3	-6.3	-13.9
Education and Training	1.0	9.2	24.8
Health	1.2	22.9	54.3
Medicare	-0.0	-0.8	-4.0
Income Security	-2.0	-6.2	-8.3
Social Security	-0.1	-0.8	-2.7
Veterans	0.0	-2.3	-11.6
Administration of Justice	-1.5	-5.7	-17.8
General Government	0.2	-1.1	-6.6
Subtotal, Domestic Appropriations**	-10.7	-34.5	-78.1
Subtotal, Domestic Except Health and Education and Training	-12.9	-66.5	-157.1

**Adjusted for appropriate emergencies.*

***The CBO baseline does not distribute the 0.22 percent across-the-board reduction contained in the 2001 appropriations. If this reduction were included, the total domestic appropriations reduction would be \$32.2 billion over the 2002 - 2006 period and \$73.1 billion over the 2002-2011 period.*

Note: Numbers may not add due to rounding.

Winners and Losers in the President's Budget

Table 7 compares the President's request to the levels needed, according to CBO, to maintain purchasing power at the 2001 level. Since the President establishes a new National Emergency Reserve, the CBO levels have been adjusted to exclude emergency funding that represents true one-time-only costs rather than ongoing programs for comparability purposes. In the table, positive numbers indicate increases, negative numbers indicate cuts.

As the table indicates, the budget cuts a total of \$78.3 billion from domestic appropriations over the next ten years. However, as the table also indicates, two domestic functions, Education and Training and Health, are increased above the 2001 level by a cumulative total of \$25 billion and \$54 billion, respectively, over the ten year period (2002 - 2011). If these two functions are excluded, then the remaining domestic programs are cut by a cumulative total of more than \$150 billion over the ten year period (2002 - 2011).⁴ For 2002, the cut to remaining domestic program is \$13 billion (6.2 percent) compared with the level needed to maintain purchasing power at the 2001 level.

New User Fees in the Budget

The budget includes a total of \$2.3 billion in user fees over the 2002 - 2006 period to offset appropriated programs. In the past, Congressional Republicans charged that such user fees are "taxes" on the public, and criticized user fee proposals by the last Administration. It is therefore ironic to see the new Administration propose some of the same user fees. To the extent that Congress rejects these user fees, then the total funding for appropriated programs must either be increased to compensate for the loss of the funding generated by the user fees or appropriated programs must be cut.

The *Overview* section discusses some of the more notable specific cuts in the budget, as does a separate report, *Bush Budget: Sacrificing All Else to Tax Cuts*, which can be found on the House Budget Committee Democratic website: [/www.house.gov/budget_democrats](http://www.house.gov/budget_democrats). In addition, there is a discussion of the President's cuts in each relevant function analysis within this report.

⁴As the second footnote on Table 7 also explains, the CBO baseline does not distribute the 0.22 percent across-the-board reduction that was included in the 2001 appropriations to each individual function. Thus, the aggregate totals in Table 7 are somewhat overstated. The total domestic appropriations reduction is \$32.2 billion over the 2002 - 2006 period and \$73.1 billion over the 2002 - 2011 period including the effect of the across-the-board reduction. Likewise, the remaining domestic appropriation cut is somewhat overstated, but a precise figure cannot be determined since the across-the-board reduction for the Health and Education and Training functions cannot be specified.

**Table 8: Bush's February Blueprint vs April Budget
Changes in Appropriated Programs
(In billions of dollars)**

	2002	2003	First 5	Second 5	10 Yr. Total
Total Discretionary					
Budget Authority	0.0	6.5	16.2	-18.1	-1.9
Outlays	0.0	3.4	13.3	-15.9	-2.6
Non-defense discretionary					
Budget Authority	-0.1	6.0	14.5	-18.6	-4.0
Outlays	-0.2	3.1	12.1	-16.3	-4.2
050 National Defense					
Budget authority	0.1	0.5	1.6	0.5	2.1
Outlays	0.2	0.3	1.2	0.4	1.6
150 International Affairs					
Budget authority	0.0	0.5	1.3	-0.8	0.5
Outlays	0.0	0.3	1.2	-0.3	0.9
250 General Science, Space					
Budget authority	-1.1	-0.6	-3.7	-5.4	-9.1
Outlays	-0.4	-0.7	-3.0	-5.0	-8.1
270 Energy					
Budget authority	-0.0	0.1	0.5	-0.2	0.3
Outlays	0.0	0.0	0.5	0.0	0.5
300 Natural Resources and Environment					
Budget authority	-0.0	0.6	1.2	-1.5	-0.3
Outlays	-0.3	0.2	0.5	-1.2	-0.7
350 Agriculture					
Budget authority	-0.0	0.0	-0.1	-0.6	-0.7
Outlays	-0.0	0.0	-0.1	-0.6	-0.6
370 Commerce and Housing Credit					
Budget authority	0.0	0.2	0.6	0.5	1.0
Outlays	0.0	0.1	0.5	0.5	1.0
400 Transportation					
Budget authority	0.9	1.5	6.3	5.6	11.9
Outlays	0.3	1.2	4.5	0.8	5.3
450 Community and Regional Development					
Budget authority	0.1	0.3	1.1	-0.9	0.2
Outlays	0.3	0.2	1.2	-0.3	0.9
500 Education and Training					
Budget authority	0.0	1.5	4.9	-1.5	3.4
Outlays	0.4	1.1	5.5	0.1	5.6
550 Health					
Budget authority	0.0	0.2	-0.9	-6.1	-6.9
Outlays	-0.1	-0.5	-1.8	-4.9	-6.7
570 Medicare					
Budget authority	0.0	0.1	0.3	0.1	0.4
Outlays	0.1	0.2	0.7	0.5	1.1
600 Income Security					
Budget authority	-0.0	0.6	1.5	-0.5	1.1
Outlays	-0.0	0.3	1.1	-0.2	0.9
650 Social Security					
Budget authority	0.0	0.1	0.2	-0.1	0.1
Outlays	0.0	0.1	0.2	-0.1	0.1
700 Veterans					
Budget authority	0.0	0.5	1.4	-0.8	0.5
Outlays	-0.0	0.5	1.3	-0.7	0.6
750 Administration of Justice					
Budget authority	0.1	0.4	1.9	-0.5	1.4
Outlays	-0.0	0.3	1.7	-0.2	1.5
800 General Government					
Budget authority	-0.1	0.3	0.6	-0.7	-0.1
Outlays	-0.2	0.1	0.4	-0.6	-0.2
920 Allowances					
Budget authority	-0.1	-0.3	-2.6	-5.1	-7.7
Outlays	-0.3	-0.4	-2.3	-4.0	-6.3

Changes from the February Budget Blueprint

The President's revised April budget for appropriated programs does differ from the February Budget Blueprint the President submitted to Congress. Table 8 displays the changes for appropriated programs for 2002, 2003, the five year total of the changes from 2002 - 2006, and the ten year total of the changes from 2002 - 2011. Positive numbers indicate increases from the February Blueprint, while negative numbers indicate decreases from the Blueprint.

As Table 8 indicates, the major changes for 2002 are in Functions 250 (General Science, Space, and Technology) and 400 (Transportation). These changes primarily correct an error contained in the February blueprint. After 2002, most functions receive increases over the 2003 - 2006 period and decreases over the 2007 - 2011 period. In total over the ten years (2002 - 2011), defense and non-defense appropriations have been revised slightly downward.

A letter from OMB states that these changes are not supposed to reflect policy changes, but rather are technical changes related to re-estimates of the President's policies. While this may be true, the fact is that the President's budget now has more funding for many appropriated programs in the near term relative to the February Blueprint, and less funding for many programs over the 2007 - 2011 period.

Conclusion

The level of appropriations in the Bush budget 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 are] talking about." Defense funding in the budget is described as not a statement on policy but rather a placeholder until the Department of Defense completes a review of its needs. The budget protects some non-defense programs from cuts, and increases a select few others, but thereby requires a 6.2 percent cut to the remaining domestic 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 Bush Administration's first priority: tax cuts. Even defense funding is secondary to this priority. However, if Congress approves the tax cuts but does not make these non-defense cuts, Congress jeopardizes the Social Security and Medicare surpluses.

The Budget By Function

The following three tables show the President's budget broken down by budget function, which correspond with the major areas of federal government activity. The first table shows total spending (appropriated and mandatory) for each budget function. The second table shows the budget for appropriated (or "discretionary") spending, which is spending controlled by the annual appropriations process. The third table shows the budget for mandatory spending, which is spending provided for through authorizing legislation. Mandatory spending includes entitlement programs such as Medicare, Medicaid, and Social Security, as well as interest payments on the federal debt. Figures may not add due to rounding.

NEW BUSH FY 2002 BUDGET, OMB ESTIMATES
TOTAL BUDGET
(In billions of dollars)

	2001	2002	2003	2004	2005	2006	5 Yr. Total
Budget Authority	1,893.5	2,004.6	2,041.9	2,101.8	2,187.8	2,251.0	10,587.1
Outlays	1,856.2	1,960.6	2,016.2	2,076.7	2,168.7	2,223.9	10,446.2
Revenues	2,136.9	2,191.7	2,258.2	2,338.8	2,437.8	2,528.7	11,755.3
Surplus(+)/Deficit(-)	280.7	231.2	242.0	262.1	269.0	304.8	1,309.1
<hr/>							
050 National Defense							
Budget authority	310.6	325.1	333.9	342.8	352.2	361.9	1,715.9
Outlays	299.1	319.2	322.1	333.1	347.2	354.0	1,675.5
150 International Affairs							
Budget authority	18.6	22.3	22.8	22.9	23.6	24.4	116.1
Outlays	17.5	21.0	21.3	21.5	21.6	22.2	107.5
250 General Science, Space							
Budget authority	21.0	21.4	22.1	22.5	22.9	23.5	112.4
Outlays	19.7	20.8	21.4	22.2	22.6	23.1	110.1
270 Energy							
Budget authority	(0.9)	(0.4)	(0.2)	(0.5)	(0.4)	(0.2)	(1.8)
Outlays	(0.7)	(0.3)	(0.1)	(0.6)	(0.4)	(0.3)	(1.7)
300 Natural Resources and Environment							
Budget authority	28.5	26.6	27.2	27.9	27.9	27.7	137.3
Outlays	27.4	27.5	27.7	28.0	28.4	28.7	140.3
350 Agriculture							
Budget authority	29.3	15.8	14.2	14.1	14.5	14.9	73.6
Outlays	25.9	18.6	15.0	14.0	14.1	14.5	76.2
370 Commerce and Housing Credit							
Budget authority	(6.5)	10.3	8.4	6.7	6.6	6.6	38.7
Outlays	(0.8)	6.9	4.7	3.6	3.5	2.3	21.1
400 Transportation							
Budget authority	61.5	62.1	60.0	61.5	63.1	64.8	311.4
Outlays	51.1	55.0	57.5	59.7	62.1	63.8	298.1
450 Community and Regional Development							
Budget authority	10.4	10.1	10.4	10.5	10.7	10.9	52.5
Outlays	10.6	11.7	11.3	10.8	10.5	10.1	54.4
500 Education and Training							
Budget authority	70.3	98.5	82.0	84.1	86.7	89.3	440.7
Outlays	65.3	76.6	81.3	82.6	84.7	87.2	412.5
550 Health							
Budget authority	181.4	204.9	230.0	246.3	254.1	268.1	1,203.4
Outlays	175.3	201.5	224.4	243.3	250.7	264.8	1,184.7
570 Medicare							
Budget authority	219.0	229.9	242.3	255.6	282.9	296.3	1,306.9
Outlays	219.3	229.9	242.1	255.9	282.8	296.0	1,306.7
600 Income Security							
Budget authority	261.9	277.1	286.4	298.1	310.6	319.2	1,491.4
Outlays	262.6	275.7	285.9	295.9	308.8	317.1	1,483.4
650 Social Security							
Budget authority	435.3	456.8	479.1	503.8	530.3	559.3	2,529.3
Outlays	433.6	455.1	477.1	501.6	528.1	556.8	2,518.8
700 Veterans							
Budget authority	47.7	51.8	53.8	55.9	57.8	59.7	279.0
Outlays	45.4	51.6	53.6	55.8	60.4	59.6	280.9
750 Administration of Justice							
Budget authority	30.4	31.6	32.5	34.7	35.2	36.0	169.9
Outlays	29.4	32.3	35.4	35.5	35.2	35.8	174.1
800 General Government							
Budget authority	16.2	16.6	16.9	18.4	17.6	17.9	87.4
Outlays	16.8	16.3	16.7	18.4	17.4	17.6	86.4
900 Net Interest							
Budget authority	206.4	188.1	175.2	161.5	144.7	127.2	796.8
Outlays	206.4	188.1	175.2	161.5	144.7	127.2	796.7
920 Allowances							
Budget authority	0.0	5.3	5.4	5.6	5.7	5.8	27.8
Outlays	0.0	2.4	3.9	4.7	5.4	5.7	22.0
950 Undistributed Offsetting Receipts							
Budget authority	(47.7)	(49.4)	(60.4)	(70.6)	(58.9)	(62.4)	(301.6)
Outlays	(47.7)	(49.4)	(60.4)	(70.6)	(58.9)	(62.4)	(301.6)

Table 1

NEW BUSH FY 2002 BUDGET, OMB ESTIMATES
TOTAL BUDGET
(In billions of dollars)

	2007	2008	2009	2010	2011	Second 5	10 Yr. Total
Budget Authority	2,336.6	2,428.8	2,526.1	2,628.5	2,739.3	12,659.3	23,246.4
Outlays	2,303.4	2,397.9	2,490.3	2,593.5	2,706.3	12,491.4	22,937.5
Revenues	2,643.3	2,770.6	2,909.9	3,058.4	3,232.6	14,614.8	26,370.1
Surplus(+)/Deficit(-)	339.9	372.7	419.6	465.0	526.2	2,123.4	3,432.5
<hr/>							
050 National Defense							
Budget authority	372.1	382.6	393.3	404.4	415.8	1,968.2	3,684.2
Outlays	360.5	373.6	384.3	395.5	410.9	1,924.8	3,600.3
150 International Affairs							
Budget authority	25.4	26.2	26.8	27.4	28.1	133.9	250.0
Outlays	22.9	23.5	24.0	24.6	25.2	120.2	227.7
250 General Science, Space							
Budget authority	24.0	24.6	25.1	25.7	26.3	125.7	238.1
Outlays	23.7	24.2	24.8	25.3	25.9	123.9	234.0
270 Energy							
Budget authority	(0.1)	1.3	1.7	1.8	1.8	6.4	4.6
Outlays	(0.2)	1.2	1.6	1.7	1.7	5.9	4.2
300 Natural Resources and Environment							
Budget authority	28.3	29.0	29.5	30.0	30.5	147.2	284.6
Outlays	29.1	29.4	29.6	29.9	30.3	148.2	288.5
350 Agriculture							
Budget authority	15.3	15.6	15.9	16.2	16.5	79.5	153.1
Outlays	14.8	15.1	15.5	15.9	16.2	77.5	153.7
370 Commerce and Housing Credit							
Budget authority	7.4	7.8	10.5	13.8	9.5	49.0	87.7
Outlays	4.4	4.0	4.9	8.3	5.1	26.8	47.8
400 Transportation							
Budget authority	66.4	68.1	69.7	72.5	74.5	351.3	662.8
Outlays	65.4	66.9	68.5	70.0	71.5	342.3	640.5
450 Community and Regional Development							
Budget authority	11.1	11.3	11.6	11.9	12.1	58.0	110.5
Outlays	10.0	10.1	10.3	10.5	10.8	51.7	106.1
500 Education and Training							
Budget authority	91.7	94.1	96.8	99.6	102.5	484.6	925.3
Outlays	89.6	91.9	94.5	97.2	100.0	473.3	885.8
550 Health							
Budget authority	288.6	309.6	332.3	356.8	382.6	1,669.9	2,873.3
Outlays	284.6	305.7	328.3	353.7	378.4	1,650.7	2,835.4
570 Medicare							
Budget authority	317.6	339.7	362.7	388.1	423.6	1,831.7	3,138.7
Outlays	317.9	339.6	362.5	388.4	423.4	1,831.8	3,138.5
600 Income Security							
Budget authority	327.2	341.6	353.8	364.8	380.1	1,767.4	3,258.9
Outlays	325.1	338.9	349.4	361.3	376.2	1,750.9	3,234.4
650 Social Security							
Budget authority	590.7	625.0	663.7	706.1	751.8	3,337.3	5,866.6
Outlays	588.0	622.0	660.3	702.5	747.8	3,320.8	5,839.5
700 Veterans							
Budget authority	61.4	63.1	64.9	66.5	68.1	324.0	602.9
Outlays	59.0	63.0	64.7	66.3	68.0	321.0	601.9
750 Administration of Justice							
Budget authority	36.9	37.8	38.7	39.6	40.5	193.4	363.3
Outlays	36.6	37.5	38.4	39.3	40.2	191.9	366.0
800 General Government							
Budget authority	18.2	18.3	18.8	19.2	19.6	94.2	181.6
Outlays	18.0	18.3	18.5	18.9	19.3	92.9	179.4
900 Net Interest							
Budget authority	108.9	90.3	69.1	45.7	19.8	333.7	1,130.4
Outlays	108.9	90.3	69.1	45.7	19.8	333.7	1,130.4
920 Allowances							
Budget authority	5.9	6.1	6.2	6.3	6.5	31.1	58.9
Outlays	5.8	5.9	6.1	6.2	6.3	30.4	52.4
950 Undistributed Offsetting Receipts							
Budget authority	(60.6)	(63.2)	(65.0)	(67.8)	(70.8)	(327.3)	(628.9)
Outlays	(60.6)	(63.2)	(65.0)	(67.8)	(70.8)	(327.3)	(628.9)

Table 1 (continued)

**NEW BUSH FY 2002 BUDGET AS ESTIMATED BY OMB
DISCRETIONARY PROGRAMS
(In billions of dollars)**

	2001	2002	2003	2004	2005	2006	5 Yr. Total
Total Discretionary							
Budget Authority	634.9	660.6	685.1	702.7	720.1	737.9	3,506.4
Outlays	649.4	691.7	711.8	731.2	754.5	770.4	3,659.6
Non-defense discretionary							
Budget Authority	323.6	335.5	351.1	359.5	367.4	375.4	1,789.0
Outlays	349.8	372.5	389.7	397.8	406.8	415.8	1,982.7
<hr/>							
050 National Defense							
Budget authority	311.3	325.1	333.9	343.2	352.7	362.5	1,717.4
Outlays	299.6	319.2	322.1	333.5	347.6	354.6	1,677.0
150 International Affairs							
Budget authority	22.7	23.9	24.4	24.9	25.5	26.0	124.7
Outlays	24.1	24.5	24.7	24.9	25.0	25.6	124.7
250 General Science, Space							
Budget authority	20.9	21.2	21.9	22.4	22.9	23.5	111.9
Outlays	19.6	20.7	21.2	22.0	22.5	23.1	109.5
270 Energy							
Budget authority	3.1	2.8	2.9	3.1	3.2	3.3	15.2
Outlays	3.0	3.0	3.0	3.1	3.2	3.3	15.6
300 Natural Resources and Environment							
Budget authority	28.7	26.4	27.0	27.6	27.6	27.4	136.1
Outlays	27.6	27.6	27.6	27.7	28.3	28.5	139.8
350 Agriculture							
Budget authority	5.1	4.8	5.2	5.2	5.3	5.4	25.9
Outlays	5.5	5.5	5.2	5.3	5.3	5.4	26.6
370 Commerce and Housing Credit							
Budget authority	0.7	(0.3)	(0.1)	(0.4)	(0.5)	(0.5)	(1.7)
Outlays	1.7	0.4	0.1	(0.3)	(0.5)	(0.5)	(0.9)
400 Transportation							
Budget authority	18.9	16.8	17.8	18.2	18.6	19.0	90.3
Outlays	48.9	53.2	55.4	57.7	60.2	61.9	288.5
450 Community and Regional Development							
Budget authority	11.0	10.4	10.7	10.9	11.1	11.3	54.3
Outlays	11.2	12.0	12.0	11.7	11.5	11.3	58.5
500 Education and Training							
Budget authority	61.1	65.4	67.1	69.0	70.7	72.3	344.5
Outlays	56.1	62.2	66.5	67.4	69.0	70.7	335.8
550 Health							
Budget authority	38.9	41.0	45.7	46.9	48.1	49.4	231.1
Outlays	34.1	38.5	41.7	45.0	46.8	48.1	220.2
570 Medicare							
Budget authority	3.4	3.5	3.5	3.6	3.7	3.8	18.2
Outlays	3.3	3.5	3.5	3.6	3.7	3.8	18.1
600 Income Security							
Budget authority	39.5	42.8	45.1	46.7	48.3	49.6	232.4
Outlays	45.5	46.9	48.0	48.6	49.4	50.4	243.3
650 Social Security							
Budget authority	3.4	3.5	3.6	3.7	3.8	3.8	18.4
Outlays	3.6	3.5	3.6	3.7	3.8	3.8	18.4
700 Veterans							
Budget authority	22.5	23.5	24.0	24.5	25.1	25.7	122.7
Outlays	22.4	23.4	23.9	24.5	25.0	25.6	122.5
750 Administration of Justice							
Budget authority	30.0	29.8	31.9	32.3	32.8	33.5	160.2
Outlays	28.8	30.8	34.3	32.9	32.7	33.3	164.0
800 General Government							
Budget authority	14.0	14.8	15.0	15.4	15.7	16.0	76.9
Outlays	14.5	14.5	14.9	15.2	15.5	15.8	76.0
900 Net Interest							
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
920 Allowances							
Budget authority	0.0	5.3	5.4	5.6	5.7	5.8	27.8
Outlays	0.0	2.4	3.9	4.7	5.4	5.7	22.0
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

NEW BUSH FY 2002 BUDGET AS ESTIMATED BY OMB
DISCRETIONARY PROGRAMS
(In billions of dollars)

	2007	2008	2009	2010	2011	Second 5	10 Yr. Total
Total Discretionary							
Budget Authority	757.2	777.2	797.5	822.2	837.6	3,991.7	7,498.1
Outlays	786.5	809.5	830.0	854.4	876.5	4,156.8	7,816.5
Non-defense discretionary							
Budget Authority	384.6	394.1	403.6	417.2	421.3	2,020.9	3,809.8
Outlays	425.5	435.3	445.1	458.4	465.1	2,229.5	4,212.1
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050 National Defense							
Budget authority	372.6	383.1	393.8	404.9	416.4	1,970.8	3,688.2
Outlays	361.0	374.1	384.9	396.0	411.4	1,927.3	3,604.3
150 International Affairs							
Budget authority	26.6	27.2	27.8	28.4	29.0	139.1	263.8
Outlays	26.1	26.6	27.2	27.8	28.4	136.2	260.9
250 General Science, Space							
Budget authority	24.0	24.5	25.1	25.7	26.2	125.5	237.5
Outlays	23.7	24.2	24.7	25.3	25.9	123.7	233.3
270 Energy							
Budget authority	3.4	3.9	4.0	4.0	4.0	19.4	34.6
Outlays	3.4	3.9	4.0	4.0	4.0	19.3	34.9
300 Natural Resources and Environment							
Budget authority	28.1	28.7	29.3	30.0	30.6	146.7	282.7
Outlays	28.9	29.1	29.5	30.0	30.5	147.9	287.6
350 Agriculture							
Budget authority	5.5	5.7	5.8	5.9	6.0	28.8	54.7
Outlays	5.5	5.6	5.7	5.9	6.0	28.7	55.3
370 Commerce and Housing Credit							
Budget authority	0.4	0.6	1.1	5.5	0.3	7.9	6.1
Outlays	0.4	0.6	1.0	4.6	1.4	8.0	7.1
400 Transportation							
Budget authority	19.4	19.8	20.3	20.7	21.2	101.4	191.7
Outlays	63.5	65.0	66.5	68.0	69.5	332.5	621.0
450 Community and Regional Development							
Budget authority	11.4	11.7	11.9	12.2	12.4	59.6	114.0
Outlays	11.2	11.4	11.6	11.8	12.0	58.0	116.6
500 Education and Training							
Budget authority	73.8	75.4	77.1	78.8	80.6	385.7	730.1
Outlays	72.2	73.8	75.4	77.1	78.8	377.3	713.1
550 Health							
Budget authority	50.5	51.6	52.7	53.9	55.0	263.6	494.7
Outlays	49.5	50.6	51.7	52.9	54.0	258.7	478.9
570 Medicare							
Budget authority	3.9	4.0	4.1	4.2	4.3	20.3	38.5
Outlays	3.9	4.0	4.1	4.1	4.2	20.3	38.4
600 Income Security							
Budget authority	50.9	52.2	53.7	55.2	56.7	268.7	501.1
Outlays	51.6	52.5	53.7	54.9	56.2	268.9	512.2
650 Social Security							
Budget authority	3.9	4.0	4.1	4.2	4.3	20.6	39.0
Outlays	3.9	4.0	4.1	4.2	4.3	20.5	38.9
700 Veterans							
Budget authority	26.2	26.8	27.4	27.9	28.7	137.1	259.8
Outlays	26.1	26.7	27.3	27.8	28.5	136.5	259.0
750 Administration of Justice							
Budget authority	34.3	35.1	36.0	36.8	37.6	179.7	340.0
Outlays	34.0	34.8	35.6	36.4	37.3	178.1	342.1
800 General Government							
Budget authority	16.4	16.8	17.2	17.5	17.9	85.8	162.7
Outlays	16.2	16.5	16.9	17.3	17.7	84.6	160.6
900 Net Interest							
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
920 Allowances							
Budget authority	5.9	6.1	6.2	6.3	6.5	31.1	58.9
Outlays	5.8	5.9	6.1	6.2	6.3	30.4	52.4
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 (continued)

NEW BUSH FY 2002 BUDGET
MANDATORY AND OFFSETTING RECEIPTS TOTALS
(In billions of dollars)

	2001	2002	2003	2004	2005	2006	5 Yr. Total
Total Discretionary							
Budget Authority	1,258.6	1,343.9	1,356.9	1,399.0	1,467.7	1,513.1	7,080.7
Outlays	1,206.9	1,268.8	1,304.4	1,345.5	1,414.3	1,453.5	6,786.5
Non-defense discretionary							
Budget Authority	1,259.3	1,343.9	1,356.9	1,399.4	1,468.2	1,513.7	7,082.2
Outlays	1,207.3	1,268.9	1,304.4	1,345.8	1,414.7	1,454.1	6,787.9
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050 National Defense							
Budget authority	(0.6)	(0.0)	(0.1)	(0.4)	(0.5)	(0.6)	(1.5)
Outlays	(0.4)	(0.0)	(0.0)	(0.4)	(0.4)	(0.6)	(1.4)
150 International Affairs							
Budget authority	(4.0)	(1.6)	(1.6)	(2.0)	(1.9)	(1.6)	(8.6)
Outlays	(6.7)	(3.5)	(3.4)	(3.4)	(3.4)	(3.4)	(17.2)
250 General Science, Space							
Budget authority	0.2	0.2	0.2	0.0	0.0	0.0	0.5
Outlays	0.1	0.1	0.2	0.1	0.1	0.1	0.6
270 Energy							
Budget authority	(3.9)	(3.2)	(3.1)	(3.6)	(3.6)	(3.5)	(17.0)
Outlays	(3.7)	(3.3)	(3.2)	(3.7)	(3.6)	(3.6)	(17.4)
300 Natural Resources and Environment							
Budget authority	(0.2)	0.2	0.2	0.3	0.3	0.3	1.3
Outlays	(0.2)	(0.1)	0.0	0.2	0.2	0.2	0.6
350 Agriculture							
Budget authority	24.2	11.0	9.0	9.0	9.2	9.5	47.7
Outlays	20.4	13.2	9.8	8.8	8.8	9.1	49.6
370 Commerce and Housing Credit							
Budget authority	(7.2)	10.6	8.5	7.1	7.1	7.1	40.4
Outlays	(2.5)	6.6	4.6	3.9	4.0	2.8	21.9
400 Transportation							
Budget authority	42.6	45.3	42.2	43.3	44.5	45.8	221.1
Outlays	2.2	1.8	2.0	2.0	1.9	1.9	9.6
450 Community and Regional Development							
Budget authority	(0.6)	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)	(1.9)
Outlays	(0.6)	(0.3)	(0.7)	(0.8)	(1.1)	(1.2)	(4.2)
500 Education and Training							
Budget authority	9.2	33.1	14.9	15.1	16.0	17.0	96.2
Outlays	9.1	14.4	14.8	15.1	15.7	16.6	76.7
550 Health							
Budget authority	142.6	163.8	184.3	199.4	206.0	218.7	972.3
Outlays	141.2	163.0	182.7	198.2	203.9	216.7	964.5
570 Medicare							
Budget authority	215.6	226.4	238.8	251.9	279.2	292.5	1,288.8
Outlays	216.0	226.4	238.6	252.2	279.1	292.2	1,288.6
600 Income Security							
Budget authority	222.4	234.3	241.3	251.5	262.3	269.6	1,259.0
Outlays	217.2	228.8	237.9	247.3	259.4	266.7	1,240.1
650 Social Security							
Budget authority	431.9	453.3	475.5	500.1	526.6	555.4	2,510.9
Outlays	430.0	451.6	473.5	498.0	524.3	553.0	2,500.3
700 Veterans							
Budget authority	25.2	28.3	29.8	31.3	32.7	34.0	156.2
Outlays	23.0	28.2	29.7	31.3	35.3	33.9	158.4
750 Administration of Justice							
Budget authority	0.4	1.8	0.6	2.4	2.4	2.5	9.7
Outlays	0.7	1.5	1.1	2.5	2.5	2.5	10.1
800 General Government							
Budget authority	2.3	1.8	1.8	3.1	1.9	1.9	10.5
Outlays	2.3	1.8	1.8	3.2	1.8	1.8	10.5
900 Net Interest							
Budget authority	206.4	188.1	175.2	161.5	144.7	127.2	796.8
Outlays	206.4	188.1	175.2	161.5	144.7	127.2	796.7
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	(47.7)	(49.4)	(60.4)	(70.6)	(58.9)	(62.4)	(301.6)
Outlays	(47.7)	(49.4)	(60.4)	(70.6)	(58.9)	(62.4)	(301.6)

Table 3

NEW BUSH FY 2002 BUDGET
MANDATORY AND OFFSETTING RECEIPTS TOTALS
(In billions of dollars)

	2007	2008	2009	2010	2011	Second 5	10 Yr. Total
Total Discretionary							
Budget Authority	1,579.4	1,651.5	1,728.6	1,806.4	1,901.7	8,667.6	15,748.3
Outlays	1,516.9	1,588.4	1,660.3	1,739.1	1,829.8	8,334.6	15,121.1
Non-defense discretionary							
Budget Authority	1,579.9	1,652.1	1,729.2	1,806.9	1,902.2	8,670.2	15,752.4
Outlays	1,517.4	1,588.9	1,660.8	1,739.6	1,830.4	8,337.2	15,125.1
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050 National Defense							
Budget authority	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(2.6)	(4.1)
Outlays	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(2.6)	(4.0)
150 International Affairs							
Budget authority	(1.2)	(1.0)	(1.0)	(1.0)	(1.0)	(5.1)	(13.7)
Outlays	(3.2)	(3.1)	(3.2)	(3.2)	(3.2)	(16.0)	(33.1)
250 General Science, Space							
Budget authority	0.0	0.0	0.0	0.0	0.0	0.2	0.6
Outlays	0.0	0.0	0.0	0.0	0.0	0.2	0.8
270 Energy							
Budget authority	(3.5)	(2.7)	(2.3)	(2.3)	(2.3)	(13.0)	(30.0)
Outlays	(3.5)	(2.7)	(2.4)	(2.3)	(2.3)	(13.4)	(30.7)
300 Natural Resources and Environment							
Budget authority	0.2	0.3	0.2	0.0	(0.1)	0.6	1.8
Outlays	0.2	0.2	0.1	(0.1)	(0.2)	0.3	0.9
350 Agriculture							
Budget authority	9.8	9.9	10.2	10.3	10.5	50.7	98.4
Outlays	9.3	9.5	9.8	10.1	10.2	48.8	98.4
370 Commerce and Housing Credit							
Budget authority	7.1	7.1	9.4	8.3	9.3	41.2	81.6
Outlays	4.0	3.4	3.9	3.7	3.7	18.8	40.7
400 Transportation							
Budget authority	47.1	48.3	49.5	51.8	53.3	249.9	471.0
Outlays	1.9	1.9	2.0	2.0	2.0	9.8	19.5
450 Community and Regional Development							
Budget authority	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(1.6)	(3.4)
Outlays	(1.2)	(1.3)	(1.3)	(1.3)	(1.2)	(6.3)	(10.5)
500 Education and Training							
Budget authority	17.9	18.7	19.7	20.7	21.9	98.9	195.1
Outlays	17.4	18.1	19.1	20.1	21.2	96.0	172.6
550 Health							
Budget authority	238.2	258.0	279.6	302.9	327.6	1,406.3	2,378.6
Outlays	235.1	255.1	276.6	300.9	324.4	1,392.0	2,356.5
570 Medicare							
Budget authority	313.7	335.7	358.7	384.0	419.3	1,811.4	3,100.2
Outlays	314.0	335.6	358.4	384.3	419.2	1,811.6	3,100.1
600 Income Security							
Budget authority	276.3	289.5	300.1	309.5	323.4	1,498.7	2,757.8
Outlays	273.6	286.4	295.7	306.3	320.0	1,482.0	2,722.2
650 Social Security							
Budget authority	586.8	621.0	659.6	701.9	747.5	3,316.7	5,827.6
Outlays	584.1	618.0	656.2	698.3	743.6	3,300.3	5,800.6
700 Veterans							
Budget authority	35.2	36.3	37.5	38.5	39.4	186.9	343.1
Outlays	32.8	36.3	37.4	38.5	39.4	184.5	342.9
750 Administration of Justice							
Budget authority	2.6	2.6	2.7	2.8	2.9	13.6	23.3
Outlays	2.6	2.7	2.8	2.8	2.9	13.8	23.9
800 General Government							
Budget authority	1.8	1.6	1.6	1.7	1.7	8.4	18.9
Outlays	1.8	1.7	1.6	1.6	1.7	8.3	18.8
900 Net Interest							
Budget authority	108.9	90.3	69.1	45.7	19.8	333.7	1,130.4
Outlays	108.9	90.3	69.1	45.7	19.8	333.7	1,130.4
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	(60.6)	(63.2)	(65.0)	(67.8)	(70.8)	(327.3)	(628.9)
Outlays	(60.6)	(63.2)	(65.0)	(67.8)	(70.8)	(327.3)	(628.9)

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 that is more than offset by receipts received from sales of used non-armament equipment. Approximately 95 percent of the appropriations in this function is for DOD.

The Defense Budget is Still Unknown

The President's budget does not represent a defense policy; instead, it is only a "placeholder" until the Secretary of Defense completes a review of U.S. defense strategy and requirements. The budget states: "The Administration will determine final 2002 and outyear funding levels only when the review is complete." The President plans to submit programmatic detail on the contents of his placeholder budget by mid-May, and is also likely to further revise the 2002 budget and future years pending completion of the defense review.

Department of Defense Funding for 2002

The President's budget for DOD for 2002 provides \$310.5 billion, 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 on the next page indicates, \$3.9 billion of this amount is required to provide

Defense and the Tax Cut

The President asserts that his tax cut is affordable, but most defense analysts expect that the defense review will conclude that substantially more funding is required for defense than the placeholder budget assumes. In fact, the Senate has already added \$9.9 billion to the President's placeholder budget for defense appropriations for 2002 alone. In addition, in a widely reported study released last year, CBO estimated that defense funding should be raised to \$340 billion in constant 2000 dollars to maintain the current force structure. If this is the standard the President adopts, \$269 billion over ten years must be added to the placeholder budget. The CBO estimate did not include the cost of fielding a national missile defense system, which would require even more funds for defense.

Since defense currently represents about one-sixth of all federal spending, even small percentage changes in the defense budget have a large impact on the federal budget. It is difficult to assert that the tax cut is affordable without knowing what the defense budget will cost in the future.

health care benefits to Medicare-eligible military retirees for 2002 in accordance with last year's National Defense Authorization Act.

Since 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. After making this adjustment, the President’s budget provides only \$200 million more than the level needed to maintain purchasing power at the 2001 level, and only \$100 million more than the budget former President Clinton recommended for 2002.

Comparing the 2002 Budget with the 2001 Budget and the Clinton Budget
(discretionary budget authority in billions of dollars)

2002 President Budget	\$310.5
<i>Less: Military Retiree Health Care</i>	<i>- \$3.9</i>
Adjusted President Budget	\$306.6
Maintaining 2001 Purchasing Power*	\$306.4
Bush Increase Above 2001, Adjusted 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
Bush Increase Above Clinton	+ \$0.1

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

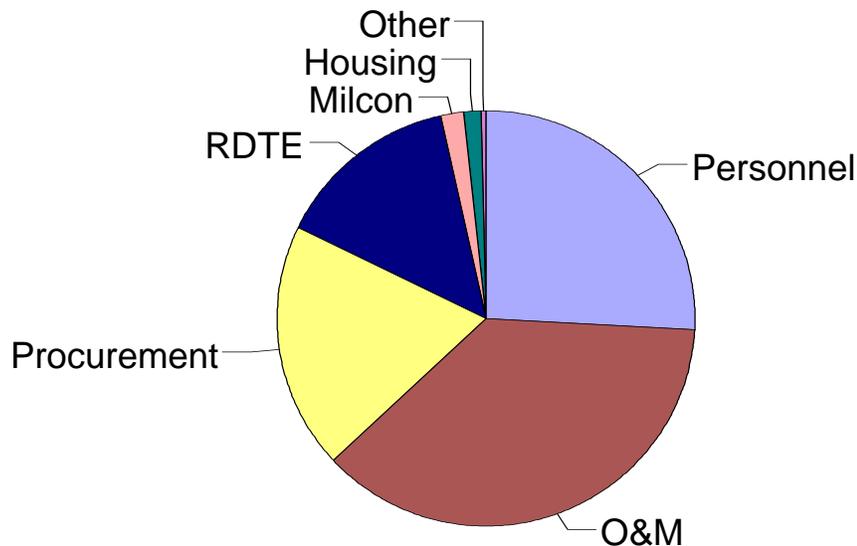
***Source: Annual Report to the President and Congress, p. 244, January 2001, and the Department of Defense.*

The Placeholder Defense Budget by Major Account

While the President’s budget is still not final and no detail about specific programs was provided, the budget includes specific levels for the major DOD accounts. However, these levels are likely to change once the defense review is released later this year. The pie chart on the following page graphically displays how the DOD budget is split among the major accounts.

! **Operations and Maintenance** — The Operations and Maintenance (O&M) account is \$3.9 billion above the level needed, according to CBO, to maintain purchasing power at the 2001 level. However, this \$3.9 billion O&M increase is due to the new requirement to provide health benefits to Medicare-eligible military retirees. Excluding this \$3.9 billion

The DOD Budget by Major Account



for military retirees, the O&M budget is maintained at the 2001 level without an increase. The O&M account is critical to readiness because it funds training, military exercises, military operations, spare parts, fuel, and all the other items a military force needs to operate. Given the claims during the last presidential campaign that a military readiness crisis exists, it is surprising the budget fails to increase funding for this account.

- ! **Procurement** — Procurement funding in the President’s budget is \$59.5 billion, which is \$1.1 billion less than the level needed, according to CBO, to maintain purchasing power at the 2001 level. It is also below the \$60 billion procurement goal that the Joint Chiefs of Staff established several years ago.
- ! **Research and Development** — The Research and Development (R&D) account of the budget is \$44.4 billion, which is \$2.6 billion more than the level needed, according to CBO, to maintain purchasing power at the 2001 level. This is also equal to the amount the President announced he would add to the R&D account to keep his campaign promise to add \$20 billion over five years. This \$2.6 billion is a “down payment” on that \$20 billion.
- ! **Military Personnel** — While the President’s budget is silent on details about the specifics within each major DOD account, according to the February Blueprint and the President’s own statements at Fort Stewart, Georgia, on February 12, the budget adds \$400 million

to provide an across-the-board pay raise of 4.6 percent. However, last year's National Defense Authorization Act mandates a 4.6 percent raise, so the budget is only complying with current law.

In addition, the budget provides \$1.0 billion for military personnel to be distributed at the discretion of the Secretary of Defense "to address specific recruiting and retention needs." Although the budget is not entirely clear, it appears that this funding is likely to be used for military bonuses. If so, the \$1.0 billion will be a one-time-only increase for military personnel rather than increasing pay into the future, as would an across-the-board pay raise. This is inconsistent with a campaign promise the President made at least twice and advertised on his campaign web site to increase the pay raise by \$1.0 billion above what Congress mandated last year. The campaign pledge clearly distinguished between a pay raise and bonuses.

Department of Energy National Security Programs

The budget provides \$13.4 billion for the nuclear weapons-related activities of the Department of Energy (DOE). This 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.

! ***Stockpile Stewardship*** — This program maintains the safety and reliability of nuclear weapons in the absence of underground tests. Stockpile stewardship relies on computer modeling, surveillance of weapons, and experiments that do not produce nuclear

National Missile Defense

The R&D account contains most of the funding for national missile defense (NMD). The budget provides no details on the Administration's plans for national missile defense. However, the February Blueprint states that the budget "commits America to developing, designing, and building a national missile defense as fast as possible. Starting now." In addition, the February Blueprint states that it must build missile defenses "designed to protect our deployed forces abroad, all 50 states, and our friends and allies overseas."

Since the budget does not specify whether these systems will be ground-based, sea-based, space-based, or a combination thereof, it is difficult to estimate the cost of this proposal. However, a system that combines all three approaches could easily cost more than \$100 billion over the next ten years. Given that the February Blueprint only earmarks a portion of the \$20 billion R&D initiative "to continue research, development, and testing of a missile defense program," it is a virtual certainty that the defense budget as proposed has insufficient funds to meet the budget's stated and ambitious ballistic missile defense goals. Presumably this lack of funding will be addressed in the President's final defense budget.

yields. The budget provides \$5.3 billion for the stockpile stewardship program, which is \$170 million above the level needed to maintain purchasing power at the 2001 level.

! **Counterintelligence Funding** — The budget provides \$46 million for the counterintelligence office, which is the DOE’s primary office for preventing nuclear espionage at DOE facilities. This funding is \$1.4 million more than the 2001 appropriated level, which is just slightly less than the level needed, according to CBO, to maintain purchasing power at the 2001 level. Given the poor track record of security at DOE facilities, it is somewhat surprising that the budget does not provide an increase in real terms. Many independent analysts believe that counterintelligence funding needs steady and sustained increases for several more years to address all of DOE’s potential security vulnerabilities.

! **Nuclear Nonproliferation Programs Cut** — The DOE oversees several important programs to stop the spread of nuclear materials to terrorist groups and nations that are hostile to the U.S. Most of these programs are focused on Russia and other states of the former Soviet Union. The President’s budget provides \$774 million for these programs for 2002, which is about \$120 million (13 percent) below the level needed, according to CBO, to maintain purchasing power at the 2001 level. This level is \$100 million (11.5 percent) less than the 2001 appropriated level. The following list includes most of the specific programs and the amounts they are cut compared to the 2001 appropriated level (in millions of dollars):

<u>Program</u>	<u>Cut</u>
<i>Chemical and Biological Weapon Response Research</i>	-12.0
<i>Technologies to Detect Weapons of Mass Destruction</i>	-25.0
<i>Nuclear Explosion Monitoring</i>	-14.3
<i>International Reactor Safety (Russia and Ukraine)</i>	- 5.6
<i>Safe Storage of Plutonium in Spent Nuclear Fuel Rods</i>	-24.0
<i>Nuclear Cities Initiative</i>	-20.0
<i>International Proliferation Program</i>	- 2.0
<i>Fissile Material Protection, Control, and Accounting</i>	-30.9

The list exceeds \$100 million because the budget does increase a few selected nonproliferation programs, such as the highly-enriched uranium blend down project and the construction of the Nonproliferation and International Security Center at the Los Alamos Laboratory.

! **Office of Environmental Safety and Health** — This office advises the Secretary of Energy on the status of health and safety of DOE workers, the public, and the environment near DOE facilities. Last year, Congress authorized a program to compensate former DOE

workers who were exposed to radiation at a time when the DOE had no such office. The President's budget includes \$105 million for this office, which is \$21 million less than the 2001 appropriated level. The budget assumes that \$10 million will be available from unspent funds from prior years, and decreases funding for public health activities and the Medical Surveillance Information System. The budget also assumes no further studies at the gaseous diffusion plants (such as the one in Paducah, Kentucky) will be required in 2002.

- ! ***Cleanup of Radioactive Waste at Former Weapons Production Sites*** — The President's budget cuts the efforts to cleanup nuclear and other hazardous waste at the former nuclear weapons production sites of the Department of Energy by \$458 million (7.4 percent) compared with the level needed, according to CBO, to maintain purchasing power at the 2001 level. The budget is \$243 billion below the 2001 freeze level.

Function 150: International Affairs

Function 150 contains funding for all U.S. international activities, including: operating U.S. embassies and consulates throughout the world; providing military assistance to allies; aiding underdeveloped nations; dispensing economic assistance to fledgling democracies; promoting U.S. exports abroad; making U.S. payments to international organizations; and contributing to international peacekeeping efforts. Funding for all of these activities constitutes about one percent of the federal budget.

! ***Apparent Increase for 2002 Not As Large As Claimed*** — President Bush’s budget provides \$23.9 billion for all U.S. international activities, which is \$661 million (2.7 percent) above the level needed, according to CBO, to maintain purchasing power for international programs at the 2001 level. However, the net increase for antinarcotics programs, (including Plan Colombia) consumes virtually all of the net increase in the function. The budget increases funding for all antinarcotics programs by \$615 million more than the level needed to maintain purchasing power at the 2001 level. Excluding this antinarcotics funding to provide an “apples to apples” comparison of 2001 appropriations with the 2002 budget, the budget provides barely any overall increase.

The President’s International Affairs Budget Through 2006 Discretionary Budget Authority

(In Billions of Nominal Dollars and Constant 2000 Dollars)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Nominal \$	23.8	22.7	23.9	24.4	24.9	25.5	26.0
Nominal Increase	na	-1.1	+ 1.2	+ .5	+ .5	+ .6	+ .6
Constant \$	24.9	23.2	23.9	23.8	23.7	23.6	23.5
Inc. in Constant \$	na	-1.7	+ 0.7	-0.1	-0.1	-0.1	-0.1

! ***International Affairs Funding in Future Years*** — The President’s February Blueprint cut funding for international affairs sharply in real terms after 2002. The revised budget, however, restores a total of \$1.3 billion in the 2003 - 2006 period, including \$541 million for 2003. While this somewhat mitigates the reductions of the February Blueprint, the budget still represents cuts in real terms after 2002 as the table above indicates. Moreover, the budget in all years is well below the 2000 level in real terms.

- ! **Plan Colombia** — The budget includes \$948 million for all international antinarcotics programs, including an expanded Plan Colombia initiative. Plan Colombia is a cooperative program with the government of Colombia and other nations in the Andean region of South America to control illegal narcotic production and trafficking and improve law enforcement. The budget provides \$615 million more than the level needed, according to CBO, to maintain purchasing power at the 2001 level for all antinarcotics programs.

- ! **State Department Funding Increases At Expense of Other International Programs** — As discussed further below, the budget increases funding for embassy security and overall State Department operations. Many independent reports have recommended even greater increases than the budget provides. These increases are affordable in part because funding for several programs, such as debt relief for highly indebted poor countries and Economic Support Funding for Israel and Egypt, is scheduled to be lower for 2002 than it was in 2001. The funding for other international programs outside of State Department operations is largely either cut or held flat to provide the remainder of the increase.

- ! **Economic Support Fund (ESF) and Foreign Military Financing (FMF)** — From 1986 through 1998, the ESF and FMF levels for Israel and Egypt remained constant. In 1998, then Prime Minister Benjamin Netanyahu made an agreement with the United States to increase FMF and decrease ESF for Israel over time. In a separate agreement reached with Egypt in 1998, ESF for Egypt is scheduled to gradually decrease over time as well. Israel's traditional levels had been \$1.2 billion in ESF and \$1.8 billion in FMF assistance, while Egypt received \$815 million in ESF and \$1.3 billion in FMF.

The budget maintains the funding glide paths envisioned in the 1998 agreements. The 2002 budget includes \$720 million for ESF and \$2.040 billion for FMF assistance for Israel. The ESF level for 2002 is \$120 million below the 2001 level, while the FMF level for 2002 is \$60 million more than the 2001 level.

The budget includes \$655 million in ESF assistance for Egypt, which is \$40 million below the 2001 level.⁵ The budget includes \$1.3 billion in FMF assistance, which has been the typical level of FMF assistance for Egypt since 1986.

The budget includes a total of \$2.3 billion in ESF assistance for about 50 countries and organizations, which is \$75 million less than the level needed, according to CBO, to maintain purchasing power at the 2001 level. However, given the anticipated \$100 million

⁵This excludes the effect of a 0.22 percent across-the-board reduction included in the 2001 appropriations act, which reduced Egypt's ESF to \$692.6 million and FMF to \$1.294 billion.

decreases for Israel and Egypt, \$25 million more is available for other countries. The budget includes a total of \$3.7 billion for FMF assistance, which is just above the level needed to maintain purchasing power at the 2001 level. However, given the \$120 million increase for Israel, there is about \$80 million less for other countries compared with the level needed to maintain purchasing power at the 2001 level. FMF assistance is provided to approximately 40 countries and organizations.

! **Embassy Security** — The budget provides \$1.3 billion for embassy security, which is about \$200 million above the level needed, according to CBO, to maintain purchasing power at the 2001 level.

! **State Department and Diplomatic Funding** — The budget provides \$3.7 billion for the operations of most U.S. diplomatic and consular programs, including support of our embassies and much of the State Department. This is \$400 million more than the level needed, according to CBO, to maintain purchasing power at the 2001 level.

***New Independent States and Eastern Europe
Funding Cut***

The budget includes \$808 million for assistance to the Independent States of the Former Soviet Union, which is \$20 million below the level needed to maintain purchasing power at the 2001 level. The budget also includes \$610 million in funding for the Support Eastern European Democracy (SEED) program, which is \$81 million below the level needed to maintain purchasing power at the 2001 level.

! **Export-Import (Ex-Im) Bank of the United States Cut** — 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 budget cuts the Ex-Im Bank's credit subsidy funding 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.⁶

⁶The 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.

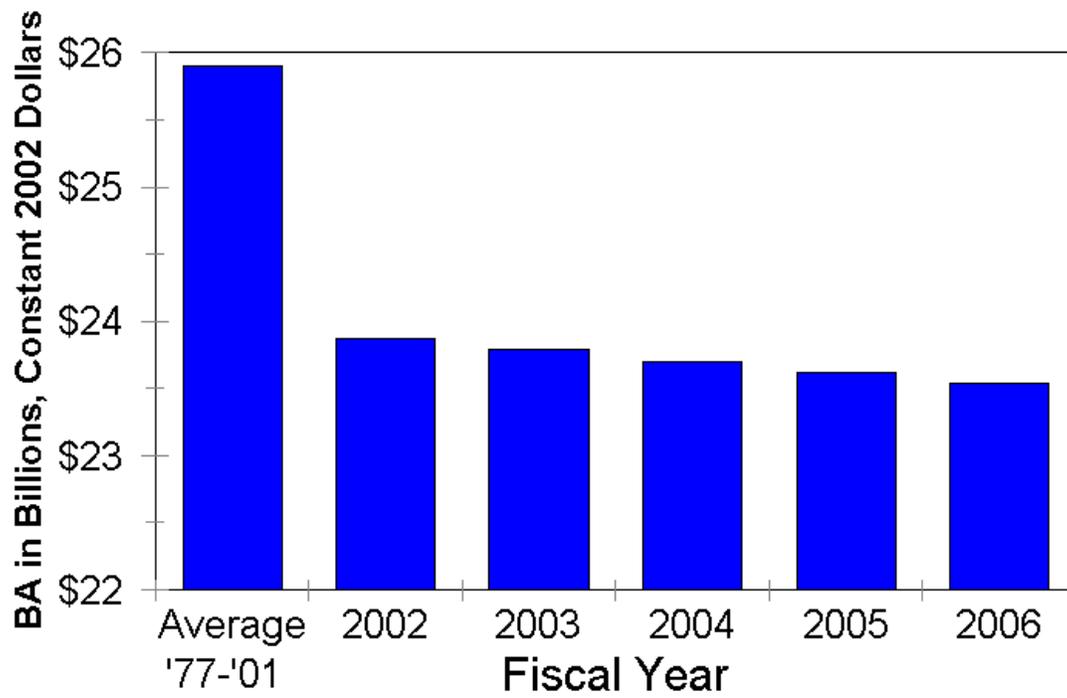
- ! ***Overseas Private Investment Corporation (OPIC) Cut*** — OPIC is an independent agency that offers political risk insurance and financing (loans, loan guarantees, direct equity investment funds) for U.S. businesses operating abroad. The budget contains no funding for OPIC for 2002 but expects OPIC to maintain its current level of credit programs with carryover balances of past appropriations. The 2001 appropriated level for OPIC was \$24 million. OPIC does not support projects that cause any job losses in the U.S., and small businesses provide two-thirds of the supplies used in OPIC projects. The budget will lessen OPIC's margin of reserves if default rates increase and the budget precludes new initiatives OPIC was contemplating for small businesses. Otherwise, it will have a limited impact on OPIC's 2002 activities.

- ! ***U.S. Foreign Aid in Comparison to Other Developed Countries*** — According to the most recent foreign aid figures from the Organization for Economic Cooperation and Development (OECD),⁷ the U.S. ranks 22nd in the world as a giver of foreign aid as a percent of gross national product (GNP). The U.S. level is one-tenth of one percent of GNP, which is a quarter of the average among developed countries. In absolute amount of foreign aid, the U.S. has ranked second behind Japan for several years and by increasing amounts (\$6 billion in 1999).

- ! ***International Affairs Spending from a Historical Perspective*** — The graph on the next page compares funding for Function 150 in the President's budget for 2002 - 2006 in constant 2002 dollars with the historical average over the 1977 - 2001 period. As the graph indicates, the President's budget provides less funding than the historical average for 2002. After 2002, the budget decreases slightly in real terms each and every year. The bottom line is that funding for international affairs is still well below recent historical levels, and the Bush budget keeps it below those levels.

⁷Data is for 1999 assistance. The OECD measurement is based on its definition of "official development assistance," consisting of grants or concessional loans to developing countries to promote economic development. Military assistance is not considered official development assistance. U.S. economic assistance to Israel is excluded because Israel is not considered a developing county by the OECD.

Function 150 in the Budget, 2002-2006, vs. Average Funding, 1977-2001



Function 250: General Science, Space, and Technology

This function includes the National Science Foundation (NSF), programs at the National Aeronautics and Space Administration (NASA) except for aviation programs, and general science programs at the Department of Energy.

The budget provides \$21.2 billion in funding for appropriated programs for 2002. This amount represents a cut of \$229 million for 2002 below the level needed, according to CBO, to maintain current services. The President's budget provides \$800 million less for 2002 than the budget resolution passed by the House, and \$1.4 billion less than the budget resolution passed by the Senate.

- ! **National Science Foundation** — The budget provides \$4.4 billion for appropriated programs in this function for NSF for 2002. This funding represents a cut of \$54 million below the amount needed, according to CBO, to maintain current services. The budget provides \$200 million for a Math and Science Partnership to strengthen education through collaborations between higher education and K-12 institutions. However, this one increase requires reductions of more than \$100 million below a freeze at the 2001 level for the rest of the agency. Areas cut below a freeze at the 2001 level include research in biological sciences, computer and information sciences, and geosciences. The budget also cuts investments in major research equipment by \$25 million (20.6 percent) below a freeze at the 2001 level.

- ! **NASA** — The budget provides \$13.6 billion for appropriated funding for NASA's space and science programs in this function. This amount cuts funding \$74 million below the level needed, according to CBO, to maintain current services for these programs. For 2002 NASA introduces a new accounting structure that reassigns mission support funding to the budget lines for space flight and for science, aeronautics, and technology. This change creates the appearance of increases in both of these areas. However, an "apples-to-apples" comparison of funding for these areas shows that the budget maintains funding for human space flight activities, while cutting programs in science, aeronautics, and technology below the level of a 2001 freeze. For 2002, research in the biological and physical sciences is cut by \$21 million (6.7 percent) below a freeze at the 2001 level and research in earth science is cut by \$206 million (13.9 percent) below a freeze at the 2001 level.

- ! **Department of Energy General Science Programs**— The budget provides \$3.2 billion for appropriations for general science programs at the Department of Energy. The funding level is \$17 million less than a freeze at the 2001 level, and \$101 million below the amount needed, according to CBO, to maintain current services. General science

programs at the Department of Energy support basic research in areas related to energy, as well as supporting certain government-wide research and development projects. Areas of research cut below the level of a freeze at the 2001 level include: biological and environmental research, which concerns the health and environmental impacts of energy use; and the fusion energy sciences program, which explores fusion as a future energy option.

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.

President Bush's budget for 2002 provides \$2.8 billion in appropriated funding for these programs. This is \$535 million below the level needed, according to CBO, to maintain current purchasing power and \$359 million below a freeze at the 2001 level. Relative to the level CBO estimates is needed to maintain purchasing power, the President's budget provides a \$1.1 billion increase over the ten-year period (2002-2011); however, over the five-year period (2002-2006) appropriated energy programs face a \$1.7 billion cut.

The receipts from marketing federally produced power and the fees that commercial nuclear reactors pay when generating electricity are recorded as negative mandatory spending in this function. Consequently, total spending is negative; the government makes more money than it spends on these energy programs.

- ! ***The President Breaks His Promise to Support Renewable Energy*** — Last fall, President Bush's Energy Issues Statement declared, "Governor Bush understands the promise of renewable energy and believes strongly in encouraging alternative fuel sources such as wind, biomass, and solar." But President Bush's budget cuts renewable energy resources by more than a third.
- ! ***Energy Supply*** — The President's budget provides \$505 million for applied energy research and development programs as well as programs providing environmental oversight and mitigation. This level represents a cut of \$156 million (23.6 percent) from the 2001 freeze level. Of the total, the budget provides \$237 million for renewable energy resources (a decrease of \$136 million or 36.4 percent from a freeze at the 2001 level) and \$223 million for nuclear energy research (a cut of \$23 million or 9.3 percent from a 2001 freeze level).
- ***Fossil Energy Research and Development*** — The budget provides \$449 million for fossil energy R&D, a decrease of \$96 million (17.7 percent) from the 2001 freeze level. The budget adds \$150 million for the President's Clean Coal Power Initiative, meaning that remaining programs in this category face cuts much deeper than 17.7 percent below a freeze. For example, the Fuels and Power Systems program, which among other things reduces emissions of air toxics and particulate matter in power plants, is cut by \$164 million, or 50.7 percent, below a freeze. The budget cuts natural gas programs by 53.4

percent (\$24 million) and petroleum programs by 54.4 percent (\$36.4 million), both below 2001 freeze levels.

- **Energy Conservation** — The budget includes \$795 million for energy conservation programs, which is \$20 million (2.5 percent) below a freeze at the 2001 level. As the chart below demonstrates, since this category includes the \$120 million increase for the Weatherization Assistance Program, cuts to other programs in this category are much larger than 2.5 percent.

Energy Conservation Funding in Function 270
(budget authority in millions of dollars)

	<i>2001</i>	<i>2002</i>	<i>Percent Change</i>
Building Technology, State and Community Sector			
Weatherization Grants	152.7	273.0	+ 78.8
State Energy and Program Grant	37.9	38.0	+ 0.2
Research and Development	1.406	56.1	-46.3
Subtotal, Building Technology, State and Community Sector	295.1	367.1	+ 24.4
Federal Energy Management Program	25.7	13.3	-48.2
Industry Sector	148.6	87.7	-41.0
Power Technology	47.3	47.3	0.0
Transportation Sector	255.4	239.4	-6.3
Policy and Management	43.3	40.1	-7.3
Total, Energy Conservation	815.4	795.0	-2.5

- ! **Power Marketing Administrations (PMAs)** — The budget provides \$205 million for the three federally subsidized PMAs, which sell to public utilities and cooperatives the electricity generated primarily by hydropower projects at federal dams. This represents an increase of \$5 million (2.5 percent) over a freeze at the 2001 level and is roughly equal to the amount needed, according to CBO, to maintain purchasing power at the 2001 level. PMAs also arrange to buy and re-sell, or “wheel,” power from other electricity producers. The net appropriation for wheeling is recognized as zero and the Appropriations Committee is not charged for the funding it appropriates for wheeling. The President’s budget for 2002 reflects \$222 million for wheeling, which represents funding available to the PMAs in addition to the \$205 million in the budget.

- ! ***Rural Electrification and Telecommunications*** — The President’s budget eliminates new loan funding for the Rural Telephone Bank, which cuts \$40 million for 2002 and \$494 million over the ten-year period (2002-2011).

- ! ***Elk Hills School Land Fund Change*** — The budget includes a shift away from advance appropriations for the settlement of longstanding “school lands” claims by the State of California to certain Elk Hills school district lands. 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 concerned with environmental protection and enhancement; recreation and wildlife areas; and the development and management of the nation's land, water, and mineral resources. This function does not include the large-scale environmental clean-up programs at the Departments of Defense and Energy.

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

Budget Summary

President Bush's April budget contains significant cuts in funding for many of the most crucial programs that protect public health and the environment. When combined with the President's recent rollback of important environmental regulations, this budget makes clear that protection of our nation's environment and natural resources is not a priority.

For 2002, the President's April budget provides \$26.4 billion in appropriations for natural resources and environmental programs. After an adjustment for the President's National Emergency Reserve Fund,⁸ this funding level is \$1.6 billion (5.7 percent) below a freeze at the 2001 level and \$2.6 billion (8.8 percent) below CBO's estimate of the level needed maintain current purchasing power. The funding situation for environmental programs only worsens in future years. Over ten years, the President's budget provides \$282.7 billion for environmental appropriations. With the same adjustment for the National Emergency Reserve, this funding level is \$44.6 billion (13.6 percent) below CBO's estimate of the level needed maintain current purchasing power.

Budget Details

! ***New Conservation Category Flat-Lined*** — The President's budget backtracks on last year's landmark agreement to set aside and protect funds for land and water conservation programs.⁹ Last year, an overwhelming and bipartisan majority in Congress voted to create a new category of appropriated funding for land and water conservation programs.

⁸ This adjustment removes about \$800 million in emergency appropriations for last summer's wildfires from the budget baselines for Function 300. See *Appropriated Programs* for more details on the President's National Emergency Reserve Fund and the reasons for this adjustment.

⁹ The conservation agreement is contained in Title VIII of the 2001 Interior Appropriations Act.

For 2001-2006, the funding in this new category is “fenced off” from other appropriated funds, and if appropriators do not utilize all of the funds in the category in any one year, any unused funding is available for appropriation the next fiscal year.

The category was set at \$1.6 billion for 2001 and is scheduled to grow by \$160 million per year through 2006, when it will reach \$2.4 billion. Under that schedule, appropriations from the category for 2002 through 2006 will total \$10.4 billion. However, the President’s budget abandons this funding schedule and flat-lines conservation funding at \$1.5 billion for 2002 to 2004 and \$1.6 billion for 2005 and 2006. This results in \$2.7 billion less in dedicated conservation appropriations over the five-year period. During consideration of the budget resolution, the Senate approved an amendment to undo the President’s cut to the conservation category for 2002 by adding \$200 million.

- ! ***Land and Water Conservation Fund (LWCF) Programs*** — The President’s budget claims to provide “full funding” for the land acquisition programs traditionally funded by the LWCF.¹⁰ Full funding would mean \$900 million split evenly between federal land acquisition and grants to states. In fact, the President’s budget provides only \$390 million for federal land acquisition and uses the remaining \$60 million for unrelated assistance for private landowners.

As for the state LWCF grants, the Administration claims to provide \$450 million for 2002 and calls this amount a \$360 million increase over a 2001 freeze. However, that increase of that size is only made possible by repackaging funding for existing programs that provide conservation assistance to states. For example, the budget folds funding for the following programs into its total for state LWCF grants:

- ▶ Urban Park and Recreation Recovery Grants (\$30 million),
- ▶ Cooperative Endangered Species Conservation Fund (\$50 million),
- ▶ North American Wetlands Conservation Fund (\$25 million), and
- ▶ State Wildlife Grants (\$50 million).

- ! ***Drilling in the Arctic National Wildlife Refuge*** — The President’s budget assumes the opening of the Arctic National Wildlife Refuge (ANWR) for oil and gas drilling. This highly controversial proposal threatens an irreplaceable natural treasure while adding a limited amount to the nation’s oil and gas supplies. Although assumed in the budget, the Administration cannot implement this proposal without new legislation. The assumed receipts from drilling in ANWR show up in Function 920 (Undistributed Offsetting

¹⁰ Funding from the LWCF is counted as part of the total for the new conservation budget category that Congress created last year.

Receipts). Both the House and the Senate both rejected this proposal when crafting their respective budget resolutions.

- ! ***Environmental Protection Agency (EPA)*** — For 2002, the President's budget provides \$7.3 billion for EPA, \$500 million (6.4 percent) less than a freeze at the 2001 level. This funding level is \$800 million (9.4 percent) below CBO's estimate of the level needed to maintain current purchasing power. As described below, this cut falls mostly on aid for water infrastructure as well as science and technology programs.
- ! ***Water Infrastructure*** — For 2002, the President's budget provides \$850 million for the Clean Water State Revolving Fund (SRF) Program, not even two-thirds of last year's enacted level. As a consolation, the budget does contain \$450 million for a new grant program that Congress created last year to address the lingering problem of sewer overflows. For the Drinking Water SRF Program, the budget provides \$823 million, the same funding as last year. Finally, the budget zeroes out \$335 million in water infrastructure aid outside of the aforementioned programs. Overall, the cut to water infrastructure aid totals \$382 million from the 2001 freeze level. This cut comes as the bipartisan coalitions in both the House and Senate prepare to push for increased federal assistance to address the country's unmet clean water and drinking water needs.
- ! ***EPA Science and Technology Programs*** — The Administration has said that it wants to make environmental decisions based on sound science, but at the same time it is cutting programs that provide the scientific basis for those decisions. Overall, the budget cuts EPA's science and technology account to \$641 million, a decrease of \$54 million (7.7 percent) from the 2001 freeze level. This cut includes a \$4.5 million cut to safe drinking water research and a \$6.3 million cut to research on key air pollutants.
- ! ***Cuts to Water Programs at U.S. Geological Survey (USGS)*** — The President's budget cuts the USGS budget to \$813 million, \$69 million (8.5 percent) below the 2001 freeze level. This overall cut includes \$20 million from the National Water-Quality Assessment Program (NAWQA) and \$10 million from the Toxic Substances Hydrology Program. NAWQA does essential water-quality monitoring and research to assess the state of the nation's waters and the pollution threats to those waters. The Toxic Substances Hydrology Program monitors for toxic substances in ground and surface water.
- ! ***Army Corps of Engineers*** — The budget cuts Army Corps of Engineers appropriated funding to \$3.9 billion, \$600 million (14 percent) below a freeze at the 2001 level and \$800 billion (16.9 percent) below CBO's estimate of the level needed to maintain current purchasing power. The budget includes no new construction efforts for 2002 and instead focuses on completing ongoing projects.

- ! ***Agriculture Conservation Programs*** — The President’s budget eliminates the Agriculture Department’s Wetlands Reserve Program, a cut of \$162 million. This voluntary program purchases long-term conservation easements from farmers to protect wetlands, thereby improving water quality and protecting wildlife. The program has been so popular that roughly three-fourths of interested farmers and ranchers have been turned away due to lack of funding.

The President’s budget also eliminates other popular and effective conservation programs for agricultural producers: the Wildlife Habitat Incentives Program, the Farmland Protection Program, Soil and Water Conservation Assistance, and the Forestry Incentives Program.

- ! ***Global Climate Change*** — During consideration of the budget resolution, the Senate approved a Democratic amendment to add \$4.4 billion over ten years (2002-2011) for activities related to global climate change. Democrats offered this amendment to reverse the President’s cuts to a range of programs aimed at understanding the global climate, voluntarily reducing greenhouse gas emissions, and spurring innovation in energy technologies.

Function 350: Agriculture

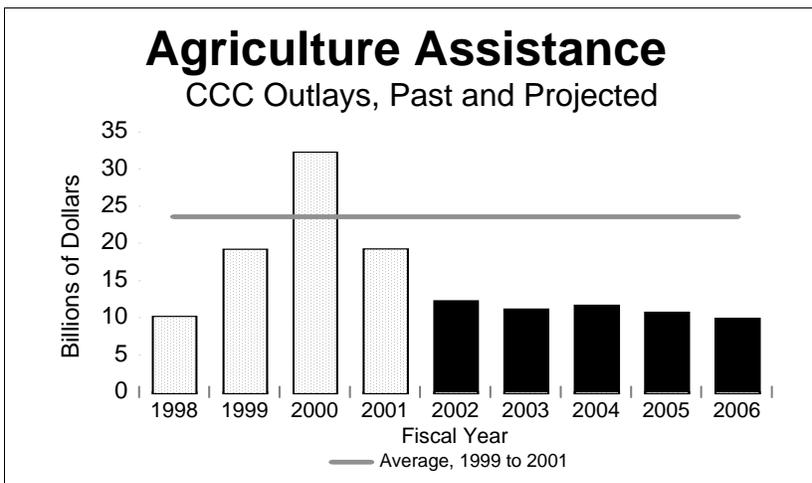
Function 350 includes farm income stabilization, agricultural research, and other services administered by the U.S. Department of Agriculture (USDA). The discretionary programs include: research, education, and rural development programs; economics and statistics services; meat and poultry inspection;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

- ***President Bush's Budget Ignores the Farm Safety Net and the Realities of the Current Farm Economy*** - The Bush budget dismisses the plight of America's farmers. Even though the Senate provided additional funding for agriculture and farm groups have made it clear that more money is needed, the Bush budget ignores the need. While squeezing the delivery system and cutting agricultural research dollars, the Bush budget suggests, "it appears that commodity prices are improving, [and] net cash income is projected to be over 90 percent of the average income in the 1990s." Prices may be inching up from Depression-era lows, but they are not rising fast enough for farmers to make a living this year without additional assistance. Net cash income has only risen because of steady support structures and, in many cases, because farm families have taken second jobs off the farm to supplement household income.

Emergency Spending

Agriculture has received over \$27 billion in ad hoc emergency spending since 1998, in response to both natural disasters and very low commodity prices. Crop yield loss as a result of drought or floods is difficult to predict, and historically assistance for crop yield loss has been provided through emergency spending. However, much of the emergency spending in the

past three years has also included income support because of desperately low prices, in addition to crop yield loss assistance, and the need for income assistance is likely to continue. It is unrealistic to expect that the levels of agriculture spending assumed in 2002 and beyond, which



are based on the *non-emergency* spending levels for agriculture in the recent past, will be sufficient to support America's farmers in today's farm crisis.

Bipartisan coalitions of farm groups have repeatedly underscored the need for additional assistance in hearings before the House Agriculture Committee, asking for as much as \$12 billion more per year. The Senate recently added \$59 billion to the budget over ten years for agriculture assistance, recognizing that the President's budget falls far short.

Empty Reserve Funds

Because the budget does not include any specific money to help farmers, some have suggested that the reserve funds could be used for this purpose. However, these reserve funds are not sufficient or available for this purpose.

There are two reserve funds in the President's budget: the National Emergency Reserve Fund (\$5.6 billion for 2002) and the Contingency Reserve Fund (\$841 billion over ten years), but neither of the two is likely to provide real help for farmers. First, the Emergency Reserve Fund falls short of the historical average amount Congress has spent on emergencies by over \$1 billion, *not including agriculture*. For agriculture, Congress has appropriated an average of \$9.0 billion per year for emergency payments over the past three years. If the entire reserve fund is used for agriculture — meaning no money for defense emergencies, earthquakes, forest fires, or anything else besides farmers — the reserve fund contains less than two-thirds of the average amount farmers have received in the past.

The Contingency Reserve Fund, which raids the Medicare Trust Fund, cannot be credibly said to contain money for farmers either. The Contingency Reserve Fund is used as a panacea for all that is lacking in President Bush's budget. It is intended to pay for a Medicare Prescription Drug Program, additional defense spending, transition costs for a new Social Security system, faulty ten-year economic forecasts, and any other need left unaddressed. The Contingency Fund runs out of money long before it runs out of uses, and all of the uses reduce the amount of debt repaid (for which the President's budget has already claimed credit).

The Incredible Shrinking Contingency Fund

Claimed Contingency Fund \$841 billion

Save the Medicare Surplus \$317 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

Fix the AMT \$??? billion

Under President Bush's reserve fund framework, agriculture competes with other priorities such as saving the Medicare trust fund, reducing debt, and strengthening defense. The Agriculture Committees must race to complete the commodity title of the Farm Bill, fracturing the important coalitions needed for reauthorization of the full Farm Bill. And since agriculture needs must be financed from the same pool of funds as defense needs, additional pressure is placed on the Committees. If the Pentagon completes its review before the Agriculture Committees finish their work, there may not be much — or anything — left for farmers.

- ***New User Fees in Marketing and Regulatory Programs*** — President Bush's budget implements new user fees for the Animal and Plant Health Inspection Service (APHIS) and the Grain Inspection, Packers and Stockyards Administration (GIPSA). The APHIS proposal would establish new user fees for costs for animal welfare inspections and the GIPSA proposal would establish a fee for grain standardization. These fees are estimated to raise \$5 million and \$4 million dollars per year respectively, and are used to pay for discretionary spending.

Appropriated Programs

President Bush's budget provides \$4.8 billion for appropriated agriculture programs for 2002, which is \$122 million below the amount needed, according to CBO, to maintain current purchasing power. Relative to the amount needed to maintain 2001 purchasing power, the President's budget cuts Function 350 by \$1.4 billion over the ten-year period (2002-2011).

- **Departmental Funding** — For 2001, USDA received \$19.3 billion for appropriated programs¹¹. President Bush’s budget provides \$17.9 billion, a cut of \$1.4 billion (7.4 percent) *before* accounting for inflation. In order to keep USDA’s purchasing power constant, CBO estimates the department would require \$19.6 billion, and President Bush has suggested an 8.7 percent cut from that level.

President Bush’s Budget Falls Short for USDA			
(Dollars in Billions)			
The President Provides	Last Year’s Level	Below Last Year	Percent Cut
17.9	19.3	-1.4	-7.4%
	Amount Needed to Keep Pace with Inflation	Below Level Needed	Percent Cut
	19.6	-1.7	-8.7%

Where are the Reductions Made?

- **Foreign Agricultural Service (FAS)** — The budget cuts P.L. 480 Title I, which provides concessional sales of U.S. agricultural commodities to developing countries and private entities, by \$112 million from last year’s level. The Section 416 (b) Program, which donates surplus commodities to carry out programs of assistance in developing countries and friendly countries is cut by \$565 million from last year’s level.
- **Marketing and Regulatory Programs** — President Bush’s budget for 2002 provides \$1.2 billion for marketing and regulatory programs at USDA, a \$231 million cut below the 2001 freeze level. These programs include APHIS, GIPSA, and the Agriculture Marketing Service.
- **Reductions in Agricultural Research** — USDA spent \$2.3 billion for its four research and education agencies for 2001. For 2002, these agencies face a \$173 million cut below a freeze level.

¹¹The USDA discretionary budget includes funding from Function 350 (Agriculture), as well as funding from Functions 150 (International Affairs), 270 (Energy), 300 (Natural Resources and Environment), 370 (Commerce and Housing Credit), 450 (Community and Regional Development), 550 (Health), and 600 (Income Security).

USDA Research, Education, and Economics Agencies

(Dollars in Millions)

Program	2001	President's Budget	Change
Agricultural Research Service (ARS)	1,012	969	-43
Cooperative State Research, Education, and Extension Service (CSREES)	1,138	994	-144
Economic Research Service (ERS)	66	67	+ 1
National Agricultural Statistics Service (NASS)	101	114	+ 13
Total Research Budget	2,317	2,144	-173

- Fewer Resources and New Priorities for Research***— President Bush’s budget reduces the overall level of USDA research funding and redirects remaining resources. The President’s budget sets aside \$12 million for additional work to prevent and control exotic diseases and pests with special emphasis on Bovine Spongiform Encephalopathy (BSE or “mad cow disease”), \$7.5 million to support work on biotechnology, and \$15 million for work on biobased products and bioenergy to overcome technical barriers to low cost biomass conversion. Since there is no corresponding increase in overall resources these shifts mean an additional \$35 million cut to current research programs, on top of the \$173 million overall cut already in the budget.

Last-Minute Additions

- Additional Money for the Agriculture Quarantine Inspection Program (AQI)***— On the day the President’s budget was released, Secretary Veneman announced an additional \$32 million for more personnel at critical ports of entry to protect against pests and diseases. She stated that the \$32 million was above the levels displayed in the President’s budget, and these levels would add \$13.5 million in resources for 2001 and \$18.6 million for 2002.

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).

Appropriated Programs

Under the President's budget, appropriated funding for Function 370 drops to a negative \$300 million for 2002, a decrease of \$1.0 billion from the 2001 level of \$700 million. Negative spending levels in this function are relatively commonplace, because the credit programs and the fee-funded programs in the function often receive more in collections than they spend. However, this drop in funding also results from cuts to programs and other policy changes, which are described below.

- ***Small Business Administration (SBA)*** — The President's budget increases fees for the 7(a) General Business Loan Program and the Small Business Investment Companies Participating Securities Program. These fees increases raise \$141 million for 2002. This change will increase the cost of borrowing for small businesses. For information on SBA's disaster loan program, see *Function 450 (Community and Regional Development)*.
- ***Cuts to Programs That Bridge the Digital Divide*** — The budget cuts the Commerce Department's Technology Opportunities Program by two-thirds, from \$46 million for 2001 to \$16 million for 2002. This program provides computers and Internet access to poor and underserved areas. This cut signals a retreat from efforts to encourage Internet use among minorities, the poor, and people in rural areas.
- ***Federal Housing Administration (FHA)*** — The President's budget makes a number of changes to FHA programs. First, it gives FHA the authority to insure hybrid adjustable-rate mortgages. The Administration claims this move will allow FHA to provide mortgages to an additional 40,000 families in 2002. Second, the budget increases FHA's maximum mortgage loan limits for multi-family projects by 25 percent. Third, the budget increases premiums for some FHA loan programs.
- ***Suspension of Advanced Technology Program*** — Pending a reevaluation of the program, the Administration suspends funding for new awards in the Commerce Department's Advanced Technology Program. This program, which received \$146 million for 2001,

provides assistance to U.S. businesses and joint R&D ventures to help them improve their competitive position. The goal of the program is to accelerate commercialization of technology that promises significant national economic benefits.

Mandatory Programs

Relative to spending under current law, the President's budget decreases mandatory spending by \$1.7 billion in budget authority and \$1.9 billion in outlays over 2002-2011. Most of this change results from the President's new state bank examination fees.

- ***State Bank Examination Fees*** — The President's budget includes new state bank examination fees by the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve. These fees are intended to recover the cost of supervising and regulating state-chartered banks and bank holding companies. Congress did not act on this proposal last year, and it is unlikely to pass this year. President Bush's budget includes \$1.2 billion in offsetting receipts and \$866 million in federal revenue from these fees over the period 2002 to 2011. House Republicans did not include these new fees in their budget resolution.

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).

For 2002, the President's budget provides \$62.1 billion in budgetary resources (appropriated budget authority plus mandatory contract authority). This funding level is \$600 million (1.0 percent) more than the 2001 enacted level. This overall increase for 2002 reflects a cut in discretionary budget authority of \$2.1 billion combined with an increase in mandatory contract authority of \$2.7 billion.

Cut to Discretionary Budget Authority— The President's \$2.1 billion cut to discretionary budget authority represents a \$2.8 billion cut for highway programs combined with a \$700 million increase for air and water transportation programs. Generally, federal aid for highway projects is not provided through discretionary budget authority.¹² Last year, however, Congress supplemented regular highway funding with discretionary budget authority. This funding went for such projects as the Woodrow Wilson Bridge (\$600 million), the Appalachian Development Highway System (\$254 million), and other projects around the country.

For 2002, the President's budget does not repeat the discretionary budget authority for these highway projects. The budget can still "fully fund" highway programs because of its increase in mandatory contract authority.

- ***Highways and Mass Transit***— For 2002, the President's budget provides 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, an increase of \$2.1 billion above the 2001 level. For mass transit, full funding is \$6.7 billion, up \$486 million from the 2001 freeze level.
- ***Federal Aviation Administration (FAA)***— For 2002, the President's budget provides the full amount authorized for FAA under the Aviation Investment and Reform Act for the 21st

¹² Some DOT programs are funded with traditional appropriations. However, highway programs, most mass transit programs, and the Federal Aviation Administration's airport improvement grants are usually funded with mandatory contract authority. The Appropriations Committees constrain the use of this mandatory contract authority by setting obligation limitations. Outlays resulting from the obligation limitations are counted as discretionary outlays.

Century (AIR-21). The level authorized in AIR-21 is \$13.3 billion, an increase of \$739 million (5.9 percent) from the 2001 freeze level.

- ***Coast Guard***— The President’s budget provides \$5.1 billion for the Coast Guard, a \$545 increase (12.1 percent) from the 2001 level. Of this increase, \$200 million is for operations and \$245 million is for capital costs.
- ***Amtrak*** — For 2002, the budget provides \$521 in capital funding for Amtrak, which represents a freeze at the 2001 funding level.
- ***Maritime Administration*** — For 2002, the President’s budget eliminates funding for new loan guarantees under the Maritime Guaranteed Loan (Title XI) Program. This program guarantees loans for purchases from the U.S. shipbuilding industry and for shipyard modernization. For 2001, the program received \$34 million, enough to guarantee \$413 million worth of loans. For 2002, the President’s budget provides \$4 million to cover only the costs of administering pre-existing guarantees.

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, Community Development Block Grant, 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, and the Small Business Administration's disaster loan program.

President Bush's budget includes \$10.1 billion for the Community and Regional Development function for 2002, a \$1.6 billion cut below the 2001 level. The budget includes \$52.5 billion for this function over years 2002 through 2006, \$8 billion below the level needed to maintain current services.¹³

- ! **Community Development Block Grants (CDBG)** — Community Development Block Grants provide funds for programs and activities for low- and moderate-income communities. The budget provides \$4.7 billion for the CDBG program, a \$516 million (9.7 percent) cut below the 2001 constant purchasing power level.
- ! **Community Development Financial Institutions (CDFI) Fund** — The CDFI Fund helps finance economic development in distressed communities through financial and technical assistance. The budget provides \$68 million for the CDFI fund for 2002, a \$52 million (43.3 percent) cut below the 2001 constant purchasing power level.
- ! **Economic Development Administration** — The Economic Development Administration (EDA) works to create jobs and implement comprehensive economic development strategies in distressed communities. The budget provides \$335 million for EDA, a \$96 million (22.3 percent) cut below the 2001 constant purchasing power level.
- ! **Appalachian Regional Commission** — The Appalachian Regional Commission (ARC) focuses on critical development issues on a regional scale. The budget provides \$66 million for ARC, a \$13 million (16.5 percent) cut below the 2001 constant purchasing power level.
- ! **Rural Community Advancement** — The Rural Community Advancement (RCA) program provides grants, loans, and loan guarantees to stimulate economic growth and build

¹³Calculations of last year's level exclude all emergencies designated within the function.

facilities in rural communities. The budget provides \$692 million in discretionary appropriations for RCA, a \$305 million (30.6 percent) cut below the 2001 constant purchasing power level.

- ! ***Bureau of Indian Affairs (BIA)*** — The Bureau of Indian Affairs (BIA) administers over half of the total federal funding for Native American programs and services. The budget includes \$1.8 billion for BIA, a \$42 million increase over the 2001 constant purchasing power level.

- ! ***Small Business Administration (SBA) Disaster Loans*** — The President’s budget provides \$75 million in appropriations to administer the Small Business Administration’s (SBA) disaster loan program, a \$33 million cut below the 2001 constant purchasing power level. The budget proposes legislation to raise interest rates charged to business borrowers from about 4.0 percent to approximately 5.5 percent.

- ! ***Federal Emergency Management Agency (FEMA) Disaster Relief*** — The President’s budget includes \$1.4 billion in appropriations for FEMA disaster relief programs, a \$258 million (15.9) cut below the 2001 constant purchasing power level.

The budget includes two proposals that would impact states and localities under FEMA’s flood insurance program. First, the budget proposes that publicly owned buildings carry disaster insurance. Second, the budget proposes that the federal share for hazard mitigation grants be reduced from 75 percent to 50 percent.

The budget includes savings resulting from two proposals to discontinue subsidized insurance coverage for specific properties. The budget phases out subsidized premiums for non-primary residences and businesses. In addition, the budget begins to remove several thousand “repetitive loss” properties from the program in 2002. “Repetitive loss” properties are those properties in flood plain areas that are flooded and rebuilt regularly with subsidized support. Neither the House budget resolution nor the Senate budget resolution included these proposals. The budget also eliminates the Project Impact Disaster initiative.

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

Function 500 includes funding for the entire Department of Education, programs at the Department of Labor including employment and training, and social services programs within the Department of Health and Human Services.

Overall, the budget provides \$65.4 billion for 2002 for appropriated programs in this function, \$2.1 billion over the 2001 freeze level. As noted below, the budget increases funding for 2002 for appropriated education programs by \$2.5 billion over a freeze. As a result, all other programs in the function must be cut by over \$350 million below a freeze at the 2001 level. Most notably, Department of Labor programs in this function are cut significantly. Overall funding for social services programs in this function roughly maintains current purchasing power.

Education

For 2002 the budget provides \$44.5 billion for appropriated programs for the Department of Education. This represents an increase of \$2.5 billion (5.8 percent) over the 2001 freeze level. The Administration's claims of an 11.5 percent increase are misleading and inaccurate. Such claims take credit for \$2.1 billion that Congress already provided for 2002 in last year's appropriations bill. The budget's 5.8 percent increase over a freeze at the 2001 level is less than half of the size of the 13 percent average increase that Congress has provided over the last five years. The budget resolution passed by bipartisan vote in the Senate provides over \$300 billion more for Function 500 over ten years than the President's budget, allowing for substantially greater increases for education. The President's budget increases funding for certain education programs, but these increases are funded in part through cuts to other education programs.

- ! ***Budget Provides Increases for Some Elementary and Secondary Education Programs—***
The budget increases appropriated funding for elementary, secondary, and vocational education by \$1.9 billion over the 2001 freeze level. This is less than one-fifth of the increase for 2002 (\$10.2 billion) for elementary and secondary education programs authorized by the Better Education for Students and Teachers Act (S. 1) approved unanimously by the Senate Health, Education, Labor, and Pensions Committee. Relative to a freeze at the 2001 level, the Bush budget increases Title I grants to Local Educational Agencies by \$459 million and Impact Aid to school districts affected by federal activities by \$137 million. The budget replaces existing reading and literacy grants with a \$900 million Reading First Initiative, and provides an increase of \$389 million for assessment, including the National Assessment of Educational Progress (NAEP).

- ! ***Replaces Class Size Reduction and Eisenhower Professional Development Programs*** — The budget eliminates \$1.6 billion in funding for reducing class sizes and \$564 million for the Eisenhower Professional Development Program for teachers. It creates a new formula grant program for improving teacher quality, funding for which is \$2.6 billion for 2002.
- ! ***Modest Increase for Special Education (IDEA)*** — The budget increases funding for the Individuals with Disabilities Education Act (IDEA) Part B grants to states by \$1.0 billion for 2002. This level of funding puts the federal contribution at 17 percent of the national average per pupil expenditure, less than half of the 40 percent “full funding” contribution level established in the original IDEA legislation.
- ! ***Small Increase for Student Aid*** — The budget increases funding for Pell Grants by \$1.0 billion for 2002. This amount allows for only a \$100 increase in the size of the maximum Pell Grant award, from \$3750 to \$3850. During his campaign, the President promised to increase the maximum Pell Grant award for first-year students to \$5100. The budget freezes other student aid programs, including work study, Perkins loans, Supplemental Education Opportunity Grants, and Leveraging Educational Assistance Partnerships (LEAP).
- ! ***Key Programs Fail to Keep Pace with Inflation*** — The budget freezes funding for the Safe and Drug-Free Schools and Communities Program at the 2001 level of \$644 million. Funding is also frozen at the 2001 level for after-school programs; the 21st Century Community Learning Centers program is funded at the 2001 level of \$846 million. This program provides after-school learning opportunities to enhance student achievement. Neither of these programs receives increases needed to keep pace with inflation.
- ! ***Budget Eliminates Funds for School Renovation*** — The budget eliminates the \$1.2 billion provided in last year’s budget for school renovation. This cut comes at a time when more than \$100 billion is needed, according to GAO, to bring public elementary and secondary classrooms into adequate condition.
- ! ***Budget Cuts Innovation and Enrichment*** — The budget consolidates 10 existing programs for educational innovation and enrichment into a new Choice and Innovation State Grant program. Funding for the new program is cut by \$462 million below the 2001 freeze level for the existing programs.
- ! ***Budget Cuts Educational Technology Funding*** — The budget provides \$817 million for 2002 for educational technology grants to states. This amount is \$55 million less than the 2001 level of \$872 million, a cut of 6.3 percent below a freeze at the 2001 level.

- ! ***Budget Cuts Funding for Some Higher Education Programs*** — The President's budget for the Office of Postsecondary Education provides \$1.7 billion for 2002, \$188 million less than the amount appropriated for 2001, a cut of 9.9 percent below a freeze at the 2001 level. Within the Office of Postsecondary Education, the budget cuts funding for the Fund for the Improvement of Postsecondary Education (FIPSE) by 65.1 percent relative to a freeze at the 2001 level, and funding for the GEAR-UP program (Gaining Early Awareness and Readiness for Undergraduate Programs) by 23.1 percent relative to a freeze at the 2001 level.
- ! ***Budget Cuts Funding for Vocational and Adult Education Programs*** — The budget reduces funding for appropriated programs for Vocational and Adult Education from the 2001 level of \$1.826 billion to \$1.802 billion. This is a cut of \$24 million below a freeze at the 2001 level, and a cut of \$41 million below the amount needed to maintain services at the current level.

Employment and Training

The budget provides \$5.1 billion for appropriated programs for training and employment services in this function. This amount reflects a \$541 million (9.5 percent) cut below a freeze at the 2001 level for these programs.

- ! ***Dislocated Workers*** — The budget provides \$1.4 billion for 2002 for job training services for dislocated workers, a cut of \$207 million (13.0 percent) below the amount appropriated for 2001. The dislocated workers program provides employment services to those workers who have been permanently separated from their jobs, including workers who have lost their jobs because of mass layoffs and plant closures.
- ! ***Adult Training*** — The budget decreases funding for standard adult employment training services to \$900 million, a cut of \$50 million (5.3 percent) below a freeze at the 2001 level.
- ! ***Incumbent Workers*** — The budget eliminates all \$20 million of specified funding for job training for incumbent workers. This program helps workers to upgrade their skills, productivity, and wages.
- ! ***Youth Activities*** — The budget reduces funding for job training services for youth to \$1.0 billion, a reduction of \$147 million (12.8 percent) below the amount provided for 2001. This program provides educational and skill development services to young people to promote their employability.

- ! ***One-Stop Career Centers*** — The budget provides \$134 million for One-Stop Career Centers, a reduction of \$16 million (10.7 percent) below a freeze at the 2001 level. The One-Stop Centers integrate the delivery of employment and education services, and thus form the fundamental infrastructure for the nation’s employment and training system.
- ! ***Other Training and Employment Services*** — The budget freezes funding for Youth Opportunity Grants, and for training and employment services for Native Americans and Migrant and Seasonal farmworkers. Funding for these programs does not increase to keep pace with inflation.

Labor Law Enforcement

- ! ***International Labor Affairs Bureau*** — The budget cuts funding for the International Labor Affairs Bureau (ILAB) by 51.6 percent below the 2001 freeze level, providing \$72 million for 2002. ILAB monitors worker rights and works to implement core labor standards in other countries.
- ! ***Employment Standards Administration*** —The budget proposes to shift administrative costs of the Federal Employees’ Compensation Act from the Employment Standards Administration (ESA) to other federal agencies. The proposed surcharge on the other agencies totals \$80 million. The budget assumes the approval of this surcharge, and thus reduces funding in this function for Salaries and Expenses for the Employment Standards Administration by \$79 million to \$282 million. In the event that the surcharge were not approved, the \$79 million reduction would become a cut below the 2001 freeze level. ESA enforces federal labor laws, including those concerning wages and working conditions.

Social Services

The budget provides \$10.5 billion in funding for appropriated social services programs for 2002 in this function. This level is slightly above the amount needed to maintain constant purchasing power.

- ! ***Services for Seniors*** — The budget provides \$1.1 billion for 2002 for appropriated programs in the Administration on Aging. This amount is \$5 million below a freeze at the 2001 level, and \$28 million (2.5 percent) below the level needed, according to CBO, to maintain current services. The budget freezes funding for several programs including preventative health services and meals for seniors provided in congregate settings such as senior centers.

- ! **Community Services Programs**— The budget cuts community services programs by \$28 million (4.1 percent) below the \$683 million provided for 2001. The budget eliminates funding for the Community Food and Nutrition program, the Rural Community Facilities program, and the National Youth Sports program. It freezes funding for the Community Services Block Grant at the 2001 level.

- ! **National Service**— For 2002, the budget provides \$728 million in appropriated funding for core programs of the Corporation for National and Community Service, a cut of \$33 million (4.3 percent) below a freeze at the 2001 level of \$761 million.

- ! **Head Start**— The budget provides \$6.3 billion for Head Start for 2002, an amount sufficient to maintain purchasing power for current programs but not to expand enrollment. The most recently available figures indicate that roughly half of the children aged three and four who are economically eligible for the program do not receive Head Start services. The budget notes the Administration’s intention to move the Head Start program in some future year from the Department of Health and Human Services to the Department of Education.

- ! **Mandatory Initiatives**— The budget increases spending for the Promoting Safe and Stable Families Program by \$200 million for 2002. This program helps to create stable living situations for children with their biological families, if possible, or with adoptive families. The budget also provides \$60 million for 2002 to fund education and training vouchers for children who are aging out of the foster care system.

- ! **Social Services Block Grant (Title XX)**— The budget provides \$1.7 billion for the Social Services Block Grant (SSBG) for 2002, a cut of \$25 million dollars below a freeze at the 2001 level. The National Governors’ Association has requested funding of \$2.38 billion for 2002, as originally allowed by the 1996 welfare reform legislation. The Strengthening Working Families Act recently introduced by a bipartisan group of Senators would set SSBG funding for 2002 at this \$2.38 billion level. 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 for the disabled, services for the elderly, employment, housing, and transportation.

Cultural Agencies

- ! ***No Real Increases for Major Agencies*** — The budget provides \$105 million in appropriated funds for the National Endowment for the Arts and \$121 million in appropriated funds for the National Endowment for the Humanities. Both of these figures are slightly below the amount needed, according to CBO, to maintain current services. The budget maintains current services for the Corporation for Public Broadcasting by providing \$370 million for 2002.

Changes to Advance Appropriations

For some programs in this function, the budget makes changes to the practice of advance appropriations. An advance appropriation designates funds for a fiscal year beyond the fiscal year for which the appropriations bill is passed. Current practice charges these funds to the fiscal year for which they are provided, not to the fiscal year for which the appropriations bill is passed.

The Administration proposes to change this practice for many, but not all, programs that have received advance appropriations in the past. For the programs affected, the Administration will not request advance appropriations, but will instead request that all appropriations for the current budget cycle be made available in fiscal year 2002. To avoid as a result of this change the appearance of a huge increase in 2002 discretionary budget authority, the budget proposes a one-time scoring shift. Advance appropriations already designated for 2002 will be moved from 2002 discretionary budget authority to 2002 mandatory budget authority.

This change increases mandatory and overall budget authority for 2002 by \$18.4 billion in this function. The change has no effect on actual program funding and, as a result, has no effect on budget outlays.

Function 550: Health

In Function 550 (Health), appropriated programs, also called discretionary, 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. For 2002, funding for the National Institutes of Health (NIH) represents over half (56 percent) of all discretionary funding. 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 this function.

Overview

- **Appropriated Programs** — For appropriated programs in Function 550 (Health), President Bush's budget provides \$41.0 billion in budget authority for 2002, an increase of \$2.1 billion (5.4 percent) over the 2001 level. Virtually all of the net increase is slated for the National Institutes of Health (NIH). For 2003, the budget increases discretionary funding by \$4.7 billion over the 2002 level. The majority of this net increase is also for NIH. For 2004 and thereafter, (2004-2011), the budget maintains aggregate funding levels for appropriated programs.
- **Mandatory Programs** — For mandatory programs, the budget increases projected spending by a net of \$10.7 billion for 2002, relative to current law. Over ten years (2002-2011), the budget increases projected spending by a net of \$45.6 billion. The spending increase is the result of two initiatives, the so-called "immediate helping hand" prescription drug proposal and the refundable portion of the health insurance tax credit. The increase is offset by another initiative that cuts projected Medicaid spending by closing a loophole in current law. (These proposals are explained in greater detail below.)

Medicaid

- **Medicaid Cuts** — The budget cuts Medicaid spending by \$606 million in 2002 relative to current law. Over ten years (2002-2011), Medicaid spending is \$17.4 billion lower than it would otherwise be. The budget includes additional constraints on the upper payment limit (UPL). Last year, Congress tightened these payments to prevent states from increasing their federal Medicaid payments without increasing health services. The budget would further tighten the UPL regulations. The House explicitly rejected this Medicaid cut when it adopted the 2002 budget resolution.

State Children's Health Insurance Program (S-CHIP)

- ***Revamping S-CHIP and Medicaid*** — Although no details are provided, the budget alludes to replacing Medicaid and S-CHIP with private health insurance through health care tax credits and other unspecified proposals related to flexibility for the states. The guarantee of core benefits provided under Medicaid and S-CHIP are not discussed. No legislative proposals are included in the budget for this purpose.

Temporary Block Grant for Prescription Drug Assistance for Seniors

- ***Block Grant for Prescription Drugs for Low-Income Seniors*** — The budget 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" temporary block grant that provides funds to the states for prescription drug assistance for seniors. This block grant is in lieu of a Medicare prescription drug benefit. Additional funds for an unspecified drug benefit and undefined Medicare reform (\$110 billion over seven years (2005-2011)) are included in *Function 570 (Medicare)*. These two pools of funds constitute the entire "immediate helping hand" initiative.

Health Programs Subject to Annual Appropriations

- ***Boost National Institutes of Health (NIH)*** — For 2002, the budget 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 from 1998 through 2003. Although it is a substantial increase for NIH, it falls short of the \$3 billion increase necessary to meet the goal of doubling funding in five years. For 2002, NIH funding represents over half (56 percent) of all discretionary funding.
- ***Freeze Ryan White AIDS Programs*** — For 2002, the budget freezes Ryan White AIDS programs at the 2001 level of \$1.8 billion. With the advent of effective therapies, the number of persons seeking AIDS Drug Assistance Program (ADAP) assistance has more than doubled since 1996. The budget's level funding of Ryan White programs, especially ADAP, comes at a time when many states are implementing program restrictions or eligibility limits because of budget shortfalls.

A recent survey (Kaiser Family Foundation, March 29, 2001) of ADAPs shows that these programs are key in providing HIV-related drugs to under-insured and uninsured persons living with HIV/AIDS. Ryan White programs fill the gaps for many with HIV/AIDS who do not have insurance and cannot qualify for Medicaid.

- ***Freeze Title X Family Planning*** — The budget freezes Title X family planning programs at the 2001 level of \$254 million for 2002.
- ***Cut Maternal and Child Health (MCH) Block Grant*** — For 2002, the budget funds the MCH block grant at \$709 million, a cut of \$5 million below the 2001 freeze level. The MCH block grant supports federal and state partnerships to develop service systems to address the critical challenges in maternal and child health.
- ***Freeze Healthy Start*** — The budget freezes Healthy Start at the 2001 level of \$90 million for 2002. The 2001 level was also freeze-level funding so the actual purchasing power of this program is reduced for a second year in a row by this budget. The Healthy Start program supports programs to reduce low birth weight, inadequate prenatal care, and other factors contributing to infant mortality, in targeted high risk communities.
- ***Cut Health Professions Training Programs*** — For 2002, the budget cuts health professions training by \$213 million (60.3 percent) below the 2001 freeze level.
- ***Eliminate Community Access Program (CAP)*** — The budget eliminates the community access program for 2002, a cut of \$125 million for 2002. CAP funds grants to coordinate health care services to the under-insured and uninsured offered by community providers such as public hospitals, community health centers, and disproportionate share hospitals.
- ***Freeze National Health Service Corps (NHSC)*** — For 2002, the budget essentially freezes the NHSC at the 2001 level. It funds NHSC at \$126 million, \$1 million over the 2001 freeze level. Through its scholarship and loan programs, the NHSC places physicians in medically under-served areas which often have a high rate of uninsured persons. NHSC physicians are often the mainstay of the health care workforce for institutions, such as community health centers and disproportionate share and public hospitals, that serve the under-insured or uninsured.
- ***Cut Children's Hospital Graduate Medical Education (GME)***— For 2002, the budget cuts pediatric GME by \$35 million (14.9 percent) below the 2001 freeze level. Funding drops from \$235 million for 2001 to \$200 million for 2002. These funds are currently used by children's teaching hospitals to offset the higher costs of providing advanced training to pediatricians.
- ***Boost Community Health Centers*** — For 2002, the budget funds community health centers at \$1.3 billion, an increase of \$124 million (10.6 percent) over the 2001 enacted level. These centers are one of many providers serving low-income and uninsured people.

Community health centers often rely on the NHSC for physicians to provide care to their patients and work with the CAP providers to coordinate care for the uninsured.

- ***Substance Abuse and Mental Health Services Administration (SAMHSA)*** — The budget funds SAMHSA at \$3.1 billion for 2002, an increase of \$101 million (3.4 percent) over the 2001 enacted level. Mental health activities are funded at \$766 million, a cut of \$16 million (2.0 percent) below the 2001 freeze level. Substance abuse activities are funded at \$2.2 billion, an increase of \$117 million (4.2 percent) over the 2001 enacted level.
- ***Cut Centers for Disease Control and Prevention (CDC)*** — For 2002, the budget funds CDC at a program level of \$4.1 billion, a cut of \$109 million (2.6 percent) below the 2001 freeze level. This includes transfers from other accounts and agencies. Areas marked for cuts include chronic disease prevention and health promotion activities (prevention of cardiovascular disease, diabetes, arthritis, and cancer) which are cut 23.3 percent below the 2001 freeze level.
- ***Childhood Immunizations*** — For 2002, the budget provides \$1.4 billion, an increase of \$42 million over the 2001 program level. This includes \$575 million in funds appropriated to CDC, and \$796 million in Medicaid funds for the Vaccines for Children (VCF) programs.
- ***Food and Drug Administration (FDA)*** — FDA's program level for 2002 is \$1.4 billion, an increase of \$123 million (9.5 percent) over the 2001 program level. User fees of \$203 million are included for 2002. New user fees totaling \$20 million for 2002 for import activities such as tracking and certifications requested by food exporters are included in the \$203 million.
- ***Food Safety and Inspection Service (FSIS)*** — For 2002, the budget provides FSIS with a program level of \$817 million, \$716 million in appropriations and \$101 million in user fees to support FSIS inspection activities. This is an increase of 2.9 percent over the 2001 program level.
- ***Indian Health Service (IHS)*** — The budget funds IHS at a program level of \$3.3 billion for 2002, an increase of \$107 million (3.3 percent) over the 2001 level. Of this amount, \$2.7 billion is appropriated directly to IHS. The remaining program funds are derived from collections or mandatory transfers to the account. For 2002, the health services program level is \$3 billion, an increase of \$151 million (5.3 percent) over the 2001 level. The facilities program level is \$324 million, a decrease of \$44 million (12.0 percent) below the 2001 freeze level.

- ***Occupational Safety and Health Administration (OSHA)*** — For 2002, the budget essentially freezes OSHA funding at the 2001 level. It funds OSHA activities at \$425.8 million for 2002, an increase of only \$4 million over the 2001 freeze level. Although the overall level is basically a net freeze level, some programs within OSHA such as the development of safety and health standards are cut (7.9 percent) and others such as the voluntary compliance efforts are increased.
- ***Mine Safety and Health Administration (MSHA)*** — For 2002, the budget freezes MSHA at the 2001 level of \$246.3 million.

Health-Related Tax Credit

- ***Refundable Tax Credit for Health Insurance*** — Beginning in 2002, the budget creates a refundable tax credit for the purchase of health insurance for those under 65 without public or employer-provided health plans. The credit equals 90 percent of the health insurance premium. However, the maximum credit is \$1,000 per individual covered by a policy, up to a maximum of \$2,000 for a family. For 2002 and 2003, the credit is limited to \$750 per individual up to a maximum of \$1,500 for a family. The full credit is effective for taxable years beginning after December 31, 2003. For those without tax liability, the tax credit is refundable.

Function 570: Medicare

Function 570 (Medicare) 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.

Appropriated Program

- ***Administration of Medicare*** — For 2002, President Bush’s budget funds Medicare administrative activities at \$3.5 billion, a cut of \$34 million (3.4 percent) below the 2001 level. Over ten years (2002-2011), the budget provides \$38.5 billion for this purpose. This is \$4.0 billion below the level required to maintain the current services level over the same period, according to CBO.

Medicare Solvency

- ***Shortening the Solvency of the HI Trust Fund*** — President Bush’s 2002 budget raids the HI (Part A) Medicare Trust Fund to pay for programs other than the current Medicare benefits to which the Trust Fund is dedicated under existing law. The budget achieves this by diverting the HI surplus to the contingency reserve, which may be used to pay for the tax cut, the woefully inadequate prescription drug plan, and priorities other than current Medicare benefits.

By diverting the HI Trust Fund to pay for purposes other than current Medicare benefits, the budget undermines the future of the Medicare HI (Part A) Trust Fund. Although it is known that Medicare requires resources outside the Medicare program to ensure its future long-term solvency, the budget ignores this fact and taps the HI Trust Fund for purposes other than current Medicare benefits. This further depletes the resources necessary to pay for specific benefits defined in current law.

- ***The Illusion of a Medicare HI Trust Fund Deficit*** — The budget continues to deny that a Medicare HI surplus exists. The budget continues to portray Medicare financing in a manner that incorrectly portrays the use of general revenues as a deficit instead of a subsidy designed as a benefit to protect seniors from the high cost of health care services. The budget continues to ignore the fact that the House voted twice on a nearly unanimous basis to put all of the Medicare surplus into a “lockbox” so that it cannot be used for the very purposes for which it is tapped by this budget.

Medicare Benefits

- ***Prescription Drugs and Unspecified Medicare Reform*** — The budget provides two separate pools of money for the President’s undefined prescription drug benefit and unspecified Medicare reform proposal. When these pools are combined, the budget provides \$153 billion over ten years (2002-2011) for a token, undefined prescription drug benefit and unspecified Medicare reform.
- ***Inadequate Resources for Prescription Drugs*** — Within the Medicare function, the budget begins to add extra resources to Medicare in 2005 (\$8.3 billion) for a prescription drug benefit coupled with Medicare reform. Over seven years (2005- 2011), Medicare spending is \$110 billion higher than it would otherwise be for these combined purposes. The President’s drug plan provides assistance only to low-income seniors who are not on Medicaid. This group consists of less than half of today’s seniors. About 25 million seniors are denied coverage under the plan. Most of them do not have access to affordable and reliable prescription drug coverage.

In 2002-2004, the budget includes only those increases in Medicare spending that occur under current law. The funding for this drug plan is not included in the Medicare spending total. An additional \$43 billion is included in Function 550 (Health) for this purpose in the earlier years (2002-2005).

- ***Congressional Republicans Reject Budget’s Medicare Prescription Drug and Reform Numbers*** — The budget includes only \$153 billion for both an unspecified drug plan and undefined Medicare reform. Last year’s House Republican plan was solely for prescription drugs. It carried a ten-year price tag of \$159 billion, and the price of prescription drugs has only increased. Last year’s plan, which relied on an unstable and unreliable Medigap market to provide drug coverage to seniors, was deemed unworkable by the insurance industry itself.
 - ▶ ***House*** — This year, when asked about the President’s Medicare numbers, a top House Republican, Rep. Billy Tauzin, Chairman of the House Energy and Commerce Committee said, “Everybody knows that figure is gone. It was set before CBO re-estimated last year’s House bill,” which he said is “already over \$200 billion and climbing.” (Congress Daily, page 3, 3/22/01) At this point, there are few who believe that a credible drug plan can be developed with so few resources, let alone a drug plan combined with Medicare reform.

- ▶ **Senate** — On April 6, the Senate rejected the President's proposal and adopted a budget resolution that more than doubled the funding level in the President's budget for Medicare prescription drugs.

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. 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. Major federal entitlement programs in this function include Supplemental Security Income (SSI), food stamps, Temporary Assistance to Needy Families (TANF), and child care. Spending associated with the refundable portions of the Earned Income Tax Credit (EITC) and Child Credit is also included in this function.

The President proposes \$42.8 billion in discretionary funding for Function 600 for 2002, \$2.0 billion less than the amount necessary, according to CBO, to maintain purchasing power in these programs¹⁴. The budget includes few initiatives in the mandatory programs of Function 600, and only those related to the President's tax proposals produce spending changes relative to baseline over the ten-year budget window. From 2003 to 2011, the budget increases mandatory spending relative to the OMB baseline by \$7.7 billion to reflect spending associated with the refundable portions of the President's proposal to double the child tax credit.

Housing Assistance

According to the Administration, 4.9 million low-income families have worst-case housing needs, paying over half of their incomes toward rent or living in substandard conditions. The Administration's major housing initiatives focus on homeownership, but also acknowledge the need to provide additional affordable rental assistance, particularly for families at the low end of the income scale. But, as outlined below, the budget makes dramatic cuts in housing assistance programs serving the poorest families and provides less than half the average amount of new assistance provided in the past three years.

¹⁴ CBO baseline estimates presented here may overstate budget authority and outlays in the Housing Certificate Fund (HCF) account in Function 600. CBO may make a technical adjustment to the HCF baseline in conjunction with its reestimate of the President's budget later this Spring.

New Initiatives

- ! ***New Housing Vouchers*** — The budget provides \$197 million for 2002 to fund 33,700 incremental housing vouchers. This is less than half the average number of vouchers (78,000) provided in each of the past three years.
- ! ***The American Dream Downpayment Fund***— The Administration does not provide additional resources for its major new homeownership initiative for low-income families, the American Dream Downpayment Fund. Instead, the budget provides the Downpayment Fund as a \$200 million set-aside within the HOME Investment Partnerships Program, reducing resources in that program (see below).
- ! ***Other Homeownership Initiatives***: The budget includes a number of other initiatives designed to increase homeownership through a combination of investor tax credits for single-family housing, increases in the FHA multifamily loan limit, and new adjustable-rate mortgages through the FHA (see *Function 450, Commerce and Housing Credit* for additional information). However, with the exception of the FHA multifamily programs, these programs seldom serve families whose incomes are too low to support housing development and maintenance costs without additional subsidy. As such, they do not reach the poorest families, who are most at risk in today's competitive housing markets. In 1997, 77 percent of families with worst-case housing needs had incomes below 30 percent of area median. The Administration intends to implement Section 8 homeownership activities, which would reach low-income families served by the Section 8 program. All funding for these activities will come out of existing Section 8 program resources.

Funding for Current Housing Programs

- ! ***Renewals of Section 8 Expiring Contracts*** — The budget promises to fulfill past commitments to renew all expiring Section 8 rental assistance contracts, requesting \$15.1 billion in new funding for this purpose for 2002. Although OMB estimates total renewal needs to be \$15.7 billion, the Administration reduces its budget request by assuming that it will achieve an offset of \$640 million. This budget contains new plans to reduce the value of local housing authorities' Section 8 contingency reserves from two-months' rent payments to just one-months' worth of rent payments. This reduction in local authorities' reserves, projected at \$640 million, may be the source of this offset.

Contract renewals allow the program to continue to serve the three million families who currently receive rental assistance, either through vouchers administered by Public Housing Authorities or through contracts directly with private landlords. Until the late 1990's, most Section 8 assistance was paid for out of long-term contracts, many as long as 20 years. These

contracts masked the annual funding required to continue to assist the same number of families. As old long-term contracts expire, the government must provide new funding to continue the same assistance. This funding pattern creates the appearance that the budget provides additional housing resources where it does not. The budget estimates that an additional \$2.2 billion (\$2.8 billion without 2002 offsets) is necessary to renew newly-expiring contracts for 2002.

! ***Tenant Protection and Other Vouchers*** — The budget provides \$203 million for tenant protection assistance, \$62 million below the amount provided for 2001. This 2002 amount does not include tenant protection vouchers for disabled persons displaced from public housing designated for the elderly. Congress provided \$40 million to support 8,000 of those vouchers for 2001. Instead, the Administration will encourage local housing providers to assist such families from within their current programs.

! ***Public Housing Capital Fund*** — The budget reduces funding for critical building repairs in public housing by \$700 million (23 percent) below a freeze. The administration justifies this cut by saying that local housing authorities can tap into currently unspent funds to address capital repair needs. HUD found \$22.5 billion in unmet capital repair needs in public housing in 1998 and determined that an additional \$2 billion in repair needs accrue each year. The unspent funds referenced by the Administration, which are actually funds committed to ongoing or planned repair work, fall far short of what is needed to make these repairs.

Maximizing the effectiveness of the Capital Fund is important. However, the budget cuts this funding in a way that is not targeted at poor performers and does not restore cuts once improvements are made. By reducing formula funding across the board, the budget penalizes all housing authorities, not just those that may be experiencing management problems. While the budget implies that this is a one-time effort to ensure that currently available funds are used up, the budget does not restore these cuts in subsequent years. These cuts, in combination with the elimination of the Drug Elimination program (see below) 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.

! ***Public Housing Drug Elimination Program*** — The Administration does away with the Public Housing Drug Elimination Grant program, which funds anti-crime and drug, law enforcement, and security activities in public housing communities. Congress provided \$309 million for this program for 2001. The Administration justifies this cut by saying that local housing authorities can make up for this loss by tapping into the Public Housing Capital and Operating Funds or other federal anti-drug programs or by evicting tenants. As described in this section, the budget simultaneously reduces the public housing capital fund by 23 percent and overpromises a small increase in operating funds.

! **The Public Housing Operating Fund** — For 2002, the budget provides a \$72 million (2.2 percent) increase above the amount necessary, according to CBO, to maintain purchasing power in day-to-day operating funds for local housing authorities. The budget alternately states that housing authorities may use the small increase for 2002 to make up for skyrocketing utility costs or to continue anti-crime and security activities currently funded under the Public Housing Drug Elimination Grant Program. Public housing industry experts estimate that public housing utility costs have grown by approximately \$150 million in 2001.

! **Revitalization of Severely Distressed Public Housing (HOPE VI)** — Although the budget cites HOPE VI as a tool for reducing unmet repair needs in public housing, it freezes funding at the 2001 level of \$574 million. This program awards grants to local housing authorities to address the problems of poor-quality public housing developments.

! **Rural Housing and Economic Development** — The budget eliminates this program, which Congress funded at \$25 million for 2001, citing duplication with the

Community Development Block Grant and other rural housing and development assistance programs. However, the budget reduces funding for several of these programs as well. See *Function 450, Community and Regional Development* for more information.

! **HOME Investment Partnership Program (HOME)** — Although the Administration frequently cites HOME’s success in creating housing opportunities for low-income families, the budget cuts its funding by 13 percent. The budget freezes the HOME program at the 2001 appropriated level of \$1.8 billion, reducing purchasing power for 2002 by \$40 million. State and local governments use this flexible program to create a range of low-income housing opportunities, including rent supplements, construction and rehabilitation of multifamily rental

Changes in Major Low-Income Housing Assistance Programs for 2002, Other than Section 8 Contract Renewals		
(\$ in Millions)		
	Compared with:	
	2001	2001
	Freeze	Inflation-Adjusted (CBO)
New Initiatives		
Downpayment Assistance Initiative (provided within HOME)	200	200
New Section 8 Housing Vouchers	197	197
Current Programs		
Public Housing Capital Fund	-700	-766
Public Housing Drug Elimination	-309	-316
Public Housing Operating Fund	150	72
Revitalization of Distressed Public Housing (HOPE VI)	0	-14
Section 8 Local Agency Reserves	-640	-640
HOME Investment Partnerships	-200	-240
Rural Housing & Economic Development	-25	-26
Homeless Assistance	0	-25
Housing for Elderly & Disabled	7	-17
HOPWA	20	13

housing, improvements to substandard housing for current owners, and assistance to new home buyers. The budget further erodes HOME program funds by carving out \$200 million for the Administration's Downpayment Assistance Program (see above).

- ! ***Homeless Assistance*** — The budget freezes funding for Homeless Assistance Grants and the renewal of Shelter Plus Care permanent housing grants at the 2001 levels (\$1.023 billion and \$100 million, respectively), reducing purchasing power in these programs by a total of \$25 million for 2002. These grants fund local projects to provide a “continuum of care” that includes outreach, assessment, emergency shelter, and housing aimed at moving homeless individuals and families to permanent housing and jobs.

- ! ***Housing for Special Populations: Housing for the Elderly and Disabled*** — The budget provides \$1.0 billion for supportive housing for the low-income elderly and disabled for 2002, a \$17 million cut compared with CBO's estimate of the amount necessary to maintain purchasing power for 2002.

- ! ***Housing Opportunities for Persons with AIDS (HOPWA)*** — The budget highlights a number of small program increases as evidence of its commitment to low-income housing. The administration provides \$277 million for the HOPWA program for 2002, \$13 million above the amount necessary to maintain current services. This increase is based on growth in the number of AIDS cases (and the commensurate increased demand for services). However, this increase is less than the amount cut from other housing programs for the disabled and the homeless (see above).

Income Assistance

- ! ***Low-Income Home Energy Assistance (LIHEAP)*** — Despite skyrocketing energy prices, the budget freezes funding for LIHEAP at the 2001 levels, including \$1.4 billion in standard program funds and \$300 million in emergency funds. This freeze reduces purchasing power in the program by \$38 million. The budget does away with the current restrictions that makes access to emergency funding contingent upon a Presidential designation as emergency funding.

- ! ***Child Care*** — The budget raises total funding for the Child Care and Development Block Grant (CCDBG) for 2002 by \$200 million over the 2001 freeze level. However, the budget carves out \$400 million of the new total (\$2.2 billion) for a new after-school care voucher initiative, reducing funding for the current child care program by \$200 million compared to a 2001 freeze. The Budget Resolution recently passed by the Senate included an additional \$870 million for CCDBG for 2002.

! **Temporary Assistance for Needy Families (TANF)** — TANF is the nation's primary welfare program, providing cash assistance, case management, welfare-to-work and other critical assistance to needy families with children in their efforts to find work or remain employed. TANF funds have become a particularly important source of child care funding for low-income families. In 1999, states devoted \$3 billion of their federal TANF funds to child care. The President's budget will reduce the amount of TANF funding available for child care and other assistance for low-income families in 2002 and beyond.

- ▶ **Expiring TANF Supplemental Grants** — The President's budget carefully enumerates spending associated with TANF activities authorized through 2002, but fails to mention that it allows TANF Supplemental Grants to expire after 2001. The Supplemental Grants provide additional funds to 17 states with low per-child grants under the standard TANF grant formula. Congress provided \$319 million for these grants in 2001. A bipartisan group of Senators successfully amended the 2002 Senate Budget Resolution to provide \$319 million for the extension of these grants through the 2002 reauthorization of welfare reform.
- ▶ **TANF/Charity Tax Credit** — The budget encourages states to use remaining TANF funds to cover revenue losses incurred from state income tax credits for charitable contributions, without providing funding to replace funds diverted from current activities. The diversion of these funds shifts the timing of their expenditure in the short term, but creates no net change in spending for 2002 or over the ten-year budget window.
- ▶ **Expiring Contingency Funds** — Congress created TANF Contingency Funds as a welfare safety net for states experiencing economic hardships. Welfare experts agree, however, that the currently-authorized Contingency Funds are an ineffective buffer against economic downturn that must be both improved and adequately funded. Despite increased evidence of state-level budget shortfalls, the budget contains no proposals or spending to fix and extend TANF Contingency Funds, which expire in 2001.

Food and Nutrition Assistance

! **Special Supplemental Nutrition Program for Women, Infants and Children (WIC)** — Despite its projection that unemployment rates will rise from 4.3 percent in 2001 to 4.6 percent in 2002, the Administration's budget freezes the number of low-income women, infants and children served by WIC at the 2001 level. The budget provides a total of \$4.3 billion in WIC funding to serve 7.245 million participants per month in 2002, the same number

originally projected to be served in 2001. The last time the unemployment rate averaged 4.6 percent (fiscal year 1998), WIC participation averaged 7.37 million.

Of the \$4.3 billion provided for 2002, \$4.2 billion is attributable to new 2002 appropriations and \$136 million is attributable to funds expected to be carried over from 2001. If 2001 participation rates exceed original projections, carryover funds may decline, further squeezing the WIC program budget for 2002. WIC participation in January 2001 exceeded the original 2001 projection by 14,000 participants.

- ! **Food Stamps** — The budget proposes no legislative changes to the food stamp program, maintaining program spending at the baseline projection of food stamp benefit requirements under current law. The budget anticipates that it will serve 18.4 million persons per month in 2002, at a cost of \$20.9 billion. However, a recent USDA report found that only 59 percent of all eligible families and 47 percent of eligible working families participate in the food stamp program. The budget maintains spending for activities that improve program administration and education, such as nutrition education, program information, electronic benefit transfer (EBT) and program integrity efforts, at 2001 levels.

The budget includes additional funding of \$900 million in 2002 and \$9.0 billion over ten years to increase its benefit reserve funds for unforeseen costs to \$1 billion in each year. This should not be considered an increase in program benefits, however, because the budget does not include any increased *spending* associated with these reserve funds. This request was also included in the 2001 budget.

- ! **Child Nutrition** — The budget maintains spending for the child nutrition programs (including the school lunch, school breakfast, and Child and Adult Care Feeding Programs) at current law estimates.

Tax Proposals

- **Expansion of the Child Credit** — The budget includes \$7.7 billion over ten years for spending associated with the President's proposal to double the child tax credit from \$500 to \$1,000 and increase the income brackets at which the credit phases out. The child tax credit is refundable for families with three or more children, but only to the extent that their income and employee payroll taxes exceed their earned income tax credit. (Refundable tax credits provide a payment to an eligible family when the value of the credit exceeds the family's tax liability. These payments are scored as federal spending in the President's budget.) House Republican tax writers altered the President's tax cut outline to provide an additional \$10.8 billion in refundable tax credit spending over ten years. See *The Bush Tax Cut* for more information on the cost and fairness of the President's tax proposals.

- ***Earned Income Tax Credit (EITC)***— The President’s budget and tax proposals do not expand the EITC in any way. The budget continues the EITC Compliance Initiative, providing \$146 million (\$1 million above the 2001 freeze level) for 2002. This initiative seeks to reduce EITC filing error rates through early detection and prevention of erroneous claims. Complex EITC rules contribute significantly to taxpayer errors in filing the EITC. House Republicans included a \$12.9 billion expansion of EITC in House-passed tax legislation (H.R. 6). The alternative to the President’s 2002 tax package proposed by House Democrats would have expanded EITC by \$60.8 billion over ten years, eliminating the EITC marriage penalty and streamlining filing rules to reduce taxpayer errors.

Unemployment Compensation

- ***Unemployment Administration and Benefit Coverage*** The Administration’s budget assumes increases in both the general unemployment rate and the unemployment rate of workers eligible for unemployment insurance (UI) from 2001 to 2002. Despite these projections, the budget cuts funding for state administration of unemployment benefits for 2002 by \$64 million compared with 2001 inflation-adjusted levels. The budget does not include proposals or funding to address a recent GAO finding that “...because the UI program appears to provide only limited protection for low-wage workers, the role of UI as a safety net for all workers warrants attention, particularly in light of the sweeping changes to the national welfare policy.” See *Function 500 (Employment and Training Programs)* for additional discussion of cuts in employment and training programs.

Federal Employee Retirement

See *Function 950, Undistributed Offsetting Receipts*, for further discussion.

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.

- ***No Benefit or Payroll Tax Changes*** — The President’s budget proposes no changes for Social Security benefits or payroll taxes.
- ***Administrative Funding Cut*** — The budget reduces appropriated spending for the administration of Social Security retirement, survivor, and disability benefits. Over ten years (2002-2011), budget authority is reduced by \$2.7 billion (6.6 percent), and outlays are reduced by \$2.2 billion (5.3 percent) relative to the level required to maintain current services.
- ***Long-Term Reform Left Unspecified*** — The budget does not propose any specific reforms for Social Security but notes the President’s intention to establish a bipartisan commission on Social Security reform based on private stock market investment.

See *Jeopardizing the Future of Social Security and Medicare* for further discussion.

Function 700: Veterans Benefits and Services

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.

For 2002, the President's budget provides \$23.5 billion for appropriated veterans programs, which is \$3 million more than the level needed, according to CBO, to maintain current purchasing power. Over the ten-year period (2002-2011) however, the President's budget cuts appropriated programs for veterans by \$11.6 billion compared with that level. The President's budget assumes savings of \$2.6 billion in mandatory funding for veterans programs, through a variety of extensions of expiring provisions and the elimination of the Vendee home loan program.

- **Medical Care** — Overall, the President's budget includes \$22.3 billion for 2002 for veterans medical care, including \$896 million in medical care collections and millennium collections.
- **Veterans Benefits Administration** — The budget provides \$1.1 billion for the Veterans Benefits Administration, an increase of \$134 million over the 2001 freeze level.
- **National Cemetery Administration** — The budget includes \$121 million, \$12 million more than the 2001 freeze level, for the National Cemetery Administration.
- **Medical Research** — The President's budget includes \$360 million, a \$10 million increase over the 2001 freeze level, for medical research. This amount represents about one-third of the total resources available to VA for medical research and is based on the assumption that VA should increase its share of non-appropriated research funds.
- **Medical Construction** — The budget includes \$441 million for VA medical construction, \$78 million more than a freeze at the 2001 level.
- **Mandatory Savings Proposals** — The budget makes permanent several OBRA provisions which are scheduled to expire in 2003 and beyond. Together, these provisions save \$2.5 billion over the period 2003-2011. These provisions include:
 - ▶ rounding down disability compensation cost-of-living adjustments to the next whole dollar amount (saving \$996 million in 2003-2011);
 - ▶ extending authority to verify income of beneficiaries with the IRS and the Social Security Administration (saving \$48 million in 2004-2011);

- ▶ limiting VA pension benefits for Medicaid-eligible recipients in nursing homes and permitting veterans to keep the reduced monthly payment (saving \$415 million in 2009-2011, including Medicaid offset); and
- ▶ continuing three provisions regarding veterans' housing programs (saving \$841 million in 2009-2011).

The budget also eliminates the Vendee Home Loan Program, costing \$19 million in 2002 but saving \$225 million over the ten-year period (2002-2011). The vendee loan program allows the VA to sell foreclosed properties to non-veterans using direct loans. Eliminating this program may make it more difficult for the VA to sell foreclosed properties, especially properties in disrepair. The Senate budget resolution included this provision, but the House budget did not.

Is Veterans Funding in the President's Budget Adequate? Congressional Republicans Say No

While the President's budget maintains veterans funding for 2002 at 2001 levels, Congressional Republicans increased veterans funding in both the House and Senate budget resolutions above the President's request. The House Republican resolution included a \$700 million increase over the President's level for appropriated programs for 2002, and over the ten-year period (2002-2011) the House resolution surpassed the President's discretionary spending levels by \$500 million. The House Republicans also made improvements to veterans entitlement programs by raising the level of certain education and burial benefits. In total, the House Republicans added \$11.6 billion to the President's budget for veterans programs over the ten-year period (2002-2011).

The Senate increased funding for veterans programs above the President's level by \$6.4 billion for 2002, and by \$68.2 billion over the ten-year period (2002-2011).

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.

The President's budget provides \$29.8 billion in appropriated funds for the Administration of Justice function for 2002, a \$1.5 billion (4.8 percent) cut below the level needed to maintain constant purchasing power. These cuts are largely applied to state and local law enforcement assistance programs.

- ! **Community Oriented Policing Services** — Since 1994, the Community Oriented Policing Services (COPS) program has placed over 100,000 new police officers on the street while also providing administrative and technological resources for state and local law enforcement entities. The budget provides \$855 million for the COPS program, a \$172 million cut below the 2001 freeze level. The budget cuts COPS grants used for hiring new community police officers to \$320 million, \$271 million below the 2001 freeze level.
- ! **Federal Law Enforcement** — The budget includes modest increases for federal law enforcement programs compared to last year's freeze level. Funding for these programs is as follows: \$3.5 billion for the Federal Bureau of Investigation (a \$270 million increase over the 2001 freeze level); \$1.5 billion for the Drug Enforcement Agency (a \$105 million increase over the 2001 freeze level); \$2.0 billion for the United States Customs Service (a \$100 million increase over the 2001 freeze level); \$804 million for the Bureau of Alcohol, Tobacco, and Firearms (a \$33 million increase over the 2001 freeze level); and \$620 million for the United States Marshals Service (a \$46 million increase over the 2001 freeze level).
- ! **Immigration Services** — The budget provides \$3.5 billion for the Department of Justice's Immigration and Naturalization Service (INS), a \$250 million increase over the 2001 constant purchasing power level. The budget's priorities include hiring more border patrol agents and establishing a six-month processing standard for all immigration applications.
- ! **Additional State and Local Grant Reductions** — The budget, while slightly increasing funding for federal law enforcement programs, substantially cuts state and local justice assistance. Cuts to state and local law enforcement assistance include the following: \$408 million for Office

of Justice programs (a \$10 million cut below the 2001 freeze level); \$400 million for Local Law Enforcement Block Grants (a \$123 million cut below the 2001 freeze level); and \$265 million for the State Criminal Alien Assistance Program (a \$135 million cut below the 2001 freeze level). The budget eliminates funding for Boys and Girls Clubs in public housing, discretionary funding for the Byrne Grant program, and many state prison grant programs. The House budget resolution adopted the President's cuts to state and local law enforcement assistance. However, the Senate adopted an amendment to restore \$1.5 billion in cuts to state and local law enforcement assistance.

- ! ***Civil Rights Enforcement*** — The budget provides \$310 million for the Equal Employment Opportunity Commission (EEOC), a \$9 million decrease below the 2001 constant purchasing power level. The budget provides \$46 million for the Fair Housing Activities, a \$1 million cut below the 2001 constant purchasing power level. The budget provides \$80 million for the Department of Education's Office for Civil Rights, maintaining the program at the 2001 constant purchasing power level.
- ! ***Legal Services Corporation*** — The budget includes \$329 million for the Legal Services Corporation, an \$8 million cut below the 2001 constant purchasing power level.
- ! ***Correctional Activities*** — The budget provides \$3.8 billion in appropriations for the federal prison system, a \$200 million increase over the 2001 constant purchasing power level. The budget lists prison construction and modernization as priorities.

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.

President Bush's budget provides \$14.8 billion for the general government, \$200 above the level needed, according to CBO, to maintain constant purchasing power. However, the budget cuts funding by \$6.6 billion over the ten-year period (2002-2011).

- ! **Legislative Branch** — The budget includes \$2.7 billion, \$300 million above the level needed to maintain constant purchasing power, for the Legislative Branch. The funding is for the operations of the House and Senate as well as support agencies such as the General Accounting Office, the Library of Congress, and the Congressional Budget Office.
- ! **Executive Office of the President** — The budget provides \$316 million, \$4 million above the level needed to maintain constant purchasing power, for the Executive Office of the President (EXOP), which includes the White House and supporting agencies such as the Office of Management and Budget, National Security Council, and Council of Economic Advisors. The budget also includes \$454 million for the Office of National Drug Control Policy, which provides Executive branch support for drug policy development and coordinates drug control programs within fifty federal agencies and departments. The salaries and expenses account (\$65 million) for this office is included within the budget for EXOP.
- ! **Internal Revenue Service (IRS)** — The budget includes \$9.1 billion, \$200 million above the level needed to maintain constant purchasing power, for the Internal Revenue Service. The budget includes \$397 million in investments to modernize IRS's outdated computer systems. The budget cuts IRS funding by \$4.5 billion below the level needed, according to CBO, to maintain constant purchasing power over the ten-year period (2002-2011).
- ! **General Services Administration (GSA)** — The budget includes \$165 million for the GSA, \$261 billion below the level needed to maintain constant purchasing power. The GSA is the central provider of supplies, general administrative services, telecommunication services, and office space to federal agencies. Over \$138 million is requested for its Office of Government-wide Policy and \$36 million for the Office of the Inspector General. However, about \$18 billion of GSA's activities are financed by other federal agencies through its revolving funds, which provide services to agencies on a reimbursement basis.

- ! ***District of Columbia*** — The budget includes \$178 million, \$119 million below the level needed to maintain constant purchasing power, for the District of Columbia’s criminal justice system, which was assumed as a federal responsibility under the D.C. Revitalization Act. The budget also includes \$451 million in mandatory funding for federal benefit payments for retired D.C. law enforcement officers, firefighters, and teachers.

Mandatory Programs

- ! ***Payment to Alaska*** — The budget includes \$1.2 billion for payments to Alaska for drilling in the Arctic National Wildlife Refuge. See Function 950 (Undistributed Offsetting Receipts) and Function 300 (Natural Resources) for further discussion.
- ! ***Payments for Trust Accounting Deficiencies*** — The budget includes \$7 million to increase the individual Indian money (IIM) investment pool. The Office of the Special Trustee for American Indians maintains this account where activities to support management and investment of approximately \$3 billion held in trust are for tribes and individual Indians. The office also implements reform efforts and the collection, investment, disbursement, and provision of timely financial information to Indian Tribes and the individual Indian money account holders.

Function 920: Allowances

This function includes an emergency reserve fund and funding for adjustments to the legislative and judicial branches' requests.

- ! ***Emergency Reserve Fund*** — Like the February Budget Blueprint, the April budget assumes a \$5.6 billion emergency reserve for 2002 and a \$61.9 billion reserve over the ten-year period (2002-2011).

- ! ***Adjustments to the Legislative and Judicial Branches' Requests*** — President Bush's budget includes savings of \$270 million for 2002 and \$3.0 billion over the ten-year period (2002-2011) from adjustments to the legislative and judicial branch accounts for excessive funding requests. Each year, these branches make a request to OMB to cover their funding needs. OMB, in turn, adjusts the overall funding level to better reflect the historical funding levels for these branches of government. However, these reductions are reflected in this function rather than in the budget functions that contain the judicial and legislative branches to reflect comity among the three branches of government.

Function 950: Undistributed Offsetting Receipts

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

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

For 2002, President Bush’s budget assumes offsetting receipts of \$49.4 billion. Over the ten-year period (2002-2011), the budget assumes offsetting receipts of \$628.9 billion.

- ! **Federal Employee Retirement System** — In 2002, federal agencies will pay \$41.6 billion to the federal employee retirement funds (Civil Service Retirement System, Military Retirement System, and the Federal Employees Retirement System). Employers also make payments to the Medicare Health Insurance Trust Fund and the Social Security Trust Funds on behalf of federal employees. As employees’ pay increases, agencies are required to increase their payments to these funds.

- ! **Federal Employees Pay Raise** — The April budget provides increases in federal civilian pay rates of 3.6 percent in January 2002. President Bush rejects pay parity between military and civilian employees, pegging the 2002 pay hike for the civil service one percent below that recommended for the military.

Proposed Legislation in Undistributed Offsetting Receipts

Spending:	2002	2003	2004	2005	2006	10-yr Total
Mandatory Outlays:						
Existing Law..	-51.8	-60.7	-62.4	-56.2	-57.8	-564.4
Proposed Legislation	2.4	0.3	-8.2	-2.7	-4.6	-14.8

! **Agency Contributions** — Like the President’s February Blueprint, the April budget 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 \$3.3 billion over ten years. The higher agency contributions will have to be paid with funds appropriated to agencies for other budgetary needs. CBO estimates a savings of \$3.9 billion over ten years for this proposal.

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>10-yr.total</u>
...	...	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.2	-3.3

! **Arctic National Wildlife Refuge Lease Receipts** — Like the President’s February Blueprint, the April budget assumes the opening of the Arctic National Wildlife Refuge (ANWR) for oil drilling. The budget assumes leasing begins in 2004, generating \$2.4 billion in receipts to be shared 50/50 with Alaska. Both the House-passed and Senate-passed budget resolutions rejected this proposal.

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>10-yr.total</u>
...	-2.4	...	...	...	...	...	...	...	-2.4

! **Spectrum Auctions and Fees** — The President’s budget establishes a \$200 million annual fee on commercial television broadcasters to accrue \$1.4 billion in receipts. Under the terms of the new spectrum “lease fee,” the Federal Communications Commission (FCC) will charge broadcasters for using electromagnetic spectrum for analog television broadcasts. Individual broadcasters will be exempt from the fee upon returning their existing analog channels to the FCC (and thus completing their transition from analog to digital broadcasting). The fee will be used by the Department of Justice, the Department of the Treasury, and the Bureau of Indian Affairs to offset the cost of promoting and upgrading federal, state, and local public safety wireless communications equipment and facilities.

The budget does not propose any new spectrum auctions, but it does shift the statutory deadline for the beginning auction dates from 2000 to 2004 for 36 megahertz of spectrum formerly assigned to television channels 60–69; and from 2002 to 2006 for spectrum assigned to television channels 52–59. The original auction dates were set in the Balanced Budget Act of 1997. The acceleration does not result in any net gain or loss of auction receipts over time, but an estimated \$7.5 billion in receipts will accrue.

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>10-yr.total</u>
...	2.4	0.8	-5.3	-2.2	-4.2	-0.2	-0.2	-0.1	...	...	-9.0