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Summary and Analysis

of the

President's Fiscal Year 2008 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.

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.**
- **Unless otherwise noted, the 2007 level refers to the funding level in H.J.Res. 20, the Revised Continuing Appropriations Resolution, as passed by the House on January 31, 2007. The 2007 function and agency totals do not yet reflect the distribution of \$785 million that the bill provides for adjustments to federal employee compensation.**
- **Numbers in tables may not add due to rounding.**

Summary and Analysis of the President's 2008 Budget

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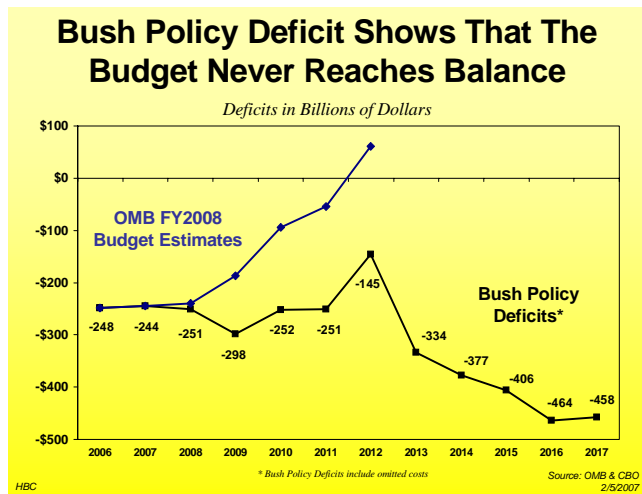
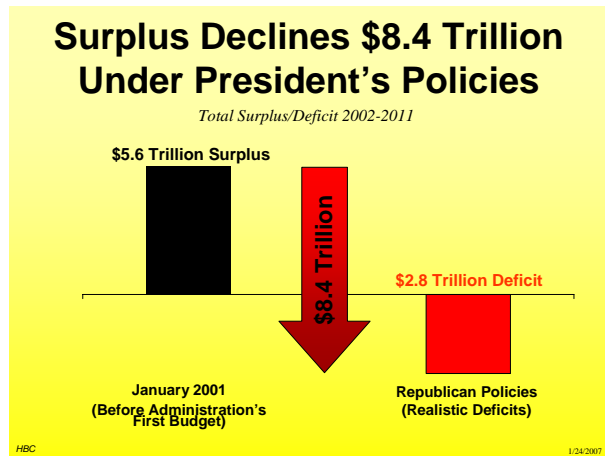
Overview

The President's 2008 budget continues the same policies that helped create the fiscal plight now facing the federal government. While the Administration's budget claims to reach balance in 2012, unfortunately this budget is in deficit every year based on realistic estimates of the President's policies. Meanwhile, the budget continues to make the wrong choices for the

2008 Budget Summary	
Total Revenues	\$2.662 trillion
Total Expenditures	<u>\$2.902 trillion</u>
Total Deficit	\$239 billion

American people. It proposes substantial cuts to Medicare (without reinvesting the savings in program improvement), Medicaid and cuts other critical priorities like education and the environment – all to help pay for an expensive tax agenda that heavily benefits those who need the help the least.

Administration Has Worst Fiscal Record in History — During the six years of the current Administration, the government has posted the highest deficits in the nation's history. The Administration has squandered the budget surplus it inherited, transforming a \$5.6 trillion projected ten-year surplus (2002-2011) into a deficit of \$2.8 trillion over the same period, a swing of \$8.4 trillion based on realistic estimates of the costs of the President's policies. The President's new budget calls for a deficit of \$244 billion for 2007 and \$239 billion for 2008, marking six years in a row of deficits of more than \$200 billion. Meanwhile, this budget continues the climb of our nation's debt, which has already grown by \$3 trillion during this Administration.



Budget Never Reaches Balance Under Realistic Assumptions — Rather than taking a new direction, the President's 2008 budget continues the same policies that have worsened the country's fiscal situation. As in previous years, the budget relies on omissions and optimistic assumptions that have the effect of understating the size of the fiscal problems it creates. Adjusting the Administration's numbers simply to reflect realistic costs of Alternative Minimum Tax (AMT) reform and the Administration's Iraq policy shows that the Administration's budget

never reaches balance, and under its policies the deficit totals \$3.2 trillion over the next ten years.

- ***Excludes Cost of AMT Reform Beyond One Year*** — To date, the Administration’s budgets have not lived up to its stated goal of repairing the AMT in a deficit-neutral way, and the President’s 2008 budget again fails to include any costs for more than a one-year repair of the AMT. If the President’s tax policies are extended, the Administration’s budget omits \$1 trillion from the cost of a full repair of the AMT, based on Congressional Budget Office (CBO) figures.
- ***Omits Full Cost of the Administration’s Policy in Iraq and Afghanistan*** — Although for the first time the Administration’s budget includes full-year funding for the wars in the coming year, it discontinues the funding after just a down payment for 2009, even though the Administration is increasing troop strength and has no current plans to withdraw from Iraq or Afghanistan. A recent CBO scenario estimated war costs for Iraq, Afghanistan, and the Global War on Terror could be as much as \$603 billion higher over ten years than what is included in the Administration’s budget.
- ***Uses Rosy Assumptions that Boost the Bottom Line*** — The President’s 2008 budget relies on unrealistically rosy assumptions that the economy will grow its way back to a budget surplus. For example, in 2012 it assumes revenues that are \$155 billion higher than comparable projections made by CBO. Without these optimistic assumptions, a claimed 2012 surplus of \$61 billion becomes a \$94 billion deficit.

Budget Sends the Deficit in the Wrong Direction — The Administration’s policy choices are driving deficits higher by over \$1 trillion over the next five years. The cost of extending the tax cuts along with other revenue policies exceeds \$600 billion. The Administration does provide significant savings from mandatory proposals, but they are nowhere near enough to offset the cost of the President’s tax cuts. On net, discretionary spending – largely driven by costs for the war and increases in non-emergency defense spending – also adds to the deficit hole. Even the apparent decline in the unified deficit from 2007 to 2008 relies solely on the increase in the Social Security surplus.

Budget Makes Wrong Choices for Average Americans — The President’s 2008 budget continues to make choices that are wrong for the American people. It cuts vital investments and services for children and working families, yet includes a costly tax agenda that heavily benefits those who least need the help.

Imposes Misguided Spending Cuts While Cutting Taxes Yet Again — To help pay for nearly \$2 trillion in tax cuts over the next ten years, the budget cuts Medicare by \$252 billion over ten years without reinvesting those savings in Medicare or other health program improvements, and imposes net legislative cuts of \$28 billion over ten years to Medicaid. Meanwhile, appropriated funding for the Department of Education is cut by \$1.5 billion below the 2007 level¹, the budget

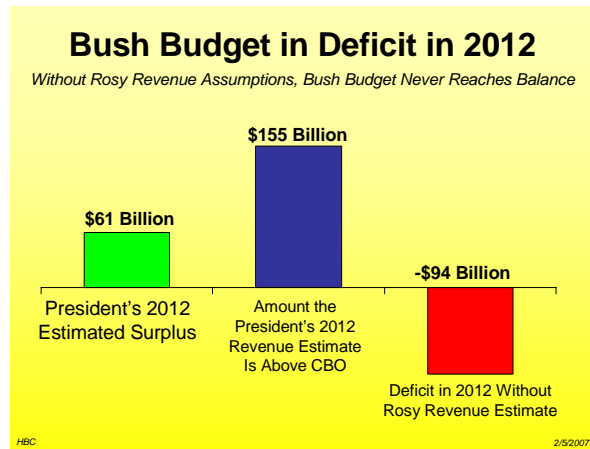
¹Unless otherwise noted, the 2007 level refers to the funding level in H.J.Res. 20, the Revised Continuing Appropriations Resolution, as passed by the House on January 31, 2007.

for the Environmental Protection Agency is cut by \$509 million, and the budget imposes \$4.9 billion over ten years in new fees on veterans.

Need to Put the Budget on the Right Track — Congressional Democrats have repeatedly expressed the desire to work constructively with the Administration to restore fiscal responsibility to the federal budget in a manner consistent with the nation's priorities. But this budget is marked by a disappointing commitment to the failed policies of the past rather than a commitment to a new course.

Taxes and Economy

Administration Uses Rosier Economic Assumptions to Get to Balance in 2012 — The Administration’s economic forecast is more optimistic than that of CBO, and this boosts its bottom line. (The Administration is also more optimistic than the Blue Chip forecasts in the major economic indicators of output (GDP), unemployment, and short-term interest rates.) In 2012, the Administration’s forecast of GDP is \$608 billion higher than CBO’s, with the corporate profits tax base \$116 billion higher and the wages and salaries tax base \$435 billion higher. Compared with CBO, the Administration also assumes higher inflation and lower unemployment in every year, both of which boost revenues. The level of 2012 revenues implied by CBO's economic baseline, adjusted to account for the Administration's cost of its tax proposals, is \$155 billion below the Administration's policy forecast. In other words, without the boost in revenues produced by the Administration's rosier scenario, the claimed 2012 surplus of \$61 billion becomes a \$94 billion deficit.



Tax Policies Disproportionately Favor Wealthy Taxpayers — The budget extends the President’s 2001 and 2003 tax cuts but leaves the Alternative Minimum Tax (AMT) unreformed in 2008 and afterwards, thus advantaging wealthier taxpayers at the expense of middle-income taxpayers. The cost of the tax cuts to the wealthiest one percent of households alone equals the cost of reforming the AMT.

Tax Cuts Still the Administration's Biggest Priority — Despite the \$1.6 trillion cost of the tax cuts already enacted, the Administration continues to claim that tax cuts are consistent with deficit reduction and continues to blame the deterioration of the budget outlook since 2001 on spending, not tax cuts. Yet the Administration accomplishes only \$46 billion in mandatory spending cuts over 2008-2012, while proposing more than 13 times that amount (\$599 billion) in tax cuts over the same period.

Tax Cuts Continue to Get “Free Pass” with Administration — Despite the fact that tax cuts have played a central role in the deterioration of the budget outlook, the Administration continues to call for pay-as-you-go (PAYGO) rules that would apply to spending only. This contradicts the recommendation of Comptroller General David Walker as well as former Fed Chairman Alan Greenspan, who say budget discipline must apply to both sides of the budget through PAYGO rules on both sides. The PAYGO rule recently passed by the House meets this standard. The Administration also fails to give “tax expenditures” (the spending that takes place on the tax side of the budget in the form of forgone revenues) the same scrutiny it gives direct spending programs on its “expectmore.gov” website.

Tax Cuts Fall Far Short of “Paying for Themselves” — Revenues are still far below where the Administration estimated they would be without the tax cuts, even though the Administration’s rosier scenario results in forecast revenues that are \$425 billion higher over five years (2008-2012) than implied by CBO’s baseline adjusted for the Administration’s proposed tax cuts. In its first budget issued in early 2001, the Administration projected that without the tax cuts, revenues would reach nearly \$3.5 trillion in 2011, or \$379 billion more than the \$3.1 trillion in its current policy outlook.

Millions of Americans Will Pay the AMT with Just a One-year “Patch” — The budget includes only a one-year AMT “patch,” allowing the AMT to revert to its prior form in 2008 and thus allowing the number of AMT taxpayers to skyrocket to 26.5 million in 2008, up from 3.5 million in 2006. By 2012, nearly 40 million taxpayers will be subject to the AMT under the President’s tax policies. The lack of a long-term AMT patch is the primary reason why the President’s tax cuts are not even more expensive.

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 are tax-free. Individuals can also annually place another \$2,000 each into a tax-sheltered “Retirement Savings Account” (RSA). These RSAs replace IRAs, but the income limits on who can use IRAs is eliminated. Few of the benefits from these new savings accounts 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 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 generate revenues in the short run. After the first five years, however, the proposals 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.

Large Deficits Reduce National Saving, Increase Reliance on Foreign Investors — The budget deficits created by the Administration’s policies have driven down national saving, which dropped from 5.0 percent of national income when President Bush took office to just 1.7 percent today. The low rate of national saving means that Americans need to borrow more from abroad to support current levels of consumption and investment. In fact, since 2001, increases in foreign holdings of Treasury securities account for about three-fourths of the newly accumulated public debt. This increased reliance on foreign capital, coupled with a low national saving rate, heightens the risk that interest rates will need to rise in order to attract foreign lending and makes the U.S. economy more vulnerable to foreign investment decisions. Higher interest rates will increase the cost of borrowing for American families, meaning that households will pay more for expenses such as college tuition and home ownership.

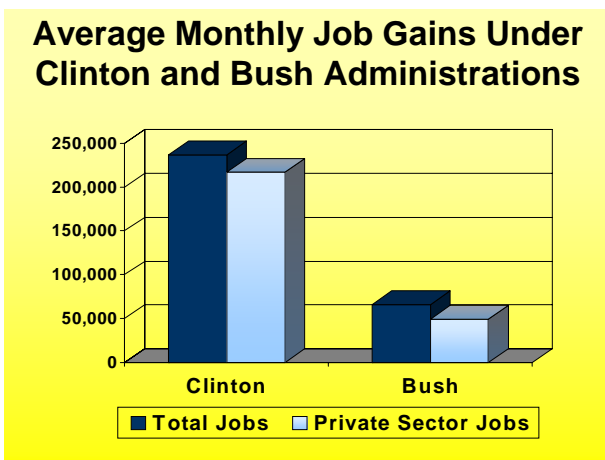
Soaring Interest Payments Lower the Standard of Living for Future Generations — The “miracle” of compound interest for savers is really a “curse” for procrastinating debtors, as Americans have become. For example, putting off paying down the debt for 20 years turns

every dollar of debt into more than three dollars, assuming a relatively low interest rate of 6 percent. This means the burden handed down to younger generations is many times the size of today's deficits. Greater reliance on foreign capital to finance our deficits also means that as our children and grandchildren pay down this multiplied debt over the rest of their lifetimes, they or other younger Americans will not be on the receiving end of those payments – younger citizens of *other* countries will be.

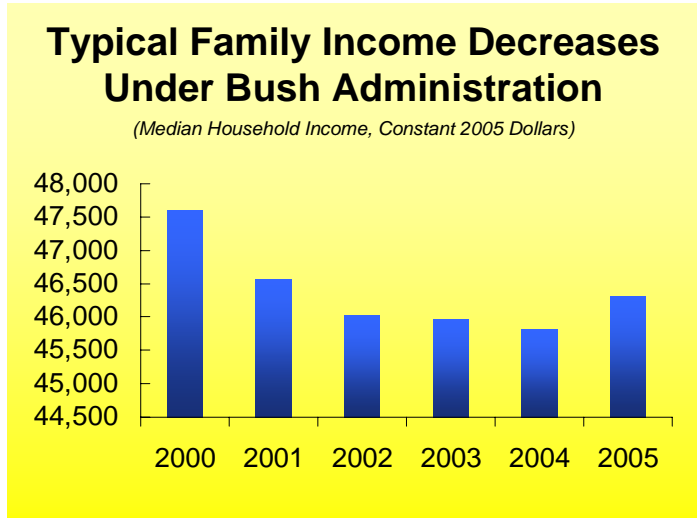
Administration Tax Policy Is Not Responsible for Economic Growth, as the Administration Claims — The Administration has consistently claimed that its tax cut agenda is responsible for the arguably positive economic environment. However, economic growth since the implementation of the tax cuts has failed to match CBO's estimate of economic growth *without* the tax cuts, and the economy's performance is generally weak compared to comparable points in other economic recoveries. A recent study by the Treasury Department showed that the Administration's tax cuts will lower economic growth unless they are accompanied by significant cuts in government spending. And 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.

Private Forecasters' Estimates Conflict with OMB Projections — OMB's economic outlook is more favorable than the Blue Chip consensus projection on such indicators as GDP growth, unemployment, and short-term interest rates. Private forecasters view OMB's economic projections as overly optimistic and unrealistic. Goldman Sachs, for example, released a report on the budget noting that "[T]he budget overestimates revenues and/or underestimates costs."

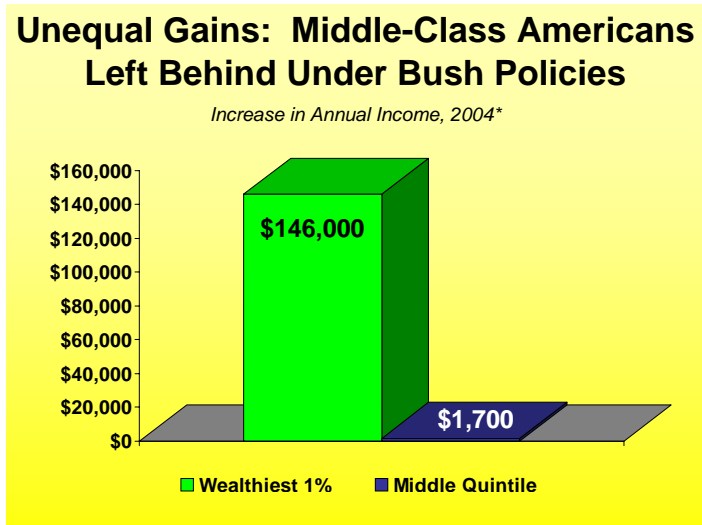
The Economy under President Bush Has Been Weak on Job Creation — The Administration's claim that the economy has produced outstanding employment growth is not well-supported by the facts. The Administration's record of just 66,000 new jobs per month, less than half the pace needed to keep up with growth of the labor force, pales in comparison to the job growth achieved during the Clinton Administration, when jobs were added at a rate of 237,000 jobs per month. Much of the job growth that has occurred under the President's tenure has been in the public sector; private-sector job growth has been weak over most of the past six years. Since January 2001, just 3.5 million private-sector jobs have been created, an increase of just 3.1 percent. During the Clinton Administration, 20.8 million private-sector jobs were added. Manufacturing jobs have fared particularly poorly, losing an average of 42,000 jobs per month during the current Administration.



Rising Income Inequality Means That Benefits from Economic Growth Are Not Shared by All — Income inequality has risen quickly in recent years, according to CBO estimates. CBO found that for the most recent year of data (2004), the share of income going to each of the bottom four quintiles – the lowest 80 percent of households in the income distribution – fell, while the proportion going to the wealthiest one percent of households increased by almost two percentage points. In the most recent year of data, income for the wealthiest one percent of households increased by an average of \$145,500 while income for households in the middle quintile increased by an average of just \$1,700. This trend has been particularly harmful for the most vulnerable of families, with 3.7 million more American families in poverty today than at the beginning of this Administration.



A Decline in Real Income for the Typical American Household — The typical American family has experienced a decline in real income over the course of the current Administration, meaning it has less purchasing power today than in January 2001. Median income, adjusted for inflation, fell in all but one year of this Administration. Real median income in 2005 stood 2.7 percent below its level in 2000, a decline of \$1,300 per family.



Health Tax Policy

The President’s budget makes fundamental changes to the tax treatment of health expenses and continues to support the expansion of tax-favored savings vehicles linked to high-deductible health plans. In total, the budget’s tax policies related to health coverage cost \$139 billion over five years and \$43.3 billion over ten years.

Budget Effects of Health Tax Policy Proposals		
(In billions of dollars)		
	<u>2008- 2012</u>	<u>2008- 2017</u>
<i>Changes in Revenue</i>		
Provide flat deduction for health insurance	-121.2	5.2
Expand flexibility of Health Savings Accounts	-3.7	-10.4
Change the Health Coverage Tax Credit	0	-0.1
<i>Changes in Spending</i>		
Provide flat deduction for health coverage: EITC interactions	14.3	37.9
Improve the Health Coverage Tax Credit: refundable portion	0.1	0.1
Net Budget Cost	139.3	43.3

Restructures the Tax Treatment of Health Coverage — Current law excludes employer contributions for health insurance from workers’ pay for income and payroll tax purposes and allows itemized deductions against income for medical expenses if expenses exceed 7.5 percent of income. The self-employed can deduct their premiums, but others who buy insurance on the individual market get no tax break on their premiums. The President’s plan replaces existing tax preferences with a new deduction (\$7,500 for individuals, \$15,000 for families) to workers with either employer-provided or individually purchased coverage. (Under the President’s plan, the tax treatment of employers would not change – employer contributions toward health insurance would remain a deductible business expense.) The President’s plan aims to level the playing field between individually purchased and employer-provided insurance plans by providing a tax break that applies equally to both. The Administration estimates that a net 3 to 5 million of the nearly 47 million uninsured would get coverage under the plan.

Health Inflation Leads to Tax Increases over Time — The Administration estimates that about 80 percent of workers will pay less taxes under the President’s plan to establish a flat deduction, while the 20 percent whose employers provide more than \$15,000 worth of health benefits will see their taxes go up. These percentages are not stable over time. The President’s plan indexes the deduction to inflation, but health insurance premiums generally grow at a much faster rate. As a result, the plan reduces tax revenues by \$121.2 billion from 2008 through 2012 but increases taxes by \$126.4 billion in the five years after that (2013-2017).

Affects Social Security Benefits and Revenues — Low- and middle-income workers would pay lower payroll taxes if they have a health plan valued at less than the deduction limit. However, they would also receive lower Social Security benefits when they retire. The Administration has

been silent on the long-term effects to these individuals, many of whom rely on Social Security benefits the most. The President's budget does not include any information on how the plan would affect Social Security revenues or spending. However, it is reasonable to assume that the plan would reduce revenues over the short term but increase revenues to the trust funds over the long term, because the average cost of employer-provided coverage will soon exceed the value of the deduction, and workers with health coverage will pay payroll taxes on the difference.

Expands Flexibility of Health Savings Accounts — The President's budget also includes \$10.4 billion over ten years to expand the use of Health Savings Accounts (HSAs), which are tax-favored savings vehicles available to individuals covered by high-deductible health plans (HDHPs). The budget expands the definition of HDHPs to include plans with coinsurance rates of at least 50 percent, expands the definition of qualified medical expenses under HSAs, and makes it easier for individuals and their employers to contribute to an HSA. HSA tax subsidies tilt the playing field in favor of HDHPs relative to other types of insurance. HSAs mainly benefit the healthy and wealthy, since this type of coverage is most attractive to those who have low health care costs and are in higher tax brackets.

Total Plan May Weaken Employer-Sponsored Coverage — Taken as a whole, the President's package of flat deductions and HSA tax breaks gives incentives to relatively healthy and well-off individuals to opt out of the employer-provided system and purchase high-deductible plans, with the potential effect of driving up costs in the employer system and further undermining access to insurance for older, sicker, and poorer individuals. Workers with health problems – even minor ones – find it very difficult to buy coverage on the individual market, because there are inadequate mechanisms for risk-pooling. Part of the Administration's plan is to allow states to divert payments away from institutions that serve the uninsured into new programs to help the uninsured buy coverage or to establish high-risk pools for those who are uninsurable on the individual market. The budget contains no information on how the Administration would ensure that viable individual markets will exist in every region of the country to make up for the loss of compensation to the hospitals that care for the uninsured.

Changes the Health Coverage Tax Credit — The President's budget includes a provision to encourage more plans to participate in the Health Coverage Tax Credit (HCTC) program by aligning certain requirements in the HCTC program with requirements established by the Health Insurance Portability and Accountability Act. The HCTC subsidizes the purchase of health insurance for workers receiving trade adjustment assistance.

Damaging Cuts and Freezes

The President's budget calls for budget discipline to reach a balanced budget by 2012. At the same time, the budget calls for large increases in defense spending and additional tax reductions. Tough choices are only called for in domestic programs. It is children and families, senior citizens, students, and local governments that will have to tighten their belts. The following sections provide illustrative examples of the damaging cuts and freezes included in the budget.

Cuts Affecting Children, Families, and the Elderly

Cuts Medicare Without Reinvesting in Program Improvements — The budget cuts Medicare by \$252 billion over ten years without reinvesting any of those savings in health program improvements. Of the \$252 billion, \$37.8 billion comes from expanding the reach of income-related Medicare premiums. Under current law, seniors with annual incomes above \$80,000 paying additional income-related premiums for Medicare Part B. The income thresholds that trigger the higher premiums are indexed to inflation. The President's budget eliminates the indexing, with the result that a growing proportion of middle-income seniors will be affected by the means-tested premium every year, analogous to the problem with the Alternative Minimum Tax. The Administration projects that 4.9 million seniors will pay higher premiums in 2017 under this policy, compared with 3.2 million under current law in that same year. The budget uses the same unindexed income thresholds to establish new income-related premiums for the Medicare prescription drug benefit, which will affect an estimated two million beneficiaries in 2017.

\$24.7 Billion in Cuts to Medicaid Over Five Years and \$60.5 Billion Over Ten Years — The budget makes legislative cuts to Medicaid of \$12.0 billion over five years and \$29.1 billion over ten years. It imposes another \$12.7 billion in cuts through regulatory changes over five years and \$31.4 over ten years, for total gross cuts of \$24.7 billion over five years and \$60.5 billion over ten years. The budget includes \$1.1 billion in increased Medicaid costs over five years, for a net effect of \$23.6 billion in Medicaid legislative and regulatory cuts over five years. The budget reduces payments for targeted care case management, changes prescription drug benefits by allowing states to use managed formularies, changes payments to government providers, and reduces state administrative payments.

The budget's Medicaid cuts do not assist states to reduce the number of Americans without insurance. Some of the budget's cuts will either increase state costs or lead to a reduction in Medicaid benefits. The new cuts are on top of the cuts enacted in the 2006 Republican reconciliation spending cut bill (S. 1932), which reduced Medicaid by \$28.3 billion over ten years. That legislation will result in higher co-payments for health care services for 13 million low-income individuals (including 4.5 million children), higher co-payments for prescription drugs for 20 million individuals (including 6.6 million children), the loss of health insurance

coverage for 65,000 people because they cannot afford higher premiums, and benefit cuts for at least 1.6 million people.

Cuts Low-Income Home Energy Assistance (LIHEAP) — The budget cuts LIHEAP, which helps low-income families pay their heating and cooling bills, by \$420 million, or 19.1 percent, below what is needed to keep pace with inflation.

Reduces Funding for Child Care Assistance and Social Services Block Grant — The budget freezes both mandatory and discretionary funding for child care assistance and quality improvement at the 2007 level, for a total funding level of \$5.0 billion. The budget also permanently cuts the Social Services Block Grant (SSBG, or Title XX), by \$500 million, or 29.4 percent below the current level. SSBG is a flexible block grant many states use to supplement child care, in addition to funding child welfare, home-based services, adult protective services, prevention and intervention services, and services to the disabled. Last year's budget included a temporary cut in SSBG, which was not enacted. The Administration estimates that these cuts will result in 800,000 fewer children receiving child care assistance over the next five years.

Cuts Education Funding by \$1.5 Billion — The budget cuts 2008 funding for the Department of Education by \$1.5 billion below the 2007 level, providing \$56.0 billion for education appropriations. The budget eliminates 44 appropriated education programs entirely, including many existing No Child Left Behind elementary and secondary education programs, such as educational technology state grants (\$272 million) and the Even Start family literacy program (\$99 million). It also dramatically cuts others, including Safe and Drug-Free Schools state grants (cut \$247 million) and Teacher Quality state grants (cut \$100 million). See the complete list of eliminated programs in *Function 500 (Education, Training, Employment, and Social Services)*.

Offsets Pell Grant Increase by Cutting Other College Aid — The President's budget increases the maximum Pell Grant from the 2007 level of \$4,310 to \$4,600 but dramatically reduces campus-based assistance, cutting \$1.4 billion by eliminating nine higher education programs. One of the eliminated programs is the Supplemental Educational Opportunity Grants program (funded at \$771 million for 2007), which provides nearly 4,000 colleges with funding that they partially match and then distribute as grants of up to \$4,000 to the neediest students.

Eliminates Perkins Loans — The budget recalls all prior federal capital contributions to the revolving funds from which colleges currently make new Perkins loans, for mandatory savings of \$419 million in 2008, and of \$6.4 billion over ten years (2008-2017). It also eliminates the \$65 million Perkins loan program that allows colleges to cancel Perkins loans for certain students who pursue public service careers following graduation. The budget counts on these savings to help pay for its Pell Grant increase even though Congress rejected both of these proposals last year.

Cuts Special Education Funding — The budget provides \$10.5 billion for special education grants to states, a cut of \$291 million below the 2007 level and of \$91 million below the 2006 enacted level. The 2008 funding level will cut the federal government’s share of the average per pupil expenditure for special education from the current 17.2 percent to only 16.5 percent, well below half the 40 percent “full funding” federal contribution ceiling allowed by law and still billions below the level authorized for 2008 in the IDEA Improvement Act of 2004.

Eliminates Community Services Block Grant — The President’s 2008 budget repeats past Administration budgets in eliminating the Community Services Block Grant and three 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.

Cuts Head Start — The budget cuts Head Start funding by \$100 million below the 2007 level of \$6.9 billion. Head Start funding has not kept pace with inflation since 2003, causing cuts in its services for children. Head Start centers have laid off staff, eliminated summer programs, and cut transportation for children. A \$100 million cut for 2008 will lead either to further cuts in services or to centers serving fewer children.

Consolidates Training Programs into Personal Accounts and Slashes the Funding — The President’s 2008 budget reprises a plan to consolidate four existing job training programs, cut their funding by \$563 million (14.2 percent), and provide the funding for qualifying individuals through personal Career Advancement Accounts of up to \$6,000 over two years.

Cuts Corporation for Public Broadcasting — The Corporation for Public Broadcasting receives \$464 million in federal funds for 2007. By custom, the Corporation receives an appropriation two years in advance, and in 2006, Congress provided \$400 million for the Corporation for 2008. The President’s budget now rescinds \$50 million of that already-enacted funding, for a cut of \$114 million (24.6 percent) below the 2007 level. The budget also ends the practice of such “advance appropriations” and therefore does not include any additional funding for any future year.

Effectively Freezes Funding for Housing Assistance Vouchers and May Cause a Reduction in Affordable Housing Units — The budget provides \$16.0 billion, essentially the 2007 level, for the Housing Choice Voucher program (Tenant-based Section 8), which provides rental subsidy vouchers to approximately two million low-income families. The budget does not increase the number of families served – of the funding, \$14.4 billion (90.3 percent) is to renew vouchers for households currently being served, and most of the remainder is administrative fees. The budget also provides \$5.8 billion for project-based rental assistance, in which HUD contracts with buildings to provide lower rent to about 1.3 million low-income tenants. That level is too low to renew all existing contracts, but HUD has suggested it will augment the funding with unspecified recaptures. Finally, the budget rescinds \$1.3 billion from the Section 8 related accounts, significantly less than the budget rescinded in 2007.

Sharply Reduces Housing Assistance for the Elderly and Disabled — The budget reduces rental assistance for the disabled by \$112 million, or 47.3 percent below the 2007 level, and cuts rental assistance for the elderly by \$160 million, or 21.8 percent below the 2007 level.

Cuts Funding for Lead Hazard Reduction — The budget cuts funding for efforts to remove lead-based paint from residences, protecting children from lead poisoning, by \$34 million (22.7 percent) below the 2007 level.

Cuts Affecting Public Health and Research

Eliminates Several HRSA Programs — The budget re-proposes to eliminate several HRSA programs, including EMS for children (\$20 million in 2007), Universal Newborn Hearing Screening (\$10 million in 2007), and the Traumatic Brain Injury program (\$9 million in 2007).

Cuts Centers for Disease Control and Prevention (CDC) — The budget provides \$5.8 billion for CDC, \$182 million (3.0 percent) below the 2007 level. The budget eliminates the Preventive Health and Social Services Block Grant (\$99 million).

Reduces Funding for NIH — The budget provides \$28.7 billion for 2008, \$210 million below the 2007 level.

Cuts Substance Abuse and Mental Health Services Administration (SAMHSA) — The budget funds SAMHSA at \$3.0 billion for 2008, a decrease of \$159 million (5.0 percent) from the 2007 level.

Cuts Agriculture Research and Extension Activities — The budget provides about \$1 billion for the Agricultural Research Service's main salaries account, a cut of \$102 million (9.1 percent) below the 2007 level and \$141 million (12.1 percent) below the level needed to maintain current services. The budget also provides only about \$1 billion in appropriated funding for the Cooperative State Research, Education, and Extension Service, a decrease of \$162 million (15.9 percent) below the 2007 level and \$185 million (15.4 percent) below the amount needed to keep pace with inflation.

Cuts Affecting the Environment

Environmental Protection Agency (EPA) Funding Cut Again — For 2008, the President's budget once again cuts EPA funding, providing \$7.2 billion, a \$509 million (6.6 percent) cut from the 2007 level. Much of the cut is to the Clean Water State Revolving Fund (SRF). The Clean Water SRF is provided only \$688 million for 2008, a cut of \$396 million (36.5 percent) from the 2007 level, and a \$654 million decrease (48.7 percent) since 2004.

Substantially Cuts Agricultural Conservation Funding — While the budget provides additional funding through an expanded conservation title in a new farm bill, it also substantially cuts 2008 farm bill conservation funding by \$396 million through reductions to several programs. The Conservation Security Program (CSP) is capped at \$316 million, which is \$135 million below the level needed to maintain current services. The budget provides \$1.0 billion for the Environmental Quality Incentives Program (EQIP), \$251 million below the level needed to maintain current services. The budget also zeroes out the Agricultural Management Assistance Program for a total cut of \$10 million.

Cuts Affecting Communities

First Responders — The budget includes a total of \$1.4 billion within the Department of Homeland Security for first responder funding, which is \$982.0 billion (42.1 percent) less than the amount enacted for 2007. Within this total, the budget decreases State Homeland Security grants by \$338 million, decreases Law Enforcement Terrorism Prevention grants by \$112 million, decreases High-Threat, High-Density Urban Area grants by \$170 million, and reduces Firefighter Assistance grants by \$362 million. For the Department of Justice, the budget cuts the Byrne Justice Assistance grant program by \$170 million below the 2007 enacted level and cuts \$510 million from the Community Oriented Policing Services (COPS) program compared with the 2007 level.

Slashes the Community Development Block Grant — The budget provides \$2.6 billion for Community Development Block Grant (CDBG) formula grants, which local communities use to address challenges like affordable housing, job creation, and economic development. That level is a cut of \$1.1 billion, or 29.4 percent, below the 2007 level. As it did last year, the budget assumes a \$356 million rescission of CDBG earmarks, with the funding reallocated to fund the formula grants. However, the earmarks the Administration would cancel were not actually provided in 2007, which means the funding cannot be reallocated. As a result, the total cut is \$1.1 billion instead of the \$736 million cut in last year's budget, and there is even less funding for the 1,200 state and local governments that depend on CDBG.

Cuts Total Funding for Public Housing — The budget includes a \$136 million (3.5 percent) increase over the 2007 level for the public housing operating fund, but that increase is more than offset by two cuts – a \$415 million (17.0 percent) cut below the 2007 level for the public housing capital fund, which funds modernization of aging public housing, and a \$198 million reduction generated by zeroing out the HOPE VI program and rescinding the funds provided for HOPE VI for 2007. HOPE VI has successfully transformed severely distressed public housing into vibrant mixed-income neighborhoods, but its funding has declined precipitously from the 2002 level of \$574 million.

Reduces Job Creation in Rural Areas — The budget divides the Rural Community Advancement program into three separate accounts and reduces the total by \$144 million, or 20.1 percent, below the amount needed to maintain 2007 purchasing power. As part of the overall reduction, the budget terminates the Rural Business Enterprise Program and the Rural Business Opportunity grant program, a policy change that the Administration estimates will result in 19,405 fewer jobs in rural areas in 2008.

Rural Low-Income Direct Loan Programs Eliminated — The budget reflects a dramatic alteration in USDA's role in providing housing assistance to low- and very low-income borrowers and renters. The budget eliminates direct lending for single-family home purchases under Section 502 and for multifamily housing development under Section 515. The budget shifts resources to unsubsidized guaranteed loans. The budget provides a loan volume of \$4.8 billion, \$2.0 billion over the 2006 program level, for Section 502 single-family guaranteed housing loans. Guaranteed loans generally cost borrowers more than direct loans because interest rates are higher. Moreover, they are likely to be less widely accessible to very low-income potential borrowers.

Juvenile Justice Programs Cut — The 2008 budget cuts juvenile justice programs by \$82 million. The programs provide grants to communities to reduce delinquency, to prevent sexual exploitation, and to improve the juvenile justice system.

Federal Aviation Administration (FAA) Funding Cut — The President's budget provides \$14.1 billion for the FAA for 2008, which is \$413 million (2.9 percent) below the 2007 level. The budget limits grants to improve airports to \$2.8 billion, a cut of \$765 million from the 2007 level.

Cuts 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 budget again cuts funding more than 50 percent for the EAS program by establishing a \$50 million cap, and establishes cost-sharing criteria. Congress has consistently rejected this Administration proposal. 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.

Amtrak Funding Slashed Again — The President's budget provides only \$900 million for Amtrak, a cut of \$393 million (30.4 percent) from the 2007 level. The budget provides \$500 million for Amtrak's capital expenses, \$300 million for operating expenses, and \$100 million for capital matching grants to states. In order to use the capital grants, states must fund alternatives to Amtrak or provide any needed operating subsidies to the corporation.

Entitlements and Other Mandatory Spending

The category of federal spending known as mandatory – also referred to sometimes as direct spending – refers to programs for which spending is not determined by annual appropriations acts. Mandatory spending includes entitlements to individuals such as Social Security, Medicare, student loans, and food stamps; payment of interest on the public debt; certain payments to states; and any other program where the level of spending is determined by the language of the law that created the program.

President’s Budget Cuts Mandatory Spending by \$310 Billion over Ten Years —

The President’s budget cuts overall spending on mandatory programs by \$310 billion over ten years through a combination of service reductions and increases in fees and premiums. Fees and premiums are treated as offsets to spending, so a provision increasing Medicare

premiums, for example, would appear as a spending cut. The largest spending cuts in the budget affect Medicare (\$252 billion), student loan lender subsidies (\$39.5 billion), Medicaid (\$29.1 billion), and the Pension Benefit Guaranty Corporation (a \$10.6 billion increase in premiums).

Mandatory Spending in the President’s Budget, 2008-2017		
<i>(billions of dollars)</i>		
	<u>2008-2012</u>	<u>2008-2017</u>
Mandatory Proposals	-95.9	-309.8
Social Security Private Accounts	29.3	637.4
Outlay Effects of Tax Proposals	24.8	111.2

Some Cuts Are Offset by Spending Increases — Within the Department of Education, the budget increases spending for Pell Grants by \$43 billion over ten years, although the lender cuts and other changes result in a net reduction in education mandatory spending of \$128 million over ten years. Other spending increases include \$637 billion for Social Security private accounts, \$5.0 billion for Farm Bill reauthorization, and \$9.7 billion for reauthorization of the State Children’s Health Insurance Program (SCHIP).

Budget Worsens Deficits and Debt by Diverting Resources to Social Security Private

Accounts — The budget again includes the President’s plan to divert up to one-third of workers’ Social Security payroll contributions into private accounts and to impose steep cuts to traditional Social Security benefits. The date for starting the private accounts was shifted from 2010 (in the President’s previous budget) to 2012; without this shift, the President’s budget could not have claimed budget balance in 2012. The President’s plan, announced in 2005, has failed to win the support of the American public or Congress. 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. OMB estimates the private accounts cost \$637.4 billion through 2017, but that figure understates the annual fiscal effect of the plan because the budget assumes implementation of the plan will not begin until 2012, the last year of

the President's budget window. The plan adds trillions of dollars to the government's publicly held debt over the next six decades.

Effect of Tax Proposals on Mandatory Spending — Some tax policies affect mandatory spending by virtue of their effect on refundable tax credits such as the Earned Income Tax Credit (EITC). The budget presents these changes separately from the other mandatory spending proposals, even though there is often little meaningful distinction between a refundable tax credit and a direct spending program. These spending effects associated with the President's tax proposals increase mandatory spending in the budget by a total of \$111 billion over ten years. The President's new tax deduction (\$15,000 for a family, \$7,500 for an individual) for the purchase of health insurance has interaction effects that increase EITC spending by \$37.9 billion over ten years. Child Tax Credit spending increases by \$70.7 billion over ten years resulting from extension of the 2003 tax cuts, and EITC spending increases by \$9.0 billion due to extension of marriage penalty relief. Partially offsetting the EITC and Child Tax Credit increases are changes in the eligibility guidelines for the EITC and the Child Tax Credit that have the effect of reducing spending by \$6.5 billion over ten years.

Appropriations Overview

The budget increases regular 2008 defense funding by more than 10 percent relative to the 2007 level. At the same time, the budget funds domestic programs slightly below the 2007 level.

Budget Increases Non-Emergency Appropriations Overall But Cuts Domestic Funding — The President’s budget provides \$929.8 billion in regular appropriations for 2008, which is \$26.3 billion above the amount needed to maintain purchasing power at the 2007 level and \$51.5 billion above the \$878.3 billion in non-emergency funding provided for 2007. However, as shown in the table below, despite the increase in total appropriations, the President’s budget cuts funding for domestic services by \$13.0 billion below the amount needed to maintain purchasing power, and by \$1.5 billion below the 2007 level. This overall cut includes cuts to many domestic agencies, including the Departments of Education and Labor and the Environmental Protection Agency. Many of the cuts will affect the most vulnerable in our society – children and the elderly – and erode public health, safety, and environmental protection. See *Damaging Cuts and Freezes* for specific details about some of the programs cut by the President’s budget. In contrast, the budget increases appropriations for the other categories of non-emergency discretionary funding: defense funding increases to \$501.9 billion, which is \$36.5 billion above the amount needed to maintain purchasing power at the 2007 level, and international affairs funding rises to \$36.2 billion, which is \$2.8 billion above that level.

Total Funding for Appropriated Programs

(Budget Authority in Billions of Dollars)

	2007	Keep pace with 2007	2008 Request	Request v. Keep pace with 2007
<u>Non-Emergency Amounts:</u>				
Domestic	393.2	404.7	391.7	-13.0
National Defense	452.5	465.4	501.9	36.5
International Affairs	32.7	33.4	36.2	2.8
Total Non-Emergency Appropriations	878.3	903.5	929.8	26.3
<u>Emergency Amounts:*</u>				
Iraq/Afghanistan Supplemental Funds	169.6	n.a.	145.2	n.a.
Border security	1.8	n.a.	0	n.a.
Hurricane-related expenses	3.4	n.a.	0	n.a.
Total including emergencies	1053.2	n.a	1075.0	n.a.

Notes: 2007 non-emergency amounts are the enacted level for the Defense and Homeland Security appropriation bills and the levels in H.J. Res 20 for other bills. The 2007 emergency amounts are those enacted plus additional amounts requested in the 2008 budget.

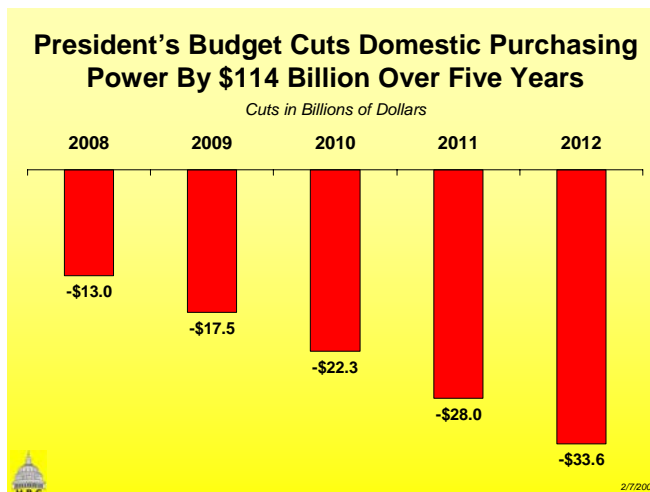
National Defense is Function 050, which includes DOD and nuclear weapons-related activities of the Department of Energy.

**For the war, Congress has enacted \$70.0 billion for 2007 and the President’s budget includes an additional \$99.6 billion for 2007 and \$145.2 billion for 2008. For other 2007 emergencies, Congress has enacted \$1.8 billion for border security and the President’s budget includes \$3.4 billion for disaster relief.*

More Emergency Funding for 2007 and 2008 — The President’s budget provides an additional \$103.0 billion in supplemental emergency funding for 2007. Unlike past years, the budget also incorporates the Administration’s estimate (\$145 billion) of the full costs of the President’s policies for the budget year as well as a down payment of \$50 billion toward war costs in 2009. For 2007, Congress has already provided \$71.8 billion in emergency supplemental funding: \$70 billion all for Iraq and Afghanistan and \$1.8 billion for border security. The additional \$103.0 billion in the President’s budget for 2007 includes \$99.6 billion for Iraq and Afghanistan and \$3.4 billion for additional hurricane-related disaster relief.

Funding for 2008 Through 2011

Domestic Funding Cut Even More Deeply Over Time — As deep as domestic funding cuts are in 2008, they only get more painful over the next four years covered by the President’s budget. The official budget materials assert that there is no policy attached to the funding levels beyond 2008, but clearly a budget that in 2012 provides \$33.6 billion (7.6 percent) less than needed to maintain purchasing power for domestic services will deeply cut many programs.



Domestic Funding Cut Deeply

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

	2008	2009	2010	2011	2012	2008-12
President's budget**	391.7	398.9	401.7	406.3	411.3	1979.8
Maintain 2007 Level	404.7	416.5	424.0	434.3	444.9	2124.4
Cuts in budget	-13.0	-17.5	-22.3	-28.0	-33.6	-114.4
Percent cut in budget	-3.2%	-4.2%	-5.3%	-6.4%	-7.6%	n.a.

*Excludes emergency funding.

**Excludes FAA proposal, which reduces budget authority from 2009 through 2012. The reduction is related to a change in the financing mechanism for FAA programs, which lowers governmental receipts by an equivalent amount.

Imposes Defense and Non-Defense Discretionary Funding Caps — Like last year’s budget, the President’s 2008 budget limits total discretionary funding for the next five years. Caps are set separately for defense and nondefense programs for 2007 through 2009; a single cap is set for 2010 through 2012. Caps are at the levels proposed in the budget with one exception. The

Administration's proposed changes to the financing of the Federal Aviation Administration are not incorporated; upon enactment of the proposal, the caps would be adjusted. Portions of the proposed caps, totaling \$876 million in 2008, are only available for specific program integrity initiatives. Mandatory savings related to two of the initiatives are included in the budget estimates.

Homeland Security

The homeland security budget spans approximately 20 agencies, the largest of which are the Department of Homeland Security (48.6 percent of total resources), the Department of Defense (28.6 percent), the Department of Health and Human Services (7.2 percent), and the Department of Justice (5.5 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 President's budget includes a total of \$61.1 billion for all homeland security activities for 2008, \$3.7 billion more than the 2007 non-emergency level. These totals include mandatory and discretionary programs, including homeland security funding for the Department of Defense and homeland security activities that are fee-funded. 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 2008 total \$32.4 billion. The 2008 domestic total reflects a \$3.1 billion (10.6 percent) increase above the 2007 non-emergency level. However, when comparing this total to the 2007 enacted level with emergencies, including the \$1.8 billion of emergency-designated funding provided in the 2007 homeland security spending bill, it reflects a \$1.3 billion (4.2 percent) increase.

Homeland Security Funding				
(Billions of Dollars)				
	<u>2007</u>	<u>2008</u>	<u>Increase</u>	<u>% Increase</u>
Total Resources	\$57.4	\$61.1	\$3.7	6.5
Mandatory Programs	\$3.5	\$2.3	\$-1.2	-34.4
Fee-Funded Discretionary Programs	\$4.4	\$5.0	\$0.6	13.4
Net Appropriated Programs:	\$49.5	\$53.8	\$4.3	8.7
<i>National Defense (Function 050)</i>	\$20.2	\$21.4	\$1.2	5.9
<i>International Affairs</i>	\$0.1	\$0.1	\$0.0	15.3
<i>Domestic Discretionary (Excl. Emergency)</i>	\$29.3	\$32.4	\$3.1	10.6
<i>2007 Emergency-Designated Funding</i>	\$+1.8			
<i>Domestic Discretionary (Inc. Emergency)</i>	\$31.1	\$32.4	\$1.3	4.2

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 \$1.4 billion within the Department of Homeland Security for first responder funding, which is \$982.0 billion (42.1 percent) less than the amount enacted for 2007. Within this total, the budget decreases State Homeland Security grants by \$338 million, decreases Law Enforcement Terrorism Prevention grants by \$112 million, decreases High-Threat, High-Density Urban Area grants by \$170 million, and reduces Firefighter Assistance grants by \$362 million. For the Department of Justice, the budget cuts the Byrne Justice Assistance grant program by \$170 million below the 2007 enacted level and cuts \$510 million from the Community Oriented Policing Services (COPS) program compared with the 2007 level. (See *Function 750* for a detailed discussion.)

First responder groups have been vocal in opposing these cuts. Here are what two say about the President’s budget:

“[W]e are deeply concerned that the President’s budget as a whole fails to adequately fund the most effective law enforcement programs under both the Departments of Justice and Homeland Security.” – Sheriff Ted Kamatchus, President of the National Sheriffs’ Association

“Make no mistake, this budget proposal puts the safety and security of the American people at risk.” – Harold Schaitberger, General President of the International Association of Fire Fighters

First Responders

(Millions of Dollars)

	2007			
	<u>Level</u>	<u>2008</u>	<u>Cut</u>	<u>Percent</u>
Department of Homeland Security				
State Homeland Security Grants	525	187	-338	-64.4%
Law Enforcement Terrorism Prevention program	375	263	-112	-29.9%
High-Threat, High-Density Urban Area Grants	770	600	-170	-22.1%
Firefighters Assistance Grants	<u>662</u>	<u>300</u>	<u>-362</u>	<u>-54.7%</u>
<i>Subtotal</i>	2,332	1,350	-982	-42.1%
Department of Justice				
Byrne Grants	520	350	-170	-32.7%
Community Oriented Policing Services	<u>542</u>	<u>32</u>	<u>-510</u>	<u>-94.1%</u>
<i>Subtotal</i>	1,062	382	-680	-64.0%
Total	3,394	1,732	-1,662	-49.0%

Port Security Grants — 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 2008 budget provides \$210 million for port security grants, the same level enacted for 2007. This amount is still well below the \$400 million per year authorized in the Security and Accountability for Ever (SAFE) Port Act of 2006. The Coast Guard estimated that basic security measures such as installing fencing, lighting, and surveillance cameras at our ports will cost more than \$5 billion over ten years.

Customs and Border Protection — The budget includes \$8.8 billion in appropriated funding for U.S. Customs and Border Protection at the Department of Homeland Security, \$2.4 billion (36.6 percent) more than the 2007 non-emergency level. When comparing the budget to the 2007 level including emergency-designated funding, it reflects a much smaller increase – \$754 million (9.4 percent). Most of the increase is for hiring, training, and equipping 3,000 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.

Transportation Security Administration (TSA) — For 2008, the President's budget provides \$6.4 billion for the TSA, part of the Department of Homeland Security. This is \$389 million (6.5 percent) more than the 2007 enacted level.

Budget Process Proposals

The President's budget includes a number of proposals that are substantially the same as have been proposed in previous budget submissions. If enacted, these proposals would change Congressional consideration of budget-related legislation and could have long-term consequences for the budget. Following is a brief overview of some of the President's proposed changes.

Budget Enforcement for Entitlements that Ignores 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. Unlike the Budget Enforcement Act of 1990, these rules do not address revenue enforcement or how tax cuts contribute to deficits. The proposed rules are summarized below.

- ***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. The rule is a one-sided Pay-As-You-Go (PAYGO) provision that applies only to entitlements and does not address tax changes. Under the proposal, tax cuts would not have to be offset.
- ***Congressional Procedural Hurdle for 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.
- ***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 would continue to be cut by four-tenths of a percent every year the threshold continues to be breached.
- ***Funding Warning for Social Security Disability Insurance (DI)*** — The budget proposes a new funding warning to highlight fiscal problems facing DI. If the Social Security Administration actuaries project a negative cash flow that is more than 10 percent of program costs for four consecutive years in the upcoming 10 years, the Board of Trustees will issue a warning in its annual report. If a warning is issued, the President will propose legislation to respond to the warning within 15 days of the next budget submission, and Congress would be required to consider the legislation.

Discretionary Spending Caps — The Administration proposes to reinstate the Budget Enforcement Act of 1990 discretionary spending caps for years 2007 through 2012 at levels of appropriations in the President’s budget. The budget proposes separate defense and non-defense caps for years 2007 through 2009 and merges the two categories for years 2010 through 2012. The budget creates separate Bioshield and transportation categories. In addition, the budget proposes to reclassify aviation taxes as user fees (offsetting collections) and would adjust discretionary caps downward accordingly. For a discussion of the effect of these caps, see *Appropriations Overview*.

Altered Baseline that Masks the Cost of the Administration’s Tax Agenda — 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 Growth and Tax Relief Reconciliation Act of 2003. Under current scoring rules, these tax provisions would expire in the baseline at the time they expire in law. Under this change, CBO and OMB would be required to estimate the cost of legislation to extend the tax cuts or to make them permanent at “zero.” CBO estimates that extending the tax cuts and making them permanent would cost \$1.9 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. It is an internal blueprint for Congressional budget decisions. The Administration 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.

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. The proposal does not address a process for updating economic and budget projections, nor does it provide a mechanism for consideration of supplemental funding requests.

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. Again this year, the budget proposes to create a new line-item veto. This proposal would grant the President authority to propose to rescind new spending only, not targeted tax benefits. The budget does not address the number of rescissions the President may send forward in any year, the extent to which the President may resubmit proposals previously rejected by the Congress, or the authority of the President to withhold funds pending Congressional consideration of rescission proposals. The budget states that savings will be applied to deficit reduction, but does not contain a means by which that goal would be accomplished.

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.

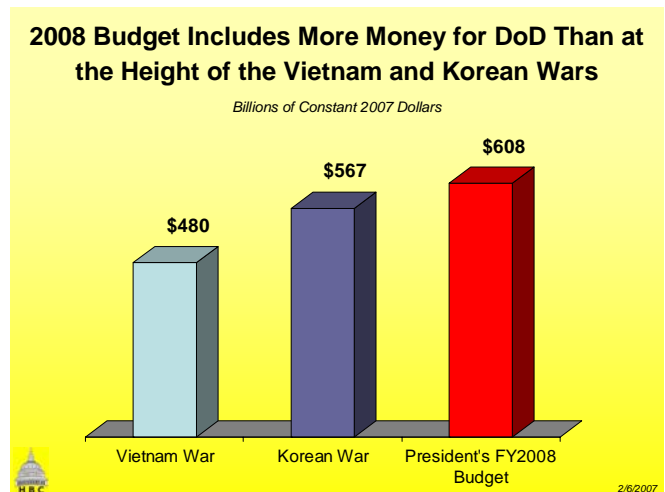
Function Tables

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 2008 budget includes \$643.7 billion for Function 050, National Defense – \$501.9 for the non-war related national defense appropriated activities and \$141.8 billion for the war in Iraq and the global war on terrorism. Of this amount, \$622.8 billion is for DoD (\$481.4 billion for the base budget, \$141.4 billion for the war), \$16.0 billion (including \$50 million for war-related activities) for the nuclear weapons-related activities of DoE, and \$4.9 billion (including \$324 million for war-related activities) for miscellaneous national security activities in other agencies such as the Federal Bureau of Investigation and the Coast Guard.

Includes the Largest Defense Budget Since World War II — The President's DoD budget totals \$622.8 billion and measured in constant 2007 dollars (\$608 billion) is the largest defense budget since World War II, surpassing the peak funding years of both the Vietnam and Korean wars. The 2008 DoD budget is comprised of two pieces – a \$481.4 billion base budget to finance non-war operations, and a \$141.4 billion budget to finance military operations in Iraq and Afghanistan. The 2008 base defense budget marks a \$49.3 billion (11.4 percent) increase above the 2007 level.



Non-War Funding Reflects a Significant Increase Since Last Budget Submission — Funding levels for National Defense, excluding emergency funding, increase dramatically as compared to the out-year projections of the 2007 budget. For 2008, the President's budget includes a \$19.8 billion increase above last year's submission. Over the four-year period, 2008 to 2011, the 2008 budget reflects a \$103.6 billion increase.

Comparison with 2007 President's Budget for National Defense

(Budget Authority in Billions of Dollars)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u> <u>2008-11</u>
FY 2007 Budget	482.1	502.2	512.3	523.1	2,019.7
FY 2008 Budget	<u>501.9</u>	<u>531.4</u>	<u>541.8</u>	<u>548.3</u>	<u>2,123.3</u>
Change	+19.8	+29.2	+29.5	+25.1	+103.6

Note: This comparison only extends through 2011, the end of the five-year budget window for the President's 2007 budget.

Budget Increases Above Inflation — Excluding anticipated war supplemental funding, the budget for appropriated National Defense programs totals \$501.9 billion for 2008. This represents an increase of \$49.4 billion, or 10.9 percent, above the 2007 level, an increase of \$36.5 billion, or 7.8 percent, above the amount that is needed to maintain purchasing power at the 2007 level. Over the next five years, the budget increases funding for appropriated defense programs by \$237.1 billion above the amounts needed to maintain purchasing power at the 2007 level.

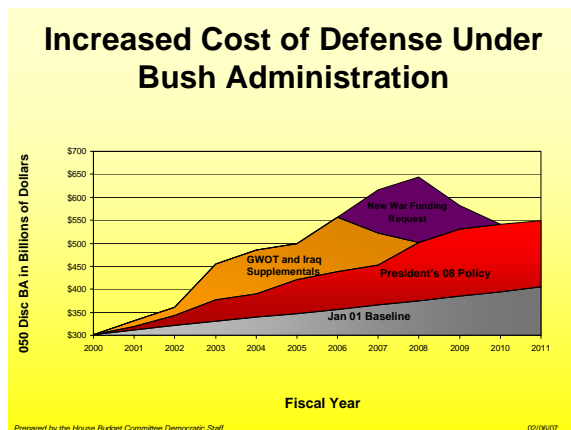
National Defense Budget Compared to Current Services Excluding War Funding

(Budget Authority in Billions of Dollars)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u> <u>2008-12</u>
Current Services Level	452.5	465.4	476.7	488.4	500.4	512.6	2,443.5
FY 2008 Budget	<u>452.5</u>	<u>501.9</u>	<u>531.4</u>	<u>541.8</u>	<u>548.3</u>	<u>557.3</u>	<u>2,680.6</u>
Change	-	+36.5	+54.7	+53.4	+47.9	+44.7	+237.1

Defense Increases Under This Administration

— The increases in defense spending over the five years covered by this budget are only a portion of the defense increases since the beginning of the Bush Administration. The following chart shows the increase in the defense budget from \$301 billion in 2000 to \$548.3 billion planned for 2011. The total defense spending increase under this Administration's policies (which includes war costs only through part of 2009) will exceed the CBO baseline released in January 2001, when President took office, by \$1.7 trillion for the ten-year period from 2002 through 2011. This amount will likely increase because the Administration includes no funding for the wars in Iraq and Afghanistan beyond 2009.



Budget Includes \$294.8 Billion for Operations in Iraq and the Global War on Terror — The President’s budget includes \$294.8 billion of new emergency funding over 2007 through 2009 to finance military operations, reconstruction, and other efforts in support of the Iraq war and the global war on terror. Of this amount, \$285.4 billion is included under Function 050, National Defense, and the remainder – \$9.4 billion – is included under Function 150, International Affairs and other budget functions. The budget includes a 2007 supplemental request totaling \$99.6 billion, a 2008 war funding request totaling \$145.2 billion, and a \$50 billion down payment on 2009 war costs. The budget includes no funding for the wars beyond 2009. The \$99.6 billion for 2007 is in addition to the \$70.0 billion already passed in the 2007 defense appropriations bill and increases total 2007 war funding to \$169.6 billion, nearly a \$50 billion increase above the 2006 enacted level.

Total War Funding Request

(Dollars in Billions)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Total 2007-09</u>
National Defense (Function 050)				
Department of Defense	93.2	141.4	0.0	234.6
Other (Energy, Coast Guard, FBI)	0.4	0.4	-	0.7
Undistributed	=	=	<u>50.0</u>	<u>50.0</u>
<i>Total National Defense</i>	<i>93.6</i>	<i>141.8</i>	<i>50.0</i>	<i>285.4</i>
International Affairs (Function 150)	6.0	3.3	-	9.3
Other	<u>0.1</u>	=	=	<u>0.1</u>
<i>Total Non-National Defense</i>	<i>6.1</i>	<i>3.3</i>	<i>-</i>	<i>9.4</i>
<i>Total War Funding Request</i>	<i>99.6</i>	<i>145.2</i>	<i>50.0</i>	<i>294.8</i>

More than \$500 Billion Provided to Date — According to the Congressional Budget Office, Congress has appropriated \$503 billion for military, reconstruction, and foreign aid operations in Iraq and the war on terrorism since 2001. The Congressional Research Service has estimated that of the war funds provided to date, \$379 billion has been made available for military operations, reconstruction, foreign aid, and veterans costs in support of the Iraq war alone. The additional \$295 billion requested will increase total war funding to \$798 billion and funding for just Iraq to more than \$600 billion (assuming future Iraq and Afghanistan war spending continues at a split of about 85 percent to 15 percent).

Cost of the Troop Surge in Iraq — The supplemental war request for 2007 includes \$3.2 billion for the President’s plan to increase the number of combat troops in Iraq by 21,500. However, this amount may be unrealistic. The Congressional Budget Office recently released a report that concluded that the Administration’s plan to increase the number of combat troops in Iraq will require a complement of 15,000 to 28,000 support troops. According to CBO, these additional

troop deployments will cost between \$7 billion and \$10 billion this year alone, \$4 billion to \$7 billion more than the Administration's estimate.

The Department of Defense

Military End Strength — The budget includes \$12.1 billion to increase personnel levels for the Army and the Marine Corps by 7,000 and 5,000, respectively. This is the first of a series of planned troop and marine increases to increase the size of the military by 92,000 by 2012. The President's 2007 supplemental request also includes \$1.7 billion to support these permanent end strength increases.

Retired Military Health Benefits — The budget increases enrollment fees and deductibles under Tricare for military retirees under the age of 65. This proposal assumes savings of \$1.9 billion for 2008 and \$14.5 billion over five years.

Military Pay and Benefits — The budget includes a pay raise of 3 percent, which matches private sector raises as measured by the employment cost index (ECI).

Department of Defense by Title — The following table compares the President's base budget request with both the 2007 enacted level and the level that is estimated to maintain purchasing power at the 2007 level (the "Inflation-Adjusted" column).

**The DoD "Base" Budget by Title:
Comparisons with the 2007 Enacted Level and
the Level Needed to Maintain Purchasing Power, Excluding War Funds**
(Discretionary Budget Authority in Billions of Dollars)

	Enacted 2007	2008 Budget	Dollar Change	Inflation		Dollar Change	Percent Change
				Percent Change	Adjusted 2007		
Personnel	111.1	116.3	5.2	4.7	116.0	0.3	0.3
O&M	149.0	164.7	15.7	10.5	153.2	11.5	7.5
Procurement	81.3	101.7	20.4	25.1	82.8	18.9	22.8
RDT&E	75.1	75.1	0.0	0.0	76.7	-1.6	-2.1
Mil Construction	9.1	18.2	9.1	100.4	9.3	8.9	96.3
Family Housing	4.0	2.9	-1.1	-27.1	4.1	-1.2	-28.5
Other DoD	2.5	2.5	0.0	-1.6	2.5	-0.1	-3.4
Total DoD	432.1	481.4	49.3	11.4	444.6	36.8	8.3

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 \$5.2 billion (4.7 percent) above the 2007 enacted level, and is \$312 million above the level needed to maintain purchasing power at the 2007 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 \$15.7 billion (10.5 percent) above the 2007 enacted level, and \$11.5 billion (7.5 percent) above the level needed to maintain purchasing power at the 2007 level.

Procurement — The base 2008 budget includes \$101.7 billion for procurement of weapons systems and military equipment including aircraft, ships, vehicles, and satellites. This level is \$20.4 billion (25.1 percent) more than the 2007 enacted level, and is \$18.9 billion (22.8 percent) above the amount needed to maintain purchasing power at the 2007 level. In addition to these significant procurement increases in DoD's base budget, the President's 2008 war budget includes \$32.9 billion (40.5 percent of the 2007 enacted level for regular DoD procurement) to replace ammunition expended and weapons worn-out in Iraq and Afghanistan.

Research and Development — The budget includes \$75.1 billion for research, development, test, and evaluation programs (RDT&E). This level is only slightly less (\$7 million) than the 2007 enacted level, but \$1.6 billion (2.1 percent) below the amount needed to maintain purchasing power at the 2007 level. The President's 2008 war budget includes an additional \$2.0 billion for Research and Development.

Military Construction — These accounts fund the facilities where military personnel work and the barracks where single enlisted personnel live. The 2008 funding level of \$18.2 billion for construction of new facilities in the budget is \$9.1 billion (100.4 percent) above the 2007 enacted level, and is \$8.9 billion (96.3 percent) above the amount needed to maintain purchasing power at the 2007 level. Of this increase, \$5.7 billion is for implementation of the 2005 BRAC decisions, and \$3.3 billion is for military construction to restation troops from overseas as part of the Integrated Global Presence and Basing Strategy and the Army's modularity initiative.

Selected Program Highlights

Ballistic Missile Defense — The budget includes \$9.8 billion for ballistic missile defense programs, a decrease of \$560 million (5.4 percent) below the 2007 enacted level. The 2008 budget continues the production of additional ground- and sea-based interceptors and supports the production and fielding of forward-deployed radars.

Shipbuilding — The budget includes procurement of eight new ships in the shipbuilding budget. They include: one CVN-21 aircraft carrier, one Virginia class submarine, one Amphibious Assault Ship (LPD), one T-AKE dry cargo/ammunition ship, three Littoral Combat Ships, and one Joint High Speed Vessel.

Selected Weapons Programs — The budget increases funding over the 2007 enacted level for the Joint Strike Fighter aircraft by \$1.1 billion to \$6.1 billion, for the Army's Future Combat System by \$274 million to \$3.7 billion, for the Transformational Satellite by \$234 million to \$964 million, for the F-22 Raptor by \$601.4 million to \$4.6 billion, and for the Stryker Armored Vehicles by \$270 million to \$1.2 billion.

DoD Nonproliferation — The bulk of U.S. nonproliferation funding is within DoE, but the DoD budget includes the Cooperative Threat Reduction program, often called the “Nunn-Lugar” program (named 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 \$348 million for the Nunn-Lugar program, which is \$24 million (6.5 percent) below the 2007 enacted level, and \$31 million below the level needed to maintain current services.

Atomic Energy Defense Activities

The budget provides \$16.0 billion for the nuclear weapons-related activities of DoE and other agencies. This is \$57 million (0.4 percent) above the 2007 level. It is \$262 million (1.6 percent) below the amount needed to maintain purchasing power at the 2007 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 2007, which is \$40 million above the 2007 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 \$6.5 billion for the stockpile stewardship program, which is \$236 million (3.8 percent) more than the 2007 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 \$366 million (6.4 percent) below the 2007 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.

For 2008, the President's budget provides \$36.2 billion in non-emergency appropriations for appropriated international affairs programs, an increase of \$3.5 billion (10.8 percent) above the 2007 level² and \$2.8 billion (8.5 percent) more than the amount needed to maintain purchasing power at the 2007 level. The budget also includes emergency funding of \$6.0 billion for 2007 and \$3.3 billion for 2008 to support Iraq and the Global War on Terror.

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 (71.2 percent) more than the 2007 level. MCC funds are 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 in three clusters: good governance, investment in people, and economic policy. Appropriations since 2005 total nearly \$5 billion. MCC has signed and approved contracts with eleven countries totaling nearly \$3 billion.

Global AIDS Relief Initiative — In 2003, the President announced his Emergency Plan for AIDS Relief, a five-year, \$15 billion U.S. commitment to fight AIDS internationally. For 2008, the budget contains \$5.4 billion for this initiative, spread throughout numerous accounts in Function 150, the Department of Health and Human Services, and the Centers for Disease Control and Prevention. Of the total, \$4.5 billion is included in Function 150. The budget for Function 150 is an increase of approximately \$600 million above the 2007 level. The largest piece of the international affairs portion is \$4.2 billion for the Global HIV/AIDS Initiative at the State Department. The budget also includes \$314 million in Child Survival and Health funding and \$43 million from other USAID accounts.

Other Development Accounts — The budget provides \$1.0 billion for Development Assistance (DA), \$447 million (30.0 percent) less than the 2007 level. This lower level reflects the Administration's intent to limit the use of DA in certain countries where it deems special economic, political, and security circumstances are better served through the use of the

²Unless otherwise noted, the 2007 level refers to the funding level in H.J.Res. 20, the Revised Continuing Appropriations Resolution, as passed by the House on January 31, 2007. The 2007 function and agency totals do not yet reflect the distribution of \$785 million that the bill provides for adjustments to federal employee compensation.

Economic Support Fund (ESF). The budget contains \$1.6 billion for the Child Survival and Health Programs Fund (CSH), a reduction of \$154 million (9.0 percent) below the 2007 level.

Funding for Iraq, Afghanistan, and the Global War on Terror

Global War on Terror — According to August 2006 analysis by the Congressional Budget Office, a total of \$39.2 billion in international affairs funding had been appropriated from 2001 to 2006 to support the Global War on Terror. The President's budget for 2008 includes emergency international affairs funding of \$6.0 billion for 2007 and \$3.3 billion for 2008 for these activities.

Iraq — The budget provides \$392 million for Iraq in specific accounts: \$298 million in the ESF account, \$76 million for International Narcotics Control and Law Enforcement (INCLE), \$2 million for International Military and Education Training (IMET), and \$16 million for Non-Proliferation, Anti-Terrorism, Demining, and Related Programs (NADR). Some funding for Iraq may be provided from other Function 150 accounts, but the budget does not specify the amounts. The President's budget also includes \$3.2 billion in 2007 and \$2.9 billion in 2008 Global War on Terror funding for Iraq.

Afghanistan — The budget provides \$1.1 billion for Afghanistan in specific accounts: \$693 million in ESF, \$275 million for INCLE, \$66 million for CSH, \$22 million for NADR, \$10 million in food aid, and \$2 million for IMET. The budget provides no DA funding for Afghanistan. The budget also includes \$704 million in 2007 and \$355 million in 2008 Global War on Terror emergency funding for Afghanistan.

International Security Assistance

Foreign Military Financing (FMF) — The budget provides \$4.5 billion, about \$25 million less than the 2007 level. The top four recipients are Israel, Egypt, Pakistan, and Jordan. In 1998, Israel and the United States reached agreement to increase FMF to Israel by \$60 million per year for ten years and to decrease ESF aid by \$120 million per year for ten years. The budget maintains this funding glide path, providing \$2.4 billion in FMF for 2008. The budget includes \$1.3 billion for Egypt (typical since 1986), \$300 million for Pakistan, and \$200 million for Jordan.

Economic Support Fund (ESF) — The budget provides \$3.3 billion in non-emergency appropriations for bilateral economic assistance to countries of particular importance to U.S. foreign policy – \$1.1 billion (46.4 percent) more than the 2007 level. This significantly higher level reflects the Administration's intent to limit the use of DA in certain countries where it deems special economic, political, and security circumstances are better served through the use of ESF. The budget also includes another \$3.0 billion for 2007 and \$1.1 billion for 2008 as emergency ESF funding for the Global War on Terror. The budget maintains the funding glide

path envisioned in the 1998 agreement with Israel, eliminating its ESF assistance. In a separate agreement reached between Egypt and the United States in 1998, ESF assistance to Egypt was to decrease by \$40 million per year. The budget sustains this glide path by providing \$415 million. For Afghanistan, the budget includes \$693 million, while it provides \$383 million for Pakistan, and \$264 million for Jordan.

Non-Proliferation, Anti-Terrorism, Demining, and Related Programs (NADR) — The budget provides \$464 million for NADR, including funding for anti-terrorism training to foreign governments and work to reduce the dangers posed by nuclear material. This amount is \$58 million (14.3 percent) more than the 2007 level.

Selected Other Programs

Diplomatic and Consular Programs — The budget contains \$4.9 billion in non-emergency appropriations for the operations of most diplomatic and consular programs, including the support of U.S. embassies and much of the State Department. This amount is \$629 billion (14.6 percent) more than the 2007 level. The Administration also seeks \$913 million in 2007 emergency funds and \$1.9 billion in 2008 emergency funds in this account for the Global War on Terror.

International Broadcasting and Exchange Programs — The budget provides \$668 million for the Broadcasting Board of Governors, which is \$32 million (5.0 percent) more than the 2007 level. The budget for international broadcasting operations is \$619 million, reflecting a new separate request for Cuba (\$39 million for 2008).

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 2008 budget increases funding. The budget provides \$27.3 billion in funding for appropriated science, space, and technology programs for 2008, which is \$2.4 billion (9.5 percent) above the 2007 level³, or \$1.8 billion above the amount needed to maintain purchasing power at the 2007 level. 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		
Includes Some funding outside Function 250		
(Billions)	<u>2008</u>	<u>Increase v. 2007</u>
NASA	\$17.3	\$1.062
NSF	\$6.6	\$0.505
DOE Science	\$4.4	\$0.602
Total Increase		\$2.170
Memorandum: Total Increase in Function 250		\$2.378

NASA Funding Increases \$1.1 Billion — In contrast to the budget's cut in overall domestic services, funding for NASA increases by 6.5 percent (\$1.1 billion), to a total of \$17.3 billion for 2008. Of that total, \$730 million is included in Function 400 (Transportation) and the remainder is in this function. These increases do not fully cover the costs of the President's announced mission to the moon and Mars (the Vision for Space Exploration), which is supplemented through funding cuts to existing programs.

- **Aeronautics Research Cut Deeply** — The budget calls for \$554 million for aeronautics research critical to advances in aviation safety and capacity. This represents a \$336 million (37.8 percent) cut below the 2007 level for programs already hit hard by funding cuts in previous years.
- **Mission to the Moon and Mars** — NASA's budget includes a \$522 million (15.4 percent) increase for continued development of a new vehicle and advanced technical support systems to return humans to the moon, and from there to eventually launch flight to Mars. The budget provides a total of \$3.9 billion for these purposes.

³Unless otherwise noted, the 2007 level refers to the funding level in H.J.Res. 20, the Revised Continuing Appropriations Resolution, as passed by the House on January 31, 2007. The 2007 function and agency totals do not yet reflect the distribution of \$785 million that the bill provides for adjustments to federal employee compensation.

- ***Space Station*** — The 2008 budget increases funding for the space station to \$2.2 billion, an increase of \$485 million over the 2006 enacted level⁴. Unlike the 2007 budget, this year’s budget does not assume that funding for the space station will be discontinued in 2011 along with retirement of the space shuttle.
- ***Hubble Space Telescope*** — The budget includes \$277 million to operate the Hubble telescope and to support the shuttle’s 2008 servicing mission.

National Science Foundation Funding Increases \$505 Million — The President’s budget provides \$6.6 billion for NSF programs for 2008, including \$67 million in Function 050 (National Defense). This is an increase of \$505 million (8.3 percent) over the 2007 level. Despite the Administration’s stated focus on improving teaching and achievement in math and science, the Education and Human Resources account in NSF has suffered deep cuts since 2004 when its funding peaked at \$944 million. The 2008 budget proposes \$751 million for this account, which represents a \$48 million (6.0 percent) cut below the level enacted for 2006, and a \$194 million (20.5 percent) cut below the 2004 enacted level. In particular, the budget cuts NSF’s funding for K-12 programs \$15 million (9.2 percent) below the level enacted for 2006, providing \$150 million for these programs.

DOE General Science Funding Increases \$602 Million — The 2008 budget provides \$4.4 billion for general science programs in DOE, an increase of \$602 million (15.9 percent) above the 2007 level. The 2008 budget increases funding for every program in the Office of Science. Notably, it provides a \$388 million (35.0 percent) increase over the 2006 enacted level for the Basic Energy Sciences program, which designs and constructs scientific facilities and manages the research done there, for total funding of \$1.5 billion. It provides \$428 million for the Fusion Energy Sciences program, an increase of \$147 million (52.4 percent) over the 2006 enacted level. It also provides a large increase – \$37 million (89.4 percent) over the 2006 level – for Science Laboratories Infrastructure, which receives \$79 million for 2008.

⁴Funding levels for 2007 are not yet known in sufficient detail to allow program-level comparisons for most programs. In situations where the 2007 level is not yet known, the 2006 enacted level is provided as a point of reference.

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.

President’s “Twenty-in-Ten” Initiative — In his State of the Union message, the President set forth a goal to reduce U.S. gasoline usage by 20 percent in the next ten years. Twenty-in-Ten echoes the Advanced Energy Initiative (AEI), announced in January 2006, in which the President also emphasized the need for a dramatic reduction in American foreign oil dependence, complemented with increases in clean energy research. The Twenty-in-Ten Initiative calls for a 15 percent decrease in annual gasoline usage, replaced by an increase in the supply of renewable and alternative fuels. It sets mandatory fuel standards to require 35 billion gallons of these types of fuels in 2017. The plan calls for the remaining 5 percent reduction in gasoline usage to come from reforming, modernizing or extending Corporate Average Fuel Economy (CAFE) standards for cars and light trucks. While the budget provides some of the expected renewable fuel and fuel-efficiency research funding, it drastically cuts or eliminates other renewable energy research funding. Funding for alternative fuel research and development – for example oil derived from coal – increases.

Energy-Related Tax Proposals (Millions of Dollars)	
<u>Proposal</u>	<u>Ten-Year Increases in Revenues</u>
Repeal reduced recovery period for natural gas distribution lines	906
Modify amortization for certain geological and geophysical expenditures	582
Excise tax on coal	1,081
Total	2,569

The President’s domestic energy agenda also includes repealing or modifying energy-related tax items.

Mandatory Spending

The receipts from marketing federally produced power and the fees 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 transmissions, and is not supported through annual appropriations.

PMAs arrange to buy and sell, or “wheel” power from other electricity producers on behalf of their customers, who then reimburse the PMAs. SEPA receives an appropriation of \$6 million from appropriations and generates \$62 million from purchasing power and wheeling (PPW) activities. SWPA receives an appropriation of \$30 million, generates \$35 million through PPW, and an additional \$18 million from alternative financing, for a total of \$83 million. The budget provides a total program level of \$706 million for WAPA, with \$201 million from appropriations, \$259 million from PPW, and \$246 million from other sources.

- ***May Lead to Higher Rates for PMA Customers*** — The budget once again includes a provision that may increase rates paid by PMA customers, changing the rate paid on new power-related capital investments by SEPA, SWPA, and WAPA. This change is expected to increase total receipts by a very 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.
- ***Steep Increases for PMA Customers*** — By 2009, the budget requires SEPA, SWPA, and WAPA to adopt policies that require future PPW costs funded through the Continuing or Emergency Funds to be repaid by ratepayers within one year from the time costs are incurred. PMAs can borrow from these Funds when PPW funding has been exhausted. Currently, PMAs are required to pay back borrowed funds over four to five years. Forcing PMAs to repay these borrowed funds within one year would dramatically increase rates for PMA customers, in some cases an increase of 25 percentage points or more.

Nuclear Waste Disposal

The budget provides a total of \$495 million for 2008 to fund the Office of Civilian and Radioactive Waste Management, which implements federal policy for disposal of commercial spent nuclear fuel and high-level radioactive waste resulting from the nation’s atomic energy defense activities. The majority of funding for this program, \$292 million, is included in

Function 050 (National Defense) for disposal of weapons-related nuclear waste. The total amount is essentially equal to the 2006 enacted level⁵.

The Nuclear Waste Disposal Fund, which is financed by fees on nuclear-generated electricity, collects \$770 million in 2008.

Appropriated Programs

For 2008, the President's budget provides \$4.2 billion in appropriations for programs in this function, which is not enough to maintain services at the 2007 level⁶.

Title XVII Innovative Technology Program — Title XVII of the Energy Policy Act of 2005 authorized DOE to provide loan guarantees for innovative energy production-related technologies that avoid greenhouse gases. The budget provides \$8.4 million for the Department of Energy to establish a central coordinating office for reviewing and awarding loans. The budget sets a 2008 loan volume limitation of \$9 billion.

Strategic Petroleum Reserve (SPR) — The Strategic Petroleum Reserve provides emergency oil supply in the event of a severe disruption in supply. SPR's present storage capacity is 727 million barrels, which provides 55 days of net oil imports. The budget initiates funding to double SPR's capacity to 1.5 billion barrels. The budget provides \$332 million for the Strategic Petroleum Reserve Facilities Development and Operations account, a 60.4 percent (\$124 million) increase over the 2006 enacted level. This increase includes \$168 million targeted to SPR facility expansion.

Energy Efficiency and Renewable Energy — The budget provides an increase of \$73 million (6.3 percent) over the 2006 enacted level for the Department of Energy's Office of Energy Efficiency and Renewable Energy. Funding for biofuels nearly doubles from the 2006 enacted level, totaling \$179 million. The budget increases funding for solar and hydrogen technologies to \$148 million and \$213 million, respectively, an 81.3 percent and a 38.8 percent increase over 2006 enacted levels. These increases contrast sharply with the elimination of funding for geothermal and hydropower technologies, and the 40.6 percent cut (\$98 million) from the 2006 enacted level for weatherization assistance grants. Weatherization assistance grants help low-income households make their homes more energy-efficient. In total, all weatherization and

⁵Funding levels for 2007 are not yet known in sufficient detail to allow program-level comparisons for most programs. In situations where the 2007 level is not yet known, the 2006 enacted level is provided as a point of reference.

⁶Unless otherwise noted, the 2007 level refers to the funding level in H.J.Res. 20, the Revised Continuing Appropriations Resolution, as passed by the House on January 31, 2007. The 2007 function and agency totals do not yet reflect the distribution of \$785 million that the bill provides for adjustments to federal employee compensation.

intergovernmental activities are cut by \$112 million from the 2006 enacted level, receiving \$205 million for 2008.

Fossil Energy Research and Development — The budget provides \$863 million for fossil energy programs for 2008, \$33 million above the 2006 enacted level. The budget provides \$567 million for fossil energy research and development, a cut of \$14 million from the 2006 enacted level. However, within this area, the budget dramatically increases coal R&D by \$60 million, while eliminating funding for natural gas, petroleum, and other areas. Indeed, within the President's Coal Research Initiative, FutureGen funding increases by 635 percent over the 2006 enacted level. FutureGen is an initiative to build the world's first integrated sequestration and hydrogen production research power plant. The prototype plant will establish the technical and economic feasibility of producing electricity and hydrogen from coal, while capturing and sequestering the carbon dioxide generated in the process.

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.

Seventh Straight Year of Cuts to Environmental Programs

The Administration continues to tout its commitment to environmental protection and conservation, but reality does not match the rhetoric. For 2008, the President's budget once again significantly cuts funding for programs that protect public health and the environment. The budget provides \$28.7 billion in discretionary funding for these programs, which is \$1.7 billion (5.4 percent) below the 2007 level⁷, and is \$2.5 billion (8.3 percent) below the level needed to maintain current services. Over the 2008-2012 period, the budget is \$20.1 billion (12.2 percent) below the level needed to maintain current services. These substantial cuts undermine the ability to meet critical environmental needs, and jeopardize our nation's treasured resources.

Budget Details

Environmental Protection Agency (EPA) Funding Cut Again — For 2008, the President's budget once again cuts EPA funding, providing \$7.2 billion, a \$509 million (6.6 percent) cut from the 2007 level. As in previous years, the majority of this decrease is attributed to large cuts in programs that ensure the provision of clean water and protect public health.

- ***Clean Water and Drinking Water Needs Ignored*** — The Clean Water State Revolving Fund is provided only \$688 million for 2008, a cut of \$396 million (36.5 percent) from the 2007 level, and a \$654 million decrease (48.7 percent) since 2004. The Drinking Water State Revolving Fund is provided \$842 million, a \$5 million increase from the 2007 level. Analyses by EPA and CBO have found that the nation's water systems need significant investments in infrastructure to reduce pollution, provide safe drinking water for millions of Americans, and protect against potentially deadly water contamination.
- ***"Polluter Pays" Principle Still Abandoned*** — The President's 2008 budget continues to abandon the "polluter pays" principle regarding clean-up of the nation's most toxic sites.

⁷Unless otherwise noted, the 2007 level refers to the funding level in H.J.Res. 20, the Revised Continuing Appropriations Resolution, as passed by the House on January 31, 2007. The 2007 function and agency totals do not yet reflect the distribution of \$785 million that the bill provides for adjustments to federal employee compensation.

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 continues to force taxpayers to foot the entire bill for corporate polluters.⁸ The budget provides \$1.2 billion for the Superfund program for 2008, a cut of \$7 million from the 2007 level. This cut comes when 437 of the 1,385 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 funding is \$72 million for 2008, essentially the same level as for 2007. This funding level is insufficient, especially considering that 50 percent of the nation relies on groundwater for its drinking water and there are currently nearly 114,000 underground storage tanks that are leaking petroleum and methyl tertiary-butyl ether (MTBE) and contaminating groundwater and drinking water supplies.
- ***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 2008, the President’s budget cuts environmental justice funding by nearly \$2 million, or 28.4 percent, below the 2007 level.

Includes Drilling in the Arctic National Wildlife Refuge — For the seventh consecutive year the President’s budget assumes opening the Arctic Refuge to oil and gas exploration. Over the 2008-2012 period, the President’s budget includes \$4.0 billion from lease bonuses for the federal treasury and \$4.0 billion distributed to the State of Alaska. None of this funding is reflected in Function 300 – see *Function 800 (General Government)* and *Function 950 (Undistributed Offsetting Receipts)*.

Cuts Funding for Army Corps of Engineers — The President’s budget states that it “provides the highest level of funding ever included in any President’s budget for Corps water resources projects and programs.” At the same time, the President once again significantly cuts appropriations for the Corps and ignores the need to modernize aging infrastructure and address the growing backlog of construction and maintenance projects. For 2008, the budget provides \$4.9 billion for the Corps, \$458 million (8.6 percent) below the 2007 level.

U.S. Department of Agriculture (USDA) Unveils New Farm Bill — The Administration’s farm bill reauthorization proposal increases direct conservation funding by \$7.8 billion over ten years

⁸The Superfund Trust Fund historically supplied most of the funds appropriated for the Superfund program. However, the excise taxes on petroleum and chemical feedstocks and a corporate environmental income tax that fed into the trust fund expired in 1995, and the Trust Fund's balance is depleted. All of the funding this year is again supplied from general revenues.

above OMB's estimate of spending under current law. See *Function 350 (Agriculture)* for further details on the Administration's farm bill proposal. The proposal recommends a series of changes to USDA's conservation programs, including:

- Consolidating the existing cost-share programs into a single program;
- Consolidating the existing easement purchase programs into a single program;
- Creating a new Regional Water Enhancement Program to provide grants and direct federal assistance to enhance water quality on a regional scale;
- Reauthorizing the Wetlands Reserve Program and increasing the total acreage enrollment cap to 3.5 million acres; and
- Expanding conservation compliance to include a "Sod Saver" requirement to discourage conversion of native grassland to crop production.

Substantially Cuts Agricultural Conservation Funding — While the budget provides additional funding through an expanded conservation title in a new farm bill, it also substantially cuts 2008 farm bill conservation funding by \$396 million through reductions to several programs. The Conservation Security Program (CSP) is capped at \$316 million, which is \$135 million below the level needed to maintain current services. The budget provides \$1.0 billion for the Environmental Quality Incentives Program (EQIP), \$251 million below the level needed to maintain current services. The budget also zeroes out the Agricultural Management Assistance Program for a total cut of \$10 million.

Broken Promise to Fully Fund the Land and Water Conservation Fund (LWCF) — The President not only once again fails to fund the LWCF at the authorized level of \$900 million, but provides only \$59 million for 2008 for the intended LWCF purposes of preserving parks, forest, wildlife refuges, and open space. This represents a cut of \$86 million (59.3 percent) from the 2007 level. The stateside LWCF program is also eliminated.

Secure Rural Schools Program Reauthorized — The President's budget once again proposes to extend the Secure Rural Schools and Community Self-Determination Act, which expired on September 30, 2006. The budget extends the Secure Rural Schools program for four years, but gradually phases it out by 2011. The program is funded by selling \$800 million worth of National Forest System land. The Forest Service has identified 274,000 acres of land potentially available for sale across 35 states. Under the proposal, 50 percent of the land sale receipts would fund the Secure Rural Schools program; the remaining 50 percent would be made available to the State where the land was sold for conservation purposes.

Pick-Sloan Missouri Basin Program Cost Reallocation — As was the case in past years, 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 (2008-12).

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 and education programs, economics and statistics services, administration of the farm support programs, farm loan programs, 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.

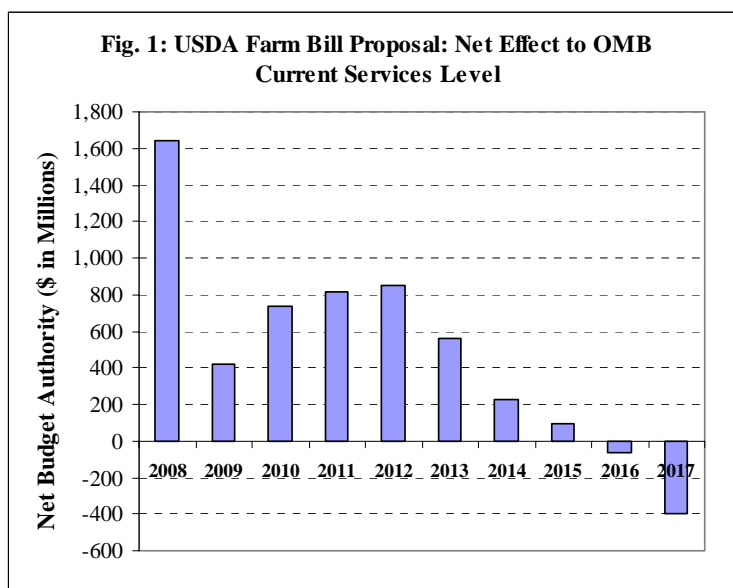
Mandatory Programs

Overall Mandatory Spending Projected to Fall Largely Due to High Crop Prices — For 2008, mandatory agriculture spending under current law will decline below the 2007 level by \$221 million because of strong crop prices that are above their historical averages, primarily for corn, wheat, and soybeans. Due to the counter-cyclical nature of many of the farm support programs, when crop prices are high, federal program spending is generally reduced.

Administration Proposes Significant Changes to Farm Bill Programs — The budget incorporates USDA's proposals for reauthorizing the "farm bill," the main authorizing act for USDA's commodity support, natural resource conservation, and nutrition programs. It makes significant changes to existing farm and conservation programs that will increase direct spending by a net of \$5 billion over ten years (2008-2017) above OMB's estimate of funding under current law. The budget does not, however, incorporate USDA's farm bill proposals in a detailed manner. Instead, the budget includes a farm bill reauthorization placeholder of \$500 million in new conservation spending per year in the Commodity Credit Corporation fund beginning in 2008.

Overall, the Administration proposes a mix of programmatic funding increases and decreases, such as:

- About \$20.4 billion in funding increases over ten years, primarily for certain natural resource conservation, farm direct payment, and research programs.
- About \$15.5 billion in funding reductions over ten years, primarily under commodity support and crop insurance programs.



Costs of Administration's Farm Bill Proposal Are Front Loaded — Even though the budget assumes that the President's farm bill proposal will increase funding by a net of \$5 billion over ten years, almost \$4.5 billion (91.2 percent) of the net funding increases will occur in the first five years (2008-2012). According to the Administration's estimates, the majority of the savings derived from program changes will not occur until the second five years (2013-2017). Figure 1 summarizes the annual net effects to farm program funding levels either above or below OMB's estimate of long-term farm bill program funding.

Appropriated Programs

Cuts Overall Appropriated Levels — The budget provides \$5.8 billion in appropriations for programs in this function, essentially a freeze at the 2007 level⁹ and \$158 billion (2.7 percent) below the amount needed to keep pace with inflation. Within the appropriated programs, the budget increases the farm income stabilization programs by \$134 million (8.5 percent) above the 2007 level and cuts the agriculture research and services programs by \$136 million (3.3 percent) below the 2007 level.

Increases Farm Program Administration Funding — The budget provides for a total of \$1.2 billion for the Farm Service Administration's salaries account, an increase of \$200 million (19.4 percent) above the 2007 level, to continue USDA's delivery of the farm income support and conservation programs. A portion of this increase, about \$64 million, is for activities previously funded through USDA's Common Computing Environment Initiative.

Cuts Research and Extension Activities Program — The budget provides about \$1 billion for the Agricultural Research Service's main salaries account, a cut of \$102 million (9.1 percent) below the 2007 level and \$141 million (12.1 percent) below the level needed to maintain current services. Within this funding level, however, the budget provides \$16 million for the planning and design of a new biocontainment and poultry research facility in Athens, Georgia, that USDA estimates will ultimately cost \$189 million when completed. The budget also provides only about \$1 billion in appropriated funding for the Cooperative State Research, Education, and Extension Service, a decrease of \$162 million (15.9 percent) below the 2007 level and \$185 million (15.4 percent) below the amount needed to keep pace with inflation.

Enhances Animal and Plant Health Funding — The budget provides for a total of \$946 million for the Animal and Plant Health Inspection Service's main salaries account, a \$104 million (12.4 percent) increase above the 2007 level. The new funding will support increased surveillance and disease outbreak response activities under USDA's Food and Agriculture Defense efforts.

⁹Unless otherwise noted, the 2007 level refers to the funding level in H.J.Res. 20, the Revised Continuing Appropriations Resolution, as passed by the House on January 31, 2007. The 2007 function and agency totals do not yet reflect the distribution of \$785 million that the bill provides for adjustments to federal employee compensation.

Eliminates Cotton Storage Assistance — The budget eliminates cotton storage credits in the marketing assistance loans program, saving \$87 million in direct spending in 2008.

Imposes New User Fees — The budget imposes a variety of new user fees that the Administration has proposed in prior budgets, including:

- ***Grain Inspection, Packers and Stockyards Administration (GIPSA)*** — The budget assesses \$242 million over ten years (2008-2017) from a new fee for grain standardization and Packers and Stockyards Act licensing activities.
- ***Animal and Plant Health Inspection Service (APHIS)*** — The budget collects \$142 million over ten years (2008-2017) from new user fees for animal welfare activities.
- ***Federal Crop Insurance Program*** — The budget levies \$135 million over ten years (2008-2017) from new user fees on companies participating in the Federal Crop Insurance Program. The fee will finance the implementation of a new information technology system that will address the program's maintenance costs. Though the fees would be assessed in 2008, the receipts would not be collected until 2009.

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).

Mortgage Credit Programs

Rural Low-Income Direct Loan Programs Eliminated — The budget reflects a dramatic alteration in USDA's role in providing housing assistance to low- and very low-income borrowers and renters. The budget eliminates direct lending for single-family home purchases under Section 502 and for multifamily housing development under Section 515. The budget shifts resources to unsubsidized guaranteed loans. The budget provides a loan volume of \$4.8 billion, \$2.0 billion over the 2006 program level, for Section 502 single family guaranteed housing loans. Guaranteed loans generally cost borrowers more than direct loans because interest rates are higher. Moreover, they are likely to be less widely accessible to very low-income potential borrowers.

Transforms Federal Housing Administration — The budget includes provisions that affect potential homeowners with poor credit histories or little savings in various ways. One provision eliminates the current statutory 3 percent minimum down payment (which would assist borrowers with little savings) and another increases FHA's loan limit in high-cost areas. A third provision extends to borrowers mortgages with premiums tied to credit records and the size of down payments. This provision permits FHA to attach risk-based premiums to mortgages. The budget intends the premium amount to sufficiently outweigh the need for credit subsidy appropriation. Risk-based premiums potentially could prohibit some borrowers with very poor credit or very little money down from receiving this kind of mortgage.

Commerce-related Programs

Raises Costs for Small Business Administration Microloan Borrowers — The budget restructures the microloan program to zero subsidy, by raising the rate at which intermediaries borrow. This program will provide an estimated \$25 million in loans in 2008 to primarily low-income entrepreneurs. Intermediaries continue to receive a better than market rate on interest loans, but borrowers could potentially face higher costs. The budget also eliminates microloan technical assistance.

Increases Funding for Census Bureau — Continuing preparation for the 2010 census, the budget provides \$1.2 billion for the Census Bureau, \$341 million (38 percent) over the 2007 level.¹⁰ The Bureau will conduct a full dress rehearsal in 2008 and begin opening field offices nationwide in 2009.

Weakens Support for Minority Business Development — The budget decreases funding for the Minority Business Development Agency (MBDA) to \$29 million, \$2 million below the amount needed to maintain purchasing power at the 2007 level. MBDA provides management and technical assistance services to minority business enterprises. This decrease follows the absence of any funding increase in 2006 and 2007.

Increases Patent and Trademark Office Operating Budget — The budget includes \$1.9 billion for the Patent and Trademark Office operations, an increase of \$149 million (8.4 percent) above the 2007 level.

Slashes Funding for the Manufacturing Extension Partnership, Eliminates Advanced Technology Program — The budget provides \$46 million for the Manufacturing Extension Partnership, a 57.0 percent cut from the 2007 level of \$107 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. The budget eliminates the Advanced Technology Program, a grant program for businesses to develop new technologies for commercial use.

¹⁰Unless otherwise noted, the 2007 level refers to the funding level in H.J.Res. 20, the Revised Continuing Appropriations Resolution, as passed by the House on January 31, 2007. The 2007 function and agency totals do not yet reflect the distribution of \$785 million that the bill provides for adjustments to federal employee compensation.

Function 400: Transportation

Function 400 consists 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). In addition, this function includes several small transportation-related agencies and the research program for civilian aviation at the National Aeronautics and Space Administration.

Budget Details

For 2008, the President's budget provides \$74.8 billion in appropriated budgetary resources (budget authority plus obligation limitations). This is \$2.1 billion below the 2007 level.¹¹

Surface Transportation Funding Does Not Meet Guaranteed Levels — The surface transportation program reauthorization included guaranteed funding levels for both the highway and mass transit programs. For 2008, the President's budget provides the authorized level of \$39.6 billion in obligation limitations for the Federal-Aid Highway Program. However, it cancels an estimated upward Revenue Aligned Budget Authority (RABA) adjustment of \$631 million and rescinds \$1.4 billion in unobligated contract authority. The budget provides \$1.4 billion for safety programs, which includes a shift of \$122 million from the general fund to the Highway Trust Fund. The budget also provides \$9.4 billion for mass transit, which is \$308 million below the authorized level. The majority of the shortfall comes at the expense of a grant program that assists states in building or extending major mass transit projects.

Federal Aviation Administration (FAA) Funding Cut — The President's budget provides \$14.1 billion for the FAA for 2008, which is \$413 million (2.9 percent) below the 2007 level. The budget limits grants to improve airports to \$2.8 billion, a cut of \$765 million from the 2007 level. The budget continues FAA's expiring financing mechanism (receipts from passenger ticket taxes, taxes on aviation fuel, and general fund contributions) through 2008. The following year, the President would reauthorize FAA, switching financing from excise taxes to a cost-based approach.

Beginning in 2009, commercial airlines will pay a new user fee that offsets the costs of FAA's operations. General Aviation (GA) users continue to pay excise taxes on aviation fuel, but adjusted for their cost to the air traffic control system. The Administration estimates total user fee collections of \$12.5 billion in 2009 (from both commercial and GA users). Of that amount, \$8.2 billion is from the user fees paid by commercial airlines. Over the 2009-2012 period, the

¹¹Unless otherwise noted, the 2007 level refers to the funding level in H.J.Res. 20, the Revised Continuing Appropriations Resolution, as passed by the House on January 31, 2007. The 2007 function and agency totals do not yet reflect the distribution of \$785 million that the bill provides for adjustments to federal employee compensation.

user fees total \$35.4 billion. However, because the user fees are not a revenue, and because the Administration’s estimate of fees is lower than the revenue that would have been collected, the new cost-based system reduces receipts by \$36.4 billion over the four-year period.

Cuts 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 budget again cuts funding more than 50 percent for the EAS program by establishing a \$50 million cap, and establishes cost-sharing criteria. Congress has consistently rejected this Administration proposal. 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.

Amtrak Funding Slashed Again — The President’s budget provides only \$900 million for Amtrak, a cut of \$393 million (30.4 percent) from the 2007 level. The budget provides \$500 million for Amtrak’s capital expenses, \$300 million for operating expenses, and \$100 million for capital matching grants to states. In order to use the capital grants, states must fund alternatives to Amtrak or provide any needed operating subsidies to the corporation.

Federal Grants to Amtrak							
(budget authority in millions)							
	2002	2003	2004	2005	2006	2007	2008
President’s Request	\$521	\$521	\$900	\$900	\$360	\$900	\$900
Appropriated	\$831*	\$1,043	\$1,218	\$1,207	\$1,293	\$1,293	--

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

Transportation Security Administration (TSA) — The President’s 2008 budget provides \$6.4 billion for the TSA. This is \$389 million (6.5 percent) above the 2007 level.

Coast Guard — For 2008, the President’s budget provides \$7.3 billion for the Coast Guard. This is \$219 million (3.1 percent) higher than the 2007 level, excluding supplemental funding.

Port Security Grants — 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 2008 budget freezes funding for port security grants at the 2007 level of \$210 million. This level is still well below the \$400 million that Congress authorized in the Security and Accountability for Ever (SAFE) Port Act of 2006. The Coast Guard estimates that basic security measures such as installing fencing, lighting, and surveillance cameras at our ports will cost more than \$5 billion over ten years.

Function 450: Community and Regional Development

Function 450 includes federal programs to improve community economic conditions, promote rural development, and assist in federal preparations for and response to disasters. This function provides appropriated funding for the Community Development Block Grant, Department of Agriculture rural development programs, the Bureau of Indian Affairs, the Federal Emergency Management Agency, and other disaster mitigation and community development-related programs. It also provides mandatory funding for the federal flood insurance program.

For 2008, the President's budget provides \$10.7 billion in appropriations for programs in this function, a cut of \$2.6 billion below the 2007 level¹² and of \$2.9 billion below the amount needed to maintain purchasing power at the 2007 level.

Community Development

Slashes the Community Development Block Grant — The budget provides \$2.6 billion for Community Development Block Grant (CDBG) formula grants, which local communities use to address challenges like affordable housing, job creation, and economic development. That level is a cut of \$1.1 billion, or 29.4 percent, below the 2007 level. As it did last year, the budget assumes a \$356 million rescission of CDBG earmarks, with the funding reallocated to fund the formula grants. However, the earmarks the Administration would cancel were not actually provided in 2007, which means the funding cannot be reallocated. As a result, the total cut is \$1.1 billion instead of the \$736 million cut in last year's budget, and there is even less funding for the 1,200 state and local governments that depend on CDBG.

Terminates Other Sources of Community Development Funding — Despite the severe reduction in CDBG funds, the budget also eliminates the Community Development Loan Guarantee program, the Brownfields Economic Development Initiative, and the Rural Housing and Economic Development program (funded in *Function 600 (Income Security)*), on the premise that local CDBG agencies should fund the activities currently funded by those programs. The program terminations reduce funding by an additional \$31 million below the 2007 level.

Cuts Funding for Lead Hazard Reduction — The budget cuts funding for efforts to remove lead-based paint from residences, protecting children from lead poisoning, by \$34 million (22.7 percent) below the 2007 level.

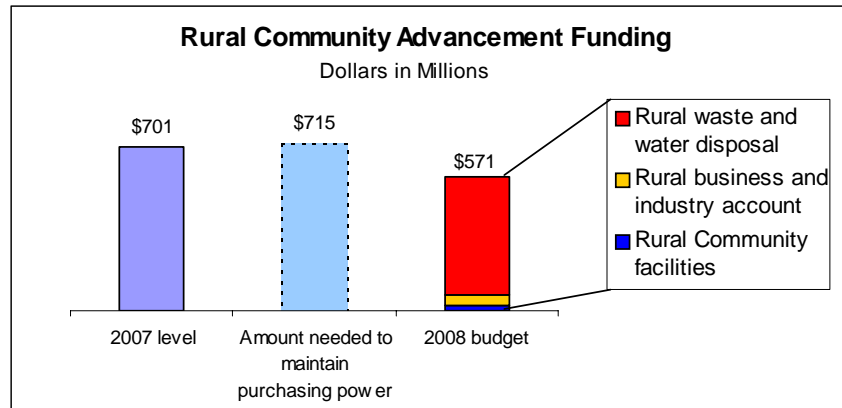
Cuts Investments in Economically Distressed Communities — The budget cuts funding for the Community Development Financial Institutions fund by 46.3 percent, \$25 million below the 2007

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level. About half of the cut comes from eliminating the Bank Enterprise Award (BEA), an incentive for banks and thrifts to increase lending, investment, and service activities in economically distressed areas, and the set-aside for Native American initiatives.

Rural Development

Reduces Job Creation in Rural Areas — The budget divides the Rural Community Advancement program into three separate accounts and reduces the total by \$144 million, or 20.1 percent, below the amount needed to maintain 2007 purchasing power. As part of the overall reduction, the budget terminates the Rural Business Enterprise Program and the Rural Business Opportunity grant program, a policy change that the Administration estimates will result in 19,405 fewer jobs in rural areas in 2008.



Disaster Prevention and Relief

Cuts Assistance to Firefighters Grants (ASGs) by More than Half — The budget cuts grants to local first responders for protective gear, training, and equipment used to protect the public from fires and related hazards to \$300 million, a 54.7 percent cut below the 2007 level. Other information about first responder budget proposals is in Homeland Security and Function 750 (Administration of Justice.)

Does Not Address Challenge Faced by National Flood Insurance Program (NFIP) — The budget includes \$343 million in mandatory funding to pay flood insurance claims, the amount that spending is projected to exceed premiums paid by policyholders and other offsetting collections. NFIP incurred liabilities estimated at approximately \$23 billion as a result of the Gulf Coast hurricanes, and Congress authorized FEMA to borrow up to \$20.8 billion from Treasury to pay claims to policyholders. The budget estimates that NFIP will pay \$800 million in interest on that debt in 2008. CBO has said it will be impossible for NFIP to repay their debt to Treasury out of their current revenues. The budget does not include proposals to address the long-term debt issue.

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

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

The President's 2008 budget cuts appropriations for programs in this function more deeply in each of the next three years. For 2008, the President's budget provides \$76.2 billion in discretionary funding for these programs, a cut of \$3.9 billion below the 2007 level¹³ and of \$5.0 billion below the amount needed to maintain purchasing power for the non-emergency programs at the 2007 level. By 2010, the budget provides only \$75.8 billion, which is a cut of \$8.2 billion below the level needed to maintain services at the 2007 level. Because the budget does not provide program-level detail after 2008, it is impossible to know which programs will be affected by these deep planned cuts.

Education

Cuts Education Funding by \$1.5 Billion — For the third year in a row, the President has submitted a budget that cuts education funding. The budget cuts 2008 funding for the Department of Education by \$1.5 billion below the 2007 level, providing \$56.0 billion for education appropriations. The budget increases funding for a few signature programs only by cutting funding for others, including eliminating 44 education programs entirely (see the complete list later in this section).

Underfunds “No Child Left Behind” K-12 Programs — The 2008 budget increases funding for elementary and secondary education programs authorized under the No Child Left Behind Act by about \$1 billion over the 2007 level. However, the 2008 funding is still about \$15 billion below the level authorized for 2007. The budget provides a boost of \$1.1 billion for Title I (Education for the Disadvantaged) and \$300 million for two new programs to provide vouchers to students in failing schools to either attend a private school or different public school or to get intensive tutoring. The budget partially pays for these increases by eliminating many existing No Child Left Behind programs – including education technology state grants (\$272 million) and the Even Start family literacy program (\$99 million) – and dramatically cutting others, including Safe and Drug-Free Schools state grants (cut \$247 million) and Teacher Quality state grants (cut \$100 million).

¹³Unless otherwise noted, the 2007 level refers to the funding level in H.J.Res. 20, the Revised Continuing Appropriations Resolution, as passed by the House on January 31, 2007. The 2007 function and agency totals do not yet reflect the distribution of \$785 million that the bill provides for adjustments to federal employee compensation.

Offsets Pell Grant Increase by Cutting Other College Aid — The President’s budget increases the maximum Pell Grant from the 2007 level of \$4,310 to \$4,600 but dramatically reduces campus-based assistance, cutting \$1.4 billion by eliminating nine higher education programs. One of the eliminated programs is the Supplemental Educational Opportunity Grants program (funded at \$771 million for 2007), which provides nearly 4,000 colleges with funding that they partially match and then distribute as grants of up to \$4,000 to the neediest students.

- **Pell Grants** — The budget does not provide the appropriations necessary to increase the maximum Pell Grant to \$4,600 – in fact, it provides only enough discretionary funding for a \$4,050 grant, not the \$4,310 maximum that the House approved for 2007. Rather, the budget provides appropriations for a maximum grant of \$4,050 and pays for the increase to \$4,600 with mandatory savings from ending the Perkins loan program and making deep cuts to lenders in the student loan program. The budget thus transforms the Pell Grant program into a hybrid of appropriations and mandatory spending.
- **Perkins Loans** — The budget recalls all prior federal capital contributions to the revolving funds from which colleges currently make new Perkins loans, for mandatory savings of \$419 million in 2008, and of \$6.4 billion over ten years (2008-2017). It also eliminates the \$65 million Perkins loan program that allows colleges to cancel Perkins loans for certain students who pursue public service careers following graduation. The budget counts on these savings to help pay for its Pell Grant increase even though Congress rejected both of these proposals last year.
- **Student Loans** — Over ten years (2008-2017), the budget cuts lender profits in the Federal Family Education Loan (FFEL) program by a gross total of \$39.5 billion. Almost \$30 billion arises from cutting lender subsidies by 50 basis points (half a percent). Other savings come from lowering lender reinsurance rates from 97 percent to 95 percent, and lowering the percentage that guaranty agencies (GAs) may retain when they collect on a defaulted loan. See the box to the right for the savings from the provisions affecting lenders. The budget also sets the interest rate at 8.3 percent for PLUS loans (available to parents and graduate and professional students) in both the Direct Loan and FFEL programs; currently, the Direct Loan interest rate is 7.9 percent while the FFEL interest rate is 8.5 percent due to an unintentional discrepancy in legislation enacted in 2006.

\$39.5 Billion Student Loan Cuts to Lenders (10-year savings in billions of dollars)	
Cut subsidy by 50 basis points	29.5
Lower lender reinsurance to 95%	2.7
Raise lender consolidation fee 0.5%	2.3
Lower GA default retention rate	3.5
Adopt unit cost bases for GA fees	1.6

**44 Discretionary Education Programs Eliminated in the President's 2008 Budget
(Dollars in Millions, 2007 Level)**

<i>Program</i>	<i>2007 \$</i>	<i>Program</i>	<i>2007 \$</i>
Improving Teacher Quality:		Higher Education:	
Teacher Quality Enhancement	60	Supplemental Ed. Opportunity Grants	771
National Writing Project	22	Perkins Loans, recall revolving funds*	419
Advanced Credentialing	17	Perkins Loans Cancellations	66
School Leadership	15	Leveraging Ed. Assist. Partnerships	65
Ready To Teach	11	Byrd Honors Scholarships	41
		Strengthening Alaska Native & Native Hawaiian-Serving Institutions	12
		Demos for Students with Disabilities	7
		Thurgood Marshall Legal Education	3
		Underground Railroad Program	2
		B.J. Stupak Olympic Scholarships	1
Tech-Prep Education State Grants	105	Alcohol Abuse Reduction	32
High School:		Rehabilitation Services:	
Smaller Learning Communities	90	Supported Employment Grants	30
School Dropout Prevention	5	Projects With Industry	20
		Recreational Programs	3
		Migrant & Seasonal Farmworkers	2
State Grants for Innovative Programs	99	Even Start	99
Physical Education	73	Elementary/Secondary Counseling	35
Parental Info. and Resource Centers	40	Civic Education	29
Arts in Education	35	Education for Native Hawaiians	34
Alaska Native Education Equity	34	Grants for Incarcerated Youth	23
Academies for American History and Civics	2	Education technology - every program:	
		Education Technology State Grants	272
		Star Schools	15
Mentoring	19	Javits Gifted and Talented Education	10
Comprehensive School Reform	2	Exchanges with Historic Partners	9
Mental Health Integration in Schools	5	Women's Educational Equity	3
Close Up Fellowships	2	Excellence in Economic Education	2
Foundations for Learning	1		

Total Programs Eliminated = \$2.6 billion

*This recall shows \$419 million in mandatory savings in 2008, and \$6.4 billion over ten years.

Cuts Special Education Funding — The budget provides \$10.5 billion for special education grants to states, a cut of \$291 million below the 2007 level and of \$91 million below the 2006 enacted level. The 2008 funding level will cut the federal government’s share of the average per pupil expenditure for special education from the current 17.2 percent to only 16.5 percent, well below half the 40 percent “full funding” federal contribution ceiling allowed by law and still billions below the level authorized for 2008 in the IDEA Improvement Act of 2004.

Freezes Impact Aid — The budget freezes Impact Aid funding for 2008 at \$1.2 billion, the same level as for the last several years.

Social Services

Eliminates Community Services Block Grant — The President’s 2008 budget repeats past Administration budgets in eliminating the Community Services Block Grant and three 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 (29.4 percent) for 2008 and every following year, to a 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, prevention and intervention programs, and special services for the disabled. Although SSBG spending is mandatory, the Administration uses the \$500 million of savings to offset discretionary funding for 2008, meaning that Congress will need to provide an extra \$500 million of appropriations to maintain the block grant at \$1.7 billion.

Cuts Head Start — The budget cuts Head Start funding by \$100 million below the 2007 level of \$6.9 billion. Head Start funding has not kept pace with inflation since 2003, causing cuts in its services for children. Head Start centers have laid off staff, eliminated summer programs, and cut transportation for children. A \$100 million cut for 2008 will lead either to further cuts in services or to centers serving fewer children.

Head Start Funding	
\$6.7 billion	2003
\$6.8 billion	2004
\$6.8 billion	2005
\$6.8 billion	2006
\$6.9 billion	2007
\$6.8 billion	2008 Request

Cuts National Service Programs — The budget provides \$829 million for the Corporation for National and Community Service, a cut of \$56 million from the 2007 level and of \$74 million (8.2 percent) below the amount needed to maintain purchasing power at the 2007 level.

Employment, Training, and Other Programs

Consolidates Training Programs into Personal

Accounts and Slashes the Funding — The President’s 2008 budget reprises a plan to consolidate four existing job training programs (see box to the right), cut their funding by \$563 million (14.2 percent), and provide the funding for qualifying individuals through personal Career Advancement Accounts of up to \$6,000 over two years.

Training Funds Cut in Career Advancement Accounts		
<i>(dollars in millions)</i>	<u>2007</u>	<u>2008</u>
Dislocated Worker	1,463	—
Adult Training	857	—
Youth Activities	941	—
Employment Services	<u>716</u>	<u>—</u>
Total	3,976	3,413

Slashes Community Service Employment for Older Americans — The budget cuts the Community Service Employment for Older Americans programs by \$134 million (27.7 percent), providing a total of \$350 million.

Cuts Corporation for Public Broadcasting — The Corporation for Public Broadcasting receives \$464 million in federal funds for 2007. By custom, the Corporation receives an appropriation two years in advance, and in 2006, Congress provided \$400 million for the Corporation for 2008. The President’s budget now rescinds \$50 million of that already-enacted funding, for a cut of \$114 million (24.6 percent) below the 2007 level. The budget also ends the practice of such “advance appropriations” and therefore does not include any additional funding for any future year.

Funding for National Endowments — The President’s budget increases funding for the National Endowment for the Arts (up \$4 million from the 2007 level of \$124 million), and continues to freeze funding for the National Endowment for the Humanities 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 Increase — The President's budget provides \$52.3 billion for appropriated programs. This amount is an increase of \$217 million (0.4 percent) above the 2007 level, and a cut of \$917 million (1.7 percent) below the amount needed to maintain purchasing power at the 2007 level.

Overall Mandatory Decrease Relative to Current Law — The budget decreases mandatory spending relative to current law by \$8.1 billion over five years. This change is primarily due to the cuts to the Medicaid program, which are partially offset by a small increase in funding for the State Children's Health Insurance Program (SCHIP).

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

\$24.7 Billion in Cuts to Medicaid Over Five Years and \$60.5 Billion Over Ten Years — The budget makes legislative cuts to Medicaid of \$12.0 billion over five years and \$29.1 billion over ten years. It imposes another \$12.7 billion in cuts through regulatory changes over five years and \$31.4 over ten years, for total gross cuts of \$24.7 billion over five years and \$60.5 billion over ten years. The budget includes \$1.1 billion in increased Medicaid costs over five years, for a net effect of \$23.6 billion in Medicaid legislative and regulatory cuts over five years. The budget reduces payments for targeted care case management, changes prescription drug benefits by allowing states to use managed formularies, changes payments to government providers, and reduces state administrative payments.

The budget's Medicaid cuts do not assist states to reduce the number of Americans without insurance. Some of the budget's cuts will either increase state costs or lead to a reduction in Medicaid benefits. The new cuts are on top of the cuts enacted in the 2006 Republican reconciliation spending cut bill (S. 1932), which reduced Medicaid by \$28.3 billion over ten years. That legislation will result in higher co-payments for health care services for 13 million low-income individuals (including 4.5 million children), higher co-payments for prescription drugs for 20 million individuals (including 6.6 million children), the loss of health insurance coverage for

65,000 people because they cannot afford higher premiums, and benefit cuts for at least 1.6 million people.

Fails to Provide Sufficient Funding for Children and Families Receiving SCHIP — The budget provides an additional \$4.2 billion for the State Children’s Health Insurance Program (SCHIP) over five years and \$9.7 billion over ten years (\$5.9 billion over five years and \$12.6 billion over ten years, excluding Medicaid interactions), less than the amount needed to maintain benefits for those now receiving SCHIP. A broad coalition of organizations, including the Chamber of Commerce and the American Hospital Association, has called for a significant increase in SCHIP funding.

Cuts to Medicaid		
(dollars in billions)		
	2008-2012	2008-2017
Legislative Cuts:		
Reduces Payments for Targeted Care Case Management	1.2	2.9
Reduces Reimbursement for Generic Drugs	1.2	3.0
Allows States to Use Managed Formularies	.9	2.1
Cuts Payments for Administrative Costs (Cost Allocation)	1.8	3.7
Cuts State Administrative Match Rates	5.3	12.3
Tests Asset Verification System	.6	1.8
Other Legislative Changes	1.1	3.3
Total Legislative Cuts	12.1	29.1
Regulatory Cuts:		
Limits Provider Payments to Cost	5.0	12.0
Limits Reimbursement for School-Based Services	3.6	9.1
Eliminates Medicaid Funding for Graduate Medical Education (GME)	1.8	4.3
Limits Reimbursement for Rehabilitation Services	2.3	6.2
Total Regulatory Cuts	12.7	31.4
Total Legislative and Regulatory Cuts	24.7	60.5
Program Extensions/Modifications	1.1	1.1
Net Medicaid Cut	23.6	59.4

* Table does not include SCHIP costs or Medicaid interactions with the SCHIP policy. Those numbers are included in the SCHIP section.

Legislative Cuts of \$12 Billion Over Five Years, and \$29 Billion Over Ten Years — The budget includes the following gross legislative changes to Medicaid that will cut funding by \$12 billion over five years, and \$29 billion over ten years.

- ***Reduces Payments for Targeted Care Case Management*** — The budget cuts the federal Medicaid match rate that applies to each state, exceeding 50 percent in 39 states, to a flat

50 percent for targeted care case management for disabled children, adults, and others. The policy reduces Medicaid spending by \$1.2 billion over five years and \$2.9 billion over ten years. This change may negatively affect states' ability to serve these populations.

- ***Reduces Reimbursement for Generic Drugs*** — The budget limits payments for generic drugs to 150 percent of the average manufacturers' price, for savings of \$1.2 billion over five years and \$3.0 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 \$0.9 billion over five years and \$2.1 billion over ten years.
- ***Cuts Payments for Administrative Costs (Cost Allocation)*** — The budget reduces federal reimbursement for Medicaid administrative costs to reflect the costs shared by Medicaid and the Temporary Assistance for Needy Families program in determining eligibility, a policy known as "cost allocation." This policy reduces administrative spending by \$1.8 billion over five years and \$3.7 billion over ten years.
- ***Cuts State Administrative Match Rates*** — The budget reduces funding for certain administrative activities that received a higher match rate. This policy reduces funding to states by \$5.3 billion over five years and \$12.3 billion over ten years.
- ***Tests Asset Verification System*** — The budget reduces Medicaid payments to individuals by accessing the Social Security Administration's (SSA) asset verification system to determine benefit eligibility. It yields savings of \$0.6 billion over five years and \$1.8 billion over ten years.

Regulatory Medicaid Cuts of \$12.7 Billion Over Five Years, \$31.4 Billion Over Ten Years — The budget includes the following regulatory changes that will cut Medicaid spending by \$12.7 billion over five years and \$31.4 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 \$5.0 billion and ten-year savings of \$12.0 billion. In effect, this policy eliminates the "upper payment limit" (UPL), which currently lets states pay government providers an amount above their costs. It also limits the types of providers that qualify to receive payments. 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.

- ***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.
- ***Eliminates Medicaid Funding for Graduate Medical Education (GME)*** - The budget eliminates Medicaid funding for the Graduate Medical Education program, which provides physician training programs. The policy reduces funding to states by \$1.8 billion over five years and \$4.3 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 \$6.2 billion over ten years. This policy may negatively affect chronically ill and disabled beneficiaries by limiting their access to rehabilitative services.

Appropriated Health Programs

Cuts Centers for Disease Control and Prevention (CDC) — The budget provides \$5.8 billion for CDC, \$182 million (3.0 percent) below the 2007 level. The budget eliminates the Preventive Health and Social Services Block Grant (\$99 million).

Reduces Funding for National Institutes of Health (NIH) — The budget provides \$28.7 billion for NIH, \$210 million below the 2007 level.

Increases Food and Drug Administration - The budget provides FDA with a program level of \$2.1 billion, consisting of an appropriation of \$1.6 billion and \$428 million in existing user fees. This program level is an \$88 million increase (4.4 percent) above the 2007 level. The budget includes \$43 million in new discretionary and mandatory user fees. The budget proposes again user fees requiring manufacturers and laboratories to pay the full costs of reinspections, and an expansion of the current drug, animal drug, and medical device export certification user fee to also include food and animal feed. The budget also includes an industry-funded generic drug user fee to speed approval of generic drugs.

Cuts Substance Abuse and Mental Health Services Administration (SAMHSA) — The budget funds SAMHSA at \$3.0 billion for 2008, a decrease of \$159 million (5.0 percent) from the 2007 level.

Eliminates Several HRSA Programs — The budget proposes again to eliminate several HRSA programs, including EMS for children (\$20 million in 2007), Universal Newborn Screening (\$10 million in 2007), and the Traumatic Brain Injury program (\$9 million in 2007).

Slashes Rural Health Activities — The budget provides \$17 million for rural health activities, which is a \$143 million (89 percent) cut from the 2007 level and \$146 million below the amount needed to maintain purchasing power at the 2007 level.

Increases Funding for Ryan White/HIV Activities — Increases funding by \$20 million in 2008.

Function 570: Medicare

Function 570 (Medicare) includes only the Medicare program, which provides health insurance to senior citizens and persons with disabilities. Congress provides an annual appropriation for the costs of administering and monitoring the Medicare program. Nearly 99 percent of spending in this function occurs on the mandatory side of the budget, and almost all of the mandatory spending consists of payments for Medicare benefits.

The President's budget provides net Medicare mandatory spending of \$386.5 billion for 2008, a reduction of \$4.3 billion from projected spending under current law.¹⁴ For administrative activities related to Medicare, the budget provides \$5.2 billion, an increase of \$404 million above the 2007 level.¹⁵ However, reported functional totals for Medicare administrative spending are not always meaningful because of accounting procedures used in the appropriations process.

Medicare Spending Trends

Medicare Prescription Drug Spending — The Administration's new estimates for the prescription drug benefit project that spending over the 2007-2016 period will come in \$113 billion lower than was projected in last summer's Mid-Session Review. The reduction in the ten-year estimate results from recent data indicating lower-than-expected enrollment, lower-than-expected 2007 plan bids, and overall lower growth in drug costs across the health sector. The Administration claims this drop in spending projections is proof that the drug benefit is lowering costs for seniors and that competition is working effectively. However, there is substantial evidence that prices in the Medicare drug benefit program are still higher than those paid by the Department of Veterans Affairs, and are also higher than prices at many retail outlets or in Canada. Moreover, it may also be the case that the large firms are still under-pricing in order to grab market share and drive out smaller competitors, which would make it easier for them to raise premiums in the future.

Medicare Legislative and Regulatory Policies

Cuts Medicare by \$252 Billion Over Ten Years but Protects Wasteful Managed Care

Overpayments — The budget includes legislative Medicare spending cuts of \$65.6 billion over five years and \$252 billion over ten years. Most of these savings come from cutting payments to hospitals and other service providers, but \$37.8 billion comes from requiring more beneficiaries to pay extra premiums based on their income. These provisions are described in further detail below. While making deep fee-for-service cuts, the budget makes no effort to address the well-documented overpayments to Medicare managed care plans. On average, these plans receive

¹⁴Net mandatory spending reflects total spending on benefits, less the amount collected from beneficiaries in the form of premiums.

¹⁵Unless otherwise noted, the 2007 level refers to the funding level in H.J.Res. 20, the Revised Continuing Appropriations Resolution, as passed by the House on January 31, 2007. The 2007 function and agency totals do not yet reflect the distribution of \$785 million that the bill provides for adjustments to federal employee compensation.

11 percent more per beneficiary than fee-for-service Medicare (after adjusting for risk), even though the whole rationale for managed care is that it is supposed to save money.

Medicare Legislative Cuts of \$252 Billion Over Ten Years

(dollars in billions)

	<u>2008-</u>	<u>2008-</u>
	<u>2012</u>	<u>2017</u>
Cut Inpatient & Outpatient Hospital Update	-17.2	-84.0
Cut Skilled Nursing Facility Update	-9.2	-30.2
Cut Home Health Update	-9.7	-35.9
Cut Inpatient Rehabilitation Facility Update	-1.9	-6.2
Cut Hospice Update	-1.1	-5.3
Cut Ambulance Update	-0.4	-1.9
Competitive Bidding for Clinical Laboratory Services	-2.4	-6.7
Eliminate Double Payments for Indirect Medical Education	-4.4	-18.2
Adjust Payments for Post-Acute Care	-2.9	-7.1
Establish 13-Month Rental Period for Power Wheelchairs	-0.5	-1.4
Limit Oxygen Rental Period to 13 Months	-2.4	-6.0
60-Month Medicare Secondary Payer Status for End-Stage Renal Disease	-1.1	-2.5
Phase Out Payments for Medicare Bad Debt	-7.2	-26.5
Eliminate Indexation of Income-Related Part B Premium Thresholds*	-7.1	-26.8
Established Income-Related Medicare Drug Benefit Premium*	-3.2	-11.0
Other Proposals	-1.0	-3.1
Extend QI1 Program for One Year/Other Premium Interactions	6.0	20.6
Total Medicare Legislative Cuts	-65.6	-252.0

*The budget effect of this proposal includes: (1) reduced spending from beneficiaries opting not to sign up for the benefit, and (2) increased premium collections from those affected beneficiaries who continue receiving the benefit.

Cuts Payment Updates for Various Providers — The budget provides payment updates permanently below the level of medical inflation for several categories of providers, using the rationale that this will motivate providers to be more efficient. Some of the providers facing cuts in their payment rate updates include:

- **Hospitals** — The budget cuts payments for inpatient and outpatient hospitals by providing a payment update of market basket (a measure of medical inflation) minus 0.65 percent for 2008 and thereafter. This policy saves \$17.2 billion over five years and \$84.0 billion over ten years.
- **Skilled Nursing Facilities** — The budget cuts payments for skilled nursing facilities by freezing payment rates for 2008 at the 2007 level and providing an update of market basket

minus 0.65 percent thereafter, resulting in savings of \$9.2 billion over five years and \$30.2 billion over ten years.

- ***Inpatient Rehabilitation Facilities*** — The budget cuts payments for inpatient rehabilitation facilities by freezing payment rates at the 2007 level and providing an update of market basket minus 0.65 percent thereafter, for five-year savings of \$1.9 billion and ten-year savings of \$6.2 billion.
- ***Hospice*** — The budget cuts payments for hospice by providing a payment update of market basket minus 0.65 percent for 2008 and thereafter. This policy saves \$1.1 billion over five years and \$5.3 billion over ten years.
- ***Home Health*** — The budget cuts payments for home health providers by freezing payments through 2012 and providing an update of market basket minus 0.65 percent thereafter, for savings of \$9.7 billion over five years and \$35.9 billion over ten years.

Applies Income-Related Medicare Premiums to More Beneficiaries — As a result of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 and subsequent legislation, seniors with annual incomes above \$80,000 started paying additional income-related premiums for Medicare Part B this year. The income thresholds that trigger the higher premiums are indexed to inflation. However, the President's budget eliminates the indexing, with the result that a growing proportion of middle-income seniors will be affected by the means-tested premium every year, analogous to the problem with the Alternative Minimum Tax. The Administration projects that 4.9 million seniors will pay higher premiums in 2017 under this policy, compared with 3.2 million under current law in that same year. The budget uses the same unindexed income thresholds to establish new income-related premiums for the Medicare prescription drug benefit, which will affect an estimated two million beneficiaries in 2017. The combined effect of these proposals is to reduce net Medicare spending by \$10.4 billion over five years and \$37.8 billion over ten years. The Part B provision is a repeat from last year's budget, but the provision affecting drug benefit premiums is new this year.

Fails to Address Medicare Physician Reimbursement Issues — The Congressional Budget Office estimates that under current law, doctors will experience a Medicare payment rate cut of 10 percent in 2008 and additional cuts in the following years. Every year since 2003, Congress has passed one-year fixes to prevent physician rate cuts from going into effect. Once again, the budget fails to propose a reform to the physician payment system.

Stops Double Payments for Indirect Medical Education (IME) — Under current law, Medicare makes payments to teaching hospitals as compensation for the relatively high costs they incur when treating Medicare patients. The payment structure for Medicare Advantage managed care plans essentially causes Medicare to pay for IME twice for Medicare Advantage beneficiaries: as a payment to teaching hospitals, and as a factor in the payment rate to private plans. The budget eliminates the IME payments to teaching hospitals, for savings of \$4.4 billion over five years and \$18.2 billion over ten years.

Applies 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 \$2.4 billion over five years and \$6.7 billion over ten years. The President’s 2007 budget also included this policy change.

Adjusts Payments for Post-Acute Care — The budget adjusts payments for the care of beneficiaries recovering from certain acute episodes (such as a hip replacement) so that the payment rates across different post-hospital settings are better aligned. This policy saves \$2.9 billion over five years and \$7.1 billion over ten years. The budget also includes further cuts to post-acute care providers via regulatory changes but does not describe these changes in any detail. The President’s 2007 budget included a similar policy change.

Phase Out Payments for Medicare Bad Debt — Currently, Medicare reimburses some Medicare providers, such as skilled nursing facilities, for 70 to 100 percent of their bad debt (cost-sharing owed by Medicare patients that has not been collected). The budget phases out Medicare reimbursements for bad debt over four years, for savings of \$7.2 billion over five years and \$26.5 billion over ten years.

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 opposed to 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 repeats a provision from the 2007 budget to impose 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. The budget projects that across-the-board cuts would not occur within the ten-year budget window under the President’s Medicare policies.

Assumes \$10.2 Billion in Regulatory Cuts — In addition to the legislated cuts, the budget assumes \$10.2 billion of Medicare regulatory savings over five years but provides no explanations regarding the policies underlying this estimate, other than to assert that the savings reflect targets for reforms in post-acute care and unspecified “program integrity” improvements.

Function 600: Income Security

Function 600 consists of a range of income security programs that provide cash or near-cash assistance (e.g., housing, nutrition, 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, trade adjustment assistance income support, food stamps, Temporary Assistance to Needy Families (TANF), foster care, and Supplemental Security Income (SSI). Federal and other retirement and disability programs, which comprise approximately one third of the funds in this function, are discussed here and in *Function 950 (Undistributed Offsetting Receipts)*.

For 2008, the President's budget provides \$324.8 billion for the mandatory programs in this function, a cut of \$303 million below the amount of spending projected under current law. Over five years, mandatory spending increases by a total of \$2.1 billion over the total projected under current law.

The President's budget provides \$49.2 billion in appropriations for Function 600 discretionary programs, a cut of \$201 million below the 2007 level¹⁶ and of \$1.5 billion below the amount needed to maintain purchasing power at the 2007 level.

Nutrition

Expands Food Stamp Eligibility for Some Families While Terminating it for Others — The budget includes three provisions affecting food stamp eligibility. The first would reduce spending by \$611 million over five years by cutting off food stamps for approximately 280,000 families who qualify because they receive TANF non-cash assistance (generally subsidized child care, transportation, or other work supports). In addition, some children who lose access to food stamps will also lose access to free school lunches, reducing child nutrition spending by \$70 million over five years. Another provision allows applicants to deduct the value of retirement savings accounts and IRS-approved college savings accounts, increasing food stamp

Terminate food stamps for some families receiving non-cash welfare services	-\$611 million
Exclude retirement and college savings accounts from income	+\$556 million
Exclude combat pay	+\$5 million
NET IMPACT	-\$50 million

¹⁶Unless otherwise noted, the 2007 level refers to the funding level in H.J.Res. 20, the Revised Continuing Appropriations Resolution, as passed by the House on January 31, 2007. The 2007 function and agency totals do not yet reflect the distribution of \$785 million that the bill provides for adjustments to federal employee compensation.

spending by \$556 million over the next five years. Finally, the budget increases food stamp spending by \$5 million over the next five years by making permanent the policy of excluding combat pay when calculating eligibility for military families, a policy first adopted in 2005 and renewed annually since then.

Eliminates the Commodity Supplemental Food Program (CSFP) — As it did last year, the budget eliminates funding for the Commodity Supplemental Food Program, which provides food packages designed to address specific nutrient deficiencies for about 500,000 low-income elderly persons, women, and children each month. The program was funded at \$107 million for 2007.

Caps Administrative Funding for the Women, Infants, and Children Program (WIC) — The budget includes \$5.4 billion for 2008 for WIC, an increase of \$182 million over the 2007 level. The Administration estimates that this funding level, together with a policy of capping the per-person grant for state administrative expenses at the 2006 national average (saving \$145 million), will be sufficient to serve 8.3 million individuals, about 100,000 more than in 2007. The Administration will also update WIC food packages based on recent nutritional research.

Cuts Emergency Food and Shelter — The budget reduces funding for the Federal Emergency Management Agency's Food and Shelter program by \$14 million below the level needed to maintain 2007 purchasing power. The Food and Shelter program provides grants to augment local nonprofit emergency food and shelter efforts.

Housing Assistance

Effectively Freezes Funding for Housing Assistance Vouchers and May Cause a Reduction in Affordable Housing Units — The budget provides \$16.0 billion, essentially the 2007 level, for the Housing Choice Voucher program (Tenant-based Section 8), which provides rental subsidy vouchers to approximately two million low-income families. The budget does not increase the number of families served – of the funding, \$14.4 billion (90.3 percent) is to renew vouchers for households currently being served, and most of the remainder is administrative fees. The budget also provides \$5.8 billion for project-based rental assistance, in which HUD contracts with buildings to provide lower rent to about 1.3 million low-income tenants. That level is too low to renew all existing contracts, but HUD has suggested it will augment the funding with unspecified recaptures. Finally, the budget rescinds \$1.3 billion from the Section 8 related accounts, significantly less than the budget rescinded in 2007.

Cuts Total Funding for Public Housing — The budget includes a \$136 million (3.5 percent) increase over the 2007 level for the public housing operating fund, but that increase is more than offset by two cuts – a \$415 million (17.0 percent) cut below the 2007 level for the public housing capital fund, which funds modernization of aging public housing, and a \$198 million reduction generated by zeroing out the HOPE VI program and rescinding the funds provided for HOPE VI for 2007. HOPE VI has successfully transformed severely distressed public housing into vibrant

mixed-income neighborhoods, but its funding has declined precipitously from the 2002 level of \$574 million.

Sharply Reduces Housing Assistance for the Elderly and Disabled — The budget reduces rental assistance for the disabled by \$112 million, or 47.3 percent below the 2007 level, and cuts rental assistance for the elderly by \$160 million, or 21.8 percent below the 2007 level.

Increases Funding for Homeless Assistance — The budget provides \$1.6 billion for homeless assistance grants, a \$144 million increase over the 2007 level.

Provides Constant Funding for Housing Assistance to Persons with HIV/AIDS — The budget provides \$300 million for the Housing Opportunities for Persons with AIDS (HOPWA) program, slightly more than is needed to keep pace with inflation.

Increases Funding for the HOME Investment Partnership Block Grant — As in previous years, the budget increases funding for the HOME Investment Partnership, a block grant to state and local governments to provide affordable housing. This year, the budget provides \$2.0 billion, a \$252 million increase over the 2007 level.

Unemployment Insurance (UI)

The Unemployment Insurance program is financed through a combination of state and federal taxes. State taxes pay for regular unemployment insurance benefits. Federal taxes, which are generated by a 0.8 percent employer tax on the first \$7,000 of each employee's wages, support federal and state unemployment administration and training services, the federal government's share of extended benefits for workers who have searched for work without finding it for more than 26 weeks, and loans to states that are unable to pay benefits because their state trust funds have run low.

Turns to Private Collection Agencies to Collect Some Overpayments while Providing Stagnant Funding for Payment Accuracy — As it has for the past several years, the budget reduces spending on unemployment insurance payments by \$1.7 billion over five years by implementing a hodgepodge of policies targeting overpayments, including new penalties, the use of private collection agencies, garnishment of tax refunds, and allowing states to use recovered overpayments to fund additional collection activities. These increases in use of outside vendors and diversion of benefit funds for administrative purposes come at the same time as the budget cuts discretionary administrative funding by \$253 million (9.0 percent) below the amount needed to maintain purchasing power at the 2007 level.

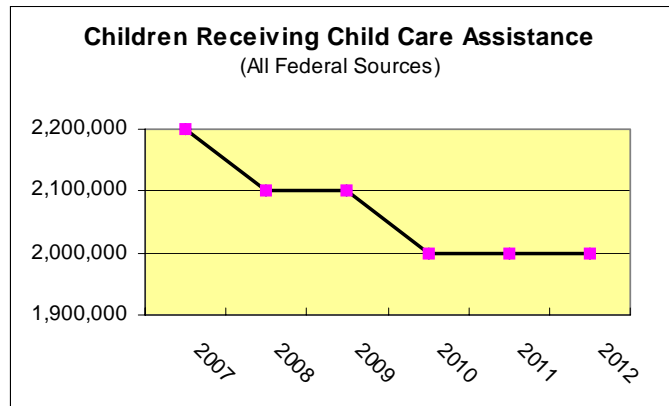
Extends Trade Adjustment Assistance — The budget provides \$3.4 billion over the next five years to continue Trade Adjustment Assistance Trade Readjustment Allowances, a \$73 million increase over spending projected under current law. TRAs continue income support for workers who lose their jobs due to import surges or outsourcing after their state unemployment benefits are

exhausted. The budget also provides a flat \$260 million for 2008 for training services in Function 500 (Education, Training, Employment, and Social Services). The limits on the training funds provide an effective cap on total income support payments, since benefits terminate for workers who are not enrolled in training after an initial period. Authorization for the program expires at the end of 2008, and the Administration plans to announce specific proposals at a later date.

Extends the Unemployment Insurance Surtax — The budget extends the unemployment insurance surtax (FUTA surtax), generating revenues of \$7.4 billion over five years. Under current law, the surtax is scheduled to expire at the end of calendar year 2007 and the federal employer tax rate would revert to 0.6 percent. For more information on the President’s tax proposals, see the *Taxes and Economy* chapter.

Family Support Programs

Reduces Funding for Child Care Assistance and Quality Improvement — The budget freezes both mandatory and discretionary funding for child care assistance and quality improvement at the 2007 level, for a total funding level of \$5.0 billion. The budget also permanently cuts the Social Services Block Grant (SSBG, or Title XX), by \$500 million, or 29.4 percent below the current level. SSBG is a flexible block grant many states use to supplement child care, in addition to funding child welfare, home-based services, adult protective services, prevention and intervention services, and services to the disabled. Last year’s budget included a temporary cut in SSBG, which was not enacted. SSBG is funded in Function 500 (Education, Training, Employment, and Social Services). The Administration estimates that these cuts will result in 800,000 fewer children receiving child care assistance over the next five years.



Cuts Low-Income Home Energy Assistance (LIHEAP) — The budget cuts LIHEAP, which helps low-income families pay their heating and cooling bills, by \$420 million, or 19.1 percent, below what is needed to keep pace with inflation.

Makes Changes to Recently Enacted Welfare Reform Proposals — As it did last year, the budget extends the TANF supplemental grants, which provide additional welfare funds for 17 states, through 2010. The grants are funded at \$319 million a year. The budget also eliminates the requirement that 90 percent of two-parent households served by state TANF programs participate in work or work activities, making the work participation rate uniform for all families, a change that is budget-neutral.

Extends SSI Eligibility for Refugees and Asylees — As in past years, the budget extends the current seven-year eligibility period for refugees and asylees to eight years, increasing SSI spending by \$67 million over the next three years to allow for immigration processing and other delays.

Offers Optional Foster Care Block Grant to States — The budget includes \$6.8 billion for foster care for abused and neglected children, essentially the level projected under current law. As in past years, the budget includes a provision to allow states to receive a fixed block grant equal to their currently projected spending instead of the per-child foster care reimbursements they receive now. Under current law, states are reimbursed for each child in foster care who meets a static eligibility standard, which has led to a decline in the federal share of support for abused and neglected children. The Administration's budget maintains the currently projected funding level, but allows states that choose the block grant to fund services in addition to foster care within the funding level.

Spending Associated with Tax Proposals

Eliminates 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 changes will reduce spending on the refundable portion of the Child Tax Credit by \$4.6 billion over ten years and will reduce spending on the refundable portion of the EITC by \$1.9 billion over ten years. For more information on the President's tax policies, see the *Taxes and Economy* chapter.

General and Federal Retirement and Disability

Federal Employees' Pay Raise —The budget increases federal civilian pay rates by 3.0 percent in January 2008, providing the same pay raise as for military personnel.

Other Mandatory Spending

Pension Benefit Guaranty Corporation — The budget again includes pension reforms. The budget continues to protect the long-term solvency of the PBGC and reforms single-employer pension plans. The recently enacted Pension Protection Act included funding rules to fully pay for pension plans and adjusted both the variable and flat rate premiums to reflect the real risks and costs of benefits. It also required that plans provide timely information on their funding status to workers, investors, and regulators to ensure greater accountability. The Act increased flat-rate premiums in single-employer pension plans from \$19 per participant to \$30 per participant and variable rates to reflect new funding targets. The budget authorizes PBGC's Board of Directors to set the variable premium rate in 2008, and extends the variable rate premium to plans' non-vested as well as vested liabilities. This provision saves \$1.4 billion in 2008, \$5.5 billion over the 2008-2012 period, and \$10.6 billion over ten years.

Federal Employees Compensation Act — The budget again 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 provision saves \$493 million over the ten-year period (2008-2017).

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 \$1.4 billion over the ten-year period (2008-2017).

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 \$482.8 billion in retirement and survivors benefits to 40.7 million recipients in 2007. It will pay \$503.7 billion in retirement and survivors benefits to 41.3 million recipients in 2008. This spending is mandatory and off-budget.

Disability Insurance (DI) — Under current law, SSA will pay \$99.1 billion in disability insurance benefits to 8.7 million recipients in 2007. It will pay \$104 billion in disability insurance benefits to 9.1 million recipients in 2008. This spending is mandatory and off-budget.

Administrative Costs — The budget includes \$9.7 billion for the Social Security Administration for programs the agency administers in 2008 (the amount includes funding for Supplemental Security Income and Medicare related activities SSA conducts). The level is an increase of \$346 million over the 2007 level. This spending is discretionary. Of this total, \$4.8 billion is related to OASDI activities and is off-budget.

Income — Under current law, income to the OASI and DI programs will be \$775.3 billion in 2007 and will be \$824.8 billion in 2008. Income from payroll taxes and interest from the Treasury is off-budget. The transfer of individual income taxes on Social Security benefits is treated as on-budget and counted as mandatory spending with a corresponding receipt in the trust funds. Under current law, proceeds from taxation of benefits will be \$19.4 billion in 2006 and \$20.0 billion in 2008.

Budget Detail

Social Security Private Accounts — The budget proposes to allow workers to divert payroll taxes into private accounts in exchange for reduced Social Security benefits when they retire. See *Entitlements and Other Mandatory Spending* for more detail.

Includes Disability Insurance (DI) Funding Warning — The budget proposes that the Social Security Trustees would issue a funding warning for the Disability Insurance (DI) program in its annual Trustees Report if the Social Security actuaries project the program has a negative cash flow of more than ten percent for four consecutive years over a ten-year period. The warning would require the President to send forward legislation, and Congress would then consider it.

Cap Adjustment for Disability Insurance (DI) Program Integrity Activities — The budget proposes administrative funding cap adjustments for 2008 through 2010 to provide funding for program integrity activities. These activities would save \$1.7 billion over five years and \$4.5 billion over ten years for the Disability Insurance program. The baseline assumes recent trends in program integrity activity and the budget projects the savings in benefit payments resulting from increased Continuing Disability Reviews.

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. The budget proposes a mandatory system for collecting data on pensions not covered by public employment. The proposal saves \$453 million over five years and \$2.5 billion over ten years.

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 \$587 million over five years and \$1.6 billion over ten 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 \$470 million over five years and \$1.1 billion over ten years.

Function 700: Veterans Benefits and Services

Function 700 includes the programs of the Department of Veterans Affairs (VA), such as veterans medical care, compensation and pensions, education and rehabilitation benefits, and housing programs. It also includes the Department of Labor's Veterans' Employment and Training Service and a few other agencies and programs.

For 2008, the President's budget provides \$39.6 billion in appropriations for veterans programs, which is \$3.1 billion (8.5 percent) more than the 2007 level¹⁷ and \$1.9 billion (5.1 percent) above the amount needed to maintain purchasing power at the 2007 level. However, the budget cuts funding for veterans by more than \$5 billion over the following four years, for a net reduction of \$3.4 billion over five years (2008-2012). Almost 90 percent of appropriated veterans funding goes to medical care and hospital services.

Total Appropriated Funds for Veterans

(Budget Authority in Billions of Dollars)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u> <u>2008-12</u>
2008 President's Budget	39.6	38.8	38.6	39.4	39.7	196.0
Current Services Level	<u>37.6</u>	<u>38.7</u>	<u>39.8</u>	<u>41.0</u>	<u>42.2</u>	<u>199.5</u>
Amt. Above/Below Current Services	+1.9	+0.1	-1.3	-1.6	-2.5	-3.4
Note: Fee Increases on Veterans (mandatory)	-0.4	-0.5	-0.5	-0.5	-0.5	-2.3

Numbers may not add due to rounding.

Discretionary Programs

Fails to Maintain Veterans Medical Care Funding over Time — The 2008 budget for medical care is \$34.2 billion. This amount includes funding for medical services, facilities, and administration. The President's budget does not specify medical care funding after 2008, but the budget cuts total veterans funding by more than \$3 billion from 2008 to 2012. Given that medical care appropriations are nearly 90 percent of total appropriations for veterans, medical care funding faces significant cuts over the five-year period.

Imposes New Enrollment Fees and Increases Co-payments for Veterans — The budget raises fees on veterans for their health care by \$355 million in 2008, \$2.3 billion over five years, and

¹⁷Unless otherwise noted, the 2007 level refers to the funding level in H.J.Res. 20, the Revised Continuing Appropriations Resolution, as passed by the House on January 31, 2007. The 2007 function and agency totals do not yet reflect the distribution of \$785 million that the bill provides for adjustments to federal employee compensation.

\$4.9 billion over ten years. Effective in 2009, the budget imposes an annual income-based enrollment fee ranging from \$250 to \$750. In 2008, it increases pharmacy co-payments from \$8 to \$15 for Priority 7 and 8 veterans. These are veterans without service-connected disabilities rated above zero percent who have incomes above \$27,790. The budget also eliminates the practice of offsetting veterans co-payments by the amount paid by third-party health plans. This change will result in veterans paying higher co-payments up front, with no guarantee that third-party insurers will reimburse them. Congress has rejected such fee increases in each of the last four years.

Does Not Cover Full Costs of Care for the Large Number of New War Veterans — The budget purports to cover full health care costs in 2008 for 263,000 veterans of the Iraq and Afghanistan wars. That number is 70 percent more than the 155,000 veterans in 2006, and 26 percent above the 209,000 that VA estimates for 2007. However, after 2008, the budget cuts veterans funding, nearly 90 percent of which is for medical care, providing a level of resources unlikely to accommodate health care for all of the veterans returning from these wars.

Reduces the Number of Veterans Using VA Health Care — Last year, VA estimated that the fee increases would discourage 200,000 of the approximately 1.3 million Priority 7 and 8 veterans from using VA's health care system, a 15-percent reduction. This year, VA estimates the number to be 111,000 in 2009, when the new enrollment fees take effect. VA's basis for lowering the estimate is not specified in the budget.

Continues Denial of New Priority 8 Veterans — On January 17, 2003, VA stopped enrolling new Priority 8 veterans for medical care. (Priority 8 veterans have no service-connected disabilities and have relatively higher incomes.) The budget continues this policy. According to VA, if this restriction were lifted, another 1.6 million veterans could be expected to enroll in the VA health care system in 2008.

Assumes "Efficiencies" to Partially Offset Health Care Costs — The 2008 budget assumes that VA will achieve management efficiencies to partially offset the costs of health care. However, the budget does not specify the assumed savings for 2008, whereas the 2007 budget estimated them to total \$1.1 billion. This year marks the sixth year that the budget assumes these efficiencies. In February 2006, the Government Accountability Office 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."¹⁸

Reduces Medical and Prosthetic Research — The budget provides \$411 million for medical and prosthetic research, which is \$1 million (0.2 percent) less than the 2007 level and \$15 million (3.5 percent) below the level needed to maintain purchasing power at the 2007 level. The budget also reduces the number of full-time equivalent employees by 193. VA's research and development program benefits all veterans, but it is particularly important for new veterans – those

¹⁸GAO-06-359R, "Limited Support for VA's Efficiency Savings," page 3, February 1, 2006.

returning from the wars in Iraq and Afghanistan. This research includes work to improve treatment of post-traumatic stress disorder, blast-related injuries, and Gulf War-related illness.

Significantly Increases Construction Funding — The budget includes almost \$1.1 billion in 2008 funding for VA construction, which is \$363 million (50.7 percent) more than the 2007 level and \$348 million (47.6 percent) more than the level needed to maintain purchasing power at the 2007 level. Notably, the 2007 level is a steep reduction of \$1.2 billion from 2006 appropriations. VA construction funding goes to each of VA's three administrations, some central staff offices, and grants to states for extended care facilities and cemeteries. More than three-quarters of the budget goes to construction of veterans medical and extended care facilities.

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, 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. This function includes several components of the Department of Homeland Security.

For 2008, the President's budget provides \$43.6 billion in appropriations for programs in this function, an increase of \$1.4 billion above the 2007 level¹⁹, excluding emergency funding. The budget increases several federal law enforcement programs that are tied to homeland security. However, like previous budgets submitted by the Administration, the 2008 budget significantly cuts state and local law enforcement programs. These cuts hurt first responders' ability to protect their communities on a day-to-day basis.

Federal Law Enforcement Increased

Customs and Border Enforcement Builds Staffing and Barriers — Customs and Border Enforcement protects air, land, and sea ports of entry. The President's 2008 budget provides \$8.8 billion in discretionary funding for the agency, a \$2.4 billion increase over the 2007 enacted level, excluding funding for emergencies. However, factoring in emergency funding from 2007 (\$1.6 billion), the budget increases overall funding by \$754 million. The budget includes \$1.0 billion to physically secure and control the southwest border of the United States (\$1.2 billion in emergency funding was provided in 2007). Overall, the agency will hire 3,000 border patrol agents and improve processing at points of entry.

Federal Bureau of Investigation Receives Significant Increase — The FBI's responsibilities include detecting, investigating, and prosecuting federal crimes, as well as contributing towards counterintelligence and protecting national security. Overall, the budget provides \$6.5 billion for the FBI, a \$519 million (8.6 percent) increase over last year's level. Of the total funding, more than 60 percent of the Bureau's budget is classified as law enforcement activities. The majority of the increase goes toward increasing the Bureau's intelligence, surveillance, communication, and information technology capabilities.

Other Law Enforcement Receives More Modest Increases — Other federal law enforcement programs receive more modest increases in discretionary funding. Those agencies include the

¹⁹Unless otherwise noted, the 2007 level refers to the funding level in H.J.Res. 20, the Revised Continuing Appropriations Resolution, as passed by the House on January 31, 2007. The 2007 function and agency totals do not yet reflect the distribution of \$785 million that the bill provides for adjustments to federal employee compensation.

Secret Service (a \$122 million increase over the 2007 level), the U.S. Marshals Service (a \$107 million increase), the Drug Enforcement Administration (a \$74 million increase) and the Bureau of Alcohol, Tobacco, Firearms, and Explosives (a \$39 million increase).

First Responder Funding is Cut

State and Local Law Enforcement Assistance Severely Cut — The President's 2008 budget reduces funding for programs that assist state and local governments in combating violent crime. The Administration's budget eliminates individual initiatives, such as the State Criminal Alien Assistance Program, and instead creates two flexible grant programs. While the 2007 enacted level for the state and local programs totaled almost \$1.1 billion, the 2008 budget cuts the programs by more than 60 percent (or \$660 million), making communities compete for a much smaller pool of resources.

Community Oriented Policing Services (COPS) Virtually Eliminated — The President's budget provides only \$32 million in new funding for the COPS program for 2008, compared with 2007 funding of more than \$542 million, and it cancels \$87 million of the program's existing resources. COPS provides grants and other assistance to help communities hire, train, and retain police officers and to improve law enforcement technologies.

Juvenile Justice Programs Cut — The 2008 budget cuts juvenile justice programs by \$82 million. The programs provide grants to communities to reduce delinquency, to prevent sexual exploitation, and to improve the juvenile justice system.

Violence Against Women Program Underfunded — The Violence Against Women program provides varied assistance to prevent and prosecute abuse committed against women. The budget provides \$370 million for Violence Against Women programs for 2008, a level that is \$20 million short of what the program needs to maintain the current level of services.

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.

For 2008, the President's budget provides \$17.6 billion in appropriations for programs in this function, \$1.9 billion above the 2007 level²⁰ and \$1.1 billion above the amount needed to maintain purchasing power at the 2007 level.

Discretionary

Internal Revenue Service (IRS) — The budget includes \$10.5 billion for general government programs in the Internal Revenue Service, an increase of \$163 million above the level needed to maintain constant purchasing power at the 2007 level and \$527 million above the 2007 level.

Legislative Branch — The budget includes \$3.7 billion, \$278 million above the level needed to maintain constant purchasing power and \$389 million above the 2007 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 Government Accountability Office, the Library of Congress, and the Congressional Budget Office.

Executive Office of the President — The budget includes \$341 million for the Executive Office of the President (EXOP), \$7 million above the 2007 level.

District of Columbia's Courts — The budget includes \$257 million for the District of Columbia's courts, \$8 million below the amount needed to maintain constant purchasing power at the 2007 level.

Mandatory

Arctic National Wildlife Refuge Lease Receipts — For the seventh consecutive year, the President's budget assumes opening the Arctic Refuge to oil and gas exploration. Over the 2008-2012 period, the President's budget includes \$8.0 billion from lease bonuses in Function 950 (Undistributed Offsetting Receipts) and \$4.0 billion distributed back to the State of Alaska in this function.

²⁰Unless otherwise noted, the 2007 level refers to the funding level in H.J.Res. 20, the Revised Continuing Appropriations Resolution, as passed by the House on January 31, 2007. The 2007 function and agency totals do not yet reflect the distribution of \$785 million that the bill provides for adjustments to federal employee compensation.

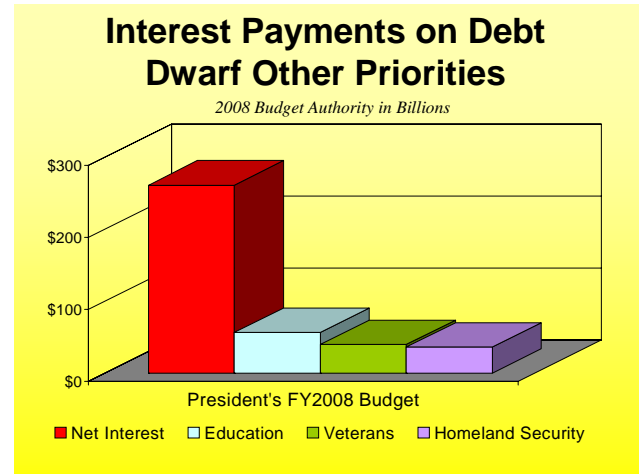
Forest County Safety Net Payments — The budget authorizes the Secretary of Agriculture to dispose of certain Forest Service lands which were identified as isolated or inefficient to manage. Receipts from the sales will be used for county safety net payments to the most affected areas. This proposal costs \$648 million over four years (2009-2012).

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 \$102 million over two years (2008-2009).

Function 900: Net Interest

Burden of Debt Service Continues to Mount —

Annual net interest is expected to grow by 19.1 percent, to \$285 billion over five years under the Administration's policies. This cost shows the growing burden of the national debt on working families. American households already devote an annual average of almost \$2,000 in taxes to paying the interest on the national debt, about twice the total of appropriations for the entire Department of Education, all veterans' health care, and homeland security programs.



Net Interest Will Eventually Soak Up Most Revenues Under Bush Policies — The Government Accountability Office's assessment of the long-run budget outlook shows that if the tax cuts are extended and discretionary spending continues to grow with the size of the economy, by 2040 more than two-thirds of revenues will be required just to pay the interest on the debt. Under this projection, net interest becomes the largest federal spending program, larger than Social Security, and larger than Medicare and Medicaid combined.

Net Interest is Truly Wasteful Spending — Net interest is the only item in the President's budget that can be described as truly wasteful spending. Interest on the debt represents wasted spending that, under more prudent fiscal policies, could be used towards more worthwhile needs, such as education, homeland security, or improving our nation's infrastructure. Over the five-year budget window, the President's budget estimates \$1.6 trillion will be spent on net interest payments.

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.

Homeland Security and Non-Security — The budget includes an allowance of \$13.1 billion to reflect anticipated increases in the final enacted appropriations for 2007 relative to the levels in the short-term continuing resolution, which expires on February 15, 2007.

Payment Transaction Integrity — The budget revises an existing exception to the Right to Financial Privacy Act to allow the federal government to trace and recover federal payments sent electronically to the wrong account. This initiative saves \$273 million in 2008, and \$3.1 billion over a ten-year period (2008-2017).

Debt Collection Initiatives — The budget again includes debt collection initiatives 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 shifting the cost of collection enforcement to delinquent tax debtors. These initiatives save \$11 million in 2008, and \$65 million over a ten-year period (2008-2017).

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 2008, the budget assumes offsetting receipts of \$86.3 billion. Over the five-year period (2008-2012), the budget assumes offsetting receipts of \$439.4 billion.

Federal Employee Retirement System — For 2008, federal agencies will pay \$64.8 billion toward federal employee retirement (including the Civil Service Retirement System, Military Retirement System, Medicare Health Insurance Trust Fund, and the Social Security trust funds). As employees’ pay increases, agencies are required to increase their payments to these funds.

Federal Employees’ Pay Raise — The budget increases federal civilian and military pay rates by 3.0 percent in January 2008.

Mandatory

Arctic National Wildlife Refuge Lease Receipts — For the seventh consecutive year the President’s budget assumes opening the Arctic Refuge to oil and gas exploration. Over the 2008-2012 period, the President’s budget includes \$8.0 billion from lease bonuses for the federal treasury in this budget function and \$4.0 billion distributed back to the State of Alaska in Function 800 (General Government).

Spectrum Auctions — The budget permanently extends the authority of the FCC to auction spectrum, which expires in 2011, for savings of \$1.2 billion over ten years. The budget also authorizes the FCC to set user fees on unauctioned spectrum. This proposal is expected to save \$1.2 billion over five years (2008-2012) and \$3.6 billion over ten years. The budget also includes a proposal to restore the FCC’s authority to issue domestic service spectrum licenses, which would save \$690 million over ten years (2008-2017). In addition, the budget includes savings of \$1.5 billion over ten years (2008-2017) from auctioning the land-based component of hybrid terrestrial-satellite communication networks.

User Fees and Charges

Proposed User Fees Double — 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 user fees totaling \$80.7 billion over five years; almost double the level of new user fees proposed last year. 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 higher premiums to companies for pension insurance. Every one of the Bush Administration’s budgets has included billions of dollars in new fees and user charges, and the amount of new fees in the budget grows every year. The accompanying table 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 2008 budget includes \$80.7 billion in new fees over five years (2008- 2012) – a nearly twenty-fold increase.

User Charge Proposals in the President’s Budget

(five-year totals in billions of dollars)

Budget Year	Amount Proposed
2008	\$80.7
2007	\$47.2
2006	\$44.7
2005	\$19.5
2004	\$15.3
2003	\$10.4
2002	\$ 4.9

Some of the more significant user fees proposed by the Administration include:

- **Increases Fees for Veterans’ Health Care:** The budget imposes new enrollment fees and increases co-payments on veterans for health care. Fee collections would be \$2.3 billion from 2008-2012; Congress has rejected such proposals in each of the last four years.
- **Increases Pension Benefit Guarantee Corporation Premiums:** The budget increases flat-rate premiums currently used in single-employer pension plans from \$19 per participant to \$30 per participant and increases variable rates to reflect new funding targets. Fee collections amount to \$5.5 billion over five years.
- **User Fees for Air Traffic Control:** Beginning in 2009, the Administration proposes a user fee system to finance the Federal Aviation Administration’s (FAA) air traffic control services. The new cost-based system generates \$35.4 billion in discretionary offsetting collections over the 2009-2012 period and reduces receipts by \$36.4 billion over the same period.
- **Increases Medical Care Fees for Military Retirees:** The budget increases enrollment fees and deductibles under Tricare for military retirees under the age of 65. This proposal assumes savings of \$1.9 billion for 2008 and \$14.5 billion over five years.
- **Applies Income-Related Medicare Premiums to More Beneficiaries:** The budget eliminates the indexing of income thresholds that trigger higher Medicare premiums, with the result that a growing proportion of middle-income seniors will be affected by the means-tested premium every year. The budget uses the same unindexed income thresholds to establish new income-related premiums for the Medicare prescription drug benefit. The combined effect of these proposals is to increase premium receipts by \$5.5 billion over five years.

User Fee and Other User Charge Proposals**

(Estimated collections in millions of dollars)

	2007	2008	2009	2010	2011	2012	2008 - 2012
DISCRETIONARY							
1. Offsetting Collections							
Department of Commerce: Minority Business Development							
Conference Fees	--	*	*	*	*	*	2
Department of Defense							
Medical care enrollment fees and deductible	--	1,862	2,322	2,815	3,424	4,061	14,484
Department of Health and Human Services							
Food and Drug Administration							
Generic drug review and activities fee	--	16	16	16	16	16	80
Prescription drug user fee	--	339	333	332	340	343	1,687
Medical devices user fee	--	48	47	47	48	49	239
Mammography standards user fee	--	18	18	18	18	18	90
Centers for Medicare and Medicaid Services: Survey and certification user fee	--	35	34	34	35	35	173
Department of Transportation							
Federal Aviation Administration: User fee proposal	--	--	8,173	8,660	9,092	9,511	35,436
Federal Election Commission							
Registration fees	--	*	*	*	*	*	1
2. <i>Offsetting Receipts</i>							
Department of Homeland Security: US Citizenship and Immigration Services							
Systematic alien verification for entitlements program	--	3	3	3	3	3	15
Department of Housing and Urban Development							
Office of Federal Housing Enterprise Oversight	--	-66	-65	-65	-66	-67	-329
Department of the Interior							
Repeal Energy Act fee prohibition	--	21	21	21	21	21	105
Subtotal , discretionary user charge proposals	--	2,277	10,093	11,882	12,932	13,991	51,983
MANDATORY							
1. <i>Offsetting collections</i>							
Department of Labor							
Pension Benefit Guaranty Corporation premiums	--	--	1,390	1,387	1,400	1,295	5,472
Federal Housing Enterprise Regulator							
Government-Sponsored Enterprises regulatory fee	--	101	105	105	107	109	527
Federal Housing Finance Board							
Federal Home Loan Bank fees	--	-35	-39	-40	-41	-42	-197
2. <i>Offsetting receipts</i>							
Department of Agriculture							
Food Safety and Inspection Service user fees	--	96	98	100	102	104	500
Grain, Inspection, Packers, and Stockyards Administration user fees	--	22	22	23	23	24	115
Animal and Plant Health Inspection Service user fees	--	9	13	13	14	14	63
Federal crop insurance fees	--	--	15	15	15	15	60
Forest county safety net payments	--	467	264	180	137	--	1,048
Department of Defense							
National defense stockpile asset sales: Authorization for additional sales	--	69	145	198	145	25	582
Department of Health and Human Services							
Food and Drug Administration: Re-inspection fees and export certification	--	27	28	28	29	30	142
Centers for Medicare and Medicaid Services: Additional Medicare premiums	--	403	804	1,116	1,432	1,792	5,547

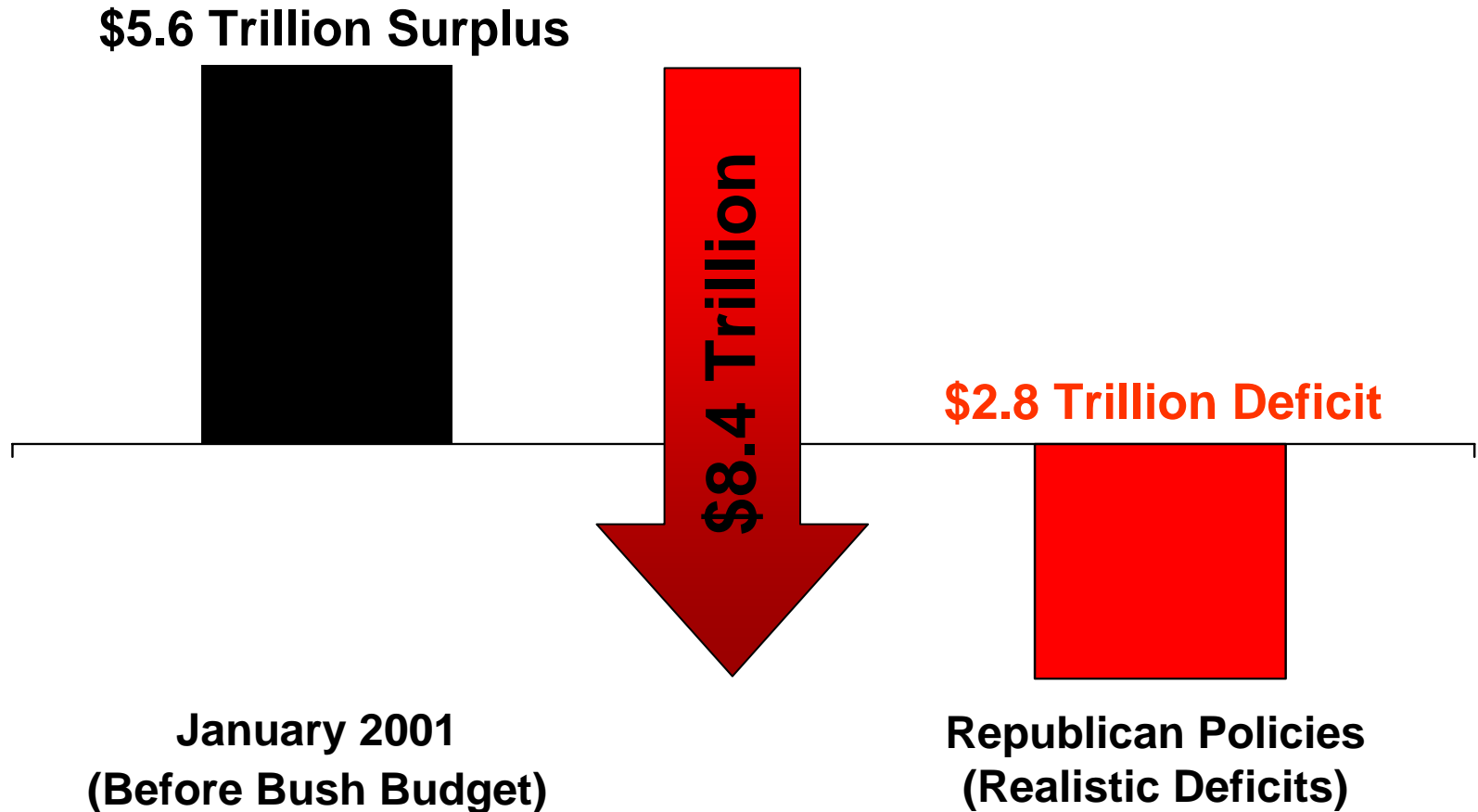
	2007	2008	2009	2010	2011	2012	2008 - 2012
Department of Housing and Urban Development							
Ginnie Mae premium increase	--	46	46	46	46	46	230
Government-Sponsored Enterprises oversight fee	--	6	6	6	6	6	30
Department of the Interior							
Amend Bureau of Land Management Federal land sale authority	--	5	10	14	53	53	135
Require up-front payment of coal bonus bid receipts	--	2	121	115	54	134	426
Arctic National Wildlife Refuge lease Bonuses:							
Collections for payment to Alaska	--	--	3,502	2	503	3	4,010
Collections deposited in the Treasury	--	--	3,502	2	503	3	4,010
Department of Labor							
Foreign labor certification fees	--	65	65	65	65	65	325
Department of Veterans Affairs							
Pharmacy co-pay increase	--	311	304	306	307	342	1,570
Income-based medical care enrollment fee	--	--	138	134	129	125	526
Third-party insurance co-payment offset	--	44	44	44	43	43	218
Corps of Engineers - Civil Works							
Additional recreation fees	--	7	10	13	16	19	65
Environmental Protection Agency							
Pesticide user fees	--	66	57	60	66	57	306
Pre-manufacture notice user fees	--	4	8	8	8	8	36
Commodity Futures Trading Commission							
Transaction fees	--	86	89	92	95	99	461
Federal Communications Commission							
Spectrum license fee authority	--	50	150	300	300	400	1200
Extend spectrum auction authority	--	--	--	--	--	200	200
Prospective ancillary terrestrial component spectrum auctions	--	150	150	150	150	150	750
Domestic satellite spectrum auctions	130	252	105	100	100	75	632
Subtotal, mandatory user charge proposals	130	2,253	11,152	4,582	5,807	5,194	28,989
GOVERNMENTAL RECEIPTS							
Department of Transportation							
Federal Aviation Administration: Aviation overflight fees	--	--	-56	-58	-60	-62	-236
Total user charge proposals	130	4,530	21,999	16,406	18,679	19,123	80,736

* \$500 thousand or less

**A negative sign indicates a decrease in collections.

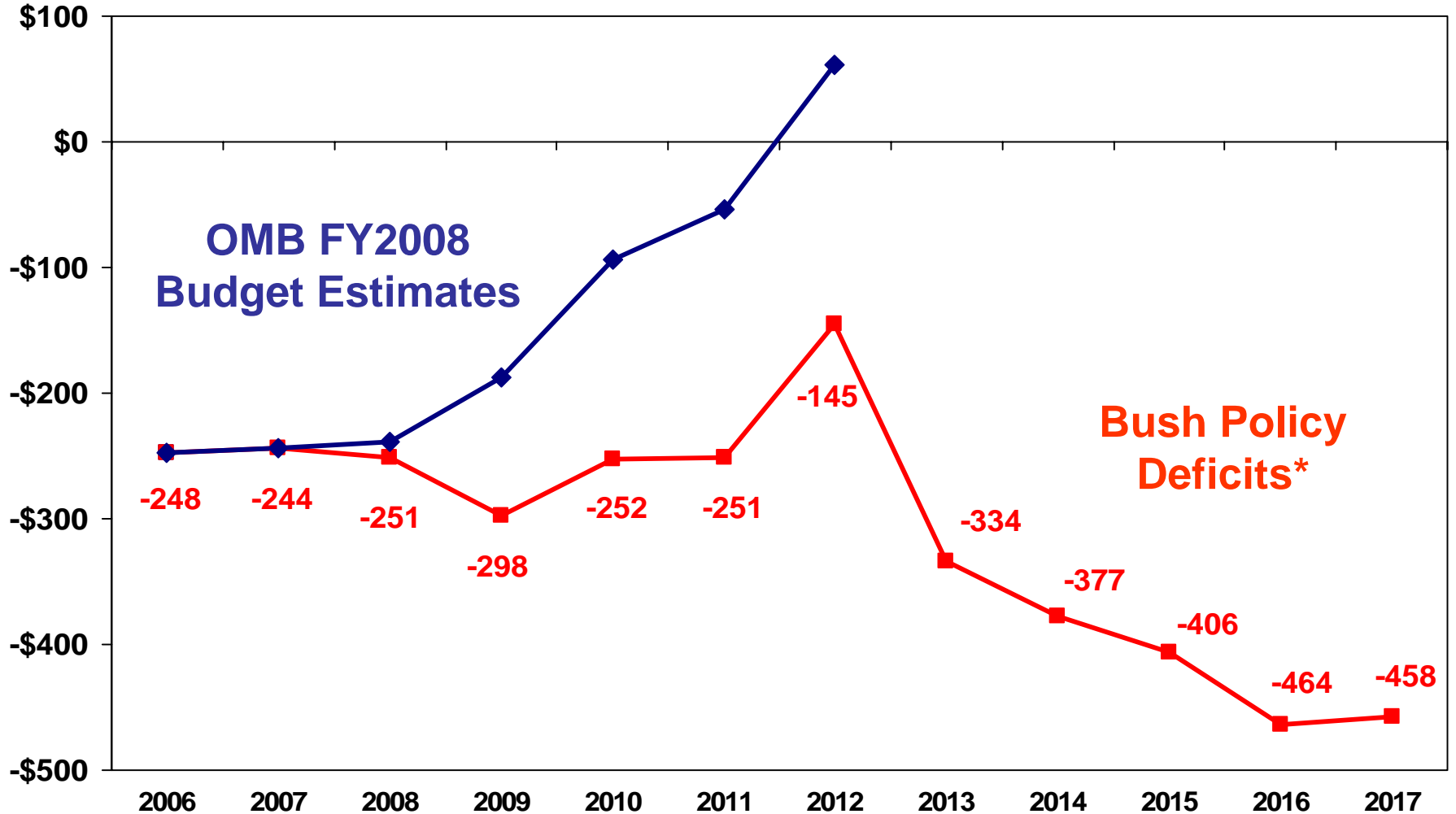
Surplus Declines \$8.4 Trillion Under President's Policies

Total Surplus/Deficit 2002-2011



Bush Policy Deficit Shows That The Budget Never Reaches Balance

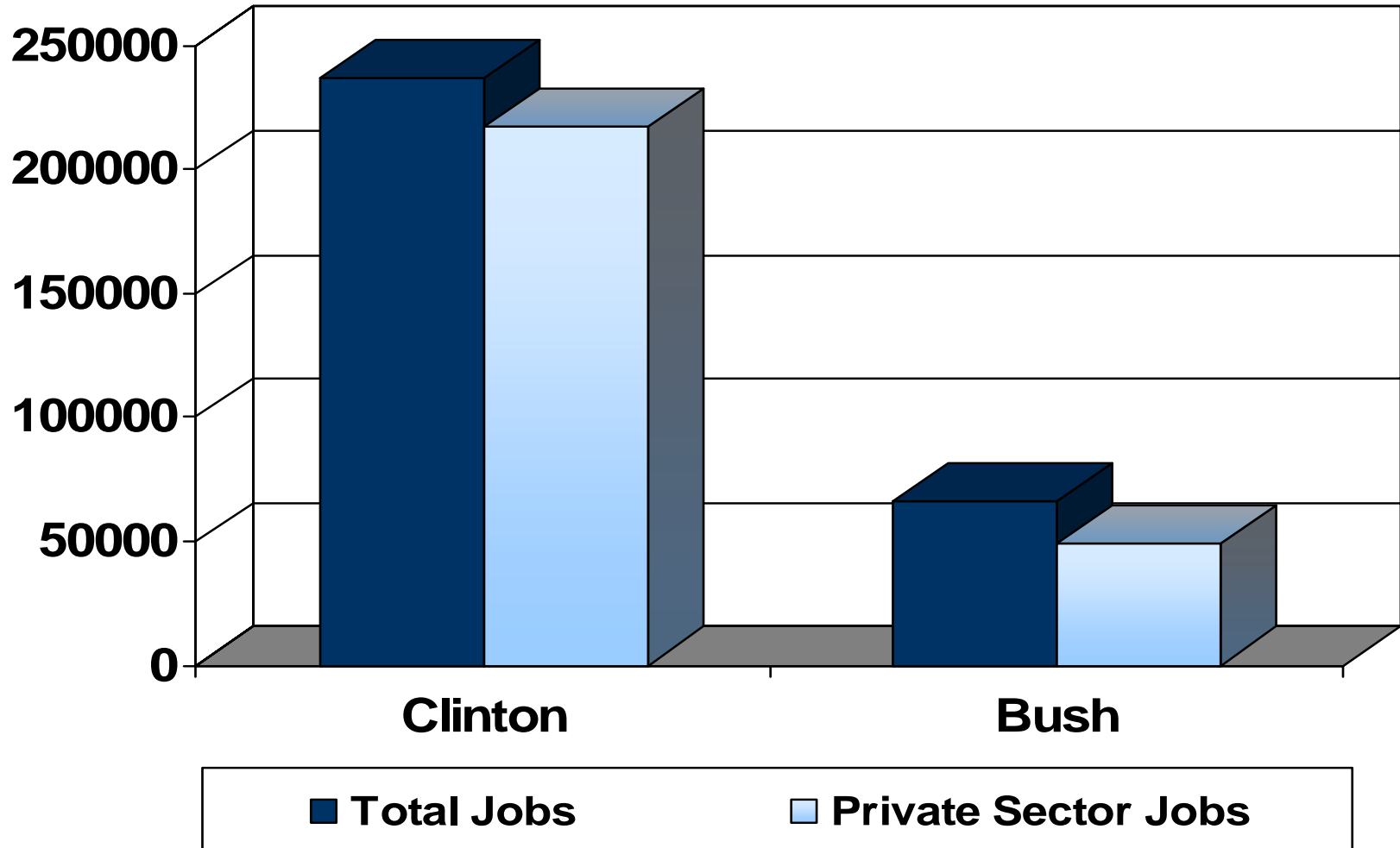
Deficits in Billions of Dollars



* Bush Policy Deficits include omitted costs

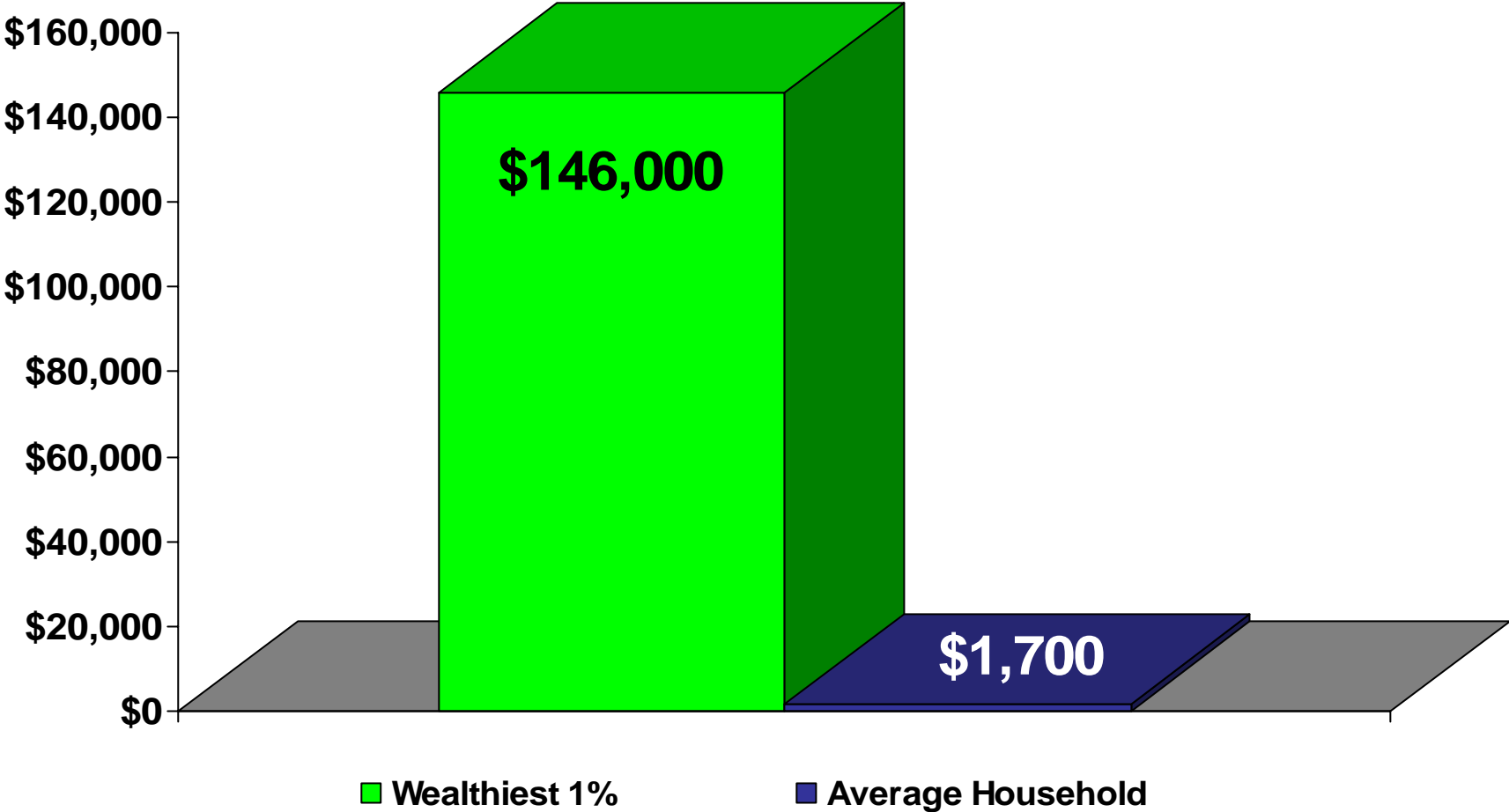
Source: OMB & CBO
2/5/2007

Average Monthly Job Gains Under Clinton and Bush Administrations



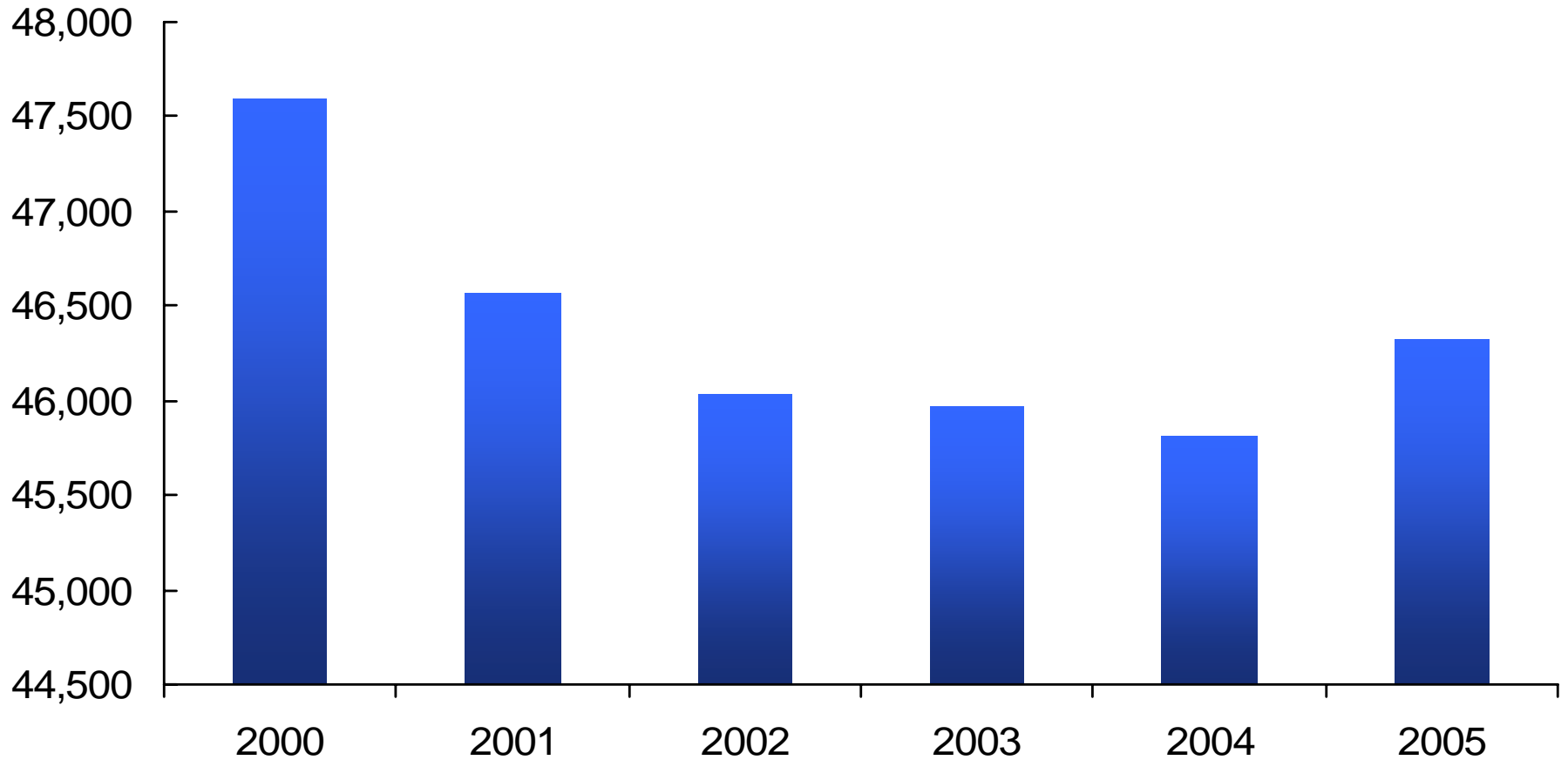
Unequal Gains: Middle-Class Americans Left Behind Under Bush Policies

*Increase in Annual Income, 2004**



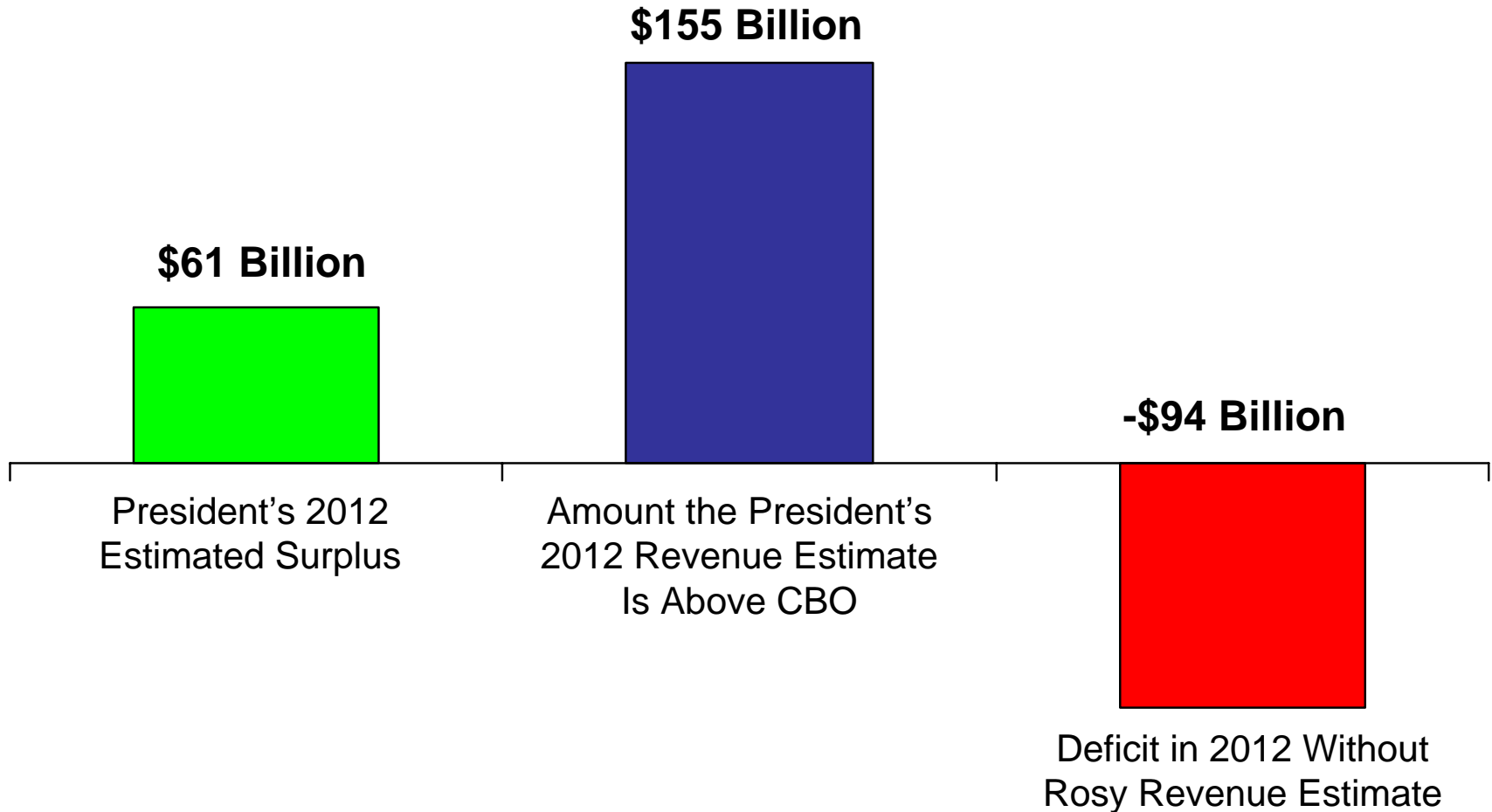
Typical Family Income Decreases Under Bush Administration

(Median Household Income, Constant 2005 Dollars)



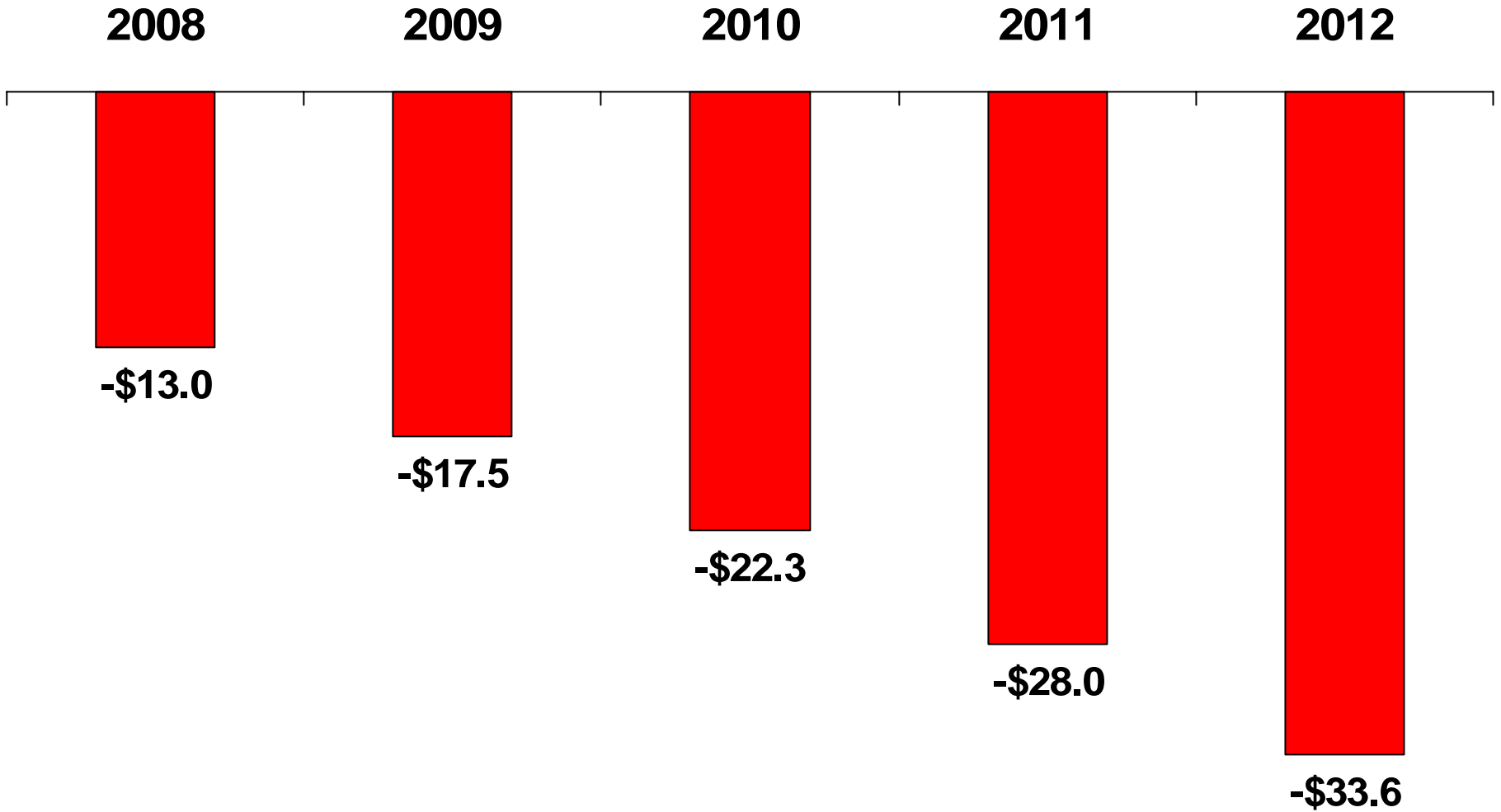
Bush Budget in Deficit in 2012

Without Rosy Revenue Assumptions, Bush Budget Never Reaches Balance



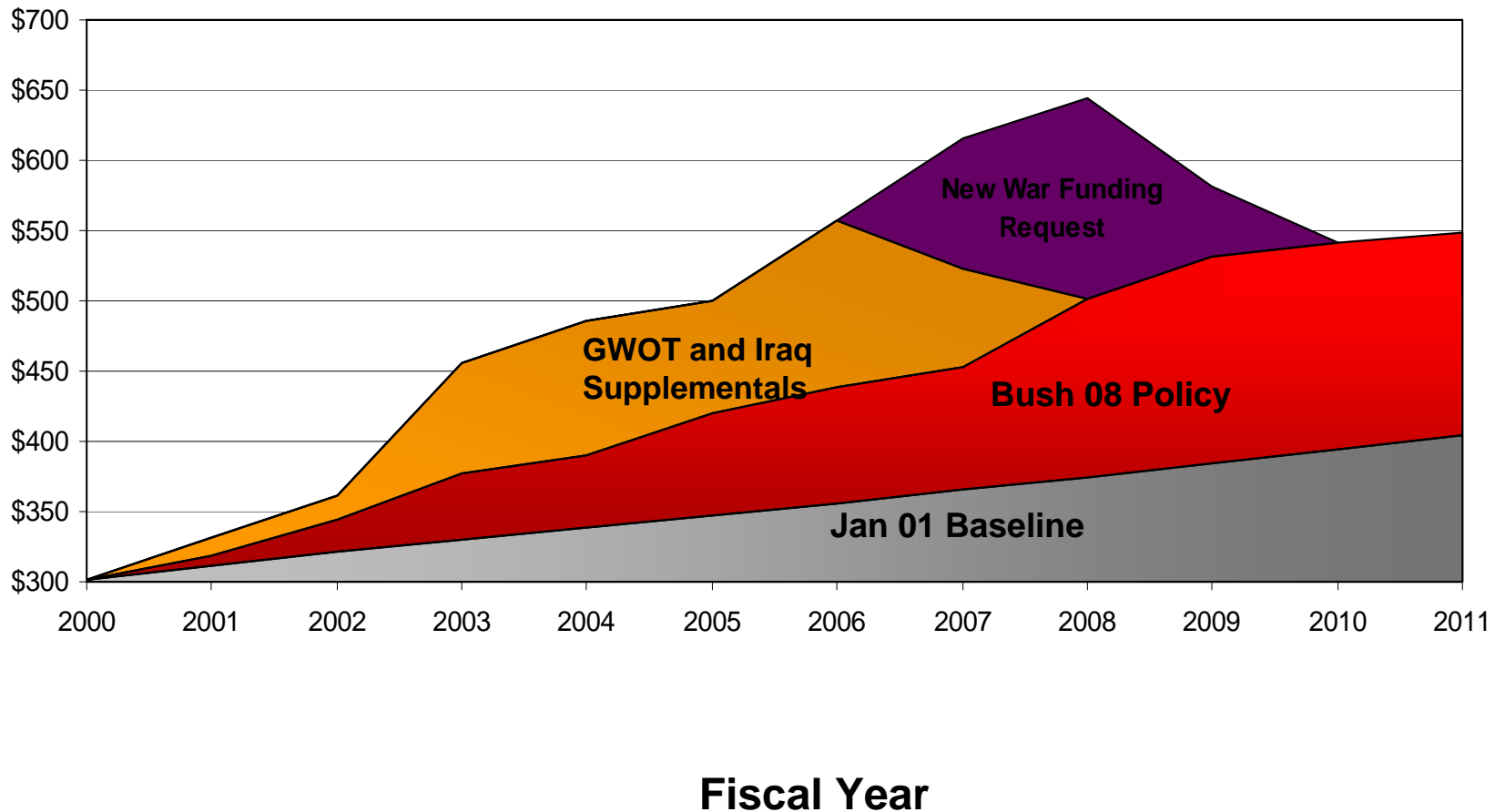
President's Budget Cuts Domestic Purchasing Power By \$114 Billion Over Five Years

Cuts in Billions of Dollars



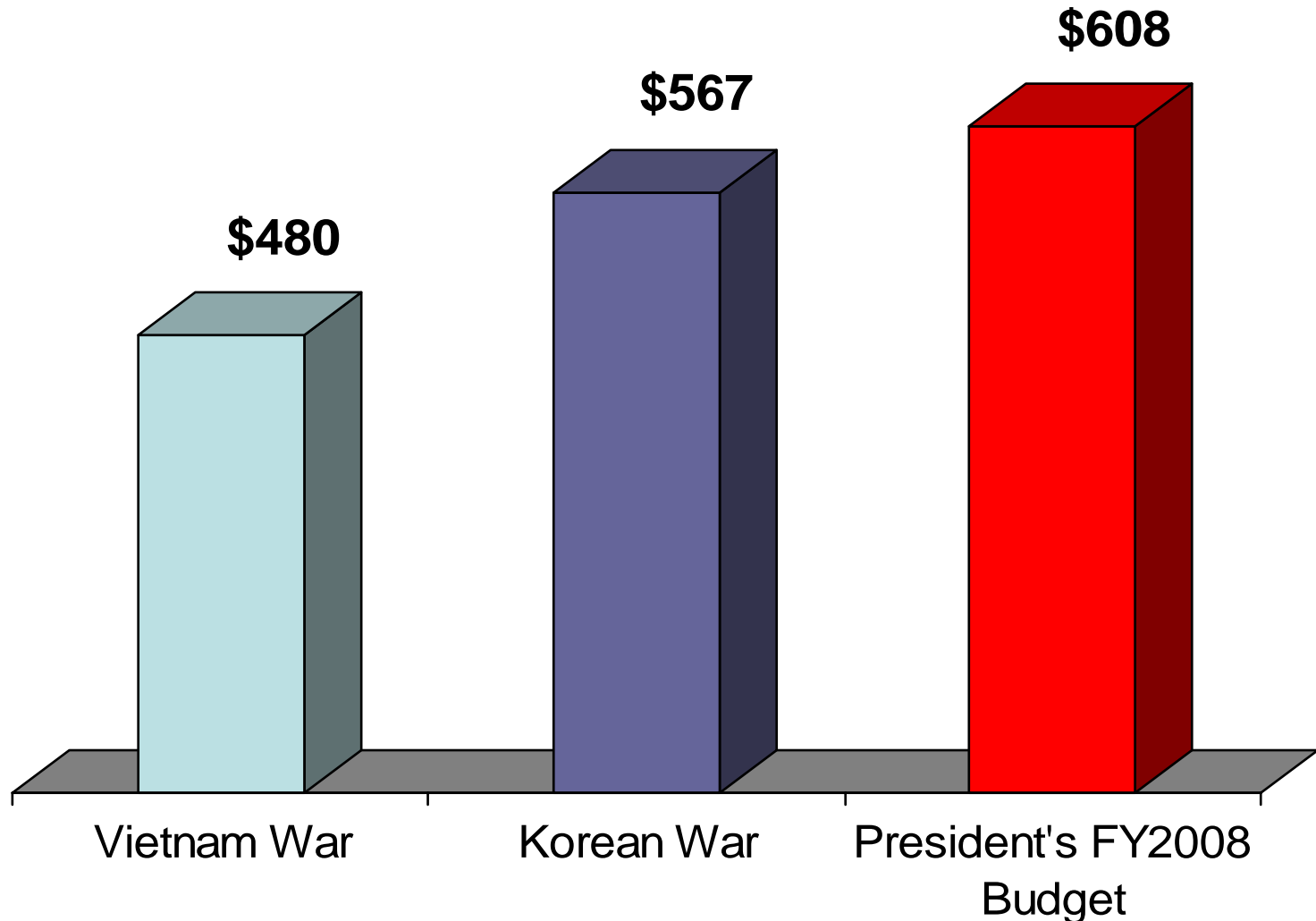
Increased Cost of Defense Under Bush Administration

050 Disc BA in Billions of Dollars



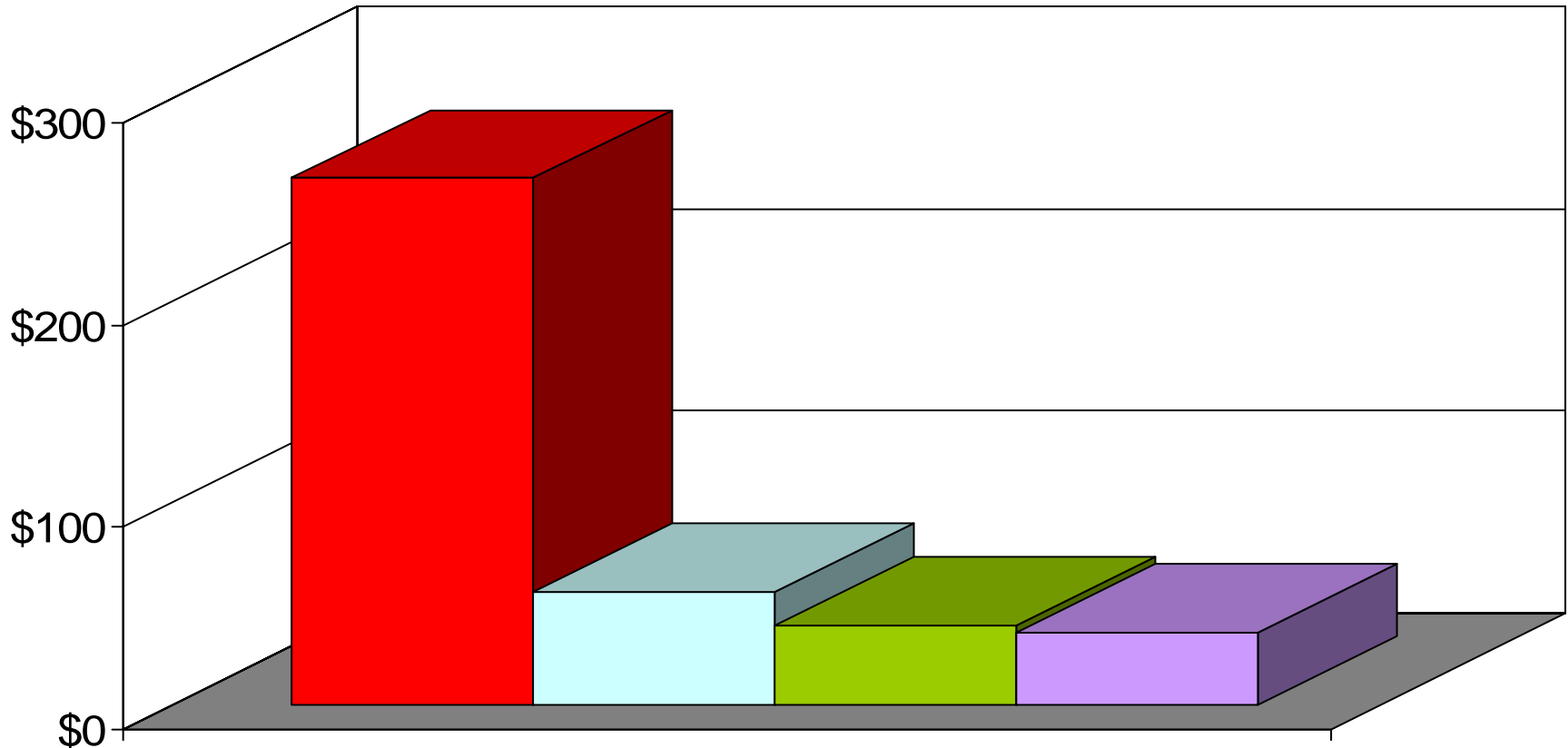
2008 Budget Includes More Money for DoD Than at the Height of the Vietnam and Korean Wars

Billions of Constant 2007 Dollars



Interest Payments on Debt Dwarf Other Priorities

2008 Budget Authority in Billions



President's FY2008 Budget

■ Net Interest ■ Education ■ Veterans ■ Homeland Security

Education, Veterans and Homeland Security are Discretionary Budget Authority Only

Gross National Debt

Debt When Bush Took Office	\$5.7 Trillion
Debt Today	\$8.7 Trillion
Debt Added So Far	\$3.0 Trillion
Debt Projected At The End of Bush Presidency	\$9.5 Trillion
Total Bush Increases To The Debt	\$3.9 Trillion

Deficits Without Social Security Surplus

On-Budget Deficit, 2007	\$427 Billion
On-Budget Deficit, 2008	\$451 Billion

Cost of Debt Service

Net Interest, 2002	\$171 Billion
Net Interest, 2008	\$261 Billion

The President's 2008 Budget

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>2017</u>	Total 2008-2017	Total 2013-2017
CBO Baseline	-172	-98	-116	-137	-12	170	159	185	208	192	249	800	
Remove Repeating Supplemental	---	43	65	78	86	92	98	104	111	118	125	920	
CBO Baseline w/o repeating supp	-172	-55	-51	-59	73	262	257	289	319	309	374	1720	
The President's Budget	-244	-239	-187	-94	-54	61							
Omitted Items and the Second Five Years													
Tax Policies*							-269	-273	-273	-267	-259		-1342
Entitlement Programs							31	35	41	48	55		210
Defense Appropriations							-50	-50	-50	-51	-53		-254
Non-Defense Appropriations							34	36	37	38	39		184
Social Security Reform							-67	-109	-130	-142	-160		-608

Repair AMT**	---	-11	-70	-69	-80	-93	-106	-120	-135	-151	-168	-1004	-681
Ongoing Military Operations**	---	---	-39	-79	-100	-87	-69	-59	-58	-56	-57	-603	-299
Subtotal of Omitted Items	---	-11	-108	-148	-180	-179	-495	-541	-569	-582	-604	-3417	-2790
Debt Service	---	-0	-3	-9	-17	-27	-96	-125	-157	-191	-228	-852	-796
Total Changes	---	-11	-111	-157	-198	-206	-591	-666	-725	-773	-831	-4270	-3586
Resulting Deficits	-244	-251	-298	-252	-251	-145	-334	-377	-406	-464	-458	-3235	-2038

* Includes outlay effects

** CBO estimates of policy adjusted for what is already included in 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 2007 emergency supplemental funding repeats every year and grows with inflation