President Bush's 2006 Budget

A Brief Overview

Prepared by
the U.S. Senate
BUDGET COMMITTEE
Majority Staff
Senator Judd Gregg, Chairman
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(1). In this document, all dollar and percentage amounts relating to the President's budget and to OMB Baseline estimates have been taken from the President's 2006 budget document. These figures are based on the OMB's economic forecast and technical estimating procedures and have not been reestimated by the Congressional Budget Office.

(2). Unless otherwise stated, all years in this report are fiscal years.

(3). In the case of all tables: (a) Details may not add to totals due to rounding; (b) "N/A" means not available or not applicable; and (c) "(*)" means less than $0.5 billion or less than $500,000 depending on units, or less than one-half percent.

FY 06 **OVERVIEW**

U.S. Senate Budget Committee

THE PRESIDENT'S 2006 BUDGET REQUEST

President George W. Bush's 2006 budget request is committed to sustaining economic growth, protecting America, and investing in national priorities.

Declining Deficits

The President's budget meets his stated **goal of cutting the deficit in half** by 2009 (as a percentage of Gross Domestic Product [GDP] compared to the $521 billion deficit estimate for 2004 in the President's 2005 budget, which was 4.5% of GDP). By OMB estimates, the President's budget meets the "percent of GDP" goal in 2008, and also cuts the nominal deficit in half by 2008.[1]

THE PRESIDENTS BUDGET
CUTS THE DEFICIT IN HALF BY 2008

	2004							
	President's 2005 Budget Estimate	***Actual***	***2005***	***2006***	***2007***	***2008***	***2009***	***2010***
Unified Deficit	**-521**	-412	-427	-390	-312	**-251**	-233	-207
% of GDP	**4.5%**	-3.6%	-3.5%	-3.0%	-2.3%	**-1.7%**	-1.5%	-1.3%

The President's budget meets these goals primarily by keeping economic growth strong, reducing non-defense, non-homeland security spending, and reducing mandatory spending.

Change in Surplus/Deficits Since 2001

- At the beginning of George W. Bush's presidency, OMB projected surpluses of $5.1 trillion for the 2001-2010 period. Today, OMB estimates deficits of $2.6 trillion for the same time period, including the impact of legislation enacted during the last four years and assuming enactment of the President's proposed policies for 2006. What are the sources of the change in fiscal position?

[1] These deficit estimates omit the effects of any spending associated with continued US military presence in Iraq and Afghanistan in 2006 or beyond because the Administration states such costs cannot be estimated; they also omit the continuation of $11.9 billion in emergency supplemental funding enacted for 2005.

o	Economic downturn	45 percent
o	Tax cuts	28 percent
o	Defense & homeland security	14 percent
o	Medicare Prescription Drug Bill	6 percent
o	Other legislation	9 percent

Spending

The budget proposes **total spending of $2.6 trillion in 2006**, an increase of $88 billion, or 3.6 percent, over 2005, and equal to 19.9 percent of GDP. Federal spending has averaged 20 percent of GDP over the last 50 years.

Under the President's proposals, total spending would grow to $3 trillion by 2010, or about 19.0 percent of GDP.

Mandatory Spending

The budget proposes **total mandatory spending (including net interest) of $1.6 trillion in 2006**, an increase of $107 billion, or 7 percent, over 2005. Mandatory spending currently accounts for 63 percent of total spending. By 2010, it will grow to $2.1 trillion (68 percent of total spending), an annual average growth rate of 6.3 percent.

- **Current services Medicare spending would total $340 billion** in 2006, an increase of $50 billion over 2005, or 17 percent. Medicare spending will grow to $460 billion by 2010, an average annual growth rate of 9.7 percent. There are no proposals to change Medicare in the President's budget.
- **Social Security spending would total $540 billion** in 2006, an increase of $25 billion over 2005 or 4.9 percent. Social Security spending will grow to $665 billion by 2010, an annual average growth rate of 5.2 percent. The President's budget does not reflect any proposal to change the operation of the Social Security program.
- **Under the President's budget, Medicaid spending would total $199 billion** in 2006, an increase of $5 billion or 2.6 percent over 2005. Medicaid spending will grow to $266 billion by 2010, an annual average growth rate of 6.5 percent. The budget includes several proposals affecting Medicaid.

The President proposes dozens of mandatory program increases and decreases that would reduce the deficit by $5.3 billion in 2006 and $38.7 billion over 5 years (see table 3).

Discretionary Spending

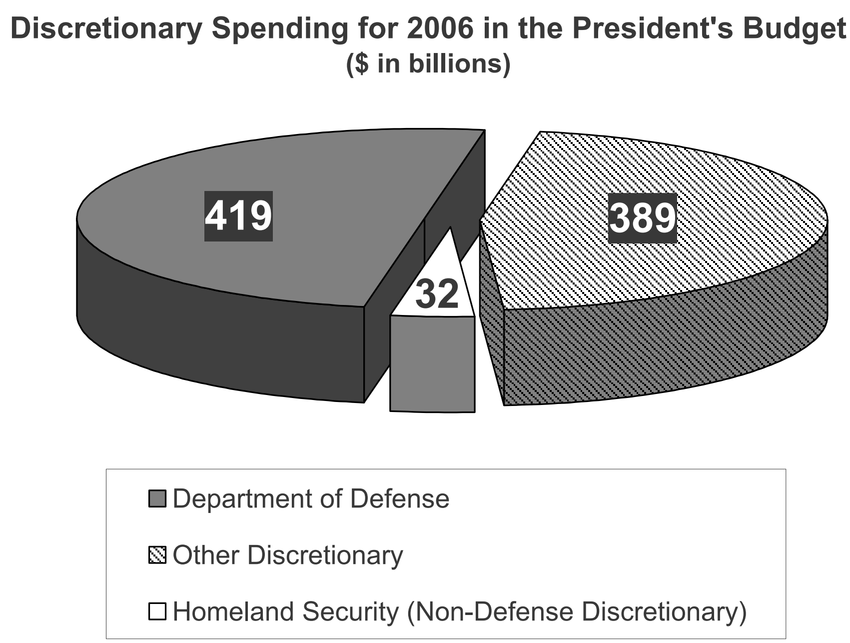
The budget proposes **total 2006 discretionary spending authority of $840 billion**, an increase of $18 billion, or 2.1 percent, over 2005 -- almost all of which would be for the U.S.

Armed Forces.[2] Total discretionary spending authority would grow to $920 billion by 2010, an annual average growth rate of 3.1 percent.

- **Department of Defense request totals $419 billion for 2006**, an increase of $19 billion or 4.8 percent over 2005 (not including the 2005 supplemental spending that has yet to be enacted).

- **Non-defense, Homeland Security request totals $32 billion**, an increase of $1 billion, or 3.1 percent, over 2005.

- **Other discretionary programs would total $389 billion**, a decrease of $3 billion, or 0.7 percent, below 2005. Under the President's budget, appropriations for these programs are frozen through 2010.



Revenues

The budget projects **total revenues of $2.2 trillion in 2006**, an increase of $125 billion or 6.1 percent over 2005, and equal to 16.9 percent of GDP. Federal revenue has averaged 17.9 percent of GDP over the last six decades.

Under the President's proposals, total revenues will continue growing to $2.8 trillion by 2010, rising as a share of GDP to 17.7 percent.

[2] The request for 2006 and subsequent years does not include any funding for military operations in Iraq or Afghanistan.

The President proposes a number of new **tax policy changes that would reduce federal revenues by $76 billion over five years** (including $23 billion of outlay effects), compared to a baseline revenue forecast that has been adjusted to include permanent extension of certain tax cuts enacted in 2001 and 2003.

If the baseline revenue forecast is not adjusted to include extension of the 2001 and 2003 tax cuts, then the President's **tax proposals would reduce revenues by $0.4 billion in 2006 and $129 billion over five years** (including $23 billion of outlay effects).

Major tax proposals that would reduce revenues over the 2006–2010 period include:

- Relative to current law, $53 billion to permanently extend the dividends and capital gains tax rate structure, small business expensing and death tax repeal.
- Relative to the adjusted baseline, $76 billion (including $23 billion of outlay effects) for new tax policy changes, which include (but are not limited to):
  - Savings incentives (revenue increase of $14 billion)

  Revenue Loss:
  - Health care ($45 billion)
  - Research tax credit ($27 billion)
  - Energy ($5 billion)
  - Opportunity zones ($4 billion)
  - Charitable giving ($3 billion)
  - Housing ($3 billion)

Debt & Interest

The budget reflects **debt held by the public growing from $4.7 trillion in 2005 (39 percent of GDP) to $6.2 trillion in 2010 (39 percent of GDP)**. Over the last decade, debt held by the public has fallen from a high of 49.5 percent of GDP in 1993 to a low of 33.1 percent of GDP in 2001.

The budget projects **net interest costs of $211 billion in 2006** (8.2 percent of total spending), growing to $314 billion by 2010 (10.4 percent of total spending).

Table 1. PRESIDENT'S BUDGET FOR FY 2006
($, Billions)

	2004 Actual	2005 Estimate	2006 Request	2007	2008	2009	2010	2006-2010 Total
Total Spending	2,292.215	2,479.404	2,567.617	2,656.275	2,757.831	2,882.940	3,028.191	13,892.854
% change/average annual growth		8.2%	3.6%	3.5%	3.8%	4.5%	5.0%	4.1%
Total Revenues	1,880.071	2,052.845	2,177.550	2,344.154	2,507.011	2,650.003	2,820.878	12,499.596
% change/average annual growth		9.2%	6.1%	7.7%	6.9%	5.7%	6.4%	6.6%
Total Deficit (-)	-412.144	-426.559	-390.067	-312.121	-250.820	-232.937	-207.313	-1,393.258
On-budget deficit	-567.378	-588.540	-559.941	-506.387	-465.614	-462.998	-459.574	-2,454.514
Off-budget surplus	155.234	161.981	169.874	194.266	214.794	230.061	252.261	1,061.256
Gross Federal Debt	7,354.673	8,031.387	8,707.627	9,350.102	9,948.640	10,543.521	11,137.297	
Debt Held by the Public	4,295.544	4,721.225	5,120.821	5,454.047	5,726.675	5,981.768	6,211.545	
Gross Domestic Product	11,552.8	12,227.4	12,907.3	13,617.2	14,349.0	15,111.4	15,906.2	
(as a % of Gross Domestic Product)								
Total Spending	19.8%	20.3%	19.9%	19.5%	19.2%	19.1%	19.0%	
Total Revenues	16.3%	16.8%	16.9%	17.2%	17.5%	17.5%	17.7%	
Total Deficit	-3.6%	-3.5%	-3.0%	-2.3%	-1.7%	-1.5%	-1.3%	
On-budget deficit	-4.9%	-4.8%	-4.3%	-3.7%	-3.2%	-3.1%	-2.9%	
Off-budget surplus	1.3%	1.3%	1.3%	1.4%	1.5%	1.5%	1.6%	
Gross Federal Debt	63.7%	65.7%	67.5%	68.7%	69.3%	69.8%	70.0%	
Debt Held by the Public	37.2%	38.6%	39.7%	40.1%	39.9%	39.6%	39.1%	

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

Table 2: PRESIDENT'S BUDGET BY MAJOR SPENDING CATEGORY
($, Billions)

	2004 Actual	2005 Estimate	2006 Request	2007	2008	2009	2010	2006-2010	% change 2005-2006	Average Annual Growth 2005 - 2010
Discretionary Outlays	895.435	964.777	946.234	935.241	934.629	953.127	971.407	4,740.638	-1.9%	0.1%
Mandatory Outlays										
Social Security Outlays	491.537	515.065	540.049	566.579	595.685	629.747	665.397	2,997.457	4.9%	5.3%
Medicare Outlays	264.890	290.310	340.412	381.451	406.521	432.774	460.307	2,021.465	17.3%	9.7%
Medicaid and SCHIP Outlays	180.838	193.840	198.951	209.109	225.095	244.760	266.356	1,144.271	2.6%	6.6%
Other Outlays	299.270	337.464	330.895	318.940	323.507	328.093	350.831	1,652.266	-1.9%	0.8%
Total Mandatory Outlays	1,236.535	1,336.679	1,410.307	1,476.079	1,550.808	1,635.374	1,742.891	7,815.459	5.5%	5.5%
Net Interest	160.245	177.948	211.076	244.955	272.394	294.439	313.893	1,336.757	18.6%	12.0%
Total Outlays	2,292.215	2,479.404	2,567.617	2,656.275	2,757.831	2,882.940	3,028.191	13,892.854	3.6%	4.1%
Total Revenues	1,880.071	2,052.845	2,177.550	2,344.154	2,507.011	2,650.003	2,820.878	12,499.596	6.1%	6.6%
Deficit	**412.144**	**426.559**	**390.067**	**312.121**	**250.820**	**232.937**	**207.313**	**1,393.258**		

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

Table 3: IMPACT OF BUDGET POLICY ON THE SURPLUS
($, Billions)

	2005	2006	2007	2008	2009	2010	2006-2010
OMB Adjusted Baseline Deficit a/	-390.406	-361.237	-302.821	-251.316	-228.831	-206.786	-1,350.991
Budget Proposals:							
Discretionary							
Defense	0.000	7.650	10.118	16.741	26.830	29.989	91.328
Homeland Security	0.001	-0.794	0.362	1.029	1.634	2.339	4.571
Other	-0.157	0.679	-15.724	-28.105	-38.081	-46.951	-128.339
Subtotal, Discretionary	-0.156	7.535	-5.244	-10.335	-9.617	-14.623	-32.284
Supplemental	34.899	24.547	17.811	2.471	1.271	0.000	46.100
Mandatory							
Medicaid and SCHIP proposals	0.225	1.112	-1.549	-3.699	-4.214	-4.417	-12.767
PBGC reform	0.000	-2.195	-3.702	-3.495	-3.226	-2.916	-15.534
User fee proposals	0.000	-0.809	-1.379	-1.485	-1.622	-1.598	-6.893
Continued dumping and subsidy offset act repeal	0.000	-1.608	-1.615	-1.624	-0.855	-0.865	-6.567
Extend spectrum auction authority	0.000	0.000	0.000	1.083	-2.156	-3.239	-4.312
Other mandatory proposals	0.601	-1.809	-4.450	-3.438	-3.450	-2.776	-15.923
Subtotal, Mandatory	0.826	-5.309	-12.695	-12.658	-15.523	-15.811	-61.996
Revenues b/							
Tax incentives (saving, health care, education, charitable giving, energy)	0.255	-1.885	-1.057	3.303	6.618	7.988	14.967
Opportunity zones	0.000	0.433	0.806	0.853	0.899	0.912	3.903
Credit for developers of affordable single-family housing	0.000	0.007	0.084	0.342	0.815	1.425	2.673
Strengthen the employer-based pension system	0.000	-0.208	-1.491	0.799	2.622	1.678	3.400
Permanent extension of Research & Experimentation (R&E) tax credit	0.000	2.097	4.601	5.944	6.889	7.669	27.200
Other extensions of expiring provisions	-0.074	-0.248	-0.148	-0.240	-0.288	-0.298	-1.222
Implement free trade agreements	0.000	0.056	0.084	0.091	0.097	0.102	0.430
Other revenue proposals	-0.069	0.060	0.197	0.217	0.297	0.633	1.404
Outlay impacts of revenue policy c/	0.000	-0.016	3.607	5.594	6.738	7.380	23.303
Subtotal, Revenues	0.112	0.296	6.683	16.903	24.687	27.489	76.058
Related debt service and net interest	0.472	1.761	2.745	3.123	3.288	3.472	14.389
Subtotal, budget proposals	36.153	28.830	9.300	-0.496	4.106	0.527	42.267
Budget Deficit	-426.559	-390.067	-312.121	-250.820	-232.937	-207.313	-1,393.258

a/ The baseline includes adjustments for the permanent extension of certain of the President's 2001 and 2003 tax cuts.

b/ A negative value for revenues reflects an increase in revenues; a positive value reflects a revenue decrease.

c/ The outlay effects of refundable tax credits for health care tax incentives and the outlay effects of simplification of tax law for families are reflected on the revenue side. The outlay effects of all revenue proposals combined with all mandatory spending proposals total $38.7 billion.

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

TABLE 4: COMPARISON OF DISCRETIONARY RESOURCES IN THE PRESIDENT'S FY 2006 BUDGET
(Budget authority and obligation limitations, in billions of dollars)

	2004 Actual	2005 Enacted	2006 Policy	2005-2006 Difference	2005-2006 % Change
TOTAL Discretionary Budget Authority 1/	**790.112**	**822.706**	**840.306**	**17.600**	**2.1%**
Less Department of Defense	375.665	400.058	419.340	19.282	4.8%
Less Homeland Security (non-DoD)	28.475	31.259	32.238	0.979	3.1%
Other Domestic Discretionary BA	385.972	391.389	388.728	-2.661	-0.7%
Plus highway obligation limitations	34.611	35.158	35.861	0.703	2.0%
Plus transit obligation limitations	5.813	6.691	6.825	0.134	2.0%
Plus FAA obligation limitations	3.379	3.472	3.000	-0.472	-13.6%
TOTAL, Other Domestic Discretionary Budget Resources	**429.775**	**436.710**	**434.414**	**-2.296**	**-0.5%**

1/ Excludes supplemental appropriations

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

FY 06 SPENDING HIGHLIGHTS

U.S. Senate Budget Committee

The President's budget proposes terminating or reducing 150 federal programs (aggregate information regarding the level of savings is not yet available). However, the budget does include information (summarized below) regarding specific changes to existing programs or the creation of new policies or programs. Typically, such changes are sorted by whether they would affect **mandatory** (programs that otherwise are on "auto-pilot" and do not require annual congressional action) or **discretionary** (programs requiring annual appropriations action) spending.

MANDATORY PROGRAMS

Medicaid and SCHIP Increases

The President proposes new coverage initiatives in Medicaid and the State Children's Health Insurance Program (SCHIP) that would increase Medicaid and SCHIP spending by $7.2 billion over the next five years.

- Cover the Kids. The President proposes the creation of the Cover the Kids program. This program would provide $1 billion in grant money over the next two years to enroll as many eligible children as possible into Medicaid and SCHIP. The resulting increased enrollment would cost $5.6 billion over five years.

- Vaccines for Children Expansion. The President proposes to expand the program by allowing under-insured children to receive Vaccines for Children inoculations at State and local health departments, costing $0.7 billion over five years.

- New Freedom Initiatives. The President re-proposes the New Freedom Initiative Medicaid Demonstrations Act. Among its components are provisions to provide respite care for caregivers of disabled children and adults and to test the effectiveness of providing home- and community-based alternatives to institutional treatment. These proposals would cost $0.9 billion over five years.

Medicaid Decreases

The President proposes to improve the integrity of the Medicaid system by limiting overpayments and inappropriate Medicaid spending on intergovernmental transfers. In total, the proposals would decrease Medicaid spending by $20 billion over the next five years.

- Restructure Pharmacy Reimbursement. The President proposes to reform the Medicaid system by having a pharmacy reimbursement system that more closely aligns pharmacy reimbursement to pharmacy acquisition costs (saves $5.4 billion over five years).

- Restricting Inappropriate Intergovernmental Transfers. The President proposes to curb intergovernmental transfers states have used to avoid the legally determined Federal-State match rate (saves $4.6 billion over the next five years).

- Medicaid Tax Reform. The President proposes to change how states use taxes to increase federal Medicaid payments by reducing the allowable tax rate and by treating managed care organizations the same as other health-care providers (saves $3.2 billion over five years).

- Reform Targeted Case Management Payments. The President proposes to lower the reimbursement rate for targeted case management to the 50% match rate, which states currently receive for Medicaid administrative costs. Additionally, the budget clarifies which services may be claimed as Medicaid targeted case management costs (saves $3.0 billion over five years).

- Reform of Transfer of Assets Policy. The President proposes to curtail the practice of possible Medicaid beneficiaries transferring assets at below market value by tightening existing rules regarding transfers of assets (saves $1.5 billion over five years).

- Cost Based Reimbursement for Government Providers. The President proposes to limit reimbursement levels to government health-care providers to no more than the cost of providing services. This would limit the ability of a state to make overpayments to government health-care providers that they then return to the state (saves $1.2 billion over five years).

- Medicaid Administrative Claiming. The President proposes to curtail Medicaid administrative spending by establishing an allotment for Medicaid administrative claims (saves $1.1 billion over 5 years).

Education

The President proposes reforms to higher education programs resulting in a net request of $13.4 billion in mandatory funding, a decrease of $1.5 billion (10.2 percent) in direct spending from 2005. Assuming the President's proposals are all enacted, the Department of Education would provide nearly $80 billion in grants, loans, and work-study assistance to help students pay for postsecondary education in 2006.

- Included in the President's request are new mandatory payments to increase the maximum Pell Grant (currently a discretionary program) by $100 in 2006 to $4,150, with additional increases in each of the next 4 years for a cost of $4.6 billion over the 2006-2010 period. The President also proposes to eliminate the $4.3 billion shortfall in Pell Grant Budget authority.

- The President proposes to lower student interest rates, increase loan limits for first- (to $3,500) and second-year (to $4,500) students, enhance extended loan repayment options, and make permanent expanded loan forgiveness for qualified math, science and special education teachers at an increased cost of $3.3 billion over five years.

- To offset the increased costs of student benefits, the President proposes to recall the federal portion of the Perkins Loan Revolving funds, increase lender risk sharing with the government, lower lender subsidies, adjust guaranty agency reinsurance and default retention rates, reform consolidation loans, and make permanent the savings provisions of the Taxpayer-Teacher Protection Act of 2004 that also lowered lender yields, and other measures resulting in student loan program savings of $15.1 billion over the 2006-2010 period.

Pension Benefit Guaranty Corporation

The President's budget proposes to reform and simplify pension funding rules, modify the current premium structure to increase the share of the premium tied to a pension plan's risk of termination, require increased premiums be paid by companies with under-funded benefit plans and allow employers greater flexibility to contribute funding above their current liabilities, resulting in an increase in receipts to the fund of $15.5 billion over the 2006-2010 period.

Agriculture

The budget includes proposals that would reduce spending by a net $5.4 billion over the next five years, including:

- $2.1 billion in savings by reducing crop payments by 5 percent.
- $1.1 billion in savings by limiting loan deficiency payments.
- $0.9 billion from user fees to cover the costs of the Food Safety and Inspection Service, the Grain Inspection, Packers and Stockyards Administration, and the Animal and Plant Health Inspection Service.
- $0.8 billion in savings from tightening payment limits.
- Finally, $1.2 billion in increased spending over the 2006-2007 period from extending the Milk Income Loss Compensation program (scheduled to expire in September 2005), which protects dairy farmers from low milk prices.

Energy and Natural Resources

- PMAs. The President proposes to allow Power Marketing Administrations (PMAs) to slowly increase rates paid by their customers from current, federally subsidized levels to market levels, saving $3.2 billion over the next five years.
- Southern Nevada Land Sales. The President proposes that 70 percent of the proceeds from federal land sales in southern Nevada go to the U.S. Treasury and the remaining 30 percent be retained for use in the state. Under current law, 100 percent of the proceeds from federal land sales in Nevada are retained for use in the state. This proposal is expected to reduce the deficit by $2.6 billion over the next five years.

- ANWR. The President proposes opening a portion of the Arctic National Wildlfe Refuge to oil and gas exploration, which would yield $1.3 billion in receipts over five years.

Spectrum

- The budget would extend the current authority (which expires at the end of 2007) of the Federal Communications Commission to auction spectrum, yielding $4.3 billion in receipts over five years. In addition, proposals to charge license fees for the use of spectrum ($0.8 billion) and to charge television broadcasters a fee for failure to return one of the two broadcast channels during the transition to digital television ($1.9 billion) would generate a combined $2.7 billion over the next five years.

Continued Dumping and Subsidy Offset (Byrd Amendment)

- The budget proposes to repeal the law that directs the federal government to pay over trade fines to domestic producers in violation of our World Trade Organization commitments (saves $6.6 billion over five years).

DISCRETIONARY PROGRAMS

Defense

Department of Defense discretionary budget authority totals $419.3 billion, an increase of $19.2 billion or 4.8 percent over the 2005 level enacted to date (does not include the $81-billion supplemental bill proposed, but not yet submitted, by the Administration for 2005). This total is less than was projected for fiscal year 2006 last year, reflecting an effort to slow the rate of growth of defense spending and reduce the deficit. The DOD discretionary budget would grow to $492.1 billion by 2010, an average annual growth rate of 4.2 percent. Discretionary BA for the National Defense Function, which includes Department of Energy Atomic Defense Activities and Other Defense Activities in addition to the Department of Defense, would total $438.8 billion for 2006. Details include:

- Military Personnel: $108.9 billion, a 4.7 percent increase over 2005.
- Operations and Maintenance: $147.8 billion, a 7.9 percent increase.
- Procurement: $78.0 billion, a 0.1 percent decrease.
- Research, Development, Test, and Evaluation: $69.4 billion, a 0.9 percent increase.
- Military Construction: $7.8 billion, a 30 percent increase.
- Family Housing: $4.2 billion, a 2.4 percent increase.

- Pay and Benefits. The President's budget requests a 3.1 percent increase in base pay. Since 2001, military base pay has increased approximately 25 percent. The request continues to sustain a policy of no out-of-pocket costs for housing. The budget would also expand Tricare eligibility to provide health care coverage up to 90 days prior to activation for certain reserve component members and extends post-mobilization coverage for 180 days.

- Missile Defense. The President proposes $7.8 billion for the Missile Defense Agency. This total reflects a restructuring of several missile defense programs as ordered in a December 2004 Pentagon review and represents a decrease of $1.0 billion compared to 2005.

- Tactical Aircraft Programs. The President's budget requests $4.4 billion to purchase 25 F/A-22 fighter aircraft. The program ends in 2008 after 179 aircraft will have been purchased, a plan consistent with a recent Pentagon budget review. The budget proposes $5 billion for the Joint Strike Fighter program.

- Ship Programs. The budget proposes $9.4 billion for shipbuilding and conversion and would fund four new vessels in 2006: a Virginia Class nuclear attack submarine; an LPD-17 amphibious ship; a littoral combat ship; and a Lewis and Clark Class dry cargo vessel. The budget also includes $1.7 billion in long-lead funding to buy a DD(X) destroyer in 2007.

- Army Programs. The budget requests $3.4 billion for the Army's Future Combat Systems, a system of ground vehicles and associated communications gear. The Army will be committing $48 billion through 2011 to increase the number of combat brigades from 33 to 43. This major initiative, known as modularization, is intended to improve the deployability and combat effectiveness of the Army's ground combat units.

Homeland Security

Government-wide Homeland Security discretionary BA (excluding $9.5 billion Homeland Security-designated spending in DOD) totals $32.2 billion, an increase of $1 billion or 3.1 percent over 2005. This total does not include $2.3 billion in mandatory funding and $5.9 billion in discretionary fee-funded activities. Adjusting for these programs results in $40.4 billion in non-DOD Homeland Security programs across the federal government. The President's budget proposes $29.3 billion in BA for the Department of Homeland Security, an increase of 1.2 percent over 2005.

- Transportation Security Administration. The President proposes $5.3 billion for the Transportation Security Administration an increase of $162 million or 3.1 percent over 2005. The President's plan calls for increasing the security fee from $2.50 to $5.50 for a one-way airline ticket and from a maximum of $5.00 to $8.00 for round-trip tickets. The increase is estimated to generate $1.6 billion in collections in 2006.

- Coast Guard. The budget provides $6.9 billion in discretionary BA for the Coast Guard, a $710 billion or 11 percent increase over the 2005 level.

- Customs and Border Protection. The President proposes $5.6 billion for the Office of Customs and Border Protection an increase of $304 million or 5.8 percent more than 2005.

- Immigration and Customs Enforcement. The budget proposes a total of $4.1 billion for Immigration and Customs Enforcement $490 million or 13 percent above the previous year.

- FBI. The budget proposes $5.7 billion for the Federal Bureau of Investigation, which is an increase of $0.6 billion, or 10.8 percent, over 2005.

Transportation

- Highways and Transit. The President proposes $283.9 billion (2004-2009) for the highway and transit programs authorized under the transportation bill that the Senate will reintroduce later this month. This funding level is $27.9 billion higher than the $256 billion proposed in the President's 2005 Budget and reflects the level of the compromise reached (but not enacted) by the conferees on the surface transportation reauthorization bill in the last Congress.

- National Railroad Passenger Corporation (Amtrak) The President proposes to make no federal payment to Amtrak, but recommends $360 million for the Surface Transportation Board to preserve commuter operations. The Surface Transportation Board would manage the funds and reimburse Amtrak to continue commuter rail operations on Amtrak facilities. This level is $0.8 billion below the 2005 enacted level of $1.2 billion provided for Amtrak.

- Aviation. The President proposes $13.8 billion for the Federal Aviation Administration, including $8.2 billion for operations, $3.0 billion for the Airport Improvement Program, $2.4 billion for the facilities and equipment program, and $130 million for the research program. The recommended level is $55 million below the 2005 enacted level and contains increases for operations and decreases for grants and capital modernization programs.

International Affairs

- The President proposes to double the funding for the Millennium Challenge Corporation to $3 billion in 2006.

- The President requests $2 billion for the Global HIV/AIDS Initiative account within the International Affairs function. This represents an increase of $0.6 billion, or 43 percent, over the 2005 level.

- The President proposes new spending of $0.5 billion to help Iraq build a democratic government and provide necessary services to its citizens. The President also proposes $958 million for Afghanistan to be used for reconstruction and counter narcotic activities; this is $22 million, or 2.3%, below the 2005 enacted level.

Veterans

- The President requests $29 billion in total budget authority for veterans' medical care, which would be an increase of $0.6 billion, or 2.2 percent, over 2005. This level reflects receipts from the Medical Care Collections Fund, which OMB expects to be $2.2 billion.

Yucca Mountain

- The President proposes $651 million for the federal nuclear waste repository at Yucca Mountain, Nevada, an increase of $79 million or 14 percent, over 2005. This proposal supports the Administration's goal to open the repository as soon as possible.

IRS

- The President requests a $500 million (8.0 percent) increase in IRS tax enforcement to $6.9 billion. The increased enforcement would begin to reduce our nation's $255 billion annual "tax gap."

NASA

- The President proposes $16.456 billion for National Aeronautics and Space Administration, a $386 million or 2.4 percent increase, over 2005.

NSF

- The President proposes $5.606 billion for National Science Foundation, a $133 million, or 2 percent, increase over 2005.

REVENUES

U.S. Senate Budget Committee

Federal revenues are taxes and other collections from the public that result from the government's sovereign or governmental powers. This section provides an overview of President Bush's revenue proposals for the period 2006-2010. Revenues in the President's budget are expected to grow by $768 billion, or 37 percent, between 2005 and 2010.

The President's proposal to prevent tax increases (by making permanent tax cuts enacted in 2001 and 2003) would result in $53.4 billion of tax relief over five years; this proposal is included in OMB's adjusted baseline. Over the five-year 2006-2010 period, President Bush's 2006 budget recommends additional net tax relief (other than making permanent certain 2001 and 2003 tax cuts) totaling $52.8 billion over five years ($76 billion including the outlay effects).

OMB baseline revenues are projected to be 16.9 percent of GDP in 2006 and 17.7 percent of GDP in 2010. If President Bush's revenue proposals are adopted, taxes will rise to a level slightly below the long-term average of about 17.8 percent of GDP.

FEDERAL REVENUES
($ Billions)

	2004 Actual	2005	2006	2007	2008	2009	2010
President's Budget	1880.1	2052.8	2177.6	2344.2	2507.0	2650.0	2820.9
OMB Adjusted Baseline	1880.1	2053.0	2177.9	2347.2	2518.3	2668.0	2841.0
Budget compared to Adjusted Baseline	---	-0.1	-0.3	-3.1	-11.3	-17.9	-20.1
Budget compared to Unadjusted Baseline	---	0.2	-0.4	-3.4	-21.0	-49.4	-32.0
	(Percent of GDP)						
President's Budget	16.3	16.8	16.9	17.2	17.5	17.5	17.7
OMB Adjusted Baseline	16.3	16.8	16.9	17.2	17.6	17.7	17.9

a/ OMB includes in its baseline extensions of certain 2001 EGTRRA and 2003 JGTRRA tax cuts. The revenue baseline is reduced (compared to the baseline constructed according to the requirements of the Budget Enforcement Act) by $53.4 billion over five years due to this adjustment.

The President proposes to **make permanent the tax cuts** included in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and most of the provisions in the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), which will prevent taxes from rising by $53.4 billion over the next five years.

- **Expiring after 2007:** On December 31, 2007, the provision of JGTRRA allowing small businesses to expense up to $100,000 of the cost of purchasing qualified property is scheduled to expire. The President's budget proposes to make this provision permanent in order to prevent a tax increase on small businesses and to continue to encourage investment and job growth.

- **Expiring after 2008:** On December 31, 2008, the provisions of JGTRRA reducing to 15 percent the tax rate on dividends paid by corporations and on capital gains for individuals are scheduled to expire. The President's budget proposes to make these provisions permanent in order to prevent a tax increase that would depress economic growth and investment.

The President is again proposing a major new initiative to encourage Americans to save and to simplify the complicated rules governing employer-provided and individual savings vehicles. The entire savings initiative will increase revenues by $14.1 billion over the next five years.

- Retirement Savings Accounts (RSAs)/Lifetime Savings Accounts (LSAs). The budget proposes to consolidate the three types of IRAs available under current law into a single account and permit individuals, regardless of age or income, to make non-deductible contributions of up to $5,000 per year to an RSA. RSAs are dedicated solely to retirement savings, and distributions after age 58 would be tax-free. The proposal would allow non-deductible contributions of up to $5,000 per year to an LSA. Individuals would be permitted to withdraw funds from an LSA at any time for any purpose without penalty. Contributions may be made to RSAs and LSAs beginning in 2006. The RSA and LSA savings proposals will increase revenues by $16.8 billion over 2006-2010.

- Employer Retirement Savings Accounts (ERSAs). The proposal would consolidate the various tax-preferred, employer-based defined contribution savings accounts (such as 401(k), 403(b), 457 and thrift plans) into one account that can be offered by any employer beginning in 2006. The President is proposing to simplify the pension system by consolidating all of these plans into one with one set of rules. ERSAs will follow the existing rules for 401(k) plans, but these rules will be greatly simplified. Employees will be permitted to contribute up to $15,000 per year in pre-tax dollars to an ERSA beginning in 2006. Employees aged 50 or older would be permitted to make "catch up" contributions of an additional $5,000 per year. This proposal will provide $1.6 billion in tax relief over 2006-2010.

The President proposes three measures to strengthen the employer-based pension system, which will provide $3.4 billion in tax relief over 2006-2010.

- ➢ Ensure Fair Treatment of Older Workers Under Cash Balance Plans. Protect participants in cash balance conversions by requiring that the benefits earned by a worker participating in a cash balance plan during the first five years after a conversion be at least as valuable as the benefits that would have been earned under the traditional defined benefit plan. Clarify that a cash balance plan satisfies the age-discrimination rules if the plan provides pay credits for older workers that are not less than the pay credits for younger workers.

- ➢ Strengthen funding for single-employer pension plans. Replace multiple sets of rules that currently govern single-employer defined benefit plans with a single set of rules. Minimum contribution requirements would be based on funding targets that varied depending on the financial health of the plan sponsor. In addition, employers would have the opportunity to make additional deductible contributions in years when the plan's assets are above the funding target.

- ➢ Reflect market interest rates in lump sum payments. The Secretary of Treasury would issue new interest rate assumptions based on high quality corporate bonds to calculate lump sum distribution payment s.

The President proposes five measures to invest in health care, totaling $20.5 billion in tax relief (and $24.2 billion in related outlays) over the next five years. The two main proposals are:

- ➢ Refundable tax credit for the purchase of health insurance. Provide a refundable credit for the cost of health insurance for individuals under 65 who are not covered by an employer plan or a public program. The maximum subsidy would be 90 percent for low-income individuals and would phase down with income, with a maximum credit amount of $1,000 for adults and $500 for children. The total maximum credit amount would be $3,000 per family. The credit would be phased out between $25,000 and $40,000 of income for singles and between $25,000 and $60,000 for families purchasing a family policy. This proposal provides $5.6 billion in tax relief and $22.8 billion in direct payments over 2006-2010 period.

- ➢ Deduction for high-deductible insurance. Provide an above-the-line tax deduction beginning in 2006 for the premiums paid on high-deductible health insurance policies purchased by individuals who participate in Health Savings Accounts. This proposal provides $10.1 billion in tax relief over 2006-2010.

The President proposes seven measures to provide incentives for charitable giving totaling $3.0 billion of tax relief over the next five years.

The President proposes to establish 40 opportunity zones that would provide $3.9 billion of tax relief over the next five years.

The President proposes five measures to increase energy production and promote energy conservation, totaling $5.7 billion in tax relief over five years, including the following two major proposals:

- <u>Tax credit for purchase of certain hybrid and fuel cell vehicles</u>. A credit of up to $4,000 for the purchase of hybrid vehicles before January 1, 2009, and a credit of up to $8,000 for the purchase of a fuel cell vehicles before January 1, 2013. This proposal provides $2.0 billion in tax relief over 2006-2010.

- <u>Tax credit for producing electricity from certain sources</u>. Extend the credit for electricity produced from wind and biomass (but not poultry waste) to facilities placed in service before January 1, 2008 (current law is January 1, 2006). Eligible biomass sources would be expanded to include certain biomass from forest-related resources, agricultural sources, and other sources. This proposal provides $1.1 billion in tax relief over 2006-2010.

The President proposes two measures to simplify the tax laws for families that would increase revenues $132 million.

The President proposes seven measures to close loopholes and improve tax compliance, totaling $1.1 billion in increased revenue over 2006-2010. He proposes to disallow transactions intended to exploit the foreign tax credit, require companies to satisfy the active business test when recognizing a section 355 gain, impose penalties on charities that fail to enforce conservation easements, eliminate the special exclusion on the sale of certain brownfield properties, apply an excise tax on amount received from certain life insurance contracts, tighten the rules that limit the deductibility of interest paid to related parties (Section 163(j)), and clarify and simplify qualified tuition programs.

The President proposes a number of measures to improve tax administration by the Internal Revenue Service, including curbing the use of frivolous submissions to delay tax administration and consolidating the judicial review of collection cases in the US Tax Court.

The President proposes to reauthorize the use of gasoline taxes in the Highway Trust Fund for highways and mass transit spending and would increase the private activity bond cap by $15 billion to allow tax-exempt financing for private highway projects and rail-truck transfer facilities.

The President proposes $430 million in tax relief related for trade promotion. He proposes to implement free trade agreements with Bahrain, Panama and the Dominican Republic.

The President proposes to extend provisions scheduled to expire after 2005. The combination of these extensions would provide $1.8 billion in tax relief over five years.

- Modified Work opportunity tax credit and Welfare-to-work tax credit (2 years)

- District of Columbia Enterprise Zone and First-Time Homebuyer Credit (2 years)

- Authority to issue Qualified Zone Academy Bonds (2 years)

- Deduction for corporate donations of computer technology (2 years)

- Extend excise taxes deposited in the Leaking Underground Storage Tank (LUST)Trust Fund (2 years)

- Provisions permitting disclosure of tax return information relating to terrorist activity (1 year)

- Excise tax on coal at current rates (until Black Lung Disability Trust Fund debt is repaid)

The President proposes to permanently extend the research and experimentation tax credit, which is scheduled to expire December 31, 2005 under current law. This proposal provides $27.2 billion in tax relief over 2006-2010.

Finally, the 2006 Budget proposes to strengthen the financial integrity of unemployment insurance. The President proposes to increase incentives available for the recovery of state unemployment benefit overpayments and delinquent employer taxes. He also proposes to allow the Secretary of the Treasury to reduce any income tax refund owed to a benefit recipient when that recipient has been overpaid. This proposal will reduce revenues by $659 million over 2006-2010.

PRESIDENT'S TAX PROPOSALS IN 2006 BUDGET

($ Billions)

	2005	2006	2007	2008	2009	2010	2006-10
Tax relief included in adjusted baseline:							
Extend certain EGTRRA and JGTRRA provisions permanently	0.3	-0.1	-0.4	-9.6	-31.5	-11.9	-53.4
Additional tax relief proposals:							
Simplify and encourage savings	--	3.5	6.7	3.4	0.1	-0.5	14.1
Invest in health care a/	--	-0.3	-3.8	-4.7	-5.6	-6.1	-20.5
Incentives for charitable giving	-0.1	-0.6	-0.6	-0.6	-0.6	-0.6	-3.0
Out-of-pocket expense education deduction	--	-*	-0.3	-0.3	-0.3	-0.3	-1.1
Establish Opportunity Zones	--	-0.4	-0.8	-0.9	-0.9	-0.9	-3.9
Credit for devel. of affordable housing	--	-*	-0.1	-0.3	-0.8	-1.4	-2.7
Energy incentives	-0.1	-0.7	-1.0	-1.2	-1.2	-0.4	-4.5
Strengthen employer-based pension system	--	0.2	1.5	-0.8	-2.6	-1.7	-3.4
Extend R&E tax credit permanently	--	-2.1	-4.6	-5.9	-6.9	-7.7	-27.2
Extend other expiring provisions b/	--	-0.2	-0.2	-0.1	-*	-*	-0.6
Implement free trade agreements c/	--	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4
Other tax incentives d/	-*	-0.2	-0.4	-0.4	-0.5	-0.9	-2.5
Subtotal, tax relief including baseline adjustments	*****	**-1.0**	**-4.0**	**-21.5**	**-50.0**	**-32.6**	**-109.1**
Subtotal, tax relief excluding baseline adjustment	***-0.3***	***-0.9***	***-3.7***	***-11.8***	***-18.5***	***-20.7***	***-55.6***
Proposed revenue raisers:							
Close loopholes and improve compliance	0.1	0.2	0.2	0.2	0.2	0.3	1.1
LUST trust fund taxes	0.1	0.2	0.1	--	--	--	0.2
Abandoned mine reclamation fees	--	0.3	0.3	0.3	0.3	0.3	1.6
Subtotal, revenue raisers	**0.2**	**0.6**	**0.6**	**0.5**	**0.6**	**0.6**	**2.9**
Total Revenue Proposals, including proposals assumed in the baseline	**0.2**	**-0.4**	**-3.4**	**-21.0**	**-49.4**	**-32.0**	**-106.2**
Total Revenue Proposals, excluding proposals assumed in the baseline	***-0.1***	***-0.3***	***-3.1***	***-11.3***	***-17.9***	***-20.1***	***-52.8***
Outlay effects of President's tax proposals	**--**	**-***	**3.6**	**5.6**	**6.7**	**7.4**	**23.3**
Total Revenue Proposals, including proposals assumed in the baseline and outlay effects	**0.2**	**-0.3**	**-7.0**	**-26.6**	**-56.1**	**-39.4**	**-129.5**
Total Revenue Proposals, excluding proposals assumed in the baseline and outlay effects	**-0.1**	**-0.3**	**-6.7**	**-16.9**	**-24.7**	**-27.5**	**-76.1**

*Less than $50 million
a/ Does not include outlay effect of $24.2 billion over the period 2006-2010.
b/ Includes welfare-to-work, work opportunity, DC homebuyer, qualified zone academy bonds, and corporate donations of computers.
c/ Free trade agreements with Bahrain, Panama, and the Dominican Republic, net of income offsets.
d/ Includes incentives for telecommuting, disaster relief and environmental protection, simplifying tax law for families, strengthening unemployment insurance, and pesticide and Indian gaming fees.

Details may not add to totals due to rounding.

Recent Developments in US Employment

Over the last three years, growth in labor productivity has averaged 4.4 percent per year, 2.1 percentage points faster than average growth since World War II. Faster productivity growth explains how businesses have been able to generate additional output without hiring substantial numbers of new workers relative to past business cycle recoveries. During the most recent recession and subsequent recovery, many firms were reluctant to hire new workers and instead focused on increasing efficiency, thereby propelling productivity higher. Firms have now probably squeezed as much productivity as they can from their existing workforce and capital stock and will need to expand in the future to address additional increases in demand.

Consistent with this view, the Bureau of Labor Statistics announced on February 4, 2005 that the economy created 146,000 new jobs in January, registering the 20th straight monthly gain in employment. After incorporating the results of the 2005 annual benchmark revision, the payroll survey now indicates 2.2 million jobs were created in calendar 2004. A record 132.6 million people are now working.

The unemployment rate also declined 0.2 percentage points in January to 5.2 percent, the lowest level since September 2001. The unemployment rate is now significantly below its peaks in the 1980s and 1990s. In contrast, unemployment in Europe's largest economy, Germany, increased to 12.1 percent of the labor force, which is more than double the rate here in the United States.

The Economic Forecast

The Administration and Blue Chip both forecast ***real GDP*** growth exceeding 3.5 percent this year, which would register above its 20-year historical average of 3.2 percent. CBO forecasts that the economy will grow at a slightly faster rate of 3.8 percent. All three forecasts expect growth to return to a more moderate trend in the medium term.

CBO, OMB and Blue Chip all forecast that the ***unemployment rate*** declines by at least 0.2 percentage points this year. CBO is the most optimistic, forecasting an unemployment rate of 5.2 percent, before converging with OMB in 2006. Over the medium-term, the Administration and Blue Chip's projection of unemployment settles at its ten-year average of 5.1 percent. CBO's projection remains slightly higher on average over the 2005-2010 period.

Inflation is anticipated to decelerate through 2005 and 2006. Both OMB and CBO estimate inflation declines 0.3 percentage points to 2.4 percent this year. The private sector consensus forecasts a slightly slower deceleration to 2.5 percent. In the medium term, the Administration and Blue Chip's projection of inflation reverts back to its ten year average of 2.4 percent after 2007. CBO forecasts that inflation falls an additional 0.5 percentage points in 2006 before rising to its steady state rate of growth of 2.2 percent. CBO's forecast lags both OMB and Blue Chip's by at least 0.2 percentage points from 2007 through 2010.

All three forecasts indicate a moderate increase in short- and long-term ***interest rates*** consistent with a growing economy. CBO and Blue Chip both forecast that short-term interest rates double this year as the Federal Reserve continues to withdraw the liquidity it injected into the economy during the recession. Blue Chip's projection continues to rise and peaks in 2008 before leveling off at 4.2 percent. CBO's forecast of short-term interest rates jumps by more that 0.5 percentage point and settles at 4.6 percent through 2010. The Administration's forecast of short-term rates lags behind both CBO and the private sector by just 0.1 percentage point this year and at least 0.3 percentage points through 2008 before catching up with the Blue Chip in 2010.

Since the Federal Reserve initiated its tightening cycle last June, the rate on 10-year Treasury notes has edged lower, suggesting financial markets remain confident inflation remains in check. And although all three projections show the rate on 10-year notes increasing gradually, none rise above their level in 2000.

Income shares are a less publicized portion of the forecast but are important because they underpin revenue projections. Income shares depict the breakdown of national income between wages and salaries, benefits, corporate profits, proprietors' income, rental income, and net interest. Income shares are expressed as a percentage of GDP.

If all types of national income were taxed at the same rate, the division between income categories would make little budgetary difference. This is not the case. Wages and salaries and corporate profits are taxed at a higher effective tax rate -- as such, the more they grow relative to the other income categories, the higher the projected revenue stream. Corporate profits and wages and salaries are termed the "highly-taxed shares."

Both CBO and OMB expect the highly-taxed shares to rise to their peak in 2005 before steadily declining throughout the remainder of the projection. Corporate profits as a share of GDP rises as a result of the expiration of bonus depreciation, which permitted firms to deduct a larger-than-usual percentage of their capital expense from their profits in 2004. Steadily declining corporate profits as a share of GDP largely accounts for the overall downward trend in taxable income after 2005 under both forecasts. The drop also reflects the contribution that firms are expected to make to their defined benefit pension plans.

Wages and salaries rise slightly to 45.8 percent of GDP by 2008 in both forecasts, then rises steadily through 2010, albeit not enough to offset the decline in the corporate profit share. Interestingly, CBO and OMB project nontaxable shares of income in the form of employer-sponsored health care and pension contributions to rise through 2010.

Despite economic assumptions in line with CBO and the private sector, OMB estimates a 2005 ***baseline budget deficit*** of $390 billion versus CBO's estimate of $368 billion. Only $4 billion of the discrepancy is attributable to different assumptions about how much tax revenue will be generated by a given level of economic output. However, economic and technical changes to mandatory programs accounts for $19 billion of the difference. In the aggregate, these two deficit forecasts are nearly identical.

Sensitivity to Economic Changes

There is uncertainty in any economic forecast. According to an analysis by OMB, a reduction in the real GDP growth rate of 1.0 percentage point would increase the 2005-2010 deficits by $529 billion. CBO conducted the same "rule of thumb" analysis and found similar results. However, it is important to note that the uncertainty could work in the other direction as well.

The Forecasting Record

According to a Congressional Research Service (CRS) report entitled *Economic Forecasts and the Budget* (which examined same-year forecasts by CBO, OMB and Blue Chip), CRS could find no sign of statistically significant bias in any of the three forecasts. CRS reviewed the forecasts of GDP, inflation, unemployment, and 91-day Treasury bills between 1982 and 2004. All had a slight tendency to **understate** economic growth, although OMB's average error was slightly less than CBO or the private sector consensus. All three forecasts **overstated** inflation. Of the four economic indicators studied, CRS found that CBO, OMB and Blue Chip were virtually tied in forecasting the unemployment rate. And all three tended to **overstate** increases in short-term interest rates, although OMB had the smallest average error.

ECONOMIC PROJECTIONS COMPARISON

	2004	2005	2006	2007	2008	2009	2010
Administration*	11,731	12,392	13,083	13,797	14,537	15,306	16,112
CBO*	11,730	12,396	13,059	13,766	14,486	15,210	15,940
Blue Chip*	11,728	12,398	13,066	13,763	14,496	15,210	15,940
% Change (Year to Year):							
Real GDP Growth							
Administration	4.4	3.6	3.5	3.3	3.2	3.1	3.1
CBO	4.4	3.8	3.7	3.7	3.4	3.1	2.9
Blue Chip	4.4	3.6	3.4	3.2	3.2	3.1	3.1
GDP Price Index							
Administration	2.1	1.9	2.0	2.1	2.1	2.1	2.1
CBO	2.1	1.8	1.5	1.7	1.8	1.8	1.8
Blue Chip	2.1	2.0	2.0	2.1	2.1	2.1	2.1
Consumer Price Index							
Administration	2.7	2.4	2.3	2.4	2.4	2.4	2.4
CBO	2.7	2.4	1.9	2.1	2.2	2.2	2.2
Blue Chip	2.7	2.5	2.3	2.4	2.4	2.4	2.4
Annual Rate:							
Unemployment							
Administration	5.5	5.3	5.2	5.1	5.1	5.1	5.1
CBO	5.5	5.2	5.2	5.2	5.2	5.2	5.2
Blue Chip	5.5	5.3	5.2	5.1	5.1	5.1	5.1
Three-Month T-Bill							
Administration	1.4	2.7	3.5	3.8	4.0	4.1	4.2
CBO	1.4	2.8	4.0	4.6	4.6	4.6	4.6
Blue Chip	1.4	3.0	3.8	4.1	4.3	4.2	4.2
Ten-Year T-Note							
Administration	4.3	4.6	5.2	5.4	5.5	5.6	5.7
CBO	4.3	4.8	5.4	5.5	5.5	5.5	5.5
Blue Chip	4.3	4.7	5.3	5.6	5.6	5.6	5.6
Share of GDP:							
Corporate Profits							
Administration	8.5	10.5	9.8	9.2	8.7	8.3	8.0
CBO	8.5	10.7	9.4	9.0	8.8	8.7	8.5
Wage and Salaries							
Administration	45.6	45.6	45.8	46.0	46.2	46.4	46.6
CBO	45.6	45.7	45.8	45.8	45.9	45.9	45.9

*President=s FY 2006 Budget; CBO=s AEconomic and Budget Outlook: Fiscal Years 2006 - 2015@; Blue Chip January 2005 Economic Indicators for 2005 and 2006, Blue Chip October 2004 Economic Indicators for 2007-2010

BUDGET REFORM PROPOSALS

Last year, the President sent to the Congress legislation entitled **The Spending Control Act of 2004**. This year, the President will send Congress the same proposal with some revisions.

In addition to requesting that the following proposals be made permanent in a re-enacted **Budget Enforcement Act (BEA),** which expired at the end of 2002**,** the President requests that the Congress reflect parallel practices (for the extent possible) in the Congressional budget resolution:

- Discretionary spending caps that include separate categories for defense, nondefense, Bioshield, highways, and mass transit.
- Mechanisms to adjust the discretionary caps for program integrity activities.
- A new scoring rule to address shortfalls in the Pell Grant program.
- A pay-as-you-go (PAYGO) requirement for mandatory spending only.
- An explicit standard for emergency designations and a requirement that the President and the Congress separately concur in those designations.
- Changes in the budget resolution baseline to include expiring tax provisions and exclude discretionary funding for emergencies.
- A point of order against legislation that worsens the long-term unfunded obligation of major entitlement programs.

DISCRETIONARY CAPS

The President proposes to set **Discretionary Spending Caps** for 2005 through 2010 on net discretionary budget authority and outlays at levels proposed in the 2006 budget. For 2005 through 2007, **separate defense and non-defense caps** would be enforced. For 2008-2010, there would be a combined cap for all discretionary spending. However, the President proposes three separate caps for Bioshield and for transportation outlays for 2005 though 2009.

The President proposes **Program Integrity** efforts to reduce error rates in the calculation and payment of Federal benefits or the collection of federal taxes, funded by an adjustment in the spending caps for the following activities: continuing disability reviews in the Social Security Administration, Internal Revenue Service tax law enforcement, fraud and abuse control in the Centers for Medicare and Medicaid, and Unemployment Insurance payments in the Department of Labor.

ADVANCE APPROPRIATIONS

Again this year, the President proposes to cap future **advance appropriations** (excluding Project Bioshield) at $22.602 billion (down from the previous level of $23.158 billion). The Administration would also count the second-year effect of any appropriations provision that delays obligation of mandatory spending as an advance appropriation.

To the extent that total advance appropriations, including obligation delays, provided for future years exceed the advance appropriation limit, then OMB will count the excess against the discretionary cap in the year the bill is enacted, not against the cap in the year the funds first become available.

PELL GRANTS

The Administration proposes to close the existing $4.3 billion shortfall of budget authority in the **Pell Grant** program (grants awarded to eligible postsecondary students) through mandatory appropriations.

To prevent such shortfalls from occurring again, the President proposes beginning with the 2006 appropriations bill to count against the cap the amount needed to fully fund the Pell Grant award level set in law, even if the amount appropriated is insufficient to fully fund all awards. This amount would be increased to cover any funding shortfalls from previous years and reduced by any surpluses carried over from previous years. If the amount appropriated exceeded the full cost, the amount would be scored against that year, and the surplus would carry over as a credit against the following year's appropriations bill.

PAYGO EXTENSION

The President proposes to subject all legislation that changes mandatory spending to a pay-as-you-go **(PAYGO)** requirement, enforceable by sequestration (if enacted in amendments to the BEA), so that such legislation, in total, does not increase the deficit. The proposal does not apply to legislation affecting federal revenues.

STRICTER STANDARD FOR EMERGENCY

The President proposes to clarify the definition of "**emergency requirement**" to ensure a higher standard is met before an event is deemed an "emergency" and is held harmless from budget enforcement mechanisms. The proposed definition would reiterate the same criteria already used by the emergency designation point of order that currently applies in the Senate and House. This definition includes the following elements: the requirement is a necessary expenditure that is sudden, urgent, unforeseen, and not permanent.

The Administration also proposes that the President and Congress explicitly concur in each designation of a spending proposal as an emergency. If the President does not issue a specific designation of an item as an emergency that has been proposed by Congress, then no PAYGO exemption or discretionary cap adjustment would apply, even if the President signs the overall bill into law.

BASELINE CHANGES

The President proposes several changes to baseline assumptions:

- Assume extension of certain expiring provisions of the 2001 and 2003 Tax Relief Acts.
- Exclude the extension of discretionary funding for emergencies.
- Change the current requirement for pay raise-related costs. Currently, the baseline reflects a full year of funding for pay raises in the budget year assuming the raises are scheduled to take effect on October 1. But the effective date for pay raises is the first pay period in January. The current baseline rule overstates the cost of providing a current level of services.
- Eliminate adjustments for expiring housing contracts and social insurance administrative expenses.

LONG-TERM UNFUNDED OBLIGATIONS

The President proposes two procedures to prevent the enactment of legislation that worsens the long-term unfunded obligations of entitlement programs. First, the President proposes that the Congress create a point of order against legislation that would worsen the long-term impact of legislation on unfunded obligations. The specific programs covered would be those with long-term actuarial projections such as Medicare. Second, the President proposes new reporting requirements to highlight legislative actions worsening unfunded obligations.

OTHER BUDGET REFORM PROPOSALS

<u>Line- Item Veto</u>. The President proposes that the Congress provide him with a line-item veto that would withstand constitutional challenge. It would give the President authority to defer new spending whenever the President determines the spending is not an essential government priority. All savings from the line-item veto would be used for deficit reduction, and could not be used to augment other spending.

<u>Joint Budget Resolution</u>. A joint resolution signed by the President would set in law overall levels of discretionary and mandatory spending, receipts, and debt.

<u>Biennial Budgeting and Appropriations</u>. Under the President's proposal, fiscal decisions would be made in odd-number years with even-numbered years devoted to authorizing legislation.

<u>Government Shutdown Prevention</u>. Under the President's proposal, if an appropriation bill is not signed by October 1 of a new fiscal year, funding would automatically be provided at the lower of the President's Budget or the prior-year level.

Reserve for Fully Accruing Federal Employees' Retirement. Both the 2003 and 2004 Budgets proposed to change the full cost of accruing retiree benefits for current employees to the affected salary and expense accounts of federal agencies.

Results Commission/Sunset Commission. The President proposes an expedited procedure for Congress to consider and the President to implement recommendations of commissions established to study duplication and overlapping jurisdiction of government entities. Sunset commissions would provide a process by which programs undergo regular scrutiny. Programs would be reviewed according to a schedule enacted by the Congress. Programs would automatically terminate according to the schedule unless Congress took action to reauthorize them.

ADMINISTRATIVE ACTIONS

The Administration plans to establish an internal review process that requires agencies, when proposing substantial administrative decisions that increase mandatory spending, to propose other offsetting administrative decisions that reduce mandatory spending.

APPENDIX TABLE 1: PRESIDENT'S FY 2006 BUDGET
SUMMARY TOTALS
($ Billions)

Function		2004 Actual	2005 Estimate	2006 Request	2007	2008	2009	2010	2005-2006 % change
050: Defense	BA	490.6	423.6	441.8	465.4	483.9	503.8	513.9	4.3%
	OT	455.9	465.9	447.4	448.9	466.1	487.7	504.8	-4.0%
150: International Affairs	BA	45.2	25.8	31.7	35.1	35.6	35.8	35.5	22.5%
	OT	26.9	32.0	38.4	36.5	36.7	34.6	34.4	20.3%
250: Science & Technology	BA	23.4	24.4	24.7	25.2	25.5	25.9	26.2	1.3%
	OT	23.1	24.0	24.0	24.8	25.2	25.6	25.9	-0.2%
270: Energy	BA	3.2	1.3	1.7	1.5	1.2	0.5	0.4	27.0%
	OT	-0.2	1.4	2.1	1.4	1.3	0.5	0.4	47.2%
300: Natural Resources	BA	32.7	32.2	28.6	29.1	28.7	28.9	28.6	-11.2%
	OT	30.7	31.0	31.2	30.8	29.9	29.7	29.2	0.7%
350: Agriculture	BA	32.7	29.1	25.2	22.5	19.6	17.7	17.1	-13.3%
	OT	15.4	30.5	26.0	22.8	19.9	18.1	17.5	-14.7%
370: Commerce & Housing	BA	14.2	14.1	11.1	8.6	8.8	9.1	12.4	-21.2%
	OT	5.3	10.7	6.8	0.6	-0.3	0.0	3.0	-36.0%
400: Transportation	BA	71.1	71.6	69.4	71.0	74.4	81.6	83.0	-3.0%
	OT	64.6	68.5	70.7	71.2	72.5	75.9	79.5	3.2%
450: Community Development	BA	18.1	23.0	12.4	12.8	12.9	13.0	13.1	-46.0%
	OT	15.8	20.1	19.1	16.9	14.8	12.9	12.3	-5.2%
500: Education & Training	BA	92.0	96.9	93.2	84.1	84.6	85.0	84.9	-3.8%
	OT	87.9	96.3	88.7	86.3	84.8	84.4	84.8	-7.8%
550: Health	BA	251.4	256.1	289.5	283.7	304.1	328.9	350.2	13.1%
	OT	240.1	257.5	268.4	282.7	301.9	323.6	346.6	4.2%
570: Medicare	BA	271.7	294.3	345.9	386.1	411.5	438.2	464.9	17.5%
	OT	269.4	295.4	345.7	386.4	411.5	437.7	465.2	17.0%
600: Income Security	BA	334.2	345.3	356.8	363.2	375.4	383.9	397.6	3.3%
	OT	332.8	350.9	359.5	361.9	374.1	382.1	392.5	2.5%

Function		2004 Actual	2005 Estimate	2006 Request	2007	2008	2009	2010	2005-2006 % change
650: Social Security	BA	496.0	520.2	546.8	573.3	602.6	637.1	672.7	5.1%
	OT	495.5	519.7	544.8	571.2	600.3	634.4	669.9	4.8%
700: Veterans Benefits	BA	60.5	67.6	68.3	70.5	72.9	75.0	77.0	1.1%
	OT	59.8	68.2	68.4	67.6	72.5	74.5	76.5	0.3%
750: Administration of Justice	BA	45.7	39.9	41.1	41.4	42.2	42.9	43.2	2.9%
	OT	45.5	40.7	43.1	42.3	42.3	42.6	43.0	6.0%
800: General Government	BA	23.2	18.1	18.5	19.6	18.5	18.5	18.1	2.3%
	OT	21.8	18.9	17.8	19.1	17.9	17.7	17.3	-5.8%
900: Net Interest	BA	160.2	177.9	211.1	245.0	272.4	294.4	313.9	18.6%
	OT	160.2	177.9	211.1	245.0	272.4	294.4	313.9	18.6%
920: Allowances	BA	0.0	81.0	-0.4	0.9	0.9	-0.4	-0.5	-
	OT	0.0	34.9	24.2	17.7	2.5	1.4	0.1	-
950: Undistributed Offsetting	BA	-58.5	-65.0	-69.8	-77.6	-88.3	-94.9	-88.8	7.4%
Receipts	OT	-58.5	-65.0	-69.8	-77.6	-88.3	-94.9	-88.8	7.4%
Total	BA	2,407.4	2,477.4	2,547.5	2,661.5	2,787.3	2,924.9	3,063.5	2.8%
	OT	2,292.2	2,479.4	2,567.6	2,656.3	2,757.8	2,882.9	3,028.2	3.6%
On-budget	BA	2,021.2	2,075.6	2,122.5	2,223.9	2,334.2	2,450.6	2,569.2	2.3%
	OT	1,912.7	2,080.0	2,144.3	2,221.4	2,308.1	2,412.3	2,537.3	3.1%
Off-budget	BA	386.2	401.8	425.0	437.7	453.1	474.3	494.3	5.8%
	OT	379.5	399.4	423.3	434.9	449.8	470.6	490.9	6.0%
Revenues		1,880.1	2,052.8	2,177.6	2,344.2	2,507.0	2,650.0	2,820.9	6.1%
On-budget		1,345.3	1,491.5	1,584.4	1,715.0	1,842.5	1,949.3	2,077.7	6.2%
Off-budget		534.7	561.4	593.2	629.2	664.6	700.7	743.2	5.7%
Deficit (-)		-412.1	-426.6	-390.1	-312.1	-250.8	-232.9	-207.3	
On-budget		-567.4	-588.5	-559.9	-506.4	-465.6	-463.0	-459.6	
Off-budget		155.2	162.0	169.9	194.3	214.8	230.1	252.3	

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

APPENDIX TABLE 2: PRESIDENT'S FY 2006 BUDGET (EXCLUDING EMERGENCIES)
DISCRETIONARY SUMMARY
($ Billions)

Function		2004 Actual	2005 Enacted	2006 Request	2007	2008	2009	2010	2005-2006 % change
050: Defense	BA	393.8	420.2	438.8					4.4%
	OT	399.7	462.9	444.0					-4.1%
150: International Affairs	BA	26.8	29.5	33.7					14.3%
	OT	29.8	36.0	40.4					12.4%
250: Science & Technology	BA	23.4	24.2	24.6					1.8%
	OT	23.0	23.8	23.8					0.1%
270: Energy	BA	3.6	3.8	3.7					-2.3%
	OT	3.4	3.9	4.0					2.8%
300: Natural Resources	BA	30.6	30.4	28.0					-7.9%
	OT	30.2	30.5	30.1					-1.1%
350: Agriculture	BA	5.8	5.7	5.3					-7.5%
	OT	5.8	5.9	5.7					-3.8%
370: Commerce & Housing	BA	0.0	1.1	0.3					-74.7%
	OT	0.1	1.0	0.5					-49.7%
400: Transportation	BA	23.4	22.0	21.4					-2.9%
	OT	62.5	65.8	67.9					3.2%
450: Community Development	BA	15.2	14.9	12.6					-15.9%
	OT	15.1	16.9	17.5					3.8%
500: Education & Training	BA	78.1	79.5	77.9					-2.0%
	OT	75.2	79.6	78.7					-1.1%
550: Health	BA	50.8	52.0	51.0					-1.8%
	OT	47.7	50.2	52.6					4.7%
570: Medicare	BA	5.4	4.0	5.1					26.5%
	OT	4.5	5.1	5.3					4.1%

Function		2004 Actual	2005 Enacted	2006 Request	2007	2008	2009	2010	2005-2006 % change
600: Income Security	BA	45.2	45.8	47.3					3.3%
	OT	52.3	53.3	55.1					3.3%
650: Social Security	BA	4.1	4.4	4.7					7.0%
	OT	4.0	4.6	4.8					3.3%
700: Veterans Benefits	BA	29.2	30.8	31.4					2.1%
	OT	28.6	28.4	30.5					7.4%
750: Administration of Justice	BA	37.8	38.7	38.7					-0.1%
	OT	37.9	39.2	41.3					5.1%
800: General Government	BA	16.9	15.8	16.3					3.0%
	OT	16.2	17.5	16.3					-6.4%
920: Allowances	BA	0.0	0.0	-0.4					-
	OT	0.0	0.0	-0.4					-
Total	BA	790.1	822.7	840.3	865.7	886.6	907.9	919.8	2.1%
	OT	835.8	924.6	918.2	916.0	931.0	951.4	971.3	-0.7%
On-budget	BA	786.0	818.3	835.6	861.1	882.0	903.3	915.2	2.1%
	OT	831.8	920.0	913.4	911.4	926.4	946.8	966.8	-0.7%
Off-budget	BA	4.1	4.4	4.7	4.6	4.6	4.6	4.5	7.0%
	OT	4.0	4.6	4.8	4.6	4.6	4.6	4.5	3.3%

Source: Senate Budget Committee Republican Staff; Office of Management and Budget

TABLE 3: TAX REVENUES BY SOURCE IN THE PRESIDENT'S 2006 BUDGET

($ billions)

	2004 Actual	2005	2006	2007	2008	2009	2010
Individual Income Taxes	809.0	893.7	966.9	1,071.2	1,167.2	1,245.1	1,353.3
Corporate Income Taxes	189.4	226.5	220.3	229.8	243.4	252.4	257.6
Social Insurance Taxes	733.4	773.7	818.8	866.2	911.7	959.1	1,016.2
(On-budget)	198.7	212.4	225.6	237.0	247.2	258.4	273.0
(Off-budget)	534.7	561.4	593.2	629.2	664.6	700.7	743.2
Excise Taxes	69.9	74.0	75.6	77.2	79.0	81.0	82.9
Estate and Gift Taxes	24.8	23.8	26.1	23.5	24.3	26.0	20.1
Customs Duties	21.1	24.7	28.3	30.6	31.9	33.9	35.3
Miscellaneous Receipts	32.6	36.4	41.6	45.6	49.5	52.6	55.5
Total Receipts	1,880.1	2,052.8	2,177.6	2,344.2	2,507.0	2,650.0	2,820.9
(On-budget)	1,345.3	1,491.5	1,584.4	1,715.0	1,842.5	1,949.3	2,077.7
(Off-budget)	534.7	561.4	593.2	629.2	664.6	700.7	743.2

APPENDIX TABLE 4: DISCRETIONARY BUDGET AUTHORITY BY APPROPRIATIONS SUBCOMMITTEE

($, Billions)

Appropriations Subcommittee	2002	2003	2004	2005 Enacted	2006 Request
Agriculture and Rural Development	16.994	18.413	17.841	18.267	16.889
%change		8.4%	-3.1%	2.4%	-7.5%
Commerce, Justice, State	37.071	38.326	39.179	40.841	44.060
%change		3.4%	2.2%	4.2%	7.9%
Defense	317.361	354.754	366.407	390.363	407.644
%change		11.8%	3.3%	6.5%	4.4%
District of Columbia	0.408	0.509	0.542	0.556	0.573
%change		24.8%	6.5%	2.6%	3.1%
Energy and Water Development	24.840	25.918	27.356	28.254	27.225
%change		4.3%	5.5%	3.3%	-3.6%
Foreign Operations	15.152	16.051	17.470	19.500	22.832
%change		5.9%	8.8%	11.6%	17.1%
Interior and Related Agencies	19.322	19.813	20.227	20.156	19.664
%change		2.5%	2.1%	-0.4%	-2.4%
Labor, HHS, and Education	123.824	134.592	140.944	142.368	140.956
%change		8.7%	4.7%	1.0%	-1.0%
Legislative Branch	2.979	3.371	3.530	3.545	4.028
%change		13.2%	4.7%	0.4%	13.6%
Military Construction	10.574	10.684	9.433	10.005	12.052
%change		1.0%	-11.7%	6.1%	20.5%
Transportation, Treasury, and General Government	25.063	27.790	27.676	26.336	24.963
%change		10.9%	-0.4%	-4.8%	-5.2%
Veterans Affairs, Housing and Urban Development	81.706	86.245	91.611	93.519	90.478
%change		5.6%	6.2%	2.1%	-3.3%
Homeland Security	15.731	22.017	27.896	28.996	29.342
% change		40.0%	26.7%	3.9%	1.2%
SUBTOTAL, DISCRETIONARY	**691.025**	**758.483**	**790.112**	**822.706**	**840.706**
		9.8%	4.2%	4.1%	2.2%
Supplementals	43.773	90.958	117.370	92.832	0.000
% change		107.8%	29.0%	-20.9%	-100.0%
TOTAL DISCRETIONARY	**734.798**	**849.441**	**907.482**	**915.538**	**840.706** a/
		15.6%	6.8%	0.9%	-8.2%

a/ This table reflects a total for the President's discretionary request for 2005 that is $0.4 billion larger than displayed in the President's budget documents. As a matter of comity between branches, OMB does not review the budget requests of the Legislative Branch and the Judiciary and reflects in the President's budget those two requests exactly as submitted by the other branches. Nevertheless, OMB then assumes a nonexistent "Allowances" subcommittee in the event that appropriations enacted for the other two branches for 2005 are likely (based on historical experience) to be less than the requested levels by $0.4 billion.

Source: Senate Budget Committee Republican Staff; Office of Management and Budget