HOUSE BUDGET COMMITTEE

Democratic Caucus

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February 6, 2004

Summary and Analysis

The Fiscal Year 2005 Bush Budget:

Unfair and Unbalanced

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.

- Numbers in tables may not add due to rounding.

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Overview

This is the last Administration budget in this presidential term. It is, in that sense, a summing up; and to sum up an Administration's budgets is to measure its stewardship.

When it took office, this Administration enjoyed ***two*** advantages that no other in modern memory has had:

- First, it inherited a budget surplus — the first budget surplus in almost three decades, and the first budget surplus ***ever*** to rely for not one dime on ***either*** the Social Security ***or*** the Medicare Trust Fund surplus.

- And second, this Administration inherited the longest economic expansion in the nation's history, including the strongest business investment boom in the nation's history.

How has this Administration cared for the legacy that it received? It has taken the budget right back into the deficit ditch where the first President Bush left it in 1992.

- ***Budget Still Deteriorating*** — The budget has worsened in every year of the Bush Administration. The $5.6 trillion cumulative surplus over fiscal years 2002-2011, projected three years ago, is now totally gone. The Administration now refuses to provide projections for the customary ten-year budget window, apparently because its budget will never improve under its own policies and assumptions. The Administration now admits to a ***five***-year cumulative budget deficit of $1.3 trillion, but it will not reveal ten-year estimates; the House Budget Committee Democratic staff now estimate the budget outcome for fiscal years 2005-2014 as a deficit of $4.0 trillion.

- ***Administration Track Record Discouraging*** — The President lets the deficit increase by almost 50 percent this year, and then makes the lame promise that he will cut it in half within five years. It is hard to take his claim seriously. This promise comes from an Administration that has enlarged the deficit by $648 billion since 2001, and has added $1.7 trillion in gross debt in just three years. For 2004, the budget proposes a record deficit of $521 billion — $146 billion more than the 2003 deficit, which was itself an historic high.

Projected 2004 Surplus Becomes Largest Deficit in History

Forecast of 2004 Surplus or Deficit, Billions of Dollars

	Unified	On-Budget
February 2001	268	57
August 2001	217	6
February 2002	-14	-208
July 2002	-48	-236
February 2003	-307	-482
July 2003	-475	-639
February 2004	-521	-675

- ***Deficit Is About Values*** — These huge deficits are not just an accounting problem. They are a moral problem, because our children and grandchildren will be forced to repay the record amounts of debt we are borrowing today. The Administration has dismissed these deficits as "manageable," but large chronic deficits threaten our economic strength by crowding out private investment, driving up interest rates, and slowing economic growth.

- ***Administration Has No Plan*** — Despite Administration claims of fiscal responsibility, this budget makes clear that the President simply has no plan to eliminate the budget deficits we now face. In fact, the Administration builds its budget around yet another set of tax cuts, reducing revenues by more than $1 trillion and driving the budget further into the red.

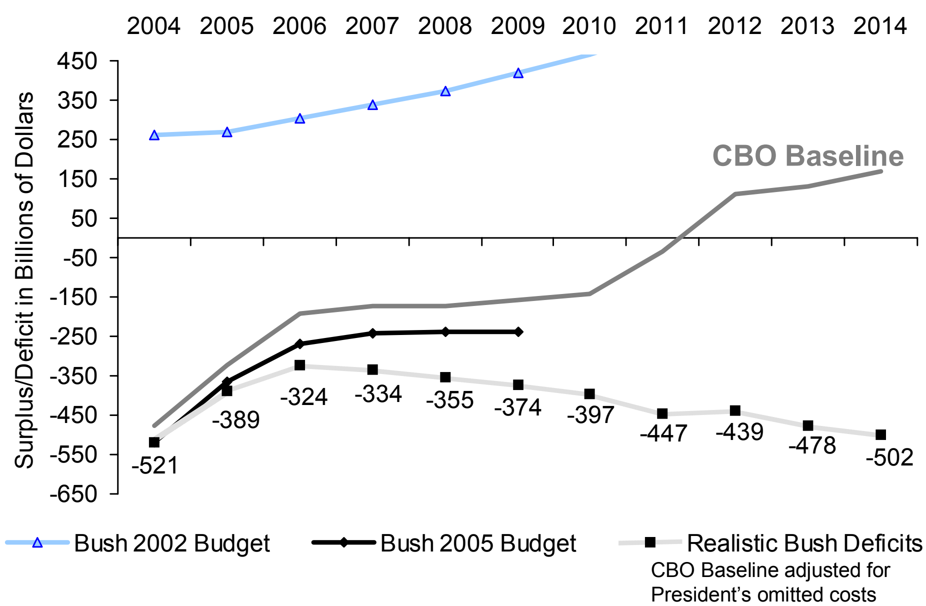
BUDGET TOTALS								
Dollar Amounts in Billions								
	2003	2004	2005	2006	2007	2008	2009	2005-09
Receipts	1,782	1,798	2,036	2,206	2,351	2,485	2,616	N.A.
Outlays	2,158	2,319	2,400	2,473	2,592	2,724	2,853	N.A.
Deficit	(375)	(521)	(364)	(268)	(241)	(239)	(237)	1,349
Percents of GDP								
	2003	2004	2005	2006	2007	2008	2009	2005-09
Receipts	16.5%	15.7%	16.9%	17.4%	17.7%	17.8%	17.8%	N.A.
Outlays	19.9%	20.2%	19.9%	19.6%	19.5%	19.5%	19.4%	N.A.
Deficit	-3.5%	-4.5%	-3.0%	-2.1%	-1.8%	-1.7%	-1.6%	N.A.
Source: Office of Management & Budget, *Fiscal Year 2005 Budget of the United States Government*								

- ***Budget Omits Key Future Costs and Vital Information*** — The budget is neither credible nor realistic. It hides the deficits and the tax cuts' true impact by failing to provide any deficit figures at all after 2009 — raising the question of how any Administration that has no confidence in budget projections beyond five years could propose large permanent tax and spending programs. And even the dire figures provided in the first five years of the budget are optimistic, because the budget also omits many costly parts of the President's avowed program. Had the full costs of Administration initiatives like military operations in Iraq and Afghanistan, Social Security privatization, and manned space travel to Mars been included, these record deficits in the Bush budget would be even worse — and the budget would have no chance of cutting the deficit in half in five years, as the President has promised.

UNIFIED BUDGET DEFICIT UNDER THE PRESIDENT'S PROGRAM											
House Budget Committee Democratic Staff Estimate, Billions of Dollars											
2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2005-14
-521	-389	-324	-334	-355	-374	-397	-447	-439	-478	-502	-4,040

- ***Budget Ignores America's Needs*** — The budget's priorities are ill-chosen. While proposing huge new tax cuts with one hand, the Administration squeezes funding for the nation's priorities with the other. The Administration asserts that it is increasing non-defense, non-homeland security domestic appropriations, albeit by less than one percent. But when international affairs funding is factored out, non-homeland security domestic appropriations are actually cut below the 2004 level. This overall cut makes only a small dent in the deficit — such domestic spending is only about 15 percent of the budget, and it has barely grown in the past three years — but it would reduce funding for transportation, environmental protection, small business, and other priority services that the American people need, want, and expect. If the budget can afford more than $1 trillion to extend tax cuts, sacrificing such less-costly but needed services is surely unwise. Even leading Congressional Republicans have said that cutting these spending priorities is unlikely.

More Accurate Estimate Shows Even Bleaker Budget Outlook



> One of the key priorities omitted from the budget is the continuation of extended unemployment insurance benefits. An estimated 375,000 jobless workers exhausted their state benefits in January - a record high - only to find no federal help available to them while they continue to look for work. That is because Republicans allowed the Temporary Extended Unemployment Compensation program (TEUC) to expire at the end of December, despite strong urging from Democrats to continue the program. TEUC provides 13 weeks of federally funded extended benefits to jobless workers who exhaust their regular state unemployment benefits. The economy has lost 2.3 million jobs since President Bush took office, but despite the clear shortage of jobs, the budget only creates a pilot project for "Personal Re-employment Accounts." The tens of thousands of workers who exhaust their benefits each week, who want to work but cannot find jobs in this economy, and who are hard pressed to pay the rent and feed their families, do not need an experiment; and the Republicans show only indifference to their hardship. By contrast, legislation sponsored by House Democrats guarantees all jobless workers at least 26 weeks of extended benefits and expands access to unemployment benefits for workers who are low-wage earners or who work part time.

Although the Administration asserts that this budget is fiscally responsible, the evidence clearly does not support such a claim. The Administration has no plan to repair the deficit. Instead, it just proposes still more tax cuts that dig the budget deficit hole deeper.

In this last budget of a Presidential term, the issue is stewardship. The previous Democratic Administration inherited a jobless recovery and the largest budget deficit in history, and left to its successor the largest budget surplus in history and the longest economic expansion in modern history. The Bush Administration immediately took the economy and budget right back into the ditch, on the very eve of the challenge of the retirement of the baby-boom generation. When the record is written, the Republican Congressional leadership and the Bush Administration will be known for the most colossal fiscal miscalculation in all of American history.

Debt and Deficits, Deficits and Debt

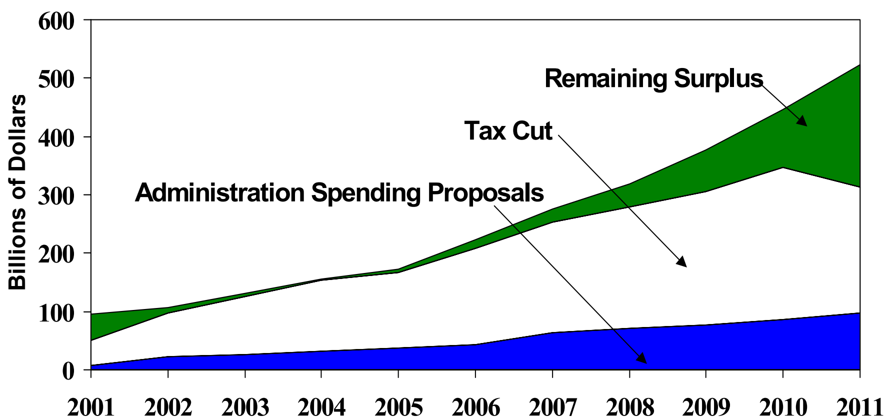
This Administration's first budget — as carried out in the Republican budget resolution for 2002 — left absolutely no margin for error. It spent virtually every dime of projected budget surplus for the first seven years of the budget window. Its proponents claimed to have a "reserve" in case of trouble, but virtually all of that reserve came in the last three years — when budget projections are most uncertain and speculative. So if anything at all went wrong, the budget had absolutely nowhere to go but into the red. And that is precisely what happened.

- ***2002 Budget Put Tax Cuts First* —** To understand the Administration's lack of prudence in its first budget, consider the following words from President Bush in his first address to the Congress:

> ...my budget...is reasonable, and it is responsible. It meets our obligations, and funds our growing needs... My plan pays down an unprecedented amount of our national debt. And ***then, when money is still left over,*** my plan returns it to the people who earned it in the first place. (Emphasis added.)

The President said that he would provide tax cuts only after the debt was paid down and our other obligations were met, with money left over. The problem is that he first gave out the tax cuts, and so our other obligations — including paying down debt, during these years on the eve of the retirement of the baby boom — were never met.

First Administration Budget Left No Margin for Error



April 2001 Projection of Non-Medicare, Non-Social Security Surplus; Tax and Spending Proposals in House-Passed Budget Resolution for FY2002

- ***First Bush Budget Did Not Fund Defense Buildup* —** In fact, the imprudence of the Republican Congress's first budget resolution was even worse than that. Contrary to its rhetoric, it did not provide for the President's proposed defense buildup. The President withheld the cost of his defense program until after his massive tax cut was already enacted. Then, the budget resolution provided that the defense buildup would be financed out of the extra revenue that was assumed to flow from the supply-side magic of those unbalanced tax cuts. In the end, however, revenues in 2002 fell more than $300 billion short of what was projected. The Social Security and Medicare Trust Fund surpluses were fully raided and spent, and there was plenty more deficit besides. The defense money was spent anyway, leaving the budget even further in the red.

  Democrats support a strong national defense, and a vigorous program for homeland security. But the fact that those efforts are essential does not mean that they bear no fiscal consequences. In the end, the federal government ***will*** pay its bills — that result is as inexorable as the law of gravity. But the government does have the choice of paying those bills on time, or paying them late — with interest. Fiscal denial of the consequences of these choices leads inevitably to waves of deficits building mountains of debt. And if our budget is not sound, we will not be able to afford a sound national defense.

- ***Imprudent Budgeting Yields Exploding Debt* —** Because the Republican Administration and Congress have chosen to ignore the consequences of their actions, there are now insufficient funds to address pressing national priorities, including homeland security. And that is ***after*** the public debt has virtually exploded. In his first budget, the President projected that the debt held by the public would be paid down to $2.7 trillion, or 23.8 percent of the GDP, by the end of fiscal year 2003. Instead, it was $3.9 trillion — $1.2 trillion higher than President Bush projected — and 36.1 percent of the GDP. Over the past three years, President Bush and the Republican leadership have borrowed 12.3 percent of our nation's annual production — almost one dollar in eight of what we produce each year — more than they planned. The President said that we would have the public debt paid off as of 2011. (Although the President said that he could not buy back all of the outstanding Treasury securities in the open market, he did project that by the end of 2011, he would accumulate cash reserves that would exceed the value of the outstanding securities.) Instead, by our reckoning and if the President gets his way on extending all of his tax cuts, by 2011 we will have a debt held by the public of more than $8.5 trillion, or more than 47 percent of our GDP.

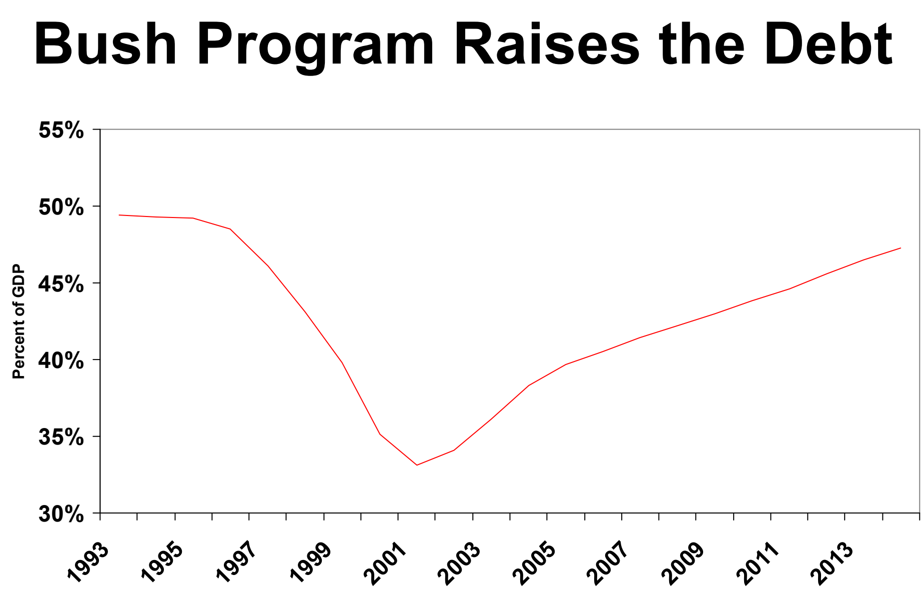
- ***Bush Budget Makes Compound Interest Our Enemy* —** The universally recognized power of compound interest can be an enemy or a friend. To a saver, it is a friend, as it builds wealth. To the previous Democratic Administration, it meant that budget savings reduced deficits, which reduced debt, which reduced the government's interest bill, which in turn made it easier to continue reducing deficits — and ultimately, to build surpluses. It was a virtuous cycle. But after this Administration's rush to enormous tax cuts, this cycle has been reversed, with budget deficits adding to debt, which adds to interest costs, which increase future deficits. This is a vicious cycle for the budget, coming just before the retirement of the baby-boom generation adds unprecedented and not yet fully understood pressures on the budget.

- ***Deficits Too Large, Make Debt Grow* —** Just as the Bush Administration excuses itself for its deficits, so it excuses its deficits as less that the very largest in history as percentages of the GDP. Presumably, if the deficits are not the very largest by that yardstick, then they are, somehow, harmless and acceptable. This is like a football cheer of "We're not the worst!"

  The single most important indicator of the state of the budget is the ratio of our ***debt*** — not the ***deficit*** — to the GDP (as confirmed by CBO Director Douglas Holtz-Eakin at a House Budget Committee hearing on January 27). And this indicator indicts the current Administration and its budgets. The recent deficits are more than large enough to make the nation's debt grow faster than its income — a sure indication of impending disaster, for a nation as for a household. Thus, our debt-to-GDP ratio has climbed from 33.1 percent at the end of 2001 to 36.1 percent at the end of 2003. If the President and the Republicans get their way with the extension of their unbalanced tax cuts, then projections show that the debt to GDP ratio will rise to almost 50 percent by 2014. That will wipe out all of the progress made by the Clinton Administration against the borrowing-and-debt spree of the Reagan and first Bush Administrations, during which the ratio of the debt to the GDP doubled, to almost 50 percent. And so the second President Bush is on track to leave the budget in an even worse condition than did the first President Bush.

- ***U.S. Treasury Must Rely on the Kindness of Strangers* —** In the years following World War II, when the United States totally dominated the developed world, economists dismissed the national debt on the ground that "We owe it to ourselves." But in today's world, that is no longer true. Foreigners own almost half of the privately held debt of the United States government. Since the beginning of the Bush Administration, overseas investors have increased their holdings of our debt by almost $400 billion — buying the entire increment of the new debt in private hands, and more besides. (Even more of the increase in the debt has been purchased by federal government trust funds, and by the Federal Reserve.) It is hard for a world leader to maintain its influence over its creditors — in either the economic or the geopolitical sphere. When the federal government must depend on non-domestic investors to buy its massive sales of bonds, even their threat to stop buying — much less to engage in large-scale sales — could send the financial markets into turmoil, driving up interest rates, driving down the dollar, and frightening investors and business firms. The recent rapid drop in the value of the dollar — down 33 percent against the Euro, and 9 percent against the Japanese Yen since the beginning of this Administration — is just a hint of the potential consequences of a loss of overseas confidence in the creditworthiness of the United States government.

- ***Bush Goal Is Too Little, Too Late*** — After turning the record budget surplus that it inherited into the record budget deficit, the Bush Administration says that it will cut the deficit in half in five years. It has no credible plan to do so. And for that matter, this claim is too little, and too late. Having turned a record budget surplus into a record budget deficit, the Republicans can hardly expect redemption for cutting a part of their error (only the deficit, not the lost surplus) in half. And by the five years in their claim, the baby-boom generation will already have begun to retire. President Clinton said that we should save Social Security first, before we addressed any less-urgent priorities; he backed up that pledge by vetoing Republican budget bills that violated his budget. Under President Clinton's approach, Social Security would already be safe for the long run. President Bush and the Republicans, instead, have used the Social Security Trust Fund surplus to pay for their tax cuts, and now find that the supply-side bonus that they expected is negative in size. So we are on the doorstep of the demographic challenge of the retirement of the baby-boom generation, and all the Republicans dare to promise, even with no valid plan behind the promise, is to cut part of their error in half. This is not good enough for America's seniors, or for future workers, either.



Three years ago, when the President proposed his large tax cuts, he believed that he was distributing an impending budget surplus — as imprudent as that assumption has proved to be. But now, all illusions are dispelled; the surplus is gone. So every dollar of the President's explicitly proposed $1.1 trillion of tax cuts is undertaken by choice; and every dollar goes straight to the bottom line of the deficit and the debt. The President has decided that big tax cuts for those who need the help the least trump all concerns of a bigger debt burden upon our children and grandchildren, and all of the needs that government should address today.

The Debt Tax

- ***Budget Calls for Ever-increasing Public Debt* —** Instead of approaching the fiscal challenges of the baby boom's retirement with declining public debt and stronger government finances, the President's budget increases debt for as far as the eye can see. Three years ago, the President claimed that his policies would retire all available public debt by 2008, and then would proceed to accumulate assets to drive the government's net indebtedness to zero. Now, the President's own budget predictions show public debt in 2009 at almost $6 trillion and rising.

- ***More than $1.8 Trillion in Additional Spending for Interest on the Public Debt Will Burden Our Children with a "Debt Tax"* —** The 2005 budget proposes additional tax cuts of over $1.1 trillion by the President's own accounting, despite the fact that these policies would leave the budget in deficit for the indefinite future. The President cannot now pay for these tax cuts with a projected surplus, as he claimed to do three years ago. Instead, he will borrow money from America's children and grandchildren to provide a tax cut today. The President's new tax cuts add directly, dollar-for-dollar, to the deficit, the public debt, and the burden on our children and grandchildren who will have to service that debt in perpetuity.

  Federal interest expense — the obligatory spending for interest on the nation's accumulated debt — is a "debt tax." Americans must pay taxes to provide the money for interest on the public debt. However, the taxpayers receive absolutely nothing in return for those taxes — no education, no homeland security, just the fulfillment of a legal obligation incurred years ago.

  Republican supply-side tax cuts are responsible for an inordinate share of the debt tax. Between 1980 and 1992, the Reagan and first Bush Administrations quadrupled the national debt. Now, after Democrats pulled the budget into surplus and actually paid down some debt in the 1990s, the current Bush Administration is setting new records for additional debt created each year.

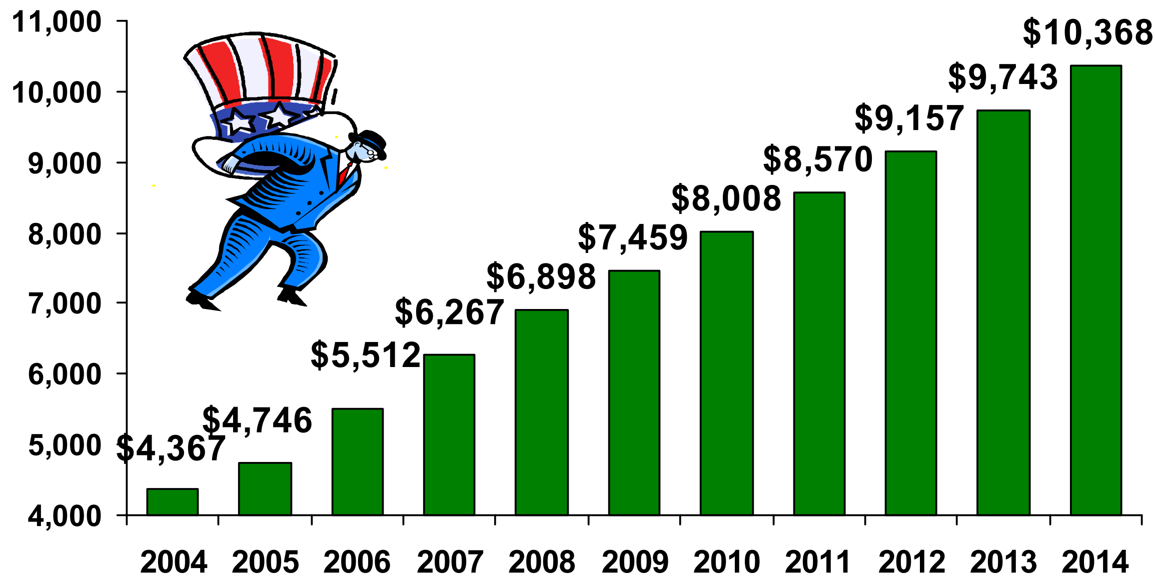
  Since the President proposed his first budget, projected spending for interest on the national debt for 2002 through 2011 has jumped from $0.6 trillion to more than $2.4 trillion (adding some of the omitted costs back into the President's budget). This represents an additional $1.8 trillion in federal spending for interest on the public debt.

- ***How Big Is the Debt Tax?* —** American families of four now must pay almost $4,400 per year, on average, to service the nation's gross debt. The gross debt includes publicly held debt plus debt held by the government's trust funds, such as the Social Security Trust Fund. Under the Administration's policies, that debt tax will increase to almost

$10,400 by 2014. (Counting only the debt held by the public, the debt tax would be about $2,100 this year, rising to about $5,400 in 2014.)

Bush Budget Raises the Debt Tax

Federal Gross Interest per Family of Four



Republicans claim that their policies will increase economic growth, and thereby alleviate the debt tax. But that is what they said about their tax cut three years ago. They projected budget surpluses forever, even after their tax cuts. Now, when the Administration again tries to assure us that its budget projections are cautious and conservative, their claims ring hollow.

Jobs, Jobs, Jobs

It is not justifiable to blame the huge deficits on the economy, rather than on policy. All through the tax-cut debate in the beginning of 2001, and ever since, the Administration and the Republicans in Congress have said how much the tax cuts would help the economy. Because the economy remained weak, one can only conclude that the tax cuts did not work very well. The economy has recovered well behind the pace of the average of previous economic cycles. This is true of overall growth and investment, but the failure of the Bush tax cuts is clearest with respect to jobs.

- ***Bush Tax Cuts Fail to Deliver on Jobs* —** President Bush and the Republicans in the Congress have always claimed that their tax cuts were, in fact, a jobs program. Instead, the nation has lost 2.3 million jobs — 2.9 million private-sector jobs — since the President took office. This is the worst jobs performance of any Administration since Herbert Hoover. The record of this Administration's misunderstanding of the budget and the economy is clear.

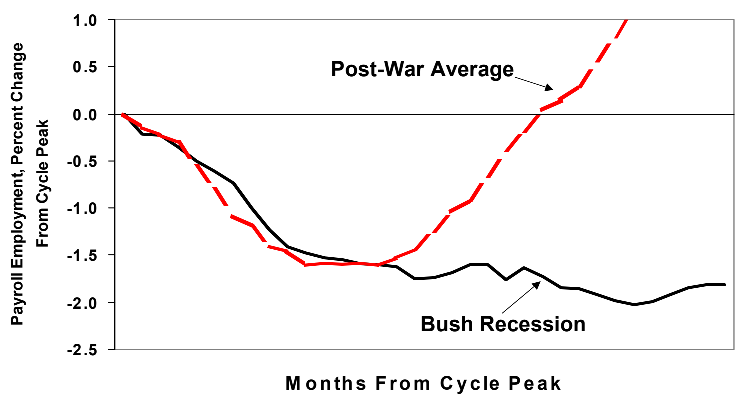
- ***Unfulfilled Jobs Claims from 2001* —** In 2001, the President said that his tax cuts — disproportionately targeted toward those who needed the help the least — would create jobs. Mischaracterizing his big top-bracket tax rate cuts as help for small businesses (no more than two percent of small businesses pay income tax at the highest tax rate), he said in his February address to the Congress, "...help for small business means jobs for Americans." In a White House speech that month, he said, "My plan is good for the long-term health of our economy. It is good for the businesses that create jobs."

  The President's Council of Economic Advisers (CEA) claimed that his 2001 tax cuts would create 800,000 more jobs by the end of 2002. Instead, from the beginning of the Bush Administration to the end of 2002, the economy lost 2.2 million jobs.

- ***Unfulfilled Jobs Claims from 2002* —** In his State of the Union address in 2002, President Bush said, "Good jobs depend on sound tax policy... The way out of this recession, the way to create jobs, is to grow the economy by encouraging investment in factories and equipment, and by speeding up tax relief..." By the time of this address in January of 2002, the nation had lost 1.9 million jobs; and the Bush Administration then had, and still has, the worst business investment record of any Administration since World War II.

  In December of 2001, the CEA claimed that the President's proposed 2002 economic stimulus plan (which was substantially adopted) was worth about 300,000 jobs by the end of 2002. Again, this claim is difficult to reconcile with subsequent events, because the economy had lost 2.2 million jobs by the end of that year.

Jobs Lag Despite Big Tax Cuts



- ***Unfulfilled Jobs Claims from 2003* —** In his State of the Union address in 2003, President Bush said, "Our first goal is clear: We must have an economy that grows fast enough to employ every man and woman who seeks a job... Jobs are created when the economy grows; the economy grows when Americans have more money to spend and invest; and the best and fairest way to make sure Americans have that money is not to tax it away in the first place... Lower taxes and greater investment will help this economy expand. More jobs mean more taxpayers..." By the time of his address in January of 2003, the nation had lost 2.1 million jobs; and the Bush Administration was running the largest budget deficit in American history.

In January of 2003, the President's Council of Economic Advisers claimed that, if the President's new tax cut proposals were enacted (they substantially were), they would create 190,000 new jobs in 2003 and 900,000 new jobs in 2004. In February, the CEA reestimated that the program would create 510,000 new jobs in 2003, and 891,000 new jobs in 2004. Again, these claims are difficult to accept, because at the end of 2003, the economy had 2.3 million fewer jobs than when President Bush took office.

- ***Questionable Jobs Claims from 2004* —** In his 2004 State of the Union address, the President said that "...jobs are on the rise." In December of 2003, the economy created 1,000 new jobs. At that rate, it will take 192 years and eight months for the economy to return to the number of jobs at the beginning of President Bush's term of office. And this is after three rounds of the President's tax cuts, which he has already claimed would have created millions of new jobs — but have instead created $1 trillion of new debt on our children and grandchildren.

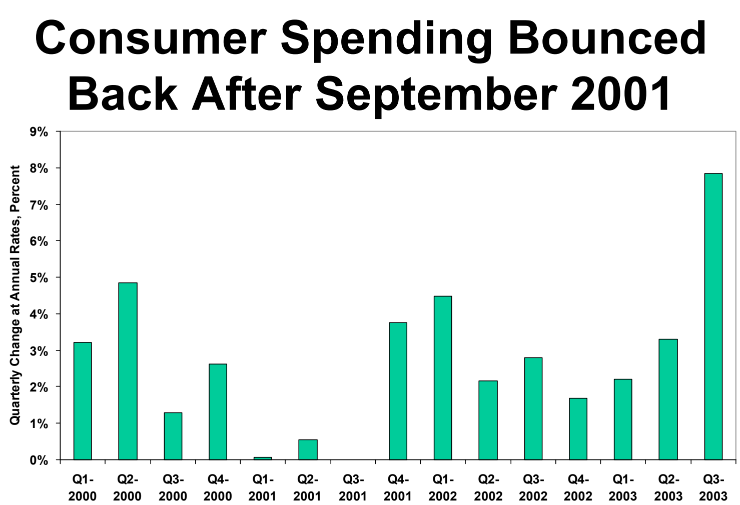
It is clear that the Administration's all-tax-cuts, all-the-time economic program has failed to produce the jobs that the American people need.

Economic Assumptions Still On the Rosy Side

The Bush Administration continues its vain claims that excessive tax cuts will improve the economy and the budget. As in the last three years, its claims will be unfulfilled. It is likely that the economy is gaining some traction after its long slide from the recession that began and ended in 2001. However, the Administration misreads this inevitable bottoming out as the dawn of a supply-side renaissance. That is not the case.

The Administration has continually misread the failure of the economy and the budget to respond to its tax-cut therapy. It has assigned the economic sluggishness to world events, rather than to the impotence of the tax cuts. But the answers are in the evidence.

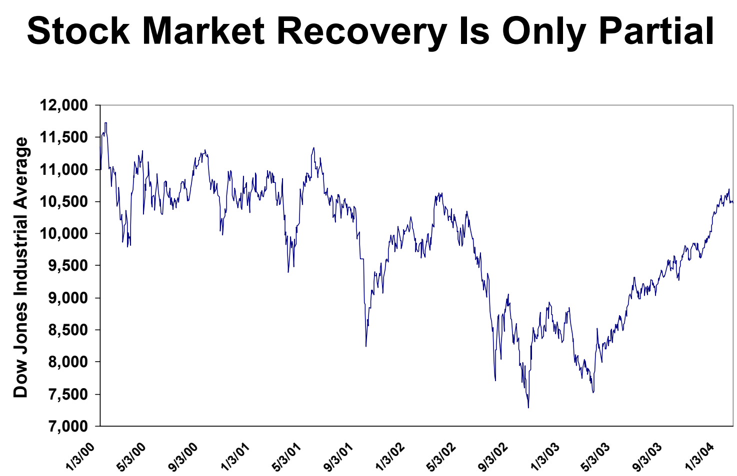
- ***Economic Failure Not Caused by Terror or War*** — The budget and the economy did suffer because of the terrorist attacks of September 2001. But to assign primary blame to September 11 for today's budget problems is to avoid responsibility for serious policy mistakes. Those who say that this is a war budget, and who say that the colossal deficit is the fault of the war, forget that there is no funding for the cost of the war in 2005 in this budget. They cannot have it both ways. If there is no war spending in the budget, then there is no war spending in the deficit. Spending directly related to September 11 was but a small fraction of the current \$400 billion - \$500 billion deficits, and it is now far behind us.

  Nor is it factual to blame the terrorist attacks for the weakness of the economy. Some economists feared that the terrorism would frighten and deter consumers from spending. But that never happened. Consumer spending was already weak before September 11 (as a part of the recession that had begun in March), but then bounced right back in the fourth quarter of 2001, beginning in October. Consumers refrained from spending their dollars on some things, like travel and tourism, but they quickly spent those dollars on something else, keeping the aggregate level of spending high. Shortly after the terrorist attack in September, the economy exited the recession in November, according to the Business Cycle Dating Committee of the National Bureau of Economic Research, the official authority. So we should not exaggerate the impact of the national tragedy of September 11 on the economy by itself.

- ***Tax Cuts Yielded No Economic Benefit for Almost Three Years* —** Our Republican colleagues and the President are eager to claim that the last two quarters of stronger economic growth prove that the tax cuts are working. They do no such thing. Almost three years ago, when the President's first and biggest tax cuts passed, two things were certain: first, that some day thereafter, there would be some strong economic report; and second, that whenever that occurred, Republicans would rush forward to claim credit for their tax cuts. That they had to wait for almost three years for the first favorable economic news is the best evidence that the economic recovery is the result of the constant industry of the American people — ***not*** the tax cuts. There is no ground for claiming credit for the tax cuts now, ignoring their failure to produce over the three years before.

- ***Stock Market Is Not a Policy Instrument* —** Some also argue that the tax cuts must be working, because the stock market is up. Forget that it makes much more policy sense to try to build a strong economy, so that the stock market will be strong, rather than pretending that policy can influence the stock market, so that the market will push the economy. Instead, just look at where the market is in comparison with the last four years. The Dow Jones Industrial average is up from its lows, but has recovered only about 80 percent of its losses. The NASDAQ is also off of its Bush-Administration lows, but is still at less than half the value of its previous peak.

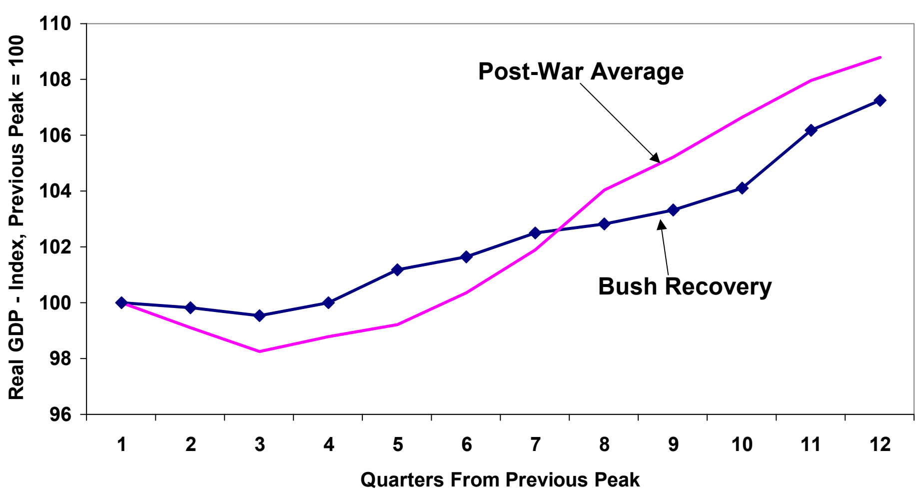


- ***Economic Assumptions Lean Rosy* —** For last year, the Administration's economic numbers may appear to be cautious. The GDP figures did surprise on the upside, particularly in the third quarter of last year, and the Administration's forecast had to be completed before those numbers were fully known. However, the Administration's real growth projections for future years remain more optimistic than CBO's, and generally more optimistic than the private sector's. This is significant in that the growth of the labor force will begin to slow in the later part of this decade, as the retirement of the baby boom begins. If the Administration remains optimistic in the light of that unprecedented development, it runs the risk of departing markedly from the actual course of the economy.

- ***Economy Will Not Redeem a Budget Going Downhill* —** In other respects, the Administration numbers are fairly close to the mainstream. However, the Administration's overall budget package is more noteworthy for what the economic assumptions do not say. Even under its own economic forecast and estimating assumptions, the Administration budget remains in deficit — forever. In fact, its deficits explode in the years beyond its truncated five-year budget window, as shown by the budget's own charts (in "Stewardship," chapter 12 of the *Analytical Perspectives* volume). The Administration implicitly hopes for the economy to outperform its forecasts, in order to escape its own projection of perpetual deficits. However, with private and other government forecasters having already concluded that the big budget deficits are a net negative for the economy, even in company with the tax cuts, these hopes are most unlikely to be fulfilled.

Over the last three years, the Administration has wished for a stronger economy to make its supply-side dreams come true. The economy may finally be finding its feet after its long and sodden recovery, but this is the result of natural cycles of inventory depletion and replacement investment, not any supply-side response to changes in tax policy. The President will wait in vain for confirmation of his economic policy principles.

Bush Recovery Weak Despite Tax Cuts



Tax Provisions

The Bush Administration has a tax cut for every season and for every reason. In 2001 it proposed tax cuts because the country was enjoying unprecedented surpluses. In 2002, it proposed tax cuts for stimulus. Growth was the theme in 2003. Now, in 2004, with the economy in its third year of anemic expansion, the Bush Administration is trying to justify a fourth round of profligacy. Without the tax cuts being made permanent, the Administration claims, the expansion is in danger of petering out as businesses and consumers alter plans on account of uncertainty. This is a tenuous claim at best, for the world is always a very uncertain place. What is certain, however, is that the tax policies of the Bush Administration are the prime cause of record deficits which create serious financial market uncertainty — and threaten to push up interest rates, crowd out investment, and lower living standards.

Whether or not one believes in the legitimacy of "trickle- down economics," there is little doubt that the Administration's tax policies, taken as a whole, have been highly regressive. For instance, according to the Urban-Brookings Tax Policy Center, when taken together, EGTRRA and JGTRRA resulted in an average tax change of $3 for the lowest income quintile of households ranked by income while resulting in a $30,485 tax change for the richest one percent of Americans. The annual tax change for a taxpayer in the third – i.e., middle – quintile is estimated to be only $685 in 2004. If the sea of red ink causes 30-year mortgage rates to rise from six percent to seven percent, the cost of carrying a $150,000 mortgage will rise $1,200 annually, wiping out the middle class's tax cut two times over.

The $3.8 Trillion Tax Agenda
Costs of President's Tax Proposals: Enacted, Proposed, and Hidden
Trillions of Dollars

	2005-2014
2001 Tax Cut	1.060
2002 Stimulus	-0.070
2003 Tax Cut	0.135
Make Above Tax Cuts Permanent	1.233
AMT	0.549
New Tax Proposals in 2005 Budget	0.163
Subtotal	3.069
Corresponding Debt Service	0.732
TOTAL TAX AGENDA	**$3.801**

Source: CBO and Joint Committee on Taxation
AMT includes interaction with EGTRRA/JGTRRA permanence
New Tax Proposals are OMB estimates, do not include AMT

The President's budget for 2005 aims to consolidate the policy errors of the past three years by making virtually all temporary provisions in the past three tax bills permanent. This would lock in annual tax benefits of $66,208 for the richest one percent while giving the bottom quintile a meager $19 in tax benefits. The middle quintile would see only a $683 change in their taxes, or roughly $13 extra onto the weekly paycheck.

While the cost of the tax provisions proposed in the budget is nominally $1.1 trillion, in reality it is even higher. The Bush Administration uses several scoring subterfuges to make the overall cost seem lower and to hide the fiscal peril of the federal government.

While previous budgets displayed the budget outlook over a ten-year period, the 2005 budget displays only five years. This display gives the illusion of a convergence between revenues and spending shortly after the five-year window, but as the Administration admits in Chapter 12 of the *Analytical Perspectives* volume, the government faces deficits over 10 percent of GDP after the retirement of the baby-boom generation. If the Administration were to provide a longer-term perspective, the current round of trillion-dollar tax cuts would seem far less advisable.

The magnitude of revenue policy changes is also made to appear artificially low by including in the revenue baseline the proposals making provisions under previous tax bills permanent. The Administration has attempted to justify this action by claiming that all sunsetting provisions will be routinely extended and should already be considered part of policy. However, when these provisions were drafted, the sunsets were included by Republicans to receive lower cost estimates from Congressional scorekeepers in order to comply with the budget resolution. The Administration wants to evade the consequences of its own previous machinations and cloak the real long-term costs of their policies by changing the rules.

In the same vein, there is widespread consensus that the Alternative Minimum Tax (AMT) will soon need to be reformed. Originally envisioned as a way to ensure that wealthy individuals pay at least some tax, the AMT, due to subsequent inflation and tax cuts, is now affecting a broader cross-section of the public than originally intended. According to CBO, an AMT fix would have far-reaching revenue effects, in large part because of the tax cuts contained in EGTRRA and JGTRRA. The total cost of a comprehensive AMT reform would be at least $500 billion. To keep the overall cost of their tax package from pushing $2 trillion, the Administration provides only a one-year stop gap AMT fix for $23.3 billion. Thus, the Administration postpones AMT reform until later, when the financial situation of the government has further deteriorated.

Under the rubric of promoting savings, the Administration has reprised Retirement Savings Accounts and Lifetime Earnings Accounts (RSAs/LSAs). These accounts would appeal especially to the five percent of taxpayers who are able to deposit the maximum amount into their 401(k)s. Because neither deposits nor distributions are taxed under these proposals, the accounts would prove very expensive in the long run. However, in the first five years of the accounts, it is estimated that they would be a net source of revenue, as taxpayers transferred their funds from tax-deferred accounts, much as happened with Roth IRAs. Thus, these provisions are classified as overall revenue raisers for both five- and ten-year periods, even though they will cost billions once they are in full effect.

Finally, the Administration also masks the true cost of its proposal by assuming non-existent cuts. A proposal to provide refundable tax credits to the uninsured would require an outlay of $65 billion. In the same mandatory spending section, the Administration also assumes that $65 billion in offsetting cuts will be found in consultation with Congress. The Administration can then take credit for a rare proposal that benefits the working poor, offset the cost in its budget with nonexistent cuts, and finally abandon the measure once the offsetting cuts fail to materialize — and blame Congress for the failure.

The Bush Administration continues to promote tax policies which (1) have little relation to the spending realities of nation, (2) disproportionally favor those who were doing quite well already in the years leading up to 2001, (3) keep large amounts of investment income out of the tax base, discriminating against wage income and in favor of unearned income, and (4) disregard the need for national savings in the face of a major demographic shift. Descriptions of specific provisions follow.

- ***Extends Expiring Tax Cuts*** — To mask the full magnitude of their 2001 and 2003 tax cuts, Congressional Republicans added sunsets to numerous provisions in both packages. The budget makes these provisions permanent, adding more than $1.0 trillion to the national debt over ten years. Over 75 years, the cost of extending these tax cuts exceeds the combined shortfalls in Social Security and Medicare. If the Congress allowed those provisions that disproportionately benefit the best off to expire, it would go a long way toward restoring fiscal balance. The budget makes permanent the following tax cuts:

  - ***Child Tax Credit*** – Under current law, the child tax credit will revert from $1,000 to $700 in 2005. The credit will remain at $700 through 2008, increase to $800 for 2009, and increase to $1,000 for 2010 and 2011, before expiring at the end of 2011. The President's 2005 budget keeps the credit at $1,000 in years after 2004 and makes it permanent. The cost of this provision is $114.9 billion over ten years. This does not include and additional $47.8 billion in outlays.

  - ***"Marriage Penalty" Relief*** – JGTRRA made the standard deduction for married couples exactly twice the amount it is for single taxpayers in 2003 and 2004. Under current law, it will revert to 1.74 times the deduction for single taxpayers thereafter. Making the provision permanent in 2005 and beyond costs $50.5 billion over ten years. This does not include an additional $5.7 billion in outlays.
  - ***Ten Percent Individual Income Tax Rate Bracket*** — JGTRRA increased the thresholds of the ten percent tax bracket to $7,000 for single taxpayers and $14,000 for couples in 2003 and adjusted them for inflation in 2004. Making the change in brackets permanent for 2005 and thereafter would cost $422.6 billion over ten years.

  - ***Dividend Tax Rate Structure*** — Under previous law, dividends were taxed as ordinary income. JGTRRA changed the treatment of dividends, taxing them in a manner similar to capital gains through 2008, dropping the rate they are taxed at to between zero and fifteen percent. Making permanent the current tax treatment of dividends costs $81.3 billion over ten years.

  - ***Capital Gains Structure*** — JGTRRA lowered the capital gains tax rates from 20 percent and 10 percent for investments held for more than one year to 15 and five percent respectively (zero in 2008) through 2008. It has never been adequately explained why a capital gains tax of 20 percent was a barrier to investment. The provision would cost $50.0 billion through 2014.

- ***Expensing for Small Business*** — The Administration has proposed making permanent a provision that would allow small businesses to expense up to $100,000 in capital investment. Under current law, the provision does not apply beyond 2005. If the provision is not extended, the amount that can be written off will revert to $25,000 as under previous law. The provision would cost $24.8 billion through 2014.

- ***Repeal of Estate Tax*** — EGTRRA reduced estate taxes and raised the unified credit for the estate tax to $3.5 million by 2009 and repealed the estate tax altogether in 2010. To comply with the budget resolution, however, the provision reverts to current law in 2011. The estate tax was instituted in 1916 and enjoyed bipartisan support for most of its existence. It has not proven an impediment to the resourceful and hardworking in accumulating wealth. In fact, it was no deterrent to any of the many Americans who amassed substantial fortunes in the 1990s. Contrary to Republican assertions, there are provisions in the law to keep family farms and small businesses in the family. Permanent repeal of the estate tax would cost $180.1 billion through 2014. It would do little to spur additional entrepreneurial activity but would give huge windfalls to the wealthiest families.

- ***Extension of AMT Relief for Individuals*** — There is widespread acknowledgment that taxpayers who were not intended to be subject to the AMT have become so because of inflation and deep cuts in the ordinary income tax enacted in 2001 and 2003. By 2012, 39 million middle-income taxpayers will see their taxes raised because of the AMT. There is also consensus that some type of reform is necessary. A recent estimate by CBO put the full price tag of AMT reform at over $500 billion. This budget hides the true cost of AMT reform by proposing only a one-year extension of higher exemption amounts at a cost of $23.3 billion.

The budget also contains several new tax cuts, including the following measures:

- ***RSAs/ LSAs*** — The budget creates scaled-down versions of last year's proposed RSAs and LSAs. RSAs allow tax-free deposits and withdrawals into an account that could be drawn down by the owner after age 58. Annual contributions would be capped at $5,000. Unlike the current-law IRAs and 401(k)s, funds deposited into RSAs are completely sheltered from taxation, creating a substantial drain on the national tax base in future years. LSAs are similar to RSAs except that distributions may be made tax-free for any purpose. In effect, LSAs would allow affluent taxpayers to shelter up to $5,000 from taxation without guaranteeing any real accumulation of capital. In the short run, these provisions may actually prove to be revenue positive, because taxpayers are allowed to cash out tax-deferred instruments such as IRAs to take advantage of these new accounts. According to an analysis by the Urban Institute - Brookings Tax Policy Center, the drain on federal revenues could be as high as $50 billion *annually* once the program reaches maturity.

- ***Employer Retirement Savings Accounts (ERSAs)* —** Under current law, workers may participate in a variety of employer-based savings plans at work. Examples include 401(k), SIMPLE 401(k), and 403(b) plans. In light of the decline in defined-benefit plans, these plans are usually the prime savings vehicle a worker has to guarantee a secure retirement. To guarantee that these plans are not used primarily as a shelter for highly paid managers and proprietors, employers must meet a set of nondiscrimination criteria. The 2005 budget replaces existing accounts with ERSAs which would have significantly more relaxed nondiscrimination rules.

- ***Refundable Tax Credit for Purchase of Health Insurance*** — To offer working Americans more access to health insurance, the budget allows taxpayers to claim a refundable tax credit against health insurance premiums. The credit would be equal to a percentage of the premium not to exceed $1,000 per adult and $500 per child. Depending on the age and health of the families and individuals covered, health insurance premiums for comprehensive plans can be in excess of $20,000 per year. The percentage amount of the credit would be 90 percent for low-income workers, and be phased out at $30,000 for singles and $60,000 for families. According to the Treasury, the credit for a family of four making $40,000 per year would be $1,714. The proposal costs $70.1 billion in combined revenue losses and outlays for taxpayers whose tax liabilities have been reduced to zero. The high cost of health insurance is due in large part to market inefficiencies and mispricing of risk. The Administration has made no effort to tackle these underlying factors. While no numbers have been offered by the Administration, it seems clear that this provision will not have a significant effect on the problem of the uninsured in the United States.

- ***Above-the-Line Deduction for Premiums Paid for Catastrophic Health Insurance*** — Health Savings Accounts (HSA) became law as part of the recently enacted Medicare legislation as the successor to Archer Medical Savings Accounts. HSA allow tax-free deposits and withdrawals for qualified medical expenses. To participate in the program, an individual must purchase a high-deductible catastrophic health insurance plan. The budget further compounds the drain on the Treasury by making premiums for catastrophic health insurance fully tax deductible. This proposal costs $24.8 billion on top of the cost of the HSA provision already in the law. *See Function 570 (Medicare) for details on HSA.*

- ***Charitable Contribution Deduction for Nonitemizers*** — Under current law, nonitemizers receive a standard deduction covering all deductible expenses including charitable contributions. This initiative allows nonitemizers to claim a deduction of up to $250 for the amount of a charitable contribution in excess of $250. This provision would be extremely difficult and cumbersome for the IRS to verify and costs $12.0 billion over 10 years.

- ***Tax Administration*** — The budget includes several measures designed to improve tax administration. First, the IRS is allowed to enter into installment agreements with taxpayers who only partially repay the outstanding tax liability. Second, the IRS may withhold vendor and other non-periodic Federal payments under the Federal Payment Levy Program. Third, the IRS is permitted to contract with private collection agencies to collect unpaid taxes. Fourth, States will be required to update their laws to prevent employers from manipulating their risk ratings under the Unemployment Insurance program in order to avoid paying higher premiums. These and other smaller tax administration measures raise $2.1 billion over ten years.

- ***Extend Research and Experimentation (R&E) Tax Credit*** — Firms receive a credit of 20 percent of R&E expenses above a certain amount, depending on their R&E expenditures in previous years. The credit will expire on June 30, 2004 if no action is taken. The 2005 budget makes the credit permanent and studies options to make it more effective. Critics of the credit point to its complexity and the fact that it can unequally reward firms with identical behavior in a given year. The provision costs an estimated $78.4 billion over ten years.

- ***Leasing Transactions with Tax-Indifferent Parties*** — State and local governments own large amounts of physical infrastructure. If the infrastructure were owned by a private company, that company would write off depreciation against profits for tax purposes. Taking advantage of the tax law, certain municipalities have sold physical assets to private firms and then immediately leased those assets back. Municipalities have in effect used the tax benefits of depreciation as a new source of funds. The President's budget limits the amount of the deduction to the taxable income earned for the year on the transaction. Disallowed deductions can be carried forward to future years. The purchasing firm will eventually be able to claim all previously disallowed deductions upon disposal of its interest the property. This measure raises $33.4 billion over ten years.

- ***Repeal of Disallowance of Certain Deductions of Mutual Life Insurance Companies*** — Dividends paid to policyholders by mutual life insurance companies have traditionally been deductible while ordinary dividends paid to shareholders are not. Since 1984, the tax code has included an adjustment based on industry earnings data. In seven of the past ten years this adjustment has been zero. As a result, policyholder dividends have been fully deductible. Because of the complexity of calculating the adjustment, the problems in calculating tax liability based on industry-wide data, and widespread demutualization, this provision was temporarily repealed by the 2002 tax bill. The budget permanently repeals the provision at a cost of $471 million over ten years.

- ***Work Opportunity Tax Credit and Welfare-to-Work Tax Credit*** — The Work Opportunity Tax Credit (WOTC) allows employers to claim a 40 percent tax credit on the first $6,000 of wages paid. For summer youth jobs, employers can claim the credit up to

$3,000. For part-time employees, the credit is 25 percent of qualified workers' wages. The Welfare-to-Work (WTW) Credit allows employers to claim a 50 percent credit on the first $10,000 in wages for the first year of employment and 35 percent in the second year. Qualified workers for both programs generally must be from a set of underemployed populations, especially TANF recipients. Educational assistance can be included in the wage base for WTW. The 2005 budget combines the two programs. The eligible wage base would be $10,000 for welfare-to-work employees, $6,000 for other groups, and $3,000 for summer youth. A second year would be available for TANF recipients. There would be a two-year transition period. The provision cost $768 million over ten years.

- ***Qualified Zone Academy Bonds*** — State and local governments are allowed under the law to issue Qualified Zone Academy Bonds (QZABs). Investors who purchase QZABs are not paid interest by the issuing entity; instead, they claim a tax credit on their federal income tax returns in lieu of interest. Issuers may then use the proceeds from the sale of QZABs to finance capital improvements, equipment purchases, and teacher training. Under previous law, State and local governments could issue up to $400 million in QZABs each year from 1998 through 2003. The Administration will authorize the issue of $400 million in QZABs for 2004 and 2005. The provision would cost $254 million over ten years.

- ***Authority to Issue Liberty Zone Bonds*** — Under current law, the State of New York and New York City have the authority to issue $8 billion in exempt facility bonds that are not subject to the general private activity bond volume cap. The proceeds must be used in reconstruction projects in the area designated as the New York Liberty Zone in lower Manhattan (the site of the 2001 terrorist attack). The 2005 budget extends the authority through December 31, 2009. The provision would cost $616 million through 2014.

A Budget Larded With Gimmicks Obscures Real Size of Deficit

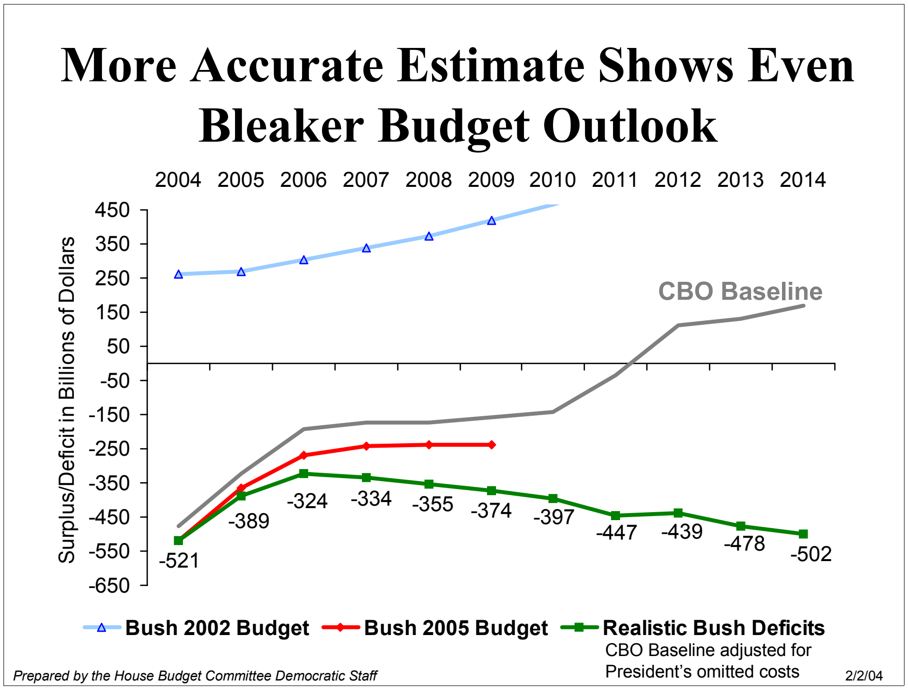
While the President's budget claims to cut the deficit in half over the next five years, this is a mirage. The deficit appears to shrink only because the budget omits the costs of significant items on his agenda and relies on unrealistic offsets. The budget uses a number of other techniques, including significant unspecified spending reductions, to obscure the true budgetary effects of the President's policies.

- ***Five-Year Budget Hides Exploding Costs* —** Once again, the budget covers only five years, through 2009. In the President's first budget, the Administration embraced ten-year projections because the huge ten-year surplus projected at that time supposedly justified imprudent, back-loaded tax cuts. Now, with the return of large, chronic deficits, the Administration claims that ten-year forecasts cannot be trusted. Meanwhile, the budget includes policies with substantial long-term costs. For example, Lifetime Savings Accounts and Retirement Savings Accounts initially reduce the deficit somewhat, but their costs will grow steadily thereafter. And the real cost of the President's mission to the moon and Mars occurs beyond the five-year window.

- ***Additional Tax Cuts Approach $1 Trillion* —** The President's budget makes his expiring tax cuts permanent at a cost of $131.6 billion over five years. Over ten years, however, these costs will total $936.3 billion, not including the additional debt service these tax cuts will trigger. Over 75 years, the cost of extending the tax cuts exceeds the combined shortfalls in Social Security and Medicare.

- ***Budget Omits Costs of Iraq Conflict, Social Security Privatization, and Other Key Bush Policies* —** The President's budget omits significant policy costs. The budget fails to provide for ongoing military costs in Iraq and Afghanistan, even though the Administration concedes that U.S. involvement there is likely to continue beyond 2004. The President advocates allowing younger workers to redirect part of their Social Security payroll taxes into individual accounts — a first step toward privatizing Social Security. But the budget is silent on the transition costs of such a plan, estimated at $1 trillion over ten years. The budget also avoids long-term reform of the Alternative Minimum Tax (AMT), even though the AMT will soon force millions of middle-class families to pay more taxes, contrary to the original intent of the AMT. Instead, the budget provides only a short-term fix. CBO estimates the cost of reforming the AMT — if other expiring tax cuts were extended — at over $500 billion.

- ***Budget Relies on Unrealistic Fees and Offsets* —** The budget assumes savings from user fees and offsets that Congress has rejected in the past, such as requiring certain veterans to pay enrollment fees for medical care, charging fees for meat safety inspections, and increasing patent fees.



- ***Budget Enforcement Plan Ignores Half of the Budget*** — The budget supports the revival of discretionary spending caps, as well as a pay-as-you-go rule (PAYGO) to require that any legislation increasing direct spending must be offset by corresponding spending cuts. The President's plan is based on provisions of the Budget Enforcement Act of 1990 (BEA), which expired in 2002, with one important exception — the BEA PAYGO rule applied to tax cuts, too, and the Bush proposal does not.

- ***Tightening the Vise on Domestic Funding Barely Affects the Deficit*** — In the name of cutting the deficit, the President's budget cuts domestic non-homeland security appropriations by 0.3 percent below the 2004 enacted level, and by 3.6 percent below the amount that CBO estimates is needed to maintain purchasing power at the 2004 level. This will do virtually nothing to reverse the growing deficit. This category of funding has been frozen in real terms since 2002, while the deficit mushroomed from $158 billion in 2002 to $521 billion in 2004.

- ***Unspecified Cuts of $65 Billion Herald the Return of Reagan-era "Magic Asterisk"*** — The budget includes a refundable tax credit for the purchase of health insurance, which will cost $65.4 billion in increased spending for the refundable portion of the credit and $4.7 billion in reduced receipts through 2014. The budget also includes a "contingent offset" of $65 billion in reduced spending over ten years, but the budget is silent on what that offset might be. Rather than offer a genuine policy change to reduce spending by this amount, the budget merely states: "When the Congress moves legislation to implement the President's health care credit proposal, the Administration will work with the Congress to offset this additional spending." This approach is reminiscent of the first budget submitted by President Reagan, which achieved fiscal discipline — on paper — thanks to a $160.4 billion spending-cut item called "Additional savings to be proposed." That approach has since been known as "the magic asterisk."

- ***The President Obscures Cost of Some Tax Cuts By Redefining Them As "Current Services"*****—** The deficit effects of policy changes are conventionally measured against a "current services baseline," which is basically an estimate of what total federal spending and receipts would be under an extension of current law. The Budget Enforcement Act generally requires that a mandatory program spending over $50 million a year be assumed to continue in the baseline after the last year of spending explicitly authorized by law. Sunsetting tax provisions are assumed to expire in the baseline, with a few exceptions for certain dedicated excise taxes.

  The President's 2005 budget presentation departs from the usual practice by assuming, for purposes of the current services estimates, that certain expiring provisions of the 2001 and 2003 tax laws continue past their sunset date. The budget argues that this is justified because these provisions "were clearly not intended to be temporary." However, the sunset dates on these tax cuts were driven solely by the enormous price tag of the President's tax policies. Attempting now to hide the costs of extending these tax cuts in the baseline and treat them as inevitable obscures the fact that these tax cuts, and the resulting structural deficit that Republicans now use to justify a wide array of cuts to federal programs, were a matter of choice.

Appropriated Programs

The President's budget includes $865.0 billion for appropriated programs, transportation obligation limitations, and BioShield funding. This is an increase of $33.4 billion (4.0 percent) compared with the 2004 enacted level, adjusted to exclude the 2004 Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan. However, it is only $6.0 billion (0.7 percent) above the amount that CBO estimates is needed to maintain purchasing power at that comparable adjusted 2004 level (known as the 2005 baseline).

Because the President's 2005 budget includes no funding for ongoing operations in Iraq and Afghanistan, to make a fair comparison the table below removes those costs (funded in the Iraq and Afghanistan supplemental funding bill) from both 2004 and the 2005 baseline. However, to display true 2004 funding totals, the second part of the table adds in that funding.

Funding for Appropriated Programs
(Budget Authority and Obligation Limitations in Billions of Dollars)

				Request v. Baseline	
Excluding 2004 Supplemental Funding:	**2004* Enacted**	**2005* Baseline**	**2005 Request**	**Dollar Change**	***Percent Change***
National Defense	394.8	406.3	420.7	14.3	*3.5*
International Affairs	27.0	27.3	31.6	4.3	*15.8*
Homeland Security	26.6	29.0	30.6	1.6	*5.5*
Domestic Non-Homeland Security	340.0	352.5	338.0	-14.5	*-4.1*
Total Non-Emergency Appropriations	**788.3**	**815.2**	**820.9**	**5.7**	***0.7***
Transportation Obligation Limitations	43.3	43.8	44.1	0.3	*0.7*
Total Non-Emergency Resources	**831.7**	**859.0**	**865.0**	**6.0**	**0.7**
Including 2004 Supplemental Funding:					
2004 Supplemental Iraq Funding	87.4	88.8	n.a.	n.a.	n.a.
Total Resources	***919.1***	***947.8***	***865.0***	***-82.8***	***-8.7***

**All figures in the upper part of this table exclude funding from the 2004 supplemental funding bill.*
National Defense represents Function 050, which includes the Department of Defense and the nuclear weapons-related activities of the Department of Energy.
Homeland Security is non-defense, non-international discretionary appropriations, including BioShield.
Domestic resources are the remaining non-defense, non-international, non-homeland security resources.
Numbers do not add due to rounding.

As the table indicates, while the President's budget slightly increases total non-emergency resources, it cuts domestic non-homeland security funding by $14.5 billion (4.1 percent) below the amount that CBO estimates is needed to maintain purchasing power at the 2004 level. This is because of large increases in the other parts of the discretionary budget: homeland security increases by 5.5 percent ($1.6 billion) over the amount needed to maintain purchasing power, international affairs increases by 15.8 percent ($4.3 billion), and defense increases by 3.5 percent ($14.3 billion) — even though the President's budget does not include any 2005 funding for Iraq and Afghanistan; the Administration plans to include that funding in a supplemental request.

- ***The President's "Less Than One Percent Increase" for Most Programs*** — The Administration's budget compares the 2004 enacted level, excluding the $87 billion in supplemental funding for operations in Iraq and Afghanistan, with its 2005 level for defense, homeland security, and the remaining non-defense, non-homeland security funding. The President's budget excludes from all these categories the $2.5 billion it provides for 2005 for Project BioShield, an initiative to protect against BIOLOGICAL AND CHEMICAL WEAPONS OR OTHER DANGEROUS PATHOGENS. This $2.5 billion is included as discretionary funding in the homeland security category throughout this document, resulting in a larger increase for homeland security funding than the President's budget documents portray. The table below shows non-defense, non-homeland security funding increasing by less than one percent above the adjusted 2004 enacted level.

2004 Enacted (Adjusted) v. 2005 Budget
(Budget Authority and Obligation Limitations in Billions of Dollars)

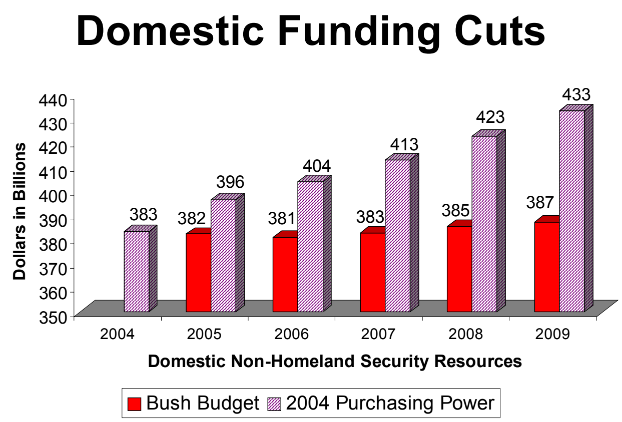
	2004* Enacted	**2005 Request**	**Dollar Change**	***Percent Change***
National Defense	394.8	420.7	25.9	6.5
Homeland Security	26.6	30.6	4.1	15.3
Non-Defense, Non-Homeland Security	410.3	413.7	3.5	0.8
International Affairs	*27.0*	*31.6*	*4.7*	*17.1*
Domestic Non-Homeland Security	*383.3*	*382.1*	*-1.2*	*-0.3*
Total Resources	**831.7**	**865.0**	**33.4**	**4.0**

**The 2004 enacted figures exclude funding from the 2004 supplemental funding bill.*

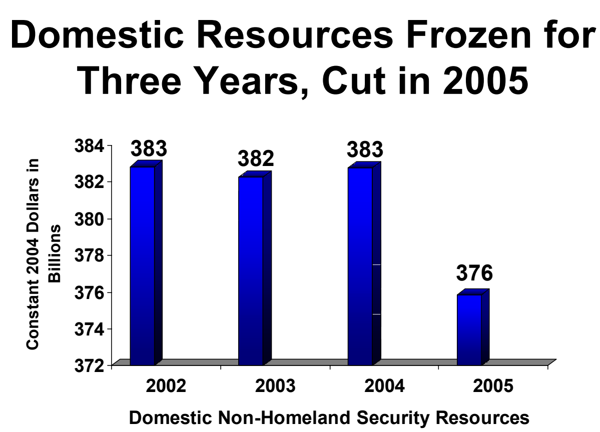
- ***2005 Domestic Non-Homeland Security Funding Cut Below 2004 Enacted Level*** — The Administration's category of non-defense, non-homeland security funding includes international funding, which increases by $4.7 billion (17.1 percent) over the adjusted 2004 enacted level. As shown in the table above, excluding funding for international affairs, the budget actually cuts the remaining domestic non-homeland security category by $1.2 billion (0.3 percent) below the adjusted 2004 enacted level. This category includes all funding for education, NASA, NIH, the environment, public health, and many other important programs.

- ***2005 Squeeze on Most Domestic Programs*** — The overall 0.3 percent nominal cut from the 2004 enacted level masks even deeper cuts to many domestic programs, which are cut by $14.2 billion (3.6 percent) below the amount that CBO estimates is needed to maintain purchasing power at the 2004 level. The budget cuts most domestic programs by even more than 4.1 percent because it includes a few increases in selected high-profile areas, such as special education and NASA.

- ***2006 Domestic Funding is Below 2005 Level*** — Not only does the President's budget for 2005 cut domestic non-homeland security funding from the 2004 enacted level, it the cuts it further for 2006. As shown in the chart to the right, the President cuts domestic funding in nominal terms for three straight years, from 2004 to 2006. In every year of the five-year budget window the President's budget provides less than is needed to maintain domestic programs at the 2004 level; by 2009, the President's budget is $46 billion below the 2004 level, adjusted for inflation.



- ***Domestic Funding Not Responsible for Worsening Deficit*** — There has been no real growth in funding for domestic non-homeland security programs in the past four years. This category of appropriations and obligation limitations has been virtually frozen in real terms for the past three years. In 2004 constant dollars, the President's 2005 budget cuts funding for domestic programs from the 2004 enacted level of $382.8 billion to $375.9 billion for 2005. In nominal dollars, funding for domestic programs increased by 2.2 percent from 2002 to the 2003 enacted level, by 1.8 percent from 2003 to the 2004 enacted level, before being cut in the President's budget. While any cut in funding will help diminish the federal deficit, funding growth in domestic programs has not been the cause of the worsening deficit under this Administration. Even if the Administration



proposed to eliminate all domestic non-homeland security resources for 2005, the government would still run an on-budget deficit of over $160 billion.

- ***2005 Total Will Increase When Administration Requests Funding for the War*** — The budget's $865.0 billion for appropriations and transportation obligation limitations does not include any funding for ongoing operations in Iraq and Afghanistan. The Administration expects to request supplemental 2005 funding later, thus raising 2005 total appropriations and increasing the deficit accordingly.

- ***Budget Hides Out-Year Funding Levels*** — In a sharp break with all previous budgets, the President's 2005 published budget materials do not show discretionary funding totals, or program or account totals, beyond 2005. Only the OMB computer tables show the budget's proposed funding, and cuts, for 2006 through 2009.

- ***Reinstates Discretionary Caps*** — The 2005 budget supports the revival of spending caps on annual discretionary funding, as well as a pay-as-you-go rule (PAYGO) to require that any legislation that increases direct spending be offset by corresponding spending cuts.

Homeland Security

The homeland security budget spans more than a dozen agencies, the largest of which are the new Department of Homeland Security (57.4 percent of total resources), the Department of Defense (16.9 percent), the Department of Health and Human Services (9.0 percent), and the Department of Justice (5.5 percent). Seventeen of the 19 budget functions contain at least some funding for homeland security activities. The largest amounts for homeland security are contained in Function 050 (National Defense), Function 400 (Transportation), Function 450 (Community and Regional Development), Function 550 (Health), and Function 750 (Administration of Justice).

Overall Funding Levels

- ***Overall Funding for Homeland Security*** — The President's budget includes $47.4 billion in total resources for homeland security activities for 2005 — $2.3 billion for mandatory programs and $45.1 billion for discretionary programs. Achieving this funding level for discretionary programs requires $41.0 billion in appropriations, with the remaining $4.1 billion in resources expected to come from offsetting fee collections. Out of this $41.0 billion net appropriated total, the budget includes $10.4 billion for national defense activities (primarily at the Department of Defense) and international affairs programs. The remaining $30.6 billion for domestic appropriated homeland security programs is an increase of 11.7 percent above the 2004 enacted level.

Homeland Security Funding
(Budget Authority in Billions of Dollars)

	2004	2005	Increase	*% Increase*
Total Resources	**$41.3**	**$47.4**	**$6.1**	**14.7**
Mandatory Programs	$2.0	$2.3	$0.3	16.1
Fee-Funded Discretionary Programs	$3.7	$4.1	$0.4	11.7
Net Appropriated Programs:	$35.7	$41.0	$5.3	15.0
National Defense (Function 050)	*$9.1*	*$10.4*	*$1.3*	*14.0*
International Affairs	*$0.1*	*$0.1*	*$0.0*	*7.5*
Domestic Discretionary	*$26.6*	*$30.6*	*$4.1*	*11.7*
Domestic Discretionary Less BioShield	*$25.7*	*$28.1*	*$2.4*	*9.4*

All numbers based on OMB estimates. Numbers may not add exactly due to rounding.
Totals do not include $107 million in supplemental appropriations for 2004.
Totals for appropriated programs include funding for Project BioShield.

- ***Totals Include Funding for Project BioShield*** — These discretionary funding figures for 2005 include $2.5 billion in advance appropriations for Project BioShield already approved by the Congress and available for the period 2005 through 2008. (In total, Congress provided $5.6 billion for this program over the period 2004-2013.) If 2004 and 2005 totals for Project BioShield are removed from the totals above — as the Administration does in its budget presentation — the remaining domestic appropriations total $25.7 billion — a 9.4 percent increase over last year's enacted level.

Program Highlights

- ***First Responders*** — The budget includes a total of $3.8 billion within the Department of Homeland Security for first responder funding, which is $648 million (14.7 percent) less than the amount enacted for 2004. Within this total, the budget doubles funding for specific high-threat urban areas to $1.5 billion, but decreases formula-based grants to $1.4 billion, $821 million (36.5 percent) less than enacted for 2004. The budget provides $500 million for firefighter assistance grants, $246 million (33.0 percent) less than the 2004 enacted level. (Elsewhere in the budget, in the budget for the Department of Justice, law enforcement grant programs are reorganized and their funding sharply reduced.)

- ***Port Security Grants*** — The budget includes up to $46 million for grants to port authorities for security upgrades — $79 million (63.2 percent) less than the $125 million enacted for 2004. Port security grants from the Department of Homeland Security provide funds for port agencies to install the fencing, surveillance technologies, and other measures needed to prevent terrorists from gaining access to docks and other port facilities. The Coast Guard reports needs in this area totaling $4.4 billion over ten years.

- ***Health Homeland Security Activities* —** Health homeland security activities are spread across the Departments of Health and Human Services, Homeland Security, Labor, and Agriculture. These activities include protection of the nation's food supply; preparation against potential bioterrorism attacks, including development and procurement of vaccines; research to develop countermeasures; and preparations for public health emergencies. The budget provides $6.8 billion for health homeland security activities in 2005, an increase of $1.8 billion over the 2004 enacted level. However, the budget's level for 2005 is not the best representation of actual spending because the 2005 amount includes four year's worth of funding for the BioShield program (2005 to 2008). Excluding Bioshield from the spending totals provides a better method of comparison. When Bioshield is excluded, the budget provides $4.3 billion, an increase of $138 million (3.3 percent) above the 2004 enacted level. For more details, see *Function 550 (Health)*.

- ***Transportation Security Agency (TSA)*** — The budget includes $5.3 billion in total resources (including fees) for TSA, now part of the Department of Homeland Security.

This amount is $892 million (20.2 percent) more than what was enacted in 2004.[1] This is primarily the result of increased spending on airport security and screening operations. Funding for air cargo security, however, is frozen at last year's level, $85 million.

- ***Coast Guard*** — The President's budget provides $7.5 billion for all activities of the Coast Guard — now part of the Department of Homeland Security — with this total split roughly evenly between homeland security and non-homeland security activities. Of this amount, $6.3 billion is appropriated funding and $1.2 billion is for mandatory spending, which consists mostly of retirement pay. The 2005 budget provides appropriated funding that is $235 million (3.9 percent) higher than the level required to maintain purchasing power at the 2004 level and $470 million (8.1 percent) higher than the 2004 enacted level of appropriations. As was the case with last year's budget, the funding increase is attributable to the Coast Guard's expanded role in homeland security.

- ***Customs and Border Protection*** — The budget includes $5.1 billion in appropriated funding for U.S. Customs and Border Protection at the Department of Homeland Security, $224 million (4.6 percent) more than the 2004 enacted level. Customs and Border Protection consists of the inspection forces of the former Customs Service and the former Immigration and Naturalization Services, the Agriculture Quarantine and Inspection program, and the Border Patrol.

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[1] Some estimates show that 2005 funding is only $719 million above the 2004 level. This discrepancy exists because the Department of Homeland Security transferred $173 million in 2004 appropriations for port security, transit, and Operation Safe Commerce from TSA to the Office of Domestic Preparedness. Without accounting for this transaction, the 2004 level increases from $4.4 billion to $4.6 billion.

Harmful Cuts

Cuts that Hurt Working Families

- ***Freezes Funding for Child Care* —** The budget once again freezes funding for the Child Care and Development Fund (CCDF) at the 2004 enacted level of $4.8 billion, providing $2.1 billion in appropriations for the Child Care and Development Block Grant, and $2.7 billion in mandatory child care funding to the states. The budget assumes block grant funding will decline by $53 million in 2006 and remain below the 2004 level in 2007-2009. The budget provides flat funding for the mandatory program through 2009. Total federal resources for child care also include TANF and Social Services Block Grant funds spent on child care at state discretion. Considering all funding available for child care, the budget projects that the number of children receiving assistance will decline from 2.5 million in 2003 to 2.2 million in 2009. Meanwhile, the President's plan to increase work requirements for welfare recipients will increase the demand for affordable child care.

- ***Cuts Section 8 Housing Choice Voucher Funding*** — The budget provides $18.5 billion for the Section 8 housing programs (funded in part with a $1.6 billion recapture of unobligated balances), which is $791 million below the 2004 enacted program level. The 2005 total is $2.0 billion, or 9.8 percent, below the amount CBO estimates is necessary to maintain purchasing power at the 2004 level and to renew all expiring voucher contracts. At the President's funding level the number of families served by this program could decline by more than 250,000. Without the $1.6 billion recapture, the Section 8 shortfall would be $3.6 billion.

- ***Eliminates Funding for Rehabilitation of Distressed Public Housing* —** Once again, the budget zeroes out funding for the HOPE VI program, a program that has successfully transformed severely distressed public housing projects into vibrant mixed-income neighborhoods. This program was funded at $570 million in 2003 but only $149 million in 2004.

- ***Erodes Funding for Public Housing Capital and Operating Funds*** — The budget provides $3.6 billion to pay local public housing authorities for operating costs not covered by rental income, plus $2.7 billion for capital repairs and improvements. The total provided for these two funds is $28 million below the 2004 enacted level, and it is $97 million below the amount CBO estimates is necessary to maintain purchasing power at the 2004 level. When funding falls short of capital and operating costs, local housing authorities often have no alternative but to let some units sit empty, thereby decreasing the supply of affordable housing available to low-income families.

Cuts to Homeland Security

- ***First Responders*** — The budget includes a total of $3.8 billion within the Department of Homeland Security for first responder funding, which is $648 million (14.7 percent) less than the amount enacted for 2004. Within this total, the budget doubles funding for specific high-threat urban areas to $1.5 billion, but decreases formula-based grants to $1.4 billion, $821 million (36.5 percent) less than enacted for 2004. The budget provides $500 million for firefighter assistance grants, $246 million (33.0 percent) less than the 2004 enacted level. (Elsewhere in the budget, in the budget for the Department of Justice, law enforcement grant programs are reorganized and their funding sharply reduced.)

- ***Port Security Grants*** — The budget includes up to $46 million for grants to port authorities for security upgrades — $79 million (63.2 percent) less than the $125 million enacted for 2004. Port security grants from the Department of Homeland Security provide funds for port agencies to install the fencing, surveillance technologies, and other measures needed to prevent terrorists from gaining access to docks and other port facilities. The Coast Guard reports needs in this area totaling $4.4 billion over ten years.

Cuts to Veterans

- ***Cuts Funding for Veterans Medical Care*** — The President's 2005 budget provides $29.8 billion for appropriated veterans programs, which is $257 million below the amount that CBO estimates is needed to maintain purchasing power at the 2004 level. Almost all appropriated funding for veterans pays for medical care and hospital services. Over five years, the budget for appropriated programs for veterans is $13.5 billion (8.5 percent) below the amount needed to maintain programs and services at the 2004 level. The Secretary of Veterans Affairs has testified that the VA budget is $1.2 billion below the amount the VA asked the Administration for.

Cuts to Education and Training Programs

- ***Vocational Education*** — The budget provides $1.0 billion in a new block grant for vocational education, a cut of $316 million (23.8 percent) from the 2004 enacted level. This cut occurs despite the President's emphasis on a "Jobs for the 21st Century" initiative to ensure that all students are ready to succeed in the workforce and in postsecondary education.

- ***Perkins Loans*** **—** The budget provides $67 million for Perkins loans, $99 million below the 2004 enacted level and $101 million (60.3 percent) below the amount needed to maintain purchasing power at the 2004 level. The budget eliminates the Perkins Loans capital contributions program and freezes the other campus-based aid programs at the 2004 enacted level.

- ***Reading Programs*** — The budget includes $1.4 billion for reading programs within the Department of Education, which is $8 million below the 2004 enacted level. The President touts a new $100 million reading program for high school students and a $139 million increase for Reading First, but the budget eliminates the $247 million Even Start family literacy program to pay for these increases.

- ***Employment Training*** — The budget block grants four employment training programs (adult training, dislocated worker activities, employment service state grants, and grants to states for reemployment services) and cuts their funding by $151 million, to $3.0 billion.

Cuts That Hurt Rural America

- ***Slashes Rural Health Activities* —** The budget provides $30 million for rural health activities, a $78 million cut (72.2 percent) from the 2004 enacted level.

- ***Rural Community Advancement Cut*** — The Rural Community Advancement (RCA) program provides grants, loans, and loan guarantees to stimulate economic growth and build facilities in rural communities. The budget provides $542 million for the Rural Community Advancement program, a $183 million (25.2 percent) cut below the 2004 enacted level, and a $191 million (26.1 percent) cut below the amount needed to maintain purchasing power at the 2003 level.

- ***Funding Cuts for the Essential Air Service (EAS) and Small Community Air Service Programs*** — The President's 2005 budget cuts funding 50 percent for the EAS program by establishing a $50 million cap. The proposal would also create three categories of communities based on distance to a hub airport and establish cost-sharing criteria.

  In addition, the President does not include any funds for the Small Community Air Service Program. Congress authorized $35 million per year for this program as part of last year's Federal Aviation Administration (FAA) reauthorization bill (although only $20 million was provided in 2004 funding).

Cuts that Weaken Our Communities

- ***Cuts State and Local Criminal Justice and Juvenile Justice*** — State and local criminal justice and juvenile justice assistance programs center on helping communities to combat and deter crime. The budget cuts the Violence Against Women Act programs, providing $362 million, a $22 million (5.7 percent) cut below the 2004 enacted level, and a $26 million (6.7 percent) cut below the amount needed to maintain purchasing power at the 2004 level. The budget also cuts Juvenile Justice and Delinquency Prevention Act grants, providing $198 million, a $151 million (43.3 percent) cut below the 2004 enacted level, and a $155 million (43.9 percent) cut below the amount needed to maintain purchasing power at the 2004 level. The budget eliminates a variety of programs, including: Edward Byrne formula and discretionary grants; the State Criminal Alien Assistance Program; and Local Law Enforcement Block Grants. The eliminated programs alone would require $1.3 billion in 2005 to maintain funding at the 2004 enacted level.

- ***Cuts Community Oriented Policing Services (COPS)*** — COPS provides grants and other assistance to help communities hire, train, and retain police officers and improve law enforcement technologies. The budget slashes the COPS program, providing only $97 million, a $659 million (87.0 percent) cut below the 2004 enacted level, and a $655 million cut (87.0 percent) cut below the amount needed to maintain purchasing power at the 2004 level.

- ***Empowerment Zones Eliminated*** — Empowerment Zones target funds to revitalize economically distressed urban and rural communities and attract private investment in those communities. The budget eliminates funds for urban and rural empowerment zones. Empowerment zones also have tax incentives which the budget will not repeal. To maintain purchasing power at the 2004 level, urban empowerment zones would require $15 million and rural empowerment zones would require $13 million.

- ***Brownfields Redevelopment Program Eliminated*** — The Brownfields Redevelopment Program provides competitive economic development grants under the Department of Housing and Urban Development for brownfield projects. The budget eliminates funding for the program, which would require $25 million to be funded at the 2004 level.

Cuts to Health

- ***Slashes Health Professions Training*** — The budget funds Health Professions Training Programs at $158 million, a $278 million (63.8 percent) cut from the 2004 enacted level.

- ***Cuts Community Access Program (CAP)*** — The budget cuts the Community Access Program by $94 million (90.4 percent), providing only $10 million for 2005. 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.

- ***Freezes Title X Family Planning*** **—** The budget for Title X family planning programs is frozen at the 2004 level of $278 million.

- ***Freezes Maternal and Child Health (MCH) Block Grant*** **—** The budget freezes funding for the Maternal and Child Health Block Grant at the 2004 level of $739 million.

- ***Freezes Healthy Start*** **—** The budget funds Healthy Start at $98 million, a freeze at the 2004 enacted level. Healthy Start supports programs in high-risk communities to reduce low birth weight, inadequate prenatal care, and other factors contributing to infant mortality.

- ***Freezes Children's Hospital Graduate Medical Education (GME)*** — The budget freezes pediatric GME at $303 million.

Cuts to Infrastructure, Energy, and Environment

- ***Budget Once Again Provides Minimal Support for our Nation's Highways*** — The President's budget provides 2005 federal-aid highway budget authority of $33.3 billion, a cut of nearly $300 million from the 2004 enacted level of $33.6 billion. There is zero growth in the 2005 obligation limitation over the 2004 enacted level. This follows proposed cuts by the President of $2.3 billion in 2004 and $8.6 billion in 2003. In addition, SAFETEA provides $6.1 billion below what is needed to maintain purchasing power during that period.

- ***Budget Shows Lack of Commitment to Mass Transit Needs*** — The President's 2005 request for the Federal Transit Administration (FTA) is $7.3 billion, the same as the 2004 enacted level. SAFETEA funds transit at $1.6 billion below what is needed to maintain purchasing power from 2005-2009. It is also important to note that while SAFETEA guarantees $35.6 billion in transit funding, this is actually approximately $600 million less than the guaranteed amount for transit programs during TEA-21.

- ***Privatization of Amtrak and Another Funding Cut*** **—** The Administration continues to press for the privatization of Amtrak, believing that the current system is too inefficient to be a viable mode of transportation. For 2005, the budget provides $900 million in grant funding for Amtrak, subject to review by the Department of Transportation. This is $318 million below the 2004 level.

- ***Fourth Straight Year of Cuts to Environmental Programs*** — For 2005, the President's budget significantly cuts funding for programs that protect public health and the environment. The budget provides $28.0 billion in discretionary funding for these programs, which is $2.4 billion (7.9 percent) below the 2004 enacted level. More noteworthy is that while maintaining to support the environment, the Administration provides only $27.7 billion in discretionary funding for 2006. This would be the first time since 1981 that environmental programs would be cut in two consecutive years. Over five years (2005-2009), the Administration funds discretionary environmental programs at $23.9 billion (14.7 percent) below the level required to maintain purchasing power at the 2004 level.

- ***Drastic Cut in Aid for Wastewater Infrastructure*** — For 2005, the President's budget dramatically cuts the Clean Water State Revolving Funds (SRF), which provides seed money to SRFs. These SRFs in turn loan money for improvements to wastewater treatment facilities. As in the prior year's budget, the 2005 budget provides only $850 million, nearly $500 million (36.7 percent) less than the 2004 enacted level.

- ***Conservation Spending Category Shortfall*** — The conservation spending category, established in 2001 to provide dedicated funding for programs addressing the loss of open space, wildlife habitat, and cultural treasures, is authorized at $2.2 billion for 2005. The Administration's budget only provides $1.7 billion, which is $500 million below the authorized level.

Programs Eliminated

The budget eliminates a total of 65 programs throughout the government. A complete list of these programs is attached as an appendix.

Budget Process Proposals

The President's budget includes a number of provisions that if, enacted or enforced, would alter congressional consideration of budget-related legislation. Following is an overview of the President's proposed changes.

- ***Budget Enforcement that Ignores the Impact of Revenue Losses*** — The Administration proposes a rule that it claims is largely based on the Pay-As-You-Go (PAYGO) provisions that were adopted under the Budget Enforcement Act of 1990 (BEA) and expired in 2002.[2] In actuality, the Administration's proposal is only a partial reinstatement of PAYGO since it ignores key enforcement provisions relating to tax cuts.

  The BEA's PAYGO provisions required that tax cuts as well as increased mandatory spending be completely offset by either tax increases or decreases in mandatory spending. PAYGO was enforced through sequestration of mandatory programs. The Administration's proposed rule significantly guts PAYGO because it provides budgetary enforcement solely on the spending side, offsetting mandatory increases with mandatory cuts. Thus, under the proposed rule, tax cuts would not have to be offset by tax increases or mandatory reductions. Additionally, mandatory increases could not be offset by tax increases.

  PAYGO rules under the BEA have been widely credited with helping to convert massive deficits into record surpluses during the 1990's. Unlike the PAYGO rule under the BEA, the proposed rule fails to recognize that fiscal discipline means constraints on both spending and tax cuts, particularly at a time of record deficits.

- ***Discretionary Spending Limits*** — The Administration proposes to reinstate discretionary spending caps. Discretionary spending caps were first established under the BEA and expired in 2002. The caps set limits on appropriations, but make automatic adjustments for a few items including emergencies, International Monetary Fund contributions, and international arrearages. The caps are enforced through sequestration of non-exempt programs. The proposed caps include a firewall between transportation programs and all other discretionary programs. The proposal discontinues the conservation cap established under the 2001 Interior Appropriations Act.

  The Administration proposes spending caps over the next five years at discretionary levels in the President's budget. The President's budget, however, cuts non-homeland security domestic appropriations below the 2004 level and leaves out some of the President's major initiatives such as the full cost of space travel to Mars. Therefore these caps set unrealistic levels for appropriated funding. (See also section on Harmful Cuts.)

- ***Directed Scorekeeping of Select Tax Cuts*** — The budget proposes that CBO and OMB assume in their baselines the extension of all tax cuts expiring under the Economic

[2] Fiscal Year 2005 Budget, p. 42.

Growth and Tax Relief Reconciliation Act of 2001, and certain tax provisions expiring under the Growth and Tax Relief Reconciliation Act of 2003. Under current scoring rules, these tax provisions would expire in the baseline at the time they expire in law. This proposal presents two problems. First, the rule is inconsistent since it applies only to certain expiring tax provisions favored by the Administration but not others. Second, since the rule would ensure that extensions of these tax provisions are never scored as revenue losses, the rule masks the budgetary impact of making these tax cuts permanent.

- ***Point of Order Against Entitlement Legislation*** — The budget proposes a point of order against legislation expanding major entitlement programs such as Social Security, Medicare, veterans disability compensation, Supplemental Security Income, and federal civilian and military retirement. The budget further proposes that both OMB and CBO issue annual reports on any legislative action expanding these programs. The budget states that these proposals are necessary in order to prevent additional increases in long-term obligations. However, the budget fails to propose any mechanisms addressing the long-term revenue losses resulting from tax cuts.

- ***Joint Budget Resolution*** — Under current law, the Congressional budget resolution is an annual concurrent budget resolution that does not go to the President for his signature. Instead, it is an internal document governing Congressional budget decisions. The budget proposes that Congress enact a joint budget resolution that would require the President's signature and enforce the budget totals. Opponents to such proposals argue that joint budget resolutions skew negotiating power toward the Administration by allowing the President an opportunity to veto Congressional budget priorities. In addition, critics add that tax and spending bills might be delayed since enactment of the budget resolution would present such high political stakes. Additionally, the budget resolution could become a vehicle to adopt non-budget related items.

- ***Biennial Budgeting and Appropriations*** — The budget includes a proposal to adopt budgets and enact appropriations every two years, in odd-numbered years, with the even-numbered years spent on authorizing legislation. Under current law, Congress adopts a budget resolution and enacts appropriations on a yearly basis. In the past, biennial budgeting proposals have been defeated since many argue that Congressional oversight may be weakened if programs are appropriated half as often. In addition, constant and significant changes in budget estimates may cause policies to become outdated by the second year. Finally, biennial budgeting may lead to even more supplemental funding, which is routinely held to less scrutiny. Since the Bush Administration has been in office, eight supplemental bills have been enacted under the current yearly budgeting process.

- ***Line Item Veto*** — The budget proposes a constitutional line-item veto to replace the Line Item Veto Act of 1996, which the United States Supreme Court ruled unconstitutional in 1998. The Administration's proposal would grant the President authority to cancel new appropriations, new mandatory spending, and limited tax benefits, and use all savings for deficit reduction.

- ***Automatic Continuing Resolution*** — The budget proposes an automatic continuing resolution to prevent a government shut-down if neither a regular appropriations measure nor a temporary continuing resolution is in place at the start of a fiscal year. The proposal would automatically fund programs at the *lower* of the funding levels proposed in the President's budget or the funding levels of the previous year. This proposal could encourage Members of Congress who favor spending cuts to oppose regular appropriations bills that include higher levels of funding.

- ***Emergency Designations and Baselines*** — The discretionary spending caps, which expired in 2002, exempted emergency designations from their totals. The budget, which proposes to extend discretionary caps at levels set in the President's budget for years 2005 through 2009, also proposes to include provisions in the BEA that define emergencies. Under the proposal, both Congress and the President would have to agree that a spending item is "necessary, sudden, urgent, unforeseen, and not permanent" in order for that item to be exempt from budget totals.[3]

  The budget also proposes that baselines exclude designated emergency spending. Under current guidelines, baselines include emergency spending in the outyears.

- ***Baseline Proposals for Expiring Housing Contracts and Social Insurance Administrative Expenses*** — The budget proposes to eliminate BEA sections that make adjustments in the baseline for expiring housing contracts and social insurance administrative expenses. This provision is particularly problematic in calculating funding for Section 8 housing programs. Under current law, the baseline for Section 8 housing is adjusted to reflect the costs of renewing expiring, multi-year subsidized housing contracts. Without this adjustment, the current services baseline estimate for the housing contract part of the program would be artificially low and would underestimate the amount of funding necessary to maintain the current level of services in the program.

- ***Scoring of Pell Grants*** —The President's budget includes a proposal to change scoring of Pell Grants by charging appropriators for the total amount necessary to cover all Pell Grant costs for the upcoming year, based on the economic and technical assumptions in the President's budget. Currently Congress establishes a maximum award for the Pell Grant program for the upcoming year and funds the amount through annual appropriations. However, the program functions as an entitlement program because the government provides the total amount necessary to fund the maximum award, even if the total is in excess of what Congress provided. This often results in the Pell Grant program running a deficit, or a surplus, from year to year. Because participation in the Pell Grant program has grown dramatically and faster than the government expected, the program currently has a shortfall of $3.7 billion.

[3]Analytical Perspectives, p. 217

The budget's proposal, therefore, could result in the appropriations bill for the Department of Labor, Health and Human Services, and Education being scored at a much higher cost than Congress intended, if Congress was using other assumptions about student eligibility.

- ***Limits on Pay Raises for Federal Employees*** —The budget proposes a rule to limit pay raises for federal employees. The rule would provide that the budget resolution specify pay raises for military and federal civilian employees, and create a point of order against any legislation that assumed a pay raise for federal civilian employees above the President's amount. For 2005, the budget establishes a 1.5 percent pay raise for federal civilian employees, and a 3.5 percent pay raise for military personnel.

- ***Accrual Accounting of Federal Retiree Costs*** — The budget again proposes accrual accounting of federal retiree costs. Under this plan, agencies are required to pay up front all retirement pension and health costs for federal employees. Current federal accounting procedures include these retirement costs as future mandatory payments that do not show up in agency costs. The budget proposes to change this practice so that each agency shows these retirement costs as current discretionary costs, therefore increasing the need for discretionary appropriations to cover these payments.

- ***Advance Appropriations*** — The budget proposes to freeze all advanced appropriations, excluding BioShield, over years 2005 through 2009 at the 2002 level. The levels would be enforced by counting additional advance appropriations above the 2002 level against the discretionary caps in the year enacted.

- ***Project BioShield Category*** — The budget proposes to create a separate category under the BEA to provide funding for BioShield to prevent reductions in the program and disallow its use as an offset.

The Budget by Function

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

The President's Budget for Fiscal Year 2005

Function Totals

	2005	2006	2007	2008	2009	2005-2009
Budget Authority	2354.755	2487.452	2624.367	2760.849	2901.873	13129.296
Outlays	2399.843	2473.298	2592.067	2724.284	2853.473	13042.965
Revenue	2036.273	2205.666	2350.795	2485.315	2616.397	11694.446
Surplus (+)/Deficit (-)	-363.570	-267.632	-241.272	-238.969	-237.076	-1348.519
Debt Held by the Public	4791.862	5074.114	5333.029	5589.439	5844.433	

050 National Defense						
Budget authority	423.098	444.016	464.787	485.812	508.150	2325.863
Outlays	450.586	436.147	447.074	467.063	487.181	2288.051
150 International Affairs						
Budget authority	29.569	33.212	34.071	34.623	34.795	166.270
Outlays	37.838	32.460	31.880	32.834	33.301	168.313
250 General Science, Space						
Budget authority	24.459	24.996	25.843	26.110	26.163	127.571
Outlays	24.353	24.666	25.655	26.019	26.057	126.750
270 Energy						
Budget authority	1.883	2.115	1.746	1.813	1.909	9.466
Outlays	1.774	1.877	1.711	1.655	1.674	8.691
300 Natural Resources and Environment						
Budget authority	30.286	29.615	30.094	30.270	30.744	151.009
Outlays	30.899	30.401	30.777	30.797	30.614	153.488
350 Agriculture						
Budget authority	22.353	21.328	21.043	20.605	20.457	105.786
Outlays	22.322	20.895	20.648	20.260	20.253	104.378
370 Commerce and Housing Credit						
Budget authority	8.092	8.084	10.138	10.556	10.997	47.867
Outlays	2.714	-1.243	-0.433	-1.350	0.162	-0.150
400 Transportation						
Budget authority	69.494	70.365	70.791	71.521	72.038	354.209
Outlays	69.899	70.284	70.415	71.020	71.885	353.503
450 Community and Regional Development						
Budget authority	12.949	13.847	14.047	14.299	14.509	69.651
Outlays	17.017	15.082	15.241	14.121	13.885	75.346
500 Education and Training						
Budget authority	91.817	89.276	88.596	88.825	89.058	447.572
Outlays	89.020	88.856	87.843	87.734	87.984	441.437
550 Health						
Budget authority	248.780	266.007	284.976	306.585	330.632	1436.980
Outlays	252.597	267.719	285.293	306.585	328.209	1440.403
570 Medicare						
Budget authority	293.574	341.337	376.296	397.939	422.628	1831.774
Outlays	294.249	341.028	376.567	397.962	422.201	1832.007
600 Income Security						
Budget authority	342.324	349.490	353.237	365.037	377.851	1787.939
Outlays	348.149	353.180	357.409	365.646	371.790	1796.174
650 Social Security						
Budget authority	516.457	535.126	558.201	582.884	615.136	2807.804
Outlays	514.989	533.536	556.205	580.705	612.259	2797.694
700 Veterans						
Budget authority	65.444	67.200	69.339	71.813	74.395	348.191
Outlays	67.473	66.775	65.967	71.245	73.883	345.343
750 Administration of Justice						
Budget authority	40.781	40.376	41.160	42.011	42.748	207.076
Outlays	42.782	42.288	41.225	41.782	42.472	210.549
800 General Government						
Budget authority	19.392	20.109	18.916	19.116	19.036	96.569
Outlays	19.148	19.445	18.354	18.676	18.436	94.059
900 Net Interest						
Budget authority	177.909	213.362	246.202	274.644	299.143	1211.260
Outlays	177.909	213.362	246.202	274.644	299.143	1211.260
920 Allowances						
Budget authority	-0.798	-4.987	-6.261	-7.609	-8.363	-28.018
Outlays	-0.767	-6.038	-7.111	-7.109	-7.763	-28.788
950 Undistributed Offsetting Receipts						
Budget authority	-63.108	-77.422	-78.855	-76.005	-80.153	-375.543
Outlays	-63.108	-77.422	-78.855	-76.005	-80.153	-375.543

The President's Budget for Fiscal Year 2005

DISCRETIONARY ONLY

	2005	2006	2007	2008	2009	2005-2009
Budget Authority	820.932	842.896	867.618	893.017	920.859	4345.322
Outlays	914.000	892.340	904.401	922.943	942.345	4576.029
NDD BA	400.256	400.344	404.359	408.788	414.333	2028.080
NDD Outlays	465.803	457.723	458.783	457.445	456.741	2296.495
Domestic BA	368.646	366.309	369.688	373.768	379.262	1857.673
Domestic Outlays	425.705	423.188	425.028	422.918	421.847	2118.686
050 National Defense						
Budget authority	420.676	442.552	463.259	484.229	506.526	2317.242
Outlays	448.197	434.617	445.618	465.498	485.604	2279.534
150 International Affairs						
Budget authority	31.610	34.035	34.671	35.020	35.071	170.407
Outlays	40.098	34.535	33.755	34.527	34.894	177.809
250 General Science, Space						
Budget authority	24.434	24.958	25.821	26.088	26.141	127.442
Outlays	24.267	24.602	25.618	25.990	26.035	126.512
270 Energy						
Budget authority	3.478	3.457	3.382	3.296	3.277	16.890
Outlays	3.380	3.512	3.392	3.302	3.285	16.871
300 Natural Resources and Environment						
Budget authority	28.039	27.657	27.702	27.890	27.938	139.226
Outlays	29.643	28.552	28.275	28.205	28.042	142.717
350 Agriculture						
Budget authority	5.419	5.411	5.453	5.506	5.548	27.337
Outlays	5.751	5.431	5.446	5.458	5.528	27.614
370 Commerce and Housing Credit						
Budget authority	-1.021	-0.151	0.758	1.285	2.645	3.516
Outlays	-0.673	-0.082	0.730	1.174	2.412	3.561
400 Transportation						
Budget authority	23.363	23.947	24.226	24.826	25.200	121.562
Outlays	67.776	67.968	68.122	68.750	69.608	342.224
450 Community and Regional Development						
Budget authority	13.161	14.022	14.209	14.526	14.720	70.638
Outlays	17.562	15.644	15.931	14.851	14.688	78.676
500 Education and Training						
Budget authority	80.357	78.427	78.540	78.971	79.110	395.405
Outlays	78.380	78.833	78.585	78.796	79.038	393.632
550 Health						
Budget authority	53.192	50.188	50.482	50.967	53.460	258.289
Outlays	51.213	51.568	51.275	51.328	51.396	256.780
570 Medicare						
Budget authority	3.833	4.561	4.506	4.532	4.541	21.973
Outlays	4.474	4.631	4.489	4.514	4.523	22.631
600 Income Security						
Budget authority	45.850	46.229	46.293	46.535	46.613	231.520
Outlays	53.834	53.623	55.251	51.821	47.817	262.346
650 Social Security						
Budget authority	4.521	4.406	4.412	4.435	4.442	22.216
Outlays	4.536	4.419	4.410	4.430	4.441	22.236
700 Veterans						
Budget authority	29.773	28.861	28.766	28.791	28.695	144.886
Outlays	28.704	28.429	28.258	28.329	28.297	142.017
750 Administration of Justice						
Budget authority	37.789	38.869	39.637	40.532	41.317	198.144
Outlays	39.781	40.428	39.646	40.354	41.097	201.306
800 General Government						
Budget authority	17.174	16.694	16.721	16.809	16.845	84.243
Outlays	17.762	16.858	16.820	16.837	16.870	85.147
900 Net Interest						
Budget authority	0.000	0.000	0.000	0.000	0.000	0.000
Outlays	0.000	0.000	0.000	0.000	0.000	0.000
920 Allowances						
Budget authority	-0.716	-1.227	-1.220	-1.221	-1.230	-5.614
Outlays	-0.685	-1.228	-1.220	-1.221	-1.230	-5.584
950 Undistributed Offsetting Receipts						
Budget authority	0.000	0.000	0.000	0.000	0.000	0.000
Outlays	0.000	0.000	0.000	0.000	0.000	0.000

The President's Budget for Fiscal Year 2005

MANDATORY ONLY

	2005	2006	2007	2008	2009	2005-2009
Budget Authority	1533.823	1644.556	1756.749	1867.832	1981.014	8783.974
Outlays	1485.843	1580.958	1687.666	1801.341	1911.128	8466.936
BA without Interest	1355.914	1431.194	1510.547	1593.188	1681.871	7572.714
Outlays without Interest	1307.934	1367.596	1441.464	1526.697	1611.985	7255.676

050 National Defense						
Budget authority	2.422	1.464	1.528	1.583	1.624	8.621
Outlays	2.389	1.530	1.456	1.565	1.577	8.517
150 International Affairs						
Budget authority	-2.041	-0.823	-0.600	-0.397	-0.276	-4.137
Outlays	-2.260	-2.075	-1.875	-1.693	-1.593	-9.496
250 General Science, Space						
Budget authority	0.025	0.038	0.022	0.022	0.022	0.129
Outlays	0.086	0.064	0.037	0.029	0.022	0.238
270 Energy						
Budget authority	-1.595	-1.342	-1.636	-1.483	-1.368	-7.424
Outlays	-1.606	-1.635	-1.681	-1.647	-1.611	-8.180
300 Natural Resources and Environment						
Budget authority	2.247	1.958	2.392	2.380	2.806	11.783
Outlays	1.256	1.849	2.502	2.592	2.572	10.771
350 Agriculture						
Budget authority	16.934	15.917	15.590	15.099	14.909	78.449
Outlays	16.571	15.464	15.202	14.802	14.725	76.764
370 Commerce and Housing Credit						
Budget authority	9.113	8.235	9.380	9.271	8.352	44.351
Outlays	3.387	-1.161	-1.163	-2.524	-2.250	-3.711
400 Transportation						
Budget authority	46.131	46.418	46.565	46.695	46.838	232.647
Outlays	2.123	2.316	2.293	2.270	2.277	11.279
450 Community and Regional Development						
Budget authority	-0.212	-0.175	-0.162	-0.227	-0.211	-0.987
Outlays	-0.545	-0.562	-0.690	-0.730	-0.803	-3.330
500 Education and Training						
Budget authority	11.460	10.849	10.056	9.854	9.948	52.167
Outlays	10.640	10.023	9.258	8.938	8.946	47.805
550 Health						
Budget authority	195.588	215.819	234.494	255.618	277.172	1178.691
Outlays	201.384	216.151	234.018	255.257	276.813	1183.623
570 Medicare						
Budget authority	289.741	336.776	371.790	393.407	418.087	1809.801
Outlays	289.775	336.397	372.078	393.448	417.678	1809.376
600 Income Security						
Budget authority	296.474	303.261	306.944	318.502	331.238	1556.419
Outlays	294.315	299.557	302.158	313.825	323.973	1533.828
650 Social Security						
Budget authority	511.936	530.720	553.789	578.449	610.694	2785.588
Outlays	510.453	529.117	551.795	576.275	607.818	2775.458
700 Veterans						
Budget authority	35.671	38.339	40.573	43.022	45.700	203.305
Outlays	38.769	38.346	37.709	42.916	45.586	203.326
750 Administration of Justice						
Budget authority	2.992	1.507	1.523	1.479	1.431	8.932
Outlays	3.001	1.860	1.579	1.428	1.375	9.243
800 General Government						
Budget authority	2.218	3.415	2.195	2.307	2.191	12.326
Outlays	1.386	2.587	1.534	1.839	1.566	8.912
900 Net Interest						
Budget authority	177.909	213.362	246.202	274.644	299.143	1211.260
Outlays	177.909	213.362	246.202	274.644	299.143	1211.260
920 Allowances						
Budget authority	-0.082	-3.760	-5.041	-6.388	-7.133	-22.404
Outlays	-0.082	-3.760	-5.041	-6.388	-7.133	-22.404
950 Undistributed Offsetting Receipts						
Budget authority	-63.108	-77.422	-78.855	-76.005	-80.153	-375.543
Outlays	-63.108	-77.422	-78.855	-76.005	-80.153	-375.543

Function 050: National Defense

The National Defense function includes the military activities of the Department of Defense (DOD), the nuclear-weapons related activities of the Department of Energy (DOE) and the National Nuclear Security Administration (NNSA), the national security activities of several other agencies such as the Selective Service Agency, and portions of the activities of the Coast Guard and the Federal Bureau of Investigation. The programs in this function include: the pay and benefits of active, Guard and reserve military personnel; DOD operations including training, maintenance of equipment and facilities; health care for military personnel and dependents; procurement of weapons; research and development; construction of military facilities, including housing; research on nuclear weapons; and the cleanup of nuclear weapons production facilities.

The President's budget includes $420.7 billion for all national defense appropriated activities, including $401.7 billion for DOD, $17.0 billion for the nuclear weapons-related activities of DOE, and $2.0 billion for miscellaneous national security activities in other agencies such as the Federal Bureau of Investigation and the Coast Guard functions of the Department of Homeland Security.

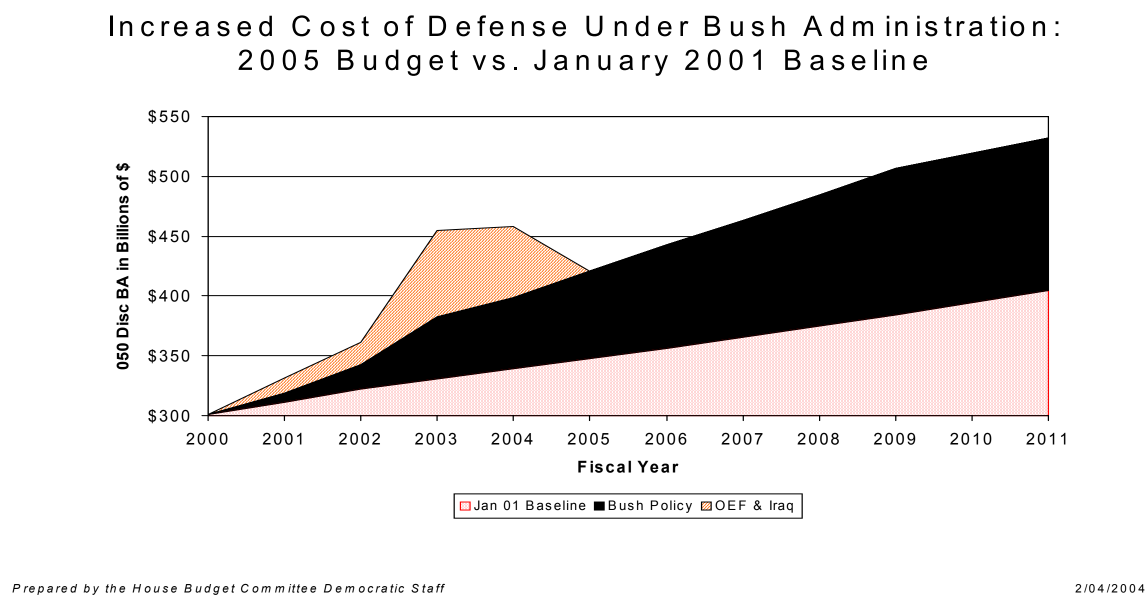
In order to provide an apples-to-apples comparison with the budget request, all comparisons that follow in this section to either the 2004 enacted level or the amount needed to maintain 2004 purchasing power exclude the 2004 supplemental funding for operations in Afghanistan and Iraq.[4] OMB budget materials include supplemental funding in their totals for 2004, and are not consistent with the DOD press release or summaries which exclude these supplemental funds.

- ***Increased Funding for National Defense*** – Excluding supplemental funding for operations in Iraq and Afghanistan, the budget request for appropriated defense programs is $25.8 billion (6.5 percent) above the 2004 enacted level, and $14.3 billion (3.5 percent) above the level needed to maintain 2004 purchasing power, and it increases funding for national defense by $194.7 billion (9.2 percent) above the amounts needed to maintain purchasing power at the 2004 appropriated level over the next five years.

- ***Long-Term Defense Increase is Significant*** – The increases in defense spending over the five years covered by this budget are only a portion of the actual and planned surge in defense since the beginning of the Bush Administration. The following chart shows the increase in the defense budget from the $301 billion level in 2000 to the $506 billion planned for 2009. The current Bush Administration defense plan extends through 2009. If this 2009 defense level is held constant in purchasing power through 2011, the total defense spending increase under this Administration's policies (including the costs of our military operations in Iraq and Afghanistan through 2004) will exceed the CBO baseline

[4] Including the impact of the $65.2 billion in additional defense funding for military operations provided in the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004, the budget request is $39.4 billion (8.6 percent) below the 2004 enacted level, and it is $52.0 billion (11.0 percent) below the level needed to maintain 2004 purchasing power. Because the budget request for 2005 includes no funding for activities in Iraq and Afghanistan, any comparisons to the 2004 enacted level including supplemental funds provided for these purposes in 2004 may be misleading.

released in January 2001 when President Bush took office by $1.0 trillion for the ten-year period from 2002 through 2011.



Even without the considerable debt service that results from this increased spending, the rapid increases in defense spending under this Administration are a major reason why the $5.6 trillion surplus projected over this same period when President Bush took office has vanished. While part of this increase to date is attributable to the response to the attacks of September 11, 2001, the subsequent war on terrorism (Operation Enduring Freedom) in Afghanistan, and the war in Iraq, the vast majority of the actual and planned increased defense spending under Bush administration policies is unrelated to Iraq or the war on terrorism.

- ***No Funds for Operations in Iraq and Afghanistan*** – The President's budget falls short of his State of the Union claim: "In two weeks I will send you a budget that funds the war." The budget includes no funding for the 2005 costs of ongoing military operations in Iraq and Afghanistan. Supplemental funding that would further increase the deficit will be required to pay the costs of these operations in 2005 or future years. Although the Department of Defense does not plan to seek another supplemental in calendar year 2004, the Director of OMB has stated a supplemental will be needed for 2005 and that if current expenditure rates in Iraq and Afghanistan continue, a supplemental of up to $50 billion could be required for 2005.

The Department of Defense

- ***Increase for the Department of Defense (DOD)*** — The budget increases funding for appropriated DOD programs by $26.5 billion (7.1 percent) above the enacted 2004 amount. The budget request of $401.7 billion for DOD is $14.7 billion (3.8 percent) above the amount needed to maintain purchasing power at the 2004 level.

- ***No Major Changes in Direction*** – The budget makes no major changes in the size or composition of the military force structure (ground divisions, ships, or aircraft) and does not cancel any major new weapons systems.

- ***Military Pay and Benefits*** — The budget includes an across-the-board military pay raise of 3.5 percent. DOD civilians would receive a lower 1.5 percent pay raise.

  The budget also includes the final year of funding to continue an initiative begun by the Clinton Administration to gradually eliminate all "out-of-pocket" housing costs for military personnel living off-base by 2005 through increases to the basic allowance for housing.

- ***Military Personnel Strengths*** — The budget contains no major changes in permanent active duty, National Guard, or reserve personnel strengths, nor does it include funds for continuing the increased activation of Guard or reserve personnel to support the global war on terrorism in 2005. Increases in the military personnel budget therefore reflect increases in pay and benefits, not additional personnel levels. There is a reduction of 7,900 people, or 2.1 percent, in the Navy's active duty personnel strength.

- ***Does Not Fund Increased Army Personnel Strengths*** — Although the Secretary of Defense has exercised his emergency authority to approve a temporary increase of up to 30,000 additional Army personnel, the budget contains no funds to pay the cost of these additional personnel in 2005. DOD officials have stated that each additional 10,000 personnel will cost $1.2 billion annually. DOD is planning to fund these additional costs out of existing supplemental funds in 2004 and out of a future supplemental in 2005.

- ***Department of Defense by Title*** — The following table compares the President's request with both the 2004 enacted level (excluding the 2004 supplemental) and the level that CBO estimates is needed to maintain purchasing power at the 2004 level (the "Inflation-Adjusted" column) excluding 2004 supplemental funding.

The DOD Budget by Title:
Comparisons with the 2004 Enacted Level and
the Level Needed to Maintain Purchasing Power
Excluding 2004 Supplemental Funds
(Discretionary Budget Authority in Billions of Dollars)

	Enacted 2004	2005 Budget	Dollar Change	*Percent Change*	Inflation-Adjusted 2004	Dollar Change	*Percent Change*
Personnel	97.9	104.8	6.9	*7.0*	101.7	3.1	*3.1*
O&M	127.6	140.6	13.0	*10.2*	133.9	6.7	*5.0*
Procurement	75.3	74.9	-0.4	*-0.6*	76.3	-1.3	*-1.8*
RDT&E	64.3	68.9	4.6	*7.2*	65.3	3.6	*5.6*
Mil Construction	5.5	5.3	-0.2	*-3.0*	5.6	-0.3	*-5.5*
Family Housing	3.8	4.2	0.4	*9.7*	3.9	0.3	*8.4*
Other DOD	0.8	3.0	2.2	- -	0.4	2.6	- -
Total DOD	375.3	401.7	26.5	*7.1*	387.0	14.7	*3.8*

Numbers may not add exactly due to rounding.

- ***Military Personnel*** — The military personnel accounts fund the pay and allowances of active and reserve personnel and include accrual payments for future retirement and health benefits. The personnel budget is $6.9 billion (7.0 percent) above the 2004 enacted level, and $3.1 billion (3.1 percent) above the level needed to maintain purchasing power at the 2004 level.

- ***Operations and Maintenance (O&M)*** — The O&M accounts are critical to readiness because they fund training, military exercises and operations, spare parts, fuel, and all the other items a military force needs to operate its forces and installations. As the table indicates, the O&M budget is $13.0 billion (10.2 percent) above the 2004 enacted level, and $6.7 billion (5.0 percent) above the level needed to maintain purchasing power at the 2004 level. Since the budget contains no funds for ongoing operations in Iraq and Afghanistan, the Army and the other services are likely to have to divert some of these funds from their intended purposes such as training and maintenance in order to finance the cost of any such operations until a supplemental for 2005 is enacted.

- ***Procurement*** — The budget includes $74.9 billion for procurement of weapons systems and military equipment including aircraft, ships, vehicles, and satellites. This level is

$417 million (0.6 percent) less than the 2004 enacted level, and is $1.3 billion (1.8 percent) below the amount needed to maintain purchasing power at the 2004 level.

- ***Research and Development*** — The budget includes $68.9 billion for 2005 for research, development, test, and evaluation programs (RDT&E). This level is $4.6 billion (7.2 percent) more than the 2004 enacted level, and $3.6 billion (5.6 percent) more than the amount needed to maintain purchasing power at the 2004 level.

- ***Military Construction*** — These accounts fund the facilities where military personnel work and the barracks where single enlisted personnel live. The 2005 funding level of $5.3 billion for construction of new facilities in the budget is $164 million (3.0 percent) below the 2004 enacted level, and is $308 million (5.5 percent) below the amount needed to maintain purchasing power at the 2004 level. The budget increases this 2005 funding level by 67 percent to $8.8 billion in 2006, after the 2005 base closure round.

Selected Program Highlights

- ***Ballistic Missile Defense*** — The budget includes $10.2 billion in funding within the RDT&E and procurement accounts for ballistic missile defense (BMD) programs, an increase of $1.2 billion (13.2 percent) above the 2004 enacted level. This would represent an increase of $2.6 billion (34.4 percent) in this program over a two-year period. The Administration proposes to field some land-based interceptor missiles by the end of 2004, and to have 20 land-based interceptors and up to 10 sea-based interceptors deployed by the end of 2005.

- ***Selected Weapons Programs –*** The budget increases funding over the 2004 enacted level for the Joint Strike Fighter aircraft by $320 million to $4.6 billion; for the Army's Future Combat System vehicles by $1.5 billion (a 90 percent increase) to $3.2 billion; and for Unmanned Aerial Vehicles, or UAVs, by $633 million (a 47 percent increase) to $2.0 billion. Funding is reduced for two of the most essential munitions in recent conflicts: funds for the Tomahawk cruise missile are cut by $144 million to $285 million, and funds for the Joint Direct Attack Munition (JDAM) are cut by $62 million to $673 million.

- ***Science and Technology R&D –*** Science and technology (S&T) programs represent investment in the future technologies needed to keep our military capability second to none. Both the Administration and Congress have embraced the goal of devoting 3.0 percent of DOD resources to S&T programs. However, for the fourth straight year, the Administration's budget increases overall R&D funding levels while funding S&T programs below the previous year's enacted level, and below the 3.0 percent goal. The budget funds S&T programs at $10.5 billion for 2005, a decrease of $1.6 billion from the 2004 enacted level. This would reduce the share of DOD funding devoted to S&T programs to 2.6 percent.

- ***DOD Nonproliferation*** — The bulk of U.S. nonproliferation funding is within DOE, but the DOD budget includes the Cooperative Threat Reduction program. This program is often called the Nunn-Lugar program, after the primary legislative sponsors of it, former

Senator Sam Nunn and Senator Richard Lugar. The Nunn-Lugar program focuses on the dismantlement of nuclear missiles and chemical weapons. The budget includes $409 million for the Nunn-Lugar program, which is $40 million (8.9 percent) less than the 2004 enacted level.

- ***No Funds for Leasing Tankers* —** The budget contains no funding over the next five years to pay for the lease of tanker aircraft authorized by the Congress last year. DOD officials have stated that no funds were included because this program is on hold due to the ongoing investigation of Air Force and Boeing activities related to this program.

Atomic Energy Defense Activities

The budget provides $17.0 billion for the nuclear weapons-related activities of DOE and other agencies. This is $478 million (2.9 percent) more than the 2004 enacted level. It is $302 million (1.8 percent) above the amount needed to maintain purchasing power at the 2004 level.

- ***Nuclear Nonproliferation Programs*** — DOE oversees several important programs to stop the spread of nuclear materials to terrorist groups and nations that are hostile to the United States. Most of these programs are focused on Russia and other states of the former Soviet Union. The budget provides $1.3 billion for these programs for 2005, the same as the 2004 enacted level and the amount needed to maintain purchasing power at the 2004 level.

- ***Weapons Activities/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 yields. The budget provides $6.6 billion for the stockpile stewardship program, which is $332 million (5.3 percent) more than the 2004 enacted level. This is $262 million (4.2 percent) above the amount needed to maintain purchasing power at the 2004 level.

- ***Cleanup of Former Weapons Production Sites*** — The budget provides $6.0 billion in the accounts dedicated to environmental activities, primarily the cleanup of nuclear and other hazardous waste, at DOE's weapons production sites. This is $353 million (6.3 percent) more than the 2004 enacted level. It is $291 million (5.1 percent) above the amount needed to maintain purchasing power at the 2004 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 developing 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.

Overall, the President's budget provides $31.6 billion in funding for appropriated international affairs programs. This amount is $4.6 billion (17.1 percent) more than the $27.0 billion in non-emergency funding enacted for 2004, and $4.3 billion (15.8 percent) more than the amount needed to maintain constant purchasing power at the 2004 level for non-emergency appropriations. These 2004 levels do not include the $21.7 billion in emergency funding for 2004 that was provided in the supplemental appropriations bill.

Funding for Iraq and Afghanistan

- ***No Additional Funding for Iraq*** — The budget does not include specific additional funding for reconstruction and humanitarian costs in Iraq for 2005. The 2004 supplemental appropriations provided $18.4 billion in reconstruction funding for Iraq. A recent analysis by the Congressional Budget Office stated that "lower oil exports or prices and high levels of debt payment [relative to Iraqi budget assumptions] would most likely mean that Iraq could not afford to pay for even modest reconstruction efforts. In that case, the country could be a candidate for billions in additional aid in the coming years."

- ***Funding for Afghanistan*** — According to Administration estimates, the budget includes $929 million for Afghanistan for 2005 across all international affairs accounts, including Foreign Military Financing (FMF), Economic Support Fund (ESF), and Development Assistance. (The budget also includes up to $300 million for humanitarian and reconstruction efforts in Afghanistan in the Defense Department's budget.) For 2004, a total of $1.6 billion was enacted for Afghanistan in the international affairs budget — $405 million in the omnibus appropriations bill and an additional $1.2 billion in the emergency supplemental for Iraq and Afghanistan. Funding for 2005 is $640 million (40.8 percent) less than the total amount provided in regular and supplemental appropriations for 2004.

International Security Assistance

- ***Foreign Military Financing (FMF)*** — The FMF program provides grants to help U.S. allies acquire military articles, services, and training from the United States. The budget provides $5.0 billion in funding for FMF, which is $707 million (16.6 percent) more than the amount enacted for 2004 in regular appropriations. Including FMF funding in the emergency supplemental for Iraq and Afghanistan in the 2004 total, the 2005 level is $420 million (9.3 percent) more than the 2004 enacted level. The top five recipients of FMF financing in the 2005 budget are Israel, Egypt, Afghanistan, Pakistan, and Jordan.

  In 1998, Israel and the United States reached an agreement to increase FMF assistance to Israel by $60 million per year for ten years and to decrease Economic Support Fund aid (see below) by $120 million per year for ten years. The budget maintains the funding glide path envisioned in the 1998 agreement, providing $2.22 billion for FMF assistance for Israel for 2005. The budget includes $1.3 billion in FMF funding for Egypt, the typical level of FMF assistance for Egypt since 1986. The budget provides $400 million in FMF funding for Afghanistan, $300 million for Pakistan, $206 million for Jordan, and $34 million for Turkey.

- ***Economic Support Fund (ESF)*** — The ESF program provides bilateral economic assistance to countries of particular importance to U.S. foreign policy. The budget provides $2.5 billion for ESF activities for 2005, which is $252 million (11.1 percent) more than the amount enacted for 2004 in regular appropriations. When counting ESF funding included in the emergency supplemental — which went to Afghanistan, Pakistan, Jordan, and the Philippines — in the 2004 total, the 2005 level is $720 million (22.2 percent) less than the 2004 enacted level.

  The budget maintains the funding glide path envisioned in the 1998 agreement between Israel and the United States discussed above, providing $360 million for ESF assistance for Israel for 2005. In a separate agreement reached by Egypt and the United States in 1998, ESF assistance to Egypt was scheduled to decrease by $40 million per year. The budget continues the glide path envisioned in this agreement, including $535 million in ESF funding for Egypt for 2005. The budget provides $300 million in ESF funding for Pakistan, $250 million for Jordan, $225 million for Afghanistan, $70 million for Indonesia, and $50 million for Turkey.

> ***Middle East Partnership Initiative*** — The budget provides $150 million of ESF funding for the Middle East Partnership Initiative, which is $5 million more than the Administration requested for 2004 and $61 million (67.7 percent) more than the 2004 enacted level. This initiative is designed to encourage structural reforms in the region by funding programs that, among other things, expand economic and educational opportunities and support democratic reforms and the rule of law.

- ***Non-Proliferation, Anti-Terrorism, Demining, and Related Programs (NADR)*** — The budget provides $415 million for NADR programs, which, among other things, provide anti-terrorism training to foreign governments and work to reduce the dangers posed by nuclear material. This amount is $63 million (17.9 percent) more than the amount enacted for 2004 in regular appropriations. When NADR funding from the emergency supplemental is included in the 2004 total, the 2005 level is $28 million (7.2 percent) more than the 2004 enacted level.

Major Administration Initiatives

- ***Millennium Challenge Account (MCA)*** — The budget includes $2.5 billion for this initiative, $1.5 billion more than the funding provided for 2004. Funds from the MCA are made available on a competitive basis to countries with low and moderate per capita incomes. Countries receive MCA funds based on their performance on 16 economic and political indicators, grouped into three clusters: good governance, investment in people, and economic policy. The Administration has indicated its intention to request MCA levels adequate to provide $5 billion in annual assistance by 2006. Meeting this level in next year's budget would require an additional $2.5 billion beyond the levels in the 2005 budget.

- ***Global AIDS Initiative*** —In his 2003 State of the Union Address, the President announced his Emergency Plan for AIDS Relief, a five-year, $15 billion U.S. commitment to fight AIDS internationally. For 2005, the budget contains a total of $2.8 billion toward this initiative spread throughout Function 150 and HHS and CDC accounts — with roughly three-fourths of this total included in Function 150. The largest piece of the international affairs portion of this funding is $1.5 billion for the Global HIV/AIDS Initiative at the State Department. Among other funds, the budget also includes $200 million for the Global Fund to Fight AIDS, Tuberculosis, and Malaria, $100 million of which is in Function 150.

> ***U.S. Foreign Aid in Comparison to Other Developed Countries*** —According to the most recent (2002) foreign aid figures from the Organization for Economic Cooperation and Development, the United States ranks 22nd in the world as a provider of foreign aid as a percentage of Gross National Product (GNP). The U.S. level is 0.13 percent of GNP, which is about one-third of the average effort of developed countries. In absolute amount of foreign aid, the United States ranks first for 2002.

State Department

- ***Diplomatic and Consular Programs*** — The budget provides $4.3 billion for the operations of most diplomatic and consular programs, including the support of our embassies and much of the State Department. This amount is $221 million (5.4 percent) more than the amount enacted for 2004 in regular appropriations and $126 million (3.0

percent) more than the amount needed to maintain purchasing power at the comparable 2004 level. When funding included in the emergency supplemental is included in the 2004 total, the 2005 level is $101 million (2.4 percent) more than the 2004 enacted level and is just enough to maintain purchasing power at the 2004 level.

- ***Embassy Security Construction and Maintenance (ESCM)*** — The budget provides $1.5 billion for ESCM activities. This amount is $162 million (11.8 percent) more than the amount enacted for 2004 in regular appropriations and $144 million (10.3 percent) more than the amount needed to maintain purchasing power at that 2004 level. When funding included in the emergency supplemental is included in the 2004 total, the 2005 level is $118 million (8.3 percent) more than the 2004 enacted level and $99 million (6.9 percent) more than the amount needed to maintain purchasing power at the 2004 level. ESCM funding supports the construction and maintenance of U.S. diplomatic facilities.

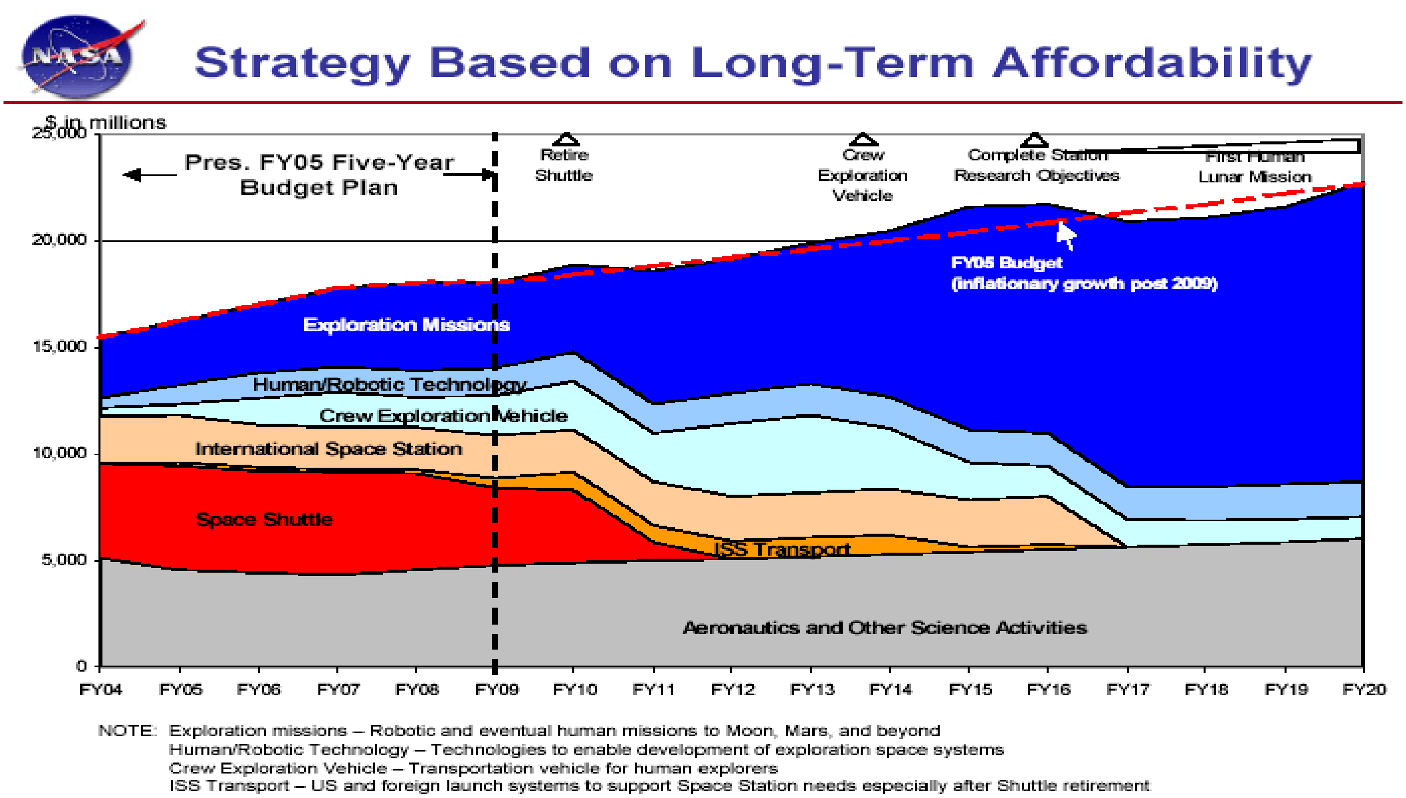
Function 250: General Science, Space, and Technology

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 (DOE).

The President's budget provides $24.4 billion in funding for appropriated science and technology programs for 2005, which is $1.0 billion (4.5 percent) above the 2004 enacted level and $729 million (3.1 percent) above the amount that CBO estimates is needed to maintain purchasing power at the 2004 level. That budget splits the increase between NASA and NSF, and cuts funding for DOE science programs.

- ***NASA's Budget*** — The President's budget increases funding for NASA to $16.2 billion, of which $15.3 billion is in this function and another $919 million for science, aeronautics, and technology is included in Function 400 (Transportation). NASA's total budget is an increase of $866 million (5.6 percent) above the 2004 enacted level. Over five years, the budget provides $6.1 billion above the amount NASA would need to maintain purchasing power at the 2004 level.

  Travel to Moon, Mars, and Beyond — The increases for 2005 through 2009 only begin to fund NASA's announced plan to create a new vehicle to travel to the moon — to carry robots by 2008 and humans as soon as 2015 — and from there, attempt sustainable human and robotic missions to Mars and beyond. NASA's budget documents assert that without this new exploration plan, its budget over the next five years would have been



$12 billion lower than in the Administration's current request. NASA has not put a specific long-term price tag on its new plans for space exploration. However, the cost will have increased greatly in the 15 years since NASA estimated a cost of at least $400 billion when President Bush's father proposed a similar idea.

Funding Transfers within NASA — While the 2005 budget increases funding for space flight (the shuttle, the space station, and support activities) by $817 million over the 2004 enacted level, NASA plans to cease funding the shuttle by 2012 and stop funding the space station by 2017 in order to reassign funding to exploration missions, human and robotic technology, and creating a new flight vehicle. NASA's chart on the previous page displays the growing portion of the budget allocated to exploration.

- ***National Science Foundation*** — The budget provides $5.7 billion for appropriated programs in NSF, including $68 million in Function 050 (National Defense). This is an increase of $167 million (3.0 percent) over the 2004 enacted level and of $100 million (1.8 percent) over the amount needed to maintain purchasing power at the 2004 level. NSF will focus on three priorities for 2005: strengthening management to maximize effectiveness; increasing its average award to $142,000 to allow researchers to involve more students; and investing in the scientific tools necessary for research and education. Its only major funding decrease is a cut of $59 million for the Math and Science Partnership program, funded at $80 million for 2005.

- ***DOE General Science Programs*** — The budget provides $3.4 billion for general science programs in DOE, which is $68 million (2.0 percent) below the 2004 enacted level. DOE science programs include energy-related basic research in the following areas: fundamental energy research; the health and environmental consequences of producing and developing energy; new energy technologies and environmental mitigation; fusion as a potential energy source; and advanced computational and networking tools.

Function 270: Energy

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

- ***Energy Bill Not Included in Budget*** — The conference report on H.R. 6, the Energy Policy Act of 2003, increased direct spending by $5.4 billion and reduced revenues by $25.7 billion over ten years (2004-2013). The budget includes $7.2 billion in energy-related tax provisions, far short of the revenue effects of the energy bill. The energy bill increased mandatory spending by $3.5 billion over the period 2005-2009, an amount not reflected in the President's budget totals.

Mandatory Spending

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 mandatory spending is negative; the government takes in more money than it spends on these energy programs. The budget increases mandatory spending by $929 million in 2005, and by $4.8 trillion over five years (2005-2009), through two proposals that use receipts to fund discretionary programs.

- ***Nuclear Waste Disposal*** — The budget provides a total of $907 million for 2005 to fund the Office of Civilian Radioactive Waste Management, which implements federal policy for disposal of commercial spent nuclear fuel and high-level radioactive waste resulting from the nation's atomic energy defense activities. The budget uses $749 million in 2005 from the Nuclear Waste Disposal Fund, which is financed by fees on nuclear-generated electricity, to fund activities for nuclear waste disposal. A portion of the funding for the Office of Civil Radioactive

Energy-Related Tax Proposals
Millions of Dollars

Proposal	Ten-Year Cost
Extend & modify tax credit for producing electricity from certain sources	2,175
Provide tax credit for residential solar energy systems	73
Modify treatment of nuclear decommissioning funds	1,767
Provide tax credit for purchase of certain hybrid and fuel cell vehicles	2,211
Provide tax credit for energy produced from landfill gas	737
Provide tax credit for combined heat and power property	349
Extend excise tax exemption (credit) for ethanol	0
Permit electric utilities to defer gain from sales of electric transmission property	-361
Modify tax treatment of certain income of electric cooperatives	235
Total	**7,186**

Waste Management, $153 million, is included in Function 050 (National Defense), for disposal of weapons-related nuclear waste.

- ***Power Marketing Administrations (PMAs)*** — The budget provides $187 million for the three federally subsidized PMAs, which sell electricity generated by hydropower projects at federal dams to public utilities and cooperatives. This represents a cut of $10 million (5.1 percent) from the amount that CBO estimates is needed to maintain purchasing power at the 2004 level.

  The budget allows the Southeastern, Southwestern, and Western Area PMAs to directly finance the Corps of Engineers' and Bureau of Reclamation's power-related operation and maintenance expenses from power receipts instead of appropriations. The Bonneville PMA already does this. The proposal increases mandatory spending by $180 million in 2005 and by $958 billion over the five-year period (2005-2009).

Appropriated Programs

The budget for 2005 provides $3.5 billion in appropriated funding for energy programs, which is $268 million (7.2 percent) below the amount that CBO estimates is needed to maintain purchasing power at the 2004 level. Over the five-year period (2005-2009), appropriated energy programs fall $2.6 billion (13.1 percent) below this level.

- ***Drilling in the Arctic National Wildlife Refuge (ANWR)*** — As in previous years, the budget assumes the opening of ANWR to oil and gas drilling and uses a portion of the proceeds to fund renewable energy research. The budget provides $150 million for this purpose for 2006, and $720 million over the five-year period (2005-2009).

- ***Energy Conservation*** — The budget contains $876 million for energy conservation programs for 2005, which is about equal to the amount CBO estimates is needed to maintain purchasing power at the 2004 level. The budget includes $364 million for Weatherization Programs, which help low-income Americans improve the energy efficiency of their homes, $157 million for Vehicle Technologies, which help develop alternative-fuel and energy-efficient vehicles, and $78 million for Fuel Cell Technologies, which help develop reliable fuel cells for transportation and stationary applications.

- ***Fossil Energy Research and Development*** — The budget provides $636 million for fossil energy research and development for 2005, $46 million (6.7 percent) below the level CBO estimates is needed to maintain purchasing power at the 2004 level. The budget provides $447 million for the President's coal research initiative, of which $287 million is for the Clean Coal Power Initiative. The budget cuts funding for natural gas technologies to $26 million, $17 million (39.5 percent) below the 2004 comparable appropriation.

- ***Energy Supply*** — The budget provides $834 million for energy supply programs, an increase of $70 million (9.1 percent) above the amount CBO estimates is needed to maintain purchasing power at the 2004 level. That figure includes $95 million for hydrogen technology, an increase of $13 million (16.3 percent) above the comparable 2004 appropriation; $80 million for solar energy, a cut of $3 million (3.7 percent); and $73 million for bioenergy research, a cut of $14 million (16.0 percent). Wind energy receives $42 million, geothermal technology $26 million, and hydropower $6 million, all about equal to the 2004 comparable appropriation for those items.

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. It includes programs within the following federal departments and agencies: Agriculture, Commerce, Interior, Transportation, the Army Corps of Engineers, and the Environmental Protection Agency. This function does not include the large-scale environmental clean-up programs at the Departments of Defense and Energy. See *Function 050 (Defense)* for information on those programs.

Fourth Straight Year of Cuts to Environmental Programs

In the area of natural resources and environment, the President's 2005 budget repeats the pattern of each of the last three years. The Administration continues to tout its commitment to environmental preservation and conservation, but reality does not match the rhetoric. Not only does the budget cut natural resources and environmental protection programs, it also weakens the regulatory underpinnings of environmental protection. As part of its budget, the Administration repeats many of the same proposals that were in previous budgets and that Congress flatly rejected.

For 2005, the President's budget significantly cuts funding for programs that protect public health and the environment. The budget provides \$28.0 billion in discretionary funding for these programs, which is \$2.4 billion (7.9 percent) below the 2004 enacted level. More noteworthy is that while maintaining to support the environment, the Administration provides only \$27.7 billion in discretionary funding for 2006. This would be the first time since 1981 that environmental programs would be cut in two consecutive years.

In addition, the President's budget continues to squeeze these programs in the following four years. Over five years (2005-2009), the Administration funds discretionary environmental programs at \$23.9 billion (14.7 percent) below the level required to maintain purchasing power at the 2004 level. The budget's failure to maintain the federal commitment to environmental protection matches the Administration's efforts to weaken longstanding regulatory protections for our air, water, and land.

Budget Details

- ***Budget Cuts Environmental Protection Agency (EPA) Funding*** — For 2005, the President's budget once again cuts EPA funding, providing \$7.8 billion in appropriations, a 7.2 percent (\$606 million) decrease from the 2004 enacted level. As in previous years, the majority of this decrease is attributed to considerably reduced funding for water infrastructure programs that protect public health and the environment.

  The President claims that the 2005 funding levels continue his commitment to the Clean Water and Drinking Water State Revolving Funds (SRFs). However, EPA's own reports, as well as those by CBO and other organizations, document a huge unmet need for improvements to wastewater infrastructure that will not be met without a much larger federal investment.

- ***Drastic Cut in Aid for Wastewater Infrastructure*** **—** For 2005, the President's budget dramatically cuts the Clean Water SRF, which provides seed money to SRFs. These SRFs in turn loan money for improvements to wastewater treatment facilities. As in the prior year's budget, the 2005 budget provides only $850 million, nearly $500 million (36.7 percent) less than the 2004 enacted level.

- ***Drinking Water Aid Frozen*** — The President's budget essentially freezes funding for the Drinking Water SRF, which totals $850 million, and is only $5 million higher than the 2004 enacted level.

- ***Administration Continues to Press for Drilling in Arctic National Wildlife Refuge*** — Despite strong opposition in Congress, for the fourth consecutive year the President's budget assumes opening the Arctic National Wildlife Refuge (ANWR) to oil and gas exploration. Although it is assumed in the budget, the Administration cannot implement this controversial proposal without Congressional approval. Over the 2005-2009 period, the budget includes $1.3 billion from lease bonuses for the federal treasury and another $1.3 billion that is collected and disbursed to the State of Alaska.

- ***Army Corps of Engineers*** **—** In yet another repeat from the previous three years, the President's budget significantly cuts appropriations for the Army Corps of Engineers. For 2005, the Corps budget is restricted to $4.2 billion, $347 million below the 2004 enacted level.[5] In an effort to reduce the agency's backlog of work on ongoing projects, the budget directs funding toward those ongoing projects that "are either nearing completion or offer the highest returns to the nation." In that vein, it is anticipated that 11 projects will be completed and significant progress will be made on eight high-priority, high-return projects. In addition, the budget funds two new flood damage reduction projects and one new aquatic ecosystem restoration program.

  Building upon last year, the budget continues to address some of the policy reforms (*e.g.*, independent review of Corps projects prior to approval, improvements to the agency's economic models, maximizing the benefits of projects, etc.) that critics have demanded to keep the Corps from moving ahead on projects that are environmentally harmful or of questionable economic benefit.

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[5]Some presentations show the Army Corps 2005 appropriations at $4.0 billion. This discrepancy exists because the budget proposes to finance the costs of routine operation and maintenance of certain Army Corps hydropower facilities directly from receipts of the Power Marketing Administrations. The budget also proposes to cancel 41 on-going "non-priority" construction projects. These proposals, which require new legislation from Congress, have the effect of lowering the Corps 2005 appropriations total by $150 million and $100 million, respectively. Both proposals have been excluded from the analysis in order to provide a more consistent comparison.

- ***Conservation Spending Category Shortfall*** — Just as in past years, the budget fails to fully fund the Land, Conservation, Preservation and Infrastructure Improvement Fund (LCPII), the conservation spending category established in 2001 to provide dedicated funding for programs addressing the loss of open space, wildlife habitat, and cultural treasures. The conservation category is authorized at $2.2 billion for 2005. The Administration's budget only provides $1.7 billion, which is $500 million below the level authorized in law.

- ***Land and Water Conservation Funding (LWCF)*** — Funding for LWCF programs in the President's 2005 budget totals $900 million. (These programs are contained within the conservation spending category described above.) As in previous years, the Administration claims that this total fully funds the LWCF program. In reality, the President only provides one third of this amount for LWCF purposes.

  As in the past three years, the Administration accomplishes attaining "full funding" by including LWCF funding for programs not traditionally associated with the Fund. True full funding would mean splitting $900 million evenly between federal land acquisition and grants to states for the same purpose. However, only $314 million of the "full funding" is actually provided for this purpose. Instead, the Administration diverts significant amounts of LWCF funds to unauthorized programs, including agencies' operating expenses, and counts these funds as part of the LWCF total.

Department of Interior	2005 Request (in millions)
Federal Land Acquisition and State Assistance	
BLM	$24,000
FWS	$45,041
NPS	$84,295
NPS	
State Assistance Grants	$93,829
U.S. Forest Service	
Federal LWCF Land Acquisition	$66,885
Subtotal, LWCF	**$314,050**
Other Programs	**$586,132**
Total President's Request	**$900,182**

Source: Department of the Interior, Budget in Brief

- ***Cap on Farm Conservation Security Program*** — Authorized by the 2002 Farm Bill, the Conservation Security Program provides financial and technical assistance for the conservation and protection of natural resources on private working lands. The Administration caps this program's financial assistance at $4.4 billion from 2004-2010. For 2005, $209 million is authorized.

- ***Superfund*** — The President's 2005 budget provides $1.4 billion to clean up the nation's worst hazardous waste sites under EPA's Superfund program. This amount is $124 million more than the 2004 enacted level. With this funding, the Administration plans to complete 40 clean-ups.

All of the funding this year is supplied from general revenues. The Superfund trust fund has historically supplied most of the funds appropriated for the Superfund program. However, the taxes that fed into the trust fund expired in 1995, and the trust fund's balance is depleted.[6] Failure to reinstate the Superfund taxes has necessitated a greater reliance on general revenues, forcing taxpayers to foot the bill for hazardous cleanup, which many interpret as deviating from the long-standing "polluter pays" principle behind the Superfund program. The President does not reinstate the Superfund taxes in his 2005 budget.

- ***New Land Sale Authority for Bureau of Land Management*** — The President's budget gives the Bureau of Land Management new flexibility regarding the sale of federal lands and the use of receipts generated by land sales for infrastructure maintenance. Current law allows for the selling of previously identified "low-value" lands and using the receipts for land acquisition matters. This new authority would permit the sale of lands that have not been identified as "low-value" and then allow the receipts to be used for other matters such as facilities maintenance. Over the next five years (2005-2009), the Administration expects the agency to generate $191 million in new mandatory receipts, $24 million of which would be spent in 2005.

- ***Environmental Tax Incentives*** — The President's budget again contains two environmental tax incentives, one intended to encourage the clean-up of brownfields and the other to encourage voluntary land protection. First, the budget permanently extends the provision in current law that allows businesses to expense certain environmental remediation costs that would otherwise count as capital investments. This would apply to expenditures incurred after December 31, 2003. This extension of current law lowers federal revenues by $1.0 billion over five years (2005-2009).

  Second, the budget includes a tax incentive intended to encourage voluntary land conservation. The budget excludes from income 50 percent of any gains from sales of land for conservation purposes. This incentive lowers federal revenues by $292 million over five years (2005-2009).

[6] The taxes that expired in 1995 consisted of excise taxes on petroleum and chemical feedstocks and a corporate environmental income tax.

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.

Mandatory Spending

- ***Farm Bill Programs and Crop Insurance*** — The President's budget spends $16.6 billion in 2005 on mandatory agriculture programs, and $76.8 billion over the five-year period (2005-2009), which is consistent with OMB's estimate of the amount needed to maintain current services.

- ***CCC Funding Changes*** — The President's budget allows the Secretary of Agriculture to limit spending under the Commodity Credit Corporation (CCC) for bioenergy and the Market Access Program (MAP). The 2002 Farm Bill authorized $150 million in 2005 and 2006 for a bioenergy incentive program, which allows the CCC to make incentive payments to ethanol, biodiesel, and other bioenergy producers to expand production of bio-based fuels. The budget limits this spending to $100 million, generating savings of $50 million in 2005 and 2006. The budget also limits funding for the Market Access Program to $125 million in 2005; MAP was authorized in the 2002 Farm Bill at $140 million. The budget uses these savings to offset general discretionary funding.

- ***Initiative for Future Agriculture and Food Systems*** — The 2002 Farm Bill reauthorized the Initiative for Future Agriculture and Food Systems through 2011, providing $120 million for the program for 2004 and $140 million for 2005. The funding for this program was blocked in the 2004 omnibus appropriations bill, and the 2005 budget continues the practice of blocking the funding for this program. Because money is available for two years under the program, the budget blocks both 2004 and 2005 funding, claiming savings of $260 million.

Appropriated Programs

The President's budget provides $5.4 billion for appropriated agriculture programs for 2005, $299 million (5.2 percent) below the amount that CBO estimates is needed to maintain purchasing power at the 2004 level. Over the five-year period (2005-2009), the budget cuts agriculture funding by $2.6 billion (8.7 percent).

- ***Animal and Plant Health Inspection Service (APHIS)*** — The budget provides a program level of $987 million for APHIS, which includes $50 million for APHIS to combat Bovine Spongiform Encephalopathy (BSE or "mad cow disease"). The budget provides $33 million to accelerate the development of a national animal identification system and $17 million to collect samples and test for BSE at rendering plants and on farms.

As in past years, the budget includes new user fees for animal welfare inspections (raising $11 million in 2005).

- ***Grain Inspection, Packers and Stockyards Administration (GIPSA)*** — The budget provides a program level of $86 million for GIPSA for 2005, comprised of $44 million in appropriated funding, $42 million from existing user fees, and $29 million from new user fees. The budget designates $1 million under GIPSA's direction to address livestock marketing conditions resulting from the BSE situation.

  Like previous years, the budget includes two user fee proposals for GIPSA. Fees are assessed on those who receive, ship, store, or process grain (raising $6 million in 2005) to cover the costs of developing, reviewing, and maintaining official U.S. grain standards used by the grain industry. New license fees are also assessed on packers, live poultry dealers, poultry processors, stockyard owners, market agencies, dealers, and swine contractors (raising $23 million in 2005) to fund the Packers and Stockyards program.

- ***Farm and Foreign Agricultural Services*** — The budget provides $1.5 billion in appropriations for the Farm Service Agency, $92 million for the Risk Management Agency, and $218 million for the Foreign Agriculture Service. The Farm Service Agency delivers farm credit, disaster assistance, commodity, and conservation programs, and provides administrative support for the CCC. The Risk Management Agency administers the federal crop insurance program, which protects producers against risks caused by natural disasters and price fluctuations. The Foreign Agriculture Service promotes U.S. exports, develops markets overseas, and fosters trade and economic growth in developing countries. It administers several international assistance programs, including P.L. 480, the Bill Emerson Humanitarian Trust, Food for Progress, the McGovern-Dole International Food for Education and Child Nutrition Program, and Section 416(b) Donations.

- ***Research, Education, and Economics*** — The budget includes $1.2 billion of appropriated funding for the Agricultural Research Service; $1.0 billion for the Cooperative State Research, Education, and Extension Service; $80 million for the Economic Research Service; and $138 million for the National Agricultural Statistics Service.

Function 370: Commerce and Housing Credit

Function 370 includes deposit insurance and financial regulatory agencies such as the Securities and Exchange Commission (SEC); 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 at the Department of Agriculture; the Small Business Administration's business loans; the Postal Service (USPS); and other regulatory agencies such as the Federal Communications Commission (FCC).

Appropriated Programs

Under the President's budget, appropriated funding for Function 370 for 2005 is negative $1.0 billion, a decrease of $216 million from the 2004 enacted level of negative $805 million. Negative spending levels in this function are relatively commonplace because credit programs and the fee-funded programs in the function often receive more in collections than they spend.

Significant programmatic differences between the 2005 budget and the 2004 enacted level include changes in patent and trademark fees, and a funding increase for census program improvements.

- ***Increases Patent and Trademark Office Operating Budget and Restructures Fees* —** The budget includes $1.5 billion for Patent and Trademark Office (PTO) operations, an increase of $311 million (25.5 percent) above the 2004 enacted level. The budget repeats a plan rejected by Congress from previous budgets for the PTO to charge higher fees for its services and invest all fee collections in improvements to the quality and efficiency of its services.

- ***Provides Funding for Improvements to Decennial Census* —** The budget increases funding for periodic economic and demographic censuses and related activities to $608 million, which is $177 million, or 41.1 percent, above the 2004 enacted level. The Bureau of the Census will use the increase for improvements to the design of the 2010 census and full implementation of the American Community Survey, which will provide long-form data on an ongoing basis rather than once a decade.

- ***Terminates the Advanced Technology Program* —** The budget ends the Advanced Technology Program, which provides assistance to U.S. businesses and joint ventures to improve their competitive position. The goal of the program is to accelerate the commercialization of technology that is risky to develop but promises significant national economic benefits. This program received $177 million in 2004.

- ***Maintains Steep Reduction in Federal Support of the Manufacturing Extension Partnership* —** The budget provides $39 million for the Manufacturing Extension Partnership, the same as the 2004 enacted level. The 2004 level, however, represented a steep cut in federal support for the program. In 2003, the program received $106 million. The program provides information and consulting services to help small businesses adopt advanced manufacturing technologies and business practices that will help them compete in a global market. The Administration in January released a comprehensive strategy for boosting the American manufacturing sector, citing its support of a "newly coordinated Manufacturing Extension Partnership" as part of that strategy.

- ***Provides a Nearly 22 Percent Increase for Scientific and Technical Research and Services* —** The budget provides $414 million for activities such as research and setting standards in electronics, manufacturing engineering, chemical science, and other technical fields. This funding is $74 million, or 21.8 percent, above the 2004 enacted level. Other activities funded under this heading include building and fire research.

- ***Increases Small Business Loans but Zeroes Out Microloans* —** The budget requests funding for Section 7(a) general business loans that will result in a loan volume of $12.5 billion, a $3.0 billion increase from the estimated 2004 loan level. The budget provides no resources for microloans and states that these borrowers can be served at lower cost through the 7(a) program.

- ***Gives the Securities and Exchange Commission (SEC) a Ten Percent Increase* —** The President's budget provides $893 million for the SEC, an increase of $81 million, or 10.0 percent, above the 2004 level.

- ***Provides New Mortgage Programs to Reduce Barriers to Homeownership* —** The budget includes two new products through the Federal Housing Administration (FHA) mortgage program. One allows first-time buyers with strong credit records to make a zero downpayment and finance their closing costs. The other program, for buyers with limited or weak credit histories, initially charges a higher insurance premium but reduces the borrower's premiums once the borrower establishes a history of regular payments and demonstrates creditworthiness. The budget maintains FHA's Mutual Mortgage Insurance guaranteed loan volume at the 2004 level of $185 billion.

- ***Cuts Department of Agriculture Rural Housing Direct Loans* —** The funding level in the budget for rural housing direct loans will support a loan volume of $1.1 billion for the Section 502 single-family housing direct loan program, a reduction of $251 million (18.6 percent) from the 2004 level. The budget also reduces the loan volume for Section 515 multi-family housing from $116 million in 2004 to $60 million in 2005, a 48.3 percent reduction.

Mandatory Programs

- ***Federal Deposit Insurance Programs Merged* —** The budget merges two insurance fund programs, the Bank Insurance Fund and the Savings Association Insurance Fund, which offer an identical product. The budget anticipates that merging these funds will reduce the need for insured financial institutions to increase their premium payments in the near term. This policy reduces collections by $1.2 billion through 2009.

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. This function also includes two components of the new Department of Homeland Security: the Coast Guard and the Transportation Security Administration (TSA). The function also includes several small transportation-related agencies and the research program for civilian aviation at the National Aeronautics and Space Administration.

Budget Summary

For 2005, the President's budget provides $67.5 billion in appropriated budgetary resources (budget authority plus obligation limitations).[7] While this amount is $885 million (1.3 percent) above the 2004 enacted level, it is $233 million lower than what CBO estimates is required to maintain purchasing power at the 2004 level. Most of the increase over the 2004 level is attributable to additional funding for highway traffic safety grants and higher spending on the Grants-In-Aid for Airports (AIP) program.

Budget Details

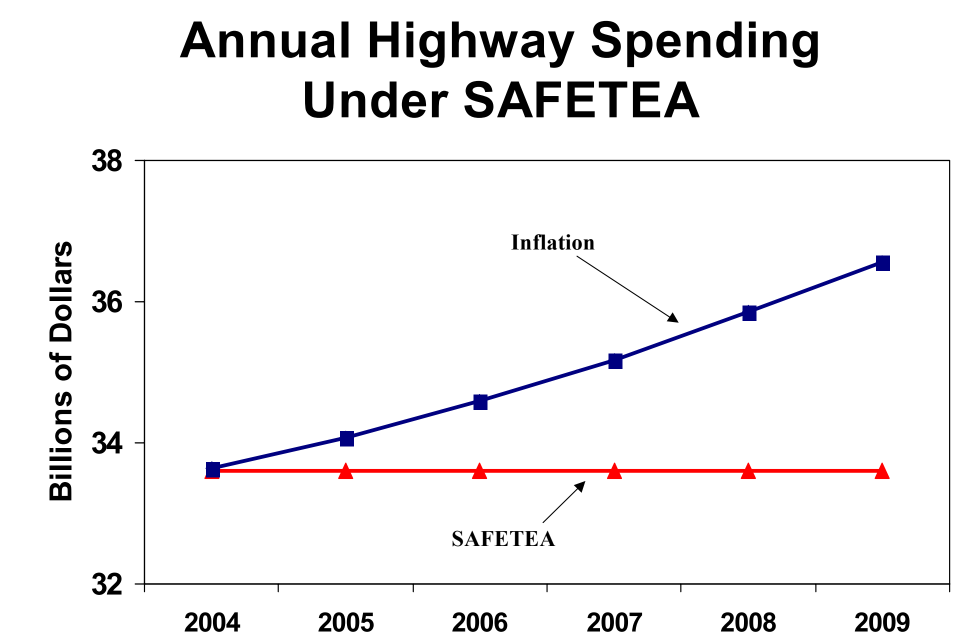
- ***Surface Transportation Reauthorization*** — Last year, the President unveiled his surface transportation reauthorization program, dubbed the Safe, Accountable, Flexible, and Efficient Transportation Equity Act of 2003 (SAFETEA), that provided $247 billion for highway and transit investment over a six-year reauthorization cycle. The President's 2005 budget provides a slight increase to his original SAFETEA proposal, which now totals $256 billion over a six-year period, or $38 billion over the amount authorized under Transportation Equity Act for the 21st Century (TEA-21). However, it is noteworthy that the House Transportation and Infrastructure Committee supports a six-year reauthorization of $375 billion — a difference of $119 billion. TEA-21, initially set to expire on September 30, 2003, received a five-month extension last session until February 29, 2004.

  It is also important to note that while the Administration claims to be increasing overall investment in our nation's transportation infrastructure over the life of the reauthorization, the program levels are flatlined from 2005-2009, thereby providing no yearly increases in highway or transit funding levels after 2005.

- ***Budget Once Again Provides Minimal Support for our Nation's Highways*** — The Presidents budget provides 2005 federal-aid highway budget authority of $33.3 billion, a cut of nearly $300 million from the 2004 enacted level of $33.6 billion. There is zero

[7] 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.

growth in the 2005 obligation limitation over the 2004 enacted level. This follows proposed cuts by the President of $2.3 billion in 2004 and $8.6 billion in 2003. Congress has consistently rejected the President's calls for large cuts and inadequate increases in highway spending.

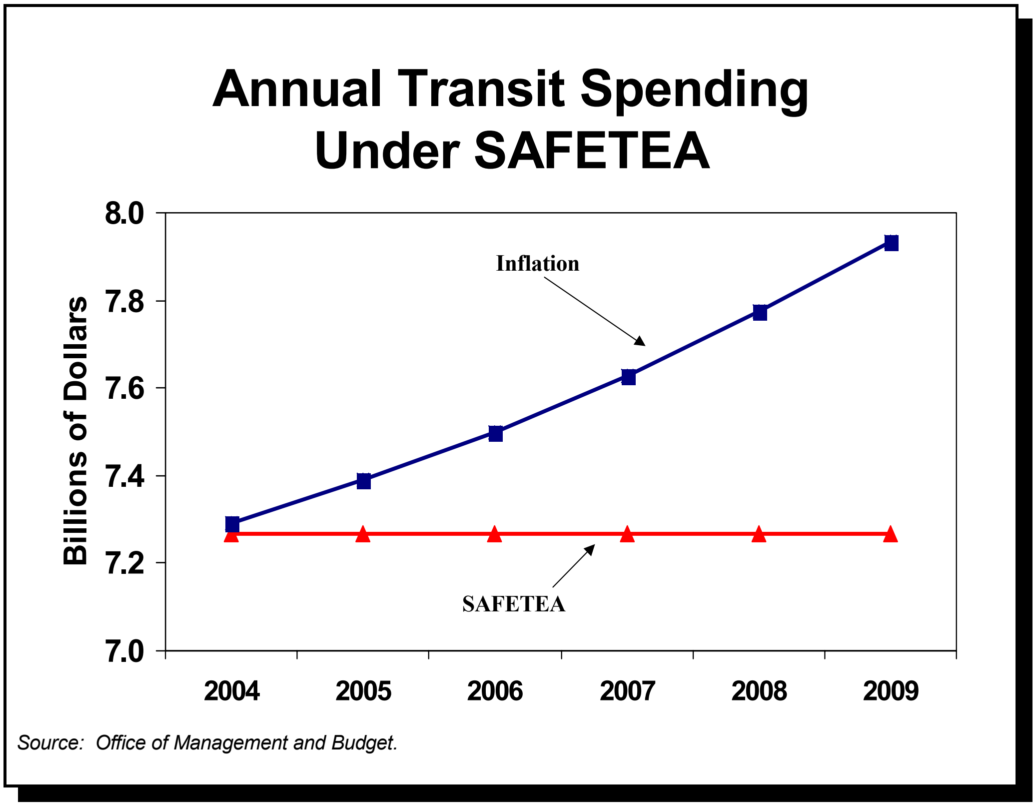


Source: Office of Management and Budget.

While the President claims to increase the overall transportation investment over the TEA-21 level, SAFETEA does not maintain purchasing power from 2005-2009, an effective cut in funding over the life of the reauthorization. While the rhetoric claims there is an overall increase in funding, in reality SAFETEA provides $6.1 billion below what CBO estimates is needed to maintain purchasing power during that period.

- ***Budget Shows Lack of Commitment to Mass Transit Needs*** — The President's 2005 request for the Federal Transit Administration (FTA) is $7.3 billion, the same as the 2004 enacted level. The demand for mass transit has seen dramatic increases in recent years and the lack of a federal funding commitment undermines the ability to satisfy the public's rising demand.

As with highways, transit funding is also flatlined from 2005-2009, resulting in an effective cut in funding. SAFETEA funds transit at $1.6 billion below what CBO



estimates is needed to maintain purchasing power from 2005-2009. It is also important to note that while SAFETEA guarantees $35.6 billion in transit funding, this is actually approximately $600 million less than the guaranteed amount for transit programs during TEA-21.

- ***Additional Receipts for Highway Trust Fund*** — The President's budget deposits an additional 2.5 cents per gallon of the excise tax on gasohol (ethanol-based gasoline) into the Highway Trust Fund. Under current law, that 2.5 cents per gallon is deposited into the General Fund. In contrast, all of the excise tax on gasoline (18.3 cents per gallon) is deposited into the Highway Trust Fund.[8] The Administration estimates that this change, which would apply to collections after September 30, 2003, will increase trust fund receipts by $2.7 billion from 2005-2009.

  Last year, Congress considered several proposals to significantly boost the use of gasohol. Because of the lower rate of taxation for gasohol, these proposals raised concerns that receipts deposited into the Highway Trust Fund would be adversely affected. Lower receipts would then translate into less federal aid for highway construction and maintenance. The President's proposal is one way to address those concerns.

  The President also proposes three additional measures that impact the Highway Trust Fund. Two are aimed at reducing fuel tax evasion: 1) imposing additional registration requirements on the transfer of tax-exempt fuel, and 2) repealing the quarterly installment

[8]For both types of fuel, an additional 0.1 cent per gallon of excise tax is deposited in the Leaking Underground Storage Tank Trust Fund.

method of tax payment for owners of heavy highway vehicles. Combined, these proposals are estimated to generate $599 million from 2005-2009. The third proposal would allow for $15 billion in tax-exempt financing for private highway projects and rail-truck transfer facilities by state and local governments. This would reduce Highway Trust Fund receipts by $337 million from 2005-2009.

- ***Privatization of Amtrak and Another Funding Cut*** — The Administration continues to press for the privatization of Amtrak, believing that the current system is too inefficient to be a viable mode of transportation. As part of the proposed reform, states would bear a much larger responsibility, and attendant financial burden, for maintaining and operating the passenger rail system. For 2005, the budget provides $900 million in grant funding for Amtrak, subject to review by the Department of Transportation. This is $318 million below the 2004 level. However, $1.4 billion would be made available annually for the intercity passenger rail system beginning in 2006 if the President's requested reforms were adopted.

Federal Grants to Amtrak
(budget authority in millions)

	2002	**2003**	**2004**	**2005**
President's Request	$521	$521	$900	$900
Amtrak Request	$521	$1,200	$1,812	$1,700 (est.)[9]
Enacted	**$831***	**$1,043**	**$1,218**	**--**

**includes $310 million in supplemental appropriations.*

- ***Funding Cuts for the Essential Air Service (EAS) and Small Community Air Service Programs*** — The President's 2005 budget cuts funding 50 percent for the EAS program by establishing a $50 million cap. The EAS program provides financial assistance to rural communities geographically isolated from hub airports so that they may operate smaller airports. The proposal would also create three categories of communities based on distance to a hub airport and establish cost-sharing criteria.

  In addition, the President does not include any funds for the Small Community Air Service Program, which helps communities that suffer from infrequent service and high air fares. Congress authorized $35 million per year for this program as part of last year's Federal Aviation Administration (FAA) reauthorization bill (although only $20 million was provided in 2004 funding).

- ***Transportation Security Agency (TSA)*** — The budget includes $5.3 billion for TSA, now part of the Department of Homeland Security. This amount is $892 million

[9] This is the amount Amtrak included in its *5-Year Plan*, released in Spring 2003. Amtrak will have available its FY05 request on or before February 10, 2004.

(20.2 percent) more than what was enacted in 2004.[10] This is primarily the result of increased spending on airport security and screening operations. In addition, air cargo screening is flat funded for 2005 at $85 million.

- ***Coast Guard*** — The President's budget provides $7.5 billion for the Coast Guard, now part of the Department of Homeland Security. Of this amount, $6.3 billion is appropriated funding and $1.2 billion is for mandatory spending, which consists mostly of retirement pay. The 2005 budget provides appropriated funding that is $235 million (3.9 percent) higher than the level required to maintain purchasing power at the 2004 level and $470 million (8.1 percent) higher than the 2004 enacted level of appropriations. As was the case with last year's budget, the funding increase is attributable to the Coast Guard's expanded role in homeland security.

- ***Port Security Grants*** — These grants were authorized as part of the port and maritime security legislation passed by the Congress and signed into law in November 2002. The budget includes up to $46 million for grants to port authorities for security upgrades — $79 million (63.2 percent) less than the $125 million enacted for 2004. Port security grants from the Department of Homeland Security provide funds for port agencies to install the fencing, surveillance technologies, and other measures needed to prevent terrorists from gaining access to docks and other port facilities. The Coast Guard reports needs in this area totaling $4.4 billion over ten years.

- ***Maritime Administration*** — As witnessed in the last three years, 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. Congress ignored the President's request and provided $25 million for the program in 2004. For 2005, the President's budget provides $4.8 million, enough to cover only the cost of administering pre-existing loan guarantees.

[10] Some estimates show that 2005 funding is only $719 million above the 2004 level. This discrepancy exists because the Department of Homeland Security transferred $173 million in 2004 appropriations for port security, transit, and Operation Safe Commerce from TSA to the Office of Domestic Preparedness. Without accounting for this transaction, the 2004 level increases from $4.4 billion to $4.6 billion.

Function 450: Community and Regional Development

Federal support for community and regional development helps promote growth in economically distressed urban and rural communities and provides assistance to states and localities in times of crisis. Major agencies and programs included in this function are the Empowerment Zones, Community Development Block Grants, the Economic Development Administration, the Appalachian Regional Commission, rural development programs in the Department of Agriculture, the Bureau of Indian Affairs, and the Small Business Administration's disaster loan program. The President's budget also includes in the function the Homeland Security Department's Emergency Preparedness and Response initiative (which combines operations previously performed under the Federal Emergency and Management Agency with the Administration's Office of Domestic Preparedness) and the Disaster Relief Fund.

The President's budget includes $13.2 billion in discretionary appropriations for the Community and Regional Development function for 2005, a $2.3 billion (15.1 percent) decrease below the 2004 enacted level, and a $2.5 billion (16.2 percent) decrease below the amount needed to maintain purchasing power at the 2004 level. Following is an overview of the President's treatment of several programs in this function. (See section on Department of Homeland Security for details on emergency preparedness and response and disaster relief programs)

- ***Community Development Block Grant (CDBG) Program Cut*** — Community Development Block Grants provide funds for programs and activities that promote economic development in low- and moderate-income communities. The President's budget provides $4.6 billion for CDBGs, a $317 million (6.9 percent) cut below the 2004 enacted level, and a $371 million (7.4 percent) cut below the amount needed to maintain purchasing power at the 2004 level.

- ***Community Development Financial Institutions (CDFI) Fund Cut*** — The CDFI program provides grants, loans, and other assistance to promote investment in economically distressed areas. The budget provides $48 million for CDFI, a $14 million (22.6 percent) cut below the amount needed to maintain purchasing power at the 2003 level.

- ***Rural Community Advancement Cut*** — The Rural Community Advancement (RCA) program provides grants, loans, and loan guarantees to stimulate economic growth and build facilities in rural communities. The budget provides $542 million for the Rural Community Advancement program, a $183 million (25.2 percent) cut below the 2004 enacted level, and a $191 million (26.1 percent) cut below the amount needed to maintain purchasing power at the 2003 level.

- ***Empowerment Zones Eliminated*** — Empowerment Zones target funds to revitalize economically distressed urban and rural communities and attract private investment in those communities. The budget eliminates funds for urban and rural empowerment zones. Empowerment zones also have tax incentives which the budget will not repeal. To maintain purchasing power at the 2004 level, urban empowerment zones would require $15 million and rural empowerment zones would require $13 million.

- ***Brownfields Redevelopment Program Eliminated* —** The Brownfields Redevelopment Program provides competitive economic development grants under the Department of Housing and Urban Development for brownfield projects. The budget eliminates funding for the program, which would require $25 million to be funded at the 2004 level.

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

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

The President's budget for 2005 provides $80.4 billion in discretionary funding for programs in this function, $1.6 billion (2.0 percent) above the amount CBO estimates is needed to maintain purchasing power for these programs at the 2004 level.

Education

The budget provides $57.3 billion for the Department of Education, an increase of $1.7 billion (3.0 percent) over the 2004 enacted program level and of $1.2 billion (2.2 percent) above the amount that CBO estimates is needed to maintain purchasing power at the 2004 level. The 2004 budget continues the theme in the President's previous budgets by eliminating 38 education programs funded at $1.4 billion for 2004, cutting several other programs and freezing many programs at the 2004 enacted level, and increasing funding for just a few.

Education Cuts and Increases: 2004 Enacted v. 2005
(Dollars in Millions)

	Cut	Increase
NCLB	-1,193	1,641
IDEA state grants	0	1,000
Other El. Sec.	-32	22
Vocational & Adult	-316	0
Postsecondary	-306	882
Other	-148	125
Total	*-1,994*	*3,671*
Net ED Increase		**1,677**

To fund increases in a few programs — primarily $1.0 billion each to special education and education for the disadvantaged — the budget cuts other education programs by almost $2.0 billion from the 2004 enacted levels. Elementary and secondary education programs funded under the "No Child Left Behind" Act (NCLB), except for Title I, bear the brunt of the cut, losing $1.2 billion; the budget cuts higher education programs by $306 million, and vocational and adult education programs by $316 million.

- ***"No Child Left Behind" Act Is $9.4 Billion Below Authorized Level*** — The budget provides $24.9 billion for programs funded under NCLB, which is $9.4 billion below the amount Congress authorized for 2005 even though it is an increase of $448 million (1.8 percent) over the 2004 enacted level.

The total for NCLB includes funding for Impact Aid (frozen at the 2004 enacted level), teacher quality improvement grants (frozen), after-school programs (frozen), comprehensive school reform (eliminated), Title I (increased $1 billion), and other programs to improve student achievement.

Leaving Children Behind
(Dollars in Billions)

	2005 Authorization	*2005 Budget*	*Amount Below Authorization*	*Children Not Served*
Title I	20.5	13.3	7.2	2.4 million
After-School Programs	2.0	1.0	1.0	1.3 million
Special Education	21.7	11.1	10.7	n.a.

Note: 2005 Funding for Title I and after-school programs is explicitly authorized in NCLB. The authorization for special education is 40 percent of the average cost of educating each student with disabilities, often referred to as "full funding."

- ***Cuts Major Education Programs*** — The budget cuts several programs below the 2004 enacted level and even farther below the amount needed to maintain purchasing power at the 2004 level, including the following:

  - ***Reading programs*** receive $1.4 billion, which is $8 million below the 2004 enacted level. The President touts a new $100 million reading program for high school students and a $139 million increase for Reading First, but the budget eliminates the $247 million Even Start family literacy program to pay for these increases;
  - ***Vocational Education*** receives $1.0 billion in a new block grant, a cut of $316 million (23.8 percent) from the 2004 enacted level. This cut occurs despite the President's emphasis on a "Jobs for the 21st Century" initiative to ensure that all students are ready to succeed in the workforce and in postsecondary education;
  - ***Education Technology*** programs receive $692 million, which is a cut of $40 million below the 2004 enacted level, and a cut of $48 million (6.5 percent) below the amount needed to maintain purchasing power at the 2004 level;
  - ***Fund for the Improvement of Education*** receives $45 million, a cut of $235 million below the 2004 enacted level, and of $239 million (84.0 percent) below the amount needed to maintain purchasing power at the 2004 level; and
  - ***Perkins Loans*** receive $67 million, $99 million below the 2004 enacted level and $101 million (60.3 percent) below the amount needed to maintain purchasing power at the 2004 level. The budget eliminates the Perkins Loans capital contributions program and freezes the other campus-based aid programs at the 2004 enacted level.

- ***Increases Special Education*** — The budget provides $11.1 billion for the Individuals with Disabilities Education Act (IDEA) Part B grants to states, an increase of $1.0 billion over the 2004 enacted program level. However, the 2005 funding puts the federal contribution at only 19.7 percent of the national average per pupil expenditure, still less than half the 40 percent "full funding" federal contribution ceiling authorized by IDEA. At this rate of increase, the program will never reach full funding.

Education Freezes

The budget freezes many programs at the 2004 enacted level, including:

- **Impact Aid**
- **rural education**
- **magnet schools**
- **adult education**
- **TRIO**
- **GEAR-UP**
- **21st Century after-school programs**

- ***Eliminates 38 Education Programs*** — The President's 2005 budget eliminates 38 programs that receive a total of $1.4 billion for 2004 (the complete list is on the next page). The President's prior two budgets also proposed to eliminate most of these programs, but this year's budget adds the Even Start family literacy program to the list of eliminated programs.

- ***Freezes Maximum Pell Grant*** — Although the budget increases funding for the Pell Grant program by $856 million, it freezes the maximum Pell Grant at $4,050 and, due to increased eligibility rates, results in a lower average award of $2,399. This is the third straight year with a frozen maximum award and a cut in the average award, even though college costs have risen dramatically. The Pell Grant funding includes $33 million for enhanced grants of up to $1,000 to 36,000 students who complete the State Scholars curriculum, offered in high schools in 14 states. Due to the rising number of Pell recipients, the program will carry a shortfall of $3.7 billion into next year.

- ***Scattered Funding Increases*** — The budget increases funding for only a few programs, including:

  - ***Title I*** grants to Local Educational Agencies (LEAs) receive $13.3 billion. Even though this is a $1.0 billion increase over the 2004 enacted program level, it is still $7.2 billion below the level that NCLB authorizes for 2005. The President's budget allows Title I to serve 2.4 million students fewer than intended under NCLB;
  - ***Teacher Quality*** improvement programs receive $3.5 billion, an increase of $67 million (1.9 percent) over the 2004 enacted level;
  - ***School Choice and Voucher*** programs receive a total of $77 million. This is $50 million above the 2004 enacted level, all of which funds a new program to provide vouchers for some students to attend private or public schools;
  - ***Charter Schools*** programs receive $319 million, $63 million above the 2004 enacted level; and
  - ***Aid to Higher Education Institutions*** increases to $419 million, an increase of $19 million (4.7 percent) over the 2004 enacted level. Of the increase, $18 million is for Historically Black Colleges and Universities, which receives $241 million.

38 Education Programs Eliminated in the President's 2005 Budget (Dollars in Millions, 2004 Enacted Level)			
Program	***2004 $***	***Program***	***2004 $***
Improving Teacher Quality:		Higher Education:	
National Writing Project	17.9	Perkins Loans Capital Contribution	98.8
School Leadership	12.3	Leveraging Ed. Assist. Partnerships	66.2
Ready To Teach	14.3	Demos for students w/ disabilities	6.9
Eisenhower Math/Science Consortia	14.8	Underground Railroad Program	2.2
Eisenhower National Clearinghouse	4.9	B.J. Stupak Olympic Scholarships	1.0
Vocational Education:		Rehabilitation Services:	
Tech-Prep Ed. Grants	106.7	Supported Employment Grants	37.7
Vocational Ed. Natl. Programs	11.9	Projects With Industry	21.8
Occupational & Employment Info	9.4	Recreational Programs	2.6
Tech-Prep Demonstration	4.9	Migrant & Seasonal Farmworkers	2.3
Comprehensive School Reform	233.6	Even Start	246.9
Adult Education:		Education Technology:	
Grants for Incarcerated Offenders	19.9	Community Technology Centers	9.9
Literacy Programs for Prisoners	5.0	Star Schools	20.4
		Regional Tech. in Ed. Consortia	9.9
Smaller Learning Communities	174.0	Parental Info. and Resource Centers	42.0
Regional Education Laboratories	66.7	Alcohol Abuse Reduction	29.8
Elementary/Secondary Counseling	33.8	Foreign Language Assistance	16.5
Arts in Education	35.1	Javits Gifted & Talented Education	11.1
Exchanges with Historic Partners	8.5	Dropout Prevention	5.0
Women's Educational Equity	3.0	Close-Up Fellowships	1.5
Excellence in Economic Education	1.5		
Total Programs Eliminated = $1.4 billion for 2004			

- ***Education Tax Credits*** — The budget extends and expands a prior tax credit to allow teachers to deduct up to $400 of certain out-of-pocket classroom expenses, costing $229 million in 2005 and $1.2 billion over 2005-2009. The budget also permanently extends certain education incentives scheduled to expire in 2010.

- ***Other Mandatory Spending Changes to Student Loan Programs*** — The President's budget makes additional changes to the Department of Education's student loan programs related to the upcoming reauthorization of the Higher Education Act. The net result of the changes is budget savings of $2.3 billion over ten years (2005-2014), compared with OMB's estimate of current law.

The net savings result from a mix of changes that affect student loan rates and lender fees, including the following changes that cost money:
1) expanding the current tax credit for teachers who work for five years in high-poverty schools to allow qualifying science, math, and special education teachers to have up to $17,500 of their student loans forgiven. This expansion costs $763 million over ten years;
2) retaining the current variable interest rate formula for Stafford loans that is scheduled to become fixed in 2006, at a cost of $1.8 billion over ten years;
3) allowing first-year college students to obtain up to $3,000 in loans — up from the current limit of $2,625 — at a cost of $775 million over ten years;
4) standardizing the terms under which students make extended loan repayments under the Direct Loan, Federal Family Education Loan (FFEL), and FFEL consolidated loan programs, at a cost of $1.0 billion over ten years; and
5) providing additional funding for unspecified student benefits, at a cost of $3.1 billion over ten years.

The following changes save money:
1) eliminating the rollover of loans funded with the proceeds of tax-exempt securities issued before 1993, which receive a higher government subsidy than do other loans, which saves $4.9 billion over ten years; and
2) requiring guaranty agencies to collect a one-percent insurance premium from students beginning this year, which saves $4.0 billion over ten years.

Employment and Training

The budget essentially freezes funding for training and employment programs at $5.9 billion. Within that total, the budget cuts several existing programs but creates several new ones.

- *Adult Training and Dislocated Workers* — The budget increases funding for adult employment and training programs by $149 million (4.8 percent), to a total of $3.3 billion, but cuts funding by $151 million for current adult training and dislocated worker programs. The budget block-grants four programs (adult training, dislocated worker activities, employment service state grants, and grants to states for reemployment services) and cuts their funding by $151 million, to $3.0 billion. It eliminates the Denali Commission and the migrant and seasonal farmworker program, and rescinds $100 million in unobligated balances for the H-1B technical skill training grants. The budget includes funding for two new programs: $250 million for a community college initiative to train workers, and $50 million for personal reemployment accounts to provide certain unemployed individuals with up to $3,000 to purchase training or services they need to find a job.

Training Programs Cut in 2005
(Dollars in Millions)

	Cut
Consolidated Adult/Dislocated Worker/Employment Service	151
H-1B training funds	100
Migrant/Seasonal Farmworkers	77
Pilots, demos, research	28
Denali Commission	5

- ***Youth Programs Essentially Frozen*** — The budget provides $2.6 billion for youth activities, a $26 million (1.0 percent) increase over the 2004 enacted level. A new Youth Grants program, funded at $1.0 billion, receives $6 million of the increase. This program replaces Youth Opportunity Grants as well as other youth programs. Job Corps receives the remaining $20 million (1.3 percent) increase, with a budget of $1.6 billion.

Social Services

The budget provides $12.1 billion for social services programs for 2005, which is $448 million (3.8 percent) above the amount CBO estimates is needed to maintain purchasing power at the 2004 level.

- ***Freezes Head Start Enrollment*** — The budget includes $6.9 billion for Head Start, which is $98 million (1.4 percent) above the amount needed to maintain purchasing power at the 2004 level and $169 million over the 2004 enacted level. The Administration plans to freeze Head Start enrollment at the 2004 level of 919,000 children; based on 2002 data, that provides services for only 13.5 percent of the 6.8 million eligible children. The funding increase includes $45 million for nine state pilot programs to coordinate state preschool programs, federal child care grants, and Head Start dollars into one system of early childhood programs, similar to the plan in the House-passed reauthorization of Head Start.

- ***Freezes Social Services Block Grant (Title XX)*** — The budget keeps funding for the Social Services Block Grant at $1.7 billion, which has been frozen at that level since 2003. This grant provides states with broad discretion to use these funds for social services such as child care, child welfare, home-based services, employment services, adult protective services, prevention and intervention programs, and special services for the disabled.

- ***Increases National Service*** — The budget includes $1.0 billion for the Corporation for National and Community Service, an increase of $75 million (8.0 percent) above the amount needed to maintain purchasing power at the 2004 level. This total includes $442 million to fund 75,000 volunteers in AmeriCorps, and $225 million for Senior Corps.

Cultural Agencies

- ***Increases Funding for National Endowments*** — The President's budget provides significant increases for both the National Endowment for the Arts (NEA) and the National Endowment for the Humanities (NEH). The budget includes $139 million for the NEA, an increase of $18 million over the 2004 enacted level, in part to fund a new American Masterpieces initiative. It provides $162 million for the NEH, which is $27 million over the 2004 enacted level.

- ***Corporation for Public Broadcasting*** — By custom, the Corporation for Public Broadcasting receives an appropriation two years in advance. Congress in 2003 enacted $390 million in appropriations for 2005. The President's 2005 budget ends the practice of such "advance appropriations" and does not include new funding for 2007.

Function 550: Health

In Function 550 (Health), appropriated programs include most direct health care services programs. Other health programs in the function fund anti-bioterrorism activities and national biomedical research, protect the health of the general population and workers in their places of employment, provide health services for under-served populations, and promote training for the health care workforce. The major mandatory programs in this function are Medicaid, the State Children's Health Insurance Program (SCHIP), and Tricare-for-Life (health care for Medicare-eligible military retirees).

Overview

- ***Overall Appropriated Levels*** — The President's budget provides $53.2 billion for appropriated programs in Function 550 (Health) for 2005, an increase of $1.3 billion above the 2004 enacted level, but a cut of $1.0 billion from the amount CBO estimates is needed to maintain purchasing power at the 2004 level.

  However, due to the BioShield program, the budget's level for 2005 is not the best representation of actual spending. BioShield receives four years worth of funding in 2005. Therefore, excluding BioShield from the spending totals provides a better base of comparison. When BioShield is excluded, the budget provides $50.7 billion, a cut of $298 million (0.6 percent) from 2004, and a cut of $1.0 billion (2.0 percent) from the amount CBO estimates is needed to maintain purchasing power at the 2004 level.

  Over the five-year period of 2005 to 2009, the budget provides $14.6 billion less than the amount CBO estimates is needed to maintain purchasing power at the 2004 level - providing only an average annual growth rate of 0.13 percent.

- ***Overall Mandatory Increase*** — Over five years (2005-2009), the budget increases mandatory spending by $17.5 billion relative to current law. This change is primarily due to an increase in spending to pay for the refundable portion of a new health insurance tax credit, which is somewhat offset by Medicaid program integrity proposals.

Medicaid and State Children's Health Insurance Program

- ***Cuts Medicaid Spending Via Program Integrity Initiatives*** — Two program integrity initiatives result in a $9.6 billion decrease in Medicaid spending over five years and a $23.6 billion decrease over ten years. The first policy places limits on intergovernmental transfers (IGTs). The second policy addresses Medicaid payments to state and local government health care providers. Currently, states may make excessive payments to individual government providers above the cost of providing care for the purpose of obtaining more federal matching dollars. This policy limits federal reimbursement for care provided by state and local government health care providers to the actual cost of the care.

- ***Expresses Support for Medicaid Block Grant* —** Last year's budget block-granted Medicaid and the State Children's Health Insurance Program (SCHIP) at state option. The rhetoric in this year's budget documents supports the block grant proposal, but the specific proposal is not included in the President's request. The Administration is not willing to walk away from this proposal, but neither is it willing to aggressively push for it.

Summary of Medicaid Proposals

	Five Year Cost
Program Integrity	-$9,649 million
Medicaid Block Grant	Detailed proposal not included
Options for People with Disabilities	$858 million
Transitional Medicaid Assistance	$3,240 million
Vaccines for Children	$810 million
QI Program	$136 million
Interactions with Supplemental Security Income and Child Support Enforcement	-$155 million
Total, Medicaid Proposals	**-$4,760 million**

- ***Creates Options for People with Disabilities*** — The budget includes $858 million over five years to promote work incentives and home and community-based care options for people with disabilities.

- ***Extends Transitional Medicaid Assistance*** — The budget reforms and extends Transitional Medicaid Assistance for five years, at a five-year cost of $3.2 billion.

- ***Modifies Vaccines for Children Program*** — The Vaccines for Children (VFC) is administered by the Centers for Disease Control and Prevention and funded by Medicaid. The budget provides $810 million over five years in Medicaid to restore tetanus and diphtheria vaccines to the VFC program and allow under-insured children (those whose private insurance does not cover vaccinations) to receive VFC-administered inoculations at state and local health departments. (See Childhood Immunizations discussion below.)

- ***Extends Assistance with Medicare Premiums for Qualified Individuals*** — Under the Qualified Individuals program (QI), Medicaid pays the Medicare Part B premiums for certain low-income Medicare beneficiaries. The budget extends this program through 2005, at a one year cost of $136 million.

- ***Interacts with Supplemental Security Income and Child Support Enforcement* —** The budget includes proposals for Supplemental Security Income (SSI) and Child Support Enforcement (CSE), both of which affect Medicaid spending. For further discussion of these proposals, see *Function 600 (Income Security)*.

- ***Cuts Medicaid to Pay for the Administrative Budget at the Centers for Medicare and Medicaid Services (CMS)*** — The budget includes two proposals that cut Medicaid spending by $380 million in 2005 in order to pay for CMS discretionary administrative costs. Specifically, the budget: (1) reduces federal reimbursement for Medicaid administrative costs to reflect the administrative costs shared by Medicaid and the Temporary Assistance for Needy Families program, a policy known as "cost allocation"; and (2) reduces the enhanced federal match for Medicaid information and claims management systems.

The Uninsured

The number of individuals lacking health insurance increased by 2.4 million from 2001, for a total of 43.6 million uninsured individuals in 2002. While the President touted in the State of the Union address a series of proposals to help the uninsured and address rising health care costs, the budget fails to include some of those policies, and uses gimmicks to pay for others, suggesting that the President's promises were rhetorical. Furthermore, the uninsured proposals advanced by the Administration will do little to decrease the ranks of the uninsured and may destabilize existing health insurance markets.

- ***Tax Credits for the Uninsured* —** The budget creates a refundable income tax credit for health insurance costs for those who do not have public or employer-provided health plans. The credit provides a subsidy for a percentage of the health insurance premium, up to a maximum credit of $1,000 per adult and $500 per child (for up to two children). A two-parent family with two or more children would be eligible for a maximum credit of $3,000. This policy costs cost $65.4 billion for the refundable portion of the credit and $4.7 billion in revenue losses, for an overall cost of $70.1 billion over ten years.

  However, the budget also includes a "contingent offset" of $65 billion to reduce spending over ten years, but is silent on what that offset might be. This mystery offset is gimmickry at its best, and raises doubts about the Administration's commitment to this proposal for the uninsured.

  The tax credits policy is flawed because it does not benefit older individuals and those in less than perfect health for whom buying insurance on the individual market is difficult. The policy may destabilize employer coverage if healthy individuals opt out of employer coverage, leaving a sicker and more expensive pool of workers in employer plans, and is estimated by outside analysts to only reduce the number of uninsured by 1.9 million.

- ***Association Health Plans* —** The President has promoted the idea of allowing small businesses to band together in Association Health Plans (AHPs) to buy health insurance coverage and negotiate insurance rates, while allowing them to sidestep state consumer protection laws. While the budget makes mention of this idea, it is not presented as a legislative proposal. CBO estimates that AHPs will only increase overall health insurance enrollment by 330,000 individuals. Furthermore, AHPs can "cherry-pick" small businesses with healthier employees, destabilizing the existing small group insurance market.

- ***Health Savings Accounts*** —The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 created Health Savings Accounts, which allow individuals who enroll in high-deductible health insurance plans to establish tax-advantaged savings accounts that could be used to pay for out of pocket medical expenses. The budget makes premiums for high-deductible policies associated with HSAs tax deductible at a cost to the Treasury of $24.8 billion over ten years. HSAs do little to help the uninsured, are of greatest benefit to individuals in higher tax brackets, and erode employer-provided health benefits by encouraging employers to increase deductibles and decrease coverage in exchange for a tax-preferred account to which the employer may not even contribute.

- ***Medical Malpractice* —** The President has repeatedly mentioned caps on medical malpractice awards as a solution to rising health care costs; however, the budget does not include a formal proposal nor does it include any savings.

Health Care for Military Retirees

- ***Tricare-for-Life***—The budget projects current law spending of $30.8 billion over five years (2005-2009) for military-retiree health care benefits.

Health Homeland Security Activities

- ***Overview of Appropriated Health Homeland Security Activities* —** Health homeland security activities are spread across the Departments of Health and Human Services, Homeland Security, Labor, and Agriculture. These activities include protection of the nation's food supply; preparation against potential bioterrorism attacks, including development and procurement of vaccines; research to develop countermeasures; and preparations for public health emergencies.
  The budget provides $6.8 billion for appropriated health homeland security activities in 2005, an increase of $1.8 billion over the 2004 enacted level. However, the budget's level for 2005 is not the best representation of actual spending because the 2005 amount includes four year's worth of funding for the BioShield program (2005 to 2008). Excluding BioShield from the spending totals provides a better method of comparison. When BioShield is excluded, the budget provides $4.3 billion, an increase of $138 million (3.3 percent) above the 2004 enacted level.

Summary of Appropriated Health Homeland Security Activities
(Dollars in Millions)

	2004 Enacted	2005 Budget	Budget +/- Enacted
Health and Human Services 1/			
Bioterrorism Activities in Bureau Budgets	1966	2121	+155
Public Health and Social Services Emergency Fund	2114	2125	+11
HHS Total	4081	4246	+165
Department of Homeland Security			
Public Health Activities	83	34	-49
BioShield	885	2528	+1643
DHS Total	968	2562	+1594
Department of Labor			
Occupational Safety and Health Administration	5	2	-3
Mine Safety and Health Administration	2	2	0
DOL Total	7	4	-3
Department of Agriculture			
Food Safety and Inspection Service	13	37	+24
Appropriated Health Homeland Security Activities (including BioShield)	5069	6849	+1780
Appropriated Health Homeland Security Activities (excluding BioShield)	4184	4321	+137

1/ HHS total reflects appropriated homeland security health activities. HHS also funds mandatory health homeland security activities ($14 million) and non-health homeland security activities ($15 million). Overall homeland security funding at HHS for 2005 is $4,276 million in 2005.

Other Appropriated Health Programs

- ***Slows Funding Growth at National Institutes of Health*** — After providing average annual growth of nearly 15 percent from 1998 to 2003, and a doubling of NIH's budget, the budget holds NIH funding to its lowest increase in years. The budget provides $28.6 billion for NIH, an increase of $711 million (2.6 percent) over the 2004 enacted level. However, the budget assumes a 2.1 percent cut in 2006, and average annual growth over the five year period of only 0.5 percent.

- ***Increases Food and Drug Administration (FDA)*** — The budget provides appropriations of $1.5 billion for FDA, an increase of $111 million (8.0 percent) over the 2004 level. FDA resources also include $350 million in user fees, providing a program level of $1.8 billion, an increase of $151 million (8.9 percent) over the 2004 program level. Key pieces of the FDA increase include a $65 million increase for activities that protect the nation's food supply, an $8 million increase to expand "Mad Cow Disease" prevention efforts, and a $28 million increase to consolidate FDA's headquarters into their new campus.

- ***Cuts Centers for Disease Control and Prevention (CDC)*** — The budget includes $4.2 billion for CDC, a cut of $410 million (8.9 percent) below the 2004 level. Part of the cut is explained by the transfer of $110 million from CDC to the Medicaid Vaccines for Children program. The CDC budget includes an increase of $81 million for several disease prevention initiatives. The budget also redirects $130 million of CDC's bioterrorism money to a new biosurveillance initiative to prepare against a potential bioterrorist attack. CDC's buildings and facilities are cut $179 million (69 percent) from the 2004 enacted level, with the budget providing $81 million for 2005.

- ***Boosts Food Safety and Inspection Service (FSIS)*** **—** For 2005, the budget provides FSIS with a program level of $952 million, a $66 million (7.5 percent) increase above the 2004 enacted level and a $37 million (4.0 percent) increase over the amount CBO estimates is needed to maintain purchasing power at the 2004 level. The 2005 level includes funding increases to train food inspectors as well as new funds to protect the food supply from "mad cow disease" and to improve the food safety infrastructure's ability to respond to biohazards, including upgrading laboratory capabilities. The FSIS budget counts user fees of $237 million, including $124 million in new fees that will be charged to industry for federal inspection overtime costs.

- ***Funds Childhood Immunizations*** **—** The budget provides $1.9 billion for 2005 for vaccines for children. Within this amount, the budget shifts $110 million from CDC to the Medicaid Vaccines for Children program (VFC). In addition to funding existing activities, this amount provides for changes in legislation that will expand the number of clinics that provide vaccines to under-insured children (those whose private insurance does not cover vaccinations) and restore tetanus and diphtheria vaccines to the VFC program. (See Medicaid discussion above.)

- ***Increases Substance Abuse and Mental Health Services Administration (SAMHSA) —*** The budget funds SAMHSA at $3.4 billion for 2005, an increase of $147 million (4.5 percent) above the amount CBO estimates is needed to maintain purchasing power at the 2004 level. This is a $184 million increase (5.7 percent) over the 2004 enacted level. The Administration doubles funding provided in 2004 for the drug treatment voucher program to $200 million and increases the Substance Abuse Prevention and Treatment Block Grant by $53 million over the 2004 enacted level.

- ***Raises Funding for Indian Health Service (IHS) —*** The budget funds IHS at a program level of $3.7 billion for 2005, an increase of $51 million (1.4 percent) above the 2004 enacted level, but essentially a freeze at the amount that CBO estimates is needed to maintain purchasing power at the 2004 level. Within this amount, Indian Health Services are increased $82 million (3.2 percent) over the 2004 enacted level, while Indian Health Facilities are cut $31 million (7.9 percent).

- ***Increases Ryan White AIDS Programs —*** For 2005, the budget funds Ryan White AIDS programs at $2.1 billion. This is an increase of $35 million (1.7 percent) above the 2004 enacted level.

- ***Freezes Title X Family Planning —*** The budget for Title X family planning programs is frozen at the 2004 level of $278 million.

- ***Freezes Maternal and Child Health (MCH) Block Grant —*** The budget freezes funding for the Maternal and Child Health Block Grant at the 2004 level of $739 million.

- ***Freezes Healthy Start —*** The budget funds Healthy Start at $98 million, a freeze at the 2004 enacted level. Healthy Start supports programs in high-risk communities to reduce low birth weight, inadequate prenatal care, and other factors contributing to infant mortality.

- ***Slashes Health Professions Training —*** The budget funds Health Professions Training Programs at $158 million, a $278 million (63.8 percent) cut from the 2004 enacted level.

- ***Cuts Community Access Program (CAP) —*** The budget cuts the Community Access Program by $94 million (90.4 percent), providing only $10 million for 2005. 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.

- ***Increases National Health Service Corps (NHSC) —*** For 2004, the budget provides $205 million for NHSC, a $35 million increase above the 2004 enacted level.

- ***Boosts Funds for Community Health Centers* —** For 2004, the budget funds community health centers at $1.8 billion, an increase of $218 million (13.5 percent) above the 2004 enacted level. These centers serve low-income and uninsured people and often rely on the National Health Service Corps for physicians to provide care to their patients and work with the Community Access Program providers to coordinate care for the uninsured.

- ***Slashes Rural Health Activities* —** The budget provides $30 million for rural health activities, a $78 million cut (72.2 percent) from the 2004 enacted level.

- ***Freezes Children's Hospital Graduate Medical Education (GME)*** — The budget freezes pediatric GME at $303 million.

- ***Occupational Safety and Health Administration (OSHA)* —** The budget funds OSHA at $462 million, an increase of $4 million (0.9 percent) over the 2004 enacted level, but a $7 million (1.5 percent) cut from the amount CBO estimates is needed to maintain purchasing power at the 2004 level.

- ***Mine Safety and Health Administration (MSHA)* —** For 2005, the budget provides $276 million, an increase of $8 million (3.0 percent) over the 2004 enacted level, but a $2 million (0.7 percent) cut from the amount CBO estimates is needed to maintain purchasing power at the 2004 level.

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. The 2005 budget includes new funding for the Medicare prescription drug benefit and its administrative costs, as well as funding for the other Medicare provisions in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (P.L. 108-173).

Appropriations

- ***Administration of Medicare*** — Medicare's administrative budget includes new funds to administer both the transitional drug benefit that will be in place just for 2004 and 2005, and the permanent prescription drug benefit that begins in 2006. The Medicare legislation appropriated $1.5 billion over the two-year period of 2004 and 2005 for administration of the drug benefit. In addition, the legislation authorized appropriations for the administration of the transitional drug assistance. The inclusion of administrative costs for the transitional drug benefit and the permanent Medicare drug benefit brings CMS' administrative budget to $5.3 billion in 2004.

  The task of comparing CMS's administrative resources from year to year is complicated by both the funding stream appropriated for administration of the new prescription drug benefit and differences in how CBO and OMB account for these funds. Excluding the cost of administering the prescription drug benefit, the budget provides $3.7 billion for 2005 for CMS's remaining administrative costs, a decrease of $535 million from the 2004 enacted level and a $700 million cut from the amount that OMB estimates is needed to maintain purchasing power at the 2004 level. Over five years, the amount that the budget provides for CMS administrative activities excluding administration of the prescription drug benefit is $4.0 billion less than what OMB estimates is needed to maintain purchasing power at the 2004 level.

- ***Medicare User Fees*** — The budget includes $205 million in new user fees for processing duplicate claims and filing provider appeals.

- ***Cutting Medicare to Pay for CMS's Administrative Budget*** — The budget includes two provisions that cut Medicare mandatory spending in order to pay for the administrative budget at the Centers for Medicare and Medicaid Services (CMS). First, the budget eliminates the 15-month durable medical equipment rental option by requiring that continuous rentals be converted to purchase after 13 months. Second, the budget reduces improper payments by allowing CMS to use the Administration for Children and Families' quarterly wage data base to determine when a beneficiary has employee health coverage that makes Medicare the secondary payer. Taken together, the two policies cut Medicare mandatory spending by $130 million in 2005.

Regulatory Policies

- ***Savings from Rehabilitation Hospital Regulation*** — The budget's projections of Medicare spending under current law assume that the Administration will promulgate a final regulation that cuts rehabilitation hospital payments by $20 million in 2004, $50 million in 2005, and $620 million over the period 2004 to 2009. While the budget does not provide details, it is likely that this regulation changes the requirements for hospitals to qualify as inpatient rehabilitation facilities, known as the "75 percent rule."

Medicare Prescription Drug, Improvement, and Modernization Act (MMA) of 2003

The MMA passed Congress on November 25, 2003, and was signed into law on December 8, 2003. MMA provides a voluntary prescription drug benefit for Medicare beneficiaries. It also increases payments to managed care plans, changes other Medicare provider payments, changes some Medicaid provisions, and creates health savings accounts (HSAs).

The Congressional Budget Office projected a ten-year direct spending cost of $395 billion for MMA. In late January 2004, the Administration finally released its cost estimate for MMA. Despite repeated assurances by Administration officials in the fall of 2003 that the legislation would cost no more than $400 billion, their projections actually show a cost of $534 billion over ten years.[11] This direct spending projection is $139 billion higher than CBO's estimate --- an increase of more than one-third --- and $134 billion above the promised cap of $400 billion.

Aside from the discrepancy in the direct spending estimates, there are also discrepancies between estimates provided by the Administration and Joint Committee on Taxation (JCT) for at least one of the revenue provisions in MMA. The Administration projects revenue losses of $16 billion over ten years for the new health savings accounts created in MMA, or $9 billion more than the JCT score for the same provision. Therefore, the difference between the Administration and the CBO/JCT estimates of MMA may be even larger than $139 billion when the cost of revenue provisions are included.

[11] See, e.g., Tommy G. Thompson, *Fox News Special Report with Brit Hume* (Nov. 24, 2003); Tom Scully, *The Medicare Bill: A Good Thing* (Letter to the Editor), New York Times (Nov. 20, 2003); Tom Scully, *The Right Prescription for Medicare* (Letter to the Editor), Chicago Tribune (Nov. 23, 2003).

Overall Deficit Effect of MMA:
Congressional versus Administration Estimates

	CBO/JCT	**HHS/Treasury**	**Difference**
Direct Spending	$395 billion	$534 billion	$139 billion
Revenue Provisions (deficit effect)			
Deficit effect of Health Savings Accounts	$6.7 billion	$16 billion[12]	$9.3 billion
Deficit effect of tax exclusion for employer subsidies	$17.8 billion	Not Available	Unknown
Deficit effect of indirect tax effects[13]	-$24.9	Not Available	Unknown
Deficit Effect of Revenue Provisions	-$0.5 billion	Not Available	Unknown
Overall Deficit Effect (Direct Spending and Revenue Provisions) of MMA	$395	Not Available	Unknown

With regard to the difference in the direct spending estimate, the Administration provided minimal explanation for the difference, but an analysis by CBO cites several causes of the discrepancy. In general, approximately $100 billion of the difference is attributable to estimates of the drug benefit, while $32 billion is attributable to private plan payments. The remainder is due to other, smaller provisions.

- ***The Administration Projects Higher Payments to Private Managed Care Plans*** — The Medicare legislation increases payments to private plans, now called Medicare Advantage (MA) plans, and also provides $10 billion for incentives to draw plans into the program. According to the Administration, these enticements to private plans will result in 32 percent of beneficiaries enrolling in managed care plans. CBO assumes that the increase in plan payments results in a lower participation rate of 9 percent.

[12] Ten-year revenue loss estimate provided by Secretary Snow, Hearing on President's Fiscal Year 2005 Budget, Committee on Ways and Means, February 11, 2004. For five year revenue loss estimate, see Fiscal Year 2005 Analytical Perspectives, p. 288.

[13] Indirect tax effects occur because JCT assumes that employers who save money on retiree drug coverage will pass along those savings as wages, which are then subject to income tax, resulting in increased revenue receipts.

The Administration's higher rate of participation in private plans results in greater costs because most private plans are overpaid relative to traditional fee-for-service Medicare. CBO is very straightforward about this fact, stating that:

"Both [HHS's and CBO's] estimates assume that many of the participants in MA [Medicare Advantage] plans are in areas where the ***payments to MA plans*** and beneficiaries (through premium rebates) ***would exceed what it would cost if those beneficiaries were in the fee-for-service sector*** [i.e., traditional Medicare]. ***Most of the additional participants in [the] Administration's estimate are in*** relatively low cost, low density ***areas where the payments to MA plans and beneficiaries would be substantially higher than the cost of those beneficiaries in the FFS [fee-for-service] section."***[14] [Emphasis added.]

Causes of Administration's Higher Estimate for MMA Direct Spending

Increased private plan payments	$32 billion
Higher participation in drug benefit	$16 billion
Higher per-capita drug costs	$16 billion
Greater spending on low-income subsidies	$47 billion
Medicaid interactions	$18 billion
Other prescription drug provisions	$3 billion
<u>Other provisions</u>	<u>$7 billion</u>
Total increase over CBO direct spending estimate	**$139 billion**

Source: CBO Letter to Chairman Nussle, 2/2/04

Higher participation in private plans at a higher cost accounts for $32 billion of the scoring discrepancy between HHS and CBO. Overall, private plans will receive $46 billion in new payments, according to the Administration.

- ***The Administration Assumes More Seniors Will Participate in the Drug Benefit*** — The Administration estimates that 94 percent of Medicare enrollees will participate in the drug benefit, whereas CBO assumes 87 percent of Medicare enrollees participate. CBO's participation number is lower because it excludes seniors who decline Medicare Part B, since those individuals have already turned down a benefit that is 75 percent subsidized. CBO also excludes beneficiaries who already have generous drug coverage via federal programs. The difference in participation assumptions accounts for $16 billion of the scoring discrepancy.

[14] Letter from Douglas Holtz-Eakin, Director of CBO, to Chairman Jim Nussle, House Budget Committee, Feb. 2, 2004.

- ***The Administration Assumes Each Senior Will Spend More on Prescription Drugs*** — The Administration estimates that per-capita drug costs are 4 percent higher than CBO's estimates throughout the 2006 to 2013 period. This constitutes $16 billion of the scoring difference.

- ***The Administration Estimates That More Individuals Will Receive Low-Income Subsidies*** — The prescription drug benefit provides assistance with premiums and cost-sharing for certain low-income individuals. The Administration's estimate of participation in the low-income subsidy is higher than CBO's estimate. CBO estimates lower participation based on current evidence that Medicare beneficiaries have a low participation rate in programs for which they are already eligible that offer cost-sharing assistance, such as Medicaid.

- ***The Administration Projects Higher Per Person Costs for the Low-Income Subsidy* —** HHS's actuaries estimate that the cost of the low-income subsidy per person will be 7 to 10 percent higher than CBO's estimates, although this difference shrinks to 4 percent by 2013. The combination of higher participation and higher per capita costs for the low-income subsidy contributes to $47 billion of the scoring discrepancy.

- ***The Administration Projects Lower Medicaid Savings* —** The prescription drug benefit lowers Medicaid costs because Medicare will begin paying the cost of prescription drugs for individuals eligible for both programs. CBO assumes there are more Medicaid drug costs under current law, so it estimates that shifting these costs to Medicare saves more money. This difference in assumptions accounts for $18 billion of the scoring discrepancy.

- ***Other Provisions Account for $10 billion in Scoring Differences* —** Smaller pieces of the drug benefit account for roughly $3 billion in scoring differences, while approximately $7 billion of the scoring discrepancy is due to small differences in other provisions throughout the bill.

Medicare Spending Trends

- ***Medicare Growing at Annual Rate of 6 Percent By 2009* —** The budget projects that Medicare net mandatory spending will be $289.6 billion in 2005 under current law.[15] Over five years (2005-2009), total spending grows an average of 9.4 percent annually. This average annual growth rate is higher than in past projections because implementation of the prescription drug benefit results in a large increase in 2006, pulling up the average for the five-year period. By 2009, the annual growth rate declines to 6.2 percent. The budget projects total Medicare net mandatory spending of $1.8 trillion over the five-year period.

[15] Net mandatory spending reflects total spending on benefits, less the amount collected from beneficiaries in the form of premiums. This number excludes administrative costs.

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. Housing assistance programs account for the largest share of discretionary funding in this function. Major federal entitlement programs in this function include unemployment insurance, food stamps, Temporary Assistance to Needy Families (TANF), child care, and Supplemental Security Income (SSI). The function also includes spending associated with the refundable portions of the Earned Income Tax Credit (EITC) and Child Credit. Federal and other retirement and disability programs, which make up approximately 30 percent of funds in this function, are discussed here and in *Function 950 (Undistributed Offsetting Receipts)*.

In 2005, the President's budget provides $294.3 billion for the mandatory programs in Function 600, a decrease of $367 million from projected spending under current law. Over five years, spending increases by a total of $16.3 billion relative to current-law projections. This increase is attributable to increased spending for the refundable portion of the child tax credit as a result of the President's tax policies. The effects of other mandatory spending changes in this function largely offset each other over five years. These changes are described below.

For Function 600 discretionary programs, the budget provides $45.9 billion for 2005, a cut of $3.5 billion (7.0 percent) from the amount CBO estimates is needed to maintain purchasing power at the 2004 level. This cut is concentrated in the Section 8 housing voucher program, explained below.

Welfare and Related Family Support Programs

Most provisions of the landmark Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) were set to expire at the end of 2002. Congress has not yet approved a comprehensive reauthorization but has passed several temporary extensions. The current extension runs through March 31. PRWORA replaced the former federal welfare entitlement program with flexible TANF block grants, increased child care funding, improved child support collection, reduced the number of children eligible for the SSI program, reduced funding for the Title XX Social Services Block Grant, and terminated most legal immigrants' access to means-tested mandatory benefits.

The reauthorization proposals for welfare-related programs in the 2005 budget freeze funding for some major activities but provide increases in other areas. The budget also extends for five years the Transitional Medicaid Assistance for families leaving welfare, and simplifies the program. See *Function 550 (Health)* for information on Medicaid.

- ***Freezes Most Welfare Funding* —** The President's budget again freezes funding for most components of the TANF program and maintains this frozen funding level for the five-year budget window. The budget freezes basic family assistance grants to states and territories at $16.6 billion. Other components of TANF receive an increase compared with resources projected to be available under current law, totaling $1.8 billion over five years. The increase is due in part to reinstatement of the supplemental grant program, which by law is excluded from current-law projections ($319 million per year). The remainder of the increase, $240 million per year, is due to the creation of grants to promote marriage and family formation activities and research. These funding increases are partly offset by a redirection of $500 million from a program of bonuses for high-performing states and by eliminating bonuses to states for reducing out-of-wedlock births. The accompanying table breaks out the major components of TANF funding over the budget window. The House Republican welfare reauthorization bill, H.R. 4, mirrors the President's policy of freezing most welfare funding but does provide an extra $200 million a year for child care. The House Democratic alternative welfare reauthorization bill provides an additional $11 billion for child care over five years.

TANF Funding in the President's Budget
(Budget Authority in Billions of Dollars)

	2005	**2006**	**2007**	**2008**	**2009**
<u>*Current Law Projections*</u>					
Assistance Grants to States, Tribes and Territories	16.6	16.6	16.6	16.6	16.6
High Performance Bonus	0	0	0	0	1.0
Illegitimacy Bonus	0.1	0.1	0.1	0.1	0.1
Total Current Law	**16.7**	**16.7**	**16.7**	**16.7**	**17.7**
<u>*President's Changes from Current Law*</u>					
Renew Supplemental Grants for Population Increases	0.3	0.3	0.3	0.3	0.3
Marriage Promotion and Family Formation Activities	0.2	0.2	0.2	0.2	0.2
Eliminate Illegitimacy Bonus	-0.1	-0.1	-0.1	-0.1	-0.1
Reduce High Performance Bonus	0	0	0	0	-0.5
Total, President's Proposal	**17.1**	**17.1**	**17.1**	**17.1**	**17.6**

Current law also provides a $2 billion contingency fund for states experiencing economic hardships. The budget makes the contingency fund more accessible to states but projects that spending as a result of these modifications will increase by only $57 million over five years compared with current law.

- ***Freezes Funding for Child Care* —** The budget once again freezes funding for the Child Care and Development Fund (CCDF) at the 2004 enacted level of $4.8 billion, providing $2.1 billion in appropriations for the Child Care and Development Block Grant, and $2.7

billion in mandatory child care funding to the states. The budget assumes block grant funding will decline by $53 million in 2006 and remain below the 2004 level in 2007-2009. The budget provides flat funding for the mandatory program through 2009. Total federal resources for child care also include TANF and Social Services Block Grant funds spent on child care at state discretion. Considering all funding available for child care, the budget projects that the number of children receiving assistance will decline from 2.5 million in 2003 to 2.2 million in 2009. Meanwhile, the President's plan to increase work requirements for welfare recipients will increase the demand for affordable child care.

- ***No Increase for Social Services Block Grant (Title XX)*** — The budget keeps funding for the Social Services Block Grant at $1.7 billion, frozen at the 2004 level. This grant provides states with broad discretion to use these funds for social services such as child care, child welfare, home-based services, employment services, adult protective services, prevention and intervention programs, and special services for the disabled. Funding for the Social Services Block Grant is included in *Function 500 (Education, Training, Employment, and Social Services).*

- ***Changes Funding Structure for Foster Care*** — The budget changes the method of making payments to states for the $4.9 billion foster care program. Funding for this entitlement program is traditionally based on estimates of numbers of eligible children and levels of assistance payments. The budget offers states the option of receiving foster care funds in the form of "flexible grants." In exchange for agreeing to a fixed allocation of funding for five years, states are given considerably more administrative flexibility and discretion as to what activities can be funded. This plan is budget neutral over five and ten years. A separate budget provision reduces spending by $807 million over ten years by clarifying a definition used in the program to respond to a court ruling that conflicts with long-standing agency interpretation of the foster care law.

- ***Increases Child Support Collections and Gives More to Families*** — The budget again includes a package of changes to increase child support collections and direct more of these payments to families. The budget also includes a provision to increase medical child support collections on behalf of children without health insurance. The net effects of the child support proposals increase federal spending by $105 million in 2005-2009 and by $248 million through 2014, compared with current law.

- ***Extends Supplemental Security Income (SSI) Eligibility for Refugees and Makes Other Changes*** — Under current law, refugees and asylees lose eligibility for SSI after seven years in the U.S. unless they become citizens. The budget allows refugees and asylees to receive SSI for eight years, but the policy sunsets after 2007. Other changes to SSI include reviewing up to 50 percent of initial SSI disability eligibility determinations for accuracy before starting benefit payments. The net effect of these changes is to reduce SSI spending by $202 million over five years. These changes also affect Medicaid spending. Medicaid effects are recorded in *Function 550 (Health*).

- ***Low-Income Energy Assistance* —** The budget provides $2.0 billion for the Low-Income Home Energy Assistance Program (LIHEAP). This is an increase of $113 million from the 2004 enacted level, and it is $92 million (4.8 percent) above the amount CBO estimates is necessary to maintain purchasing power at the 2004 level.

Unemployment Insurance (UI)

The Unemployment Insurance program is financed through a combination of state and federal taxes. State taxes pay for regular unemployment insurance benefits. Federal taxes currently support federal and state unemployment administration and retraining services, the federal government's share of extended benefits for workers out of work more than 26 weeks, and loans to states that are unable to pay benefits because they have run out of funds.

- ***Reduces Improper Payments* —** The budget includes a provision to reduce spending on unemployment insurance benefits by $371 million over ten years by allowing states to use the National Directory of New Hires to quickly detect individuals who have returned to work but continue to collect unemployment payments. Another provision allows the government to recapture overpaid unemployment benefits by reducing the federal tax refunds of workers with such overpayments, for an estimated savings of $281 million in the first year.

- ***Does Not Renew Federal Extended Benefits* —** An estimated 375,000 jobless workers exhausted their state benefits in January — a record high — only to find no federal help available to them while they continue to look for work. That is because Republicans allowed the Temporary Extended Unemployment Compensation program (TEUC) to expire at the end of December, despite strong urging from Democrats to continue the program. TEUC provides 13 weeks of federally funded extended benefits to jobless workers who exhaust their regular state unemployment benefits. The economy has lost 2.3 million jobs since President Bush took office, but the President's budget does not include any provisions to continue or expand the TEUC program to help workers who face long unemployment spells as a result of the shortage of jobs. Instead, the budget creates a pilot project for "Personal Re-employment Accounts." For further discussion of these accounts, see *Function 500 (Education, Training, Employment, and Social Services)*. By contrast, legislation sponsored by House Democrats guarantees all jobless workers at least 26 weeks of extended benefits and expands access to unemployment benefits for workers who are low-wage earners or who work part time.

Housing Assistance

The President's budget includes $31.3 billion for all discretionary housing assistance programs. This amount is $474 million below a freeze at the 2004 enacted level, and it is $2.1 billion below the amount CBO estimates is necessary to maintain purchasing power at the 2004 level.

- ***Cuts Section 8 Housing Choice Voucher Funding and Moves Toward a Block Grant Approach*** — The budget provides $18.5 billion for the Section 8 housing programs (funded in part with a $1.6 billion recapture of unobligated balances), which is $791 million below the 2004 enacted program level. The 2005 total is $2.0 billion, or 9.8 percent, below the amount CBO estimates is necessary to maintain purchasing power at the 2004 level and to renew all expiring voucher contracts. At the President's funding level the number of families served by this program could decline by more than 250,000. Without the $1.6 billion recapture, the Section 8 shortfall would be $3.6 billion.

  Traditionally, the budget for Section 8 has been based on the estimated cost of maintaining the number of families served, plus any incremental costs if Congress chose to increase the number of vouchers available and therefore increase the number of families served. (Only about one out of four eligible families now receives this type of federal housing assistance; most local housing authorities have long waiting lists for housing vouchers.) The President's budget shifts from this "unit-based" budgeting approach to a "dollar-based" approach, which means that local public housing authorities will receive a dollar amount that may bear no relation to the actual costs of serving families. The budget also promises local housing authorities "greater administrative flexibility" to meet local housing objectives. If funding does not keep up with costs, local housing authorities will face a choice between serving fewer families or reducing the value of the vouchers, effectively making housing unaffordable for more low-income families, elderly, and persons with disabilities.

- ***Eliminates Funding for Rehabilitation of Distressed Public Housing*** — Once again, the budget zeroes out funding for the HOPE VI program, a program that has successfully transformed severely distressed public housing projects into vibrant mixed-income neighborhoods. This program was funded at $570 million in 2003 but only $149 million in 2004.

- ***Erodes Funding for Public Housing Capital and Operating Funds*** — The budget provides $3.6 billion to pay local public housing authorities for operating costs not covered by rental income, plus $2.7 billion for capital repairs and improvements. The total provided for these two funds is $28 million below the 2004 enacted level, and it is $97 million below the amount CBO estimates is necessary to maintain purchasing power at the 2004 level. When funding falls short of capital and operating costs, local housing authorities often have no alternative but to let some units sit empty, thereby decreasing the supply of affordable housing available to low-income families.

- ***Erodes Funding for Housing for the Elderly and Disabled*** — The budget includes $1.0 billion for programs that provide supportive housing and other housing assistance for elderly and disabled populations. This $1.0 billion is equivalent to a freeze at the 2004 enacted level and is $13 million below the amount that CBO estimates is needed to maintain purchasing power at the 2004 level.

- ***Zeroes out Rural Housing and Economic Development*** — The budget eliminates this $25 million program, which encourages new and innovative approaches to serve the housing and economic development needs of rural populations through grants to local community-based organizations.

- ***Increases Funding for Homeless Assistance*** — The budget provides $1.3 billion for Homeless Assistance Grants, an increase of $22 million above the 2004 enacted level. The budget also creates a new $50 million competitive grant program, "Samaritan Housing," to support promising local strategies for moving chronically homeless persons to permanent housing with supportive services.

- ***Increases Funding for HOME Investment Partnerships*** — The budget provides $2.1 billion for expanding the supply and affordability of housing through construction, acquisition, and rehabilitation, as well as providing rental assistance to tenants. This amount is $78 million above the 2004 enacted level and is $56 million above the amount CBO estimates is necessary to maintain purchasing power at the 2004 level. The budget also includes a separate $45 million for housing counseling services for homebuyers, homeowners, renters, and homeless individuals in subjects such as financial management and rental counseling. Housing counseling is currently funded through a set-aside in the HOME appropriation.

Nutrition Assistance

- ***Reauthorizes National School Lunch Program at Current-Law Levels*** — The budget maintains free and reduced-price school meals and related programs at levels of spending consistent with current law. Unlike last year, this year's budget does not require families to provide documentation of their eligibility for free and reduced-price school lunches. Instead, the budget declares an intention to "work with the Congress to make improvements in program integrity without creating barriers." Child nutrition programs are scheduled for reauthorization this year.

- ***Fully Funds Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)*** — The budget includes $4.8 billion in 2005 for WIC, an increase of $175 million above the 2004 enacted level. The Administration estimates that this funding, combined with $81 million in recoveries from prior-year monies, is sufficient to serve all 7.9 million individuals expected to be eligible and seeking services.

- ***Increases Food Stamp Benefits for Combat Personnel*** — The budget includes a provision to exclude combat-related military pay when determining food stamp benefits for members of the armed forces and their families, at a cost of $3 million in 2005.

Spending Associated with Tax Proposals

- ***Extension of the 2001 and 2003 Tax Cuts* —** As part of extending the President's tax cuts that are scheduled to expire, the budget increases spending for the refundable portions of the child tax credit and Earned Income Tax Credit (EITC) by $16.3 billion through 2009 and by $53.5 billion through 2014, compared with current law.

- ***Simplifies Earned Income Tax Credit* —** The budget includes a provision to simplify certain complex EITC eligibility requirements. This provision increases spending for the refundable portion of the Earned Income Tax Credit by $74 million over five years and by $643 million over ten years, compared with current law.

- ***Simplifies Child Tax Credit* —** The budget changes certain provisions of the Child Tax Credit to be consistent with EITC provisions and makes other slight changes that in combination reduce spending for the refundable portion of the child tax credit by $591 million over five years and by $1.4 billion over ten years.

General and Federal Retirement and Disability

- ***Federal Employees' Pay Raise* —** The budget proposes a scoring rule to avoid higher pay raises than those contained in the President's budget for federal employees. The budget resolution would specify pay raises assumed for military and federal civilian employees for the budget year. A point of order would lie against any legislation containing a pay raise greater than that assumption. The President's budget increases federal civilian pay rates by 1.5 percent in January 2005, well below the average 3.5 percent pay raise for military personnel. This is the third year that the budget has ignored the tradition of "pay parity" for civilian and military employees. This scoring rule would require a waiver in the House for bills that contain pay parity, and would require a super-majority for pay parity in the Senate.

Mandatory

- ***Pension Benefit Guaranty Corporation*** — The budget includes reforms which affect 2006 and beyond to strengthen PBGC, to avoid reductions in benefits, and help stabilize the defined-benefit pension system. The budget also includes additional changes to restrict promises of added benefits by severely underfunded plans and provide better information on pension finances to workers, retirees, and stockholders. This proposal saves $310 million over the ten-year period (2005-2014).

- ***Federal Employees Compensation Act*** — The budget includes reforms to strengthen program integrity and make benefits more equitable and easier to administer to Federal workers who sustain work-related injuries. This proposal saves $290 million over the ten-year period (2005-2014).

See *Function 950 (Undistributed Offsetting Receipts)* for further discussion of federal retirement programs.

Function 650: Social Security

Function 650 includes mandatory spending to pay Social Security retirement and disability benefits to 47 million people and appropriated funding to administer these programs.

- ***Old -Age and Survivors Insurance (OASI)*** — Under current law, the Social Security Administration (SSA) under current law the Social Security Administration will pay $411.1 billion in retirement and survivors benefits to 39.6 million recipients in 2004. It will pay $424.3 billion in retirement and survivors benefits to 40.0 million recipients in 2005. This account is mandatory and off-budget.

- ***Disability Insurance (DI)*** — Under current law, SSA will pay $76.6 billion in disability insurance benefits to 7.7 million recipients in 2004. It will pay $81.8 billion in disability insurance benefits to 8.0 million recipients in 2005. This account is mandatory and off-budget.

- ***Administrative Costs*** — SSA will spend $4.1 billion to administer the OASI and the DI programs in 2004. The Administration has requested $4.5 billion for 2005, an increase of roughly $400 million, or 9.5 percent. This account is discretionary. It is virtually all off-budget.

- ***Income*** — Under current law, income to the OASI and DI programs will be $645.3 billion in 2004 and will be $693.4 in 2005. This account is mandatory. Income from payroll taxes and interest from the Treasury is off-budget. Proceeds from taxation of benefits deposited in the Trust Funds are on-budget. Under current law, interest will be $14.3 billion in 2004 and $15.1 billion in 2005.

- ***Legislative Changes to Program*** — The budget does not change FICA taxes or benefit formulas. It does assume the following legislative changes will have an effect on either income or spending in 2005:

    - Closing the loophole that allows some state and local government employees to avoid the Government Pension Offset. This feature of the law integrates Social Security with public pension coverage in lieu of Social Security ($1 million in reduced benefits);
    - Improving cross-program recovery authority ($2 million in reduced benefits); and
    - Reimbursement to the trust funds of payroll taxes on deemed military wages earned in 2000 and 2001 ($759 million in additional income, of which $650 million will be deposited in the OASI trust fund and $109 million will be deposited in the DI trust fund).

- ***President's Proposal for Partial Privatization*** — Although he did not include the provision in the budget, the President, in his State of the Union Address, advocated the partial privatization of Social Security. Each of the three proposals recommended by his commission on Social Security reform would require $1 trillion in transfers from the general fund to the Social Security program for the first ten years after the institution of private accounts. These funds would be financed by cuts in other programs, higher taxes, increased borrowing, or some combination of the three. Individual accounts would expose workers to a greater degree of market risk and would not offer the same social insurance features as Social Security.

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.

Discretionary Programs

- ***Cuts Funding for Veterans Medical Care*** — The President's 2005 budget provides $29.8 billion for appropriated veterans programs, which is $257 million below the amount that CBO estimates is needed to maintain purchasing power at the 2004 level. Almost all appropriated funding for veterans pays for medical care and hospital services. Over five years, the budget for appropriated programs for veterans is $13.5 billion (8.5 percent) below the amount needed to maintain programs and services at the 2004 level. The Secretary of Veterans Affairs has testified that the VA budget is $1.2 billion below the amount the VA asked the Administration for.

- ***Requires an Enrollment Fee for Priority Level 7 and 8 Veterans*** — The budget imposes a $250 annual enrollment fee for medical care on Priority 7 and Priority 8 veterans. These are veterans without service-connected disabilities rated above zero percent who also have incomes above VA means-tested levels. During 2004, these income thresholds range from incomes of $25,163 or more for veterans with no dependents to $36,950 for veterans with five or more dependents. The budget assumes five-year savings of $1.5 billion from this proposal. Congress rejected this proposal last year.

- ***Increases Co-payments for Priority Level 7 and 8 Veterans*** — The budget increases pharmacy co-payments for Priority 7 and 8 veterans from $7 to $15. The budget assumes five-year savings of $747 million from this proposal. Congress rejected this proposal last year.

- ***Eliminates Some Co-payments or Out-of-pocket Expenses*** — The budget eliminates co-payments for inpatient and outpatient hospice care in VA facilities; authorizes VA to pay any out-of-pocket expenses for emergency care for insured veterans outside VA facilities; and raises the income threshold for Priority 2 through 5 veterans who are exempt from pharmacy co-payments, from $9,894 to $16,509.

- ***Stops Enrollment of New Priority 8 Veterans*** — On January 17, 2003, VA stopped enrolling new Priority 8 veterans for medical care. The budget continues this policy.

Mandatory Programs

- ***Allen Decision*** — The President's budget assumes savings of $3.1 billion over ten years from proposed legislation reversing the 2001 *Allen v. Principi* decision, which determined that the impact of substance abuse could be considered in determining disability compensation if the condition was determined to be secondary to a service-connected disability. While this is significantly lower than the $4.6 billion in savings that was assumed for this proposal in last year's budget, it is still extremely optimistic compared to CBO estimates. When this proposal was included in last year's budget, CBO estimated the ten-year savings from this proposal to be just $198 million.

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 US Customs and Border Protection (CBP); 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 $37.8 billion in discretionary funds for the Administration of Justice function for 2005, a $500 million decrease below the amount that CBO estimates is needed to maintain purchasing power at the 2004 level. The budget provides increases for several federal law enforcement programs that are tied to homeland security. However, the 2005 budget, like last year, significantly cuts many state and local law enforcement programs.

- ***Cuts Community Oriented Policing Services (COPS)*** — COPS provides grants and other assistance to help communities hire, train, and retain police officers and improve law enforcement technologies. The budget slashes the COPS program, providing only $97 million, a $659 million (87.0 percent) cut below the 2004 enacted level, and a $655 million cut (87.0 percent) cut below the amount needed to maintain purchasing power at the 2004 level.

- ***Cuts State and Local Criminal Justice and Juvenile Justice*** — State and local criminal justice and juvenile justice assistance programs center on helping communities to combat and deter crime. The budget cuts the Violence Against Women Act programs, providing $362 million, a $22 million (5.7 percent) cut below the 2004 enacted level, and a $26 million (6.7 percent) cut below the amount needed to maintain purchasing power at the 2004 level. The budget also cuts Juvenile Justice and Delinquency Prevention Act grants, providing $198 million, a $151 million (43.3 percent) cut below the 2004 enacted level, and a $155 million (43.9 percent) cut below the amount needed to maintain purchasing power at the 2004 level. The budget eliminates a variety of programs, including: Edward Byrne formula and discretionary grants; the State Criminal Alien Assistance Program; and Local Law Enforcement Block Grants. The eliminated programs alone would require $1.3 billion in 2005 to maintain funding at the 2004 enacted level. The budget uses some of the savings from these cuts and eliminations to increase state and local funds for Office of Justice programs (which coordinate and manage policies and activities for the Bureau of Justice Assistance, Bureau of Justice Statistics, National Institute of Justice, Office of Juvenile Justice and Delinquency Prevention, and the Office for Victims of Crime) by $1.0 billion (271 percent) over the 2004 enacted level.

- ***Increases Federal Law Enforcement*** — Federal law enforcement programs include agencies such as the FBI, the United States Customs Service, the United States Secret Service, the DEA, customs, immigration, and border patrol departments, civil rights enforcement departments, and the ATF. The budget provides $21.3 billion for federal law enforcement programs, a $1.6 billion increase over the 2004 enacted level, and a $1.1 billion increase over the amount needed to maintain purchasing power at the 2004 level. (See also section on the Department of Homeland Security for descriptions of programs related to border enforcement)

  - ***Federal Bureau of Investigation*** — The FBI's responsibilities include detecting, investigating, and prosecuting federal crimes. The budget provides $5.1 billion for the Federal Bureau of Investigation, a $524 million (11.6 percent) increase over last year's enacted level. The increases go toward improving intelligence capabilities and counterterrorism efforts, and combating cybercrime.

  - ***Drug Enforcement Administration*** — The DEA enforces laws relating to illicit drug manufacturing and distribution. The budget provides $1.7 billion for the DEA, an $77 million increase over the 2004 enacted level, and a $36 million increase over the amount needed to maintain purchasing power at the 2004 level.

  - ***Civil Rights Law Enforcement*** — The budget provides $351 million for the Equal Employment Opportunity Commission (EEOC), a $17 million increase over the 2004 purchasing power level. It provides $48 million for Fair Housing and Equal Opportunity Activities, a $1 million cut below the 2004 purchasing power level. The budget provides $93 million for the Department of Education's Office for Civil Rights, a $2 million increase above the 2004 purchasing power level. The budget provides $9 million for the Commission on Civil Rights, maintaining the program at the 2004 purchasing power level.

- ***Cuts Legal Services Corporation*** — The Legal Services Corporation provides free legal assistance for people living in poverty. The President's budget provides $329 million for the Legal Services Corporation, an $6 million cut below the 2004 enacted level, and a $10 million cut below the 2004 purchasing power level.

- ***Cuts United States Attorneys*** — The budget provides $1.5 billion for United States Attorneys, a $25 million decrease below the amount needed to maintain purchasing power level at the 2004 level.

- ***Cuts Federal Correctional Activities*** — The federal corrections system maintains and operates federal prisons. The budget provides $5.6 billion for federal corrections, a $232 million decrease below the 2004 purchasing power level. The budget places a moratorium on prison construction, which cost $342 million last year, and plans to contract out bed space for low- and minimum- security inmates while upgrading lower security facilities for higher security inmates.

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.

The President's 2005 budget provides $17.2 billion for general government, $709 million below the level needed to maintain constant purchasing power at the 2004 level and $227 million below the 2004 enacted level. Although this cut is attributable to the elimination of $1.5 billion for election reform, there are increases in most of the other programs.

- ***Legislative Branch*** — The budget includes $3.4 billion, $294 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 (CBO).

- ***Executive Office of the President*** — The budget provides the Executive Office of the President (EXOP) with $342 million, an increase of $23 million, or 7.2 percent, over the 2003 level. This includes $77 million for OMB, which is 24.2 percent increase over the 2003 level. The EXOP also includes the White House and supporting agencies such as the National Security Council and Council of Economic Advisors.

- ***Internal Revenue Service (IRS)*** — The budget includes $10.7 billion for the Internal Revenue Service, an increase of $488 million above the 2004 enacted level and $166 billion above level needed to maintain constant purchasing power at the 2004 level. Almost all of the IRS budget is in this function.

- ***District of Columbia*** — The budget includes $270 million for the District of Columbia's criminal justice system, $69 million above the level needed to maintain constant purchasing power at the 2004 level.

- ***Federal Buildings Fund*** — The budget provides $15 billion in this account, a cut of $240 million below the 2004 enacted level.

- ***Human Capital Performance Fund*** — The budget provides $300 million in 2005 to be used by agencies for performance-based raises. The President's 2004 budget proposed $500 million for this purpose but Congress appropriated $1 million.

- ***Election Reform*** — The budget reduces election reform funding by $1.5 billion but includes $40 million for the Election Assistance Commission to meet minimum voting standards and $10 million for administrative expenses of the commission. The 2004 budget included $1.5 billion for election reforms and has provided over $3 billion to date to upgrade voting systems, develop electronic voting registration lists, assure access for individuals with disabilities, and train election officials.

Mandatory

- ***Payment to Alaska*** — The budget includes $1.2 billion in 2005 and $1.3 billion over five years in mandatory spending 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.

- ***National Indian Gaming Commission*** — The budget amends the current limitation on assessments that the Commission is authorized to collect in gaming activity fees. This proposal costs $18 million over four years (2006 - 2009).

- ***Internal Revenue Collections for Puerto Rico*** — The budget extends for three years the higher payments it makes to Puerto Rico and the Virgin Islands based on excise taxes on rum imported from places other than Puerto Rico and the Virgin Islands. This proposal costs $158 million over three years (2004 - 2006).

Function 920: Allowances

This function includes unspecified cuts of $65 billion, a spectrum relocation fund, debt collection, and adjustments to the legislative and judicial branches' requests.

- ***Unspecified Cuts of $65 Billion Herald the Return of Reagan-era "Magic Asterisk" —*** The budget includes a refundable tax credit for the purchase of health insurance, which costs $65.4 billion in increased spending for the refundable portion of the credit and $4.7 billion in reduced receipts through 2014. The budget also includes a "contingent offset" of $65 billion in reduced spending over ten years, but the budget is silent on what that offset might be. Rather than offer a genuine policy change to reduce spending by this amount, the budget merely states: "When the Congress moves legislation to implement the President's health care credit proposal, the Administration will work with the Congress to offset this additional spending." This approach is reminiscent of the first budget submitted by President Reagan, which achieved fiscal discipline — on paper — thanks to a $160.4 billion spending-cut item called "Additional savings to be proposed." That approach has since been known as the "magic asterisk."

- ***Adjustments to the Legislative and Judicial Branches' Requests —***The budget includes cuts of $383 million for 2005 and of $4.0 billion over the five-year period (2005-2009) 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 maintain comity among the three branches of government.

- ***Debt Collection Initiatives —*** The budget proposes to increase and enhance debt collection opportunities for delinquent debt by:

    1. Eliminating the 10-year limitations period in which to collect debt owed to federal agencies;

    2. Allowing Treasury to match information about persons who owe delinquent debts;

    3. Allowing collection of tax refunds for delinquent state unemployment insurance overpayments;

4. And, increasing amounts levied from vendor payments (from 15 percent to 100 percent) to collect outstanding tax obligations. These initiatives save $333 million in 2005 and $1.7 billion over the five-year period (2005-2009).

- ***Spectrum Relocation Fund —*** The President's budget again proposes to streamline the current process for reimbursing federal agencies that must relocate from federal spectrum that will be auctioned to commercial users. To expedite the federal agencies' relocation from this spectrum, the budget establishes a central spectrum relocation fund. Auction receipts collected under current law will be paid into the fund in amounts sufficient to cover agency relocation costs. These costs will then be paid out of the fund without further appropriation. The fund costs $2.5 billion in mandatory spending from 2006 to 2014.

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 2005, the budget assumes offsetting receipts of $63.1 billion. Over the five-year period (2005-2009), the budget assumes offsetting receipts of $375.5 billion.

- ***Federal Employee Retirement System —*** For 2005, federal agencies will pay $46.3 billion to the federal employee retirement funds (the Civil Service Retirement System, Military Retirement System, and Federal Employees Retirement System). Employers also make payments to the Medicare Health Insurance Trust Fund and the Social Security Trust Fund on behalf of federal employees. As employees' pay increases, agencies are required to increase their payments to these funds.

- ***Federal Employees' Pay Raise —*** The budget proposes a scoring rule to avoid higher pay raises than those contained in the President's budget for federal employees. The budget resolution would specify pay raises assumed for military and federal civilian employees for the budget year. A point of order would lie against any legislation containing a pay raise greater than that assumption. The President's budget increases federal civilian pay rates by 1.5 percent in January 2005, well below the average 3.5 percent pay raise for military personnel. This is the third year that the budget has ignored the tradition of "pay parity" for civilian and military employees. This scoring rule would require a waiver in the House for bills that contain pay parity, and would require a super-majority for pay parity in the Senate.

- ***Accrual Accounting of Federal Retiree Costs —*** The budget again requires agencies to pay up front all retirement pension and health costs for all federal employees. Under current federal accounting procedures, these retirement costs are future mandatory payments and do not show up in agency costs. Pending approved legislation, the budget changes this practice so that each agency shows these retirement costs as current discretionary costs, therefore increasing the need for discretionary appropriations to cover these payments.

Mandatory

- ***Compensation for 2000-01 Military Wage Credits —*** The budget includes payments of $181 million to the Medicare Trust Fund and $759 million to the Social Security Trust Fund for post-1956 military service credits. This represents a transfer of money from the general fund to the trust funds and does not have an effect on the deficit.

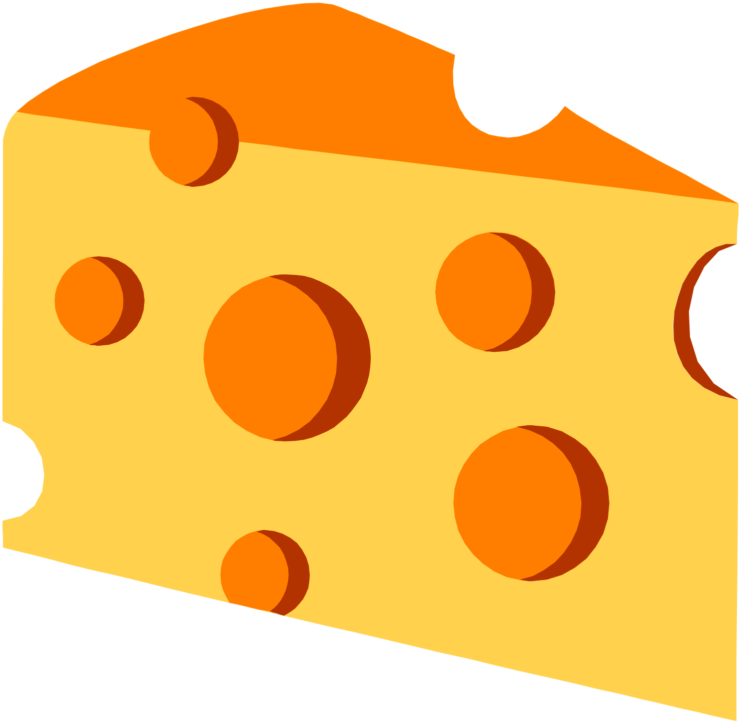
- ***Arctic National Wildlife Refuge Lease Receipts —*** The budget assumes the opening of the Arctic National Wildlife Refuge (ANWR) for oil drilling to supplement the funding for renewable and related energy research. The budget assumes leasing begins in 2006, generating $2.6 billion in receipts, with $1.3 billion to be spent on alternative energy programs over the following seven years. The Congress rejected this proposal which was included in last year's budget as well. See *Function 270 (Energy)* and *Function 300 (Natural Resources and Environment)* for further details.

- ***Analog Spectrum Lease Fee —*** The budget again establishes a $500 million annual lease fee on the use of analog spectrum by commercial broadcasters beginning in 2007. Individual broadcasters will be exempt from the fee upon returning their analog spectrum licenses to the FCC (and thus completing their transition from analog to digital broadcasting). The fee is expected to generate $1.5 billion over the next five years and $2.6 billion over the next ten years.

- ***Spectrum Auction Authority and Spectrum License User Fee —*** The budget again extends indefinitely the authority of the FCC to auction spectrum. This authority currently expires at the end of 2007. The budget also authorizes the FCC to set user fees on unauctioned spectrum. These two proposals are expected to cost a total of $400 million over the next five years, but generate $5.5 billion over the next ten years.

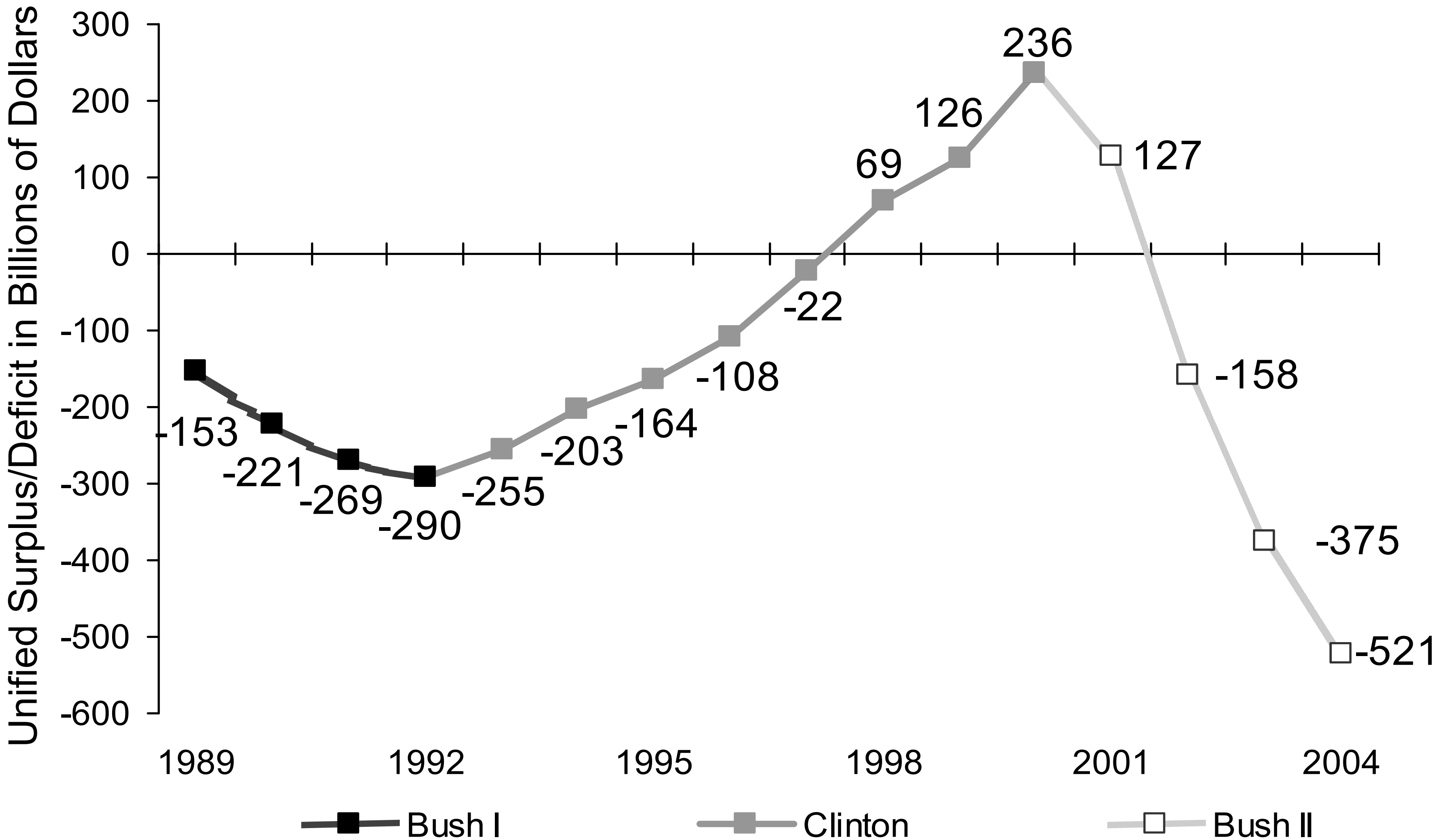
The President’s Budget

High Deficits, Heavy Debt, and Holes



Backsliding Into the Deficit Ditch

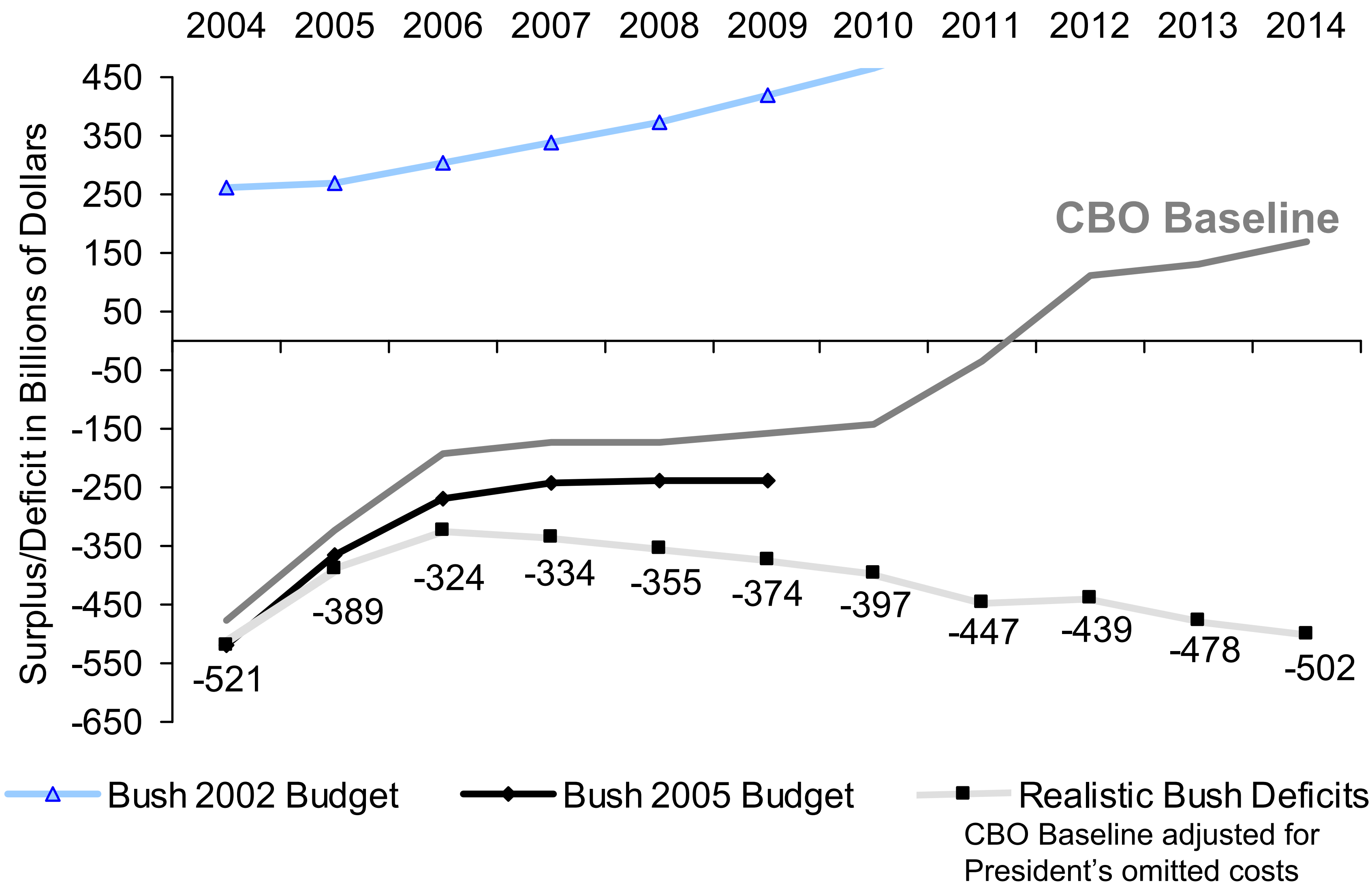
From Deficit to Surplus to Deficit Again



Costs Omitted from Bush Budget

- Numbers for the Second Five Years
- Cost of Making Tax Cuts Permanent
- Cost to Repair AMT
- Additional Costs for Defense, Including Iraq and Afghanistan Operations
- Genuine Offsets – Budget Uses Implausible Fees, Copays

More Accurate Estimate Shows Even Bleaker Budget Outlook

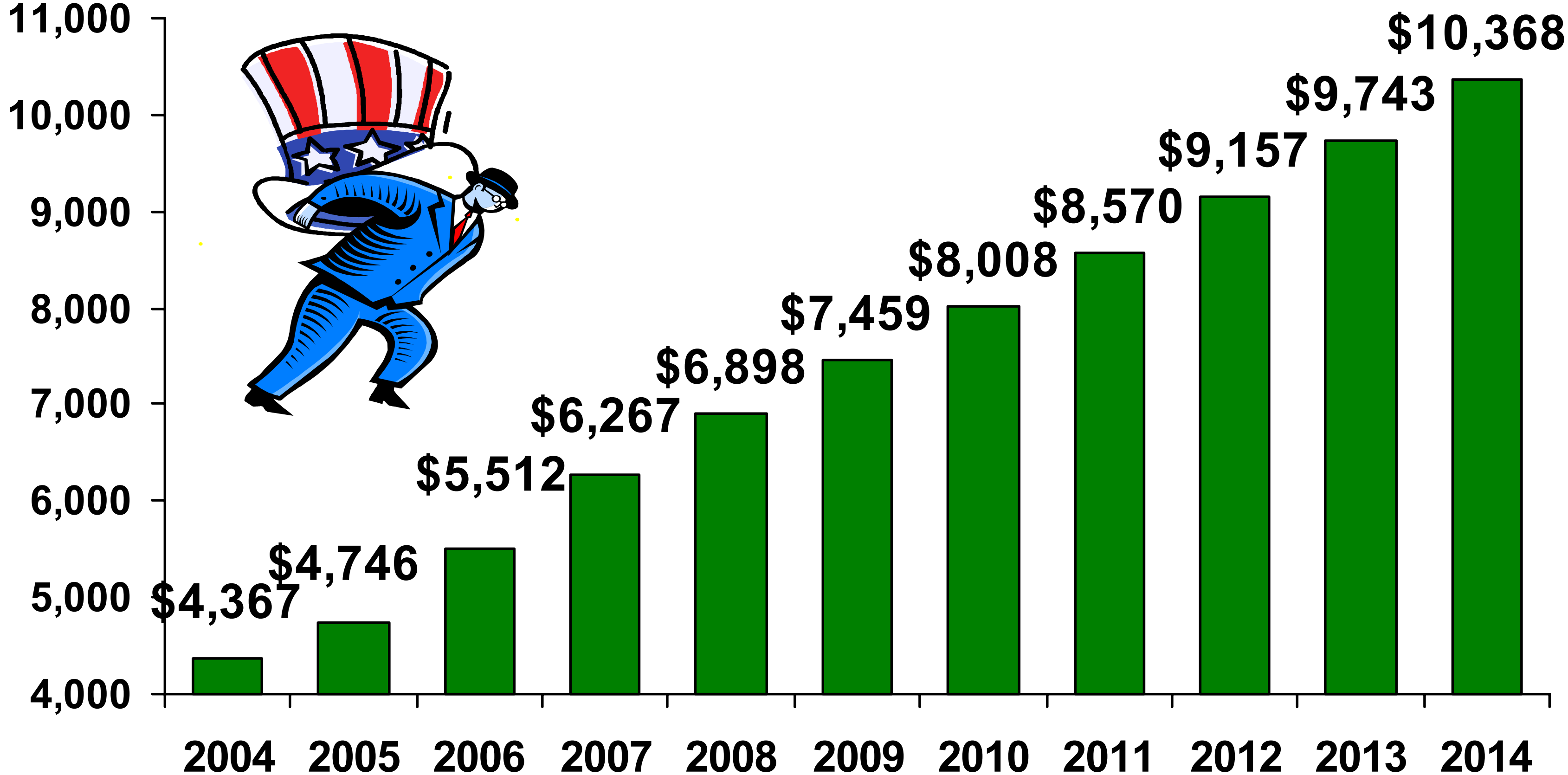


Still More Costs Omitted from Bush Budget

- Social Security Privatization
- Lunar-Based Mission to Mars
- Realistic Funding for the Energy Bill
- Realistic Highway Funding
- Tax Extenders and Other Tax Cuts

Bush Budget Raises the Debt Tax

Federal Gross Interest per Family of Four



Winners and Losers in Bush Budget

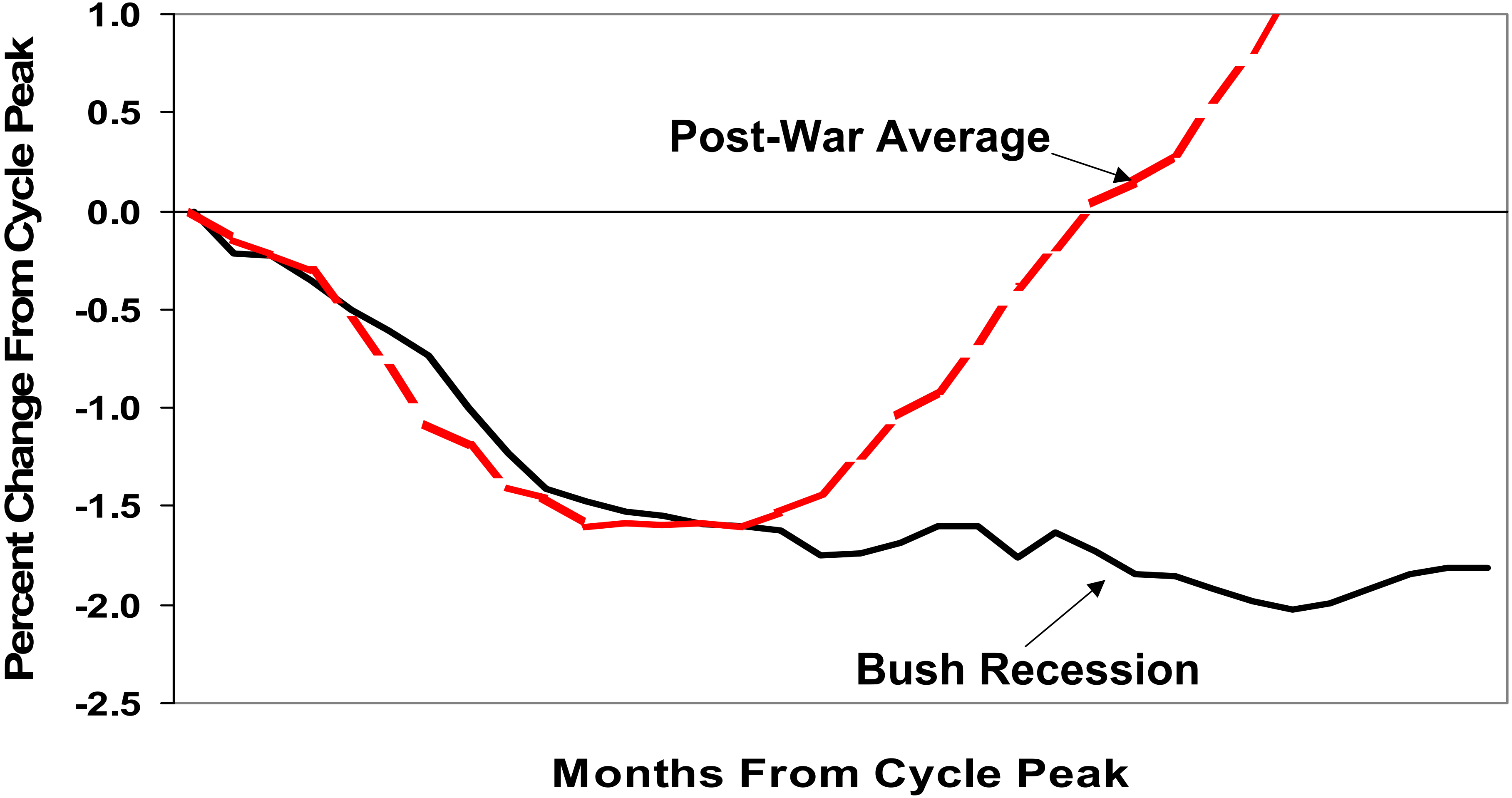
Winners

- Affluent Americans: Another $1.1 Trillion in Tax Cuts
- Polluters: EPA Cut $606 Million
- Big Oil: Drilling in ANWR

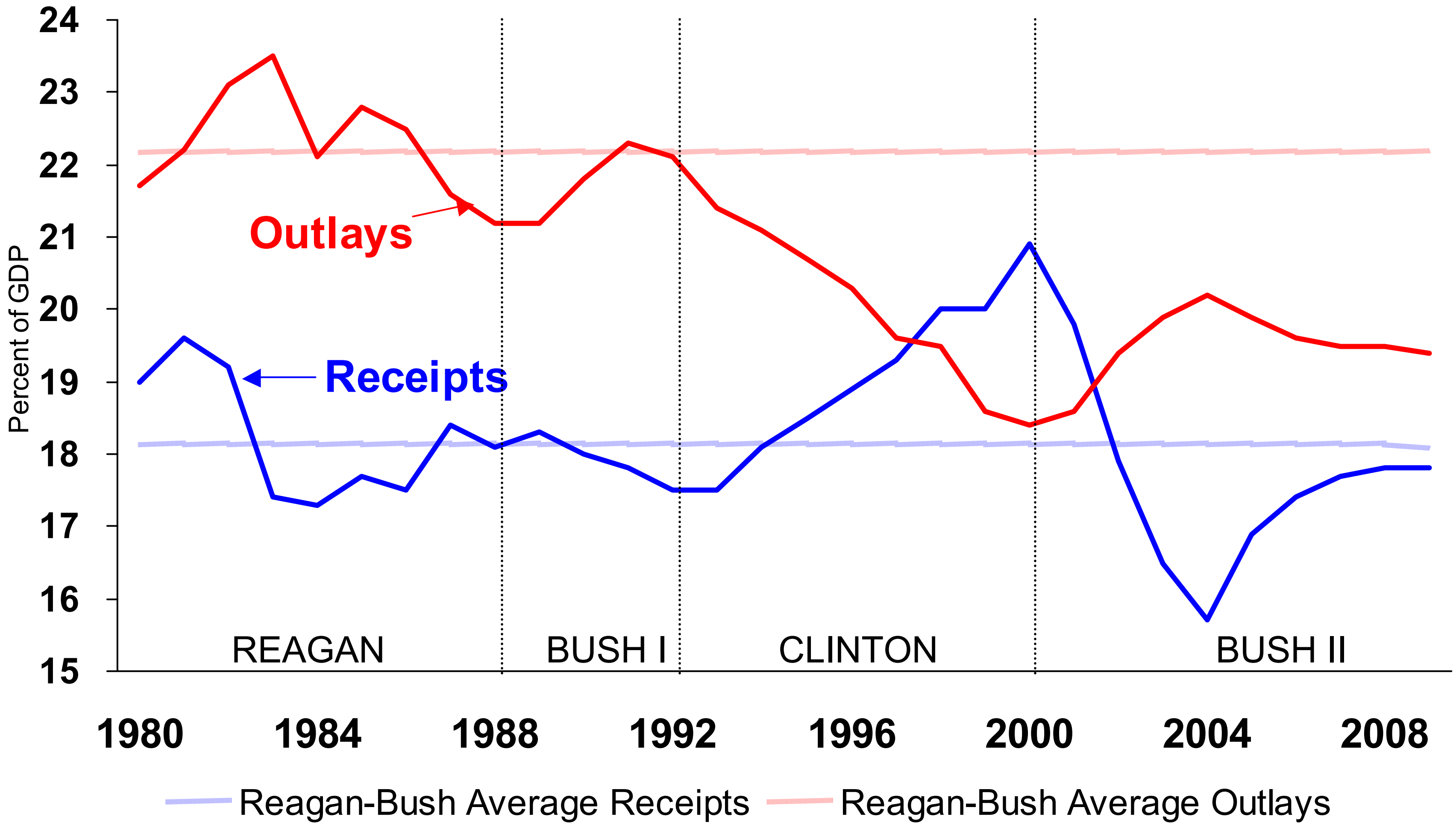
Losers

- Social Security & Medicare Solvency
- Middle-Class Families: No AMT Fix
- Environment
- Veterans: Health Care Cut $257 Million, Fees & Copays Imposed
- Students: Pell Grant Frozen, NCLB Cut $9.4 Billion Below Authorized Level
- Law Enforcement: $1.0 Billion Cut

Jobs Lag Despite Big Tax Cuts



Receipts Are Way Down; Spending Remains Low



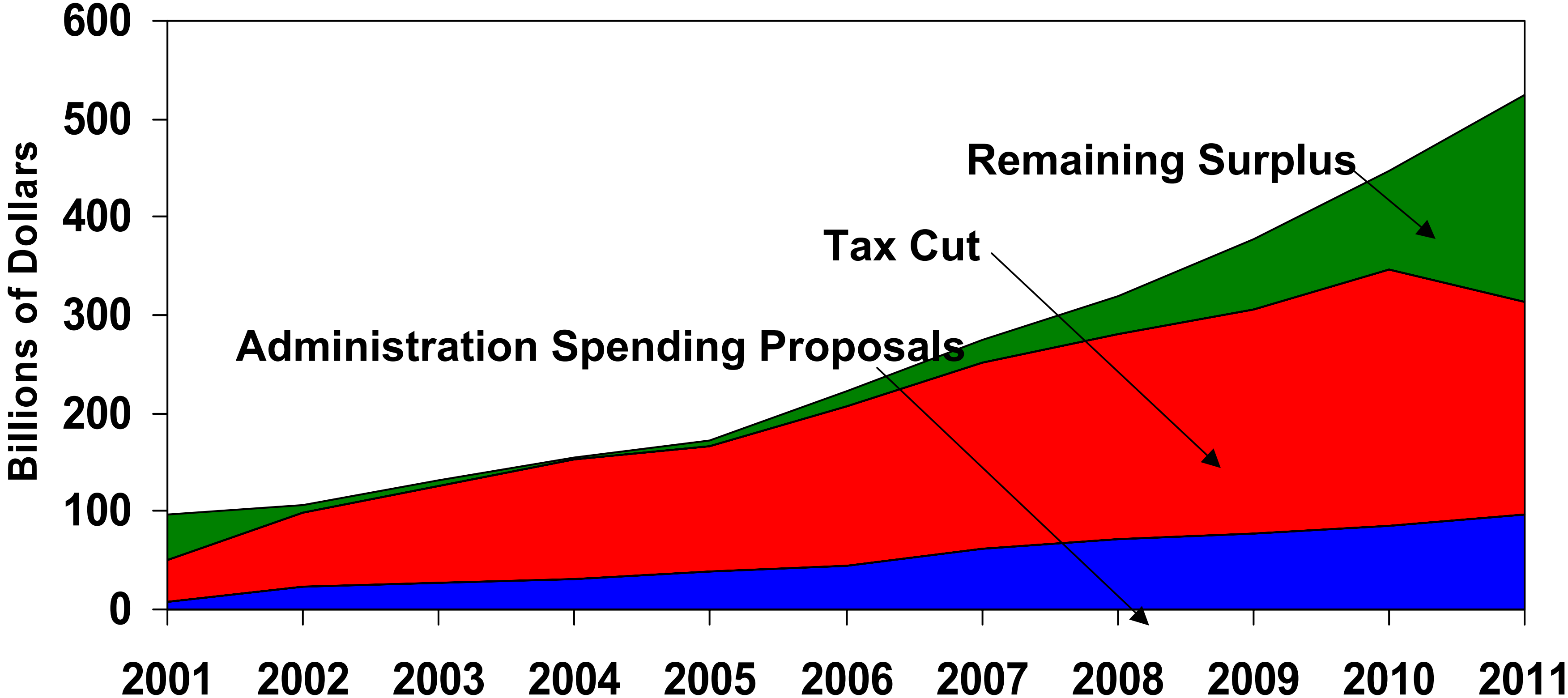
Prepared by the Democratic Staff of the House Budget Committee; Source: FY 2005 Budget *02/04/04*

Projected 2004 Surplus Becomes Largest Deficit in History

Forecast of 2004 Surplus or Deficit, Billions of Dollars

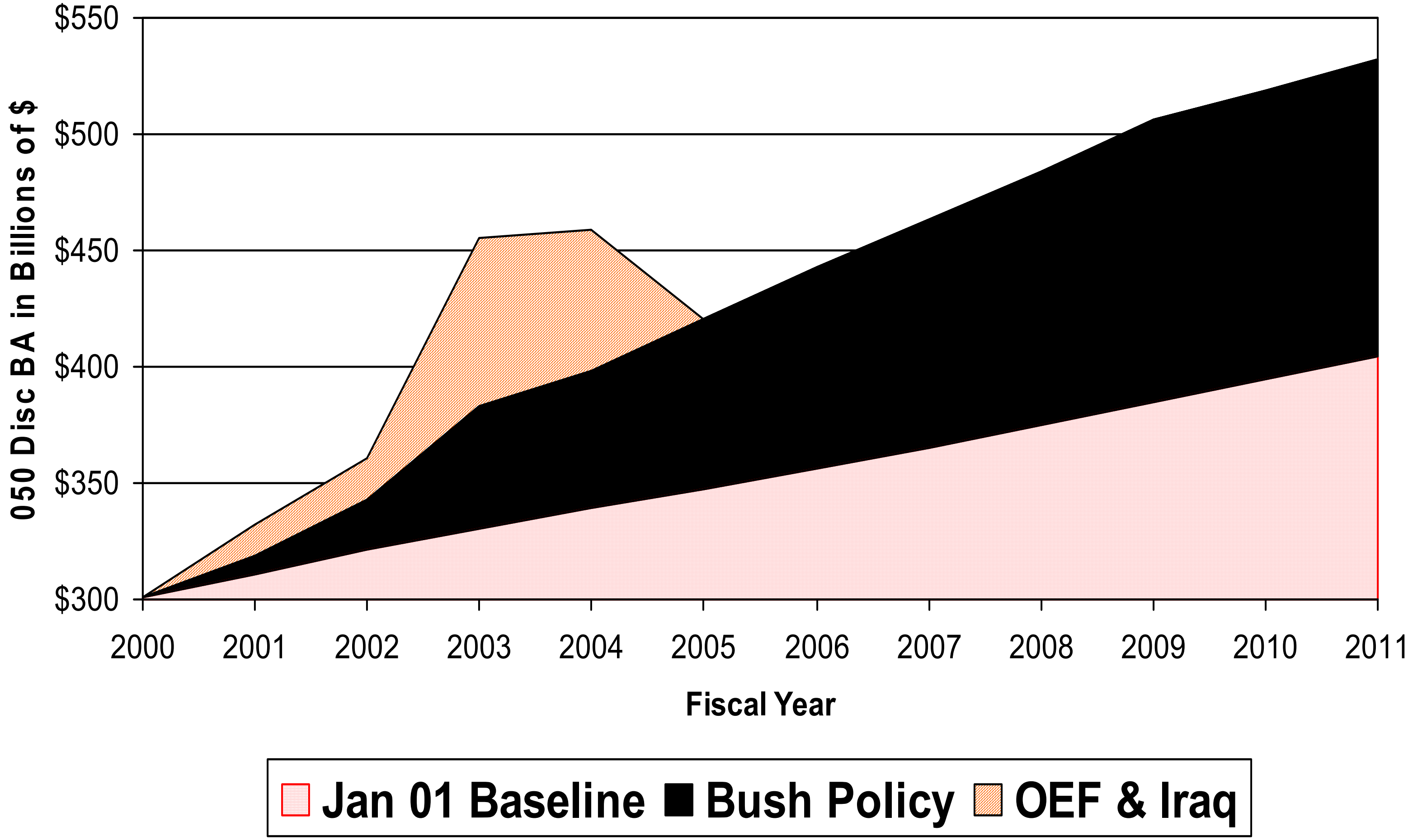
	Unified	On-Budget
February 2001	268	57
August 2001	217	6
February 2002	-14	-208
July 2002	-48	-236
February 2003	-307	-428
July 2003	-475	-639
February 2004	-521	-675

First Administration Budget Left No Margin for Error



April 2001 Projection of Non-Medicare, Non-Social Security Surplus; Tax and Spending Proposals in House-Passed Budget Resolution for FY2002

Increased Cost of Defense Under Bush Administration: 2005 Budget vs. January 2001 Baseline



Appendix A

65 Programs Eliminated

The President's budget eliminates 65 programs that received a total of $4.9 billion for 2004.

Terminations in the 2005 Budget
(in millions)

Terminations	2001 Actual	2004 Enacted	2005 Budget
Commerce			
Advanced Technology Program (ATP)	145	171	—
Technology Opportunities Program (TOP)	45	14	—
Repeal of Continued Dumping and Subsidy Offset Act (CDSOA) CDSOA)	247	293	—
(Amounts are payments made due to CDSOA)			
Total Commerce Terminations	437	478	—
Education			
Alcohol Abuse Reduction	—	30	—
Arts in Education	28	35	—
B.J. Stupak Olympic Scholarships	1	1	—
Close Up Fellowships	2	1	—
Community Technology Centers	65	10	—
Comprehensive School Reform	210	234	—
Demonstration Projects to Ensure Quality Higher Education for Students with Disabilities	6	7	—
Dropout Prevention Programs	—	5	—
Eisenhower National Clearinghouse for Math and Science Education	5	5	—
Eisenhower Regional Math and Science Education Consortia	15	15	—
Elementary and Secondary School Counseling	30	34	—
Even Start	250	247	—
Excellence in Economic Education	—	1	—
Exchanges with Historic Whaling and Trading Partners	—	9	—
Federal Perkins Loans: Capital Contributions	100	99	—
Foreign Language Assistance	14	17	—
Javits Gifted and Talented Education	8	11	—
Leveraging Educational Assistance Partnerships	55	66	—
Literacy Programs for Prisoners	5	5	—
Migrant and Seasonal Farmworkers	2	2	—
National Writing Project	10	18	—
Occupational and Employment Information	9	9	—
Parental Information and Resource Centers	38	42	—
Projects With Industry	22	22	—
Ready to Teach	8	14	—
Recreational Programs	3	3	—
Regional Educational Laboratories	65	67	—
Regional Technology in Education Consortia	10	10	—
School Leadership	0	12	—
Smaller Learning Communities	125	174	—
Star Schools	60	20	—
State Grants for Incarcerated Youth Offenders	17	20	—
Supported Employment State Grants	38	38	—
Tech-Prep Demonstration	5	5	—
Tech-Prep Education State Grants	106	107	—
Underground Railroad Program	2	2	—
Vocational Education National Programs	18	12	—
Women's Educational Equity	3	3	—
Total Education Reductions	1,335	1,412	—

Terminations in the 2005 Budget

(in millions)

Terminations	2001 Actual	2004 Enacted	2005 Budget
Health and Human Services			
ACF: Early Learning Opportunities Fund	20	34	—
ACF: National Youth Sports	16	18	—
ACF: Community Food and Nutrition	6	7	—
ACF: Rural Community Facilities	5	7	—
Total Health and Human Services Terminations	47	66	—
Homeland Security			
Metropolitan Medical Response System (MMRS)	17	50	—
Housing and Urban Development			
Community Development Block Grant Earmarks	401	334	—
HOPE VI Revitalization of Severely Distressed Public Housing	574	149	—
Empowerment Zones	185	15	—
Community Development Loan Guarantees (Section 108)	30	7	—
Public Housing Drug Elimination Program	309	—	—
Brownfields Redevelopment	25	25	—
Rural Housing and Economic Development	25	25	—
Total Housing and Urban Development Terminations	1,549	555	—
Interior			
National Park Service (NPS) Statutory Aid	14	13	—
Justice			
Edward Byrne Memorial Grant Program	568	704	—
Local Law Enforcement Block Grant (LLEBG)	522	223	—
COPS Hiring Grants	408	119	—
State Criminal Alien Assistance Program (SCAAP)	564	297	—
COPS Law Enforcement Technology Grants	140	157	—
COPS Interoperable Communications Technology Grants	—	84	—
Juvenile Accountability Incentive Block Grants Grants	249	59	—
Total Justice Terminations	2,451	1,643	—
Labor			
Migrant and Seasonal Farmworker Training	77	77	—
Environmental Protection Agency			
Unrequested Project Funding	494	511	—
Small Business Administration			
Microloan Program	22	17	—
United States Postal Service			
Forgone Revenue for Reduced Rate Mail	29	29	—
65 Programs Terminated Totaling	6,472	4,851	—

User Fees in the President's Budget

The President's budget assumes $19.5 billion in savings from a variety new user fees and offsets, many of which Congress has rejected in the past. These new fees include items such as requiring certain veterans to pay enrollment fees for medical care, charging fees for meat safety inspections, and increasing patent fees. The accompanying table lists the user fee proposals in the budget.

	2005	2006	2007	2008	2009	2005–2009
DISCRETIONARY						
1. Offsetting collections						
Department of Agriculture						
Food Safety Inspection user fees	124	121	121	122	122	610
Grain Inspection, Packers and Stockyards Administration	29	28	28	28	29	142
Animal and Plant Health Inspection Service	11	11	11	11	11	55
Department of Commerce						
Patent and Trademark Office	219	264	311	360	383	1,537
Department of Energy						
Office of Civilian Radioactive Waste Management: Reclassify fees	749	754	757	767	767	3,794
Department of Health and Human Services						
Medicare duplicate or unprocessable claims	195	195	195	195	195	975
Medicare appeals reform	10	32	33	34	35	144
Department of the Interior						
Fees transferred from the Power Marketing Administrations	30	29	29	29	29	146
Department of Justice						
FBI fees for forensic services	39	35	33	33	31	171
DEA fees for forensic services	3	3	3	3	3	15
Department of State						
Enhanced border security program user fees	100	105	111	116	122	554
Department of Transportation						
Motor carrier safety	13	13	13	13	13	65
Corps of Engineers—Civil Works						
Fees transferred from the Power Marketing Administrations	150	156	160	165	172	803
2. Offsetting receipts						
Department of Housing and Urban Development						
Office of Federal Housing Enterprise Oversight: GSE regulation	–44	–44	–45	–47	–47	–227
Department of Veterans Affairs						
Annual enrollment fee	268	281	295	310	326	1,480
Higher drug copayments	135	142	149	156	165	747
Environmental Protection Agency						
Abolish cap on pre-manufacturing notification fees	4	8	8	8	8	36
Remove prohibition on collection of registration fees	26	27	27	28	28	136
Nuclear Regulatory Commission						
Extend Nuclear Regulatory Commission fees	....	330	329	330	329	1,318
Subtotal, discretionary user charges proposals	2,061	2,490	2,568	2,661	2,721	12,501

(Continued)

(User Fees in the President's Budget, Continued)

	2005	2006	2007	2008	2009	2005–2009
MANDATORY						
1. Offsetting collections						
Department of Housing and Urban Development						
Government-sponsored enterprise regulation	6	6	6	6	6	30
Department of the Treasury						
Government-sponsored enterprise regulation	83	81	81	82	82	409
Federal Deposit Insurance Corporation						
Deposit insurance premiums	....	–570	–744	58	59	–1,197
Federal Housing Finance Board						
Government-sponsored enterprise regulation	–34	–32	–34	–35	–36	–171
2. Offsetting receipts						
Department of Agriculture						
Forest Service recreation fees	....	37	50	50	55	192
Department of Energy						
Office of Civilian Radioactive Waste Management: Reclassify fees	–749	–754	–757	–767	–767	–3,794
Fees transferred from the Power Marketing Administrations	–180	–186	–191	–197	–204	–958
Arctic National Wildlife Refuge, collections for research and development	....	1,200	....	....	....	1,200
Department of Homeland Security						
Conveyance and passenger fees and merchandise processing fees	820	1,391	1,448	1,507	1,570	6,736
Department of the Interior						
Recreation fees	....	38	48	47	47	180
Hetch Hetchy rental payments	8	8	8	8	8	40
Bureau of Land Management land sale authority	24	33	38	48	48	191
Arctic National Wildlife Refuge, collection for payments to Alaska	....	1,201	1	101	1	1,304
Arctic National Wildlife Refuge, rents and bonuses	....	1	1	101	1	104
Department of Labor						
Application fee for the permanent foreign labor certification program	23	23	23	23	23	115
Corps of Engineers—Civil Works						
Special recreation user fees	7	7	7	7	7	35
Federal Communications Commission						
Analog spectrum fee	....	....	500	500	480	1,480
Extend auction authority	....	....	–2,000	–2,000	2,800	–1,200
Spectrum license user fees	....	50	150	300	300	800
Subtotal, mandatory user charges proposals	8	2,534	–1,365	–161	4,480	5,496
3. Governmental receipts						
Department of the Interior						
Extend abandoned mine reclamation fees	239	245	252	256	262	1,254
National Indian Gaming Commission, activity fees	....	4	4	5	5	18
Department of the Treasury						
Internal Revenue Service fees	32	44	45	46	47	214
Subtotal, governmental receipts user charges proposals	271	293	301	307	314	1,486
Total, User charges proposals	2,340	5,317	1,504	2,807	7,515	19,483