HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

214 O'Neill HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

REVISED
March 28, 2002

COOKED BOOKS CLOAK THE FACTS:

REPUBLICAN BUDGET UNDERMINES SOCIAL SECURITY

Summary and Analysis of the House Republican Budget for 2003

This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and may not necessarily reflect the views of all members.

General Notes:

- All years are fiscal years unless otherwise noted.
- Throughout the document, the Congressional Budget Office is abbreviated to CBO. The Office of Management and Budget is abbreviated to OMB.
- Unless otherwise noted, funding levels for discretionary programs are stated in budget authority, and funding levels for entitlements and other direct spending programs represent outlays.
- The House Republican budget closely tracks the President's budget in many areas. This document is not meant to be a comprehensive analysis of all proposals, but rather a summary of significant policy matters and differences between the House Republican budget and the President's budget. A thorough analysis of the President's budget can be found on the committee website at: **http://www.house.gov/budget_democrats**.
- Numbers in tables may not add due to rounding.

Table of Contents

Overview 1
Where Is the Real Republican Budget 15
Creative Accounting 24
Revenues 28
Homeland Security 29
Appropriated Programs 32
The Budget by Function 36
Function Tables 37
Function 050: National Defense 40
Function 150: International Affairs 46
Function 250: General Science, Space, and Technology 48
Function 270: Energy 49
Function 300: Natural Resources and Environment 51
Function 350: Agriculture 56
Function 370: Commerce and Housing Credit 59
Function 400: Transportation 61
Function 450: Community and Regional Development 65
Function 500: Education, Training, Employment, and Social Services 67
Function 550: Health 71
Function 570: Medicare 76
Function 600: Income Security 79
Function 650: Social Security 87
Function 700: Veterans Benefits and Services 88
Function 750: Administration of Justice 91
Function 800: General Government 94
Function 920: Allowances 96
Function 950: Undistributed Offsetting Receipts 97
Broken Promises: Past Republican Quotes About the Budget 98

Overview

When it comes to the war against terrorism, the President has our total support. We are united, determined to win, and unstinting about paying the necessary cost.

But Democrats do not believe that national security and homeland security should come at the expense of Social Security and other national priorities, as both the President's budget and the House Republican resolution propose.

Republicans blame the war or the recession for the disappearance of the budget surplus. But estimates in the President's own budget confirm that it is the flawed economic plan Republicans pushed through Congress early last year that has caused the worst fiscal reversal in American history — the loss of $5 trillion of a $5.6 trillion surplus. But even after that reversal, and just six years before the beginning of the retirement of the baby-boom generation, the most one can say for both Republican budgets is, "steady as she goes." The Republicans have no plan to bring the budget to recovery even a decade after the economy recovers. Worse still, this year's Republican budgets dig the fiscal hole even deeper.

Both Republican budgets are fiscally damaging, and leave the nation unprepared for the retirement of the baby boom. But the House Republican budget is, if anything, more troubling. Where the President's budget is open about its long-term goal of additional excessive tax cuts, the resolution is silent — at the same time as the Republican Speaker announces his plans to advance such legislation. And the resolution papers over the President's insufficient funding of domestic priorities with modest additions to proposed appropriations. This raises the prospect of the worst of all fiscal worlds, with more tax cuts **and** more spending. But in the end, between the President's budget and the House Republican resolution, the risk is the same.

The Republican resolution dissipates most of the Social Security surplus, and decimates all of the Medicare surplus, over at least the next five years.

> OMB estimates the Social Security surplus at $1.217 trillion over the current fiscal year plus the following five-year budget window (2002 through 2007). The Republican resolution calls for cumulative non-Social Security deficits of $1.052 trillion, meaning that more than 86 percent of the Social Security surplus will be spent.
>
> It goes without saying that over this period the entire Medicare surplus is gone.
>
> The President and every House Republican leader promised last year that **every single** dollar of the Social Security and Medicare surpluses would be saved for Social Security and Medicare. With this Republican budget, virtually **no** dollar of the Social Security and Medicare surpluses will be saved for Social Security or Medicare.

The Republican resolution shows only five years of budget figures instead of ten, to cloak the much larger amount of the Social Security and Medicare surpluses that Republicans are really spending.

> With the President's budget invading Social Security as far as the eye can see, and spending nearly $2 trillion of its surplus, House Republicans apparently did not want to reveal the ultimate consequences of their choices.
>
> The Republican resolution might appear to improve on the President's budget, with a five-year cumulative surplus about $0.07 trillion higher, largely because of smaller tax cuts. But that appearance is misleading, because the resolution is silent on policies and numbers for the following five years. Worse still, the resolution is a sham even for the first five years. Republican Speaker Hastert, the day after the Committee markup of the resolution, announced his plans to bring to the floor in April larger tax cuts than the resolution would acknowledge. These tax cuts include the extension of last year's massive enacted bill, which would cost about $400 billion over the customary ten-year budget window.

The Republican resolution uses OMB rather than CBO estimates, in another reversal of sensible custom that further hides the outcomes of the Republicans' proposal.

> Instead of relying on the Congress's own non-partisan authority, the Republicans chose to use estimates by the Administration's political appointees.
>
> In 1995, Congressional Republicans shut the government down explicitly because they insisted on the use of CBO estimates.
>
> If CBO rather than OMB should prove correct, virtually the entire Social Security surplus will be gone for the next ten years.

The Republican resolution omits numerous impending budgetary costs.

> The Administration has stated that it will submit a supplemental appropriations request for defense and homeland security. The individual Alternative Minimum Tax will balloon twenty-fold, impinging on 39 million households — 34 percent of taxpayers — by 2012. Natural disasters will occur, and will demand emergency response by FEMA and other federal agencies. None of these or other certain or likely contingencies are accommodated in the resolution, making its projections highly suspect.

The Republican resolution pays mere lip service to the cause of prescription drug coverage for seniors.

The resolution reserves $350 billion over ten years; but without ten-year numbers for the rest of the budget, this figure is not credible.

Furthermore, the $350 billion must cover not only prescription drug coverage, but also Medicare provider give-backs and Medicare "modernization," in one legislative package, or the funding is not available. This requirement is prohibitive. (For example, in both of its budgets and in last year's *Mid-Session Review,* the Administration called for Medicare "modernization" or "reform," but never even defined the term — much less proposed legislation.)

Republicans have discussed as much as $174 billion of ten-year Medicare provider give-backs. At the same time, the resolution's hopeful OMB assumptions project $226 billion less in Medicare outlays over the next ten years than does CBO. If CBO's projections prove correct, there will be only $34 billion for the prescription drug benefit (and for Medicare provider give-backs, and for "modernization" of Medicare) over five years.

In their resolution, the Republicans abandon priorities that they themselves have touted, and that all Americans share.

To try to make their deficits appear smaller, Republicans have assumed non-defense, non-homeland security discretionary spending almost five percent below the level necessary to maintain current levels of services in 2003. For example, the resolution sustains the President's cut in funding for the bipartisan No Child Left Behind Act, as well as other cuts in education, health care, law enforcement, and environmental protection. If these cuts are not achieved — and many Republicans will oppose them — then the resolution's bottom line will turn even worse.

After eight consecutive years of improving budgets, culminating in actual debt reduction and surpluses not relying on Social Security or Medicare, how has our budgetary health fallen so low, so fast?

The answer lies much deeper than the unconscionable attacks of September 11, 2001, and the short and shallow recession. The answer does not rest on the continuing war on terrorism, which Democrats fully and wholeheartedly support. The answer lies in last year's reversal of the principles and common sense of budgeting that created the now lost success of the 1990s.

Three times in the 1990s, Congress enacted measures to bear down on the deficit, beginning with the Budget Summit in 1990, then the Clinton Budget in 1993, and finally the Balanced Budget Act

of 1997. And each year, for eight straight years from 1993 through 2000, we reaped the results. Each year, the bottom line of the budget got better.

The prospects peaked last year when CBO and OMB projected current policies out ten years and saw unified surpluses that totaled $5.6 trillion.

From Fiscal Improvement to Fiscal Reversal

Fiscal Year	Surplus/Deficit
1992	-$290.4
1993	-$255.1
1994	-$203.3
1995	-$164.0
1996	-$107.5
1997	-$ 22.0
1998	+$ 69.2
1999	+$125.5
2000	+$236.4
2001	+$127.1
2002	-$ 46.0

Democrats knew these were blue sky forecasts, and we warned against betting the budget on them. We urged that a third of the on-budget surplus be set aside for Social Security, and until we had settled on a plan for saving Social Security, that it be held in reserve, in case these rosy projections did not pan out.

Democrats proposed tax cuts, but we also proposed more for education, more for prescription drugs under Medicare, and more for debt reduction.

President Bush proposed much larger tax cuts, $1.7 trillion to start with; these became the driving force in the Republican budget resolution. We pointed out that the impact on the budget, when debt service was included, would come to more than $2 trillion, out of a non-Social Security, non-Medicare budget surplus of only $2.7 trillion. We pointed to clouds gathering over the economy, and warned that if CBO were off by just 10 percent, the budget would be back in the red, and back into the Social Security surplus.

Here is what the President said in reply:

> Tax relief is central to my plan to encourage economic growth, and we can proceed with tax relief without fear of budget deficits, even if the economy softens.

> Projections for the surplus in my budget are cautious and conservative. They already assume an economic slowdown in the year 2001.
>
> President George W. Bush
> Western Michigan University
> March 27, 2001

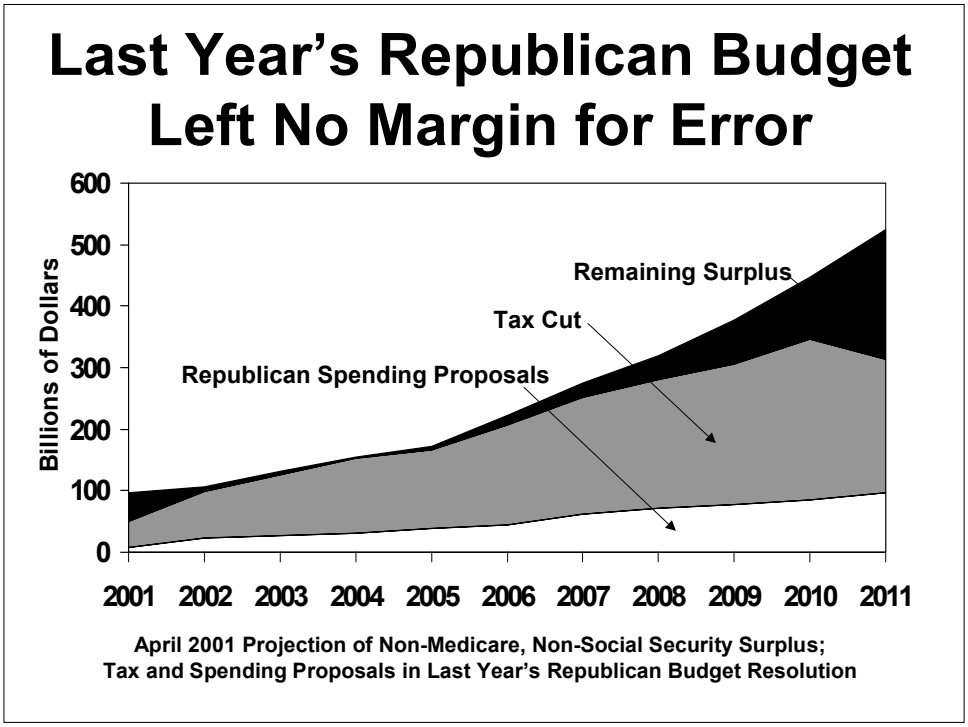
Democrats thought that both political parties had drawn one bright line in the budget, and made the Social Security surpluses inviolate. In fact, these are the promises made by the President and Congressional Republicans:

> None of the Social Security trust funds and Medicare trust funds will be used to fund other spending initiatives or tax relief.
>
> *A Blueprint for New Beginnings: A Responsible Budget for America's Priorities*
> Office of Management and Budget
> February 28, 2001, Page 11

> To make sure the retirement savings of America's seniors are not diverted into any other program, my budget protects all $2.6 trillion of the Social Security surplus for Social Security and for Social Security alone.
>
> President George W. Bush
> Address to Joint Session of Congress
> February 27, 2001

> We are going to wall off Social Security trust funds and Medicare trust funds . . . And consequently, we pay down the public debt when we do that. So we are going to continue to do that. That's in the parameters of our budget and we are not going to dip into that at all.
>
> House Speaker Dennis Hastert
> Quoted in BNA's *Daily Tax Report*
> March 2, 2001

> We must understand that it is inviolate to intrude against either Social Security or Medicare and if that means forgoing or, as it were, paying for tax cuts, then we'll do that.
>
> House Majority Leader Richard Armey
> BNA's *Daily Tax Report*
> July 11, 2001



The lock-boxes brought to the floor may have been gimmicks, but Democrats thought we had consensus on the core concept. We thought we had agreement that the trust fund surpluses would be saved, not borrowed and spent, to buy back Treasury debt held by the public. That could add more than $3 trillion to national savings, boost the economy, and in time retire virtually all the Treasury's debt. Then, in 2025, when the Social Security trustees needed to begin liquidating bonds to pay benefits, the Treasury would be in far stronger shape to redeem those obligations.

Before the last budget year was over, we would find this principle honored only in the breach.

Our arguments and admonitions went unheeded last year. The Republicans passed their budget, and left no margin for error as the chart below shows. By August, they had spent virtually the entire non-Social Security, non-Medicare surplus for the next seven years. If anything at all were to go wrong, the nation's entire economic strategy would be ruined.

So, when the forecasting errors began to show up, when the economy began to drop below OMB's projections, the unified surplus went down too, as this table below shows. According to the August estimate, before the influences of the terrorist attack in September, the surplus had gone down by $2.5 trillion, or 45 percent.

The 10-Year Unified Budget Surplus

Trillions of Dollars

	2002-2011	2003-2012
April 2001	5.637	N.A.
August 2001	3.113	N.A.
February 2002	0.661	1.002

Source: Office of Management and Budget

This year, if Republicans pass the President's budget, by OMB's accounting, the surplus will be slashed all the way down to $661 billion, just 12 percent of what was projected last year. Instead of $5.6 trillion, the unified surplus will be $0.6 trillion.

And that surplus, as the next table shows, is only what hasn't been spent from the surplus in Social Security. By OMB's own reckoning, if Republicans vote to pass the President's budget this year, they will be voting to spend all $560 billion of the Medicare surplus and $1.650 trillion dollars of the Social Security surplus, from 2002 through 2011, creating a $1.650 trillion on-budget deficit.

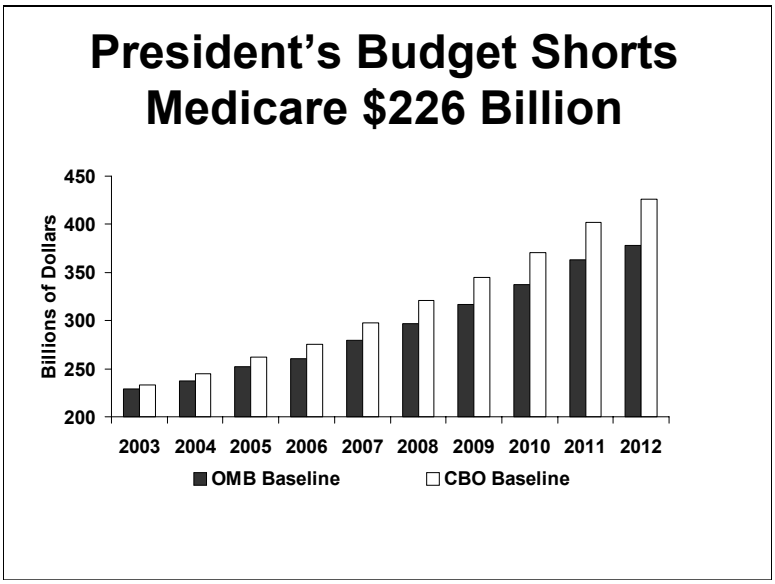
The 10-Year Non-Social Security Surplus

Trillions of Dollars

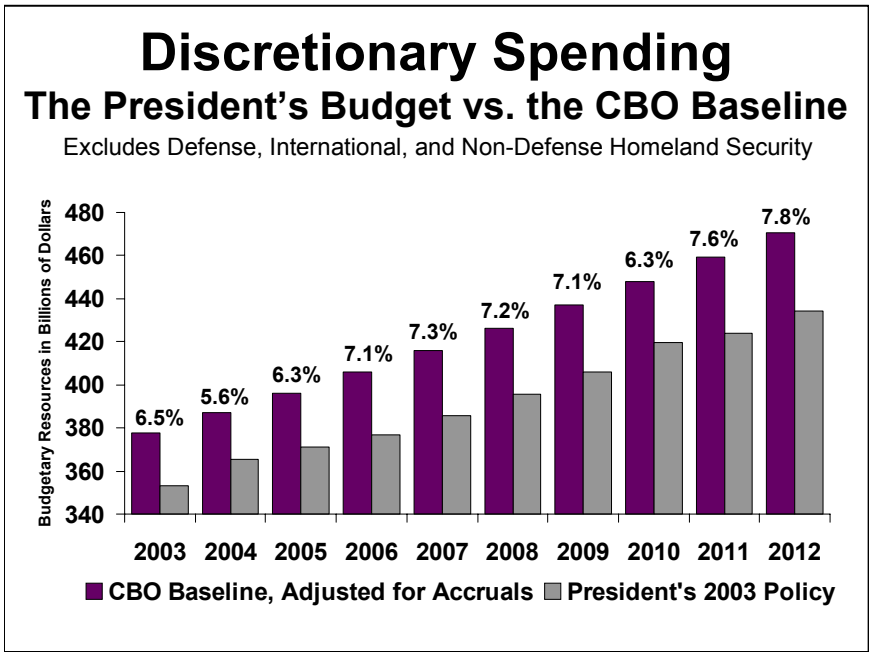
	2002-2011	2003-2012
April 2001	3.046	N.A.
August 2001	0.575	N.A.
February 2002	-1.650	-1.464

Source: Office of Management and Budget

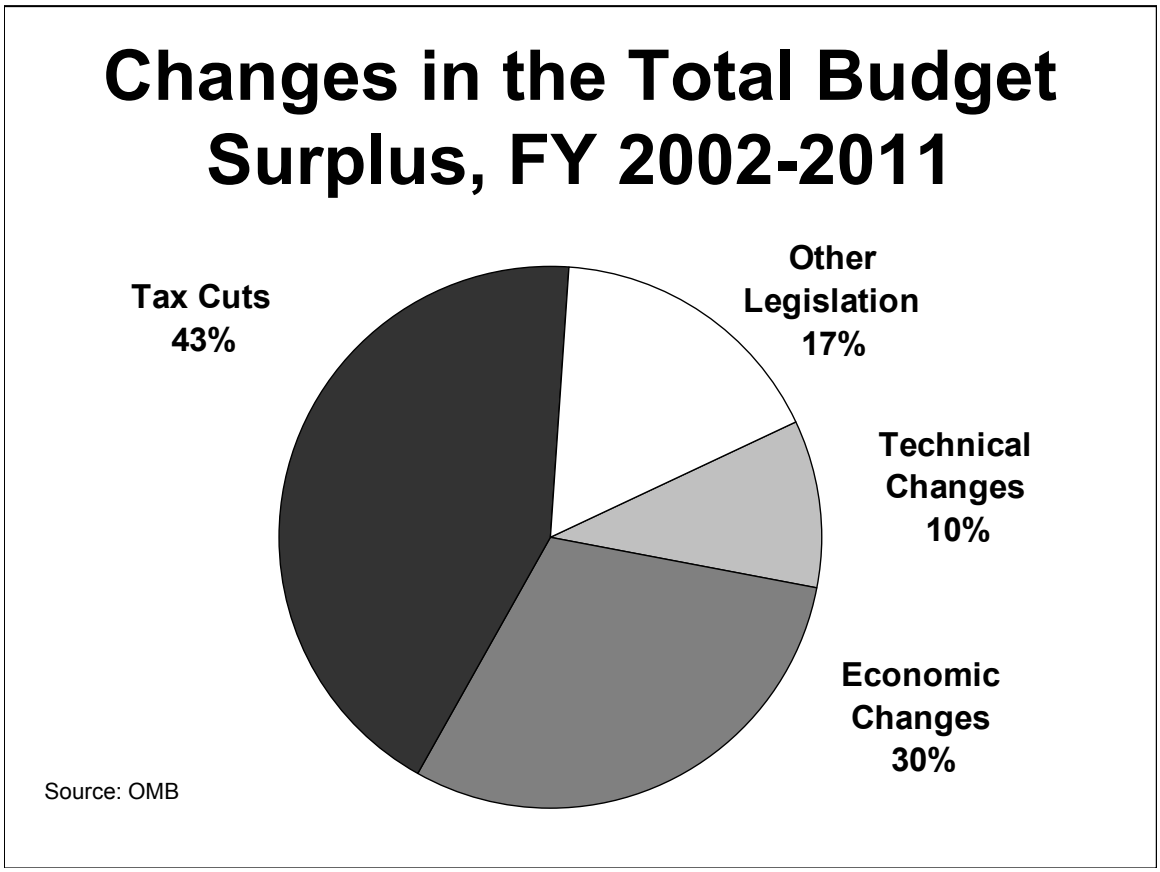
That dire calculation assumes that OMB's estimate of Medicare spending is correct, even though it is $226 billion less than CBO estimates the cost of Medicare will be. OMB's calculation also assumes that Republicans can hold non-defense discretionary spending for ten years $215 billion below what CBO estimates is needed to maintain the level of current services. That calculation further assumes that the nation can make it through the next ten years without major adjustments to the individual Alternative Minimum Tax, even though the number of tax filers affected will increase twenty-fold, from fewer than 2 million to 39 million. The President's budget overlooks the AMT altogether. The cost of correcting this problem will be at least $450 billion. Any of these developments could cause the Republican budget to consume the entire Social Security surplus, in addition to the surplus in Medicare.



So much for the lock box. And sadly, so much for our plan to save the Social Security surplus. The Republican budget dashes any hope that we can carry it out.

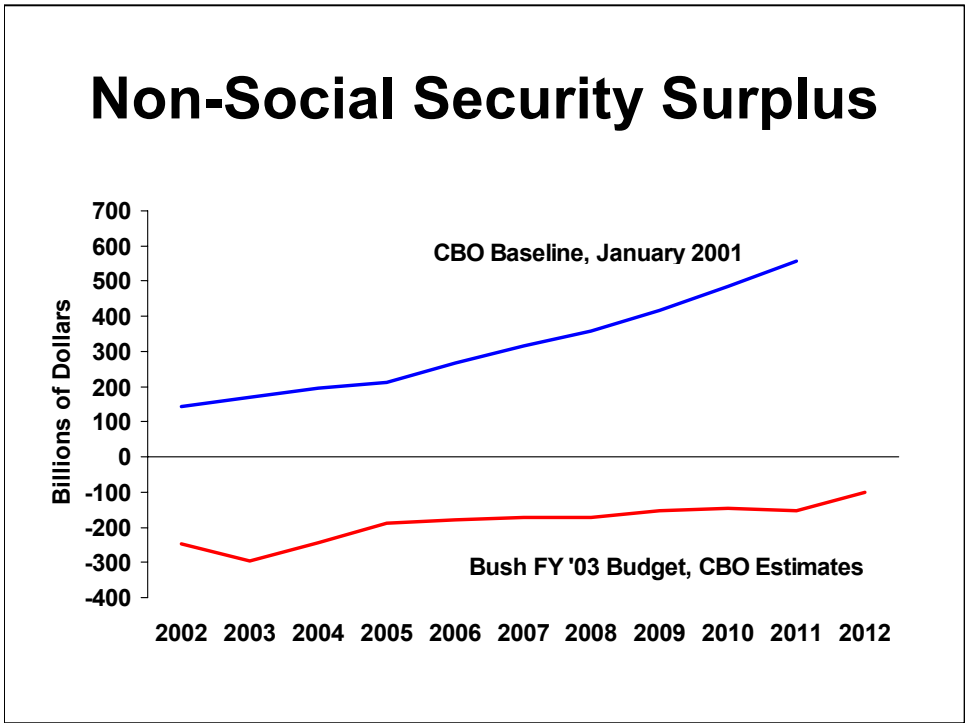


Republicans can seek absolution by blaming the economy and the war, but this next pie chart, using OMB numbers, shows that the largest share of the blame (43 percent), stems from the tax cuts they enacted.

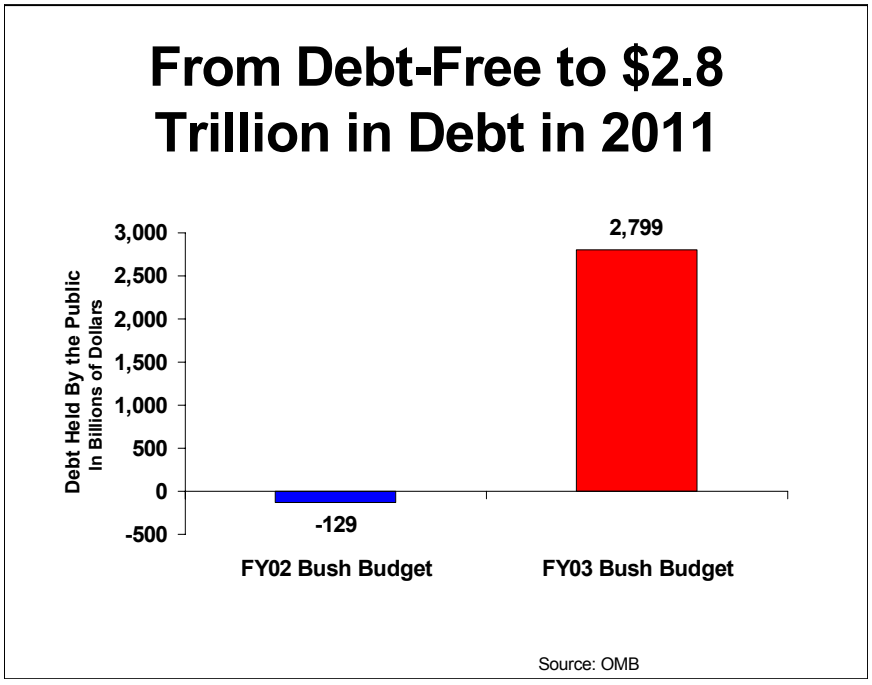


Last year, the budget, excluding Social Security, was totally in the black. Every year for ten years, CBO projected an on-budget surplus, as the following chart shows. The two Republican budgets, this year and last, cause that bottom line to do an about-face. Now, CBO says that every year for ten years, there will be an on-budget deficit.

As of last year, according to CBO, all the Treasury debt held by the public could be paid, or payment provided for, by 2008. But under today's Republican budget, between 2001 and 2004, Treasury debt held by the public actually goes up. And by 2008, when the baby boomers start to retire, the government will owe more debt to the public ($3.479 trillion) than it owes today. (CBO Analysis of President's Budget, Page 18, Table 2.)



So much for paying down the public debt.



Facing such a reversal, one would hope that Republicans would be scrambling for solutions. But rather than face the problem, they avoid it. For the first time in years, rather than adopting the baseline that is consistent with the Budget Act and with past practice, Republicans pick the projections that favor Republican policies most: the very same OMB estimates, derived by political appointees, that Congressional Republicans protested by shutting down the government just seven short years ago.

For the first time in years, Republicans also offer only a five-year budget instead of a ten-year budget. Presumably, their budget yields no consequences that they want to acknowledge in the second five years, and so they choose not to show those years at all. Republicans propose new programs, like drug coverage under Medicare, but because they present only a five-year budget, we have no way of telling if those initiatives are realistically funded. By not running their budget past 2007, Republicans avoid deciding whether the tax cut sunset in 2010 is to be repealed in their budget resolution. But the very day after the markup of the resolution, just after Republicans had told us that their proposal was silent on extending the tax cuts, their Speaker was announcing a new bill to do just that. This choice has a big impact on revenues, almost $400 billion. Without knowing out-year revenues, the Congress is at a loss to know if near-term tax cuts—extenders, for example—can be accommodated in this budget.

This budget does not recover in five years. We are left to infer what happens in ten years. Either Republicans have no ten-year plan of recovery, which is bad, or they have a plan but it will not stand scrutiny, which is worse. In any event, there are no targets, no objectives, and no strategies that we can find in this budget. It takes the track all the President's witnesses took at Budget Committee hearings this year, which is to admit that there is no work-out strategy, except a hope for more economic growth than the forecast already assumes.

This is not the path that led to eight straight years of better bottom lines. And this is not the path that leads to debt reduction and Social Security solvency and the furtherance of priorities that Democrats hold high, like education. Republicans went the wrong way at the fork last year. Before this year is out, we hope in some way to get the budget back on path. But this resolution takes us in the opposite direction.

House Republican Budget as Presented Using OMB Estimates
and Scored Using CBO Estimates
Billions of Dollars

	2002	2003	2004	2005	2006	2007	2003-2007
House Republican Budget as Presented							
Total Outlays	2033.2	2122.8	2192.4	2289.1	2382.7	2479.2	11466.2
Total Revenues	1967.5	2077.2	2200.1	2356.2	2471.6	2592.5	11697.6
Unified Surplus/Deficit	-65.7	-45.6	7.7	67.1	88.9	113.3	231.5
On-Budget Deficits	-221.3	-224.3	-187.0	-149.8	-139.2	-130.2	-830.6
House Republican Budget Scored Using CBO Estimates							
Total Outlays	2013.8	2126.8	2193.2	2295.8	2399.2	2498.2	11513.3
Total Revenues	1963.3	2042.1	2174.8	2331.9	2457.8	2580.1	11586.6
Unified Surplus/Deficit	-50.5	-84.8	-18.4	36.1	58.6	81.9	73.4
On-Budget Deficits	-207.9	-260.6	-212.6	-174.9	-166.9	-158.7	-973.8
Difference (As Presented Less CBO Estimate Version)							
Total Outlays	19.4	-4.0	-0.8	-6.7	-16.6	-19.0	-47.1
Total Revenues	4.2	35.2	25.3	24.3	13.8	12.4	111.0
Unified Surplus/Deficit	-15.2	39.2	26.1	31.0	30.4	31.4	158.1
On-Budget Deficits	-13.4	36.3	25.6	25.0	27.8	28.5	143.2

House Republican Budget Resolution
Compared With President's Budget
Billions of Dollars

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
House Republican Budget (As Presented, Using OMB Estimates)										
Unified Surplus	-46	8	67	89	113	?	?	?	?	?
On-Budget Surplus	-224	-187	-150	-139	-130	?	?	?	?	?
President's Budget										
Unified Surplus	-80	-14	61	86	104	113	142	181	178	231
On-Budget Surplus	-259	-208	-156	-142	-139	-143	-124	-99	-119	-75
Difference (Resolution Minus Budget)										
Unified Surplus	34	22	6	3	9	?	?	?	?	?
On-Budget Surplus	35	21	6	3	9	?	?	?	?	?

The Republican Budgets Spend the Medicare and Social Security Trust Fund Surpluses

The Republican House of Representatives has voted five times to create a "lockbox" that would require that the Social Security and Medicare Trust Fund surpluses be saved, and used to pay down the debt held by the public. The benefits of that saving would be twofold: first, to increase the total savings of the nation, therefore strengthening the economy as a whole so that it can pay the cost of these vital programs; and second, to strengthen the Federal budget, by reducing debt and therefore future interest obligations.

Both the House Republican budget resolution and the Administration's budget violate the Republicans' own "lockbox" principle for every year through the foreseeable future. This is true even using the rather hopeful Administration baseline that was chosen by the House Republicans to show their resolution in a more favorable light.

Spending Social Security and Medicare Under the OMB Baseline

The Administration's Budget					
Spending of:	2003	2004	2007	2012	2003-2012
Medicare ($ Billions)	38.8	43.4	54.0	74.6	556.1
Medicare (%)	100.0	100.0	100.0	100.0	100.0
Social Security ($ Billions)	177.1	195.4	192.7	147.8	1,837.2
Social Security (%)	100.0	100.0	79.4	48.6	74.7
The House Republican Budget Resolution					
Spending of:	2003	2004	2007	2012	2003-2007
Medicare ($ Billions)	38.8	43.4	54.0	N.A.	235.1
Medicare (%)	100.0	100.0	100.0	N.A.	100.0
Social Security ($ Billions)	177.1	195.4	183.4	N.A.	942.8
Social Security (%)	100.0	100.0	75.6	N.A.	89.0

The lockbox bills, for which House Republicans voted unanimously, required that the budget achieve a sufficient unified surplus to cover both the Medicare and the Social Security Trust Fund surpluses. By convention, because Medicare is on-budget while Social Security is off-budget, analysis has assumed that the first dollars of shortfall from this standard would invade the Medicare surplus, and that subsequent dollars invade the Social Security surplus, until the latter is fully dissipated. Still larger shortfalls which exceed the combined Medicare and Social Security surpluses are not counted, though they could be considered retroactive spending of past saved Trust Fund surpluses.

According to that standard, both the Administration's budget and the House Republican budget resolution exhaust the entire Medicare Trust Fund surplus in every year. (The Administration's budget was estimated for the customary ten-year window; the Republican resolution was presented

for only five years.) By the end of its ten-year window, the budget still spends nearly half of the Social Security surplus, and cumulatively over the ten-year window, it spends about three fourths. By the end of its five-year window, the Republican resolution spends about three fourths of the Social Security surplus, and cumulatively over those five years, it spends almost 90 percent. Over those five years, the Republican resolution spends only marginally smaller amounts of the Trust Fund surpluses than the Administration's budget. (This is because the Republican resolution fails to acknowledge the Republican agenda for still further tax cuts, as revealed by Speaker Hastert only the day after the resolution passed the House.)

The deficits of the Administration's budget and the House Republican budget resolution would appear even larger under the CBO baseline; if CBO's assumptions prove to be more accurate, the spending of the Medicare and Social Security Trust Fund surpluses will be even greater. CBO has provided its own official reestimate of the Administration's budget; the House Budget Committee Democratic staff has approximated the effect of the House Republican resolution under CBO assumptions (again, only through the five-year budget window).

Spending Social Security and Medicare Under the CBO Baseline

The Administration's Budget					
Spending of:	2003	2004	2007	2012	2003-2012
Medicare ($ Billions)	35.5	38.7	41.7	40.9	402.9
Medicare (%)	100.0	100.0	100.0	100.0	100.0
Social Security ($ Billions)	176.6	194.3	214.3	140.6	1,942.6
Social Security (%)	100.0	100.0	89.1	44.3	78.2
The House Republican Budget Resolution					
Spending of:	2003	2004	2007	2012	2003-2007
Medicare ($ Billions)	35.5	38.7	41.7	N.A.	197.6
Medicare (%)	100.0	100.0	100.0	N.A.	100.0
Social Security ($ Billions)	176.6	194.3	200.4	N.A.	991.1
Social Security (%)	100.0	100.0	83.3	N.A.	94.6

Economists have argued that the budget should save at least the amount of the Trust Fund surpluses, because even those surpluses are not enough fully to fund these programs future benefits. Instead, the Republicans chose to bet those Trust Fund surpluses on a strategy of large tax cuts. Subsequent development have demonstrated that this strategy was misguided; future developments will reveal the cost of that mistake.

Where Is the Real Republican Budget?

Both the House Republican budget resolution and the President's budget are "pretend" budgets. Neither one presents a credible plan to manage the government's finances over the next decade or to prepare for the beginning of the retirement of the Baby Boom generation six years from now. This is because these putative budgets omit and understate the costs of things that Republicans themselves intend to do and of things that inevitably must be done. The House Republican budget even refuses to show any costs beyond the next five years.

Some of the ***real*** Republican budget can be pieced together from the grossly incomplete elements of the two putative budgets. However, much of the real Republican budget must be inferred from Republicans' public statements — and from those uncomfortable topics that Republicans scrupulously avoid in their public statements. Once that is done, it becomes clear that the real Republican budget squanders the Social Security and Medicare Trust Fund surpluses for as far as the eye can see. The House Republican budget resolution is not the real Republican budget. Rather, it is a sham budget intended to cloak the fact that they plan to use the Social Security and Medicare Trust Fund surpluses for things unrelated to Social Security and Medicare especially tax cuts.

The real Republican budget has profound budgetary effects over ten years, as estimated by the nonpartisan Congressional Budget Office (CBO). The real Republican budget credits public declarations by the President and the Republican leadership that they wish to make last year's tax cut permanent and recognizes the budget effects of doing so. The real Republican budget accepts that Republicans will vote to extend popular expiring tax provisions and will not subject middle-class families with children to the alternative minimum tax (AMT). The real Republican budget acknowledges that a credible Medicare prescription drug benefit will be expensive and that providing basic government services cannot be done on the cheap. The real Republican budget creates huge permanent deficits, undermines Social Security and Medicare, and heaps up public debt for years to come.

Hiding the Second Five Years

House Republicans chose to present only five years of budget numbers in their resolution. This cloaks the fact that it spends all of the Medicare surplus and about two-thirds of the Social Security surplus over ten years, and probably well past. This encroachment on the trust fund surpluses already was evident from the President's budget, for which 10-year numbers are available. The Administration's own numbers show a non-Social Security deficit of $1.464 trillion for 2003 through 2012, equal to 59 percent of the Social Security surplus. CBO's somewhat less optimistic re-estimate of the President's budget puts the President's invasion at over 70 percent of the Social Security surplus, or $1.801 trillion. If extended for 10 years, the House Republican budget would look about the same.

Since the 1997 Balanced Budget Act, it has been customary to employ 10-year projections. The use of 10-year projections by both Democrats and Republicans was largely a recognition that the fiscal challenges posed by the impending retirement of the Baby Boom required a longer planning horizon. Of course, last year when Republicans were pushing a 10-year tax cut, 10-year projections were attractive to them. Now that last year's big tax cut has passed and the long-term surplus has disappeared, Republicans find 10-year estimates inconvenient.

The Republicans' plan to invade the Social Security and Medicare Trust Fund surpluses for years on end was evident in the Budget Committee's markup. Republicans rejected a rather measured Democratic amendment to require a future review if the budget continued to invade the Social Security surplus. Of course, House Republicans made strenuous promises last year and repeatedly brought up hortatory lockbox bills to demonstrate their supposed fealty to Social Security. This year, though, all but one of the Budget Committee Republicans voted against the Democrats' limited amendment.

"Every dollar of Social Security and Medicare tax revenue will be reserved for Social Security and Medicare."

President George W. Bush
February 24, 2001
Radio Address to the Nation

"We are going to wall off Social Security trust funds and Medicare trust funds...And consequently, we pay down the public debt when we do that. So we are going to continue to do that. That's in the parameters of our budget and we are not going to dip into that at all."

House Speaker Dennis Hastert
March 2, 2001
BNA Daily Tax Reporter

"We must understand that it is inviolate to intrude against either Social Security or Medicare and if that means forgoing or, as it were, paying for tax cuts, then we'll do that."

House Majority Leader Richard Armey
July 11, 2001
BNA Daily Tax Reporter

Using Nonpartisan CBO Estimates: That Was Then; This Is Now

After twice shutting down the federal government seven years ago largely over the issue of using CBO estimates, House Republicans have now decided CBO's figures are also inconvenient. If Republicans had started from the CBO baseline rather than the OMB baseline that they chose, that factor alone would worsen the non-Social Security deficit in their resolution by $318 billion over ten years. Adhering to less optimistic CBO scoring of their policy proposals would cause their

bottom line to deteriorate even further, although one cannot say by precisely how much. (See *Creative Accounting* for a more complete analysis.*)*

This sudden switch to OMB numbers is ironic in light of Republicans' arguments during the government shutdowns. Then, they claimed that only CBO could be trusted to be "honest," whereas OMB was politically tainted, being part of the Executive Office of the President. After the fact, both the CBO and OMB estimates may prove to be off the mark. But CBO is Congress's own nonpartisan authority and has a role, established in the Budget Act, of providing unbiased analyses.

"The language that will be in law when the President signs [the Continuing Resolution] is the 104th Congress is to achieve a balanced budget not later than fiscal year 2002 as estimated by the Congressional Budget Office. Very real. Very meaningful."

Representative Tom DeLay
November 20, 1995
Congressional Record H13371

"[CBO] is not a partisan office. It is not even a bipartisan office. It is a nonpartisan office. We on our side have had tremendous disagreements with those numbers, but why would we want those numbers to be used instead of the Office of Management and Budget? The Office of Management and Budget's are partisan numbers done by the President's political appointee....We just want it to be real."

Representative Chris Shays
November 18, 1995
Congressional Record H15077

"Let us be very clear, the language tonight says nothing about taxes. It says nothing about defense. It says nothing about education or environment. All it says, all it says is the President of the United States, in return for us giving him billions of dollars to spend, should commit to a 7-year balanced budget, scored honestly, by the Congressional Budget Office."

Former Speaker Newt Gingrich
November 15, 1995
Congressional Record H12502

Let's Pretend: Taxes

Republican budget resolutions traditionally have pretended that Republicans will make implausibly sharp, though largely unspecified, cuts in spending. This year, the resolution also pretends that Republicans have essentially given up on further tax cuts as well. The House Republicans' budget resolution would have us believe that Republicans really want only $27.9 billion in additional, unspecified tax cuts over the next five years.

Ostensibly, House Republicans have rejected the idea of making permanent last year's tax cut, which otherwise will sunset in 2010. CBO has estimated that that would cost $569 billion over ten years, plus added interest expense on the national debt.

Certainly, the Administration does not believe that Congressional Republicans have abandoned the President's call in the State of the Union Address to make the tax cut permanent. The day after the Budget Committee passed the Republican resolution on a party-line vote, White House spokesman Ari Fleischer said,

> [Making last year's tax cut permanent] is something the President has called for. The President hopes they will get it done, and I think it's clear that it's the will of the Republicans to get that done, perhaps a few Democrats, and that's something the President will continue to push for.

The Administration's confidence that day that House Republicans have not lost their enthusiasm for large and growing tax cuts is well placed. Only three hours earlier, House Speaker Dennis Hastert responded to a reporter in a manner that would indicate that he feels the same way:

> Well, you know I think there are some things that we want to do, and think one of the first things we will come up with is a taxpayer's Bill of Rights very soon and then we are going to look at extenders — not extenders — but to make part of this tax cut or all of it that we passed permanent over the next 10 years. Of course, that cost comes way out at the end years.

Making permanent last year's tax cut, though, is just the beginning of the tax agenda that Republicans omitted from their budget resolution. Table 3-12 in CBO's January budget outlook details over 30 other expiring tax provisions that Congress may well renew. Certainly, these popular expiring tax provisions typically have been renewed in the past, and typically most Republicans have voted for renewal. If Republicans still favor these measures, they would drain additional billions from the budget — billions that the Republican budget resolution does not acknowledge.

Finally, there is one major unresolved problem in the tax code that it will prove intolerable not to fix: the increasing burden of the individual alternative minimum tax (AMT) on middle-class families. The Republican budget resolution is silent about this problem, even though Republicans are well aware of its seriousness.

On page 77 of the *Analytical Perspectives* volume accompanying the President's budget, the Administration states, "By 2012 the number of AMT taxpayers will be 39 million (assuming [last year's tax cut] is extended), which is 34 percent of all taxpayers with individual income tax liability." Currently, the AMT — which is intended to prevent very affluent households from avoiding taxes through shelters, credits, and deductions — affects fewer than 2 million tax filers. But, if nothing is done, more than half of all families with children, including many with moderate incomes using no tax shelters, will be subject to the AMT.

Clearly, the burgeoning AMT problem will eventually have to be fixed. Fixing it, however, will be quite expensive. There are no official estimates for comprehensive AMT reform, but JCT estimated that merely offsetting the interactions with last year's tax cut, which added to existing AMT problems, would reduce revenues by $127 billion. This would still leave about 20 million taxpayers subject to the AMT. The cost, including debt service costs, of a comprehensive reform of the AMT could easily reduce the ten-year surplus by $450 billion or more.

Let's Pretend: Spending

Just as the House Republican budget resolution pretends that its sponsors do not really favor substantial additional tax cuts, it also pretends that Republicans will not vote to increase spending beyond the numbers in the resolution. As mentioned above, this is an old trick in Republican budget resolutions: voting in the spring for a fake budget with supposedly severe spending strictures, and then voting in the fall for hefty spending increases to take home to their constituents.

The most egregious example of this in the House Republicans' resolution this year is their putative Medicare prescription drug proposal. The resolution establishes a reserve fund that supposedly serves three purposes: (1) a prescription drug benefit, (2) relief for Medicare providers from the constraints imposed by the 1997 Balanced Budget Agreement, and (3) unspecified Medicare "modernization ." The reserve fund is pegged at $350 billion over ten years — something of an oddity in a five-year budget resolution.

Last year, CBO already had informed the Congress that the proposals put forward at that time just to provide a prescription drug benefit alone could cost more than $350 billion over ten years. Yet, the Republican budget claims that this amount can somehow fund a drug benefit and provide relief for Medicare providers, an item that MedPAC estimates could cost as much as $174 billion over ten years. Clearly, the unspecified Medicare "modernization" is intended to give the impression that Republicans are going to find spectacular new efficiencies in the provision of health care to the elderly that will save hundreds of billions of dollars. (See *Function 570: Medicare* for a more complete analysis.)

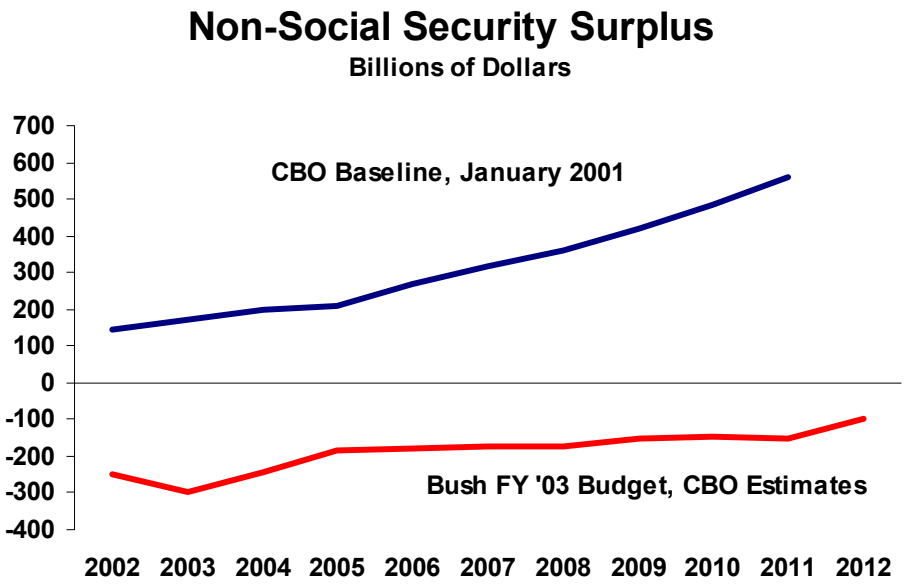
The resolution plays similar games with implausibly low funding numbers for domestic, non-security programs. The Republican budget claims that over ten years such spending will be held $17.8 billion below the level needed to keep up with inflation. By 2012, this would amount to a 5.8 percent cut below the level needed to maintain constant purchasing power for priority programs such as education, the environment, scientific research, housing, economic development, and transportation. Merely maintaining such programs at the level needed to keep pace with inflation — let alone providing for the needs of a growing population and a growing economy — would reduce the surplus by about $221 billion once debt service costs were included.

Finally, just as the resolution ignores inevitable tax reductions that will occur in the future, it also ignores inevitable spending increases that will soon occur. The most obvious omission is the cost of the defense and security supplemental spending bill that the Administration will soon send to the Congress. Although the funds in this bill will be appropriated for 2002, much of the spending will occur in 2003 and 2004, affecting the deficits for those years. The Republicans' alleged budget makes no provision for this — nor for the substantial increase in foreign development aid that the President just announced in advance of his United Nations appearance.

In a similar vein, this year's House Republican budget has dispensed with a very prudent reserve for natural disasters that was included in last year's Republican resolution. Though we cannot know exactly when earthquakes, hurricanes, tornadoes, floods, and wildfires will occur, we can be certain that they have not ceased altogether. Last year's resolution set aside funding approximately equal to the average cost of these calamities, but this year's budget does not.

Let's Pretend: The Debt Limit

To cloak the fact that their real budget undermines Social Security and Medicare, Republicans claim that the stunning fiscal reversal of the last year was beyond their control. Last year, incoming President Bush was presented with the most abundant fiscal legacy in our nation's history. After eight straight years of declining deficits and then growing surpluses, CBO projected non-Social Security surpluses last January for the next decade and beyond. The outlook was so favorable that the President and Congressional Republicans said categorically that the greatest fiscal danger facing the United States was that the public debt would be paid off too quickly.

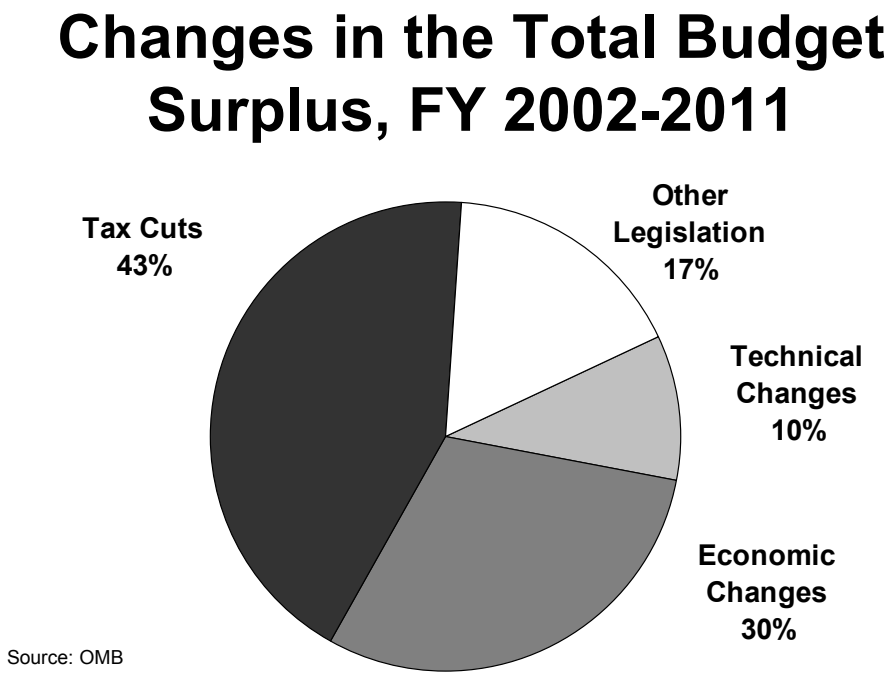


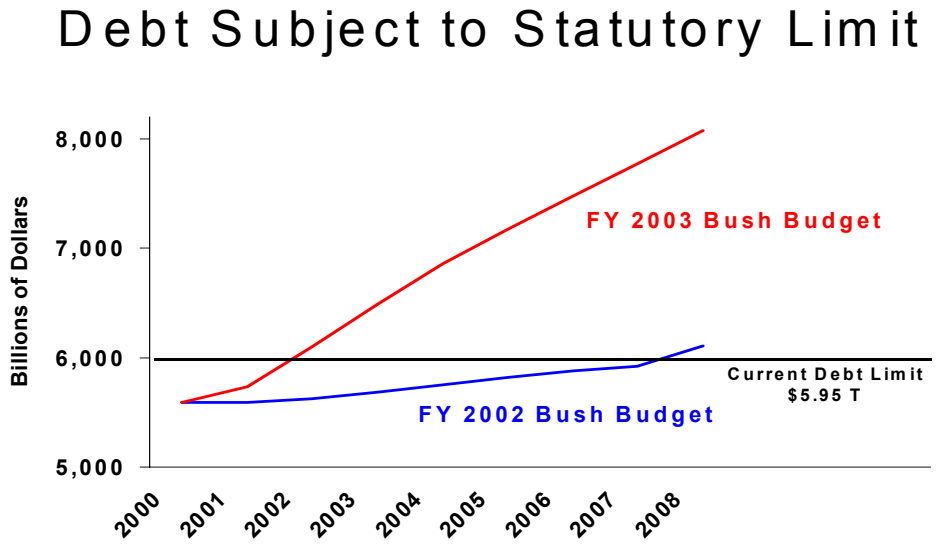
Their budget agenda deserves credit for at least one success: the "problem" of too much debt reduction has been solved. Now, the Administration's own numbers show Republican policies resulting in rising debt and on-budget deficits for as far as the eye can see. The President and Congressional Republicans, however, claim that their policies did not cause this sudden fiscal reversal, instead blaming the exigencies of war and a weak economy. For instance, on page 32 of the President's Budget this year, he claims,

> The economic shock combined with unexpected new expenditures for defense, homeland security, and domestic reconstruction pushed the federal government back into deficit. However, if we make the right choices by stimulating growth and controlling spending, deficits will be small and temporary.

However, the Administration's own numbers show that the deterioration of the budget will be large and enduring. Furthermore, Table S-16 on page 415 of the President's budget shows quite clearly that the single largest factor in the deterioration of the budget over the last year was the over-sized Republican tax, accounting for 43 percent. Once the economic slowdown is behind us, of course, that percentage will be higher.

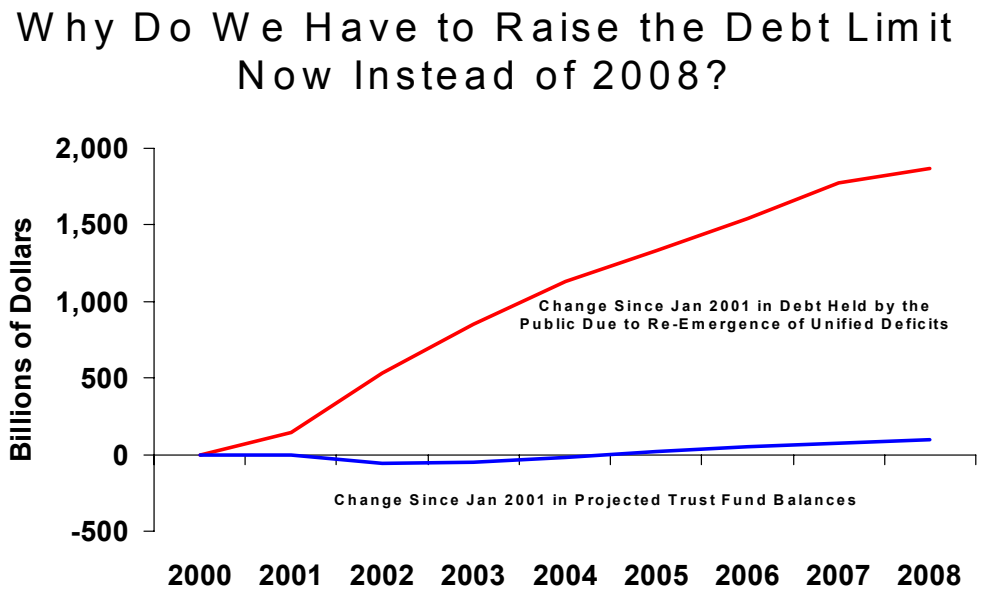
Given Republicans' arguments that the abrupt fiscal reversal was not their fault, their diffidence about enacting an urgent increase in the debt ceiling at the moment is curious. Currently, Treasury Secretary O'Neill is planning to borrow from the retirement trust fund for federal employees to avoid the need to vote an increase in the debt limit during the same week as the Congress considers the Republican budget that created the need for an increase.





Source: OMB

Republicans argue that Treasury obligations to government trust funds, which are part of debt subject to statutory limit, are somehow responsible for the urgent need to raise the debt ceiling now. But, as the chart below shows, the change in debt subject to limit since last year results almost entirely in the change in publicly held debt — a direct reflection of the budget's return to deficit — while debt held by the trust funds has barely changed.



Source: OMB

This inaccurate argument has even prompted Congressional Republicans to suggest "solving" the problem by redefining debt subject to limit so as to exclude the part held in government trust funds. While this redefinition might make it appear as if debt subject to limit had declined rather than risen, it would be a sham, because Republicans had merely moved the goal posts. It also would amount to turning our backs on our obligations to Social Security and the other trust funds, which is not acceptable to Democrats.

Conclusion

House Republicans have proclaimed that their resolution embodies a "wartime balanced budget." This conveys the impression that — were it not for the awful and unforeseen events of September 11 — the budget would be just fine. This is false. It is like claiming that the budget is just fine — provided one adjusts for all the changes in taxes and spending. However, the above analysis of the unrecognized and unacknowledged costs of the true Republican agenda shows it to be a plan exploiting the Social Security and Medicare surpluses for a misguided agenda — undermining those two bedrock programs for the elderly just as both are about to face their toughest challenges.

Creative Accounting

The Risk of Using OMB Estimates Instead of CBO

The purpose of a budget resolution is not only to outline priorities for the coming year, but also to provide a plan for future years. The estimates of surplus and deficit in coming years are not meant to be set in stone, but rather to provide guidance on prudent policy choices today.

Last year, Republicans said that CBO estimates were unreliable because they were too pessimistic. They nevertheless used CBO's projections of future surpluses to justify a huge tax cut, leaving no margin for error. Democrats urged caution. In 1995, Congressional Republicans shut down the government twice over the issue of using CBO estimates. They insisted Congress's own, nonpartisan authority was more honest than political appointees at OMB. This year, Republicans have chosen to use OMB's estimates of spending and revenues rather than CBO's, even though CBO presents a starker outlook of future deficits. Once again, Democrats prefer a more measured approach, and urge Republicans to use CBO numbers.

OMB and CBO estimates differ in all three main budget components: revenues, mandatory spending, and discretionary spending. The three are discussed below.

Revenues

Before any revenue policy changes are taken into account, CBO's estimates of revenues are $35.2 billion lower than OMB's for 2003. Over five years, 2003 - 2007, the difference between CBO and OMB revenue projections is $110.4 billion with OMB being more optimistic. Thus, the Republican budgets will project significantly higher surpluses in each year for the same set of spending policies than CBO would estimate just by using OMB estimates of revenues.

Mandatory Spending

For mandatory programs, the estimating differences between CBO and OMB are profound. Before including any changes put forward in the Republican budgets, OMB estimates that government spending for mandatory programs will be $48 billion less over the five year period, 2003 - 2007. Over ten years, OMB estimates mandatory spending will be $207.8 billion lower than CBO. These baseline differences again help the Republicans show higher surpluses and less deficits than would be the case if CBO estimated the cost for an identical set of policies.[1]

---

[1]Medicare is the primary difference between OMB and CBO estimates of mandatory spending. OMB's Medicare baseline is $226 billion lower over ten years, 2003-2012, than CBO's Medicare baseline. See *Function 570 (Medicare)* for a full discussion of the Medicare baseline and the Medicare policies in the House Republican budget.

Discretionary Spending

For appropriated programs, the amount of funding (budget authority) in any given year is roughly equal using either OMB or CBO estimates. For example, the difference between OMB's estimate of the budget authority needed to fully implement the President's 2003 plan for appropriated programs is only $1.2 billion less than the CBO estimate of the identical policies. However, the *outlays* that result from the budget authority provided in the resolution have a direct result on the surplus or deficit, and the estimate of those outlays differs between OMB and CBO (although by not as much in strict dollar terms as either revenues or mandatory spending). For example, CBO estimates that the outlays resulting in 2003 from the President's appropriations will result in $4.2 billion of outlays more than OMB estimates for the identical policies.[2]

The following table summarizes the differences between using OMB and CBO estimates:

Comparing the House Republican Budget as Presented vs. How It Looks Scored Using CBO Estimates

Dollars In Billions

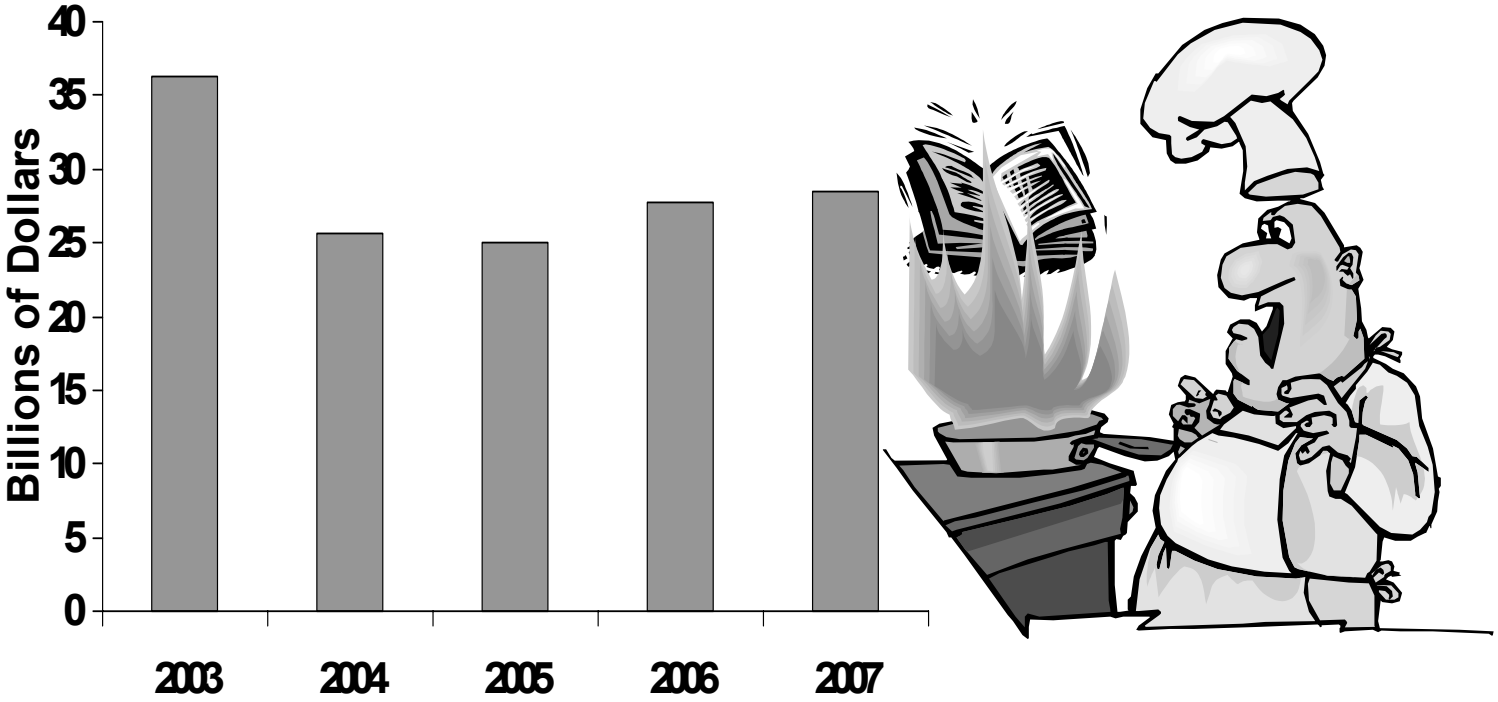
	2003	2004	2005	2006	2007	2003-2007 Total
House Republican Budget as Presented						
Total Outlays	2122.8	2192.4	2289.1	2382.7	2479.2	11466.2
Total Revenues	2077.2	2200.1	2356.2	2471.6	2592.5	11697.6
Unified Surplus/Deficit	-45.6	7.7	67.1	89.0	113.3	231.5
On-Budget Deficits	-224.3	-187.0	-149.8	-139.2	-130.2	-830.6
House Republican Budget Scored Using CBO Estimates						
Total Outlays	2126.8	2193.2	2295.8	2399.2	2498.2	11513.3
Total Revenues	2042.1	2174.8	2331.9	2457.8	2580.1	11586.6
Unified Surplus/Deficit	-84.8	-18.4	36.1	58.6	81.9	73.4
On-Budget Deficits	-260.6	-212.6	-174.9	-166.9	-158.7	-973.8
Difference (As Presented Less CBO Estimate Version)						
Total Outlays	-4.0	-0.8	-6.7	-16.6	-19.0	-47.1
Total Revenues	35.2	25.3	24.3	13.8	12.4	111.0
Unified Surplus/Deficit	39.2	26.1	31.0	30.4	31.4	158.1
On-Budget Deficits	36.3	25.6	25.0	27.8	28.5	143.2

[2]Over five years, OMB actually estimates outlays to be $15.7 billion higher than CBO estimates for the identical set of policies (the President's budget for appropriated programs). However, this small discrepancy between OMB and CBO is more than made up by OMB's more favorable estimates of revenues and lower estimates of mandatory spending. Using OMB estimates helps makes the House Republican budget post smaller deficits and larger surpluses over the five year period 2003 - 2007 than would be the case using CBO estimates.

As the table indicates, if CBO estimates were used to score the House Republican budget, the combined total of unified surpluses would be $158 billion less than presented. Using CBO estimates, the House Republican budget would tap the Social Security surplus by $143 billion more than they now claim. The following graph shows the year-by-year advantage of using OMB rather than CBO estimates.

Republicans Cook the Books

Effect on the Surplus of Using OMB Instead of CBO



Choosing to believe a sunny forecast over a dreary one does not ensure that it will not rain. In fact, such a choice may leave us without an umbrella and ill-prepared for the future.

Accruals

The President's budget displays $9.0 billion in discretionary budget authority to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for employees. This amount reflects only an accounting change and does not represent a programmatic increase. However, this inclusion made discretionary spending increases in the President's budget appear larger than they really were. This accounting change results in increased discretionary budget authority and outlays within functional totals, but a corresponding increase in mandatory Function 950 (Undistributed Offsetting Receipts) receipts equal to those amounts. The proposal therefore has no net impact on the deficit or surplus. The House Republican budget does not assume implementation of the President's accrual accounting proposal, although it establishes a reserve fund to accommodate it should it be enacted (see *Appropriated Programs* for further discussion).

Revenues

The House Republican budget resolution provides for $27.853 billion in new tax cuts for 2003 through 2007. The resolution is silent about what form these tax cuts might take, and Republicans did not offer any specific recommendations in response to questioning during the Committee's markup.

Tax Cut in Republican Budget Resolution

Millions of Dollars

2002	2003	2004	2005	2006	2007	2002-2007
0,000	4,431	5,455	6,418	5,994	5,555	27,853

The very modest tax cut figures in the Republican resolution are not credible, given the repeated and vociferous calls by both the President and the Republican leadership for major additional tax cuts. (See *Where Is the Real Republican Budget?* for a more complete analysis.)

- The day after the Committee's markup of the resolution both Speaker Hastert and White House spokesman Ari Fleischer expressed a commitment to making permanent the provisions of last year's tax cut. CBO estimates that doing so would reduce revenues over 10 years by $569 billion and would have revenue effects in 2003 through 2007 larger than those shown in the above table.

- The tax cut figures in the resolution could not possibly accommodate reform of the individual alternative minimum tax (AMT), which will become a severe burden on middle-class families if not fixed.

Homeland Security

The House Republican budget includes a total of $37.7 billion for homeland security activities, the same level as provided by the President's budget. This funding level is a $10.1 billion (36.5 percent) increase over the 2002 enacted level (including emergency supplemental funding). Like the President's budget, the House Republican budget includes $9.9 billion for homeland security within the national security function, of which $7.8 billion is for the Department of Defense (DoD). Of the $27.9 billion in non-defense homeland security, $4.7 billion is for fee-funded programs. Thus, the Republican budgets include $23.2 billion for non-defense appropriated homeland security programs.

Homeland Security Funding in the Republican Budgets

(Budget Authority in Billions of Dollars)

	2002	2003 Budget	Change	*% Change*
Appropriated Programs:				
Department of Defense	$4.9	$7.8	$3.0	*61.0*
Other Defense*	$2.1	$1.7	-$0.4	*-20.1*
Non-defense Homeland Security	$17.7	$23.5	$5.8	*32.5*
Subtotal, Appropriated	*$24.7*	*$33.0*	*$8.3*	*33.6*
Fee-Funded Programs	$2.9	$4.7	$1.8	*60.9*
Total Resources	**$27.6**	**$37.7**	**$10.1**	***36.5***

Numbers may not add exactly due to rounding.
All numbers based on OMB estimates.
**Other Defense includes homeland security funding for the Department of Energy and other agencies, such as the Coast Guard, which also receive national security funding.*

- ***Appropriated Programs*** — As the table above indicates, the Republican budgets increase homeland security by 36.5 percent over the 2002 enacted level. The 2002 level includes homeland security funding provided by the Congress in the second $20 billion of the $40 billion supplemental appropriated in the aftermath of September 11. The table that follows displays the appropriated funding levels for 2003 in the Republican budgets for homeland security function by function.

Homeland Security Funding in the Republican Budgets
Appropriated Programs Only
(Budget Authority in Millions of Dollars)

Function #	Function Title	Amount
050	National Defense	9,522
150	International Affairs	191
250	General Science, Space, and Technology	365
270	Energy	55
300	Natural Resources and Environment	316
350	Agriculture	206
370	Commerce and Housing Credit	114
400	Transportation	5,505
450	Community and Regional Development	3,515
500	Education, Training, Employment, and Social Services	133
550	Health	4,393
600	Income Security	121
700	Veterans Benefits and Services	35
750	Administration of Justice	8,044
800	General Government	466
	Other*	52
	Budget Authority Total	**33,033**

* Proposals that are not yet traceable to any specific budget function are grouped into the "other" category.

Note: The table is based on information provided by OMB.

- ***Fee-Funded Programs*** — In addition to appropriated funding, governmental resources are available for homeland security through a variety of governmental fees. The agencies that levy these fees are allowed to use some or all of the receipts from these fees to finance homeland security activities. Since the spending on homeland security is offset by the receipt of the fees, these fee-funded programs have no net effect on the surplus or deficit. However, they do represent governmental resources that are expended for homeland

security. The Republican budgets include a total of $4.7 billion for fee-funded programs, primarily in the following three areas:

- ***Aviation*** — The Aviation and Transportation Security Act, signed by the President last November, established a new Transportation Security Administration (TSA), which took over responsibility for aviation security from the Federal Aviation Administration. In order to help fund the TSA's activities, the law authorizes a passenger fee of $2.50 per enplanement (capped at $5 per one-way ticket) and security fees on air carriers. The Republican budgets reflect estimated collections of $2.2 billion from these fees. These collections only partially cover the $4.8 billion the Republican budgets provide for the TSA. For more information on this subject, see *Function 400 (Transportation)*.

- ***Customs and Immigration and Naturalization Service (INS)*** — Under current law, Customs, the Immigration and Naturalization Service, and other agencies related to border control, charge a variety of fees. A portion of these fees, $1.8 billion for 2003, will help fund personnel and equipment to secure U.S. borders.

Defining Homeland Security

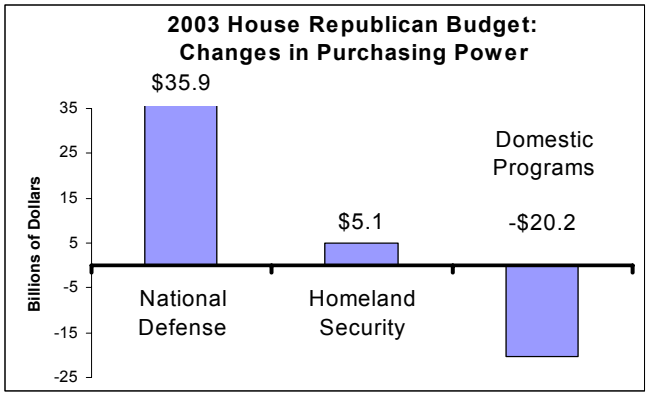
Part of the difficulty in assessing the resources available for homeland security is that there is no commonly accepted definition of what activities constitute homeland security. For example, using the definition of homeland security that OMB used in its July 2001 report on anti-terrorism, CBO estimates the 2002 level of homeland security to be $22.2 billion for appropriated programs, $2.5 billion less than the level OMB now estimates. OMB has modified its definition since last summer. Discussion of the appropriate funding levels for homeland security is likely to be complicated by the uncertainty over what programs to include and exclude.

- ***State Department*** — The Republican budgets include $623 million generated from application fees for machine-readable visas to be used for homeland security activities for 2003. The fees support border security initiatives within the State Department's Diplomatic and Consular programs.

Appropriated Programs

The House Republican budget reflects the President's 2003 budget's emphasis on "the war on terrorism and the defense of our homeland." Thus, it provides the same level of funding for national defense, international affairs, and homeland security programs as provided by the President's budget. Similar to the President's budget, the House Republican budget provides large increases in these areas while cutting funding for domestic discretionary programs. Since national defense, international affairs, and homeland security are discussed elsewhere in this report, this section focuses primarily on domestic appropriated programs.

For 2003, the House Republican budget provides a total of $795.8 billion for all appropriated programs, including obligation limitations for transportation programs see *(Function 400 (Transportation)* for discussion of transportation programs in the House Republican budget). This level of funding is $5.5 billion more than provided by the President's budget.[3]



As the table on the next page indicates, the Republican budgets increase funding for national defense by $45.2 billion and non-defense homeland security by $5.8 billion over the 2002 enacted levels. The Republican budgets also increase funding for international affairs programs by $1.3 billion over the 2002 enacted level. However, the House Republican budget cuts funding for non-defense, non-homeland security domestic programs by $7.8 billion below the 2002 enacted level. This is a $20.2 billion (5.4 percent) cut in constant purchasing power for domestic programs for 2003. In contrast, as the chart above shows, funding for defense increases by $35.9 billion and homeland security by $5.1 billion above CBO's estimate of the amount needed to maintain purchasing power at the 2002 level.[4]

- ***Further Squeeze on Domestic Programs*** — As discussed, the House Republican budget cuts funding for domestic programs not related to homeland security by $7.8 billion below the 2002 enacted level. This is $20.2 billion (5.4 percent) below CBO's estimate of the

[3]The President's budget also includes a proposal to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for all non-uniformed federal employees. The total amount of this proposal is $9.0 billion and it does not represent a programmatic increase. As discussed at the end of this section, the House Republican budget does not display funding for this proposal.

[4]Using OMB rather than CBO estimates to calculate the level needed to maintain constant purchasing power, the House Republican budget cuts domestic funding by $17.9 billion.

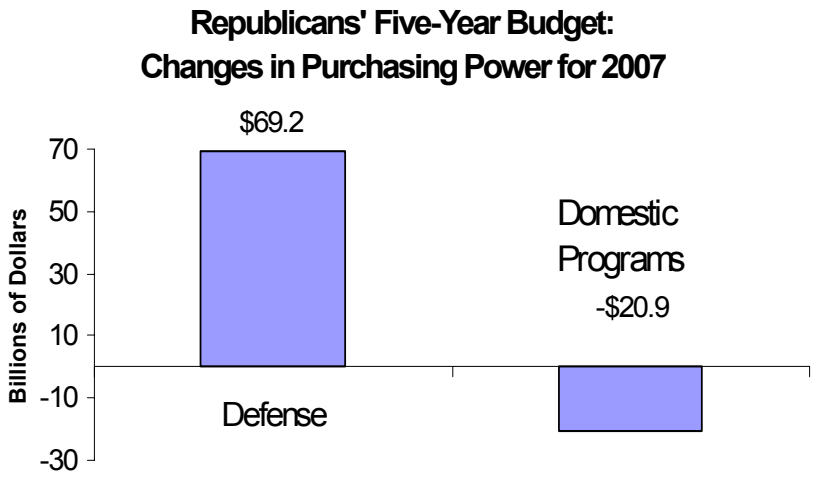
amount needed to maintain purchasing power at the 2002 level. To the extent that the budget increases funding for a few high-profile programs, such as the National Institutes of Health and special education, the remaining programs face even steeper cuts, some that Congress has repeatedly refused to make in past years.

Funding for Appropriated Programs
(Budget Authority and Obligation Limitations in Billions of Dollars)

	2002	2003	Change	*Percent Change*
National Defense*	347.6	392.7	45.2	*13.0%*
Non-Defense Homeland Security	17.6	23.3	5.8	*32.8%*
International Affairs	24.0	25.3	1.3	*5.5%*
Domestic Programs	362.2	354.4	-7.8	*-2.1%*
Total	**751.3**	**795.8**	**44.5**	***5.9%***

Notes: The 2002 levels are CBO estimates. Domestic Programs include budget authority and transportation obligation limits. Non-Defense Homeland Security also excludes international affairs funding (primarily embassy security).
*National Defense is budget Function 050, which includes the Department of Defense and the nuclear weapons-related activities of the Department of Energy.

- ***Domestic Funding Falls Further Behind by 2007*** — The House Republican budget assumes unrealistically low funding levels not only for 2003, but for five straight years. Over the five years, domestic appropriations are $96.3 billion below CBO's estimate of the amount needed to maintain current purchasing power at the 2002 level. By 2007, total domestic appropriations are $21.0 billion (5.1 percent) below the amount needed to maintain current purchasing power. In contrast, national defense funding by 2007 will be $69.2 billion (17.5 percent) more than CBO's estimate of the amount needed to maintain purchasing power at the 2002 level.



- ***Unrealistic Cuts in Domestic Appropriations*** — Since domestic appropriations have grown faster than the rate of inflation for decades, it is unrealistic to assume that Congress will suddenly reverse priorities and cut domestic programs by 5.4 percent for 2003. If one adds in a more realistic level of appropriations for non-defense, non-homeland security programs, it is clear that the budget deficit will be even deeper than the Republican budgets admit and will last even longer than the budgets project.

- ***Pending Supplemental Request for 2002*** — The House Republican budget is also unrealistic because it does not make any accommodation for the 2002 supplemental the Administration plans to submit to Congress in the near future. This supplemental will include billions of dollars for the war on terrorism, assistance to New York City, and perhaps other items – such as homeland security – as well. Of course, the supplemental funding will result in additional outlays of several billions of dollars for 2003, so the budget deficit for 2003 will be accordingly larger.

- ***House Republicans Fix Some of the President's Highway Funding Cut*** — The President's budget cuts 2003 federal-aid highway funding to $23.2 billion, a cut of $8.6 billion (27.0 percent) below the 2002 enacted level. This dramatic cut is consistent with a provision in the Transportation Equity Act for the 21st Century (TEA-21) that links highway funding levels with highway use tax collections. Such a steep decline in federal aid could force states to abandon or postpone many highway projects and result in the loss of thousands of highway construction jobs while the nation is still recovering from the recession. The House Republican budget adds back $4.4 billion, which means that federal-aid highway funding is still $4.2 billion less than the 2002 enacted level. See *Function 400 (Transportation)* for further information.

- ***Reserve Fund for Accrual Accounting for Federal Employees*** — The House Republican budget does not include the President's proposal for an accounting change to show up front (through accrual accounting, already used for federal credit programs) all retirement pension and health costs for all federal employees beginning in 2003. The discretionary portion of this accounting change would be $9.0 billion for 2003, but it would not reflect any programmatic increases and it would have no effect on the budget surplus or deficit because it is merely an intergovernmental transfer.[5] Under current federal accounting procedures, these retirement costs are future mandatory payments and are not included in agency costs.

---

[5] Each agency would pay the accrual costs of employees' retirement and health costs to the various retirement and health trust funds. The expenditure from one account would be entirely offset by the receipt of an identical amount in another governmental account. The net impact on the surplus is thus zero.

The House Republican budget includes a reserve fund allowing the spending allocations of the appropriate House committees to be adjusted should the accrual accounting proposal be enacted. Unlike the House Republican budget's other reserve funds, the $9.0 billion for accrual accounting does not appear in the total of funding for appropriated programs. However, since the adoption of accrual accounting would not affect the surplus, the reserve fund — even if used — would not add to or subtract from the deficits already included in the House Republican budget.

The Budget By Function

The following three tables show the House Republican budget broken down by budget function, which correspond with the major areas of federal government activity. The first table shows total spending (appropriated and mandatory) for each budget function. The second table shows the budget for appropriated (or "discretionary") spending, which is spending controlled by the annual appropriations process. The third table shows the budget for mandatory spending, which is spending provided for through authorizing legislation. Mandatory spending includes entitlement programs such as Medicare, Medicaid, and Social Security, as well as interest payments on the federal debt. Figures may not add due to rounding.

Breaking with tradition, the House Republican budget uses OMB estimates of revenues and spending rather than CBO estimates. By using OMB estimates, the unified surpluses shown in the first table are a total of $158 billion higher over the 2003-2007 period than they would be if CBO estimates were used. See *Creative Accounting* for further details.

HOUSE REPUBLICAN FY 2003 BUDGET RESOLUTION
TOTAL BUDGET
(In billions of dollars)

	2002	2003	2004	2005	2006	2007	5 Yr. Total
Budget Authority	2066.0	2158.3	2220.7	2324.2	2429.8	2541.2	11674.2
Outlays	2033.2	2123.0	2193.9	2290.5	2384.1	2480.7	11472.1
Revenues	1967.5	2077.2	2200.1	2356.2	2471.6	2592.5	11697.6
Surplus	-65.7	-45.8	6.2	65.7	87.6	111.8	225.5
050 National Defense							
Budget authority	347.5	393.8	401.6	422.7	444.2	466.5	2128.9
Outlays	344.8	375.3	390.6	409.7	425.1	439.2	2039.8
150 International Affairs							
Budget authority	22.2	23.8	24.7	25.5	26.1	27.0	127.1
Outlays	23.4	22.3	22.7	23.2	23.8	24.5	116.4
250 General Science, Space							
Budget authority	22.1	22.7	23.4	23.9	24.5	25.1	119.6
Outlays	21.6	22.1	22.8	23.6	24.1	24.7	117.2
270 Energy							
Budget authority	0.6	0.3	0.2	0.7	0.5	0.5	2.2
Outlays	0.5	0.4	0.1	0.6	0.5	0.5	2.1
300 Natural Resources and Environment							
Budget authority	30.1	29.2	30.5	31.4	30.9	31.5	153.5
Outlays	29.5	29.9	30.4	30.9	31.7	32.0	154.9
350 Agriculture							
Budget authority	28.8	23.6	23.8	22.2	21.3	21.2	112.1
Outlays	28.7	24.1	23.9	22.3	21.4	21.3	112.9
370 Commerce and Housing Credit							
Budget authority	10.5	14.0	9.6	9.3	8.4	10.6	51.9
Outlays	3.6	3.5	4.9	3.0	1.0	1.6	14.0
400 Transportation							
Budget authority	65.3	63.4	67.0	67.6	68.2	68.9	335.1
Outlays	61.3	60.8	59.7	60.1	61.3	63.3	305.2
450 Community and Regional Development							
Budget authority	18.5	14.7	15.3	15.5	15.9	16.3	77.7
Outlays	15.3	17.4	18.0	17.5	15.7	15.5	84.0
500 Education and Training							
Budget authority	79.2	81.0	83.2	86.5	89.5	92.7	433.0
Outlays	71.4	79.1	81.7	84.0	86.4	89.3	420.5
550 Health							
Budget authority	200.7	223.5	237.9	255.8	274.6	295.5	1287.4
Outlays	194.9	219.9	236.6	254.0	272.7	293.0	1276.3
570 Medicare							
Budget authority	230.3	237.7	245.6	272.9	292.4	317.4	1366.0
Outlays	226.3	237.6	245.9	272.8	292.2	317.7	1366.1
600 Income Security							
Budget authority	314.6	322.0	325.4	334.5	344.0	352.0	1678.0
Outlays	319.1	322.4	323.8	332.6	341.8	348.0	1668.5
650 Social Security							
Budget authority	461.2	476.8	497.5	521.7	548.3	577.6	2621.8
Outlays	459.5	475.8	495.5	519.5	546.0	575.1	2611.9
700 Veterans							
Budget authority	50.9	56.9	59.1	61.2	63.4	65.6	306.2
Outlays	50.7	56.7	58.9	63.5	63.2	62.6	305.0
750 Administration of Justice							
Budget authority	36.4	36.9	39.7	37.6	38.9	39.8	192.9
Outlays	33.6	39.3	42.2	38.2	38.8	39.6	198.1
800 General Government							
Budget authority	17.1	17.6	18.1	18.4	18.4	18.8	91.3
Outlays	17.7	17.4	18.2	18.3	18.2	18.5	90.7
900 Net Interest							
Budget authority	177.9	178.7	185.3	186.0	183.8	180.6	914.4
Outlays	177.9	178.7	185.3	186.0	183.8	180.6	914.4
920 Allowances							
Budget authority	-1.3	-0.7	-0.9	-0.8	-0.6	-0.7	-3.7
Outlays	0.0	-1.8	-0.9	-0.8	-0.6	-0.7	-4.7
950 Undistributed Offsetting Receipts							
Budget authority	-46.5	-57.8	-66.4	-68.4	-62.9	-65.6	-321.1
Outlays	-46.5	-57.8	-66.4	-68.4	-62.9	-65.6	-321.1

HOUSE REPUBLICAN FISCAL YEAR 2003 BUDGET RESOLUTION
DISCRETIONARY TOTALS
(In billions of dollars)

	2002	2003	2004	2005	2006	2007	5 Yr. Total
Total Discretionary							
Budget Authority	709.3	759.1	780.8	809.5	837.7	870.2	4057.2
Outlays	732.0	781.7	810.1	833.6	854.0	877.2	4156.6
Non-defense discretionary							
Budget Authority	361.7	366.4	380.3	388.0	395.2	405.8	1935.5
Outlays	387.2	406.8	420.1	424.9	430.4	439.9	2122.2
050 National Defense							
Budget authority	347.6	392.7	400.5	421.5	442.5	464.4	2121.7
Outlays	344.8	374.9	389.9	408.7	423.6	437.3	2034.4
150 International Affairs							
Budget authority	24.1	25.3	26.0	26.7	27.3	27.9	133.1
Outlays	26.8	25.4	25.8	26.3	26.9	27.5	131.8
250 General Science, Space							
Budget authority	21.9	22.6	23.4	23.9	24.5	25.0	119.4
Outlays	21.5	21.9	22.7	23.5	24.0	24.6	116.9
270 Energy							
Budget authority	3.2	3.3	3.4	3.5	3.6	3.7	17.4
Outlays	3.3	3.4	3.4	3.5	3.6	3.6	17.5
300 Natural Resources and Environment							
Budget authority	29.0	27.6	28.2	28.8	28.2	28.8	141.5
Outlays	28.9	28.7	28.6	29.0	29.4	29.8	145.6
350 Agriculture							
Budget authority	5.7	4.9	5.6	5.5	5.7	5.8	27.5
Outlays	5.9	5.5	5.5	5.5	5.6	5.8	28.0
370 Commerce and Housing Credit							
Budget authority	0.0	-0.5	-0.2	-0.5	-0.9	0.1	-2.1
Outlays	0.3	-0.3	-0.3	-0.6	-1.0	0.0	-2.2
400 Transportation							
Budget authority	18.8	20.8	21.0	21.5	22.0	22.5	107.7
Outlays	54.8	57.6	57.7	58.1	59.4	61.4	294.2
450 Community and Regional Development							
Budget authority	18.4	15.1	15.6	15.9	16.3	16.7	79.6
Outlays	15.3	18.0	18.6	18.2	16.4	16.3	87.4
500 Education and Training							
Budget authority	71.6	72.1	74.3	76.8	79.3	82.1	384.5
Outlays	63.9	70.4	72.7	74.6	76.5	79.1	373.3
550 Health							
Budget authority	45.8	48.4	49.6	50.9	52.3	53.5	254.8
Outlays	39.9	44.5	47.7	49.8	51.2	52.5	245.6
570 Medicare							
Budget authority	3.6	3.6	3.7	3.8	3.9	4.0	18.9
Outlays	3.6	3.6	3.7	3.7	3.8	3.9	18.8
600 Income Security							
Budget authority	43.2	44.9	47.3	48.2	48.4	48.9	237.8
Outlays	47.5	48.4	49.4	50.0	50.0	49.2	247.0
650 Social Security							
Budget authority	3.5	3.9	4.1	4.2	4.3	4.4	20.8
Outlays	3.7	4.0	4.1	4.2	4.3	4.4	20.9
700 Veterans							
Budget authority	23.9	26.8	27.2	27.7	28.3	28.9	138.8
Outlays	23.8	26.5	27.1	27.6	28.2	28.8	138.1
750 Administration of Justice							
Budget authority	34.5	32.1	35.6	35.1	36.3	37.2	176.3
Outlays	32.0	35.0	37.6	35.5	36.2	36.9	181.2
800 General Government							
Budget authority	15.6	16.1	16.3	16.6	16.6	17.0	82.6
Outlays	16.0	15.9	16.3	16.6	16.5	16.8	82.1
900 Net Interest							
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0	0.0
920 Allowances							
Budget authority	-1.3	-0.6	-0.6	-0.6	-0.6	-0.6	-3.1
Outlays	0.0	-1.7	-0.5	-0.6	-0.6	-0.6	-4.1
950 Undistributed Offsetting Receipts							
Budget authority	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outlays	0.0	0.0	0.0	0.0	0.0	0.0	0.0

HOUSE REPUBLICAN BUDGET RESOLUTION
MANDATORY, NET INTEREST, AND OFFSETTING RECEIPTS ONLY
(In billions of dollars)

	2002	2003	2004	2005	2006	2007	5 Yr. Total
Budget Authority	1356.7	1399.2	1439.9	1514.7	1592.2	1671.1	7617.0
Outlays	1301.2	1341.3	1383.8	1456.9	1530.0	1603.4	7315.5
Without Interest BA	1178.8	1220.5	1254.5	1328.8	1408.4	1490.5	6702.7
Without Interest Outlays	1123.4	1162.7	1198.5	1271.0	1346.2	1422.8	6401.2
050 National Defense							
Budget authority	-0.1	1.1	1.1	1.2	1.7	2.0	7.2
Outlays	0.0	0.4	0.6	1.0	1.5	1.9	5.4
150 International Affairs							
Budget authority	-1.9	-1.6	-1.3	-1.2	-1.1	-0.9	-6.0
Outlays	-3.4	-3.1	-3.1	-3.1	-3.1	-3.0	-15.4
250 General Science, Space							
Budget authority	0.1	0.1	0.0	0.0	0.0	0.0	0.2
Outlays	0.1	0.1	0.1	0.1	0.0	0.0	0.4
270 Energy							
Budget authority	-2.7	-2.9	-3.2	-2.8	-3.0	-3.1	-15.2
Outlays	-2.8	-3.0	-3.3	-2.9	-3.1	-3.2	-15.5
300 Natural Resources and Environment							
Budget authority	1.1	1.6	2.4	2.7	2.7	2.6	12.0
Outlays	0.6	1.1	1.8	1.9	2.2	2.2	9.3
350 Agriculture							
Budget authority	23.2	18.8	18.2	16.6	15.6	15.4	84.6
Outlays	22.7	18.5	18.3	16.8	15.8	15.5	84.9
370 Commerce and Housing Credit							
Budget authority	10.6	14.5	9.8	9.8	9.3	10.5	54.0
Outlays	3.3	3.9	5.1	3.6	2.0	1.6	16.2
400 Transportation							
Budget authority	46.5	42.6	46.0	46.1	46.3	46.4	227.4
Outlays	6.6	3.2	2.0	1.9	1.9	1.9	10.9
450 Community and Regional Development							
Budget authority	0.1	-0.5	-0.3	-0.4	-0.4	-0.4	-1.9
Outlays	0.0	-0.6	-0.6	-0.7	-0.7	-0.7	-3.4
500 Education and Training							
Budget authority	7.7	9.0	9.0	9.7	10.2	10.6	48.4
Outlays	7.4	8.7	9.0	9.4	9.8	10.2	47.2
550 Health							
Budget authority	154.8	175.1	188.3	204.9	222.3	242.0	1032.6
Outlays	154.9	175.4	188.9	204.2	221.5	240.5	1030.6
570 Medicare							
Budget authority	226.6	234.1	241.9	269.1	288.5	313.4	1347.1
Outlays	222.7	234.0	242.2	269.0	288.3	313.7	1347.3
600 Income Security							
Budget authority	271.3	277.1	278.0	286.3	295.7	303.1	1440.2
Outlays	271.6	274.0	274.3	282.6	291.7	298.9	1421.5
650 Social Security							
Budget authority	457.6	472.9	493.4	517.5	544.0	573.2	2601.0
Outlays	455.8	471.8	491.4	515.4	541.7	570.8	2591.1
700 Veterans							
Budget authority	27.0	30.1	32.0	33.5	35.1	36.6	167.3
Outlays	26.9	30.2	31.8	35.9	35.1	33.9	166.9
750 Administration of Justice							
Budget authority	1.9	4.8	4.1	2.5	2.6	2.6	16.6
Outlays	1.6	4.3	4.6	2.7	2.6	2.6	16.8
800 General Government							
Budget authority	1.4	1.5	1.8	1.8	1.8	1.8	8.7
Outlays	1.7	1.5	1.9	1.7	1.8	1.7	8.6
900 Net Interest							
Budget authority	177.9	178.7	185.3	186.0	183.8	180.6	914.4
Outlays	177.9	178.7	185.3	186.0	183.8	180.6	914.4
920 Allowances							
Budget authority	0.0	-0.1	-0.3	-0.2	0.0	-0.1	-0.7
Outlays	0.0	-0.1	-0.3	-0.2	0.0	-0.1	-0.7
950 Undistributed Offsetting Receipts							
Budget authority	-46.5	-57.8	-66.4	-68.4	-62.9	-65.6	-321.1
Outlays	-46.5	-57.8	-66.4	-68.4	-62.9	-65.6	-321.1

Function 050: National Defense

The House Republican budget includes $392.7 billion for all national defense appropriated programs for 2003, the same level as provided by the President's budget.[6] This function includes funding for the Department of Defense (DOD), the nuclear weapons-related activities of the Department of Energy (DOE), and miscellaneous national security activities in various other agencies such as the Coast Guard and the Federal Bureau of Investigation.

Including both mandatory and appropriated funding, the House Republican budget provides a total of $393.8 billion for 2003 for national security. The total level is $516 million more than the President's budget because the House Republican budget includes funding for a mandatory initiative known as concurrent receipt (see discussion at the end of this section).

- ***The $10 Billion War on Terrorism Reserve*** — Like the President's budget, the House Republican budget includes a $10 billion reserve for 2003 for as yet unspecified needs related to the war on terrorism. However, section 201 of the resolution does not permit this reserve to be used for any other purpose except "activities to respond to or protect against acts or threatened acts of terrorism." Thus, the allocation to the Appropriations Committee will not include the $10 billion reserve. Rather, the Chairman of the House Budget Committee shall raise the allocation to the Appropriations Committee by up to $10 billion if and when the Appropriations Committee reports a bill that meets the anti-terrorism requirements of section 201.

- ***Substantial Increase for Defense*** — The budget resolution increases funding for appropriated national security activities by $45.2 billion (13.0 percent) over the 2002 enacted level. This level is $35.9 billion (10.1 percent) more than CBO's estimate of the level needed to maintain constant purchasing power. By 2007, the resolution increases national security funding to $464.4 billion, which is $69.2 billion (17.5 percent) more than CBO's estimate of the level needed to maintain constant purchasing power.[7]

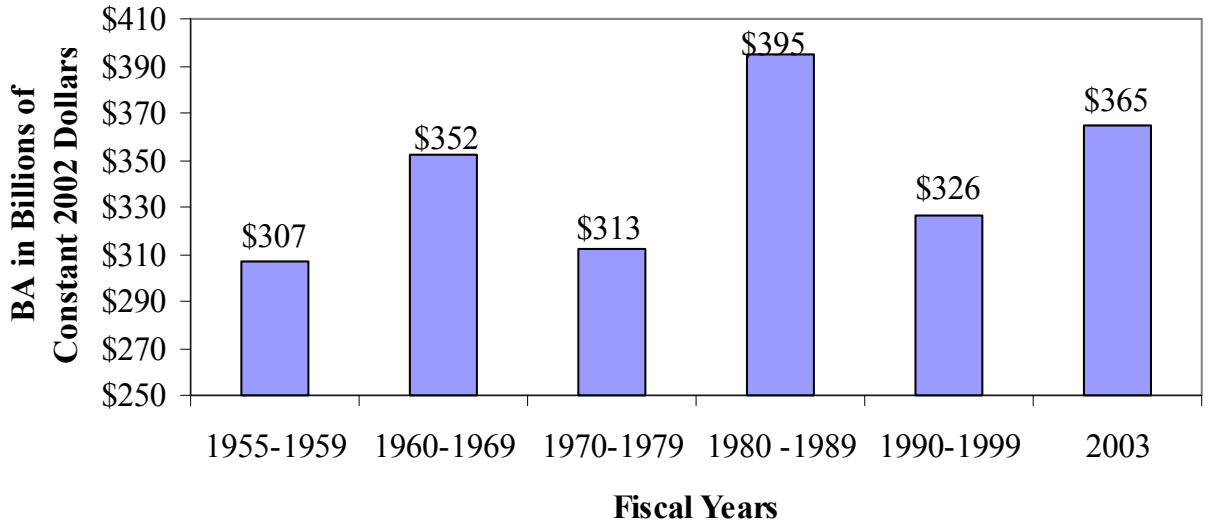
---

[6]The President's budget also displays $396.1 billion in this function to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for civilian employees. This amount reflects only an accounting change and does not represent a programmatic increase. See *Appropriated Programs* and *Creative Accounting* for further discussion.

[7]These comparisons make no adjustment for accrual accounting for the Tricare-for-Life military retiree program that is mandated by current law and is distinct from the accrual issue discussed elsewhere in this report. If the non-programmatic portion of the Tricare-for-Life accrual is excluded from the comparisons, the 2003 Republican budgets are $43.1 billion (12.4 percent) more than the 2002 enacted level, and by 2007, the Republican budgets for national defense would be 15.3 percent more than CBO's estimate of the level needed to maintain constant purchasing power at the 2002 level. For further background information on the Tricare-for-Life accrual accounting issue, see the revised analysis of the President's budget dated March 4 on the House Budget Committee Democratic web site.

- ***Historical Perspective on Department of Defense Budget*** — Measured in constant 2002 dollars to account for inflation, the $45.2 billion increase is the largest year-to-year increase for national defense since 1982.[8] Even if the $10 billion antiterrorism reserve for 2003 is excluded, it is the largest increase since 1983 (again measured in 2002 constant dollars to account for inflation).

2003 DOD Budget and Average DOD Budgets of Decades Past



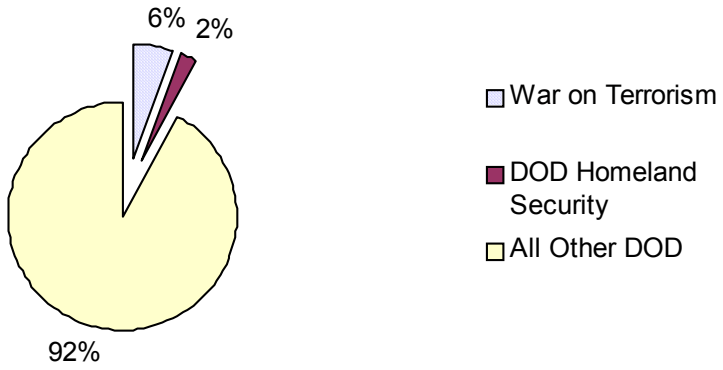
The chart above compares the 2003 DOD budget with the historical average DOD budget of the 1950's, the 1960's, the 1970's, the 1980's, and the 1990's.[9] (Note: the 2003 DOD budget becomes $365 billion when converted to constant 2002 dollars and the non-programmatic accounting change discussed in the footnote on the previous page is excluded.) As this chart indicates, the 2003 budget is higher than the average DOD budget of any of the last five decades except the 1980's, and is 92 percent of the average of that decade. Simply put, the 2003 DOD budget is large by any recent historical standard.

---

[8]Constant dollars calculated using deflators from the Office of the Secretary of Defense/Comptroller *Green Book* for 2002. The DOD level in the House Republican budget is assumed to equal the President's budget.

[9]The 1950's average uses only the five years of 1955 - 1959 because 2002 constant dollar deflators were not available for prior years from the Office of the Secretary of Defense/Comptroller *Green Book* for 2002.

The 2003 DOD Budget: The Shares for the War on Terrorism and Homeland Security



- ***The War on Terrorism and Homeland Security as a Percentage of the DoD Budget*** — According to information provided by DOD, the President's budget includes a total of $22.2 billion for the war on terrorism for 2003, an increase of $11.7 billion over the 2002 enacted level. The Administration also estimates that the 2003 DOD budget includes $7.8 billion for homeland security, an increase of $3.0 billion over the 2002 enacted level. Thus, only $30.0 billion (the total of $22.2 billion and $7.8 billion) is directly related to the war on terrorism and homeland security, which is only 7.6 percent of the 2003 DOD budget. The pie chart above graphically illustrates how much of the DOD budget is not related to either the war on terrorism or homeland security.

Summary of DOD Funding
for the War on Terrorism and Homeland Security
(Budget Authority in Billions of Dollars)

	2002	2003	Increase
War on Terrorism	10.5	22.2	11.7
DOD Share of Homeland Security	4.8	7.8	3.0
Total, Anti-terrorism/Homeland Security	**15.3**	**30.0**	**14.7**

Moreover, of the $45.2 billion increase, only $14.7 billion — about one-third — is directly related to the war on terrorism and homeland security (the $14.7 billion is the total of the $11.7 billion increase for the war on terrorism and the $3.0 billion increase for DOD homeland security). See *Homeland Security* for a broader review of homeland security and the 2003 budget.

Funding for Military Retiree Health Care Left Out of Future Budgets

The House Republican budget provides the same level of funding for defense for 2003 as the President's budget, but it omits funding for health care for non-Medicare-eligible military retirees (normally those under age 65). By doing so, the House Republican budget provides $6.0 billion less for 2004 than the President requests for national defense, and this cut gradually increases in following years for a total cumulative cut of $26.5 billion over the 2004 - 2007 period.

As explained in detail below, this cut is due to the House Republican budget's rejection of the President's proposal to make the cost of health care for military retirees under the age of 65 mandatory beginning in 2004. Since providing health care for military retirees is required by law, it is likely that these cuts will be restored and that the on-budget deficits in the House Republican budget will increase by commensurate amounts. (See *Overview* and *Creative Accounting* for discussion of why the House Republican budget understates the amount of on-budget deficits and uses the Social Security surplus to fund routine governmental programs.)

- ***The President's Proposal for Under-65 Health Care*** — Beginning in 2004, the President's budget proposes making the cost of health care for non-Medicare eligible military retirees (normally those under age 65) a mandatory part of the federal budget in function 550 (Health) rather than part of the DoD budget in Function 050, as has historically been the case. This would mean that the cost of providing health care for these under-65 retirees would no longer have to be authorized and appropriated by Congress on an annual basis.

  The President's budget also proposes to account for the future liability of under-65 military retiree health care costs for current military personnel by requiring accrual accounting to accompany the conversion of these costs from discretionary to mandatory spending. While the DoD discretionary budget would rise to pay for the accrual costs, there would also be savings because the discretionary DoD budget no longer would have to pay for the health care costs of the under-65 military retirees. The amounts of savings for the discretionary budget are estimated by CBO to be as follows:

Cost Avoidance in Department of Defense by Moving Under 65 Health Care to Mandatory
(Budget Authority in Billions of Dollars)

2004	2005	2006	2007	Cumulative Total
5.979	6.413	6.831	7.244	26.467

- ***The House Republican Budget*** — The House Republican budget rejects the President's proposed accrual accounting change, and does not include any funding in Function 550 for under-65 military retiree health care. This means that funding for health care for these retirees must be provided by the discretionary DoD budget, but the House Republican budget does not increase discretionary funding to accommodate this extra cost. In other words, the discretionary level for defense in the House Republican budget is actually $6.0 billion less in 2004 and a total of $26.5 billion less over the 2004 - 2007 period than what is needed to meet the President's request for defense and pay for the health care costs of military retirees under age 65.

House Republican Budget Does Not
Fund Under-65 Military Retiree Health Care
(Budget Authority in Billions of Dollars)

	2004	2005	2006	2007
House Republican Budget				
National Defense Discretionary	400.5	421.5	442.5	464.4
Under-65 Retiree Health Care	0.0	0.0	0.0	0.0
Total	400.5	421.5	442.5	464.4
President's Budget				
National Defense Discretionary	400.5	421.5	442.5	464.4
Under-65 Retiree Health Care	6.0	6.4	6.4	7.2
Total	406.5	427.9	448.9	471.7
House Republicans Below President	**-6.0**	**-6.4**	**-6.4**	**-7.2**

- ***The Tricare-For-Life Program is Unaffected*** — The Tricare-For-Life program is already established by law and affects only Medicare-eligible (normally age 65 and older) military retirees. The House Republican budget has no impact on this program and provides full funding for both the Function 050 DoD discretionary accrual payments and benefit spending in Function 550. The President's proposal for under-65 military retiree health care costs is a separate and distinct issue from Tricare-for-Life.

Concurrent Receipt

Certain military personnel qualify for both military retired pay and veterans disability compensation. Current law requires that military pensions be reduced, dollar for dollar, by the amount of VA disability compensation received. Proposals to end this reduction, or to allow concurrent receipt of both benefits, are very costly although they have garnered bipartisan support in Congress.

The House Republican budget includes a proposal to address the concurrent receipt issue, and the funding for this proposal is shown in this function. Since this issue is also of interest to the veterans'

community, the concurrent receipt proposal is also discussed in *Function 700 (Veterans Benefits and Services)* of this document.

- ***"Special Compensation" in Current Law*** — Current law provides a *de facto* concurrent receipt for severely disabled military retirees, known as "special compensation." To receive special compensation, military retirees must receive a disability rating of 60 percent or higher from the VA within four years of retiring from military service. The amount of the special compensation is linked to the VA disability rating. The table below shows the amounts of special compensation in 2002 for each VA disability rating, and also shows the increases scheduled to occur under current law.

Monthly Payments Authorized Under Special Compensation

Military Retirees with VA Disability Rating of	60%	70%	80%	90%	100%
in 2002	$50	$100	$100	$200	$300
increased on January 1, 2003 to			$125	$225	$325
increased on October 1, 2004 to		$125	$150	$250	$350

The House Republican budget permanently lifts the four-year limitation on the disability rating and increases special payments by two and a half times current law amounts in 2003. In 2004, the House Republican budget ends special payments and begins to phase in concurrent receipt for veterans with 60 percent disability and higher. In 2004, the budget allows 20 percent concurrent receipt of benefits for veterans who are 60 percent or more disabled. In 2005, the percentage would rise to 40 percent; in 2006, 75 percent; and in 2007, full concurrent receipt would be allowed for veterans with a disability rating of 60 percent or higher. The House Republican budget provides $516 million for concurrent receipt in 2003, and $5.8 billion over five years.

The House Republican budget is consistent with preliminary CBO scoring of the particular policy described above, but is well short of the $18.3 billion CBO believes is necessary over 2003 to 2007 to allow all military retirees with any VA disability rating to receive full concurrent receipt beginning in 2003. The House Republican budget prohibits the Armed Services Committee from exceeding the first-year allocation of $516 million or the five-year total of $5.8 billion in the House Republican budget, but the Committee may adopt a policy different than the one assumed in the resolution.

Function 150: International Affairs

Function 150 contains funding for all U.S. international activities, including: operating U.S. embassies and consulates throughout the world; providing military assistance to allies; aiding developing nations; dispensing economic assistance to fledgling democracies; promoting U.S. exports abroad; making U.S. payments to international organizations; and contributing to international peacekeeping efforts. Funding for all of these activities constitutes about one percent of the federal budget.

- ***House Republican Budget Resolution Tracks President's Budget*** — The House Republican budget provides $25.3 billion for appropriated international affairs programs for 2003, the same level provided by the President's budget. Unlike the House Republican budget, the President's budget also displays $124 million in this function to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for employees. This amount reflects only an accounting change, and does not represent a programmatic increase. See *Appropriated Programs* and *Creative Accounting* for further discussion. The House Republican budget provides $844 million above CBO's estimate of the amount needed to maintain constant purchasing power for this function (not including emergency expenditures in response to September 11).

- ***Overall International Affairs Increase is Smaller than Funding Provided Last Year in Response to September 11*** — As part of the $40 billion supplemental appropriation passed last year in response to the September 11 attacks, Congress provided $1.6 billion in emergency funding for international affairs programs. The 2003 budget increase for international affairs of $844 million represents $720 million (46.0 percent) less than the amount provided in the wake of September 11.

- ***Specific Programs Receive Increases Smaller than Funding Provided Last Year in Response to September 11*** — The Republican budgets increase funding for the Economic Support Fund (ESF) by $23 million over CBO's estimate of the amount needed to maintain constant purchasing power at the non-emergency level for 2002.

Funding for Afghanistan: To Be Determined

The Administration has pledged $296 million in assistance to Afghanistan for 2002. However, in the President's 2003 budget, funding for Afghanistan is not requested for a number of major aid programs: development assistance, Economic Support Fund, Foreign Military Financing, and International Military Education and Training. Instead, the budget suggests that funding levels for these programs is "To Be Determined." It remains to be seen whether funding for Afghanistan will be sought through supplemental appropriations, an amended budget request, unspecified cuts to other countries and programs in the international affairs budget,

However, this 2002 level excludes $600 million in ESF assistance to Pakistan provided for this program in response to the September 11 attacks. Similarly, for Non-Proliferation, Anti-Terrorism, Demining, and Related Programs (NADR), the budget provides $51 million above CBO's estimate of the amount needed to maintain constant purchasing power at the non-emergency level for 2002. But this $51 million increase is smaller than the $98 million for NADR programs provided by the emergency supplemental appropriations.

- ***No Funding for the President's Newly Announced Foreign Assistance Pledge*** — On March 14, the President announced the Administration's intention to increase assistance to developing countries by $5 billion over three years, beginning in 2004. The budget does not contain money for this initiative. Providing this funding would require reducing funding in other areas, increasing the deficit, or increasing revenues.

- ***Funding Cut for Eastern Europe*** — The Republican budgets provide $495 million for the Support for Eastern European Democracy (SEED) program, which is $126 million less than the 2002 enacted level.

- ***Funding Cut for Newly Independent States*** — The Republican budgets provide $755 million for assistance to the Independent States of the Former Soviet Union. This amount is $29 million less than the 2002 non-emergency enacted level. In the aftermath of September 11, $47 million of the $40 billion in emergency funding was provided for assistance to the Independent States of the Former Soviet Union, which include Uzbekistan and other Central Asian states. If this emergency funding is included in the 2002 totals, then the President's budget reduces funding in this account by $76 million relative to the 2002 enacted level.

- ***Funding Reduced for Export-Import Bank of the United States*** — As the official credit agency of the United States, the Ex-Im Bank provides financing assistance to U.S. exporters and, when necessary, matches foreign subsidies so that U.S. companies can compete for business on an equal footing (approximately 77 countries provide export credit or subsidies). The Republican budgets cuts the Ex-Im Bank's credit subsidy to $541 million, $186 million (26 percent) below the 2002 level. The Administration asserts that, because of a new credit risk methodology, this reduced funding can support an increased level of loan activity.

Function 250: General Science, Space, and Technology

This function includes the National Science Foundation (NSF), programs at the National Aeronautics and Space Administration (NASA) except for aviation programs, and general science programs at the Department of Energy (DOE).

The House Republican budget includes $22.6 billion for appropriated programs for 2003, almost exactly CBO's estimate of the level needed to maintain constant purchasing power. This is $189 million more for science funding than the President's budget.[10]

- ***NASA*** — The President's budget provides $14.2 billion for NASA programs in this function, which is $129 million below CBO's estimate of the amount needed to maintain current purchasing power. (NASA receives additional funding in Function 400.)

- ***DOE General Science Programs*** — The President's budget freezes funding at the 2002 enacted level of $3.3 billion for general science programs in DOE, which is $18 million below CBO's estimate of the amount needed to maintain constant purchasing power.

- ***National Science Foundation*** — The President's budget for 2003 provides $5.0 billion for appropriated programs in NSF, an increase of $152 million above CBO's estimate of the amount needed to maintain purchasing power at the 2002 level. However, this increase incorporates $76 million for three programs that the budget transfers to NSF. Thus, the increase is only $76 million (1.6 percent) over the amount needed to maintain purchasing power at the 2002 level.

- ***House Republican Budget*** — The House Republican budget gives NSF an extra $189 million above the President's level, providing NSF with an increase of $345 million (7.3 percent) over the 2002 enacted level. The Republican resolution leaves DOE general science and NASA funding below the amount needed to maintain purchasing power at the 2002 level.

Democrats Offer Additional Science Funding — During Committee consideration of the Republican resolution, the Democrats offered an amendment to provide $535 million more for science funding for 2003. This would have supported a 2.4 percent increase above the House Republican level; every Republican voted against the amendment, which was defeated.

---

[10]The President's budget also displays $120 million in this function to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for employees. This amount reflects only an accounting change and does not represent a programmatic increase. See *Appropriated Programs* and *Creative Accounting* for further discussion.

Function 270: Energy

Function 270 comprises energy-related programs including research and development (R&D), environmental clean-up, and rural utility loans. Most of the programs are within the Department of Energy (DOE), although the rural utility program is part of the Department of Agriculture.

Appropriated Programs

For 2003, the House Republican budget provides $3.3 billion for appropriated programs for Function 270, the same amount as the President's budget.[11] This amount is $111 million below the level CBO estimates is needed to maintain purchasing power at the 2002 level. Over the five-year period (2003-2007), the House Republican budget also matches the President's budget for appropriated programs by providing $17.4 billion, $140 million below CBO's estimate of the level needed to maintain purchasing power for energy programs at the 2002 level.

The Administration budget makes several harmful cuts to energy programs, including :

- ***Energy Conservation*** — The President's budget includes $905 million for energy conservation programs, which is $27 million (2.9 percent) below the amount needed, according to CBO, to maintain funding at the 2002 level. The budget provides for a $47 million (20.5 percent) increase for weatherization grants, and a $5 million (19.7 percent) increase for the Federal Energy Management Program. These increases stand in contrast to cuts of 8-14 percent in other energy conservation programs such as the transportation sector, energy conservation research and development, and state energy program grants.

- ***Fossil Energy Research and Development*** — The budget provides $594 million for fossil energy R&D, a decrease of $39 million (6.2 percent) from level needed, according to CBO, to maintain purchasing power at the 2002 level. The Natural Gas Technologies program, which seeks to ensure long-term availability of natural gas at reasonable prices and to investigate hydrates as a potential source for natural gas supply, is cut by $23 million (50.0 percent) from the 2002 level. The budget provides $150 million for the President's Coal Initiative, the same amount provided for 2002. The budget also includes $175 million for Coal Research and Technology, $12 million (6.8 percent) less than was provided last year.

- ***Renewable Energy*** — Renewable energy programs such as geothermal, biomass, and solar research are cut from the 2002 level by $1 million (2.9 percent), $2 million (2.3 percent), and $2 million (2.0 percent) respectively.

---

[11]The President's budget also displays $53 million in this function to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for employees. This amount reflects only an accounting change and does not represent a programmatic increase. See *Appropriated Programs* and *Creative Accounting* for further discussion.

Mandatory Programs

Like the President's budget, the House Republican budget increases the borrowing authority for the Bonneville Power Marketing Administration by $700 million. Over five years, OMB estimates that this proposal will cost an additional $700 million, while CBO estimates it will cost $770 million.

The House Republican budget rejects the President's proposal to require Southeastern, Southwestern, and Western Power Marketing Administrations to directly finance the Army Corps of Engineers' power-related operation and maintenance expenses. OMB estimated that this proposal would save $748 million over the five-year period (2003-2007), savings the House Republican budget did not include.

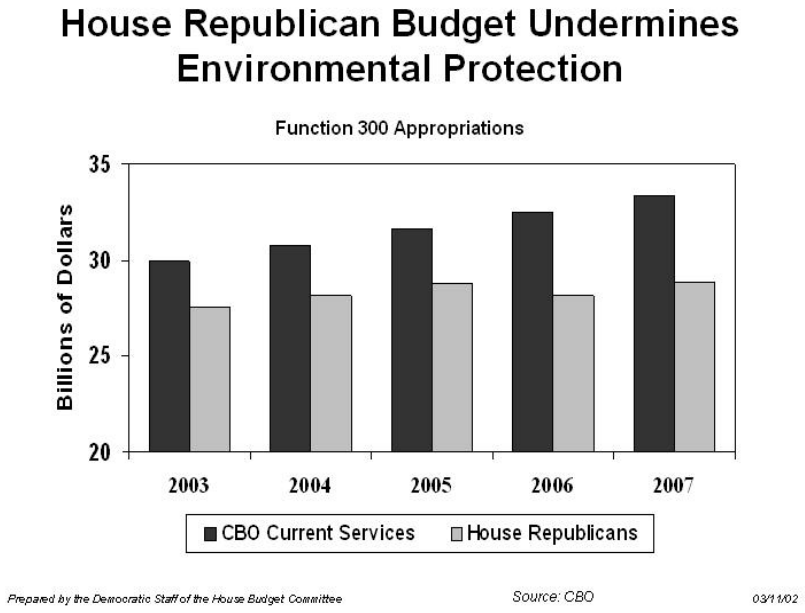
Function 300: Natural Resources and Environment

Function 300 includes programs concerned with environmental protection and enhancement; recreation and wildlife areas; and the development and management of the nation's land, water, and mineral resources. This function does not include the large-scale environmental clean-up programs at the Departments of Defense and Energy.

Budget Summary

With regard to appropriations for natural resources and environmental programs, the House Republican budget mirrors the President's budget over the five-year period (2003-2007). Both budgets significantly cut funding for programs that protect public health and the environment. For 2003, both budgets provide $27.6 billion in appropriations for these programs, which is $1.4 billion (4.9 percent) below the 2002 enacted level and $2.4 billion (7.9 percent) below CBO's estimate of the level needed to maintain purchasing power at the 2002 level.[12]

The Republican budgets continue to cut the purchasing power of these programs in the following four years. By 2007, the budgets' funding for appropriated programs is $4.5 billion (13.6 percent) below CBO's estimate of the level required to maintain purchasing power at the 2002 level.



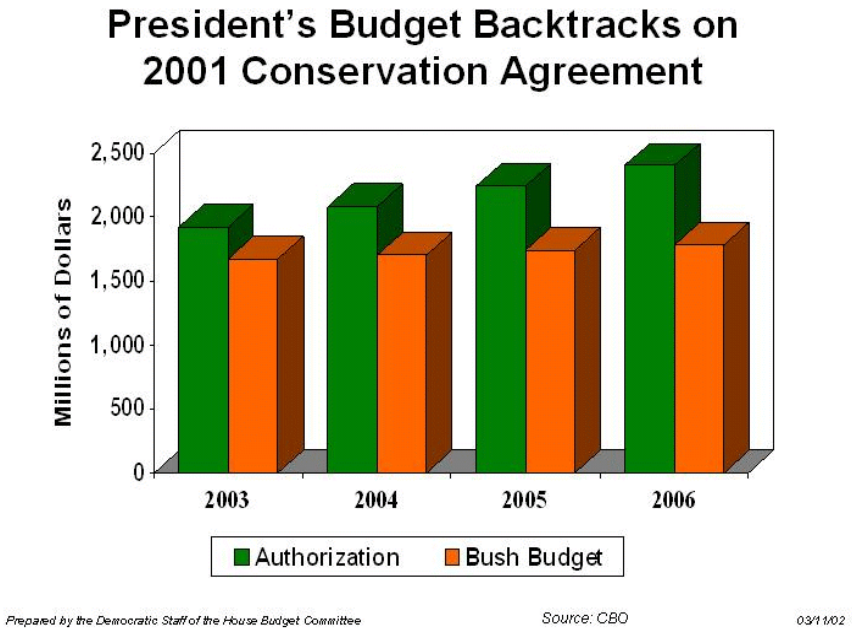
[12] The President's budget displays an additional $758 million in appropriations in this function for 2003 to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for federal employees. This reflects only an accounting change and does not represent a programmatic increase. See *Appropriated Programs* and *Creative Accounting* for further information.

With regard to mandatory spending, both the House Republican budget and the President's budget provide the same amount of new funding for conservation programs as part of the Farm Bill. See *Function 350 (Agriculture)* for more details. The House Republican budget departs from the President's budget by not including a permanent extension of the recreation fee demonstration programs of the Forest Service, Department of Interior, and the Army Corps of Engineers.

Budget Details

- ***House Republicans Depart from President on Drilling in the Arctic National Wildlife Refuge*** — The President's budget assumes opening the Arctic National Wildlife Refuge (ANWR) to oil and gas exploration. However, like last year, House Republicans parted with the President and chose not to incorporate this assumption in their budget. Even if assumed in the budget resolution, this extremely controversial proposal cannot be implemented without new legislation from Congress.

- ***Conservation Category Flat-Lined*** — Like the President's budget, the House Republican



budget backtracks on the landmark agreement made at the end of the 106th Congress to set aside and protect funds for land and water conservation programs. An overwhelming and bipartisan majority in Congress voted to create a new category of appropriated funding for these important and historically underfunded programs. For 2001-2006, a total of $12 billion is "fenced off" from other appropriated funds, and if appropriators do not utilize all of the funds in the category in any one year, any unused funding is available for appropriation the next fiscal year.

Under the agreement, the budget should allocate just over $1.9 billion for a pre-defined set of programs aimed at habitat and species protection, urban and historic preservation, maintenance of public lands, and other related purposes. However, the Republican budgets provide roughly $1.7 billion, $250 million (13.0 percent) less than called for by the agreement.

- ***Land and Water Conservation Fund Programs*** — Like last year, the Republican budgets claim to fully fund at $900 million the programs associated with the Land and Water Conservation Fund (LWCF). (These programs are contained within the conservation spending category described above.) However, like last year, the budget accomplishes this feat by using LWCF funding for programs not traditionally associated with the Fund. Full funding would mean $900 million split evenly between federal land acquisition and grants to states for the same purpose. In fact, the Republican budgets provide only $486 million for the traditional purposes of the Fund, which is $88 million less than last year and $175 million less than the amount requested for these programs for 2003 by a coalition of environmental organizations.

- ***Army Corps of Engineers*** — Like last year, the President's budget and the House Republican budget make a significant cut to appropriations for the Army Corps of Engineers. This year, the Republican budgets cut the Corps budget to $4.3 billion,[13] $369 million (7.9 percent) below a freeze at the 2002 level and $511 million (10.6 percent) below CBO's estimate of the level needed to maintain purchasing power at the 2002 level. The Republican budgets include no new construction efforts for 2003 and instead focus on completing ongoing projects.

  During Congressional hearings on the President's budget, Mike Parker, head of the Army Corps, declined to defend the unrealistically low funding level set for his agency. He was then forced to resign from office.

- ***Environmental Protection Agency (EPA)*** — For 2003, the Republican budgets provide $7.7 billion in appropriations for EPA, $461 million (5.6 percent) less than a freeze at the 2002 level. This funding level is $661 million (7.9 percent) below CBO's estimate of the level needed to maintain purchasing power at the 2002 level. As described below, this cut falls mostly on water infrastructure funding.

---

[13] Some presentations show the President's budget for the Army Corps as $4.1 billion. This discrepancy exists because the budget proposes to finance the costs of routine operation and maintenance of certain Army Corps hydropower facilities directly from receipts of the Power Marketing Administrations. This proposal, which requires new legislation from Congress, has the effect of lowering the Corps appropriations total by $149 million for 2003. The House Republican budget did not incorporate this proposal.

- ***Aid for Water Infrastructure*** — For 2003, the Republican budgets provide $1.2 billion for the Clean Water State Revolving Fund (SRF) Program, $138 million (10.2 percent) less than last year. For the Drinking Water SRF Program, the Republican budgets freeze funding at the 2002 level of $850 million. Finally, the budgets zero out $344 million in Congressional earmarks but fail to reinvest this money in other water infrastructure programs. Overall, the cut to water infrastructure aid totals $482 million from the 2002 freeze level.

- ***Superfund*** — For 2003, the Republican budgets provide $1.3 billion, roughly the same as last year, for cleaning up the nation's worst hazardous waste sites under EPA's Superfund program. With this funding, the Administration plans to complete 40 cleanups, many fewer than the annual average under the previous administration.

  The Republican budgets provide over half of the funding ($700 million) from general revenues and the rest from the Superfund trust fund. The trust fund has historically supplied most of the funds appropriated for the Superfund program. However, the taxes that fed into the trust fund expired in 1995, and the trust fund's balance is almost depleted. Failure to reinstate the Superfund taxes on petroleum and chemical products has required the greater reliance on general revenues, which many interpret as a move away from the "polluter pays" principle behind the Superfund program. The Republican budgets could have called for reinstating the Superfund taxes, but they failed to do so.

- ***National Park Service Maintenance*** — During the 2000 campaign, the President promised to eliminate the National Park Service's $4.9 billion maintenance backlog over a period of five years. Fulfilling this promise would require approximately $1 billion in additional funding each year. However, just like last year, the Republican budgets fail to provide the increase in funding that would put the government on course to fulfill the President's campaign promise. For 2003, the Republican budgets provide only $663 million for construction and maintenance, nearly the same as last year.

- ***Abandoned Mine Reclamation Fund*** — The Republican budgets cut the Interior Department's Abandoned Mine Reclamation Fund program to $174 million, which is $29 million (14 percent) below the 2002 enacted level of $203 million. This program addresses health and safety threats to communities adversely affected by pollution from abandoned coal mines. The overall decrease in this program includes a $17 million reduction in reclamation grants to states and an $11 million cut to federal emergency reclamation projects.

- ***Small Watershed Program Eliminated*** — Both Republican budgets eliminate P.L.-566, the Small Watershed Program in the Department of Agriculture. Last year, the Administration requested $100 million for the program, and appropriators provided about $107 million. The backlog of approved Small Watershed Program projects stood at $1.6 billion at the beginning of October. The Small Watershed Program provides cooperation between the

federal government and states and localities to prevent erosion, floodwater, and sediment damages; to further the conservation, development, utilization, and disposal of water; and to further the conservation and proper utilization of land in authorized watersheds. OMB argues that the cost-benefit ratios for the projects do not make economic sense, but minimizes the fact that costs appear high for projects that involve flood control or drinking water supply projects in areas with low population density.

Function 350: Agriculture

Function 350 includes farm income stabilization, agricultural research, and other services administered by the U.S. Department of Agriculture (USDA). The discretionary programs include: research, education, and rural development programs; economics and statistics services; meat and poultry inspection; and a portion of the Public Law (P.L.) 480 international food aid program. The mandatory programs include commodity programs, crop insurance, and certain farm loans.

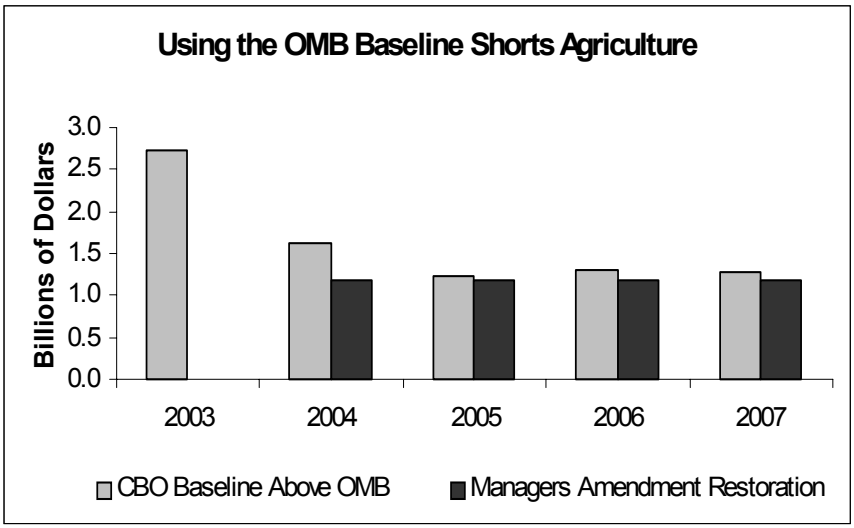
Mandatory Programs

Over five years (2003-2007), the House Republican budget provides $84.9 billion for mandatory agriculture programs. This amount is $4.8 billion above the level provided in the Chairman's Mark and the President's budget, and $33.5 billion above OMB's estimate of current law. This amount is $25.4 billion above CBO's estimate of current law.

Republicans Acknowledge Using OMB Numbers is a Sham

Republicans claim they amend the Chairman's Mark to accommodate differences in scoring of the House-passed Farm bill between OMB and CBO. However, the numbers tell a different story. The price tag of the farm bill itself is not likely to differ much between OMB and CBO; however, the baseline against which changes made by the farm bill are measured are vastly different. (See *Function 570 (Medicare)* for further discussion of baselines.)

The stated intent of the Manager's Amendment is to "hold(s) the Committee on Agriculture harmless for differences between CBO and OMB estimates," thus providing full resources intended for the farm bill. In order to do this, House Republicans were forced to increase agriculture spending to reflect spending "lost" to the baseline.



Agriculture stands in sharp contrast with other items in the budget for which OMB and CBO scoring differences exist. For example, baseline differences in Medicare, totaling $226 billion over ten years, are ignored by the Republicans. Even though these differences will result in fewer resources for these programs or higher deficits, the Republicans leave the issue unaddressed.

The change made by the Manager's Amendment for agriculture shows that even Republicans realize that using OMB numbers instead of CBO is bad policy.

Appropriated Programs

For 2003, the House Republican budget provides $4.9 billion for appropriated programs for agriculture, the same amount as the President's budget provides.[14] This amount is $865 million below the level CBO estimates is needed to maintain purchasing power at the 2002 level. Over the five-year period (2003-2007), the Republican budgets provide $27.5 billion for discretionary agriculture programs, $2.7 billion below CBO's estimate of the level needed to maintain purchasing power.

Cuts in the President's Budget

- ***Management Efficiencies*** — The President's budget imposes management efficiencies for USDA including: restructuring administrative support offices; reviewing the field office structure, with the goal of co-locating at least 200 additional offices in 2003; centralizing loan servicing functions that do not need to be performed at the field level; and developing a plan for competitively sourcing 15 percent of its commercial activities by the end of 2003.

- ***Agricultural Research and Services*** — The President's budget provides $3.5 billion for agriculture research and services, $512 million (12.7 percent) less than the amount needed, according to CBO, to maintain purchasing power at the 2002 level. Agencies that receive funding in this category include: the Animal and Plant Health Inspection Service; the Foreign Agriculture Service; the Agricultural Marketing Service; the National Agricultural Statistics Service; the Economic Research Service; and the Cooperative State Research, Education, and Extension Service.

- ***New User Fees*** — The Administration budget includes two user fee proposals for the Grain Inspection, Packers and Stockyards Administration (GIPSA). Fees are assessed on those who receive, ship, store, or process grain (raising $6 million in 2003) to cover the costs of developing, reviewing, and maintaining official U.S. grain standards used by the grain industry. New license fees are also assessed on packers, live poultry dealers, stockyard owners, market agencies and dealers (raising $23 million in 2003) to fund the Packers and Stockyards program.

---

[14]The President's budget also displays $161 million in this function to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for employees. This amount reflects only an accounting change and does not represent a programmatic increase. See *Appropriated Programs* and *Creative Accounting* for further discussion.

- ***The House Republican Budget*** — The House Republican budget does not necessarily assume the same program reductions as the President's budget, but it does contain the same level of overall funding. Therefore, while agriculture spending in the House Republican budget may not face the same cuts as the President's budget, it will face cuts of the same level.

Function 370: Commerce and Housing Credit

Function 370 includes deposit insurance and financial regulatory agencies such as: the Securities and Exchange Commission (SEC); the mortgage credit programs of the Department of Housing and Urban Development (HUD); the Department of Commerce's Census Bureau, its business promotion programs, and its technology development programs; rural housing loans; the Small Business Administration's business loans; the Postal Service (USPS); and other regulatory agencies such as the Federal Communications Commission (FCC).

Appropriated Programs

- ***House Republican Budget Resolution Tracks President's Budget*** — The House Republican budget provides negative $534 million of appropriated funding for 2003 for Function 370, the same level provided by the President's budget. The President's budget also displays $131 million in this function to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for employees. This amount reflects only an accounting change, and does not represent a programmatic increase. See *Appropriated Programs* and *Creative Accounting* for further discussion. Negative spending levels in this function are relatively commonplace because credit programs and the fee-funded programs in the function often receive more in collections than they spend.

- ***Republican Budgets Decrease Appropriated Funding for Function 370*** — The Republican budgets reflect a decrease of $1.4 billion from the 2002 enacted level of $885 million. The difference between the 2003 level and the 2002 enacted level exists because, among other reasons, the 2003 budget does not continue 2002 increases for the Postal Service's response to anthrax attacks and because the budget cuts technology programs as discussed below.

- ***Republicans Reject Democratic Efforts to Strengthen the Securities and Exchange Commission (SEC)*** — In January, the President signed into law legislation that authorized increases in pay and benefits for SEC employees to make them comparable to agencies that regulate banking, such as the Federal Deposit Insurance Corporation (FDIC). Despite the Enron scandal, which indicates the importance of and need for a strong, well-funded SEC, the budget does not provide funding for this pay parity provision. The SEC has argued that it suffers from high rates of employee turnover because higher salaries are available elsewhere, and that pay parity is needed for the agency to attract and retain high-quality personnel. During the Budget Committee markup of the resolution, Democrats offered an amendment that would have funded SEC pay parity. Democrats unanimously voted in favor of the amendment, but the amendment was defeated by unanimous Republican opposition.

- ***Republican Budgets Provide No New Money for Postal Service to Respond to September 11***— The Republican budgets provide no new appropriated funding for USPS to respond to the challenges posed by the September 11 and subsequent anthrax attacks. In November, the Postmaster General testified that USPS needed assistance of $3 billion or more to respond to the direct effects of the September 11 and anthrax attacks and to purchase new equipment and implement new security procedures to prevent future attacks. As part of the $40 billion in emergency supplemental appropriations provided last year, USPS received $675 million toward these purposes. The 2003 Republican budgets provide no additional funding for these purposes.

> ***Cuts to Digital Divide Program***
> The Republican budgets eliminate funding for Technology Opportunities Program (TOP) grants of the National Telecommunications and Information Administration (NTIA). TOP grants to state and local agencies help to bridge the digital divide by building information infrastructure in underserved communities.

- ***Funding Cut for Industrial Technology Programs*** — The Republican budgets cut funding for the Commerce Department's Advanced Technology Program to $108 million, $76 million (41.3 percent) below the 2002 enacted level of $184 million. The program provides assistance to U.S. businesses and joint research and development ventures to help them improve their competitive position. Last year Congress rejected the Administration's proposal to eliminate funding for this program. The Republican budgets also reduce funding for the Commerce Department's Manufacturing Extension Partnership to $13 million, a cut of 87.8 percent below the 2002 enacted level of $107 million. The program is a national network of manufacturing extension centers which enhance the competitiveness of U.S. small manufacturers by providing them with access to technologies and expertise.

- ***Cuts to Rural Housing Programs*** — For three rural housing loan programs in the Department of Agriculture, the Republican budgets will result in 2003 loan levels that are lower than for 2002. For Section 502 direct loans for single-family housing, the Republican budgets support $957 million in loans for 2003, $123 million (11.4 percent) less than for 2002. For Section 502 guaranteed loans for single-family housing, the Republican budgets support $2.8 billion in loans for 2003, $388 million (12.4 percent) less than for 2002. For Section 515 direct loans for rental housing, the Republican budgets support $60 million in loans for 2003, $54 million (47.4 percent) less than in 2002.

Function 400: Transportation

Function 400 is comprised mostly of the programs administered by the Department of Transportation (DOT), including programs for highways, mass transit, aviation, and maritime activities. The function also includes several small transportation-related agencies and the civilian aviation research program of the National Aeronautics and Space Administration (NASA).

Budget Summary

For 2003, the House Republican budget provides $58.2 billion in appropriated budgetary resources (budget authority plus obligation limitations).[15] This funding level is $1.7 billion (2.9 percent) lower than the 2002 enacted level of $59.9 billion. This overall decrease for 2003 reflects a cut of $4.2 billion in federal aid for highways combined with an increase of $2.5 billion for other transportation programs. Agencies receiving significant increases include the Coast Guard and the new Transportation Security Administration. Compared to the President's budget, the House Republican budget provides $4.4 billion more in budgetary resources for 2003.[16] This additional funding is for the federal-aid highways program, although it still leaves the program $4.2 billion below last year's enacted level.

Budget Details

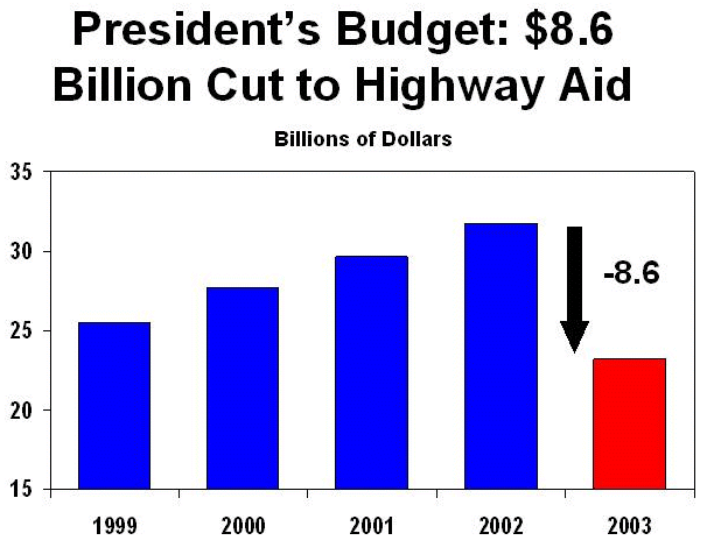
- ***President Proposes Drastic Cut to Federal Highway Aid*** — The President's budget cuts 2003 federal-aid highway funding to $23.2 billion, a cut of $8.6 billion (27.0 percent) from the 2002 enacted level of $31.8 billion. This dramatic cut in 2003 highway funding is consistent with provisions in the Transportation Equity Act for the 21st Century (TEA-21) that links highway funding levels with actual and expected highway excise tax collections. The cut results from lower-than-expected gas tax collections in 2001 and a downward revision in projected collections for 2003.[17] Such a dramatic decline in federal aid would

[15] Some DOT programs are funded with traditional appropriations. However, highway programs, most mass transit programs, and the Federal Aviation Administration's airport improvement grants are usually funded with mandatory contract authority. The Appropriations Committees constrain the use of this mandatory contract authority by setting obligation limitations. Outlays resulting from the obligation limitations are counted as discretionary outlays.

[16] The President's budget displays an additional $853 million in appropriations for this function for 2003 to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for federal civilian employees. This amount reflects only an accounting change and does not represent a programmatic increase. See *Appropriated Programs* and *Creative Accounting* for further information.

[17] The President's original budget shows a $9.2 billion (28.9 percent) cut from the 2002 enacted level. However, shortly after the budget's release, the Treasury Department disclosed that it had made a mathematical error when calculating the amount of tax revenue to credit to the highway trust fund for 2003. Because of this mistake, the cut to federal highway aid in the President's original budget was $596

force states to abandon or postpone many highway projects and result in the loss of thousands of highway construction jobs while the nation is still recovering from a recession. The President's budget makes no attempt to remedy this steep drop called for under the provisions of TEA-21.



- ***House Republicans Partially Reverse President's Cut to Highway Aid*** — The House Republican budget partially reverses the President's cut to the federal-aid highway program by providing an additional $4.4 billion for 2003. This restoration is intended to undo the cut called for under TEA-21 because of the decline in highway tax revenues and to bring funding for the federal-aid highway program back to the 2003 authorized level in TEA-21.

Federal-Aid Highway Funding under TEA-21
(billions of dollars)

	2000	2001	2002	2003*
TEA-21 Authorization Level	26.2	26.6	27.3	27.6
RABA Adjustment	+1.5	+3.1	+4.5	-4.4
Final Funding Level	27.7	29.7	31.8	23.2
Change from Previous Year		*+2.0*	*+2.1*	*-8.6*

* *represents the President's budget proposal*

million too big. On March 14, the Administration submitted an amendment to the budget that reduces the $9.2 billion cut to $8.6 billion.

- ***Republicans Rebuff Democratic Attempt to Do More for Highways*** — During the Budget Committee mark-up of the budget resolution, Democrats offered an amendment to add $1.3 billion more for federal-aid highways for 2003. Republicans opposed the amendment, and it was rejected on a party-line vote.

- ***New Transportation Security Administration*** — The Aviation and Transportation Security Act, signed by the President last November, established a new Transportation Security Administration (TSA) in the Department of Transportation (DOT), which took over responsibility for aviation security from the Federal Aviation Administration. In order to help fund TSA's activities, the law authorizes a new passenger fee (capped at $5 per one-way ticket) and security fees on air carriers. Like the President's budget, the House Republican budget reflects estimated collections of $2.2 billion from these fees. These collections only partially cover the $4.8 billion the budgets provide for TSA. Recently, the DOT's Inspector General testified that this amount would not be enough to enable TSA to meet its capital and operating costs for the year.

- ***Coast Guard*** — Both the President's budget and the House Republican budget provide $7.1 billion for the Coast Guard, a $1.6 billion increase from the 2002 enacted level. The budgets claim that this is the largest increase in the Coast Guard's history. However, nearly half of this increase is for a $736 million lump-sum payment to a new Coast Guard military retirement fund.[18] Without this payment, the increase for 2003 is $836 million (15.0 percent). Of this remaining amount, $92 million is an increase for capital costs and the rest is for the increased cost of operations in the post-September 11 environment.

- ***Amtrak*** — Like the President's budget, the House Republican budget provides $521 million in capital funding for Amtrak for 2003, which is $100 million less than the 2002 enacted level of $621 million. The 2002 total includes $100 million in supplemental appropriations for post-September 11 security work on Amtrak rail tunnels in New York City.

  Amtrak announced recently that the amount in the Republican budgets falls well short of what it will need to continue its current services. The rail service announced that it will ask Congress for $1.2 billion in 2003 appropriations for basic needs to manage and operate its rail system, including $840 million for capital investment, $160 million for railroad retirement taxes, and $200 million to support unprofitable long-distance train service. Amtrak also indicated that an appropriation below this level will require the rail service to eliminate unprofitable long-distance service as early as October 1, 2002.

- ***Maritime Administration*** — Like the President's budget, the House Republican budget eliminates funding for new loan guarantees under the Maritime Guaranteed Loan (Title XI)

---

[18] See *Appropriated Programs* and *Creative Accounting* for more discussion of the President's accrual proposals.

Program. This program guarantees loans for purchases from the U.S. shipbuilding industry and for shipyard modernization. Last year, Congress ignored a similar request from the President and provided $37 million for the program. For 2003, the House Republican budget provides $4 million, enough to cover only the cost of administering pre-existing guarantees.

Function 450: Community and Regional Development

Federal support for community and regional development helps economically distressed urban and rural communities. Major agencies and programs included in this function are the Empowerment Zones, Community Development Block Grant, the Economic Development Administration, the Appalachian Regional Commission, rural development programs in the Department of Agriculture, the Bureau of Indian Affairs, the Federal Emergency Management Agency, and the Small Business Administration's disaster loan program.

- ***House Republican Budget Identical to the President's Budget*** — The House Republican budget provides $14.7 billion for the Community and Regional Development function for 2003, the same level as provided by the President's budget.[19] The Republican budgets cut this function by $4.1 billion below CBO's estimate of the level needed to maintain constant purchasing power. While the Republican budgets substantially increase FEMA funding for 2003, the budgets significantly cut other programs in this function.

- ***Community Development Block Grant (CDBG) Program Cut*** — Community Development Block Grants provide funds for programs and activities that promote economic development in low- and moderate-income communities. The Republican budgets provide $4.7 billion for CDBGs, a $379 million (7.0 percent) cut below the level needed, according to CBO, to maintain purchasing power at the 2002 level. The Republican budgets reduce grants to the top-earning one percent of eligible communities to fund development in Colonias, which are communities along the United States and Mexican border.

- ***Community Development Financial Institutions (CDFI) Fund Cut*** — The CDFI program provides grants, loans, and other assistance to promote investment in economically distressed areas. The Republican budgets provide $68 million for CDFI, a $13 million (16.0 percent) cut below the level needed, according to CBO, to maintain purchasing power at the 2002 level.

- ***Economic Development Administration Cut*** — Economic Development Assistance programs provide grants and other assistance to help alleviate unemployment and underemployment in economically distressed regions. The Republican budgets provide $317 million for Economic Development Assistance programs, a $24 million (7.0 percent) cut below the level needed, according to CBO, to maintain purchasing power at the 2002 level.

---

[19] The President's budget also displays $79 million in this function to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for employees. This amount reflects only an accounting change and does not represent a programmatic increase. See *Appropriated Programs* and *Creative Accounting* for further discussion.

- ***Appalachian Regional Commission Cut*** — The Appalachian Regional Commission aids economic development in the Appalachian region. The Republican budgets provide $66 million for the Appalachian Regional Commission, a $6 million (8.0 percent) cut below the level needed, according to CBO, to maintain purchasing power at the 2002 level.

- ***Rural Community Advancement Cut*** — The Rural Community Advancement (RCA) program provides grants, loans, and loan guarantees to stimulate economic growth and build facilities in rural communities. The Republican budgets provide $791 million for the Rural Community Advancement program, a $7 million cut below the level needed, according to CBO, to maintain purchasing power at the 2002 level.

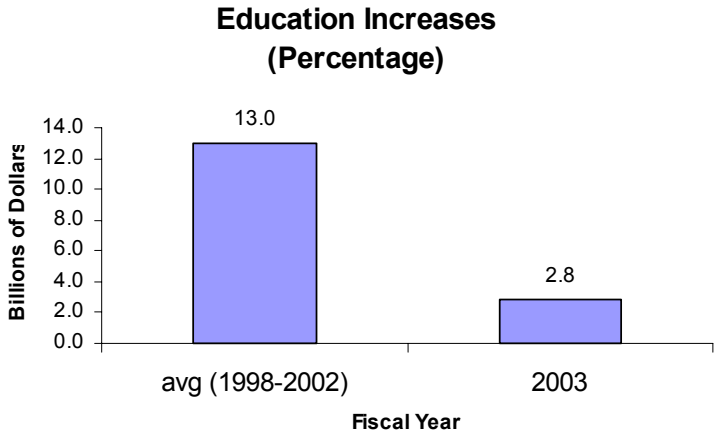
- ***Empowerment Zones*** — Empowerment Zones target funds to in efforts to revitalize economically distressed urban and attract private investment. The Republican budgets include no funding for urban or rural empowerment zones for 2003. Last year urban empowerment zones received $45 million in appropriated funds and rural empowerment zones received $15 million in appropriated funds.

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

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

The House Republican budget resolution matches the President's budget for 2003 in providing $72.1 billion in discretionary funding for programs in this function, almost exactly CBO's estimate of the level needed to maintain purchasing power for these programs at the 2002 level.[20] However, this freeze in purchasing power is misleading: it masks the severe decreases in certain programs, such as job training, that are offset by increases in a few high-profile programs, such as special education.

Education



The Republican budgets increase funding for the Department of Education by $1.4 billion (2.8 percent) over the 2002 program level but only $711 million (1.4 percent) above CBO's estimate of the level needed to maintain purchasing power at the 2002 level. This hike pales in comparison with education increases in recent years: Congress raised education appropriations for 2002 by 15.9 percent over the 2001 program level, and by an average of 13.0 percent over each of the past five years.

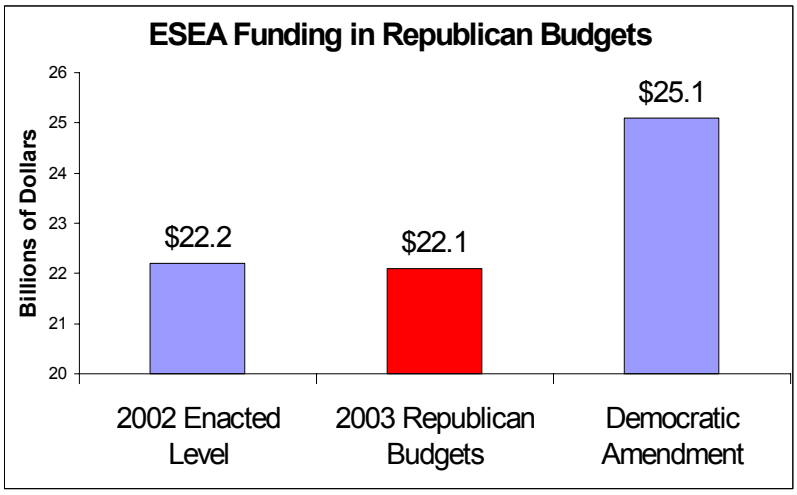
To fund increases in a few programs — primarily $1.0 billion each to special education and education for the disadvantaged (Title I), $549 million to try to maintain Pell Grants at their current levels, and $100 million for reading — the Republican budgets cut other education programs by $1.8

[20] The President's budget displays an additional $151 million in this function to account for the full cost of accruing all pensions, retiree pay, and retiree health benefits for employees. This amount reflects only an accounting change and does not represent a programmatic increase. See *Appropriated Programs* and *Creative Accounting* for further discussion.

billion from the 2002 enacted levels. Elementary and secondary education programs except for Title I bear the brunt of the cut, losing $1.4 billion; the budget cuts higher education programs by $241 million, and vocational and adult education programs by $36 million.

- ***Republicans Divert Funding to Private School Tax Credits*** — Rather than fulfill current needs for federal education funding — such as special education, Title I, and Pell Grants, which are all funded well below their authorized levels — the Republican budgets include a new tax credit for students to attend a private or public school if they were assigned to a failing public school. This tax credit costs $175 million in forgone taxes and government spending in 2003, and $3.7 billion over five years (2003-2007). (The Republican budget resolution is silent about which particular tax cuts comprise its $4.4 billion in tax cuts in 2003, but the Republicans claimed the President's private school tax credit.) Because tax credits are not appropriated funding, these costs do not appear in the total of $72.1 billion of appropriations for Function 500.

- ***Republicans Cut Funding for New Elementary and Secondary Education Act (ESEA)*** — The Republican budgets not only fail to provide all the funding authorized for the No Child Left Behind Act, last year's bipartisan reauthorization of the nation's main elementary and secondary education law, they actually cut funding for these programs by $90 million from the 2002 enacted level, to $22.1 billion for 2003.



- **Republicans Eliminate 28 Elementary and Secondary Education Programs** — The Republican budgets cut funding for elementary and secondary education programs other than Title I by $1.3 billion. This requires eliminating 28 programs and other Congressional priorities including Drop-Out Prevention, Rural Education, Civic Education, Close-Up Fellowships, and numerous technology training programs.

Democrats Try to Increase ESEA Funding — During Committee consideration of the Republican resolution, the Democrats offered an amendment to provide $3 billion more for 2003 ($15.2 billion over 2003-2007) for ESEA programs. For 2003, this funding included $2.15 billion for Title I, $325 million for teacher quality programs, $250 million for the 21st Century Community Learning Centers after-school program, and $275 million for other ESEA programs. The amendment lost on a party-line vote of 16-20.

- ***Special Education Reserve Fund*** — The Republican budgets include a smaller increase than Congress provided last year for the Individuals with Disabilities Education Act (IDEA) Part B grants to states, increasing them by only $1.0 billion, for a total of $8.5 billion for 2003. This funding puts the federal contribution at only 18 percent of the national average per pupil expenditure, still less than half the 40 percent "full funding" federal contribution ceiling authorized by IDEA. The House Republican budget places this $1.0 billion in a reserve fund that Congress can use only for Part B grants; if Congress provides less than this $1.0 billion increase, the Function 500 total shrinks by the difference between $1.0 and the increase for Part B. For 2004 through 2007, the House Republican budget places a total of $13.6 billion in the reserve fund to be used for IDEA only if the Education and Workforce Committee reauthorizes IDEA, and then the funding may be used for either appropriations or mandatory funding. For 2007, this would provide a 26.3 percent federal share for IDEA.

Democrats Offer Further IDEA Increases — During Committee consideration of the Republican resolution, the Democrats offered an amendment to increase IDEA by $1.5 billion for 2003, and by an amount that increased by $1.3 billion each year thereafter ($20.5 billion over 2003-2007). The amendment would have increased the federal share to 21.6 percent for 2003 and to 29.2 percent for 2007. Republicans defeated the amendment.

- ***Republicans Cut Maximum Pell Grant*** —The Republican budgets claim to freeze the Pell Grant maximum award at the 2002 level of $4,000 (because more eligible students are expected to apply, the budgets provide another $549 million for Pell Grants for 2003). However, CBO estimates that the Pell Grant funding in the Republican budgets will actually cut the maximum award to less than $3,900.

Democrats Try to Raise Maximum Pell Grant to $4,500 — During the Committee markup of the Republican resolution, Democrats offered an amendment to increase the maximum Pell Grant for 2003 by $500, to $4,500, and to increase Head Start enrollment to one million children. Republicans defeated the amendment.

Employment and Training

- ***Republican Budgets Cut Employment Assistance*** — Counting some selected small increases, the Republican budgets include a net funding cut for employment and training programs of $686 million (12.1 percent) from the 2002 enacted level of $5.7 billion. This includes a cut of $363 million for youth training services that prepare low-income youth for academic and employment success, a cut of $166 million (10.7 percent) from the 2002 enacted level in funding to help dislocated workers, and a cut of $50 million for state grant funding for employment and training for low-income adults.

Social Services

- ***Republicans Cut Community Services Programs by 13 Percent*** — The Republican budgets provide $640 million for community services programs, $98 million (13.3 percent) below the 2002 enacted level and $113 million (15.0 percent) below CBO's estimate of the amount needed to maintain purchasing power at the 2002 level.

- ***Republicans Freeze Head Start Enrollment*** — The Republican budgets provide $6.7 billion for Head Start, an increase of $130 million (2.0 percent) over the 2002 enacted level; however, this is not enough to allow Head Start to offer services to any additional children.

> ***Democrats Try to Increase Head Start Enrollment*** — Democrats on the Committee offered an amendment to increase Head Start funding enough to serve one million children, but Committee Republicans defeated the amendment.

- ***Republicans Freeze Social Services Block Grant and Services for Seniors*** — The Republican budgets freeze funding for many social services programs, including the Social Services Block grant (frozen at the 2002 enacted level of $1.7 billion), which provides states with broad discretion to use these funds for social services such as child care, child welfare, home-based services, employment services, adult protective services, prevention and intervention programs, and special services for the disabled. The budgets provide $1.3 billion for Administration on Aging programs, virtually the same as the 2002 enacted level. The bulk of this funding is for nutrition and meal services.

> **Democratic Amendments Defeated in the Budget Committee**
>
> - $3 billion more for ESEA programs
> - $4,500 maximum Pell Grant award
> - Head Start to serve one million children
> - Increase Special Education by $1.5 billion

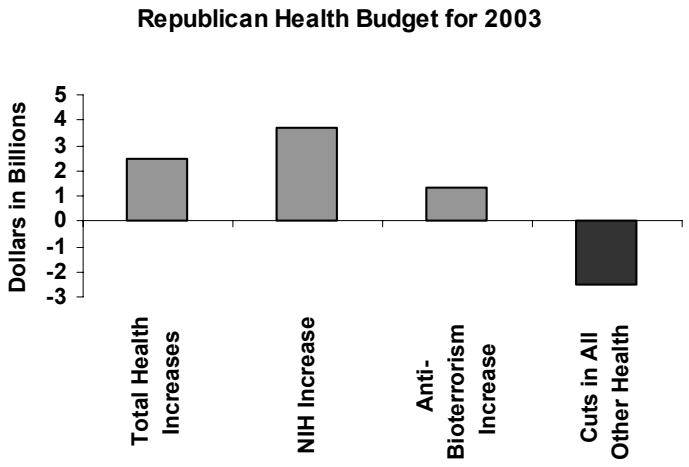
Function 550: Health

In Function 550 (Health), appropriated programs, also called discretionary, include most direct health care services programs. Other health programs in the Function fund anti-bioterrorism activities and national biomedical research, protect the health of the general population and workers in their places of employment, provide health services for under-served populations, and promote training for the health care workforce. For 2003, funding for the National Institutes of Health (NIH) represents over half (56 percent) of all discretionary funding. The major mandatory programs in this function are Medicaid, the State Children's Health Insurance Program (SCHIP), and Tricare-for-Life (health care for Medicare-eligible military retirees).

Appropriated Programs

- ***House Republican Budget Identical to the President's Budget*** — For appropriated programs in Function 550 (Health), the House Republican budget equals the President's budget.[21] Like the President's budget, the House Republican resolution provides $48.4 billion in appropriations for 2003, an increase of $1.5 billion (3.1 percent) above CBO's estimate of the level need to maintain constant purchasing power.

- ***House Republican Budget Requires Cuts for Most Health Programs*** — Like the President's budget for 2003, the House Republican budget for 2003 increases discretionary funding by $2.5 billion over the 2002 enacted level. However, when examined in detail, it is clear that this overall increase is insufficient to fund the even larger increases ($5.0 billion more than the 2002 enacted level) included for National Institutes of Health ($3.7 billion) and anti-bioterrorism activities ($1.3 billion) without cutting funding for other programs by a corresponding $2.5 billion. For 2003, funding for NIH alone represents over half (56.0 percent) of the function's funding for appropriated health programs.



[21]The President's budget also displays $382 million for 2003 in this function to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for employees. This amount reflects only an accounting change and does not represent a programmatic increase. See *Appropriated Programs and Creative Accounting* for further discussion.

While the increases for NIH and anti-bioterrorism activities are supported by Congress on a bipartisan basis, there is real concern about eliminating, cutting, or freezing other health-related activities that promote training for the health care workforce, and that provide most direct health care services programs for those who are vulnerable, poor, or living in under-served areas with high rates of uninsured persons. Clearly this overall increase is insufficient to fund the major increases included for the NIH ($3.7 billion) and anti-bioterrorism activities ($1.3 billion) without cutting funding for other programs.

Mandatory Programs

- ***House Republicans Reject President's Budget for Entitlement Programs*** — The House Republican budget does not include any of the President's revisions to entitlement programs such as a one-year extension of Transitional Medicaid Assistance or state retention of expiring funds under the State Children's Health Insurance Program. It assumes only one revision to current law and that was not included in the President's budget.

  Under the House Republican budget, mandatory spending increases by $3.2 billion over five years (2003-2007) relative to current law as estimated by OMB. This reflects the enactment of The Family Opportunity Act, a proposal with broad bipartisan support in Congress. This legislation permits states to provide Medicaid services to disabled children with family income up to 300 percent of the poverty line.

- ***Account Transfer*** — As required under current law, the House Republican budget transfers the Tricare-for-Life program (health care for Medicare-eligible miliary retirees) to Function 550. Previously this spending was included in Function 050 (Defense). This additional spending is not related to ongoing programmatic increases, and should not be interpreted as increased spending on health.

Medicaid

- ***House Republican Budget Plan Fails to Extend Transitional Medicaid Assistance (TMA)*** — Unlike the President's budget, the House Republican budget fails to include $350 million to extend TMA for one year. This program provides health coverage for former welfare recipients as they enter the workforce and is an integral part of welfare reform. See *Function 600 (Income Security)* for a further discussion of welfare.

  The one-year TMA extension included in the President's budget was woefully inadequate, but the total elimination of it by the House Republican budget is a major retreat on welfare reform. It seriously hampers continuing efforts to assist people make the transition from welfare to work.

State Children's Health Insurance Program (SCHIP)

- ***House Republican Budget Does Not Permit States to Keep the Expiring State Children's Health Insurance Program (SCHIP)*** — Unlike the President's budget, the House Republican budget does not allow states to retain $3.2 billion in expiring SCHIP funds. Without this change, unused SCHIP funds for 1998-2000 must be returned to the Treasury at the end of 2002 and 2003.

  When the President submitted his budget in February, the Office of Management and Budget (OMB) estimated that 900,000 children would lose their SCHIP coverage even if the states were permitted to keep these funds. Obviously, the loss of these funds will force states to drop additional children from their SCHIP rolls.

During the House Budget Committee markup of the 2003 budget resolution, the Republicans rejected an amendment offered by Rep. Tammy Baldwin (D-WI) that permitted the states to use these funds to provide health care coverage to eligible, uninsured children.

- ***No Help for the Uninsured*** — The House Republican budget does not include specific plans to assist those without health insurance. Republicans ignore the plight of almost 40 million Americans.

  ✓ In 2000, 14 percent of all Americans, 38.7 million people, were without any form of health insurance. This is one out of seven Americans.

  ✓ An estimated 9.2 million children under age 19 were without health insurance in 2000, representing 12 percent of all children.

  ✓ Eighty percent of the uninsured come from working families who do not have health insurance from their employers. Wage level plays a key role in who is insured.

Health Programs Subject to Annual Appropriations

The House Republican budget incorporates the President's 2003 funding levels that include increases for a limited number of activities.

- ***Anti-Bioterrorism Funding*** — For the fight against bioterrorism, the budget includes $4.3 billion for 2003, an increase of $1.3 billion, 43.3 percent, over the 2002 enacted level. The Public Health and Social Services Emergency Fund (PHSSEF) receives $2.3 billion of this

amount and provides funding for state and local preparedness, pharmaceutical procurement, and federal medical and public health response. Several agencies (e.g. Centers for Disease Control and Prevention) within the Department of Health and Human Services are responsible for responding to the medical and public health consequences of bioterrorism and receive funding for anti-terrorism activities directly or through transfers from the PHSSEF. For a broader discussion of homeland security funding, see Homeland Security.

- ***Doubling Funding for NIH*** — For 2003, the budget increases NIH funding by $3.7 billion (15.7 percent) over the 2002 enacted level. This increase is the final installment in the bipartisan commitment to double the NIH budget over five years (1999-2003). According to the Administration, about 40 percent of the 2003 increase is earmarked for bioterrorism prevention and treatment research. For 2003, NIH funding represents over half (56 percent) of the funding for appropriated health programs in this function.

- ***National Health Service Corps (NHSC)*** — For 2003, the budget increases NHSC by $44 million, 29.7 percent, over the 2002 enacted level. Through its scholarship and loan programs, the NHSC places physicians in medically under-served areas which often have a high rate of uninsured persons. NHSC physicians are often the mainstay of the health care workforce for institutions, such as community health centers and disproportionate share and public hospitals, that serve the under-insured or uninsured.

- ***Boost Funds for Community Health Centers*** — For 2003, the budget funds community health centers at $1.5 billion, an increase of $114 million, 8.5 percent, over the 2001 enacted level. These centers are one of many providers serving low-income and uninsured people. Community health centers often rely on the NHSC for physicians to provide care to their patients and work with the CAP providers to coordinate care for the uninsured.

The House Republican budget incorporates the President's 2003 funding levels which include cuts for many activities and outright eliminations of many others.

- ***Eliminate Community Access Program (CAP)*** — The budget eliminates the community access program for 2003, a cut of $105 million. CAP funds grants to coordinate health care services to the under-insured and uninsured offered by community providers such as public hospitals, community health centers, and disproportionate share hospitals.

- ***Eliminate State Planning Grants*** — The budget eliminates state planning grants for 2003, a cut of $15 million. These grants are used by states to develop designs for providing access to health insurance coverage to all people in a state.

- ***Cut Health Professions Training Programs*** — For 2003, the budget cuts health professions training by $278 million, 71.6 percent, below the 2002 enacted level. Nursing programs are not included in the overall reduction.

- ***Telehealth Activities Slashed*** — For 2003, the budget cuts telehealth activities by $33 million, 84.6 percent, below the 2002 enacted level.

- ***Rural Health Activities Slashed*** — Rural health activities are cut by $54 million, 41.9 percent, below the 2002 enacted level.

- ***Cut Children's Hospital Graduate Medical Education (GME)*** — For 2003, the budget cuts pediatric GME by $85 million, 29.8 percent, below the 2002 enacted level. Funding drops to $200 million for 2003. These funds are currently used by children's teaching hospitals to offset the higher costs of providing advanced training to pediatricians.

- ***Masking Cuts in the Substance Abuse and Mental Health Services Administration (SAMHSA)*** — The budget funds SAMHSA at $3.2 billion for 2003, an increase of $57 million over the 2002 enacted level. Mental health activities are frozen at the 2002 level of $832 million. Substance abuse activities are funded at $2.3 billion, a net increase of $82 million. Substance abuse treatment programs are increased $127 million, 6.3 percent, over the 2002 level. However, the prevention programs are cut $45 million, 22.7 percent from the 2002 enacted level.

- ***Freeze Ryan White AIDS Programs*** — For 2003, the budget freezes Ryan White AIDS programs at the 2002 level of $1.9 billion. With the advent of effective therapies, the number of persons seeking AIDS Drug Assistance Program (ADAP) assistance has more than doubled since 1996. The budget's level funding of Ryan White programs, especially ADAP, comes at a time when many states are implementing program restrictions or eligibility limits because of budget shortfalls.

  Last year, a Kaiser Family Foundation survey (March 29, 2001) of ADAPs showed that these programs are key in providing HIV-related drugs to under-insured and uninsured persons living with HIV/AIDS. Ryan White programs fill the gaps for many with HIV/AIDS who do not have insurance and cannot qualify for Medicaid.

- ***Freeze Title X Family Planning*** — The budget freezes Title X family planning programs at the 2002 level of $266 million for 2003.

- ***Freeze Maternal and Child Health (MCH) Block Grant*** — For 2003, the budget freezes the MCH block grant at the 2002 enacted level of $739 million. The MCH block grant supports federal and state partnerships to develop service systems to address the critical challenges in maternal and child health.

- ***Freeze Healthy Start*** — The budget freezes Healthy Start at the 2002 level of $99 million for 2003. The Healthy Start program supports programs in targeted high-risk communities to reduce low birth weight, inadequate prenatal care, and other factors contributing to infant mortality.

Function 570: Medicare

Function 570 (Medicare) includes only the Medicare program. Appropriated funds are used to administer and monitor the Medicare program. Medicare benefits comprise almost all of the mandatory spending in this function.

Appropriated Program

- ***House Republican Budget Cuts Medicare's Administrative Funds* —** For appropriated programs in Function 570 (Medicare), the House Republican budget is identical to the President's budget.[22] For 2003, the House Republican budget funds Medicare administrative activities at $3.6 billion, a cut of $167 million (4.4 percent) below CBO's estimate of the level needed to maintain constant purchasing power. Over five years, (2003-2007), the Republican budgets provide $18.9 billion for this purpose. This is $1.6 billion (7.8 percent) below CBO's estimate of the level needed to maintain constant purchasing power.

The Medicare Reserve Fund

- ***House Republican Budget Underfunds Its Medicare Reserve for Prescription Drugs, Modernization, and Provider Adjustments* —** The House Republican budget replaces the President's inadequate proposal with its own inadequate proposal, a Medicare reserve fund. Like the President's budget, the House Republican budget does not include sufficient resources to establish a Medicare prescription drug benefit, increase provider payments equitably, and modernize Medicare in a manner yet to be defined.

- ***Size of Medicare Reserve Fund Is Open to Question* —** Using the Republicans' accounting method (OMB), the reserve fund increases Medicare spending relative to current law by $89.1 billion over five years (2003-2007), and $350.0 billion over ten years (2003-2012) for a proposal that accomplishes all three goals.

  Using Congress' traditional accounting method (CBO), the reserve fund in the House Republican budget increases Medicare spending far less than is stated. Under the traditional method, Medicare spending relative to current law is increased by $34.1 billion over five years (2003-2007), and $124 billion over ten years (2003-2012). (See *The Magic Bullet of Creative Accounting — Republican Math* below for further discussion.)

---

[22]The President's budget also displays $83 million for 2003, and $415 million over five years (2003-2007), in this function to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for employees. This amount reflects only an accounting change and does not represent a programmatic increase. See *Appropriated Programs* for further discussion.

- ***Conditions on Release of Reserve Fund*** — The reserve fund will be released only when a proposal including modernization, prescription drugs, and provider payment adjustments is before the House for consideration. All three issues must be addressed in a single measure.

- ***Provider Increases Alone Could Consume More than Half of the Reserve*** — According to MedPAC, an independent commission created to advise Congress about Medicare provider payments, provider increases alone are estimated to be $174.0 billion over ten years (2003-2012). If enacted, these increased payments would consume half of the stated resources ($350 billion) set aside for all three purposes.

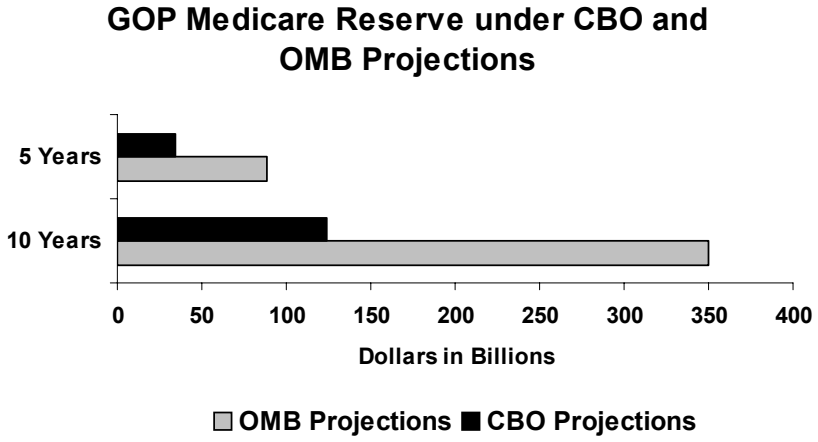
  Although the House Republican budget includes more spending for Medicare than the President's budget, ($350 billion over ten years (2003-2012) compared with $190 billion over the same period when measured by OMB), it is still woefully inadequate to establish a meaningful prescription drug benefit that is affordable for all seniors, adjust provider payments, and modernize Medicare in some undefined manner.

The Magic Bullet of Creative Accounting — Republican Math

- ***Changing the Accounting Method to Suit the Need*** — Discussions of baselines are usually left to technicians while others roll their eyes at the mere thought of the topic. However, in order to understand the House Republican budget, one must pull out the green eyeshade. Without it, one would not see why it could possibly matter how the beans are counted.

  A baseline is the way in which we account for projected spending under current law. It is the benchmark against which all increases and decreases are measured. If someone says he is increasing or decreasing a particular program such as Medicare, that increase or decrease is measured against a baseline.

  In the case of Medicare, using OMB's baseline, rather than CBO's baseline, results in Medicare increases appearing higher than they would than if they were compared with the CBO baseline. This is because OMB's Medicare baseline is significantly lower ($226 billion over ten years, 2003-2012) than CBO's Medicare baseline.



> For example, if someone says that the new level of spending for a program is $100, the increase in the program is measured against its existing level (the baseline). If the current level is $50, then the increase is also $50. If the current level is $25, then the increase is $75.

The House Republican budget measures its Medicare increases against a benchmark (OMB's baseline) that projects lower current spending than other benchmarks (CBO's baseline.) This makes the Medicare increases in the House Republican budget appear higher than they would otherwise.

Function 600: Income Security

Function 600 consists of a range of income security programs that provide cash or near-cash assistance (e.g., housing, food, and energy assistance) to low-income persons, and benefits to certain retirees, persons with disabilities, and the unemployed. Housing assistance programs account for the largest share of discretionary spending in this function. Major federal entitlement programs in this function include Unemployment Insurance, food stamps, Temporary Assistance to Needy Families (TANF), child care, and Supplemental Security Income (SSI). The function also includes spending associated with the refundable portions of the Earned Income Tax Credit (EITC) and Child Credit. Federal and other retirement and disability programs, which make up approximately one-third of funds in this function, are discussed in *Function 800 (General Government)*.

Overview

The House Republican budget provides $44.9 billion in discretionary funding for Function 600 for 2003, the same level provided by the President's budget. This amount is $1.8 billion less than CBO's estimate of the amount necessary to maintain purchasing power in these programs at the 2002 level. The President's budget also displays a total of $1.7 billion over ten years (2003-2012) in this function to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for employees. This amount reflects only an accounting change and does not represent a programmatic increase. See *Appropriated Programs* and *Creative Accounting* for further discussion.

House Republican Cuts for 2003
Selected Cuts In Appropriated Programs Compared to Constant Purchasing Power

- Public Housing Repairs -$471 million
- LIHEAP -$338 million
- Child Care (CCDBG) -$40 million
- Rural Housing/Econ Dev -$25 million
- Homeless Assistance -$14 million

In 2003, the House Republican budget provides $274.0 billion for the mandatory programs of Function 600, an increase of $4.0 billion above OMB's projection of spending under current law. Over five years (2003 - 2007), the House Republican budget spending levels are $6.7 billion higher than OMB's projection of spending under current law. The higher House Republican five-year spending level accommodates $4.4 billion in spending associated with the recently-enacted economic stimulus bill, P.L. 107-147 (see box *Economic Stimulus in the House Republican Budget*). It also accommodates $2.4 billion in additional spending for the reauthorization of TANF, Food Stamps, and related programs; the same amount dedicated to these purposes by the President's budget.

The House Republican budget provides $4.0 billion more than the President's original budget in 2003, but $1.1 billion less than the President from 2003-2007. While the Republican budgets include the same overall spending on TANF, Food Stamps, and related programs, they differ in two important ways. The House Republican budget for Function 600 includes economic stimulus

spending (which the Administration budget did not include in this function), and the House Republican budget rejects the Administration's policy to shift state unemployment insurance administration costs to the states.

Welfare and Related Family Support Programs

Most provisions of the landmark Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), often referred to as the Welfare Reform Act, will expire if they are not reauthorized in 2002. PRWORA replaced the former federal welfare entitlement program with flexible Temporary Assistance for Needy Families (TANF) block grants. The law also increased child care funding, improved child support enforcement, reduced the number of children eligible for the SSI program, reduced funding for the Title XX Social Services Block Grant (SSBG), and terminated most legal immigrants' access to food stamp and other benefits.

The House Republican budget increases total mandatory spending in this function relative to current law as measured by OMB by $9 million in 2003 and $2.4 billion over five years for all welfare-related purposes. This is the same amount of additional spending provided by the President's budget for "Welfare Reform" purposes, including the reauthorization of the TANF, Food Stamp, and Child Support Enforcement programs and changes in the SSI program. Unlike the President's budget, the House Republican budget fails to extend the Transitional Medicaid Assistance for families leaving welfare through 2003. See *Function 550 (Health)* for information on Medicaid, *Nutrition Assistance* in this section for a discussion of food stamps, and *Function 500 (Education, Training and Social Services)* for a discussion of SSBG and training programs.

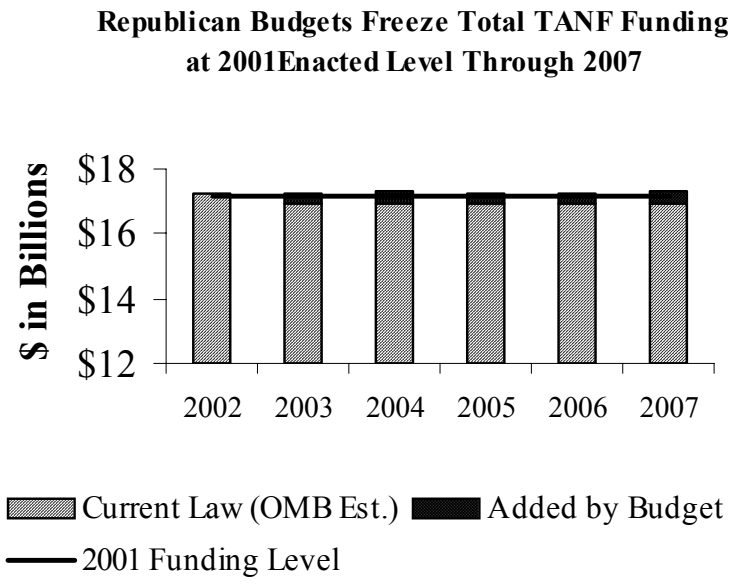
How TANF & Related Programs Fare
House Republican Budget
2003 - 2007

- *TANF* — Funding frozen at 2001 enacted level through 2007
- *Child Care entitlement to states* — Funding frozen at 2002 enacted level through 2007
- *Food Stamps* — +$1.1B
- *Child Support* — +$3M, including $173M in Food Stamp & Medicaid savings
- *SSI* — Review policy saves $123 M

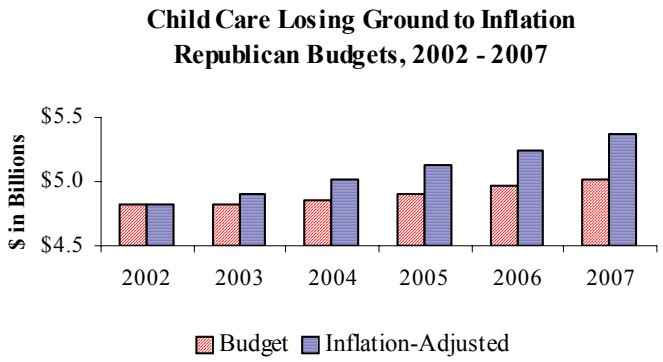
- ***Freezes Overall Welfare Funding; Redirects $200 Million to Marriage Promotion*** — The TANF funding levels provided in the Republican budgets freeze the major source of TANF funding, the TANF state block grants, at $16.5 billion — the same level provided since 1997 — through 2007. Grants to tribes and territories are similarly frozen at their 1997 enacted levels of $101 million per year through 2007. The Republican budgets provide additional TANF spending of $46 million in 2003 and $1.4 billion over five years relative to current law to extend two expiring TANF components — Supplemental Grants for states with low historical welfare funding and the Contingency Fund for states experiencing economic hardships — through 2007. The extension freezes Supplemental Grant funding at the 2001 and 2002 enacted funding level of $319 million through 2007. The extension continues to

make up to $2 billion in Contingency Funds available for states experiencing hardships from 2003 - 2007. The Republican budgets project that states will tap only $235 million of these contingency funds over the five year period, however.

Current TANF law provides $300 million per year in bonus grants to states for high performance (in the areas of participant job retention, access to work supports, etc.) and reductions in out-of-wedlock births. The Administration's TANF reauthorization policies redirect $200 million of the $300 million in state bonus funds to "programs that encourage healthy, stable marriages." Together, these redirected funds account for $200 million of the $300 million the Administration says it dedicates to marriage promotion activities. The fine print indicates that states will have to supply the remaining $100 million — whether from their TANF block grants or other funds.



- ***Freezes Funding for Child Care*** — Like the Administration's budget, the funding levels in the House Republican budget freeze funding for the Child Care and Development Fund at the 2002 enacted level of $4.8 billion, providing $2.1 billion in discretionary funding for the Child Care and Development Block Grant (CCDBG) and $2.7 billion for the child care entitlement grant to states. This cuts discretionary funding compared with CBO's estimate of the amount necessary to maintain purchasing power at the 2002 level by $40 million in 2003 and $167 million over five years. The budget freezes entitlement grant funding at the 2002 enacted level through 2007, cutting entitlement funds below an inflation-adjusted level by $49 million for 2003 and $948 million over five years.



- ***Increases Child Support Distribution to Families, Reducing Spending in Related Programs*** — The House Republican budget spending levels include $66 million in savings in 2003 and $176 million in additional spending over five years relative to current law for changes in child support enforcement and distribution. Changes include measures encouraging states to increase the amount of child support collections passed on to families in the TANF system and the institution of a $25 user fee for families outside the TANF system for whom the states make collections. The budget also assumes that additional child support payments to families will generate savings relative to current law in related programs that would otherwise support those families ($133 million in Food Stamps and $40 million in Medicaid over five years). The House Republican budget credits all savings to Function 600.

> ***Republicans Reject Child Care in Favor of Taxes*** — During Committee consideration of the Republican resolution, Democrats offered an amendment to the House Republican budget that added $11.4 billion in child care funding over five years to serve an estimated one million more kids and improve the quality of the care they receive. Republicans rejected this amendment in order to preserve the tax cuts in their budget.

- ***SSI Review Policy Reduces SSI and Medicaid Spending by $123 Million*** — The spending levels in the House Republican budget reflect the Administration's proposed changes in the SSI program. The Administration applies an accuracy and review standard currently used by the Social Security Disability Insurance Program to SSI disability awards. This provision reduces 2003-2007 spending in the SSI and Medicaid programs by $41 million and $82 million, respectively. The House Republican budget credits Medicaid savings resulting from this policy to Function 600 rather than Function 550 (Health).

- ***Making Good on Old Promises to Foster Kids*** — The House Republican budget increases funding for the Safe and Stable Families Program by $130 million and provides $60 million in education and training vouchers for youths aging out of the foster care system. Both the Administration budget and the Republican budget resolution for 2002 originally promised new entitlement funding for these increases. However, in August 2001, the Administration instead requested that existing discretionary funding cover these initiatives. The 2003 Republican budgets provide this long-promised additional funding within their discretionary funding levels.

- ***Cuts LIHEAP Formula Funding by 17.6 Percent*** — At a time when the nation is still recovering from a recession, the House Republican budget cuts Low-Income Heating and Energy Assistance Program (LIHEAP) formula grants to states by $300 million (17.6 percent) compared with the 2002 enacted level. Compared with CBO's estimate of the amount necessary just to maintain purchasing power at the 2002 level, the cut is worse — $338 million (19.9 percent). The House Republican budget provides $1.4 billion in LIHEAP formula grants to states and $300 million in contingent emergency funding for 2003. In

2002, Congress provided $1.7 billion for formula grants and $300 million in contingency funds.

Nutrition Assistance

- ***Food Stamp Reauthorization*** — Like the Administration's budget, the House Republican budget increases spending in the Food Stamp program by a total of $29 million in 2003 and $990 million over five years relative to OMB's estimate of current law. This five year amount assumes $1.1 billion in additional spending associated with the reauthorization of the Food Stamp program and $133 million in food stamp savings resulting from legislative changes in the Child Support Enforcement program (see *Increases Child Support Distribution...* in this section for additional information).

Unemployment Insurance (UI)

- ***House Rejects Administration's UI Devolution Policy, but Fails to Restore $2.2 Billion in Discretionary Cuts for UI Administration*** — The House Republican budget rejects an Administration initiative that cuts federal UI payroll taxes by 75 percent while gradually shifting the costs of state UI administration from the federal budget to the states from 2003 - 2007. However, by adopting the President's discretionary funding levels for this function, the House Republican budget assumes discretionary spending levels that include $2.2 billion in cuts to federal spending for state UI administration over five years. For 2007 — the first year of full implementation — discretionary cuts resulting from the Administration's proposal reach $2.2 billion. The impact of this cut is slightly offset by other assumptions in the Administration's budget for UI. However, replacing the net $1.8 billion cut to state administrative funds for 2007 will require a 3.7 percent cut in all other programs in the function. Funding for states' Employment Service operations are similarly cut in the House Republican budget (see *Function 500 (Education, Employment, Training, and Social Services)* for discussion of future cuts in employment services).

- ***Includes Extended Unemployment Benefits in Economic Stimulus*** — Spending in this function reflects $4.1 billion in spending associated with the extended unemployment benefits included in the recently-enacted economic stimulus package (P.L. 107-147). The majority ($8.5 billion) of spending associated with this provision will occur in 2002. (See box *Economic Stimulus in the House Republican Budget* in this section for additional discussion of the stimulus law.)

Economic Stimulus and the House Republican Budget

Total 2003-2007 spending for Function 600 reflects $4.4 billion resulting from the recently-enacted economic stimulus package (P.L. 107-147). In addition to tax cuts, the law included 13 weeks of extended unemployment insurance benefits for workers who have exhausted their UI benefits. Spending associated with these extended benefits is $12.6 billion from 2002-2007 and $4.1 billion from 2003-2007 (however, the Joint Committee on Taxation estimates that the net cost of these benefits, including revenue recouped within the UI program, to be $2.8 billion over ten years). The law also included a one-year extension of two expired provisions of the TANF program ($319 million in Supplemental Grants and availability of the Contingency Fund) through 2002. The Administration's budget, published before enactment of P.L. 107-147, reflects all costs of its economic stimulus proposal in Function 920.

Housing Assistance

According to the Administration, 4.9 million low-income families have worst-case housing needs, using over half of their incomes for rent or living in substandard conditions. The House Republican budget for 2003 includes modest increases for rental housing vouchers and a few, signature homeownership initiatives. However, it offsets these increases by making dramatic cuts in a few programs and by freezing funding for most programs at or near the 2002 enacted level. See the Table *Changes in Major Low-Income Housing Assistance Programs for 2003* for more detail on these program cuts.

- ***Funding Erodes for Most Programs*** — By adopting the President's spending levels, the House Republican budget freezes funding for most assisted housing programs at or near the 2002 enacted level. Programs cut below the amount necessary to maintain constant purchasing power at the 2002 level include Homeless Assistance Grants ($14 million) and Housing for The Elderly and Disabled ($20 million). See the Table *Changes in Major Low-Income Housing Assistance Programs for 2003* for more detail on these cuts.

- ***Cuts Funding for Critical Repairs to Public Housing, Again*** — Continuing the practice of cutting funds for critical repairs to public housing begun in the Administration's 2002 budget, the House Republican budget cuts the Public Housing Capital Fund to $2.4 billion, $417 million (14.7 percent) below the 2002 enacted level. Public housing — home to 1.2 million families, over 40 percent of whom are elderly or disabled — faces a $20 billion backlog of unmet repair needs and an additional $2 billion in needs accruing each year.

- ***Eliminates Rural Housing and Economic Development*** — The House Republican budget eliminates this $25 million program, which encourages new and innovative approaches to serve the housing and economic development needs of rural populations through grants to local community-based organizations.

Changes in Major Low-Income Housing Assistance Programs for 2003
(Dollars in Millions)

	2003 Budget	Change from 2002 Enacted	Change from 2002 Inflation-Adjusted (CBO)
New Section 8 Rental Assistance Vouchers (within Housing Certificate Fund)	204	100	204
Public Housing Capital Fund	2,426	-417	-471
Public Housing Operating Fund	3,530	35	-31
Revitalization of Distressed Public Housing (HOPE VI)	574	0	-11
HOME Investment Partnerships Block Grant	2,084	238	203
Downpayment Assistance Initiative (within HOME)	[200]	[150]	[149]
Housing Counseling	35	15	15
Homeless Assistance	1,130	7	-14
Housing for Elderly & Disabled	1,024	0	-20
HOPWA	292	15	10
Native American Housing Assistance	647	-2	-14
Rural Housing & Economic Development	0	-25	-25
Rental Housing Assistance (rural)	712	11	-2

- ***Renews All Section 8 Rental Assistance (Housing Certificate Fund)*** — Like the Administration, the House Republican budget provides $16.9 billion to renew Section 8 rental assistance for currently assisted families, $260 million to provide 43,300 tenant-protection vouchers for families scheduled to lose other rental housing assistance for management reasons, $196 million to administer project-based contracts, and $204 million to provide 34,000 new rental vouchers. (Within the voucher total, the budget sets aside up to $61 million for special-purpose vouchers and Section 8 downpayment assistance.) The Administration estimates the total cost of these efforts as $17.5 billion, but projects that $1.1 billion of previously appropriated funds will become available for reuse in 2003 and therefore the Republican budgets provide only $16.4 billion in new funding for these purposes.

With the exception of new rental vouchers, this funding simply ensures that the three million currently assisted families continue to receive assistance. The budget estimates that, compared to the 2002 enacted level, an additional $1.8 billion (or $1.1 billion if you exclude a one-time offset of $640 million that was only available in 2002) is required to renew expiring rental assistance contracts for 2003.

Federal Employee Retirement

See *Function 950 (Undistributed Offsetting Receipts*) for discussion.

Function 650: Social Security

Function 650 includes mandatory spending to pay Social Security retirement and disability benefits to 45 million people, and appropriated funding to administer these programs.

- ***Administrative Funding* —** The House Republican budget is identical to the President's budget. For 2003, the House Republican resolution provides $3.9 billion to administer Social Security benefits. For 2003, this is a 9.4 percent increase over the 2002 enacted level. Over five years (2003-2007), $20.8 billion is included in the Republican budgets for this purpose.[23]

- ***No Benefit or Payroll Tax Changes* —** Like the President's budget, the House Republican budget does not propose any changes for Social Security benefits or payroll taxes.

- ***House Republican Budget Makes Long-Term Reform Impossible* —** The House Republican budget mirrors the President's budget. As pointed out by the President's hand-picked Social Security privatization commission, the Administration's intention to replace Social Security with private accounts invested in the stock market is inconsistent with the budgets' projection of deficits for years to come. Reforming Social Security for the long-term, whether or not it is based on privatization, requires resources from outside of Social Security, and both Republican budgets squander those resources.

  See *Where Is the Real Republican Budget?* further discussion.

[23]The President's budget also displays $169 million for 2003 and $845 million over five years (2003-2007) in this function to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for employees. This amount reflects only an accounting change and does not represent a programmatic increase. See *Appropriated Programs and Creative Accounting* for further discussion.

Function 700: Veterans Benefits and Services

Function 700 includes the programs of the Department of Veterans Affairs (VA), such as veterans compensation and pensions, education and rehabilitation benefits, medical care, and housing programs.

Appropriated Programs

The House Republican budget provides $26.8 billion for Function 700 appropriated programs for 2003, $1.1 billion more than the President's budget.[24] Over five years (2003-2007), the House Republican budget provides $138.8 billion, $6.0 billion more than the President's budget.

The President's budget recognizes the need for additional funding for veterans medical care, a need echoed by of the House Veterans Affairs Committee. In their Views and Estimates to the Budget Committee, the Members of the Committee said:

> "substantially increased funding for veterans' healthcare will be necessary in order to fulfill Congressional mandates. New challenges and new veterans lead to the inescapable conclusion that we must provide the funding needed now by veterans who are filling VA's outpatient clinics in unprecedented numbers."

Unfortunately, to respond to this need the Administration's budget includes $316 million in "management efficiencies" to offset the overall cost of health care, in effect compelling the VA to pay for its own increase. In addition, the Administration imposes a deductible of $1,500 for Priority 7 veterans, requiring veterans to pay for a greater portion of their benefits out of their own pockets. OMB estimates this change would result in $281 million in increased medical collections in 2003, and $1.8 billion more over the five-year period. The House Republican budget flatly rejected this proposal, and instead provides the needed funding through appropriations.

Mandatory Programs

The House Republican budget provides $30.1 billion for mandatory veterans programs in 2003, and $167.3 billion over five years. The House Republican budget does not assume, as the President's budget does, the continuation after 2003 of the practice of verifying income for means-tested veterans benefits with the IRS. The Administration estimates that the extension of this practice reduces mandatory spending by $6 million each year, beginning in 2004. Therefore, the House

[24]The President's budget also displays $891 million in this function to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for employees. This amount reflects only an accounting change and does not represent a programmatic increase. See *Appropriated Programs* and *Creative Accounting* for further discussion.

Republican budget reflects $24 million more for mandatory programs over five years than the President's budget.

Concurrent Receipt

Certain military personnel qualify for both military retired pay and veterans disability compensation. Current law requires that military pensions be reduced, dollar for dollar, by the amount of VA disability compensation received. Proposals to end this reduction, or to allow concurrent receipt of both benefits, are very costly although they have garnered bipartisan support in Congress.

The House Republican budget includes a proposal to address the concurrent receipt issue. The funding for this measure is shown in Function 050 (National Defense), and is also discussed in that section of this document.

- ***"Special Compensation" in Current Law*** — Current law provides a *de facto* concurrent receipt for severely disabled military retirees, known as "special compensation." To receive special compensation, military retirees must receive a disability rating of 60 percent or higher from the VA within four years of retiring from military service. The amount of the special compensation is linked to the VA disability rating. The table below shows the amounts of special compensation in 2002 for each VA disability rating, and also shows the increases scheduled to occur under current law.

Monthly Payments Authorized Under Special Compensation

Military Retirees with VA Disability Rating of	60%	70%	80%	90%	100%
in 2002	$50	$100	$100	$200	$300
increased on January 1, 2003 to			$125	$225	$325
increased on October 1, 2004 to		$125	$150	$250	$350

The House Republican budget permanently lifts the four-year limitation on the disability rating and increases special payments by two and a half times current law amounts in 2003. In 2004, the House Republican budget ends special payments and begins to phase in concurrent receipt for veterans with 60 percent disability and higher. In 2004, the budget allows 20 percent concurrent receipt of benefits for veterans who are 60 percent or more disabled. In 2005, the percentage would rise to 40 percent; in 2006, 75 percent; and in 2007, full concurrent receipt would be allowed for veterans with a disability rating of 60 percent or higher. The House Republican budget provides $516 million for concurrent receipt in 2003, and $5.8 billion over five years.

The House Republican budget is consistent with preliminary CBO scoring of the particular policy described above, but is well short of the $18.3 billion CBO believes is necessary over 2003 to 2007 to allow all military retirees with any VA disability rating to receive full concurrent receipt beginning in 2003. The House Republican budget prohibits the Armed Services Committee from exceeding the first-year allocation of $516 million or the five-year total of $5.8 billion in the House Republican budget, but the Committee may adopt a policy different than the one assumed in the resolution.

Function 750: Administration of Justice

The Administration of Justice function consists of federal law enforcement programs, litigation and judicial activities, correctional operations, and state and local justice assistance. Agencies that administer programs within this function include the following: the Federal Bureau of Investigation (FBI); the Drug Enforcement Administration (DEA); the Immigration and Naturalization Service (INS); the United States Customs Service; the Bureau of Alcohol, Tobacco, and Firearms (ATF); the United States Attorneys; legal divisions within the Department of Justice; the Legal Services Corporation; the Federal Judiciary; and the Federal Bureau of Prisons. While the House Republican budget resolution provides increases for some federal law enforcement programs in this function, specifically those programs tied to Homeland Security, it significantly cuts state and local law enforcement programs. Following is an outline of the appropriate programs in the House Republican budget resolution.

- ***House Republican Budget Identical to the President's Budget*** — The House Republican budget provides $32.1 billion in appropriated funds for the Administration of Justice function for 2003. The House Republican budget resolution only appears to be $400 million below the President's budget because of an amendment adopted in Committee to switch funding for election reform from Function 750 (Administration of Justice) to function 800 (General Government).[25] The Republican budgets cut this function by $800 million below the level needed to maintain constant purchasing power excluding last year's emergencies. These cuts are largely applied to state and local law enforcement assistance programs.

- ***Community Policing*** — The Community Oriented Policing Services has in prior years provided grants and other assistance to help communities hire police officers and improve law enforcement technologies. The Republican budgets eliminate traditional grants to hire and retrain new police officers in communities and schools. The House Republican budget includes a new Justice Assistance Grant Program funded at $800 million for 2003 to replace law enforcement grants eliminated in the state and local law enforcement grant programs. The Justice Assistance Grant Program includes funds to support state and local law enforcement, prosecution, prevention, and corrections programs, and a $60 million earmark for the Boys and Girls Club. Overall, including the new Justice Assistance Grant Program, the Republican budgets include $1.4 billion.

- ***Federal Law Enforcement Agency Increases*** — The Republican budgets include increases for federal law enforcement programs compared to last year purchasing power level. The Republican budgets include the following totals for salaries and expenses for various federal

[25]The President's budget also displays $831 million in this function to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for employees. This amount reflects only an accounting change and does not represent a programmatic increase. See *Appropriated Programs* and *Creative Accounting* for further discussion.

law enforcement programs: $3.8 billion for the FBI, a $500 million increase above the 2002 purchasing power level; $2.6 billion for the United States Customs Service, a $400 million increase over the 2002 purchasing power level; $913 million for the ATF, a $60 million increase over the 2002 purchasing power level; $1.6 billion for the DEA, a $50 million increase over the 2002 purchasing power level; and $1.0 billion for the United States Secret Service, a $40 million increase over the 2002 purchasing power level.

The Republican budgets tie many of the increases for federal law enforcement programs to homeland security activities and coordination. The Republican budgets direct $2.0 billion toward counterrorism efforts among the federal law enforcement agencies. The Republican budgets also include initiatives to promote intelligence gathering among the departments, detect and prevent cybercrime attacks, enhance border patrol capabilities, and improve technological capabilities.

- ***Immigration Services and Border Patrol Increases*** — The Republican budgets provide $4.1 billion for the Department of Justice's Immigration and Naturalization Service (INS), a $500 million increase over the level needed, according to CBO, to maintain the 2002 purchasing power level. The Republican budgets list border security as a top priority for INS for 2003. The border security initiatives include implementing systems to track the arrivals and departures of non-U.S. citizens, securing equipment to monitor illegal entries in isolated areas, and integrating information systems to ensure comprehensive border enforcement information. In regard to immigration applicants, the Republican budgets include a plan to achieve a six-month average processing goal for all applications.

- ***State and Local Law Enforcement Grant Cuts*** — State and Local Law Enforcement Assistance Grants support programs and activities that center on combating crime. The Republican budgets, while slightly increasing funding for federal law enforcement programs, substantially cut state and local justice assistance. The Republican budgets provide $752 million for state and local law enforcement assistance, a $1.7 billion (69.0 percent) cut below the level needed to maintain purchasing power at the 2002 level. The Republican budgets eliminate state and local law enforcement programs such as the State Criminal Alien Assistance Program, Edward Byrne formula and discretionary grants, and Local Law Enforcement Block Grants. The Republican budgets cut programs such as the Violence Against Women Act Grants, Juvenile Incentive Block Grants, drug courts, and residential substance abuse treatment and creates a new Justice Assistance Grant Program in the Community Oriented Policing Services (COPS) program.

- ***Juvenile Justice Programs Cut*** — Juvenile justice programs provide grants and other assistance for states and localities to help combat juvenile delinquency. The Republican budgets provide $251 million for juvenile justice assistance, a $54 million (18.0 percent) cut below the level needed to maintain purchasing power at the 2002 level.

- ***Civil Rights Enforcement*** — The Republican budgets provide $324 million for the Equal Employment Opportunity Commission (EEOC), a $1 million increase over the 2002 purchasing power level. The Republican budgets provide $46 million for the Fair Housing Activities, a $1 million cut below the 2002 purchasing power level. The Republican budgets provide $89 million for the Department of Education's Office for Civil Rights, a $5 million increase above the purchasing power level. The Republican budgets maintain the Commission on Civil Rights at the 2002 purchasing power level of $9 million.

- ***Legal Services Corporation Cut*** — The Legal Services Corporation provides free legal assistance for people living in poverty. The Republican budgets provide $329 million for the Legal Services Corporation, a $6 million cut below the level needed to maintain purchasing power at the 2002 level.

- ***Correctional Activities Cut*** — The Republican budgets provide $4.6 billion for the federal prison system, a $200 million cut below the 2002 purchasing power level. The Republican budgets list alternatives to prison construction, such as purchasing private facilities, as its priority.

- ***United States Attorneys Increase*** — The Republican budgets provide $1.6 billion for United States Attorneys for 2003, a $139 million increase over the 2002 purchasing power level.

- ***Office of Justice Programs*** — The Office of Justice programs coordinate and manage policies and activities for the Bureau of Justice Assistance, Bureau of Justice Statistics, National Institute of Justice, Office of Juvenile Justice and Delinquency Prevention, and the Office for Victims of Crime. The Republican budgets provide $216 million for Office of Justice programs, a $219 million (50 percent) decrease below the 2002 purchasing power level. This decrease stems from the transfer of the department's counterterroism program under the Office of Domestic Preparedness to the Federal Emergency Management Agency.

Function 800: General Government

This function includes the activities of the White House and the Executive Office of the President, the legislative branch, and programs designed to carry out the legislative and administrative responsibilities of the federal government, including personnel management, fiscal operations, and property control.

Appropriated Programs

- ***House Republican Budget Identical to the President's Budget*** — For appropriated programs, the House Republican budget equals the President's budget.[26] The Republican budgets provides $16.1 billion for 2003, $107 million below CBO's estimate of the level needed to maintain constant purchasing power. The Republican budget only appears to be $400 million above the President's budget because of an amendment adopted in Committee to switch funding from Function 750 (Administration of Justice) to Function 800 (General Government) for election reform. The House Republican budget also reflects an additional $40 million for the Legislative Branch, which was requested by the Administration in its amended 2003 budget request. The Republican budgets cut funding by $3.7 billion over the five-year period (2003-2007).

- ***Legislative Branch*** — The Republican budgets include $3.4 billion, the same level needed to maintain constant purchasing power, for the legislative branch. The funding is for the operations of the House and Senate as well as support agencies such as the General Accounting Office, the Library of Congress, and the Congressional Budget Office.

- ***Executive Office of the President*** — The Republican budgets provide $337 million for the Executive Office of the President (EXOP), which includes the White House and supporting agencies such as the Office of Management and Budget, National Security Council, and Council of Economic Advisors. The Republican budget also include $523 million for the Office of National Drug Control Policy, which provides Executive branch support for drug policy development and coordinates drug control programs within fifty federal agencies and departments.

- ***Internal Revenue Service (IRS)*** — The Republican budgets include $10.4 billion for the Internal Revenue Service.

---

[26]The President's budget also displays $649 million in this function to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for employees. This amount reflects only an accounting change and does not represent a programmatic increase. See *Appropriated Programs* and *Creative Accounting* for further discussion.

- ***General Services Administration (GSA)*** — The Republican budgets includes $551 million for the GSA, primarily for the construction and renovation of federal buildings. This account also funds the Office of Government-Wide Policy, the Office of Citizen Services, and the Office of Inspector General. The GSA is the central provider of supplies, general administrative services, telecommunication services, and office space to federal agencies.

- ***District of Columbia*** — The Republican budgets includes $191 million for the District of Columbia's criminal justice system, which was assumed as a federal responsibility under the D.C. Revitalization Act. The budget also includes $464 million in mandatory funding for federal benefit payments for retired D.C. law enforcement officers, firefighters, and teachers.

Mandatory Programs

- ***House Republican Budget Rejects the President's Budget for Entitlement Programs*** —The Republican budget rejects the President's mandatory proposal for payments to Alaska for drilling in the Arctic National Wildlife Refuge.

Function 920: Allowances

This function displays the budgetary effect of proposals that cannot easily be distributed across other budget functions. In the past, this function has included funding for emergencies or proposals contingent on certain events.

The House Republican budget includes most of the appropriated funding that was included in the President's budget. Function 920 includes a $1.3 billion supplemental appropriation, a spectrum relocation fund, and funding for adjustments to the legislative and judicial branches' requests, all of which was included in the President's budget. The Republican budget rejects the President's mandatory proposal for the economic stimulus plan and the spectrum relocation fund. See *Function 950 (Undistributed Offsetting Receipts)* for other spectrum proposals. The Republican budget does include a cut that offsets the increase above the President's level for Function 250.

- ***Supplemental Appropriation*** — The Republican budgets include an unspecified offset of $1.3 billion of 2002 appropriations to provide an additional $1.3 billion for Pell Grants. See *Function 500 (Education and Training)* for further details. According to the budget appendix, the Administration will provide Congress with a listing of programs funded by the 2002 Labor, Health and Human Services, and Education Appropriations bill that the Administration did not request. The Administration expects that Congress will select $1.3 billion of programs to cut from the list.

- ***Adjustments to the Legislative and Judicial Branches' Rquests*** — The Republican budgets include cuts of $400 million for 2003 and $2.1 billion over the five-year period (2003-2007) from adjustments to the legislative and judicial branch accounts for excessive funding requests. Each year, these branches make a request to OMB to cover their funding needs. OMB, in turn, adjusts the overall funding level to better reflect the historical funding levels for these branches of government. However, these reductions are reflected in this function rather than in the budget functions that contain the judicial and legislative branches to maintain comity among the three branches of government.

- ***Increase in Funding for Function 250*** — The Republican budget cuts funding in this function to provide funding of $189 million in 2003 and $1.0 billion over the five-year period (2003-2007) for *Function 250 (General Science, Space, and Technology)*.

Function 950: Undistributed Offsetting Receipts

This function comprises major offsetting receipt items that would distort the funding levels of other functional categories if they were distributed to them. This function currently includes three major items: rents and royalties from the Outer Continental Shelf (OCS); the receipt of agency payments for the employer share of federal employee retirement benefits; and other offsetting receipts, such as those obtained from broadcast spectrum auctions by the Federal Communications Commission (FCC).

Offsetting receipts are recorded as "negative outlays" either because they represent voluntary payments to the government in return for goods or services (e.g., OCS royalties and spectrum receipts) or because they represent the receipt by one government agency of a payment made by another.

For 2003, the budget assumes offsetting receipts of $57.8 billion. This function is essentially current law. It rejects the President's mandatory proposals to open the Arctic National Wildlife Refuge (ANWR) for oil drilling, to shift the date for spectrum auctions, to create a spectrum relocation fund (See *Function 920 (Allowances)* for further discussion), and to impose new lease fees on the use of analog spectrum by commercial broadcasters.

Broken Promises: Past Republican Quotes About the Budget

Republicans Claimed that the Social Security Trust Fund Surplus Would Be Protected

To make sure the retirement savings of America's seniors are not diverted into any other program, my budget protects all $2.6 trillion of the Social Security surplus for Social Security and for Social Security alone.

President George W. Bush
Address to Joint Session of Congress
February 27, 2001

Inherent in the budget, of course, is our desire to make sure we protect Social Security—I think there is unanimity on the table for that—that we set clear priorities, that we fund the priorities. In our budget, we're going to prove to the American people that we can pay down debt, fund priorities, protect Social Security, and there will be money left over, which we strongly believe ought to be passed back to the taxpayers.

President George W. Bush
Remarks at Meeting with Members of House and Senate Budget Committees
February 15, 2001

None of the Social Security surplus will be used to fund other spending initiatives or tax relief.

A Blueprint for New Beginnings: A Responsible Budget for America's Priorities
Office of Management and Budget
February 28, 2001, Page 11

We are going to wall off Social Security trust funds and Medicare trust funds.... And consequently, we pay down the public debt when we do that. So we are going to continue to do that. That's in the parameters of our budget and we are not going to dip into that at all.

House Speaker Dennis Hastert
quoted in *BNA Tax Reporter*
March 2, 2001

Republicans Claimed that Their Budget Left a Margin for Error

We should also prepare for the unexpected, for the uncertainties of the future. We should approach our Nation's budget as any prudent family would, with a contingency fund for emergencies or additional spending needs And so, my budget sets aside almost a trillion dollars over 10 years for additional needs.

President George W. Bush
Address to Joint Session of Congress
February 27, 2001

Tax relief is central to my plan to encourage economic growth, and we can proceed with tax relief without fear of budget deficits, even if the economy softens. Projections for the surplus in my budget are cautious and conservative. They already assume an economic slowdown in the year 2001.

President George W. Bush
Remarks at Western Michigan University
March 27, 2001

In sum, there is ample room in the Administration's budget to pay off debt as far as possible, to reduce taxes for American families to fund program priorities, and still leave roughly $1.0 trillion for Medicare modernization and to meet other programmatic and contingency needs as they arise.

A Blueprint for New Beginnings: A Responsible Budget for America's Priorities
Office of Management and Budget
February 28, 2001, Page 13

There has been considerable public discussion of the potential downside risks to the surplus projections. However, the greatest "risk" to accurate forecasting in recent years has been on the upside as a result of stronger than expected revenue growth and weaker than expected outlay growth. Revenues have contributed most to surplus underestimates . . .

A Blueprint for New Beginnings: A Responsible Budget for America's Priorities
Office of Management and Budget
February 28, 2001, Page 14

Republicans Claimed that Their Budget Would Pay Down Maximum Debt

We owe it to our children and grandchildren to act now, and I hope you will join me to pay down $2 trillion in debt during the next 10 years. At the end of those 10 years, we will have paid down all the debt that is available to retire.

President George W. Bush
Address to Joint Session of Congress
February 27, 2001

This new approach is also responsible: It will retire nearly $1 trillion in debt over the next four years. This will be the largest debt reduction ever achieved by any nation at any time. It achieves the maximum amount of debt reduction possible without payment of wasteful premiums. It will reduce the indebtedness of the United States, relative to our national income, to the lowest level since early in the 20th Century and to the lowest level of any of the largest industrial economies.

A Blueprint for New Beginnings: A Responsible Budget for America's Priorities
Office of Management and Budget
February 28, 2001, Page 3

Republicans Claimed that CBO Numbers are Preferable to OMB Numbers

The language that will be in law when the President signs [the Continuing Resolution] is the 104th Congress is to achieve a balanced budget not later than fiscal year 2002 as estimated by the Congressional Budget Office. Very real. Very meaningful.

Representative Tom DeLay
Congressional Record, H13371
November 20, 1995,

[CBO] is not a partisan office. It is not even a bipartisan office. It is a nonpartisan office. We on our side have had tremendous disagreements with those numbers, but why would we want those numbers to be used instead of the Office of Management and Budget? The office of Management and Budget's are partisan numbers done by the President's political appointee....We just want it to be real.

Representative Chris Shays
Congressional Record, H15077
November 18, 1995

Let us be very clear, the language tonight says nothing about taxes. It says nothing about defense. It says nothing about education or environment. All it says, all it says is the President of the United States, in return for us giving him billions of dollars to spend, should commit to a 7-year balanced budget, scored honestly, by the Congressional Budget Office.

Former Speaker Newt Gingrich
Congressional Record, H12502
November 15, 1995