



President Bush's 2005 Budget

A Brief Overview

Prepared by
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BUDGET COMMITTEE

Majority Staff

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TABLE OF CONTENTS

OVERVIEW 3

ECONOMICS 15

FEDERAL DEBT AND INTEREST COSTS 19

REVENUES 21

BUDGET PROCESS 28

APPENDIX 32

- (1) In this document, all dollar and percentage amounts relating to the President's budget and to OMB Baseline estimates have been taken from the President's 2004 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 \$500,00 or less than one-half percent.

OVERVIEW

THE PRESIDENT'S FISCAL YEAR 2005 BUDGET REQUEST

OVERVIEW

President George W. Bush's 2005 budget request continues his commitment to creating and sustaining economic growth, protecting America, and investing in national priorities, while also seeking to reduce the budget deficits inherent to war and recession.

Deficits

The President proposes **a goal of cutting the deficit in half** within 5 years, both in nominal dollars and as a percentage of GDP:

- ▶ Nominal goal: \$260 billion
- ▶ Percent of GDP goal: 2.25 percent of GDP

The President's budget meets the "percent of GDP" goal in 2006, and meets both goals by 2007.

	Actual						
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Unified Deficit (\$ billions)	-375	-521	-364	-268	-241	-239	-237
Percent of GDP	-3.5%	-4.5%	-3.0%	-2.1%	-1.8%	-1.7%	-1.6%

The President's budget meets these goals primarily through economic growth and by slowing the growth of spending and redirecting resources from low-priority programs to high-priority initiatives.

The President's proposed tax and spending policies would increase deficits by \$3 billion in 2005 and \$78 billion from 2005 to 2009, compared to OMB's baseline deficit forecast that has been adjusted to include extension of the 2001 and 2003 tax cuts and exclude extension of 2004 emergency spending.

The President's proposed tax and spending policies would increase deficits by \$15 billion in 2005 and \$240 billion from 2005 to 2009 if the baseline deficit forecast is not adjusted as proposed by OMB.

Change in Surplus/Deficits Since 2001

- ▶ In April of 2001, OMB projected surpluses of \$1.7 trillion for the 2001-2005 period. Today, OMB projects deficits of \$1.3 trillion for the same time period, including the impact of

4 OVERVIEW

legislation enacted during the last three years and assuming enactment of the President's proposed policies for 2005. What are the sources of that \$3 trillion change in fiscal position?

- Economic downturn 49 percent
 - Tax cuts 27 percent
 - Defense & homeland security 13 percent
 - Other legislation 11 percent
- ▶ The government would have registered a \$237 billion deficit in 2004 even if no tax cuts had been enacted according to OMB estimates. In fact, the government would have registered deficits in 2002, 2003, and 2004 if no legislation had been enacted at all in those years.

Spending

The budget proposes **total spending of \$2.4 trillion in 2005**, an increase of \$81 billion or 3.5 percent over 2004, and equal to 19.9 percent of GDP. Federal spending has averaged 20 percent of GDP over the last 50 years (see table 2).

Under the President's proposals, total spending would grow to \$2.85 trillion by 2009, falling to 19.4 percent of GDP.

Discretionary Spending

The budget proposes **total discretionary spending authority of \$818.4 billion**, an increase of \$31 billion or 3.9 percent over 2004. Total discretionary spending authority will grow to \$919 billion by 2009, an annual average growth rate of 3.1 percent.

Note on Discretionary Spending Assumptions:

1. 2005 request does not include any funding for military operations in Iraq or Afghanistan, and
 2. 2005 request reclassifies spending authority for Project Bioshield (\$885 million in budget authority in 2004 and \$2.528 billion in 2005). Not including this reclassification, total discretionary budget authority would total \$821 billion in 2005, an increase of \$33 billion or 4.2 percent. Note that the outlays with respect to Project Bioshield have not been proposed to be reclassified.
- ▶ **Department of Defense discretionary totals \$402 billion**, an increase of \$26 billion or 7.1 percent over 2004 (not including 2004 supplemental spending). Department of Defense discretionary will grow to \$488 billion by 2009, an annual average growth rate of 5.4 percent.
- ▶ **Homeland Security discretionary totals \$30 billion**, an increase of \$3 billion or 9.7 percent over 2004. (Without the Project Bioshield reclassification, homeland security would total \$33 billion, an increase of \$4.3 billion or 15 percent over 2004.) Homeland security discretionary will grow to \$37 billion by 2009, an annual average growth rate of 6 percent.

- ▶ **Other discretionary programs total \$386 billion**, an increase of \$2 billion or 0.5 percent over 2004. Other discretionary will grow to \$394 billion by 2009, an annual average growth rate of 0.5 percent.

Mandatory Spending

The budget proposes **total mandatory spending of \$1.3 trillion in 2005**, an increase of \$54 billion or 4.3 percent over 2004. Mandatory spending will grow to \$1.6 trillion by 2009, an annual average growth rate of 5.4 percent.

- ▶ **Medicare spending totals \$290 billion** in 2005, an increase of \$24 billion over 2004, or 9 percent. Medicare spending will grow to \$418 billion by 2009, an average annual growth rate of 9.6 percent.
- ▶ **Social Security spending totals \$511 billion** in 2005, an increase of \$19 billion over 2004 or 3.8 percent. Social Security spending will grow to \$608 billion by 2009, an annual average growth rate of 4.5 percent.
- ▶ **Medicaid spending totals \$182 billion** in 2005, an increase of \$5 billion or 2.9 percent over 2004. Medicaid spending will grow to \$246 billion by 2009, an annual average growth rate of 7.7 percent.

The President proposes dozens of mandatory program increases and decreases that would reduce the deficit by \$0.8 billion in 2005 and \$31.1 billion over ten years (see table 3).

Notes on Mandatory Spending Assumptions:

1. The budget proposes to pay for the \$65 billion cost (over 10 years) of the President's proposal for a refundable health insurance credit, but does not specify the offset.
2. The outlay effects of extending the expiring tax cuts (child credit, EITC, marriage penalty) are already assumed in the adjusted baseline. However, relative to current law these proposals would increase deficits by \$53 billion over ten years.

Revenues

The budget proposes **total revenues of \$2.0 trillion in 2005**, an increase of \$281 billion or 13.2 percent over 2004, and equal to 16.9 percent of GDP. Federal revenue has averaged 18.3 percent of GDP over the last 40 years.

Under the President's proposals, total revenues would grow to \$2.6 trillion by 2009, rising as a share of GDP to 17.8 percent.

The President proposes a number of **tax policy changes that would increase the deficit by \$250 billion over ten years**, compared to a baseline revenue forecast that has been adjusted to include extension of the 2001 and 2003 tax cuts.

6 OVERVIEW

The President proposes a number of **tax changes that would increase the deficit by \$12 billion in 2005 and \$1.2 trillion over ten years** (including \$119 billion of outlay effects), if the baseline revenue forecast is not adjusted to include extension of the 2001 and 2003 tax cuts.

Major tax proposals that would reduce revenues include:

- ▶ Relative to current law, \$88 billion to extend the child credit, marriage penalty relief, and 10 percent income tax bracket through 2010,
- ▶ Relative to current law, \$849 billion to permanently extend certain provisions from the 2001 and 2003 tax cuts, including marginal, dividend, and capital gains rate cuts, death tax repeal, and
- ▶ Relative to the adjusted baseline, \$229 billion for other changes, which include (but are not limited to):
 - Savings incentives (\$8 billion),
 - Health care (\$55 billion),
 - Charitable giving (\$18 billion),
 - Housing (\$16 billion),
 - Energy (\$7 billion)

Finally, a tax compliance initiative is proposed to increase revenues by \$44 billion.

Debt & Interest

The budget projects that **debt held by the public grow from \$4.4 trillion in 2004 (39 percent of GDP) to \$5.8 trillion in 2009 (40 percent of GDP)**. Over the last decade, debt held by the public has fallen from a high of 49.5 percent of GDP in 1993 to a low of 33.1 percent of GDP in 2001.

The budget projects **net interest costs of \$178 billion in 2005**, growing to \$299 billion by 2009.

Budget Process

- ▶ The President proposes **statutory discretionary spending limits for 5 years** (2005 through 2009) and PAYGO enforcement (with respect to mandatory spending only) for that same time period. Both mechanisms would be enforced by sequestration and supermajority votes in the Senate.
- ▶ The President also proposes that both CBO and OMB produce assessments of **the long-term unfunded obligations of major entitlement programs**, and a new supermajority vote in the Senate with respect to any legislation that would increase those long-term unfunded obligations.

- ▶ The President also proposes a number of specific budget process changes: (1) a joint budget resolution, (2) biennial budgeting and appropriations, (3) a line-item veto, (4) a government shutdown prevention mechanism (an automatic continuing resolution), and (5) a limited application of a proposal for accrual of federal employee retirement benefits.

Budget Request Highlights

Spending Cuts

- ▶ The President proposes to **terminate 65 federal programs**, saving \$4.9 billion from the 2004 enacted level. The largest number and amount of these terminations are in the Education and Justice Departments.
- ▶ The President also proposes major spending cuts (\$30 million or more) for 52 other federal programs, saving \$7.8 billion from the 2004 enacted level.
- ▶ Total discretionary savings from terminations and reductions in 2005 would be \$12.8 billion
- ▶ The President proposes **major cuts for 11 mandatory spending programs** for a savings of \$1.6 billion from the 2004 enacted level.

Education

The President proposes \$57.3 billion in discretionary funding for the Department of Education, an increase of \$1.7 billion or 3 percent over 2004.

- ▶ The President proposes \$13.3 billion for Title I grants to Local Education Agencies - the largest component of No Child Left Behind (NCLB), an increase of \$1 billion or 8 percent over 2004. Assuming enactment of the President's request, funding for Title I grants would have increased \$4.6 billion (52 percent) since the passage of NCLB.
- ▶ The President proposes \$11.1 billion for individuals with disabilities, an increase of \$1 billion or 9 percent over 2004. Four consecutive \$1 billion increases will have raised the Federal share of average per pupil expenditures to nearly 20 percent, the highest level of Federal support ever provided to disabled children.
- ▶ The President proposes \$73 billion for postsecondary student aid, an increase of \$4.4 billion or 6 percent over 2004, increasing assistance to nearly 426,000 students and parents. The budget would raise student loan limits for first year students by \$375 (14.3 percent) to \$3,000.

Highways & Transit

- ▶ For the highway and transit programs authorized in the transportation bill that the Senate is expected to begin debating this week, the President proposes \$251 billion (obligation levels) for the period covered by the bill, 2004-2009. The comparable level in the 2004 Budget Resolution is \$267 billion, while the Senate bill's sponsors are advocating \$294 billion.

8 OVERVIEW

Veterans

- ▶ The President proposes \$65.4 billion in total budget authority for veterans' affairs, an 8.3 percent increase over the 2004 level of \$60.4 billion.
- ▶ The President proposes \$29.5 billion in funding for VA medical programs, an increase of 4.1 percent or \$1.174 billion, over the 2004 level of \$28.3 billion.

Medicare

- ▶ The President's budget estimates the cost of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 at \$534 billion for the period 2004-2013, compared to CBO's estimate of \$395 billion over the same period. According to the President's budget, the largest portion of the difference in these cost estimates is attributable to assumptions regarding beneficiary participation, market behavior, and cost growth rates.

Medicaid and SCHIP

- ▶ The President proposes to improve the integrity of the Medicaid matching rate system by proposing steps to curb intergovernmental transfers that have been implemented by states to avoid the legally determined Federal-State match rate. The President's budget estimates that these efforts will save \$9.65 billion over five years and \$23.553 billion over ten years.
- ▶ The President repropose the New Freedom Initiative Medicaid Demonstrations Act to provide respite care for caregivers of disabled children and adults and test the effectiveness of providing home- and community-based alternatives to psychiatric residential treatment for children enrolled in Medicaid. These demonstrations would cost \$5.044 billion over five years and \$7.863 billion over ten years.

Homeland Security

- ▶ The President proposes \$3.561 billion for the Office of Domestic Preparedness to continue to fund our State and local first responders, an increase of \$120 million or 3.5 percent over 2004. The President proposes doubling the Urban Area Security Initiative within this account to \$1.4 billion for terrorism preparedness in "high threat" urban areas.
- ▶ The President proposes \$5.1 billion for the FBI in 2005, a \$600 million or 13 percent increase over 2004.
- ▶ The President proposes \$5.1 billion for the Office of Customs and Border Protection, an increase of \$181 million or 3.7 percent over 2004.
- ▶ The President proposes \$5.3 billion for the Transportation Security Administration, an increase of \$892 million or 20 percent over 2004.
- ▶ The President proposes the maximum authorized spending level of \$500 million for firefighter assistance grants.

NASA

- ▶ The President proposes \$16.244 billion for NASA, an \$866 million or 5.6 percent increase over 2004.

Missile Defense

- ▶ The President proposes \$9.2 billion for the Missile Defense Agency which will field an initial defensive system later this year, an increase of \$1.5 billion over 2004.

Millennium Challenge

- ▶ The President proposes \$2.5 billion for the Millennium Challenge Corporation, an increase of \$1.5 billion or 151 percent over 2004. The President proposes \$5 billion for the program in 2006 and thereafter.

ANWR

- ▶ The President proposes to open a portion of the Arctic National Wildlife Refuge to exploration and drilling. This would increase receipts to the federal treasury by \$1.2 billion over five years.

Agriculture

- ▶ The President proposes \$60 million to address Bovine Spongiform Encephalopathy (BSE), \$47 million more than the \$13 million provided last year.

Election Reform

- ▶ The President proposes to reduce election reform funding by \$1.5 billion, but does include \$40 million to augment \$2.3 billion in unspent balances. Congress appropriated over \$1.4 billion in one-time spending for election reform in the 2004 Omnibus appropriations bill.

IRS - Tax Law Compliance

- ▶ The President proposes \$300 million for IRS efforts to ensure compliance with the tax laws, and increases the total IRS budget by 4.8 percent.

Environment

- ▶ The President proposes to fully fund the recently enacted Healthy Forest Initiative at the authorized level of \$760 million.
- ▶ The President proposes \$1.4 billion for Superfund, an increase of \$131 million or 11 percent over 2004.
- ▶ The President proposes \$3.2 billion for State and Tribal Assistance Grants, a decrease of \$645 million or 17 percent from 2004.

Fire Suppression

- ▶ The President proposes \$907 million for fire suppression in 2005 within the Forest Service and Department of Interior, an increase of \$116 million or 15 percent over regular appropriated levels in 2004. The President's proposed 2005 level is \$280 million less than what was appropriated for 2004 if the emergency supplemental is included.

10 OVERVIEW

Nutrition Programs

- ▶ The President proposes \$47.9 billion, an increase of 5 percent, for the largest domestic nutrition programs—the Food Stamp Program, Child Nutrition Programs, and the Special Supplemental Nutrition Program for Women Infants and Children (WIC).

Spectrum Policies

- ▶ The President proposes extension of the authority of the Federal Communications Commission to auction spectrum, which expires under current law at the end of 2007, yielding \$5.5 billion in savings over 10 years.
- ▶ As the transition to digital TV drags on, auctions related to that process are threatened. As an incentive to reinvigorate this transition and free up the auctions process, the President also proposes a lease fee (amounting to \$2.6 billion over 10 years) on broadcasters who insist on holding on to two channels instead of returning one to the taxpayers as promised.

Table 1. PRESIDENT'S BUDGET FOR FY 2005
(\$, Billions)

	2003	2004	2005	2006	2007	2008	2009	2005-2009
	Actual	Estimate	Request					Total
Total Spending	2,157.637	2,318.834	2,399.843	2,473.298	2,592.067	2,724.284	2,853.473	13,042.965
% change/average annual growth		7.5%	3.5%	3.1%	4.8%	5.1%	4.7%	4.2%
Total Revenues	1,782.342	1,798.093	2,036.273	2,205.666	2,350.795	2,485.315	2,616.397	11,694.446
% change/average annual growth		0.9%	13.2%	8.3%	6.6%	5.7%	5.3%	7.8%
Total Deficit (-)	-375.295	-520.741	-363.570	-267.632	-241.272	-238.969	-237.076	-1,348.519
On-budget deficit	-536.128	-674.766	-542.932	-469.561	-465.878	-486.944	-500.524	-2,465.839
Off-budget surplus	160.833	154.025	179.362	201.929	224.606	247.975	263.448	1,117.320
Gross Federal Debt	6,760.014	7,486.447	8,132.945	8,726.359	9,317.866	9,931.061	10,564.099	
Debt Held by the Public	3,913.607	4,420.788	4,791.862	5,074.114	5,333.029	5,589.439	5,844.433	
Gross Domestic Product	10,828.300	11,466.000	12,042.400	12,641.100	13,279.100	13,972.600	14,701.600	66,636.800
(as a % of Gross Domestic Product)								
Total Spending	19.9%	20.2%	19.9%	19.6%	19.5%	19.5%	19.4%	19.6%
Total Revenues	16.5%	15.7%	16.9%	17.4%	17.7%	17.8%	17.8%	17.5%
Total Deficit	-3.5%	-4.5%	-3.0%	-2.1%	-1.8%	-1.7%	-1.6%	-2.0%
On-budget deficit	-5.0%	-5.9%	-4.5%	-3.7%	-3.5%	-3.5%	-3.4%	-3.7%
Off-budget surplus	1.5%	1.3%	1.5%	1.6%	1.7%	1.8%	1.8%	1.7%
Gross Federal Debt	62.4%	65.3%	67.5%	69.0%	70.2%	71.1%	71.9%	69.9%
Debt Held by the Public	36.1%	38.6%	39.8%	40.1%	40.2%	40.0%	39.8%	40.0%

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

**Table 2: PRESIDENT'S BUDGET BY MAJOR SPENDING CATEGORY
(\$, Billions)**

	<u>2003 Actual</u>	<u>2004 Estimate</u>	<u>2005 Request</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2005-2009</u>	% change 2004-2005	Average Annual Growth 2004 - 2009
Discretionary Outlays	825.705	908.182	914.000	892.340	904.401	922.943	942.345	4,576.029	0.6%	0.7%
Mandatory Outlays										
Social Security Outlays	470.453	491.951	510.453	529.117	551.795	576.275	607.818	2,775.458	3.8%	4.3%
Medicare Outlays	245.709	265.942	289.775	336.397	372.078	393.448	417.678	1,809.376	9.0%	9.4%
Medicaid and SCHIP Outlays	165.048	182.514	187.743	197.533	213.029	231.608	251.293	1,081.206	2.9%	6.6%
Other Outlays	<u>297.646</u>	<u>313.981</u>	<u>319.963</u>	<u>304.549</u>	<u>304.562</u>	<u>325.366</u>	<u>335.196</u>	<u>1,589.636</u>	1.9%	1.3%
Total Mandatory Outlays	1,178.856	1,254.388	1,307.934	1,367.596	1,441.464	1,526.697	1,611.985	7,255.676	4.3%	5.1%
Net Interest	<u>153.076</u>	<u>156.264</u>	<u>177.909</u>	<u>213.362</u>	<u>246.202</u>	<u>274.644</u>	<u>299.143</u>	<u>1,211.260</u>	13.9%	13.9%
Total Outlays	2,157.637	2,318.834	2,399.843	2,473.298	2,592.067	2,724.284	2,853.473	13,042.965	3.5%	4.2%
Total Revenues	<u>1,782.342</u>	<u>1,798.093</u>	<u>2,036.273</u>	<u>2,205.666</u>	<u>2,350.795</u>	<u>2,485.315</u>	<u>2,616.397</u>	<u>11,694.446</u>	13.2%	7.8%
Deficit	375.295	520.741	363.570	267.632	241.272	238.969	237.076	1,348.519		

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

**Table 3: IMPACT OF BUDGET POLICY ON THE SURPLUS
(\$, Billions)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2005-2009</u>	<u>2005-2014</u>
OMB Adjusted Baseline Deficit	527.477	360.092	252.842	228.867	217.530	210.969	1,270.300	
Budget Proposals:								
Discretionary								
Defense	0.000	8.971	16.475	24.299	33.079	43.812	126.636	
Homeland Security	0.000	1.465	2.397	3.330	4.168	5.004	16.364	
Nondefense	<u>-0.021</u>	<u>-6.071</u>	<u>-11.397</u>	<u>-19.435</u>	<u>-28.365</u>	<u>-38.974</u>	<u>-104.263</u>	
Subtotal, Discretionary	-0.021	4.365	7.475	8.194	8.882	9.842	38.758	
Mandatory								
Plug for unspecified offsets to outlays from refundable tax credits a/	0.000	-0.082	-3.760	-5.041	-6.388	-7.133	-22.404	-65.355
Medicaid/SCHIP (including Program Integrity)	0.175	-0.653	-0.891	-0.965	-1.022	-1.075	-4.606	-15.690
Extend Customs User Fees	0.000	-0.082	-1.391	-1.448	-1.507	-1.570	-5.998	-15.691
Student loan savings reforms	0.000	-0.871	-0.865	-0.847	-0.864	-0.887	-4.334	-9.708
Student loan benefits to students	0.000	0.682	0.609	0.667	0.664	0.687	3.309	7.405
Spectrum	0.000	0.000	0.150	1.750	1.700	-2.980	0.620	-5.605
Social Security reforms	0.000	0.009	-0.033	-0.255	-0.443	-0.444	-1.166	4.257
Veterans Affairs	0.051	0.161	0.234	0.258	0.303	0.320	1.275	-3.026
Other mandatory proposals	<u>-0.039</u>	<u>0.038</u>	<u>0.128</u>	<u>1.441</u>	<u>0.337</u>	<u>0.274</u>	<u>2.217</u>	<u>3.359</u>
Subtotal, Mandatory	0.187	-0.798	-5.820	-4.440	-7.220	-12.808	-31.086	-100.054
Revenues b/								
Tax incentives (saving, health care, education, charitable giving, energy)	0.280	0.563	0.383	3.594	7.461	10.467	22.468	109.738
Simplify the tax laws for families	0.000	0.155	0.521	0.709	0.700	0.709	2.794	6.480
Strengthen the employer-based pension system	-8.537	-12.297	-7.340	-3.042	1.586	5.467	-15.626	13.496
Close loopholes, improve compliance, improve tax administration	-0.341	-2.408	-3.552	-4.427	-4.881	-5.125	-20.393	-46.292
Reauthorize funding for the Highway Trust Fund	-0.407	-0.086	-0.723	-0.717	-0.709	-0.721	-2.956	-6.912
Extend other expiring provisions	2.145	14.043	19.341	6.075	6.903	7.559	53.921	101.037
Implement free trade agreements	0.000	0.389	0.583	0.675	0.749	0.831	3.227	8.305
Outlay impacts of revenue policy a/	<u>0.000</u>	<u>-0.358</u>	<u>3.746</u>	<u>5.024</u>	<u>6.358</u>	<u>7.117</u>	<u>21.887</u>	<u>64.630</u>
Subtotal, Revenues	-6.860	0.001	12.959	7.891	18.167	26.304	65.322	250.482
Related debt service and net interest	-0.042	-0.090	0.176	0.761	1.611	2.773	5.231	
Subtotal, budget proposals c/	-6.736	3.478	14.790	12.406	21.440	26.111	78.225	
Budget Deficit	520.741	363.570	267.632	241.273	238.970	237.080	1,348.525	
a/ The outlay effects of refundable tax credits are reflected on the revenue side.								
b/ A negative value for revenues reflects an increase in revenues; a positive value reflects a revenue decrease.								
c/ The baseline includes the following adjustments for extending the 2001 and 2003 tax cut packages.								
Revenue effects	0.000	11.776	26.020	26.321	25.682	41.828	131.627	936.263
Outlay effects			4.265	4.131	4.003	3.936	16.335	53.485

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

TABLE 4: COMPARISON OF DISCRETIONARY RESOURCES IN THE PRESIDENT'S FY 2005 BUDGET
(Budget authority and obligation limitations, in billions of dollars)

	<u>2001 Actual</u>	<u>2002 Actual</u>	<u>2003 Enacted</u>	<u>2004 Enacted</u>	<u>2005 Policy</u>	<u>2004-2005 Difference</u>	<u>% Change</u>
TOTAL Budget Authority 1/	643.831	691.025	758.483	787.312	818.404	31.092	3.9%
Less Department of Defense	302.579	327.772	365.356	375.259	401.717	26.458	7.1%
Less Homeland Security (non-DoD)	10.467	12.713	23.504	27.793	30.490	2.697	9.7%
TOTAL, Other Domestic Discretionary BA	330.785	350.540	369.623	384.260	386.197	1.937	0.5%
Plus highway obligation limitations	30.216	32.455	32.194	34.306	34.648	0.342	1.0%
Plus transit obligation limitations	5.010	5.398	5.743	5.813	5.952	0.139	2.4%
TOTAL, Other Domestic Discretionary Budget Resources	366.011	388.393	407.560	424.379	426.797	2.418	0.6%

1/ Excludes supplemental appropriations.

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

ECONOMICS

Economy

As the 108th Congress convened in January 2003, the risk of a second economic downturn was a very real concern. In December 2002, the economy shed 211,000 non-farm payroll jobs, and oil prices increased more than \$3 a barrel. The growth of output also decelerated to 1.3% in the final quarter of 2002, less than half the rate of the prior period. The economic outlook was further clouded by the uncertainty of a potential war in Iraq and the specter of deflation. However, the fortuitous timing of the President's tax cuts combined with an accommodative monetary policy laid the foundation for the current economic recovery.

Turbulent Times

Firms were concerned that fearful consumers would shy away from spending due to uncertainty about how the war in Iraq would affect the economy and, as a result, curtailed hiring. Already buffeted by higher energy prices and facing the prospect of additional job losses, consumers' confidence declined. The Conference Board's Consumer Confidence Index declined 19.3 points between December 2002 and March 2003, the sixth largest three-month decline in the last ten years. Most economists agreed that the downside risks to economic growth far outweighed the possibility of an unexpected increase. Even as late as May 2003, the Blue Chip survey indicated that 64% of economists believed the risks to their economic forecasts were more likely to the downside.

Recent Developments

The geopolitical risks associated with the War in Iraq have abated with the successful conclusion of major combat operations. The threat of deflation also appears to be waning. Real Gross Domestic Product (GDP) increased at a 4.0% annualized pace in the fourth quarter of 2003, registering its ninth consecutive gain. Over the last five months, the economy created more than a quarter of a million new jobs. In addition, the Conference Board reported its consumer confidence index reached 96.8 in January, the highest level in eighteen months. And although consumer price growth remains subdued, producer prices for finished goods increased 4.0% in December.

The President's tax cuts clearly supported last year's economic turnaround. According to Wachovia's Economic Group, manufacturing sentiment increased more than 28% after the introduction of the President's tax cuts. The Institute for Supply Management surveys more than 400 purchasing and supply executives about a wide range of business decisions, which reflect changes in economic activity. Average monthly retail sales growth was more than twice as high as the average rate of increase between January 2000 and May 2003. As anticipated, the powerful incentives engendered in the Jobs and Growth Tax Relief Reconciliation Act of 2003 also contributed to the turnaround in the stock market. The combined market capitalization of

the NYSE and the NASDAQ increased from \$11.1 trillion in February 2003 to \$15.1 trillion in December, an increase of more than 35 percent.

The Forecast

CBO and Blue Chip both forecast GDP growth exceeding 4.5% this year, which would register the largest calendar year increase in *Real GDP* since 1984. The Administration forecasts a slightly less frenetic pace of around 4.4%, and continues to trail CBO and the private sector in the near-term. All three decelerate to a more moderate trend growth rate in the medium term.

As a result of faster economic growth, CBO, OMB and Blue Chip all forecast that the *unemployment rate* declines by at least 0.2 percentage points this year. OMB is the most optimistic, forecasting an unemployment rate of 5.6 percent, before converging with CBO in 2007. Over the medium-term, CBO and OMB projections place the unemployment rate on a glide path towards its ten-year average. Blue Chip's projection of unemployment remains slightly higher on average throughout the six year horizon.

Inflation is anticipated to decelerate into next year before trending higher in 2005. CBO also revised its longer-term view of inflation, shaving 0.2 percentage points off the rate of growth. Though differing in its path, OMB's forecast of annual average inflation between 2004 and 2009 matches CBO's exactly at 2.0%. Blue Chip's projection of inflation reverts back to its ten year average of 2.4 percent after 2007.

CBO and OMB's forecasts both indicate a moderate increase in short- and long-term *interest rates* consistent with a more robust economy this year. CBO and OMB both forecast a 0.3 and 0.6 percentage point increase in short- and long-term rates, respectively. Only Blue Chip's near-term forecast of ten-year notes differs, rising 0.1 percentage point faster to 4.7 percent this year. If these forecasts are correct, interest rates would increase by less than they did during the 1994 recovery.

Both CBO and OMB forecast *taxable income shares* to rise, reaching their peak in 2005 before steadily declining throughout the remainder of the projection. Steadily declining corporate profits as a share of GDP largely accounts for the overall downward trend in taxable income after 2005 for both projections. Wages and salaries falls slightly this year in both forecasts, then rises steadily to reach its plateau in 2007, albeit not enough to offset the decline in corporate profits as a share of GDP. Interestingly, CBO and OMB project nontaxable shares of income in the form of employer sponsored health care and pension contributions to rise significantly through 2009.

After the Administration first *estimated surpluses* for 2002-2011 in April 2001, the actual economic downturn experienced since then, combined with the Administration's latest economic outlook, have resulted in a deterioration of the surplus projection by \$0.4 trillion in 2004 and by \$2.9 trillion for 2002-2009, including associated interest costs. For CBO, changes to its economic outlook from its comparable 2001 baseline have reduced the 2004 surplus projection by \$0.4 trillion and the 2002-11 surplus projection by \$3.2 trillion. The economic changes referred to above also include the impact of technical re-estimates.

Despite economic assumptions in line with CBO and the private sector, OMB estimates a 2004 *baseline budget deficit* of \$527 billion versus CBO's estimate of \$477 billion. Most of the discrepancy is attributable to different assumptions about how much tax revenue will be generated by a given level of economic output. However, considering the difficulty in forecasting revenue changes accurately, OMB also made an additional \$35 billion downward adjustment over 2004 and 2005 to correct for uncertainty.

Sensitivity to Economic Changes

There is uncertainty in any economic forecast. In its latest outlook, CBO looked at the possible impact of lower economic growth on its budget projections. If the growth rate of real GDP is 0.1 percentage point lower than expected starting in 2004, the total 2005-2014 budget deficit would be \$236 billion higher. According to similar analysis by OMB, a reduction in the real GDP growth rate of 1 percentage point would increase the 2004-2009 deficits by \$186.7 billion. However, it is important to note that there are risks to both the upside and downside, not just the downside, as some have suggested.

**ECONOMIC PROJECTIONS COMPARISON
(Calendar Years)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
% Change (Year to Year):							
Nominal GDP Growth							
Administration*	4.8	5.7	4.9	5.0	5.1	5.2	5.2
CBO*	4.8	5.9	5.3	4.7	4.5	4.7	4.7
Blue Chip*	4.8	6.1	5.4	5.2	5.1	5.3	5.3
Real GDP Growth							
Administration	3.1	4.4	3.6	3.4	3.3	3.2	3.1
CBO	3.2	4.8	4.2	3.2	2.7	2.8	2.8
Blue Chip	3.1	4.6	3.7	3.2	3.1	3.2	3.2
Consumer Price Index							
Administration	2.3	1.4	1.5	1.8	2.1	2.4	2.5
CBO	2.3	1.6	1.7	2.0	2.2	2.2	2.2
Blue Chip	2.3	1.7	2.1	2.3	2.4	2.4	2.4
GDP Price Index							
Administration	1.6	1.2	1.3	1.5	1.7	2.0	2.0
CBO	1.6	1.1	1.1	1.5	1.8	1.9	1.9
Blue Chip	1.6	1.4	1.7	1.9	1.9	2.0	2.0
Annual Rate:							
Unemployment							
Administration	6.0	5.6	5.4	5.2	5.1	5.1	5.1
CBO	6.0	5.8	5.3	5.0	5.1	5.2	5.2
Blue Chip	6.0	5.7	5.4	5.4	5.3	5.3	5.2
Three-Month T-Bill							
Administration	1.0	1.3	2.4	3.3	4.0	4.3	4.4
CBO	1.0	1.3	3.0	4.0	4.6	4.6	4.6
Blue Chip	1.0	1.3	2.6	3.7	3.9	4.1	4.1
Ten-Year T-Note							
Administration	4.0	4.6	5.0	5.4	5.6	5.8	5.8
CBO	4.0	4.6	5.4	5.5	5.5	5.5	5.5
Blue Chip	4.0	4.7	5.4	5.5	5.6	5.6	5.6
Share of GDP:							
Corporate Profits							
Administration	7.7	8.5	10.8	9.9	9.4	9.2	9.1
CBO	7.7	8.1	10.8	10.6	10.1	9.7	9.3
Wage and Salaries							
Administration	46.4	46.1	46.6	46.9	47.2	47.2	47.2
CBO	46.3	45.9	46.1	46.2	46.4	46.4	46.5

*President's FY 2005 Budget; CBO's "Economic and Budget Outlook: Fiscal Years 2005 - 2014"; Blue Chip January 2004 Economic Indicators for 2004 and 2005, Blue Chip October 2003 Economic Indicators for 2006-2009.

FEDERAL DEBT & INTEREST COSTS

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.

INTEREST COSTS AND THE PUBLIC DEBT

(\$ Billions)

	2003	2004	2005	2006	2007	2008	2009
	Actuals						
Interest Outlays:							
Interest on public debt (gross)	318.1	319.2	349.8	397.6	445.6	492.2	537.5
Interest rec'd by trust funds:							
Social Security	-83.5	-86.3	-91.9	-100.1	-110.2	-122.4	-136.6
Other trust funds a/	-72.5	-67.4	-68.9	-71.5	-74.5	-78.0	-82.1
Other interest received b/	-6.5	-7.4	-10.0	-11.4	-13.6	-15.9	-18.4
Other investment income c/	-2.4	-1.9	-1.1	-1.2	-1.2	-1.2	-1.2
Net interest on public debt	153.1	156.3	177.9	213.4	246.2	274.6	299.1

Debt Projections Based on President's Budget Proposals

Federal Debt, End of Year:

Gross Federal Debt	6,760	7,486	8,133	8,726	9,318	9,931	10,564
Debt Held by Gov't. Accts.	2,846	3,066	3,341	3,652	3,985	4,342	4,720
Debt Held by the Public	3,914	4,421	4,792	5,074	5,333	5,589	5,844
Debt Subject to Limit d/	6,738	7,464	8,111	8,705	9,297	9,911	10,545

Federal Debt as a Percentage of GDP:

Debt Held by the Public	36%	39%	40%	40%	40%	40%	40%
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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/ Includes income on investments of the reserves of the Railroad Retirement System, invested by the National Railroad Retirement Investment Trust.

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

20 FEDERAL DEBT & INTEREST COSTS

- The President's budget includes net interest outlays of \$156.3 billion in 2004, rising to \$299.1 billion by the year 2009. Net interest outlays currently make up 6.7 percent of total federal outlays; by 2009, under President Bush's budget, net interest outlays would make up 10.5 percent of total spending. By comparison, in the mid-1990's net interest outlays averaged 15.3 percent of total outlays.
- Relative to the adjusted OMB baseline, the President's budget increases spending on net interest by \$5.1 billion over five years.
- Because the government had unified budget surpluses during the strong economic growth period of 1998-2001, 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 the President's budget, rising from \$4.0 trillion today (36% of GDP) to \$5.8 trillion by the end of 2009.
- Debt rises slightly as a percentage of GDP in 2004 and 2005 and then levels off. By 2009, debt as a percentage of GDP is estimated to be 40 percent.
- The current statutory debt limit of \$7.384 trillion has been in effect since May 2003. Under the President's budget projections, debt subject to limit will equal \$7.464 trillion at the end of fiscal year 2004, which occurs on September 30, 2004. Based on the President's budget, the statutory debt limit will have to be increased before then.

REVENUES

Federal revenues are taxes and other collections from the public that result from the government's sovereign or governmental powers. This section provides an overview of President Bush's revenue proposals for the period 2005-2009. Revenues in the Bush budget are expected to grow by \$818 billion, or 46 percent, between 2004 and 2009.

The President's proposal to make the 2001 and 2003 tax cuts permanent results in \$131.6 billion of tax relief over five years; this proposal is included in OMB's adjusted baseline. Over the five-year period 2005-2009, President Bush's budget recommends net tax relief (other than making permanent the 2001 and most of the 2003 tax cuts) totaling \$43.4 billion over five years in his 2005 budget. .

OMB baseline revenues are projected to be 16.9 percent of GDP in 2005 and 17.9 percent of GDP in 2009. If President Bush's revenue proposals are adopted, taxes will average about 17.5 percent of GDP through the projection period, a level slightly below the long-term average of about 17.8 percent of GDP.

	(\$ Billions)						
	2003	2004	2005	2006	2007	2008	2009
	Actuals						
President's Budget:							
Revenues	1782.3	1798.1	2036.3	2205.7	2350.8	2485.3	2616.4
OMB Adjusted Baseline a/:							
Revenues	1782.3	1791.2	2036.6	2214.9	2353.7	2497.1	2635.6
Budget compared to Adjusted Baseline:							
Revenues	---	6.9	-0.4	-9.2	-2.9	-11.8	-19.2
Budget compared to Unadjusted Baseline:							
Revenues	---	6.9	-12.1	-35.2	-29.2	-37.5	-61.0
	(Percent of GDP)						
President's Budget:							
Revenues	16.5	15.7	16.9	17.4	17.7	17.8	17.8
OMB Adjusted Baseline:							
Revenues	16.5	15.6	16.9	17.5	17.7	17.9	17.9

a/ OMB includes, in its baseline, extensions of the 2001 EGTRRA and most of the 2003 JGTRRA tax cuts. The revenue baseline is reduced by \$131.6 billion over five years due to this adjustment.

The President proposes to **make permanent the tax cuts** included in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and most of the provisions in the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), totaling \$131.6 billion in tax relief over the next five years:

- **Provisions Expiring in 2004:** A number of individual income tax provisions that were accelerated in JGTRRA are scheduled expire on December 31, 2004, including the expansion of the 10 percent tax bracket to \$7,000 for single filers and \$14,000 for married couples, the marriage penalty relief for those using the standard deduction and those in the 15 percent tax bracket, and the \$1,000 child tax credit. The President's budget proposes to make permanent these provisions in order to prevent a tax increase on Americans in 2005. Making these provisions permanent will provide \$79 billion in tax relief over the period 2005-2009, and will result in \$16.3 billion in additional spending for refundable credits.
- **Other EGTRRA and JGTRRA Provisions:** On December 31, 2005, the provision of JGTRRA allowing small businesses to expense up to \$100,000 of the cost of purchasing qualified property is scheduled to expire. On December 31, 2008, the provisions of JGTRRA reducing to 15 percent the tax rate on dividends paid by corporations and on capital gains for individuals are scheduled to expire. On December 31, 2010, the provisions of EGTRRA are scheduled to expire. These provisions include the marginal individual income tax rate reductions, the increase in the child tax credit, marriage penalty relief, and the repeal of estate and gift taxes. The President's budget proposes to make all of these provisions permanent in order to prevent a tax increase on individuals and small businesses when they expire. Making these provisions permanent will provide \$52.6 billion in tax relief over the period 2005-2009.

The President is again proposing a major new initiative to encourage Americans to save and to simplify the complicated rules governing employer-provided and individual savings vehicles. The entire **savings initiative** will increase revenues by \$18.2 billion over the next five years.

- **Retirement Savings Accounts (RSAs)/Lifetime Savings Accounts (LSAs)** – Consolidate the three types of IRAs available under current law into a single account and permit individuals, regardless of age or income, to make non-deductible contributions of up to \$5,000 per year to an RSA. RSAs are dedicated solely to retirement savings, and distributions after age 58 would be tax-free. Allow non-deductible contributions of up to \$5,000 per year to an LSA. Individuals are permitted to withdraw funds from an LSA at any time for any purpose without penalty. Contributions may be made to RSAs and LSAs beginning in 2005. The RSA and LSA savings proposals will increase revenues by \$21.1 billion over 2005-2009.
- **Employer Retirement Savings Accounts (ERSAs)** – Consolidate the various tax-preferred, employer-based defined contribution savings accounts (such as 401(k), 403(b), 457 and thrift plans) into one account that can be offered by any employer beginning in 2005. The President is proposing to simplify the pension system by consolidating all of these plans into one with one set of rules. ERSAs will follow the existing rules for 401(k) plans, but these rules will be greatly simplified. Employees will be permitted to contribute

up to \$13,000 per year in pre-tax dollars to an ERSA beginning in 2005 (increasing to \$15,000 in 2006). Employees aged 50 or older would be permitted to make “catch up” contributions of an additional \$3,000 per year (increasing to \$5,000 in 2006). This proposal will provide \$1.6 billion in tax relief over 2005-2009.

The President proposes two measures to **strengthen the employer-based pension system**, which will raise \$15.6 billion in revenues over 2005-2009.

- **Ensure Fair Treatment of Older Workers Under Cash Balance Plans** – Protect participants in cash balance conversions by requiring that the benefits earned by a worker participating in a cash balance plan during the first five years after a conversion be at least as valuable as the benefits that would have been earned under the traditional defined benefit plan. Clarify that a cash balance plan satisfies the age-discrimination rules if the plan provides pay credits for older workers that are not less than the pay credits for younger workers.
- **Improve the Accuracy of Pension Liability Measures** – Replace the interest rate currently used to determine pension plan liabilities (the 30-year Treasury bond rate) with a weighted-average, long-term, high quality corporate bond rate for the years 2004 and 2005. In 2006, phase in the use of a yield curve based on the interest rates of high-quality zero-coupon bonds with various maturities to determine pension plan liabilities.

The President proposes six measures **to invest in health care**, totalling \$19.8 billion in tax relief (and \$22.4 billion in related outlays) over the next five years.

- **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 credit amount of \$1,000 for adults and \$500 for children. The total maximum credit amount is \$3,000 per family. The credit would be phased out between \$25,000 and \$40,000 of income for singles and between \$25,000 and \$60,000 for families purchasing a family policy. This proposal provides \$4.0 billion in tax relief over 2005-2009, and provides \$22.4 billion in direct payments.
- **Deduction for high-deductible insurance** – Provide an above-the-line tax deduction beginning in 2005 for the premiums paid on high-deductible health insurance policies purchased by individuals who participate in Health Savings Accounts. This proposal provides \$8.7 billion in tax relief over 2005-2009.

The President proposes eight measures **to provide incentives for charitable giving** totalling \$8.7 billion of tax relief over the next five years, including a charitable deduction for non-itemizers. Under this proposal, single taxpayers could deduct up to \$250 of charitable contributions above \$250, and couples could deduct up to \$500 of charitable contributions above \$500, beginning in 2004. Both the deduction floor and limits would be indexed for inflation after 2004.

The President proposes nine measures to **increase energy production and promote energy conservation**, totaling \$6.8 billion in tax relief over five years.

- **Tax credit for producing electricity from certain sources** – Extend the credit for electricity produced from wind and biomass (but not poultry waste) to facilities placed in service before January 1, 2007 (current law is January 1, 2004). Eligible biomass sources would be expanded to include certain biomass from forest-related resources, agricultural sources, and other sources. This proposal provides \$1.5 billion in tax relief over 2005-2009.
- **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, 2009, and a credit of up to \$8,000 for the purchase of a fuel cell vehicles before January 1, 2013. This proposal provides \$1.8 billion in tax relief over 2005-2009.

The President proposes nine measures to **simplify the tax laws for families** (totalling \$2.3 billion in tax relief over the next five years), including establishing a uniform definition of a child, simplifying the eligibility requirements for the Earned Income Credit (EIC), and consolidating the rules for the higher education provisions such as the Lifetime Learning Credit and the Hope Credit.

The President proposes 13 measures to **close loopholes and improve tax compliance**, totalling \$19.1 billion in increased revenue over 2005-2009. He proposes to impose penalties on taxpayers that fail to disclose to the IRS potentially abusive tax transactions, tighten the rules that limit the deductibility of interest paid to related parties (Section 163(j)), prevent the overvaluation of donated patents (and other intellectual property) and used vehicles, and reform the tax-treatment of leasing transactions between corporations and tax-exempt entities such as city governments.

The President proposes a number of measures to **improve tax administration** by the Internal Revenue Service, including permitting private collection agencies to support IRS collection efforts, and authorizing the Treasury Secretary to issue rules governing inappropriate non-qualified deferred compensation arrangements.

The President proposes to **reauthorize funding for the Highway Trust Fund**. He proposes to transfer to the Highway Trust Fund the 2.5 cents of the excise tax on ethanol that is currently deposited in general revenues, and increase the private activity bond cap by \$15 billion to allow tax-exempt financing for private highway projects and rail-truck transfer facilities.

The President proposes \$3.2 billion in tax relief related to **trade promotion**. He proposes to **implement free trade agreements with Morocco, Australia and Central American countries**.

The President proposes to extend provisions that expired in 2003. The combination of these extensions provides \$1.8 billion in tax relief over five years:

- **Modified Work opportunity tax credit and Welfare-to-work tax credit** (2 years)
- **District of Columbia Enterprise Zone and First-Time Homebuyer Credit** (2 years)
- **Authority to issue Qualified Zone Academy Bonds** (2 years)
- **Deduction for corporate donations of computer technology** (2 years)
- **Waiver of the alternative minimum tax limitation on net operating loss use** (through 2005)
- **Provisions permitting disclosure of tax return information relating to terrorist activity** (1 year)
- **Authority to issue Liberty Zone Bonds** (through 2009)
- **Excise tax on coal at current rates** (until Black Lung Disability Trust Fund debt is repaid)

The President proposes to extend **alternative minimum tax relief for individuals** through 2005. This proposal provides \$23.3 billion in tax relief over 2004-2006. In addition, the Treasury Department has been directed to develop a long term solution to the problem of the extension of the AMT to middle and lower income taxpayers.

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 \$30.0 billion in tax relief over 2005-2009.

The President proposes to **permanently extend IRS User Fees**. This proposal will raise \$214 million over 2005-2009.

The President proposes to **strengthen the financial integrity of unemployment insurance**. He proposes to modify the requirements for state unemployment tax laws to deter schemes used by employers to manipulate experience rates so that they pay lower state taxes. He also proposes to allow states to access the National Directory of New Hires to determine more quickly those who are no longer eligible for unemployment benefits. This proposal will raise \$368 million over 2005-2009.

Finally, the 2005 budget contains a discussion of the U.S. response to the World Trade Organization (WTO) decisions related to **Foreign Sales Corporation/Extraterritorial Income (FSC/ETI)** provisions of the tax code. The Administration intends to work closely with Congress to develop and enact the reforms needed to bring the U.S. into compliance with our WTO obligations and to make U.S. companies more internationally competitive. The Administration believes that provisions in the budget, such as the proposal to make permanent

the R&E tax credit and to extend the net operating loss (NOL) carryback period, would provide important relief to U.S. manufacturers. In addition, the Administration expresses support for an across-the-board corporate tax rate cut to provide significant tax relief to all American businesses and make the U.S. a more attractive place to invest.

BUSH 2005 BUDGET TAX PROPOSALS

(\$ Billions)

	2004	2005	2006	2007	2008	2009	2005-09
Tax relief included in adjusted baseline:							
Extend certain JGTRRA provisions through 2010 a/	--	-11.5	-21.5	-19.3	-15.0	-11.7	-79.0
Extend certain EGTRRA and JGTRRA provisions permanently	--	<u>-0.3</u>	<u>-4.5</u>	<u>-7.0</u>	<u>-10.7</u>	<u>-30.1</u>	<u>-52.6</u>
Total revenue baseline adjustments	--	-11.8	-26.0	-26.3	-25.7	-41.8	-131.6
Additional tax relief proposals:							
Simplify and encourage savings	--	3.6	7.6	4.8	2.1	0.1	18.2
Strengthen employer-based pension system	8.5	12.3	7.3	3.0	-1.6	-5.5	15.6
Invest in health care b/	--	-0.3	-4.1	-4.3	-5.1	-6.0	-19.8
Incentives for charitable giving	-0.1	-1.9	-1.6	-1.7	-1.7	-1.8	-8.7
Out-of-pocket expense education deduction	-*	-0.2	-0.2	-0.2	-0.3	-0.3	-1.2
Energy incentives	-*	-1.4	-1.5	-1.6	-1.4	-0.9	-6.8
Other tax incentives c/	-0.2	-0.3	-0.4	-0.7	-1.1	-1.6	-4.1
Simplify tax law for families d/	--	-0.2	-0.5	-0.7	-0.7	-0.7	-2.8
Extend minimum tax relief for individuals	-0.1	-9.4	-13.9	--	--	--	-23.3
Extend R&E tax credit permanently	-0.7	-3.6	-5.2	-6.3	-7.1	-7.8	-30.0
Extend other expiring provisions e/	-1.4	-1.3	-0.6	-0.1	-0.1	-0.1	-2.1
Implement free trade agreements f/	--	<u>-0.4</u>	<u>-0.6</u>	<u>-0.7</u>	<u>-0.7</u>	<u>-0.8</u>	<u>-3.2</u>
Subtotal, tax relief including baseline adjustments	6.1	-14.9	-39.8	-34.6	-43.4	-67.2	-199.9
Subtotal, tax relief excluding baseline adjustment	6.1	-3.1	-13.8	-8.3	-17.7	-25.3	-68.3
Proposed revenue raisers:							
Close loopholes, improve compliance, and improve tax administration	0.3	2.4	3.6	4.4	4.9	5.1	20.4
Reauthorize funding for highway TF	0.4	0.1	0.7	0.7	0.7	0.7	3.0
IRS user fees	--	*	*	*	0.1	0.1	0.2
Abandoned mine reclamation fees	--	<u>0.2</u>	<u>0.2</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>1.3</u>
Subtotal, revenue raisers	0.7	2.8	4.6	5.4	5.9	6.2	24.8
Total Revenue Proposals, including proposals assumed in the baseline	6.9	-12.1	-35.2	-29.2	-37.5	-61.0	-175.1
Total Revenue Proposals, excluding proposals assumed in the baseline	6.9	-0.4	-9.2	-2.9	-11.8	-19.2	-43.4

*Less than \$50 million

a/ Does not include outlay effect of \$16.3 billion over the period 2005-2009.

b/ Does not include outlay effect of \$22.4 billion over the period 2005-2009.

c/ Includes telecommuting, housing, and protecting the environment.

d/ Does not include outlay effect of -\$0.5 billion over the period 2005-2009.

e/ Includes repeal of the disallowance of certain deductions of mutual life insurance companies, combined work opportunity/welfare-to-work tax credit, DC tax incentives, authority to issued Qualified Zone Academy Bonds, deduction for corporate donations of computer technology, net operating loss offset of 100 percent of AMTI, disclosure of tax return information related to terrorist activities, and the authority to issue Liberty Zone Bonds.

f/ Free trade agreements with Morocco, Australia, and Central American countries, net of income offsets.

Details may not add to totals due to rounding.

BUDGET PROCESS

Background On September 30, 2002 most of the statutory budget enforcement rules that had been in effect since the early 1990's expired. In addition the 60-vote supermajority discipline used in the Senate to enforce congressional budget resolutions also expired. Since then, the Senate has acted to extend its supermajority discipline through September 30, 2008 in the FY 2004 budget resolution (section 503 of H. Con. Res. 95, 108th Cong., 1st Sess.) and to the extent permissible under the precedents of the Senate, extend other enforcement mechanisms in the budget resolution.

In addition to the extension of supermajority enforcement, the FY 2004 budget resolution also: set a limit on the level of advance appropriations for 2004 and 2005 (section 501); polices the use of the so-called "emergency designation" (section 502); set congressional limits on the total level of discretionary appropriations for 2003 through 2005 (section 504); and reestablished the Senate's pay-as-you-go point of order, on a post-policy basis (section 505).

President's budget process proposals Discretionary spending limits

The President's budget proposes to reinstate for five years the **discretionary spending limit** regime that expired in 2002. The proposal would include limits for general purpose discretionary, highways and transit programs. It separates out the budget authority for Project Bioshield. It also includes **2 cap adjustments** for: (1) Social Security Program Integrity Activities (continuing disability reviews), and (2) transportation spending. The total discretionary spending for **2005 would be \$818.4 billion** in budget authority and **\$914.0 billion** in outlays (including CDR's, but excluding Bioshield budget authority).

General Purpose Discretionary Caps and Adjustments
(amounts in billions of dollars)

Proposed Discretionary Spending Categories:	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Discretionary Category:					
Budget Authority	817.8	842.3	867.0	892.4	918.0
Outlays	872.7	850.7	862.8	881.3	900.3
Proposed cap adjustment					
SSA Continuing Disability Reviews					
Budget authority	0.6	0.6	0.7	0.7	0.7
Outlays	0.6	0.6	0.7	0.7	0.7
Total, Discretionary Category:					
Budget Authority	818.4	842.9	867.6	893.0	918.7
Outlays	873.3	851.4	863.5	881.9	901.0
Highway Category					
Outlays	33.2	33.9	34.2	34.5	34.7
Mass Transit Category					
Outlays	7.5	7.0	6.7	6.5	6.6
Total, All Discretionary:					
Budget authority	818.4	842.9	867.6	893.0	918.7
Outlays	914.0	892.3	904.4	922.9	942.3
Project Bioshield Category					
Budget authority	2.5	--	--	--	2.2

The President's budget again endorses Congress' approach to **limiting total advance appropriations** – at the level permitted in congressional budget resolutions since 2002 (\$23.159 billion). Amounts in excess of this limit would be charged against the cap in the year for which the regular appropriations in such bills are enacted.

Although the President's budget retains the **adjustment for emergency spending** and intends that, in general, it operate as it did prior to the expiration of the caps, the President also proposes to codify the definition of emergency spending. The definition first appeared in an OMB Circular (A-11) in the early 1990's. Most recently a definition has been part of the emergency designation point of order set out in recent budget resolutions. The President's definition is virtually identical to those that came before and would include the following elements:

necessary expenditure – an essential or vital expenditure, not one that is merely useful or beneficial;

sudden – quickly coming into being, not building up over time;

urgent – pressing and compelling, requiring immediate action;

unforeseen – not predictable or seen beforehand as a coming need (an emergency that is part of the average annual level of disaster assistance funding would not be “unforeseen”); and

not permanent – the need is temporary in nature.

The President also proposes that the emergency designation apply to individual spending or tax items so as to prevent so-called “bundling” of emergency with non-emergency provisions.

PAYGO The President's budget also proposes to **reinstate the PAYGO** enforcement regime that, in effect, came to an end in 2002. Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 directed OMB to score the PAYGO costs through 2006 of all mandatory spending and revenue legislation enacted prior to September 30, 2002. Thus, although no new legislation would be added to the scorecard after September 30, 2002, there remained the possibility of sequestration thereafter with respect to these preexisting balances. However, in November of 2002, prior to the adjournment of the 107th Congress, Congress passed HR 5708 (which the President signed into law on December 2, 2002), which set all remaining PAYGO balances to zero. This Act resulted in the de-facto expiration of the section 252 PAYGO regime.

The President proposes to **extend the PAYGO mechanism for 2005 through 2009 with the 5-year cost of legislation enacted during this period to be placed on the scorecard**. This has the effect of extending the scorecard, and the possibility of sequestration, through 2013. In a change from previous years, the Administration proposes that the PAYGO rule apply only to spending (not revenues and spending as had been the case with the now expired law).

The President also proposes that the list of accounts potentially subject to sequestration under both PAYGO and the discretionary spending limits be reviewed to take into account technical issues and new programs that have been enacted since 1997 (the last time the sequestration mechanisms were reviewed and extended).

The Baseline The President's budget includes 4 proposals for changes to section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985, which provides the statutory direction to both the Congressional Budget Office and the Office of Management and Budget regarding the preparation of the baseline.

The first baseline proposal is to correct for the overcompensation of baseline budgetary resources for **pay raise-related costs** due to the requirement to annualize pay raises. This could affect both mandatory and discretionary accounts. The second proposal is to repeal two paragraphs of section 257 ((c)(2) and (3)) which set out two exceptions to the baseline for discretionary spending: an exception for **expiring housing contracts** and for **social insurance administrative expenses**. The third baseline proposal is to include the costs of extending the 2001 and most of the 2003 tax cuts (EGTRRA and JGTRA) in subsequent years. The final baseline proposal is to add a new provision to preclude extending **discretionary funding for emergencies** in subsequent years.

Additional budget process proposals Once again the President's budget calls for the following budget process reforms:

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.

The President's budget also 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 that is governed by entitlement laws.

The President's budget calls upon Congress to fix the constitutional flaw that the Supreme Court identified in the **Line Item Veto** Act – although the budget document provides no substantive guidance for doing so. 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 deficit reduction.

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 1st, 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.

First proposed in the 2003 submission, the budget again calls for the creation of **a reserve for fully accruing federal employee's retirement**. The President hopes to work with Congress to alleviate the concerns generated by past proposals. In that spirit the budget contains only a limited proposal with respect to the Patent and Trademark Office, which is a fully fee-funded agency, to use the fees it collects to cover the current accruing cost of post-retirement annuities, and health and life insurance benefits.

APPENDIX

TABLE 1: PRESIDENT'S FY 2005 BUDGET: SUMMARY TOTALS

TABLE 2: PRESIDENT'S FY 2005 BUDGET: DISCRETIONARY SUMMARY

TABLE 3: TAX REVENUES BY SOURCE IN THE PRESIDENT'S 2005 BUDGET

**TABLE 4: DISCRETIONARY BUDGET AUTHORITY BY APPROPRIATIONS
SUBCOMMITTEE**

APPENDIX TABLE 1: PRESIDENT'S FY 2005 BUDGET

SUMMARY TOTALS

(\$ Billions)

Function		2003	2004	2005	2006	2007	2008	2009	2004-2005
		Actual	Estimate	Request					% change
050: Defense	BA	456.2	460.5	423.1	444.0	464.8	485.8	508.2	-8.1%
	OT	404.9	453.7	450.6	436.1	447.1	467.1	487.2	-0.7%
150: International Affairs	BA	31.7	41.3	29.6	33.2	34.1	34.6	34.8	-28.5%
	OT	21.2	34.2	37.8	32.5	31.9	32.8	33.3	10.5%
250: Science & Technology	BA	23.1	23.4	24.5	25.0	25.8	26.1	26.2	4.6%
	OT	20.9	22.3	24.4	24.7	25.7	26.0	26.1	9.3%
270: Energy	BA	0.5	1.2	1.9	2.1	1.7	1.8	1.9	56.0%
	OT	-0.8	1.0	1.8	1.9	1.7	1.7	1.7	85.4%
300: Natural Resources	BA	31.8	32.2	30.3	29.6	30.1	30.3	30.7	-5.9%
	OT	29.7	31.7	30.9	30.4	30.8	30.8	30.6	-2.4%
350: Agriculture	BA	24.7	19.5	22.4	21.3	21.0	20.6	20.5	14.9%
	OT	22.6	20.1	22.3	20.9	20.6	20.3	20.3	10.9%
370: Commerce & Housing	BA	14.9	14.0	8.1	8.1	10.1	10.6	11.0	-42.4%
	OT	-1.6	7.7	2.7	-1.2	-0.4	-1.4	0.2	-64.9%
400: Transportation	BA	68.7	68.6	69.5	70.4	70.8	71.5	72.0	1.3%

Function		2003 Actual	2004 Enacted	2005 Request	2006	2007	2008	2009	2004-2005 % change
	OT	67.1	68.1	69.9	70.3	70.4	71.0	71.9	2.6%
450: Community Development	BA	16.7	16.3	12.9	13.8	14.0	14.3	14.5	-20.6%
	OT	18.9	18.8	17.0	15.1	15.2	14.1	13.9	-9.3%
500: Education & Training	BA	87.6	87.9	91.8	89.3	88.6	88.8	89.1	4.4%
	OT	82.6	87.2	89.0	88.9	87.8	87.7	88.0	2.1%
550: Health	BA	231.7	251.3	248.8	266.0	285.0	306.6	330.6	-1.0%
	OT	219.6	243.5	252.6	267.7	285.3	306.6	328.2	3.7%
570: Medicare	BA	249.9	271.0	293.6	341.3	376.3	397.9	422.6	8.3%
	OT	249.4	270.5	294.2	341.0	376.6	398.0	422.2	8.8%
600: Income Security	BA	329.5	336.2	342.3	349.5	353.2	365.0	377.9	1.8%
	OT	334.4	339.5	348.1	353.2	357.4	365.6	371.8	2.5%
650: Social Security	BA	476.6	497.8	516.5	535.1	558.2	582.9	615.1	3.7%
	OT	474.7	496.2	515.0	533.5	556.2	580.7	612.3	3.8%
700: Veterans Benefits	BA	59.1	60.4	65.4	67.2	69.3	71.8	74.4	8.3%
	OT	57.0	60.5	67.5	66.8	66.0	71.2	73.9	11.6%
750: Administration of Justice	BA	39.7	42.7	40.8	40.4	41.2	42.0	42.7	-4.5%
	OT	35.4	41.6	42.8	42.3	41.2	41.8	42.5	2.8%
800: General Government	BA	25.0	24.0	19.4	20.1	18.9	19.1	19.0	-19.0%
	OT	23.0	25.4	19.1	19.4	18.4	18.7	18.4	-24.7%

Function		2003 Actual	2004 Enacted	2005 Request	2006	2007	2008	2009	2004-2005 % change
900: Net Interest	BA	153.2	156.2	177.9	213.4	246.2	274.6	299.1	13.9%
	OT	153.1	156.3	177.9	213.4	246.2	274.6	299.1	13.9%
920: Allowances	BA	0.0	0.0	-0.8	-5.0	-6.3	-7.6	-8.4	-
	OT	0.0	0.0	-0.8	-6.0	-7.1	-7.1	-7.8	-
950: Undistributed Offsetting Receipts	BA	-54.4	-59.3	-63.1	-77.4	-78.9	-76.0	-80.2	6.4%
	OT	-54.4	-59.3	-63.1	-77.4	-78.9	-76.0	-80.2	6.4%
Total	BA	2,266.2	2,345.3	2,354.8	2,487.5	2,624.4	2,760.8	2,901.9	0.4%
	OT	2,157.6	2,318.8	2,399.8	2,473.3	2,592.1	2,724.3	2,853.5	3.5%
On-budget	BA	1,890.6	1,956.5	1,957.6	2,080.2	2,205.7	2,333.4	2,458.8	0.1%
	OT	1,794.6	1,938.9	2,004.1	2,072.1	2,180.4	2,304.7	2,418.0	3.4%
Off-budget	BA	375.5	388.8	397.2	407.2	418.6	427.4	443.1	2.2%
	OT	363.0	380.0	395.7	401.2	411.7	419.6	435.5	4.1%
Revenues		1,782.3	1,798.1	2,036.3	2,205.7	2,350.8	2,485.3	2,616.4	13.2%
On-budget		1,258.5	1,264.1	1,461.2	1,602.5	1,714.5	1,817.7	1,917.5	15.6%
Off-budget		523.8	534.0	575.1	603.1	636.3	667.6	698.9	7.7%
Deficit (-)		-375.3	-520.7	-363.6	-267.6	-241.3	-239.0	-237.1	
On-budget		-536.1	-674.8	-542.9	-469.6	-465.9	-486.9	-500.5	
Off-budget		160.8	154.0	179.4	201.9	224.6	248.0	263.4	

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

**APPENDIX TABLE 2: PRESIDENT'S FY 2005 BUDGET
DISCRETIONARY SUMMARY
(\$ Billions)**

Function		2003 Actual	2004 Enacted	2005 Request	2006	2007	2008	2009	2004-2005 % change
050: Defense	BA	455.0	458.6	420.7	442.6	463.3	484.2	506.5	-8.3%
	OT	404.9	451.6	448.2	434.6	445.6	465.5	485.6	-0.8%
150: International Affairs	BA	33.5	48.6	31.6	34.0	34.7	35.0	35.1	-34.9%
	OT	27.9	38.9	40.1	34.5	33.8	34.5	34.9	3.2%
250: Science & Technology	BA	22.9	23.3	24.4	25.0	25.8	26.1	26.1	4.7%
	OT	20.8	22.1	24.3	24.6	25.6	26.0	26.0	9.6%
270: Energy	BA	3.2	3.6	3.5	3.5	3.4	3.3	3.3	-3.1%
	OT	3.1	3.5	3.4	3.5	3.4	3.3	3.3	-3.3%
300: Natural Resources	BA	30.1	30.4	28.0	27.7	27.7	27.9	27.9	-7.7%
	OT	30.3	30.3	29.6	28.6	28.3	28.2	28.0	-2.0%
350: Agriculture	BA	6.2	5.6	5.4	5.4	5.5	5.5	5.5	-3.1%
	OT	5.6	5.9	5.8	5.4	5.4	5.5	5.5	-2.8%
370: Commerce & Housing	BA	-0.3	-1.1	-1.0	-0.2	0.8	1.3	2.6	-10.0%
	OT	-0.6	-1.0	-0.7	-0.1	0.7	1.2	2.4	-31.4%
400: Transportation	BA	26.6	23.1	23.4	23.9	24.2	24.8	25.2	1.2%
	OT	64.3	66.0	67.8	68.0	68.1	68.8	69.6	2.6%
450: Community Development	BA	16.4	15.3	13.2	14.0	14.2	14.5	14.7	-14.0%
	OT	19.5	18.4	17.6	15.6	15.9	14.9	14.7	-4.8%

Function		2003 Actual	2004 Enacted	2005 Request	2006	2007	2008	2009	2004-2005 % change
Total	BA	849.4	874.6	818.4	842.9	867.6	893.0	918.7	-6.4%
	OT	825.7	908.2	914.0	892.3	904.4	922.9	942.3	0.6%
On-budget	BA	845.6	870.5	813.9	838.5	863.2	888.6	914.2	-6.5%
	OT	821.5	904.0	909.5	887.9	900.0	918.5	937.9	0.6%
Off-budget	BA	3.8	4.1	4.5	4.4	4.4	4.4	4.4	9.4%
	OT	4.2	4.2	4.5	4.4	4.4	4.4	4.4	7.4%

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

TABLE 3: TAX REVENUES BY SOURCE IN THE PRESIDENT'S 2005 BUDGET
(\$ billions)

	2003	2004	2005	2006	2007	2008	2009
	Actual						
Individual Income Taxes	793.7	765.4	873.8	956.5	1049.3	1133.4	1209.9
Corporate Income Taxes	131.8	168.7	230.2	250.0	251.0	252.1	255.7
Social Insurance Taxes	713.0	732.4	793.9	834.0	878.7	918.8	960.2
(On-budget)	189.1	198.4	218.8	230.9	242.4	251.2	261.2
(Off-budget)	523.8	534.0	575.1	603.1	636.3	667.6	698.9
Excise Taxes	67.5	70.8	73.2	75.8	77.9	80.0	82.2
Estate and Gift Taxes	22.0	23.9	21.4	23.9	21.5	22.2	23.6
Customs Duties	19.9	22.6	22.1	24.4	26.2	27.6	30.0
Miscellaneous Receipts	34.5	34.3	36.5	41.2	46.2	51.2	54.8
Adjustment for uncertainty	--	-20.0	-15.0	--	--	--	--
Total Receipts	1782.3	1798.1	2036.3	2205.7	2350.8	2485.3	2616.4
(On-budget)	1,258.5	1,264.1	1,461.2	1,602.5	1,714.5	1,817.7	1,917.5
(Off-budget)	523.8	534.0	575.1	603.1	636.3	667.6	698.9

**APPENDIX TABLE 4: DISCRETIONARY BUDGET AUTHORITY BY APPROPRIATIONS
SUBCOMMITTEE**

(\$, Billions)

Appropriations Subcommittee	2001	2002	2003	2004 Enacted	2005 Request
Agriculture and Rural Development	16.200	16.994	18.413	17.664	16.448
%change		4.9%	8.4%	-4.1%	-6.9%
Commerce, Justice, State	36.186	37.071	38.326	38.675	39.421 <i>a/</i>
%change		2.4%	3.4%	0.9%	1.9%
Defense	293.568	317.361	354.754	366.176	392.560
%change		8.1%	11.8%	3.2%	7.2%
District of Columbia	0.351	0.408	0.509	0.542	0.560
%change		16.2%	24.8%	6.5%	3.3%
Energy and Water Development	24.103	24.840	25.918	27.264	26.998
%change		3.1%	4.3%	5.2%	-1.0%
Foreign Operations	14.618	15.152	16.051	17.485	21.332
%change		3.7%	5.9%	8.9%	22.0%
Interior and Related Agencies	19.075	19.322	19.813	20.021	19.951
%change		1.3%	2.5%	1.0%	-0.3%
Labor, HHS, and Education	109.674	123.824	134.592	141.003	141.946
%change		12.9%	8.7%	4.8%	0.7%
Legislative Branch	2.712	2.979	3.371	3.525	3.967 <i>a/</i>
%change		9.8%	13.2%	4.6%	12.5%
Military Construction	9.106	10.574	10.684	9.257	9.461
%change		16.1%	1.0%	-13.4%	2.2%
Transportation, Treasury, and General Government	26.027	25.063	27.790	28.651	25.985
%change		-3.7%	10.9%	3.1%	-9.3%

Appropriations Subcommittee	2001	2002	2003	2004 Enacted	2005 Request
Veterans Affairs, Housing and Urban Development	78.217	81.706	86.245	89.986	91.843
%change		4.5%	5.6%	4.3%	2.1%
Homeland Security	13.994	15.731	22.017	27.063	28.315
% change		12.4%	40.0%	22.9%	4.6%
SUBTOTAL, DISCRETIONARY	643.831	691.025	758.483	787.312	818.787
		7.3%	9.8%	3.8%	4.0%
Supplementals	20.000	43.773	90.958	87.320	b/
% change		118.9%	107.8%	-4.0%	-
TOTAL DISCRETIONARY	663.831	734.798	849.441	874.632	818.787
		10.7%	15.6%	3.0%	-6.4%
DEFENSE DISCRETIONARY	331.713	360.816	455.001	458.617	420.676
% change		8.8%	26.1%	0.8%	-8.3%
NONDEFENSE DISCRETIONARY	332.118	373.982	394.440	416.015	398.111
% change		12.6%	5.5%	5.5%	-4.3%

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

Memo:

Highway obligation limitations	30.216	32.455	32.194	34.306	34.648
Transit obligation limitations	<u>5.010</u>	<u>5.398</u>	<u>5.743</u>	<u>5.813</u>	<u>5.952</u>
Total obligation limitations	35.226	37.853	37.937	40.119	40.600
% change		7.5%	0.2%	5.8%	1.2%

a/ This table reflects a total for the President's discretionary request for 2005 that is \$0.4 billion larger than displayed in the President's budget documents. As a matter of comity between branches, OMB does not review the budget requests of the Legislative Branch and the Judiciary and reflects in the President's budget those two requests exactly as submitted by the other branches. Nevertheless, OMB then assumes a nonexistent "Allowances" subcommittee in the event that appropriations enacted for the other two branches for 2005 are likely (based on historical experience) to be less than the requested levels by \$0.4 billion.

b/ No supplementals are requested in the President's budget.

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