

F I S C A L   Y E A R   2 0 0 4

# MID-SESSION REVIEW

B U D G E T   O F   T H E   U . S .   G O V E R N M E N T



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

July 15, 2003

THE DIRECTOR

The Honorable J. Dennis Hastert  
Speaker of the House  
of Representatives  
Washington, DC 20515

Dear Mr. Speaker:

Section 1106 of Title 31, United States Code, requires that the President transmit to the Congress a supplemental update of the Budget that was transmitted to the Congress earlier in the year. This supplemental update of the Budget, commonly known as the Mid-Session Review, contains revised estimates of the budget deficit, receipts, outlays, and budget authority for fiscal years 2003 through 2008. This Mid-Session Review also provides an update on executive branch progress in implementing the President's Management Agenda.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Bolten", with a long horizontal flourish extending to the right.

Joshua B. Bolten  
Director

Enclosure

Identical Letter Sent to The President of the Senate

# TABLE OF CONTENTS

	<i>Page</i>
Transmittal Letter	
List of Tables .....	iii
Summary .....	1
Economic Assumptions .....	7
Receipts .....	15
Spending .....	17
Progress Implementing the President's Management Agenda .....	21
Summary Tables .....	39

## GENERAL NOTES

1. All years referred to are fiscal years unless otherwise noted.
2. All totals in the text and tables display both on-budget and off-budget spending and receipts unless otherwise noted.
3. Details in the tables and text may not add to totals due to rounding.
4. Web address: <http://www.whitehouse.gov/omb/budget>

## LIST OF TABLES

	<i>Page</i>
Table 1. Changes from the 2004 Budget .....	1
Table 2. Changes from April 2001 Projection .....	3
Table 3. Lower Marginal Tax Rates for 2003 .....	8
Table 4. Economic Assumptions .....	12
Table 5. Change in Receipts .....	15
Table 6. Change in Outlays .....	19
Table 7. Budget Totals .....	39
Table 8. Budget Summary by Category .....	40
Table 9. Impact of Budget Policy .....	41
Table 10. Discretionary Totals .....	42
Table 11. Homeland Security Funding by Agency .....	43
Table 12. Mandatory Proposals .....	44
Table 13. Receipts Proposals .....	47
Table 14. Receipts by Source .....	51
Table 15. Discretionary Budget Authority by Agency .....	52
Table 16. Discretionary Proposals by Appropriations Subcommittee .....	53
Table 17. Outlays by Agency .....	54
Table 18. Baseline Category Totals .....	55
Table 19. Outlays for Mandatory Programs Under Current Law .....	56
Table 20. Federal Government Financing and Debt .....	57

# SUMMARY

The President's Budget, released in February, focuses on the challenges posed by three overriding national priorities: winning the war against terrorism, securing the homeland, and restoring strong economic growth and job creation. Significant progress has been made in all three areas.

This Mid-Session Review of the Budget revises the estimates of receipts, outlays, and the deficit to reflect economic, legislative, and other developments since February. The deficit for 2003 is now estimated at \$455 billion, up from the \$304 billion deficit estimated in February, for the following reasons:

- *Economic and Other Reestimates.* The economic assumptions for this review, discussed later in the chapter "Economic Assumptions," reflect weaker-than-anticipated economic growth since February. Slower growth, lower estimates of wage and salary income, and other economic factors have reduced receipts from the levels estimated in the budget. In the interest of cautious and prudent forecasting, the revised estimates also include a downward adjustment for revenue uncertainty of \$15 billion in 2003, \$30 billion in 2004, and \$15 billion in 2005. These reestimates in receipts are partially offset by lower outlays due to revised economic and technical assumptions. The net effect of all economic and other reestimates is to raise the projected deficit by \$66 billion in 2003 and \$95 billion in 2004.
- *Iraq War.* Funding for Operation Iraqi Freedom in supplemental appropriations enacted in April, including costs for military action and reconstruction assistance, increases spending by \$47 billion in 2003 and \$20 billion in 2004. These estimates

do not reflect what the Administration has previously indicated are expected but undetermined additional costs arising from ongoing operations in Iraq, extending beyond 2003.

- *Jobs and Growth Act.* Enactment of a jobs and growth bill that was larger for 2003 and 2004 than proposed in the February Budget raises the projected deficit by \$13 billion in 2003 and \$36 billion in 2004. Of this increase, \$9 billion in 2003 and \$11 billion in 2004 is due to temporary state fiscal assistance included in the final enacted bill. In later years, the enacted tax relief is smaller than proposed in the Budget, which reduces the deficit projected in those years relative to the February estimates.
- *Other Legislation and Policy Changes.* Final 2003 appropriations action, non-war related costs in the April supplemental, extension of the program to help unemployed Americans by providing an additional 13 weeks of unemployment benefits, and other policy changes raise spending by \$26 billion in 2003, \$17 billion in 2004, and smaller amounts in subsequent years.

The reasons for changes in receipts and spending from the February Budget are discussed further in the "Receipts" and "Spending" chapters of this Review.

The deficit is projected to increase slightly from \$455 billion in 2003 to \$475 billion in 2004. As a share of the economy, the projected deficit remains steady in these two years, at 4.2 percent of Gross Domestic Product (GDP). These deficit levels are well below the postwar deficit peak of 6.0 percent of GDP in 1983, and are lower than in six of the last twenty years.

**Table 1. Changes from the 2004 Budget**  
(In billions of dollars)

	2003	2004	2005	2006	2007	2008
2004 Budget policy deficit .....	-304	-307	-208	-201	-178	-190
Economic and technical reestimates .....	-66	-95	-80	-58	-53	-50
Iraqi war supplemental .....	-47	-20	-1	—*	—*	—*
2003 jobs and growth act .....	-13	-36	1	30	29	24
Other legislation and policy changes <sup>1</sup> .....	-26	-17	-16	-9	-10	-10
Total changes .....	-151	-168	-96	-37	-35	-36
Mid-Session Review policy deficit .....	-455	-475	-304	-238	-213	-226

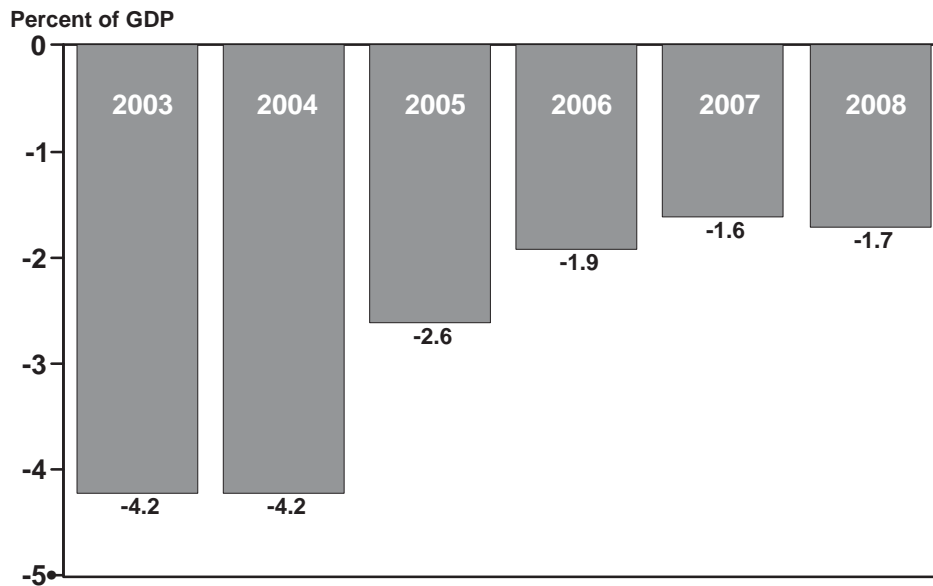
\* \$500 million or less.

<sup>1</sup> Includes debt service on all policy changes.

Even more important, after 2004, the deficit is projected to decline rapidly in response to the economy's return to healthy and sustained growth. By 2006, the deficit is cut in half. Chart 1 shows that the decline is even more pronounced as a share of the economy, falling from 4.2 percent of GDP in 2003 and 2004 to 1.7 percent of GDP in 2008.

Today's deficits reflect an economy in recovery from recession, increased spending in response to the war on terror and homeland security needs, and the reversal of a massive surge in individual income tax collections. Although large in nominal terms and a legitimate subject of concern, these deficits are manageable if we continue pro-growth economic policies and exercise serious spending discipline.

**Chart 1. Budget Deficits Cut Sharply**



**Table 2. CHANGES FROM APRIL 2001 PROJECTION**

(In billions of dollars)

	2002		2003		2004–2008	
	Amount	Percent of total change	Amount	Percent of total change	Amount	Percent of total change
April 2001 baseline surplus projection .....	283		334		2,578	
Economic and technical reestimates .....	-284	64%	-418	53%	-1,782	44%
Enacted policy:						
Tax relief:						
2001 tax relief .....	-41	9%	-94	12%	-761	19%
2002 stimulus act .....	-52	12%	-38	5%	19	-*%
2003 jobs and growth act .....		*%	-45	6%	-280	7%
War, homeland, and other enacted legislation ....	-63	14%	-193	24%	-723	18%
Pending budget proposals .....		*%	-1	*%	-506	13%
Total change .....	-441	100%	-789	100%	-4,034	100%
Mid-Session Review policy deficit .....	-158		-455		-1,455	

\*0.5 percent or less.

Note: Each change includes associated debt service.

***The Turnaround from Surplus to Deficit***

When the Administration took office, the budget was forecast—by both the Administration and the Congressional Budget Office—to run cumulative surpluses of \$5.6 trillion over the 10 years from 2002 to 2011. These forecasts were good-faith estimates that took into account no subsequent spending or tax changes, no recession, no collapse in the stock market, no September 11th terrorist attacks, no revelation of corporate scandals, no additional homeland security spending, and no war on terror. As shown in Table 2, the largest factors behind the subsequent change in surplus estimates are a weaker economy than originally projected and other reestimates in receipts and outlays, such as weaker capital gains realizations and higher growth in health care costs. These reestimates account for 53 percent of the change in the 2003 budget balance from the \$334 billion surplus estimated in the April 2001 Budget to the current estimate of a \$455 billion deficit.

By far the largest reestimate from the April 2001 projection has been in receipts. In the late 1990s, revenue from the individual income tax surged far above historical rates of growth, due to increased capital gains realizations from a booming stock market, growth in stock options and bonus income to high-income taxpayers, and other factors. At the height of the revenue surge in 2000,

total receipts came in nearly \$300 billion above long-term historical trends. This receipts “bubble” more than accounted for the \$236 billion budget surplus in that year. The Administration’s April 2001 projection, like those of the previous administration, the Congressional Budget Office, and other forecasters, assumed this level of receipts would continue. The subsequent reversal of the receipts surge has brought today’s receipt levels far below the original April 2001 estimates.

Policy actions account for the remainder of the change in the budget outlook since April 2001. The President proposed, and Congress enacted, three major tax bills in the past two and a half years. The first tax cut, the Economic Growth and Tax Relief Reconciliation Act of 2001, came just after the economy had entered into recession. Its immediate tax relief in the summer and the fall of 2001 boosted consumer demand and helped to ensure the recession was short and shallow. The second tax cut, the Job Creation and Worker Assistance Act of 2002, provided incentives for business investment to jump-start the recovery. This spring, Congress passed the Jobs and Growth Tax Relief Reconciliation Act of 2003, proposed by the President in January to strengthen the recovery and accelerate job creation from its current subpar pace. In 2003, the effects of these three tax cuts account for 23 percent of the change in the budget balance from

the original April 2001 projection. Even without these tax cuts, the deficit this year would be projected at \$278 billion—and, of course, the economy would have been even weaker had the tax cuts not been enacted, with substantially greater job losses.

Policy action on the spending side of the budget has also increased the deficit. The largest spending increases, in the areas of defense and homeland security, came in response to the terrorist attacks of September 11, 2001 and the ensuing wars in Afghanistan and Iraq. The effects of this and other new spending account for 24 percent of the change in the budget balance since April 2001.

### ***Prospects for the Economy and the Budget***

The key to improvement in the budget outlook is a healthy recovery with strong job creation. Since the submission of the budget in February, prospects for sustained economic growth have brightened on several fronts:

- Passage of the President's jobs and growth tax package will stimulate consumer spending, improve incentives to work, and encourage individual and business investment.
- Successful action to free the Iraqi people from the regime of Saddam Hussein has removed uncertainty about the timing and outcome of the war.
- A further reduction in short-term interest rates by the Federal Reserve last month and historically low long-term rates provide an attractive climate for investment and a strong housing market.
- Upturns in consumer and investor confidence indicate economic improvement is in the offing.

All of these developments combine to suggest that the economy is poised to return to healthy and sustained growth—creating jobs, reducing the unemployment rate, and raising incomes.

A healthy economy is essential to an improved budget outlook because it generates more revenue and reduces the pressure for spending in unemployment-sensitive programs.

But strong growth alone is not sufficient. It is vital to exercise discipline over federal spending growth, keeping new policy action within the framework set by the President's Budget and this year's Congressional Budget Resolution. Both the Budget and the Resolution fund the priorities of the war on terror and homeland security, while restraining the overall growth of discretionary appropriations to a four percent level, consistent with the average growth in family income. If discretionary spending instead continued to grow at the average 7.4 percent rate experienced between 1998 and 2003, it would add a cumulative \$400 billion to the deficit over the next five years.

Holding discretionary spending to four percent growth overall requires us to make choices, to set priorities, and to exercise fiscal discipline. Even in priority areas such as homeland security, we must be sure that funding increases are well spent. The Administration's efforts to assess and improve the performance of federal programs across the government, discussed further in the chapter "Progress Implementing the President's Management Agenda," will help to ensure that taxpayer dollars are directed to programs that provide the greatest benefit.

It is important to restrain increases in mandatory as well as discretionary spending to the levels envisioned by the Budget and the Resolution. Proposals for concurrent receipt of military retirement benefits and veterans' disability compensation, and increases in highway spending above the levels in the Budget, are examples of new proposals—however well-intended—that have the potential to undermine the fiscal framework designed to move the budget toward balance. The Administration renews its call for budget enforcement mechanisms that will restrain policy action above the limits set forth in the Budget and the Resolution.

While we work to improve today's budget position, we must keep in mind the real fiscal danger: the unsustainable long-term finances of the nation's two major entitlement programs. Even if the budget were in balance today, the growth in the future costs of Social Security and Medicare beyond their dedicated resources would create deficits that



grow ever larger as a share of the economy in the decades to come. The President is committed to reforming these programs in a way that modernizes their benefits and restructures their financing to ensure that they provide benefits not only for those

in or near retirement today, but for generations to come.

The fundamentals of the economy remain sound. With renewed economic growth, and with judicious stewardship of the people's money, we can return the budget to a stronger position in the years ahead.

# ECONOMIC ASSUMPTIONS

## *Introduction*

The U.S. economy has expanded since the end of 2001, albeit at a slower pace than in a typical recovery. However, the economy now appears poised for an extended period of strong growth accompanied by falling unemployment, rising living standards, low inflation, and moderate interest rates. Signals coming from a growing number of forward-looking indicators are reinforcing this view, which is shared by the Blue Chip consensus of private sector forecasters.

Forecasters are recognizing and markets are responding to recent fiscal and monetary stimulus, the favorable underlying fundamentals of low inflation and strong productivity growth, and the waning of negative influences on the economy. The quick and successful conclusion to the war in Iraq has lifted the pall of uncertainties that weighed on consumer and business long-term decision making. Consumer and investor confidence, badly shaken as geopolitical tensions mounted earlier in the year, have recovered. The stock market, which has been on an upward trend since March, is once again adding to, rather than reducing, household wealth.

Fiscal and monetary policies are focused on quickly returning the economy to sustainable, healthy growth. The recently enacted fiscal relief package will boost consumer and business spending and will augment the nation's long-term growth potential. Expansionary monetary policy will stimulate growth and provide insurance against the possibility of deflation. In June, the Federal Reserve reduced its target federal funds rate by 25 basis points to one percent, the lowest level since 1958.

The Administration's economic projections for the Mid-Session Review show growth accelerating sharply beginning this summer, leading to more jobs and rising incomes. This projection assumes the economy will be free of significant, new negative economic shocks.

A stronger economy seems likely given the powerful, positive forces at work and the fading of the negative factors that have held the economy back recently. However, predicting the exact timing of the shift from moderate to stronger growth is always problematic and the shift might come later than forecast. The Administration's economic projection balances the upside possibilities and downside risks and thus provides a prudent basis for forecasting the budget outlook.

## *Policy Actions*

*Fiscal Policy:* In response to the subpar expansion experienced to that point, in January the President proposed substantial tax relief for the American people. On May 28th, the President signed the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) which included all the key features of the President's proposal. The Act accelerated many of the tax reductions passed in the 2001 Economic Growth and Tax Relief Reconciliation Act (EGTRRA) that were scheduled to take effect several years from now. The 2003 jobs and growth tax cut also reduced the tax rate on dividends and capital gains; and on the business side, it temporarily increased incentives designed to speed up investment.

The key provisions of the 2003 Act that will help propel the economy in the near-term and boost long-term growth include:

- Lower marginal income tax rates retroactive to January 2003, as shown in Table 3. Under the 2001 tax cut, these rates were scheduled to take effect in 2004 and 2006. The lower tax rates were incorporated in new lower payroll withholding schedules that employers introduced beginning on July 1. Because the new tax rates cover all 2003 income but withholding schedules during the first half of the year were based on the higher rates passed in 2001, many taxpayers will overwithhold in 2003. These taxpayers will receive larger tax refunds, or pay less in

**Table 3. LOWER MARGINAL TAX RATES FOR 2003**

Married Taxpayers Filing Jointly <sup>1</sup>			
Taxable Income:		Tax Rate Under:	
Over	But Not Over	EGTRRA	JGTRRA
\$0	\$12,000	10%	10%
12,000	14,000	15%	10%
14,000	47,450	15%	15%
47,450	56,800	27%	15%
56,800	114,650	27%	25%
114,650	174,700	30%	28%
174,700	311,950	35%	33%
311,950	and over	38.6%	35%

<sup>1</sup> The tax bracket boundaries differ for single filers, heads of household, and married taxpayers filing separately.

remaining taxes, when they file their 2003 returns next spring.

- A reduction in the maximum tax rate on dividends, applying to dividends received in taxable years beginning on or after January 1, 2003 and before 2009, to 15 percent for taxpayers above the 15 percent marginal income tax bracket. Prior to the 2003 jobs and growth tax cut, dividend income was taxed at the rates applicable to other ordinary income, which could be as high as 38.6 percent. For those tax filers in the 10 or 15 percent tax brackets, the dividend tax rate was reduced to only five percent through 2007 and zero in 2008.
- A reduction in the maximum tax rate on net capital gains (the excess of net long-term gains over net short-term losses), applying to transactions occurring after May 5, 2003 and before January 1, 2009, from 20 percent to 15 percent for taxpayers above the 15 percent marginal tax bracket, and from 10 percent to five percent (and zero for 2008) for lower income taxpayers.

On the business side, the 2003 jobs and growth tax cut:

- Increased the bonus depreciation on qualified new investment to 50 percent from the 30 percent allowed under the March 2002 Job Creation and Worker Assistance Act. The remaining 50 percent is depreciated according to the general schedules.

This provision applies to new capital put in place before January 1, 2005.

- Raised to \$100,000 from \$25,000 the maximum amount of new investment that can be expensed by small businesses. This provision applies to new capital put in place by the end of 2005.

Temporary expensing lowers the after-tax cost of acquiring new capital and thereby provides a stimulus to new investment when it is most needed to help achieve a self-sustaining expansion. All told, the business tax relief is estimated to be \$13 billion during the second half of this calendar year, of which \$10 billion will flow through corporations and \$3 billion will go to individuals who own non-corporate businesses. In calendar year 2004, business tax relief will total about \$49 billion, of which about \$37 billion will flow through corporations and \$12 billion will go to individuals.

These tax reductions enacted in the 2003 jobs and growth tax act will ease tax restraints on economic activity, thereby accelerating economic growth in the near-term and raising the long-term level of economic activity.

- Reductions in marginal tax rates will reduce the disincentives facing individuals to work more, to earn more, to save more, and to invest more. Non-corporate businesses such as sole proprietorships and partnerships will also benefit from these rate reductions. When small businesses face lower tax rates they have more ability

and greater incentive to invest in new equipment and hire additional workers.

- Lower tax rates on dividends and capital gains will lower the after-tax cost of new investment and thereby lead to a higher rate of investment.
- Lower tax rates on dividends and capital gains will also reduce the distortions in the pattern of investment across economic sectors generated by the tax system so that the composition of this investment will be more appropriate, and therefore more productive.
- The reduction in the capital gains tax will encourage the relatively high risk, forward-looking investments that help sustain a vibrant economy.
- The tax rate reductions on capital income generally, and especially on dividends and capital gains, will also combine to raise asset values across the economy. The existence but not the extent of this effect is certain. Whatever the magnitude, the effect on the economy is to provide an additional source of stimulus. For both individuals and businesses, rising asset values will improve balance sheets. For individuals this can mean increased consumption levels; for businesses a stronger balance sheet may mean lower borrowing costs or greater flexibility to take advantage of new business opportunities.

In addition to those provisions already described, other provisions of the 2003 jobs and growth tax act will also contribute to aggregate demand by raising household after-tax incomes, further strengthening the economy:

- An increase in the child tax credit to \$1,000 for 2003 and 2004: On three successive Fridays beginning July 25th, the Treasury will issue up to \$400 per child rebate checks to about 25 million families with children for a total of about \$12 billion in tax relief. Including households that will receive the benefit next spring when they file their 2003 tax returns, the increased child credit will provide tax relief totaling \$16 billion. Under the 2001 tax cut, the child credit was scheduled to be \$600 for calendar years 2003 and 2004,

rising to \$700 for 2005 through 2008, to \$800 in 2009, and to \$1,000 in 2010.

Moreover, the President has called on Congress to expand the benefits of the higher child tax credit to low-income tax filers beginning this year. Some low income families receive all or part of the benefit of a higher child tax credit in the form of a refund because they pay little or no income taxes. The 2001 tax cut increased the refundable portion of the credit, but not until 2005.

- A reduction in the marriage penalty: For 2003 and 2004, the standard deduction amount for married couples filing a joint return will be twice the standard deduction amount for single filers, an acceleration of provisions in the 2001 tax cut. Prior to the 2003 jobs and growth tax cut, the standard deduction for couples was 167 percent of that for single filers. The width of the 15-percent tax bracket for married couples is also increased to twice the width for single taxpayers in 2003 and 2004. Prior to the 2003 jobs and growth tax cut, the maximum taxable income in the 15-percent bracket for joint filers was 167 percent of the corresponding amount for single filers. Under the 2001 tax cut, the marriage penalty provisions were scheduled to phase-in over the period between 2005 and 2009.
- An increase in the Alternative Minimum Tax (AMT) exemption amount: In 2003 and 2004 the AMT exemption will increase by \$4,500 for single filers and \$9,000 for married taxpayers to ensure that the income tax relief is not reduced by the AMT. (The AMT is a parallel tax system using a broader tax base and generally lower tax rates than the regular income tax. Taxpayers pay the higher of their tax liabilities as determined by the regular income tax and AMT calculations.)

The tax relief in the 2003 jobs and growth tax cut was front-loaded to provide the maximum boost to the economy when it is needed the most. During the second half of calendar year 2003, individual and corporate net tax payments combined are estimated to be nearly \$50 billion lower, and during calendar year 2004 about \$146 billion lower. Tax relief, including the refundable portion

of the child tax credit, is estimated to total \$258 billion during 2003 through 2008 and \$268 billion during 2003 through 2013. In addition, the 2003 jobs and growth tax cut provides \$20 billion in grants to states during FY 2003 and 2004.

The boost to household after-tax income from the 2003 jobs and growth tax cut will be substantial during the second half of 2003, providing about \$40 billion in tax relief. That, in turn, will boost consumer spending and saving. The increased consumer spending will help the economy maintain its momentum as businesses ramp up their investments in new plant and equipment. The additional saving will improve household balance sheets and enable families to increase future spending.

Even the most effective tax policies take time before they affect spending and then business hiring. The President recognized that many workers would exhaust their unemployment benefits in the interim. In response, on May 28th the President signed into law an extension through December 31, 2003 of the Temporary Extended Unemployment Compensation Act. This program assists unemployed workers who exhaust their regular benefits by providing up to 13 weeks of extended unemployment benefits. Those workers in states with high and rising unemployment are eligible for an additional 13 weeks of extended benefits after they exhaust their initial 13 week extension. The estimated budget costs of the unemployment extension are \$2.3 billion in FY 2003 and \$3.6 billion in 2004.

*Monetary Policy:* Very low inflation has enabled the Federal Reserve to pursue a monetary policy that provides the economy with additional stimulus. In November, the Federal Open Market Committee (FOMC) lowered its target Federal funds rate from  $1\frac{3}{4}$  percent to  $1\frac{1}{4}$  percent. At its May meeting, the Committee signaled its willingness to make further cuts in the future to this already-low rate. In response, interest rates, especially at the long end of the maturity spectrum, fell sharply. At its meeting in June, the Committee reduced the funds rate to one percent. This was the thirteenth

cut since the start of 2001 when the rate stood at 6.5 percent.

Interest rates fell during the first half of this year in response to the weaker-than-expected economy and indications from the FOMC that monetary policy was focused on stimulating activity and avoiding deflation. The three-month Treasury bill rate dropped from 1.2 percent in December to 0.9 percent in late June. Rates declined even more at the longer end of the maturity spectrum. The yield on the 10-year Treasury note fell from 4.0 percent in December to 3.5 percent by the end of June. The last time long-term Treasury rates were this low was in the late 1950s. Long-term corporate bond yields also declined this year, reaching their lowest levels since the mid-1960s; mortgage rates fell to the lowest levels since the late 1950s. Partly in response to the FOMC's actions, the money supply (M2) grew at an 9.0 percent annual rate during the first six months of 2003, up from 7.4 percent during the prior half year.

### ***Recent Developments***

Real Gross Domestic Product (GDP) grew at a 1.4 percent annual rate in the fourth quarter of 2002 and again in the first quarter of 2003. Although the first official estimate of GDP growth for the second quarter will not be announced until the end of July, it appears likely the economy continued to expand at about this same pace. Growth in this neighborhood is well below the rate needed to stimulate robust business investment in new plant and equipment and to create sufficient new job opportunities for unemployed workers and entrants into the labor force.

There are gathering signs, however, that faster growth is in the offing. The Index of Leading Indicators rose a substantial 1.0 percent in May, a significant break from the flat trend since early 2002. Eight of the ten components of the Index contributed to the May gain. Among the components, the strongest signals have come from the major stock market indexes, which by early July had risen 25 to 35 percent above their low points in March, and from a survey reading of consumers' confidence in

the future, which rose 24 percent from March to June.

Elsewhere, there are further indications of an improving economy. The hard-pressed *manufacturing sector* increased production slightly in May after reducing it during the prior three months. Surveys of purchasing managers suggest order books are firming, although other readings on new orders are not quite as encouraging. A rise in shipments of capital goods suggests that business investment in equipment and software in the second quarter likely rose again after declining in the first quarter. Business inventories are relatively low compared with sales, suggesting that a pickup in overall final demand would be augmented by a rebuilding of inventories.

In the *labor market*, private sector employment continued to contract through June as rapid productivity growth allowed moderate output growth to be achieved with a smaller workforce. Since the cyclical peak in the first quarter of 2001, productivity growth in the nonfarm business sector has averaged a robust 3.4 percent per year despite the recession and subsequent subpar recovery. That pace even exceeds the 2.2 percent average during the prior five years of expansion. Strong productivity growth is a very healthy development for the economy because it eventually leads to higher standards of living. In the short-run, however, when aggregate demand growth is below that of productivity growth unemployment rises.

The unemployment rate was 6.4 percent in June compared with an average of 5.9 percent in the fourth quarter of 2002 and 4.2 percent at the cyclical peak. The rise in unemployment underscores both the difficulties in predicting when an economic acceleration will take hold and the need for the recent fiscal and monetary policy actions designed to hasten that acceleration to return the economy to full employment.

*Consumer spending*, which accounts for 70 percent of GDP, continues to underpin overall activity. Real consumer expenditures rose at a 2.0 percent annual rate in the first quarter and appear to have maintained at least that pace in the second quarter. Consumers continue to be willing to make big-ticket

purchases, such as motor vehicles, boosted by widespread discounts and financing incentives.

*Home sales* remain at record levels, and these in turn have boosted consumer spending on furniture and appliances. In May, combined new and existing home sales reached the second highest level on record, exceeded only by sales in January 2003. Extraordinarily low mortgage rates have helped make homebuying more affordable to the average family than at any time in the past three decades. The low rates have also enabled homeowners to refinance their higher-rate, older mortgages, thereby improving household balance sheets and providing additional liquidity to spur future consumption.

*Government spending* on consumption and investment has been mixed. At the federal level, national defense spending increased significantly in the second quarter because of the war with Iraq. At the state and local level, spending edged down slightly in the first quarter and probably was weak in the second quarter as governments continued to cope with unexpected shortfalls of receipts and widening budget deficits.

Declining *net exports* have restrained overall growth for some time. Although the dollar has declined for the past year and a half, the positive effects of this on U.S. exports have been more than offset by much faster growth in the United States than in our trading partners. Consequently, our imports adjusted for inflation have grown more rapidly than our exports. The deterioration in net exports was temporarily halted in the first quarter, but that was probably reversed in the second quarter as the foreign sector likely again subtracted substantially from real GDP growth. The dollar declined seven percent against our major trading partners during 2002 and fell another 10 percent during the first half of 2003. At some point, the dollar's depreciation will help make U.S. producers more competitive at home and abroad.

*Inflation* drifted lower during the first half of 2003 despite a short-lived surge in energy prices that occurred in the months leading up to the Iraq war. During the first five months of 2003, the overall Consumer

Price Index (CPI) rose at a 2.3 percent annual rate, down from 2.4 percent during 2002. Energy prices rose at a 16.5 percent pace during the first five months; excluding the volatile food and energy components, the “core CPI” rose at only a 1.1 percent rate, down from 1.9 percent last year. All of the rise in the CPI during 2003 was accounted for by rising service sector prices. Prices of goods in the CPI hardly changed, on balance, from December to May. While low inflation is desirable, too low inflation or outright deflation may be harmful. The

pickup in economic activity expected in the coming months will help minimize the risks of deflation in the United States.

### **Revised Economic Assumptions**

The economic assumptions for the Mid-Session Review, summarized in Table 4, differ from those used in the Administration’s 2004 Budget in that they incorporate the fiscal, monetary, and economic developments discussed above.

**Table 4. ECONOMIC ASSUMPTIONS <sup>1</sup>**

(Calendar years; dollar amounts in billions)

	2002 Actual	Projections					
		2003	2004	2005	2006	2007	2008
<b>Gross Domestic Product (GDP):</b>							
Levels, dollar amounts in billions:							
Current dollars .....	10,446	10,863	11,405	11,972	12,563	13,183	13,837
Real, chained (1996) dollars .....	9,440	9,661	10,018	10,378	10,733	11,079	11,427
Chained price index (1996 = 100), annual average .....	110.7	112.4	113.8	115.3	117.0	119.0	121.0
Percent change, fourth quarter over fourth quarter:							
Current dollars .....	4.3	4.4	5.1	4.9	4.9	5.0	4.9
Real, chained (1996) dollars .....	2.9	2.8	3.7	3.5	3.3	3.2	3.1
Chained price index (1996 = 100) .....	1.3	1.5	1.3	1.4	1.6	1.7	1.8
Percent change, year over year:							
Current dollars .....	3.6	4.0	5.0	5.0	4.9	4.9	5.0
Real, chained (1996) dollars .....	2.4	2.3	3.7	3.6	3.4	3.2	3.1
Chained price index (1996 = 100) .....	1.1	1.6	1.2	1.3	1.5	1.7	1.8
<b>Incomes, billions of current dollars:</b>							
Corporate profits before tax .....	665	708	671	1,151	1,142	1,135	1,154
Wages and salaries .....	5,004	5,162	5,438	5,740	6,060	6,373	6,689
Other taxable income <sup>2</sup> .....	2,411	2,479	2,615	2,662	2,706	2,767	2,851
<b>Consumer Price Index (all urban):<sup>3</sup></b>							
Level (1982–84 = 100), annual average .....	179.9	184.0	187.0	190.4	194.2	198.6	203.1
Percent change, fourth quarter over fourth quarter .....	2.2	1.9	1.8	1.9	2.1	2.3	2.3
Percent change, year over year .....	1.6	2.3	1.7	1.8	2.0	2.2	2.3
<b>Unemployment rate, civilian, percent:</b>							
Fourth quarter level .....	5.9	5.8	5.5	5.3	5.2	5.1	5.1
Annual average .....	5.8	5.9	5.6	5.4	5.2	5.1	5.1
<b>Federal pay raises, January, percent:</b>							
Military <sup>4</sup> .....	6.9	4.7	<sup>4</sup>	NA	NA	NA	NA
Civilian <sup>5</sup> .....	4.6	4.1	<sup>5</sup>	NA	NA	NA	NA
<b>Interest rates, percent:</b>							
91-day Treasury bills <sup>6</sup> .....	1.6	1.2	2.0	2.8	3.6	4.2	4.3
10-year Treasury notes .....	4.6	3.7	4.1	4.5	4.8	5.1	5.3

NA = Not Available

<sup>1</sup> Based on information available as of early June 2003.

<sup>2</sup> Rent, interest, dividend, and proprietor’s components of personal income.

<sup>3</sup> Seasonally adjusted CPI for all urban consumers.

<sup>4</sup> Percentages apply to basic pay only; 2002 and 2003 figures are averages of various rank- and longevity-specific adjustments; pay raises for 2004 range from 2.0 to 6.25 percent, depending on rank and longevity; percentages to be proposed for years after 2004 have not yet been determined.

<sup>5</sup> Overall average increase, including locality pay adjustments. The increase for 2004 (which would also apply to uniformed services other than armed forces) would be 2.0 percent. Percentages to be proposed for years after 2004 have not yet been determined.

<sup>6</sup> Average rate, secondary market (bank discount basis).

During the second half of this year and into 2004 and 2005 growth is now projected to be somewhat stronger than anticipated in the February Budget, while inflation and interest rates are now projected to be lower. The unemployment rate is slightly higher in the near term, reflecting the higher current level.

During the outyears, the Mid-Session Review and budget forecasts of the key economic variables are quite close. The revised assumptions, both in the near-term and outyears, are very similar to those of the Blue Chip consensus of private sector forecasts.

*Real GDP, Potential GDP, and Unemployment:* Real GDP during the four quarters of this year is expected to rise 2.8 percent compared with 3.4 percent in the budget. All of the downward revision reflects the weaker-than-expected growth during the first half of this year; during the second half of 2003, projected growth in the Mid-Session Review is stronger than in the budget. During 2004 and 2005, growth is now projected to be slightly higher than in the budget, reflecting the favorable effects from the 2003 jobs and growth tax cut and the lower interest rates. In the outyears, growth is expected to be 3.1 percent per year, the same as in the budget and equal to the Administration's estimate of the nation's potential growth rate.

The unemployment rate is expected to decline to 5.1 percent by 2007 and remain at that level. The Administration estimates this level of the unemployment rate to be consistent with stable inflation. It is also the same as the Blue Chip private-sector consensus long-run, sustainable unemployment rate.

*Inflation:* As measured by the CPI, inflation during the four quarters of 2003 is projected to be 1.9 percent, about the same as in the budget. Inflation during the first quarter was higher than expected, largely due to the surge in energy prices, but for the year this is about offset by the subsequent decline in oil prices and consequent lower inflation. For the next few years, inflation is projected to be slightly below that anticipated in the budget because of the current very low inflation rate. Even as the expansion

gathers momentum, the excess slack in labor and capital markets is likely to keep inflation under control. In the outyears, the CPI is projected to rise 2.3 percent per year; the broader GDP price index is projected to rise 1.8 percent yearly. These are the same inflation rates as in the budget.

*Interest rates:* Reflecting the recent cuts in the federal funds rate and the moderate growth in the economy, interest rates are currently significantly lower than anticipated in the budget. As economic activity picks up and private credit demand increases, rates are expected to rise. By 2008, the 91-day Treasury bill rate is expected to reach 4.3 percent, up from 0.9 percent at the end of June. The yield on the 10-year Treasury note is projected to rise to 5.3 percent by 2008, up from 3.5 percent at the end of June. These outyear rates are very close to those in the budget and are generally consistent with the interest rate expectations implicit in the yield curve.

*Income Shares:* Because of the significantly different effective tax rates applied to different types of income, the budget receipts projection is affected by the projected growth rates of different types of income (or, equally, the changes in the share of each type of income in GDP). On average, wages and salaries, along with corporate profits, face the highest effective tax rates. The share of wages and salaries in GDP is projected to rise as labor markets tighten in the coming years. The share of "other labor income" in GDP, which includes worker fringe benefits such as health insurance and pension payments paid by employers, is also expected to rise. These benefits, however, are not taxed.

The share of corporate profits before tax in GDP will be affected by the pickup in economic activity and by the temporary 50 percent bonus depreciation provisions of the 2003 jobs and growth tax cut. The stronger growth during the next few years will tend to raise the profits share. However, through the end of 2004 this will be more than offset by the depreciation provision which lowers profits before tax by allowing firms to write off more of their investment sooner. After the expiration of the bonus depreciation



at the end of 2004, taxable profits will rise (and corporate tax receipts will be boosted) because the remaining depreciation on eligible investments will be lower. Taking these various factors into consideration, the share of corporate profits before tax in GDP is expected to decline to 5.9 percent next year and jump to 9.6 percent in 2005. In subsequent years, the share is projected to decline to 8.3 percent by 2008.

Among the other components of taxable income, the share of personal interest income is expected to decline, reflecting the lagged effects of past declines in interest rates. The GDP shares of dividends, rents, and proprietors' income, all of which have relatively low effective tax rates, are projected to remain at about their 2003 levels.

# RECEIPTS

The current estimates of receipts for 2003 and 2004 are below the February Budget estimates by \$79.9 billion and \$124.6 billion, respectively. The current estimates for 2005 through 2008 are below the February Budget estimates, resulting in a downward revision in receipts of \$353.6 billion over the five years, 2004 through 2008. These changes in receipts are the net effect of enactment of the 2003 jobs and growth tax cut (Jobs and Growth Tax Relief Reconciliation Act of 2003), modification of the Administration's proposals to reflect enactment of the 2003 jobs and growth tax cut, revised economic projections, and technical reestimates. The technical reestimates include an additional adjustment for revenue uncertainty of -\$15 billion in 2003, -\$30 billion in 2004 and -\$15 billion in 2005. These additional adjustment to receipts are beyond what the economic and tax models forecast and have been made in the interest of cautious and prudent forecasting.

On May 28th, President Bush signed the 2003 jobs and growth tax act, which provides \$252.8 billion in tax relief over the six years, 2003 through 2008. The tax relief provided in this Act includes reductions in individual income tax rates on capital gains and dividends, extension and expansion of bonus depreciation deductions, an increase in expensing for small businesses, and an increase in the exemption amount for the alternative minimum tax. The Act also acceler-

ates to 2003 the following tax reductions provided in the 2001 tax cut (Economic Growth and Tax Relief Reconciliation Act of 2001): (1) reductions in individual income tax rates scheduled for 2004 and 2006; (2) increases in the child tax credit scheduled for 2005, 2009, and 2010; (3) expansion of the 10-percent individual income tax bracket scheduled for 2008; (4) expansions of the standard deduction for married taxpayers filing a joint return scheduled for 2005 through 2009; and (5) expansions of the 15-percent individual income tax bracket for married taxpayers filing a joint return scheduled for 2005 through 2008. Although the tax relief provided in this Act includes the key provisions of the economic growth package proposed by the President in February, the relief is temporary and expires between December 31, 2004 and December 31, 2008. The total tax relief provided by the 2003 jobs and growth tax cut over the six years, 2003 through 2008, is \$137.7 billion less than the tax relief provided in the economic growth package proposed by the President in February.

The Administration's policy initiatives (see Table 13, Receipts Proposals), which have been modified since February to reflect enactment of the 2003 jobs and growth tax cut, are estimated to increase receipts in 2003 and 2004, but reduce receipts in each subsequent year, resulting in a net tax reduction of \$165.7 billion over the five years, 2004

**Table 5. CHANGE IN RECEIPTS**

(In billions of dollars)

	2003	2004	2005	2006	2007	2008	2004-2008
February estimate .....	1,836.2	1,922.0	2,135.2	2,263.2	2,398.1	2,520.9	
Changes due to:							
Enacted legislation (2003 jobs and growth tax cut) .....	-35.6	-137.5	-70.5	-6.4	0.5	-3.3	-217.2
Revisions in proposals .....	31.5	112.3	71.1	36.8	28.2	27.2	275.5
Economic assumptions and technical reestimates .....	-75.8	-99.4	-102.3	-78.8	-66.6	-64.8	-411.9
Total change .....	-79.9	-124.6	-101.7	-48.5	-37.9	-40.9	-353.6
Mid-Session estimate .....	1,756.3	1,797.4	2,033.5	2,214.7	2,360.1	2,480.1	

through 2008. This is \$275.5 billion less than the \$441.2 billion net tax reduction proposed in the February Budget over the same five-year period. The Administration's policy initiatives include permanent extension of the increased expensing for small businesses and reductions in taxes on capital gains and dividends provided in the 2003 jobs and growth tax cut. They also include extension through 2010 of the accelerated increase in the child credit, the accelerated expansion of the 10-percent individual income tax bracket, and the accelerated expansions of the standard deduction and 15-percent individual income tax bracket for married taxpayers filing a joint return provided in the 2003 jobs and growth tax cut. In addition, the initiatives include permanent extension of the provisions of the 2001 tax cut scheduled to sunset on December 31, 2010; permanent extension of the research and experimentation tax credit; tax incentives for saving, charitable giving, education, health care, protecting the environment, and renewable energy and conservation; and other provisions proposed by the President in February that have not become law.

Revised economic assumptions and technical adjustments (including the adjustment for revenue uncertainty) reduce receipts by \$75.8 billion in 2003 and \$99.4 billion in 2004 relative to the February Budget. These factors reduce receipts over the five-year period 2004 through 2008 by \$411.9 billion. Shortfalls in collections of individual and corporation income taxes and employment taxes account for most of the downward adjustment in 2003 receipts. The shortfall in collections of income taxes is attributable to significantly weaker-than-estimated individual and corporation income tax liability for tax year 2002, as reflected in lower-than-expected final payments and higher-than-expected refunds of payments of 2002 tax liability. The shortfall in collections of employment taxes reflects reclassifications of 2002 withheld taxes and lower-than-expected withholding in 2003. The revisions in subsequent years primarily reflect downward revisions in estimated individual income and employment tax collections, attributable in large part to downward revisions in wages and salaries and revisions in estimating models to reflect current collection experience.

# SPENDING

Total outlays for 2003 are now estimated to be \$2,212 billion, \$71 billion above the February Budget estimate. The increase is the result of enactment of legislation, including the Emergency Wartime Supplemental Act and final 2003 appropriations, offset in part by revisions in estimating assumptions. If this year follows the pattern of recent years, outlays for 2003 are likely to be lower than this estimate when final accounting is available in October. For 2004, the estimate of total outlays has increased by \$43 billion relative to February, to \$2,272 billion. The increase results from continued spending from enacted appropriations, other substantive legislation, and revisions to economic and technical assumptions.

## ***Policy changes***

In total, policy changes increase outlays by \$81.4 billion in 2003 and \$47.1 billion in 2004. Over the five-year period 2004 through 2008, policy changes increase outlays by \$92.8 billion.

Since the transmittal of the budget, action was completed on 2003 appropriations bills, including a supplemental to support the war in Iraq. In total, this legislation provided additional defense discretionary funding of \$72.4 billion. Outlays from this new funding occur over several years, raising 2003 and 2004 outlay estimates by \$48.8 billion and \$19.6 billion, respectively. These appropriations bills also provided emergency funding for non-defense needs and increased non-emergency funding relative to the level requested by the Administration. In total, appropriations actions increase non-defense discretionary outlays by \$17.8 billion and \$7.2 billion in 2003 and 2004, respectively.

Legislation has also increased spending on a number of mandatory programs. The Jobs and Growth Tax Relief Reconciliation Act of 2003 included assistance to states both through the Medicaid program and more general temporary fiscal assistance. It also included acceleration of the increase in the child tax credit for 2003 and 2004, as proposed

by the Administration. The Administration continues to support making the increased credit permanent. Other Acts extended temporary extended unemployment compensation, provided additional assistance to farmers, and increased the physician fee schedule under the Medicare program. In addition, reforms were enacted for the Postal Service that reduced contributions the Postal Service is required to make to the civil service retirement system to an actuarially fair level. Initially, the Postal Service will use these savings to repay debt. In 2005, the Postal Service can use the savings for other purposes. Beginning in 2006, it must retain the savings.

Although the Budget Enforcement Act (BEA) requirements have expired, the Administration has continued to issue reports on substantive legislation with significant outlay impacts. Reports on legislation enacted for the rest of this session of Congress will be based on the assumptions in this Review. The Administration supports extension of the BEA requirements in a manner that ensures fiscal discipline and is consistent with the President's Budget proposals.

## ***Estimating changes***

Changes in estimates can arise from non-policy related factors including changes in economic assumptions, discussed earlier in this Review, and changes in technical factors. For 2003, estimated outlays are \$10.1 billion lower than in February for non-policy related reasons. For 2004, estimated outlays are \$4.1 billion lower and over the five-year period, 2004 through 2008, they are \$74.7 billion lower. All the following changes in outlay projections are the result of estimating changes.

*Discretionary appropriations:* Outlays for discretionary programs increase by \$2.6 billion in 2004 relative to the February Budget as a result of changes in estimates. Most of this reflects changes in the assumed timing of outlays based largely on actual experience to date, particularly for housing assistance.

*Commodity Credit Corporation (CCC) farm assistance:* As a result of estimating assumptions, outlays for CCC farm assistance have increased by \$1.6 billion in 2004. This increase is largely the result of a revised crop forecast, which projects lower prices for agricultural products than the forecast used to develop the February estimates.

*Medicaid:* As a result of estimating changes, Medicaid outlays in 2003 and 2004 are projected to decrease by \$3.0 billion and \$4.1 billion, respectively, relative to the February estimates. These decreases are attributed primarily to revised actuarial estimates for Medical Assistance Payments.

*Health tax credit:* Outlays for both the current law and proposed refundable tax credits are projected to be lower than in February. Enrollment in the current law trade-related health tax credit has been lower than was anticipated, reducing projections of outlays by \$1.0 billion over five years. As a result of this experience, the proposed tax credit is now assumed to be implemented more slowly and to cause less reduction in employer-sponsored health insurance. Costs of the proposal are \$8.4 billion lower over five years than projected in February.

*Medicare:* Estimating revisions increase estimates of Medicare spending by \$2.0 billion in 2003 and \$2.3 billion in 2004 relative to the February estimates. The increases result largely from increased fee for service enrollment projections, higher market basket projections that lead to increased costs for inpatient hospitals, home health, and skilled nursing facilities, and higher medical economic indices that increase physician fee schedules.

*Unemployment compensation:* As a result of revised estimating assumptions, outlays

for unemployment compensation have decreased by \$1.3 billion in 2003 and increased by \$2.6 billion in 2004 relative to the February Budget. For 2003, the ratio of the insured unemployment rate relative to the civilian unemployment rate dipped temporarily below projected levels and the average weekly payment has declined. This is partially offset by a higher civilian unemployment rate. For 2004, the projections assume both a higher civilian unemployment rate and an increase in the ratio of insured to civilian unemployment based on current experience.

*Social Security:* Estimated outlays for Social Security are lower than the February estimates by \$3.3 billion in 2003 and \$1.3 billion in 2004. This is largely the result of reductions in projections for special disability payments, both from delay in processing cases and a lowering of the number of beneficiaries expected to be eligible for payments.

*Other programs:* On a net basis, outlays for other programs have increased by \$6.5 billion in 2004 as the result of revised estimating assumptions. Significant increases are projected for deposit insurance (\$1.0 billion), student loans (\$1.0 billion), the earned income tax credit (\$1.9 billion), and supplemental security income (\$0.9 billion).

*Net interest:* Excluding the debt service costs associated with policy changes, outlays for net interest have declined by \$5.5 billion for 2003, \$14.2 billion for 2004, and \$62.7 for the period 2004 through 2008. The change is due to lower projected interest rates partially offset by increased interest costs associated with the net effect of revenue and outlay reestimates.

**Table 6. CHANGE IN OUTLAYS**

(In billions of dollars)

	2003	2004	2005	2006	2007	2008	2004-08
February estimate .....	2,140.4	2,229.4	2,343.4	2,463.7	2,576.2	2,710.5	12,323.2
Changes due to policy:							
Discretionary appropriations:							
Defense .....	48.8	19.6	2.7	1.3	0.8	0.1	24.5
Non-defense .....	17.8	7.2	2.9	1.2	0.3	0.4	12.0
Subtotal, discretionary .....	66.6	26.8	5.6	2.5	1.1	0.5	36.5
Mandatory programs:							
Medicaid .....	4.2	6.0	.....	.....	.....	.....	6.0
Temporary fiscal assistance .....	5.0	5.0	.....	.....	.....	.....	5.0
Unemployment .....	2.2	3.8	.....	.....	.....	.....	3.8
Medicare .....	1.4	2.0	2.8	3.9	5.9	7.2	21.8
Farm assistance .....	2.9	0.3	*	*	*	*	0.3
Postal reform .....	.....	*	2.8	-2.7	-3.1	-3.4	-6.3
Other .....	-1.2	0.8	0.1	0.1	0.1	0.1	1.3
Subtotal, mandatory .....	14.5	17.9	5.8	1.3	2.9	4.0	31.9
Related debt service .....	0.3	2.4	4.6	5.7	6.0	5.7	24.4
Subtotal, policy .....	81.4	47.1	16.0	9.5	10.0	10.2	92.8
Changes due to reestimates:							
Discretionary appropriations .....	0.4	2.6	1.9	1.7	1.8	-4.7	3.2
CCC farm assistance .....	-0.2	1.6	0.8	1.1	1.2	0.4	5.1
Medicaid .....	-3.0	-4.1	-5.3	-5.7	-5.1	-5.3	-25.5
Health tax credit .....	*	.....	-1.3	-2.9	-2.4	-2.7	-9.4
Medicare .....	2.0	2.3	2.4	4.1	4.4	4.6	17.7
Unemployment trust fund .....	-1.3	2.6	1.0	*	-0.7	-0.8	2.2
Social Security .....	-3.3	-1.3	0.1	-0.5	-2.6	-3.6	-8.0
Other programs .....	0.9	6.5	1.9	-0.5	-2.4	-2.9	2.6
Net interest <sup>1</sup> .....	-5.5	-14.2	-23.3	-18.1	-7.4	0.3	-62.7
Subtotal, reestimates .....	-10.1	-4.1	-21.8	-20.8	-13.3	-14.7	-74.7
Total, changes .....	71.3	43.0	-5.9	-11.3	-3.3	-4.5	18.0
Mid-Session estimate .....	2,211.7	2,272.4	2,337.5	2,452.3	2,572.9	2,706.0	12,341.2

\* \$50 million or less.

<sup>1</sup> Includes debt service.

# PROGRESS IMPLEMENTING THE PRESIDENT'S MANAGEMENT AGENDA

*We've raised the debate to focus on results and progress, and we're achieving great results for the American people.*

President George W. Bush  
May 21, 2003

## **Overall Status**

Almost two years after the launch of the President's Management Agenda (PMA), the federal government is in the midst of a significant transformation. By this time next year, the average federal agency will be:

- managing personnel as a valuable resource by having hiring and development plans to fill key skill gaps and prepare for leadership succession;
- using competition and analysis to determine the best provider of some commercial activities;
- accounting responsibly for the people's money;
- providing taxpayers better service through more effective and efficient use of information technology (IT); and
- developing efficiency and outcome measures for the majority of programs to gauge performance and inform management and budget decisions.

Prior to the establishment of the PMA, most agencies did not regularly assess the skills of their workforces relative to their needs. Nor did they have data on retention and retirement rates, much less use any of this information to make human capital decisions. Agencies did not have timely financial information and their financial statements often took more than five months to prepare. Before the PMA, only the Department of Defense (DoD) regularly held competitions to determine whether the public or private sector delivered the best value to the taxpayer

when conducting commercial activities. Different agencies pursued redundant approaches to providing information to citizens on government benefits, recreation opportunities, and proposed regulations. In addition, agencies were not held accountable for the performance of their programs, and funding and management decisions rarely took performance information into account.

Over the past two years, the Office of Management and Budget (OMB) has identified the five management areas it believes are most in need of improvement. OMB has worked with agencies to clarify their specific management improvement opportunities, establish accountability, develop useful management tools, demonstrate what is possible, and establish mutually agreed-upon, aggressive milestones to achieve success. The agencies are fully committed to the Management Agenda because they now realize it will help them be successful. They actively seek OMB's help in getting to where *they* want to be on the PMA initiatives.

Noteworthy agency accomplishments, as well as areas that require sustained focus, are included in the Highlights of Agency Performance table, which appears later in this chapter. Some recent accomplishments include the Department of Commerce's completion of Program Assessment Rating Tools (PARTs) for programs accounting for nearly two-thirds of the Department's funding. The Department of Energy successfully removed 21 of 58 IT investments from the "at-risk" list. The Small Business Administration streamlined its human capital management by separately consolidating administrative functions for loan

and section 8(a) government-procurement programs, thereby reducing processing times and overhead costs. The Social Security Administration (SSA) developed a new performance appraisal system for GS-15 employees, which is linked to the agency's goals.

This chapter has already discussed what additional accomplishments agencies are on the verge of achieving. Agencies will have made even greater management improvements within just five years. By that time, all federal agencies will be able to say their full implementation of the Management Agenda is also allowing them to:

- evaluate and reward employees according to how well they help achieve the agency's mission;
- professionally and routinely hold competitions to determine the best provider of commercial activities;
- use accurate and timely financial information to make management decisions;
- manage their IT program investments at the highest levels with over 90 percent of systems secure, over 90 percent cost and schedule adherence, and no system duplication; and
- base the bulk of their budget and management decisions on programs' effectiveness and efficiency.

## **THE PRESIDENT'S MANAGEMENT AGENDA SCORECARD**

To monitor efforts in implementing the PMA, the Administration developed a simple grading system—red, yellow, and green. Each quarter, the major federal agencies receive assessments of their overall status in achieving the “standards for success”—management milestones for each of the initiatives. Because achieving these goals is challenging, and in some cases may require years, agencies also receive progress ratings for their work over the previous three months. Progress scores are based on the achievement of specific action steps and milestones identified by the agencies and OMB. The scorecard for the quarter that ended on June 30, 2003, follows this chapter. Quarterly scorecards, the standards for success, and other informa-

tion on the PMA can be found at the *Results.gov* website.

## **THE GOVERNMENT-WIDE INITIATIVES**

### ***Strategic Management of Human Capital***

The Human Capital Initiative has most federal agencies developing both a vision and a roadmap for strategically managing their workforces to better accomplish their missions for the American people. Agencies are using the Human Capital Assessment and Accountability Framework developed by the Office of Personnel Management (OPM) to transform key areas of human capital management:

- getting the talent needed to get the job done;
- ensuring continuity of competent leadership and the sharing of knowledge and experience; and
- creating a results-oriented performance culture that defines, asks for, and rewards strong performance.

Agencies have begun systematically identifying mission-critical occupations and competencies in the current and future workforce to ensure they have the necessary talent. They are also developing strategies to close any gaps. OPM is supporting these efforts by encouraging the strategic use of both new and existing recruitment and retention flexibilities. In addition, to help agencies build their leadership ranks, OPM is encouraging use of an accelerated selection process for Senior Executive Service (SES) positions and executing a succession-planning strategy to fill the leadership pipeline from a diverse pool of qualified applicants.

Agencies also are working to improve their ability to keep and motivate their employees through management systems that emphasize performance. The Federal Human Capital Survey showed that only 30 percent of employees responding believe that their awards program gives them the incentive to do their best. Agency efforts to more clearly tie performance management to results will set the stage for the successful use of the Human Capital Performance Fund proposed in the 2004 Budget. This \$500 million fund would allow managers to reward their highest



performers with increases to their base pay when they demonstrate that their performance appraisal systems appropriately distinguish between high and low performers.

### ***Competitive Sourcing***

The past quarter represented a breakthrough for the Competitive Sourcing Initiative as three agencies—DoD, the Department of Education, and OPM—were the first to improve to yellow status. Until recently, the use of competition as a management tool to determine the most cost-effective means for service delivery remained largely untested in the federal government. Although competition for commercial services has been the stated policy of the government since 1955, few civilian agencies used competitive sourcing to explore opportunities to perform their commercial functions in a more efficient fashion, primarily because the process for conducting competitions was cumbersome and lengthy. Agencies also lacked the necessary expertise to conduct competitions.

Significant obstacles were reduced during the past few months. On May 29, 2003, OMB released the revised Circular A-76 and laid out a much improved process for conducting competitions. The new circular streamlines the competition process and reduces the time needed to complete it. The new circular also levels the playing field, making the process fairer for both the private sector and government entities involved in the competition. To achieve the greatest value for the taxpayer, the new circular eliminates the practice of direct conversions, where agencies were allowed to convert work to contractors without first considering the benefit of continued performance by the agency. The new circular also requires the designation of a responsible official to ensure sufficient expertise at the agency. Several agencies were able to make great strides in competitive sourcing: numerous competitions are currently underway and many have already been completed.

As more agencies make progress in competitive sourcing, there will be greater opportunities for sharing experiences. The eventual goal is to make competitive sourcing a tool regularly used by managers to determine

the best way to perform commercial functions. Because competitive sourcing often results in re-engineering of government processes, independent studies by the General Accounting Office (GAO) and others, as well as experience to date, show that the taxpayer benefits from competition regardless of whether the function is retained in-house or contracted out to the private sector.

### ***Improved Financial Performance***

Over the past few months, two agencies—the Environmental Protection Agency and SSA—met all the criteria for the Improved Financial Performance Initiative. Both received unqualified opinions on their financial statements, have financial systems compliant with federal law, and are free of repeat material weaknesses cited by auditors. Most importantly, they have demonstrated that they use accurate and timely financial information to manage their organizations. Both these agencies earned a green status score this quarter.

All agencies are revamping the processes they use to prepare their financial statements. While Treasury and SSA were able to close their books in 45 days this past year, two years in advance of the government-wide goal, almost half of all others are on track to meet this deadline for their 2003 statements, one year in advance of the goal. An important building block that enables agencies to close their books earlier is the preparation of interim quarterly financial statements which, for the first time, all agencies have produced.

The reduction of erroneous payments is integral not only to sound financial management, but to program integrity. To date, the initiative to reduce erroneous payments has shown that in programs making about \$900 billion in payments, erroneous payments exceed \$35 billion annually. In May 2003, OMB issued guidance for measuring, reducing, and recovering erroneous payments to implement the Improper Payments Information Act of 2002. With implementation of this law, the Administration will be providing scrutiny to every dollar the government spends as a way to ensure taxpayer dollars are paid properly.

### ***Expanded Electronic Government***

The Expanded Electronic Government Initiative is using IT to provide services to the taxpayer in more convenient and efficient ways. Various E-Gov projects were launched over the past few months, including:

- *The Small Business One-Stop Compliance Project*, which aims to reduce the paperwork burden on small businesses by providing compliance assistance and on-line transactions;
- *IRS' Free File Website* that allowed over 2.4 million people for the first time to file their taxes on line for free; and
- *GeoData.gov* that promotes collaboration and streamlining among government programs by establishing a new public gateway to maps and related data.

The President's E-Gov initiatives aim to make government more responsive to its citizens. They also aim to reduce redundant, wasteful spending by consolidating multiple citizen service projects into single solutions.

In an effort to make the federal government a smarter buyer of commercial software, the Administration has created the SmartBUY (Software Managed and Acquired on the Right Terms) initiative. SmartBUY enterprise software agreements will consolidate the purchasing power of the federal government by focusing these volume requirements to obtain optimal pricing and preferred terms and conditions for widely used commercial software. SmartBUY will give the government lower prices, while vendors get higher sales volume at lower cost due to the simplified approach to dealing with federal customers.

Agencies also continue to make strides in improving their internal IT management by strengthening the business cases they use to justify IT spending, ensure that projects are well managed, and improving system security. Today, 60 percent of the government's IT systems have sufficient security in place. By July 2004, we expect 80 percent of the government's IT systems to be secure.

### ***Budget and Performance Integration***

While the 2004 President's Budget included an unprecedented amount of performance information, such as ratings for 234 federal programs, it represented only the first installment of program accountability for achieving results. Using the PART, OMB and agencies are currently working to rate an additional 20 percent of federal programs so that the information from those ratings can be considered in the development of the 2005 Budget. For programs rated in the 2004 Budget, agencies are implementing the recommendations that resulted from the PART with the ultimate goal of improving program effectiveness and efficiency. The overall plan remains to rate an additional 20 percent of federal programs each year until all programs are systematically evaluated on an annual basis.

Central to this initiative is ensuring that performance measures and other information from the PART will be used to support and explain budget requests. Funding requests should be based on an expected level of performance. Toward this end, agencies are working to develop useful, informative performance measures, including better measures of program efficiency. They are also preparing "performance budgets"—funding proposals that are based on anticipated results—which they will submit to OMB in the fall.

### ***Agency Performance***

As mentioned earlier, each quarter agencies are rated on their status and progress in implementing the PMA. It is important to note that overall progress on the Agenda is comprised of individual agency achievements. The accompanying table provides a summary of the accomplishments of note for each agency rated in the scorecard. The table also identifies areas that present challenges and are therefore receiving additional attention and focus.

## HIGHLIGHTS OF AGENCY PERFORMANCE

By Agency

ACCOMPLISHMENTS OF NOTE	AREAS OF FOCUS
<p><b>Agriculture</b></p> <ul style="list-style-type: none"> <li>• Analyzed skills needs and deficiencies of mission-critical personnel positions.</li> <li>• Initiated 13 A-76 competitions involving IT support and maintenance activities.</li> <li>• Developed and published a new strategic plan that reduces the number of performance measures and increases the focus on outcomes.</li> </ul>	<ul style="list-style-type: none"> <li>• Development and implementation of workforce restructuring plans for all departmental agencies.</li> <li>• Adequate follow-up to programs rated Results Not Demonstrated with the PART.</li> <li>• Remediation of IT security weaknesses.</li> <li>• Development of long-term agency plans for competitive sourcing.</li> </ul>
<p><b>Commerce</b></p> <ul style="list-style-type: none"> <li>• Deployed improved <i>Export.gov</i> website, a unified portal providing access to all the export-related assistance and market information offered by the federal government.</li> <li>• Improved the strategic plan by more clearly aligning bureau activities with the Department's strategic goals.</li> <li>• Completed PARTs for programs accounting for nearly two-thirds of the Department's funding.</li> </ul>	<ul style="list-style-type: none"> <li>• Establishment of infrastructure for competitive sourcing to ensure stronger oversight and coordination at the Department level, including bureau level implementation.</li> <li>• Strengthening information technology security.</li> <li>• Improvement of performance measures, including measures of unit costs, to better demonstrate program outcomes and efficiency.</li> </ul>
<p><b>Defense</b></p> <ul style="list-style-type: none"> <li>• Completed a comprehensive business enterprise architecture for all DoD business activities.</li> <li>• Developed a balanced performance management scorecard that leadership will use to evaluate program and budget decisions.</li> <li>• Completed competitions involving nearly 68,000 commercial positions.</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of its business enterprise architecture</li> <li>• Personnel succession planning and professional development to provide continuity of leadership and knowledge.</li> <li>• Shortening of the time it takes to complete public-private competitions.</li> </ul>
<p><b>Education</b></p> <ul style="list-style-type: none"> <li>• Received first clean audit opinion since 1997.</li> <li>• Increased to 88 percent the number of citizen-government transactions that can be completed electronically.</li> <li>• Initiated competitions in human resources and payment processing activities.</li> </ul>	<ul style="list-style-type: none"> <li>• Certification and accreditation of IT systems security.</li> <li>• Resolution of remaining financial management material weakness identified by independent auditor.</li> <li>• Development of meaningful outcome and efficiency measures and appropriate data collection strategies.</li> </ul>

## HIGHLIGHTS OF AGENCY PERFORMANCE—Continued

By Agency

ACCOMPLISHMENTS OF NOTE	AREAS OF FOCUS
<p><b>Energy</b></p> <ul style="list-style-type: none"> <li>• Initiated certification programs for contract and project management to address competency development needs; using buyout authority to assist restructuring efforts.</li> <li>• Received clean audit opinion on 2002 financial statements and resolved two (of four) 2001 reportable conditions.</li> <li>• Improved IT security and removed 21 of 58 information technology investments from the “at-risk” list.</li> </ul>	<ul style="list-style-type: none"> <li>• Follow-up to programs rated Results Not Demonstrated in 2004 PART evaluations.</li> <li>• Development of performance-based budget justification materials for 2005.</li> <li>• Use of the Research and Development Investment Criteria to analyze program benefits and inform 2005 funding allocations.</li> </ul>
<p><b>EPA</b></p> <ul style="list-style-type: none"> <li>• Established an integrated financial management and performance information system for managers to use in daily decision-making.</li> <li>• Continued to improve calculation of social costs to give a more comprehensive view of the impact of its regulatory programs.</li> </ul>	<ul style="list-style-type: none"> <li>• Development of a human resources management accountability system that includes performance measures to assess the results of human capital strategies.</li> <li>• Development of performance measures useful in assessing program effectiveness.</li> <li>• Realignment of organization to better develop more comprehensive competitive sourcing strategies.</li> </ul>
<p><b>HHS</b></p> <ul style="list-style-type: none"> <li>• Developed the E-Find component of the E-Grants project (<i>Fedgrants.gov</i>), a site where potential grantees can search for grant opportunities.</li> <li>• Completed the E-Grants electronic grant application prototype and began testing in July 2003.</li> <li>• Completed nine competitive sourcing cost comparisons since January 2003 involving more than 100 positions in library services, graphic arts, TV studios, clerical support and IT functions.</li> <li>• Developed and implemented SES performance-based employment contracts that link to program outputs and outcomes.</li> </ul>	<ul style="list-style-type: none"> <li>• Measurement of erroneous payments in key programs, identifying causes for erroneous payments, and taking appropriate action to reduce them.</li> <li>• Assessment of the performance outcomes produced by human capital reforms.</li> </ul>

## HIGHLIGHTS OF AGENCY PERFORMANCE—Continued

By Agency

ACCOMPLISHMENTS OF NOTE	AREAS OF FOCUS
<p><b>Homeland</b></p> <ul style="list-style-type: none"> <li>Established a comprehensive Investment Review Board process to evaluate major IT acquisitions and monitor implementation.</li> <li>Launched effort to design a contemporary Human Resource Management System to implement the human resource flexibilities included in the Homeland Security Act.</li> <li>Launched a comprehensive five-year program and budget planning process.</li> </ul>	<ul style="list-style-type: none"> <li>Development of a strategic plan and budget request that links goals, objectives, strategies and measures to resources.</li> <li>Effective implementation of the Human Resource Management System.</li> <li>Development of a corporate financial management system that will integrate the more than 20 legacy financial systems.</li> <li>Development of an enterprise architecture that includes a plan to integrate existing and new mission information technology systems.</li> </ul>
<p><b>HUD</b></p> <ul style="list-style-type: none"> <li>Received an unqualified audit opinion on its 2002 financial statements for the third consecutive year.</li> <li>Accelerated completion of the 2002 financial audit and reduced or combined the number of material internal control weaknesses from five to three.</li> <li>Updated and strengthened policies and procedures for the administrative control of funds for the first time in 20 years, and trained 250 staff on principles of appropriations law.</li> <li>Developed rigorous business cases for all major information technology systems and halted work on systems that do not pass this standard.</li> </ul>	<ul style="list-style-type: none"> <li>Development of plan to address workforce skill gaps and deficiencies.</li> <li>Implementation of competitive sourcing studies to identify the most cost effective option for service delivery.</li> <li>Elimination of four reportable conditions noted in the 2002 audit.</li> <li>Use of performance goals to guide development and presentation of the budget for 2005.</li> </ul>
<p><b>Interior</b></p> <ul style="list-style-type: none"> <li>Developed and initiated a Department-wide recruiting strategy.</li> <li>Established the enterprise architecture to support financial management business processes.</li> <li>Completed seven Activity-Based Costing (ABC) pilots and awarded contract to fully implement ABC in two more bureaus.</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of 2004 PART recommendations.</li> <li>Development and use of enterprise architecture.</li> </ul>
<p><b>Justice</b></p> <ul style="list-style-type: none"> <li>Developed a format for its 2005 budget that will use performance to justify the budget request.</li> <li>Initiated competitions covering 15 percent of its commercial positions including 140 FBI automotive mechanics.</li> <li>Finalized performance management policy, which links performance to agency mission and employees' financial recognition.</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of state-of-the-art IT systems such as the FBI's Trilogy project and development of an enterprise architecture.</li> <li>Development and implementation of performance measures that are useful in assessing the results of law enforcement and anti-drug activities.</li> </ul>

## HIGHLIGHTS OF AGENCY PERFORMANCE—Continued

By Agency

ACCOMPLISHMENTS OF NOTE	AREAS OF FOCUS
<p><b>Labor</b></p> <ul style="list-style-type: none"> <li>• Implemented two leadership development programs, including an MBA Fellows Program.</li> <li>• Advanced restructuring/delaying plans through consolidations and closure of small offices.</li> <li>• Held National Unemployment Insurance Integrity Conference to discuss effective ways to improve detection, prevention, and recovery of erroneous payments.</li> <li>• Expanded <i>GovBenefits.gov</i> to supply eligibility information for citizens on 417 federal assistance programs.</li> </ul>	<ul style="list-style-type: none"> <li>• Identification of metrics to gauge results of human capital management.</li> <li>• Development of cost models that define the relationship between the significant outputs of major programs and the related costs.</li> <li>• Identification of functions suitable for competition and use of competition as a means of ensuring cost-effective service provision.</li> </ul>
<p><b>State</b></p> <ul style="list-style-type: none"> <li>• Coordinated with AID to draft a joint strategic plan reflecting the shared missions of the two agencies.</li> <li>• Developed a security construction cost sharing proposal to allocate costs among agencies that use embassies to accelerate building of secure embassies and promote rightsizing of overseas presence.</li> <li>• Rolled out the Regional Financial Management System in 78 percent of its posts.</li> <li>• Completed global deployment of secure sensitive but unclassified network, connecting 43,570 desktops, at domestic locations and more than 250 overseas posts providing users with Internet connectivity.</li> </ul>	<ul style="list-style-type: none"> <li>• Establishment of competitive sourcing infrastructure.</li> <li>• Security certification and accreditation of a significant number of IT systems.</li> <li>• Development of efficiency measures for programs.</li> <li>• Collaboration with AID to develop, by the end of 2005, a single financial management system software application.</li> </ul>
<p><b>DOT</b></p> <ul style="list-style-type: none"> <li>• Implemented a Department-wide leadership succession planning strategy and piloted a mentoring program for emerging leaders.</li> <li>• Used performance information to justify budget requests to show how resources impact results.</li> <li>• Continued implementation of a department-wide capital planning and control process and enterprise architecture to manage IT investments.</li> <li>• Launched one of the largest public-private competitions in the federal government, studying flight service stations nationwide.</li> </ul>	<ul style="list-style-type: none"> <li>• Keeping competitive sourcing efforts on track.</li> <li>• Timely deployment of the Delphi accounting system.</li> <li>• Removal of IT business cases from the “at risk” category.</li> </ul>

## HIGHLIGHTS OF AGENCY PERFORMANCE—Continued

By Agency

ACCOMPLISHMENTS OF NOTE	AREAS OF FOCUS
<p><b>Treasury</b></p> <ul style="list-style-type: none"> <li>• Identified key positions and competencies for personnel succession planning.</li> <li>• Accelerated competitive sourcing by completing studies on 290 FTEs one to three months earlier than originally planned.</li> <li>• Improved capital planning and investment process by preparing better business cases to support IT investments.</li> <li>• Began implementing PART recommendations and justifying budget requests based on PART findings.</li> </ul>	<ul style="list-style-type: none"> <li>• Linking of individual performance, accountability to program and business results.</li> <li>• Finalization of plans to resolve three material weaknesses at IRS that are now expected to take longer to correct than previously reported.</li> <li>• Development of new IRS 2005 budget structure and identification of appropriate outcome goals for the IRS.</li> </ul>
<p><b>VA</b></p> <ul style="list-style-type: none"> <li>• Submitted legislative pay package on revised pay system for the department's physicians and dentists.</li> <li>• Resolved three material weaknesses reported in the 2001 financial statements.</li> <li>• Restructured VA budget to align accounts with programs and clarify the relationship between funding and performance.</li> </ul>	<ul style="list-style-type: none"> <li>• Legal authority to use competition to improve cost effectiveness in service provision.</li> <li>• Resolution of remaining material weaknesses and compliance of financial systems</li> <li>• Additional work on sharing of VA/DoD medical care facilities and other resources.</li> </ul>
<p><b>AID</b></p> <ul style="list-style-type: none"> <li>• Coordinated with State Department to draft a joint strategic plan reflecting the shared missions of the two agencies.</li> <li>• Received a qualified opinion or better on all of its financial statements.</li> <li>• Developed a budget allocation model that looks at country performance for use in 2005 Budget formulation.</li> <li>• Initiated a comprehensive workforce analysis as a first step towards completing a human capital strategy.</li> </ul>	<ul style="list-style-type: none"> <li>• Establishment of competitive sourcing infrastructure and plans.</li> <li>• Roll-out strategy and deployment of the financial management system to the missions.</li> <li>• Collaboration with State Department to develop, by the end of 2005, a single financial management system software application.</li> <li>• Identification of mission critical competencies and development of success plan to close gaps.</li> </ul>
<p><b>Corps of Engineers</b></p> <ul style="list-style-type: none"> <li>• Completed staff guide and launched website for coaching, counseling, and mentoring.</li> <li>• Obtained system information security certification under DoD accreditation procedures for six projects.</li> <li>• Launched an employment website.</li> </ul>	<ul style="list-style-type: none"> <li>• Establishment of competitive sourcing as a management tool to achieve cost effective service delivery.</li> <li>• Ensuring that agency's IT enterprise architecture uses the same structure as the federal enterprise architecture.</li> <li>• Development of plan to establish national centers of expertise to improve project study efforts.</li> <li>• Action plan for correction of financial statement deficiencies identified by the DoD Inspector General.</li> </ul>

## HIGHLIGHTS OF AGENCY PERFORMANCE—Continued

By Agency

ACCOMPLISHMENTS OF NOTE	AREAS OF FOCUS
<p><b>GSA</b></p> <ul style="list-style-type: none"> <li>• Completed workforce skills gap analyses and developed plans to close the gaps for realty and IT positions.</li> <li>• Reoriented enterprise architecture to have a more business driven approach and to support information technology capital planning.</li> <li>• Developed an agency-wide enterprise-wide Customer Relationship Management system.</li> <li>• Implemented an integrated financial and performance reporting system.</li> </ul>	<ul style="list-style-type: none"> <li>• Development of performance measures to track the progress of human capital improvement efforts.</li> <li>• Linking of managers and supervisor performance appraisals to agency's mission, goals, and outcomes.</li> <li>• Development of long-term performance goals which are measurable and outcome-oriented.</li> </ul>
<p><b>NASA</b></p> <ul style="list-style-type: none"> <li>• Justified its budget request with performance data and presented the full cost of achieving performance goals for the first time.</li> <li>• Initiated programs to expand leadership development opportunities and to create mentoring relationships between experts and future project leaders.</li> <li>• Reformed IT capital planning, investment control, and reporting; is aligning IT investment processes with agency program/project processes.</li> </ul>	<ul style="list-style-type: none"> <li>• Response to the conditions that prompted material weakness findings in the 2002 audit.</li> <li>• Formulation of quantifiable, meaningful, and comparable performance metrics.</li> <li>• Development and implementation of a competitive sourcing strategy.</li> </ul>
<p><b>NSF</b></p> <ul style="list-style-type: none"> <li>• Defined baseline enterprise architecture for NSF's two principal business functions, merit review and award management.</li> <li>• Received an unqualified audit of its financial statements for 2002.</li> <li>• Revised strategic plan to establish framework for integrating budget and performance.</li> </ul>	<ul style="list-style-type: none"> <li>• Development and implementation of human capital plan, which will be integrated with NSF's review of business processes and technologies.</li> <li>• Development of a competitive sourcing strategy based on new human capital plan.</li> <li>• Establishment of full cost accounting.</li> </ul>
<p><b>OPM</b></p> <ul style="list-style-type: none"> <li>• Implemented agency-wide restructuring.</li> <li>• Implemented the E-Training website (<i>golearn.gov</i>); 60 federal agencies now use the site to help train the federal workforce.</li> <li>• Established intra-agency program evaluation team and is developing a strategic evaluation plan.</li> <li>• Competitively sourced 104 FTEs performing financial systems support and computer operations, facilities maintenance, and tele-services. Standard competition underway for nationwide test administration program performed by 180 FTEs.</li> </ul>	<ul style="list-style-type: none"> <li>• Revision of human capital plan to reflect new strategic plan and agency reorganization.</li> <li>• Auditor's opinion on the Revolving Fund financial statement; appropriate financial reporting for Revolving Fund.</li> <li>• Development of appropriate performance measures and follow-up to programs rated Results Not Demonstrated using the PART.</li> </ul>



## HIGHLIGHTS OF AGENCY PERFORMANCE—Continued

By Agency

ACCOMPLISHMENTS OF NOTE	AREAS OF FOCUS
<p><b>SBA</b></p> <ul style="list-style-type: none"> <li>• Streamlined human capital management by separately consolidating administrative functions for loan and section 8(a) government-procurement programs, to reduce processing times and overhead costs.</li> <li>• Improved strategic plan by including long-term outcome-oriented goals.</li> <li>• Improved modeling of credit program subsidy costs, which is central to SBA's sound financial management and budgeting.</li> </ul>	<ul style="list-style-type: none"> <li>• Use of information technology to improve efficiencies in human resources management and customer service.</li> <li>• Use of competitive sourcing to improve cost-effectiveness in the administration of the Disaster Loan program.</li> <li>• Development of the agency's enterprise architecture and keeping the Business Compliance One-Stop E-Gov initiative on track.</li> <li>• Improvement of outcome and efficiency measures, including development of standard efficiency measures across functions.</li> </ul>
<p><b>Smithsonian</b></p> <ul style="list-style-type: none"> <li>• Implemented on-line computer security awareness training system.</li> </ul>	<ul style="list-style-type: none"> <li>• Development of competitive sourcing plans and procedures.</li> <li>• Continued progress in IT security.</li> <li>• Development of a human capital strategy.</li> </ul>
<p><b>SSA</b></p> <ul style="list-style-type: none"> <li>• Integrated financial and performance management systems, so that financial and performance information is considered when making management decisions</li> <li>• Developed a new performance appraisal system for GS-15 employees, which is linked to agency's goals.</li> <li>• Established a competitive sourcing infrastructure that includes cross-component workgroups and a comprehensive communication plan.</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of competitive sourcing as a management practice to ensure cost-effective service delivery.</li> <li>• Monitoring of electronic disability benefit system due to significance to agency operations.</li> <li>• Identification of consistent key performance measures for all documents that can be used to demonstrate program results and justify funding requests.</li> </ul>

## **SPECIFIC PROGRAM INITIATIVES**

The PMA also includes eight initiatives that are program-specific. Quarterly ratings are also prepared for the program initiatives.

### ***Faith-Based and Community Initiative***

The Faith-Based and Community Initiative is designed to identify and remove improper federal barriers to the full participation of faith-based and community organizations in the provision of social services. In December, Presidential Executive Order 13280 created Centers for Faith-Based and Community Initiatives at AID and the Department of Agriculture, raising to seven the number of Centers that have been established. In order to track the participation of Faith-Based/Community-Based Organizations (FBO/CBOs) in these programs, the agencies have begun including a survey in the grant application packages sent out to interested groups. This year's data collection will establish benchmark levels, and next year's data will provide a basis for determining whether progress has met expectations.

The Compassion Capital Fund demonstration program, administered by the Department of Health and Human Services (HHS), has funded 21 intermediaries to provide technical assistance and sub-awards to small FBO/CBOs. Similarly, the Department of Labor will hold a technical assistance conference in early August to assist last year's intermediary grantees as well as intermediary grantees for 2003 and 2004 in their efforts to build the capacity of small FBO/CBOs.

The Department of the Interior also took a significant step to end what has been a discriminatory double-standard applied to religious properties. As a result, historically significant treasures that are also used for religious purposes will now be eligible to receive historic preservation grants. In May, the Old North Church of Boston received the first such grant under the Save America's Treasures Historic Preservation Fund.

### ***Privatization of Military Housing***

DoD is tackling the problems of inadequate military housing by demolishing dilapidated units, renovating existing homes, and building new ones. Increasingly, DoD relies on the

private sector, which has demonstrated expertise in the management of real property and can improve the quality of DoD-owned housing at less cost and more quickly than the federal government. Prior to 2001, DoD had privatized only 4,744 units. Under this Administration's privatization initiative, DoD has accelerated and expanded its efforts, having privatized 32,731 units to date, three quarters of which were considered inadequate before being privatized. DoD plans to privatize an additional 18,000 units in 2003 and another 51,000 units in 2004.

### ***Better Research and Development (R&D) Investment Criteria***

The goal of this initiative is to develop objective criteria that R&D agencies will use to select, fund, and manage their R&D programs. The initiative's status score reflects the limited progress most agencies have made in the government-wide implementation of the initiative. The progress score indicates that the initiative has gained momentum, and more of the R&D agencies are using the criteria to assess their programs, in part due to the improved alignment of the R&D investment criteria with the R&D PART for program-level assessments. Twelve of the top 13 R&D agencies are using the R&D PART to assess their programs this year, up from seven last year. As the first agency to test the R&D criteria, the Department of Energy's (DOE's) applied R&D programs have made the most progress in using the criteria to guide budget allocation decisions. DOE has committed to expand its use of the R&D investment criteria to manage programs and develop better ways to estimate and communicate the benefits of its R&D.

### ***Elimination of Fraud and Error in Student Aid Programs and Deficiencies in Financial Management***

The Education Department (ED) has made significant strides in strengthening its management of federal student aid programs. Most notably, ED improved the reliability and timeliness of its financial data, achieving its first clean audit opinion since 1997. To help reduce fraud and error, ED is now changing the way it uses program and financial data to better target and eliminate

areas of risk within student aid programs. Specifically, ED has employed data mining techniques to flag risky schools for additional analyses and program reviews. In addition, ED has modified its audit process to obtain more timely and detailed financial information from schools in an electronic format. Like the Department's data mining efforts, the modified audit process (or "EZ audit") allows ED to more quickly identify and address fraud and error occurring at postsecondary institutions. In order to track its progress on these efforts, ED is developing baseline and target metrics for its school compliance and oversight activities. Even with this progress, many challenges remain, such as the resolution of the remaining material weakness identified by the independent financial auditor.

### ***Housing and Urban Development (HUD) Management and Performance***

During the remainder of 2003, the Department will further improve living conditions for assisted families by providing incentives to the managers of HUD-assisted housing to prevent physical problems, not just to correct problems. HUD will protect borrowers from fraud by publishing a rule to hold Federal Housing Administration (FHA) lenders accountable for the performance of appraisers, and will create a performance measure to track its efforts to combat fraud-related problems in FHA, relative to the number of loans identified as at-risk.

Although some subsidized families still reside in poorly maintained housing, the Department continued to make gains toward improving living conditions for assisted families. HUD took aggressive action that will achieve better quality housing for residents of substandard public housing in Puerto Rico and New Orleans. In addition, HUD made progress to reduce meaningless compliance burdens for the state and local governments that receive its block grants by reaching agreement with 25 communities to test alternatives to its consolidated planning requirements. Although some rent-subsidized households still receive erroneous subsidies, HUD took steps to ensure fairness by developing legislation with HHS to verify electronically the wage data of subsidized tenants. The

bill has been introduced in Congress as H.R. 1030. To improve the integrity of rent calculations, HUD performed over 350 reviews at public housing authorities.

### ***Broadening Health Insurance Coverage through State Initiatives***

In 2001 and 2002, HHS kicked off three new demonstration initiatives: Health Insurance Flexibility and Accountability (HIFA), Pharmacy Plus, and Independence Plus demonstrations. These initiatives encourage states to increase and improve health insurance coverage through currently available Medicaid and State Children's Health Insurance Program funding. To date, the Administration has approved eight HIFA, six Pharmacy Plus, and six Independence Plus demonstrations, including one Pharmacy Plus demonstration and one Independence Plus demonstration since January 2003. Future challenges include approving demonstrations consistent with Administration principles and completing the evaluation designed by the Urban Institute to measure the impact of HIFA waivers on the level of uninsured.

### ***A "Right-sized" Overseas Presence***

The Rightsizing Initiative was designed to make sure that the right people from the appropriate government agencies are working in overseas posts so that agencies can be most effective at promoting U.S. foreign policy goals. The initiative also has the goal of assuring safe and secure environments for overseas employees. The State Department, in collaboration with OMB, has devoted great time and effort in the development of a capital security cost sharing proposal, which will accelerate the construction of secure embassies overseas. More importantly, this will mandate that all agencies with staff overseas pay their fair share of the actual cost of having those staff overseas. Starting with the 2005 Budget, all agencies will be required to provide a share of the funding for the cost of secure embassy construction and thereby more accurately weigh the costs and benefits of locating employees overseas.

The State Department, in close consultation with OMB also moved to establish a regional "rightsized" presence in Frankfurt at a former U.S. Army hospital. This will consolidate

and make more efficient the Europe and Eurasia Bureaus' deployment of resources. An interagency group is considering four issues central to this initiative: a common basis for calculating the cost of overseas employees; a common rightsizing methodology, based on GAO's work in this area; an examination of overseas staffing procedures and authorities; and reinforcing the annual process for reporting overseas staff, costs, and new positions. By making the costs of overseas staffing transparent, the initiative aims to put in place a more rigorous decision-making process for determining when staff are stationed overseas.

***Coordination of Veterans Affairs (VA) and Defense Programs and Systems***

The increased coordination of VA and DoD health care delivery is a top Presidential priority to improve health care services to

























military service members, their dependents and veterans, and to achieve cost savings. The VA/DoD Executive Council, co-chaired by the VA Deputy Secretary and DoD Under Secretary, created several subgroups to look at different dimensions of this issue, including IT, facilities, and long-range planning. The Departments coordinated on IT by identifying opportunities for systems consolidation. Progress has been made in developing a VA/DoD interoperable electronic health record system to provide better care with less duplication of unneeded services. The system will be operational by 2005. VA is also planning to use DoD's enrollment system so that the transition from active duty to veteran status becomes seamless. VA and DoD are working together on capital planning and on VA's process to move services and facilities to areas where veterans now live. Finally, the Departments are developing performance standards to evaluate program efforts.

### Executive Branch Management Scorecard

	Current Status as of June 30, 2003					Progress in Implementing the President's Management Agenda				
	Human Capital	Competitive Sourcing	Financial Perf.	E-Gov	Budget/Perf. Integration	Human Capital	Competitive Sourcing	Financial Perf.	E-Gov	Budget/Perf. Integration
AGRICULTURE	Red	Red	Red	Yellow	Red	Green	Yellow	Green	Green	Green
COMMERCE	Yellow	Red	Red	Yellow	Yellow	Green	Yellow	Green	Yellow	Green
DEFENSE	Yellow	Yellow↑	Red	Red	Yellow	Green	Yellow	Green	Green	Green
EDUCATION	Yellow	Yellow↑	Red	Yellow	Red	Green	Green	Green	Green	Green
ENERGY	Yellow	Red	Yellow	Yellow	Red	Green	Green	Green	Green	Green
EPA	Red	Red	Green↑	Yellow	Yellow	Yellow	Green	Green	Yellow	Green
HHS	Red	Red	Red	Red	Red	Green	Green	Green	Green	Green
HOMELAND	Red	Red	Red	Red	Red	Yellow	Green	Green	Red	Green
HUD	Red	Red	Red	Red	Red	Green	Yellow	Green	Green	Green
INTERIOR	Red	Red	Red	Red	Red	Green	Green	Yellow	Green	Yellow
JUSTICE	Red	Red	Red	Red	Red	Green	Green	Green	Green	Green
LABOR	Yellow	Red	Yellow	Yellow	Yellow	Green	Yellow	Green	Green	Green
STATE	Yellow↑	Red	Red	Red	Red	Green	Yellow	Green	Green	Green
DOT	Yellow↑	Red	Red	Red	Yellow	Green	Green	Green	Green	Green
TREASURY	Red	Red	Red	Red	Red	Green	Green	Yellow	Green	Yellow
VA	Red	Red	Red	Yellow	Yellow	Green	Green	Green	Green	Green
AID	Red	Red	Red	Red	Red	Yellow	Yellow	Green	Green	Green
CORPS	Yellow↑	Red	Red	Red	Red	Green	Red	Yellow	Green	Yellow
GSA	Red	Red	Yellow	Red	Red	Green	Yellow	Green	Green	Yellow
NASA	Yellow	Red	Red	Red	Yellow	Green	Green	Green	Green	Green
NSF	Red	Red	Green	Green	Red	Green	Red	Green	Green	Yellow
OMB	Red	Red	Red	Red	Red	Green	Yellow	Yellow	Green	Red
OPM	Yellow	Yellow↑	Yellow	Yellow	Red	Green	Green	Green	Green	Green
SBA	Yellow↑	Red	Red	Yellow	Yellow	Green	Red	Green	Yellow	Yellow
SMITHSONIAN	Red	Red	Red	Yellow	Red	Red	Red	Yellow	Yellow	Yellow
SSA	Yellow	Red	Green↑	Yellow	Yellow	Green	Green	Green	Green	Green

↑ ↓ Arrows indicate change in status since evaluation on March 31, 2003.

## Program Initiatives Scorecard

	Current Status	Progress in Implementation
<b>Faith-Based and Community Initiative:</b>		
• Education		
• HHS		
• HUD		
• Justice		
• Labor		
Privatization of Military Housing		
Better R&D Investment Criteria		
Elimination of Fraud and Error in Student Aid Programs and Deficiencies in Financial Management		
Housing and Urban Development Management and Performance		
Broadening Health Insurance Coverage Through State Initiatives		
A "Right-Sized" Overseas Presence		
Coordination of VA and DoD Programs and Systems		

## **SUMMARY TABLES**

# SUMMARY TABLES

**Table 7. BUDGET TOTALS**

	2002 Actual	Estimate					
		2003	2004	2005	2006	2007	2008
In billions of dollars:							
Receipts .....	1,853	1,756	1,797	2,033	2,215	2,360	2,480
Outlays .....	2,011	2,212	2,272	2,338	2,452	2,573	2,706
Deficit .....	-158	-455	-475	-304	-238	-213	-226
Gross Domestic Product (GDP) .....	10,337	10,746	11,266	11,829	12,413	13,024	13,671
As a percent of GDP:							
Receipts .....	17.9	16.3	16.0	17.2	17.8	18.1	18.1
Outlays .....	19.5	20.6	20.2	19.8	19.8	19.8	19.8
Deficit .....	-1.5	-4.2	-4.2	-2.6	-1.9	-1.6	-1.7



**Table 8. BUDGET SUMMARY BY CATEGORY**

(In billions of dollars)

	2002 Actual	Estimate					
		2003	2004	2005	2006	2007	2008
<b>Outlays:</b>							
Discretionary:							
Defense (050) .....	349	425	409	412	424	437	460
Nondefense .....	385	434	439	445	450	457	461
Total, Discretionary .....	734	858	848	857	874	894	922
Mandatory:							
Social Security .....	452	471	492	512	533	556	584
Medicare .....	228	244	259	277	309	334	357
Medicaid and SCHIP .....	151	168	187	194	211	229	249
Other .....	275	313	321	312	314	321	335
Total, Mandatory .....	1,106	1,197	1,260	1,295	1,366	1,440	1,524
Net interest .....	171	156	165	185	212	238	260
<b>Total, Outlays .....</b>	<b>2,011</b>	<b>2,212</b>	<b>2,272</b>	<b>2,338</b>	<b>2,452</b>	<b>2,573</b>	<b>2,706</b>
<b>Receipts .....</b>	<b>1,853</b>	<b>1,756</b>	<b>1,797</b>	<b>2,033</b>	<b>2,215</b>	<b>2,360</b>	<b>2,480</b>
Deficit .....	-158	-455	-475	-304	-238	-213	-226
On-budget deficit .....	-317	-615	-639	-490	-441	-435	-464
Off-budget surplus .....	160	159	164	186	203	222	238

**Table 9. IMPACT OF BUDGET POLICY**

(In billions of dollars)

	Estimate						
	2003	2004	2005	2006	2007	2008	2004–2008
Current baseline deficit .....	-455	-458	-241	-110	-78	-62	-949
Budget proposals:							
Defense and homeland security .....		-8	-19	-26	-29	-43	-125
Extension of expiring tax provisions .....	*	-2	-26	-50	-35	-35	-150
Strengthening Medicare .....		-6	-10	-33	-38	-43	-130
Incentives for charitable giving .....	—*	-3	-2	-2	-2	-2	-11
Health tax credits .....		—*	-3	-6	-8	-8	-24
Other proposals .....	—*	2	-1	-5	-11	-14	-29
Related debt service .....	—*	—*	-1	-5	-12	-19	-37
Subtotal, budget proposals .....	-1	-17	-63	-127	-135	-164	-506
Budget deficit .....	-455	-475	-304	-238	-213	-226	-1,455

\* \$500 million or less.

**Table 10. DISCRETIONARY TOTALS**

(Budget authority; dollar amounts in billions)

	2002 Actual	2003 Enacted	2004 Estimate	Change: 2003–2004	
				Dollar	Percent
<b>Discretionary budget authority:</b>					
Homeland Security (nondefense) .....	13	23	28	5	20.3%
Department of Defense .....	328	365	380	15	4.2%
Other Operations of Government .....	351	367	374	7	2.0%
<b>Total, Discretionary budget authority .....</b>	<b>691</b>	<b>755</b>	<b>782</b>	<b>27</b>	<b>3.6%</b>

	2004 Estimate	2005 Estimate	Change: 2004–2005	
			Dollar	Percent
<b>Total, Discretionary budget authority .....</b>	<b>782</b>	<b>813</b>	<b>31</b>	<b>4.0%</b>

**Assumptions:**

All totals include mass transit budget authority.

2002: \$686 billion enacted discretionary funding adjusted for \$5 billion in technical reestimates. In addition, \$44 billion was provided in Supplemental Acts, \$29 billion for recurring purposes.

2003: Excludes \$79 billion that was provided in a Supplemental Act for the Iraq War and \$10 billion that was provided in the Omnibus Appropriations Act as a Defense war reserve. Also excludes \$1.9 billion in requested supplemental funding for disaster relief and other emergency activities.

2004: Excludes \$211 million that was provided in the 2003 Supplemental Act.

**Table 11. HOMELAND SECURITY FUNDING BY AGENCY**

(Budget authority in millions of dollars)

	2002		2003		2004 Estimate
	Enacted	Supple- mental	Enacted	Supple- mental	
<b>Nondefense Homeland Security Funding:</b>					
Department of Agriculture .....	230	322	385	110	370
Department of Commerce .....	99	19	111	.....	153
Department of Energy .....	1,067	153	1,251	167	1,361
Department of Health and Human Services .....	433	1,480	3,603	142	3,776
Department of Homeland Security .....	11,398	5,982	19,067	4,315	<sup>1</sup> 23,890
Department of Justice .....	1,019	1,125	1,981	457	2,290
Department of State .....	438	39	633	.....	811
Department of the Treasury .....	84	32	80	.....	91
Department of Transportation .....	635	785	382	.....	284
Department of Veterans Affairs .....	47	2	147	.....	145
Corps of Engineers .....	.....	139	36	39	104
Environmental Protection Agency .....	13	174	107	.....	124
Social Security Administration .....	113	8	132	.....	147
National Aeronautics and Space Administration .....	114	109	163	.....	170
National Science Foundation .....	240	19	285	.....	307
Postal Service .....	.....	587	.....	.....	.....
Other Agencies .....	267	556	516	25	591
<b>Total, Nondefense Homeland Security Funding .....</b>	<b>16,197</b>	<b>11,531</b>	<b>28,879</b>	<b>5,255</b>	<b>34,614</b>
Department of Defense-Military .....	4,423	733	8,866	.....	<sup>2</sup> 6,717
<b>Total, Homeland Security Funding, including Defense .....</b>	<b>20,620</b>	<b>12,264</b>	<b>37,745</b>	<b>5,255</b>	<b>41,331</b>
<b>Total, Homeland Security, including Defense .....</b>	<b>20,620</b>	<b>12,264</b>	<b>37,745</b>	<b>5,255</b>	<b>41,331</b>
Less Mandatory Homeland Security Funding <sup>3</sup> .....	-1,656	.....	-2,003	.....	-2,874
Less Discretionary Fee-Funded Activities <sup>4</sup> .....	-1,828	.....	-3,410	626	<sup>1</sup> -3,501
Less Department of Defense-Military .....	-4,423	-733	-8,866	.....	-6,717
<b>Net Nondefense Discretionary Homeland Security Budget Authority .....</b>	<b>12,713</b>	<b>11,531</b>	<b>23,466</b>	<b>5,881</b>	<b>28,239</b>

<sup>1</sup> Excludes \$211 million in foregone TSA fees resulting from action in the 2003 Supplemental, but which are scored as lost revenue in 2004.

<sup>2</sup> Defense homeland security funding falls in 2004 due to one-time force-protection investments in 2003.

<sup>3</sup> Mandatory homeland security programs include Agriculture Quarantine and Inspections, Border Protection, and Immigration Enforcement.

<sup>4</sup> Discretionary fee-funded homeland security programs include Visa Processing, Airport Security, and Social Security physical and computer security measures.

**Table 12. MANDATORY PROPOSALS**

(In millions of dollars)

	Estimate							
	2003	2004	2005	2006	2007	2008	2004–2008	2004–2013
<b>Medicare Modernization</b> .....		6,000	10,000	33,000	38,000	43,000	130,000	400,000
<b>Medicaid/State Children's Health Insurance Program (SCHIP):</b>								
Medicaid/SCHIP Reform .....		3,258	1,053	1,664	1,213	1,756	8,944	-66
Disability/New Freedom Initiatives .....		180	184	197	212	221	993	1,338
Medicaid Rebate Reform .....		-384	-432	-481	-531	-581	-2,409	-6,421
Other Medicaid Proposals .....		359	579	426	437	457	2,257	2,687
Subtotal, Medicaid/SCHIP .....		3,412	1,384	1,805	1,330	1,854	9,786	-2,462
<b>Welfare Reform:</b>								
Temporary Assistance for Needy Families Reauthorization .....	-93	115	304	334	325	324	1,403	3,031
Child Support Enforcement: Increase Collections and Improve Program Effectiveness .....		-61	-47	10	51	48	2	221
Child Welfare Program Option .....		31	88	127	-13	-205	28	40
Extend Abstinence Education .....		14	37	42	47	36	176	200
Subtotal, Welfare Reform .....	-93	99	382	514	410	204	1,609	3,492
<b>Other Proposals:</b>								
<b>Agriculture:</b>								
Limit Conservation Security Program .....			-215	-332	-447	-603	-1,597	-5,200
Forest Service Recreation Fee Proposal .....			-17	-12	-7	-2	-38	22
School Lunch: Require Third-Party Verification of Income and Reinvest Program Savings .....								
Subtotal, Agriculture .....			-232	-344	-454	-605	-1,635	-5,178
<b>Education:</b>								
Teacher Loan Forgiveness .....		178	47	50	54	55	384	696
<b>Energy:</b>								
Power Marketing Associations to directly fund Corps of Engineers' operations and maintenance expenses .....	149	145	148	151	154	158	756	1,603
Arctic National Wildlife Refuge (ANWR), Lease Bonuses .....			-1,200				-1,200	-1,200
Subtotal, Energy .....	149	145	-1,052	151	154	158	-444	403
<b>Homeland Security:</b>								
Extend Bureau of Customs and Border Protection User Fees .....		-1,398	-1,490	-1,588	-1,692	-1,804	-7,972	-18,939
Vaccine Biodefense .....		575	840	790	635	578	3,418	5,593
Subtotal, Homeland Security .....		-823	-650	-798	-1,057	-1,226	-4,554	-13,346
<b>Interior:</b>								
ANWR, Lease Bonuses:								
State of Alaska's Share:								
Receipts .....			-1,201	-1	-101	-1	-1,304	-1,588
Expenditure .....			1,201	1	101	1	1,304	1,588
Federal Share .....			-1	-1	-101	-1	-104	-388
Compact of Free Association—financial assistance .....		19	20	21	22	23	105	235
Permanent Recreation Fee Authority .....			-11	14	49	90	142	602
Correct trust accounting deficiencies in individual Indian money investments	7							
Increase Indian Gaming Commission Fees <sup>1</sup> .....			3	4	4	5	16	41
Bureau of Land Management Land Sale Authority:								
Receipts .....		-10	-25	-34	-42	-50	-161	-444
Expenditure .....				10	25	34	69	337

**Table 12. MANDATORY PROPOSALS—Continued**

(In millions of dollars)

	Estimate							
	2003	2004	2005	2006	2007	2008	2004–2008	2004–2013
Subtotal, Interior .....	7	9	-14	14	-43	101	67	383
<b>Labor:</b>								
Personal Re-employment Accounts .....	800	2,800					2,800	2,800
Reform Unemployment Insurance Administration .....		-11	5	-17	792	1,724	2,493	16,469
Reform Federal Employees Compensation Act .....		-10	-17	-16	-9	-8	-60	-130
Refinance Black Lung Disability Trust Fund Debt:								
Black Lung Disability Trust Fund .....		1,851	-444	-433	-429	-423	122	-1,913
Interest Receipts on Repayable Advances .....		-1,851	444	433	429	423	-122	1,913
Subtotal, Labor .....	800	2,779	-12	-33	783	1,716	5,233	19,139
<b>Transportation:</b>								
Federal-aid Highway Program: Increase Emergency Relief .....		27	68	84	94	100	373	873
<b>Treasury:</b>								
Pay financial institutions for their services in lieu of providing compensating balances:								
Financial Agent Reimbursement Fund .....		386	396	400	408	416	2,006	4,169
Interest on Treasury Debt Securities ..		-415	-405	-405	-405	-405	-2,035	-4,185
Subtotal, compensating balances .....		-29	-9	-5	3	11	-29	-16
Internal Revenue Service Collection Contractor Support .....		2	96	146	146	146	536	1,266
Move Asset Forfeiture Fund to the Department of Justice:								
Treasury Asset Forfeiture Fund .....		-221	-221	-221	-221	-221	-1,105	-2,210
Justice Asset Forfeiture Fund .....		221	221	221	221	221	1,105	2,210
Extend the Rum Carryover for Puerto Rico .....		57	78	19			154	154
Outlay Effects of Refundable Tax Credits: <sup>1</sup>								
Child Tax Credit .....		35	35	4,080	3,969	3,882	12,001	37,980
Earned Income Tax Credit .....								3,292
Education Credit .....		185	464	602	668	740	2,659	3,054
Health Credit .....		2	2,345	5,509	7,100	7,431	22,387	67,104
Subtotal, refundable tax credits .....		222	2,844	10,191	11,737	12,053	37,047	111,430
Subtotal, Treasury .....		252	3,009	10,351	11,886	12,210	37,708	112,834
<b>Veterans Affairs:</b>								
Reverse Allen Case providing compensation for drug and alcohol abuse related disabilities .....		-47	-135	-201	-242	-264	-888	-2,424
Payment of full compensation to New Philippine Scouts and DIC survivors of Filipino veterans if they reside in the United States .....		3	4	4	4	5	19	46
Eliminate the "45 Day Rule" for Death Pension .....		1	1	1	1	1	6	13
Revision to Montgomery G.I. Bill to Provide for On-the-Job Training in Self-Employment .....		*	*	*	*	*	2	4
Retroactivity for Second Headstone or Marker Benefit .....		5	3	3	1	1	13	13
Allow states to receive a burial plot allowance for all veterans buried at no cost in state veterans cemeteries .....		*	*	*	*	*	2	4

**Table 12. MANDATORY PROPOSALS—Continued**

(In millions of dollars)

	Estimate							
	2003	2004	2005	2006	2007	2008	2004–2008	2004–2013
Alternate Beneficiary to Claim National Service Life Insurance and Veterans Special Life Insurance Policy Proceeds .....				6	5	4	15	17
Amend the law to provide the same extension of time for using education benefits for members of the National Guard .....		*	*	*	1	1	3	5
Move Transitional Housing Program from a mandatory loan to a discretionary grant program .....		-5	-10	-10	-10	-5	-40	-40
Subtotal, Veterans Affairs .....		-43	-137	-197	-239	-258	-869	-2,362
<b>Federal Communications Commission (FCC):</b>								
Analog Spectrum Lease Fee .....					-500	-500	-1,000	-2,530
Extend Spectrum Auction Authority and Authorize Other Economic Mechanisms (Fees) .....			-10	-25	1,950	1,900	3,815	-4,060
Subtotal, FCC .....			-10	-25	1,450	1,400	2,815	-6,590
<b>Federal Deposit Insurance Corporation:</b>								
Merge Bank Insurance Fund and Savings Association Insurance Fund .....		420	1,048	-34	-38	-12	1,384	1,494
<b>Office of Personnel Management:</b>								
Simplify computation of annuities under the Civil Service Retirement System for part-time service .....		3	8	14	20	27	72	313
<b>Social Security Administration (SSA):</b>								
Close Loophole that Allows Some Workers to Avoid Government Pension Offset .....				-5	-5	-10	-20	-90
Reduce Improper Payments by Requiring Reporting of Non-Social Security Covered Pension Income .....				-195	-295	-260	-750	-2,180
Compensation for 2000–01 Military Wage Credits:								
On-budget .....		730					730	730
Off-budget .....		-730					-730	-730
Supplemental Security Income Pre-Effectuation Reviews and Other Technical Adjustments .....			-16	-36	-57	-85	-194	-1,062
Subtotal, SSA .....			-16	-236	-357	-355	-964	-3,332
<b>Multi-Agency:</b>								
Spectrum Relocation Fund .....			200	400	500	600	1,700	2,500
<b>Indirect Impact of Other Proposals (Third Scorecard):</b>								
Medicare Program Management User Fee Effects on Supplemental Medical Insurance Premiums .....			35	12			47	298
Other .....		-2	-2	-7	-7	-6	-24	-52
<b>Total, Mandatory Proposals .....</b>	<b>863</b>	<b>12,456</b>	<b>14,056</b>	<b>44,721</b>	<b>52,486</b>	<b>58,963</b>	<b>182,687</b>	<b>509,103</b>
Total, Excluding Medicare Modernization .....	863	6,456	4,056	11,721	14,486	15,963	52,687	109,103

<sup>1</sup> Affects both receipts and outlays. Only the outlay effect is shown here.

\* \$500,000 or less.

**Table 13. RECEIPTS PROPOSALS**

(In millions of dollars)

	Estimate							
	2003	2004	2005	2006	2007	2008	2004-08	2004-13
<b>Expiring Provisions:</b>								
<b>Extend certain provisions of the 2003 jobs and growth tax cut:</b>								
Temporarily extend through 2010:								
10-percent individual income tax rate bracket .....			-3,900	-5,848	-6,296	-4,043	-20,087	-27,012
Marriage penalty relief .....			-5,374	-6,610	-3,733	-1,795	-17,512	-17,947
Child tax credit <sup>1</sup> .....			-2,139	-8,797	-8,830	-8,809	-28,575	-41,057
Permanently extend:								
Expensing for small business .....			226	-3,336	-5,711	-4,102	-12,923	-23,742
Dividends tax rate structure .....	98	429	340	344	354	528	1,995	-57,523
Capital gains tax rate structure .....						-5,195	-5,195	-44,032
Total extend certain provisions of the 2003 jobs and growth tax cut .....	98	429	-10,847	-24,247	-24,216	-23,416	-82,297	-211,313
<b>Permanently extend provisions expiring in 2010:</b>								
Marginal individual income tax rate reductions .....								-273,225
Child tax credit <sup>2</sup> .....								-48,837
Marriage penalty relief <sup>3</sup> .....								-22,587
Education incentives .....	-1	-2	-5	-7	-10	-13	-37	-4,381
Repeal of estate and generation-skipping transfer taxes, and modification of gift taxes .....	50	-297	-680	-1,122	-1,267	-1,316	-4,682	-117,176
Modifications of pension plans .....								-1,301
Other incentives for families and children ..								-2,350
Total permanently extend provisions expiring in 2010 .....	49	-299	-685	-1,129	-1,277	-1,329	-4,719	-469,857
<b>Extend other expiring provisions:</b>								
Combined work opportunity/welfare-to-work tax credit .....		-52	-191	-255	-172	-91	-761	-830
Minimum tax relief for individuals .....	-100	-10,451	-15,452				-26,003	-26,003
DC tax incentives .....	-43	-95	-53	-8	-7	-206	-348	
Authority to issue Qualified Zone Academy Bonds .....		-2	-9	-15	-22	-28	-76	-226
Deduction for corporate donations of computer technology .....		-74	-127	-52			-253	-253
Net operating loss offset of 100 percent of alternative minimum taxable income .....	-82	-1,183	-721	-96	194	147	-1,659	-1,174
IRS user fees .....		68	81	6			155	155
Abandoned mine reclamation fees .....			308	313	319	325	1,265	2,978
Research & Experimentation (R&E) tax credit .....	-1,005	-3,278	-5,187	-6,291	-7,129	-22,890	-67,922	
Suspension of disallowance of certain deductions of mutual life insurance companies .....		-93	-103	-48	-33	-18	-295	-459
Total extend other expiring provisions .....	-82	-2,484	-14,586	-20,839	-6,013	-6,801	-50,723	-94,082
Total expiring provisions .....	65	-2,354	-26,118	-46,215	-31,506	-31,546	-137,739	-775,252
<b>Tax Incentives:</b>								
<b>Provide incentives for charitable giving:</b>								
Provide charitable contribution deduction for nonitemizers .....	-180	-1,358	-1,062	-1,103	-1,111	-1,144	-5,778	-11,901
Permit tax-free withdrawals from IRAs for charitable contributions .....	-116	-770	-625	-619	-601	-607	-3,222	-6,275
Expand and increase the enhanced charitable deduction for contributions of food inventory .....	-34	-71	-78	-86	-95	-104	-434	-1,129
Reform excise tax based on investment income of private foundations .....	-18	-296	-191	-192	-197	-205	-1,081	-2,342



**Table 13. RECEIPTS PROPOSALS—Continued**

(In millions of dollars)

	Estimate							
	2003	2004	2005	2006	2007	2008	2004–08	2004–13
Modify tax on unrelated business taxable income of charitable remainder trusts .....	-1	-3	-4	-4	-4	-4	-19	-51
Modify basis adjustment to stock of S corporations contributing appreciated property .....		-10	-9	-12	-15	-17	-63	-195
Repeal the \$150 million limitation on qualified 501(c)(3) bonds .....	-1	-6	-9	-10	-9	-9	-43	-82
Repeal restrictions on the use of qualified 501(c)(3) bonds for residential rental property .....		-2	-6	-11	-17	-24	-60	-276
Total provide incentives for charitable giving .....	-350	-2,516	-1,984	-2,037	-2,049	-2,114	-10,700	-22,251
<b>Strengthen and reform education:</b>								
Provide refundable tax credit for certain costs of attending a different school for pupils assigned to failing public schools <sup>4</sup> .....		-11	-25	-32	-35	-38	-141	-161
Extend, increase and expand the above-the-line deduction for qualified out-of-pocket classroom expenses .....		-23	-229	-240	-249	-260	-1,001	-2,352
Total strengthen and reform education .....		-34	-254	-272	-284	-298	-1,142	-2,513
<b>Invest in health care:</b>								
Provide refundable tax credit for the purchase of health insurance <sup>5</sup> .....		-13	-652	-572	-475	-264	-1,976	-1,883
Provide an above-the-line deduction for long-term care insurance premiums .....		-89	-444	-786	-1,564	-2,510	-5,393	-23,052
Allow up to \$500 in unused benefits in a health flexible spending arrangement to be carried forward to the next year .....		-367	-640	-723	-782	-830	-3,342	-8,385
Provide additional choice with regard to unused benefits in a health flexible spending arrangement .....		-19	-33	-39	-45	-52	-188	-595
Permanently extend and reform Archer MSAs .....		-26	-284	-432	-486	-549	-1,777	-5,134
Provide an additional personal exemption to home caregivers of family members .....		-68	-459	-480	-390	-390	-1,787	-3,777
Allow the orphan drug tax credit for certain pre-designation expenses .....	—*	—*	—*	—*	—*	—*	-1	-2
Total invest in health care .....	—*	-582	-2,512	-3,032	-3,742	-4,595	-14,463	-42,826
<b>Encourage telecommuting:</b>								
Exclude from income the value of employer-provided computers, software and peripherals .....		-26	-48	-49	-48	-52	-223	-636
<b>Increase housing opportunities:</b>								
Provide tax credit for developers of affordable single-family housing .....		-7	-80	-320	-759	-1,329	-2,495	-16,276
<b>Encourage saving:</b>								
Establish Individual Development Accounts (IDAs) .....			-124	-267	-319	-300	-1,010	-1,347
Expand tax-free savings opportunities .....	1,208	9,283	4,309	1,840	-258	-1,307	13,867	4,366
Consolidate employer-based savings accounts .....		-163	-242	-256	-271	-287	-1,219	-8,312
Total encourage saving .....	1,208	9,120	3,943	1,317	-848	-1,894	11,638	-5,293
<b>Protect the environment:</b>								
Permanently extend expensing of brownfields remediation costs .....		-185	-281	-266	-256	-247	-1,235	-2,347
Exclude 50 percent of gains from the sale of property for conservation purposes .....		-17	-34	-36	-37	-39	-163	-399
Total protect the environment .....		-202	-315	-302	-293	-286	-1,398	-2,746

**Table 13. RECEIPTS PROPOSALS—Continued**

(In millions of dollars)

	Estimate							
	2003	2004	2005	2006	2007	2008	2004–08	2004–13
<b>Increase energy production and promote energy conservation:</b>								
Extend and modify the tax credit for producing electricity from certain sources .....	-124	-264	-358	-217	-102	-104	-1,045	-1,592
Provide tax credit for residential solar energy systems .....	-4	-7	-10	-18	-25	-11	-71	-71
Modify treatment of nuclear decommissioning funds .....	-12	-220	-179	-189	-200	-211	-999	-2,220
Provide tax credit for purchase of certain hybrid and fuel cell vehicles .....	-13	-49	-219	-493	-794	-633	-2,188	-2,973
Provide tax credit for energy produced from landfill gas .....	-5	-29	-67	-91	-103	-116	-406	-731
Provide tax credit for combined heat and power property .....	-8	-92	-70	-70	-80	-17	-329	-289
Provide excise tax exemption (credit) for ethanol <sup>6</sup> .....								
Total increase energy production and promote energy conservation .....	-166	-661	-903	-1,078	-1,304	-1,092	-5,038	-7,876
Total tax incentives .....	692	5,092	-2,153	-5,773	-9,327	-11,660	-23,821	-100,417
<b>Trade, Tax Administration and Unemployment Insurance:</b>								
<b>Promote trade:</b>								
Implement free trade agreements with Chile and Singapore <sup>7</sup> .....		-33	-55	-70	-85	-100	-343	-859
<b>Improve tax administration:</b>								
Implement IRS administrative reforms .....		61	41	43	45	46	236	486
Permit private collection agencies to engage in specific, limited activities to support IRS collection efforts .....			39	101	138	125	403	1,225
Combat abusive tax avoidance transactions .....	1	22	64	91	94	95	366	892
Limit related party interest deductions .....		11	109	198	251	307	876	3,434
Total improve tax administration .....	1	94	253	433	528	573	1,881	6,037
<b>Reform unemployment insurance:</b>								
Reform unemployment insurance administrative financing <sup>7</sup> .....			-1,066	-1,403	-2,973	-2,345	-7,787	-12,899
Total trade, tax administration and unemployment insurance .....	1	61	-868	-1,040	-2,530	-1,872	-6,249	-7,721
<b>Other Proposals:</b>								
Deposit full amount of excise tax imposed on gasohol in the Highway Trust Fund <sup>7</sup> .....				561	579	595	1,735	4,938
Increase Indian gaming activity fees .....			3	4	4	5	16	41
Total other proposals .....			3	565	583	600	1,751	4,979
<b>Simplify the Tax Laws for Families:</b>								
Establish uniform definition of a qualifying child <sup>8</sup> .....	-38	-37	-25	-15	-16	-6	-99	
Simplify adoption tax provisions .....	-4	-36	-37	-39	-40	-42	-194	-428
Total simplify the tax laws for families .....	-42	-73	-62	-54	-56	-48	-293	-428
<b>Reauthorize Funding for the Highway Trust Fund:</b>								
Impose additional registration requirements on the transfer of tax-exempt fuel by pipeline, vessel, or barge <sup>7</sup> .....		49	73	79	81	81	363	778
Repeal installment method for payment of heavy highway vehicle use tax <sup>7</sup> .....		404	31	31	32	31	529	709

**Table 13. RECEIPTS PROPOSALS—Continued**

(In millions of dollars)

	Estimate							
	2003	2004	2005	2006	2007	2008	2004–08	2004–13
Allow tax-exempt financing for private highway projects and rail-truck transfer facilities .....		-6	-22	-49	-77	-94	-248	-621
Total reauthorize funding for the highway trust fund .....		447	82	61	36	18	644	866
<b>Total budget proposals .....</b>	<b>716</b>	<b>3,173</b>	<b>-29,116</b>	<b>-52,456</b>	<b>-42,800</b>	<b>-44,508</b>	<b>-165,707</b>	<b>-877,973</b>

\* \$500,000 or less.

<sup>1</sup>Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is \$4,044 million for 2006, \$3,933 million for 2007, \$3,846 million for 2008, \$11,823 million for 2004–2008 and \$18,072 million for 2004–2013.<sup>2</sup>Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is \$19,543 million for 2004–2013.<sup>3</sup>Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is \$3,292 million for 2004–2013.<sup>4</sup>Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is \$185 million for 2004, \$464 million for 2005, \$602 million for 2006, \$668 million for 2007, \$740 million for 2008, \$2,659 million for 2004–2008 and \$3,054 million for 2004–2013.<sup>5</sup>Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is \$2 million for 2004, \$2,345 million for 2005, \$5,509 million for 2006, \$7,100 million for 2007, \$7,431 million for 2008, \$22,387 million for 2004–2008 and \$67,104 million for 2004–2013.<sup>6</sup>Policy proposal with a receipt effect of zero.<sup>7</sup>Net of income offsets.<sup>8</sup>Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is \$35 million for 2004, \$35 million for 2005, \$36 million for 2006, \$36 million for 2007, \$36 million for 2008, \$178 million for 2004–2008 and \$365 million for 2004–2013.

**Table 14. RECEIPTS BY SOURCE**

(In billions of dollars)

	2002 Actual	Estimate					
		2003	2004	2005	2006	2007	2008
<b>February estimates:</b>							
Individual income taxes .....	858.3	849.1	849.9	934.6	1,014.1	1,103.4	1,175.3
Corporation income taxes .....	148.0	143.2	169.1	229.3	233.8	237.8	243.7
Social insurance and retirement receipts .....	700.8	726.6	764.5	810.9	845.8	883.6	922.2
Excise taxes .....	67.0	68.4	70.9	73.3	75.6	77.8	80.0
Estate and gift taxes .....	26.5	20.2	23.4	21.1	23.2	20.8	21.2
Customs duties .....	18.6	19.1	20.7	21.2	23.9	26.0	27.6
Miscellaneous receipts .....	33.9	34.7	38.5	44.8	46.9	48.8	51.0
Adjustment for revenue uncertainty <sup>1</sup> .....		-25.0	-15.0				
<b>Total</b> .....	<b>1,853.2</b>	<b>1,836.2</b>	<b>1,922.0</b>	<b>2,135.2</b>	<b>2,263.2</b>	<b>2,398.1</b>	<b>2,520.9</b>
<b>Mid-Session estimates:</b>							
Individual income taxes .....	858.3	790.0	786.6	882.4	973.5	1,068.2	1,138.8
Corporation income taxes .....	148.0	125.3	144.1	212.6	239.2	243.4	246.8
Social insurance and retirement receipts .....	700.8	711.0	748.6	801.8	840.6	881.1	919.2
Excise taxes .....	67.0	67.1	70.0	71.9	74.1	76.2	78.3
Estate and gift taxes .....	26.5	22.0	22.0	20.3	22.7	20.5	21.2
Customs duties .....	18.6	20.0	22.0	22.0	23.9	25.3	26.6
Miscellaneous receipts .....	33.9	35.9	34.1	37.4	40.7	45.4	49.1
Adjustment for revenue uncertainty <sup>1</sup> .....		-15.0	-30.0	-15.0			
<b>Total</b> .....	<b>1,853.2</b>	<b>1,756.3</b>	<b>1,797.4</b>	<b>2,033.5</b>	<b>2,214.7</b>	<b>2,360.1</b>	<b>2,480.1</b>
<b>Difference:</b>							
Individual income taxes .....		-59.1	-63.2	-52.1	-40.6	-35.2	-36.5
Corporation income taxes .....		-17.9	-25.0	-16.7	5.4	5.6	3.1
Social insurance and retirement receipts .....		-15.5	-15.9	-9.0	-5.1	-2.5	-3.1
Excise taxes .....		-1.3	-0.9	-1.4	-1.5	-1.6	-1.6
Estate and gift taxes .....		1.8	-1.4	-0.8	-0.5	-0.2	0.1
Customs duties .....		1.0	1.2	0.8	*	-0.7	-0.9
Miscellaneous receipts .....		1.2	-4.4	-7.5	-6.2	-3.4	-1.9
Adjustment for revenue uncertainty <sup>1</sup> .....		10.0	-15.0	-15.0			
<b>Total</b> .....		<b>-79.9</b>	<b>-124.6</b>	<b>-101.7</b>	<b>-48.5</b>	<b>-37.9</b>	<b>-40.9</b>

\* \$50 million or less.

<sup>1</sup>These amounts reflect an additional adjustment to receipts beyond what the economic and tax models forecast and have been made in the interest of cautious and prudent forecasting.

**Table 15. DISCRETIONARY BUDGET AUTHORITY BY AGENCY**

(In billions of dollars)

	2002 Actual	Estimate					
		2003	2004	2005	2006	2007	2008
Legislative Branch .....	3.0	3.4	3.8	3.9	4.0	4.0	4.1
Judicial Branch .....	4.3	4.6	5.1	5.2	5.3	5.4	5.6
Agriculture .....	18.8	21.5	19.5	19.9	20.1	20.5	21.2
Commerce .....	5.4	5.5	5.3	5.8	5.8	6.0	6.4
Defense—Military .....	327.8	364.6	379.9	399.8	419.8	440.5	461.8
Education .....	49.5	50.9	53.2	61.1	62.0	63.3	65.0
Energy .....	20.9	21.9	23.5	24.9	25.0	24.6	24.2
Health and Human Services .....	59.5	65.6	66.2	60.4	61.1	62.5	64.1
Homeland Security .....	15.7	22.1	26.8	27.1	27.4	28.0	28.8
Housing and Urban Development .....	29.4	30.2	31.3	32.2	33.0	33.9	34.6
Interior .....	10.5	10.4	10.6	10.8	10.9	11.1	11.4
Justice .....	18.6	18.8	17.7	19.5	19.7	20.2	20.8
Labor .....	12.1	11.8	11.6	11.8	12.0	11.4	10.8
State .....	9.0	9.0	9.8	9.9	10.0	10.3	10.5
Transportation .....	12.9	13.6	13.7	13.9	14.0	14.3	14.7
Treasury .....	10.5	10.9	11.4	11.6	11.7	12.0	12.3
Veterans Affairs .....	23.9	26.4	28.1	28.5	28.6	29.1	29.7
Corps of Engineers-Civil Works .....	4.5	4.6	4.0	4.1	4.1	4.2	4.3
Other Defense Civil Programs .....	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Environmental Protection Agency .....	7.9	8.1	7.6	7.8	7.8	8.0	8.2
Executive Office of the President .....	0.3	0.3	0.3	0.3	0.3	0.4	0.4
General Services Administration .....	0.2	1.1	0.1	0.1	0.1	0.1	0.1
International Assistance Programs .....	12.5	14.0	17.0	18.0	22.4	23.4	24.2
National Aeronautics and Space Administration ...	14.8	15.3	15.5	16.0	16.7	17.3	17.8
National Science Foundation .....	4.8	5.3	5.5	5.6	5.6	5.8	5.9
Office of Personnel Management .....	0.2	0.3	0.8	0.8	0.8	0.8	0.8
Small Business Administration .....	0.8	0.8	0.8	0.8	0.8	0.8	0.9
Social Security Administration .....	6.4	6.7	7.3	7.5	7.5	7.7	7.9
Other Independent Agencies .....	6.6	7.2	6.4	6.4	6.0	7.2	7.4
Allowances .....			-0.5	-0.5	-0.5	-0.5	-0.6
Total without emergency response funding .....	691.0	755.1	782.3	813.5	842.3	872.4	903.6
Emergency response funding .....	43.8	89.0	0.2				

Note: 2003 excludes \$1.9 billion in requested supplemental funding for disaster relief and other emergency activities.

**Table 16. DISCRETIONARY PROPOSALS BY APPROPRIATIONS SUBCOMMITTEE**

(Budget authority in billions of dollars)

Appropriations Subcommittee	2002 Enacted	2003 Estimate	2004 Estimate	Change: 2003 to 2004
Agriculture and Rural Development .....	17.0	18.5	16.9	-1.6
Commerce, Justice, State, and the Judiciary .....	36.1	37.6	37.5	-0.1
Defense .....	317.4	354.3	371.0	16.7
District of Columbia .....	0.4	0.5	0.4	-0.1
Energy and Water Development .....	24.8	25.9	26.8	0.9
Foreign Operations .....	15.1	16.3	18.8	2.5
Homeland Security .....	29.9	22.1	26.6	4.5
Interior and Related Agencies .....	19.3	19.6	19.6	-0.1
Labor, Health and Human Services, and Education .....	122.8	132.1	135.4	3.3
Legislative .....	3.0	3.3	3.8	0.5
Military Construction .....	10.6	10.5	9.1	-1.4
Transportation, Treasury, and Related Agencies .....	21.6	28.0	27.6	-0.4
Veterans Affairs, Housing and Urban Development .....	73.1	86.3	89.2	2.9
Allowances .....	*	*	-0.3	-0.3
<b>Total without emergency response funding .....</b>	<b>691.0</b>	<b>755.1</b>	<b>782.3</b>	<b>27.3</b>
<b>Emergency response funding .....</b>	<b>43.8</b>	<b>89.0</b>	<b>0.2</b>	<b>-78.8</b>

\*50 million or less.

Note: 2003 excludes \$1.9 billion in requested supplemental funding for disaster relief and other emergency activities.

**Table 17. OUTLAYS BY AGENCY**

(In billions of dollars)

	2002 Actual	Estimate					
		2003	2004	2005	2006	2007	2008
Legislative Branch .....	3.2	3.9	4.4	4.2	4.3	4.3	4.4
Judicial Branch .....	4.8	5.1	5.6	5.7	5.8	5.9	6.1
Agriculture .....	68.7	77.0	78.0	81.1	81.4	81.3	80.8
Commerce .....	5.3	6.1	5.8	6.0	5.9	6.0	6.3
Defense—Military .....	332.0	408.6	390.3	391.9	403.6	416.6	441.2
Education .....	46.3	59.7	60.6	64.1	67.8	68.3	69.4
Energy .....	17.7	19.5	21.2	22.4	22.8	22.5	21.8
Health and Human Services .....	465.8	508.4	546.1	568.0	615.7	659.4	703.9
Homeland Security .....	17.5	35.8	28.9	29.3	28.1	28.1	28.5
Housing and Urban Development .....	31.9	38.0	38.0	38.6	39.1	39.3	32.3
Interior .....	9.7	10.4	10.6	11.7	10.7	10.8	11.1
Justice .....	21.1	21.5	25.1	24.2	23.2	21.4	21.9
Labor .....	64.7	70.7	65.4	53.8	53.8	55.6	58.1
State .....	9.5	11.0	10.4	10.6	10.6	10.8	11.1
Transportation .....	56.1	51.5	56.3	56.1	55.9	57.2	59.0
Treasury .....	370.6	373.6	381.7	414.2	456.7	497.6	536.0
Veterans Affairs .....	50.9	58.3	61.5	66.6	66.1	65.3	70.3
Corps of Engineers-Civil Works .....	4.8	4.6	4.3	4.1	4.1	4.2	4.3
Other Defense Civil Programs .....	35.2	40.2	40.5	40.5	40.5	40.5	40.4
Environmental Protection Agency .....	7.4	8.1	8.4	8.4	8.2	8.1	8.3
Executive Office of the President .....	0.5	1.3	1.6	0.6	0.3	0.4	0.4
General Services Administration .....	-0.7	1.0	0.1	0.1	0.1	*	-0.1
International Assistance Programs .....	13.3	16.7	16.1	15.6	18.5	20.8	22.6
National Aeronautics and Space Administration ...	14.4	14.8	15.4	15.9	16.5	17.0	17.5
National Science Foundation .....	4.2	4.9	5.2	5.4	5.5	5.7	5.8
Office of Personnel Management .....	52.5	55.8	58.5	61.5	64.4	67.3	70.6
Small Business Administration .....	0.5	1.6	0.8	0.8	0.8	0.8	0.8
Social Security Administration .....	487.8	508.7	531.0	554.5	574.1	596.6	628.9
Other Independent Agencies .....	16.0	6.8	15.3	16.7	12.6	13.4	13.0
Allowances .....			-0.5	-1.6	-1.4	-*	*
Undistributed Offsetting Receipts .....	-200.7	-211.9	-214.3	-233.6	-243.3	-252.3	-268.7
<b>Total .....</b>	<b>2,011.0</b>	<b>2,211.7</b>	<b>2,272.4</b>	<b>2,337.5</b>	<b>2,452.3</b>	<b>2,572.9</b>	<b>2,706.0</b>

\* \$50 million or less.

**Table 18. BASELINE CATEGORY TOTALS**

(In billions of dollars)

	Estimate						
	2003	2004	2005	2006	2007	2008	2004–2008
<b>Outlays:</b>							
Discretionary:							
Defense .....	425	403	396	402	412	421	2,035
Nondefense .....	433	437	443	447	455	459	2,240
Total, Discretionary .....	858	841	839	849	867	880	4,275
Mandatory:							
Social Security .....	471	492	512	533	556	584	2,676
Medicare .....	244	253	267	276	296	314	1,406
Medicaid and SCHIP .....	168	184	193	209	228	247	1,060
Other .....	312	318	309	303	308	320	1,557
Total, Mandatory .....	1,196	1,247	1,280	1,321	1,387	1,465	6,700
Net interest .....	156	165	184	207	227	241	1,025
<b>Total, Outlays .....</b>	<b>2,210</b>	<b>2,252</b>	<b>2,304</b>	<b>2,377</b>	<b>2,481</b>	<b>2,587</b>	<b>12,001</b>
<b>Receipts .....</b>	<b>1,756</b>	<b>1,794</b>	<b>2,063</b>	<b>2,267</b>	<b>2,403</b>	<b>2,525</b>	<b>11,051</b>
Deficit .....	-455	-458	-241	-110	-78	-62	-949
On-budget deficit .....	-614	-621	-427	-313	-300	-300	-1,962
Off-budget surplus .....	159	164	186	203	222	238	1,013

Note: Estimates assume the spending on the War Supplemental and the War Reserve is one time only.



**Table 19. OUTLAYS FOR MANDATORY PROGRAMS UNDER CURRENT LAW <sup>1</sup>**  
(In billions of dollars)

	2002 Actual	Estimate					
		2003	2004	2005	2006	2007	2008
<b>Human resources programs:</b>							
Education, training, employment, and social services .....	7.8	11.9	11.2	9.4	8.9	8.2	7.8
Health .....	157.1	179.9	196.3	206.3	223.8	243.2	263.7
Medicare .....	227.7	244.4	253.4	267.2	276.0	295.7	314.1
Income security .....	264.5	285.8	283.7	288.7	289.7	294.6	307.0
Social security .....	452.1	471.1	491.7	511.7	532.8	556.4	583.9
Veterans' benefits and services .....	26.9	31.8	34.0	38.6	37.8	36.7	41.1
Subtotal, human resources programs .....	1,136.1	1,224.9	1,270.3	1,321.9	1,369.0	1,434.7	1,517.5
<b>Other mandatory programs:</b>							
International affairs .....	-3.8	-5.3	-2.3	-2.2	-2.3	-2.1	-1.9
Energy .....	-2.5	-2.9	-2.9	-2.5	-2.4	-2.8	-2.9
Natural resources and environment .....	0.8	1.0	1.7	2.1	2.9	2.9	3.2
Agriculture .....	16.9	17.7	17.7	19.8	19.5	18.5	16.0
Commerce and housing credit .....	-1.4	-0.7	1.0	1.2	-1.8	-2.1	-2.7
Transportation .....	4.6	2.8	2.0	2.1	2.0	1.9	1.9
Justice .....	1.2	2.3	6.2	3.0	2.3	2.1	2.1
General government .....	2.7	7.3	7.3	2.2	2.2	2.2	2.4
Undistributed offsetting receipts .....	-47.4	-51.8	-54.7	-66.0	-68.9	-67.8	-70.6
Other functions .....	-1.5	0.9	0.5	-1.2	-1.3	-0.2	-0.1
Subtotal, other mandatory programs .....	-30.4	-28.7	-23.5	-41.7	-47.9	-47.4	-52.7
Total, outlays for mandatory programs under current law .....	1,105.7	1,196.2	1,246.8	1,280.2	1,321.1	1,387.3	1,464.9

<sup>1</sup>This table meets the requirements of Section 221(b) of the Legislative Reorganization Act of 1970.

**Table 20. FEDERAL GOVERNMENT FINANCING AND DEBT**

(In billions of dollars)

	2002 Actual	Estimate					
		2003	2004	2005	2006	2007	2008
<b>Financing:</b>							
Unified budget deficit (-) .....	-158	-455	-475	-304	-238	-213	-226
Financing other than the change in debt held by the public:							
Premiums paid (-) on buybacks of Treasury securities .....	-4	.....	.....	.....	.....	.....	.....
Net purchases (-) of non-Federal securities by the National Railroad Retirement Investment Trust .....	-2	-18	1	1	1	1	1
Changes in: <sup>1</sup>							
Treasury operating cash balance .....	-17	16	.....	.....	.....	.....	.....
Compensating balances <sup>2</sup> .....	-14	-25	52	.....	.....	.....	.....
Checks outstanding, etc. <sup>3</sup> .....	-12	-3	.....	.....	.....	.....	.....
Seigniorage on coins .....	1	1	1	1	1	1	1
Less: Net financing disbursements:							
Direct loan financing accounts .....	-15	-13	-19	-15	-20	-21	-21
Guaranteed loan financing accounts .....	-2	2	3	2	3	1	1
<hr/>							
Total, financing other than the change in debt held by the public .....	-63	-40	38	-12	-16	-17	-18
<hr/>							
Total, requirement to borrow from the public .....	-221	-496	-437	-316	-254	-230	-244
<hr/>							
Change in debt held by the public .....	221	496	437	316	254	230	244
<b>Changes in Debt Subject to Limitation:</b>							
Change in debt held by the public .....	221	496	437	316	254	230	244
Change in debt held by Government accounts .....	208	202	253	275	280	294	307
Change in other factors .....	*	16	*	*	*	*	1
<hr/>							
Total, change in debt subject to statutory limitation .....	429	713	690	591	534	524	551
<b>Debt Subject to Statutory Limitation, End of Year:</b>							
Debt issued by Treasury .....	6,171	6,869	7,560	8,151	8,685	9,209	9,760
Adjustment for Treasury debt not subject to limitation and agency debt subject to limitation <sup>4</sup> .....	-15	_*	_*	_*	_*	_*	_*
Adjustment for discount and premium <sup>5</sup> .....	6	6	6	6	6	6	6
<hr/>							
Total, debt subject to statutory limitation <sup>6</sup> .....	6,161	6,875	7,565	8,156	8,690	9,215	9,766
<b>Debt Outstanding, End of Year:</b>							
Gross Federal debt: <sup>7</sup>							
Debt issued by Treasury .....	6,171	6,869	7,560	8,151	8,685	9,209	9,760
Debt issued by other agencies .....	27	27	27	26	26	26	25
<hr/>							
Total, gross Federal debt .....	6,198	6,896	7,586	8,177	8,711	9,235	9,785
Held by:							
Debt held by Government accounts .....	2,658	2,860	3,113	3,388	3,668	3,962	4,269
Debt held by the public <sup>8</sup> .....	3,540	4,036	4,473	4,789	5,043	5,272	5,516

\* \$500 million or less.

<sup>1</sup> A decrease in the Treasury operating cash balance or compensating balances (which are assets) would be a means of financing a deficit and therefore has a positive sign. An increase in checks outstanding (which is a liability) would also be a means of financing a deficit and therefore also has a positive sign.

<sup>2</sup> Compensating balances are non-interest bearing Treasury bank deposits that Treasury mainly uses to compensate banks for collecting tax and non-tax receipts under financial agency agreements. Most of the balances estimated at the end of 2003 are required to be invested in nonmarketable Depository Compensation Securities issued by the Treasury; the rest of the balances, and the entire amount in previous years, is invested in the way that the banks decide. The Administration has proposed legislation that would allow Treasury to replace compensating balances by an appropriation.

<sup>3</sup> Besides checks outstanding, includes accrued interest payable on Treasury debt, miscellaneous liability accounts, allocations of special drawing rights; and, as an offset, cash and monetary assets (other than the Treasury operating cash balance and compensating balances), miscellaneous asset accounts, and profit on sale of gold.

<sup>4</sup> Consists primarily of Federal Financing Bank debt in 2002.

<sup>5</sup> Consists of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds) and unrealized discount on Government account series securities.

<sup>6</sup> The statutory debt limit is \$7,384 billion.

<sup>7</sup> Treasury securities held by the public and zero-coupon bonds held by Government accounts are almost all measured at sales price plus amortized discount or less amortized premium. Agency debt securities are almost all measured at face value. Treasury securities in the Government account series are measured at face value less unrealized discount (if any).

<sup>8</sup> At the end of 2002, the Federal Reserve Banks held \$604.2 billion of Federal securities and the rest of the public held \$2,936.2 billion. Debt held by the Federal Reserve Banks is not estimated for future years.