

SUMMARY

PROPOSED FY2002 BUDGET RESOLUTION

H. CON. RES. 83/DOMENICI SUBSTITUTE

President Bush's Budget Proposal: A Blueprint for New Beginnings

The President's proposal for the 2002 Concurrent Budget Resolution represents a fiscal blueprint for the next ten years. The latter quarter of the 20th century was one marked by federal fiscal imbalances. The fiscal deficits of the recent past have now given way to projected budget surpluses. This positive fiscal outlook provides Congress and the President with a unique opportunity to structure a fiscal policy that addresses the current near term economic slow down, while also laying the foundation for sustained longer term economic growth and productivity to meet the major challenges that lie ahead with the retirement of the baby boom generation.

The Domenici substitute reflects the President's budget blueprint transmitted to Congress on February 28, 2001 with limited policy and technical adjustments.¹ The Domenici substitute for all practical purposes follows the President's budget blueprint, but is based on Congressional Budget Office (CBO) baseline economic and current policy estimates and where available, CBO estimates of the President's proposed policies.

The President's ten year blueprint establishes the following principles to guide economic and fiscal policy in the allocation of a \$5.6 trillion projected budget surplus from FY 2002 to FY 2011:

- Preserve and protect the Social Security and Medicare HI trust fund balances, while recognizing the clear need for urgent reform of these two major programs.

¹ Three major policy changes are assumed in the Domenici substitute relative to the President's budget proposal: (1) a \$60 billion FY 2001 economic tax-cut stimulus package is included in the Domenici substitute, (2) no budget or policy assumptions are included in the Domenici substitute relative to ANWR, and (3) an Administration proposal, following the initial February submission, to provide \$710 million in mandatory payments for victims of radiation exposure is included now in the Domenici substitute.

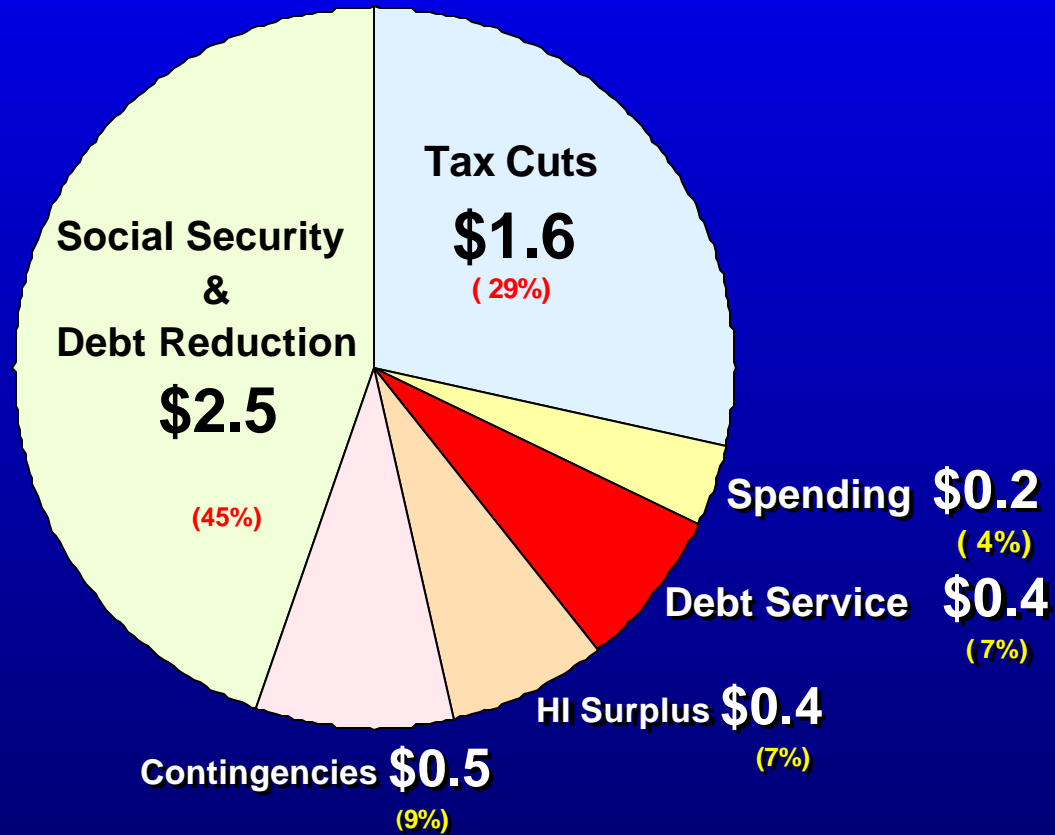
- Reduce the level of debt held by the public by nearly \$2.4 trillion – from a level of \$3.2 trillion today to \$818 billion in 2011, the maximum extent possible estimated by CBO.
- Reduce the level of current taxation to encourage economic growth, and provide for fairness and equity. Revenues to the federal government will continue to grow from \$2.1 trillion annually this year, to over \$3.2 trillion in 2011. Provide for expanded health insurance coverage through a new health insurance tax credit proposal. Return \$1.6 trillion of the projected ten year \$5.6 trillion budget surplus to the American taxpayer.
- Fund America’s priorities at responsible and effective levels. Federal spending (excluding interest payments) will continue to grow from \$1.7 trillion annually today, to over \$2.7 trillion annually in 2011. Priorities are given programs of partnership to improve the nation’s education system; strengthen our military and improve the lives of our soldiers, sailors and airmen; provide funding for a new prescription drug benefits integral to a reformed Medicare program; double the funding for National Institutes of Health and make health care more accessible by creating over 1,200 new community health centers nationwide. For FY 2002 spending authority for annually appropriated programs would be set at \$660.7 billion, a 4.0 percent increase over the enacted FY 2001 level.
- Provide for the unexpected, the unplanned. An \$845.7 billion “rainy day” contingency fund (\$453.1 billion excluding the Medicare HI trust fund), is set aside for additional debt reduction, tax cuts, defense spending, agriculture, emergencies and other contingencies that invariably cannot be budgeted in advance over a ten year period.

President Bush's 10-Year Budget Plan (CBO Reestimates)

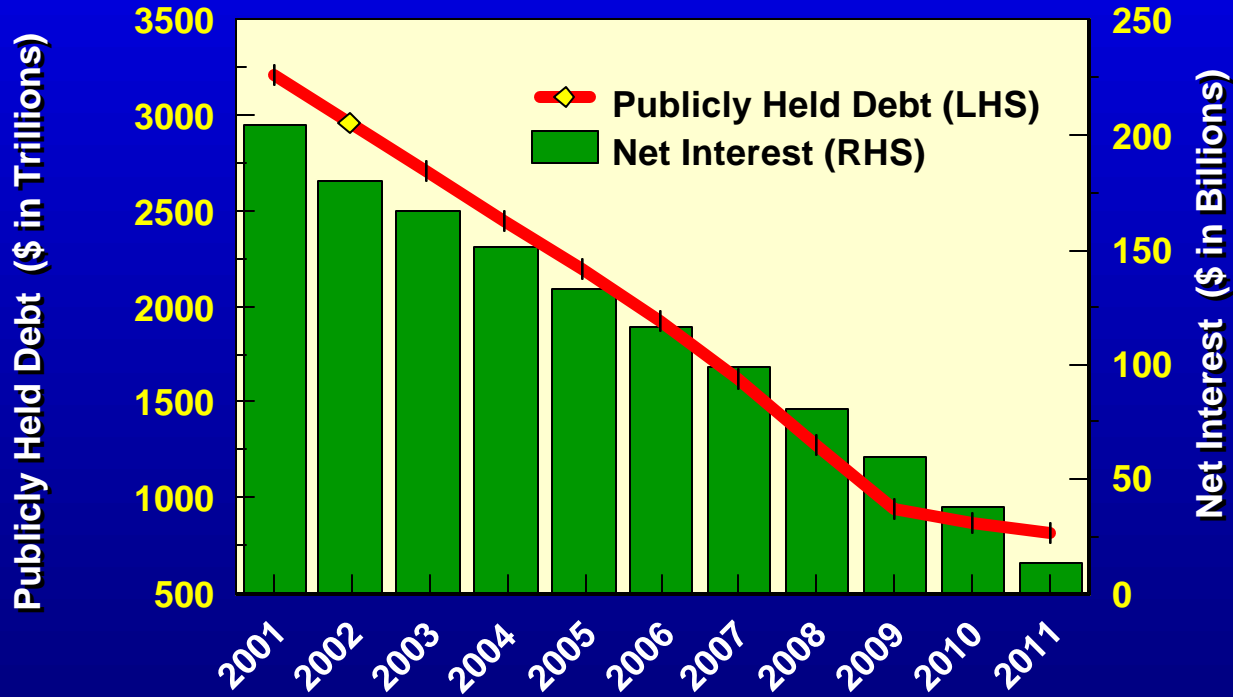
\$ in Trillions

Total Surplus: Before Policy	\$5.6
Less: Social Security Surplus	\$2.5
Equals: Rest of Government Surplus	\$3.1
Less: Tax Relief of Working Americans	\$1.6
Equals: Available for Other Priorities	\$1.5
Less Identified Priorities:	
-Medicare/Prescription Drugs/Other	\$0.2
-HI Surplus	\$0.4
-Debt Service	\$0.4
Equals: Available for Additional Debt Reduction, Tax Cuts, Defense Spending, Farm, and Contingencies.	\$0.5

Use of Total \$5.6 Surplus (\$ in Trillions)



Publicly Held Debt and Net Interest



Summary of President's Budget Changes from SBC Baseline (\$ in Billions)

SBC Baseline	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-11
Unified Surplus	281.1	312.9	359.1	396.8	432.9	505.0	572.7	635.1	710.4	796.0	888.7	5609.7
On-budget	124.9	142.1	171.3	195.7	211.6	266.8	316.2	359.2	416.7	484.3	558.2	3122.0
Off-budget	156.2	170.8	187.9	201.1	221.3	238.2	256.5	275.9	293.7	311.7	330.5	2487.7
Discretionary	-1.2	1.3	-2.0	-4.5	-2.4	-0.2	2.8	5.4	8.1	11.0	12.1	31.7
Mandatory	64.3	15.7	18.1	13.6	14.7	12.0	17.0	19.0	19.6	22.5	26.2	178.5
Net Interest	1.4	4.6	8.0	13.6	21.1	31.0	43.6	58.4	75.0	93.6	114.4	463.4
Tax Cuts (net)	-0.2	-29.3	-66.1	-98.9	-131.6	-168.9	-192.6	-208.3	-221.3	-243.3	-250.7	-1611.0
Total Change	-64.7	-50.8	-90.3	-121.7	-165.0	-211.8	-256.1	-291.1	-324.0	-370.4	-403.4	-2284.6

Resolution Total

Unified Surplus	216.4	262.1	268.9	275.1	268.0	293.2	316.6	343.9	386.4	425.6	485.3	3325.1
On-budget	60.3	91.4	81.3	74.5	47.3	55.9	61.2	69.2	93.9	115.0	155.9	845.7
Off-budget	156.2	170.8	187.6	200.7	220.6	237.3	255.4	274.7	292.5	310.5	329.3	2479.5
Accumulated Excess Cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	32.6	392.6	814.5	
Debt Held by the Public	3212.9	2964.0	2714.4	2458.1	2206.5	1927.1	1622.0	1287.6	939.0	878.0	818.0	
Memo: HI Surplus	28.7	35.9	39.3	40.7	39.9	43.8	41.5	40.7	39.3	37.2	34.4	392.6

Summary of President's Budget

Levels of Spending

(\$ in Billions)

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-11
Defense	BA	311.1	324.9	333.4	342.8	352.4	362.3	372.4	382.9	393.7	404.7	416.5	3686.1
	OT	301.3	319.7	325.7	334.3	347.4	354.7	362.1	375.8	386.7	397.8	409.4	3613.7
Nondefense	BA	324.4	335.7	345.1	354.6	364.4	374.7	385.7	396.7	407.6	418.9	430.4	3814.0
	OT	344.0	363.9	381.9	390.8	400.6	411.0	422.5	433.7	445.6	458.0	468.9	4176.8
Subtotal	BA	635.4	660.7	678.6	697.4	716.8	736.9	758.2	779.7	801.4	823.6	846.9	7500.1
	OT	645.3	683.6	707.6	725.1	747.9	765.8	784.7	809.5	832.3	855.8	878.3	7790.5
Mandatory	OT	1066.3	1076.8	1129.8	1198.6	1285.2	1340.2	1417.8	1508.0	1601.3	1703.7	1813.2	14074.8
Net Interest	OT	206.3	184.1	170.6	155.3	137.2	120.7	104.0	85.5	65.2	43.0	19.5	1085.0
Total Outlays	OT	1918.0	1944.4	2008.1	2079.0	2170.3	2226.6	2306.5	2403.0	2498.9	2602.5	2711.1	22950.2
Revenues		2134.4	2206.5	2277.0	2354.1	2438.3	2519.9	2623.1	2747.0	2885.2	3028.1	3196.4	26275.4
Unified Surplus		216.4	262.1	268.9	275.1	268.0	293.2	316.6	343.9	386.4	425.6	485.3	3325.1
On-budget		60.3	91.4	81.3	74.5	47.3	55.9	61.2	69.2	93.9	115.0	155.9	845.7
Off-budget		156.2	170.8	187.6	200.7	220.6	237.3	255.4	274.7	292.5	310.5	329.3	2479.5
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Debt Held by the Public		3212.9	2964.0	2714.4	2458.1	2206.5	1927.1	1622.0	1287.6	939.0	878.0	818.0	
Memo: HI Surplus		28.7	35.9	39.3	40.7	39.9	43.8	41.5	40.7	39.3	37.2	34.4	392.6

Discretionary Spending/By Function.

The Domenici substitute amendment, as required by law, allocates discretionary spending totals to the Committee on Appropriations consistent with the statutory levels established in the 1997 Budget Agreement for Fiscal Year 2002, the last year of the caps. However, the Domenici substitute includes a mechanism to increase the statutory levels of discretionary spending without jeopardizing the consideration of the budget resolution, and assumes that the discretionary caps will be extended for another 5 years.

Starting with his Fiscal Year 1998 budget submission and continuing through his last budget submission, President Clinton proposed to increase discretionary spending above the statutory levels. President Clinton and the Congress in fact exceeded the statutory levels by the use of various budget devices, and last year finally amended the statutory caps for 2001 only. President Bush's budget proposal acknowledges the reality that the 2002 statutory level for discretionary spending at \$548.7 billion is not responsible, and must be increased. He proposes to increase discretionary spending from the amended \$635.7 billion figure in FY 2001 to \$660.7 billion in FY 2002. This represents a \$25.3 billion increase, a 4.0% increase over the amended spending levels for FY 2001. Spending measured by outlays for discretionary programs would increase about 6.0% between FY 2001 and FY 2002. President Bush's budget blueprint also proposes to extend the caps five years into the future.

President's Budget Discretionary Growth (\$ in Billions)

		% Change 2001-02	Avg. Growth 2000-02	Avg. Growth 2001-11
CBO Baseline	BA	4.4%	6.7%	2.7%
	OT	5.5%	5.3%	3.0%
National Defense	BA	4.5%	3.9%	3.0%
	OT	6.1%	4.1%	3.1%
International Affairs	BA	5.4%	0.8%	2.7%
	OT	-0.2%	4.4%	2.0%
General Science, Space, and Technology	BA	1.2%	4.9%	2.5%
	OT	5.1%	5.1%	2.8%
Energy	BA	-11.1%	1.4%	2.8%
	OT	-5.7%	-0.6%	2.8%
Natural Resources and Environment	BA	-8.1%	3.5%	0.9%
	OT	-0.8%	2.3%	1.1%
Agriculture	BA	0.9%	1.1%	2.7%
	OT	2.1%	1.2%	2.8%
Commerce and Housing Credit	BA	-123.9%	--	-16.9%
	OT	-98.3%	-91.2%	-6.6%
Transportation	BA	-11.2%	5.3%	1.1%
	OT	8.9%	9.9%	3.5%
Community and Regional Development	BA	-12.9%	-14.4%	1.0%
	OT	-2.6%	1.4%	0.1%
Education	BA	6.8%	21.3%	3.0%
	OT	10.5%	10.4%	3.9%
Health	BA	5.8%	10.1%	3.9%
	OT	12.9%	12.7%	5.0%
Medicare	BA	2.7%	7.3%	2.5%
	OT	4.5%	6.7%	2.6%
Income Security	BA	8.6%	19.7%	3.8%
	OT	4.3%	5.3%	2.5%
Social Security	BA	2.1%	4.7%	2.4%
	OT	2.5%	1.3%	2.4%
Veterans Benefits and Services	BA	4.2%	5.9%	2.6%
	OT	5.0%	5.7%	2.7%
Administration of Justice	BA	-0.9%	4.8%	2.4%
	OT	0.7%	4.9%	2.5%
General Government	BA	5.5%	9.1%	2.7%
	OT	4.8%	7.9%	2.6%
Allowances	BA			
	OT			
TOTAL	BA	4.0%	6.3%	2.9%
	OT	5.9%	5.4%	3.1%

Bush Budget Proposal-9

Mandatory Spending Assumptions.

The President's ten year blueprint proposal assumes increased mandatory spending over current law estimates of CBO, of nearly \$178.5 billion. This increased mandatory spending consists primarily of \$153.0 billion for Medicare prescription drug benefits accompanied by reform. The CBO has not reestimated the President's prescription drug proposal and therefore, the Domenici substitute assumes the full \$153.0 billion ten year cost. Other smaller mandatory policy expenditure proposals are included in the Domenici substitute consistent with the President's blueprint: \$2.4 billion for Foster Children and a program to Promote Safe and Stable Families; \$710 million for victims of radiation exposure; and \$18.6 billion in outlays associated with refundable tax credits for expansion of health insurance to the uninsured, as well as \$7.7 billion for outlays related to the expansion of the child tax credit. Other technical mandatory spending adjustments are included in the Domenici substitute including a reclassification of \$19.0 billion in the FHA Single Family program from discretionary to mandatory.

For FY 2001, the Domenici substitute modifies the current year budget resolution and includes \$60 billion in mandatory spending to provide maximum flexibility to the Finance Committee to design an immediate tax stimulus program. Under certain design features, a refundable tax benefit might be scored as mandatory spending.

The President's proposal assumes that, within the funds made available to federal agencies, the historic pay parity between federal civilian and military employees will be maintained. The Domenici substitute assumes the President's proposed 4.6 percent pay raise for military personnel will be similarly provided to all federal workers next year. The Domenici substitute follows the Bush budget outline to repeal of a temporary 0.5 percent federal employees retirement contribution enacted in 1997.

Return to Working Americans' Tax Overpayments

Bush Budget Proposal-10

While maintaining the discipline of a balanced budget (excluding social security surpluses), the President's proposal assumes that overpayment of taxes not needed to fund the general government should be returned to taxpayers in the form of tax reductions. The Domenici substitute assumes that the President's \$1.6 trillion tax cut for the ten year period beginning FY 2002. The Domenici substitute as introduced includes no reconciliation instructions to the Finance Committee. An amendment to provide for this instruction is anticipated during the debate on the budget resolution. Ultimately the specific design and cost of these tax cuts would be determined by the Congress and the President.

Budget Enforcement and Rulemaking

A concurrent resolution not signed by the President, cannot change substantive law. But it can establish rules that are enforceable on the Congress as it considers substantive legislation. The President's blueprint envisions changes to the Budget Act that would require future legislation – such as a new biennial budgeting and appropriations process, a joint budget resolution that would be signed by the President, a line-item veto law, and a government shut down proposal. None of these proposals that would require statutory law changes are included in the Domenici substitute.

However, two technical Congressional rulemaking changes are proposed in the Domenici substitute that are germane to the House-passed budget resolution. First, in order to correct the misuse of advance appropriations, advance appropriations would be scored in the fiscal year in which the advance is enacted. An exception would be provided for capital projects, the advance would be scored in the year obligated. Second, a mechanism is included in the Domenici substitute that adjusts the discretionary budget allocation to the Appropriation Committee consistent with the assumed \$660.7 billion spending authority provided for FY 2002, while not violating the current statutory spending cap figure nearly \$110 billion lower.

The Domenici substitute includes a reserve fund for legislation that would reform Medicare and provide for a \$153 billion ten year prescription drug benefit.

ECONOMICS

H. CON. RES. 83/DOMENICI SUBSTITUTE

ECONOMIC ASSUMPTIONS

The budget resolution is built upon CBO's assumptions about the future path of the US economy. CBO prepares economic forecasts for 2001 and 2002, which reflect the current state of the economy and relative position in the business cycle. The out year projections are based upon longer-term trends in the economy.

Overview

The present expansion is the longest on record, the unemployment rate remains near 30-year lows set in 2000, and long term prospects for the economy remain strong. Consumer price inflation, while higher than in recent years, has been distorted by volatile energy prices and nevertheless has remained below levels that in the past have elicited steep increases in interest rates by the Federal Reserve. However, after rising at a 4.4 percent annual rate from 1996 through mid-2000 (including a 6.1 percent rate from mid-1999 to mid-2000), real GDP growth slowed to annual rates of 2.2 percent and 1.1 percent, respectively, in the third and fourth quarters of 2000.

The leading causes of the slowdown are cyclical rather than structural in nature. These include higher energy costs, the tightening of monetary policy in 1999-2000, and a decline in credit availability as demonstrated by tougher lending standards at commercial banks, declining stock prices, and wider risk-spreads on corporate debt.

Ironically, the slowdown has strengthened the case for the long term growth rate remaining high. Even as economic growth slowed to a 1.6 percent rate in the second half of 2001, non-farm productivity grew at a 2.6 percent rate – only marginally less than the 2.8 percent productivity trend during the previous five years when overall economic growth was a lofty 4.4 percent. Prior to the slowdown, many economists would have expected a steeper drop in the productivity growth rate given the drop in the rate of economic growth. To the contrary, the portion of the productivity growth rate that depended on robust overall economic growth appears, at this point, to have been quite small.

Two areas of near-term concern are the impact of declining stock prices on consumption and the faster growth rate of unit labor costs. Economists differ widely in their views on the “wealth effect” – the process by which changes in asset prices alter consumer behavior. In particular, there is a great deal of debate on the magnitude of equity price changes on consumption and the timing of those effects. To be sure, unless they are soon reversed, recent broad declines in equity prices will depress consumption growth below the rate that otherwise would have prevailed. However, recent weakness follows a period of massive increases in financial asset wealth from late-1994 through early-2000. To the extent consumers had yet to fully adjust their behavior to previous increases in equity prices, the negative wealth effect from more recent declines in those prices should be muted. While decreases in various measures of consumer confidence from late-2000 through early-2001 have coincided with a drop in consumption growth, consumer confidence has appeared to bottom. Furthermore, continued high levels of new homes sales indicate consumer resilience.

The other area of concern is that a virtuous cycle that has characterized this expansion has been temporarily broken. Until recently, rapid increases in business investment had led to more rapid expansion of the capital stock and higher levels of productivity growth. In turn, higher levels of productivity growth permitted healthy increases in labor compensation without impinging on profit margins, thereby leaving room for a continuation of the virtuous cycle of business investment and higher productivity. Recently, this virtuous cycle has been broken by increases in compensation that have outstripped productivity growth, driving up the growth of unit labor costs. Higher unit labor cost growth have squeezed profits and will likely result in lower levels of business investment growth until such time as the virtuous cycle described above reasserts itself, either due to a slowdown in compensation growth or even more rapid productivity growth.

Summary of CBO’s Forecasts

Due to an expected slowdown in consumer and business spending, CBO forecasts 2.4 percent real GDP growth in 2001. In 2002, real growth should rise to 3.4 percent growth as lower interest rates this year spur faster growth next year. Thereafter, CBO forecasts growth to average 3.1 percent per year through 2011. This average growth rate of 3.1 percent is lower than the consensus forecast of 3.4 percent long-term growth among Blue Chip private economists.

CBO assumes that after spiking upward in response to energy price increases last year, inflation declines to 2.8 percent in 2001 and 2002, before edging down even further to a 2.5 percent long-term trend. The unemployment rate is expected to rise to an average of 4.4 percent this year, 4.5 percent in 2002, and then gradually climb to 5.2 percent by the end of the ten-year budget window.

CBO does not forecast a recession in 2001 or 2002. However, in forecasting the likely path of the economy, it

considers the risk of a recession along with the possibility of continued rapid real growth and a rise in the inflation rate.

Comparison of CBO's Economics Versus OMB's

The economic forecasts from CBO and OMB are substantially similar. Both sets of forecasts assume the economy will slow this year, grow slightly faster than its long-term future trend next year, and then settle down to a long-term trend that is less than the annualized growth rate for the full business cycle that started with the recession in 1990-91 and the two full business cycles that started with the recession of 1981-82. The two sets of forecasts project nearly exact declines in consumer price inflation, although CBO foresees less growth in the GDP deflator. CBO foresees lower short-term interest rates, but higher long-term rates after 2005.

Real Growth

CBO and OMB have roughly the same assumptions of real GDP growth from 2002-2011 – CBO expects 3.09 percent average annual growth versus 3.14 percent for OMB. Compared to OMB's forecast, CBO expects slightly faster growth in 2002-03 and slightly slower from 2004-2009.

Inflation

Both OMB and CBO expect consumer price inflation to decline this year compared to last year and ultimately decline to a 2.5 percent rate by 2004. Over the ten-year budget window, CBO expects average annual CPI inflation of 2.55 percent compared to 2.52 percent for OMB. There is greater difference regarding their projections on the GDP deflator. CBO looks for the deflator to grow 1.9 percent from 2004-2011 and average 1.93 percent during the full ten-year budget window. OMB expects the GDP deflator to rise 2.1 percent in every year of the projection period. The higher growth of the GDP deflator assumed by OMB is the primary reason for its expectation of moderately higher levels of nominal GDP than expected by CBO from 2004-11.

Interest Rates

Both OMB and CBO expect a decline in interest rates in 2001 followed by a rebound in 2002, although to levels below those of 2000. As per short-term rates, CBO assumes a larger drop than OMB in 2001, a milder rebound than OMB in 2002, and average rates during the ten-year budget window that are 0.11 percentage points lower. As per long-term rates, CBO expects a larger drop in 2001, a larger rebound than OMB in 2002 (although to a lower level), and the same exact average rates as OMB during the full ten-year budget window. In the out years, CBO's short-term rates are lower than OMB's by 0.1 percentage points; CBO's long-term rates are higher than OMB's by 0.1 percentage points.

Implications of Recent Data for the Economic Assumptions

Since CBO's forecasts were compiled in December, there have been several notable developments in the economy. Fourth quarter real GDP grew at a 1 percent annual rate, slightly below what CBO must have expected, as real GDP growth for 2000 came in at 5 percent rather than the expected 5.1 percent.

Also, in large part due to a combination of weakness in consumer confidence and the financial markets, the Federal Reserve has reduced the target federal funds rate from 6.5 percent at the start of the year to 5 percent at present. Even lower rates are expected by mid-year. Interest rates on 3-month Treasury bills have already dropped significantly below the level expected by CBO.

FUNCTION 050: NATIONAL DEFENSE H. CON. RES. 83/DOMENICI SUBSTITUTE

Function 050, National Defense, includes funding for the Department of Defense (95 percent of function total), defense activities of the Department of Energy (almost 5 percent), and small amounts expended by the Selective Service, the General Services Administration, the Departments of Transportation and Justice, and other federal agencies.

PRESIDENT BUSH'S BUDGET RESOLUTION (\$ Billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Budget Authority	310.3	324.7	333.4	342.7	352.3	362.2	372.3	382.8	393.6	404.5	416.3
Outlays	300.6	319.3	325.7	334.2	347.3	354.6	362.0	375.7	386.5	397.6	409.3

Discretionary

The President's proposal assumes discretionary spending for National Defense would total \$324.9 billion in BA and \$319.7 billion in outlays for 2002. This represents an increase of \$13.9 billion in BA and \$18.3 billion in outlays from the 2001 level. This is a 4.5 percent increase in BA and a 6.1 percent increase in outlays.

President Bush's request is also a \$15.0 billion increase over the amount President Clinton projected to request for 2002 in his last National Defense budget request, which was submitted to Congress in February 2000. Over the next ten years, President Bush's request is a \$225 billion increase over this last budget submitted by President Clinton.

Congress will receive additional details shortly after Secretary of Defense Rumsfeld completes his "Strategic Review" of U.S. defense strategy and programs in April. However, the President has already made it clear his 2002 defense budget includes a \$1.4 billion increase for a 4.6% military pay raise and for recruiting and retention; a \$0.4 billion increase for

housing assistance for military families; a \$2.6 billion increase for research and development for missile defense and “transformation” to meet 21st Century defense needs, and \$3.9 billion to fully fund the “Tricare for Life” program Congress enacted last year for military retirees and their families.

Hearings held in the Senate Budget Committee on February 12 made it abundantly clear that Secretary Rumsfeld’s “Strategic Review” is long overdue if U.S. defenses are to be adequate and relevant to future threats. Until this review is complete, many specific line items for the defense budget will not be available. However, such details are not integral to a budget resolution which provides only a blueprint. When Congress acts later this year on a National Defense Authorization Act and on appropriations bills, any and all details will be fully available. Possible adjustments to total spending for the National Defense budget function will also be available at that time.

Mandatory

The President’s budget request anticipates the conversion of the “Tricare for Life” spending in the defense budget from an annually appropriated discretionary program to an accrual funding, mandatory program in 2003, as specified in the fiscal year 2001 National Defense Authorization Act. The budget request also provides for the reclassification of this \$66.2 billion in mandatory spending over 10 years for the “Tricare for Life” out of budget function 050 (National Defense) into budget function 550 (Health), consistent with past budget scorekeeping precedents. (Additional discretionary costs of “Tricare for Life,” about \$9.5 billion, will remain in budget function 050.)

The budget request also includes \$97 million in 2002 and commensurate spending levels in the outyears to adequately fund Radiation Exposure Compensation Act benefits, which had been authorized by previous law but not funded in previous budgets.

FUNCTION 150: INTERNATIONAL AFFAIRS H. CON. RES. 83/DOMENICI SUBSTITUTE

Function 150, International Affairs, includes funding for the Department of State and related agencies, U.S. embassies and other diplomatic missions abroad, foreign assistance and technical aid activities in developing countries, security assistance to foreign governments, financing and regulation of arms sales to U.S. friends and allies, international narcotics control and law enforcement programs, U.S. contributions to international financial and other institutions, the Export-Import Bank and other trade promotion activities, international broadcasting and cultural exchange activities, and refugee assistance.

PRESIDENT BUSH'S BUDGET RESOLUTION (\$ Billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Budget Authority	22.4	23.9	23.9	24.5	25.4	26.2	26.9	27.4	28.0	28.4	29.6
Outlays	19.7	19.6	19.9	20.4	20.8	21.4	22.1	22.8	23.6	24.2	25.0

Discretionary

The President's proposal assumes discretionary spending for International Affairs would total \$23.9 billion in BA and \$23.2 billion in outlays for 2002. This represents an increase of \$1.2 billion in BA and a decrease of \$54 million in outlays from the 2001 level. The BA is an increase of 5.3 percent; the outlays are a decrease of 0.2 percent. The President's proposal includes several initiatives:

- Spending for salaries and expenses, embassy reconstruction and protection – to prevent further terrorist attacks on diplomats at home and abroad – and other essential basic operations to support US foreign policy will increase by \$982 million, or 14 percent, and

- Spending for International Narcotics Control and Law Enforcement, including “Plan Columbia,” will increase by \$623 million, or 192 percent.

In other cases, there will be spending reductions –

- Funding for South Africa, Eastern Europe, International Military Education and Training, and Third World debt relief, which received emergency, one time spending in 2001, will be funded at levels below final 2001 appropriations;
- The credit subsidy for the Export-Import Bank is reduced by \$178 million, in large part because loans for 2002 are projected at interest rates that anticipate less financial risk and are, therefore, less costly, and
- The Overseas Private Investment Corporation will carry over funding from 2001 to permit a similar level of operations in 2002 at a reduced spending level.

When Secretary of State Colin Powell testified to the Senate Budget Committee on March 14, he made clear the need for increased resources for the Department of State and related agencies, which for the past several years has been operating at insufficient funding for basic foreign policy operations.

Mandatory

The President’s proposal assumes no significant changes in mandatory spending in this function.

FUNCTION 250: GENERAL SCIENCE, SPACE AND TECHNOLOGY H. CON. RES. 83/DOMENICI SUBSTITUTE

Under the President's proposal, spending for Function 250, General Science, Space & Technology, will total \$21.3 billion in BA and \$20.6 billion in outlays for fiscal year 2002. This function includes the National Aeronautics and Space Administration (NASA) civilian space program and basic research programs of the National Science Foundation (NSF) and Department of Energy (DOE).

PRESIDENT BUSH'S BUDGET RESOLUTION (\$ Billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Budget Authority	21.0	21.3	21.8	22.3	22.8	23.4	24.1	24.7	25.3	25.7	26.8
Outlays	19.6	20.6	21.0	21.8	22.3	22.9	23.4	24.0	24.7	25.2	25.9

Discretionary

The President's proposal assumes discretionary spending in this function would total \$21.1 billion in BA and \$20.6 billion in outlays for fiscal year 2002. This represents an increase of \$0.2 billion in BA and \$1.0 billion in outlays from the 2001 level. The President's proposal also assumes that over the ten year period of 2002-2011 that discretionary spending in function 250 will total \$237.5 billion in BA and \$231.0 billion in outlays.

Two agencies within function 250, NASA and the National Science Foundation, are specifically highlighted in the President's proposal. These agencies, and highlights of what the President's proposal suggests for these agencies, were specifically mentioned in the document *A Blueprint for New Beginnings*, released by the President in February of this year.

NASA

- NASA receives a 2% increase over FY2001 under the President's proposal.
- The Strategic Launch Initiative will be increased 64% above the funding it received in FY 2001.

NSF

- The National Science foundation is funded at \$4.5 billion in the President's proposal. This is an increase of \$56 million over FY2001, or 1.3%.
- Provides \$1.5 billion for new research and education awards in FY 2002. This will enable NSF to fund almost 10,000 new competitive grants.
- \$20 million in funds for multidisciplinary mathematics research to help transfer applications of mathematics to other scientific disciplines.
- Includes funding for the President's Math and Science Partnerships at \$200 million. These funds will come, in part, from redirecting \$110 million from existing education programs at NSF. The initiative will provide funds for States to strengthen math and science education in grades K-12. This initiative is funded at \$1 billion over the next 5 years.

Mandatory PAYGO

The President's proposal assumes no mandatory increases or decreases in this function.

FUNCTION 270: ENERGY

H. CON. RES. 83/DOMENICI SUBSTITUTE

Under current law, spending for Function 270, Energy, will total \$1.2 billion in BA and \$-.1 billion in outlays for 2001. This function includes civilian activities of the Department of Energy, the Rural Utilities Service, the power programs of the Tennessee Valley Authority (TVA), and the Nuclear Regulatory Commission (NRC). Mandatory spending in this function contains large levels of offsetting receipts, resulting in net mandatory spending of -\$1.9 billion in BA and -\$3.2 billion in outlays for 2001. Congress provided \$3.1 billion in discretionary BA for 2001.

PRESIDENT BUSH'S BUDGET RESOLUTION

(\$ Billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Budget Authority	1.2	.9	.8	.9	.9	1.0	1.1	2.2	2.3	2.3	2.2
Outlays	-.1	-.2	-.5	-.6	-.5	-.4	-.3	.4	.8	1.0	.9

Discretionary

The President's proposal assumes discretionary spending in this function would total \$2.8 billion in BA and \$2.9 billion in outlays for 2002. This represents a decrease of \$350 million in BA and \$180 million in outlays from the 2001 level.

The President's proposal assumes a restructuring of the **clean coal program** to provide \$2 billion over 10 years for technology and efficiency improvements to reduce the environmental impacts of the use of coal.

The President's proposal provides \$1.4 billion over 10 years for the Department of Energy's **Weatherization Assistance Program**. This includes a \$120 million increase over last year for 2002.

The President's proposal provides \$8 million for the **Northeast Heating Oil Reserve**.

The President's proposal restores the **Nuclear Regulatory Commission's** user fee in 2005, an increase in offsetting collections of \$2.2 billion over 10 years.

This resolution does **not** include the President's proposal to generate additional receipts by developing oil reserves within the Arctic National Wildlife Refuge (ANWR).

Mandatory used for Discretionary offsets

The President's proposal assumes no mandatory savings to be used as discretionary offsets.

Mandatory PAYGO

The President's proposal assumes a fix for the Elk Hill School advance appropriation of \$36 million in 2002.

FUNCTION 300: NATURAL RESOURCES AND THE ENVIRONMENT H. CON. RES. 83/DOMENICI SUBSTITUTE

Under current law, spending for Function 300, Natural Resources and the Environment, will total \$28.8 billion in BA and \$26.4 billion in outlays for 2001. This function includes funding for water resources, conservation and land management, recreation resources, and pollution control and abatement. Agencies with major program activities within the function include the Environmental Protection Agency (EPA), the Army Corps of Engineers, the National Oceanic and Atmospheric Administration (NOAA), the Forest Service (within the Department of Agriculture), and the Department of the Interior, including the National Park Service, the Fish and Wildlife Service, the U.S. Geological Survey, the Bureau of Land Management and the Bureau of Reclamation, among others. (you can use the same function description from previous years)

PRESIDENT BUSH'S BUDGET RESOLUTION

(\$ Billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Budget Authority	28.8	26.7	26.8	27.7	27.9	28.0	28.6	29.4	30.6	31.2	32.4
Outlays	26.4	26.4	26.9	27.5	27.7	27.8	28.3	28.8	29.9	30.5	31.5

Discretionary

The President's proposal assumes discretionary spending in this function would total \$26.4 billion in BA and \$26.2 billion in outlays for 2002. This represents a decrease of \$-2.3 billion in BA and \$-200 million in outlays from the 2001 level.

The President's proposal assumes full funding for the Land and Water Conservation Fund (\$900 million), this is a \$356 million increase over 2001.

The President's proposal also addresses the maintenance backlog in the National Park Service by providing \$2.2

billion over 5 years for this purpose.

The President's proposal provides \$1.3 billion for grants to states in 2002, \$500 million more than was requested by the previous administration in 2001.

The President's proposal decreases funding for one-time costs and emergencies such as: \$858 million for emergency fire costs, \$190 for emergency watershed and flood prevention and conservation activities and \$35 million for the completed Save America's Treasures.

Mandatory used for Discretionary offsets

The President's proposal assumes no mandatory savings used for discretionary offsets.

Mandatory PAYGO

The President's proposal extends the recreational fee demonstration program at a cost of \$365 million over 5 years.

The President's proposal includes a Corps of Engineers recreational user fee that has no net cost over 10 years.

FUNCTION 350: AGRICULTURE H. CON. RES. 83/DOMENICI SUBSTITUTE

Under current law, spending for Function 350, Agriculture, is estimated to total \$26.29 billion in BA and \$23.65 billion in outlays for FY 2001. This function includes funding for federal programs intended to promote the economic stability of agriculture through direct assistance and loans to food and fiber producers, provide regulatory, inspection and reporting services for agricultural markets, and promote research and education in agriculture and nutrition.

Farm income support programs operated by the Commodity Credit Corporation (CCC), and risk management programs under the Federal Crop Insurance Corporation (FCIC) make up most of the spending in this function. Over the past 25 years, CCC spending has ranged from \$0.6 billion in 1975 to \$30.5 billion in 2000.

PRESIDENT BUSH'S BUDGET RESOLUTION (\$ Billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Budget Authority	26.3	19.1	18.6	18.5	18.3	17.9	16.5	15.7	15.8	15.9	16.1
Outlays	23.7	17.5	17.0	17.1	16.9	16.3	15.0	14.1	14.4	14.5	14.7

Discretionary

The President's proposal assumes discretionary spending in this function would total \$4.83 billion in BA and \$4.765 billion in outlays for 2002. This represents an increase of \$.04 billion in BA and \$.09 billion in outlays from the 2001 level. Specifically the President's proposal funds USDA bureaus at or above the 2001 enacted level. This does not include one-time emergency funding or unrequested projects that were provided for in 2001. The President's budget also includes funds

to continue to streamline and modernize USDA's county office structure.

Mandatory Contingency Reserve

The President's proposal recognizes the likely need for additional assistance for agriculture. Should additional money be needed from FY 2002-FY2011, it may come from the contingency reserve of more than \$500 billion.

Mandatory PAYGO

The President's proposal recognizes that legislation, the Agricultural Risk Protection Act, was enacted this past year to help agricultural producers manage risk. For this purpose, one should note that an additional \$8.0 billion was allocated between 2002 and 2006. And from 2002 to 2010 an additional \$16.9 billion was allotted.

FUNCTION 370: COMMERCE AND HOUSING CREDIT (H. CON. RES. 83/DOMENICI SUBSTITUTE)

Under current law, spending for Function 370, Commerce and Housing Credit, will total about \$3.5 billion in BA and \$0.2 billion in outlays for 2001. This budget function includes funding for discretionary housing programs, such as subsidies for single and multifamily housing in rural areas and mortgage insurance provided by the Federal Housing Administration; net spending by the Postal Service; discretionary funding for commerce programs, such as international trade and exports, science and technology, the census, and small business; and mandatory spending for deposit insurance activities related to banks, savings and loans, and credit unions.

PRESIDENT BUSH'S BUDGET RESOLUTION (\$ Billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Budget Authority	3.5	8.7	8.4	14.1	12.7	12.7	13.5	13.8	14.3	18.7	13.5
Outlays	0.2	5.5	3.0	9.8	9.3	8.4	9.2	9.3	9.6	12.8	9.8

Discretionary

The President's proposal assumes discretionary spending in this function would total -\$0.3 billion in BA and \$0.0 billion in outlays for 2002. This represents a decrease of \$1.7 billion in BA and \$2.0 billion in outlays from the 2001 level.

The President proposes to increase fees for the Small Business Administration (SBA), the Federal Housing Administration, the Commodity Futures Trading Commission, and the Federal Communications Commission. These proposed fees account for about \$0.5 billion of the reduction from baseline BA under President Bush's proposal.

President Bush proposes to rescind \$125 million of funding from the Emergency Steel and Oil and Gas Loan Guarantee programs. The proposal assumes no new funding for the Department of Commerce's Advanced Technology Program. The budget also would reduce or eliminate \$100 million in Congressional earmarks and redundant programs within the SBA.

The budget reflects spending associated with conducting the 2010 census.

Mandatory used for Discretionary offsets

The President's proposal assumes no mandatory user fees or savings.

Mandatory PAYGO

The President proposes the Federal Deposit Insurance Corporation and the Federal Reserve begin charging user fees for the regulation and oversight of state-chartered banks.

FUNCTION 400: TRANSPORTATION H. CON. RES. 83/DOMENICI SUBSTITUTE

Under current law, spending for Function 400, Transportation, will total about \$62.1 billion in BA and \$51.7 billion in outlays for 2001. The function primarily comprises funding for the Department of Transportation, including ground transportation programs, such as the federal-aid highway program, mass transit, motor carrier safety, and the National Rail Passenger Corporation (Amtrak); air transportation through the Federal Aviation Administration (FAA) airport improvement program, facilities and equipment program, research, and operation of the air traffic control system; water transportation through the Coast Guard and Maritime Administration; the Surface Transportation Board; the National Transportation Safety Board; and related transportation safety and support activities within the Department of Transportation. In addition, funds for air transportation programs under the auspices of NASA are included within this function.

PRESIDENT BUSH'S BUDGET RESOLUTION (\$ Billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Budget Authority	62.1	61.9	64.8	66.2	67.7	69.3	71.0	72.6	74.2	75.8	77.8
Outlays	51.7	55.8	59.0	60.8	62.5	64.3	65.5	67.0	68.7	70.0	71.9

Discretionary

The President's proposal assumes discretionary spending in this function would total \$16.8 billion in BA and \$54.1 billion in outlays for 2002. This represents a decrease of \$2.1 billion in BA and an increase of \$4.4 billion in outlays from the 2001 level. This decrease in BA is primarily due to the elimination of Congressional earmarks, while the growth in outlays is largely due to increases related to the Transportation Equity Act for the 21st Century (TEA 21) and the Wendell H. Ford Aviation Investment Act for the 21st Century (AIR 21). Both AIR 21 and TEA 21 authorize programs which have discretionary outlays but mandatory BA.

The President's proposal assumes funding at the TEA 21 highway and mass transit "guarantee" levels. This represents an

increase in budgetary resources of \$2.1 billion for highway programs and \$0.5 billion for mass transit programs from the 2001 level. The funding level for highways includes \$145 million for two new programs to assist Americans with disabilities overcome transportation barriers.

President Bush's proposal funds the Federal Aviation Administration's operating and capital programs at the levels authorized in AIR 21, \$725 million more than the 2001 budgetary resources. The President's proposal for Amtrak's capital program supports the railroad's glidepath to achieve operational self-sufficiency. For the U.S. Coast Guard, the budget increases funding by \$545 million over the 2001 level to support operational requirements and begin replacing their aging fleet of ships and aircraft.

The President's proposal assumes no new funding for over \$1 billion of highway projects that received funding above the TEA 21 "guaranteed" level in 2001. The proposal assumes no new funding for the Maritime Guarantee Loan Subsidy Program. Finally, the President's proposal raises \$75 million in new transportation user fees

Mandatory used for Discretionary offsets

The President's proposal assumes no mandatory user fees or savings.

Mandatory PAYGO

The President's proposal assumes additional contract authority, a mandatory form of budget authority, for certain highway, mass transit, and aviation programs. Outlays from this contract authority are classified as discretionary because they are governed by annual obligation limitations contained in appropriations acts.

FUNCTION 450: Community & Regional Development H. CON. RES. 83/DOMENICI SUBSTITUTE

Under current law, spending for Function 450, Community and Regional Development, will total \$11.2 billion in Budget Authority and \$11.4 billion in outlays for 2001. This function includes funding for community and regional development and disaster relief. The function includes the Appalachian Regional Commission (ARC), non-power programs of the Tennessee Valley Authority (TVA), the Federal Emergency Management Agency (FEMA), the Economic Development Administration (EDA) within the Commerce Department, and portions of the Department of Housing and Urban Development (most notably the Community Development Block Grant program), the Bureau of Indian Affairs, and the Department of Agriculture.

PRESIDENT BUSH'S BUDGET RESOLUTION

(\$ Billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Budget Authority	11.2	10.1	10.3	10.6	10.9	11.2	11.5	11.8	12.1	12.3	12.8
Outlays	11.4	11.4	10.9	10.5	10.2	10.0	10.2	10.5	10.8	11.0	11.3

Discretionary

The President's proposal assumes discretionary spending in this function would total \$10.1 billion in BA and \$11.4 billion in outlays for 2002. This represents a decrease of \$1.5 billion in BA and \$300 million in outlays from the 2001 level. The President's proposal also assumes funding for the Brownfields redevelopment program at \$200 million in 2002 and \$1.0 billion over 5 years. The proposal also contains an increase of \$100 million in 2002 for the Department of Housing and Urban Development for community initiatives. In addition, it is assumed that the core operations of the Federal Emergency Management Agency will be fully funded at \$2.0 billion in 2002.

The President's proposal also assumes some cuts and terminations to projects within Function 450. A savings of \$166 million is proposed by reforming the disaster relief program by implementing a public building insurance requirement and reducing the Federal share for hazard mitigation grants. An additional \$208 million in estimated savings is proposed from excess appropriations to the Cerro Grande Fire Claims Fund and the Hurricane Floyd buyout program. \$25 million in savings is proposed by canceling the Project Impact disaster preparedness campaign. Finally, \$175 million in savings is proposed by freezing various loan levels of Federal Credit Programs such as the Rural Community Advancement Program, the Rural Business – Cooperative Service and the Small Business Administration's Disaster Assistance loans. This part of the proposal also assumes the elimination of the Rural Telephone Bank direct loans program.

Mandatory PAYGO

The President proposes two cost saving reforms within the National Flood Insurance Program. First, flood insurance coverage would no longer be available for several thousand "repetitive loss" properties. Second, subsidized premium rates for vacation homes, rental properties, and other non-primary residences and businesses would be phased out. It is assumed that these cost saving proposals would save \$1.9 billion over 10 years.

FUNCTION 500: Education, Training, Employment and Social Services H. CON. RES. 83/DOMENICI SUBSTITUTE

Function 500, Education, Training, Employment and Social Services. This function includes funding for elementary and secondary, vocational, and higher education; education research and other education activities; job training and employment services; aging services; children and families services; adoption and foster care assistance; and funding for the arts and humanities.

PRESIDENT BUSH'S BUDGET RESOLUTION (\$ Billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Budget Authority	76.9	100.6	82.0	83.9	87.3	90.2	92.8	95.7	98.4	100.5	104.6
Outlays	69.8	76.2	81.7	82.3	84.8	87.7	90.4	93.0	95.9	98.4	101.4

Discretionary

The President's proposal assumes discretionary spending of \$65.3 billion in budget authority and \$59.7 billion in outlays for 2002. This represents an increase of \$4.1 billion in budget authority and \$5.7 billion in outlays over the 2001 level.

Department of Education

The President proposes an increase of \$4.6 billion over the 2001 level for the Department of Education. This represents an 11.5 percent increase over the previous fiscal year, or 5.9 percent at the program level. This increase will fully fund the President's Reading First initiative; provide for a nearly \$1 billion increase in Special Education; fund a \$1 billion increase for Pell Grants; provide \$2.6 billion for improving teacher quality; increase Impact Aid construction assistance by \$62 million; provide \$25 million for character education; and puts a down payment on increasing aid to black and Hispanic-serving colleges and universities by 30 percent by 2005. The President also proposes that funds assumed for school renovation in 2002 be redirected to Special Education and other high-priority needs.

Department of Health and Human Services

Within this function, the President proposes \$153 million in 2002 for three Compassionate Conservatism initiatives: a national fund to research “best practices” for charitable institutions; a Compassion Capital Fund to provide start-up capital and operating costs to charities that emulate model programs; and a Responsible Fatherhood initiative for low-income families.

Department of Labor and other agencies

The President proposes over \$5 billion in 2002 for Training and Employment Services under the Department of Labor.

The President proposes \$494 million in 2002 for the Smithsonian, including funds to complete construction of the National Museum of the American Indian and continuing renovation of the Patent Office Building.

The President proposes \$733 million for the Corporation for National and Community Service. This level of funding will support 50,000 Americorps members as well as a \$14 million increase for the Senior Service Corps and the establishment of two new programs: a Silver Scholarship program allowing older Americans to exchange volunteer service for a scholarship benefitting a child, grandchild, or other child; and a new Veterans Mission for Youth.

The President proposes that funding for the National Endowment for the Arts and the National Endowment for the Humanities be maintained at the 2001 level.

Mandatory used for Discretionary offsets

The President’s proposal assumes no mandatory savings or user fees in this function over the ten-year period, 2002-2011.

Mandatory PAYGO

The President proposes \$5 million in 2002 and \$82 million over the ten-year period 2002-2011 to expand student loan forgiveness for math and science teachers who teach those subjects in high-need schools; \$60 million in 2002 and \$600 million over ten years for an Older Foster Children initiative; and \$200 million in 2002 and \$2 billion over ten years to Promote Safe and Stable Families.

In addition, the President proposes a one-time shift of \$18.4 billion in discretionary advanced appropriations to mandatory in order to reverse the abusive use of advance appropriations. This amount does not include funds for the Corporation for Public Broadcasting traditionally appropriated two years in advance.

FUNCTION 550: HEALTH H. CON. RES. 83/DOMENICI SUBSTITUTE

Under current law, spending for Function 550, Health, will total \$180.1 billion in BA and \$173.0 billion in outlays for 2001. The major programs in this function include Medicaid, the State Children's Health Insurance Program, health benefits for federal workers and retirees, the National Institutes of Health, the Food and Drug Administration, the Health Resources Services Administration, Indian Health Services, the Centers for Disease Control and Prevention, and the Substance Abuse and Mental Health Services Administration.

PRESIDENT BUSH'S BUDGET RESOLUTION (\$ Billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Budget Authority	182.6	202.9	228.3	245.0	252.0	264.8	284.8	305.4	327.3	351.6	379.6
Outlays	175.5	200.1	224.5	243.2	249.8	262.6	282.1	302.9	325.2	350.0	377.5

Discretionary

The President's proposal assumes discretionary spending in this function would total \$41.0 billion in BA and \$38.1 billion in outlays for 2002. This represents an increase of \$2.2 billion in BA and \$4.4 billion in outlays from the 2001 level.

The largest discretionary increase in this function is for the **National Institutes of Health (NIH)**. The President's budget assumes an increase of \$2.8 billion in BA above the 2001 enacted level. This increase is part of a Presidential initiative to double NIH's 1998 funding level by 2003.

The President's budget also includes a \$124 million increase for **Community Health Centers**. This increase is the first installment of a multi-year initiative to increase the number of community health center sites by 1,200.

The President's budget includes an increase of \$100 million for the **Substance Abuse and Mental Health Services Administration** to increase the availability of substance abuse treatment services.

The President's budget includes the elimination of the \$125 million **Community Access Program**, along with reductions in **Health Professions** funding.

New fees for the **Food and Drug Administration** are also included, totaling \$20 billion per year. These fees are for inspections and export certification of foods.

Mandatory PAYGO

The President's budget includes \$43.1 billion for the **Immediate Helping Hand** program to provide a prescription drug benefit for low-income senior citizens. This program provides funding to the States in 2001 through 2005 to enable them to provide immediate coverage for prescription drugs until more extensive Medicare reform is enacted. This proposal includes \$2.5 billion in funding for 2001 and \$11.2 billion in 2002.

The President's budget also addresses the **Medicaid** "upper payment limit" loophole and includes \$813 million in savings to Medicaid in 2002 and \$10.6 billion in savings over 10 years.

The President's budget also includes refundable **tax credits for health insurance**. Although this tax credit impacts revenues, the portion of the credit that exceeds an individual's tax liability is recorded as an outlay in function 550. The outlay portion of this tax credit amounts to \$81 million in 2002 and \$18.7 billion over 10 years.

FUNCTION 570: MEDICARE H. CON. RES. 83/DOMENICI SUBSTITUTE

Under current law, spending for Function 570, Medicare, will total \$217.5 billion in BA and \$217.7 billion in outlays for 2001. Medicare provides health insurance coverage for persons over age 65 and qualified disabled workers.

PRESIDENT BUSH'S BUDGET RESOLUTION (\$ Billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Budget Authority	217.5	229.1	243.9	260.2	291.8	309.9	336.1	362.8	391.1	423.4	459.4
Outlays	217.7	229.1	243.7	260.4	291.7	309.7	336.4	362.7	390.8	423.7	459.4

Discretionary

The President's proposal assumes discretionary spending in this function would total \$3.4 billion in BA and outlays for 2002. This represents an increase of \$92 million in BA and \$147 million in outlays from the 2001 level.

Mandatory PAYGO

The President's budget assumes an increase in mandatory spending of \$109.9 billion over 10 years. This increase in spending is for Medicare modernization and a prescription drug benefit. This spending begins in 2005, starting where the funding for the Immediate Helping Hand program ends (see Function 550).

FUNCTION 600: INCOME SECURITY H. CON. RES. 83/DOMENICI SUBSTITUTE

Under current law, spending for Function 600, Income Security, will total \$255.9 billion in BA and \$256.9 billion in outlays for 2001. This function contains: 1) major cash and in-kind means-tested entitlements; 2) general retirement, disability, and pension programs excluding Social Security and Veterans' compensation programs; 3) federal and military retirement programs; 4) unemployment compensation; 5) low-income housing programs; and 6) other low-income support programs. Function 600 is the third largest functional category after Social Security and defense. Mandatory programs account for 83 percent of total spending in this function.

PRESIDENT BUSH'S BUDGET RESOLUTION (\$ Billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Budget Authority	255.9	275.0	281.1	292.4	307.1	314.9	322.1	336.6	348.0	358.6	370.3
Outlays	256.9	271.4	281.6	291.6	305.7	313.4	320.6	335.2	346.3	356.9	368.1

Discretionary

The President's proposal assumes discretionary spending in this function would total \$42.8 billion in BA and \$45.9 billion in outlays for 2002. This represents an increase of \$3.4 billion in BA and \$1.9 billion in outlays from the 2001 level.

The President's proposal would redirect \$200 million from the existing Child Care and Development Block Grant Program and provide \$200 million in new funding in order to establish a new \$400 million program to provide after school certificates. The budget also would increase the HOME Investment Partnership Program by \$200 million to match down payment assistance provided by third parties, up to \$1,500 per family.

The President's proposal would cut the Public Housing Capital program by \$700 million relative to 2001 funding. The budget also assumes \$316 million in savings in 2002 from terminating drug elimination grants and \$26 million in savings from ending the Rural Housing and Economic Development program. Finally, the budget assumes savings of \$15 million in 2002 from collecting user fees to finance inspection of manufactured housing.

Mandatory PAYGO

The President's proposal assumes mandatory increases of \$7.7 billion over ten years for an expansion of Child Tax Credit. Although changes to the Child Tax Credit impact revenues, the portion of the credit that exceeds an individual's tax liability is recorded as an outlay in function 600.

The President further proposes a tax credit against State income or other taxes for contributions to charities addressing poverty. This proposal would increase mandatory outlays by \$60 million over 10 years because States would be able to use Federal Temporary Assistance for Needy Families (TANF) funds to offset any revenue losses. The President does not propose to reauthorize the TANF Supplemental Population Grants in 2002. Those grants to states totaled \$319 million in 2001.

FUNCTION 650: SOCIAL SECURITY H. CON. RES. 83/DOMENICI SUBSTITUTE

Under current law, spending for Function 650, Social Security, will total \$435.2 billion in BA and \$435.1 billion in outlays for 2001. This function includes Social Security benefits and administrative expenses.

PRESIDENT BUSH'S BUDGET RESOLUTION (\$ Billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Budget Authority	435.2	457.2	479.7	503.8	529.2	555.8	584.1	614.7	649.5	686.2	725.5
Outlays	433.1	455.0	477.3	501.5	526.9	553.4	581.5	611.7	646.3	683.4	722.8

Discretionary

The President's proposal assumes discretionary spending would total \$3.5 billion in BA and \$3.5 billion in outlays for 2002. This represents an increase of \$0.1 billion in BA and \$0.1 billion in outlays from the 2001 level. This increase would go to the Social Security Administration to improve services for Social Security beneficiaries.

Mandatory PAYGO

The President's proposal assumes no changes to Social Security benefits. Indirectly, however, the tax cut proposal would decrease the off-budget surplus. Under current law, income taxes paid on Social Security benefits are credited to the trust fund. The President's tax proposal would reduce marginal income rates, thereby decreasing the amount of income taxes paid on Social Security benefits by \$11 billion over 10 years. This represents a loss to the trust fund of \$11 billion over 10 years and the off-budget surplus would decrease by the same amount.

FUNCTION 700: VETERANS BENEFITS AND SERVICES H. CON. RES. 83/DOMENICI SUBSTITUTE

Under current law, spending for Function 700, Veterans Benefits and Services, will total \$46.7 billion in BA and \$45.9 billion in outlays for 2001. This budget function includes income security needs of disabled veterans, indigent veterans, and survivors of deceased veterans through compensation benefits, pensions, and life insurance programs. Major education, training, and rehabilitation and readjustment programs include the Montgomery GI Bill, the Veterans Educational Assistance program, and the Vocational Rehabilitation and Counseling program. Veterans can also receive guarantees on home loans. Roughly half of all spending in this function is for the Veterans Health Administration, which is comprised of hospitals, nursing homes, domiciliaries, and outpatient clinics.

PRESIDENT BUSH'S BUDGET RESOLUTION (\$ Billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Budget Authority	46.7	51.1	52.4	54.3	58.3	57.7	56.9	60.7	62.0	63.4	65.6
Outlays	45.9	50.5	52.1	53.9	57.8	57.2	56.5	60.3	61.7	63.0	65.2

Discretionary

The President's proposal assumes discretionary spending in this function would total \$23.5 billion in BA and \$23.2 billion in outlays for 2002. This represents an increase of \$1.0 billion in BA and \$1.1 billion in outlays from the 2001 level.

The President's proposal assures veterans receive high-quality health care, accurate and timely processing of benefit claims and commitment to making veterans' cemeteries national shrines. The proposal also assumes that \$235 million in VA Health Care liability will shift to the Department of Defense because of the TRICARE For Life benefit now available to military

retirees over age 64.

Mandatory

The President's proposal assumes mandatory spending in this function would total \$27.6 billion in BA and \$27.4 billion in outlays for 2002. This represents an increase of \$3.4 billion in BA and \$3.5 billion in outlays from the 2001 level.

The President's proposal assumes mandatory savings of \$143 million in BA and \$109 million in outlays in 2002 and \$4.9 billion in BA and \$4.7 billion in outlays over the ten-year period, 2002-2011. The President's proposal assumes that provisions of the 1997 Balanced Budget Act expiring after 2002 will be extended. These provisions include:

- C Extending the VA's authority to round-down monthly compensation benefits to the nearest dollar after applying the annual COLA in each year. The practice of rounding down monthly benefit checks is consistent with all other major pension programs including military and civilian retirement benefits.
- C Extending the VA's authority to match income information submitted by pension beneficiaries with the Internal Revenue Service and the Social Security Administration.
- C Extending the VA's authority to guarantee VA securities issued in the secondary market directly, thereby enhancing their value.
- C Extending certain fees paid by veterans who obtain a government-guaranteed housing loan.
- C Eliminating the VA's Vendee loan program which allows the general public to obtain a loan from the VA for purchasing a house the VA has acquired because a veteran has defaulted on the loan.

FUNCTION 750: ADMINISTRATION OF JUSTICE H. CON. RES. 83/DOMENICI SUBSTITUTE

Under current law, spending for Function 750, Administration of Justice, will total \$30.5 billion in Budget Authority and \$30.0 billion in outlays for 2001. This function funds the federal law enforcement activities of two agencies, the Department of Justice and the Treasury Department. Their law enforcement activities include criminal investigations by the Federal Bureau of Investigation and the Drug Enforcement Agency, as well as border enforcement and the control of illegal immigration by the Customs Service and by the Immigration and Naturalization Service. Among other program activities, the Administration of Justice function includes (1) civil rights enforcement and prosecution, (2) federal block, categorical, and formula grant programs, (3) prison construction and operation, (4) United States Attorneys, and (5) the federal Judiciary.

PRESIDENT BUSH'S BUDGET RESOLUTION (\$ Billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Budget Authority	30.5	30.9	31.9	33.6	34.6	35.7	36.6	37.6	38.5	39.2	40.8
Outlays	30.0	31.7	34.6	34.6	34.5	35.2	36.1	37.1	38.0	38.8	40.1

Discretionary

The President's proposal assumes discretionary spending in this function would total \$29.7 billion in BA and \$29.5 billion in outlays for 2002. This represents a decrease of \$261 million in discretionary BA and an increase of \$195 million in discretionary outlays from the 2001 level. The President's proposal also provides over \$338 billion in budget authority for the Justice Function over the next ten years.

Mandatory used for Discretionary offsets

The President's proposal assumes the repeal of windfall fines deposited in the Crime Victims Fund, yet still permits the Fund to spend at its high-water mark of \$500 million.

Overview of the President's Blueprint

The President's budget for the Justice Function emphasizes combatting drug abuse, cybercrime, and terrorism. It increases laboratory and technical capacity at the federal level to support state and local efforts in these areas. It also seeks immigration reform, increased resources for gun law prosecution, and expanded federal prisoner and detainee capacity. Increased funds for these emphases are obtained primarily by redirecting resources from federal grant programs and by allowing the Justice Department to tap funds generated by fees and other sources.

The President's budget includes an 8% increase for the BOP including \$821 million for prison construction, modernization, contract beds, and bringing newly built prisons online. This budget also includes \$5M to establish a faith-based prerelease pilot program at four geographically dispersed sites serving different levels of security and gender. The budget also includes \$140M to support additional detention beds to keep pace with the growth in the alien detainee population. This budget proposes an increase of 9% to enhance laboratory services and DEA's investigative databases and an increase of 8% for the FBI primarily to combat terrorism and cybercrime by adding new agents and developing new technical capabilities. It includes resources for the FBI to provide security support for the 2002 Winter Olympic Games in Salt Lake City.

This budget has a number of proposals for the INS. First, the President proposes a five-year, \$500 million initiative to establish a six-month processing standard for all immigration applications and petitions. Second, he proposes \$75 million to fund 570 new Border Patrol agents through 2002 and 2003 to complete a complement of about 11,000 agents on our borders. Third, he requests \$20 million for intruder technology and \$7 million for intelligence units along our borders. Finally, to address systemic problems in INS, the Administration proposes restructuring the INS by splitting it into two agencies: one with responsibility for service and one focused on law enforcement. This is projected to cost \$2 billion over the next ten years.

For the US Attorneys, the president proposes an increase of 7% primarily to combat Internet cybercrime affecting businesses, to handle an overload of habeas corpus cases, and to prosecute gun offenses. Project Sentry will provide \$9 million to fund a dedicated juvenile gun prosecutor in each of the 94 US Attorney Offices. Finally, Legal Services Corporation

funding was frozen at \$329 million and the Equal Employment Opportunity Commission was increased by \$7 million from the 2001 enacted level.

FUNCTION 800:GENERAL GOVERNMENT H. CON. RES. 83/DOMENICI SUBSTITUTE

Under current law, spending for Function 800, General Government, will total \$16.3 billion in BA and \$16.1 billion in outlays for 2001. This function consists of the activities of the Legislative Branch, the Executive Office of the President, U.S. Treasury fiscal operations (including the Internal Revenue Service), personnel and property management, and general purpose fiscal assistance to states, localities, and U.S. territories. Discretionary spending represents 86 percent of total spending in this function. The Internal Revenue Service accounts for almost 65 percent of the discretionary total.

PRESIDENT BUSH'S BUDGET RESOLUTION (\$ Billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Budget Authority	16.3	16.7	16.3	16.8	17.0	17.5	17.9	18.0	18.4	18.7	19.4
Outlays	16.1	16.3	16.3	16.6	16.7	17.1	17.5	17.7	18.0	18.3	18.9

Discretionary

The President's proposal assumes discretionary spending in this function would total \$14.8 billion in BA and \$14.5 billion in outlays for 2002. This represents an increase of \$0.8 billion in BA and of \$0.7 billion in outlays from the 2001 level. The President's proposal includes \$0.5 billion for the construction of additional federal courthouses, \$400 million for improvements in IRS computer systems and \$100 million for the E-government Initiative.

Mandatory PAYGO

The President's proposal assumes no mandatory increases or decreases in this function.

FUNCTION 920: ALLOWANCES

H. CON. RES. 83/DOMENICI SUBSTITUTE

Function 920, Allowances, usually displays the budgetary effects of proposals that cannot be easily distributed across other budget functions. In past years, Function 920 has included total savings or costs from proposals associated with emergency spending or proposals contingent on certain events that have uncertain chances of occurring.

PRESIDENT BUSH'S BUDGET RESOLUTION

(\$ Billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Budget Authority	59.5	6.0	5.7	6.3	6.4	6.6	6.8	7.0	7.2	7.4	7.7
Outlays	59.7	2.7	4.3	5.0	6.0	6.3	6.5	6.7	6.9	7.0	7.2

Discretionary

The President's proposal assumes discretionary spending in this function would total \$6.0 billion in BA and \$2.7 billion in outlays for 2002. More than \$5.6 billion of that BA and \$2.6 billion of those outlays for 2002 are set aside for unforeseen natural disasters and emergencies, as well as other contingencies. After 2002, the amounts set aside for such contingencies increase in each year. By 2011, the President's proposal sets aside \$7 billion in BA and \$6.8 billion in outlays for unforeseen emergencies.

The remaining discretionary monies in this function include a \$300 million downward allowance in BA and outlays in each year to adjust the growth in the budget request of the judicial branch to rates closer to historical levels and a \$600 to \$800 million general allowance that adjusts BA and outlays upward. In addition, the baseline for this function includes the nondefense effects of the 0.22% across-the-board cut enacted in the Omnibus Consolidated and Emergency Supplemental Appropriations for Fiscal Year 2001.

Mandatory PAYGO

This budget resolution also includes a mandatory allowance for a surplus rebate of up to \$60 billion in 2001. The rebate represents less than two-thirds of the \$96 billion non-Social Security, non-Hospital Insurance surplus projected under current law for 2001. The 2001 rebate will provide immediate economic stimulus, and represents a first step toward President Bush's goal of returning a portion of the money the government is currently collecting but does not need back to the people to use as they see fit.

FUNCTION 950: UNDISTRIBUTED OFFSETTING RECEIPTS H. CON. RES. 83/DOMENICI SUBSTITUTE

Under current law, receipts in Function 950, Undistributed Offsetting Receipts, will total about \$46.2 billion (negative BA and outlays) for 2001. This function records offsetting receipts (receipts, not federal revenues or taxes, that the budget shows as offsets to spending programs) that are too large to record in other budget functions. Such receipts are either intrabudgetary (a payment from one federal agency to another, such as agency payments to the retirement trust funds) or proprietary (a payment from the public for some type of business transaction with the government). The main types of receipts recorded as “undistributed” in this function are: the payments federal agencies make to retirement trust funds for their employees, payments made by companies for the right to explore and produce oil and gas on the Outer Continental Shelf, and payments by those who bid for the right to buy or use the public property or resources, such as the electromagnetic spectrum.

PRESIDENT BUSH’S BUDGET RESOLUTION (\$ Billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Budget Authority	-46.2	-47.3	-58.9	-66.4	-57.4	-62.1	-60.5	-62.4	-64.4	-66.9	-69.6
Outlays	-46.2	-47.3	-58.9	-66.4	-57.4	-62.1	-60.5	-62.4	-64.4	-66.9	-69.6

Discretionary

The President’s proposal does not assume any discretionary spending in this function.

Mandatory PAYGO

The President's proposal (as reestimated by CBO) assumes \$3.4 billion in receipts over 10 years from changes to policies regarding the electromagnetic spectrum. Specifically, the President proposes to impose a fee on commercial television broadcasters for the use of the analog spectrum. The President further proposes to postpone an auction of certain analog spectrum scheduled in 2002 to 2004 and to postpone the auction of another parcel of spectrum from 2002 to 2006. Changing the dates of those auctions is expected to increase auction receipts because it should reduce uncertainty regarding the accessibility of the spectrum for potential bidders.

The President also proposes to maintain the current contribution rates of federal agencies to the civil service retirement fund. A portion of those contributions, enacted in the Balanced Budget Act of 1997, were set to expire at the end of fiscal year 2002.

REVENUES

H. CON. RES. 83/DOMENICI SUBSTITUTE

Federal revenues are taxes and other collections from the public that result from the government's sovereign or governmental powers. Federal revenues include individual income taxes, corporate income taxes, social insurance taxes, excise taxes, estate and gift taxes, custom duties and miscellaneous receipts (which include deposits of earnings by the Federal Reserve System, fines, penalties, fees for regulatory services, and others).

Under current law, federal tax collections are projected to total \$28 trillion over the next ten years. This year, total revenues are projected to equal 20.7 percent of GDP, slightly below the World War II record level of 20.9 percent. Over the projection period 2002-2011, under current law, total revenues are projected to average 20.3 percent of GDP, far above historical averages for any time period, including times of war.

PRESIDENT BUSH'S BUDGET RESOLUTION

(\$ Billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues	2134.4	2206.5	2277.0	2354.1	2438.3	2519.9	2623.1	2747.0	2885.2	3028.1	3196.4

The President's proposal assumes tax relief totaling \$1.6 trillion over the next ten years. The President's plan for tax relief for American families is general and across-the-board. President Bush's proposal would replace the current five marginal income tax rates of 15, 28, 31, 36 and 39.6 percent with a four-rate structure of 10, 15, 25, and 33 percent. The President's plan would double the child credit to \$1,000 and reduce the marriage penalty. His plan eliminates the death tax, expands the charitable deduction to non-itemizers and makes the research and experimentation tax credit permanent.

His plan addresses the need for improved access to health insurance through a new refundable tax credit for individuals and families who do not have access to employer-sponsored health insurance. Tax relief is also proposed for extension of Medical Savings Accounts and for help with the costs of long-term care. The President's plan also proposes to raise the adoption credit from \$5,000 to \$7,500 and to make it permanent.

President Bush's proposed tax relief benefits education by increasing the annual contribution to Education Savings Accounts from \$500 to \$5,000, allowing a full tax exemption for all qualified pre-paid tuition and savings plans, establishing a tax deduction for teachers' out-of-pocket expenses of up to \$400 per year, and allowing state private activity bonds to be used for school construction and repair.

The President's tax plan includes energy and conservation tax incentives as well as FFARM accounts, which allow farmers, ranchers, and fishermen to reserve a substantial percentage of net farm income in a tax deferred account.

This budget resolution includes an allowance (in function 920) for a surplus rebate of up to \$60 billion in 2001. The rebate represents less than two-thirds of the \$96 billion non-Social Security, non-Hospital Insurance surplus projected under current law for 2001. The 2001 rebate will provide immediate economic stimulus, and represents a first step toward President Bush's goal of returning a portion of the money the government is currently collecting but does not need back to the people to use as they see fit.

DEBT LEVELS

H. CON. RES. 83/DOMENICI SUBSTITUTE

Debt held by the public peaked at \$3.773 trillion in 1997. At the end of 2001, debt held by the public is projected to be \$3.213 trillion, \$560 billion lower than just four years ago. This is a reduction of 15 percent from peak levels.

PRESIDENT BUSH'S BUDGET RESOLUTION

(\$ Billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Debt Held by the Public	3212.9	2964.0	2714.4	2458.1	2206.5	1927.1	1622.0	1287.8	939.0	878.0	818.0

The budget resolution assumes policies which result in \$2.4 trillion of debt reduction from the end of 2001 through the end of 2011. Debt held by the public falls to about 5 percent of GDP, its lowest level since 1916, prior to World War I.

The budget resolution proposals result in retiring the maximum amount of public debt that can reasonably be retired. The debt remaining in 2009, 2010 and 2011 is considered (by CBO's estimates) the minimum debt level. It consists of marketable bonds that will not have matured and that will be too expensive to buy back, savings bonds, and special bonds for State and local governments, among others.

TITLE II – BUDGET ENFORCEMENT AND RULEMAKING PROPOSED FY2002 BUDGET RESOLUTION H. CON. RES. 83/DOMENICI SUBSTITUTE

Section 201. Restrictions on Advance Appropriations.

The substitute amendment adds a new scoring rule such that any advance appropriations will be scored as new budget authority in the budget year for which the appropriations bill is enacted. The rule includes an exception: if an advance appropriation, in conjunction with the current year, represents full funding of a capital project then the appropriation will be scored as new budget authority in the year the funds will be available.

Section 202. Mechanism for Implementing Increase of Fiscal Year 2002 Discretionary Spending Limits.

The substitute amendment provides a mechanism such that when Congress enacts legislation that increases the discretionary spending limits, the Chairman of the Budget Committee may increase the 302(a) allocation to the Committee on Appropriations up to the levels set out in this section. This language is virtually identical to section 206 of last year's resolution.

Section 203. Reserve Fund for Prescription Drugs and Medicare Reform in the Senate.

The substitute amendment provides that upon the reporting of a bill by the Finance Committee which provides for the solvency of medicare programs and includes access to prescription drugs, the Chairman of the Senate Budget Committee may revise the 302(a) allocation to the Senate Finance Committee to provide additional funding for such legislation, but not to exceed \$11.2 billion in fiscal year 2002 and \$153 billion for fiscal years 2002 - 2011. This language is very similar to section 215 of last year's resolution.

Section 204. Application and Effect of Changes in Allocations and Aggregates.

The substitute amendment contains language identical to section 222 of last year's resolution which simply makes clear when adjustments made under title II of the budget resolution will take effect.

Section 205. Exercise of Rulemaking Powers.

As always, the resolution includes language identical to section 234 of last year's resolution which simply states Congress' authority to legislate rules of procedure for either chamber.