

# HOUSE BUDGET COMMITTEE

## Democratic Caucus

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February 9, 2006

# Summary and Analysis of the President's Fiscal Year 2007 Budget

*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.*

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## **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

Over the last four years, the Administration has produced the four biggest deficits in history, and the 2006 deficit of \$423 billion is projected to be the largest of all. Clearly, this Administration's policies continue to take the budget in the wrong direction. Aside from the large deficits, the budget reflects the Administration's decision to impose harmful cuts on important services for average Americans while protecting benefits for narrow interests. Finally, there is far less than meets the eye in some of the Administration's high-profile budget initiatives.

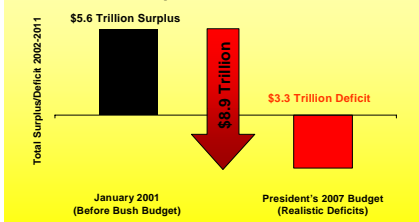
***The Largest Deficit in History*** — The Administration estimates that the deficit for 2006 will be \$423 billion, the largest in history. This deficit is \$105 billion larger than the 2005 deficit of \$318 billion. The deficit for 2006 without using the Social Security surplus is even higher, over \$600 billion. Even if the Administration's 2006 estimate proves to be too large, it is clear that the deficits for 2003, 2004, 2005, and 2006 are the four largest in American history.

### Another Record Deficit

*The Last Four Years, The Four Largest Deficits in History*

Rank	Year	Deficit
1 <sup>st</sup>	2006	-\$423 Billion
2 <sup>nd</sup>	2004	-\$412 Billion
3 <sup>rd</sup>	2003	-\$378 Billion
4 <sup>th</sup>	2005	-\$318 Billion

### Surplus Declines \$8.9 Trillion Under Republican Policies



### ***\$8.9 Trillion Budget Deterioration Under This Administration***

— When this Administration took office, it inherited a projected ten-year surplus (2002-2011) of \$5.6 trillion. Based on a realistic estimate of the President's policies, that surplus has now become a \$3.3 trillion deficit over the same period of time, a dramatic fiscal reversal of \$8.9 trillion.

### ***Administration Protects Narrow Interests While Cutting Services for Average Americans*** —

The Administration's budget makes shortsighted cuts to investments and services that typical Americans care about. The budget cuts funding for education, Medicare, Medicaid, and environmental protection, and increases fees paid by our veterans and Medicare premiums paid by some seniors. At the same time, the budget protects provisions benefitting narrow interests – such as \$10 billion in unnecessary Medicare subsidies to preferred provider organizations. It also includes another round of large tax cuts disproportionately benefitting the most fortunate.

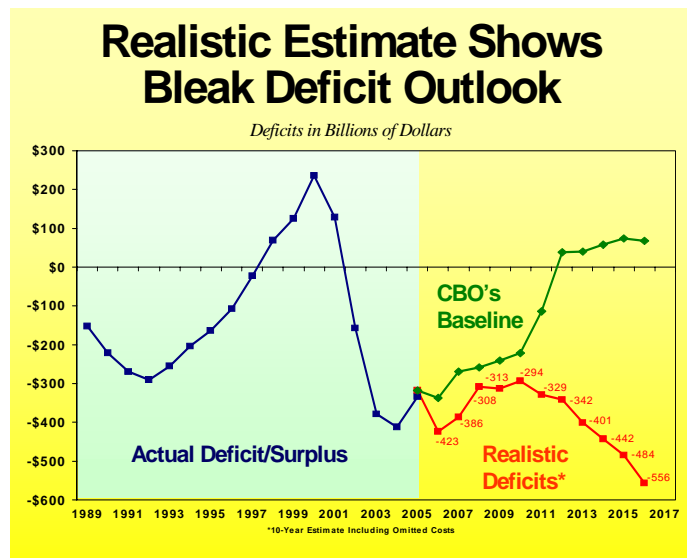
#### 2007 Budget Summary

Total Revenues	\$2.416 trillion
<u>Total Expenditures</u>	<u>\$2.770 trillion</u>
Total Deficit	\$354 billion

**Budget Contains Additional, Hidden Cuts to Critical Services** — In addition to the cuts acknowledged in the budget, the Administration plans additional harmful cuts to a range of domestic services in the years after 2007, but does not include these cuts in the publicly released budget materials. An OMB computer printout not released with the budget shows account-level appropriations numbers beyond 2007 – information that has traditionally been included in the public budget materials. These figures reveal substantial cuts to domestic services beyond 2007, even for some programs that the Administration provides an increase for in 2007, like veterans’ health care, mine safety, and nutrition assistance for women, infants, and children (WIC). Out-year cuts are also planned for programs cut or frozen in 2007, like some education programs and the National Institutes of Health. An Administration spokesman claims that these cuts do not represent Administration policy, but the numbers clearly confirm concerns that the overall five-year domestic appropriations levels in the budget will translate into harmful cuts to important services.

**Administration Budget Promises: Less Than Meets the Eye** — The budget fails to live up to some of the high-profile claims made by this Administration. For example, the Administration claims to be committed to providing affordable health care for Americans, but this budget includes increases in Medicare premiums, more cuts to Medicaid and Medicare, and a misguided plan for health savings accounts that will shift more of the cost of health care onto individual consumers. The budget also shows that there is less than meets the eye to the Administration’s American Competitiveness Initiative. Of the \$5.9 billion provided for this initiative for 2007, more than three-quarters of the total goes to an extension of the existing research and development tax credit. The President also claims that he is a strong supporter of math and science education programs. At the same time, though, his budget cuts the funding that helps students attend college.

**True Picture Is Even Worse Than Administration’s Numbers Reveal** — The Administration’s budget does not reveal the full extent of the deficit problem that its policies have created.



First, the Administration’s budget shows no deficit figures at all after the first five years, thus masking the \$1.5 trillion deficit impact (2012-2016) of the Administration’s tax cuts and the \$631 billion deficit impact of the Administration’s Social Security privatization plan over the same period of time.

Second, the budget omits a realistic estimate of the following costs:

- full repair of the Alternative Minimum Tax (AMT), which increases the deficit by \$844 billion over the next ten years if the Administration’s tax cuts are extended;
- realistic costs for ongoing operations in Iraq and Afghanistan, which total \$298 billion over the next ten years beyond the amounts included in the President’s budget, according to a Congressional Budget Office (CBO) scenario.

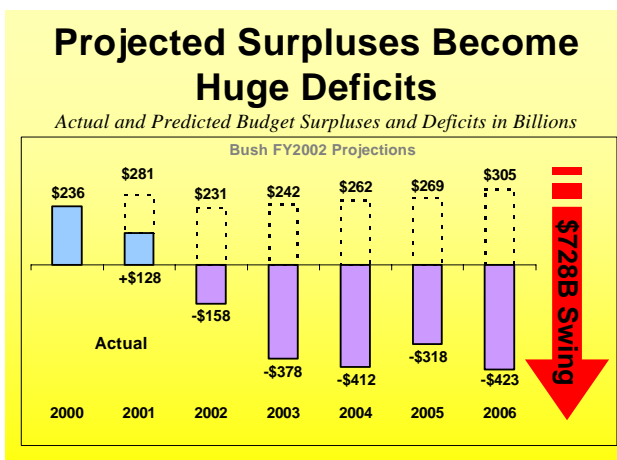
When these omitted costs, including debt service, are factored into the estimates, the deficit over the next ten years (2007-2016) is \$3.9 trillion, with triple-digit deficits never falling below \$294 billion per year.

<b>Deficits Much Worse than Administration Acknowledges</b>											
Unified Deficit in Billions of Dollars											
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2007-</u> <u>2016</u>
Bush Budget	-354	-223	-208	-183	-205						
Bush Budget Including Omitted Items	-386	-308	-313	-294	-329	-342	-401	-442	-484	-556	3,857

## Deficits and Debt

### ***Record Deficits and No Plan to Balance the Budget***

— The Administration minimizes its track record of four record deficits in the last four years, and claims that progress is being made on the deficit. In fact, since this Administration took office, the budget outlook has gotten continually worse. The Administration’s first budget estimated a surplus of \$305 billion for 2006; today’s 2006 deficit estimate of \$423 billion thus represents a \$728 billion deterioration under this Administration for this year alone. The same trend is evident in the deficit projections made for fiscal year 2007.



### **Bush Administration’s Surplus/Deficit Projections** (in billions of dollars)

Budget	FY 2006	FY 2007
February 2001	\$305	\$340
February 2002	\$86	\$104
February 2003	-\$201	-\$178
February 2004	-\$268	-\$241
February 2005	-\$390	-\$312
February 2006	-\$423	-\$354

All figures include the impact of the Administration’s proposed policies.

### ***Spending Cuts Don’t Begin to Pay for Large Tax Cuts***

— The deficit outlook for the next five years in the President’s budget is bleak: \$1.2 trillion over five years (2007-2011) as presented, and \$1.6 trillion if omitted items are included. However, if the President’s policies are not enacted, the deficit would be \$413 billion better than under the President’s plan, because the

### **The President’s Budget Makes the Deficit \$413 Billion Worse**

Tax Policies	285 Billion
Defense Supplemental	89 Billion
Social Security Reform	82 Billion
Defense Appropriations Increases	74 Billion
Hurricane Supplemental	12 Billion
Non-Defense Appropriations Cuts	-115 Billion
Mandatory Program Cuts	-66 Billion
Debt Service	52 Billion

**Total Effect on the Deficit, 2007-2011**

**\$413 Billion**

President's revenue and spending measures that increase the deficit outweigh the spending cuts by a large amount. The cuts the President makes in non-defense appropriations and entitlement programs (totaling \$181 billion) impose real harm on working families, but together their impact is smaller than that of the tax cuts alone, which cost \$285 billion over five years. Worse yet, the tax price tag of \$285 billion only fixes the Alternative Minimum Tax for one year. AMT repair for the full five years would boost the cost of the President's tax plan by \$263 billion over the five-year period. In total, the deficit impact of the President's stated tax agenda, along with a full repair of the AMT and associated debt service, is \$601 billion over five years and \$3.0 trillion over ten years.

**Administration Claims of Progress Are Unconvincing** — The Administration claims that it is making progress on the deficit, and that the deficit is on track to be cut in half over five years. A closer examination of these claims demonstrates that they are not supported by the evidence.

- **Understating Deficits** – The Administration generates deficit numbers that appear to show modest improvement relative to 2004 by omitting items fundamental to a realistic forecast – such as a repair of the AMT and a full accounting of likely ongoing war costs. When omitted items are included, the realistic 2009 deficit of \$313 billion is about the same size as the deficit for 2005, proving that the Administration is not making progress on the deficit.
- **Short-Term Focus Obscures True Picture** – The Administration's claim to be cutting the 2004 deficit in half over five years, by 2009, might lead some to think that the budget is on a linear path and will completely eliminate the deficit by the end of ten years. But the realistic estimates presented here show that, on the contrary, by the end of the ten-year window (2014), the deficit under Administration policies is likely to balloon to \$442 billion.
- **Questionable Standard of Progress** – The standard of progress the Administration sets for itself is dubious: turning a record surplus in 2000 into a record deficit by 2004 and then digging only halfway out of that deficit hole by 2009 fails to constitute an achievement.

**Administration's Budget Requires Another Increase in the Debt Limit** — In 2001, this Administration's first budget estimated that its policies would require no debt limit increase until 2008. In fact, the Administration has requested – and the Republican Congress has granted – three debt ceiling increases totaling \$2.2 trillion. In December, Treasury Secretary Snow wrote to Congress to request a fourth debt limit increase, and the \$781 billion debt limit increase currently pending brings the total increases to more than \$3 trillion.

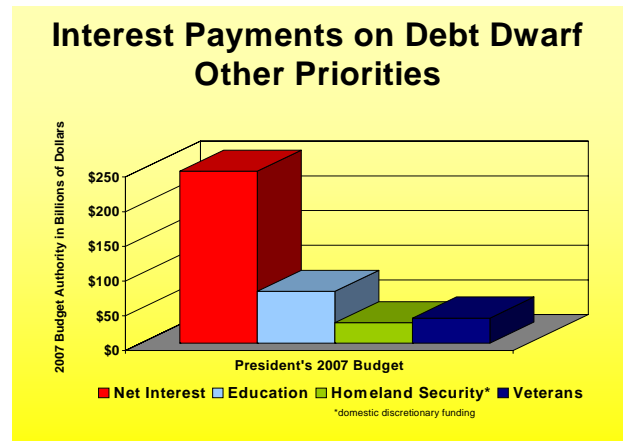
**Republicans Increase the Debt Limit by \$3 Trillion**

*Debt Limit Increases, Billions of Dollars*

June 2002	<b>\$450</b>
May 2003	<b>\$984</b>
November 2004	<b>\$800</b>
Pending Increase	<b>\$781</b>
<b>Total Increases</b>	<b>\$3,015</b>



**Deficits Undermine Long-Term Economic Strength** — The Administration has claimed that its record deficits are “manageable,” but mainstream economists agree that large, persistent deficits undermine the long-term strength of the economy. Such deficits put upward pressure on interest rates, crowd out private investment, and diminish prospects for sustained economic growth. Former Federal Reserve Chairman Alan Greenspan recently warned that if these large budget deficits are not addressed, “at some point these deficits would cause the economy to stagnate or worse.”



**Growing Debt Burdens Future Generations and Wastes Resources on Interest Payments** —

This Administration’s persistent deficits simply pass the cost of current policies – plus interest – to our children and grandchildren in the form of a growing national debt. Meanwhile, although these interest payments are obligatory, they nevertheless consume resources that would be used more productively for other priorities if the debt and resulting interest payments were smaller. The interest paid on this debt is one of the fastest growing parts of the federal budget and dwarfs the size of federal expenditures on such high priorities as education, homeland security, and veterans’ health care. According to the Administration’s own numbers, interest payments on the national debt in 2007 alone will total \$247 billion. By 2011 that figure will climb to \$322 billion.

**Administration Policies Spend the Social Security Surplus** — The Administration’s deficit policies call for spending all of the Social Security surplus every year for the next ten years and beyond. A total of \$2.5 trillion will be spent over the next ten years to pay for the day-to-day operations of government, rather than being saved for Social Security, a far cry from the Administration’s 2001 pledge that its budget would save “all of Social Security surplus (\$2.6 trillion) for Social Security.” (Fiscal Year 2002 Budget, page 7)

## Taxes

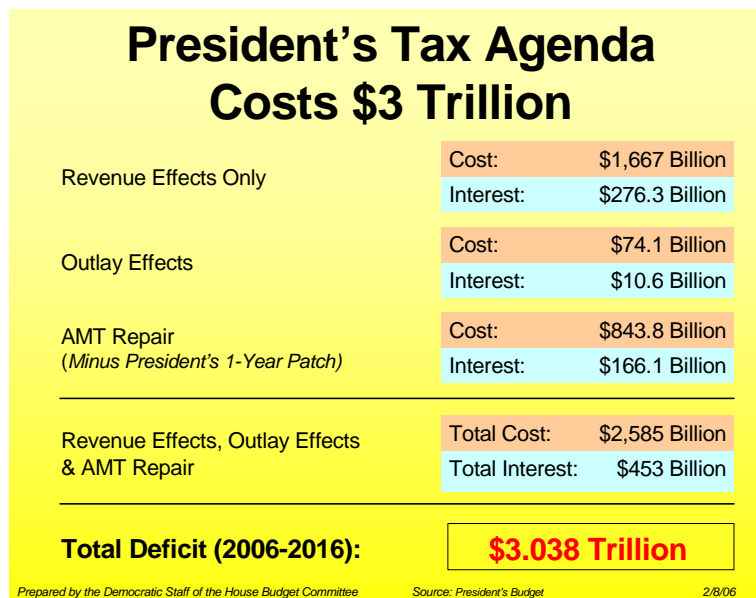
**Administration's Tax Agenda Increases the Deficit** — The Administration's stated tax agenda reduces revenues by \$1.7 trillion over ten years (2007-2016). When the cost of a ten-year repair of the AMT is factored in – along with the cost of servicing the additional debt caused by this tax agenda – the Administration's tax policies worsen the deficit by \$3.0 trillion.

***Tax Cuts Do Not "Pay for Themselves;" Revenues Collected Since Enactment of the Tax Cuts Are Far Below Projected Levels***

— Some conservative economists claimed that the 2001 tax cuts would generate such remarkable growth in income that revenue collected would be higher after the tax cuts due to the expanded tax base, implying that the tax cuts would “pay for themselves.” The deterioration in tax receipts since 2001 shows this not to be the case. In the Administration's 2002 budget, it was stated that the President's budget would “achieve historic levels of debt reduction” and the Administration projected that tax revenues would amount to \$11.4 trillion between 2001 and 2005. After five years of budget deficits, the tax cuts have failed to produce the expected results, with the Treasury instead raising \$9.7 trillion since 2001 – \$1.7 trillion below the projected level.

The Joint Committee on Taxation's estimates of the cost of the President's three major tax cuts sum to \$1.5 trillion between 2001 and 2014, without incorporating the additional costs of debt-servicing. Even the most ardent supporters of the tax cuts admit that the revenue growth claimed to be generated by the cuts would not be sufficient to compensate for the lost revenue. Josh Bolten, Director of the Office of Management and Budget, recently stated in a House Budget Committee hearing:

Economists are in disagreement about the size of what the dynamic effect is, and I'm hopeful that they will come to some agreement soon. But you're right. I'm not arguing that a dollar of tax cut produces a dollar of tax revenue.



While economists still disagree over whether tax cuts adopted in a time of growing deficits are harmful or helpful to long-run economic growth, these comments reinforce the well-established notion that tax cuts do not “pay for themselves.”

***Reductions in Revenue Cannot Be Blamed on Recent Events*** — Conservative economists point to the September 11<sup>th</sup> attacks as the justification behind the dramatic reversal in the budget outlook. But the economic impact of September 11<sup>th</sup> was temporary, a fact that has been supported by both liberal and conservative economists. At a House Budget Committee hearing in 2004, Alan Greenspan stated:

Immediately after 9/11 we had expected a very significant contraction in economic activity, which was likely to be prolonged. Within a matter of weeks, or a few months at the longest, it became quite evident that the economy had achieved a degree of resiliency which we had not expected it had, and it stabilized reasonably quickly and started to grow again at a fairly modest but eventually accelerating pace.

***The Budget Reduces Benefits for Certain Low and Middle-Income Taxpayers*** — The budget changes the eligibility guidelines for the Earned Income Tax Credit (EITC) and the Child Tax Credit so that certain taxpayers no longer qualify for these benefits. By making the standards for claiming these credits more stringent, the budget decreases the aggregate benefit of these two tax credits by \$2.1 billion over five years and \$5.0 billion over ten years. Since these benefits are most beneficial to low and middle-income taxpayers, particularly those who are working and have families, the inclusion of this cut makes the President’s tax agenda more biased against working-class families.

***The President’s Tax Cuts Preserve the Gap Between Earned and Unearned Income*** — The current tax code favors unearned income, such as capital gains and inheritance income, relative to earned income, such as wages and salary. If the President’s tax cuts are extended, including the repeal of the estate tax and extension of the lower tax rates on capital gains and dividend income, this bias against employment income would be preserved. Under the President’s budget, income received as inheritance will not be taxed at all, income received through the sale of a capital asset will be subject to a maximum rate of 15 percent, while income earned through employment will be taxed at a the payroll rate of 7.65 percent in addition to income tax rates up to 35 percent. The inclusion of the Lifetime Savings Accounts and Retirement Savings Accounts further rewards capital income relative to labor income. A tax code with such unbalanced incentives discourages income from employment relative to other income streams, a contradiction for an Administration that claims to value the virtues of employment.

***Tax Cuts Increase Dependence on Foreign Investors and Threaten America’s Economic Security*** — The rapid increase in national debt under the Bush Administration has led to an upsurge in debt held by foreign investors, as the U.S. Treasury has increasingly turned to private

foreign investors and central banks to finance annual deficits. Foreign-held debt has doubled under the Bush Administration; by November 2005, almost half the publicly held debt, approximately \$2.2 trillion or 46.2 percent, was in the hands of foreign investors. This is a fundamentally different situation than in the 1980's, when debt as a percentage of GDP was also high, but mostly held by American investors. Many economists see this as a troubling situation, since it makes the U.S. economy vulnerable to investment actions and political decisions by foreign holders of U.S. Treasury securities. Also, the cost of servicing this debt means that billions of dollars will annually flow outside the U.S., causing reductions in future standards of living as a higher proportion of future income is devoted to interest payments.

***Tax Cuts Provide the Most Benefit to the Most Fortunate*** — The bulk of the President's tax cuts are focused on those taxpayers at the top of the income distribution who are least in need of tax relief. The Brookings-Urban Tax Policy Center estimates that the extension of the President's tax cuts will result in almost half of the total tax cut, 45 percent, going to the four percent of filers with incomes over \$200,000. Tax filers with incomes in excess of \$1 million will receive an average tax cut in 2010 of approximately \$155,000, about one hundred times the tax cut for the average taxpayer. In addition to raising concerns about fairness, a tax cut disproportionately targeted to the most fortunate distributes the benefits of the tax break in a way that does not adequately stimulate consumer demand for goods and services.

***Revenues as a Percentage of GDP Are Near Lowest Level in Decades*** — Under the Administration's policies, revenues as a percentage of Gross Domestic Product (GDP) are estimated to be 17.5 percent for 2006. During this Administration, revenues as a percent of GDP have averaged 17.6 percent – about a full percentage point below the average over the two decades prior to the start of the Bush Administration. Moreover, this situation would be worse if not for the contribution of social insurance taxes to the revenue stream. Without this off-budget revenue, the Administration's record on sufficient tax revenue is even more worrisome. For example, individual income taxes, which comprise the largest share of revenues in the budget, are at their lowest levels since the 1960's.

***New Tax Cuts for High-income Households Use Gimmicks to Hide Budget Costs*** — The budget includes a provision, as it did last year, to allow households to place \$5,000 per family member each year in tax-sheltered "Lifetime Savings Accounts" (LSAs). Earnings on the accounts and withdrawals from them would be tax-free. Households could also annually place another \$5,000 each for the taxpayer and the spouse into a tax-sheltered "Retirement Savings Account" (RSA). These RSAs would replace IRAs, but the income limits on who can use IRAs would be eliminated. Few of the benefits from these new savings accounts would go to families with incomes under \$100,000, because most such families can already make comparable investments in IRAs, and few such families have such large amounts to invest. Because the proposals would encourage high-income households to cash out existing accounts (often paying capital gains taxes) in order to move assets into the new tax-sheltered accounts, the proposals

would generate revenues in the short run. After the first five years, however, the proposals would reduce revenues substantially. The Brookings-Urban Tax Policy Center estimates that the proposals, when fully in place, could cost as much as \$35 billion per year.

***The President's Tax Cuts Place Undue Burden on Social Security Revenues*** — The growth in the unified federal budget deficit would have been even greater if not for the excess Social Security payroll tax revenues generated over the past few years. By cutting taxes on unearned income, such as capital gains, inheritance, and dividend income, the President's tax agenda increases the reliance on payroll taxes and makes the tax code more regressive. Social insurance taxes now comprise 37 percent of federal revenues, up from 32 percent in 2000; the budget maintains this high proportion, collecting 36 percent of the revenue from social insurance taxes in 2011. This shift in revenue source not only places an undue burden on those taxpayers whose primary income is from wages and salary, but it also weakens the nation's Social Security system.

***The Omission of AMT Reform Greatly Understates the Cost of Tax Cuts*** — The President's budget includes an extension of tax cuts for capital gains and dividend income, but excludes any provision for repairing the AMT. If the AMT is not adjusted, an estimated 31 million taxpayers will be subject to the tax in 2010, making its reform nearly inevitable. Since the AMT "adds back" a significant portion of the extension of capital gains and dividend income tax cuts, it is important to consider the cost of the two cuts together when estimating the realistic cost of reform. Combining the cost of adjusting the AMT with the cost of the President's proposed tax cuts increases the deficit by \$2.5 trillion over ten years, before accounting for the extra cost of interest payments or assuming an extension of the law allowing the deduction of non-refundable personal credits under the AMT. The cost of fixing the AMT is \$844 billion if the President's tax cuts are made permanent.

## Damaging Cuts and Freezes

According to Budget Director Joshua Bolten, President Bush instructed him to “build on last year’s progress by focusing on national priorities and tightening our belt elsewhere.” It is clear from this Administration’s budget that providing tax cuts targeted largely to the most fortunate is a top priority. It is also clear that children and families, senior citizens, students, and local governments will have to tighten their belts.

The President’s 2007 budget increases discretionary spending from \$843.3 billion in 2006 to \$870.7 billion in 2007, an increase of 3.2 percent. This modest increase reflects large increases in the defense budget and overall cuts for vital domestic programs. Specifically, domestic non-homeland discretionary spending is cut \$5.3 billion below the 2006 enacted level and \$16.8 billion below the amount needed to maintain purchasing power at the 2006 level. Over five years, domestic funding is cut \$183.1 billion below the amount needed to maintain constant purchasing power. This amount includes the 141 federal programs targeted for substantial reduction or elimination by the Administration. For example, the Department of Education eliminates 42 programs costing \$3.5 billion per year. Among these programs targeted for elimination are Vocational Education, GEAR UP, and Safe and Drug-Free Schools State Grants.

The Administration is proposing \$66.6 billion in net mandatory spending cuts over five years (excluding outlay effects of tax changes) and \$176.6 billion in net cuts over 10 years to existing programs. This includes \$35.9 billion in cuts to Medicare over five years and \$105.0 billion in cuts over ten years. It also includes \$4.9 billion over five years and \$11.9 billion over ten years in gross legislative cuts to Medicaid. (There are additional cuts to Medicaid via regulations of \$12.2 billion over five years and \$30.4 billion over ten years.)

The budget assumes that the 2001 and 2003 tax cuts – which include repeal of the estate tax and favorable rates for capital gains and dividends – are made permanent at a cost of \$178.6 billion

### Damaging Cuts in the President’s Budget (Illustrative List)

- Medicare:** Makes legislative cuts of \$35.9 billion over five years and \$105.0 billion over ten years
- Medicaid:** \$17.2 billion in gross legislative and regulatory cuts over five years and \$42.3 billion over ten years
- No Child Left Behind:** Funded at \$15.4 billion below authorized level
- Veterans Medical Care:** Provides \$10.1 billion less over five years than amount needed to maintain current services
- Environmental Protection Agency:** Cuts funding by \$304 million (4.0 percent) below 2006 enacted level
- Community Development Block Grant:** Cuts \$736 million from 2006 non-emergency funding levels

over five years and \$1.353 trillion over ten years. And while Medicare is cut for the elderly, the Bush Administration provides \$51.7 billion over five years (\$136.5 billion over ten years) in tax breaks for health saving accounts and other proposals favoring the healthy and the affluent. And the total is about \$20 billion higher over ten years when the outlay effects are taken into account. Overall, the Administration, which is touting its fiscal restraint with respect to non-security discretionary funding, is pushing for \$1.667 trillion in extensions and new tax cuts over ten years.

<b>Domestic Funding Cut Deeply</b>							
(Discretionary Non-Defense, Non-International Budget Authority in Billions of Dollars)							
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2007-11</b>
President's budget	379.6	375.8	376.1	379.5	379.5	380.4	1891.2
OMB baseline level	382.0	391.8	403.3	416.5	425.6	437.1	2074.3
President below baseline	n.a.	-16.0	-27.2	-37.0	-46.1	-56.8	-183.1
Percent below baseline	n.a.	-4.1%	-6.7%	-8.9%	-10.8%	-13.0%	n.a.

### **Cuts Affecting Children, Families, and the Elderly**

**Legislative Cuts to Medicare of \$105 Billion Over Ten Years** — The budget makes legislative cuts to Medicare of \$35.9 billion over five years and \$105 billion over ten years by reducing payments for providers in traditional Medicare. The budget also includes regulatory cuts of \$7.9 billion over five years and \$19.0 billion over ten years. Excluding already published regulations, the regulatory savings are \$5.4 billion over five years and \$13.2 billion over ten years.

**\$17.2 Billion in Gross Cuts to Medicaid Over Five Years, \$42.3 Billion Over Ten Years** — The budget includes legislative cuts to Medicaid of \$4.9 billion over five years, and another \$12.2 billion in cuts through regulatory changes, for total gross cuts of \$17.2 billion over five years. Over ten years, the budget includes \$11.9 billion in legislative cuts, and \$30.4 billion in regulatory cuts, for total gross cuts of \$42.3 billion. (The budget also reinvests \$3.2 billion in Medicaid over five years and \$6.8 billion over ten years, for a net effect in Medicaid legislative and regulatory cuts of \$14.0 billion over five years and \$35.5 billion over ten years.) Cuts of this magnitude cannot be found by simply closing loopholes – the pain will be felt somewhere, either by shifting costs to beneficiaries or states or cutting payments to providers, which can undermine their ability to provide care to the uninsured.

***Cuts Housing for the Disabled and Elderly*** — The budget provides \$119 million for a program that provides supportive housing and other housing assistance for persons with disabilities, 49.8 percent less than the amount enacted for 2006. The budget also provides \$546 million for a similar housing program for the elderly, a cut of \$189 million, or 25.7 percent, from the 2006 level.

***Cuts Education Funding by \$2.1 Billion; Eliminates 42 Programs*** — Despite the Administration’s stated intent to strengthen American competitiveness by focusing on improving students’ knowledge of math and science, the President’s budget cuts federal education funding by \$2.1 billion below the comparable 2006 enacted level, which itself was below the 2005 enacted level. Within ED’s 2007 budget of \$54.4 billion, the budget freezes or reduces funding for most programs and produces “savings” of \$4.1 billion by outright eliminating 42 appropriated programs that Congress funded less than two months ago, for savings of \$3.5 billion, plus recalling all prior federal contributions to the revolving funds from which colleges currently make Perkins loans, for additional 2007 savings of \$664 million. These eliminated programs cover elementary, secondary, and higher education programs – including all vocational education and technology programs, the \$347 million Safe and Drug-Free School state grant program, and the \$311 million TRIO Upward Bound program.

***Cuts Funding for High School Achievement*** — Funding aimed at improving high school achievement receives \$596 million of ED’s net cut. The budget includes a new \$1.5 billion high school reform program, but more than offsets this new funding by eliminating \$2.1 billion for existing high school programs – including the elimination of all vocational education programs, mentioned above.

***Funding Cut for Existing Programs Under the No Child Left Behind Act (NCLB) Act*** — The NCLB Act authorizes \$39.4 billion for elementary and secondary education programs for 2007, including \$25.0 billion for Title I grants to states. Yet, the President’s budget cuts overall funding for existing NCLB programs, freezes Title I at \$12.7 billion, adds its new high school and math programs, and still provides only \$24.0 billion for NCLB programs – \$15.4 billion below the authorized level.

***Freezes Head Start*** — The budget freezes Head Start funding at \$6.8 billion. The National Head Start Association reports that if Head Start maintains its quality of services, a freeze in funding will require it to drop 19,000 children from the program next year.

***Elimination of Social Security Death Benefit*** — Dependent spouses or eligible children are entitled to a one-time lump-sum payment of \$255. This benefit has been part of the Social Security insurance package since 1950 and has been earned by workers through their payroll tax contributions. While the savings are modest, the proposal illustrates the Bush Administration’s



willingness to cut guaranteed Social Security benefits, even those, quite literally, paid to widows and orphans. Elimination of such benefits saves \$989 million over five years.

### **Cuts Affecting Public Health and Research**

***Freezes Funding for NIH*** — Republicans often tout the fact that they doubled the NIH budget from 1998 to 2003. But now the budget provides \$28.4 billion for 2007, virtually a freeze at the 2006 enacted level, and a cut of \$642 million below the amount needed to maintain purchasing power at the 2006 level.

***Cuts CDC*** — The budget provides \$5.8 billion for CDC, a cut of \$290 million (4.8 percent) below the 2006 level. The budget eliminates the Preventive Health and Social Services Block Grant (\$99 million), cuts funding for buildings and facilities from \$158 million to \$30 million, and freezes funding for state and local emergency response preparedness at \$824 million.

***Eliminates Several HRSA Programs*** — The budget eliminates several HRSA programs, including health professions training grants (\$99 million in 2006), EMS for children (\$20 million in 2006), Universal Newborn Screening (\$10 million in 2006), and the Traumatic Brain Injury program (\$9 million in 2006).

***Slashes Rural Health Activities*** — The budget provides \$27 million for rural health activities, a \$133 million (83.1 percent) cut from the 2006 enacted level.

***Cuts Children's Hospital Graduate Medical Education*** — The budget funds children's GME at \$99 million, a cut of \$198 million (66.7 percent) below the 2006 enacted level.

### **Cuts Affecting Veterans**

***Funding for Veterans Medical Care*** — Over five years, the budget cuts veterans funding \$10.1 billion below the level estimated to maintain purchasing power at the 2006 level. Almost all appropriated funding for veterans goes to provide medical care and hospital services.

### **Cuts Affecting the Environment**

***Environmental Protection Agency (EPA) Funding Cut Again*** — For 2007, the President's budget once again cuts EPA funding, providing \$7.3 billion in appropriations, a 4.0 percent (\$304 million) decrease from the 2006 enacted level. The Clean Water State Revolving Fund is provided only \$688 million for 2007, a cut of \$199 million, or 22.4 percent, from the 2006 enacted level. Funding for environmental justice programs, which protect the health and welfare of low-income and minority communities from environmental toxins related to industrial

pollution, is also significantly cut by nearly \$2 million, or 27.8 percent, below the 2006 enacted level.

***Cuts Services for Farmers and Ranchers*** — The President once again cuts vital Farm Bill programs that would help farmers and ranchers protect and enhance natural resources by over \$450 million for 2007 alone. This is in addition to the \$249 million in conservation cuts for 2007 in the 2005 Republican spending reconciliation bill. The President's budget caps the Conservation Security Program (CSP) at \$342 million. The budget cuts the Environmental Quality Incentives Program (EQIP) by \$270 million (21.3 percent), the Wildlife Habitat Incentives Program (WHIP) by \$30 million (35.3 percent), the Agriculture Management Assistance program by \$14 million (70.0 percent), and Farmland Protection by \$47 million (48.5 percent). The budget also eliminates the remaining Watershed Rehabilitation Program funds (\$65 million). These cuts are just some examples.

***Unmet Fire Prevention Needs*** — The President's budget provides \$244 million for State and Private Forestry, a cut of \$35 million (12.5 percent) from the 2006 enacted level. Forest Health Management is provided \$84 million, a cut of \$16 million (15.9 percent). The budget also provides \$33 million for the State and Local Fire Assistance Program and eliminates the Rural Fire Assistance program, a combined cut of \$16 million (32.6 percent).

### **Cuts Affecting Public Safety**

***First Responders*** — The budget decreases firefighter assistance grants by \$355 million and eliminates all funding for law enforcement terrorism prevention, a reduction of \$385 million. The budget again proposes elimination of the Justice Assistance grant program, a reduction of \$388 million.

***The Community Oriented Policing Services (COPS) Program Nearly Eliminated*** — COPS provides grants and other assistance to help communities hire, train, and retain police officers and to improve law enforcement technologies. The budget provides \$102 million for COPS for 2007, most of which is funding that is carried over from previous years. This represents a \$376 million (78.7 percent) cut below the 2006 enacted level. The budget also permanently reduces unobligated balances in the program by \$128 million for 2007, thus setting the program on the path for elimination.

***Bureau of Alcohol, Tobacco, Firearms and Explosives Cut*** — The Bureau of Alcohol, Tobacco, Firearms, and Explosives investigates and enforces laws relating to the items for which it is named. The budget provides \$860 million for the Bureau, a \$72 million (7.7 percent) cut below last year's level. The budget proposes that the agency collect an additional \$120 million in user fees for 2007 to help offset costs of the Bureau's regulation of the explosives industry.

***Violence Against Women Programs Cut*** — Violence Against Women programs provide varied assistance to prevent and prosecute abuse committed against women. The budget provides \$347 million for Violence Against Women programs for 2007, a \$35 million (9.2 percent) cut below last year's level.

## **Cuts Affecting Communities**

***Community Development Block Grant (CDBG) Program Cut*** — The CDBG program enables states and localities to target federal formula grants and other financial assistance toward improving housing and economic conditions in low- and moderate-income neighborhoods. Last year, the CDBG program proved crucial in helping to provide emergency assistance to communities devastated by natural disasters, including hurricane Katrina. The budget cuts CDBG formula grants and either cuts or eliminates CDBG set-aside programs.

The budget provides \$3.0 billion for CDBG formula grants, a \$736 million cut below the 2006 non-emergency level. The budget cuts the Indian Tribe assistance set-aside program by \$75 million (54.7 percent) below last year's level, and cuts the Youthbuild program by \$14 million (21.9 percent) below last year's level while moving the program from HUD to the Department of Labor. The budget eliminates Economic Development Initiative grants.

***Rural Housing and Economic Development Program Eliminated*** — The Rural Housing and Economic Development program provides funds to improve housing and economic development among rural communities. The budget eliminates the Rural Housing and Economic Development program, which is currently funded at \$17 million.

***Community Development Financial Institutions (CDFI) Program Cut*** — The CDFI enables specialized financial institutions to provide an array of funds and services to promote economic development among low-income and/or native communities. The President's budget provides \$8 million for the CDFI program, a \$46 million (85.2 percent) cut below last year's level.

***Rural Community Advancement (RCA) Program Cut*** — The RCA program provides grants, loans, and loan guarantees to stimulate economic growth and build facilities in rural communities. The budget provides \$601 million for the RCA, a \$117 million (16.3 percent) cut below the 2006 enacted level.

***High Energy Costs Grants Eliminated*** — The High Energy Costs Grants program provides funds to improve energy facilities among communities that have residential energy costs equal to at least 275 percent of the national average. The budget eliminates the high energy costs grants program, which is funded at \$26 million for 2006.

***Legal Services Corporation Cut*** — The Legal Services Corporation provides free legal assistance for low-income people. The President’s budget provides \$311 million for the Legal Services Corporation, a \$16 million (4.9 percent) cut below the 2006 level.

***Rescinds Funding for HOPE VI Rehabilitation of Distressed Public Housing*** — The budget rescinds the \$99 million provided for the HOPE VI program for 2006 and proposes no new funding for 2007. HOPE VI has successfully transformed severely distressed public housing projects into vibrant mixed-income neighborhoods. This program’s funding has declined steeply since 2003, when it received \$570 million.

***Cuts Public Housing Capital Fund by More Than One-Tenth*** — The budget provides \$2.2 billion to local public housing authorities for capital repairs and improvements to their housing stock. This amount is \$261 million, or 10.7 percent, below the 2006 level. The capital fund was funded at \$3.0 billion for 2001 and has received steadily less each year since then.

***Funding Cuts for the Essential Air Service (EAS) and Small Community Air Service Programs*** — The President’s 2007 budget once again cuts funding more than 50 percent for the EAS program, which provides financial assistance to rural communities geographically isolated from hub airports so that they may operate smaller airports, 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, as in previous years, 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, a cut of \$10 million from the 2006 level. Congress authorized \$35 million per year for this program as part of the 2004 Federal Aviation Administration (FAA) reauthorization bill.

***Amtrak Funding Slashed Again*** — The President’s budget provides only \$900 million for Amtrak, a cut of \$394 million, or 30.4 percent, from the 2006 enacted level. The budget provides \$500 million for Amtrak’s capital expenses (a \$272 million cut from the 2006 enacted level), but it does not provide any direct funding to cover Amtrak’s operating expenses. Instead, the President’s budget provides \$400 million in “efficiency incentive grants,” which DOT may issue to Amtrak for operating expenses based on the progress Amtrak makes in undertaking the Administration’s reform initiatives.

***Eliminates Community Services Block Grant*** — The budget eliminates the Community Services Block Grant and other community services programs, cutting \$670 million for a range of services to reduce poverty and to provide assistance in the areas of housing, health, nutrition, energy, and substance abuse.

***Slashes the Social Services Block Grant (Title XX)*** —The budget cuts the Social Services Block Grant (SSBG) by \$500 million for 2007, for a total funding level of \$1.2 billion. 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. One of the Administration’s main justifications for cutting SSBG funding is that “the flexibility of the SSBG makes it difficult to measure performance.” However, the 2007 budget moves numerous programs – such as rental assistance and foster care – in the direction of becoming flexible block grants.

### **Cuts Affecting Competitiveness**

***Slashes Funding for the Manufacturing Extension Partnership*** — The budget provides \$46 million for the Manufacturing Extension Partnership, a 56.2 percent cut from the 2006 enacted level of \$105 million. This program, which also receives state, local, and private funding, 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. Funding for the program has fluctuated dramatically in recent years, going from \$106 million for 2003 to \$40 million for 2004, and back to \$108 million for 2005 and \$105 million for 2006 before the budget slashes funding once again for 2007.

***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 \$79 million in 2006.

***Consolidates Training Programs into Personal Accounts and Cuts the Funding*** — The President’s budget consolidates six existing job training programs, cuts their funding by \$496 million (12.7 percent), and provides the funding through personal Career Advancement Accounts of up to \$3,000 for certain individuals.

## Rhetoric Versus Reality

***Promises for Health Care Not Met*** — In the State of the Union address, the President touted the government’s responsibility to provide health care for the poor and elderly, and set forth a goal of confronting rising health costs for all Americans. Despite these claims, the budget cuts Medicare by \$35.9 billion over five years and \$105 billion over ten years, and raises premiums for certain seniors. The budget also cuts health care for low-income children, families, disabled, and elderly by making gross cuts to Medicaid of \$17.2 billion over five years through a package of legislative and regulatory changes. Even after some reinvestments back into the program, the Medicaid cuts still reach \$14 billion over five years. As for affordability, the Administration focuses almost exclusively on health savings accounts and high-deductible health plans – forms of health insurance that serve to shift more health care costs onto consumers.

***Budget Fails to Support Students*** — The Administration claims to be providing aggressive leadership in educating America’s students, yet the budget cuts appropriations to help students attend college, cuts funding for high school achievement programs by almost \$600 million, and drastically cuts the funding to keep children safe during and after school. For instance, although the budget includes a new high school reform initiative, it more than offsets that funding by eliminating all vocational education programs as well as three programs that help low-income students prepare to attend college. It eliminates eight higher education programs that account for \$848 million in “savings,” and it freezes the maximum Pell Grant award at \$4,050, although average tuition and fees at a four-year public college have risen by \$1,393 since the last Pell increase in 2003. And these cuts come just days after Congress passed the Republican reconciliation spending cut bill, which cut \$12 billion from planned spending on student loans over five years (2006-2010).

***“American Competitiveness Initiative:” Less Than Meets the Eye*** — The budget touts a new \$5.9 billion initiative to increase federal research funding and to train more teachers in math and science. In fact, though, most of the funding – \$4.6 billion – simply extends the existing research and development tax credit through 2007. The initiative spreads \$1.3 billion in new funding across the National Science Foundation, the Department of Energy’s Office of Science, the National Institute of Standards and Technology’s research programs, and the Department of Education. Most of the \$380 million to improve elementary and secondary school teaching of math and science comes at the cost of current education technology programs, which the budget eliminates entirely. Despite the Administration’s claims of support for research efforts, the budget essentially freezes funding for the National Institutes of Health. Finally, the initiative recycles a prior Administration proposal to let certain people obtain job training through personal Career Advancement Accounts of up to \$3,000, but the budget pays for this by consolidating existing job training programs and cutting the available funding by \$496 million (12.7 percent), to \$3.4 billion.

## Appropriations Overview

The budget cuts domestic non-homeland security funding for 2007, and then cuts it further in following years. Appropriations for defense, international affairs, and homeland security rise.

### ***Budget Increases Non-Emergency Appropriations Overall But Slashes Domestic Funding*** —

The President's budget provides \$870.7 billion in regular appropriations for 2007, which is \$2.1 billion (0.2 percent) above the amount needed to maintain purchasing power at the 2006 level and \$27.3 billion above the \$843.3 billion in non-emergency funding provided for 2006. However, as shown in the table below, despite the increase in total appropriations, the President's budget cuts funding for regular domestic services by \$16.8 billion below the amount needed to maintain purchasing power, and by \$5.3 billion below the 2006 enacted level. In contrast, the budget increases appropriations for the other categories of non-emergency discretionary funding:

- defense funding increases to \$459.7 billion, which is \$15.1 billion above the amount needed to maintain purchasing power at the 2006 level;
- international affairs funding rises to \$35.1 billion, which is \$3.7 billion above the 2006 enacted level; and
- domestic homeland security funding increases by \$1.7 billion above the 2006 enacted level, to \$29.3 billion.

### **Total Funding for Appropriated Programs**

(Budget Authority in Billions of Dollars)

<u>Non-Emergency Amounts:</u>	<b>2006</b>	<b>2007 Baseline</b>	<b>2007 Request</b>	<b>Request v. Baseline</b>
Domestic Non-Homeland Security	351.8	363.4	346.5	-16.8
National Defense	432.4	444.6	459.7	+15.1
International Affairs	31.4	32.1	35.1	+3.0
Homeland Security	27.6	28.5	29.3	+0.8
<b>Total Non-Emergency Appropriations</b>	<b>843.3</b>	<b>868.6</b>	<b>870.7</b>	<b>+2.1</b>
<u>Emergency Amounts:</u>				
Iraq/Afghanistan Supplemental Funds*	120.0	n.a.	50.0	n.a.
Hurricane Katrina-Related Funds**	22.6	n.a.	0.0	n.a.
Avian Flu Emergency Funds	3.8	n.a.	2.3	n.a.
<b>Total including emergencies</b>	<b>989.8</b>	<b>n.a.</b>	<b>923.0</b>	<b>n.a.</b>

\*Congress has appropriated \$50 billion for the war for 2006. The President's budget includes an additional \$70 billion for 2006, and \$50 billion as a down payment for 2007.

\*\*Congress has provided \$4.6 billion for hurricane relief for 2006, and the President's budget includes \$18.0 billion more.

National Defense is Function 050, which includes DOD and nuclear weapons-related activities of the Department of Energy. Homeland Security is non-defense, non-international discretionary funding.

**More Emergency Funding for 2006 and 2007** — The President’s budget provides an additional \$88.0 billion in supplemental emergency funding for 2006; it also provides \$52.3 billion in emergency funding for 2007, comprised of \$50 billion as a down payment on 2007 war costs and \$2.3 billion to take steps to prevent an avian flu pandemic. For 2006, Congress has already provided \$58.4 billion in emergency supplemental funding: \$50 billion for Iraq and Afghanistan, \$4.6 billion for Hurricane Katrina-related expenses, and \$3.8 billion for avian flu. The additional \$88.0 billion in the President’s budget for 2006 includes \$70 billion for the war and \$18 billion for hurricane relief.

**Cuts 2007 Funding for Most Domestic Agencies** — The President’s budget message highlights that this budget cuts non-security funding below the 2006 level. The cut in domestic funding that is not for homeland security affects many key agencies, including the Departments of Education, Transportation, Justice, Housing and Urban Development, and Health and Human Services. Many of the cuts will affect the most vulnerable in our society – children and the elderly – and jeopardize public health, safety, and environmental protection. The table below lists some of the domestic agencies that face cuts next year. See *Damaging Cuts* for specific details about some of the programs cut by the President’s budget.

<b>President’s 2007 Budget Cuts Funding for 11 Major Agencies</b>				
<i>(Discretionary Budget Authority in Billions of Dollars)</i>				
	<b>2006 Enacted</b>	<b>2007 Request</b>	<b>Dollar Cut</b>	<b>Percent Cut</b>
Agriculture	21.1	19.7	-1.4	-6.5
Commerce	6.4	6.1	-0.2	-3.7
Education	56.5	54.4	-2.1	-3.8
Health and Human Services	69.2	67.6	-1.6	-2.3
Housing and Urban	34.3	33.6	-0.6	-1.8
Interior	10.8	10.1	-0.6	-5.9
Justice	21.0	19.5	-1.5	-7.2
Labor	11.3	10.9	-0.4	-3.9
Transportation	14.6	13.2	-1.4	-9.4
Corps of Engineers	5.3	4.7	-0.6	-11.2
Environmental Protection	7.6	7.3	-0.3	-4.0

*Data from Table S-3, page 315 of the FY 2007 Budget of the U.S. Government.*

**Budget Eliminates or Significantly Cuts 141 Discretionary Programs** — The President’s budget eliminates 91 discretionary programs, saving \$7.3 billion compared with 2006 appropriations, and cuts \$7.4 billion in funding for 50 other programs. The 91 eliminated programs include 42 education programs worth \$4.1 billion and 8 programs within the Department of Health and Human Services worth \$866 million. (See the complete list in the

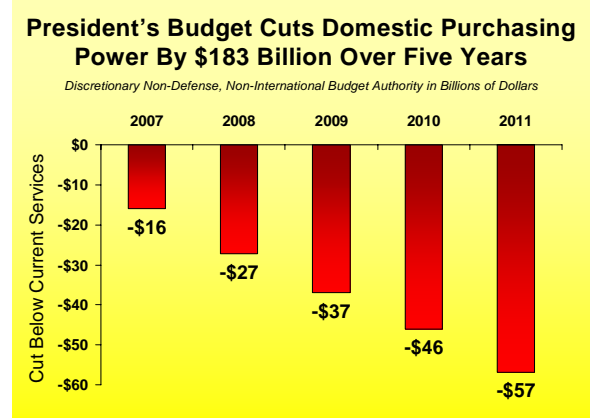


attached appendix.) Congress has repeatedly rejected some of these proposed terminations, calling into question the \$14.8 billion in 2007 savings from this year's cuts. Some of the major eliminated programs are listed below.

<b>Some of the Programs Eliminated in the 2007 Budget</b>	
(Dollars in Millions, 2006 Enacted Level <sup>a</sup> )	
<i>Program</i>	<i>'06 \$</i>
<b>Law Enforcement:</b>	
State Criminal Alien Assistance	400
Justice Assistance grants	327
Law Enforcement Terrorism Prevention	385
Byrne Discretionary grants	189
COPS Law Enforcement Technology grants	128
<b>Community Services and Development</b>	
Community Services Block Grant	630
Economic Development Initiative grants	298
Community Economic Development	27
Rural Housing & Economic Development	17
<b>Education:</b>	
42 Department of Education programs, (see complete list in <i>Function 500</i> )	4130 <sup>b</sup>
<b>Health Care:</b>	
CDC Preventive Health Block Grant	99
Urban Indian Health program	33
Emergency Medical Services for children	20
Universal Newborn Screening	10
<i>Program</i>	<i>'06 \$</i>
Traumatic Brain Injury	9
<b>Energy:</b>	
State energy activities and gateway deployment in the Weatherization program	26
Geothermal Technology	23
<b>Environmental Protection:</b>	
Watershed Rehabilitation	65
Land and Water Conservation Fund stateside program	28
Rural Fire Assistance	10
<b>Income Assistance:</b>	
HOPE VI Rehabilitation of Distressed Public Housing	198 <sup>c</sup>
Commodity Supplemental Food Program	107
High Energy Costs grants	26
<b>Other:</b>	
Advanced Technology Program	79
Small Community Air Service	10
<sup>a</sup> These 2006 levels match those in the budget's list of terminated programs, but may not reflect the total funding that was available to a program for 2006. <sup>b</sup> Includes \$664 million in 2007 from recall of prior Perkins loan capital contributions. <sup>c</sup> Rescinds \$99 million in 2006 funding, for "savings" of \$198 for 2007.	

## Funding for 2008 Through 2011

**Domestic Funding Cut Even More Deeply Over Time** — As deep as domestic funding cuts are in 2007, they only get more painful over the next four years covered by the President’s budget. Even some of the programs that get increases for 2007 – such as veterans’ health care, mine safety programs, and the Superfund program – are cut in the following years. The official budget materials claim that there is no policy attached to the funding levels beyond 2007, but clearly a budget that in 2011 provides \$56.8 billion (13.0 percent) less than needed to maintain purchasing power for domestic services will deeply cut many programs. Some of the services cut over time, according to an OMB computer printout, include:



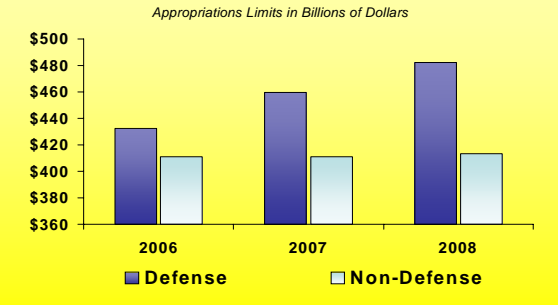
- **Education** — The budget slightly increases funding for Education for the Disadvantaged programs for 2007, but then imposes a \$676 million cut for 2011. Assistance for higher education – which includes funding for Pell Grants – is cut for 2007 and then cut by another \$594 million for 2011.
- **WIC** — The budget includes \$5.2 billion for 2007 for Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), but funding declines to \$5.0 billion by 2011 – a 13.3 percent cut from the amount that would be necessary to maintain purchasing power at the current level.
- **Mine Safety and Health Administration (MSHA)** — For 2007, the budget provides \$288 million for MSHA, an \$11 million increase above the 2006 enacted level. However, in later years, MSHA funding is cut below the 2006 level, to \$276 billion for 2011.
- **Veterans’ Health Care** — For 2007, the budget increases funding for veterans’ health care but then cuts it over time, so that by 2011, it provides \$4.7 billion less than needed to maintain purchasing power at the 2006 level; over the five-year period, the budget provides \$10.1 billion less than needed to maintain purchasing power.

<b>Domestic Funding Cut Deeply</b>							
(Discretionary Non-Defense, Non-International Budget Authority in Billions of Dollars)							
	2006	2007	2008	2009	2010	2011	2007-11
President’s budget	379.6	375.8	376.1	379.5	379.5	380.4	1891.2
OMB baseline level	382.0	391.8	403.3	416.5	425.6	437.1	2074.3
President below baseline	n.a.	-16.0	-27.2	-37.0	-46.1	-56.8	-183.1
Percent below baseline	n.a.	-4.1%	-6.7%	-8.9%	-10.8%	-13.0%	n.a.

Because the budget explicitly shows homeland security funding growing steadily each year, the cut in the remaining domestic programs will be even steeper than the totals shown above.

***Imposes Defense and Non-Defense Discretionary Funding Caps*** — Like last year's budget, the President's 2007 budget limits total discretionary funding for the next five years and sets defense and non-defense caps for 2006 through 2008 at the levels in this budget. Each year, those levels cut non-defense funding further below the amount needed to maintain current purchasing power while defense funding continues to rise at rates higher than inflation.

### Budget Caps For Defense and Non-Defense Appropriations



## Social Security and Other Entitlements

### General Mandatory Spending

**Budget Includes \$77 Billion in Gross Mandatory Spending Cuts** — The budget cuts spending on selected mandatory programs by \$77.2 billion over five years through a combination of service reductions and fee increases. The largest spending cuts affect Medicare (\$35.9 billion) and the Pension Benefit Guaranty Corporation (\$16.7 billion). Other cuts include \$5.0 billion from agriculture commodity programs, \$4.9 billion from Medicaid, \$4.0 billion from allowing oil drilling in the Arctic National Wildlife Refuge (with an additional \$4.0 billion distributed to the State of Alaska), \$2.0 billion from the refundable portions of the child and earned income tax credits, and \$706 million from restricting eligibility for food stamps.

#### Mandatory Spending in the President's Budget, 2007-2011

(billions of dollars)

Program Cuts/User Fees	-77.2
Social Security Private Accounts	81.6
Other Program Increases	16.8
<b>Net Change</b>	
Including SS Private Accounts	21.2
Excluding SS Private Accounts	-60.4

**Some Cuts Offset by Spending Increases** — Part of the Medicaid cut is offset by \$3.2 billion in new spending, and part of the food stamp cut is offset by \$589 million in new spending. Other spending increases include \$81.6 billion for Social Security private accounts, \$7.5 billion for the health tax credit, \$2.1 billion for grants to states for the chronically ill, \$1.6 billion for Temporary Assistance to Needy Families, and \$560 million for flood insurance. Total mandatory spending increases in the budget other than Social Security private accounts amount to \$16.8 billion. Including Social Security private accounts, the net effect of the service reductions, new fees, and new spending initiatives in the budget is to increase mandatory spending by \$21.2 billion over five years relative to current law. Excluding Social Security private accounts, the President's budget on net reduces mandatory spending by \$60.4 billion over five years relative to current law.

### Social Security

The budget includes the President's plan to divert up to one-third of workers' Social Security payroll contributions into private accounts and impose steep cuts to traditional Social Security benefits. The President announced his plan in 2005 and traveled around the country to promote it, but the plan failed to win the support of the American public or Congress.

**The President's Social Security Plan Worsens Deficits and Increases the Debt for Decades** — Private accounts, by themselves, do nothing to reduce the long-term budget challenges associated with the aging of the American population. They simply make the budget situation worse. The diversion of payroll taxes into private accounts adds \$712.1 billion to the deficit

over the next ten years. This ten-year figure understates the true fiscal effect of the plan because the budget assumes implementation of the plan will not begin until 2010. The plan's drain on the budget continues long after the current ten-year budget window. Even with significant benefit cuts, the government will have to increase its borrowing by nearly \$5 trillion over the first 20 years of the plan to pay Social Security benefits to current beneficiaries and to those who will start drawing benefits in the near future. Under the President's plan, the level of federal debt held by the public would be higher with the private accounts than without them for the next six decades.

***The President's Plan Imposes Steep Benefit Cuts On Workers*** — The plan includes two separate benefit reductions. All workers age 55 or younger today will see their traditional Social Security benefits reduced on a sliding scale based on their earnings, regardless of whether they opt for a private account. The sliding-scale benefit cut, which falls most heavily on middle-class workers, is structured such that each succeeding generation of workers will experience a larger benefit cut than the generation that preceded it. Over time, Social Security benefits for newly retired workers will replace a gradually smaller share of pre-retirement income. Workers opting for private accounts will experience an additional benefit cut: for each dollar diverted to the private account, a worker's traditional Social Security benefit is reduced by one dollar plus interest. A worker 25 years old today who earns average wages and opts for the private account will receive a traditional Social Security benefit under the plan that is about half of what he or she is scheduled to receive under current law. Proceeds from his or her private account might or might not make up the difference, depending on how the worker's investments perform.

***The President's Plan Worsens Social Security's Financial Problems*** — The Social Security Trustees project that the system will run cash surpluses until 2017 under current law, and that a combination of trust fund assets, interest income, and dedicated revenues will cover full benefits until the trust funds are exhausted in 2041. (CBO estimates that the trust funds will not be exhausted until 2052.) The President's plan for private accounts speeds up the date of cash imbalance to 2011, and it accelerates the date of trust fund exhaustion from 2041 to 2030.

## **Another Commission on Entitlements**

The President in his State of the Union Address acknowledged that Congress last year declined to take up his plan for partially privatizing Social Security. He went on to propose the creation of a bipartisan commission to examine the effect of the aging U.S. population on Social Security, Medicare, and Medicaid. The President already convened one commission on Social Security, in his first year as president. While that commission included Democrats as well as Republicans, the commission did not have free rein to consider all possible solutions to Social Security's financial shortfall. The President instructed commission members from the start that they must endorse private accounts and could not increase payroll taxes. As such, the commission's deliberations were skewed from the beginning. The President also imposed preconditions on last year's tax reform panel.

There have been numerous bipartisan commissions over the last dozen years created to examine the future cost pressures faced by the major entitlement programs (see accompanying table). These commissions were charged with recommending policy changes to make the programs fiscally sustainable. Other commissions have been charged with reforming the tax code to make it more fair and efficient. However, Congress has shown little interest in acting on the recommendations of these commissions.

<b>Recent Commissions Charged With Reforming Entitlements and Taxes</b>	
	<u>Date</u>
President's Advisory Panel on Federal Tax Reform	2005
Department of Health and Human Services Medicaid Commission	2005-06
President's Commission to Strengthen Social Security	2001
National Bipartisan Commission on the Future of Medicare	1998-99
National Commission on Retirement Policy*	1997-98
Bipartisan Commission on Entitlement and Tax Reform	1994-95

\*Sponsored by a private entity, the Center for Strategic and International Studies, and chaired by Members of Congress. The Commission's recommendations were introduced as legislation.

## **Health Tax Policy and Other Health Coverage Proposals**

Under President Bush's tenure, the number of individuals without health insurance increased by six million, with nearly 46 million individuals lacking health insurance in 2004. During this same period, health care premiums increased by over 71 percent, rising from an average of \$6,348 in 2000 to \$10,880 in 2005.

In the State of the Union address, the President touted the government's responsibility to provide health care for the poor and elderly, and set forth a goal of confronting rising health costs for all Americans. Despite these claims, the budget cuts Medicare by \$35.9 billion over five years, and cuts health care for low-income children, families, disabled, and elderly by making gross cuts to Medicaid of \$17.2 billion over five years through a package of legislative and regulatory changes. As for affordability, the Administration focuses almost exclusively on health savings accounts and high-deductible health plans – forms of health insurance that serve to shift more health care costs onto consumers.

Specifically, the Administration's response to the problems of the uninsured and rising health care costs is to spend \$156.3 billion over ten years on a package of mostly recycled policies that promote health savings accounts and high-deductible health plans. Unfortunately, this agenda will undermine the existing employer-sponsored insurance system, push additional costs onto consumers, do little to decrease the ranks of the uninsured, and favor the healthy and wealthy.

### **Health Savings Accounts and High-Deductible Health Plans**

*Provides \$156.3 Billion to Promote Health Savings Accounts (HSAs)* — The President's budget includes \$59.2 billion over five years and \$156.3 billion over ten years for a package of policies that promote HSAs and high-deductible health plans (HDHPs). The Medicare Prescription Drug, Improvement and Modernization Act of 2003 created HSAs, which allow tax-free deposits into, and withdrawals from, an account for qualified medical expenses as long as the individual purchases a HDHP. In 2006, the HDHP must have a deductible of at least \$1,050 for an individual (\$2,100 for a family), and must limit out-of-pocket expenses for covered benefits to \$5,250 for an individual (\$10,500 for families). Contributions into the HSA cannot exceed the deductible or an annual limit, whichever is lower. Tax-free withdrawals from the HSA can be used for deductibles, co-payments, and uncovered medical costs.

The Administration's emphasis on HSAs and HDHPs is part of an effort to shift more of the cost of health care onto individual consumers, and to move away from comprehensive health coverage. These proposals promoting HSAs are likely to undermine the existing employer-based system of health coverage, and could actually increase the number of uninsured by giving employers an incentive to drop or reduce health coverage. Furthermore, HSAs mainly benefit the healthy and the wealthy since this type of coverage is most attractive to those who have low health care costs and are in higher tax brackets.

**Administration Spends \$156 Billion for  
High-Deductible Health Plans and Health Savings Accounts  
(dollars in billions)**

	FY07 - FY11	FY07 - FY16
Expand Health Savings Accounts*	\$30.2	\$90.7
Provide an above-the-line deduction for high-deductible health plan premiums*	\$19.0	\$41.3
Provide refundable tax credit*	\$9.9	\$24.1
Improve the Health Coverage Tax Credit	\$0.1	\$0.2
<b>Total, Health Tax Policy Proposals</b>	<b>\$59.2</b>	<b>\$156.3</b>

\*Includes outlay effects

- ***Tax-Free Contributions to HSAs*** — The budget increases the amount an individual and/or employer can put tax-free into the HSA, so that it is as high as the catastrophic cap. This is an increase from current law, which limits the HSA contributions to the lesser of a deductible or an annual limit. In addition, the budget includes a tax credit for payroll taxes paid on HSA contributions made by individuals.
- ***Tax Preferences for HDHP Premiums*** — The budget repeats a proposal from prior years to make premiums for HDHPs tax deductible for individuals who purchase them separately from an employer. In addition, the budget includes a tax credit for payroll taxes paid on earnings being used to cover HDHP premiums.
- ***Tax Credits for HSAs*** — The budget provides tax credits to low-income families to assist with the purchase of HDHPs, at a ten-year cost of \$24 billion. The tax credit is limited to \$3,000 for a family, and a portion of the credit can be deposited into the HSA.

## Other Health Policies

***Medical Malpractice*** — The President has repeatedly endorsed capping medical malpractice awards as a solution to rising health care costs, although CBO reports that such reforms will only lower health care costs by one half of one percent. The budget mentions this policy, but does not include a formal proposal nor does it include any savings.

***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. 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. The budget mentions this policy, but does not include a formal proposal nor does it include any budgetary effects.

***Sale of Insurance Across State Lines*** — The budget repeats a policy from last year allowing individuals to purchase health insurance across state lines. While such a policy is promoted under the pretense of competition, it may in fact be a way to evade state regulations that govern the insurance industry and it is unclear to what extent the proposal maintains current consumer protections. While the budget mentions this policy, it does not include a formal legislative proposal or any budgetary effects.

***Price and Quality Transparency*** — The budget asserts the Administration’s commitment to working with medical providers, insurance companies, and business leaders to help consumers obtain better information on health care prices and quality. However, the budget provides no information on how it will motivate providers and the business community to publicly disclose such information. While such information will be helpful, this is another component of the Administration’s agenda to push costs and health care decisions onto consumers – an educated consumer cannot replace the expertise of a medical professional in making health care decisions.

## Homeland Security

The homeland security budget spans approximately 20 agencies, the largest of which are the Department of Homeland Security (47.7 percent of total resources), the Department of Defense (28.7 percent), the Department of Health and Human Services (7.8 percent), and the Department of Justice (5.6 percent). 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

The Administration re-categorized some of the Department of Defense and Coast Guard programs as homeland security. Consequently, the budget's funding totals are approximately \$7 billion greater in each year than they otherwise would be. The President's budget includes a total of \$58.3 billion for all homeland security activities for 2007, \$3.4 billion more than the amount enacted for a similar category of programs for 2006. These totals include mandatory and discretionary programs, including homeland security funding for the Department of Defense and homeland security activities that are fee-funded. The \$3.4 billion increase is partially attributed to the budget's inclusion of increased aviation security fees on both passengers and air carriers. The budget assumes collections over five years totaling \$9.7 billion from these fees. Net appropriations for domestic homeland security activities (a total that excludes all national defense and international affairs funding as well as fee-funded activities) for 2007 total \$29.3 billion. The 2007 domestic total reflects a \$1.7 billion (6.1 percent) increase above the enacted amount for 2006.

<b>Homeland Security Funding</b> (Billions of Dollars)				
	<u>2006</u>	<u>2007</u>	<u>Increase</u>	<u>% Increase</u>
<b>Total Resources</b>	<b>\$54.9</b>	<b>\$58.3</b>	<b>\$3.4</b>	<b>6.2</b>
Mandatory Programs	\$2.2	\$2.5	\$0.2	10.0
Fee-Funded Discretionary Programs	\$4.1	\$6.0	\$1.9	45.8
Net Appropriated Programs:	\$48.5	\$49.8	\$1.3	2.7
<i>National Defense (Function 050)</i>	\$20.8	\$20.4	\$-0.3	-1.6
<i>International Affairs</i>	\$0.1	\$0.1	\$0.0	-29.4
<i>Domestic Discretionary</i>	\$27.6	\$29.3	\$1.7	6.1

*All numbers are based on OMB estimates. Numbers may not add exactly due to rounding.*

## **Program Highlights**

***First Responders*** — The budget includes a total of \$1.7 billion within the Department of Homeland Security for first responder funding, which is \$573 million (24.9 percent) less than the amount enacted for 2006. Within this total, the budget decreases firefighter assistance grants by \$355 million and eliminates all funding for law enforcement terrorism prevention, a reduction of \$385 million. These decreases are partially offset by an \$87 million increase for formula-based grants and an \$80 million increase for specific high-threat urban areas. For the Department of Justice, the budget again proposes elimination of the Justice Assistance grant program – a reduction of \$388 million – and cuts \$412 million from the Community Oriented Policing Services (COPS) program compared with the 2006 program level. The cut to COPS includes a \$371 million reduction in new appropriations for the program and a proposed increase in unobligated fund rescissions totaling \$41 million. See *Function 750* for a detailed discussion.

***Port Security Grants*** — These grants were authorized as part of the port and maritime security legislation signed into law in November 2002. 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 President's 2007 budget once again does not include any funding for grants to port authorities for security upgrades. However, the budget does include \$600 million in grants to supplement state and local infrastructure protection efforts, which could potentially include port security measures. In 2006, the President proposed the same measure. Congress rejected that request and provided \$173 million in port security grants for 2006. The Coast Guard reports port physical security needs of \$4.4 billion over ten years.

***Increase for Health Homeland Security Activities*** — Health-related 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 \$4.6 billion for health homeland security activities, a \$279 million (6.4 percent) increase over the 2006 enacted level. The biggest items are biodefense research at the National Institutes of Health and grants funded by the Centers for Disease Control for state and local preparedness activities

***Transportation Security Administration (TSA)*** — The TSA budget provides \$6.0 billion for 2007, an increase of \$132 million (2.2 percent) above the 2006 enacted level. In addition, the President's budget increases airline security passenger fees to cover 70 percent of core aviation security costs. The budget replaces the current fee system with a single flat security fee of \$5.00 for a one-way trip. This will raise \$9.7 billion over five years (2007-2011).

***Coast Guard*** — The President’s budget provides \$8.4 billion for the Coast Guard. This funding level represents only a 0.3 percent (\$22 million) increase above the 2006 enacted amount.

***Customs and Border Protection*** — The budget includes \$6.6 billion in appropriated funding for U.S. Customs and Border Protection at the Department of Homeland Security, \$647 million (10.9 percent) more than the 2006 enacted level. Most of the increase is for hiring, training, and equipping 1,500 new border patrol agents. The Intelligence Reform and Terrorism Prevention Act called for hiring 2,000 new border patrol agents. 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.

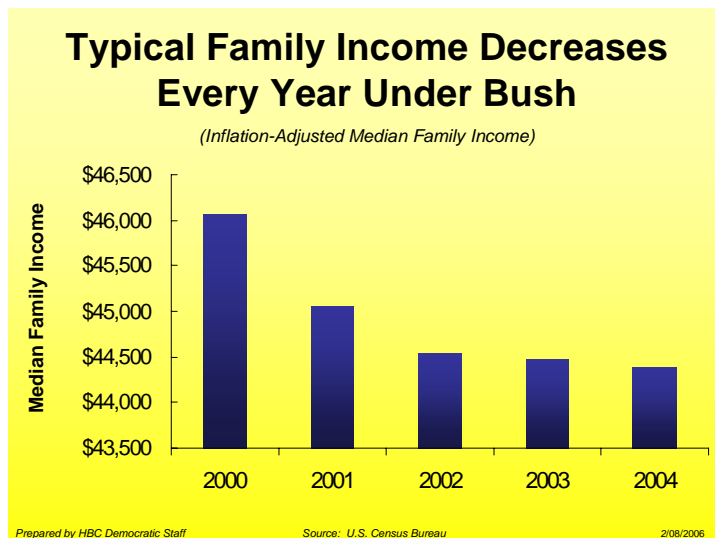
## Economy

***The Economy Is Still Soft on Job Creation*** — The President's claims that the economy has produced outstanding employment growth are unfounded. In fact, his Administration's record on job creation in the first term is the weakest of any President since Herbert Hoover. Most of the job growth that has occurred under the President's tenure has been from the public sector; private sector job growth has been weak over the past five years. Since January 2001, just 1,054,000 private sector jobs have been created, an increase of less than one percent. This growth rate is far below the expected rate during an economic expansion.

***Stagnant Earnings Reveal No Improvement for Workers*** — After adjusting for inflation, worker earnings have remained stagnant over the past five years. Since January 2001, real average weekly earnings have increased by less than one percent for private sector workers, reversing a steady trend of gains by workers prior to January 2001. From 1996 - 2000, real average weekly earnings increased by nearly 8 percent – indicating that the rate of growth in the latter years of the Clinton Administration was nearly ten times the rate of growth under President Bush.

***President's Economic Policies Have Hurt the Typical American Family*** —

The typical American family has experienced a decline in real income over the Bush Administration, meaning it has less purchasing power today than in January 2001. Median income, adjusted for inflation, fell in 2001, 2002, 2003, and 2004 (the most recent data available). The real median income level in 2004 stood 3.6 percent below its level in 2000, a decline of \$1,669 per family. This budget presents no efforts to reverse this trend.



***Tax Cuts Are Not Responsible for Economic Growth, as the Administration Claims*** — The Administration has consistently claimed that its tax cut agenda is responsible for the arguably positive economic environment. However, economic growth since the implementation of the tax cuts has failed to match CBO's estimate of economic growth *without* the tax cuts, and wages and income have remained stagnant. Also, real business investment – which tax cuts supposedly stimulate – lags even farther behind its usual recovery pace. Since the economy last peaked in early 2001, real business investment has risen only 9.4 percent, far less than the growth averaged in preceding business cycles. Moreover, academic evidence – including studies by CBO, the Brookings-Urban Tax Policy Center, and the Congressional Research Service – shows that tax

cuts, when financed by additional borrowing (as they are currently), lead to depressed economic growth over time. While the Administration argues over whether its tax agenda has stimulated economic growth, it is clear that the tax cuts have depressed revenue and deteriorated the budget outlook.

## Budgetary Gimmicks

The President’s budget is full of gimmicks and budgetary sleights of hand which make the bottom line look better.

***Support General Ideas But Cut Funding for Programs*** — In his State of the Union message, the President recognized the responsibility of government to provide health care for the poor and elderly. Yet his budget includes premium increases for Medicare, cuts to the Medicare and Medicaid programs, and health savings accounts that shift health care costs to individuals. The President professes strong support for math and science education programs while his budget makes it harder for students to attend college.

***Promise One Thing, Deliver Far Less*** — The Administration’s budget makes impressive claims about the American Competitiveness Initiative, but over three-quarters of the \$5.9 billion provided in 2007 is for the renewal of the Research and Experimentation tax credit. The Advanced Energy Initiative calls for a 22 percent increase in clean-energy research at the Department of Energy (DOE), but DOE’s total budget is cut by \$385 million (1.8 percent) from the amount provided for 2006.

***Omit Second Five Years of Numbers*** — For the fifth time, the Administration provides only five years of numbers. When presenting the 2002 budget, the Administration used a ten-year window that showed long-term surpluses to justify large tax cuts. Now, when the effect of those tax cuts over ten years plunges the budget into chronic deficit, the Administration leaves out the second five years.

<b>Deficits Much Worse than Administration Acknowledges</b>											
Unified Deficit in Billions of Dollars											
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2007- 2016</u>
Bush Budget	-354	-223	-208	-183	-205						
Bush Budget Including Omitted Items	-386	-308	-313	-294	-329	-342	-401	-442	-484	-556	3,857

***Ignore Your Way to a Better Bottom Line*** — The Administration leaves key agenda items out of its budget. Repair of the alternative minimum tax and the cost of ongoing military operations have routinely been understated or omitted altogether. This year, the President includes in his budget the cost of his plan to privatize Social Security, a one-year patch for the AMT, and \$50 billion for war costs for 2007. This partial accounting is an improvement over the previous

track record of omitting items completely, but the five-year deficits in the President’s budget are understated by \$458 billion because of this incomplete picture.

***Impose New Taxes, Disguise Them As User Fees*** — The President’s budget includes \$47.2 billion in user fees – stealth tax increases – 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 and charging fees for meat safety inspections. Every one of the President’s budgets has included billions of dollars in new fees and user charges, and each year the amount of new fees grows.

***Use Artificial Baseline to Mask Full Cost of Tax Policies*** — The Administration minimizes the full effect of its tax proposals by incorporating \$179 billion of the total pricetag into its adjusted baseline. A “baseline” is a measure of deficits before any action is taken, or what would happen to the budget if it were put on auto-pilot. By changing the baseline in this manner, the Administration artificially makes the full effect of its policy on the deficit appear smaller. In truth, the Administration’s budget worsens the deficit by \$413 billion over five years, even before including the omitted items, such as further costs for the war and repair of the AMT.

## The President’s Budget Makes the Deficit \$413 Billion Worse

Tax Policies	285 Billion
Defense Supplemental	89 Billion
Social Security Reform	82 Billion
Defense Appropriations	74 Billion
Hurricane Supplemental	12 Billion
Non-Defense Appropriations Cuts	-115 Billion
Mandatory Program Cuts	-66 Billion
Debt Service	52 Billion

**Total Effect on the Deficit,  
2007-2011**

**\$413 Billion**



## Budget Process Proposals

The President's budget includes a number of provisions that, if enacted or enforced, would dramatically change Congressional consideration of budget-related legislation and that have serious long-term consequences for the budget. Following is an overview of the President's proposed changes.

***Budget Enforcement for Entitlements that Ignores the Impact of Revenue Losses*** — The Administration proposes several rules addressing the impact of mandatory spending on the deficit and the long-term obligations of major entitlement programs. These rules, however, are short-sighted because the Administration does not address revenue enforcement and therefore ignores how tax cuts contribute to deficits. The proposed rules are summarized below.

- ***One-Sided PAYGO Rule*** — The Administration proposes a rule requiring that increases in mandatory spending be offset by mandatory cuts. The rule would be enforced through sequestration of mandatory programs. In actuality, the rule is a one-sided Pay-As-You-Go (PAYGO) provision that applies only to entitlements and ignores tax cuts.

PAYGO provisions were adopted under the Budget Enforcement Act of 1990 (BEA) and expired in 2002. The BEA's PAYGO provisions required that tax cuts as well as increased mandatory spending be completely offset by either tax increases or by decreases in mandatory spending. PAYGO was enforced through sequestration of mandatory programs. The Administration's proposed rule guts PAYGO because it provides budgetary enforcement solely on the spending side, offsetting mandatory increases with mandatory cuts. 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 1990s. Unlike the PAYGO rule under the BEA, the proposed rule fails to recognize that fiscal discipline means constraints on both spending and tax cuts.

- ***Point of Order Against Expansions in Entitlement Programs*** — The budget proposes a point of order against legislation that expands major entitlement programs including Social Security, Medicare, federal civilian and military retirement, veterans disability compensation, and Supplemental Security Income. Other entitlement programs would be included once actuarial estimates are available for those programs.
- ***Reporting Requirements for Legislation Expanding Entitlements*** — The budget proposes a rule requiring the Administration to report on enacted legislation expanding certain entitlement programs.

- ***Automatic Cuts in Payments to Medicare Providers*** — The budget proposes a rule that would impose automatic cuts to Medicare once trustees issue a warning that general revenue Medicare funding is expected to exceed 45 percent of Medicare’s total expenditures. Under the proposal, payments to providers would be cut by four-tenths of a percent in the year the threshold is exceeded and grow by four-tenths of a percent every year the threshold continues to be breached.
- ***Pay-As-You-Go Rules for Administrative Action Proposals*** — The budget also proposes an unprecedented rule that would require agencies to provide offsets for any administrative proposal that would increase mandatory spending.

***Discretionary Spending Caps*** — Discretionary spending caps were first established under the BEA in 1990 to limit appropriations, with automatic adjustments for a few items such as emergencies. The caps were enforced through sequestration of non-exempt programs. The discretionary spending caps were extended twice and expired in 2002.

The Administration proposes to reinstate discretionary spending caps for years 2006 through 2011 at levels of appropriations in the President’s budget. The budget proposes separate defense and non-defense caps for years 2006 through 2008 and merges the two categories for years 2009 through 2011. The budget creates a separate transportation category for years 2006 through 2009. The budget also proposes cap adjustments for certain program integrity initiatives that monitor payment and tax fraud. For a discussion of the effect of these caps, see *Appropriations Overview*.

***Altered Baseline to Mask the Cost of the Administration’s Tax Cuts*** — Baselines are budgetary projections that estimate federal spending, revenues, and deficits/surpluses for fiscal years based on enacted policies. The budget proposes that CBO and OMB assume in their baselines the extension of all tax cuts expiring under the Economic Growth and Tax Relief Reconciliation Act of 2001, and certain tax provisions expiring under the Jobs and Growth Tax Relief Reconciliation Act of 2003. Under current scoring rules, these tax provisions expire in the baseline at the time they expire in law. That is why CBO’s ten-year baseline forecast shows the deficit eventually disappearing after the tax cuts expire in 2010. This proposal is problematic because it masks the budgetary impact of making these tax cuts permanent. Under this change, CBO and OMB would be required to show the cost of legislation to extend the tax cuts or to make them permanent as “zero.” In reality, CBO estimates that extending the tax cuts and making them permanent would cost almost \$1.7 trillion over the next decade.

***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 be

enforced by sequestration that would require across-the-board cuts to offset spending above the budget totals. Opponents of joint budget resolutions argue that this proposal skews 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 joint budget resolution could be used as a vehicle to enact non-budget related items.

***Biennial Budgeting and Appropriations*** — The budget includes a proposal to adopt budgets and appropriations every two years, in odd-numbered years, with the even-numbered years devoted to enacting authorizing legislation. Under current law, Congress adopts a budget resolution and enacts appropriations on a yearly basis. Biennial budgeting proposals have been defeated with many arguing 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. Also, biennial budgeting may lead to even more supplemental funding, which is routinely held to less scrutiny. Since the current Administration has been in office, ten supplemental bills have been enacted under the current yearly budgeting process. Finally, it is ironic that this budget proposes biennial budgeting but includes account-level detail for only one year, not two years or the usual five or ten years covered by previous Administrations.

***Line Item Veto*** — The Line Item Veto Act of 1996 gave the President authority to cancel new spending and limited tax benefits. The United States Supreme Court ruled the Act unconstitutional in 1998. The Administration proposes a constitutional line-item veto that would grant the President authority to rescind *new spending only*, not tax benefits. The savings from the cancelled spending would be applied to 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 after a fiscal year has begun. The proposal would automatically fund programs at the *lower* of either the funding levels in the President’s budget or the funding levels enacted 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 2006 through 2011, 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.<sup>1</sup> The definition is designed to preclude Congress and the President from applying emergency

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<sup>1</sup>Analytical Perspectives of the 2007 Budget, p. 215

designations to domestic and natural disasters that total within the five-year average for such disasters, and to expected and on-going military and national security operations.

The budget also proposes that baselines, which estimate federal spending and revenues for a fiscal year based on enacted policies, exclude designated emergency spending. Under current guidelines, baselines include emergency spending in the budget year and years beyond. The proposal would provide that baselines include any designated emergency funding only for the year in which it is enacted.

***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.

***Baseline Adjustment for Federal Pay Raises*** — The budget proposes that, since the effective date for federal pay raises occurs in January, the baseline not assume that pay raises take effect at the beginning of the fiscal year in October.

***Results Commissions and Sunset Commission*** — The budget proposes that the President be granted authority to create various Results Commissions and a Sunset Commission. Results Commissions would examine ways to restructure and/or consolidate existing programs. Recommendations by the Commissions would be considered in Congress under expedited procedures. The Sunset Commission would consider whether to retain, restructure, or eliminate programs according to a schedule enacted by Congress. Programs would automatically terminate pursuant to the review process unless Congress took action to reauthorize them.

***Advance Appropriations Cap*** — The budget proposes an advance appropriation cap for 2008 in the amount of \$23.7 billion. The BioShield program would be exempted from the cap. The levels would be enforced by counting additional advance appropriations above the 2008 level against the discretionary caps in the year they are enacted.

The budget also proposes that, if an appropriations provision delays mandatory budget authority obligations, that not only would the first year be scored as a savings (since it is included in an appropriations act and reduces spending in that year), but that the second year impact would be treated as an advanced appropriation to be scored against the discretionary caps.

***Project BioShield Category*** — The budget proposes to create a separate category of spending under the BEA – neither mandatory nor discretionary – to provide funding for BioShield to prevent reductions in the program and disallow its use as an offset.

## **The Budget by Function**

The following four 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 third table shows the discretionary funding minus emergency funding for each budget function. 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 follow the tables.











## 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 \$459.7 billion for all non-war related national defense appropriated activities, including \$439.3 billion for DoD, \$16.0 billion for the nuclear weapons-related activities of DoE, and \$4.5 billion for miscellaneous national security activities in other agencies such as the Federal Bureau of Investigation and the Coast Guard. The budget also sets aside an additional \$120 billion for costs associated with the wars in Iraq and Afghanistan to account for the Administration's intention of submitting future war supplemental requests. Of this amount, \$70 billion is for 2006, and \$50 billion is for 2007.

***Non-War Funding Remains Relatively Unchanged Since Last Budget Submission*** — Funding levels for National Defense, excluding emergency funding, remain relatively unchanged as compared to the out-year projections of the 2006 budget. Over the five-year period, 2007 to 2011, the 2007 budget reflects only a \$347 million reduction. For 2007, the budget reflects a \$2.9 billion reduction below the projected amount for 2007 in the President's 2006 budget. This reduction is more than offset in the following three years, which reflect increases of \$1.1 billion in 2008 and \$1.2 billion in each of 2009 and 2010. From year to year, the budget still maintains significant increases above inflation.

### Comparison with 2006 President's Budget for National Defense (Budget Authority in Billions of Dollars)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u> <u>2007-11</u>
FY 2006 Budget	462.6	481.0	501.0	511.0	524.2	2,479.8
FY 2007 Budget*	<u>459.7</u>	<u>482.1</u>	<u>502.2</u>	<u>512.3</u>	<u>523.1</u>	<u>2,479.4</u>
<b>Change</b>	<b>-2.9</b>	<b>+1.1</b>	<b>+1.2</b>	<b>+1.2</b>	<b>-1.1</b>	<b>-0.3</b>

\*Note: The estimate for 2007 excludes the \$50 billion of anticipated war funding.

***Budget Still Increases Above Inflation*** — Excluding anticipated war supplemental funding, the budget for appropriated National Defense programs totals \$459.7 billion for 2007. This represents an increase of \$27.9 billion, or 6.5 percent, above the 2006 enacted level, and an increase of \$16.3 billion, or 3.7 percent, above the amount that is needed to maintain purchasing

power at the 2006 level. Over the next five years, the budget increases funding for appropriated defense programs \$150.1 billion above the amounts needed to maintain purchasing power at the 2006 level (again, excluding the war and other supplemental funding provided in 2006).

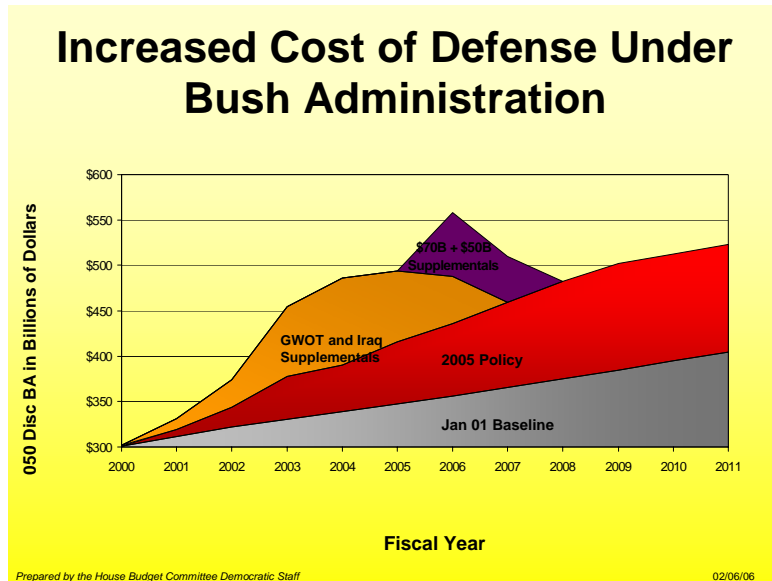
**National Defense Budget Compared to Current Services  
(Budget Authority in Billions of Dollars)**

	Enacted						Total
	2006	2007	2008	2009	2010	2011	2007-11
FY 2007 Budget	431.9	459.7	482.1	502.2	512.3	523.1	2,911.3
Current Services Level	431.9	443.4	454.2	465.6	477.1	488.9	2,761.2
<b>Change</b>	-	<b>+16.3</b>	<b>+27.9</b>	<b>+36.6</b>	<b>+35.1</b>	<b>+34.2</b>	<b>+150.1</b>

**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 \$301 billion in 2000 to \$523 billion planned for 2011. The total defense spending increase under this

Administration’s policies (including the costs of our military operations in Iraq and Afghanistan through part of 2007) will exceed the CBO baseline released in January 2001, when the President took office, by \$1.3 trillion for the ten-year period from 2002 through 2011. This amount will increase because the Administration includes no funding for the wars in Iraq and Afghanistan beyond 2007.

While part of this increase 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 Administration policies is not directly related to Iraq or to the war on terrorism.



**\$120 Billion for Operations in Iraq and Afghanistan** — The budget sets aside \$120 billion of new emergency funding for operations in Iraq and Afghanistan – \$70 billion of which is for financing military operations through the remainder of 2006, and \$50 billion of which is for operations in 2007. The \$70 billion of new 2006 emergency funding is in addition to the \$50 billion already passed in the 2006 defense appropriations bill and increases total 2006

supplemental funding to \$120 billion. This is nearly \$20 billion more than the amount of supplemental funding appropriated for 2005. For 2007, \$50 billion will be woefully inadequate to finance operations for the entire year given the current rate of spending.

**War Costs Have Steadily Increased** — War costs have increased over the last three years due to the sustained high operational tempo in Iraq. For 2003, the Department of Defense obligated an average of \$6.3 billion per month for all war-related operations (\$4.4 billion per month to finance military operations in Iraq). Last year, the Department of Defense obligated \$7.4 billion per month (\$6.1 billion for Iraq), a \$1.1 billion per month increase.

<b>Average Monthly Obligation Rate</b>			
(Budget Authority in Billions of Dollars)			
	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>
Iraq	4.4	5.0	6.1
Afghanistan	1.3	1.1	1.1
Noble Eagle	<u>0.5</u>	<u>0.3</u>	<u>0.2</u>
<b>Total</b>	<b>6.3</b>	<b>6.4</b>	<b>7.4</b>

Note: Numbers may not add due to rounding. Estimates are derived from Defense Finance and Accounting Service (DFAS) reports in addition to estimated obligations for intelligence programs. These estimates do not include obligations for reconstruction or foreign aid.

Since 2001, approximately \$370 billion has been provided to finance military and reconstruction operations in Afghanistan and Iraq, and enhanced security at military installations and air patrols over the U.S. (Operation Noble Eagle). More than \$260 billion of that amount was provided for operations in Iraq alone. An additional \$120 billion would increase total funding to more than \$490 billion for all operations and funding for Iraq to more than \$350 billion (assuming future Iraq and Afghanistan war spending continues at a split of about 85 percent to 15 percent, the mix of obligations experienced in 2005). Below summarizes total resources provided in support of these operations:

## Funding Summary for Iraq, Afghanistan, and Enhanced Security

(Budget Authority in Billions of Dollars)

	<u>2001-04</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total</u>
Funding Provided to Date					
DoD	177.8	106.8	52.0	-	336.6
State and other	27.6	5.1	1.5	-	34.2
<b>Total Provided to Date</b>	<b>205.5</b>	<b>111.9</b>	<b>53.5</b>	<b>-</b>	<b>370.8</b>
2007 Budget	-	-	-	3.8	3.8
DoD Supp Requests	-	-	70.0	50.0	120.0
<b>Total Budget &amp; New Supps</b>	<b>-</b>	<b>-</b>	<b>70.0</b>	<b>53.8</b>	<b>123.8</b>
<b>Total</b>	<b>205.5</b>	<b>111.9</b>	<b>123.5</b>	<b>53.8</b>	<b>494.6</b>

Note: Estimates include military operations, reconstruction, foreign aid, diplomatic operations, and veterans' health care. The 2007 budget includes an estimated \$2 billion for DoD's Operation Noble Eagle and \$1.8 billion of foreign aid for Iraq and Afghanistan. 2006 includes \$50 billion of supplemental funding for the military provided in the 2006 defense appropriations bill, an estimated \$2 billion for Operation Noble Eagle, \$0.1 billion for foreign aid and diplomatic operations that was appropriated into regular accounts, and \$0.5 billion for veterans' health care. 2005 funding for DoD includes the \$25 billion "bridge" supplemental provided in the 2005 defense appropriations bill to show a more apples-to-apples comparison of funding as compared to 2006. CBO officially scores this funding as 2004 funding because the bill made the funds available in that year. Estimates also include DoD funding transfers from regular accounts. Numbers may not add due to rounding.  
Source: CRS, Defense Financing and Accounting Service reports, 2007 President's Budget

### The Department of Defense

***Increase for the Department of Defense (DoD)*** — The budget increases funding for appropriated DoD programs by \$28.4 billion (6.9 percent) above the enacted 2006 amount (excluding supplemental funding). The budget request of \$439.3 billion for DoD is \$17.3 billion (4.1 percent) above the amount needed to maintain purchasing power at the 2006 level.

***The Quadrennial Defense Review (QDR)*** — This year's QDR, performed once every four years, marks the first conducted since September 11<sup>th</sup>. As a result of this review, DoD says it placed emphasis on four priority areas for the 2007 budget: (1) Prevail in Irregular Warfare Operations; (2) Defend the Homeland Against Advanced Threats; (3) Maintain America's Military Superiority; and (4) Support service members and their families. As part of this strategy, the budget includes a 14,000 personnel increase in Special Operations Forces (\$5.1 billion), increases language and cultural awareness training (\$181 million), continues conversion of Army brigades (\$6.6 billion), and expands missile defense efforts (\$10.4 billion). While the QDR recommended eliminating and reducing some smaller acquisition programs, the largest weapons systems like DD(X), Future Combat System, and Missile Defense were left intact.

***Military Pay and Benefits*** — The budget includes an across-the-board military pay raise of 2.2 percent, down from 3.1 percent last year, which translates into an increase of \$1.1 billion. This pay raise matches private sector raises as measured by the employment cost index (ECI). This year, DoD is no longer required by law to provide pay raises that are one-half of one percent above the ECI. Senior and mid-grade enlisted and warrant officers with special skills will also receive new targeted pay raises, which will be phased in later in 2007, which cost \$263 million. The budget also includes \$1.9 billion for retention bonuses and incentives.

***Retired Military Health Benefits*** — The budget increases enrollment fees and deductibles for military retirees under the age of 65, and assumes savings totaling \$735 million for 2007. For these retirees, their share of health care costs will increase from 12 percent to 15 percent. The Department's proposed plan makes no change in the cost for active-duty members.

***Restructuring of Forces*** — The budget finances the restructuring of U.S. ground forces, which includes the Army's initiative to increase the number of active army brigades from 33 maneuver brigades to 42 brigade combat teams and increases the National Guard brigade combat teams from 15 to 28. A total of 70 brigade combat teams reflects a seven brigade decrease from earlier plans. The revised plan drops the number of active combat teams from 43 to 42 and reduces National Guard combat teams from 34 to 28. In place of the six combat teams, the National Guard will instead create combat support and combat service support brigades. The budget includes \$6.6 billion for this effort for 2007 and \$40.6 billion over fiscal years 2007 through 2011.

***Military End Strength*** — The budget falls short of funding 30,000 authorized Army and 4,000 authorized Marine Corps personnel. These higher end strength levels will be funded in supplemental appropriations. For the Navy and Air Force active personnel, the budget reflects end strength below authorized levels – 12,000 below authorization for the Navy, and 23,200 below authorization for the Air Force. The budget funds end strength levels that are nearly 23,000 below authorized levels for the Guard and Reserve. The Army National Guard, which has been relied heavily upon for current war operations, is funded at an end strength level of 332,900, 17,100 below authorized levels. DoD has indicated that it would request more funds through supplemental appropriations if it could recruit and retain Army National Guard forces at a higher level.

***Base Realignment and Closure (BRAC)*** — The budget includes \$5.6 billion in 2007 to finance implementation of decisions from the 2005 BRAC Commission.

***Department of Defense by Title*** — The following table compares the President's request with both the 2006 enacted level and the level that is estimated to maintain purchasing power at the 2006 level (the "Inflation-Adjusted" column).

**The DoD Budget by Title:  
Comparisons with the 2006 Enacted Level and  
the Level Needed to Maintain Purchasing Power,  
Excluding 2006 Supplemental Funds**  
(Discretionary Budget Authority in Billions of Dollars)

	<b>Enacted 2006</b>	<b>2007 Budget</b>	<b>Dollar Change</b>	<b>Percent Change</b>	<b>Inflation</b>		
					<b>Adjusted 2006</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Personnel	106.8	110.8	4.0	3.7	110.7	0.0	0.0
O&M	142.6	152.0	9.5	6.6	146.7	5.3	3.6
Procurement	76.3	84.2	7.9	10.4	77.6	6.6	8.5
RDT&E	71.0	73.2	2.2	3.1	72.3	0.8	1.1
Mil Construction	8.0	12.6	4.6	57.3	8.2	4.4	54.2
Family Housing	4.0	4.1	0.1	2.6	4.1	0.0	0.7
Other DoD	2.3	2.4	0.1	5.6	2.3	0.1	3.7
<b>Total DoD</b>	<b>410.9</b>	<b>439.3</b>	<b>28.4</b>	<b>6.9</b>	<b>422.0</b>	<b>17.3</b>	<b>4.1</b>

**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 \$4.0 billion (3.7 percent) above the 2006 enacted level, and is slightly higher (\$45 million) than the level needed to maintain purchasing power at the 2006 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 \$9.5 billion (6.6 percent) above the 2006 enacted level, and \$5.3 billion (3.6 percent) above the level needed to maintain purchasing power at the 2006 level. The budget assumes approximately \$3 billion for increased fuel costs as compared to last year's projection.

**Procurement** — The budget includes \$84.2 billion for procurement of weapons systems and military equipment including aircraft, ships, vehicles, and satellites. This level is \$7.9 billion (10.4 percent) more than the 2006 enacted level, and is \$6.6 billion (8.5 percent) above the amount needed to maintain purchasing power at the 2006 level.

**Research and Development** — The budget includes \$73.2 billion for research, development, test, and evaluation programs (RDT&E). This level is \$2.2 billion (3.1 percent) more than the 2006 enacted level, and \$810 million (1.1 percent) above the amount needed to maintain purchasing power at the 2006 level.

**Military Construction** — These accounts fund the facilities where military personnel work and the barracks where single enlisted personnel live. The 2007 funding level of \$12.6 billion for



construction of new facilities in the budget is \$4.6 billion (57.3 percent) above the 2006 enacted level, and is \$4.4 billion (54.2 percent) above the amount needed to maintain purchasing power at the 2006 level. Nearly all of the increase is attributed to the implementation of BRAC 2005 decisions.

## **Selected Program Highlights**

***Ballistic Missile Defense*** — The budget includes \$10.4 billion for ballistic missile defense (BMD) programs, an increase of \$1.7 billion (19.0 percent) above the 2006 enacted level. The 2007 budget includes deploying additional ground- and sea-based interceptors and procurement of two additional forward-deployed radars. The budget also includes funding to enhance space-based early warning systems.

***Shipbuilding*** — The budget includes procurement of seven new ships in the shipbuilding budget, which is one more than the number of new ships being built in 2006. They include: one Virginia class submarine, two DD(X) destroyers, two Littoral Combat Ships, one LHA(R) amphibious assault ship, and one T-AKE dry cargo/ammunition ship. Six of the seven ships are funded from the Shipbuilding and Conversions, Navy account. Construction of the T-AKE is funded from the National Defense Sealift Fund. The 2007 shipbuilding budget deviates from the policy of fully funding ships in the year construction begins. It split-funds the construction of two DD(X) destroyers over two years, budgeting half of the funding for each ship in 2007, and the remaining half in 2008.

***Selected Weapons Programs*** — The budget increases funding over the 2006 enacted level for the Joint Strike Fighter aircraft by \$570 million to \$5.3 billion, for the Army's Future Combat System vehicles by \$622 million to \$3.7 billion, for the Transformational Satellite by \$438 million to \$867 million, and for Unmanned Aerial Vehicles by \$42 million to \$1.7 billion. Funding is reduced for the F-22 Raptor by \$1.4 billion to \$2.8 billion, for Stryker Armored Vehicles by \$267 million to \$809 million, and for the Joint Direct Attack Munition (JDAM) by \$27 million to \$275 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 sixth straight year, the Administration's budget finances S&T below the 3.0 percent goal. The budget includes \$11.1 billion for these efforts for 2007, which equates to a 2.6 percent share of DoD funding.

***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 its primary legislative sponsors, 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 \$372 million for the Nunn-Lugar program, which is \$39 million (9.5 percent) below the 2006 enacted level.

## **Atomic Energy Defense Activities**

The budget provides \$16.0 billion for the nuclear weapons-related activities of DoE and other agencies. This is \$419 million (2.6 percent) below the 2006 enacted level. It is \$729 million (4.4 percent) below the amount needed to maintain purchasing power at the 2006 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 \$1.7 billion for these programs for 2006, which is \$111 million above the 2006 enacted level and \$76 million above the amount needed to maintain purchasing power at the 2005 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 \$6.4 billion for the stockpile stewardship program, which is \$38 million (0.6 percent) more than the 2006 enacted level. This is \$101 million (1.6 percent) below the amount needed to maintain purchasing power at the 2006 level.

***Cleanup of Former Weapons Production Sites*** — The budget provides \$5.4 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 \$740 million (12.1 percent) below the 2006 enacted level. It is \$880 million (14.0 percent) below the amount needed to maintain purchasing power at the 2006 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 \$35.1 billion in funding for appropriated international affairs programs. This amount is \$3.8 billion (12.0 percent) more than the \$31.4 billion in non-emergency funding enacted for these programs for 2006.

### Major Administration Initiatives

***Millennium Challenge Corporation (MCC)*** — The budget includes \$3.0 billion for this initiative, the same amount requested in last year's budget and \$1.2 billion more than Congress provided for 2006. Funds from the MCC are made available on a competitive basis to countries with low and moderate per capita incomes. Countries receive MCC funds based on their performance on 16 economic and political indicators, grouped into three clusters: good governance, investment in people, and economic policy.

***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 2007, the budget contains a total of \$4.0 billion toward this initiative spread throughout numerous Function 150 and HHS and CDC accounts — with more than three-fourths of this total included in Function 150. This represents an increase of about \$750 million above the level provided for 2006, according to the Administration's estimates. The largest piece of the international affairs portion of this funding is \$2.9 billion for the Global HIV/AIDS Initiative at the State Department. Among other funds, the budget also includes \$300 million for the Global Fund to Fight AIDS, Tuberculosis, and Malaria, \$200 million of which is in Function 150 — about \$250 million less than the overall 2006 enacted level for the Global Fund.

***Other Development Accounts*** — The budget provides \$1.3 billion for the Development Assistance account, \$227 million (22.7 percent) less than the amount enacted for 2006. The budget provides \$1.4 billion for Child Survival and Health Programs, a reduction of \$211 million (12.8 percent) below the 2006 enacted level. The majority of this reduction (\$150 million) results from the shift of HIV/AIDS funds from the Child Survival and Health account to Global HIV/AIDS Initiative at the State Department.

## Funding for Iraq and Afghanistan

***Iraq*** — The budget provides \$735 million for Iraq in specific accounts: \$479 million in Economic Support Fund (ESF) assistance, \$255 million in International Narcotics Control and Law Enforcement funding, and \$1 million for International Military Education and Training. Some funding for Iraq may be provided from other accounts, but those funding totals are not specified in the budget. To date, about \$21.0 billion in Function 150 funding has been appropriated for Iraq relief and reconstruction – \$20.9 billion in supplemental appropriations to the Iraq Relief and Reconstruction Fund, and \$61 million in regular 2006 Economic Support Fund appropriations. As of February 2006, a total of \$18.0 billion of these funds had been obligated, and \$12.9 billion actually spent. Additional funding for Iraq may be included as part of an upcoming supplemental request from the Administration.

***Afghanistan*** — The budget provides \$1.1 billion in funding for Afghanistan in specific accounts, including \$610 million in ESF funding, \$297 million in International Narcotics Control and Law Enforcement funding, and \$150 million in Development Assistance. For 2006, \$931 million was provided for Afghanistan across all accounts.

## International Security Assistance

***Foreign Military Financing*** — The FMF program provides grants to help U.S. allies acquire military articles, services, and training from the United States. The budget provides \$4.6 billion in funding for FMF, which is \$86 million (1.9 percent) more than the amount enacted for 2006. The top four recipients of FMF financing in the 2006 budget are Israel, Egypt, Pakistan, 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 \$2.34 billion for FMF assistance for Israel for 2007. The budget includes \$1.3 billion in FMF funding for Egypt, the typical level of FMF assistance for Egypt since 1986. The budget provides \$300 million for Pakistan, and \$206 million for Jordan.

***Economic Support Fund (ESF)*** — The ESF program provides bilateral economic assistance to countries of particular importance to U.S. foreign policy. The budget provides \$3.2 billion for ESF

***Middle East Partnership Initiative*** — The budget provides \$120 million of ESF funding for the Middle East Partnership Initiative, which is \$21 million more than the 2006 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.

activities for 2007, which is \$593 million (22.6 percent) more than the amount enacted for 2006. More than 70 percent of this increase results from ESF funding for Iraq, which received \$60 million for 2006 and receives \$479 million for 2007.

The budget maintains the funding glide path envisioned in the 1998 agreement between Israel and the United States discussed above, providing \$120 million for ESF assistance for Israel for 2007. 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 \$455 million in ESF funding for Egypt for 2007. The budget provides \$610 million in ESF funding for Afghanistan (a 43.3 increase above the amount provided for 2006), \$350 million for Pakistan, and \$245 million for Jordan.

***Non-Proliferation, Anti-Terrorism, Demining, and Related Programs (NADR)*** — The budget provides \$449 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 \$43 million (10.6 percent) more than the amount enacted for 2006.

## **State Department and Related Programs**

***Diplomatic and Consular Programs*** — The budget provides \$4.7 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 \$348 million (8.1 percent) more than the non-emergency amount enacted for 2006.

***Embassy Security Construction and Maintenance (ESCM)*** — ESCM funding supports the construction and maintenance of U.S. diplomatic facilities. The budget provides \$1.5 billion for ESCM activities. This amount is \$85 million (5.8 percent) above the non-emergency amount enacted for 2006.

***International Broadcasting and Exchange Programs*** — The budget provides \$671 million for the Broadcasting Board of Governors for 2007, an increase of \$27 million (4.2 percent) above the 2006 enacted level. The budget provides \$474 million for Educational and Cultural Exchange programs, an increase of \$48 million (11.3 percent) above the 2006 enacted level.

## 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).

This is one of the few areas of domestic policy where the President's 2007 budget increases funding. The budget provides \$26.1 billion in funding for appropriated science, space, and technology programs for 2007, which is \$1.7 billion above the 2006 enacted level excluding the emergency funding NASA received to repair hurricane-related damage. The budget splits the increase among all three agencies. Both NASA and NSF are part of the President's American Competitiveness Initiative to increase students' achievement in math and science.

Science Funding Increases		
(Billions)	2007	Increase v. 2006
NASA	\$16.8	\$0.519
NSF	\$6.0	\$0.439
DOE Science	\$4.1	\$0.505
<b>Total Increase</b>		<b>\$1.463</b>

**NASA Funding Increases Half a Billion Dollars** — In contrast to the budget's cut in overall domestic services, funding for NASA increases by 3.2 percent (\$519 million), to a total of \$16.8 billion for 2007. Of that total, \$723 million is included in Function 400 (Transportation) and the remainder is in this function. Within NASA, much of the funding for the President's announced mission to the moon and Mars (the Vision for Space Exploration) comes from funding cuts to existing programs.

- **Mission to the Moon and Mars** — NASA's budget includes a \$1.3 billion (76.4 percent) increase for continued development of a new vehicle to return humans to the moon, and from there to eventually launch flight to Mars. The budget provides a total of \$3.1 billion for this purpose.
- **Shuttle Funding Cut** — To help offset the cost of the efforts to return to the moon, NASA cuts funding for the shuttle by \$371 million (8.4 percent) below the 2006 non-emergency level, providing \$4.1 billion for 2007. NASA plans to return the shuttle to flight this year to service the International Space Station and the Hubble telescope, and then cease funding it in 2010 along with the space station.
- **Space Station** — The 2007 budget increases funding for the space station to \$1.8 billion, an increase of \$58 million over the 2006 enacted level. From 2007 through 2011, when NASA plans to discontinue funding, the budget provides \$10.8 billion for the space station.

- ***Hubble Space Telescope*** — The budget includes \$337 million to operate the Hubble telescope, and to prepare for the shuttle’s potential servicing mission in 2008.
- ***Other Funding Cuts Within NASA*** — NASA cuts funding for education programs and for research and technology in aeronautics and other areas not related to space exploration.

***National Science Foundation Funding Increases \$439 Million*** — The President’s budget provides \$6.0 billion for NSF appropriated programs for 2007, including \$67 million in Function 050 (National Defense). This is an increase of \$439 million (7.9 percent) over the 2006 enacted level. Despite the Administration’s focus on improving teaching and achievement in math and science, the budget cuts \$17 million (27.0 percent) of NSF’s funding for the Math and Science Partnership program, providing \$46 million for this program designed to encourage college professors to work with elementary and secondary students.

***DOE General Science Funding Increases by \$505 Million*** — The 2007 budget provides \$4.1 billion for general science programs in DOE, an increase of \$505 million (14.1 percent) above the 2006 enacted level. This increase comes after years of basically stagnant funding – in fact, the 2006 funding level was a cut of \$39 million below the 2005 enacted level. The 2007 budget increases funding for every program in the Office of Science. Notably, it provides a \$286 million increase for the Basic Energy Sciences program, which designs and constructs scientific facilities and manages the research done there, for total funding of \$1.4 billion. It provides another large increase – \$84 million – for the Advanced Scientific Computing Research program, which receives \$319 million for 2007. It also increases funding by \$87 million for nuclear physics, providing a total of \$454 million to four user accelerator facilities and other laboratories across the country.

## 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.

**Advanced Energy Initiative Lacks Vigor** — In his State of the Union message, the President set forth a goal to replace more than 75 percent of our oil imports from the Middle East by 2025. The Advanced Energy Initiative calls for a 22 percent increase in clean-energy research at the Department of Energy, with promises for funding boosts for solar, clean coal, wind, hydrogen fuel, biomass, and more efficient vehicles. While some of these funding increases materialize, other renewable energy research is cut drastically or eliminated.

The initiative touts the passage of comprehensive energy legislation, yet the budget repeals two tax-related items from the recently enacted law.

<b>Energy-Related Tax Proposals</b>	
Millions of Dollars	
<u>Proposal</u>	<u>Ten-Year Increase in Revenue</u>
Repeal reduced recovery period for natural gas distribution lines	833
Modify amortization for certain geological and geophysical expenditures	730
Excise tax on coal (net of income effects)	750
<b>Total</b>	<b>2,313</b>

### 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.

### Power Marketing Administrations (PMAs)

PMAs market electricity generated by hydropower projects at federal dams to public utilities and cooperatives. Currently, three of the four PMAs are federally subsidized: Southeastern Power Administration (SEPA), Southwestern Power Administration (SWPA), and Western Area Power Administration (WAPA). Bonneville Power Administration (BPA) recovers all of its costs through sales of electricity and transmission, and is not supported through annual appropriations.

- **Higher Rates for PMA Customers** — The budget includes a provision that may increase rates paid by some Power Marketing Administration customers, changing the interest rate



paid on new obligations by SEPA, SWPA, and WAPA. This change is expected to increase total receipts by only a small amount every year.

- ***Accelerated Debt Repayment for Bonneville Power Administration*** — The budget requires BPA to use any secondary market revenues in excess of \$500 million per year to reduce its debt. This action is likely to increase electric rates in the Pacific Northwest, perhaps by ten percent or more.
- ***Increase for Bonneville Borrowing Authority*** — As in past years, the budget increases the limit on Bonneville's debt by \$200 million in 2009, and clarifies the liabilities and obligations that should be counted towards Bonneville's statutory cap on borrowing authority. The change would ensure that certain transactions, such as lease-purchases, are treated as debt.

PMAAs arrange to buy and re-sell, or "wheel," power from other electricity producers on behalf of their customers, who then reimburse the PMAAs. The budget provides \$54 million for SEPA, with \$48 million from purchase power and wheeling activities and \$6 million from appropriations. SWPA receives an appropriation of \$32 million and generates \$3 million through purchase power and wheeling, for a total of \$35 million. The budget provides a total program level of \$689 million for WAPA, with \$212 million from appropriations and \$275 million from purchase power and wheeling.

### **Nuclear Waste Disposal**

The budget provides a total of \$545 million for 2007 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. Over half of the funding for this program, \$388 million, is included in Function 050 (National Defense) for disposal of weapons-related nuclear waste. The total amount is \$50 million above the comparable 2006 amount.

The Nuclear Waste Disposal Fund, which is financed by fees on nuclear-generated electricity, collects \$754 million in 2007.

### **Appropriated Programs**

The budget for 2007 provides \$3.8 billion in appropriated funding for energy programs, which is a cut of \$223 million below the amount needed to maintain purchasing power at the 2006 level.

***Energy Efficiency and Renewable Energy*** — The budget provides \$1.2 billion for the Office of Energy Efficiency and Renewable Energy, which is \$24 million (2.0 percent) less than the 2006

request and \$58 million (4.7 percent) less than the amount provided for 2005. The budget includes the following amounts for 2007 as part of the Advanced Energy Initiative:

- Solar energy – \$148 million, \$65 million over the 2006 enacted level;
- Biomass and biorefinery systems research and development – \$150 million, \$59 million over the 2006 enacted level;
- Hydrogen technology – \$196 million, \$40 million over the 2006 enacted level; and
- Wind energy – \$44 million, \$5 million over the 2006 enacted level.

Other renewable energy programs fare worse under the budget: geothermal technology and hydropower are eliminated.

Weatherization assistance grants, which help low-income households make their homes more energy-efficient, are cut by \$78 million (32.3 percent) from the 2006 appropriated level. In total, all weatherization and intergovernmental activities are cut by \$92 million from the 2006 appropriated level, receiving \$225 million for 2007.

***Fossil Energy Research and Development*** — The budget provides \$649 million for fossil energy research and development for 2007, \$193 million (22.9 percent) below the 2006 enacted level. The budget eliminates funding for clean coal technology, which was funded at \$20 million for 2006. The budget provides \$470 million for fossil energy research and development, a cut of \$122 million from the 2006 enacted level.

## 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.

### Sixth Straight Year of Cuts to Environmental Programs

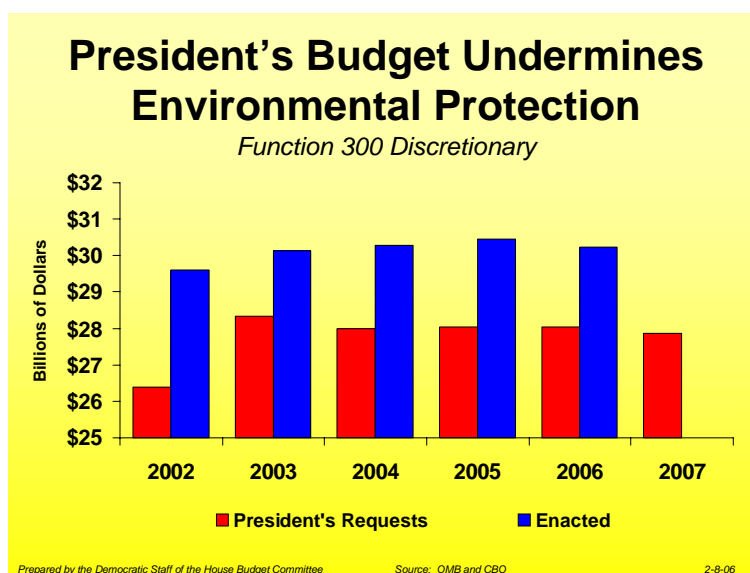
In the area of natural resources and environment, the President's 2007 budget repeats the pattern of each of the last five years. The Administration continues to tout its commitment to environmental preservation and conservation, but reality does not match the rhetoric. The President's budget rejects vital investments in clean air, safe drinking water, and conservation measures that affect American families every day.

For 2007, the President's budget once again significantly cuts funding for programs that protect public health and the environment. The budget provides \$27.9 billion in discretionary funding for these programs, which is \$2.4 billion (7.8 percent) below the 2006 enacted level, excluding supplemental funding, and is \$3.4 billion (10.7 percent) below the level needed to maintain current services. Over the 2007-2011 period, the budget is \$28.1 billion (16.9 percent) below the level needed to maintain current services. These drastic cuts undermine the public's demand to meet certain environmental priorities, and they jeopardize our nation's most treasured resources.

### Budget Details

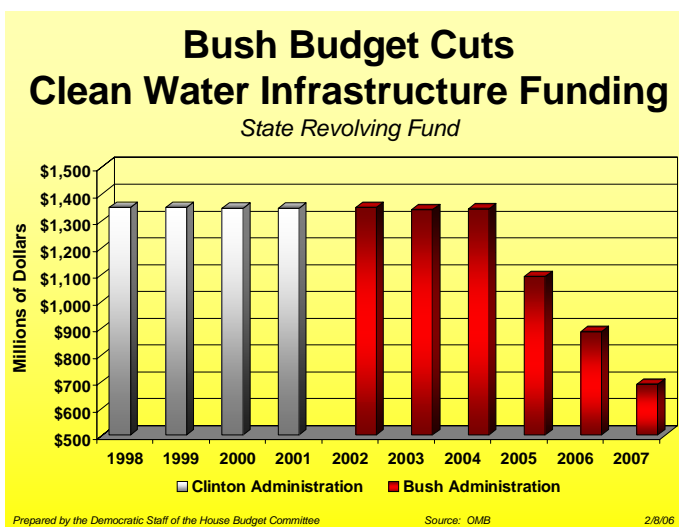
#### *Environmental Protection Agency (EPA) Funding Cut Again*

For 2007, the President's budget once again cuts EPA funding, providing \$7.3 billion in appropriations, a 4.0 percent (\$304 million) decrease from the 2006 enacted level. As in previous years, the majority of this decrease is



attributed to considerably reduced funding for water infrastructure programs that ensure the provision of clean water and protect public health.

- ***Clean Water and Drinking Water Needs Ignored*** — The President claims that the 2007 funding levels continue his commitment to the Clean Water and Drinking Water State Revolving Funds (SRFs). However, analyses by EPA, CBO, and other organizations have found that the nation’s water systems need significant investments in infrastructure to ensure the provision of safe drinking water and to better protect public health.



While its rhetoric claims to continue the Clinton Administration’s water infrastructure commitment, the President’s budget results in a significant cut in funding overall. The Clean Water SRF is provided only \$688 million for 2007, a cut of \$199 million, or 22.4 percent, from the 2006 enacted level. More significantly, this represents a \$403 million (36.9 percent) decrease in funding over the last two years and a \$654 million decrease (48.7 percent) since 2004. The Drinking Water SRF is provided \$842 million, a mere \$5 million (0.6 percent) increase from the 2006 level.

These low funding levels dramatically diminish the nation’s ability to meet current needs, as well as reduce pollution, establish a sound wastewater treatment infrastructure, provide safe drinking water for millions of Americans, and protect against potentially deadly water contamination. Studies have consistently shown that the quality of water is one of the leading concerns among the vast majority of Americans.

- ***“Polluter Pays” Principle Still Abandoned*** — The President’s 2007 budget continues to abandon the “polluter pays” principle regarding clean-up of the nation’s most toxic sites. All of the funding this year is again supplied from general revenues. The Superfund Trust Fund 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.<sup>2</sup>

<sup>2</sup>The taxes that expired in 1995 consisted of excise taxes on petroleum and chemical feedstocks and a corporate environmental income tax.

The budget provides the Superfund program with \$1.3 billion for 2007, an increase of only \$28 million from the 2006 enacted level. The Administration recognizes that, “one of the Superfund program’s primary goals is to have responsible parties pay for and conduct cleanups at abandoned or uncontrolled hazardous waste sites.” However, the President does not reinstate the Superfund taxes in his 2007 budget, forcing taxpayers to foot the entire bill for corporate polluters. Meanwhile, 461 of the 1,349 non-federal Superfund sites await clean-up and nearly 70 million Americans – including 10 million children – live within four miles of a Superfund site.

- ***Groundwater Contamination Goes Unaddressed*** — Leaking Underground Storage Tank (LUST) funding is \$73 million for 2007, an increase of approximately \$806,000 from the 2006 enacted level. However, there are currently over 119,000 underground storage tanks that are leaking petroleum and methyl tertiary-butyl ether (MTBE) and contaminating groundwater and drinking water supplies. This level of funding is insufficient to meet current needs, especially considering that 50 percent of the nation relies on groundwater for its drinking water, and the LUST Trust Fund is estimated to have a balance of over \$2.8 billion at the end of 2007.
- ***Environmental Justice Funding Slashed*** — Funding for environmental justice programs, which protect the health and welfare of low-income and minority communities from environmental toxins related to industrial pollution, is also significantly cut. For 2007, the President’s budget cuts environmental justice funding by nearly \$2 million, or 27.8 percent, below the 2006 enacted level.

***Continued Push for Drilling in the Arctic National Wildlife Refuge*** — In spite of the highly controversial nature of this proposal, for the sixth consecutive year the President’s budget assumes opening the Arctic Refuge to oil and gas exploration. Although the revenues are assumed in the budget, the Administration cannot implement the proposal without Congressional approval (attempts to open the Arctic Refuge failed last session). Over the 2007-2011 period, the President’s budget includes \$4.0 billion from lease bonuses for the federal treasury and \$4.0 billion collected and distributed to the State of Alaska.

***Cuts Funding for Army Corps of Engineers*** — Despite significant emergency supplemental funding for the Army Corps of Engineers in the wake of Hurricane Katrina, in yet another repeat from the previous five years the

**President's Environmental Priorities**

- Environment funding CUT by nearly 8 percent.
- Clean water infrastructure programs CUT by about 22 percent and nearly 50 percent since 2004.
- Environmental Justice funds cut by 28 percent.
- Farm conservation programs CUT by over \$450 million.
- FAILS to address water supply contamination from leaking petroleum and MTBE.
- FAILS to protect wildlife, conservation, recreation, and preservation needs.
- FAILS to hold corporate polluters accountable - TAXPAYERS foot the entire bill.

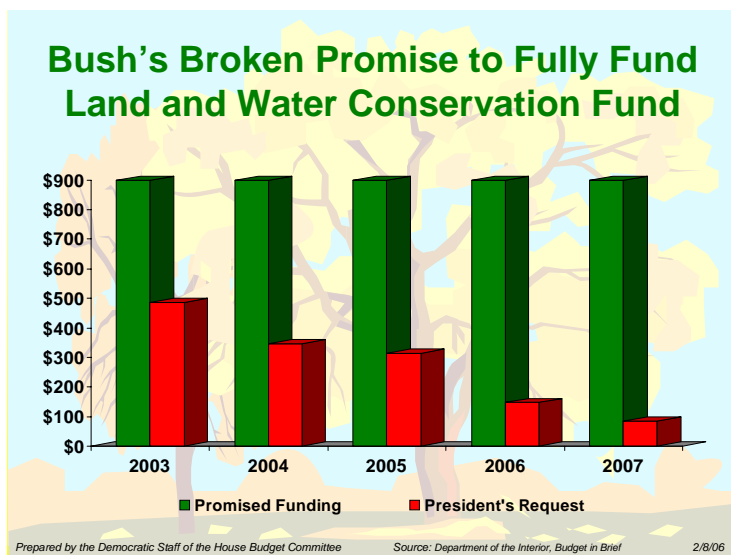
Prepared by the Democratic Staff of the House Budget Committee Source: OMB 2/8/06

President's budget significantly cuts appropriations for the Corps. For 2007, the Corps budget is restricted to \$4.7 billion, \$596 million (11.2 percent) below the 2006 enacted level excluding supplemental funding. In an effort to reduce the agency's backlog of work on ongoing projects, the budget directs funding toward those ongoing projects that "have a very high net economic and environmental return." As such, the Administration anticipates that 16 projects will be completed and significant progress will be made on eight high-priority, high-return projects. In addition, 532 projects that were funded by Congress in 2006 are now scheduled for suspension or cancellation.

**Abandons our Farmers and Ranchers** — The President once again cuts vital Farm Bill programs that would help farmers and ranchers protect and enhance natural resources by over \$450 million for 2007 alone. This is in addition to the \$249 million in conservation cuts for 2007 in the 2005 Republican spending reconciliation bill. The President's budget caps the Conservation Security Program (CSP) at \$342 million. The budget cuts the Environmental Quality Incentives Program (EQIP) by \$270 million (21.3 percent), the Wildlife Habitat Incentives Program (WHIP) by \$30 million (35.3 percent), the Agriculture Management Assistance program by \$14 million (70.0 percent), and Farmland Protection by \$47 million (48.5 percent). The budget also eliminates the remaining Watershed Rehabilitation Program funds (\$65 million). These cuts are just some examples.

The President does propose an increase in the Wetlands Reserve Program (WRP) in conjunction with his April 2004 announcement to "restore, protect, and enhance three million acres of wetlands over five years." However, this is the first year since passage of the Farm Bill that the President actually enrolls the authorized annual level of 250,000 acres under the WRP. Past years' limits on enrollment virtually ensure that the program cap of 2.275 million acres will not be met by the end of 2007.

**Broken Promise to Fully Fund the Land and Water Conservation Fund (LWCF)** — The President not only once again fails to fully fund the LWCF at the authorized level of \$900 million, but also continues the trend of significant cuts seen in past budgets. For 2007, the President claims to provide \$533 million for the LWCF, yet in reality the budget provides only \$85 million for the intended LWCF purposes of preserving parks, forest, wildlife refuges, and open space. This



represents a cut of \$57 million (40.2 percent) from the 2006 enacted level. In addition, the budget once again eliminates the stateside LWCF program and only funds the federal acquisition program.

***Unmet Fire Prevention Needs*** — The President once again does not fully fund his Healthy Forests Initiative, providing only \$492 million for hazardous fuels reduction, an increase of \$2 million from the 2006 enacted level, but \$268 million below the authorized level. The President's budget provides \$244 million for State and Private Forestry, a cut of \$35 million (12.5 percent) from the 2006 enacted level. Forest Health Management is provided \$84 million, a cut of \$16 million (15.9 percent). The budget also provides \$33 million for the State and Local Fire Assistance Program and eliminates the Rural Fire Assistance program, a combined cut of \$16 million (32.6 percent).

***Endangered Species Threatened*** — The Fish and Wildlife Service endangered species recovery program is provided \$66 million, which is 10.4 percent below the 2006 enacted level. More than 200 species currently listed under the Endangered Species Act that are on the verge of extinction will be at greater risk.

***Pick-Sloan Missouri Basin Program Cost Reallocation*** — As was the case last year, the President's budget redistributes the outstanding project costs of the Pick-Sloan Missouri Basin Program to power customers who are actually using the dams and power plants. This would raise \$115 million for the federal government over five years (2007-11).

***Brownfields Cleanup Incentive*** — The President's budget again contains an environmental tax incentive intended to encourage the clean-up of brownfields. 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, 2005. This extension of current law lowers federal revenues by \$811 million over five years (2007-2011).

## 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** — The Administration’s budget cuts mandatory agriculture programs by \$9.4 billion over ten years (2007-2016) and \$5.2 billion over five years (2007-2011).

<b>President’s Budget Cuts Agriculture</b>	<b>Savings Over Ten Years (2007-2016)</b>
Reduce all commodity payments to farmers by five percent	\$4.9 billion
Reduce crop insurance premium subsidies to farmers, lower reimbursement to insurance companies, and tie receipt of federal payments to the purchase of crop insurance	\$1.3 billion
Reduce payment limitation for all CCC commodity payments including marketing loan gains to \$250,000	\$1.2 billion
Cut spending on the dairy price support program, allow purchases only when reported prices are below the support rate	\$618 million
Implement a 3 cent per hundredweight assessment on milk marketings	\$578 million
Apply a 1.2 percent marketing assessment on sugar processors	\$364 million
Impose new user fees for GIPSA, APHIS, AMS, and crop insurance	\$492 million
<b>Total Cut to Agriculture Programs</b>	<b>\$9.425 billion</b>

The Administration claims that net cash farm income is close to record levels, and exports are strong and showing solid growth. But the rural economy is still struggling, commodity prices have been declining, and production in many areas has suffered from natural disasters and soaring energy costs. Farm Bill programs were trimmed by \$2.7 billion over five years under the Republican reconciliation spending bill, and the President’s budget creates additional uncertainty in the homes, barns, and communities of America’s ranchers and farmers.



## **Appropriated Programs**

The President's budget provides \$5.6 billion for appropriated agriculture programs for 2007, which is a cut of \$455 million (7.5 percent) below the amount needed to maintain purchasing power at the 2006 level.

***Animal and Plant Health Inspection Service (APHIS)*** — The budget provides a program level of \$1.1 billion for APHIS for 2007, which includes \$320 million for pest and disease exclusion, \$304 million for plant and animal health monitoring, and \$344 million for pest and disease management.

As in past years, the budget includes new user fees for animal welfare inspections, raising \$8 million in 2007.

***Grain Inspection, Packers and Stockyards Administration (GIPSA)*** — The budget provides a program level of \$84 million for GIPSA for 2007, comprised of \$22 million in appropriated funding, \$42 million from existing user fees, and \$20 million from new user fees. As in past years, the budget assesses new user fees for grain standardization and Packers and Stockyards licensing activities.

***Farm and Foreign Agricultural Services*** — The budget provides 2007 program levels of \$33.9 billion for the Farm Service Agency, \$4.2 billion for the Risk Management Agency, and \$5.3 billion 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.

The budget imposes a new participation fee for insurance companies participating in crop insurance of one-half cent per dollar of premium sold. The new fee generates \$15 million per year.

***Research, Education, and Economics*** — The budget includes program levels for 2007 of \$1.0 billion for the Agricultural Research Service; \$1.0 billion for the Cooperative State Research, Education, and Extension Service; \$83 million for the Economic Research Service; and \$153 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) and the Department of Agriculture (USDA); the Department of Commerce's Census Bureau, its business promotion programs, and its technology development programs; rural housing loans; the Small Business Administration's business loans; the Postal Service (USPS); and other regulatory agencies such as the Federal Communications Commission (FCC).

### Commerce-related Programs

***Increases Fees on Some Small Business Loans*** — The budget increases fees on Section 7(a) general business guaranteed loans greater than \$1 million in order to cover the administrative costs of the program, which is run by the Small Business Administration (SBA). This fee increase comes on top of a policy, first implemented in 2005 and continued in this budget, of providing no subsidy funding for Section 7(a) loans and requiring instead that the cost of potential defaults be covered entirely through fees. The budget provides a total Section 7(a) loan volume for 2007 of \$17.5 billion — a \$500 million increase from 2006 — but it raises costs for entrepreneurs.

***Eliminates Microloans and a Variety of Other Aid to Small Businesses*** — The budget again zeroes out microloans, a program that will provide an estimated \$20 million in loans in 2006 mainly to low-income entrepreneurs. In addition to loan programs, SBA runs a number of activities such as business information centers, women's business centers, and technical assistance to help entrepreneurs. The budget provides a total of \$106 million for these activities for 2007, a reduction of \$20 million, or 16.1 percent, from the 2006 enacted level. Within the total, the budget eliminates funding for several activities, including microloan technical assistance.

***Slashes Funding for the Manufacturing Extension Partnership*** — The budget provides \$46 million for the Manufacturing Extension Partnership, a 56.2 percent cut from the 2006 enacted level of \$105 million. This program, which also receives state, local, and private funding, 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. Funding for the program has fluctuated dramatically in recent years, going from \$106 million for 2003 to \$40 million for 2004, and back to \$108 million for 2005 and \$105 million for 2006 before the budget slashes funding once again for 2007.

***Increases Patent and Trademark Office Operating Budget*** — The budget includes \$1.8 billion for Patent and Trademark Office operations, an increase of \$160 million (9.5 percent) above the 2006 enacted level.

***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 \$79 million in 2006.

## **Mortgage Credit Programs**

***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 down payment 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. In addition, the budget establishes risk-based pricing of FHA mortgage insurance premiums to decrease costs for safer borrowers. Currently, FHA mortgage insurance premiums do not vary according to a borrower's credit risk.

***Increases Rural Housing Single-Family Direct Loans*** — The funding level in the budget for rural housing direct loans will support a loan volume of \$1.2 billion to 11,000 families through the USDA Section 502 single-family housing direct loan program. This loan volume is \$108 million (9.6 percent) above the 2006 level. This increase will barely keep up with rising costs – USDA anticipates housing costs will rise 10.0 percent in 2007. The budget increases the fee on Section 502 guaranteed loans from 2.0 percent to 3.0 percent and supports a loan volume of \$3.5 billion, up \$26 million from 2006. Guaranteed loans generally cost borrowers more than direct loans.

***Converts Multifamily Rural Housing Loans from Direct to Guaranteed*** — The USDA Section 515 multi-family housing direct loan program will support a loan volume of \$99 million in 2006 for projects that serve low-income tenants – many of whom are elderly – in rural areas. The budget provides no resources for direct loans for 2007. Instead, it increases the loan volume for Section 538 multi-family housing guaranteed loans by \$99 million, to a total of \$198 million. Guaranteed loans, however, result in higher rents for tenants, because the costs to borrowers are generally higher for guaranteed loans than for direct loans. The Section 515 program currently provides housing for about 470,000 tenants. The President's budget is the first budget request since 1963 that has not included any money for Section 515 preservation and new construction projects.

## 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 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

The President's budget provides \$63.6 billion in appropriated budgetary resources (budget authority plus obligation limitations) for 2007. This is \$1.8 billion (2.9 percent) above the 2006 enacted level, excluding supplemental funding. In addition, the budget increases airline security passenger fees to cover a larger portion of screening costs (see Transportation Security Administration below).

### Budget Details

**Surface Transportation Funding** — After numerous short-term extensions, Congress finally passed a \$286.5 billion surface transportation reauthorization bill last session, dubbed the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). The program provides surface transportation funding through 2009. For 2007, the President's budget provides \$39.1 billion in obligation limitations for the Federal-Aid Highway Program. This reflects the SAFETEA-LU level of \$38.2 billion plus an estimated upward adjustment of \$842 million due to Revenue Aligned Budget Authority (RABA). Within Federal-Aid, \$100 million is shifted away from state formula programs outlined in SAFETEA-LU and toward a new "Open Roads Financing Pilot Program." This pilot program would involve up to five states in evaluating innovative ways to finance and manage major parts of their highway system. The budget provides \$1.3 billion for safety programs, which includes a shift of \$122 million from the General Fund to the Highway Trust Fund. The budget also provides \$8.9 billion for mass transit, including both the obligation limitation and discretionary budget authority. This a \$100 million decrease below the SAFETEA-LU level.

**Federal Aviation Administration (FAA)** — The President's budget provides \$13.7 billion for the FAA for 2007. This represents a cut of \$521 million, or 3.7 percent, below the 2006 enacted level excluding supplemental funding. Within the FAA, Facilities and Equipment (F&E) is provided \$2.5 billion, a cut of \$12 million, and the Airport Improvement Program (AIP) is cut by \$765 million (21.8 percent) to \$2.8 billion. Moreover, funding for these programs is substantially below the air transportation levels authorized in Vision 100. The F&E account is \$607 million below the authorized level and AIP is \$950 million below the authorized level.

**Funding Cuts for the Essential Air Service (EAS) and Small Community Air Service Programs** — The EAS program provides financial assistance to rural communities geographically isolated from hub airports so that they may operate smaller airports. The President’s 2007 budget once again cuts funding more than 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. Congress has consistently rejected the Administration’s proposal.

In addition, as in previous years, 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 the 2004 Federal Aviation Administration (FAA) reauthorization bill (although only \$20 million was provided in 2005 funding and \$10 million in 2006 funding).

**Amtrak Funding Slashed Again** — The Administration continues to press for the privatization of Amtrak, believing that the current system is too inefficient to be viable. The President’s budget provides only \$900 million for Amtrak, a cut of \$394 million, or 30.4 percent, from the 2006 enacted level. The Administration has proposed cutting Amtrak funding in previous years while pressing for its privatization, but this year’s budget takes matters one step further. The budget provides \$500 million for Amtrak’s capital expenses (a \$272 million cut from the 2006 enacted level), but it does not provide any direct funding to cover Amtrak’s operating expenses. Instead, the President’s budget provides \$400 million in “efficiency incentive grants,” which DOT may issue to Amtrak for operating expenses based on the progress Amtrak makes in undertaking the Administration’s reform initiatives.

<b>Federal Grants to Amtrak</b>						
(budget authority in millions)						
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
President’s Request	\$521	\$521	\$900	\$900	\$360	\$900
<b>Enacted</b>	<b>\$831*</b>	<b>\$1,043</b>	<b>\$1,218</b>	<b>\$1,207</b>	<b>\$1,294</b>	<b>--</b>

*\*includes \$310 million in supplemental appropriations.*

**Transportation Security Administration (TSA)** — The President’s budget provides \$6.2 billion for the TSA for 2007. This amount is \$353 million (6.0 percent) more than the 2006 enacted level. In addition, the President increases airline security passenger fees to cover a larger portion of screening costs. The current fee is assessed at \$2.50 per segment, capped at \$5 per one-way flight and \$10 for a round-trip flight. The budget replaces this with a single flat fee of \$5 per one-way ticket. This will raise \$1.6 billion in 2007 and \$9.7 billion over five years (2007-11). Congress rejected a slightly different proposal last year.

**Coast Guard** — The President’s budget provides \$8.4 billion for the Coast Guard, also now part of the Department of Homeland Security. Of this amount, \$7.1 billion is appropriated funding

and \$1.3 billion is mandatory spending, consisting mostly of retirement pay. The 2007 appropriated funding is \$305 million (4.5 percent) higher than 2006 enacted level, excluding supplemental funding. As was the case with recent budgets, 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. 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 President's 2007 budget once again does not include any funding for grants to port authorities for security upgrades. However, the budget does include \$600 million in grants to supplement state and local infrastructure protection efforts that could include, among other things, port security measures. In 2006, the President proposed the same measure. Congress rejected that request and provided \$173 million in port security grants for 2006. The Coast Guard reports port physical security needs of \$4.4 billion over ten years.

***Maritime Administration*** — The President's budget does not include any funding for new loan guarantees under the Maritime Guaranteed Loan (Title XI) Program. This program guarantees loans for purchases from the U.S. shipbuilding industry and for shipyard modernization. For 2007, the President's budget provides \$3 million, enough to cover only the cost of administering pre-existing loan guarantees. (Congress accepted the President's proposal to eliminate new loan guarantees in 2004, and has since provided funding only to cover administrative expenses.)

## **Function 450: Community and Regional Development**

Federal community and regional development programs provide financial and technical assistance to improve economic conditions among low- and moderate-income communities and aid areas impacted by disasters. Major agencies and programs in this function include the Community Development Block Grant program, the Economic Development Administration, the Appalachian Regional Commission, rural development programs in the Department of Agriculture, the Bureau of Indian Affairs, Empowerment Zones and Enterprise Communities, the Disaster Relief program, and the Emergency Preparedness and Response program.

The President's budget provides \$11.7 billion in discretionary appropriations for the Community and Regional Development function for 2007, a \$1.5 billion (11.1 percent) cut below the non-emergency 2006 enacted level. Following is an overview of the President's treatment of several programs in this function.

***Community Development Block Grant (CDBG) Program Cut*** — The CDBG program enables states and localities to target federal formula grants and other financial assistance toward improving housing and economic conditions in low- and moderate-income neighborhoods. Last year, the CDBG program proved crucial in helping to provide emergency assistance to communities devastated by natural disasters, including hurricane Katrina. The budget cuts CDBG formula grants and either cuts or eliminates CDBG set-aside programs.

The budget provides \$3.0 billion for CDBG formula grants, a \$736 million cut below the 2006 non-emergency level. The budget cuts the Indian Tribe assistance set-aside program by \$75 million (54.7 percent) below last year's level, and cuts the Youthbuild program by \$14 million (21.9 percent) below last year's level while moving the program from HUD to the Department of Labor. The budget eliminates Economic Development Initiative grants.

***Economic Development Assistance (EDA) Programs*** — EDA programs direct public works grants, technical assistance grants, and economic adjustment grants to low-income regions. The budget provides \$297 million for EDA, a \$47 million (18.8 percent) increase over the 2006 level. The budget merges the Administration's Regional Development Account initiative into EDA while eliminating EDA grants programs. The Regional Development Account initiative is designed to create new technologies and opportunities to expand regional capacity.

***Rural Housing and Economic Development Program Eliminated*** — The Rural Housing and Economic Development program provides funds to improve housing and economic development among rural communities. The budget eliminates the Rural Housing and Economic Development program, which is currently funded at \$17 million.

***Community Development Financial Institutions (CDFI) Program Cut*** — The CDFI enables specialized financial institutions to provide an array of funds and services to promote economic

development among low-income and/or native communities. The President's budget provides \$8 million for the CDFI program, a \$46 million (85.2 percent) cut below last year's level.

***Rural Community Advancement (RCA) Program Cut*** — The RCA program provides grants, loans, and loan guarantees to stimulate economic growth and build facilities in rural communities. The budget provides \$601 million for the RCA, a \$117 million (16.3 percent) cut below the 2006 enacted level.

***First Responders*** — The budget includes a total of \$1.7 billion within the Department of Homeland Security for first responder funding, which is \$573 million (24.9 percent) less than the amount enacted for 2006. Within this total, the budget decreases firefighter assistance grants by \$355 million and eliminates all funding for law enforcement terrorism prevention, a reduction of \$385 million. These decreases are partially offset by an \$87 million increase for formula-based grants and an \$80 million increase for specific high-threat urban areas. For the Department of Justice, the budget again proposes elimination of the Justice Assistance grant program – a reduction of \$388 million – and cuts \$412 million from the Community Oriented Policing Services (COPS) program compared with the 2006 program level. The cut to COPS includes a \$371 million reduction in new appropriations for the program and a proposed increase in unobligated fund rescissions totaling \$41 million. See *Function 750* for a detailed discussion.

***High Energy Costs Grants Eliminated*** — The High Energy Costs Grants program provides funds to improve energy facilities among communities that have residential energy costs equal to at least 275 percent of the national average. The budget eliminates the high energy costs grants program, which is funded at \$26 million for 2006.

***Disaster Relief Program Increased*** — The disaster relief program administers federal assistance to areas devastated by disasters. The budget provides \$1.9 billion for the program, a \$171million increase over the 2006 enacted level.



## **Function 500: Education, Training, Employment, 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.

For 2007, the President's budget provides \$74.8 billion in discretionary funding for programs in this function, a cut of \$4.0 billion below the 2006 non-emergency enacted level and of \$5.4 billion below the amount needed to maintain purchasing power for the non-emergency programs at the 2006 level. More than half of the cut is to programs in the Department of Education (ED).

### **Education**

***Cuts Education Funding by \$2.1 Billion; Eliminates 42 Programs*** — Despite the Administration's stated intent to strengthen American competitiveness by focusing on improving students' knowledge of math and science, the President's budget cuts federal education funding by \$2.1 billion below the comparable 2006 enacted level, which itself was below the 2005 enacted level. Within ED's 2007 budget of \$54.4 billion, the budget freezes or reduces funding for most programs and produces "savings" of \$4.1 billion by outright eliminating 42 appropriated programs that Congress funded less than two months ago, for savings of \$3.5 billion, plus recalling all prior federal contributions to the revolving funds from which colleges currently make Perkins loans, for additional 2007 savings of \$664 million. These eliminated programs cover elementary, secondary, and higher education programs – including all vocational education and technology programs, the \$347 million Safe and Drug-Free School state grant program, and the \$311 million TRIO Upward Bound program. The complete list of eliminated programs is provided on the next page.

***Cuts Funding for High School Achievement*** — Funding aimed at improving high school achievement receives \$596 million of ED's net cut. The budget includes a new \$1.5 billion high school reform program, but more than offsets this new funding by eliminating \$2.1 billion for existing high school programs – including the elimination of all vocational education programs, mentioned above.

***Math and Science Initiative Is Offset by Cuts in Technology*** — Likewise, the \$380 million for math and science education that is part of budget's American Competitiveness Initiative is

**42 Education Programs Eliminated in the President's 2007 Budget**  
(Dollars in Millions, 2006 Enacted Level)

<i>Program</i>	<i>2006 \$</i>	<i>Program</i>	<i>2006 \$</i>
High School:		Higher Education:	
Gaining Early Awareness (GEAR-UP)	303.4	Perkins Loans, recall revolving funds*	664.0
Smaller Learning Communities	93.5	Perkins Loans Cancellations	65.5
School Dropout Prevention	4.9	Leveraging Ed. Assist. Partnerships	65.0
TRIO Talent Search	145.3	Byrd Honors Scholarships	40.6
TRIO Upward Bound	311.0	Demos for Students with Disabilities	6.9
		Thurgood Marshall Legal Education	2.9
		Underground Railroad Program	2.0
		B.J. Stupak Olympic Scholarships	1.0
Vocational Education – every program:	1,182.4	Safe and Drug-Free Schools:	
Vocational Education State Grants	104.8	State Grants	346.5
Tech-Prep Education State Grants	9.2	Alcohol Abuse Reduction	32.4
Voc. Education National Programs			
Improving Teacher Quality:		Rehabilitation Services:	
Teacher Quality Enhancement	59.9	Supported Employment Grants	29.7
National Writing Project	21.5	Projects With Industry	19.5
School Leadership	14.7	Recreational Programs	2.5
Ready To Teach	10.9	Migrant & Seasonal Farmworkers	2.3
Ed. Technology – every program:		Civics Education	29.1
Ed. Technology State Grants	272.3	Academies for American History and Civics	2.0
Star Schools	14.9		
Even Start	99.0	Elementary/Secondary Counseling	34.7
Parental Info. and Resource Centers	39.6	Grants for Incarcerated Youth	22.8
Arts in Education	35.3	Javits Gifted and Talented Education	9.6
Comprehensive School Reform	7.9	Exchanges with Historic Partners	8.9
Mental Health Integration in Schools	4.9	Women's Educational Equity	2.9
Close Up Fellowships	1.5	Excellence in Economic Education	1.5
Foundations for Learning	1.0		
<b>Total Programs Eliminated = \$4.1 billion</b>			
*This recall shows \$664 million in discretionary savings in 2007.			

funded primarily by eliminating all of ED's funding for educational technology. The math and science initiative is comprised of \$125 million for each of two programs to improve the teaching of math in elementary and middle schools, \$15 million to guide and evaluate the new math

programs, a \$90 million increase to train teachers for Advanced Placement courses, and \$25 million to hire outside professionals to teach math and science. The ED budget cuts overall funding for teacher quality improvement programs below the 2006 enacted level.

***Funding Cut for Existing Programs Under the No Child Left Behind Act (NCLB) Act*** — The NCLB Act authorizes \$39.4 billion for elementary and secondary education programs for 2007, including \$25.0 billion for Title I grants to states. Yet the President’s budget cuts overall funding for existing NCLB programs, freezes Title I at \$12.7 billion, adds its new high school and math programs, and still provides only \$24.0 billion for NCLB programs – \$15.4 billion below the authorized level.

***Special Education*** — The budget provides \$10.7 billion for special education grants to states, which is an increase of \$95 million (0.9 percent) over the 2006 enacted level but still leaves the funding \$6.3 billion below the amount authorized for 2007. In fact, the funding is not even sufficient to maintain the federal government’s current 17.7 percent share of the average per pupil expenditure for special education; for 2007, the federal share drops to 17.0 percent, well below half the 40 percent “full funding” federal contribution ceiling allowed by law.

## Education Freezes

**The President’s budget freezes many programs at the 2006 enacted level, including:**

- Impact Aid
- Title I state grants
- Pell Grant maximum
- Teacher quality grants
- Rural education
- Work-Study
- Supplemental educational opportunity grants
- 21st century community after-school programs



***No Increases for Higher Education*** — The budget cuts the amount of aid it provides to help students pay for college. It freezes the maximum Pell Grant award at \$4,050, where it has been held since 2003 while the average tuition and fees at a four-year public college have risen \$1,393. It eliminates eight higher education programs that currently receive \$848 million.

***Perkins Loans*** — The President’s budget eliminates the \$65 million Perkins loan program that allows colleges to cancel Perkins loans for certain students who pursue public service careers following graduation. It also recalls all prior federal capital contributions to the revolving funds from which colleges currently make new Perkins loans, for 2007 discretionary savings of \$664 million. Congress rejected both these proposals last year.

***Other Student Loans*** — The budget contains no new proposals for the mandatory student loan programs – the Federal Family Education Loan program and the Direct Loan program – in the wake of the changes made by the recently passed Republican reconciliation spending cut bill. That bill cut about \$12 billion from planned student loan spending over five years (2006-2010),

including the elimination of all mandatory spending to administer higher education programs. As a consequence of that cut, ED’s 2007 budget includes \$600 million in new discretionary funding for that purpose, which simply switches the cost from mandatory to discretionary spending and precludes the use of these scarce appropriations for any new aid to students.

## Employment and Training

The President’s 2007 budget cuts virtually every single appropriated job training program within the Department of Labor (DOL), for an overall cut of \$652 million below the 2006 enacted level. The budget provides \$8.5 billion for these training and employment programs.

**Consolidates Training Programs into Personal Accounts and Cuts the Funding** — The President’s budget consolidates six existing job training programs (see box below), cuts their funding by \$496 million (12.7 percent), and provides the funding through personal Career Advancement Accounts of up to \$3,000 for certain individuals.

<b>Training Funds Cut in Personal Accounts</b>		
<i>(dollars in millions)</i>	<u>2006</u>	<u>2007</u>
Dislocated Worker	1339	—
Adult Training	857	—
Youth Activities	940	—
Employment Services	716	—
Workforce Information	39	—
Work Opportunity Tax Credit	<u>18</u>	<u>—</u>
<b>Total</b>	<b>3909</b>	<b>3413</b>

**Job Corps and YouthBuild** — Last year Congress moved the Job Corps program within DOL to the Office of the Secretary. The 2007 budget moves Job Corps back into the Employment and Training Administration and cuts its funding by \$63 million, for a total of \$1.5 billion. The budget also transfers the YouthBuild program from the Department of Housing and Urban Development to DOL, and provides it \$50 million for 2007.

**Cuts Community Service Employment for Older Americans** — DOL cuts the Community Service Employment for Older Americans programs by \$44 million (10.2 percent), providing a total of \$388 million that DOL asserts will, because of “more efficient administration,” still support the same number of participants as this year.

## Social Services

**Eliminates Community Services Block Grant** — The budget eliminates the Community Services Block Grant and other community services programs, cutting \$670 million for a range of services to reduce poverty and to provide assistance in the areas of housing, health, nutrition, energy, and substance abuse.

**Freezes Head Start** — The budget freezes Head Start funding at \$6.8 billion. The National Head Start Association reports that if Head Start maintains its quality of services, a freeze in funding will require it to drop 19,000 children from the program next year.

***Slashes the Social Services Block Grant (Title XX)*** —The budget cuts the Social Services Block Grant (SSBG) by \$500 million for 2007, for a total funding level of \$1.2 billion. 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. One of the Administration’s main justifications for cutting SSBG funding is that “the flexibility of the SSBG makes it difficult to measure performance.” However, the 2007 budget moves numerous programs – such as rental assistance and foster care – in the direction of becoming flexible block grants.

***Cuts National Service Programs*** — The budget provides \$851 million for the Corporation for National and Community Service, a cut of \$49 million from the 2006 enacted level and \$85 million (9.1 percent) below the amount needed to maintain purchasing power at the 2006 level.

## **Cultural Agencies**

***Cuts Corporation for Public Broadcasting*** — By custom, the Corporation for Public Broadcasting receives an appropriation two years in advance. In 2005 and 2006, Congress enacted \$400 million in funding for 2007 and for 2008. The 2007 budget now rescinds \$54 million of the already-enacted 2007 funding and \$50 million of the enacted funding for 2008. The budget also ends the practice of such “advance appropriations” and therefore does not include any additional funding for any future year.

***Freezes Funding for National Endowments*** — The President’s budget freezes funding at the 2006 enacted level for both the National Endowment for the Arts (frozen at \$124 million) and the National Endowment for the Humanities (frozen at \$141 million).

## 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 Cut** — The President's budget provides \$50.8 billion for appropriated programs, excluding emergency appropriations for pandemic influenza, in Function 550 (Health) for 2007. This amount is a cut of \$126 million (0.2 percent) below the 2006 enacted level, and a cut of \$1.4 billion (2.6 percent) below the amount needed to maintain purchasing power at the 2006 enacted level. In addition to these amounts, appropriated health programs received \$3.3 billion in supplemental appropriations for pandemic influenza for 2006, and the budget provides an "allowance" of \$2.3 billion for 2007. The Administration intends to transmit a formal request for these emergency funds to Congress later this year.

**Overall Mandatory Increase** — The budget increases mandatory spending relative to current law by \$20.0 billion over five years. This change is primarily due to a change in how postal service retiree health benefits are displayed in the budget, and to pay for postal service reforms and the refundable portions of a package of tax policies for health savings accounts and high-deductible, which is partially offset by cuts to the Medicaid program. See *Health Savings Accounts and Other Health Coverage Proposals* for more information on the health tax policy proposals.

### Medicaid and the State Children's Health Insurance Program (SCHIP)

**\$17.2 Billion in Gross Cuts to Medicaid Over Five Years, \$42.3 Billion Over Ten Years** — The budget includes legislative cuts to Medicaid of \$4.9 billion over five years, and another \$12.2 billion in cuts through regulatory changes, for total gross cuts of \$17.2 billion over five years. Over ten years, the budget includes \$11.9 billion in legislative cuts, and \$30.4 billion in regulatory cuts, for total gross cuts of \$42.3 billion. (The budget also reinvests \$3.2 billion in Medicaid over five years and \$6.8 billion over ten years, for a net effect in Medicaid legislative and regulatory cuts of \$14.0 billion over five years and \$35.5 billion over ten years.) Cuts of this magnitude cannot be found by simply closing loopholes – the pain will be felt somewhere, either by shifting costs to beneficiaries or states or cutting payments to providers, which can undermine their ability to provide care to the uninsured.

<b>Cuts to Medicaid</b> (dollars in billions)		
	<b>2007 - 2011</b>	<b>2007 - 2016</b>
<b>Legislative Cuts:</b>		
Reduce Payment for Targeted Care Case Management	-1.2	-3.1
Reduce Payments for Generic Drugs	-1.3	-3.4
Optional Managed Formulary	-0.2	-0.5
Avoid Payments for Prenatal and Preventive Pediatric Care	-0.5	-1.2
Cut Payments for Administrative Costs (Cost Allocation)	-1.8	-3.7
<b>Total Legislative Cuts</b>	<b>-4.9</b>	<b>-11.9</b>
<b>Regulatory Cuts:</b>		
Limit Provider Payments to Cost (Eliminate UPL)	-3.8	-9.0
Reduce Allowable Provider Taxes	-2.1	-5.5
Limit Reimbursement for Rehabilitation Services	-2.3	-6.1
Limit Reimbursement for School-Based Services	-3.6	-9.1
Delay Payments to Pharmacies	-0.4	-0.7
<b>Total Regulatory Cuts</b>	<b>-12.2</b>	<b>-30.4</b>
<b>Total Legislative and Regulatory Cuts</b>	<b>-17.2</b>	<b>-42.3</b>
<b>Program Reinvestments</b>		
Extend Transitional Medicaid Assistance	0.4	0.4
Vaccines-for-Children	0.7	1.4
Cover-the-Kids Initiative*	2.0	4.9
Medicaid Effects of SSI Refugee Extension	0.1	0.1
<b>Total Program Reinvestments</b>	<b>3.2</b>	<b>6.8</b>
<b>Net Medicaid Cut</b>	<b>-14.0</b>	<b>-35.5</b>

\*Only reflects Medicaid costs from increased Medicaid enrollment under "Cover the Kids" outreach initiative. The SCHIP costs and the \$1.0 billion in outreach grants (2007 to 2016) under "Cover the Kids" are reflected in other accounts.

***Legislative Cuts of Nearly \$5 Billion Over Five Years, and Nearly \$12 Billion Over Ten Years***

— The budget includes gross legislative cuts to Medicaid of \$4.9 billion over five years, and \$11.9 billion over ten years.

- ***Reduces Payments for Targeted Care Case Management*** — The budget cuts the Medicaid match rate for targeted care case management for disabled children, adults, and others to 50 percent, cutting Medicaid spending by \$1.2 billion over five years and \$3.1 billion over ten years. This change may negatively affect states’ ability to serve these populations.
- ***Avoids Payments for Prenatal and Preventive Pediatric Care*** — Under the auspices of “strengthening third party liability,” the budget lets states avoid payments for prenatal and preventive pediatric care in instances where a non-custodial parent may be liable for payment. The budget also lets states use liens against liability settlements to recover federal matching payments. These policies save \$525 million over five years and \$1.2 billion over ten years.
- ***Reduces Reimbursement for Generic Drugs*** — The budget limits payments for generic drugs to 150 percent of the average manufacturers’ price, for savings of \$1.3 billion over five years and \$3.4 billion over ten years.
- ***Allows States to Use Managed Formularies*** — The budget lets states develop more restrictive prescription drug formularies for Medicaid beneficiaries, yielding savings of \$177 million over five years and \$469 million over ten years.
- ***Cuts Medicaid Payments for Administrative Costs (Cost Allocation)*** — The budget 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.” This policy cuts administrative spending by \$1.8 billion over five years and \$3.7 billion over ten years.

***Regulatory Medicaid Cuts of \$12.2 Billion Over Five Years, \$30.4 Billion Over Ten Years*** —

The budget includes the following regulatory changes that will cut Medicaid spending by \$12.2 billion over five years and \$30.4 billion over ten years.

- ***Limits Provider Payments to Cost*** — The budget cuts payments to providers by prohibiting states from paying government-owned providers more than “cost,” for five-year savings of \$3.8 billion and ten-year savings of \$9.0 billion. In effect, this policy eliminates the “upper payment limit (UPL),” which currently lets states pay government providers an amount above their costs. While some states may be using the UPL to draw down Medicaid matching dollars above what their Medicaid match rate would normally allow, many of them are phasing out this mechanism, and others reinvest the funds into the Medicaid program or other health programs. The Administration included this policy as a legislative change in last year’s budget.



- ***Reduces Allowable Provider Taxes*** — The budget reduces the allowable provider tax rate from 6 to 3 percent. Under current law, states can levy taxes of up to 6 percent against certain classes of providers and receive a federal Medicaid match for the amounts collected. The budget limits the amount of the tax to 3 percent, for savings of \$2.1 billion over five years and \$5.5 billion over ten years.
- ***Limits Reimbursement for Rehabilitation Services*** — The budget limits the types of rehabilitation services that are permitted for Medicaid reimbursement, for savings of \$2.3 billion over five years and \$6.1 billion over ten years. This policy may negatively affect chronically ill and disabled beneficiaries by limiting their access to rehabilitative services.
- ***Limits Reimbursement for School-Based Services*** — The budget limits the types of school-based administration and transportation services that are permitted for Medicaid reimbursement, for savings of \$3.6 billion over five years and \$9.1 billion over ten years
- ***Delays Payments to Pharmacies*** — The budget requires states’ to pursue reimbursement from liable third parties before reimbursing pharmacies for Medicaid claims, for savings of \$430 million over five years and \$685 million over ten years. This policy will delay payments to pharmacies.

***Medicaid Reinvestments of \$3.2 Billion*** — The budget includes \$3.2 billion in new Medicaid spending over five years.

- ***Transitional Medicaid Assistance*** — The budget includes a one-year extension of Transitional Medicaid Assistance – through September 30, 2007 – at a cost of \$360 million over five years.
- ***“Cover the Kids” Outreach*** — The budget provides \$1.0 billion over ten years in outreach grants to states – and estimates that those outreach efforts will result in increased enrollment – and new spending of \$2.0 billion in Medicaid and \$330 million in SCHIP over five years.
- ***Modifies Vaccines for Children Program*** — Vaccines for Children (VFC) is administered by the Centers for Disease Control and Prevention and funded by Medicaid. The budget provides \$700 million over five years and \$1.4 billion over ten years in Medicaid to allow under-insured children to receive VFC-administered inoculations at state and local health departments.
- ***SSI Refugees Extension*** — The budget extends Supplemental Security Income (SSI) eligibility for refugees and asylees from seven to eight years, which causes an increase in Medicaid spending of \$134 million over five years.

***New Waiver Initiative for Medicaid and SCHIP*** — The budget announces the Administration's intent to develop a new waiver initiative that emphasizes “consumer-driven approaches to health care.” There are no details available on this initiative, but “consumer-driven” usually entails shifting more costs onto beneficiaries in the form of high-deductible health plans and moving away from guaranteed comprehensive benefits. Furthermore, in its discussion of this initiative, the budget touts a Florida Medicaid waiver that will permit private insurers to decide what benefits to offer beneficiaries. Waivers that move in these directions undermine current federal protections for millions of low-income Medicaid beneficiaries.

***Redistribution of Funds Under SCHIP*** — The budget shortens the time that states have to spend SCHIP funds from three to two years. This proposal spends \$635 million in 2007, but only \$110 million over five years, indicating that there are funding cuts in later years that recoup some of the additional moneys spent in 2007.

***Grants to States for Chronically Ill*** — The budget includes \$2.1 billion over five years for a new program of competitive state grants to promote insurance among the chronically ill.

***Postal Service Reforms*** — The budget takes the pension savings that are provided to the Postal Service and would otherwise be held in escrow in 2007 and beyond, and uses them to fully fund its retiree health benefit liabilities. This policy does not change retiree health benefits, but rather changes where these costs are displayed so that \$33.2 billion in costs over five years is now reflected in retiree health benefits. This amount is offset elsewhere throughout the budget.

***Federal Employee Health Benefits Program Statute*** — The budget amends the Federal Employee Health Benefits program statute to identify options for increasing price competition among health plans offered to Federal employees and retirees through the Federal Employees Health Benefits program. This proposal saves \$3.4 billion over ten years.

## **Appropriated Health Programs**

***Influenza Pandemic*** — The Congress appropriated \$3.8 billion in supplemental appropriations for 2006 to prepare for the possibility of a influenza pandemic. Of these amounts, \$3.3 billion was appropriated for health programs, with the remainder appropriated for the Department of Veterans Affairs and the Department of State. For 2007, the budget includes an “allowance” of \$2.3 billion in emergency funding for additional pandemic influenza preparedness activities, and provides \$352 million to fund ongoing activities within the Centers for Disease Control (CDC), Food and Drug Administration (FDA), the National Institutes of Health (NIH), and the HHS Office of the Secretary.

***Health Information Technology*** — The budget includes \$169 million for health information technology, consisting of an \$88 million appropriation for the Office of the National Coordinator

for Health Information Technology and a transfer to that office from other programs of \$28 million, \$50 million for the Agency for Healthcare Research and Quality, and \$4 million for the Office of the Assistant Secretary for Planning and Evaluation.

***Increase for Health Homeland Security Activities*** — Health-related 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 \$4.6 billion for health homeland security activities, a \$279 million (6.4 percent) increase over the 2006 enacted level. The biggest items are biodefense research at NIH and grants funded by CDC for state and local preparedness activities.

***Freezes Funding for NIH*** — Republicans often tout the fact that they doubled the NIH budget from 1998 to 2003. But now the budget provides \$28.4 billion for 2007, virtually a freeze at the 2006 enacted level, and a cut of \$642 million below the amount needed to maintain purchasing power at the 2006 level.

***Cuts CDC*** — The budget provides \$5.8 billion for CDC, a cut of \$290 million (4.8 percent) below the 2006 level. The budget eliminates the Preventive Health and Social Services Block Grant (\$99 million) and cuts funding for buildings and facilities from \$158 million to \$30 million. The budget increases funding for the strategic national stockpile by \$68 million, for total funding of \$593 million, and freezes funding for state and local emergency response preparedness at \$824 million.

***Increases Food and Drug Administration*** — The budget provides FDA with a program level of \$1.9 billion, consisting of an appropriation of \$1.5 billion and \$402 million in existing user fees. This program level is a \$71 million increase (3.8 percent) above the 2006 program level. The budget includes \$26 million in new user fees, and will reduce the direct appropriation by a comparable amount if the user fees are enacted. The new user fees include a fee requiring manufacturers and laboratories to pay the full costs of reinspections if they failed a previous FDA inspection, and an expansion of the current drug, animal drug, and medical device export certification user fee to also include food and animal feed.

***Slight Increase for Mine Safety and Health Administration (MSHA)*** — For 2007, the budget provides \$288 million for MSHA, an \$11 million (4.0 percent) increase above the 2006 enacted level, but a freeze at the amount needed to maintain purchasing power at the 2006 level.

***Boosts Food Safety and Inspection Service (FSIS)*** — The budget provides FSIS with a program level of \$987 million, consisting of an appropriation of \$758 million, existing user fees of \$124 million, and new user fees of \$105 million. The appropriation is a \$71 million (8.6 percent)

cut from the 2006 enacted level, but the program level is a \$35 million (3.7 percent) increase. The new user fees will be charged to industry for federal inspection overtime costs.

***Cuts Substance Abuse and Mental Health Services Administration (SAMHSA)*** — The budget funds SAMHSA at \$3.1 billion for 2007, a decrease of \$71 million (2.2 percent) from the 2006 enacted level.

***Cuts Health Resources and Services Administration (HRSA)*** — The budget funds HRSA at \$6.3 billion in 2007, a cut of \$255 million (3.9 percent) below the 2006 enacted level.

***Eliminates Several HRSA Programs*** — The budget eliminates several HRSA programs, including health professions training grants (\$99 million in 2006), EMS for children (\$20 million in 2006), Universal Newborn Screening (\$10 million in 2006), and the Traumatic Brain Injury program (\$9 million in 2006).

***Increase for Community Health Centers*** — The budget increases funding for community health centers by \$181 million (10.2 percent) above the 2006 enacted level, for total 2007 funding of \$2.0 billion. The Administration estimates that this increase will allow it to complete the President's goal of creating 1,200 new or expanded health centers and begin a new initiative to establish new health centers in poor counties.

***Increase for Ryan White AIDS Programs*** — For 2007, the budget funds Ryan White AIDS programs at \$2.2 billion, an increase of \$95 million (4.6 percent) above the 2006 enacted level.

***Slashes Rural Health Activities*** — The budget provides \$27 million for rural health activities, a \$133 million (83.1 percent) cut from the 2006 enacted level.

***Cuts Children's Hospital Graduate Medical Education*** — The budget funds children's GME at \$99 million, a cut of \$198 million (66.7 percent) below the 2006 enacted level.

***Indian Health Service*** — The budget funds the Indian Health Service at \$3.2 billion, an increase of \$124 million (4.1 percent) above the 2006 enacted level. Within this amount, the budget increases clinical services by \$147 million (5.2 percent), for a total of \$3.0 billion, but the budget eliminates urban health (\$33 million in 2006) and provides \$18 million for Indian health facilities construction, a cut of \$20 million (52.6 percent) from the 2006 enacted level.

***Slight Increase for Occupational Safety and Health Administration (OSHA)*** — The budget funds OSHA at \$484 million, a slight increase of \$11 million (2.4 percent) over the 2006 enacted level, but a \$5 million (1.0 percent) cut from the amount OMB estimates is needed to maintain purchasing power at the 2006 level. The budget eliminates OSHA's training grants, which are funded at \$10 million in 2006.

## 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.

### Medicare Administration

Medicare's administrative budget is \$5.0 billion in 2007, of which \$3.1 billion is appropriated to the Centers for Medicare and Medicaid Services (CMS), and the remainder is transferred from the Medicare Trust Funds to other agencies for Medicare-related administrative activities. The overall budget is a \$56 million increase above the 2006 level, while the CMS appropriation is \$5 million below the 2006 enacted level. The budget includes \$35 million in new user fees, and will reduce the direct appropriation by a comparable amount if the user fees are enacted. The new user fees are to charge health-care facilities for follow-up surveys that occur when the facility has been cited for deficiencies during certification/recertification or complaint surveys.

### Medicare Benefits and Spending Trends

**Medicare Spending in 2007** — The budget projects Medicare net mandatory spending of \$389.2 billion in 2007 under current law.<sup>3</sup>

**Medicare Prescription Drug Spending** — The Administration's new estimates for the prescription drug benefit show that spending projections for the Medicare drug benefit have dropped. Previously, the Administration estimated net Medicare spending on the drug benefit from 2006 to 2015 at \$926 billion. Including interactions with Medicaid, the Administration estimated net federal spending at \$737 billion.

The Administration's new estimates project net *Medicare* spending of \$797 billion over that time period, a drop of \$130 billion. The Administration's estimates for net *federal* spending, including Medicaid interactions, have dropped to \$678 billion, a decline of \$59 billion.

For the 2007 to 2016 budget window, the Administration projects \$1.1 trillion in total spending on the drug benefit. Including beneficiary premiums and receipts from states (the "clawback"), net Medicare spending is projected at \$900 billion. The calculation for net federal spending is not available.

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<sup>3</sup>Net mandatory spending reflects total spending on benefits, less the amount collected from beneficiaries in the form of premiums. This number excludes administrative costs.

**Medicare Prescription Drug Benefit**  
(Dollars in Billions)

	2006 - 2015 (7/05 estimate)	2006- 2015 (1/07 estimate)	2007 - 2016 (1/07 estimate)
<b>Gross Medicare Spending for Drug Benefit</b>	<b>1207</b>	<b>1015</b>	<b>1144</b>
Beneficiary Premiums	-147	-120	-138
Medicaid "Clawback"	-134	-98	-107
<b>Net Medicare Spending for Drug Benefit</b>	<b>926</b>	<b>797</b>	<b>900</b>
Federal Medicaid Savings	-189	-119	NA
<b>Net Federal Cost (Medicare and Medicaid)</b>	<b>737</b>	<b>678</b>	<b>NA</b>

The Administration claims that the drop in spending projections is proof that the drug benefit is lowering drug costs for seniors. However, others criticize that logic, pointing to evidence that Part D drug prices are still higher than those paid by the Department of Veterans' Affairs, or available at Drugstore.com, Costco, or in Canada. Furthermore, many analysts believe that the bids submitted by many Part D drug plans (which drive the premiums and government payments) were set purposefully low. The strategy for many plans is to "take a loss leader position," grab market share, and drive out competition so that they can secure a position in the market and perhaps drive up premiums in the future.

**Medicare Legislative, Regulatory and Administrative Policies**

**Legislative Cuts to Medicare of \$105 Billion Over Ten Years** — The budget makes legislative cuts to Medicare of \$35.9 billion over five years and \$105 billion over ten years by reducing payments for providers in traditional Medicare. The budget also includes regulatory cuts of \$7.9 billion over five years and \$19.0 billion over ten years. Excluding already published regulations, the regulatory savings are \$5.4 billion over five years and \$13.2 billion over ten years.

- **Cuts Inpatient Hospital Update** — The budget cuts payments for inpatient hospitals by providing an update for 2007 of market basket minus 0.45 percentage points, and updates for 2008 and 2009 of market basket minus 0.4 percentage points. This policy saves \$6.6 billion over five years, and \$17.4 billion over ten years.

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**Medicare Legislative Cuts of \$105 Billion Over Five Years**  
(dollars in billions)

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	<u>2007 - 2011</u>	<u>2007 - 2016</u>
Cut Inpatient Hospital Update	-6.6	-17.4
Cut Skilled Nursing Facility Update	-5.1	-12.4
Cut Home Health Update	-3.5	-9.0
Cut Inpatient Rehabilitation Facility Update	-1.6	-3.9
Cut Hospice Update	-0.6	-1.5
Adjust Payment for Hip and Knee Replacements in Post-Acute Care Settings	-2.4	-5.8
Cut Outpatient Hospital Update	-1.5	-4.6
Cut Ambulance Update	-0.3	-0.9
Expand Competitive Bidding to Laboratory Services	-1.4	-5.2
Pay for Short-Term Power Wheelchairs Based on Actual Use	-0.5	-1.1
Limit Oxygen Rental Period to 13 Months	-6.6	-18.0
Eliminate Payments for Bad Debt	-6.2	-22.5
Expand Application of Medicare Secondary	-1.6	-3.8
Eliminate Indexation of Income-Related Premium Thresholds*	-1.9	-10.1
Premium Interactions	3.8	11.2
<b>Total Medicare Legislative Cuts</b>	<b>-35.9</b>	<b>-105.0</b>

\* This proposal includes savings from (1) beneficiaries not signing up for Medicare (-\$40 million over five years, and -\$350 million over ten years) and (2) increased premium collections (-\$1.9 billion over five years, and -\$9.8 billion over ten years), for total savings reflected in the table.

- ***Cuts Skilled Nursing Facility Update*** — The budget cuts payments for skilled nursing facilities by freezing payment rates for 2007 at the 2006 level and providing an update for 2008 and 2009 of market basket minus 0.4 percentage points. This policy saves \$5.1 billion over five years, and \$12.4 billion over ten years.
  
- ***Cuts Home Health Update*** — The budget cuts payments for home health providers by freezing payment rates at the 2006 level for calendar year 2007, and providing an update for calendar years 2008 and 2009 of market basket minus 0.4 percentage points. This policy saves \$3.5 billion over five years and \$9.0 billion over ten years.

- ***Cuts Inpatient Rehabilitation Facility Update*** — The budget cuts payment for inpatient rehabilitation facilities (IRF) by freezing payments rates for 2007 at the 2006 level and providing an update for 2008 and 2009 of market basket minus 0.4 percentage points. The policy saves \$1.6 billion over five years, and \$3.9 billion over ten years. The budget also includes further cuts to IRFs via regulatory changes, as discussed below.
- ***Cuts Hospice Update*** — The budget cuts payments to hospice providers by providing an update of market basket minus 0.4 percentage points for 2007 through 2009. This policy saves \$0.6 billion over five years, and \$1.5 billion over ten years.
- ***Adjusts Payments for Hip and Knee Replacements*** — The budget adjusts payments for hip and knee replacements so that the payment rates across different post-acute settings are better aligned. This policy saves \$2.4 billion over five years and \$5.8 billion over ten years. The budget also includes further cuts to long-term care hospitals via regulatory changes, as discussed below.
- ***Expands Competitive Bidding to Laboratory Services*** — The budget extends competitive bidding to laboratory services, similar to the competitive bidding system currently in place for durable medical equipment. This policy saves \$1.4 billion over five years and \$5.2 billion over ten years.
- ***Pays for Short-Term Power Wheelchairs Based on Actual Use*** — The budget changes payments for short-term power wheelchair usage so that payments are based on actual usage time. This policy saves \$0.5 billion over five years and \$1.1 billion over ten years. The budget also includes further cuts to wheelchair payments via regulatory changes, as discussed below.
- ***Limits Oxygen Rental Period to 13 Months*** — The budget changes payments for oxygen equipment so that the beneficiary owns the equipment after 13 monthly rental payments. This policy was omitted from the Republican spending cut reconciliation bill at the last minute. This policy saves \$6.6 billion over five years and \$18.0 billion over ten years.
- ***Eliminates Payments for Bad Debt*** — Currently, Medicare reimburses some Medicare providers for 70 to 100 percent of their bad debt (from uncollected cost-sharing owed by Medicare patients). The budget eliminates Medicare reimbursements for bad debt, for savings of \$6.2 billion over five years and \$22.5 billion over ten years. This policy affects inpatient hospital payments, skilled nursing facilities, critical access hospitals, rural health clinics, community mental health centers, and federally qualified health centers (FQHCs).



- ***Expands Application of Medicare Secondary Payer*** — Generally, Medicare is the “primary payer;” in most instances, it pays health claims first, with the beneficiary’s private or other public insurance filling in some or all of Medicare’s gaps. However, under the Medicare Secondary Program (MSP), there are certain situations where a beneficiary’s group health insurance, liability, workers’ compensation, or no-fault coverage pays health claims first, while Medicare is the secondary payer. The budget extends MSP status for End-Stage Renal Disease (ESRD) payments from 30 to 60 months and establishes a federal data-sharing clearinghouse for MSP, for savings of \$1.6 billion over five years and \$3.8 billion over ten years.
- ***Raises Medicare Premiums for Certain Beneficiaries*** — Under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA), certain upper-middle income seniors will pay higher premiums for Medicare Part B starting in 2007. The income thresholds that trigger the higher premiums are supposed to be adjusted for inflation, but the budget removes this protection. If the premium is not indexed for inflation, more and more seniors will reach the income threshold for higher premiums every year. The Administration projects that 3.8 million seniors will pay higher premiums in 2016 under this policy, compared with 1.9 million seniors under current law in that same year. A total of \$10.1 billion of the \$105 billion in ten-year Medicare savings comes from this change. Of this amount, \$9.8 billion is from higher premium collections, and \$350 million is from benefit savings because some beneficiaries will no longer join Medicare.

***Creates Automatic Across-the-Board Cut in Medicare*** — The MMA requires the Medicare trustees to estimate in each of their annual reports the point at which Medicare general revenues – as compared with premiums and payroll taxes – will finance at least 45 percent of Medicare costs. Once the trustees estimate in two successive reports that this 45-percent level will be reached within the next six years, the President is required to include a proposal in his next budget to cut Medicare spending. The budget builds on this provision, imposing an across-the-board cut to all Medicare providers of 0.4 percent in the year the threshold is exceeded if Congress does not enact spending cuts before then. The across-the-board cut will become deeper in each subsequent year, until legislation is enacted to cut spending.

***Fails to Address Medicare Physician Payment Cut*** — The recently passed Republican reconciliation spending cut bill prevented a scheduled 4.4 percent cut in physician payments for 2006, but physicians are still slated to receive a cut in 2007 and additional cuts in the following years. The budget does not include a fix for this Medicare physician payment issue – the budget just professes support for remedies that base physician payment updates on quality measures and that are budget neutral.

***Fails to Address Overpayments to Medicare Advantage Plans*** — While the budget includes \$105 billion in Medicare cuts over ten years, none of those cuts address current overpayments to Health

Maintenance Organizations (HMOs) and Preferred Provider Organizations (PPOs) participating in the Medicare Advantage program. The Medicare Payment Advisory Commission recommends roughly \$50 billion in savings from Medicare Advantage plans (2006 to 2015) – the budget does not include any of those savings.

**Medicare Health Savings Accounts** — In the budget, the Administration announced it is developing new Medicare Health Savings Accounts options for beneficiaries. Additional details are not available.

**Regulatory Cuts of \$19.0 Billion Over Ten Years** — In addition to the legislative cuts, the budget also includes \$19.0 billion in regulatory cuts over ten years. Some of these regulatory changes were included in spending projections released by the Administration last year and have already been published as proposed regulations. Excluding already published regulations, the regulatory savings are \$5.4 billion over five years and \$13.2 billion over ten years.

- **Cuts to Inpatient Rehabilitation Facilities** — The budget includes regulatory cuts for inpatient rehabilitation facilities of \$2.0 billion over five years, and \$4.7 billion over ten years. These regulatory changes include a 1.9 percent reduction in payments in 2006, and a 2.3 percent reduction in payments for 2007. Excluding the already published regulation for 2006, the savings are \$1.1 billion over five years and \$2.6 billion over ten years.
- **Cuts to Long-Term Care Hospitals** — The budget includes regulatory cuts for long-term care hospitals (LTCH) of \$2.5 billion over five years and \$6.1 billion over ten years. These regulatory changes include a freeze in payment rates at the 2006 level for 2007 and 2008 and a modification to payments for short-stays in LTCHs.
- **Cuts for Durable Medical Equipment** — The budget makes regulatory changes to payments for wheelchairs and other forms of durable medical equipment, for savings of \$1.8 billion over five years and \$4.6 billion over ten years.
- **Cuts for Medicare Part B Covered Drugs** — Certain prescription drugs, such as those administered by a physician, are paid for under Medicare Part B, rather than under the new prescription drug benefit. The budget includes changes to the dispensing fee for inhalation drugs, and the supplying fee for oral drugs, for savings of \$1.6 billion over five years and \$3.6 billion over ten years. These changes were included in the physician fee schedule for 2006.

## 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)*.

For 2007, the President's budget provides \$311.7 billion for the mandatory programs in Function 600, an increase of \$14 million from the amount of spending projected under current law. Over five years, mandatory spending decreases by a total of \$21.3 billion relative to current-law projections. This decrease is largely a result of provisions affecting the Pension Benefit Guaranty Corporation, described in further detail below.

For Function 600 discretionary programs, the budget provides \$47.8 billion for 2007, which is \$771 billion, or 1.6 percent, above the 2006 enacted level as estimated by the Office of Management and Budget (OMB).

### Nutrition Assistance

***Eliminates Commodity Supplemental Food Program*** — The budget eliminates funding for the Commodity Supplemental Food Program. This program provides nutrient-rich food packages for low-income women, infants, and children as well as low-income persons age 60 and older. The food packages are designed to address typical nutrient deficiencies in the diet of the program's target population. The program is funded at \$111 million for 2006 and serves roughly 420,000 elderly and 50,000 mothers and children each month.

***Changes Eligibility Rules for Food Stamps*** — The budget includes two provisions affecting food stamp eligibility. One provision cuts food stamp spending by \$656 million over five years relative to current law by making it more difficult for certain low-income families receiving TANF non-cash assistance to qualify for food stamps. Roughly 225,000 people will lose food stamps under this provision. In addition, 40,000 children who lose food stamps will also lose access to free school lunches, thereby cutting child nutrition spending by \$50 million over five years. A similar provision passed the House as part of the 2005 Republican spending cut reconciliation bill, but it was rejected by the Senate and ultimately dropped from the conference report. Another provision in the budget increases food stamp spending by \$589 million over five years by exempting tax-

avored retirement savings accounts from being counted as resources when determining eligibility for food stamps. The budget also includes a provision to allow states to use the National Directory of New Hires to verify Food Stamp participants' employment and wage information, reducing spending by \$1 million a year.

***Caps Administrative Funding for Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)*** — The budget includes \$5.2 billion for 2007 for WIC, an increase of \$27 million above the 2006 enacted level. The Administration estimates that this funding level, accompanied by a policy of capping funding for nutrition services and WIC administrative costs at 25 percent of total funding (saving \$152 million), is sufficient to serve 8.2 million individuals, about the same service level as 2006. However, it is unclear whether this funding level will be sufficient to serve all eligible applicants. The budget also requires states to match 20 percent of nutrition services and administration funding starting in 2008.

***Freezes Emergency Food and Shelter*** — The Federal Emergency Management Agency's Emergency Food and Shelter program provides grants to local nonprofit organizations to supplement their programs for emergency food and shelter. The budget freezes funding for this program at the 2006 enacted level of \$151 million.

## **Housing Assistance**

The budget includes \$31.5 billion for discretionary housing assistance programs. This amount is \$743 million above the 2006 enacted level as estimated by OMB, and it is \$2.0 billion, or 5.9 percent, below the amount necessary to maintain purchasing power at the 2006 level. The budget total reflects a \$2.0 billion recapture of unused prior-year funding in the Housing Certificate Fund. Within this total, the President's budget increases funding for some programs and reduces or eliminates others. For information on housing credit programs, see *Function 370 (Commerce and Housing Credit)*.

***Cuts Funding for U.S. Department of Agriculture (USDA) Rental Assistance Program*** — The budget provides \$486 million for the rural rental assistance program – a cut of \$161 million, or 24.9 percent, below the 2006 enacted level. The budget amount reflects a shift from four-year contracts to two-year contracts. Rural rental assistance payments bridge the gap between what low-income tenants of USDA housing projects are expected to pay for rent – 30 percent of their income – and the operating costs of the projects where they reside.

***Continues Shifting Housing Voucher Program Toward a Block Grant*** — The budget provides \$15.9 billion for tenant-based rental assistance, which provides about two million low-income individuals and families with rental vouchers they can use to obtain affordable housing on the private market. The budget amount is \$502 million above the 2006 enacted level.

Traditionally, the budget for housing rental vouchers was based on the 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 continues a shift begun in 2004 away 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 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.

***Rescinds Funding for HOPE VI Rehabilitation of Distressed Public Housing*** — The budget rescinds the \$99 million provided for the HOPE VI program for 2006 and proposes no new funding for 2007. HOPE VI has successfully transformed severely distressed public housing projects into vibrant mixed-income neighborhoods. This program's funding has declined steeply since 2003, when it received \$570 million.

***Cuts Public Housing Capital Fund by More Than One-Tenth*** — The budget provides \$2.2 billion to local public housing authorities for capital repairs and improvements to their housing stock. This amount is \$261 million, or 10.7 percent, below the 2006 level. The capital fund was funded at \$3.0 billion for 2001 and has received steadily less each year since then.

***Freezes Public Housing Operating Fund*** — The budget freezes funding for the public housing operating fund at the 2006 enacted level of \$3.6 billion. Local public housing authorities use the operating fund to cover operating costs not covered by rental income. When funding falls short of 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 Housing for the Disabled and Elderly*** — The budget provides \$119 million for a program that provides supportive housing and other housing assistance for persons with disabilities, 49.8 percent less than the amount enacted for 2006. The budget also provides \$546 million for a similar housing program for the elderly, a cut of \$189 million, or 25.7 percent, from the 2006 level.

***Zeroes Out Rural Housing and Economic Development*** — The budget eliminates this \$17 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. The budget consolidates Rural Housing and Economic Development into the Community Development Block Grant program, which also receives a funding cut. (See *Function*

450: Community and Regional Development for more information about the Community Development Block Grant.)

***Increases Funding for Homeless Assistance*** — The budget provides \$1.5 billion for Homeless Assistance Grants, an increase of \$209 million above the 2006 enacted level.

***Increases Funding for HOME Investment Partnerships*** — The budget provides \$1.9 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 \$160 million above the 2006 enacted 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.

***Increases Funding for Project-Based Rental Assistance*** — The budget provides \$5.7 billion for project-based rental subsidy contracts and related activities, an increase of \$639 million above the 2006 level.

## **Welfare and Related Family Support Programs**

Many provisions of the landmark Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) were set to expire at the end of 2002. PRWORA replaced the former federal welfare entitlement program with flexible TANF block grants, increased child care funding, improved child support collection, and reduced funding for the Title XX Social Services Block Grant. After three years of short-term extensions, Congress reauthorized the welfare law in January as part of the Republican spending cut reconciliation bill. The reauthorization froze the basic TANF block grant and required states to increase significantly the number of TANF recipients who are working. CBO estimates that complying with the new work requirements will increase states' costs for child care and work activities by \$8.4 billion over five years. However, the reauthorization increased child care funding by only \$1.0 billion over five years – not enough to keep pace with inflation, let alone address the new costs created by the legislation.

***Increases Funding for Marriage Promotion Programs*** — The budget provides \$100 million a year in new funding through the TANF program for grants to states to promote healthy marriages and reduce out-of-wedlock births. This new funding comes on top of the \$150 million a year provided in the reconciliation spending cut bill to promote healthy marriages and responsible fatherhood.

***Extends TANF Supplemental Grants*** — The budget extends TANF supplemental grants for population increases through 2010. These grants, funded at \$319 million a year, were extended through 2008 in the reconciliation spending cut bill.

**Freezes Child Care Funding** — Funding for the Child Care and Development Fund was frozen from 2002 through 2005 at \$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. Total funding for 2006 came to \$5.0 billion as a result of the \$200 million annual increase in mandatory funding provided in the reconciliation bill. Even this increase was not sufficient to reverse the erosion in purchasing power that had occurred between 2002 and 2005. The President’s budget freezes child care funding for 2007 at the 2006 level, with no allowance for inflation. Total federal resources for child care also include TANF and Social Services Block Grant funds spent on child care at state discretion. Even considering these other funding sources, the number of children receiving child care assistance has declined since 2003, and the President’s budget projects that this decline will continue – from 2.1 children in 2006 to 1.8 children in 2011 (see accompanying table).

<b>Children Receiving Federal Child Care Assistance, in millions</b>									
<u>Actual</u>				<u>Budget Estimate</u>					
2002	2003	2004	2005	2006	2007	2008	2008	2010	2011
2.5	2.5	2.3	2.2	2.1	2.0	2.0	1.9	1.9	1.8

**Cuts \$500 Million from Social Services Block Grant (Title XX)** — The budget cuts the Social Services Block Grant (SSBG) by \$500 million for 2007, for a total funding level of \$1.2 billion. 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)*. One of the Administration’s main justifications for cutting SSBG funding is that “the flexibility of the SSBG makes it difficult to measure performance.” Nevertheless, the 2007 budget moves numerous programs – such as rental assistance and foster care – in the direction of becoming flexible block grants.

**Changes Funding Structure for Foster Care** — The budget repeats a proposal put forth in previous Administration budgets to change the method of making payments to states for the \$4.7 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. The new funding structure increases spending by \$22 million in 2007, but it is essentially budget neutral over five years.

***Makes Changes to Child Support Enforcement*** — The federal government will spend \$3.3 billion in 2006 to help states establish and enforce child support orders. The 2007 budget includes several provisions to increase child support collections. These provisions include measures such as allowing federal seizure of accounts in multi-state financial institutions, intercepting gambling winnings, and giving states the ability to collect past-due child support by withholding a portion of Social Security payments from beneficiaries in some circumstances. Because the federal government receives a share of child support collections as an offset against spending, the child support provisions in the budget reduce federal spending by \$17 million over five years.

***Extends Supplemental Security Income (SSI) Eligibility for Refugees*** — Under current law, refugees and asylees lose eligibility for SSI after seven years in the United States unless they become citizens. The budget allows refugees and asylees to receive SSI for eight years, but the policy sunsets after 2009. This proposal increases SSI spending by \$85 million over three years. This change also affects Medicaid spending. Medicaid effects are recorded in *Function 550 (Health)*.

***Increases Total Funding for Low-Income Energy Assistance*** — The budget provides \$1.8 billion in appropriated funding for the Low-Income Home Energy Assistance Program (LIHEAP). The reconciliation spending cut bill provides \$1.0 billion of mandatory funding for 2007, resulting in a total funding level of \$2.8 billion, an increase of \$621 million from the 2006 enacted level (including contingency funding). However, this funding will not help families facing sharp increases in heating costs *this* winter as a result of recent increases in fuel prices. While LIHEAP funding for 2006 is slightly below the 2005 level, the number of households applying for energy assistance this year is expected to reach a 12-year high of 5.6 million – more than ten percent above last year’s level. About 35 percent of LIHEAP households include a member 60 years of age or older, and about half include a member with a disability.

## **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.

***Includes Provisions to Reduce UI Overpayments*** — The budget includes a set of policy changes to increase states’ ability to detect and recover erroneous UI payments, which will reduce spending by \$1.7 billion over five years compared with current law. The new UI provisions include the following:

- Impose a penalty for UI fraud;
- Enlist private collection agencies in the recovery of overpayments;



- Charge employers when their actions lead to overpayments;
- Collect delinquent UI overpayments through garnishment of federal income tax refunds;
- Allow states to use a portion of recovered overpayments on activities to reduce fraud and error; and
- Increase accuracy of information in state and federal new hire directories so states can quickly stop unemployment benefit payments to people who have gone back to work.

## **Spending Associated with Tax Proposals**

*Cuts Tax Credits for Certain Low and Middle-Income Taxpayers* — The budget changes the eligibility guidelines for the Earned Income Tax Credit (EITC) and the Child Tax Credit so that certain taxpayers no longer qualify for these benefits. The change will reduce spending on the refundable portion of the Child Tax Credit by \$3.9 billion over ten years, and it will reduce spending on the refundable portion of the EITC by \$903 million over ten years. For more information on the tax policies in the President’s budget, see the *Taxes* chapter.

## **General and Federal Retirement and Disability**

*Federal Employees’ Pay Raise* —The budget increases federal civilian pay rates by 2.2 percent in January 2007, the same pay raise as for military personnel.

### **Mandatory**

*Pension Benefit Guaranty Corporation* — The budget again includes pension reforms. The budget protects the long-term solvency of the PBGC and reforms single-employers pension plans. The budget reforms funding rules to fully pay for pension plans, and adjusts both the variable and flat rate premiums to reflect the real risks and costs of benefits, and requires that plans provide timely information on their funding status to workers, investors and regulators to ensure greater accountability. The budget will increase flat-rate premiums currently used in single-employer pension plans from \$19 per participant to \$30 per participant and future increases will be indexed to wage growth. Variable rates would be reformed to reflect new funding targets, which will be determined based on expected claims. This proposal saves \$4.3 billion in 2007, \$18.7 billion over the 2007-2011 period, and \$47.4 billion over ten years.

*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. The reforms include imposing an up-front waiting period for benefits, streamlining claims processing, and permitting the Department of Labor to recapture compensation costs from responsible third parties. This proposal saves \$140 million over the ten-year period (2007-2016).

***Federal Retirement Improvement Act*** — The budget includes \$24 million over five years to implement the Retirement Systems Modernization (RSM) project to improve OPM's speed and accuracy of Federal retiree benefit payments. The project will convert millions of paper records into electronic records. As the project phases in, OPM hopes to be able to authorize new retirement benefits within five days and to improve the accuracy of pension computations, whereas it typically takes 80 to 93 days for the Office of Personnel Management to authorize retirement benefits.

***Federal Employee Health Benefits Program Statute*** — The budget amends the Federal Employee Health Benefits program statute to identify options for increasing price competition among health plans offered to Federal employees and retirees through the Federal Employees Health Benefits program. This proposal saves \$3.4 million over the ten-year period (2007-2016).

***Postal Service Reforms*** — The budget takes the pension savings that are provided to the Postal Service and would otherwise be held in escrow in 2007 and beyond, and uses them to fully fund its retiree health benefit liabilities.

## Function 650: Social Security

Function 650 includes the two payroll tax-financed programs which collectively are known as “Social Security”: Old-Age and Survivors Insurance and Disability Insurance.

### Budget Summary

**Old-Age and Survivors Insurance (OASI)** — Under current law, the Social Security Administration (SSA) will pay \$455 billion in retirement and survivors benefits to 40.3 million recipients in 2006. It will pay \$479 billion in retirement and survivors benefits to 40.8 million recipients in 2007. This spending is mandatory and off-budget.

**Disability Insurance (DI)** — Under current law, SSA will pay \$90.6 billion in disability insurance benefits to 8.4 million recipients in 2006. It will pay \$97.5 billion in disability insurance benefits to 8.7 million recipients in 2007. This spending is mandatory and off-budget.

**Administrative Costs** — SSA will spend \$4.6 billion to administer the OASI and DI programs in 2006. The Administration has requested \$4.7 billion for 2007, an increase of \$154 million, or 3.4 percent. This spending is discretionary, and virtually all of it is off-budget.

**Income** — Under current law, income to the OASI and DI programs will be \$736 billion in 2006 and will be \$779 billion in 2007. Income from payroll taxes and interest from the Treasury is off-budget. Proceeds from taxation of benefits deposited into the trust funds are on-budget and are counted as mandatory spending. Under current law, proceeds from taxation of benefits will be \$16.4 billion in 2006 and \$18.3 in 2007.

### Budget Detail

**Social Security Private Accounts** — Workers are allowed to divert payroll taxes into private accounts in exchange for reduced Social Security benefits when they retire. See *Social Security and Other Entitlements* for more detail.

**Elimination of Death Benefit** — Dependent spouses or eligible children are entitled to a one-time lump-sum payment of \$255. This benefit has been part of the Social Security insurance package since 1950 and has been earned by workers through their payroll tax contributions. While the savings are modest, the proposal illustrates the Bush Administration’s willingness to cut guaranteed Social Security benefits, even those, quite literally, paid to widows and orphans. Elimination of such benefit saves \$989 million over five years.

**Enforcement of Windfall Elimination Provision/Government Pension Offset** — Public sector workers who are not covered by Social Security are subject to offsets that are designed to prevent

them from earning higher overall benefits than if they had spent their entire careers covered by one system or the other. Tightening of the reporting requirements for such pensions beginning in 2010 would save \$427 million through 2011.

***Require Full-Time School Attendance at Age 16*** — Under current law, to remain eligible for benefits, 18-year-olds must be full-time secondary or elementary students. (Benefits stop upon reaching age 19 or completion of grade 12.) Making this provision apply to 16- and 17-year-olds would save \$559 million over five years.

***Replace DI/Worker's Comp Offset with Unified Offset*** — The budget changes the formula for how disability insurance and worker's compensation benefits are integrated. It saves \$228 million over five years.

## 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

**Funding for Veterans Medical Care** — The budget provides \$35.8 billion for appropriated veterans programs, which is \$2.6 billion above the enacted amount for 2006 and \$1.5 billion above the amount needed to maintain purchasing power at the 2006 level. Beyond 2007, however, veterans funding is cut in almost every year. Over five years, the budget cuts funding \$10.1 billion below the level estimated to maintain purchasing power at the 2006 level. Almost all appropriated funding for veterans goes to provide medical care and hospital services.

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### Total Appropriated Funds for Veterans

(Budget Authority in Billions)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u> <u>2007-11</u>
2007 Budget Request	35.8	34.4	34.1	33.4	33.6	171.3
Current Services Level	<u>34.3</u>	<u>35.2</u>	<u>36.3</u>	<u>37.3</u>	<u>38.4</u>	<u>181.5</u>
<b>Amt. Above/Below Current Services</b>	<b>+1.5</b>	<b>-0.8</b>	<b>-2.2</b>	<b>-3.9</b>	<b>-4.7</b>	<b>-10.1</b>

Note: Numbers may not add due to rounding.

**Increases Fees on Veterans for the Fourth Straight Year** — The budget imposes a \$250 annual enrollment fee for VA health care services and increases pharmacy co-payments from \$8 to \$15 for Priority 7 and Priority 8 veterans. These are veterans without service-connected disabilities rated above zero percent who have incomes above \$26,903. Enrollment fees and drug co-payment increases were proposed in the last three budgets and Congress rejected them each time. The budget also eliminates the practice of offsetting veterans co-payments by the amount paid by third-party health plans. This will result in veterans paying higher co-payments up-front, with no guarantee that third-party insurers will reimburse them. The VA anticipates an increase in collections of \$191 million over five years from this change. All together, the budget assumes collections totaling \$544 million in 2007, and \$2.6 billion over five years from raising fees on veterans.

**Reduces the Number of Veterans in the VA Health Care System** — The Department of Veterans Affairs estimates that the proposed fee increases will reduce the number of Priority level 7 and 8 veterans in the VA health care system by nearly 200,000, or 16 percent, as compared to the 2006

level. The budget assumes \$251 million in savings for 2007 as a result of this effort to limit the number of veterans in the VA health care system.

***Continues Denial of New Priority 8 Veterans*** — On January 17, 2003, the VA stopped enrolling new Priority 8 veterans for medical care. The President’s budget continues this policy. According to the VA, this restriction has prevented 1 million veterans from enrolling in the VA health care system.

***Assumes a Slight Decrease in the Number of Iraq and Afghanistan War Veterans*** — The VA estimates that over 109,191 veterans of the Iraq and Afghanistan wars will be treated in 2007. This reflects a decrease of 1,375 below the number of these new war veterans the VA estimates it will treat in 2006.

***Assumes Efficiencies to Partially Offset Health Care Costs*** — The 2007 budget assumes the VA will achieve management efficiencies totaling \$1.1 billion to offset the cost of health care. This is an increase of \$197 million over the level of efficiency-related savings assumed in 2006. This year marks the fifth year that the budget assumes management efficiencies to help offset health care costs. The GAO recently reviewed VA-reported management efficiencies for 2003 and 2004 and concluded that “...VA lacks adequate support for the \$1.3 billion it reported as actual management efficiency savings achieved for fiscal years 2003 and 2004 because it lacked a sound methodology and adequate documentation for calculating and reporting management efficiency savings.”<sup>4</sup>

***Cuts Funding for Medical and Prosthetic Research*** — The budget cuts \$13 million from medical and prosthetic research activities and reduces personnel. Compared with 2006, the budget reflects a reduction of 286 full time equivalents (FTEs). The VA research and development program benefits all veterans, but it is particularly important for new veterans – those returning from the wars in Iraq and Afghanistan. The R&D program includes work to improve treatment of post-traumatic stress disorder, blast related injuries, and Gulf War related illness.

***Provides Less Funding for CARES than Previously Recommended*** — The Veterans Health Administration budget proposes \$307 million for major construction for 2007, a decrease of \$232 million below the enacted amount for 2006. The VA has previously advocated investing \$1 billion per year in medical construction over five years to implement the Capital Asset Realignment for Enhanced Services (CARES) program.

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<sup>4</sup>GAO report, “Limited Support for VA’s Efficiency Savings,” February 1, 2006.

## **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 within this function include: the Federal Bureau of Investigation (FBI); the Drug Enforcement Administration (DEA); Border and Transportation Security (BTS); the Bureau of Alcohol, Tobacco, and Firearms and Explosives; 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 \$39.7 billion in discretionary funding for this function, \$262 million above the 2006 enacted level. The budget increases several federal law enforcement programs that are tied to homeland security. However, the 2007 budget, like previous budgets submitted by the Administration, significantly cuts state and local law enforcement programs.

***State and Local Criminal Justice and Juvenile Justice Consolidated and Cut*** — State and local criminal justice and juvenile justice programs provide resources to help communities combat and deter crime. As with last year, the Administration's budget cuts and eliminates currently funded state and local justice programs and creates new initiatives within the Office of Justice. However, the budget provides only \$957 million for Office of Justice state and local law enforcement initiatives for 2007, thereby cutting overall funding for state and local justice assistance by \$1.1 billion (54.1 percent) below the 2006 level. Programs eliminated in the budget included Edward Byrne grants, the State Criminal Alien Assistance program, and juvenile justice grants.

***The Community Oriented Policing Services (COPS) Program Nearly Eliminated*** — COPS provides grants and other assistance to help communities hire, train, and retain police officers and to improve law enforcement technologies. The budget provides \$102 million for COPS for 2007, most of which is funding that is carried over from previous years. This represents a \$376 million (78.7 percent) cut below the 2006 enacted level. The budget also permanently reduces unobligated balances in the program by \$128 million for 2007, thus setting the program on the path for elimination.

***Violence Against Women Programs Cut*** — Violence Against Women programs provide varied assistance to prevent and prosecute abuse committed against women. The budget provides \$347 million for Violence Against Women programs for 2007, a \$35 million (9.2 percent) cut below last year's level.

***Federal Law Enforcement Increased*** — Federal law enforcement programs include agencies such as the FBI, BTS, the United States Secret Service, the DEA, civil rights enforcement agencies such as the Equal Employment Opportunity Commission (EEOC) and the Office for Civil Rights, and the ATF. The budget provides \$23.9 billion for federal law enforcement programs, a \$2.4 billion increase over the 2006 level. Below are details for several federal law enforcement agencies. (See

also *Department of Homeland Security* section for descriptions of additional enforcement agencies and programs.)

***Border and Transportation Security*** — BTS programs enforce federal customs and immigration laws and secure our national borders from threats. The budget provides \$13.4 billion for the agency, a \$1.8 billion increase over the 2006 level. The increase goes toward hiring additional border patrol agents, improving border patrol aircraft and other surveillance equipment, and detaining and removing illegal entrants.

***Federal Bureau of Investigation*** — The FBI's responsibilities include detecting, investigating, and prosecuting federal crimes. The budget provides \$6.0 billion for the FBI, a \$371 million (6.5 percent) increase over last year's level. The increase goes toward improving intelligence capabilities and counter-terrorism efforts.

***Drug Enforcement Administration*** — The DEA enforces laws relating to illicit drug manufacturing and distribution. The budget provides \$1.7 billion for the DEA, a \$71 million (4.3 percent) increase over last year's level. The increase goes toward improving intelligence and expanding operations.

***Bureau of Alcohol, Tobacco, Firearms, and Explosives Cut*** — The Bureau of Alcohol, Tobacco, Firearms, and Explosives investigates and enforces laws relating to the items for which it is named. The budget provides \$860 million for the Bureau, a \$72 million (7.7 percent) cut below last year's level. The budget proposes that the agency collect an additional \$120 million in user fees for 2007 to help offset costs of the Bureau's regulation of the explosives industry.

***Civil Rights Law Enforcement*** — The budget provides \$323 million for EEOC, a \$4 million cut below the 2006 level. It provides \$45 million for Fair Housing and Equal Opportunity activities, a \$1 million cut below the 2006 level. The budget also provides \$93 million for the Department of Education's Office for Civil Rights, a \$2 million increase above the 2006 level, and \$9 million for the Commission on Civil Rights, maintaining the program at the 2006 level.

***Legal Services Corporation Cut*** — The Legal Services Corporation provides free legal assistance for low-income people. The President's budget provides \$311 million for the Legal Services Corporation, a \$16 million (4.9 percent) cut below the 2006 level.

***United States Attorneys Increased*** — The budget provides \$1.6 billion for United States Attorneys, a \$57 million (3.6 percent) increase above the 2006 level.

***Federal Correctional Activities*** — The federal corrections system maintains and operates federal prisons. The budget provides \$6.3 billion for federal corrections, a \$202 million (3.3 percent) increase over the 2006 level. The increase goes toward managing increasing prison and detention space to accommodate the growth of the federal detainee population.



## 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 2007 budget provides \$17.1 billion for discretionary funding for general government, \$260 million below the amount needed to maintain constant purchasing power at the 2006 level and \$414 million above the 2006 enacted level.

**Legislative Branch** — The budget includes \$3.7 billion, \$295 million above the level needed to maintain constant purchasing power and \$414 million above the 2006 enacted level, for the Legislative Branch. The funding provides resources 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 includes \$343 million for the Executive Office of the President (EXOP), \$9 million above the 2006 enacted level.

**Internal Revenue Service (IRS)** — The budget includes \$11.0 billion for the Internal Revenue Service, a decrease of \$337 million below the level needed to maintain constant purchasing power at 2006 level and \$78 million above the 2006 enacted level. Almost all of the IRS budget is in this function.

**District of Columbia's Courts** — The budget includes \$240 million for the District of Columbia's courts, \$30 million below the amount needed to maintain constant purchasing power at the 2006 level.

### Mandatory

**Arctic National Wildlife Refuge Lease Receipts** — In spite of the highly controversial nature of this proposal, for the sixth consecutive year the President's budget assumes opening the Arctic Refuge to oil and gas exploration. Although the receipts are assumed in the budget, the Administration cannot implement the proposal without Congressional approval (attempts to open the Arctic Refuge failed last session). Over the 2007-2011 period, the President's budget includes \$4.0 billion from lease bonuses for the federal treasury in this budget function and \$4.0 billion collected and distributed to the State of Alaska that occurs in Function 950 (Undistributed Offsetting Receipts).

***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 \$44 million over ten years (2007-2016).

***Internal Revenue Collections for Puerto Rico*** — The budget extends for two 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 \$119 million over two years (2007-2008).

***Tax and Trade Bureau Regulatory Activity User Fees*** — The budget establishes user fees to cover the costs of the Tax and Trade Bureau's regulatory functions. The new user fees include filing fees for Certificate of Label Approvals, proposed formulas, and permit applications. This proposal saves \$290 million over ten years (2007-2016).

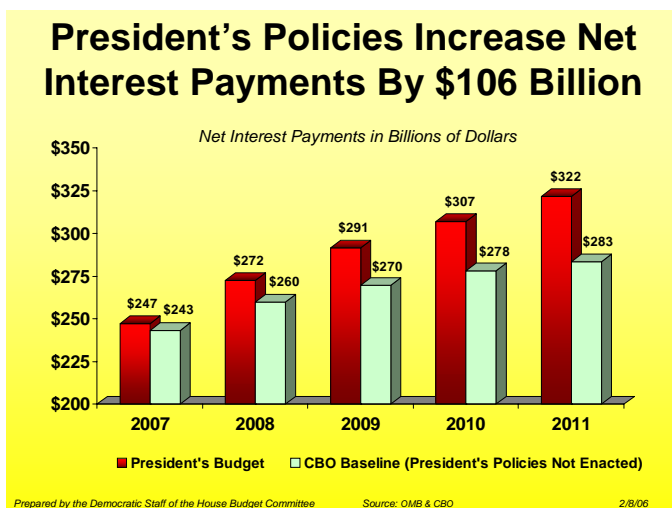
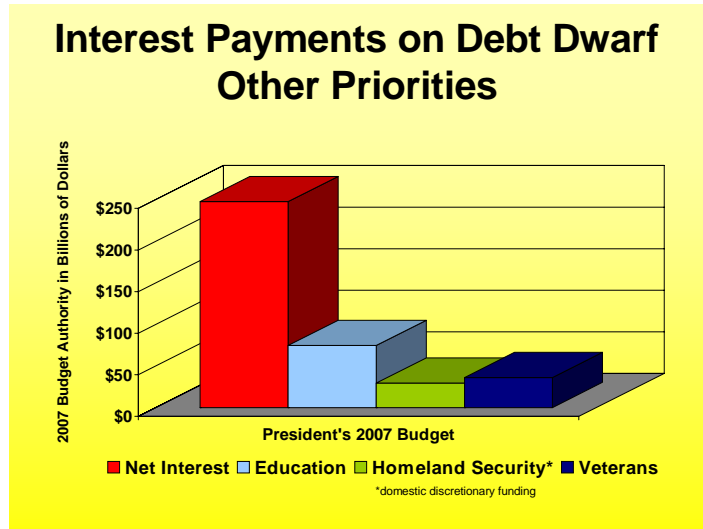
## Function 900: Net Interest

Interest on the debt reflects the cost of financing the outstanding amount the federal government has borrowed from the public. Net interest represents interest payments to non-federal owners of Treasury securities and does not include interest paid by one part of the government to another. The Federal Reserve is treated as a non-federal entity for this purpose.

**Fourth Largest Expenditure** — The federal government will spend \$247 billion in net interest in 2007. It ranks as the fourth largest spending item in the government’s budget after Social Security (\$581 billion), the Department of Defense (\$434 billion), and Medicare (\$387 billion).

**Interest Expense Grows** — Net interest in the President’s budget grows steadily and quickly throughout the budget window, climbing to \$322 billion in 2011 and totaling \$1.4 trillion over the five-year period (2007-2011).

**Displaces Other Investments** — Money spent to pay interest on the national debt is truly wasteful spending. It doesn’t educate a child, build a road, or keep the nation secure.



**The President’s Budget Makes the Problem Worse** — Not only does the Administration fail to stem the rate of growth of net interest, the chronic deficits in the President’s budget ramp interest costs upward. If the none of the President’s policies are enacted, net interest in 2011 will be \$38.4 billion less.

## Function 920: Allowances

This function displays the budgetary effect of proposals that cannot easily be distributed across other budget functions. In the past, this function has included funding for emergencies or proposals contingent on certain events. The President's budget for this function includes the \$18 billion supplemental appropriation anticipated for 2006, funding for adjustments to the legislative and judicial branches' requests, and the effects of debt collection initiatives.

***Anticipated Supplemental*** — The budget contains a place holder for the anticipated (\$18 billion) supplemental appropriations bill for hurricane relief.

***Adjustments to the Legislative and Judicial Branches' Requests*** — The budget includes cuts of \$388 million for 2007 and \$1.9 billion over the five-year period (2007-2011) from adjustments to the legislative and judicial branch accounts for excessive funding requests. Each year, these branches make a request to OMB to cover their funding needs. OMB, in turn, adjusts the overall funding level to better reflect the historical funding levels for these branches of government. However, these reductions are reflected in this function rather than in the budget functions that contain the judicial and legislative branches to maintain comity among the three branches of government.

***Debt Collection Initiatives*** — The budget again proposes debt collection initiatives that were not enacted in the 2005 Omnibus Appropriations Act and the Jumpstart Our Business Strength Act. The budget proposes to increase and enhance the Financial Management Service (FMS) opportunities to collect delinquent debt by eliminating the 10-year limitation on collecting debt owed to federal agencies and allowing collection of tax refunds for delinquent state unemployment insurance overpayments. These initiatives save \$11 million in 2007 and \$65 million over the ten-year period (2007-2011).

## **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 2007, the budget assumes offsetting receipts of \$94.3 billion. Over the five-year period (2007-2011), the budget assumes offsetting receipts of \$448.9 billion.

***Federal Employee Retirement System*** — For 2007, federal agencies will pay \$52.9 billion to the federal employee retirement funds (the Civil Service Retirement System, Military Retirement System, and Federal Employees Retirement System). Federal agencies also make payments to the Medicare Health Insurance Trust Fund and the Social Security trust funds on behalf of federal employees. As employees’ pay increases, agencies are required to increase their payments to these funds.

***Federal Employees’ Pay Raise*** — The budget increases federal civilian pay rates by 2.2 percent in January 2007, the same pay raise as for military personnel.

### **Mandatory**

***Arctic National Wildlife Refuge Lease Receipts*** — In spite of the highly controversial nature of this proposal, for the sixth consecutive year the President’s budget assumes opening the Arctic Refuge to oil and gas exploration. Although the receipts are assumed in the budget, the Administration cannot implement the proposal without Congressional approval (attempts to open the Arctic Refuge failed last session). Over the 2007-2011 period, the President’s budget includes \$4.0 billion from lease bonuses for the federal treasury in this budget function and \$4.0 billion collected and distributed to the State of Alaska that occurs in Function 800 (General Government).

***Postal Service Reforms*** — The budget takes the pension savings that are provided to the Postal Service and would otherwise be held in escrow in 2006 and beyond, and uses them to fully fund its retiree health benefit liabilities.

*Spectrum Auction Authority and Spectrum License User Fee* — The budget permanently extends the authority of the FCC to auction spectrum, which the recently passed reconciliation spending bill extended only through 2011. The budget also authorizes the FCC to set user fees on unauctioned spectrum. These two proposals are expected to generate a total of \$1.2 billion over the next five years (2007-2011) and \$4.6 billion over the next ten years (2007-2016).

## User Fees and Charges

In the budget debates from 1993 through 2000, Republicans repeatedly criticized President Clinton for proposing “tax increases” in the form of user fees. This year’s budget imposes new “tax increases” in the form of user fees totaling \$47.2 billion over five years. Congress has rejected many of these new fees and user charges in the past and is likely to do so again. The new fees include items such as requiring certain veterans to pay enrollment fees for medical care and charging fees for meat safety inspections (see complete list below).

Every one of the Bush Administration’s budgets has included billions of dollars in new fees and user charges. Moreover, the amount of new fees in the budget grows every year. The table at right illustrates the steady increase in the extent to which the Administration relies on new fees and user charges in putting together its budget. The President’s 2002 budget included \$4.9 billion in new fees over five years (2002-2007). The 2007 budget includes \$47.2 billion in new fees over five years (2007-2011) – a nearly ten-fold increase.

<b>User Charge Proposals in the President’s Budgets</b> <i>(five-year totals, in billions of dollars)</i>	
<u>Budget for year:</u>	<u>Amount proposed:</u>
2007	\$47.2
2006	\$44.7
2005	\$19.5
2004	\$15.3
2003	\$10.4
2002	\$ 4.9

## User Fee and Other User Charge Proposals in the President's Budget

*Estimated Collections in Millions of Dollars*

	2007	2008	2009	2010	2011	2007–11
<b>DISCRETIONARY</b>						
1. <i>Offsetting collections</i>						
<b>Department of Agriculture</b>						
Farm Service Agency user fees	35	34	34	33	34	170
<b>Department of Defense</b>						
Medical care fees	249	635	907	1,106	1,353	4,250
<b>Department of Health and Human Services</b>						
Medicare program management: Survey and certification user fee	35	34	34	33	34	170
<b>Department of Homeland Security</b>						
Transportation Security Administration: Aviation security fees	1,631	1,778	1,938	2,105	2,283	9,735
<b>Department of Housing and Urban Development</b>						
Office of Federal Housing Enterprise Oversight: Government-sponsored enterprise (GSE) regulation	-62	-60	-60	-59	-59	-300
<b>Department of Justice</b>						
Bureau of Alcohol, Tobacco, Firearms, and Explosives: Explosives regulation user fees	120	116	115	114	115	580
<b>Department of Transportation</b>						
St. Lawrence Seaway Development Corporation commercial tolls	9	9	9	9	9	45
<b>Department of Veterans Affairs</b>						
Medical care fees:						
Prescription copayments for PL 7s and 8s	288	255	255	255	254	1,307
Annual enrollment user fee for PL 7s and 8s	226	229	221	212	204	1,092
Eliminating offset of copayments with insurance collections for PL 7s and 8s	30	34	38	42	47	191
<b>Commodity Futures Trading Commission</b>						
Transaction fees	127	123	122	120	122	614
2. <i>Offsetting receipts</i>						
<b>Department of the Interior</b>						
Abandoned mine reclamation fees	312	79	.....	.....	.....	391
Repeal Energy Bill fee prohibition	.....	20	20	20	20	80
<i>Subtotal, discretionary user charge proposals</i>	<b>3,000</b>	<b>3,286</b>	<b>3,633</b>	<b>3,990</b>	<b>4,416</b>	<b>18,325</b>
<b>MANDATORY</b>						
1. <i>Offsetting collections</i>						
<b>Department of Housing and Urban Development</b>						
Government-sponsored enterprise (GSE) regulation	6	6	6	6	6	30
<b>Federal Housing Enterprise Regulator</b>						
Government-sponsored enterprise (GSE) regulation	98	98	98	98	98	490
<b>Federal Housing Finance Board</b>						
Government-sponsored enterprise (GSE) regulation	-36	-38	-39	-40	-41	-194
2. <i>Offsetting receipts</i>						
<b>Department of Agriculture</b>						
Food Safety and Inspection Service user fees	105	155	148	151	154	713
Grain, Inspection, Packers, and Stockyards Administration (GIPSA) user fees	20	20	21	21	22	104
Agricultural Marketing Service standardization and marketing orders user fees	14	14	15	15	15	73
Animal and Plant Health Inspection Service user fees	8	11	11	12	12	54
Federal crop insurance fees	.....	15	15	15	15	60



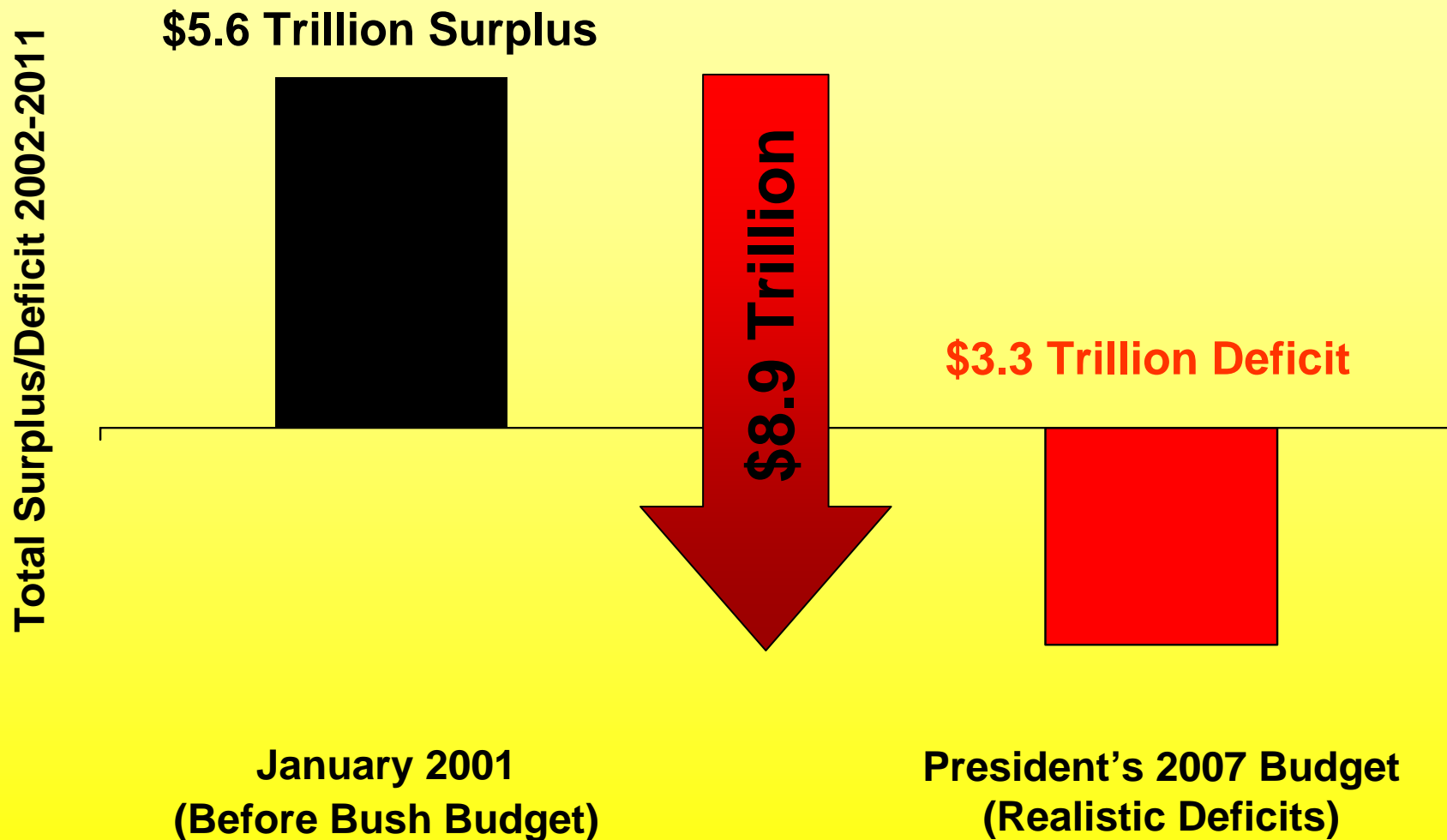
<b>Department of Defense</b>						
National defense stockpile asset sales: Authorization for additional sales	1	50	72	80	96	299
<b>Department of Health and Human Services: Food and Drug Administration</b>						
Re-inspection fees	22	23	23	24	24	116
Food and animal feed export certification fees	4	4	4	4	4	20
<b>Department of Homeland Security</b>						
Immigration examination fees	31	31	31	31	31	155
<b>Department of the Interior</b>						
Bureau of Land Management land sale authority	.....	5	9	14	52	80
Arctic National Wildlife Refuge, lease bonuses:						
Collections for payments to Alaska	.....	3,502	2	503	3	4,010
Collections deposited in the Treasury	.....	3,502	2	503	3	4,010
<b>Department of Labor</b>						
Foreign labor certification fees	35	35	35	35	35	175
Pension Benefit Guaranty Corporation premiums	.....	4,202	4,209	4,223	4,237	16,871
<b>Department of the Treasury</b>						
Alcohol and Tobacco Tax and Trade Bureau regulatory activity user fees	29	29	29	29	29	145
<b>Corps of Engineers—Civil Works</b>						
Additional recreation fees	9	17	17	17	17	77
<b>Environmental Protection Agency</b>						
Pesticide user fees	56	66	53	53	53	281
Pre-manufacture notice user fees	4	8	8	8	8	36
<b>Federal Communications Commission</b>						
Authorize spectrum license fees	50	150	300	300	400	1,200
<i>Subtotal, mandatory user charge proposals</i>	<i>456</i>	<i>11,905</i>	<i>5,069</i>	<i>6,102</i>	<i>5,273</i>	<i>28,805</i>
<b>GOVERNMENTAL RECEIPTS</b>						
<b>Department of the Interior</b>						
National Indian Gaming Commission activity fees	.....	5	5	5	5	20
<b>Total, Proposed New User Fees and Other Charges</b>	<b>3,456</b>	<b>15,196</b>	<b>8,707</b>	<b>10,097</b>	<b>9,694</b>	<b>47,150</b>

# Another Record Deficit

*The Last Four Years, The Four Largest Deficits in History*

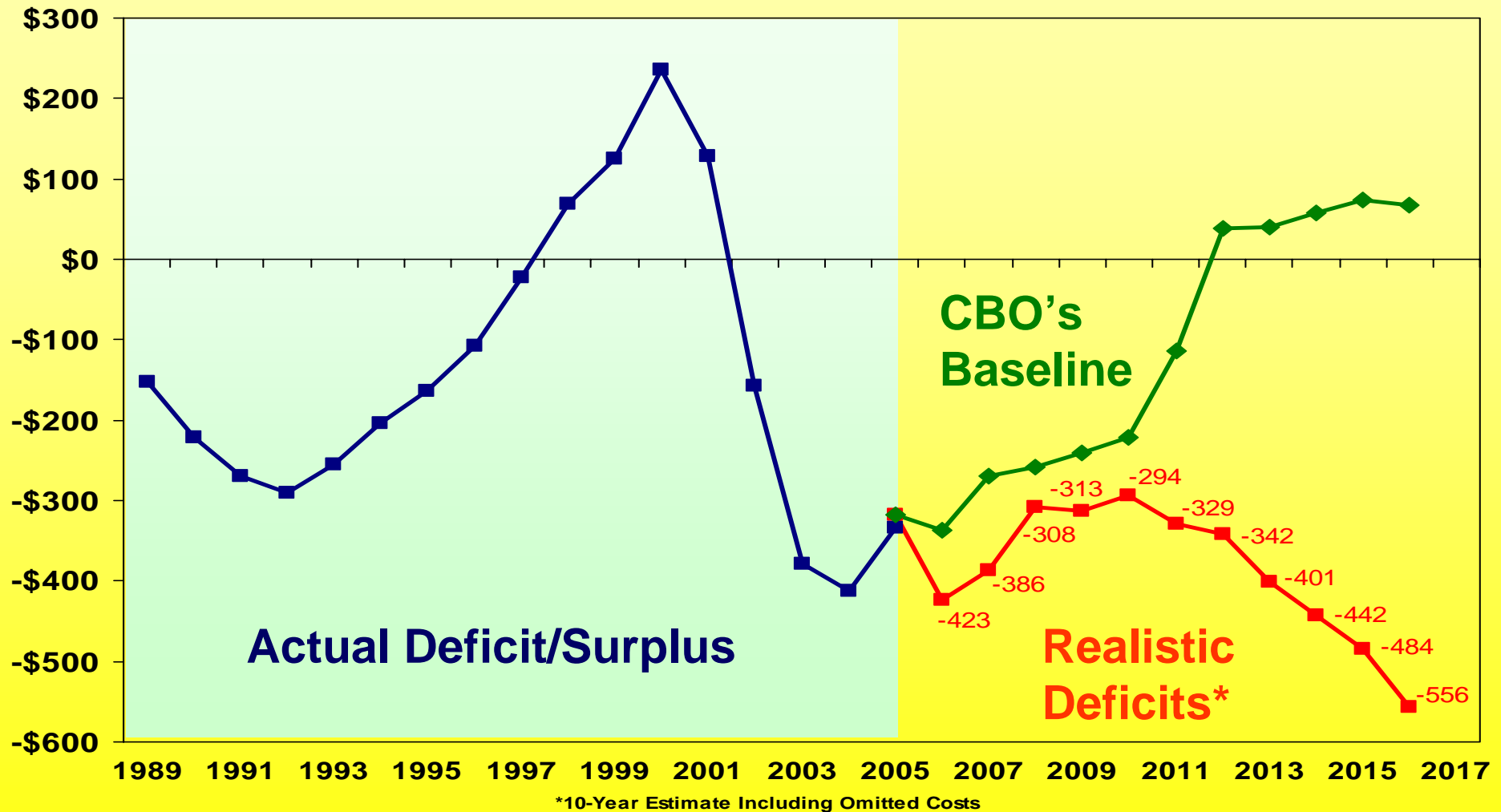
<u>Rank</u>	<u>Year</u>	<u>Deficit</u>
<b>1<sup>st</sup></b>	<b>2006</b>	<b>-\$423 Billion</b>
<b>2<sup>nd</sup></b>	<b>2004</b>	<b>-\$412 Billion</b>
<b>3<sup>rd</sup></b>	<b>2003</b>	<b>-\$378 Billion</b>
<b>4<sup>th</sup></b>	<b>2005</b>	<b>-\$318 Billion</b>

# Surplus Declines \$8.9 Trillion Under Republican Policies



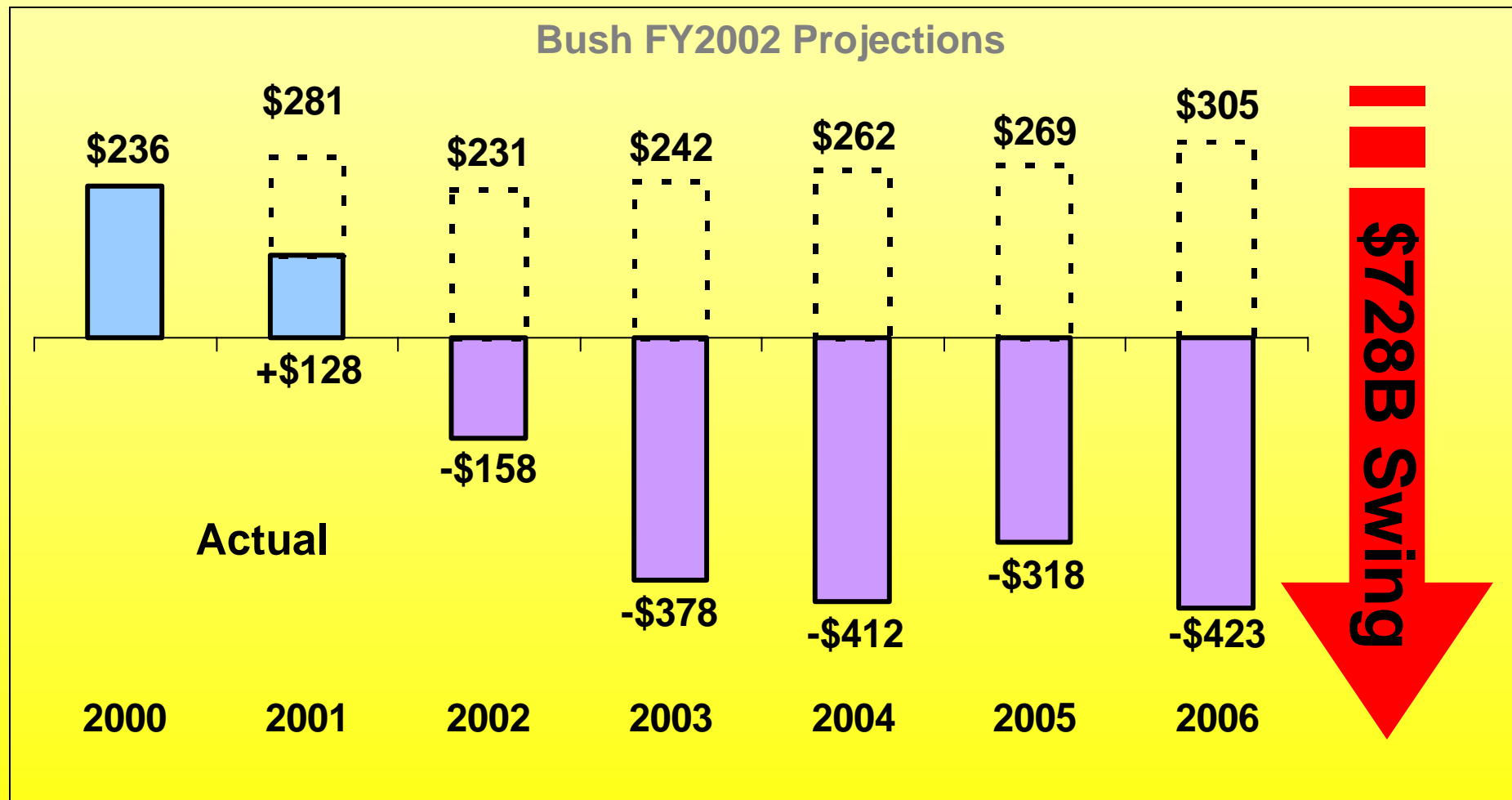
# Realistic Estimate Shows Bleak Deficit Outlook

*Deficits in Billions of Dollars*



# Projected Surpluses Become Huge Deficits

*Actual and Predicted Budget Surpluses and Deficits in Billions*



# The President's Budget Makes the Deficit \$413 Billion Worse

Tax Policies	285 Billion
Defense Supplemental	89 Billion
Social Security Reform	82 Billion
Defense Appropriations Increase	74 Billion
Hurricane Supplemental	12 Billion
Non-Defense Appropriations Cuts	-115 Billion
Mandatory Program Cuts	-66 Billion
Debt Service	52 Billion

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**Total Effect on the Deficit,  
2007-2011**

**\$413 Billion**

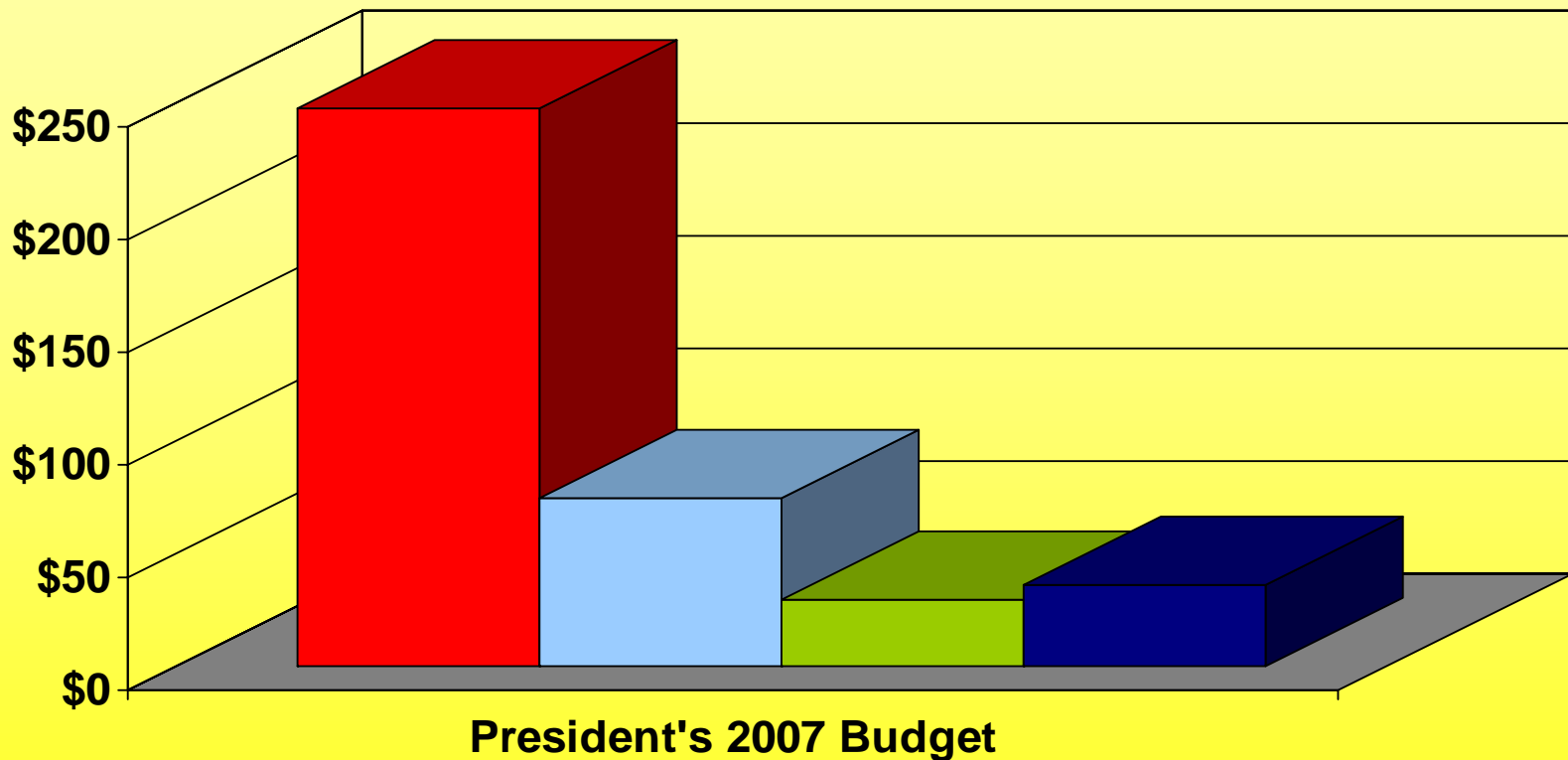
# Republicans Increase the Debt Limit by **\$3 Trillion**

*Debt Limit Increases, Billions of Dollars*

June 2002	<b>\$450</b>
May 2003	<b>\$984</b>
November 2004	<b>\$800</b>
Pending Increase	<b>\$781</b>
<b>Total Increases</b>	<b>\$3,015</b>

# Interest Payments on Debt Dwarf Other Priorities

2007 Budget Authority in Billions of Dollars



■ Net Interest ■ Education ■ Homeland Security\* ■ Veterans

\*domestic discretionary funding

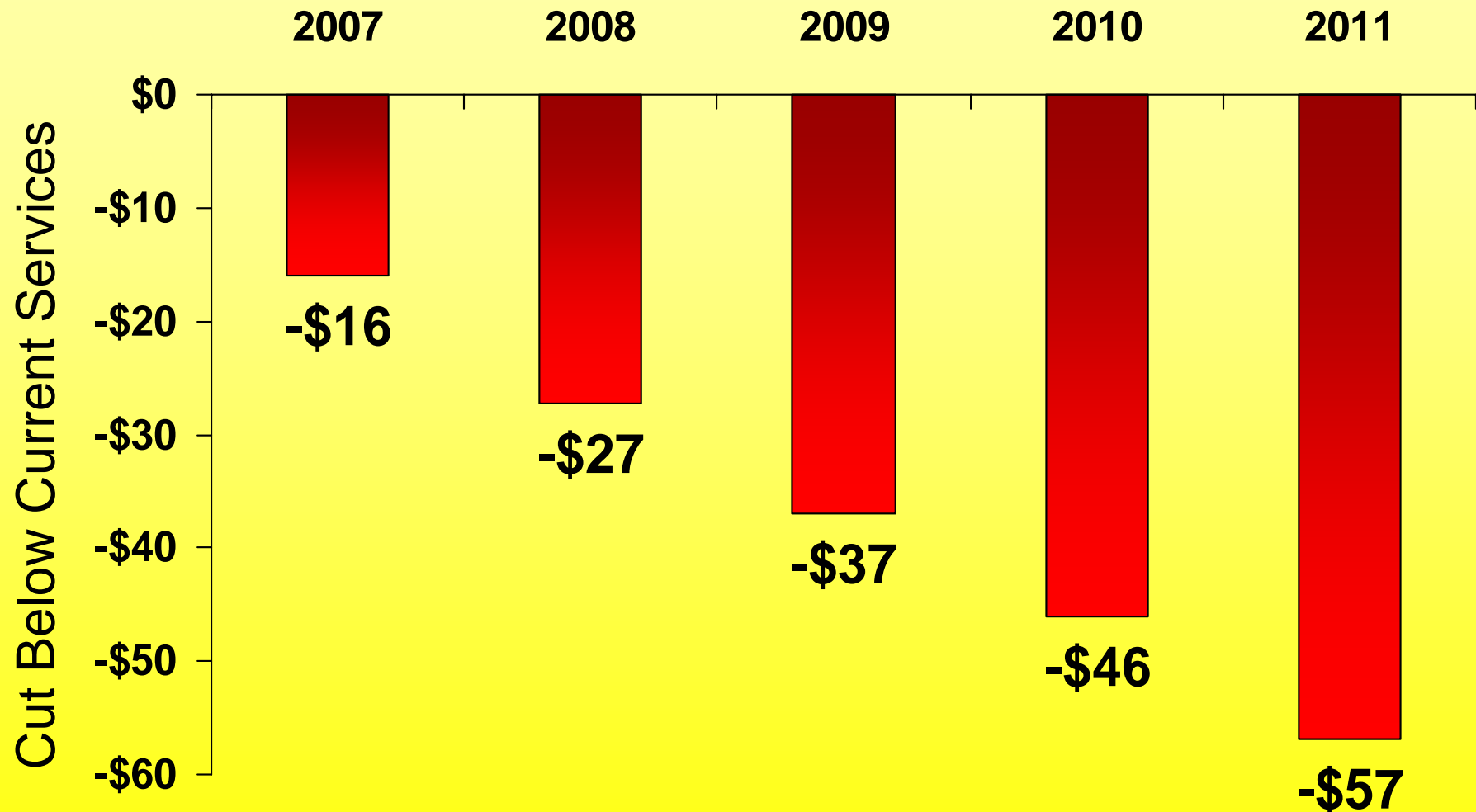


# President's Tax Agenda Costs \$3 Trillion

Revenue Effects Only	Cost:	\$1,667 Billion
	Interest:	\$276.3 Billion
Outlay Effects	Cost:	\$74.1 Billion
	Interest:	\$10.6 Billion
AMT Repair <i>(Minus President's 1-Year Patch)</i>	Cost:	\$843.8 Billion
	Interest:	\$166.1 Billion
<hr/>		
Revenue Effects, Outlay Effects & AMT Repair	Total Cost:	\$2,585 Billion
	Total Interest:	\$453 Billion
<hr/>		
<b>Total Deficit (2006-2016):</b>	<b>\$3.038 Trillion</b>	

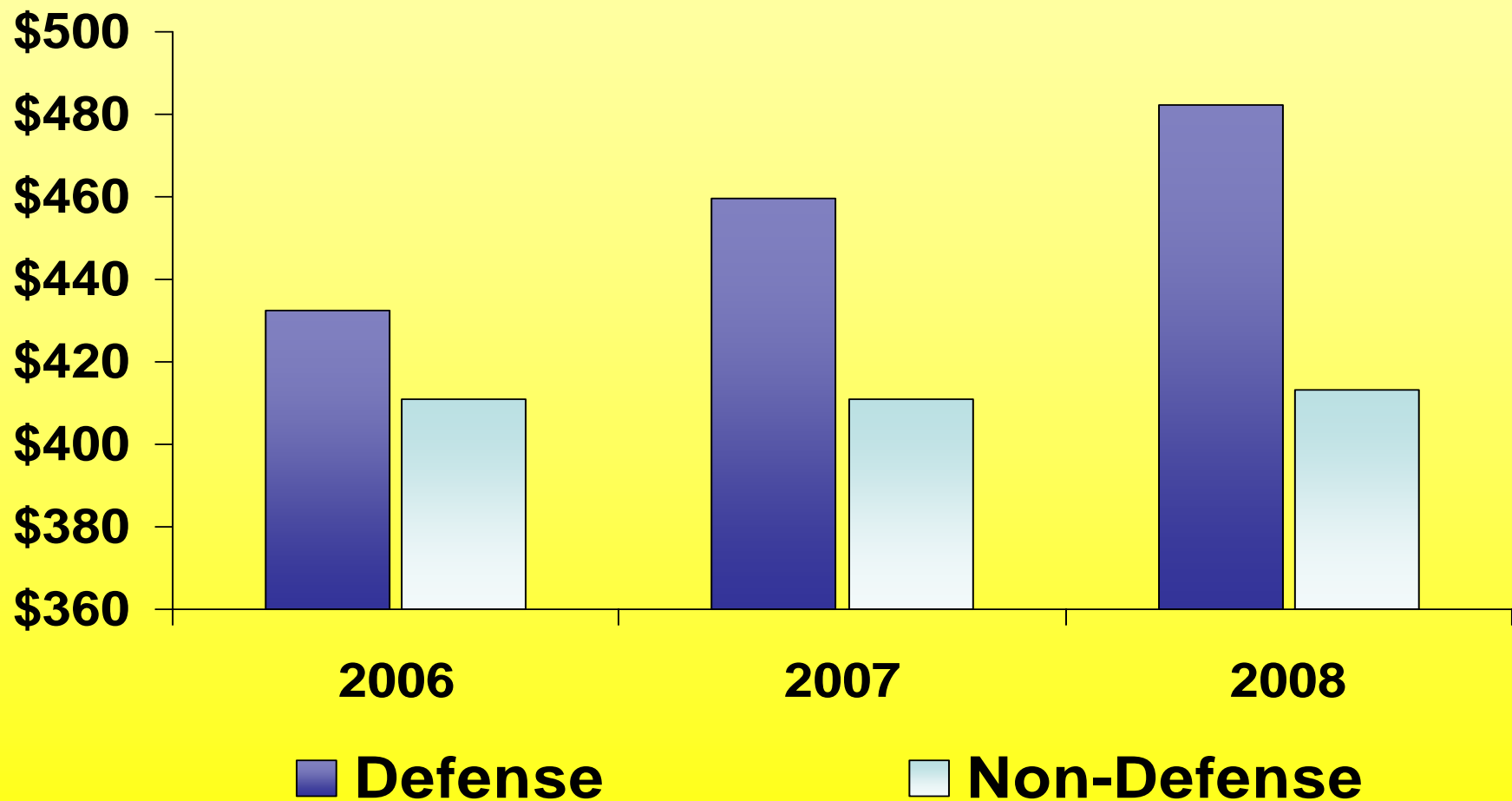
# President's Budget Cuts Domestic Purchasing Power By \$183 Billion Over Five Years

*Discretionary Non-Defense, Non-International Budget Authority in Billions of Dollars*



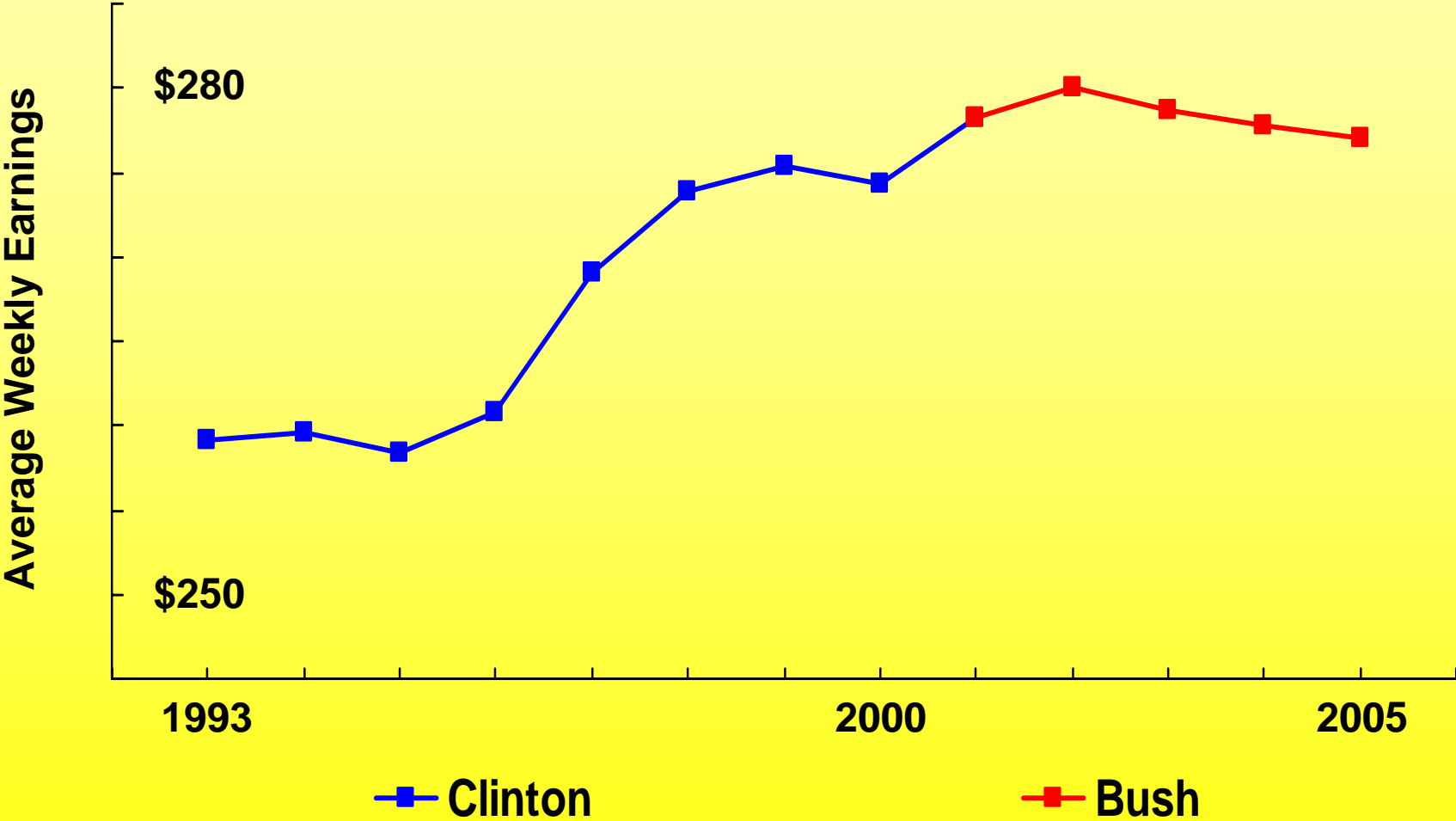
# Budget Caps For Defense and Non-Defense Appropriations

*Appropriations Limits in Billions of Dollars*



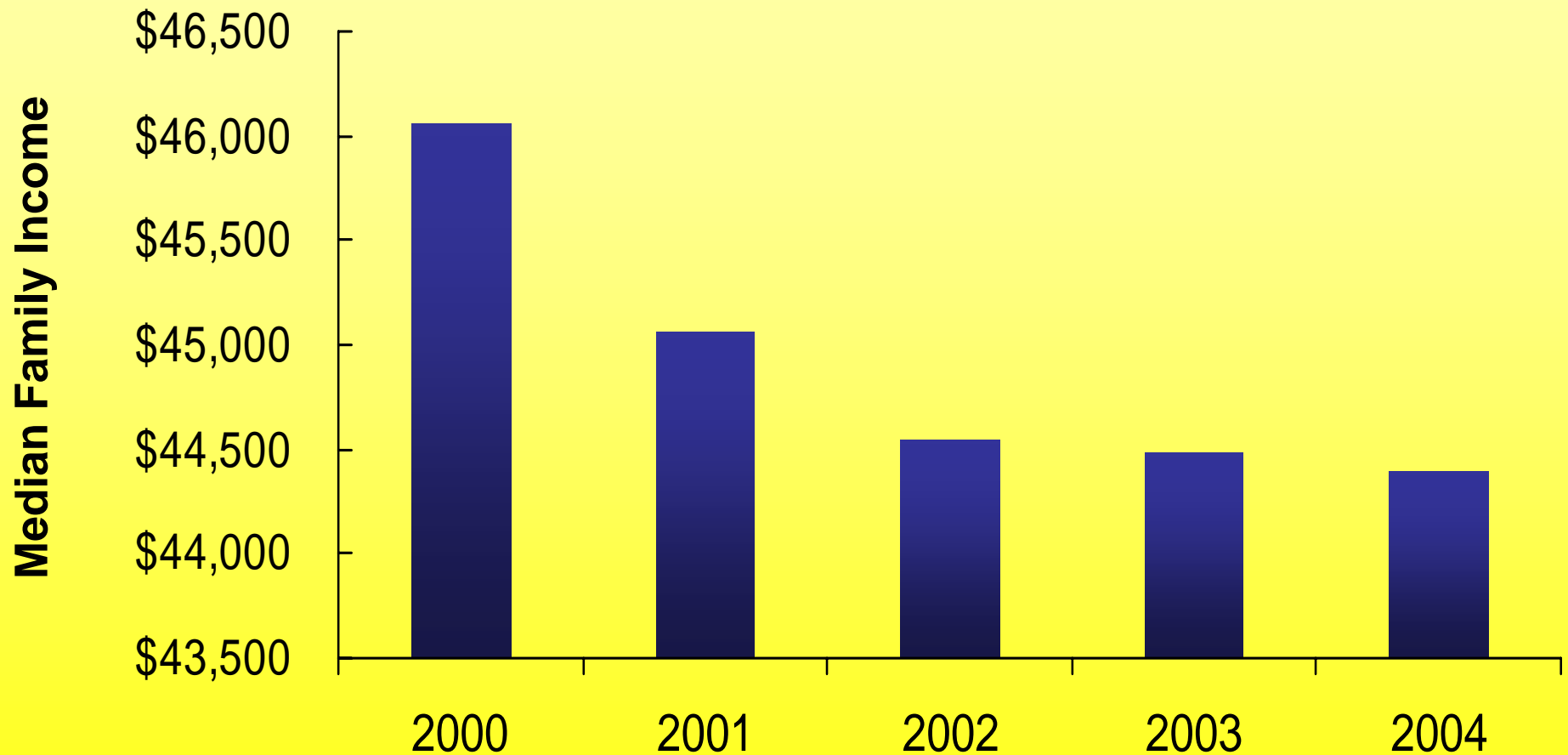
# Wage Growth Under Clinton Far Exceeds Wage Growth Under Bush

*(Inflation-Adjusted Average Weekly Earnings)*

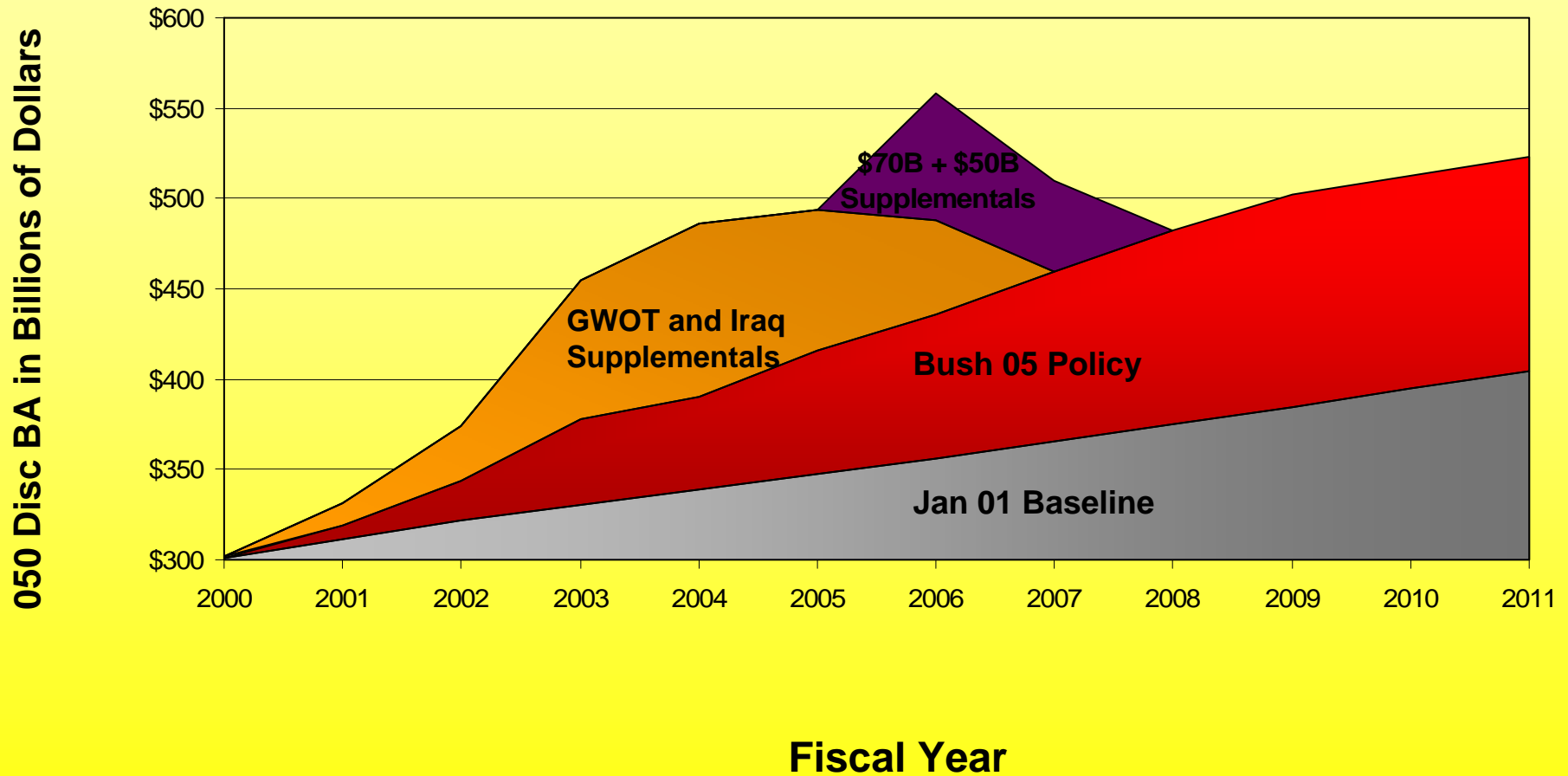


# Typical Family Income Decreases Every Year Under Bush

*(Inflation-Adjusted Median Family Income)*

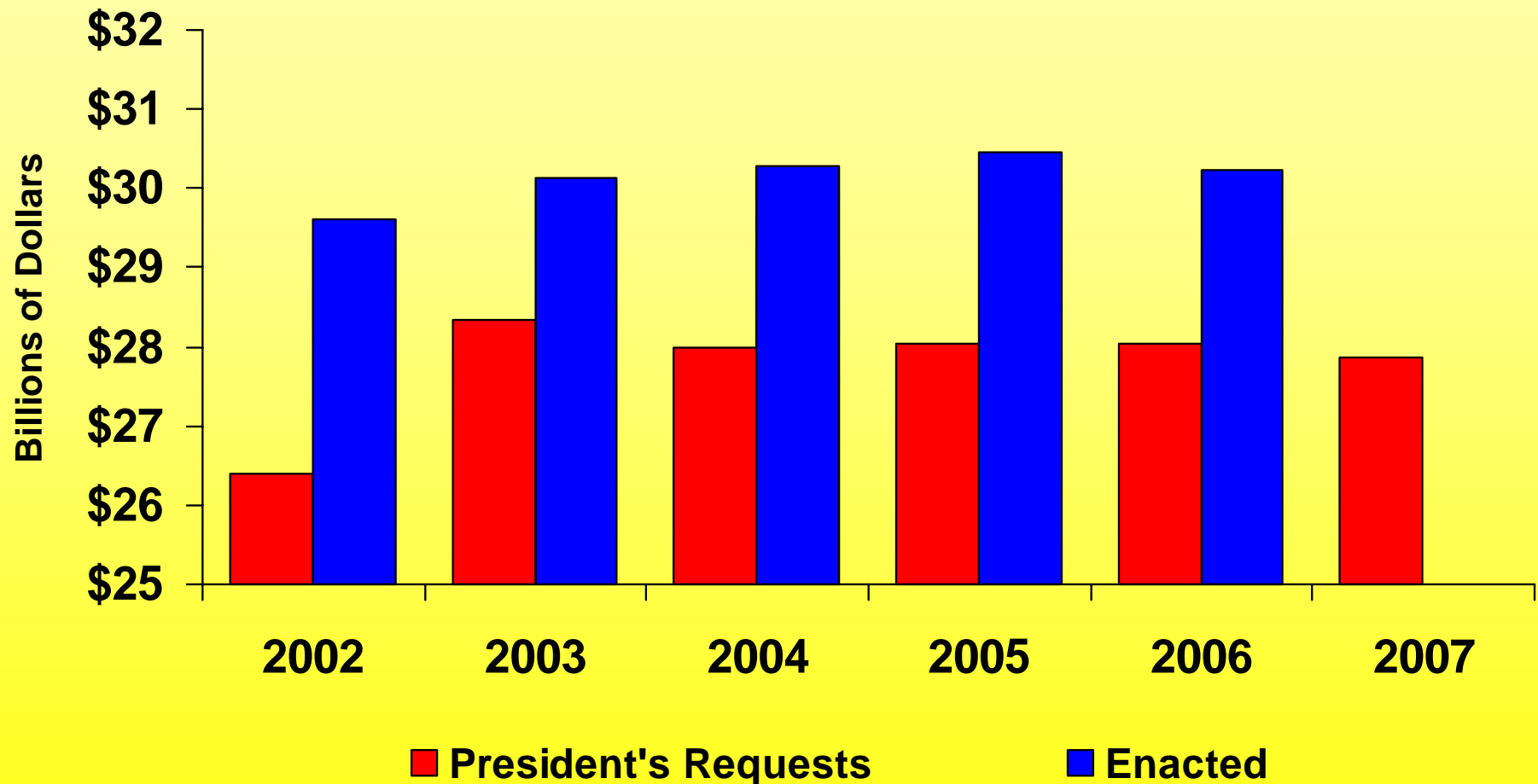


# Increased Cost of Defense Under Bush Administration



# President's Budget Undermines Environmental Protection

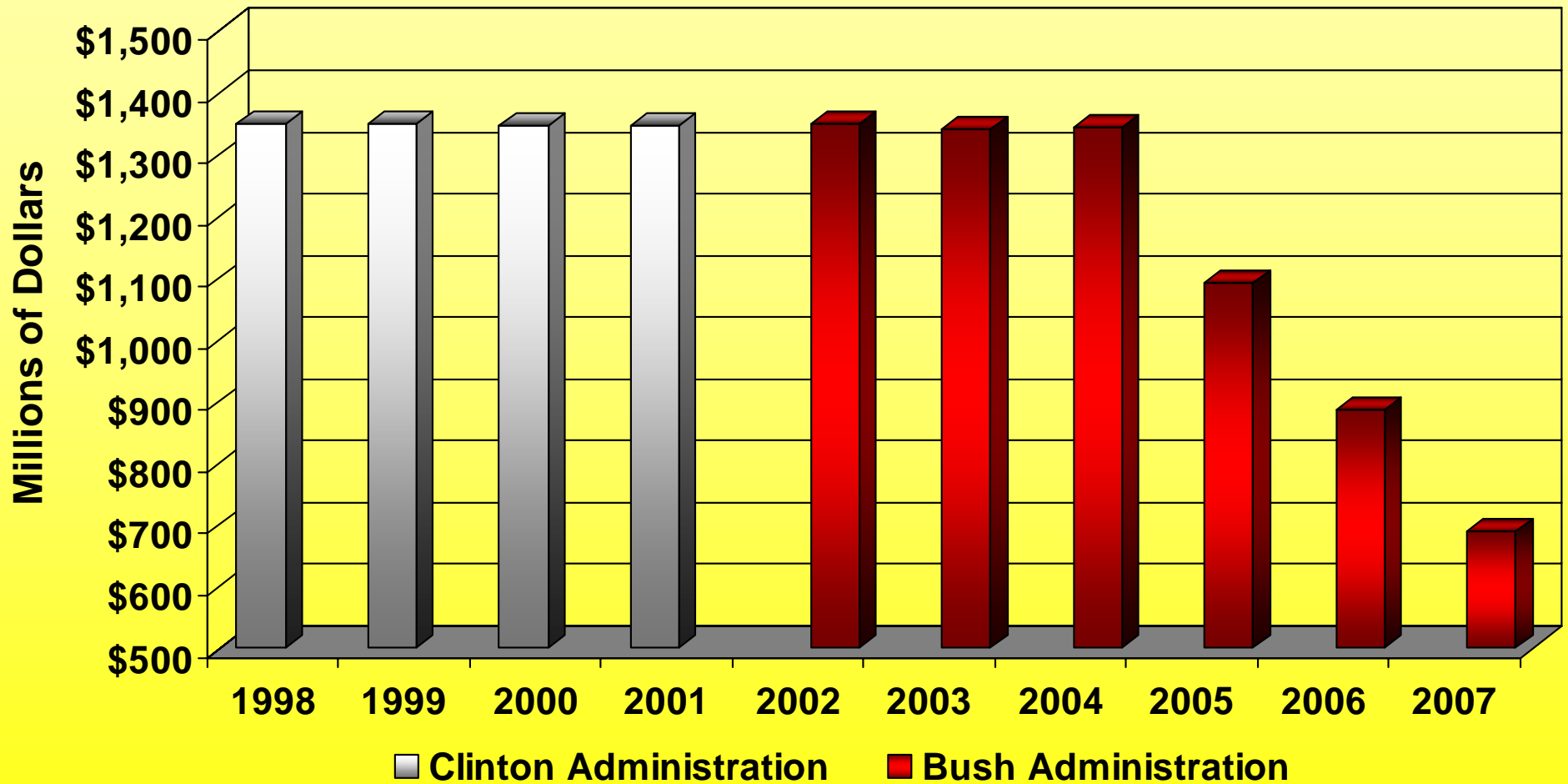
*Function 300 Discretionary*



# Bush Budget Cuts

## Clean Water Infrastructure Funding

*State Revolving Fund*

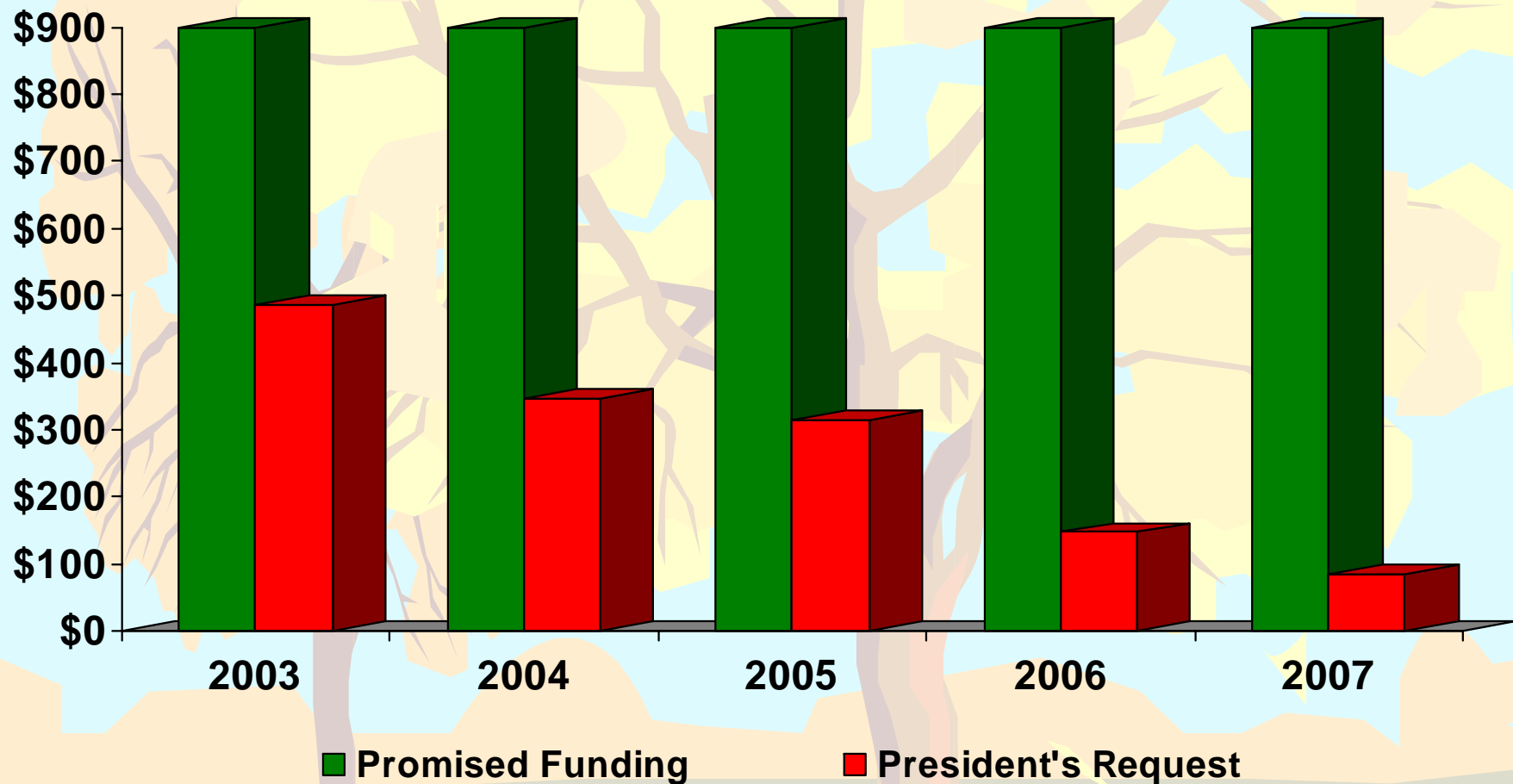




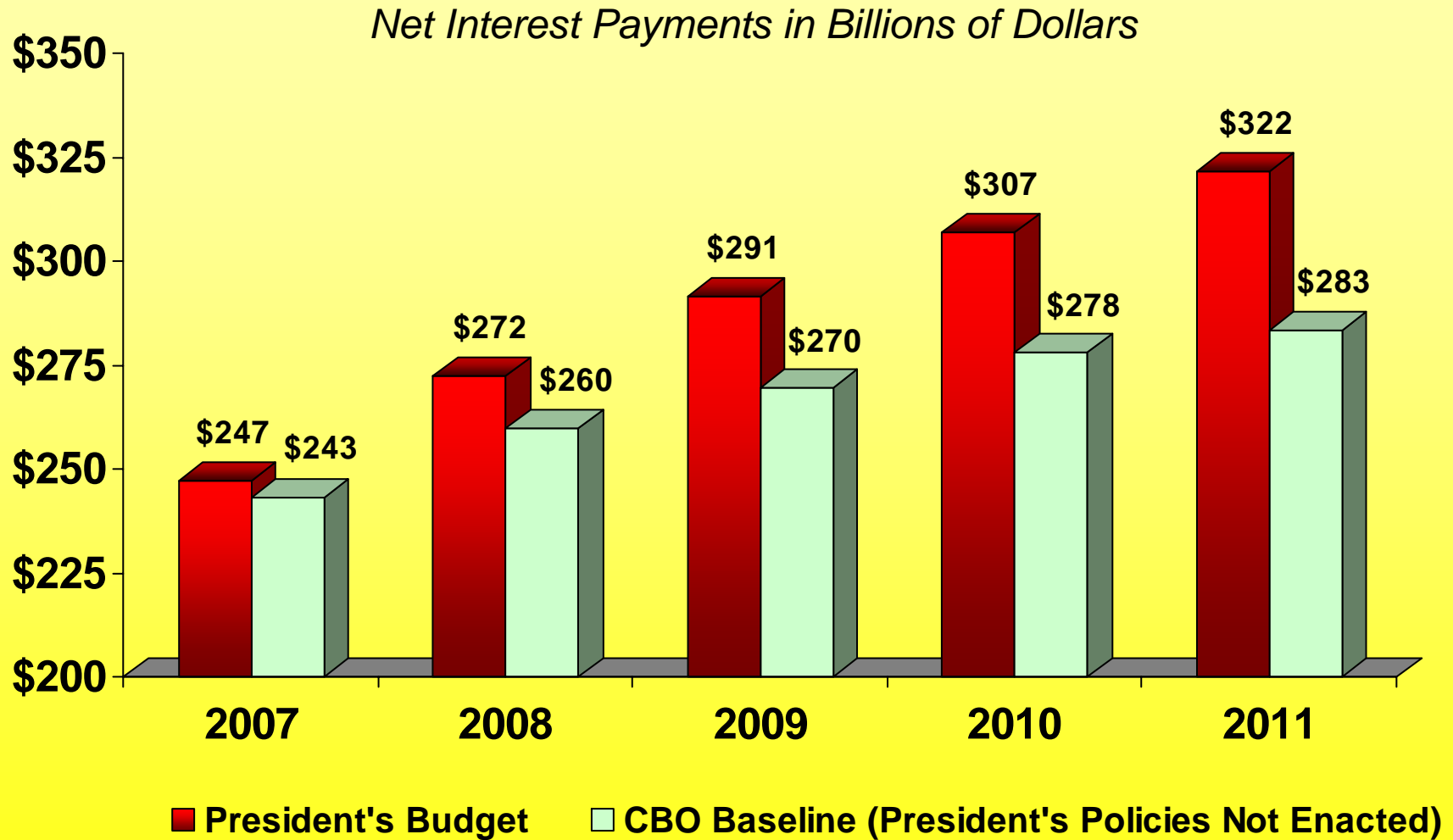
# President's Environmental Priorities

- Environment funding CUT by nearly 8 percent.
- Clean water infrastructure programs CUT by about 22 percent and nearly 50 percent since 2004.
- Environmental Justice funds cut by 28 percent.
- Farm conservation programs CUT by over \$450 million.
- **FAILS** to address water supply contamination from leaking petroleum and MTBE.
- **FAILS** to protect wildlife, conservation, recreation, and preservation needs.
- **FAILS** to hold corporate polluters accountable - **TAXPAYERS** foot the entire bill.

# Bush's Broken Promise to Fully Fund Land and Water Conservation Fund



# President's Policies Increase Net Interest Payments By \$106 Billion



## The President's 2007 Budget

Billions of Dollars

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	Total <u>2007-2016</u>	Total <u>2012-2016</u>
CBO Baseline	-337	-270	-259	-241	-222	-114	38	40	57	73	67	-832	
Remove Repeating Supplemental	0	43	67	85	95	104	111	119	126	134	143	1026	
CBO Baseline w/o repeating supp	-337	-227	-192	-157	-127	-10	148	158	184	207	209	194	
<b>The President's Budget</b>	<b>-423</b>	<b>-354</b>	<b>-223</b>	<b>-208</b>	<b>-183</b>	<b>-205</b>							
<b>Omitted Items and the Second Five Years</b>													
Tax Policies*							-265	-280	-292	-303	-315		-1456
Entitlement Programs							19	20	21	25	26		110
Defense Appropriations							-35	-35	-36	-37	-38		-182
Non-Defense Appropriations							44	46	48	49	50		238
Social Security Reform							-96	-115	-127	-140	-153		-631
Reconciliation Spending Cuts							14	13	11	11	11		60
Repair AMT**		-22	-45	-55	-66	-77	-88	-101	-114	-130	-147	-844	
Ongoing Military Operations**		-9	-37	-43	-33	-29	-29	-29	-29	-30	-30	-298	
Subtotal of Omitted Items		-31	-81	-98	-99	-106	-436	-481	-520	-555	-596	-3002	
Debt Service		-1	-3	-8	-13	-18	-55	-79	-106	-136	-170	-589	
Total Changes		-31	-85	-106	-112	-124	-491	-560	-626	-692	-766	-3591	
<b>Resulting Deficits</b>	<b>-423</b>	<b>-386</b>	<b>-308</b>	<b>-313</b>	<b>-294</b>	<b>-329</b>	<b>-342</b>	<b>-401</b>	<b>-442</b>	<b>-484</b>	<b>-556</b>	<b>-3857</b>	

\* Includes outlay effects

\*\* CBO estimates of policy reduced by amounts included in the President's Budget

negative items make deficits worse

Debt Service costs based on CBO's January estimates

Baseline estimates assume tax cuts expire as written in law and 2006 emergency supplemental funding repeats every year and grows with inflation