



John Spratt,
Chairman

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON THE BUDGET

207 Cannon House Office Building, Washington, DC 20515 (202) 226-7200 ★ www.budget.house.gov

February 27, 2009

Summary

of the

President's Fiscal Year 2010 Budget

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

General Notes:

- All years are fiscal years unless otherwise noted.
- Throughout the document, the Congressional Budget Office is abbreviated to CBO. The Office of Management and Budget is abbreviated to OMB.
- Agency totals for 2009 in this document may differ from Administration estimates because OMB's materials were printed before completion of House action on the 2009 funding bills. The 2009 levels in this document are based on CBO's estimate of already enacted appropriations and H.R. 1105.
- Throughout the document, the American Recovery and Reinvestment Act of 2009 (P.L. 111-5) is referred to as the Recovery Act.
- 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.
- Numbers in tables may not add due to rounding.

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Overview

Facing the legacy of deep deficits and an economic crisis inherited from the previous Administration, the President yesterday released an outline of his 2010 budget plan that focuses on economic recovery, strategic investments, and fiscal responsibility.

Budget Totals in Billions of Dollars											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Receipts	2,186	2,381	2,713	3,081	3,323	3,500	3,675	3,856	4,042	4,234	4,446
Outlays	3,938	3,552	3,625	3,662	3,856	4,069	4,258	4,493	4,678	4,868	5,158
Deficit	1,752	1,171	912	581	533	570	583	637	636	634	712
<i>% of GDP</i>	<i>12.3</i>	<i>8.0</i>	<i>5.9</i>	<i>3.5</i>	<i>3.0</i>	<i>3.1</i>	<i>3.0</i>	<i>3.2</i>	<i>3.0</i>	<i>2.9</i>	<i>3.1</i>

Key Features

Economic Recovery — The Obama Administration has inherited an economy with an unemployment rate of 7.6 percent, and getting the economy back on track must be the number one priority. The President’s budget reflects the economic recovery legislation recently signed into law – including its provisions that provide relief to middle-income taxpayers, create jobs by investments in infrastructure and other key areas, and extend unemployment benefits for millions of Americans. The budget outline also provides additional resources to help strengthen the economy and create jobs, including additional infrastructure investments and tax relief.

Strategic Investments — To build a stronger economy for the future, the budget includes strategic investments in health care reform, education, and energy.

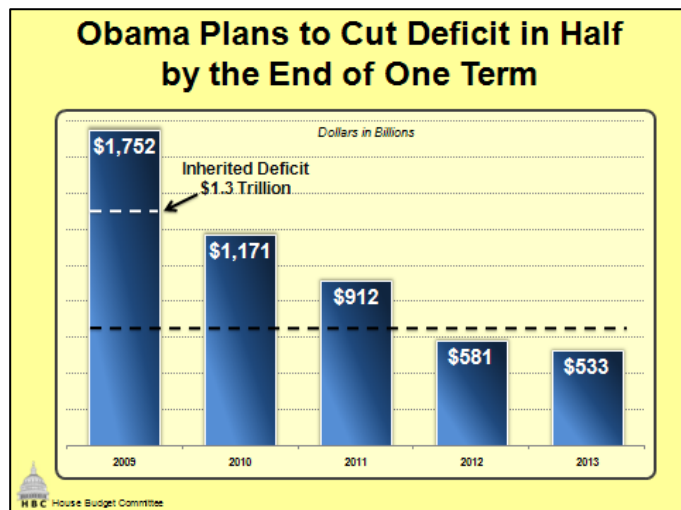
- **Health Care Reform** — The President’s plan for reforming health care recognizes that the challenges of reducing costs, improving quality, and ensuring access are inextricably linked. The budget includes several provisions to improve quality and efficiency in health care, saving \$316.0 billion over ten years. The budget makes a significant down-payment on health reform by putting these savings, along with \$317.8 billion from a tax policy change on upper-income taxpayers, into a \$634 billion “Health Reform Reserve Fund” to help pay for an initiative to make health coverage affordable and accessible for all Americans.
- **Education** — The budget expands access to college by increasing the maximum Pell grant to \$5,550 for 2010 and by spending \$116.8 billion on increases over the ten-year period through mandatory funding rather than through annual appropriations. The budget also provides \$2.5 billion over six years for a new College Access and Completion Fund, and saves \$47.5 billion over ten years by originating all new student loans in the Direct Loan program, thus eliminating bank subsidies. The budget builds upon the \$96.8 billion

provided to the Department of Education in the Recovery Act with initiatives to improve teacher effectiveness, support low-performing schools, and focus on proven efforts to improve student outcomes.

- **Energy** — The President’s budget reflects a commitment to build a new, low-carbon economy that is powered by clean, renewable energy and to reduce our country’s dependence on foreign oil. The budget builds on the Recovery Act’s \$39 billion in funding and \$20 billion in tax incentives for energy investments that will create hundreds of thousands of new jobs. The budget encourages the early commercial use of innovative energy technologies and includes a market-based cap-and-trade approach to reducing greenhouse gas emissions that will fund additional investments in energy totaling \$150 billion over ten years.

Fiscal Responsibility — The Bush Administration converted the federal budget’s condition from healthy to weak, setting record deficits and leaving the Obama Administration a record deficit for 2009. Meanwhile, the country’s debt grew dramatically under the previous Administration, as did interest payments on that debt. The President’s 2010 budget takes steps to put the budget back on a fiscally sustainable path once the economy recovers – a commitment underscored at this week’s fiscal responsibility summit at the White House. The budget proposes to cut the budget deficit in half by 2013; reducing the deficit will also help slow the increase in the nation’s debt. The smaller deficits result in part from reduced war costs over time and not extending tax cuts for people with incomes above \$250,000. In addition, the President’s budget proposes to restore statutory Pay-As-You-Go rules, which were critical to turning the

budget around in the 1990s. The budget also includes about \$50 billion in savings by expanding oversight activities in large benefit programs and increasing tax compliance and enforcement activities to ensure taxpayer dollars are spent wisely. It begins the process of reducing spending in other areas, identifying a number of specific savings now and initiating an ongoing process that will produce more program cuts to be announced this Spring when the Administration submits its full budget.



Other Features of the Budget

Provides Tax Relief to Middle-Income Families — The President’s budget extends middle-income tax cuts scheduled to expire on December 31, 2010, including the 10, 15, 25, and 28 percent brackets, the child tax credit, and marriage penalty relief. The budget also includes a

permanent fix to the Alternative Minimum Tax (AMT), rather than merely patching it one year at a time. In addition, the budget extends the Making Work Pay credit of \$400 (\$800 for couples) that was created by the Recovery Act. The budget includes increased tax revenue from permitting the expiration of current tax cuts for the top 2 percent of Americans (those earning above \$250,000 per year) and closing tax loopholes. It also reflects auction receipts from the Administration's implementation of a market-based cap on greenhouse gas emissions.

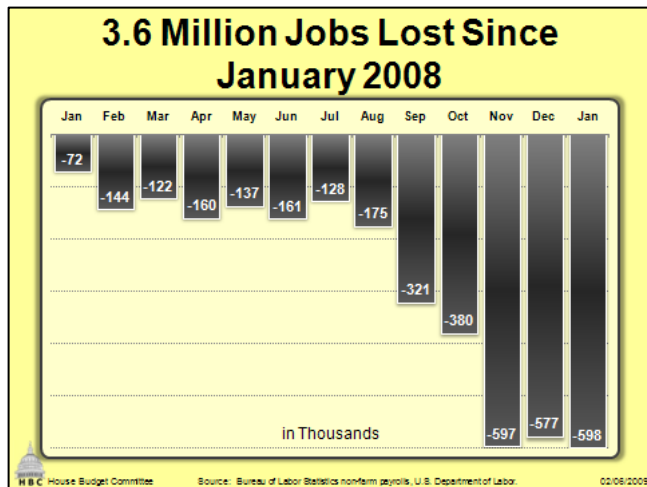
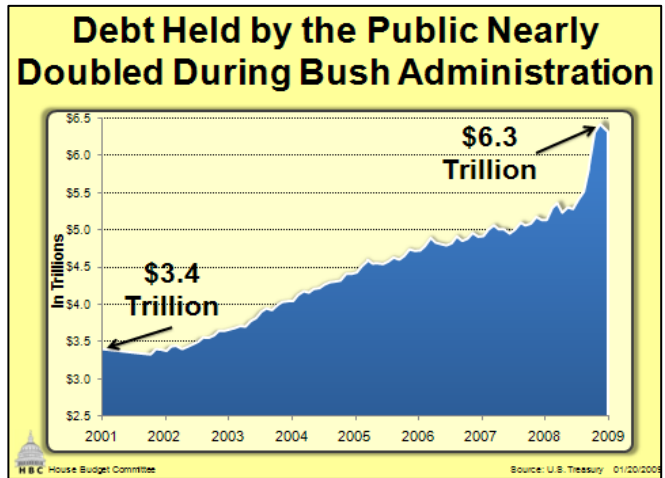
Addresses National Security Needs — After years of large annual increases in the base defense budget and runaway cost growth in major weapons programs, the President's budget slows the rate of growth in defense funding to track with inflation and calls for sweeping acquisition reform at the Department of Defense. For overseas contingency operations, the budget includes \$130 billion for 2010 and placeholder estimates of \$50 billion per year thereafter through the ten-year budget window. This marks the first time the budget includes both a full-year estimate for overseas operations for the budget year and placeholder estimates for future costs, thus providing a more realistic look at the likely costs and their effect on the budget's bottom line. The budget also honors our veterans by providing a \$4.9 billion (10 percent) increase above the 2009 level for health care and other services.

Includes Estimates of Future Costs — Unlike the budgets from the previous Administration, the President's budget includes funding for ongoing military operations for the entire 10-year budget window. The budget also includes an estimate of possible disaster relief – spending that regularly occurs but was not accounted for in past Administration budgets. In addition, the budget reflects the cost of extending middle-income tax relief and addressing the AMT.

Turning Around Bush's Budget Legacy of Deficits, Debt, and Economic Decline

Inherits Deep Deficits — When President Bush took office in 2001, he inherited a ten-year budget surplus projected to be \$5.6 trillion. That surplus represented an historic opportunity to address some of the major issues facing our country, including preparing for the needs of the retiring baby-boom generation. But that opportunity was squandered over the last eight years, leaving the new Administration with the worst budget deficit in history for 2009.

Inherits Mounting Debt — Debt held by the public nearly doubled under the previous Administration, rising from \$3.4 trillion in 2001 to \$6.3 trillion on January 20, 2009. As a result of that huge increase in debt, the country’s interest payments also shot up. Last year, the government paid \$253 billion in net interest, the highest annual interest payment in history. This wasted cost dwarfs spending on most national priorities including homeland security, education, and veterans’ health care, and will continue to crowd out investments in high priority services until budget deficits are brought under control.

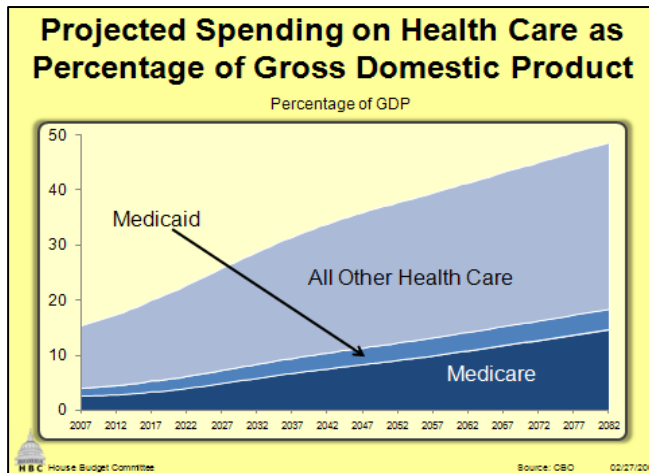


Inherits an Economy in Decline — In addition to a record budget deficit, this Administration also has inherited an economy skidding downward, with spiking unemployment and job losses – the country lost almost 3.6 million jobs in the last 13 months, with 598,000 jobs lost in January alone – the largest quarterly declines in consumer spending since 1980, and 24 straight months of declining home prices. During the last eight years, inflation-adjusted income for a typical family actually fell, and more families are now living in poverty.

Health Care

The increasing costs of health care are having a significant impact on families, businesses, and the federal government’s long-term fiscal challenges. Since 2000, inflation-adjusted family health insurance premiums have increased by 58 percent, resulting in less take-home pay for workers, while at the same time the number of uninsured Americans has increased by nearly 19 percent, from 38.4 million in 2000 to 45.7 million in 2007. Rather than addressing these challenges, the Bush Administration repeatedly proposed significant program cuts that would have threatened the safety net or merely shifted costs to other parts of the health sector.

In addition to putting pressure on family budgets, health care cost growth is the single largest driver of the federal government's long-term fiscal challenge. The Congressional Budget Office (CBO) projects total health care spending will increase from 16 percent of GDP today to half of GDP in 75 years. This trend directly affects the federal budget. Bending the curve on health care cost growth is critical to addressing the nation's long-term fiscal challenges. The President's budget and the recently passed Recovery Act have taken important first steps to improve health care efficiency and quality.



Recent Health Reform Efforts Contrast Sharply with the Past Eight Years — President Obama summed up recent accomplishments during his address to the Joint Session of Congress by stating “we have done more to advance the cause of health care reform in the last thirty days than we have in the last decade.” These efforts include reauthorization of the Children’s Health Insurance Program (CHIP) that expands health care coverage to an additional four million low-income children. In addition, the Recovery Act protects coverage for millions of Americans during the recession by temporarily increasing the federal Medicaid assistance to states and providing a 65 percent subsidy for COBRA premiums for up to nine months. It also makes critical investments to modernize the health care system and lower health care costs by providing \$19 billion for health information technology, \$1.0 billion for preventive health care, and \$1.1 billion for comparative effectiveness research to provide patients and doctors information on the effectiveness of different treatments.

The President’s 2010 Budget

The President’s health care reform plan recognizes that the challenges of reducing costs, improving quality, and ensuring access are related and must be addressed together. The budget saves \$316.0 billion over ten years by improving health care quality and efficiency and promoting shared responsibility. The budget puts these savings, plus \$317.8 billion from a tax policy change affecting itemized deductions for upper-income taxpayers, into a \$634 billion “Health Reform Reserve Fund” as a down payment on making health coverage affordable and accessible for all Americans. The budget lays out eight core principles in areas such as affordability, universality, portability, quality, and long-term fiscal sustainability to guide the Administration and Congress in developing a detailed plan for expanding coverage. The budget acknowledges that additional budgetary savings will be needed to pay for comprehensive health reform. Highlights of health savings in the budget are as follows:

Reduces Overpayments to Medicare Advantage Plans by Promoting Competition — Private Medicare Advantage plans are paid 14 percent more than the cost of traditional fee-for-service Medicare for comparable beneficiaries. The budget replaces these overpayments with a competitive, market-based system in which payments are based on an average of private plans' bids to provide Medicare coverage, saving \$176.6 billion over ten years.

Reduces Drug Prices — The budget saves \$9.2 billion over ten years by supporting a workable approach for approval of generic versions of biologic drugs that addresses regulatory, legal, and scientific concerns. In addition, the budget reduces Medicaid drug costs by \$19.6 billion over ten years by increasing the rebate for brand name drugs from 15.1 percent to 22.1 percent of the Average Manufacturer Price, applying the additional rebate to new drug formulations, and allowing states to collect rebates on drugs provided through Medicaid managed care organizations.

Promotes Hospital Quality Improvements — The budget links part of Medicare hospital payments to hospitals' performance on quality measures, saving \$12.1 billion over ten years.

Encourages Hospitals to Reduce Readmissions and Restructures Certain Payments — The budget encourages hospitals to reduce the chances that a recently discharged patient will be readmitted with preventable health problems. The budget does this in two ways. It consolidates, or "bundles," payments for hospitalization and post-acute care (currently paid separately, with no incentive for coordination) into one payment. The budget also pays less to hospitals with high rates of patients being readmitted to the hospital within 30 days of discharge. Together, these provisions save \$26.3 billion over ten years.

Changes Medicare Home Health Payments — Payments to home health agencies exceed costs by 12 percent. The budget saves \$37.1 billion over ten years by aligning payments with costs.

Increases Medicare Drug Premiums for Higher-Income Beneficiaries — The budget requires higher-income beneficiaries to pay higher premiums for the Medicare Part D drug benefit, consistent with income-related premiums for physician and outpatient services under current law.

Invests in Public Health Care — The budget also invests in health care by providing over \$6 billion in cancer research funding at the National Institutes of Health as part of a multi-year effort to double its funding, making improvements in medical drug and food safety, and providing \$330 million to increase the number of health care workers in areas of the country experiencing shortages.

Energy and Science

The Bush Administration left the country a legacy of soaring budget deficits and debt, a crumbling economy, and faltering public services due to persistent underfunding and inattention. The 111th Congress and the President have already taken steps to create jobs and rebuild our economy by enacting the Recovery Act. And yesterday the President released his budget for 2010, which continues to rebuild our economy, restores needed services, and starts putting the budget back on a path to sustainability.

Investing in Clean, Renewable Energy and Reducing America's Dependence on Foreign Oil

The President's budget reflects a commitment to build a new, low-carbon economy that is powered by clean, renewable energy and to reduce our country's dependence on foreign oil. The budget builds on the Recovery Act's \$38.7 billion in funding and \$20.0 billion in tax incentives for energy investments that will create hundreds of thousands of new jobs. The budget encourages the early commercial use of innovative energy technologies and includes a market-based cap-and-trade approach to reducing greenhouse gas emissions that will fund additional investments in green energy initiatives totaling \$150 billion over ten years, beginning in 2012.

The budget helps working families with their energy needs and costs. Both the budget and the Recovery Act increase funding for weatherizing low-income families' homes, saving working families an average of \$350 per year. The budget provides \$3.2 billion for the Low-income Home Energy Assistance Program (LIHEAP) for 2010 and includes a new mechanism to increase funding when energy prices rise significantly. The budget projects an additional \$4.3 billion in LIHEAP spending over the next decade as a result of the automatic increases to make sure that families do not have to live in homes that are dangerously cold or hot. In addition, the budget builds on the \$11.0 billion in the Recovery Act to modernize the electric grid and upgrade the electricity transmission infrastructure. Electric congestion costs ratepayers billions of dollars each year.

Fueling Economic Growth with Investments in Science

The President's budget provides significant increases for the National Science Foundation, the Department of Energy's Office of Science, and other agencies to achieve the President's goal of doubling the amount of federal funding for science. The budget increases support for graduate fellowships and early career researchers, education of technicians in high-technology fields, and critical research priorities in global climate change. In addition, the budget encourages more innovative research. These investments in science and technology will create high-tech, high-wage jobs that will contribute to economic growth, allow American workers to lead in a global economy, and improve Americans' quality of life.

In addition, the budget increases resources for the National Aeronautics and Space Administration to support deployment of a global climate change research and monitoring system, exploration of space by humans and robots, and aeronautics research to address aviation safety, air traffic control, noise and emissions reductions, and fuel efficiency.

Economic Recovery

An Inherited Financial Crisis and Recession — The President inherited a deep recession that began in December of 2007. The collapse of the housing market and the resulting crisis in the credit markets have combined to stall consumer spending and corporate investment. The drop in spending has hurt all sectors of our economy – retail, manufacturing, construction, services – and creates a vicious cycle of increased layoffs and reduced demand. Economic forecasters agree that that GDP – the output of our economy – will further contract and unemployment will continue to rise.

Rescuing the economy involves three interconnected steps: thawing frozen credit markets, stabilizing housing markets and increasing demand in the economy. With regard to the third step, the 111th Congress has already passed the Recovery Act to help rebuild our economy by creating or saving three to four million jobs.

The Budget Provides Help — The budget released yesterday includes additional elements designed to complement ongoing efforts. In particular, the budget includes:

- **Contingent Reserve for Financial Stabilization Efforts** — The budget includes \$250 billion as a contingent reserve in the event that the Administration needs to request additional resources for financial stabilization efforts. The inclusion of this placeholder number in the budget does not constitute a request for such resources, which would come at a later time if events warrant. The \$250 billion placeholder in the budget reflects a possible net cost to the government, and could support \$750 billion in asset purchases.
- **Additional Help for Communities and Families Pummeled by the Housing Crisis** — In addition to the substantial resources for housing provided in the Recovery Act and the Homeowner Affordability and Stability Plan, the budget invests \$1.0 billion over six years in a trust fund to help states and communities develop and preserve affordable housing, enhances the Housing Choice Voucher Program to help more than two million low-income families rent safe, decent housing, and preserves 1.3 million affordable rental units supported by the Project-Based Rental Assistance program. The budget also helps homeowners and communities by reallocating funds away from poorly performing programs and significantly increasing total funding for the Department of Housing and Urban Development, including providing full funding of \$4.5 billion for the Community Development Block Grant Program.

- **Expanded Access to Unemployment Compensation Extended Benefits (EB)** — Current law allows states that meet certain economic conditions to trigger a 50 percent federal match to provide an additional 13 to 33 weeks of unemployment benefits for workers who have exhausted their regular unemployment benefits but have not been able to find work. In recent recessions, including the current one, many states with high levels of long-term unemployment have not met the trigger conditions, forcing Congress to instead provide emergency federal extended benefits. Beginning in 2011, the President's budget would revise the regular EB triggers to make it more likely that economically distressed states would qualify for EB, reducing the need for emergency spending and ensuring that unemployment benefits for workers are not interrupted. The Administration estimates that fixing the EB trigger would increase total state and federal spending for regular extended unemployment benefits by \$12.4 billion over the next five years and \$21.0 billion over the next ten years. However, it would decrease the need for emergency spending for temporary extensions of unemployment benefits in the future.

Ongoing Rescue Efforts — The Obama Administration is already undertaking an aggressive, multifaceted effort to revive credit markets by stabilizing both banks and the mortgages held by those institutions.

- **Financial Stability Plan** — As announced earlier this month, the Treasury, the FDIC, and the Federal Reserve will coordinate their efforts to stabilize banks, thaw frozen credit markets, encourage liquidity in the banking system, and increase accountability for firms receiving assistance. A capital assistance component uses a 'stress test' to evaluate a bank's ability to lend and function during a period of significant losses, and recapitalizes these privately held banks as needed. To create a market for 'troubled' assets, the proposal includes a public-private partnership that uses federal funds to raise additional private dollars to purchase these mortgages, mortgage-backed securities, and other assets. Other aspects of the plan include additional support for the Federal Reserve's securitized loan program (the Term Asset-Backed Security Lending Facility, or TALF).
- **Homeowner Affordability and Stability Plan** — The President's housing plan includes three components to increase mortgage affordability and to provide foreclosure mitigation. First, the plan helps four to five million homeowners by refinancing their conforming loans held or guaranteed by Fannie Mae and Freddie Mac. Second, the plan uses a combination of TARP, the Hope for Homeowners refinance program, and other institutions, programs, and incentives to help three to four million at-risk homeowners avoid foreclosure. Finally, Treasury increases its potential capital commitment to Fannie Mae and Freddie Mac, as authorized previously authorized by Congress, from a combined \$200 billion to \$400 billion.

Education and Other Domestic Priorities

The Bush Administration left the country a legacy of soaring budget deficits and debt, a crumbling economy, and faltering public services due to persistent underfunding and inattention. The 111th Congress has already taken steps to create jobs and rebuild our economy by passing the Recovery Act. And yesterday the President released his budget for 2010, which continues to rebuild our economy, restores needed services, and starts putting the budget back on a path to sustainability.

The President's 2010 budget provides a significant investment in education and other key domestic priorities that will help ensure our children learn, thrive, and graduate with the skills they need to be successful and productive. The budget provides an appropriated program level of \$46.7 billion for the Department of Education (ED) – a total that excludes Pell grant funding, which the budget transfers to mandatory spending – an increase of \$441 million over the likely 2009 level. (The Recovery Act provided ED with an additional \$96.8 billion for 2009, which includes \$15.6 billion for Pell grants, additional funding for several existing K-12 programs, and a \$53.6 billion state stabilization fund primarily for education.)

Expands Access to College — The budget makes college more affordable by increasing the 2010 maximum Pell grant to \$5,550, a \$200 increase from the 2009 level, and indexing future annual increases to the Consumer Price Index (CPI) plus one percent. The budget switches the program from discretionary to mandatory spending, and spends an additional \$116.8 billion over ten years on Pell grant increases. The budget also provides \$2.5 billion over six years for a new College Access and Completion Fund to help low-income students, and it overhauls the Perkins Loan program to make loans available to more students, with projected savings of \$6.5 billion over ten years. Finally, the budget saves \$47.5 billion over ten years by originating all new student loans in the Direct Loan program, thus terminating future loan activity under the Guaranteed Loan program and therefore eliminating bank subsidies that accompany that program.

Targets Effective K-12 Education — The budget builds upon the 2009 education funding provided by the Recovery Act with initiatives to improve teacher effectiveness, support low-performing schools, and focus on proven efforts to improve student outcomes. While the budget outline does not include specific funding levels below the total appropriations for ED, it clearly envisions reprogramming funds to match its priorities, which include new initiatives in early childhood education and working with entire neighborhoods, as well as increases for charter schools, research into effective practices, and student assessments.

Invests in Early Childhood Education and Development — The Recovery Act made a down payment on the President's "Zero to Five" plan with a \$2.1 billion increase for Head Start and Early Head Start and a \$2 billion increase for child care. The budget adds to that by creating a new program that will provide states with \$8.6 billion over the next ten years to provide home

visits by trained nurses to low-income first-time mothers and mothers-to-be. Evaluations have shown that investments in early visits can generate long-term savings of three to six dollars for every dollar provided by reducing child abuse and neglect, preterm births, and arrests for both parents and adolescents served by the program.

Reauthorizes Child Nutrition and School Meals Programs — The budget reauthorizes the child nutrition programs (including the school breakfast and lunch programs, the Special Supplemental Nutrition Program for Women, Infants and Children [WIC], and the Summer Food Program) and increases spending by \$4.9 billion over the five-year reauthorization period. The increased funding – together with additional appropriations to provide WIC to an estimated 9.8 million pregnant women, new mothers, and infants – is intended to be the first installment in the President’s plan to end childhood hunger by 2015.

Provides Important Resources for the Social Security Administration (SSA) — The President’s budget emphasizes the critical role of Social Security as one of “the most important and most successful programs that our country has ever established.” The budget provides \$11.6 billion for 2010 in administrative funds for SSA to provide better service to the American public by increasing staff to address crucial workloads, including initial disability and retirement claims, disability appeals, and program integrity efforts.

Infrastructure

The Bush Administration left the country with a congested, and, in some cases, crumbling national infrastructure. President Obama now inherits an infrastructure deficit due to the persistent underfunding and inattention of the previous Administration. Such an overworked infrastructure holds back potential economic growth and creates a drain on the economy. For example, congested roads and highways cost as much as \$78 billion annually in wasted time and fuel.

Infrastructure investments create jobs and boost future economic productivity. The 111th Congress has already taken steps to boost employment and rebuild our economy by passing the Recovery Act. That Act included almost \$48 billion in transportation investments and \$10.6 billion in water infrastructure. And yesterday the President released his budget for 2010, which continues the work of strengthening our economy, restores needed facilities and services, and starts putting the budget back on a path to sustainability.

For major infrastructure needs, the President’s budget provides the following:

A National Infrastructure Bank — To focus significant resources towards investments of a national or regional significance, the President’s budget creates a National Infrastructure Bank and capitalizes the bank with seed funding of \$5 billion in 2010, and \$25 billion over the 2010-

2014 period. Initial federal funding allows the bank to raise additional private capital and create revolving funds in order to provide grants, loans, guarantees, and other assistance to multi-modal infrastructure projects.

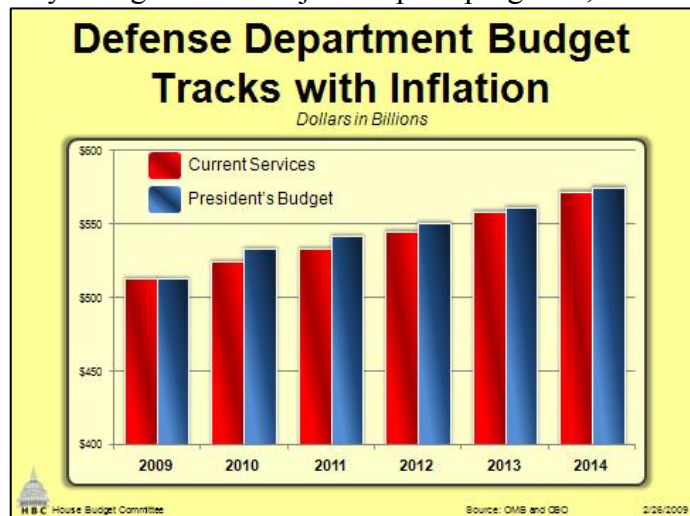
Investment in Clean Water — The President’s budget provides \$3.9 billion for the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund (SRFs). This significant level builds on the \$6 billion provided in the Recovery Act. The 2010 funding level will support over 1,000 clean water projects and nearly 700 drinking water projects annually.

Expanded Access to Broadband — The Recovery Act included \$7.2 billion for broadband expansion. The 2010 budget includes \$1.3 billion in loans and grants for the Department of Agriculture to increase broadband capacity and improve telecommunication service as well as education and health opportunities in rural areas.

A Transportation Alternative in High Speed Rail — The Recovery Act included an \$8 billion down payment towards the development of high speed rail corridors. The President’s budget continues the investment in passenger rail by providing states with \$1 billion in 2010 in additional funds for high-speed rail.

National Security

Department of Defense “Base” Budget Tracks With Inflation — After years of large annual increases in the base defense budget and runaway cost growth in major weapons programs, the President’s budget slows the rate of growth in defense funding to track with inflation and calls for much needed acquisition reform at the Department of Defense (DoD). The budget includes \$533.7 billion for so-called “base” defense discretionary activities, which represents a \$20.3 billion increase (4.0 percent) above the 2009 enacted level, excluding emergencies. Over five years, the budget includes \$2.8 trillion for DoD, and tracks closely the amounts needed to maintain purchasing power at the 2009 level.



Includes Ten-Year Costs for Overseas Operations for the First Time — The budget includes \$130 billion for overseas contingency operations for 2010, and outyear costs totaling \$50 billion per year from 2011 through 2019, which are considered placeholders and do not reflect specific policy assumptions. It recognizes for the first time that our nation’s commitments overseas will

not be zero beyond the budget year, thus providing a more realistic look at the likely costs and their effect on the budget's bottom line. The budget also includes the second installment of overseas operations funding for 2009 totaling \$75.5 billion, increasing total costs for this year to more than \$144 billion. (To date, only a partial year of funding has been enacted for 2009 for overseas operations, totaling \$68 billion.¹)

Increases Funding for Critical Homeland Security Measures — The budget includes \$42.7 billion for the Department of Homeland Security, a \$1.0 billion (2.3 percent) increase above the non-emergency level for 2009, but a \$3.1 billion (7.9 percent) increase when one-time costs associated with project BioShield are subtracted from the 2009 level. The budget increases resources to bolster critical transportation sectors, enhance cyber security, strengthen border security and immigration services, and help states and localities prepare effective emergency response plans and improve information sharing and analysis.

Continues Large Increases for Veterans' Health Care — The President's budget provides \$52.5 billion in appropriations for the Department of Veterans Affairs (VA) for 2010, which is \$4.9 billion (10 percent) more than the 2009 level of \$47.6 billion. Beyond 2010, the President's budget increases resources every year. The increases will allow VA to provide an estimated 5.5 million patients with timely, high-quality health care. The budget restores health care eligibility to non-disabled veterans with modest incomes (in the so-called "Priority 8" group), reversing the previous Administration's ban since January 2003. The President's budget estimates that this expansion will bring more than 500,000 veterans into VA's health care system by 2013. In addition, the budget proposes that highly disabled veterans who are medically retired from service be made eligible for the concurrent receipt of VA disability benefits and military retirement benefits.

Strengthens America's Security through Increased Diplomacy and International Aid — The budget provides \$51.7 billion in appropriations for the Department of State and other international programs for 2010. OMB calculates that this funding is \$4.5 billion (9.5 percent) more than the comparable 2009 level of \$47.2 billion, including enacted and proposed supplemental appropriations. (These levels do not reflect food aid or the Office of the U.S. Trade Representative, which are covered elsewhere in the budget.) The budget puts the United States on a path to increase significantly the amount of assistance provided to other nations to reduce poverty, improve health, and develop markets. The budget includes funding to significantly increase the number of U.S. Foreign Service staff over several years. In addition, the budget increases funding for humanitarian assistance and peacekeeping missions to reduce the reliance on supplemental appropriations to meet predictable and recurring needs.

¹The budget only includes overseas contingency operation cost estimates for DoD, which does not capture funding requested for foreign aid or other such costs. Those costs are part of agencies' base requests and are not yet identified.

Tax Policy

With our economy in deep recession, President Obama's 2010 budget provides tax relief for middle-income families, while allowing tax cuts for the wealthiest to expire and closing corporate loopholes. This contrasts with the tax policy of the Bush Administration, which prioritized tax cuts for the most fortunate.

Tax Provisions for Individuals

Extension of Expiring Middle-Income Tax Cuts — The budget extends the provisions of the 2001-03 tax cuts going to families earning less than \$250,000 per year that were scheduled to expire on December 31, 2010. These provisions include the 10, 15, 25, and 28 percent brackets, the child tax credit, and marriage penalty relief.

Fixing the Alternative Minimum Tax — The budget also includes a permanent fix to the Alternative Minimum Tax (AMT), rather than merely patching it one year at a time.

Freezing the Estate Tax — The budget freezes the estate tax at its 2009 level; under current law the estate tax would disappear in 2010 and then reappear at substantially higher rates thereafter.

Continuation of Provisions in the Recovery Act — In addition, the budget extends a number of provisions created in the Recovery Act that benefit 95 percent of working families, including:

- the Making Work Pay credit of \$400 (\$800 for couples), with the cost offset by auction receipts from implementation of the Administration's market-based cap on greenhouse gas emissions;
- the expanded earned income credit and the \$1,000 child credit's refundability above \$3,000 of earned income; and
- making permanent the American Opportunity Tax Credit that expands the Hope credit for college, an initiative designed to boost college attendance and graduation.

Retirement Savings Incentives — The budget also expands the saver's tax credit and automatically enrolls workers in IRAs and 401(k)s to promote greater retirement savings.

Tax Incentives for Businesses to Invest and Create New Jobs

To help jump start the economy, the budget extends the elimination of capital gains on small businesses passed in the Recovery Act, and makes permanent the research and experimentation credit. The budget also expands businesses' capability to carry back (or forward) operating losses to reduce tax liability, above what was provided in the Recovery Act. Finally, the budget extends a number of routinely expiring tax provisions like bonus depreciation for small businesses.

A More Fiscally Responsible Tax Code

The budget allows \$636.7 billion in tax cuts for the wealthiest 2 percent of Americans to expire after 2010. The budget raises \$353 billion mainly in corporate loophole closures, including taxing carried interest as ordinary income, reforming the international taxation of U.S. firms and subsidiaries, and repealing tax breaks for oil and gas companies. It trims itemized deductions for the wealthiest Americans, raising \$317.8 billion to finance health care reform. The expiration of tax cuts on the wealthy and the budget's proposed revenue increases would not take effect until 2011, when OMB forecasts that the country will be out of the recession. The budget's tax policy provides tax relief to 95 percent of working families and will not increase taxes on families earning less than \$250,000.

Budget Savings and Fiscal Responsibility

The Bush Administration left the country a legacy of soaring budget deficits and debt, a crumbling economy, and faltering public services due to persistent underfunding and inattention.

As part of its effort to reduce the huge deficits that it inherited, the Administration is reviewing the entire budget and will detail additional specific program cuts in its full budget later this Spring. Meanwhile, the budget outline released yesterday identifies several places where it promotes savings and reduces spending – recognizing that some of these proposals will constitute difficult choices.

Agricultural Programs — The budget reduces spending on agricultural programs by \$16 billion by implementing a commodity program payment limit, reducing direct payments to the largest farmers, reducing crop insurance subsidies, eliminating cotton storage credits, and reducing program funding for overseas brand promotion.

Resource Conservation and Development Program — The program was intended to build community leadership skills through the establishment and funding of RC&D councils that would access federal, state, and local programs for the community's benefit. The Administration believes this goal has been accomplished and the councils are now able to secure funding for their continued operations without federal assistance.

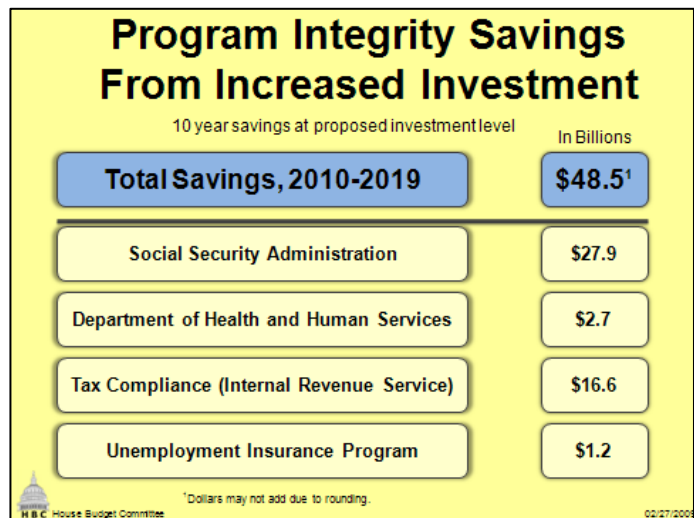
Selected Spending Cuts and Other Government Savings	
(in billions of dollars)	
10-Year Savings	
Reduce direct farm payments for large farms	10
Reform crop insurance	5
Issue all new student loans through the Direct Loan program	48
Modernize Perkins loans	6
Increase returns from minerals on federal lands	3
Spectrum auction authority	2
Realign Postal employee/employer benefit contributions	9
Program integrity investments and other policy changes	53

Delinquent Tax from Federal Contractors — The budget saves \$844 million by streamlining administrative processes to make it easier for the IRS to collect tax debt owed by federal contractors, thus increasing collections of delinquent tax.

Mineral Development — The budget contains a number of actions concerning receipts from mineral development. In particular, the budget:

- Creates a new excise tax on offshore oil and gas production in the Gulf of Mexico by limiting royalty relief.
- Terminates payments to coal producing states that no longer need funds to clean up abandoned mines.
- Charges a user fee to oil companies for processing oil and gas drilling permits on federal lands.
- Increases returns from oil and gas production on federal lands through administrative actions such as royalty rate adjustments.

Ensures that Taxpayer Funds are Spent Responsibly — The budget generates nearly \$50 billion in savings and additional tax revenue over the next ten years by expanding oversight activities in large benefit programs and increasing tax compliance and enforcement activities to ensure taxpayer dollars are spent wisely. The budget includes the following investments in program integrity:



- **Social Security** — Provides the Social Security Administration (SSA) with an additional \$4.3 billion over five years to work down a backlog of Continuing Disability Reviews, which determine whether individuals continue to qualify for benefits. For every dollar SSA spends on disability reviews, it saves \$11 in erroneous payments.
- **Medicare and Medicaid** — Provides an additional \$1.7 billion over five years for the HHS Health Care Fraud and Abuse Control Program. HHS estimates that for every dollar invested in fighting health care fraud, we recover or prevent the loss of \$1.60 in ineligible payments.
- **Tax Compliance** — Provides the IRS with an additional \$7.2 billion over five years to streamline procedures and bolster front-line enforcement to ensure that businesses and individuals pay the taxes they owe. The IRS conservatively estimates a \$290 billion gap between taxes that are owed and taxes that have been or will be collected. The

Administration estimates that for every dollar invested in improving tax compliance, it recoups five dollars owed to the federal government.

- **Unemployment Compensation** — Provides states and the Department of Labor with an additional \$300 million over five years for in-person reemployment services, eligibility assessments, and improper payment reviews, which is estimated to save \$1.2 billion over the next ten years.
- **Federal-State Partnerships** — Provides \$175 million in 2010 to test new strategies for integrating and modernizing state-administered means-tested programs (such as Medicaid and the Supplemental Nutrition Assistance Program) in order to reduce errors and improve beneficiary service. The new initiative will rigorously test new approaches to find ideas which could generate more than a dollar of savings for each federal dollar invested, and which could be replicated on a large scale.

Student Loan Programs — The budget saves \$47.5 billion over ten years by originating all new student loans in the Direct Loan program, thus terminating future loan activity under the Guaranteed Loan program and therefore eliminating bank subsidies that accompany that program. It also overhauls the Perkins Loan program to make loans available to more students, with projected savings of \$6.5 billion over ten years.

Low-Performing Education Programs — The budget announces the Administration's intention to eliminate or overhaul a number of small, narrowly focused education programs without strong evidence of effectiveness.

Health Reform — The budget saves \$316.0 billion over ten years in federal health programs through measures aimed at rewarding quality care and promoting efficiency improvements. Of the savings, \$176.6 billion comes from reducing overpayments to private plans operating in the Medicare Advantage program. These plans are currently paid 14 percent more than the cost of traditional fee-for-service Medicare for comparable beneficiaries. For more information on health savings in the budget, see the "Health Care" section in this report.

Budget Process and Accounting Proposals

As part of its push toward fiscal responsibility, the President's budget contains changes to improve fiscal discipline and enhance transparency in the budget process. Some of the crosscutting changes are detailed below. Some additional adjustments to current budgeting practice are described in this document based on the services the program provides.

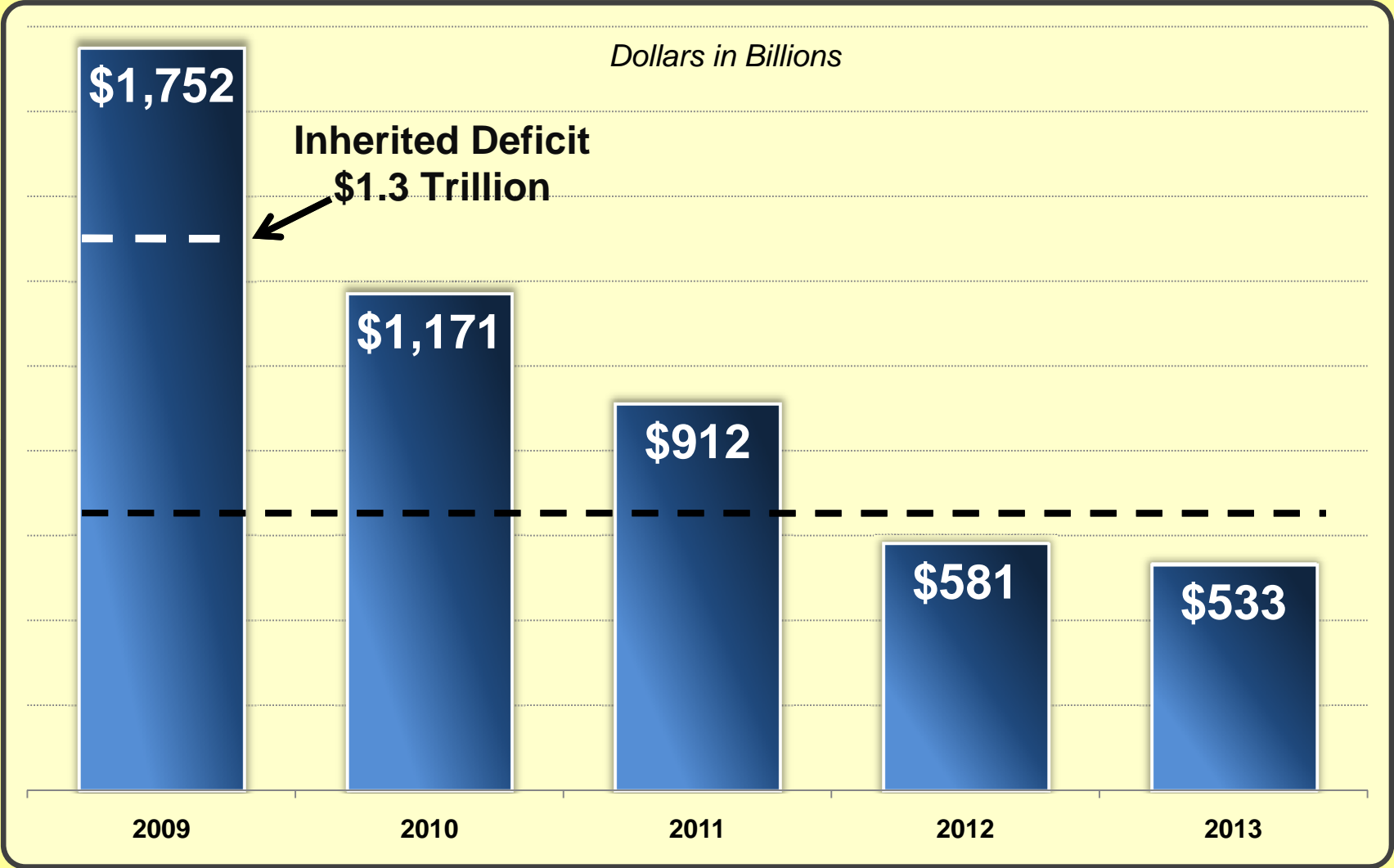
Statutory Pay-As-You-Go (PAYGO) Provisions — PAYGO, first established under the Budget Enforcement Act of 1990, requires that mandatory increases and tax cuts be offset by either mandatory decreases or tax increases. Statutory PAYGO provisions, which expired in

2002, were critical in converting chronic deficits experienced in the early 1990s to surpluses by the late 1990s. As one of its first acts, the 110th Congress instituted a tough new House PAYGO rule. To complement Congressional rules, the Administration proposes to work with Congress to renew statutory PAYGO.

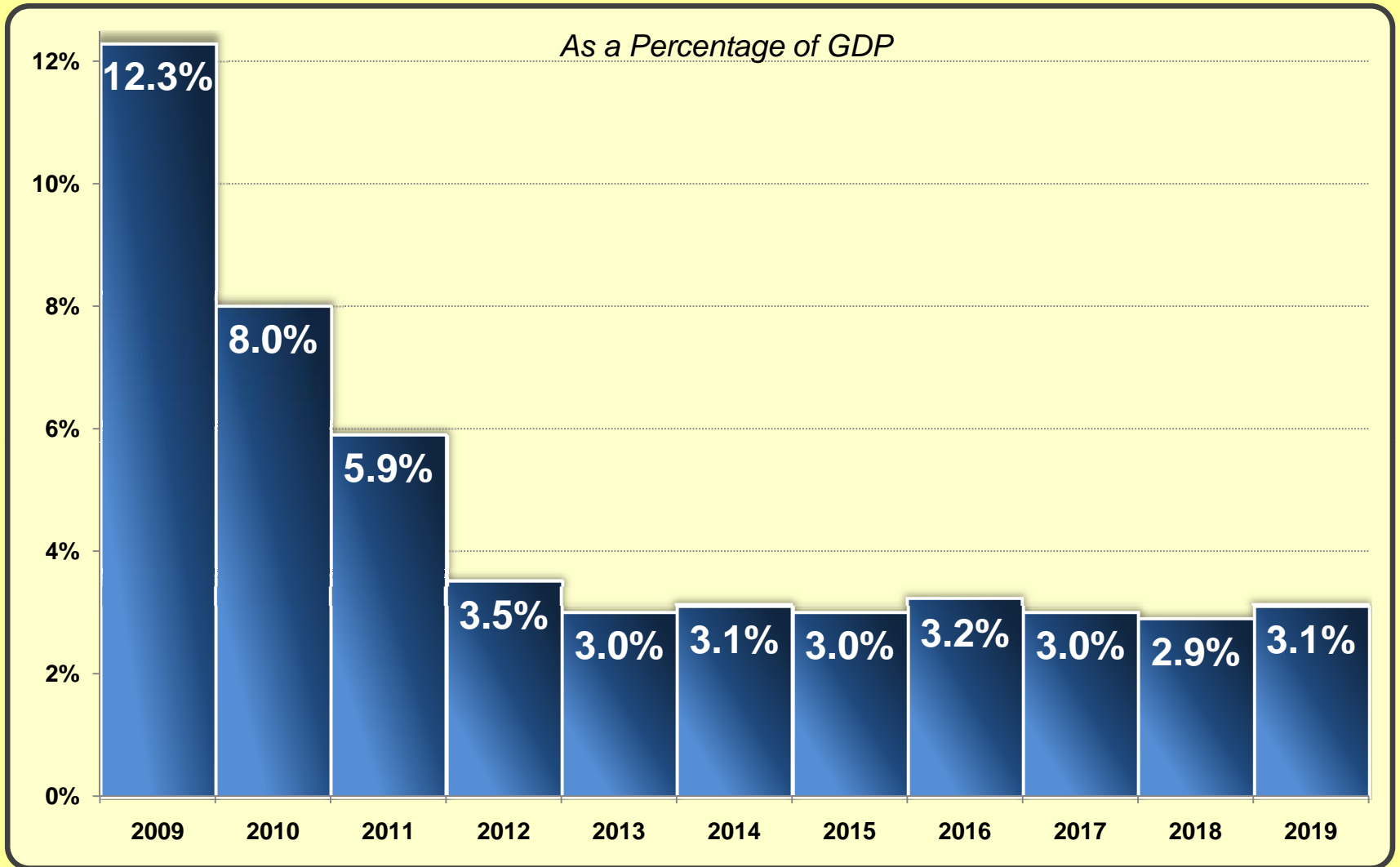
Budgeting for Emergencies — In a break from past practice, the budget includes more than \$20 billion annually as a placeholder to cover spending on emergencies and unforeseen events such as natural disasters. The \$20 billion projection is based on a statistical probability of emergency costs. The Administration is not requesting the funds at this time but rather including the estimates to provide more realistic budget totals. The Administration encourages the Congress to include a similar adjustment, which would be unallocated to any committee, in the budget resolution.

Budgetary Treatment of Housing Government Sponsored Enterprises (GSEs) — Government involvement in the housing GSEs expanded with the assistance provided in last year's Housing and Economic Recovery Act. CBO has determined that the new level of government involvement warranted including the transactions of these GSEs in the federal budget. The President's budget does not fully incorporate Freddie Mac and Fannie Mae in its budget presentations, largely due to the complexity of making a change of this type in the short time available to complete the budget. However, OMB has indicated that it plans to pursue this issue with the intent of including the transactions for the next budget. The difference in treatment by CBO and OMB will explain in part the difference in the agencies' deficit estimates.

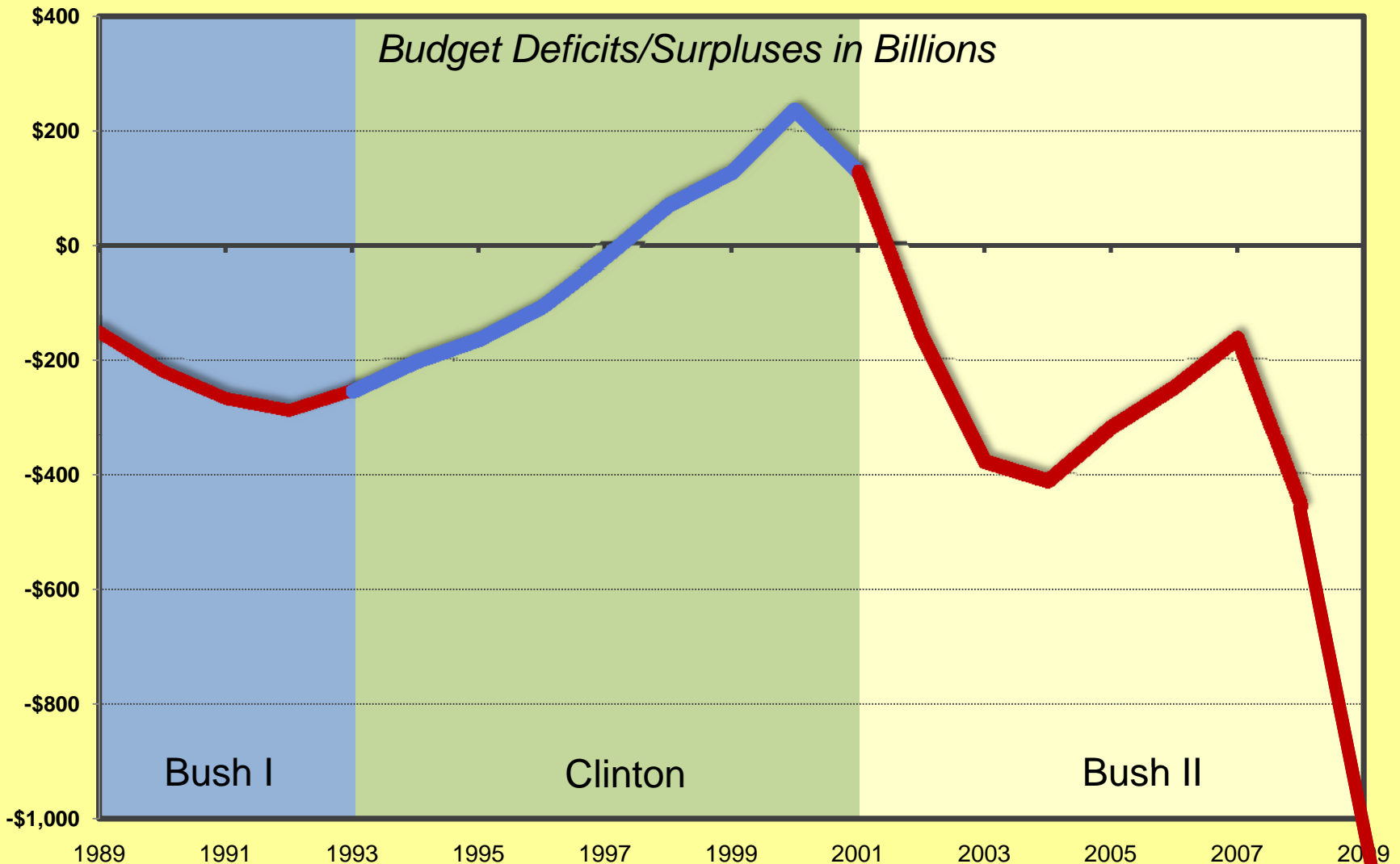
Obama Plans to Cut Deficit in Half by the End of One Term



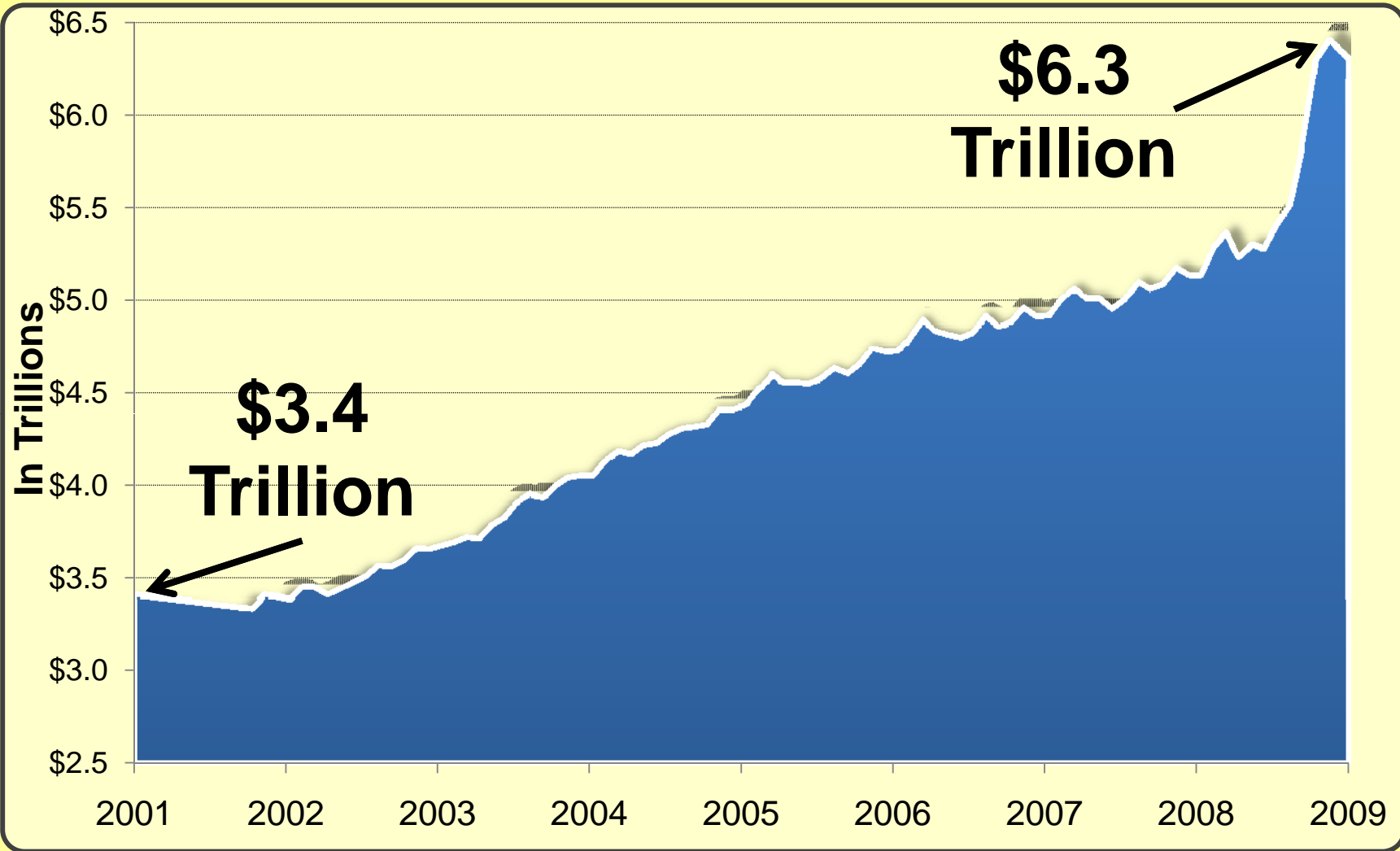
Deficits in the Obama Budget as a Percentage of GDP



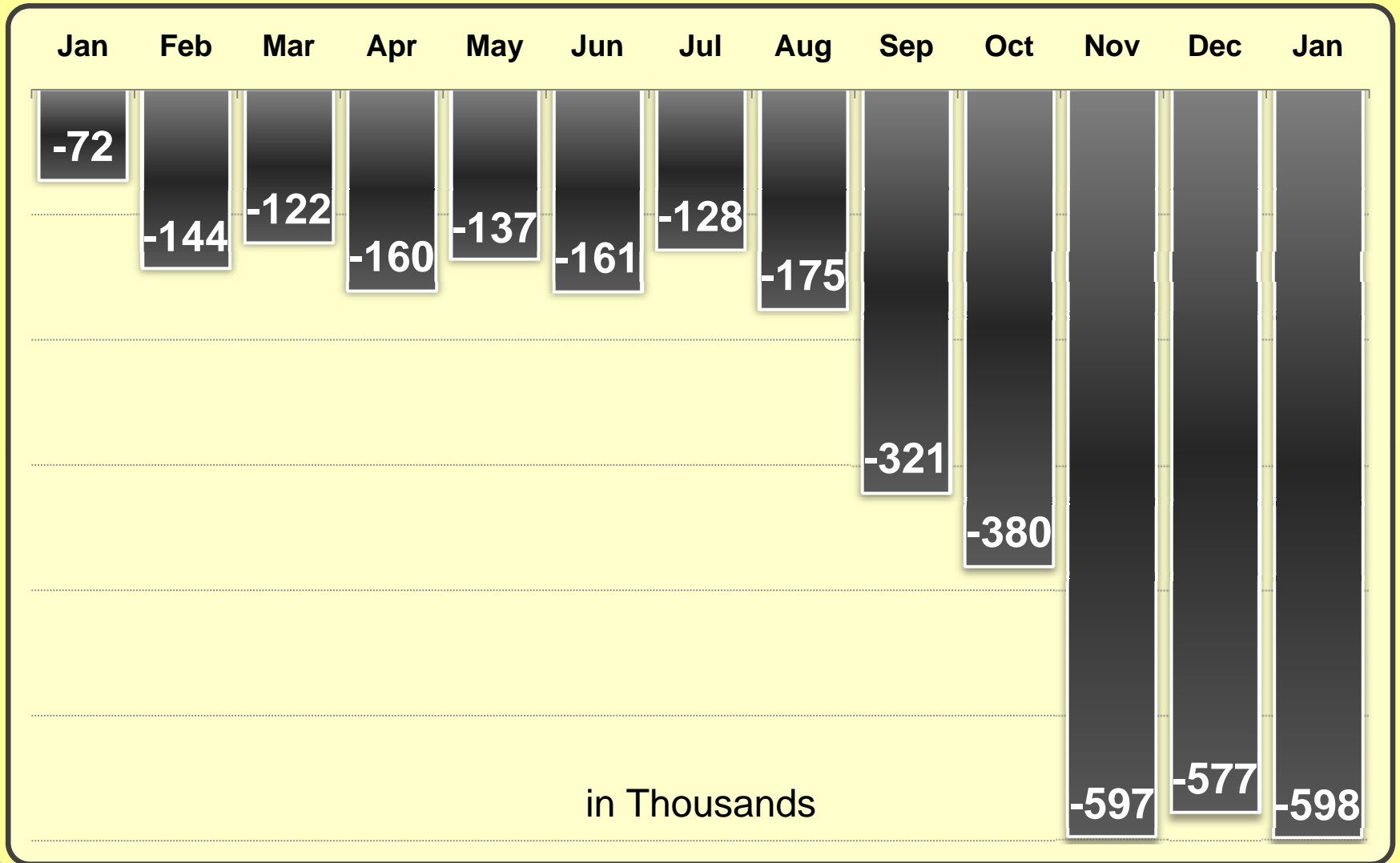
Record Deterioration on the Budget Under Republican Administrations



Debt Held by the Public Nearly Doubled During Bush Administration

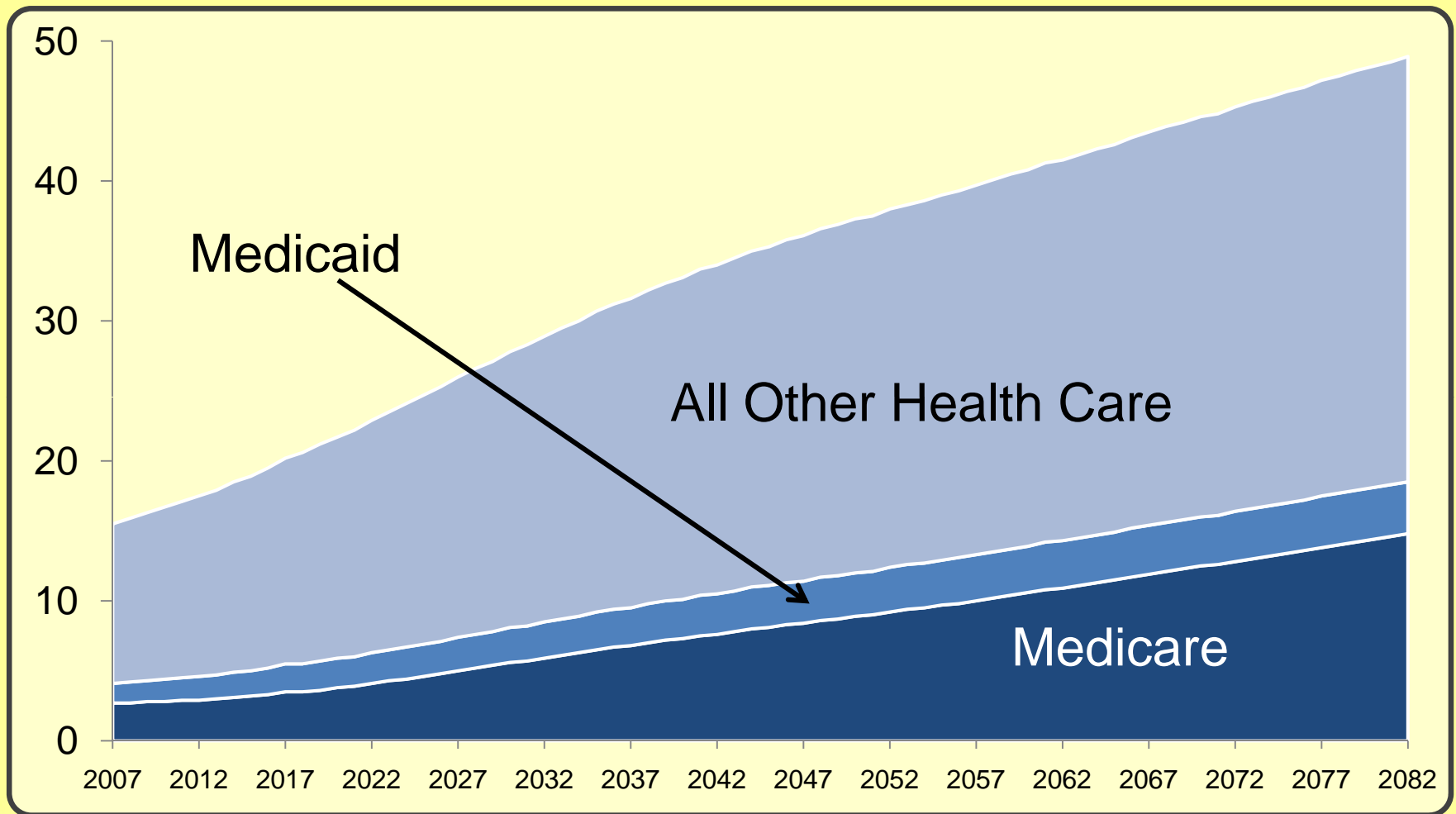


3.6 Million Jobs Lost Since January 2008



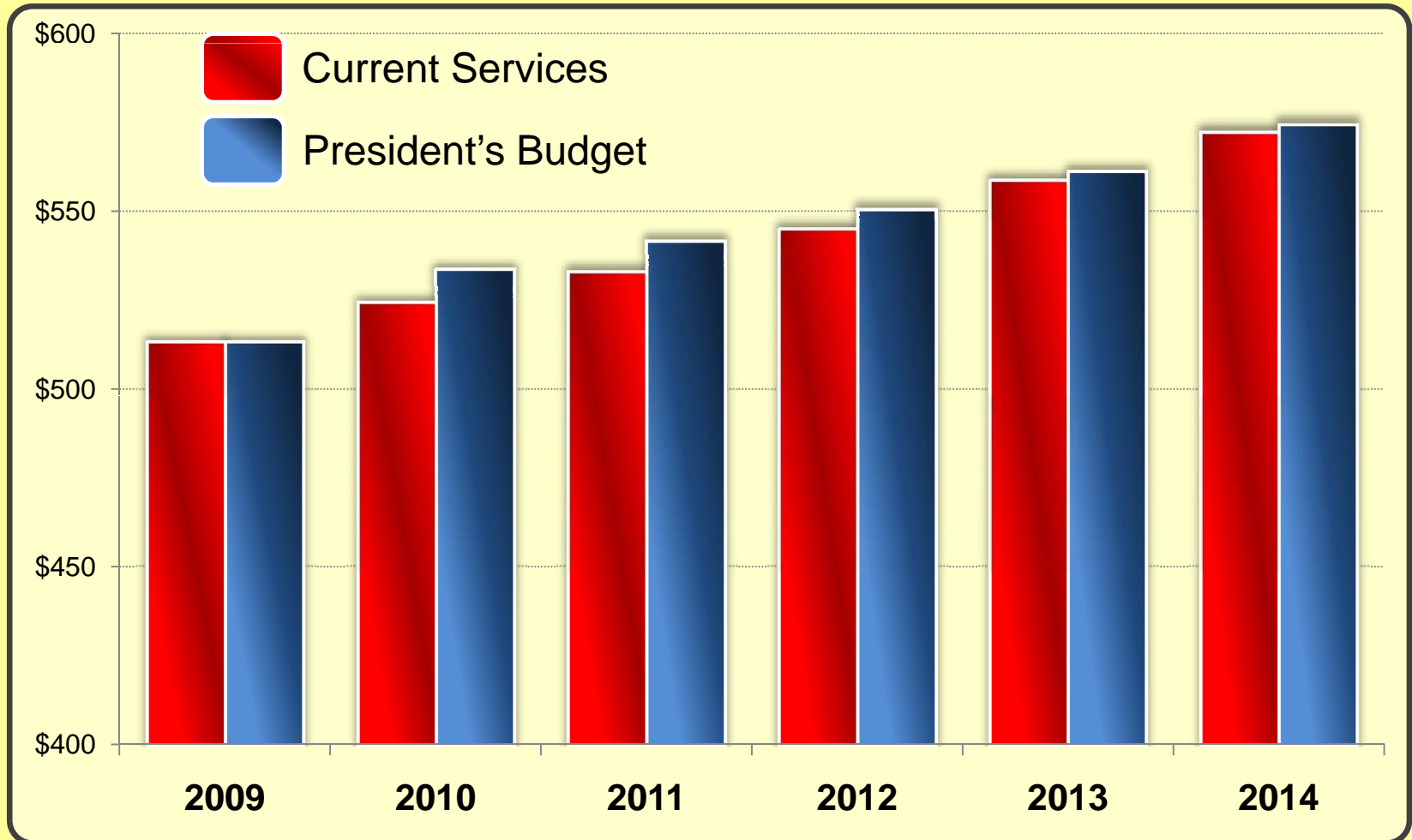
Projected Spending on Health Care as Percentage of Gross Domestic Product

Percentage of GDP



Defense Department Budget Tracks with Inflation

Dollars in Billions



Program Integrity Savings From Increased Investment

10 year savings at proposed investment level

In Billions

Total Savings, 2010-2019

\$48.5¹

Social Security Administration

\$27.9

Department of Health and Human Services

\$2.7

Tax Compliance (Internal Revenue Service)

\$16.6

Unemployment Insurance Program

\$1.2

¹Dollars may not add due to rounding.

