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# President Bush's 2003 Budget

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## A Brief Overview



Prepared by the  
U.S. Senate Budget Committee  
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## GENERAL NOTES

- (1) In this document, all dollar and percentage amounts relating to the President's budget and to current services estimates have been taken from the President's 2003 budget document. These figures are based on the President's economic forecast and technical estimating procedures and have not been reestimated by the Congressional Budget Office.
- (2) "BEA" refers to the Budget Enforcement Act, Title XIII of the Omnibus Budget Reconciliation Act of 1990. "BBA" refers to the Bipartisan Budget Agreement of 1997.
- (3) Unless otherwise stated, all years in this report are fiscal years.
- (4) In the case of all tables: (a) Details may not add to totals due to rounding; (b) "N/A" means not available or not applicable; and (c) "(\*)" means less than \$0.5 billion, less than \$500,000 or less than one-half percent.

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# OVERVIEW

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## THE PRESIDENT'S FY 2003 BUDGET Budgeting for Security

*“Government is, or ought to be instituted for the  
common benefit, protection, and security of the  
people, nation, or community...”*

George Mason  
Virginia Bill of Rights  
June 12, 1776

*“There is a tide in the affairs of men,  
Which, taken at the flood, leads to fortune;”*

Shakespeare: *Julius Caesar*

*“To achieve these great national objectives – to win the war,  
protect the homeland and revitalize our economy –  
our budget will run a deficit that will be small and short term  
so long as Congress restrains spending and acts  
in a fiscally responsible way.”*

President George W. Bush  
State of the Union Address  
January 29, 2002

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President Bush's \$2.1 trillion war-time budget sets as its first priority the security of our homeland, fundamental to our constitutional government. Without this security, as outlined by the founding fathers, democratic government as we know it cannot exist. The second priority is the further strengthening of our military and intelligence systems to find, pursue, and destroy those who would threaten our country. The third priority of this budget is to restore health to the economy and provide the security of a paycheck to those unemployed.

The achievement of these three critical priorities takes precedence in the near term over maintaining a balanced federal budget. (See Table 1.) Total federal spending is estimated by the Administration to increase 3.7 percent between 2002 and 2003, and on average grow at a similar rate over the next five

years. The President's budget provides 10-year budget projections, but emphasizes, based on recent experience, the need for a more realistic budget window, and most agency totals are limited to five-year estimates.

The Administration estimates that the President's policies would reduce a \$51 billion unified budget adjusted baseline surplus in 2003 to a deficit of \$80 billion. Over 82 percent of this swing from surplus to deficit is accounted for by the spending and revenue policies advanced to achieve the three stated national priorities. (See Tables 2 and 3.)

But the President's 2003 budget does not abandon fiscal discipline. By restoring economic health – tax receipts grow. By reducing and eliminating low-priority Congressional earmark spending and by consolidating and restraining non-priority domestic spending, the Administration estimates that domestic spending growth will be held below 2 percent next year. Combining revenue growth from a stronger, healthier economy and holding low-priority domestic spending growth below inflation, balance in the unified budget is nearly achieved in 2004, with increasing surpluses thereafter. Balance, excluding the social security surplus, is not achieved in the extended 10-year projection period of the President's budget.

The President's budget calls for working with the Congress to develop budget enforcement mechanisms, including future discretionary spending limits and PAYGO requirements for entitlement spending and tax legislation consistent with the needs of the country. The President proposes a Joint Budget Resolution to replace the current Concurrent Budget Resolution process, limits on advance appropriations, a line item veto, and biennial budgeting and appropriations.

Critical to achieving balance under the President's budget policies is controlling domestic program spending not needed for homeland security. Nondefense, non-homeland security spending represents 17 percent of all federal spending today. And essential to achieving this goal is the budget's clear, unequivocal attention paid to accountability in program spending and program performance. Program performance will guide future program funding according to the President's budget.

It is certain that budget analysts will find different ways to characterize increases or decreases in the President's spending priorities, influenced in part by their own value judgments. The Administration estimates that the non-defense, non-homeland security programs will grow from \$355 billion to \$362 billion – the 2 percent increase already discussed. But another comparison, which reflects the \$20 billion provided for 2002 in the post-September 11 Emergency Response Fund that was omitted from the President's summary base level spending, would show non-homeland, non-defense discretionary spending declining from \$364 billion to \$362 billion, a negligible reduction. (See Table 4.)

Whatever basis of comparison, restraint on non-defense, non-homeland security spending in 2003 is a central focus of the President's 2003 budget discipline. This review concludes that roughly over 111

defense and domestic programs would be terminated and countless Congressional earmarks last year would not be requested in the President's budget. **The challenge for an election year Congress to restrain spending in this area of the budget without reordering the President's three highest priorities is obvious, or without further increasing the near term deficit estimates.**

**Securing our Domestic Homeland.** The President's budget makes clear that "homeland security is a challenge of monumental scale and complexity. It will not be cheap, easy, or quick."<sup>1</sup>

The President's 2003 budget proposes to spend \$37.7 billion for homeland security. Of this total, \$7.8 billion is allocated to the Department of Defense (DoD), leaving \$25.2 billion for domestic (non-DoD) homeland security programs (after adjusting for mandatory or fee funded programs). Prior to the September 11 attacks, domestic homeland security spending reached nearly \$12 billion. Therefore, compared to the pre-September 11 attacks, the President's budget more than doubles federal resources devoted to homeland security.

For budget analysts and bookkeepers, both the definition of programs that qualify as "homeland security" and the base level of spending will be debated.<sup>2</sup> If the 2002 Emergency Response Fund spending (enacted after September 11) is included in the base level of funding for 2002, then it could be argued that domestic homeland security spending will increase from approximately \$20 billion this year to the President's proposed \$25.2 billion next year, a 27 percent increase. (See Table 5.)

Further, not included at this time in the President's budget submission is any request for additional 2002 supplementals that would increase the base level of spending and that the Administration indicated in December would be forthcoming in this session of Congress. But whatever the basis of comparison, it is clear that the President's budget has placed homeland security as its highest priority.

The Office of Homeland Security is charged with developing a comprehensive national strategy to secure the country from terrorist threats or attacks covering over 30 federal agencies. That exercise is ongoing, and therefore the homeland security budget is a work in progress. Nonetheless the President's 2003 budget has identified four urgent and essential missions to receive special funding attention at this time. These are: (1) supporting first responders, (2) enhancing our defenses against biological attacks, (3) securing our borders, and (4) sharing information and using technology to secure the homeland. Funding

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<sup>1</sup>*Budget of the United States Government, Fiscal Year 2003*, p. 15.

<sup>2</sup>See Chapter 7, "Homeland Security" in the *The Budget and Economic Outlook: Fiscal Years 2003-2012*, Congressional Budget Office, January 2002.

for these four missions totals \$17.9 billion and represents over 70 percent of the domestic homeland security funding request for 2003.

In addition to these four critical mission areas, the President's budget requests \$2.6 billion in appropriations for the new Transportation Security Administration (TSA), a 92 percent increase over this year's funding for the new agency. Additional resources are provided beyond the requested appropriations. Of this amount (as authorized under the enacting legislation) the budget assumes \$2.2 billion will come from new passenger and carrier fees to provide additional screeners, security personnel, Federal Air Marshals, and the deployment of explosive detection technology as required by the new legislation. The Department of Transportation will see a 31 percent increase in federal employees next year as new federal airport security workers replace private sector employees.

Finally, the President's budget requests \$4.7 billion for other non-DoD homeland security. The largest of these increases falls in the Energy Department for improving physical, energy and IT security (almost \$900 million) and the Department of Justice and Treasury for law enforcement activities (\$2.1 billion).

**Securing our Military Abroad.** The second highest priority in the President's budget is to win the war on terrorism abroad. In total, all national defense spending would increase from \$351 billion in 2002 to over \$397 billion in 2003 – a 13.1 percent annual increase. This spending covers all defense discretionary and mandatory programs in the DoD and the Department of Energy. Focusing only on DoD's expenditures for military personnel, operations and maintenance, procurement, research and military housing, spending would increase from \$333 billion this year to \$379 billion next year. The President's budget proposes to increase the DoD discretionary budget by over \$45 billion – a 14 percent increase.

Depending how budget analysts choose to tabulate DoD spending from the Emergency Response Fund enacted last fall and proposed for 2003, different percentage increases will be presented. (See Table 4.) But however calculated, it is clear that the military is the second highest funding priority in the budget. The President's budget asserts a 12 percent increase in DoD discretionary spending between 2002 and 2003 by excluding DoD 2002 Emergency Response Fund expenditures and a proposed \$10 billion DoD Emergency Response Fund for 2003. But including both the 2002 and 2003 Emergency Response Fund's actual and requested spending in the comparison, results in a \$45 billion increase or 14 percent, as discussed above. Regardless of the presentation, DoD funding would increase dramatically and defense spending would represent 3.5 percent of GDP in 2003, up from 3.0 percent in 2001.

The defense spending request places emphasis on “transforming” our military to meet the new challenges of the 21<sup>st</sup> Century. Not only would new technology be funded, but a new doctrine for the organization, training and operations of the military. The goal of this transformation is to make the armed forces more flexible and responsive to unanticipated missions.

The President's 2003 "Defense Emergency Response Fund" will provide \$20.1 billion to fund continued operations for the war on terrorism. Half of these funds could be transferred to various DoD accounts so as to provide maximum flexibility during 2003 to respond to the war on terrorists. However, \$10.1 billion of the \$20.1 billion could not be made available for obligation until the President transmits an official budget request stating that the funds are essential to protect against acts of terrorism or threats of terrorism. These contingent funds could cover unanticipated operational costs, transportation, humanitarian, special pays, reserve/guard call-up, enhanced intelligence efforts, and other related costs. The budget presentations assume this request will be forthcoming.

**Securing our Economy.** The third and final priority of the President's budget is the request for an economic security plan. While recent economic news suggests improvements in the economy, unemployment is likely to continue to rise and incomes stagnate. There remain global economic concerns that threaten international trade and widening disparities between poor and rich countries.

The President's budget proposes that Congress adopt quickly an economic security plan that would be modeled after a recent bipartisan compromise considered last year. This compromise is estimated by the Administration to infuse over \$90 billion into the economy this year and \$77 billion in the budget year. It is estimated that over the period 2002 to 2012 this package would provide \$142 billion in tax relief and new federal spending for economic recovery. Based on the Administration's estimates, except for this economic security package, the federal books would be close to balance in 2002 and 2003. But the Administration also assumes that with the package in place, GDP would grow by more than 0.5 percent this year and create 300,000 jobs.

Major elements of the compromise package assumed in the President's budget include:

- S Reducing the current 27.5 percent individual tax bracket to 25 percent, effective for 2002.
- S Supplemental rebates to people who filed 2000 tax returns but did not qualify for rebates last summer.
- S Expensing of capital expenditures with 30 percent bonus depreciation.
- S Providing immediate assistance to laid-off workers, by extending unemployment benefits for an additional 13 weeks and by providing a 60% refundable credit for the purchase of health insurance for workers who became voluntarily unemployed last year – for a maximum credit to cover 12 months.

In addition to the compromise economic security package, the President's budget proposes various new mandatory and tax initiatives. In total, according to the Administration's estimates, these initiatives would allocate nearly \$900 billion over the next decade to meet domestic family and individual needs. Of this total, nearly \$340 billion would be provided in the form of tax relief from extending expiring tax provisions enacted in last year's tax relief bill, mostly impacting budget projections at the end of this decade. The Administration also proposes another \$200 billion in tax incentives for charitable giving, education, health care, housing, and savings.

In addition to tax relief and tax incentives, the President's budget would extend benefits to families and individuals in a wide variety of areas, totaling nearly \$270 billion over the next decade. The most important of these initiatives is \$190 billion for expanded Medicare prescription drug benefits and \$68 billion for a new authorized farm program. Other proposals call for \$3.1 billion for extending and modifying the successful welfare reform law, \$4.2 billion for expanded food stamp benefits to many legal immigrants, and \$21 billion for reforming unemployment insurance.

### **Summary**

Every generation, every President and every Congress face new and different challenges. Some more than others. The events of September 11, 2001 will forever mark history. Overnight, the events of that day transformed the priorities of the federal government. No longer could we assume our country was secure and protected by distance from events half way around the globe. As this new and dangerous challenge became clear, previous priorities, such as an immediately balanced budget, much less a lock-box, paled in significance.

Budgets set priorities. "There is a tide in the affairs of men, which taken at the flood, leads to fortune." At this challenging time, at this tide, the President's 2003 budget clearly establishes three distinct and clear priorities. Secure our homeland, secure our military for the battle ahead, and secure jobs for all Americans whos want to work.

There will be other challenges in the future, some nearer than others, some foreseen by an aging population and a dangerous energy dependence, others unforeseen. The President's budget recognizes that these challenges lie ahead, but without economic growth, those challenges become even more pronounced. And without addressing the security of the people, nation, and community, we have no country. These are the challenges of today that the President's budget addresses.

**Table 1. PRESIDENT'S BUDGET FOR 2003**  
(\$ Billions)

	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Request</b>				
Total Spending	1,864	2,052	2,128	2,189	2,277	2,369	2,468
Social Security	345	360	368	378	392	407	423
Rest of Government	1,519	1,693	1,760	1,811	1,885	1,963	2,045
Total Revenues	1,991	1,946	2,048	2,175	2,338	2,455	2,572
Social Security	508	517	545	573	608	634	665
General Revenues	1,484	1,429	1,503	1,602	1,730	1,822	1,906
Total Surplus	127	-106	-80	-14	61	86	104
Social Security	153	158	177	195	217	227	243
Rest of Government	-36	-264	-257	-209	-155	-141	-139
Gross Federal Debt	5,770	6,137	6,526	6,893	7,207	7,506	7,803
Debt held by the public	3,320	3,478	3,570	3,600	3,548	3,470	3,379

**Table 2. IMPACT OF BUDGET POLICY ON THE SURPLUS**  
(\$ Billions)

	2002	2003	2004	2005	2003-2007
Current Adjusted Baseline	-9	51	109	169	764
Budget Proposals:					
Defense and Homeland Security	0	-31	-38	-45	-224
Medicare Reform	0	-2	-3	-5	-50
Farm bill reauthorization	-4	-7	-7	-7	-34
Charitable giving incentives	-1	-2	-2	-3	-15
Health tax credits	0	-1	-7	-9	-36
Reform unemployment	0	-1	-1	-3	-18
Extend expiring tax provisions	-1	-3	-3	-5	-26
Other proposals	0	-6	1	-4	-20
Related debit service	0	-1	-4	-7	-43
Subtotal, budget proposals	-7	-54	-65	-88	-466
Budget outlook, <i>without</i> economic security package	-16	-3	43	81	298
Economic security package	-90	-77	-57	-20	-141
Budget outlook, <i>with</i> economic security package		-106	-80	-14	61

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Source: Office of Management and Budget

NOTE: OMB's adjusted baseline does not include the outlay and debt service effects of inflating the \$20 billion emergency response fund in FY 2002.

**Table 3. PRESIDENT'S BUDGET BASELINE VS. POLICY**  
(\$ Billions)

	2002	2003	2003-2007
<b>President's Budget Adjusted Baseline:</b>			
Discretionary Outlays			
Defense Outlays	336	347	1836
Nondefense Outlays	382	402	2103
Emergency Response Fund	<u>22</u>	<u>9</u>	<u>17</u>
Total Discretionary Outlays	741	758	3956
Mandatory Outlays			
Social Security Outlays	456	472	2591
Medicare Outlays	223	229	1258
Medicaid Outlays	145	159	936
Other Outlays	<u>279</u>	<u>277</u>	<u>1412</u>
Total Mandatory Outlays	1102	1136	6197
Net Interest	177	175	846
Total Outlays	2020	2070	11000
Total Revenues	2011	2121	11764
Surplus	-9	51	764
<b>President's Budget Policy:</b>			
Discretionary Outlays			
Defense Outlays	336	368	2041
Nondefense Outlays	382	405	2112
Emergency Response Fund	<u>22</u>	<u>16</u>	<u>27</u>
Total Discretionary Outlays	741	789	4180
Mandatory Outlays			
Social Security Outlays	456	472	2591
Medicare Outlays	223	231	1308
Medicaid Outlays	145	159	930
Other Outlays	<u>310</u>	<u>297</u>	<u>1488</u>
Total Mandatory Outlays	1133	1159	6318
Net Interest	178	181	933
Total Outlays	2052	2128	11431
Total Revenues	1946	2048	11588
Surplus	-106	-80	157
<b>Difference Policy less Baseline:</b>			
Discretionary Outlays			
Defense Outlays	0	21	205
Nondefense Outlays	0	3	8
Emergency Response Fund	<u>0</u>	<u>7</u>	<u>10</u>
Total Discretionary Outlays	0	31	224
Mandatory Outlays			
Social Security Outlays	0	0	0
Medicare Outlays	0	2	50
Medicaid Outlays	0	0	-6
Other Outlays	<u>31</u>	<u>20</u>	<u>76</u>
Total Mandatory Outlays	31	22	120
Net Interest	1	6	87



**Table 5. NONDEFENSE DISCRETIONARY HOMELAND SECURITY  
FUNDING BY INITIATIVE AREA**  
(BA in \$ Billions)

	<b>Enacted Base 2002</b>	<b>Proposed 2003</b>	<b>Difference 2002-2003</b>	
<b>Without FY 2002 Supplemental</b>				
Supporting First Responders	291	3500	3209	1103%
Defending against Biological Terrorism	889	4959	4070	458%
Securing our Borders	7536	8791	1255	17%
Sharing information and IT for Security	155	632	477	308%
Aviation Security	293	2578	2285	780%
Other non-Department of Defense Security	2750	4729	1979	72%
<b>TOTAL</b>	<b>11914</b>	<b>25189</b>	<b>13275</b>	<b>111%</b>
<b>With FY 2002 Supplemental</b>				
Supporting First Responders	942	3500	2588	272%
Defending against Biological Terrorism	4381	4959	578	13%
Securing our Borders	8728	8791	63	1%
Sharing information and IT for Security	190	632	442	232%
Aviation Security	652	2578	1927	296%
Other non-Department of Defense Security	4954	4729	-225	-5%
<b>TOTAL</b>	<b>19847</b>	<b>25189</b>	<b>5342</b>	<b>27%</b>

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

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# ECONOMICS

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OMB, CBO, and private forecasts of expected real GDP growth in 2002 have all deteriorated substantially compared to a year ago. Forecasts for 2003 have improved, although by less than the deterioration in 2002.

Most analysts were surprised by the recession that began in March 2001. The events of September 11 accelerated the downturn. Although a recovery should begin in early 2002, real GDP growth will appear slow on a calendar year basis as total production in 2002 barely exceeds total production in 2001. Forecast growth rates for 2003 exceed growth rates beyond 2003 due to a cyclical recovery from the recession. The recession is believed to have pushed the *level* of real GDP below its long-term trend, thereby allowing the *growth rate* of real GDP to temporarily exceed its long-term trend.

Including associated interest costs, changes to the economic outlook from a year ago have reduced OMB's 2002 surplus projection by \$76 billion and the 2002-11 surplus projection by \$1,014 billion. OMB's technical re-estimates have reduced these projections by \$121 billion and \$331 billion, respectively. For CBO, changes to the economic outlook from a year ago have reduced the 2002 surplus projection by \$148 billion and the 2002-11 surplus projection by \$929 billion. CBO's technical re-estimates have reduced these projections by \$94 billion and \$660 billion, respectively.

Compared to CBO, OMB forecasts slower growth in 2002 and 2003 but faster growth in 2005 – leading to near convergence in the forecasts for the level of real GDP in 2006 and beyond. The most notable difference in the economic outlook between OMB and CBO regards interest rates. OMB forecasts an average 91-day Treasury bill rate of 4.0 percent and an average 10-year Treasury note rate of 5.2 percent during 2002-12. CBO expects average rates of 4.6 percent and 5.7 percent respectively.

Despite very similar economic projections, OMB estimates a 2003 baseline budget surplus of \$51 billion versus CBO's estimate of a \$14 billion budget deficit. Most of the discrepancy is attributable to different assumptions about the how much tax revenue will be generated by a given level of economic output.

## **I: Economic Overview**

The longest expansion on record came to an end in March 2001. Most economists attribute the recession to a combination of the lagged effects of a tighter monetary policy and higher energy prices in 1999 and 2000 as well as weakness in the equity markets that began in April 2000.

Although real GDP has only contracted in one quarter, it has contracted for three consecutive quarters if the government sector is excluded from the data. The business sector has been the focus of the slowdown. A decline in fixed investment in non-residential structures, equipment, and software subtracted an average of 1.6 percentage points from real GDP growth in the last three quarters of 2001. During the

same time period, reductions in inventories subtracted 1.2 percentage points from real growth. Unlike every other recession since World War II, personal consumption has yet to decline.

A recovery is likely to begin soon if it has not already. Initial claims for unemployment insurance were averaging 506,000 as recently as October. The same figure is now down to 386,000. Similar declines in the past have occurred following recessions. In addition, consumer confidence is recovering and inventories have been reduced substantially, leaving room for future output to exceed final sales. Even the high-technology sector is showing some signs of growth. New orders for computers and electronic equipment are the highest since June, more than recovered from the steep drop in September. Industrial production of high-technology has increased in two of the past three months.

Going forward, other factors that should contribute to economic growth include lower energy prices, a looser monetary policy, last year's reduction in marginal tax rates, and the resilience of productivity growth.

## **II : Comparison of OMB's Economics Versus CBO's**

OMB's and CBO's economic forecasts are similar. Both have slow real GDP growth in calendar year 2002 followed by above-trend growth in 2003-05 as the level of GDP returns to its long-term trend. OMB's economic recovery is slower but more prolonged. OMB and CBO have essentially the same average real GDP growth over the next five and ten years. OMB projects slightly lower inflation, lower interest rates, lower unemployment, and larger highly-taxed income shares than CBO.

### **Growth**

OMB and CBO expect the economy to recover this year following the recession that began in March 2001. OMB expects last year's interest rate reductions by the Federal Reserve, reductions in energy prices, last year's tax cut and automatic fiscal stabilizers to contribute to a recovery this year. CBO projects that by mid-2002 the slowdown in business investment will have ceased and production and income will rise as firms stop cutting inventories.

OMB and CBO expect virtually the same average annual real GDP growth through both 2005 and 2012. However, OMB projects a slightly slower and slightly more prolonged recovery before the level of real GDP returns to its long-term trend. OMB expects slightly slower growth in 2002-03 than CBO, and faster growth in 2005.

### **Inflation**

OMB and CBO expect inflation to fall from last year's level. Both expect CPI inflation to be 1.8 percent in 2002 before rising back to their long-term trends. However, OMB projects CPI inflation to

more slowly return to its long-term trend and for that long-term trend to be slightly lower than CBO projects – 2.4 percent versus 2.5 percent.

There is greater difference on their near-term GDP deflator projections. OMB projects less of a drop this year, followed by continued declines in 2003 and 2004 before taking two years to get to its long-term trend of 1.9 percent in 2006. CBO projects the GDP deflator to bottom at 1.4 percent this year followed by its long-term trend of 2 percent.

### **Income Shares**

Income shares are a less publicized portion of the forecasts, although they can have key budgetary effects. Income shares depict the breakdown of national income between wages and salaries, benefits, corporate profits, proprietors' income, rental income and net interest. They are expressed as a share of GDP.

If all of the above were taxed the same, the division between income categories would make little budgetary difference. Yet, this is not the case. Wages & salaries and corporate profits are taxed at a higher effective tax rate -- as such, the higher they are relative to the other income categories, the higher the projected revenue stream. These latter two categories are termed the highly taxed shares.

OMB expects the highly taxed share to increase slightly in 2002 before rising again in through 2005. CBO expects the highly taxed share to continue to fall in 2002 due to a reduction in corporate book profits as a share of GDP. Beyond 2002, CBO projects increases in the highly taxed share but up to levels slightly less than projected by OMB.

### **Interest Rates**

Both OMB and CBO expect lower short-term interest rates in 2002. However, OMB expects a more gradual increase in short-term rates beyond 2002 and a lower peak for short-term rate – 4.3 percent versus 4.9 percent. OMB projects slightly higher long-term rates in 2002 but consistently lower long-term rates than CBO beyond 2002. OMB projects long-term rates will average 5.2 percent beyond 2005; CBO projects 5.8 percent.

## **III: Sensitivity to Economic Changes**

Given the low rate of real GDP growth in the past year versus what was expected early last year, one might wonder what could happen to budget projections if the long-term trend in real GDP growth falls short of expectations. In its latest update, CBO looked at the possible impact of less economic growth on their budget projections. If the growth rate of real GDP is 0.1 percentage points lower than expected starting in 2002, the total 2003-2012 budget surplus would be reduced by \$234 billion. According to

similar analysis by OMB, a reduction in the real GDP growth rate of 1 percentage point would reduce the 2003-12 surplus by \$1.9 trillion. However, it is important to note that there are risks to both the upside and downside, not just the downside, as some have suggested.

#### **IV : Long-Term Outlook**

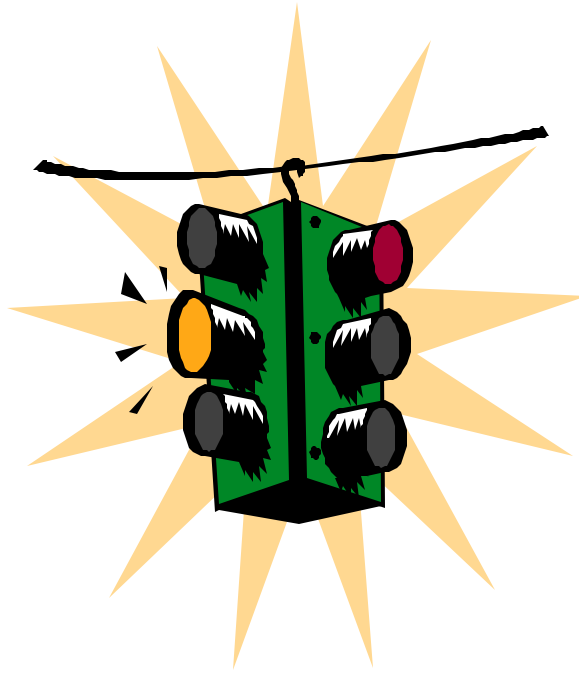
But what happens after the baby-boom generation has retired? At present, federal spending on Medicare, Medicaid, and Social Security totals less than 8 percent of GDP. CBO expects these costs to almost double as a share of GDP by 2030. OMB expects an increase to more than 18 percent of GDP by 2075. The increased costs associated with these programs can only be satisfied by: a) a perhaps unsustainable increase in debt held by the public; b) a large increase in taxes as a share of GDP; c) a faster rate of long-term economic growth; d) major reforms of these programs; or e) some combination of the above.

**18 ECONOMICS****ECONOMIC PROJECTIONS COMPARISON  
(Calendar Years)**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>% Change (Year to Year):</b>							
Nominal GDP Growth							
Administration*	3.3	2.8	5.6	5.5	5.5	5.2	5.0
CBO*	3.2	2.2	6.1	5.8	5.3	5.2	5.2
Blue Chip*	3.3	2.6	5.4	5.6	5.5	5.5	5.3
Real GDP Growth							
Administration	1.0	0.7	3.8	3.7	3.6	3.2	3.1
CBO	1.0	0.8	4.1	3.7	3.2	3.2	3.2
Blue Chip	1.0	1.0	3.4	3.4	3.3	3.2	3.1
Consumer Price Index							
Administration	2.9	1.8	2.2	2.3	2.4	2.4	2.4
CBO	2.9	1.8	2.5	2.5	2.5	2.5	2.5
Blue Chip	2.9	1.7	2.4	2.7	2.7	2.7	2.7
GDP Price Index							
Administration	2.3	2.0	1.8	1.7	1.8	1.9	1.9
CBO	2.2	1.4	2.0	2.0	2.0	2.0	2.0
Blue Chip	2.2	1.6	1.9	2.1	2.1	2.2	2.2
<b>Annual Rate:</b>							
Unemployment							
Administration	4.8	5.9	5.5	5.2	5.0	4.9	4.9
CBO	4.8	6.1	5.9	5.4	5.2	5.2	5.2
Blue Chip	4.8	6.1	5.7	4.9	4.9	4.8	4.9
Three-Month T-Bill							
Administration	3.4	2.2	3.5	4.0	4.3	4.3	4.3
CBO	3.4	2.2	4.5	4.9	4.9	4.9	4.9
Blue Chip	3.4	2.1	3.4	4.5	4.7	4.8	4.8
Ten-Year T-Note							
Administration	5.0	5.1	5.1	5.1	5.1	5.2	5.2
CBO	5.0	5.0	5.5	5.8	5.8	5.8	5.8
Blue Chip	4.9	5.1	5.6	5.7	5.7	5.7	5.8
<b>Share of GDP:</b>							
Corporate Profits							
Administration	6.9	7.0	7.7	8.0	8.3	8.4	8.3
CBO	6.9	6.1	7.0	7.7	7.9	8.0	8.1
Wage and Salaries							
Administration	50.0	50.1	49.8	49.8	49.6	49.5	49.4
CBO	50.0	50.3	50.1	49.6	49.3	49.2	49.1

\*President's FY 2003 Budget; CBO's "Economic and Budget Outlook: Fiscal Years 2003 - 2012"; Blue Chip January 2002 Economic Indicators for 2002 and 2003, Blue Chip October Economic Indicators for 2004-2008.

## BUDGETING FOR A PERFORMANCE-BASED GOVERNMENT



OMB'S STANDARD FOR SUCCESS IN FINANCIAL MANAGEMENT		
Green Light	Yellow Light	Red Light
<p><b>Must meet all core criteria:</b></p> <p>Financial management systems meet Federal financial management systems requirements and applicable.</p> <p>Federal accounting and traction standards as reported by the agency head.</p> <p>Accurate and timely financial information.</p> <p>Integrated financial and performance management systems supporting day-to-day operations.</p> <p>Unqualified and timely audit opinion on the annual financial statements; no matter internal control weaknesses reported by the auditors.</p>	<p><b>Achievement of some but not all core criteria; no red conditions.</b></p>	<p><b>Has any one of the following conditions:</b></p> <p>Financial management systems fail to meet Federal financial management systems requirements and accounting standards.</p> <p>Chronic or significant Anti-deficiency Act violations.</p> <p>Agency head unable to provide unqualified assurance statement as to systems of management, accounting and administrative controls.</p> <p>Auditors cite material non-compliance with laws and regulations, or repeat internal control weaknesses; or are unable to express an opinion on the annual financial statement.</p>

In his first year in office, President Bush outlined his management agenda, which sought to address many of the seemingly intractable problems that saddle the federal government with massive losses from waste, fraud, and abuse. These problems include things like financial mismanagement, where agencies can't account for billions of tax dollars for which they are responsible; information technology mismanagement, where major projects suffer from severe delays and expensive cost overruns; and human capital mismanagement, where federal agencies have little knowledge of how to recruit and retain the workforce they need to accomplish their missions.

The President's Management Agenda includes a roadmap for resolving these problems, as well as recommendations for statutory reform. It addresses the most apparent deficiencies where the opportunity to improve performance is the greatest. Included in the President's agenda are two pieces of legislation (both introduced by Senator Thompson). First, the Freedom to Manage Act establishes an expedited

congressional consideration (i.e., Congress would have ten days to issue a joint resolution and thirty days to bring it to a vote) of legislative proposals from the President which eliminates or reduces barriers to efficient government operations. Second, the Managerial Flexibility Act would provide federal managers with increased flexibility in the hiring and firing of personnel; requires agencies to pay for the full cost of retirement benefits, including retiree health care benefits, as they accrue to current employees; and give agencies greater flexibility in managing property.

For the first time ever, the President's budget explicitly rates certain programs within each department and includes standards for success developed by OMB in five government-wide initiatives for agencies to meet: (1) strategic management of human capital; (2) expanded electronic government; (3) competitive sourcing; (4) improved financial performance and; (5) budget and performance integration. The President's budget contains a management scorecard which shows how well an agency is doing in meeting the standards in each of the five management initiatives. This initial evaluation will serve as OMB's baseline for tracking improvement during the implementation of the President's Management Reform Agenda. The scorecard employs a simple grading system: green for success, yellow for mixed results, and red for unsatisfactory. Unfortunately, only the National Science Foundation received a green light in one of the five government-wide initiatives.

Perhaps the most important goal set by the Administration is the last -- performance and budget integration. Many agencies need to improve the quality of information they provide Congress with respect to the performance of programs and how funding might affect that performance. The 2003 budget provides more information on the performance of programs than any in the past. In addition, it shows what funding is dedicated to achieving desired outcomes. For too long, Congress and the Administration have piled program upon program onto an ever burgeoning federal government that is now burdened with so many missions that it could not possibly achieve them all. With better integration of performance information with budget requests, Congress can make better-informed choices about where to invest taxpayers' money. Thus, the Administration's budget provides a starting point for Congress to focus on specific program performance and effectiveness.

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## BUDGET BY FUNCTION

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### FUNCTION 050: NATIONAL DEFENSE

The National Defense budget function includes the Department of Defense (DOD) in subfunction 051 (about 95 percent of total function costs), Atomic Energy Defense Activities in the Department of Energy (DOE) in subfunction 053 (about 5 percent of the total), and other defense activities in the Federal Emergency Management Agency, the Selective Service, the General Services Administration, and other agencies in subfunction 054 (less than 1 percent).

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(\$ Billions)							
	2001	2002	2003	2004	2005	2006	2007
	Actuals						
<b>President's Budget:</b>							
Budget authority	329.0	350.7	396.8	405.6	426.6	447.7	469.8
Outlays	308.5	348.0	379.0	393.8	413.5	428.5	442.5
<b>OMB Baseline:</b>							
Budget authority	329.0	350.7	361.2	370.4	378.7	388.0	397.5
Outlays	308.5	348.0	353.9	363.6	375.0	380.9	386.7
<b>Budget compared to OMB Baseline:</b>							
Budget authority	---	---	35.6	35.2	47.9	59.7	72.3
Outlays	---	---	25.1	30.2	38.5	47.6	55.8

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The President's 2003 National Defense (050) budget increases BA by \$46.1 billion from \$350.7 billion in 2002 to \$396.8 billion in 2003. This is 13.1 percent nominal growth; it is 9.0 percent real growth, assuming OMB's projected 3.8 percent GDP Price index inflation in 2003. This will be the largest real growth percentage since fiscal year 1982, when real growth was 10.5 percent, according to DoD budget data.

**Summary of DoD Spending:** Including the emergency supplemental funding appropriated by Congress in September and December to fight the war on terrorism<sup>3</sup> and accrual of health and retirement recommended by the President, discretionary budget authority for the Department of Defense (subfunction 051) is

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<sup>3</sup>An additional \$13.7 billion in emergency funding was enacted for DoD for fiscal year 2001; an additional \$3.4 billion in emergency funding was enacted for 2002, and an additional \$10 billion is proposed for 2003.

increasing from \$318.5 billion in 2001 to \$333.7 billion in 2002 to \$379.3 billion in 2003. These figures mean nominal growth rates of 4.8 percent and 13.7 percent for 2002 and 2003, respectively, and they mean real growth rates of 4.1 percent and 9.9 percent respectively. Since President Clinton's initial 2001 budget request for the Department of Defense of \$291.1 billion, spending for that agency will have increased in 2003 by \$88.2 billion, or 30.3 percent in nominal terms and 24.7 percent in real terms.

Highlights of the President's 2003 request include the following:

- ▶ An across the board pay raise for all uniformed military personnel of 4.1 percent and up to an additional 2 percent for targeted mid-career personnel. Parity for civilian employees is not requested; they would receive a pay raise of 2.6 percent.
- ▶ A \$10 billion "Emergency Response Fund" to fund as yet unspecified military operations in the continuing war on terrorism in 2003. This request would obviate a supplemental request in 2003 for new military operations of the magnitude that \$10 billion would permit.
  - ▶ In addition to the \$10 billion emergency fund, \$9.4 billion is requested for currently planned anti-terrorism policies, including \$3 billion for force protection and certain homeland security activities, \$1.2 billion for air patrols over the US, and \$465 million for chemical and biological detection, protection, and response capabilities.
- ▶ An increase of \$22.7 billion (18 percent nominal growth and 14 percent real growth) for the Operations & Maintenance (O&M) budget. \$16.7 billion of this increase will support the ongoing US military presence in and around Afghanistan. Also, in the O&M budget, the Defense Health Program is funded at \$22.4 billion, an increase of \$4.1 billion from the \$18.3 billion funded in 2002. A major but unspecified part of this \$4.1 billion increase reflects budgeting reforms in the accrual of health care costs discussed elsewhere in this presentation. Most importantly, the O&M budget supports military readiness with spare parts, training, weapons maintenance, and other activities essential for military forces to enter combat operations and prevail. Proposed spending for these purposes include -
  - ▶ \$10 billion for training, a 2.2 percent real increase.
  - ▶ \$4.8 billion for depot maintenance of hardware, a 2.5 percent real increase, and
  - ▶ \$11.8 billion for Navy and Air Force flying hours, an increase of \$0.5 billion, which according to DoD budget presentation data would fully fund Air Force flight training requirements but just 89 percent of Navy tactical flight training requirements. It is not clear from DoD's presentation materials why Navy flight hours remain underfunded.

## 24 BUDGET BY FUNCTION

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- ▶ Major growth is requested for spending in DoD acquisition. In the Procurement budget, an increase of \$7.6 billion to \$68.7 billion (over 10 percent real growth) is requested. Major items include the following program requests:
  - ▶ \$812 million for Interim Armored Vehicles, which the Army considers essential to perform its transformation to 21<sup>st</sup> Century warfare effectiveness.
  - ▶ \$1 billion for the Navy's conversion of Trident submarines to launch up to 150 tactical range, conventional warhead Tomahawk land attack missiles rather than 24 nuclear tipped, intercontinental range strategic nuclear missiles.
  - ▶ \$1.1 billion to increase production of GPS and laser-guided bombs, which saw frequent use in the recent conflict in Afghanistan.
  - ▶ \$4.6 billion to procure 23 Air Force F-22 fighter aircraft for a 2003 unit cost of \$200 million each, not including the previously invested R&D funding.
  - ▶ \$3.1 billion for 44 Navy F/A-18E/F fighter/bombers at just over \$70 million each, not including previous R&D spending.
  - ▶ \$8.6 billion for the production of five Navy ships of various types at an average cost of \$1.7 billion each. Funding for these five ships is well short of the eight to ten that Navy leaders have said in the past are needed to maintain a 300 ship Navy.
- ▶ An increase of \$5.5 billion to \$53.9 billion in Research & Development (another 10 percent real growth increase), including the following:
  - ▶ \$7.8 billion for missile defense, plus an additional \$815 million for space-based laser research to detect missile attacks, thereby making a total of \$8.6 billion, a \$300 million increase over 2002.
  - ▶ \$9.9 billion for "Science and Technology," a 2.7 percent real increase.
  - ▶ \$961 million to develop the Navy's new "family" of surface combatants.
- ▶ The Procurement and R&D budgets also include the termination or restructuring of various projects, thereby saving \$9.3 billion. Terminated projects include the Navy's DD-21 destroyer and Area Missile Defense system, the Air Force's Peacekeeper ICBM, and 18 different Army projects. Restructured – but not terminated – projects include the Marines V-22 tilt-rotor aircraft and the SBIRS-low satellite detection and warning system.

- ▶ A decrease of \$1.8 billion to \$4.8 billion in Military Construction, and an increase of \$100 million for Family Housing, are requested. This budget would fund over 300 construction projects in 185 different locations. Projects deemed “low priority” are being deferred, and bases that might be considered for “restructuring” in 2005 are not included in the request for new projects, thereby accounting for a request that may be lower than some had expected.

Summary of DoE Defense Activities: DoE defense activities increases \$500 million to \$15.6 billion, (3.3 percent nominal growth and 0.5 percent negative real growth). Virtually every account in the 053 subfunction appears to receive only minimal nominal growth and decline in terms of real growth.

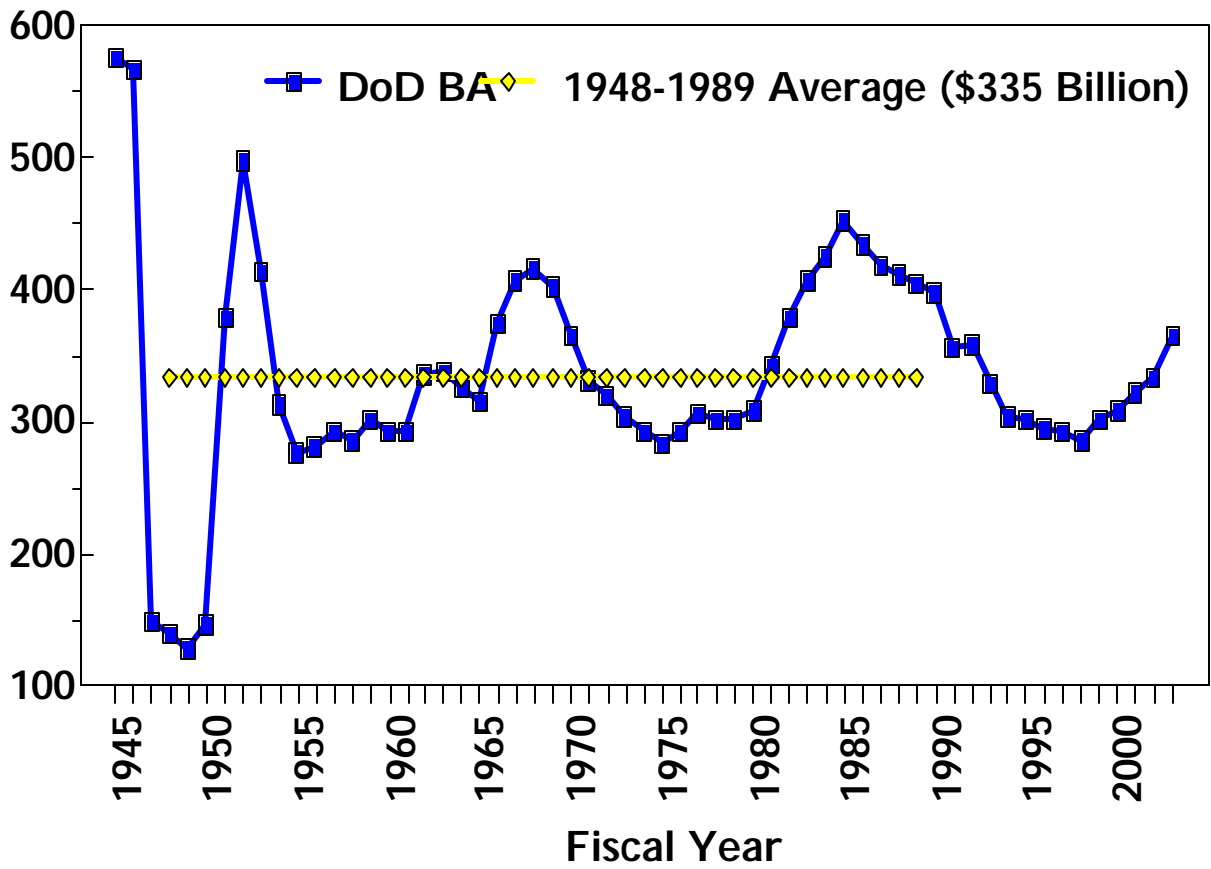
To put the President’s budget request in historic perspective, Figure 1 below shows post-World War Two Department of Defense budget authority in constant dollars. Note that the proposed spending in 2003 (\$379 billion) exceeds the “Cold War Average” (\$335 billion) by \$44 billion.

Figure 1: Post World War Two Department of Defense Budget Authority Compared to the Cold War Average (1948-1989)<sup>4</sup> (Constant 2002 Dollars, Billions)

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<sup>4</sup>The “Cold War” era is defined as starting with the Berlin Blockade in 1948 and ending with the fall of the Berlin Wall in 1989.

\$Billions



The increases for 2003 are major when considered either as a year to year increase or in their historic context. Despite the demise of the Soviet Union as America's only super-power adversary, overall spending levels remain above what they were – on average – with a super-power adversary in existence. On the other hand, when specific funding levels for selected areas are reviewed, there are clearly areas that are not receiving generous funding. Among these are Department of Energy Defense Activities, shipbuilding, military construction, Science and Technology, all forms of military training, overall depot maintenance of military hardware, and Navy flying hours.

When he addressed the National Defense University at Fort McNair on January 31, Secretary of Defense Rumsfeld articulated what appears to be a realization brought to the fore by September 11 and its aftermath. He said, "The notion that we could transform while cutting the defense budget over the past decade was seductive, but false."<sup>5</sup> Clearly, the Administration has set out on a new course of increases in the defense budget well beyond those contemplated earlier.

Performance-Based Government: The basic budget volume, "Fiscal Year 2003 Budget of the U.S. Government," presents on pages 87 - 101 assessments of various programs and policies of the Department of Defense. Programs and policies for "Military Readiness," "Military Compensation," and Army and Navy "Family Housing" are rated as "effective." "Cooperative Threat Reduction" and "Science and Technology" are rated as "moderately effective." And Air Force "Family Housing," "Infrastructure" (i.e. the military base infrastructure), "Weapons Systems Cost Control," "Chemical Demilitarization," "DoD-VA Coordination," "Human Capital," "Competitive Sourcing," and "Financial Management" are all rated as "ineffective."

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<sup>5</sup>Remarks as delivered by U.S. Secretary of Defense Donald Rumsfeld, National Defense University, Fort McNair, Washington, D.C., Thursday, January 31, 2002, p. 7.

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**FUNCTION 150: INTERNATIONAL AFFAIRS**

This function includes operation of the foreign affairs establishment including embassies and other diplomatic missions abroad; foreign aid grants and technical assistance activities in less developed countries; security assistance to foreign governments; foreign military sales made through the Foreign Military Sales Trust Fund; U.S. contributions to international financial institutions and international organizations; the Export-Import Bank and other trade promotion activities; and refugee assistance.

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	(\$ Billions)						
	2001	2002	2003	2004	2005	2006	2007
	Actuals						
<b>President's Budget:</b>							
Budget authority	18.7	22.3	23.9	24.8	25.6	26.3	27.2
Outlays	16.6	23.5	22.5	22.8	23.3	23.9	24.6
<b>OMB Baseline:</b>							
Budget authority	18.7	22.3	23.5	24.2	24.8	25.4	26.2
Outlays	16.6	23.5	22.5	22.5	22.8	23.2	23.7
<b>Budget compared to OMB Baseline:</b>							
Budget authority	---	---	0.4	0.6	0.8	0.9	1.0
Outlays	---	---	0.0	0.3	0.5	0.7	0.9

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The President's budget for 2003 increases budget authority for international affairs by \$1.6 billion, or 7 percent above the 2002 level. The President's request for 2003 discretionary spending in international affairs totals \$25.4 billion.

**PROGRAM INCREASES**
**Department of State**

- Foreign Military Financing - \$4.1 billion, an increase of \$457 million (12.5 percent) over 2002, with significant war-related increases for Jordan (\$123 million), India (\$50 million), Pakistan (\$50 million), and Oman (\$20 million), plus \$88 million to equip a new Colombian army battalion to combat guerrilla attacks on economic infrastructure, and the planned increase of \$60 million for Israel.
- Andean Counterdrug Initiative - \$731 million, a \$106 million (17 percent) increase over 2002 for drug eradication, interdiction, economic development, and public institution building programs in Colombia, Bolivia, Peru, Ecuador, Brazil, Panama, and Venezuela.

- Nonproliferation, Anti-terrorism, Demining and Related Programs - \$372 million, an increase of \$28 million (8.1 percent) over 2002. The request increases funding for Anti-Terrorism Assistance and the Terrorist Interdiction Programs by \$27 million (64 percent over 2002) to improve other countries' ability to aid in the global effort to fight terrorism. It also moves funding for the Export Control Assistance and Biological Weapons Redirection programs out of the Assistance to the Independent States of the Former Soviet Union.

### **U.S. Agency for International Development**

- Development Assistance/Child Survival - \$2.7 billion, requested in a consolidated Development Assistance account, a \$266 million (11 percent) increase over the 2002 amounts for Development Assistance and Child Survival, including \$500 million for bilateral AIDS/HIV activities (a \$115 million increase), and a \$50 million increase for the Tropical Forest Conservation Act.
- **Capital Investment Fund** - \$95 million is requested in this new account for new information technology investments (\$13 million) and to build USAID missions that will be co-located with new embassies (\$82 million).
- Food Program - the Administration intends to consolidate the six programs run by two federal agencies to provide international food aid. The Department of Agriculture will continue to furnish government-to-government programs while USAID will take responsibility for all programs run through private voluntary organizations and the World Food Programme. Also, to reduce reliance on the availability of commodity surpluses in American's food aid programs, the 2003 budget requests a 37 percent increase, or \$320 million, in USAID-run food assistance resources that do not depend on surpluses.

### **Treasury Department**

- International Development Association - \$874 million, an increase of \$82 million (10 percent) over 2002, to support the first of three planned increases in the U.S. contribution to IDA that will be explicitly tied to IDA demonstrating results in areas such as education and health. The request also clears one-third of outstanding U.S. arrears to IDA.

### **Peace Corps**

- Peace Corps - Along with AmeriCorps and Citizens' Corps, the Peace Corps is part of the President's **USA Freedom Corps** initiative. The President's budget requests an increase of \$42 million (16 percent) over 2002. This will support an increase of over 1,000 Peace Corps volunteers in 2003.

**Overseas Private Investment Corporation**

- Overseas Private Investment Corporation (OPIC) - \$24 million for credit subsidy, a \$24 million increase over 2002. No subsidy was appropriated for OPIC in 2002 because it had sufficient balances from prior years to fund its credit programs.

**PROGRAM DECREASES**

**U.S. Export-Import Bank**

- Export-Import Bank Credit Subsidy - \$541 million, a decrease of \$186 million (26 percent) from 2002. This request will support \$11.5 billion in loans, guarantees of insurance, a \$1.1 billion increase over 2002, because of technical improvements in the Interagency Country Risk Assessment System (ICRAS) that reduce the cost of new lending.
- Interagency Country Risk Assessment System (ICRAS) - Until 2003, ICRAS used the premium charged by private sector lenders to other governments as a proxy for the default costs of U.S. government (USG) loans to these countries. While this was the best method available, it captured not just default risk, but also profits, opportunity costs, tax effects, and other factors not relevant to the budget cost of USG credits. A new method adopted for the 2003 budget isolates just the default risk portion of the private market premiums. The risk of new USG sovereign credits has not decreased in 2003, but the budget costs are based only on this default risk, not on other extraneous factors.

**Treasury Department**

- Debt Restructuring - no funding is requested for this account, a \$229 million (100 percent) decrease from 2002. The U.S. completed its funding for the HIPC Trust Fund in 2002, and the funding request for bilateral HIPC debt reduction for the Democratic Republic of the Congo (DROC) has been delayed until 2004. While DROC will be theoretically available for HIPC in 2003, it is not likely to have a track record of economic reform until at least 2004. Up to \$40 million for debt reduction under the Tropical Rain Forest Conservation Act has been requested in USAID.

**State Department**

- Support for Eastern European Democracy (SEED) - \$495 million, a \$126 million (20 percent) decrease from 2002. As Bosnia and other countries in the region make progress in the transition to market democracies, this support can be reduced.

**WAR ON TERRORISM HIGHLIGHTS**

- The 2003 budget includes \$5.2 billion for programs that are essential for pursuing the war on terrorism. \$3.5 billion is sought for economic and security assistance, equipment, and training to improve the capabilities of states who agree to share our burden in the war on terrorism.
- The President proposes to expand the State Department's investment in security by nearly \$1.4 billion. Of this amount, \$837 million is for State Department and USAID to continue to expand the worldwide security upgrade program launched in the wake of the 1998 embassy bombings.
- \$121 million is requested for counterterrorism engagement programs, training and equipment to help other countries fight terrorism. Part of this commitment includes \$52 million to establish a Center for Anti-Terrorism and Security Training (CAST). Once it is fully operational, CAST will train 7,500 American and coalition partner law enforcement personnel annually in advanced anti-terrorism and security measures, thereby enhancing security of U.S. interests abroad.

#### **PERFORMANCE-BASED GOVERNMENT**

The President's new scorecard for measuring agency progress on five governmentwide initiatives shows lots of room for improvement for the largest agencies in this function. Neither the Department of State nor the Agency for International Development earned any green lights on their scorecards.

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**FUNCTION 250: SPACE, SCIENCE AND TECHNOLOGY**

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).

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(\$ Billions)

	2001 Actuals	2002	2003	2004	2005	2006	2007
<b>President's Budget:</b>							
Budget authority	21.1	22.2	22.7	23.3	23.8	24.4	25.0
Outlays	19.9	21.8	22.2	22.8	23.5	24.0	24.6
<b>OMB Baseline :</b>							
Budget authority	---	22.2	22.6	23.0	23.4	23.9	24.4
Outlays	---	21.8	22.3	22.7	23.2	23.6	24.1
<b>Budget compared to OMB Baseline:</b>							
Budget authority	---	---	0.0	0.4	0.4	0.5	0.6
Outlays	---	---	-0.1	0.1	0.3	0.4	0.5

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The 2003 budget request provides a total of \$22.7 billion in budget authority and \$22.2 billion in outlays for space, aeronautical research, and basic scientific research. The President's request rises annually over the next five years to \$25.0 billion in budget authority and \$24.6 million in outlays by 2007.

**NASA**

- ▶ The President's budget proposes \$14.3 billion for the **National Aeronautics and Space Administration (NASA)** within function 250, an increase of \$203 million above 2002. This increase represents a 1.4 percent increase for the agency within function 250. The President's budget also provides annual increases for NASA through 2007, with spending increasing to \$15.9 billion in 2007.
- ▶ Total funding for NASA, combining Function 250 and Function 400 totals, would be \$15.0 billion in 2003.

- ▶ **Human Space Flight** decreases by \$624 million in 2003. Total funding within this Subfunction for 2003 is \$6.1 billion. The International Space Station and Space Shuttle operations are included within this account. Both the Space Shuttle safety and International Space station are singled out in the President's budget as being ineffective and may indicate reasons for lower funding in these programs.
  - ▶ **International Space Station (ISS):** Spending decreases for the ISS by \$230 million in 2003 to \$1.5 billion. Vehicle costs decrease by \$77 million for total vehicle spending of \$292 million in 2003. ISS operations decrease by \$113 million to bring total operation spending in 2003 to \$1.2 billion.
  - ▶ **Space Shuttle:** Funds for the Space Shuttle decrease \$65 million in 2003 to \$3.2 billion. Flight hardware will be funded at \$1.8 billion, a decrease of \$184 million. Flight operations will increase by \$29 million to total \$267 million. Program integration will also increase by \$112 million to total \$508 million.
  - ▶ **Space communications and data systems** funding totals \$118 million. This represents a decrease of \$365 million, or a 76 percent decrease within this account. Many of the programs within this account are being decentralized and will be accounted for in other NASA accounts.
- ▶ **NASA science, aeronautics and technology activities** are funded at \$8.0 billion in 2003, an increase of \$895 million from 2002. This increases the account by 12.6 percent over 2002 funding levels. Included in this account are the areas of Space Science, Earth Science, Aero-Space Technology, Biological and Physical research category.
  - ▶ **Space Science** increases from \$2.9 billion to \$3.4 billion in 2003, an increase of \$555 million.
    - ▶ The 2003 budget proposes to cancel the **Outer Planets Program** and to redirect \$15 million in funds into a newly created **New Frontiers** program. The goals of this program are to fund frequent, affordable missions to foster competitive innovation. Projects will be capped at \$650 million in 2003 dollars with a launch scheduled 48 months from the start of development. The **Discovery** program at NASA will serve as a model for this program.
    - ▶ Included in this portion of NASA's budget are increases for the Mars Exploration Program, \$454 million, and an increase of \$39 million for supporting research and technology within the Space Science account.
    - ▶ There is no funding included in the request for the **New Horizons Pluto-Kuiper Belt** and **Europa Orbiter** missions.

- ▶ **Earth Science** increases by \$3 million in 2003. Included in Earth Science is a increase of \$26 million for the Earth Observing System, and a research and technology program within Earth Science funded at \$506 million, a decrease of \$31 million.
- ▶ **Biological and Physical research** increases by \$22 million in 2003 for a total funding level of \$842 million. Two new initiatives are proposed in the 2003 budget. These initiatives are **Generations** and **Space Radiation** and account for \$21.3 million of the funding in this account.
  - ▶ **Generations** will focus on the adaptation of organisms to the space environment over several generations and will be based on the ISS. This project is funded at \$10.1 million in 2003.
  - ▶ The **Space Radiation** initiative will study the effects of radiation health issues on astronauts in low-earth orbit. This initiative is funded at 11.2 million in 2003.
- ▶ **Aero-Space Technology** is increased by \$308 million in 2003 for a total request of \$2.8 billion. Within this account are funds for the research and technology base, and for programs focused on specific projects.
  - ▶ **Advanced Space Transportation** funding increases \$301 million, to total \$879 million.
  - ▶ Overall funding for **Commercial Technology** decreases to \$147 million, a decrease of \$17 million.

### National Science Foundation

- ▶ The President's budget proposes to fund the **National Science Foundation (NSF)** at \$5.0 billion, an increase of \$240 million from the 2002 level. This represents a 5 percent increase for NSF. NSF proposes six priority areas that will help maintain a balanced portfolio within the agency. There are also three programs transferred into NSF from other agencies.
- ▶ The six priority areas for NSF are:
  - ▶ **Biocomplexity in the Environment** will be funded at \$79 million an, increase of \$21 million, or 36 percent.
  - ▶ **Information Technology Research** will be funded at \$286 million, an increase of \$8 million, or 3 percent.

- ▶ **Nanoscale Science and Engineering** will be funded at \$221 million, an increase of \$23 million, or 11 percent.
  - ▶ **Learning for the 21<sup>st</sup> Century Workforce** will be funded at \$185 million, an increase of \$40 million, or 27 percent.
  - ▶ **Mathematical Sciences** will be funded at \$60 million, an increase of \$30 million, or 100 percent.
  - ▶ A new program of **Social, Behavioral and Economic Sciences** will be funded at \$10 million in 2003.
- ▶ The President's request increases **research and related activities** to \$3.8 billion, an increase of \$185 million. This represents a 5.1 percent increase.
- ▶ The budget request includes an increase in the **education and human resources** account by \$33 million. The 2003 total for this account is \$908 million and represents a 3.8 percent increase over the 2002 level.
- ▶ **Major research equipment and facilities construction** are decreased in the 2003 budget by \$13 million for a funding total of \$126 million. This is a decrease within the account of 9 percent. Two new projects are proposed in this account as well as the continued funding of five already existing projects.
- ▶ **EarthScope**, a new earthquake detection and research network, is proposed in the President's budget. This project will be funded at \$35 million.
  - ▶ **National Ecological Observatory Network (NEON)** will provide the capability to integrate ecological data and construct models of ecosystems functions. Data collected by NEON will provide a baseline for monitoring climate change as well as serve as a early detection system for invasive species and other biological threats. This program will be funded at \$12 million.
  - ▶ **ALMA**, phase II will be funded at \$30 million.
  - ▶ **Large Hadron Collider** will be funded at \$9.7 million.
  - ▶ **Network for Earthquake Engineering Simulation** will be funded at 13.6 million.
  - ▶ **South Pole Station Modernization** will be funded at \$6 million.
  - ▶ **Terascale Computing Systems** will be funded at \$20 million.

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- ▶ In 2003, the President's budget proposes three programs to be transferred from other agencies to NSF. These three programs total \$76 million, and account for 28 percent of the total increase proposed for NSF.
  - ▶ **Environmental education** is being transferred from **the Environmental Protection Agency**. This program will fund environmental science education at informal educational facilities, k-12 schools, and at the undergraduate level.
  - ▶ The **National Sea Grant program** will be transferred from **the National Oceanic and Atmospheric Administration**. This program was originally developed by NSF in the 1960s and will be operated as a competitive, merit based marine education and outreach program. This program is funded at \$57 million in 2003.
  - ▶ **Hydrology of Toxic Substances** from the **United States Geological Survey** will also be transferred to NSF. At NSF, the program will be reoriented to focus on processes that affect water quality.

### Department of Energy

- ▶ The 2003 budget request funds **Department of Energy (DOE) general science programs** at \$3.3 billion, a \$45 million increase from 2002. This account continues to grow through 2007 where it is proposed to be funded at \$3.6 billion.

### Performance Based Government

The President's new scorecard for measuring agency progress on five government wide initiatives shows a mixed result for the agencies in this function. The National Science Foundation earned a green light on their scorecard for financial management. NSF earned a yellow light for e-government, and the remaining three categories were red. NASA received red lights for all but one of the five categories. The sole yellow light was earned in the area of financial management. All other categories on the scorecard were red.

## FUNCTION 270: ENERGY

This function includes the Department of Energy's civilian programs, the Rural Utilities Service, the power programs of the Tennessee Valley Authority (TVA), and the Nuclear Regulatory Commission (NRC).

	(\$ Billions)						
	2001	2002	2003	2004	2005	2006	2007
	Actuals						
<b>President's Budget:</b>							
Budget authority	0.2	0.6	0.5	0.4	0.9	0.7	0.7
Outlays	0.1	0.6	0.6	0.3	0.8	0.7	0.7
<b>OMB Baseline:</b>							
Budget authority	0.2	0.6	0.4	-0.0	0.1	0.7	0.8
Outlays	0.1	0.6	0.4	0.0	0.1	0.7	0.7
<b>Budget compared to OMB Baseline:</b>							
Budget authority	—	—	0.2	0.4	0.8	0.0	-0.1
Outlays	—	—	0.2	0.3	0.7	0.0	-0.1

The President has requested \$3.3 billion in discretionary budget authority and \$3.4 billion in discretionary outlays in 2003. Discretionary spending in this function is largely offset by mandatory receipts. The mandatory request for the function in 2003 is \$-2.8 billion in BA and \$-2.9 billion in outlays. The President has focused resources in areas that will implement the National Energy Policy as well as those areas where science and technology can make advances in our energy independence and security.

- ▶ The President has requested an increase of \$21.3 million for **Renewable Energy Resources**. This is a 6 percent increase over the 2002 level. Hydrogen research, Hydropower, and the Wind Energy Programs are priority programs within this account, receiving proposed increases of 37 percent, 49 percent and 14 percent respectively over the 2002 level. The President has proposed decreases of 2 percent within Renewable Energy Resources for Biomass/Biofuels and Solar Energy.
- ▶ The President's request for **Fossil Energy Research and Development** is \$494 million in 2003. Some specific programs include:

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- ▶ \$325 million for the **Coal Research Initiative**. This is a cut of \$12 million, but the program should see increases in efficiency and output due to the consolidation of all coal research under one initiative.
- ▶ \$21.8 million increase for **Sequestration R&D**. This will help test new and advanced concepts for greenhouse gas capture.
- ▶ The President requests \$904 million for **Energy Conservation**. This is a decrease of \$11 million dollars from the 2002 level. Within energy conservation, the President continues his commitment to **Weatherization Assistance Programs** by requesting \$277 million, a 20 percent increase over the 2002 level.
- ▶ **Nuclear Energy Technologies** would receive a 288 percent increase over the 2002 level bringing the funding level to \$475 million. This program is working to identify, assess, and develop cost-efficient technologies that further enhance nuclear safety, minimize the generation of nuclear waste, and further reduce the risk of proliferation.
- ▶ The President has requested a \$43 million decrease in **Nuclear Energy Supply**. The nuclear energy plant optimization and the advanced nuclear medicine initiative are terminated due to changing budget priorities. The spent-fuel pyroprocessing and transmutation program is decreased by 76 percent. This is due in large part to the termination of the Advanced Accelerator Application part of the program.
- ▶ The President proposes \$166 million for **Non-Defense Environmental Management**, a 30 percent decrease from the 2002 level.
- ▶ Starting in 2004 the President proposes to use the receipts from allowing oil and gas leasing in the Arctic National Wildlife Refuge for conservation and alternative energy programs.

### Mandatory Proposals

- ▶ The President proposes increasing the **Bonneville Power Administration's** borrowing authority ceiling by \$700 million, from \$3.75 billion to \$4.45 billion. This would increase outlays by \$700 million over the 2004-2006 period. This increase would allow the BPA to make needed capital investments.
- ▶ The President proposes that the **Power Marketing Administration (PMA)** directly fund the operation and maintenance of the Corps of Engineers hydropower facilities from power sale revenues. The budget requests \$149 million for these activities in 2003. Over the 10-year period, the proposal totals \$1.5 billion. This proposal would allow PMA revenues to be used for the Army Corps of Engineers' operation and maintenance account. This proposal would permit a more timely maintenance of hydropower facilities.

Performance-Based Government

The President's new scorecard for measuring agency progress on five government wide initiatives indicates room for improvement for the Department of Energy. The Agency received red lights in all five categories.

## FUNCTION 300: NATURAL RESOURCES AND ENVIRONMENT

Function 300 includes a wide variety of programs whose primary purpose is to develop, manage, and maintain the nation's natural resources and environment. Agencies with major programs in this function include: the Army of Corps of Engineers, Bureau of Reclamation, Forest Service, Bureau of Land Management (BLM), Fish and Wildlife Service (FWS), the National Park Service (NPS), Environmental Protection Agency (EPA), National Oceanic and Atmospheric Administration (NOAA), and the U.S. Geological Survey (USGS).

	(\$ Billions)						
	2001 Actuals	2002	2003	2004	2005	2006	2007
<b>President's Budget:</b>							
Budget authority	29.8	30.9	30.0	31.3	32.3	31.7	32.3
Outlays	26.3	30.2	30.6	31.1	31.7	32.5	32.8
<b>OMB Baseline:</b>							
Budget authority	29.8	30.2	31.2	32.3	33.2	33.9	34.8
Outlays	26.3	30.1	31.1	32.0	32.7	33.7	34.4
<b>Budget compared to OMB Baseline:</b>							
Budget authority	---	0.6	-1.2	-1.0	-0.9	-2.2	-2.5
Outlays	---	0.2	-0.5	-0.9	-1.1	-1.2	-1.6

The President is requesting \$30.0 billion in budget authority (BA) and \$30.6 billion in outlays for 2003. This is \$200 million less in BA and \$100 million less in outlays than provided for in 2002. Many of the program reductions assume the removal of Congressional earmarks. The President's top priorities in function 300 include the Cooperative Conservation Initiative, addressing maintenance backlogs in the Indian School System and in the National Park Service, and fully funding the Land and Water Conservation Fund.

- ▶ The President requests \$100 million for the **Cooperative Conservation Initiative**. This new initiative will fund restoration, protection, and enhancement of natural areas through both established programs and pilot programs, of which the later will feature creative approaches to conservation through public-private partnerships.
- ▶ The President maintains **Bureau of Indian Affairs education construction** at \$293 million to fund six replacement school projects and to complete rehabilitation and repairs on the maintenance backlog list.

- ▶ The President requests \$663 million to address the **National Park Service maintenance backlog**.
- ▶ The President requests \$911 million for the **Land and Water Conservation Fund**. This includes funding for land acquisition, various grant programs that encourage stewardship, and species protection. Four new grant programs are included in this year's request. These are the Cooperative Endangered Species Conservation Fund, the North American Wetlands Conservation Fund, the Forest Legacy Program, and the Foerst Stewardship Program.
- ▶ The President requests \$1.7 billion for the **Conservation Spending Cap (CSC)**. Although there are no overall discretionary caps this year, the CSC continues through 2006. The funding level for 2003 is \$250 million below the statutory level and \$66 million below the 2002 level.
- ▶ The President requests \$165 million for **Payment in Lieu of Taxes**, a \$45 million decrease from the 2002 level.
- ▶ The President requests \$75 million in new research funding for the **Environmental Protection Agency (EPA)** to help develop technologies to clean up buildings attacked by bioterrorists.
- ▶ The EPA receives a \$300 million decrease in 2003 largely due to the removal of **congressional earmarks**. There were over 479 earmarks last year totaling \$494 million.
- ▶ The President requests a 10 percent decrease for the **Corps of Engineers**. This decrease is primarily the result of the continuation of the "no new starts" policy in the Corps' construction budget, as well as the elimination of congressional earmarks. In 2002 there were 604 congressional earmarks totaling \$431 million-- or 10 percent of the total budget authority for the Corps of Engineers.
- ▶ The President requests \$149 million for the **Everglades restoration project** within the Corps' budget. This is a \$10 million increase from the 2002 level.

#### Mandatory Proposals

- ▶ The President includes \$149 million in 2002, \$5.7 billion over the 5-year period and \$13.5 billion over the 10-year period for the **Conservation Title of the Farm Bill**. This will be directed at increasing funding for programs like the Environmental Quality Incentives Program and the Natural Resource Conservation Service.
- ▶ The President is proposing to make the **Recreation Fee Demonstration Program** permanent. This proposal includes the Forest Service as well as the Department of Interior. The Demonstration Program has allowed the Forest Service and Department of Interior to

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collect entrance fees and use a portion of those fees without further appropriation for maintenance and other projects. Over 10 years, this program would cost \$487 million.

- ▶ The President proposes to amend the National Forest Management Act (NFMA) to require the use of **sealed bids** for timber sales. This would increase receipts by \$139 million over the 10-year period. These receipts could be used to repay the KV fund borrowings.
- ▶ The President would also amend NFMA to allow **non-timber interests** to bid on timber sales. This proposal would increase receipts by \$80 million over the 10-year period. These receipts could be spent on local forestry projects.
- ▶ The President proposes to require the receipt of **fair market value** from use and occupancy of **ski resorts on national forest lands**. This proposal would collect receipts of \$117 million over the 10-year period. Increased collections could be used for forest restoration of land impacted by ski resorts.

### Performance-Based Government

The President's new scorecard for measuring agency progress on five governmentwide initiatives shows lots of room for improvement for the largest agencies in this function. The Department of Interior and the Corps of Engineers received all red lights while the EPA received red lights with the exception of two yellow lights in E-government and Budget Performance Integration.

## FUNCTION 350: AGRICULTURE

This function includes programs that intend to promote the economic stability of agriculture. Programs in this function include direct assistance and loans to food and fiber producers, market information and agricultural research. Producers are assisted with production flexibility contract payments, crop insurance, non-recourse crop loans, operating loans and export promotion.

The price support programs operated by the Commodity Credit Corporation (CCC) constitute most of the spending in this function. Agriculture spending in this account has varied widely since spending only \$0.6 billion in 1975. In 2003 the President's budget requests \$19.1 billion in budget authority, which includes a \$7.8 billion legislative increase over current policy. The following table highlights overall functional totals:

	(\$ Billions)						
	2001 Actuals	2002	2003	2004	2005	2006	2007
<b>President's Budget:</b>							
Budget authority	29.2	29.0	23.8	23.0	21.3	20.4	20.3
Outlays	26.6	28.8	24.2	22.8	21.3	20.4	20.3
<b>OMB Baseline:</b>							
Budget authority	29.2	25.0	18.1	17.3	16.5	15.8	15.8
Outlays	26.6	24.8	17.8	17.4	16.5	15.8	15.7
<b>Budget compared to OMB Baseline:</b>							
Budget authority	---	4.0	5.7	5.7	4.8	4.6	4.5
Outlays	---	4.0	6.5	5.5	4.8	4.6	4.6

### New Legislative Proposals

Current farm policy is driven by the Federal Agricultural Improvement and Reform (FAIR) Act of 1996 which became law on April 4, 1996. The FAIR Act will expire at the end of the current fiscal year. Last year the Congressional budget set aside \$73.5 billion dollars over ten years to write new farm bill. The Administration supports this funding in its 2003 budget. As part of the farmers and ranchers safety net for the future the Administration's budget includes Farm, Fishing and Ranch Risk Management Accounts (FFARRM accounts) which offer all producers a non-market distorting way for farmers to set aside pre-tax dollars and receive matching funds from the Federal Government. Additionally the passage of Trade Promotion Authority (TPA) during the second half of the 107<sup>th</sup> Congress will further enable the US trade negotiators to open new markets and lower current trade barriers under future trade agreements.

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Our nation produces not only an abundant supply of food but also the safest in the world. To ensure that our food supply remains that way the Administration proposes an increase of \$20 million in 2003 for the Food Safety and Inspection Service (FSIS). This money will not only cover staffing needs, it will also help fund initiatives for science-driven and risk-based food programs.

#### New User Fees

The Administration proposes a number of new user fees for the Grain Inspection, Packers and Stockyard Administration (GIPSA), and the Animal Plant Health Inspection Service (APHIS). These fees should offset additional costs associated with the programs.

#### Program Cuts

In order accommodate spending increases in high priority areas the budget proposes to eliminate funding for nearly 400 earmarks in USDA programs that did not compete in the USDA evaluation process.

#### Mandatory Savings

In 2003 the President's budget estimates that 80% of the total amount of crop acreage eligible for insurance will be covered. Holding crop insurance helps to provide farmers a safety net in tough times and is encouraged by the government as it shares the premium costs with the producer. The Administration is offering a proposal that will limit under-writing gains to 12.5 percent and result in a mandatory savings of \$115 million. Other mandatory savings includes \$160 million from the Fund for Rural America and \$173 million for CCC eradication transfers.

#### Performance-Based Government

Under the management initiative the offered by the Administration this year the 2001 status for the USDA includes red lights for Human Capital, Competitive Sourcing, Financial Management and Budget/Performance Integration. It gives E-government a yellow light.

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**FUNCTION 370: COMMERCE AND HOUSING CREDIT**

This function includes 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.

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	(\$ Billions)						
	2001	2002	2003	2004	2005	2006	2007
	Actuals						
<b>President's Budget:</b>							
Budget authority	12.4	10.7	14.1	9.8	9.4	8.5	10.7
Outlays	6.0	3.8	3.7	5.1	3.1	1.2	1.7
<b>OMB Baseline:</b>							
Budget authority	12.4	10.7	15.8	11.7	11.7	11.1	12.3
Outlays	6.0	3.8	4.2	5.7	3.9	2.0	2.6
<b>Budget compared to OMB Baseline:</b>							
Budget authority	---	---	-1.7	-1.9	-2.3	-2.6	-1.6
Outlays	---	---	-0.5	-0.7	-0.8	-0.8	-0.8

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The President's 2003 budget reflects a \$3.4 billion increase in budget authority from the 2002 level for all activities in this function, while outlays would decrease by \$0.1 billion. These changes indicate little except that there are unusual programs in this function, especially on the mandatory side, that have unusual baseline patterns (e.g., the Postal Service, which drops \$4.8 billion in budget authority from 2003 to 2004).

A better way to consider the impact of the President's proposals is to compare it to the baseline. Because the President's budget proposes **no policy changes for mandatory programs** in this function, one need examine only **discretionary programs**. For 2003, the budget would reduce discretionary budget authority by \$1.7 billion, while outlays would decrease \$0.5 billion. Specific major proposals are listed below.

- ▶ The largest change is a "reduction" (from zero in the baseline, because the baseline does not project negative discretionary budget authority) of \$0.9 billion in budget authority for the **Securities and Exchange Commission (SEC)**, which would be allowed to retain and spend more of the fees it collects. (A drop in SEC fees of \$1 billion in 2007 also explains the jump in the request for that year.)

- ▶ The **United States Postal Service**, which received supplemental appropriations in 2002 of \$0.5 billion from the Emergency Response Fund, would return in 2003 to its typical annual appropriation of less than \$0.1 billion under the President's request. This would result in a \$0.6 billion reduction below the baseline, which by law projects forward the supplemental appropriations.
- ▶ The President would reduce funding for programs under the **Industrial Technology Services** (\$120 million for 2003) of the Department of Commerce, yielding a \$0.2 billion reduction below the baseline level (\$297 million). The **Advanced Technology Program (ATP)** would decrease from \$185 million in 2002 to \$108 million in 2003. The President would also reduce **Manufacturing Extension Partnership (MEP)** funding from \$106 million in 2002 to \$12 million in 2003, on the way to an apparent phasing out of the program. The budget suggests that since the MEP program at its inception was supposed to shift over to self-funding after six years, and since most MEP centers are more than six years old, it is time to return to that original goal.

#### Performance-Based Government

The President's new scorecard for measuring agency progress on five governmentwide initiatives shows lots of room for improvement for the largest agencies in this function. Neither the Department of Commerce nor the Small Business Administration earned any green lights on their scorecards.

## FUNCTION 400: TRANSPORTATION

This function supports all major modes of transportation. Function 400 includes 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, and operation of the air traffic control system; water transportation through the Coast Guard and Maritime Administration; the Transportation Security Administration (TSA); the Surface Transportation Board; the National Transportation Safety Board; and related transportation safety and support activities within the Department of Transportation.

	(\$ Billions)						
	2001 Actuals	2002	2003	2004	2005	2006	2007
<b>President's Budget:</b>							
Budget authority	67.6	66.1	63.7	58.4	64.6	65.9	67.2
Outlays	55.2	62.1	59.4	56.3	56.0	56.9	58.6
<b>OMB Baseline:</b>							
Budget authority	67.6	66.1	62.0	61.4	62.1	62.8	63.5
Outlays	55.2	62.1	60.3	61.4	62.8	64.4	66.5
<b>Budget compared to OMB Baseline:</b>							
Budget authority	----	----	1.8	-3.0	2.5	3.1	3.7
Outlays	----	----	-0.8	-5.1	-6.9	-7.5	-7.9

For 2003, the President's budget proposes total budget authority for function 400 of \$63.7 billion, a decrease of \$2.4 billion (or 3.6 percent) below 2002. To get a more accurate comparison of ability to spend, contract authority should be excluded and obligation limitations should be included; when this is done, the budget includes \$53.5 billion in budgetary resources for 2003, which is \$7.2 billion (or 12 percent) below 2002. This includes \$1.4 billion in mass transit budget authority. The outlay request is \$59.4 billion, a decrease of \$2.7 billion (or 4.3 percent) below 2002. The budget assumes the collection of \$2.5 billion in user fees, of which \$2.2 billion are related to aviation security. The President's budget follows the commitments made in both TEA-21 and AIR-21.

The 2003 President's budget contains the following major proposals, categorized by mode:

### Federal Highway Administration

- ▶ The President follows TEA-21 by requesting \$23.5 billion in budget authority (excluding contract authority) and obligation limitations for the Federal Highway Administration in 2003.

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This request represents a decrease of \$9.8 billion (or 29 percent) in budgetary resources and \$728 billion (or 2 percent) in outlays from 2002. Contract authority falls by \$4 billion to \$31.1 billion in 2003.

- ▶ The decrease in budgetary resources is due to a provision of TEA-21, know as revenue aligned budget authority (RABA), that ties highway spending to gas tax receipts. For fiscal year 2003, the RABA adjustment to the TEA-21 funding level for the **federal-aid highway program** is a negative \$5 billion due to lower gas tax receipts associated with the weak economy. This results in an obligation limitation of \$22.6 billion for federal-aid highway program in 2003, a \$9.2 billion drop from 2002. This is the first year the RABA adjustment has been negative (it was positive \$4.6 billion in 2002).
- ▶ Please note that due to a calculation error the Administration will submit an amendment to the budget request to revise the 2003 RABA estimate to a negative \$4.4 billion, adding \$597 million to highway funding and bringing the request for federal-aid highways up to \$23.2 billion.

### Federal Transit Administration (FTA)

- ▶ The President follows TEA-21 by requesting \$7.2 billion in budget authority for mass transit, an increase of \$479 million from 2002. Outlays would increase by \$111 million over 2002 to \$6.7 billion.
- ▶ The President requests \$3.0 billion for **capital investment grants** (similar to what was provided in 2002), \$3.8 billion for the transit **formula grants** program (\$273 million over 2002), and \$150 million for the **job access and reverse commute** program (\$25 million over 2002). The funding for formula grants includes \$145 million for a new program, to assist Americans with disabilities enter the workforce through alternative means of transportation.

### Federal Motor Carrier Safety Administration (FMCSA)

- ▶ The President requests \$371 million in funding for the FMCSA, an increase of \$37 million (or 11 percent) from 2002. In addition to this funding, the President requests \$47 million within the FHWA request to support FMCSA's southwest border inspection initiative. Within these totals are \$117 million to comply with the NAFTA agreement and permit Mexican trucks to travel within the US once they have met strict safety standards. Outlays for this program increase by 6 percent over 2002 to \$379 million.

### Transportation Security Administration (TSA)

- ▶ The Transportation Security Administration (TSA) was created by the Aviation and Transportation Security Act to enhance transportation security. One of the TSA's greatest challenges in the short run is assuming responsibility for securing the nation's aviation system.

This includes a mandate to screen 100 percent of checked baggage, mail, and cargo by December 31, 2002.

- ▶ The President requests \$4.8 billion in for the TSA, an increase of 92 percent above the 2002 level of \$2.5 billion. The budget assumes collection of \$2.2 billion in recently enacted passenger and air carrier user fees.

#### Federal Aviation Administration (FAA)

- ▶ The President's 2003 budget follows AIR-21. For 2003, the President requests \$14 billion in budget authority and obligation limitations for FAA programs, \$226 million below 2002 funding. Outlays decrease by 4 percent from 2002 to \$13.7 billion.
- ▶ The President's budget includes \$7.5 billion for **FAA operations**, \$2.5 billion for **facilities and equipment** (F&E), \$3.4 billion in funding for the **airport improvement program** (AIP), and \$127 million for **research engineering and development** (RED). The 2003 request for FAA operations, F&E, and AIP is about the same as these programs received in 2002. The \$127 million for RED is \$121 million (or 49 percent) below 2002.
- ▶ The FAA received \$533 million from the 2002 emergency supplemental. Excluding these emergency funds for aviation security, the President's request provides about \$300 million more than FAA received in 2002. This analysis shows an increase of \$208 million for FAA operations over 2002, an increase of \$83 million for F&E over 2002, an increase of \$101 million for AIP over 2002, and a decrease of \$71 million for RED over 2002.

#### United States Coast Guard (USCG)

- ▶ For the USCG, the budget proposes \$5.5 billion in budget authority, an increase of \$823 million over the \$4.7 billion USCG received in 2002. The request includes \$165 million in new navigational assistance user fees. Outlays would increase by 28 percent over 2002 to \$6.9 billion.
- ▶ The proposal increases **USCG operations** by \$732 million from 2002 to \$4.6 billion. This includes \$406 million for enhanced port security operations and the hiring of additional staff. The proposal requests \$736 million for **acquisition, construction, and improvement** for 2003, a 14 percent increase over 2002. This includes \$500 million for the deepwater acquisition initiative, a multi-year procurement plan to replace the Coast Guard's ageing fleet of offshore ships and aircraft.
- ▶ The budget proposes a new Coast Guard navigational assistance user fee on commercial and cruise vessels for the use of Coast Guard navigational assistance, icebreaking, and port security functions. The budget assumes collections of \$165 million in 2003 and \$330 million in 2004 when fully implemented.

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### Federal Rail Administration (FRA)

- ▶ The President's request includes \$716 million in budget authority, a decrease of \$128 million from 2002. The majority of this reduction is due to the additional \$106 million appropriated in the 2002 emergency supplemental. Outlays are reduced by \$263 million from 2002 to \$826 million. The budget assumes \$59 million in new railroad user fees to offset a portion of rail safety expenses.
- ▶ The budget request provides \$521 million for **Amtrak** (the National Passenger Rail Corporation). In addition to the \$521 million appropriated for Amtrak in 2002, it received an additional \$100 million in the 2002 emergency supplemental. Amtrak's current authorization expires December 31, 2002. No specific reauthorization proposal is included in this budget request.

### Research and Special Programs Administration (RSPA)

- ▶ The President requests \$125 million in budget authority for 2003, an increase of 10 percent over the 2002 level. The budget assumes collections of \$58 million from existing pipeline safety user fees and \$6 million from a new hazardous materials user fee.
- ▶ The request includes \$65 million in funding for pipeline safety, a 10 percent increase over the 2002 level. It also includes \$28 million to improve the safety of hazardous materials transportation, a 9 percent increase in discretionary funding.

### Maritime Administration (MARAD)

- ▶ The budget requests \$212 million for 2003, a decrease of \$15 million from 2002.

### Aero-Space Technology – National Aeronautics and Space Administration (NASA)

- ▶ The President's request provides \$837 million for aeronautical research and technology activities provided for NASA within function 400, a decrease of \$98 million (or 10 percent) from 2002.

### Performance-Based Government

- ▶ The President's new scorecard for measuring agency progress on five governmentwide initiatives shows lots of room for improvement for the largest agencies in this function. Neither the Department of Transportation nor NASA earned any green lights on their scorecards.

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**FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT**

This function covers the regional and developmental programs that fund physical facilities or financial infrastructures of communities. The major programs are administered through a variety of agencies including the Department of Housing and Urban Development, the Appalachian Regional Commission (ARC), the Tennessee Valley Authority (TVA), the Economic Development Administration (EDA), the Bureau of Indian Affairs (BIA), the Federal Emergency Management Agency (FEMA), and the Department of Agriculture

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(\$ Billions)

	2001	2002	2003	2004	2005	2006	2007
	<b>Actuals</b>						
<b>President's Budget:</b>							
Budget authority	13.9	18.5	14.7	15.4	15.5	15.9	16.2
Outlays	12.0	15.4	17.4	18.0	17.4	15.6	15.4
<b>OMB Baseline:</b>							
Budget authority	13.9	18.5	18.3	18.8	19.1	19.6	20.0
Outlays	12.0	15.4	17.7	18.8	19.6	19.0	19.1
<b>Budget compared to OMB Baseline:</b>							
Budget authority	0.0	0.0	-3.6	-3.5	-3.6	-3.7	-3.8
Outlays	0.0	0.0	-0.3	-0.8	-2.2	-3.4	-3.7

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The President's 2003 budget is requesting \$14.7 billion in budget authority and \$17.4 in outlays. This is \$3.8 billion less than 2002 in BA and an increase of \$2.0 billion in outlays. Most of the spending in this function is for discretionary programs.

**Federal Emergency Management Agency (FEMA)**

- ▶ The President proposes that FEMA receive \$6.6 billion for FY 2003, an increase of \$3.6 billion over the 2002 level. A major part of this increase in funding is the President's proposal that FEMA play a vital role in Homeland Security. The budget provides FEMA with \$3.6 billion to address these new priorities, an increase of \$3.2 billion over 2002. Most of this funding will be used for terrorism-related equipment for states and localities, as well as training grants for first responders, including firefighters, police, and emergency medical technicians.
- ▶ The budget provides \$1.8 billion for **Disaster Relief**, which is consistent with the five-year average of program level obligations. The budget provides \$1.8 billion in new budget authority and commits to an intensive review of unspent balances.

- ▶ For the **Flood Map Modernization Fund** the President proposes an increase of \$268 million over the 2002 level for a total of \$536 million, in order to better guide future development and flood prevention efforts.
- ▶ The budget proposes \$300 million for a new FEMA competitive grant for **predisaster mitigation**. This new program will replace the formula-based **Hazard Mitigation Grant Program**. It is hoped that awarding grants on a competitive basis will ensure that the most worthwhile, cost-beneficial projects receive funding.
- ▶ The President's budget also includes a mandatory reform proposal for the **National Flood Insurance Program**. The proposal includes several reforms to improve financial performance and transfer greater financial liability to individuals building in flood prone areas. If enacted, the proposal could save \$43 million in FY 2003 and \$2.1 billion over the next ten years.

### Performance-Based Government

- ▶ The President's new scorecard for measuring agency progress on five government wide initiatives shows lots of room for improvement for FEMA. It did not earn any green lights on its scorecard.

### Other Programs

- ▶ The President's budget requests \$2.3 billion for 2003 for the BIA, which represents an increase of \$100 million over the 2002 spending level.
- ▶ The budget requests \$345 million **Indian school construction**, a decrease of \$12 million from 2002. However, the budget places new emphasis on improving academic performance at BIA schools and continues the 2002 initiative to eliminate the school maintenance and repair backlog.
- ▶ The President's budget requests \$4.7 billion in budget authority for **Community Development Block Grants (CDBG)**, a decrease of \$300 million from the 2002 level. These block grants are the primary source of relatively unrestricted federal assistance to cities. The President raises some concerns with regard to this program in his budget. Specifically, the budget points out that the current distribution of CDBG formula funds includes many grants to higher income cities and counties. The budget includes a legislative proposal that will redirect some of the funding to communities with greater needs and fewer resources.

**FUNCTION 500: EDUCATION, TRAINING, EMPLOYMENT,  
AND SOCIAL SERVICES**

This function includes those activities designed to promote education, to provide social services for needy individuals, and to conduct research directly related to these program areas. In general, the activities funded by this function are administered through the Departments of Labor, Health and Human Services, and Education.

	(\$ Billions)						
	2001 Actuals	2002	2003	2004	2005	2006	2007
<b>President's Budget:</b>							
Budget authority	63.7	79.6	80.9	81.8	84.0	85.9	87.9
Outlays	57.3	71.7	79.0	81.0	82.7	84.2	86.1
<b>OMB Baseline:</b>							
Budget authority	63.7	78.3	80.6	81.1	82.8	84.5	86.2
Outlays	57.3	71.7	78.9	80.5	81.8	83.3	84.9
<b>Budget compared to OMB Baseline:</b>							
Budget authority	--	1.3	0.3	0.7	1.2	1.4	1.7
Outlays	--	0.0	0.2	0.5	0.8	0.9	1.2

The President requests \$80.9 billion in total budget authority for Education, Training, Employment and Social Services in 2003. This request represents a 3.3 percent increase over the 2002 baseline level. This request includes \$72.2 billion in discretionary budget authority, a less than 1.0 percent increase over 2002, and \$8.7 billion in mandatory budget authority, a 10.1 percent increase over 2002.

Department of Education Programs

- ▶ In total for the Department of Education, the President is requesting \$56.5 billion for 2003, a \$2.5 billion (4.6 percent) increase compared to the 2002 level. Of the total request, \$50.3 billion is for discretionary programs, a \$1.8 billion (3.8 percent) increase compared to 2002 levels. The balance of the request is \$6.2 billion for mandatory programs, a 11.8 percent increase compared to the 2002 level.
- ▶ The President proposes advance appropriations for discretionary programs of \$15.0 billion in 2004, the same amount advanced into 2003. Adjusting for these advance appropriations yields a "program level" discretionary education budget of \$50.3 billion for the 2002-3 academic year, a 2.8 percent increase over the prior academic year.

- ▶ In addition, the President proposes \$1.3 billion in supplemental discretionary appropriations to the Pell Grant program in 2002, in order to fill a projected “shortfall” in this program. The administration proposes to offset this appropriation with rescissions in other discretionary programs (see below).

#### Elementary and Secondary Education

- ▶ **Title I Education for the Disadvantaged:** The President proposes \$13.4 billion for Title I programs for 2003, which is a \$1.0 billion (8.4 percent) increase, over the 2002 level. This request includes \$11.4 billion for **grants to local educational agencies (LEAs)**, a \$1.0 billion (9.7 percent) increase over the 2002 level. The President also requests \$1.1 billion for the **Reading First** programs established last year, a \$100 million (11.1 percent) increase.
- ▶ **Special Education:** The President proposes \$9.7 billion for Individuals with Disabilities Education Act (IDEA) programs in 2003, a \$1.0 billion (11.7 percent) increase over 2002. This request includes \$8.5 billion for **Part B grants to states**, a \$1.0 billion (13.3 percent) increase over 2002. This request represents the highest-ever funding level for Part B grants.
- ▶ **School Improvement Programs:** The President proposes \$6.8 billion for school improvement programs, reducing funding for this account by \$1 billion (-13.4 percent) compared to 2002. The President proposes to eliminate 21 smaller programs for total savings of \$779 million, primarily by eliminating various programs and projects under the auspices of the **Fund for the Improvement of Education (FIE)** to the tune of \$749 million (-89.9 percent compared to 2002). In addition, the President proposes \$2.9 billion for the improving **teacher quality program** established by the Elementary and Secondary Education Act (ESEA) reform bill last year, maintaining the 2002 level of funding.
- ▶ **Impact Aid:** The President proposes \$1.1 billion for Impact Aid in 2003, a slight decrease (-0.3 percent) from 2002.
- ▶ **English Language Acquisition:** The President proposes \$665 million for English Language Acquisition programs, formerly known as Bilingual and Immigrant Education, maintaining funding at the 2002 level.
- ▶ To aid states in the implementation of the new **state assessment tests** required by the No Child Left Behind Act (P.L. 107-110), the President proposes \$387 million in assistance funds, maintaining funding at the 2002 level.
- ▶ **Indian Education:** The President proposes \$123 million for Indian Education in 2003, a \$2 million (1.7 percent) increase over 2002.

### Vocational and Adult Education

- ▶ The President proposes \$1.9 billion for Vocational and Adult Education in 2003, a decrease of \$36 million (-1.9 percent) compared to 2002. The President proposes to eliminate four programs within this account.

### Postsecondary Education

- ▶ The President proposes to make available \$67.1 billion in total **student aid** in 2003, \$12.2 billion of which is for consolidation loans, which help existing borrowers meet their obligations. The remaining \$54.9 billion represents a 5 percent increase over 2002. Of this amount, \$40.7 billion would be made available by **Federal Family Education Loans (FFEL)** (\$28.5 billion) and **Direct Loans** (\$12.2 billion), a 7.4 percent increase over 2002.. The balance is made available by Pell Grants, campus-based programs, and other aid programs.
- ▶ In addition, the President proposes to consolidate funding for the **administration of student aid** from three separate accounts to one single account, while increasing such funding by 2 percent to \$936 million.
- ▶ The President proposes \$10.9 billion for **Pell Grants**, a \$549 million (5.3 percent) increase over the 2002 level. The President proposes to make Pell Grants available to 4.5 million students (an increase of 55,000), with a maximum award of \$4,000, the same as 2002.
- ▶ The President has identified a **\$1.276 billion “shortfall” in the Pell Grant program for 2002**, resulting from an increase in the maximum award to \$4,000 without commensurate funds to provide that maximum. (Students qualifying for the maximum would instead receive \$3,600, or \$250 more than the 2002 maximum). The President proposes a **supplemental appropriation** equal to the “shortfall” in 2002. The President additionally proposes to completely offset this appropriation by **rescinding funds in 2002 for “unrequested earmarks and low-priority programs,”** the list of which is to be provided to Congress later (the budgetary impact of the rescission is reflected in function 920). Items matching this description are likely to be found in the FIE and **FIPSE** (Fund for the Improvement of Postsecondary Education) appropriations.
- ▶ The President also requests \$1.9 billion for other **campus-based student aid** programs (SEOG, work-study, Perkins loans), maintaining funding at the 2002 level. The President proposes to eliminate **LEAP** (Leveraging Educational Assistance Partnership) program for a savings of \$67 million.
- ▶ **Higher Education:** The President proposes \$1.9 billion for Higher Education programs in 2003, a \$148 million (-7.3 percent) decrease compared to 2002. The President proposes to eliminate four small programs and reduce spending on FIPSE programs by \$142 million (-78.4

percent). This request also includes a requested increase of 3.6 percent for both the **Historically Black Colleges and Universities** and **Historically Black Graduate Institutions** programs, and a 3.6 percent increase for **Hispanic-Serving Institutions**, keeping pace with the President's goal of increasing funding for all three programs by 30 percent by 2005.

- ▶ The President also proposes to expand **loan forgiveness for teachers**, which would entail forgiving up to \$17,500 of loans for math, science, and special education teachers serving low-income communities (as compared to \$5,000 under the current program). The President estimates mandatory costs of \$45 million in 2003 and \$211 million over ten years.

#### Department of Labor Programs

- ▶ The President proposes \$11.4 billion in discretionary funding for the Department of Labor in 2003, a \$774 million decrease (-6.4 percent).
- ▶ For **Training and Employment Services**, the President's budget proposes new budget authority of \$5 billion, a \$0.5 billion (-8.7 percent) decrease from the 2002 level. The President also proposes \$4 billion in National Emergency Grants in 2002 as part of his Bipartisan Economic Security Plan. Of this \$4 billion, the President expects that \$3 billion will remain available for 2003, in addition to \$1.3 billion in unspent funds from other training and employment programs. Thus the Administration asserts that, under its proposals, a total of \$9.3 billion will be available for training and employment services in 2003. The budgetary impact of the National Emergency Grants proposal is reflected in function 920.

#### Department of Health and Human Services Programs

- ▶ For Children and Families Services, the President proposes \$8.5 billion, a \$91 million increase (1 percent) over 2002; this account includes funding for **Head Start**. The President is requesting \$6.7 billion for Head Start in 2003, an increase of \$130 million (2.0 percent) over 2002. The President is also renewing his call for the eventual reform and transfer of this program to the Department of Education.
- ▶ The President proposes \$530 million for the **Promoting Safe & Stable Families** program, a \$155 million (41.3 percent) increase over 2002.
- ▶ The President proposes \$1.7 billion for the **Social Services Block Grant** (SSBG) for 2003, the same level as 2002.
- ▶ The President proposes \$570 million for the **Community Services Block Grant** (CSBG) in 2003, an \$80 million decrease (-12.3 percent) from the 2002 level.

### Independent Agencies and Other Programs

- ▶ For the **Corporation for National and Community Service**, the President's budget proposes a little over \$1 billion, a \$0.3 billion increase over the 2002 level. Most of the increase derives from the President's **USA Freedom Corps** initiative, including a proposed increase of \$230 million for **Americorps** and a \$50 million increase for the **Senior Corps**.
- ▶ The President proposes \$683 million for the **Smithsonian Institution**, a \$14 million (2 percent) increase over 2002.
- ▶ The President proposes \$117 million for the **National Endowment for the Arts** and \$127 million for the **National Endowment for the Humanities**; both proposals represent a 1 percent increase over 2002 for the respective endowments.

### Performance-Based Government

- ▶ **Department of Education:** The Department of Education receives a failing ("red") grade for all five aspects of the President's Management Agenda (human capital, competitive sourcing, financial management, E-government, budget/performance integration), indicating complete or partial failure in every one of these areas. The President also identifies five programs as "ineffective": Title I grants (pre-reform), TRIO Upward Bound, Safe and Drug Free Schools grants, Even Start, and Research and Dissemination.
- ▶ **Department of Labor:** The Department of Labor shows partial achievement ("yellow") of performance criteria in human capital and E-government, but receives failing ("red") grades in competitive sourcing, financial management, and budget performance/ integration. The President identifies four programs as "ineffective": Veterans' Employment and Training Services, H-1B Technical Skills Training Grants, Alien Labor Certification, and Prevailing Wage Determination Systems (Davis-Bacon and Service Contract Acts).

## FUNCTION 550: HEALTH

This function covers all health spending except that for Medicare, military health, and veterans health. The major programs include Medicaid, the State Children's Health Insurance Program (S-CHIP), health benefits for federal retirees, the Food and Drug Administration, the Health Resources and Services Administration, the Indian Health Service, the Centers for Disease Control and Prevention, the National Institutes of Health, the Substance Abuse and Mental Health Services Administration, and the Occupational Safety and Health Administration.

(\$ Billions)

	2001 Actuals	2002	2003	2004	2005	2006	2007
<b>President's Budget:</b>							
Budget authority	182.1	201.0	234.3	259.0	278.4	298.0	319.9
Outlays	172.6	195.2	231.9	258.8	277.8	297.0	318.3
<b>OMB Baseline:</b>							
Budget authority	182.1	201.0	231.9	252.8	271.1	290.5	312.5
Outlays	172.6	195.2	230.9	252.6	270.3	289.7	311.0
<b>Budget compared to OMB Baseline:</b>							
Budget authority	---	---	2.4	6.2	7.3	7.5	7.4
Outlays	---	---	1.1	6.2	7.5	7.3	7.3

### **Mandatory Spending**

#### Medicaid/State Children's Health Insurance Program (S-CHIP)

- ▶ Under current law, spending for Medicaid will increase at an average annual rate of 8.6 percent between 2002 and 2007, growing from \$145 million in 2002 to \$219 million in 2007.
- ▶ Under the Medicaid program, former welfare recipients who are entering the workforce are entitled to 12 months of **Transitional Medical Assistance (TMA)**, through which they can continue to receive health coverage under Medicaid. This program is set to expire at the end of 2002. The President's budget proposes extending TMA for an additional year, at a cost of \$350 million.
- ▶ The President's budget proposes savings of \$290 million in 2003 and \$17.6 billion over 10 years by changing the way the **Medicaid drug rebate** is calculated. Currently manufacturers are required to provide a drug rebate in order to participate in Medicaid. The rebate is currently calculated based on the Average Manufacturer's Price (AMP). The President

proposes to use the Average Wholesale Price (AWP) rather than the AMP in calculating the amount of the drug rebate.

- ▶ The budget includes a **new “model waiver” program for Medicaid**. Under this waiver, states will be able to provide prescription drug-only coverage to senior citizens and people with disabilities who are not otherwise eligible for Medicaid. In addition, the waiver will permit states to implement private-sector benefit management techniques into their Medicaid drug programs, techniques that have previously been discouraged through Medicaid law and federal regulations. Like other waivers granted under the President’s Health Insurance Flexibility and Accountability (HIFA) Demonstration Initiative, these waivers must be budget neutral and can be used to extend coverage to individuals with incomes up to 200 percent of the federal poverty level.
- ▶ The budget also includes a proposal to extend the availability of states’ \$3.2 billion in **expiring SCHIP allotments** until 2006. Without such an extension, these funds would revert to the Treasury at the end of 2002 and 2003.

### **Discretionary Spending**

#### Centers for Disease Control and Prevention

- ▶ Funding for the **Centers for Disease Control and Prevention (CDC)** would total \$4 billion in budget authority, a decrease of \$169 million from 2002.
- ▶ The budget includes \$1.6 billion for **bioterrorism preparedness**, a decrease of \$661 million. Included in this amount is a reduction of \$757 million for the one-time purchase of vaccines and pharmaceuticals in 2002 that will not be required in 2003. Funding for these purchases will be \$400 million in FY 2003, down from \$1.2 billion in 2002. Funding for upgrading **state and local laboratory capacity** remains level at \$940 million
- ▶ Additional funding of \$24 million, for a total of \$159 million, is included to **upgrade CDC’s scientific capacity**. Funding for buildings and facilities is proposed at \$64 million, a decrease of \$186 million from FY 2002. Funding of \$120 million, an increase of \$74 million, is included for facility security.
- ▶ Funding for **chronic disease prevention and health promotion** is reduced by \$57 million, or 8 percent, to \$697 million. The budget also proposes a \$10 million reduction in funding for infectious diseases, bringing funding to \$345 million.

#### National Institutes of Health

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- ▶ The President's budget includes a \$3.7 billion increase for the **National Institutes of Health**. This funding would complete the planned 5-year doubling of the NIH budget, from \$13.6 billion in 1998 to \$27.3 billion in 2003.
- ▶ Of this funding, more than \$1.7 billion would be earmarked for **bioterrorism research**. This funding represents a significant increase over the 2002 bioterrorism research budget of \$300 million.

### **Bioterrorism Overview**

The President's budget includes \$4.3 billion to fight bioterrorism, and increase of \$1.2 billion over 2002. Below is a breakdown by agency of bioterrorism funding.

<u>Agency</u>	<u>FY 2003 Request</u>	<u>Increase/Decrease from 2002</u>
<b>CDC</b>	\$1,637	-\$661
<b>HRSA</b>	\$618	\$483
<b>Office of the Secretary</b>	\$150	\$33
<b>SAMHSA</b>	\$10	\$10
<b>FDA</b>	\$159	\$1
<b>NIH</b>	\$1,748	\$1,473
<b>Recovery Activities</b>	\$0	-\$181
<b>Total</b>	<b>\$4,322</b>	<b>\$1,160</b>

*Note: Totals may not add due to rounding*

### Health Resources and Services Administration

- ▶ Funding for the **Health Resources and Services Administration** would be \$6 billion, a net decrease of \$394 million from 2002.
- ▶ The budget provides funding of \$518 million, an increase of \$383 million, for increased **state and local hospital preparedness to respond to bioterrorist attacks**. An additional \$100 million is included for other programs to combat bioterrorism, including \$60 million to develop a new bioterrorism curriculum for health professionals, \$21 million for Poison Control Centers, and \$19 million for Emergency Medical Services for Children.

- ▶ Additional funding of \$114 million, for a total of \$1.5 billion, is included for **Community Health Centers**. This program was rated “effective” in the Administration’s management review. Currently 3,400 health centers throughout the country provide health services to an estimated 13 million people. This increase is the second of a multi-year Presidential initiative to increase the number of health centers by 1,200 by 2006.
- ▶ The budget includes \$20 million for a new “**Healthy Communities Innovative Initiative**” to help prevent diabetes, asthma, and obesity.
- ▶ An additional \$33 million in funding is included for **abstinence education**, for a total of \$123 million.
- ▶ An increase of \$44 million (30 percent) is included for the **National Health Service Corps**, bringing total funding to \$192 million. This program was rated “effective” in the Administration’s management review. Currently more than 2,300 health professionals work in under-served areas of the country through this program. In addition, an increase of \$5 million is provided for the **Nursing Education Loan Repayment Program** to address the issue of a shortage of nurses throughout the nation.
- ▶ Funding for **Health Professions** is reduced by \$178 million, to \$110 million for 2003, as resources are directed to other programs to improve health care delivery. This program was rated as “ineffective” in the Administration’s management review.
- ▶ Funding for **Children’s Graduate Medical Education** is reduced by \$85 million, to \$200 million. Funding for rural health is reduced by \$54 million, while funding for the telehealth program is reduced by \$33 million.
- ▶ The budget proposes the elimination of the \$120 million **Community Access Program (CAP)** which provides grants to local health organizations to coordinate healthcare services. This program was rated “ineffective” in the Administration’s management review. The budget also proposes to eliminate \$312 million for Health Care Facilities, \$13 million for the Universal New Born Hearing Screening and Trauma program and \$20 million for the Denali Commission.

#### Food and Drug Administration

- ▶ The budget for the **Food and Drug Administration** would increase \$19 million in 2003 to \$1.4 billion. Total program authority for FDA, including fees, would reach \$1.7 billion, an increase of \$123 million.
- ▶ The budget includes \$272 million in **Prescription Drug User Fee Act (PDUFA)** fees, an increase of \$103 million. PDUFA allows FDA to collect fees to expedite the review of drug applications. PDUFA expires at the end of 2002 and will therefore need to be reauthorized in

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the coming year. The increase in fees is intended to focus on additional improvements to the drug review process, accelerating the review of generic drugs, guarding against bioterrorism, and improving patient safety.

- ▶ The budget includes \$159 million for the **prevention of bioterrorism**, an increase of \$1 million. Of this amount, \$98 million is provided for food safety initiatives, and \$54 million for vaccines and drug therapies. With this funding, the inspections of food imports will be doubled between 2002 and 2003.

### Other Agencies

- ▶ Funding for the **Office of the Secretary** is increased by \$33 million for the Office of Emergency Preparedness and the Office of Public Health Preparedness to prepare for bioterrorist attacks.
- ▶ Budget authority for the **Indian Health Service** would increase by \$60 million, to a total of \$2.9 billion, an increase of 2 percent. This agency was rated as “moderately effective” in the Administration’s management review.
- ▶ Funding for the **Substance Abuse and Mental Health Services Administration** is increased by \$57 million, or 2 percent, to \$3.2 billion.
  - ▶ Included in this amount is \$127 million to fund the **President’s Drug Treatment initiative** to enable states to provide treatment services to an additional 52,000 individuals.
  - ▶ An additional \$60 million is included for the **Substance Abuse Prevention and Treatment block grant**. This grant program supports 10,500 community-based treatment and prevention organizations.
- ▶ The **Agency for Healthcare Research and Quality** is provided program level funding of \$251 million, a decrease of \$49 million (16 percent) from 2002. The President intends to achieve efficiencies in research activities throughout the department, thereby reducing the need for funding within this agency.

### Health Tax Credits

- ▶ The budget includes \$89 billion over 2003-2012 for a **refundable tax credit for the purchase of health insurance**. This amount includes \$29.1 billion over the 10-year period in reduced receipts and \$59.9 billion in additional outlays.
- ▶ Additional tax credits are included for **deductions for long-term care insurance** premiums (\$20.7 billion in reduced receipts over 10 years) and personal **exemptions to home caretakers** of family members (\$4.0 billion over 10 years).
- ▶ The President's budget includes additional funding to **increase the flexibility of health savings accounts**, all of which would take effect beginning in 2004. These provisions would allow individuals to carry forward up to \$500 in unused benefits from a health flexible spending arrangement to the next year (\$7.8 billion over 10 years), provide additional choice with regard to unused benefits in a health flexible spending arrangement (\$566 million over 10 years), and permanently extend and reform Archer Medical Savings Accounts (MSAs) (\$5.7 billion over 10 years).

#### Performance-Based Government

- ▶ The President's new scorecard for measuring agency progress on five governmentwide initiatives shows much room for improvement for the Health and Human Services Agency. While some programs within the agency were rated effective (as noted above), HHS as a whole received red lights across all five performance measures.

## FUNCTION 570: MEDICARE

This function includes only the Medicare program. Medicare pays for medical services for 39 million senior and disabled citizens and for those with End Stage Renal Disease. Medicare is administered by the Center for Medicare and Medicaid Services (CMS), part of the Department of Health and Human Services.

(\$ Billions)							
	2001 Actuals	2002	2003	2004	2005	2006	2007
<b>President's Budget:</b>							
Budget authority	217.2	230.3	234.5	244.1	261.4	282.0	305.5
Outlays	217.5	226.4	234.4	244.3	261.3	281.8	305.8
<b>OMB Baseline:</b>							
Budget authority	217.2	230.3	233.0	241.0	256.7	265.0	283.6
Outlays	217.5	226.4	232.9	241.2	256.6	264.7	283.8
<b>Budget compared to OMB Baseline:</b>							
Budget authority	---	---	1.5	3.1	4.7	17.0	21.9
Outlays	---	---	1.5	3.1	4.7	17.1	22.0

### Baseline Spending

- ▶ Between 2002 and 2007, the budget estimates Medicare spending will increase at an average annual rate of 4.6 percent under current law.
- ▶ In 2001, the Medicare Board of Trustees estimated that the Medicare Hospital Insurance trust fund would remain solvent until 2029 under current law, although it will face cash flow deficits beginning in 2016.

### The President's Medicare Reform and Prescription Drug Proposals

#### **Medicare Expansions**

- ▶ The President's budget includes \$190.2 billion in net new spending for Medicare over the next 10 years.
- ▶ **Prescription Drugs Coverage for Seniors:** The budget puts forth a multi-pronged approach to providing prescription drug coverage for seniors:

- ▶ **Medicare Prescription Drug Card** - Last summer, the President proposed the development of a Medicare-endorsed Drug Card Program to help seniors get the lower drug prices widely available to most privately-insured Americans. Implementation of the program was temporarily blocked by a court injunction, but the President plans to submit a revised drug card proposal for a formal “notice and comment” process. This program has no budgetary impact.
  
- ▶ In addition to the Medicaid model waiver program (see Function 550), the President’s budget also includes funding to **help states implement a comprehensive drug benefit for low income seniors**. Funding of \$20.7 billion over 5 years and \$77.1 billion over 10 years is allocated for this program. Funding for this program will come from Medicare, but the program will be run through Medicaid (Function 550). The Federal government will pay 90 percent of the costs of prescription drug coverage for low income seniors with incomes between 100 and 150 percent of poverty. The states will pay the remaining 10 percent. This program will be integrated with the full Medicare drug benefit once that program is implemented.
  
- ▶ **Increased Medicare+Choice Payments:** The budget includes \$3.7 billion for additional payments to Medicare+Choice plans over 2003 to 2005. In addition, the budget includes \$440 million in bonus payments to encourage plans to join the Medicare+Choice program.
  - ▶ Approximately 6 million seniors are currently enrolled in Medicare+Choice plans. Payments to these private plans have not kept pace with rising health care costs, causing hundreds of plans to exit the program and leaving hundreds of thousands of seniors without Medicare+Choice coverage.
  
  - ▶ The budget proposes modifying the Medicare+Choice payment formula to better reflect actual health care increases. For 2003, plans in counties that have been receiving the minimum updates (2 to 3 percent) in the last 4 years will receive a 6.5 percent increase in payments.
  
- ▶ **Premium Assistance for Low Income Seniors:** The President proposes to extend the current program that provides premium assistance to low-income seniors through the Medicaid program, at a cost of \$80 million in 2003.
  
- ▶ **Medicare Modernization:** The President’s budget also envisions the implementation of longer-term Medicare modernizations. The above programs are part of the total \$190.2 billion in new Medicare funding over the next 10 years. Funding not accounted for above is intended to be used for Medicare reform.

## Medicare Savings

- ▶ **New Medigap Options:** The budget proposes the addition of two new Medigap plans to the existing 10 standardized plans. The new plans will include prescription drug coverage, protection against high out-of-pocket costs, and coverage of most of the cost of Medicare deductibles and copays. The new plans will not, however, provide first-dollar coverage, as all existing Medigap plans do. Research has shown that first dollar coverage results in increased utilization and higher costs for healthcare services. The budget assumes that the new plans will provide budgetary savings of \$720 million over 5 years and \$1.7 billion over 10 years due to the elimination of first-dollar coverage.
- ▶ **Improving Medicare Payments:** The budget proposes additional savings of \$2.5 billion over 5 years and \$6.8 billion over 10 years by ensuring efficient and appropriate Medicare payments.

**New Medicare Solvency Measure**

- ▶ Currently, Medicare solvency is measured by looking only at the financial status of the Hospital Insurance (HI) Trust Fund. But the Medicare program consists of both the HI trust fund and the Supplemental Medical Insurance (SMI) trust fund. The HI Trust Fund is expected to remain solvent until 2029, and the 75-year financing shortfall is estimated at \$4.7 trillion. However, the combined Medicare program is already running large deficits, and the 75-year financing shortfall is much greater.
- ▶ The President’s budget proposes a new solvency measure for Medicare that looks at the entire program. The following table compares the old solvency measure to the President’s proposed measure.

	<b>Current Solvency Measure</b>	<b>President’s Proposed Solvency Measure</b>
<b>Hospital Insurance 75-Year Deficit</b>	1.97 percent of taxable payroll	1.97 percent of taxable payroll
<b>Supplemental Medical Insurance 75-Year Deficit</b>	n/a	3.37 percent of taxable payroll
<b>Total Deficit over 75 Years</b>	1.97 percent of payroll	5.33 percent of payroll
<b>Total Funds Needed to Balance the Program in 75 Years</b>	\$4.7 trillion	\$12.9 trillion

Performance-Based Government

- ▶ The President's new scorecard for measuring agency progress on five governmentwide initiatives shows much room for improvement for the Health and Human Services Agency. The Center for Medicare and Medicaid Services was not evaluated individually as part of the management review.

### FUNCTION 600: INCOME SECURITY

The income security function contains the: 1) major cash and in-kind means-tested entitlements; 2) general retirement, disability and pension programs excluding Social Security and Veteran's 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.

	(\$ Billions)						
	2001	2002	2003	2004	2005	2006	2007
	Actuals						
<b>President's Budget:</b>							
Budget authority	273.4	306.2	319.3	326.6	336.3	347.5	356.7
Outlays	269.8	310.7	319.7	325.0	334.3	345.2	352.7
<b>OMB Baseline:</b>							
Budget authority	273.4	306.2	317.6	326.2	335.5	346.0	354.8
Outlays	269.8	310.7	319.7	324.4	333.5	343.7	350.7
<b>Budget compared to OMB Baseline:</b>							
Budget authority	---	---	1.8	0.4	0.8	1.5	1.9
Outlays	---	---	-0.0	0.6	0.9	1.5	2.0

The President's 2003 budget increases BA for income security by \$13.2 billion over the 2002 baseline level, or 4.3 percent. The authorizations for a number of programs targeted to low-income families expire this year including **Food Stamps**, **Temporary Assistance to Needy Families (TANF)** and the **Child Care and Development Block Grant (CCDBG)**. The President proposes to reauthorize these programs and to expand and reform unemployment insurance.

#### Food Stamps

- ▶ The President proposes to restore **Food Stamps** to many legal immigrants whose eligibility for benefits was severely restricted by the 1996 welfare law. Welfare Reform generally made all legal immigrants ineligible for Food Stamps. In 1998 Congress restored benefits to children, the elderly and the disabled who were in the country as of August 1996. The President would further ease the restrictions to restore benefits to all legal immigrants who have lived in the United States legally for at least 5 years. This proposal would increase direct spending by \$2.1 billion over 10 years.

- ▶ As part of the reauthorization of Food Stamps the Administration proposes to simplify Food Stamp eligibility rules and improve benefits for large households. These proposals will increase direct spending by \$2 billion over 5 years.

#### Temporary Assistance for Needy Families

- ▶ The 1996 welfare reform law established the **TANF** program that replaced the Aid to Families and Dependent Children entitlement program with a new stream of flexible funds to states, primarily through the **Family Assistance Grants to States and Territories**. Welfare reform is widely regarded as a success; welfare caseloads have been reduced by over 50 percent since 1996 while poverty rates and teen pregnancy rates have fallen as well. The President's budget proposes the following:
  - Extend the **Family Assistance Grants to States and Territories** at the current level of \$16.6 billion per year.
  - Reauthorize the **TANF Supplemental Grants** at the 2001 level of \$319 million for each of the next 5 years. The TANF Supplemental Grants, which expired at the end of 2001, provide additional funds for states with high population growth or low spending per welfare recipient.
  - Establish a new \$2 billion **Contingency Fund** with more flexible rules for states to access during economic downturns. (The Contingency Fund would be available from 2003 to 2007). States never spent any money from the previous fund, which expired in 2001, because the rules for receiving the money were too stringent.
  - Terminate the bonus to reduce out-of-wedlock births and replace with a new initiative to support and encourage two-parent families.
- ▶ These proposals would increase direct spending by \$46 million in 2003 and \$1.4 billion over the next 5 years.

#### Child Care

- ▶ The \$4.8 billion **CCDBG** expires at the end of this year. The President proposes to extend the block grant at the current level.

#### Child Support Enforcement

- ▶ The President's budget proposes a number of changes to the **Child Support Enforcement** program that would increase direct spending by \$176 million over the next 5 years. Those changes include:

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- Sharing with states the cost of passing through up to \$100 per month of child support collections to families receiving TANF assistance; and,
- simplifying distribution rules to former welfare recipients.
- ▶ The Administration estimates that requiring states to review child support orders for current welfare recipients every 3 years will reduce costs to Medicaid and Food Stamps by a combined \$123 million over the next 5 years as some families will be found to have enough income to be ineligible for those entitlement programs.

### Unemployment Insurance

- ▶ As the unemployment rate has increased, outlays for **Unemployment Insurance (UI)** have increased sharply. The Administration estimates that in 2002, outlays for unemployment benefits under current law will total \$44.6 billion, an increase of \$16.6 billion, or 59 percent over 2001. The unemployment compensation program generally provides 26 weeks of cash benefits to workers who have lost their jobs.
- ▶ As part of the economic stimulus package the President proposes the following changes to unemployment insurance. The budgetary impact of these proposals is shown in function 920.
  - Temporarily extend benefits for an additional 13 weeks of unemployment (for a total of 39 weeks) at total cost of \$9.7 billion over the next 2 years.
  - Distribute to states \$9 billion from the federal Unemployment Employment Trust Fund. The Administration estimates that distributing these funds to states would increase outlays by only \$900 million because states will save most of the money in an attempt to shore up their unemployment trust funds which are being rapidly depleted. (State spending for unemployment benefits is included in the federal budget.)
- ▶ The President also proposes to reform unemployment insurance beginning in 2005. Many components of the Administration's proposal were recommended by a coalition of business, labor groups and state administrators of unemployment insurance in 2000. They include the following:
  - Reform extended benefits to make it easier for states to access federal funds during a recession.
  - Cut the Federal Unemployment Tax (FUTA) payroll from 0.8 percent to 0.6 percent of the first \$7,000 in wages in 2003. Further reduce this tax to 0.2 percent of wages in 2007. This proposal would reduce receipts by \$12.8 billion over the next 5 years.

- Allow states to pay for the administration of the UI program. Currently, states receive a discretionary appropriation from the federal government to pay for administration of the UI program. This proposal would decrease discretionary spending by \$14.9 billion over the next 10 years but would increase direct spending from state accounts by roughly the same amount. In total, the UI reform proposal would increase direct spending by \$5.3 billion over the next 5 years and \$21.8 billion over the next 10 years.

#### Other Low-Income Assistance Programs

- ▶ The President's budget increases funding for the discretionary Special Supplemental Food Program for **Women, Infants, and Children (WIC)** by \$364 million, or 8.3 percent, to \$4.8 billion in 2003.
- ▶ The Administration proposes an appropriation of \$1.7 billion for the **Low-Income Home Energy Assistance Program (LIHEAP)** in 2003, a reduction of \$300 million from the 2002 level.

#### Housing Assistance

- ▶ The Administration's request for housing programs in total effectively maintains current baseline funding levels, including sufficient funds to renew all **expiring section 8 contracts** in 2003 and thereafter.
- ▶ The **public housing capital fund** once again is slated for a decrease (\$0.5 billion compared to baseline), which is offset by requested increases for the **Housing Certificate Fund** (\$0.2 billion) and the **Home Investment Partnership Program** (\$0.2 billion).
- ▶ HUD fared poorly on the President's Performance-Based Budget, earning red lights on all aspects of the scorecard.

#### Federal Employees

- ▶ The budget proposes a **federal pay raise** for civilians of 2.6 percent in 2003.
- ▶ The budget also proposes changes to the **Federal Employees' Compensation Act (FECA)** program that provides benefits to federal employees who become disabled on the job. This proposal, which would save \$46 million over the next 5 years, would impose a waiting period for FECA benefits and would reduce benefits for certain beneficiaries over the age of 65.

## FUNCTION 650: SOCIAL SECURITY

Social Security is the largest spending program in the budget, with outlays of \$460 billion in 2002. Benefits are paid from the Social Security trust funds and financed by payroll taxes. For purposes of the Budget Enforcement Act, the Social Security trust funds are off-budget and do not count toward surplus projections. However, the administrative expenses of the Social Security Administration are within the caps on overall discretionary spending.

	(\$ Billions)						
	2001	2002	2003	2004	2005	2006	2007
	Actuals						
<b>President's Budget:</b>							
Budget authority	440.5	461.3	476.9	497.6	521.8	548.5	577.8
Outlays	433.1	459.7	475.9	495.7	519.7	546.2	575.3
<b>OMB Baseline:</b>							
Budget authority	440.5	461.3	476.7	497.3	521.5	548.2	577.5
Outlays	433.1	459.7	475.8	495.4	519.4	545.9	575.0
<b>Budget compared to OMB Baseline:</b>							
Budget authority	---	---	0.2	0.3	0.3	0.3	0.3
Outlays	---	---	0.1	0.3	0.3	0.3	0.3

### Baseline Spending

Under current law, Social Security spending increases an average of 4.6 percent annually over the 2002 to 2007 period.

- ▶ The budget assumes a cost-of-living adjustment (COLA) for Social Security benefits of 1.8 percent in January 2003. This is less than the January 2002 COLA of 2.6 percent and the January 2001 COLA of 3.5 percent.
- ▶ According to the 2001 Trustees' Report, the Social Security trust funds are projected to be depleted in 2038, and Social Security revenues will fall short of spending beginning in 2016.

### The President's Commission to Strengthen Social Security

- ▶ On December 11, 2001, the President's Commission to Strengthen Social Security recommended three proposals to reform Social Security. All three of the following proposals would improve the solvency of the system and would allow Americans to accumulate wealth through private accounts. The three proposals are as follows:

- Workers could voluntarily redirect 2 percent of their taxable wages to a personal account. In exchange, traditional Social Security benefits would be reduced by the worker’s personal account contributions compounded by a 3.5 percent real interest rate.
  - Workers could voluntarily redirect 4 percent of their taxable wages up to \$1,000 annually to a personal account. In exchange, traditional Social Security benefits would be reduced by the worker’s personal account contributions multiplied each year until retirement by 2 percent plus inflation. This proposal would eliminate Social Security’s deficit, primarily by indexing benefits to inflation rather than wages beginning in 2009.
  - Workers could redirect 2.5 percent of taxable wages to a personal account but only if they contribute an additional 1 percent of wages to that account. In exchange, traditional Social Security benefits would be reduced by the amount of personal account contributions multiplied each year until retirement by 2.5 percent plus inflation. The impact of the personal accounts plus other benefit changes would swing the system into balance by the end of a 75-year valuation period.
- ▶ As the Administration’s budget makes clear, reform is desperately needed to address the Social Security’s \$4.2 trillion deficit. Without reform, expenditures on benefits will exceed revenues by 2016. After 2016 the system will be able to draw down trust fund “assets” to pay for benefits until the system goes bankrupt in 2038. After 2038, payroll taxes will cover only 73 percent or less of promised benefits.
  - ▶ Although this year’s budget does not include any of the above proposals, it is expected that after a year of discussion the President will propose a reform plan for Social Security. Any of these proposals to reform Social Security will require a transition investment from general revenues but they will all improve the system’s finances.

#### Administrative Expenses

- ▶ The budget requests a 4.7 percent increase in funding for the administrative expenses of the **Social Security Administration (SSA)**, from \$8.0 billion in 2002 to \$8.4 billion in 2003. (Only \$4 billion of those expenses appear in function 650, most of the remainder is in function 600). Administrative expenses amount to 1.6 percent of SSA’s total outlays and enable the agency to pay benefits to more than 50 million people every month.
- ▶ The budget includes \$40 million to fund the **Ticket to Work and Work Incentives Improvement Act of 1999**, which makes it easier for beneficiaries of **Disability Insurance** to obtain employment services and return to work.

Performance-Based Government

The President's new scorecard for measuring agency progress on five government-wide initiatives show that SSA could improve Competitive Sourcing and Budget/Performance Integration. SSA, however, was one of only four agencies that has received unqualified opinions on its financial audits since the agency first began submitting them in 1996.

## FUNCTION 700: VETERAN AFFAIRS

This function includes all programs directed toward veterans of the armed forces and the family members of living veterans and survivors of deceased veterans. Income security needs of disabled veterans, indigent veterans, and survivors are addressed 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 are also able to receive guarantees on home loans. Roughly half of all spending on veterans is for the Veterans Health Administration.

	(\$ Billions)						
	2001	2002	2003	2004	2005	2006	2007
	<b>Actuals</b>						
<b>President's Budget:</b>							
Budget authority	48.4	51.8	56.6	58.8	60.9	63.1	65.2
Outlays	45.8	51.5	56.6	58.6	63.2	62.9	62.3
<b>OMB Baseline:</b>							
Budget authority	48.4	51.8	55.7	58.3	60.6	63.0	65.3
Outlays	45.8	51.5	55.7	58.0	62.8	62.8	62.4
<b>Budget compared to OMB Baseline:</b>							
Budget authority	—	—	0.9	0.5	0.3	0.1	-0.1
Outlays	---	0.0	0.8	0.6	0.3	0.1	-0.1

The 2003 budget requests \$56.6 billion in total budget authority for veterans affairs. The budget requests \$26.5 billion in discretionary budget authority in 2003, primarily to operate the medical care system. The remainder of the spending request is for entitlement programs, including Compensation, Pension, and Readjustment and Education programs.

### Veteran's Benefits

- ▶ The President proposes a 2.5 percent cost of living adjustment for **Compensation** benefits. After the adjustment, total Compensation and Pension spending is projected to be \$26.4 billion in 2003, an increase of 6 percent over 2002. An average of 2.7 million veterans and 0.6 million survivors receive disability Compensation or Pension benefits.
- ▶ The Administration proposes legislation to permanently extend the Internal Revenue Service's authority to provide the Department of Veterans Affairs (VA) with access to information in order to determine a Veteran's eligibility for means-tested programs.

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- ▶ The President's request includes funding for the **Education, Training and Rehabilitation programs** at \$2 billion, an increase of \$97 million or 5 percent. In 2000 about 400,000 veterans, active duty personnel, national guardsmen, reservists and survivors used the benefits under these programs.

### Medical Programs

- ▶ The Administration proposes \$24.0 billion in funding for **VA medical programs**. This includes \$22.5 billion in budget authority and \$1.5 billion in offsetting receipts from the **Medical Care Collections Fund (MCCF)**. This is a increase of 6.6 percent, or \$1.5 billion, over the 2002 level of \$22.5 billion. These resources pay for medical care in 163 VA hospitals, 135 nursing homes, 800 ambulatory care and community-based outpatient clinics and 43 domiciliaries.
- ▶ The average daily census of patients in all VA inpatient facilities, including acute care hospitals, nursing home and residential care, is estimated to continue decreasing in 2002, from 57,791 average daily patients in 2001 to an estimated 56,352 average daily patients -- a 2.5 percent decline. Outpatient workloads, however, have increased from 30 million medical visits a year in 1996 to 47 million projected for 2001, an increase of almost 36 percent.
- ▶ The President's request also includes \$409 million in 2003 for **medical and prosthetic research**, an increase of \$25 million in 2002.
- ▶ The President's budget includes a proposal to establish a new \$1,500 deductible for priority level 7 veterans. Priority 7 veterans are non-disabled and have higher income than other veterans using the VA hospitals. The objective is to have these veterans share the cost of their health care.

### Construction Programs

- ▶ The Administration requests \$536 million for construction programs.
- ▶ **Major construction** programs -- projects estimated to cost over \$4 million -- would be funded at \$194 million for 2003, an increase of \$11 million from the 2002 level.
- ▶ **Minor construction** -- improvement and maintenance projects under \$4 million -- would be funded at \$211 million in 2003, the same amount as was appropriated in 2000.

### Departmental Administration

- ▶ The budget proposes legislation to create a new competitive grant program within the VA to assist States in establishing or improving training and employment services to veterans. The Department will set clear performance measures for the grants and will evaluate State's

performance on these grounds. This new program will replace similar programs under the Department of Labor.

Performance-Based Government

The President's new scorecard for measuring agency progress on five governmentwide initiatives shows lots of room for improvement for the VA. The Department of Veterans Affairs earned all red lights in all five categories of the President's management initiatives.

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**FUNCTION 750: ADMINISTRATION OF JUSTICE**

This function funds federal law enforcement activities, including criminal investigations by the Federal Bureau of Investigation and the Drug Enforcement Agency, border enforcement and the control of illegal immigration by the Customs Service and by the Immigration and Naturalization Service. Other program activities in this function include, among others, (1) civil rights enforcement and prosecution, (2) federal, block, categorical, and formula grant programs, (3) prison construction and operation, and (4) the federal Judiciary.

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(\$ Billions)

	2001 Actuals	2002	2003	2004	2005	2006	2007
<b>President's Budget</b>							
Budget authority	45.0	37.3	38.2	41.0	38.9	39.8	40.7
Outlays	30.4	34.4	40.6	43.5	39.5	39.7	40.4
<b>OMB Baseline</b>							
Budget authority	45.0	37.3	41.4	41.7	41.1	42.3	43.5
Outlays	30.4	34.4	40.9	43.8	41.2	41.9	43.0
<b>Budget compared to OMB Baseline:</b>							
Budget authority	---	0.0	-3.1	-0.7	-2.2	-2.5	-2.8
Outlays	---	0.0	-0.3	-0.3	-1.7	-2.2	-2.6

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**Department of Justice (DOJ)**

- ▶ In general, the Justice Department's FY 2003 budget will provide for a \$143 million decrease in discretionary budget authority over the 2002 level. This represents a decrease of about 1 percent. The President seeks to make fighting terrorism and ensuring homeland security the **Department of Justice's** top priority and his budget proposal reflects this policy. The proposed budget requests an additional \$1.9 billion over last year's budget to specifically defend the nation against terrorism. This additional funding is spread out over several agencies within the Department of Justice.
- ▶ For the **Federal Bureau of Investigation (FBI)** the budget requests a total of \$4.3 billion, an increase of \$683 million over the 2002 level. A large part of this increase will be used to correct the FBI's seriously deficient information technology infrastructure such as internal communications, upgrade personal computers, and institute new security measures.

- ▶ The Administration requests \$5.3 billion for the **Immigration and Naturalization Service (INS)**, an increase of \$1.2 billion from 2002. These additional resources will enhance key INS missions related to homeland security. Key goals include:
  - ▶ The President proposes to more than double the number of **Border Patrol** agents and inspectors, focusing particularly on the northern border. Additionally, the INS will install integrated information systems to ensure that timely, accurate and complete enforcement data is transmitted to INS agents and other border security agencies operating in the field.
  - ▶ The President also proposes to implement a new **Entry-Exit Tracking System** to track the arrival and departure of non-U.S. citizens. This new system will dramatically improve INS's ability to deny access to those individuals who should not enter the United States, while speeding the entry of routine, legitimate traffic.
- ▶ **State and Local Assistance Programs**: Overall, these programs are proposed to be reduced by \$1.2 billion. This represents a shift in priorities and funding for the Department of Justice. As a result, the **State Criminal Alien Assistance Program (SCAAP), Byrne formula grants, Local Law Enforcement Block Grants, Juvenile Accountability Block Grants, and COPS hiring grants** are all being merged into a new **Justice Assistance Grant Program** with stronger emphasis on performance accountability. This new program will be funded at \$800 million for 2003. Another reason for the decrease in these programs is that many of these functions are being handled by \$3.5 billion proposed for FEMA to improve terrorism preparedness of state and local first responders including police, fire and emergency personnel.
- ▶ The President requests an additional \$1.4 billion in new budget authority for the **Community Oriented Policing Services (COPS)**. This is an increase over the 2002 level by \$300 million.
- ▶ For the **Office of Domestic Preparedness** the President's budget proposes to transfer the functions of this office to FEMA, together with \$235 million in funding.

### **Election Reform**

- ▶ The budget includes \$400 million in 2003 for a new DOJ matching grant program to enable state and local jurisdictions to take advantage of improved voting technologies and administration, including voting machines, registration systems, voter education, and poll worker training. Over the next three years the program would cost \$1.2 billion.

### **Other Programs**

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- ▶ The budget proposes \$329 million for the **Legal Services Corporation**, a decrease of only \$1 million from the 2002 level.
- ▶ The President's budget requests \$324 million for the **Equal Employment Opportunity Commission**, an increase of \$14 million over the 2002 level.

### **Performance-Based Government**

- ▶ The President's new scorecard for measuring agency progress on five government wide initiatives shows lots of room for improvement for the largest agency in this function. The Department of Justice did not earn any green lights on its scorecard.

## FUNCTION 800: GENERAL GOVERNMENT

Function 800 includes the fiscal operations of the Department of Treasury (including the IRS's tax collection activities), the Legislative Branch, the Executive Office of the President, personnel and property management and general purpose fiscal assistance to states, localities and U.S. territories.

	(\$ Billions)						
	2001	2002	2003	2004	2005	2006	2007
	<b>Actuals</b>						
<b>President's Budget:</b>							
Budget authority	16.6	17.7	17.8	19.5	18.7	19.2	19.4
Outlays	15.2	18.3	17.6	19.6	18.6	19.0	19.2
<b>OMB Baseline:</b>							
Budget authority	16.6	17.7	18.3	19.1	19.7	20.3	20.8
Outlays	15.2	18.3	18.0	19.0	19.4	19.9	20.4
<b>Budget compared to OMB Baseline:</b>							
Budget authority	—	—	-0.5	0.4	-1.0	-1.1	-1.4
Outlays	—	—	-0.4	0.6	-0.8	-0.9	-1.2

Most of the spending for this function is for discretionary programs. The President's 2003 budget increases discretionary funding for general government activities by less than \$0.1 billion BA from the 2002 level. The President is recommending the following major program changes:

- ▶ President Bush is requesting \$10.0 billion for the **Internal Revenue Service (IRS)**, an increase of \$400 million from 2002. Included in the IRS's budget is funding for the National Research Program, a new system aimed to be a less intrusive manner of measuring taxpayer compliance. The IRS estimated that the "tax gap" - the difference between all federal taxes owed and those paid was \$278 billion for the 1998 tax year.
- ▶ The Administration is proposing giving taxpayers who file electronically ten additional days to file their taxes.
- ▶ The President is calling for an increase of \$40 million to expand the federal government's ability to conduct activities electronically, through the development and implementation of innovative uses of the Internet and other electronic methods (i.e., E-gov initiatives).
- ▶ In 2004, \$1.2 billion will be paid to the state of Alaska under the Administration's proposal to open the Arctic National Wildlife Refuge (ANWR) for oil and gas leasing. The receipts portion appears in function 950 - Offsetting Receipts.

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- ▶ The President is proposing to reduce spending on the **Federal Buildings Fund** by \$200 million in 2003. The savings are primarily achieved by reducing new construction of federal buildings, including courthouses.

### Performance-Based Government

The President's new scorecard for measuring agency progress on five governmentwide initiatives shows lots of room for improvement for the General Services Administration, OMB, OPM and the Department of Treasury, which all failed to earn any green lights.

## FUNCTION 920: ALLOWANCES

This function 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, proposals that would skew totals in other budget functions, or proposals contingent on certain events that have uncertain chances of occurring.

	(\$ Billions)						
	2001	2002	2003	2004	2005	2006	2007
	Actuals						
<b>President's Budget:</b>							
Budget authority	0.0	25.7	7.6	1.1	-0.4	-0.4	-0.4
Outlays	0.0	27.0	6.4	0.8	-0.5	-0.3	-0.4
<b>OMB Baseline:</b>							
Budget authority	0.0	0.0	-0.1	-0.3	-0.2	0.0	-0.1
Outlays	0.0	0.0	-0.1	-0.3	-0.2	0.0	-0.1
<b>Budget compared to OMB Baseline:</b>							
Budget authority	---	25.7	7.7	1.4	-0.2	-0.4	-0.4
Outlays	---	27.0	6.5	1.1	-0.3	-0.3	-0.3

The Administration's request reflects four adjustments to its overall budget that it chose not to display in the sometimes more relevant and appropriate budget functions.

- ▶ The budgetary impacts on the spending side of the budget of the President's **Economic Security Plan** amount to \$27 billion in 2002, \$8 billion in 2003, and \$1.5 billion in 2004 for both budget authority and outlays. The specific programs that account for such spending impacts appear in functions 500 and 600. If enacted, the Plan's spending impacts will appear there. More detailed discussions of the budgetary effects of those programs appear in those two chapters of this document.
- ▶ The President has requested a \$1.3 billion supplemental appropriation for **Pell grants** for 2002, and has expressed a desire to fully offset that increase with a rescission from programs that are not yet specified in his budget request. In the meantime, the budget maintains a placeholder for such rescissions, reducing budget authority by \$1.3 billion in 2002, with the same amount for the outlay impact in 2003.
- ▶ Respecting the separation of powers, OMB simply attaches the budget requests of the **legislative and judicial branches** of government to that of the executive branch—unreviewed and unaltered. Nonetheless, OMB has also realized for more than a decade that those two

requests typically reflect unrealistically high rates of growth that are seldom, if ever, borne out by actual appropriations action. So OMB makes an adjustment elsewhere in the budget – function 920 – to lower the growth in the budget requests of the legislative and judicial branches to rates closer to historical levels, and to affect budget totals similarly. The allowance amounts to a total downward adjustment of about \$0.4 billion annually compared to the requests as submitted by the two other branches.

- ▶ The budget proposes to allow agencies to spend resources (about \$0.1 billion annually), set aside from spectrum auction receipts (**spectrum relocation fund**), to cover their expense for new equipment associated with relocating to alternate frequencies. This is designed to encourage them to make more efficient use of the electromagnetic spectrum, which will free up more spectrum for auction.

## FUNCTION 950: UNDISTRIBUTED OFFSETTING RECEIPTS

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.

	(\$ Billions)						
	2001	2002	2003	2004	2005	2006	2007
	Actuals						
<b>President’s Budget:</b>							
Budget authority	-55.2	-55.2	-74.1	-100.2	-100.4	-98.6	-98.4
Outlays	-55.2	-55.2	-74.1	-100.2	-100.4	-98.6	-98.4
<b>OMB Baseline:</b>							
Budget authority	-55.2	-55.2	-78.1	-94.4	-97.9	-94.1	-98.5
Outlays	-55.2	-55.2	-78.1	-94.4	-97.9	-94.1	-98.5
<b>Budget compared to OMB Baseline:</b>							
Budget authority	---	---	4.0	-5.8	-2.5	-4.5	0.1
Outlays	---	---	4.0	-5.8	-2.5	-4.5	0.1

Under the budget request, undistributed offsetting receipts are expected to total \$74.1 billion in 2003. The key changes in this function compared to the baseline include the following items.

- ▶ As in last April’s budget, the Administration wants to **postpone an auction of certain spectrum** (television channels 60-69 and 52-59; 700 Megahertz) by the **Federal Communications Commission**, currently scheduled for June 2002. While it would shift \$4 billion in expected receipts out of 2003, changing the dates of those auctions is expected to increase auction receipts by \$6.7 billion over the over 2004-2006 because it should reduce uncertainty regarding the accessibility of the spectrum for potential bidders.
- ▶ The President again proposes a **new lease fee on spectrum used by commercial television broadcasters** for analog broadcasting. The fee would raise \$0.5 billion annually, starting in 2007. The transition to digital television is supposed to be complete by 2006, but it is generally expected that incumbent broadcasters will take advantage of a provision in current law that

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allows them to retain their analog channel if less than 85 percent of households in the broadcast area cannot yet receive digital television. The fee is supposed to give broadcasters an incentive not to retain the analog channel indefinitely so that the spectrum can be auctioned for a more valuable use.

- ▶ The President has again proposed opening the **Arctic National Wildlife Refuge (ANWR)** for oil and gas leasing. Doing so would provide the federal government with \$2.4 billion in receipts from bonus bids in 2004. Of this total, the federal government would retain \$1.2 billion, and Alaska would be paid the other \$1.2 billion (payment appears in function 800 – General Government).

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## FEDERAL DEBT AND INTEREST COSTS

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Outlays for net interest represent the gross cost of financing all federal government debt, less interest earned by federal government on its trust fund investments and loans to the public.

Net interest spending is not directly controllable by policy actions. Interest spending depends on the level of debt and on interest rates. Congress and the President control the level of debt through decisions about spending and taxation. Interest rates are determined by market forces and Federal Reserve policy.

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### INTEREST COSTS AND THE PUBLIC DEBT

(\$ Billions)

	2001	2002	2003	2004	2005	2006	2007
<b>Actuals</b>							
<b>Interest Outlays:</b>							
Interest on public debt (gross)	359.5	338.8	353.1	375.3	392.2	406.6	421.9
Interest rec'd by trust funds:							
Social Security	-68.8	-76.8	-83.8	-92.0	-101.0	-111.0	-122.1
Other trust funds a/	-75.3	-74.3	-77.2	-80.1	-83.5	-87.1	-91.6
Other interest received b/	-9.2	-9.0	-10.5	-13.5	-16.7	-19.5	-22.1
Other investment income c/	-	-0.4	-0.8	-0.8	-0.8	-0.8	-0.8
Net interest on public debt	206.2	178.4	180.7	188.8	190.2	188.3	185.3
<b>Debt Projections Based on President's Budget Proposals</b>							
<b>Federal Debt, End of Year:</b>							
Gross Federal Debt	5,770	6,137	6,526	6,893	7,207	7,506	7,803
Debt Held by Gov't. Accts.	2,450	2,660	2,956	3,293	3,659	4,036	4,424
Debt Held by the Public	3,320	3,478	3,570	3,600	3,548	3,470	3,379
Debt Subject to Limit d/	5,733	6,100	6,489	6,856	7,172	7,472	7,770
<b>Federal Debt as a Percentage of GDP:</b>							
Gross Federal Debt	56.8%	59.2%	59.7%	59.8%	59.3%	58.6%	58.0%
Debt Held by the Public	32.7%	33.6%	32.7%	31.2%	29.2%	27.1%	25.1%

a/ Includes Civil Service Retirement, Military Retirement, Medicare, unemployment insurance and the Highway and Airport and Airway trust funds.

b/ Primarily interest on loans to the public and to the RTC and Bank Insurance Fund.

c/ New subfunction 909, other investment income.

d/ Differs from gross federal debt because most debt issued by agencies other than Treasury is excluded from the debt limit.

- ▶ The President's budget includes net interest outlays of \$178.4 billion in 2002, rising slightly to \$185.3 billion by the year 2007. Net interest outlays currently make up 11 percent of total federal outlays; by 2007, under President Bush's budget, net interest outlays would make up 7.5 percent of total spending. Relative to the OMB baseline, however, the President's budget increases spending on net interest by \$69 billion over five years.
- ▶ This year, there is a new subfunction 909 (other investment income) within function 900 (net interest). Subfunction 909 is where interest and dividends received from private sector holdings are accounted for. Currently, the reserves of the Railroad Retirement System, invested by the National Railroad Retirement Investment Trust (created by H.R. 10, P.L. 107-90) are the only private sector holdings whose income accrues to the federal government.
- ▶ Because the government had unified budget surpluses in the past four years, it was able to reverse the long period of debt accumulation and pay down \$453 billion of publicly held debt. Debt held by the public will temporarily have to increase due to unified budget deficits in 2002 and 2003, then is expected to resume its downward path when the budget returns to surplus.
- ▶ President Bush proposes to increase total federal debt by \$1.67 trillion and to decrease debt held by the public by \$99 billion by the year 2007. As a share of the total economy, federal debt held by the public will fall from 34 percent to roughly 25 percent of GDP by the year 2007.
- ▶ The statutory debt limit, which has been in effect for over four years, stands at \$5.95 trillion. Under the President's budget projections, debt subject to limit will equal \$6.1 trillion at the end of fiscal year 2002. Treasury Secretary O'Neill has written Congress requesting an increase in the statutory debt ceiling. Congress needs to act within the next month to increase the debt limit to allow the federal government to borrow cash to pay bills as they come due, and to invest the surpluses of trust funds and other government accounts (as required by law).



- ▶ The President wishes to continue to work with Congress in a bipartisan manner to enact an economic and worker assistance stimulus package.
- ▶ The President includes \$27 billion in related outlays in 2002, \$8 billion in 2003, and \$1.5 billion in 2004 for a stimulus package, in addition to the tax relief.
- ▶ The amounts in the budget reflect the stimulus package (H.R. 3529) passed by the House on December 20, 2001. That bill included a supplemental rebate, accelerated individual rate reductions for the 25 percent bracket, an increase in the individual AMT exemption, 30 percent depreciation for 3 years, increased small business expensing, corporate AMT modifications, 5-year net operating loss carryback, leasehold improvement, 13 weeks of additional unemployment insurance, health care assistance for displaced workers and national emergency grants.

The President proposes \$15.5 billion of tax relief over the next five years to **provide incentives for charitable giving**.

- ▶ **Charitable deduction for nonitemizers** – allow nonitemizers to deduct charitable contributions in addition to claiming the standard deduction. Single taxpayers could deduct up to \$100 in 2002 through 2004, \$300 in 2005 through 2012, and \$500 in 2012 and beyond. The amounts are doubled for married taxpayers. This proposal provides \$12.3 billion in tax relief over 2003-2007.
- ▶ **Tax-free withdrawals from IRAs for charitable contributions** - allow individuals over 59 ½ to exclude from gross income IRA distributions made to a charitable organization. This proposal provides \$1.1 billion in tax relief over 2003-2007.
- ▶ **Reform excise taxes on private foundations' investment income** - replace the two rates of tax on the net investment income of private foundations that are exempt from federal income tax with a single tax rate of 1 percent. The proposal also reduces and simplifies the excise tax on net investment income of private foundations that are not exempt from federal income tax. This proposal provides \$1 billion in tax relief over 2003-2007.
- ▶ Five other proposals provide \$1.1 billion in tax relief over 2003-2007, including **raising the cap on corporate charitable contributions** and **expanding the deduction for contributions of food inventory**.

The President proposes \$800 million in tax relief (and \$3.5 billion in related outlays) over the next five years to **strengthen and reform education**.

- ▶ **Refundable tax credit for costs of attending a different school** - provide a refundable tax credit of 50 percent of the first \$5,000 of elementary and secondary education expenses of attending a different school for pupils assigned to failing public schools, effective through the 2006-07 school year. This proposal provides \$200 million in tax relief over 2003-2007, and provides \$3.5 billion in direct payments.
- ▶ **Allow teachers to deduct out-of-pocket classroom expenses** - allows teachers to treat up to \$400 in qualified expenses as an above-the-line deduction. This proposal provides \$600 million in tax relief over 2003-2007.

The President proposes \$21.5 billion in tax relief (and \$25 billion in related outlays) over the next five years to **invest in health care**.

- ▶ **Refundable tax credit for the purchase of health insurance** - provide a refundable credit for the cost of health insurance for individuals under 65 who are not covered by an employer plan or a public program. The maximum subsidy would be 90 percent for low-income individuals and would phase down with income, with a maximum amount of \$1,000 for adults and \$500 for children. The credit would be phased out at \$30,000 for singles and \$60,000 for families purchasing a family policy. The credit could be claimed as part of the regular tax filing process or could be claimed in advance (as the EIC can be currently) beginning July 1, 2003. This proposal provides \$10.5 billion in tax relief over 2003-2007, and provides \$25 billion in direct payments.
- ▶ **Deduction for long-term care expenses** – provide an above-the-line deduction for long-term care insurance premiums. The deduction would be available to taxpayers who individually purchase long-term care insurance and to those who pay at least 50 percent of the cost of employer-provided coverage. This proposal provides \$4.7 billion in tax relief over 2003-2007.
- ▶ **Health flexible spending arrangements** - allow up to \$500 per year in unused benefits to be carried forward to the next year. Another proposal allows the carried forward benefits to be distributed to the taxpayer in the form of taxable income, contributed to an Archer Medical Savings Account (MSA), or contributed to a retirement plan. These proposals provides \$2.9 billion in tax relief over 2003-2007.
- ▶ The President also proposes to provide an **additional personal exemption to home caretakers of family members**, and to **permanently extend and reform Archer MSAs**.

The President proposes to provide \$20 million in tax relief over five years to **assist American with disabilities** by excluding from income the value of employer-provided computers, software and peripherals.

The President proposes to provide \$900 million in tax relief to help farmers and fishermen manage economic downturns by establishing Farm, Fish and Ranch Risk Management (**FFARM**) **accounts**. The proposal would allow up to 20 percent of taxable income attributable to a farming or fishing business to be contributed to a FFARM account each year and deducted from income. Earnings on the account would be taxed as earned and distributions (which have to be made within five years of deposit) from the account would be included in income.

The President proposes to provide a **tax credit for developers of affordable single-family housing**. Beginning in 2003, first-year tax credit authority of \$1.75 per capita (indexed for inflation thereafter) would be made available to each state. State housing agencies would award first-year credits to single-family housing units comprising a project located in a census tract with median income equal to 80 percent or less of area median income. The developer owning the housing unit immediately prior to the sale to a qualified buyer could claim the credit over a 5-year period beginning the date of sale. Eligible homebuyers would be required to have incomes equal to 80 percent or less of area median income. This proposal provides \$2.4 billion in tax relief over 2003-2007.

The President proposes to encourage saving through **Individual Development Accounts (IDA)**. Low and moderate income residents between the ages of 18 and 60 who cannot be claimed as a dependent on another taxpayer's return and are not students could contribute to an IDA. Entities such as banks that set up IDAs would match the first \$500 contributed by an individual each year. Matching entities would be allowed a 100 percent tax credit for the matching contribution and an additional \$50 credit for each IDA maintained at the end of a taxable year with a balance of at least \$100. This proposal provides \$1.3 billion in tax relief over 2003-2007.

The President proposes \$1.4 billion in tax relief over five years to **protect the environment**.

- ▶ **Permanently extend expensing of brownfields remediation costs** - this provision is scheduled to expire after December 31, 2003 under current law. A permanent extension provides \$1.1 billion in tax relief over 2003-2007.
- ▶ **Gains from sale of property for conservation purposes** - when land is sold for conservation purposes, only 50 percent of any gain would be included in the seller's income. The sale may be either to a government agency or to a conservation organization. The taxpayer or a member of the taxpayer's family must have owned the property for the three years immediately preceding the sale. This proposal provides \$328 million in tax relief over 2003-2007.

The President proposes \$5.4 billion in tax relief over five years to **increase energy production and promote energy conservation**.

- ▶ **Tax credit for producing electricity from certain sources** - extend the credit for electricity produced from wind, biomass, and poultry waste to facilities placed in service before January 1, 2005 (current law is January 1, 2002). Eligible biomass sources would be expanded to include certain biomass from forest-related resources, agricultural sources, and other sources. This proposal provides \$1.0 billion in tax relief over 2003-2007.
- ▶ **Tax credit for purchase of certain hybrid and fuel cell vehicles** - a credit of up to \$4,000 for the purchase of hybrid vehicles before January 1, 2008, and a credit of up to \$8,000 for the purchase of a fuel cell vehicles before January 1, 2008. This proposal provides \$1.9 billion in tax relief over 2003-2007.
- ▶ **Tax credit for energy produced from landfill gas** - to qualify for the current law credit, the gas must be produced from a facility placed in services before July 1, 1998. The President proposes to extend the credit to apply to landfill methane produced from a facility placed in service before January 1, 2011. This proposal provides \$439 million of tax relief over 2003-2007.
- ▶ **Tax credit for combined heat and power (CHP) property** - a 10 percent investment credit for qualified CHP systems with an electrical capacity in excess of 50 kilowatts or the a capacity to produce mechanical power in excess of 67 horsepower, or an equivalent combination. This proposal provides \$1.1 billion of tax relief over 2003-2007.
- ▶ The President also proposes a **tax credit for residential solar energy systems** and to modify the **tax treatment of nuclear decommissioning funds**.

The President proposes \$1.3 billion in tax relief related to **trade promotion**. He proposes to **extend and expand Andean trade preferences** (Bolivia, Columbia, Ecuador, and Peru), **initiate a new trade preference program for Southeast Europe**, and **implement free trade agreements with Chile and Singapore**.

The President proposes to extend provisions that expired in 2001 for two years. The combination of these extensions provides \$4.1 billion in tax relief over five years:

- ▶ **Work opportunity tax credit**
- ▶ **Welfare-to-work tax credit**
- ▶ **Minimum tax relief for individuals**
- ▶ **Exceptions provided under subpart F for active financing income**

- ▶ **Suspension of net income limitation on percentage depletion from marginal oil and gas wells**
- ▶ **Generalized System of Preferences**
- ▶ **Authority to issue qualified zone academy bonds**

The President proposes to **permanently extend the research and experimentation tax credit**, which is scheduled to expire June 30, 2004 under current law. This proposal provides \$14.1 billion in tax relief over 2003-2007.

The President proposes to **permanently extend the provisions of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA)** which expire in 2010. These provisions include the marginal individual income tax rate reductions, the increase in the child tax credit, marriage penalty relief, education incentives, the repeal of estate and gift taxes, modifications of IRAs and pension plans, and other incentives for families and children. Since these proposals are in current law through 2010, most of the revenue effect of their extension occurs in years 2011 and 2012. However, the proposed extension has incentive effects on the education incentives and on the estate and gift tax provisions which result in tax relief of \$7.4 billion over the period 2003-2007.

The President proposes to **reform unemployment insurance administrative financing**. He proposes to eliminate the Federal Unemployment Tax (FUTA) surtax of 0.2 percent in 2003 (currently set to expire in 2007). The President also proposes to make additional rate cuts to achieve a net FUTA tax rate of 0.2 percent in 2007. The proposal will transfer administrative financing to states in 2005 and allow them to use their benefit taxes to pay these costs. Federal administrative grants to states will be significantly reduced. (See additional description of this provision in the function 600 section.)

Finally, the 2003 budget contains a discussion of **tax simplification**. The Administration is developing both short-and long-term simplification proposals. The project to develop short-term proposals focuses on immediately achievable reforms of the current tax system, while the longer-term project focuses on more fundamental reforms of the tax system.

## BUSH 2003 BUDGET TAX PROPOSALS

(\$ Billions)

	2002	2003	2004	2005	2006	2007	2003-07
<b>Tax Relief Categories:</b>							
Economic Security Package 1/	-62.0	-65.0	-47.5	-9.5	17.0	18.0	-87.0
Incentives for Charitable Giving	-0.8	-2.0	-2.0	-2.9	-4.2	-4.3	-15.5
Strengthen and Reform Education 2/	--	-*	-*	-0.2	-0.2	-0.3	-0.8
Invest in Health Care 3/	--	-0.9	-3.0	-5.0	-5.7	-6.9	-21.5
FFARM Accounts	--	--	-0.1	-0.4	-0.2	-0.2	-0.9
Tax Credit for Affordable Housing	--	-*	-0.1	-0.3	-0.7	-1.3	-2.4
Individual Development Accounts	--	-0.1	-0.3	-0.3	-0.3	-0.3	-1.3
Protect the Environment	--	-*	-0.2	-0.4	-0.4	-0.4	-1.4
Energy Production and Conservation	-0.3	-0.7	-1.0	-1.1	-1.3	-1.4	-5.4
Promote Trade	-0.1	-0.2	-0.3	-0.4	-0.2	-0.2	-1.3
Reform UI Administrative Financing	--	-1.0	-1.5	-2.9	-3.0	-4.4	-12.8
Extend Provisions that Expired in 2001							
For Two Years	-1.4	-2.5	-1.2	-0.2	-0.1	-0.1	-4.1
Permanently Extend R&E Tax Credit	--	--	-0.9	-2.9	-4.7	-5.6	-14.1
Permanently Extend Provisions that							
Expire in 2010 4/	-0.2	-0.6	-1.1	-1.5	-2.0	-2.2	-7.4
Other	--	0.1	*	*	*	*	0.2
<b>Net Revenue Proposals</b>	<b>-64.5</b>	<b>-73.0</b>	<b>-59.1</b>	<b>-27.9</b>	<b>-6.0</b>	<b>-9.4</b>	<b>-175.5</b>

\*Less than \$50 million

1/ Does not include outlay effect of \$36.5 billion over the period 2002-2007.

2/ Does not include outlay effect of \$3.5 billion over the period 2003-2007.

3/ Does not include outlay effect of \$25.1 billion over the period 2003-2007.

4/ Most of the revenue impact of extending these provisions occurs in years 2010-2012.

Details may not add to totals due to rounding.

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## BUDGET PROCESS AND RELATED ISSUES

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### In general

In the absence of statutory discretionary spending limits for 2003 and the imminent expiration of the PAYGO enforcement, the President's budget does not include new overall spending limits or specific details for an extension of PAYGO. However, the President indicates his intention to work closely with Congress to develop budget enforcement mechanisms with respect to discretionary and entitlement spending and tax legislation which are consistent with the needs of the country.

Current law provides no overall discretionary spending limit for any year after 2002. There are however category caps with respect to transportation (through 2003) and conservation (through 2006). In addition, with respect to PAYGO only legislation enacted prior to September 30, 2002 will be scored to the OMB scorecard (through 2006) and thus possibly trigger a sequester. Also of note, but not addressed in the President's budget, is the expiration on September 30, 2002 of 60-vote discipline in the Senate with respect to enforcement of budget resolution aggregates and allocations and the Senate's pay-as-you-go point of order.

The President's budget also includes a number of specific budget process changes: (1) a joint budget resolution, (2) a reserve for fully accruing federal employees retirement costs, (3) a review of mandatory spending and proposed reclassifications, (4) limiting the use of advance appropriations, (5) a line-item veto, (6) biennial budgeting and appropriations, and (7) a government shutdown prevention mechanism. A number of these items were proposed by the President in the 2002 budget. Of note, unlike last year, the President no longer proposes the creation of a "national emergency reserve" with respect to the use of the emergency designation procedures set out in the Budget Enforcement Act of 1990.

### Specific budget process proposals

Once again the President's budget includes a proposal for a **joint budget resolution** to give the budget the force of law. This is envisioned to be a simple measure which includes overall levels for discretionary spending, mandatory spending, receipts, and debt. These levels would be enforced by a sequester mechanism. In the absence of a joint resolution, the President suggests that enforcement could be achieved by extension of the expiring Budget Enforcement Act procedures consistent with the levels of discretionary spending, mandatory spending and receipts proposed in the budget.

The President's budget includes a new proposal to more accurately reflect the **cost of federal employee retirement**. The budget proposes a technical, "good government" reform that – while it would have no net effect on the bottom line surplus or deficit of the federal budget – is intended to appropriately reflect the government's full share of the cost of retirement benefits (health insurance and

pensions) for federal employees within the agencies where current employees, who are future retirees, work.

Currently, the future cost of post-retirement health benefits for current civilian employees who are enrolled in the Federal Employees Health Benefits Program (FEHBP) and for medicare eligible retirees of the Uniformed Services are not borne by any agency. They are unfunded liabilities that are currently treated as a mandatory cost on a pay-as-you-go basis as benefits are paid out.

In addition, federal agencies do not currently contribute their full share of the future cost of the pension payments for current Civil Service Retirement System (CSRS) employees (those hired before 1984). These unfunded liabilities are currently treated as pay-as-you-go when it comes time to make pension payments.

Again, the proposal to rearrange the presentation of who is responsible for these costs would have no effect on the total budget, but it would have some significant, though offsetting, effects in certain budget functions. For example, as most federal employees are paid out of discretionary salary and expense type of accounts in agency budgets, the discretionary budgets of these agencies reflect a \$9 billion adjustment under the President's proposal for 2003 (to cover the full pension cost of CSRS employees and post-retirement health insurance benefits for all federal employees for all years going forward). To have comparisons with previous years make sense, however, OMB similarly adjusted the 2001 and 2002 BA and outlay figures for each affected account, as if the proposal had already been in effect for those years. The effect of each agency's share of these costs are scattered across most budget functions.

Unfunded federal liabilities for retirement benefits already earned still remain, and the OMB proposal singles out two functions that act as "processors" of these intrabudgetary cash flows. Function 550 – Health – reflects an increase as the existing FEHBP revolving fund is divided into several new accounts to show the source of agency contributions to cover the future health benefits of their future retirees. This outlay increase is offset, however, in new function 950 receipt accounts, which show a corresponding increases in receipts.

One caveat on how to think about "the numbers" when considering the impact of this proposal. While intended to be a "technical", rather than a substantive (i.e. adding or taking away real resources), proposal, it should still be possible to see the function by function effects of this proposal when comparing the President's Budget numbers to the OMB baseline. But that will not be possible, because OMB has reflected the effects of its proposal into the current law OMB baseline even though the proposal cannot be implemented until it has been enacted (which has not occurred yet).

The President's budget also calls for a thorough **review of mandatory spending** to determine if more programs ought to be considered within the rigors of the annual appropriations process. Specifically, the budget proposes to reclassify three programs from mandatory to discretionary:

- (i) Federal Direct Student Loan Fund Program, administrative expenses
- (ii) Corps of Engineers, Power Marketing receipts, offset to discretionary spending, and
- (iii) FEMA Flood Insurance Premiums, offset to discretionary administrative expenses.

The President's budget suggests that Congress ought to consider the following additional programs for reclassification to discretionary:

*Administrative expenses currently classified as mandatory – Student loan subsidy for consolidation loan administration; Black Lung Disability Fund; Energy Employees Occupational Illness Compensation Fund; Pension Guaranty Benefit Corporation; Civil Service Retirement Disability Fund; and Social Security Administration, Benefits to Disabled Coal Miners.*

*Non-entitlement programs currently classified as mandatory – Maritime Administration Ocean Freight Differential; Vocational Rehabilitation Program; Child Care Entitlement to States; and Social Services Block Grant.*

Unlike the President's proposal in 2002 to reverse **advance appropriations**, the budget endorses Congress' approach to limiting total advance appropriations to the prior year's level, with an exception for those items that should be reduced or eliminated for programmatic reasons.

The President's budget calls upon Congress to fix the constitutional flaw which the Supreme Court identified in the **Line Item Veto** Act. The President proposes that he be given the authority to decline to spend new appropriations, decline to approve new mandatory spending or to decline to grant new limited tax benefits whenever the President determines the spending or benefits are not necessary. Any savings would be devoted to debt reduction.

The President's budget again calls for the adoption of **biennial budgeting and appropriations** in order to increase the opportunity for review of the ever growing portion of the budget which is governed by entitlement laws.

The President's budget proposes the adoption of what is often referred to in Congress as the "**automatic CR**". Under this proposal, if appropriations legislation is not enacted prior to October 1<sup>st</sup>,

then funding for programs would continue to be provided at the level of the request in the President's budget or the prior year's level – whichever is lower.

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# **APPENDIX**

## **Summary Tables**

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**Table 1:**  
**SUMMARY BY FUNCTION OF THE PRESIDENT'S 2003 BUDGET**

**Table 2:**  
**SUMMARY BY FUNCTION OF THE PRESIDENT'S 2003 DISCRETIONARY BUDGET**

**Table 3:**  
**TAX REVENUES BY SOURCE IN THE PRESIDENT'S 2003 BUDGET**

**Table 4:**  
**PRESIDENT'S BUDGET BASELINE VS. CBO BASELINE**

**TABLE 1: SUMMARY BY FUNCTION OF THE PRESIDENT'S  
FY 2003 BUDGET  
(\$ Billions)**

Function		2001 Actual	2002	2003	2004	2005	2006	2007
050: Defense	BA	329.0	350.7	396.8	405.6	426.6	447.7	469.8
	OT	308.5	348.0	379.0	393.8	413.5	428.5	442.5
150: International Affairs	BA	18.7	22.3	23.9	24.8	25.6	26.3	27.2
	OT	16.6	23.5	22.5	22.8	23.3	23.9	24.6
250: Science & Technology	BA	21.1	22.2	22.7	23.3	23.8	24.4	25.0
	OT	19.9	21.8	22.2	22.8	23.5	24.0	24.6
270: Energy	BA	0.2	0.6	0.5	0.4	0.9	0.7	0.7
	OT	0.1	0.6	0.6	0.3	0.8	0.7	0.7
300: Natural Resources	BA	29.8	30.9	30.0	31.3	32.3	31.7	32.3
	OT	26.3	30.2	30.6	31.1	31.7	32.5	32.8
350: Agriculture	BA	29.2	29.0	23.8	23.0	21.3	20.4	20.3
	OT	26.6	28.8	24.2	22.8	21.3	20.4	20.3
370: Commerce & Housing	BA	12.4	10.7	14.1	9.8	9.4	8.5	10.7
	OT	6.0	3.8	3.7	5.1	3.1	1.2	1.7
400: Transportation	BA	67.6	66.1	63.7	58.4	64.6	65.9	67.2
	OT	55.2	62.1	59.4	56.3	56.0	56.9	58.6
450: Community Development	BA	13.9	18.5	14.7	15.4	15.5	15.9	16.2
	OT	12.0	15.4	17.4	18.0	17.4	15.6	15.4
500: Education & Training	BA	63.7	79.6	80.9	81.8	84.0	85.9	87.9
	OT	57.3	71.7	79.0	81.0	82.7	84.2	86.1
550: Health	BA	182.1	201.0	234.3	259.0	278.4	298.0	319.9
	OT	172.6	195.2	231.9	258.8	277.8	297.0	318.3
570: Medicare	BA	217.2	230.3	234.5	244.1	261.4	282.0	305.5
	OT	217.5	226.4	234.4	244.3	261.3	281.8	305.8

Function		2001 Actual	2002	2003	2004	2005	2006	2007
600: Income Security	BA	273.4	306.2	319.3	326.6	336.3	347.5	356.7
	OT	269.8	310.7	319.7	325.0	334.3	345.2	352.7
650: Social Security	BA	440.5	461.3	476.9	497.6	521.8	548.5	577.8
	OT	433.1	459.7	475.9	495.7	519.7	546.2	575.3
700: Veterans Benefits	BA	48.4	51.8	56.6	58.8	60.9	63.1	65.2
	OT	45.8	51.5	56.6	58.6	63.2	62.9	62.3
750: Administration of Justice	BA	45.0	37.3	38.2	41.0	38.9	39.8	40.7
	OT	30.4	34.4	40.6	43.5	39.5	39.7	40.4
800: General Government	BA	16.6	17.7	17.8	19.5	18.7	19.2	19.4
	OT	15.2	18.3	17.6	19.6	18.6	19.0	19.2
900: Net Interest	BA	206.2	178.4	180.7	188.8	190.2	188.3	185.3
	OT	206.2	178.4	180.7	188.8	190.2	188.3	185.3
920: Allowances	BA	0.0	25.7	7.6	1.1	-0.4	-0.4	-0.4
	OT	0.0	27.0	6.4	0.8	-0.5	-0.3	-0.4
950: Undistributed Offsetting Receipts	BA	-55.2	-55.2	-74.1	-100.2	-100.4	-98.6	-98.4
	OT	-55.2	-55.2	-74.1	-100.2	-100.4	-98.6	-98.4
Total	BA	1959.7	2085.1	2162.9	2210.2	2309.7	2414.7	2529.0
	OT	1863.9	2052.3	2128.2	2189.1	2276.9	2369.1	2467.7
On-budget	BA	1603.6	1720.9	1788.5	1829.6	1915.5	2005.4	2102.6
	OT	1516.9	1690.6	1761.5	1810.1	1885.5	1963.4	2045.8
Off-budget	BA	356.2	364.2	374.4	380.6	394.2	409.3	426.4
	OT	347.0	361.7	366.8	379.0	391.4	405.7	421.9
Revenues		1991.0	1946.1	2048.1	2175.4	2338.0	2455.3	2571.7
On-budget		1483.5	1428.9	1502.7	1601.9	1729.8	1821.6	1906.4
Off-budget		507.5	517.2	545.3	573.5	608.2	633.7	665.3
Surplus		127.1	-106.2	-80.2	-13.7	61.1	86.2	104.0
On-budget		-33.4	-261.7	-258.8	-208.3	-155.6	-141.8	-139.4
Off-budget		160.5	155.5	178.6	194.5	216.8	228.0	243.4

**TABLE 2: SUMMARY BY FUNCTION OF THE PRESIDENT'S  
FY 2003 DISCRETIONARY BUDGET  
(\$ Billions)**

Function		2001 Actual	2002	2003	2004	2005	2006	2007
050: Defense	BA	325.3	350.8	396.1	405.0	426.2	447.5	469.6
	OT	309.1	348.0	379.0	393.7	413.4	428.5	442.5
150: International Affairs	BA	22.7	24.2	25.4	26.1	26.8	27.4	28.1
	OT	22.6	26.9	25.5	25.9	26.4	27.0	27.6
250: Science & Technology	BA	21.0	22.0	22.5	23.3	23.8	24.4	24.9
	OT	19.9	21.6	22.0	22.7	23.5	24.0	24.6
270: Energy	BA	3.2	3.3	3.3	3.5	3.5	3.6	3.7
	OT	2.9	3.3	3.4	3.5	3.6	3.6	3.7
300: Natural Resources	BA	29.7	29.7	28.3	28.9	29.6	28.9	29.6
	OT	26.7	29.6	29.5	29.4	29.8	30.2	30.6
350: Agriculture	BA	5.3	5.8	5.0	5.8	5.7	5.8	6.0
	OT	5.2	6.1	5.7	5.7	5.7	5.8	6.0
370: Commerce & Housing	BA	1.4	0.1	-0.4	-0.1	-0.4	-0.8	0.2
	OT	1.6	0.5	-0.2	-0.1	-0.5	-0.9	0.1
400: Transportation	BA	19.9	19.6	21.7	21.8	22.3	22.8	23.3
	OT	50.9	55.6	57.1	55.3	55.0	56.0	57.7
450: Community Development	BA	13.7	18.4	15.2	15.7	16.0	16.3	16.7
	OT	12.5	15.3	18.0	18.7	18.2	16.5	16.3
500: Education & Training	BA	61.5	71.7	72.2	73.7	75.3	76.7	78.2
	OT	54.4	64.1	70.5	72.9	74.3	75.3	76.9
550: Health	BA	39.3	46.2	48.8	50.0	51.4	52.7	54.0
	OT	33.5	40.3	44.9	48.1	50.2	51.6	52.9
570: Medicare	BA	3.4	3.7	3.7	3.8	3.9	4.0	4.1
	OT	3.4	3.7	3.7	3.7	3.8	3.9	4.0

Function		2001 Actual	2002	2003	2004	2005	2006	2007
600: Income Security	BA	39.9	43.4	45.1	47.5	48.4	48.5	49.1
	OT	44.1	47.7	48.6	49.6	50.1	50.2	49.3
650: Social Security	BA	3.6	3.7	4.0	4.3	4.4	4.5	4.6
	OT	3.8	3.9	4.2	4.2	4.3	4.4	4.5
700: Veterans Benefits	BA	23.2	24.8	26.5	26.9	27.4	28.0	28.5
	OT	23.2	24.6	26.3	26.8	27.3	27.8	28.4
750: Administration of Justice	BA	44.2	35.3	33.3	36.8	36.3	37.2	38.0
	OT	30.1	32.8	36.3	38.8	36.7	37.0	37.8
800: General Government	BA	14.7	16.2	16.3	16.5	16.9	17.3	17.7
	OT	13.5	16.6	16.1	16.6	16.8	17.1	17.5
900: Net Interest	BA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	OT	0.0	0.0	0.0	0.0	0.0	0.0	0.0
920: Allowances	BA	0.0	-1.3	-0.4	-0.4	-0.4	-0.4	-0.4
	OT	0.0	0.0	-1.6	-0.4	-0.4	-0.4	-0.4
950: Undistributed Offsetting Receipts	BA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	OT	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	BA	671.919	717.828	766.875	789.135	816.994	844.297	875.768
	OT	657.423	740.516	788.992	815.013	838.332	857.855	879.972

**TABLE 3: TAX REVENUES BY SOURCE IN THE PRESIDENT'S 2003 BUDGET**

(\$ billions)

	2001 Actual	2002	2003	2004	2005	2006	2007
Individual Income Taxes	994.3	949.2	1,006.4	1,058.6	1,112.0	1,157.3	1,221.7
Corporate Income Taxes	151.1	201.4	205.5	212.0	237.1	241.4	250.6
Social Insurance Taxes	694.0	708.0	749.2	789.8	835.2	868.7	908.3
(On-budget)	-186.4	-190.8	-203.9	-261.3	-227.0	-235.1	-243.0
(Off-budget)	-507.5	-517.2	-545.3	-573.5	-608.2	-633.7	-665.3
Excise Taxes	66.1	66.9	69.0	71.2	73.6	75.3	77.5
Estate and Gift Taxes	28.4	27.5	23.0	26.6	23.4	26.4	23.2
Customs Duties	19.4	18.7	19.8	21.9	23.0	24.7	26.2
Miscellaneous Receipts	37.8	36.4	40.2	42.8	43.2	44.4	46.2
Economic Stimulus Package	--	-62.0	-65.0	-47.5	-9.5	17.0	18.0
Total Receipts	1,991.1	1,946.1	2,048.1	2,175.4	2,338.0	2,455.2	2,571.7
(On-budget)	-1,483.6	-1,428.9	-1,502.8	-1,601.9	-1,729.8	-1,821.5	-1,906.4
(Off-budget)	-507.5	-517.2	-545.3	-573.5	-608.2	-633.7	-665.3

**TABLE 4: PRESIDENT'S BUDGET BASELINE VS. CBO BASELINE**  
(in billions of dollars)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2003-2007</u>
<b>President's Budget Adjusted Baseline:</b>							
Discretionary Outlays							
Defense Outlays	336	347	359	371	377	383	1836
Nondefense Outlays	382	402	413	420	429	439	2103
Emergency Response Fund	<u>22</u>	<u>9</u>	<u>5</u>	<u>2</u>	<u>1</u>	<u>0</u>	<u>17</u>
Total Discretionary Outlays	741	758	777	793	806	822	3956
Mandatory Outlays							
Social Security Outlays	456	472	491	515	542	571	2591
Medicare Outlays	223	229	237	252	260	279	1258
Medicaid Outlays	145	159	171	185	202	219	936
Other Outlays	<u>279</u>	<u>277</u>	<u>272</u>	<u>278</u>	<u>290</u>	<u>294</u>	<u>1412</u>
Total Mandatory Outlays	1102	1136	1172	1231	1294	1363	6197
Net Interest	177	175	177	172	165	156	846
Total Outlays	2020	2070	2126	2197	2266	2341	11000
Total Revenues	2011	2121	2234	2366	2461	2581	11764
Surplus	-9	51	109	169	196	240	764
<b>CBO Baseline:</b>							
Discretionary Outlays							
Defense Outlays	338	350	358	371	377	383	1839
Nondefense Outlays	372	396	407	416	426	437	2082
Emergency Response Fund	<u>22</u>	<u>18</u>	<u>19</u>	<u>20</u>	<u>21</u>	<u>22</u>	<u>100</u>
Total Discretionary Outlays	733	764	784	808	824	841	4021
Mandatory Outlays							
Social Security Outlays	451	470	493	518	545	574	2600
Medicare Outlays	224	235	248	268	281	305	1338
Medicaid Outlays	143	152	164	179	194	211	900
Other Outlays	<u>283</u>	<u>290</u>	<u>275</u>	<u>278</u>	<u>292</u>	<u>295</u>	<u>1429</u>
Total Mandatory Outlays	1100	1147	1180	1242	1313	1386	6268
Net Interest	170	174	188	188	182	175	908
Total Outlays	2003	2085	2152	2238	2319	2402	11196
Total Revenues	1983	2070	2206	2342	2447	2568	11633
Surplus	-21	-14	54	103	128	166	437
<b>Difference CBO less President's Budget:</b>							
Discretionary Outlays							
Defense Outlays	2	2	0	0	0	0	3
Nondefense Outlays	-10	-6	-6	-4	-2	-3	-21
Emergency Response Fund	<u>0</u>	<u>9</u>	<u>14</u>	<u>18</u>	<u>20</u>	<u>21</u>	<u>83</u>
Total Discretionary Outlays	-8	5	8	14	18	19	64
Mandatory Outlays							
Social Security Outlays	-5	-2	1	3	3	3	9
Medicare Outlays	1	6	11	16	21	26	80
Medicaid Outlays	-2	-7	-7	-7	-7	-8	-36
Other Outlays	<u>4</u>	<u>13</u>	<u>3</u>	<u>-1</u>	<u>2</u>	<u>1</u>	<u>18</u>
Total Mandatory Outlays	-2	11	8	11	19	23	71
Net Interest	-7	-1	11	16	17	18	62
Total Outlays	-17	15	27	41	54	61	197
Total Revenues	-28	-51	-29	-24	-14	-13	-131
Surplus	-11	-66	-55	-65	-68	-73	-328

Source: Senate Budget Committee Republican Staff

NOTE: OMB's adjusted baseline does not include the outlay and debt service effects of inflating the \$20 billion emergency response fund in FY 2002, but does include an adjustment for retirement accruals that is contingent upon adoption of a proposed policy.

