HOUSE BUDGET COMMITTEE

Democratic Caucus

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February 11, 2005

Summary and Analysis

of the

President's Fiscal Year 2006 Budget

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

General Notes:

- All years are fiscal years unless otherwise noted.

- Throughout the document, the Congressional Budget Office is abbreviated to CBO. The Office of Management and Budget is abbreviated to OMB.

- Unless otherwise noted, funding levels for discretionary programs are stated in budget authority, and funding levels for entitlements and other direct spending programs represent outlays.

- Numbers in tables may not add due to rounding.

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Overview

The Administration's budget continues the same bad choices that have led to huge deficits and mounting debt during the last four years. For the third year in a row, the Administration's budget sets a record deficit, and offers no plan to put the budget in balance. Unfazed by the debt it has accumulated, the Bush Administration proposes $1.6 trillion in tax cuts and a plan for Social Security privatization that can only drive the deficit up. To offset a small portion of these plans, the Administration cuts services for veterans, students, small businesses, law enforcement, health, urban and rural development, and environmental protection. Throughout, the budget omits costs and provides incomplete data, obscuring the full extent of the damage done by its policies.

***Administration Policies Generate More Record Deficits* —** The Bush budget projects a deficit of $427 billion for 2005, marking the third year in a row that the deficit will reach a record level, higher than the year before. The deficit projected for 2005 is $63 billion worse than the Administration projected last January. This Administration has squandered its inheritance, a ten-year surplus of $5.6 trillion, and replaced it with deficits for as far as the eye can see.

Administration's Deficit Numbers, Which Omit Key Items

OMB Deficit Projections, in Billions of Dollars

	2005	2006	2007	2008	2009	2010	2006-2010
Unified	-427	-390	-312	-251	-233	-207	-1,393
On-Budget	-589	-560	-506	-466	-463	-460	-2,455

***Budget Omissions Obscure A True Picture That Is Even Worse* —** The Administration masks the true size of the fiscal problems its policies create by omitting the full costs associated with some major agenda items:

- **Social Security Privatization** ($754 billion over 2009-2015, omitted from the budget);
- **Repair of Alternative Minimum Tax** ($642 billion if tax cuts are extended — $774 billion including debt service — none of which is included in the budget); and
- **Realistic Costs for Iraq and Afghanistan** (based on a CBO analysis, as much as $384 billion over ten years, which is not included in the budget).

Lack of Ten-Year Deficit Numbers Masks Impact of Tax Agenda — Meanwhile, the budget includes no deficit figures at all after the first five years, thus obscuring most of the deficit impact of the Administration's tax agenda. Including debt service, these tax cuts cost $1.6 trillion over the next ten years — with the vast majority of the costs falling in the second five years, for which no deficit numbers are provided.

Deficits Much Worse than Administration Admits
Budget Provides No Plan to End Deficits
Unified Deficit in Billions of Dollars

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Bush Budget	-390	-312	-251	-233	-207					
Bush Budget Including Omitted Items	**-456**	**-424**	**-384**	**-419**	**-415**	**-432**	**-433**	**-488**	**-526**	**-566**

***Full Accounting Shows $9.5 Trillion Reversal Under This Administration* —** When these omitted costs including debt service are accounted for, the deficit for the next ten years (2006-2015) is $4.5 trillion. Over the time period 2002-2011, the deficit is $3.9 trillion, a reversal of $9.5 trillion relative to the $5.6 trillion projected surplus the Administration inherited when it took office.

Budget Breaks Promise By Spending Social Security Surplus — The President took office with an advantage no president in recent times has enjoyed, a budget in surplus without counting the Social Security surplus. His 2001 budget stated that "none of the Social Security surpluses will be used to fund other spending initiatives or tax relief." In fact, the Administration has used the Social Security surplus to help pay for tax cuts, rather than saving the surpluses for Social Security. Since 2002, the Administration has spent every penny of the Social Security surplus, and the new budget does the same for the next ten years — spending a total of $2.6 trillion from the Social Security trust fund surplus over 2006-2015.

Republicans Increase the Debt Limit
Debt Limit Increases, Billions of Dollars

2002	**$450**
2003	**$984**
2004	**$800**
Total	**$2,234**

Administration Leaves Legacy of Debt to Future Generations — The President has stated that "leadership means not passing problems on to future generations," but that is exactly what his budget does by creating deficits and debt that future generations will have to service and pay back. The Administration's policies already have required three increases in the debt limit totaling $2.2 trillion over the last four years, and over the next ten years the policies in this budget would more than double the debt subject to limit, which currently stands at $7.6 trillion.

***President's Social Security Plan Would Weaken Both the Budget and the Trust Funds* —** Creating private accounts in Social Security, as the President proposed in the State of the Union last week, would have enormous costs — $754 billion through 2015 alone, even though the plan would not be phased in fully until 2011. Over the first 20 years of operation, the plan would cost $4.9 trillion. In addition to creating even larger budget deficits than are currently projected, the plan would draw down the Social Security trust funds much more rapidly than under current law, causing them to become exhausted sooner. Far from "fixing" the problems of Social Security, the President's plan would cause Social Security's dedicated revenues to fall below scheduled benefits starting in 2012, rather than in 2018 as under current law. The trust funds would be completely exhausted in 2031 under the President's plan — 11 years sooner than under current law.

Bush Budget Summary
Fiscal Year 2006

Total Revenues	$2,178 billion
Total Expenditures	$2,568 billion
Total Deficit	-$390 billion

Administration Continues to Fund Tax Cuts With Cuts in Critical Services — To help pay for a small portion of its costly tax cuts and Social Security privatization plan, the Administration cuts key services that Americans rely on. Over five years, the budget has net mandatory spending cuts of $38.7 billion (cuts of $62.0 billion combined with increased outlays resulting from tax cuts of $23.3 billion). The budget also cuts domestic discretionary funding, by $10.8 billion below the 2005 enacted level for 2006 alone and by $179 billion below current services over the next five years. The Administration refuses to provide data on where the discretionary cuts will fall in 2007 and beyond, but the 2006 cuts provide a clear picture of the effects of the Administration's policies. The budget cuts will have only a small impact on the Administration's large deficits, but they will have harmful effects on the lives of a wide cross-section of Americans.

Harmful Cuts Hit Wide Range of Important Services — The discretionary and mandatory cuts include:

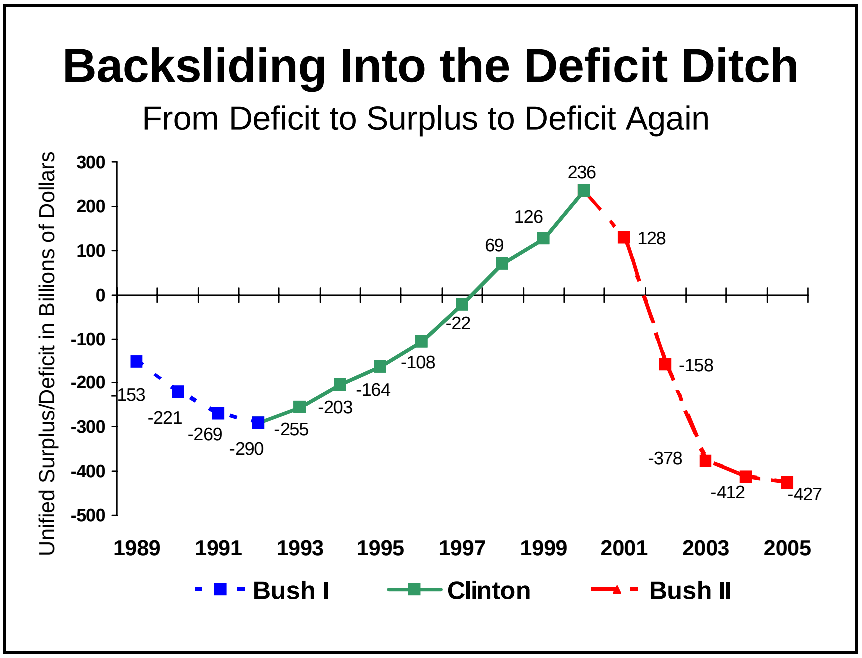
- **Health** — Medicaid receives a gross cut of $60 billion over ten years and a net cut of $45 billion;
- **Education** — 48 programs eliminated and 16 others cut, with an overall cut for 2006 of $530 million;
- **Veterans** — increased fees and co-payments veterans must pay for medical care costing $1.2 billion over five years;
- **Environment** — Clean air, clean water, and other environmental protection cut by nearly $500 million (5.6 percent) for 2006;
- **Small Business** — a cut for 2006 of 37.9 percent to Small Business Administration technical assistance programs that help entrepreneurs, and elimination of the microloan program;
- **Law Enforcement** — cuts for 2006 of 95.6 percent to community-oriented policing programs.

Budget Presentation Obscures Damaging Policy Consequences — The Administration fails to provide deficit numbers after 2010 and omits from its deficit calculations the full cost of costly items like tax cuts, Social Security privatization, and operations in Iraq and Afghanistan. The budget also includes a proposal to alter the budget baseline to assume that the extension of the 2001 and 2003 tax cuts has already occurred and thus would not add to the deficit; in fact, that extension would add $1.6 trillion to the deficit over ten years, including debt service.

Meanwhile, the budget breaks long-standing precedent by failing to show account-level numbers for appropriated programs after 2006 — despite the fact that total funding for domestic programs is scheduled to be cut by $179 billion below current services over the next five years. In all, the budget's presentation and proposals work to obscure the damaging consequences of the Administration's policies.

Deficits

Record Deficits Followed By No Long-Term Improvement — Last year's unified federal budget deficit reached a record level of $412 billion, and OMB is now forecasting that this year's will be a new record of $427 billion. The Administration's budget projects a decline in the deficit to $207 billion by 2010, but the President's budget omits funding for numerous Administration policies (detailed below). If costs for these were included, the 2010 budget deficit would be $415 billion, more than double what the Administration now projects. Meanwhile, the Administration masks the long-run fiscal damage caused by its policies by pushing most of the costs of its tax and Social Security proposals outside of the 2006-2010 budget window covered by this budget.



Administration's Tax Proposals Increase Deficits By $1.6 Trillion — The budget proposes a number of tax changes, above all extending the Administration's tax cuts; these proposals add $1.6 trillion (including debt service) to the deficit over the next ten years (2006-2015). Because most of the tax cuts expire in 2010 – just at the end of the period covered by this budget – the Administration's deficit numbers do not include the vast majority of these costs.

Budget Omits Another $2 Trillion in Costs **—** By delaying the start of the President's new Social Security plan until 2009 and then phasing it in over three years, this budget avoids showing most of its costs **—** but they are likely to be substantial. The Administration estimates the cost at $754 billion over the 2009-2015 period alone. The Administration has not estimated the costs beyond 2015, but outside experts have estimated the cost at $4.9 trillion over the first 20 years the plan is in operation. The budget includes no funding to repair the Alternative Minimum Tax (AMT), which would cost $642 billion if the tax cuts are extended, and $774 billion if debt service is also included. Meanwhile, according to a scenario developed by the Congressional Budget Office, costs for operations in Iraq and Afghanistan could run as much as $384 billion more than what the budget includes. These omitted policies, including debt service, add $2.0 trillion to the ten-year deficit.

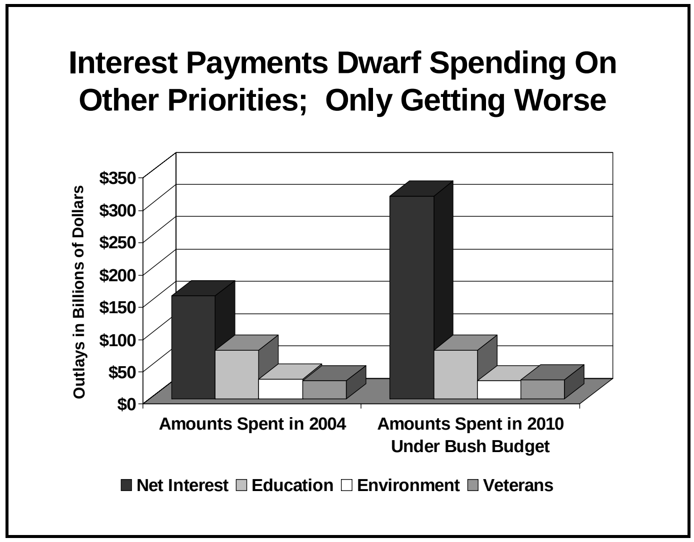
***Huge Administration Deficits Over Last Four Years* —** The record deficits of the past four years contrast dramatically with the huge advantage that this Administration inherited. When President Bush came into office he inherited a budget surplus of $236 billion in 2000 – a budget that was in balance even without using any of the surplus generated by Social Security. Now, however, this Administration has raided those surpluses and its fiscally irresponsible tax policies have driven the country ever deeper into debt. A $5.6 trillion ten-year projected surplus for the period 2002-2011 has been converted into a projected deficit for the same period of $3.9 trillion – a reversal of $9.5 trillion.

***Tax Cuts and Other Administration Policies Largely Responsible for Deficit Growth* —** When the President took office in January 2001, CBO projected that there would be a surplus of $433 billion in 2005, based on the policies then in place. The 2005 deficit in today's budget represents a decline of $860 billion from that forecast. Rather than a large surplus that would have allowed us to invest in Social Security to ensure its long-term solvency, we are instead facing huge deficits. Some of that decline is the result of the recession and other economic and technical changes, but CBO estimates that more than half – $520 billion – results from legislative changes made by the President and the Republican Congress. Of that legislative total, the tax cuts alone account for about half.

***9/11 and Iraq War Costs Are Not the Primary Cause of Deficits* —** The Administration has asserted that much of the deterioration in the budget picture has resulted from the 9/11 terrorist attacks and the war in Iraq. But the facts do not support this argument. Actual appropriations for increased homeland security and for the wars in Iraq and Afghanistan, plus all of the disaster assistance associated with 9/11, amounted to $296 billion over the three years after 9/11. But, according to CBO, the difference between projected and actual deficits in those three years totaled more than $2 trillion – or almost seven times the new costs, even if all of the appropriated funds had been spent right away. Nor did 9/11 have a major impact on economic performance. The recession officially started in March 2001 – five months before the attacks – and ended in November, only two months later. Overall, according to CBO, the economy performed about as well over the 2002-2004 period as had been expected before the 9/11 attacks. Even if all of the differences resulting from economic performance between actual deficits and those predicted in 2001 were the result of the attacks – a very unlikely assumption – their impact would only account for another 8 percent of the overall difference in the deficit estimates.

***Rising Deficits Pose Risks to the Economy* —** Federal budget deficits negatively affect the savings and investment climate. The national savings rate in the U.S. is already at a historic low, and continued high government deficits can be expected to limit investment over the longer run.

Foreign investors already hold more than 40 percent of the U.S. public debt, and they are continuing to buy the bulk of newly issued debt. As the confidence of these and other investors falls, we can expect to see continued declines in the dollar and rising long-term interest rates. These will in turn limit U.S. investment opportunities, risking serious damage to long-term growth in productivity and national output.



***Rising Debt Wastes Resources and Burdens Future Generations* —** One goal of the deficit reduction accomplished during the Clinton Administration was to save for the retirement of the baby boomers. Instead, this Administration has run up mountains of new debt, which just passes the bill for today's policy choices on to our children and grandchildren.

Taxes and the Economy

President's Tax Cuts Drive the Deficit Higher — Most of the costs of extending the tax cuts are not included in the President's budget, because the cuts largely expire after the budget's five-year window. Over the first ten years alone, the President's tax agenda adds $1.6 trillion (including debt service) to the deficit – dramatically undermining the Administration's claim that it is cutting the deficit in half. When the cost of full repair of the Alternative Minimum Tax (AMT) is included, the tax agenda worsens the deficit by about $2.4 trillion, including debt service. These large deficits will make it harder to solve the problems of Social Security and will burden our children and grandchildren with our debts.

Revenue Estimates Are Overstated Because Budget Ignores the AMT — Even if the economy grows at the healthy pace assumed by the Administration – in spite of the record deficits we are seeing – income tax revenues are unlikely to reach the levels the budget projects. The budget assumes that the tax cuts enacted in 2001 and 2003 will be extended, but it does not assume that the AMT will be adjusted. Without adjustment, the AMT will apply to a larger share of taxpayers every year. In effect, it will cancel out the tax cuts for more taxpayers over time. Adjusting the AMT is consistent with the Administration's tax policy goals, and there is little likelihood that Congress will fail to address this issue. By neglecting to include the AMT adjustment in the budget, however, the Administration has increased its revenue estimates by $642 billion over the next ten years.

Assumes Certain Tax Cuts Will Sunset, Adding to Receipts — As part of the bipartisan budget agreement in 1990, Congress passed legislation that sharply limited the overall size of itemized deductions and eliminated the personal exemption for high income households. Then, as part of the 2001 tax bill, these two provisions were phased out starting in 2006, allowing high-income households to take much higher itemized deductions and exemptions than under prior law. According to the Tax Policy Center, 54 percent of the tax-cut benefits from phasing out these provisions would go to households with incomes of more than $1 million a year – the top 0.2 percent of households. However, like the rest of the tax law changes enacted in 2001, the repeal of these additional deductions and exemptions is slated to be sunsetted in 2010, producing a sudden surge in revenues.

This budget appears to assume that these tax cuts will sunset, returning exemptions and deductions for higher-income tax filers to their pre-2006 levels (and crediting income tax receipts with the resulting revenue increase). Allowing limits on deductions and exemptions to decrease sharply in 2011 would be inconsistent with Administration tax policies in general, but by sticking with the current-law baseline on these provisions the budget disguises what would otherwise be a revenue loss of as much as $16 billion in 2015. The ten-year cost of repealing the limits on exemptions and deductions once the phase-out was fully in effect (2010 through 2019) would be $146 billion, not counting the added interest payments on the debt, and about $200 billion including the interest payments.

***New Tax Cuts for High-Income Households Use Gimmicks to Hide Budget Costs* —** The budget includes a provision, as it did last year, to allow households to place $5,000 per family member each year in tax-sheltered "Lifetime Savings Accounts" (LSAs). Earnings on the accounts and withdrawals from them would be tax-free. Households also could place another $5,000 each for the taxpayer and the spouse into a tax-sheltered "Retirement Savings Account" (RSA) each year. These RSAs would replace IRAs, but the income limits on who can use IRAs would be eliminated. Under these two provisions, for example, a high-income couple with two children would be able to shift as much as $30,000 every year from taxable investment accounts to tax-sheltered LSAs and RSAs. Few of the benefits from these new savings accounts would go to families with incomes under $100,000, because most such families can already make comparable investments in IRAs, and few such families have such large amounts to invest. Instead, virtually all of the new tax-cut benefits would go to high-income households, that would generally shift assets to the new tax-sheltered accounts (rather than increase their savings) to take advantage of the new tax break. Because the proposals would encourage high-income households to cash out existing accounts (often paying capital gains taxes) in order to move assets into the new tax-sheltered accounts, the proposals would generate revenues in the short run. After the first five years, however, the proposals would reduce revenues substantially. The Tax Policy Center estimates that the proposals, when fully in place, could cost as much as $35 billion per year. None of these costs are shown in the deficit numbers, however, because they fall just outside the budget window.

***Tax Cuts Have Not Produced Growth Administration Claimed* —** The Administration's answer to questions about the cost of the tax cuts has been to suggest that tax cuts will increase growth enough to offset their impact on the budget. But job and revenue growth since the end of the recession have been sluggish at best, and far below the Administration's optimistic forecasts. Further, CBO's estimates of the dynamic effects of the President's budget have shown very little net effect of the tax cuts on economic growth. Though the Administration may claim that tax cuts will pay for themselves, the reality is that if the tax cuts are extended we will face exploding deficits that will not be offset by even extraordinary economic growth.

***Tax Cuts Increase Reliance on Social Security Revenues* —** The growth in the unified federal budget deficit would have been even greater if not for the excess in Social Security payroll tax collections over Social Security payments over the past few years. The President's huge cuts in income, estate, and corporate taxes have meant that an increasing share of total federal revenues are coming from these payroll taxes. Social insurance taxes accounted for almost 40 percent of total revenues last year, compared with about 32 percent in 2000. This shift not only weakens the Social Security system, it also makes the overall tax system significantly more regressive.

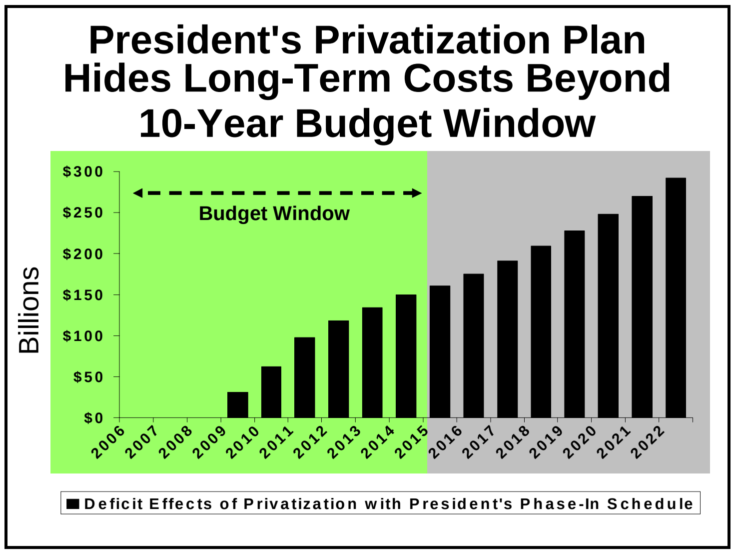
***Extending Tax Cuts Would Provide Greatest Benefit to Those Who Need It the Least* —** The tax cuts would raise after-tax income by a greater percentage for high-income households than for all others. The average tax rate would fall more for the top one percent than for any other group. Over the long run, their share of all federal taxes paid would fall and their share of post-tax income would rise. The average cut in dollars would be 80 times as large for the top one percent as for middle-income households. Further, most of the cuts benefitting middle- and lower-income families have already taken place; the extensions of the tax cut would disproportionately favor those who need the help the least.

***Job Growth Remains Weak Despite Administration Claims* —** Although the economy has recovered from its low point in 2003, private sector jobs still have not recovered completely. We have 760,000 fewer private market jobs today than we did when the President took office. The small amount of job growth that has occurred has all been in the public sector. This Administration's record on job creation in the first term is the weakest of any President since Herbert Hoover.

***Weak Growth in Workers' Earnings* —** Average hourly earnings have <u>declined</u> by almost one percent since the recovery started in May of 2003 (after adjusting for inflation); wages normally <u>rise</u> during a recovery. Over the President's first four years, earnings rose by about four percent for workers in the top ten percent of the wage distribution, but fell by about one percent (after adjusting for inflation) for workers in the bottom ten percent, for an overall average decline in wages. At the same time, corporate profits have increased by 41 percent under this President.

Social Security Privatization

The President's plan to partially privatize Social Security, announced in his 2005 State of the Union address, would give workers the option of diverting nearly one-third of their payroll taxes into private accounts. The Administration claims that the private account system would be similar to the Thrift Savings Plan (TSP) for federal employees. The TSP is a centrally managed system through which federal employees invest in a small number of broad-based index funds. While the administration of the President's private accounts would be similar to the TSP, the purpose of the private accounts would be fundamentally different. TSP accounts are on top of Social Security, whereas the President's private accounts are designed to replace Social Security. The President's plan achieves this by cutting the Social Security benefits of workers who choose private accounts.



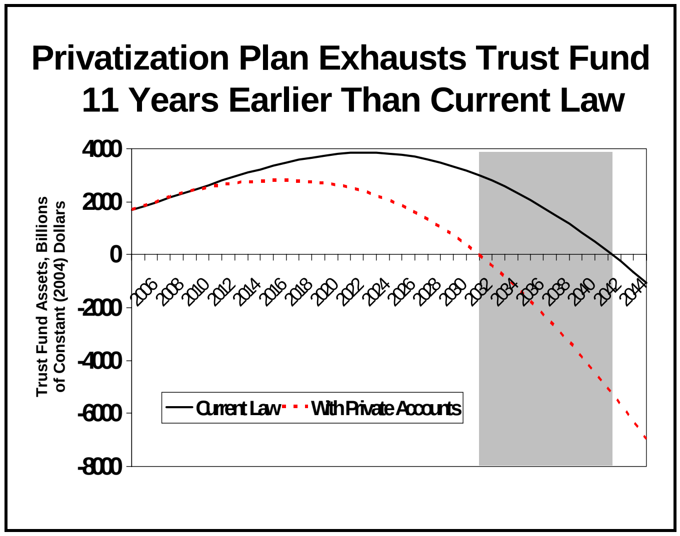
***The President's Budget Omits the Cost of Social Security Privatization* —** The President has talked in general terms about his support for private accounts for several years. His plan builds on recommendations for privatizing Social Security developed by his hand-picked Social Security Commission three years ago. Yet the President's 2006 budget does not reflect the enormous cost of privatization. Creating private accounts as the President proposes would cost an estimated $754 billion through 2015. This figure is misleadingly low, because the plan would not begin until 2009 and would not fully phase in until 2011, halfway through the ten-year budget window. The plan would cost an estimated $4.9 trillion over the first 20 years of operation (2009-2028). The plan, by itself, would ultimately increase the federal publicly held debt by nearly 30 percent relative to the size of the economy, as measured by the gross domestic product (GDP). To put this amount in perspective, the total publicly held debt at the end of 2004 was $4.3 trillion, or 37 percent of GDP. In other words, if the publicly held debt were kept constant relative to the size

President's Private Account Plan Worsens Social Security's Finances

	Current Law	President's Plan
Cash Imbalance Date	2018	2012
Trust Fund Exhaustion Date	2042	2031

Source: SSA, CPPP.

of the economy in the absence of privatization, the President's Social Security privatization plan *by itself* would drive the publicly held debt to nearly double its current size.

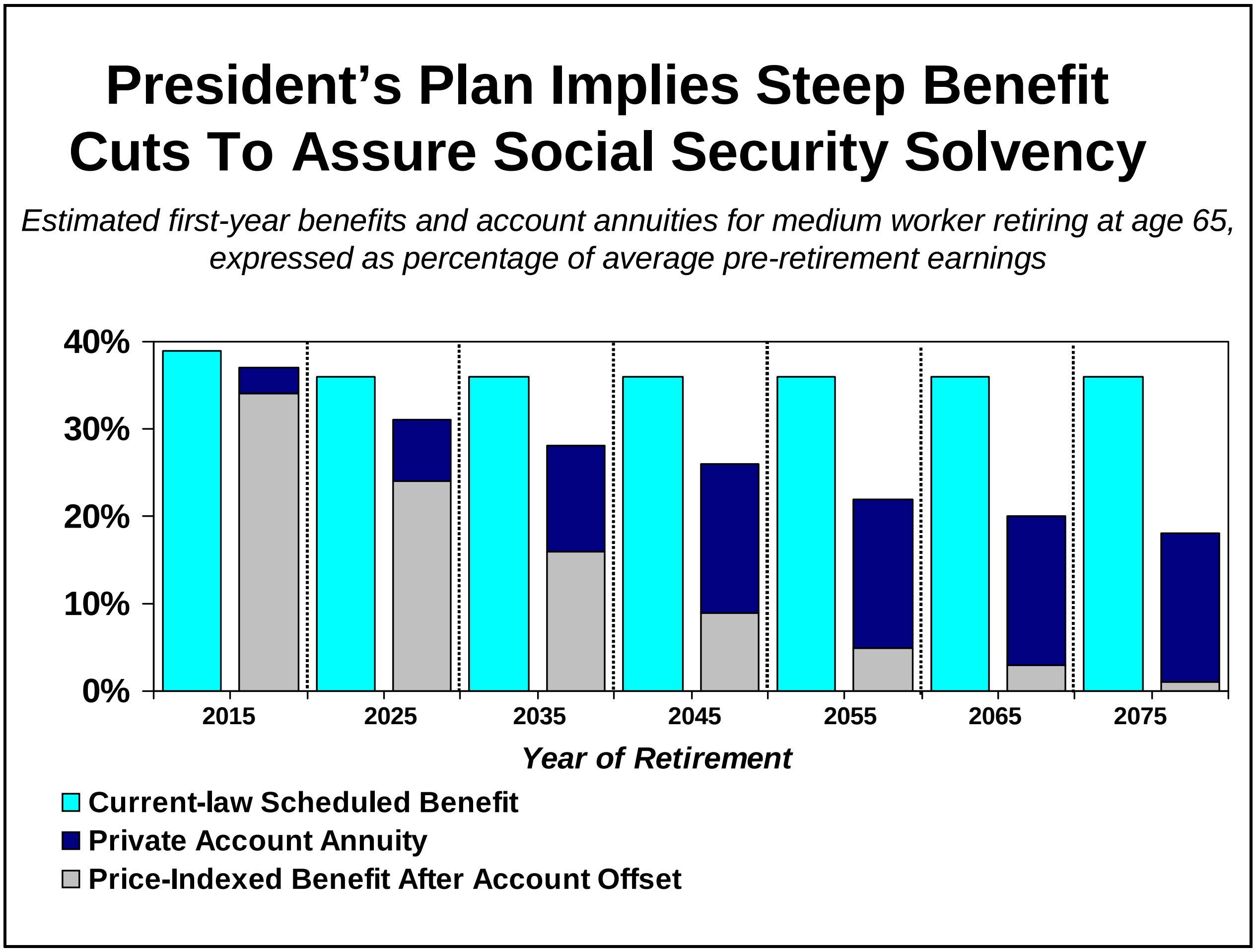


The President's Privatization Plan Weakens the Social Security Trust Fund **—** The Social Security Trustees project that the system will run cash surpluses until 2018 under current law, and that trust fund assets will be sufficient to cover full benefits until 2042 (or 2052, according to CBO's projections). After 2042, incoming revenues will be sufficient to cover about 73 percent of benefits, according to the Trustees. The President's private account plan would push Social Security into cash deficits starting in 2012 and would cause the trust fund to become exhausted 11 years earlier, in 2031, according to preliminary estimates.

The President Has No Plan to Strengthen Social Security **—** The President's plan to create private accounts does nothing to improve Social Security's financial position. On the contrary, it worsens the problem. To restore Social Security's solvency, Congress still has to make changes to the underlying system to close the gap between Social Security's resources and its obligations. The President declined to propose a comprehensive plan for strengthening Social Security.

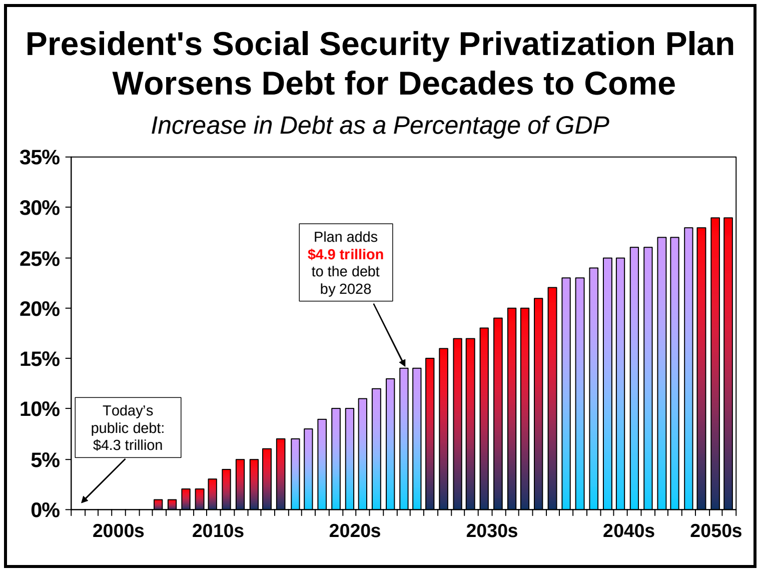
The President's Privatization Plan Sets Up Social Security for Substantial Benefit Cuts **—** During his State of the Union address, the President listed several options for bringing Social Security back to balance, all of which involved benefit cuts. He was silent on options involving revenues, other than to express his opposition to increasing payroll taxes. Because the President's plan to divert payroll taxes to private accounts would worsen Social Security's finances, his plan would force larger benefit cuts than would otherwise be needed to balance the system. Moreover, these benefit cuts would apply to everyone, not just the workers who opt for the private accounts. Three years ago, the President's Social Security Commission developed a plan that diverted a portion of payroll taxes to private accounts and imposed steep benefit cuts in order to achieve long-range balance. Analysis of the President's proposal shows that his plan for private accounts, combined with the type of across-the-board benefit cuts envisioned by his Social Security Commission, would result in almost a 50 percent benefit reduction for individuals born this decade — and that is *including* proceeds from the private accounts. These across-the-board benefit cuts would be especially harsh for disabled workers and survivors of workers who die young, because the workers would not have had a full career's worth of contributions to their private accounts to help soften the blow.

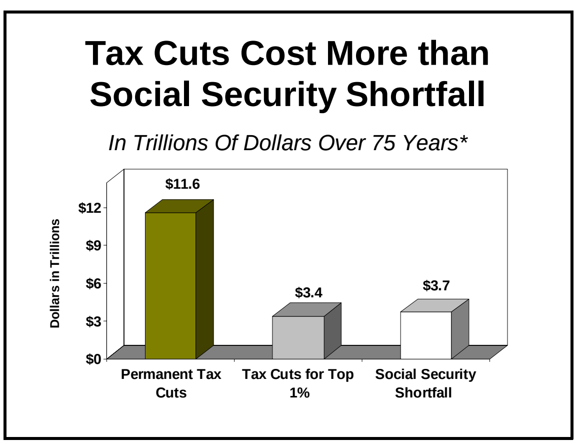
***Indexing Initial Benefits to Prices Rather than Wages Causes Steep Benefit Cuts for Future Retirees* —** One of the benefit cut options mentioned by the President was to limit initial benefit levels to growth at the rate of prices rather than wages. This was the option favored by his Social Security Commission. Because wages generally grow faster than inflation, this option would cause today's young workers to experience substantial reductions in their Social Security benefit compared with their pre-retirement earnings, which would make it more difficult to maintain their standard of living once they retire. If benefits for workers retiring at age 65 in 2003 had been indexed to the rate of price growth since 1940, these workers would have received initial benefits 58.6 percent lower than what they receive under current law, according to an analysis by the



Congressional Research Service. The Social Security Administration estimated that if price indexing were implemented starting in 2009, traditional Social Security benefits would be 33 percent lower for workers retiring in 2052 and 46 percent lower for workers retiring in 2075. The private accounts would not be guaranteed to make up for this benefit reduction, because the government would reclaim all of the accounts' principal and part or all of the accounts' earnings.

Under the President's Plan, Workers Would Not Really Own Their Private Accounts — The President's plan gives workers the option of diverting a portion of their payroll taxes into private accounts. At retirement, workers' Social Security benefits would be reduced, or offset, by the amount of the account contributions, plus interest at an inflation-adjusted rate of 3 percent (the rate that the Social Security Trustees project will be earned by risk-free Treasury bonds). In essence, the payroll tax diversions to private accounts are nothing more than loans that workers will pay back with interest once they retire. A worker who starts an account at the beginning of his or her working life and earns exactly a 3 percent real rate of return on the account would be neither better off nor worse off. The repayment of the account contributions plus interest would reduce his or her Social Security benefit by half (assuming no other changes to currently scheduled benefits), but the proceeds from the account would fill the gap. Workers whose private account investments earn less than a 3 percent real rate of return would be worse off than if they had not chosen a private account at all, because the proceeds from their accounts would not be sufficient to make up for the offset to their traditional Social Security benefits. The benefit offset that applies to workers who opt for the private accounts is separate and distinct from the across-the-board benefit cuts described in the previous paragraphs.





President Tries to Have It Both Ways With Social Security Surpluses — When the President took office, he vowed that "none of the Social Security surpluses will be used to fund other spending initiatives or tax relief." That turned out to be an empty vow. The $5.6 trillion federal budget surplus originally forecast for 2002-2011 has evaporated and has been replaced with a projected deficit of $4 trillion under the President's enacted and proposed policies. But the President continues to offer still more tax cuts. While the President is willing to dip into Social Security surpluses to help pay for his tax cuts, he does a reversal when it comes to repaying the money taken from Social Security. In its efforts to define Social Security as being in crisis, the Administration highlights the year 2018, which is the year that Social Security cash balances are projected to turn negative, even though the Social Security trust fund is projected to be able to pay full benefits until 2042, according to the Trustees (or until 2052, according to CBO). In his State of the Union address, for example, the President said, "in the year 2027, the government will *somehow* (emphasis added) have to come up with an extra $200 billion to keep the system afloat." The President's comments suggest a double standard. While he is willing to borrow from Social Security to pay for his tax cuts, he suggests that it will be an intolerable burden to repay the debt owed to Social Security when the time comes for Social Security to cash in its trust fund assets in order to pay full benefits.

Appropriated Programs

Freezes Total Appropriations for 2006, But Cuts Domestic Funding — The President's 2006 budget essentially freezes funding for appropriated programs, providing a total of $840.3 billion, which is $7.3 billion (0.9 percent) below the amount that CBO estimates is needed to maintain purchasing power at the 2005 level of non-emergency funding (known as the baseline). However, as shown in the table below, the President's budget cuts domestic non-homeland security funding by $19.3 billion (5.4 percent) below the 2006 baseline, and by $9.6 billion below the 2005 enacted level. This is because of significant increases in other parts of the discretionary budget:

- national defense funding rises from the 2005 enacted level to $438.8 billion ($8.2 billion above the amount needed to maintain purchasing power) — even though that 2006 total does not include any funding for operations in Iraq and Afghanistan;
- international affairs receives $33.7 billion ($3.2 billion over current services); and
- domestic homeland security funding is $28.8 billion ($651 million above current services).

Total Funding for Appropriated Programs
(Budget Authority in Billions of Dollars)

Non-Emergency Amounts:	2004 Enacted	2005 Enacted	2006 Baseline	2006 Request	Request v Baseline
Domestic Non-Homeland Security	340.6	348.6	358.3	339.0	-19.3
National Defense	394.0	420.0	430.7	438.8	+8.2
International Affairs	26.9	29.9	30.5	33.7	+3.2
Homeland Security	27.1	30.1	28.2	28.8	+0.7
Total Non-Emergency Appropriations	**788.6**	**828.6**	**847.6**	**840.3**	**-7.3**
Iraq supplemental funding	114.5	pending	n.a.	0	
Natural disaster/other emergencies	3.0	11.5	n.a.	0	
Total including emergencies	**906.0**	**840.1**	**n.a.**		

The upper part of this table excludes emergency funding provided in 2004 and 2005. There has been no 2005 funding yet approved for the war, but the President is now requesting supplemental funding of $81 billion for 2005 and no funding for 2006. National Defense represents Function 050, which includes the Department of Defense and the nuclear weapons-related activities of the Department of Energy. Homeland Security is non-defense, non-international discretionary appropriations, including BioShield, which received $2.5 billion in 2005 that will be spent over four years.

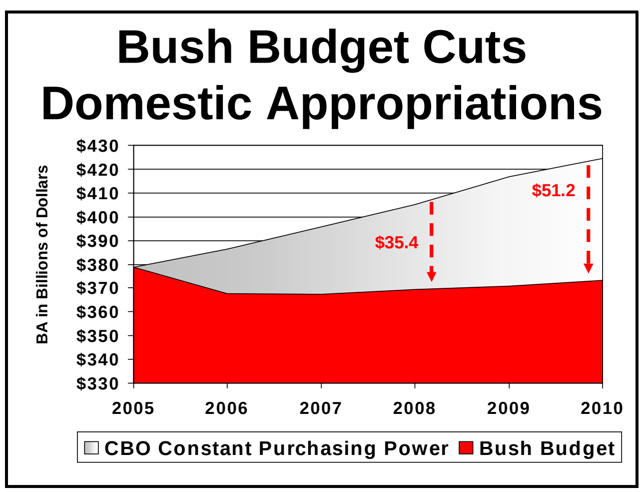
Cuts 2006 Funding for Most Domestic Agencies — The President's budget puts a priority on misguided initiatives on Social Security and taxes that will drive deficits higher, and then pays for a small portion of these costly plans by cutting services in the domestic budget. These cuts will affect students, small businesses, law enforcement, health, and environmental protection. The table below lists just some of the domestic agencies that face cuts in 2006.

President's 2006 Budget Cuts Funding for 12+ Agencies
(Discretionary Budget Authority in Billions of Dollars)

	2005 Enacted	2006 Request	Dollar Cut	*Percent Cut*
Agriculture	21.4	19.4	2.0	*9.6*
Education	56.6	56.0	0.5	*0.9*
Energy	23.9	23.4	0.5	*2.0*
Health and Human Services	69.2	68.9	0.3	*0.5*
Housing and Urban Development	32.2	28.5	3.7	*11.5*
Interior	10.8	10.6	0.1	*1.1*
Justice	20.2	19.1	1.1	*5.5*
Labor	12.0	11.5	0.5	*4.4*
Transportation	12.7	11.8	0.9	*6.7*
Corps of Engineers	4.7	4.3	0.3	*7.2*
Environmental Protection Agency	8.0	7.6	0.5	*5.6*
Other Agencies	8.4	6.6	1.7	*20.8*

The budget transfers several community development programs from HUD to Commerce, where they are consolidated and cut. The size of the HUD cut partly reflects these transfers.

Eliminates More than 100 Programs Next Year — The budget entirely eliminates more than 100 government programs for 2006, including 48 education programs costing $4.3 billion – see the complete list of programs in *Function 500 (Education, Employment, Training, and Social Services)* – and 33 public health and social service programs that receive $2.0 billion this year.



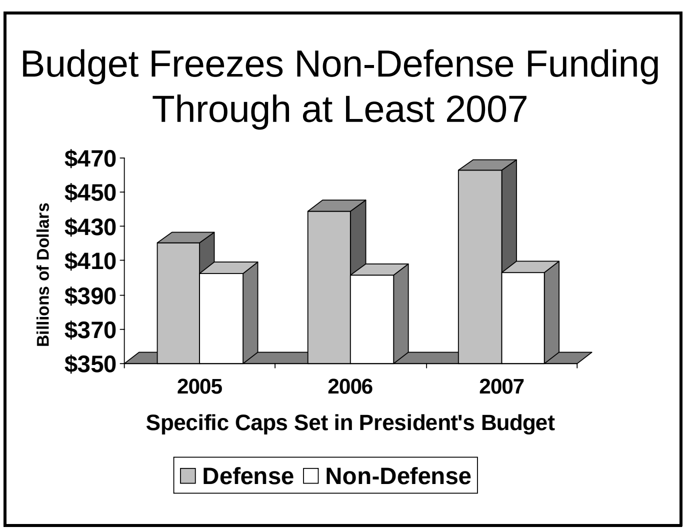
Holds Domestic Funding Below 2005 Level for Next Five Years — Not only does the budget cut 2006 domestic funding – all appropriations except for defense and international funding, which are growing rapidly – it cuts it deeper for 2007, and allows less than one percent annual growth thereafter. In fact, domestic funding never again reaches the 2005 non-emergency level. Although the President's budget does not specify homeland security funding levels beyond 2006, it seems likely that they will grow, thus cutting the remaining domestic non-homeland security funding even further than the levels shown in the following table, which are already far below the amount needed to maintain purchasing power at the 2005 level every year.

Domestic Funding Cut Deeply
(Budget Authority in Billions of Dollars)

	2005	*2006*	*2007*	*2008*	*2009*	*2010*	*2006-10*
President's budget	378.7	367.8	367.5	369.6	371.0	373.1	1849.1
CBO baseline level	378.7	386.5	395.8	405.1	416.8	424.3	2028.4
President below baseline	n.a.	-18.7	-28.3	-35.4	-45.8	-51.2	-179.3
Percent below baseline	n.a.	-4.8%	-7.1%	-8.7%	-11.0%	-12.1%	n.a.

Hides Funding Levels Beyond 2006 — Until last year, all previous Administration budgets displayed funding levels for either five or ten years in the future. Last year, the Administration's published materials did not show discretionary funding totals, or program or account totals, beyond 2005; only the OMB computer tables showed the budget's proposed funding, and cuts, for 2006 through 2009. This year, not even the OMB computer tables contain discretionary funding levels beyond 2006. Even the informal back-up material fails to show discretionary funding at the account or program level beyond the budget year.

Imposes Discretionary Caps at Budget's Specific Funding Levels — Although the budget does not provide program or account level detail after 2006, it imposes limits on overall appropriations through 2010, even specifying defense versus non-defense funding caps through 2007. The OMB computer tables state: "Outyear discretionary estimates for most accounts are generated by formula and do not reflect program policy decisions;" yet the budget limits funding to these formula-driven totals. In fact, the defense levels in the budget through 2010 reflect the Administration's six-year (2006-2011) defense funding plan, and incorporate large increases each year. See *Function 050 (National Defense)* for more details. The budget builds these defense increases into its discretionary caps, and essentially freezes the remaining non-defense



appropriations from 2005 through 2007. Because the budget increases funding for international affairs and domestic homeland security even for 2006, it is clear that the remaining domestic non-homeland security funding will be cut.

***Fails to Include War Funding* —** The appropriations total for 2005 and future years will grow dramatically because Congress has not enacted any funding for the war for 2005 and the budget includes no funding for the war for 2006 or beyond. The Administration will submit an $81 billion supplemental request to finance operations in Iraq and Afghanistan and enhanced security at military installations through 2005, but will need to submit another supplemental funding request by the end of this year to avoid running out of war funds for 2006. If war spending continues at the current rate of $6 billion per month, a 2006 supplemental request would total more than $70 billion.

Homeland Security

The homeland security budget spans approximately 20 agencies, the largest of which are the Department of Homeland Security (54.7 percent of total resources), the Department of Defense (19.0 percent), the Department of Health and Human Services (8.8 percent), and the Department of Justice (6.2 percent). The largest amounts for homeland security are contained in Function 050 (National Defense), Function 400 (Transportation), Function 450 (Community and Regional Development), Function 550 (Health), and Function 750 (Administration of Justice).

Overall Funding Levels

Overall Funding for Homeland Security — The President's budget includes $49.9 billion in total resources for homeland security activities for 2006 — $2.3 billion for mandatory programs and $47.6 billion for discretionary programs. Achieving this funding level for discretionary programs requires $41.8 billion in appropriations, with the remaining $5.9 billion in resources expected to come from offsetting fee collections. Out of this $41.8 billion net appropriated total, the budget includes $12.9 billion for national defense activities (primarily at the Department of Defense) and international affairs programs. The remaining $28.8 billion for domestic appropriated homeland security programs is a decrease of 4.2 percent below the 2005 enacted level. Excluding one-time costs for Project BioShield in 2005, however, the budget actually increases funding by $1.2 billion, or 4.5 percent, over the enacted amount for 2005.

Homeland Security Funding
(Budget Authority in Billions of Dollars)

	2005	2006	Increase	*% Increase*
Total Resources	**$48.5**	**$49.9**	**$1.4**	**3.0**
Mandatory Programs	$2.2	$2.3	$0.1	3.5
Fee-Funded Discretionary Programs	$3.9	$5.9	$1.9	49.5
Net Appropriated Programs:	$42.3	$41.8	$-0.6	-1.4
National Defense (Function 050)	*$12.2*	*$12.8*	*$0.7*	*5.4*
International Affairs	*$0.1*	*$0.1*	*$0.0*	*24.1*
Domestic Discretionary	*$30.1*	*$28.8*	*$-1.3*	*-4.2*
Domestic Discretionary Less BioShield	*$27.6*	*$28.8*	*$1.2*	*4.5*

All numbers based on OMB estimates. Numbers may not add exactly due to rounding.
Totals for 2005 appropriated programs include one-time costs totaling $2.5 billion for Project BioShield.

Totals Include Funding for Project BioShield **—** These discretionary funding figures for 2005 include $2.5 billion in advance appropriations for Project BioShield already approved by the Congress and available for the period 2005 through 2008. (In total, Congress provided $5.6 billion for this program over the period 2004-2013.)

Program Highlights

First Responders **—** The budget includes a total of $2.5 billion within the Department of Homeland Security for first responder funding, which is $560 million (18.1 percent) less than the amount enacted for 2005. Within this total, the budget decreases firefighter assistance grants by $215 million; decreases formula-based grants by $280 million; and decreases funding for specific high-threat urban areas by $65 billion. The budget also provides $400 million for law enforcement terrorism prevention, the same level that was enacted for 2005. For the Department of Justice, the budget eliminated the Byrne Memorial Justice Assistance grant program – a reduction of $529 million – and reduced the Community Oriented Policing Services (COPS) program $477 million (95.6 percent) below the 2005 enacted level. (See discussion under Function 750.)

Targeted Infrastructure Protection **—** The budget includes $600 million to supplement state and local infrastructure protection efforts. These efforts could include security enhancements at ports, transit facilities, and other infrastructure. However, unlike last year's budget, the 2006 budget includes no specific amount for port security activities. (See discussion under Function 400.)

Increase for Health Homeland Security Activities **—** Health homeland security activities are spread across the Departments of Health and Human Services, Homeland Security, Labor, and Agriculture. These activities include protection of the nation's food supply; preparation against potential bioterrorism attacks, including development and procurement of vaccines; research to develop countermeasures; and preparations for public health emergencies. The budget provides $4.5 billion for health homeland security activities, a $195 million (4.6 percent) increase over the 2005 enacted level. The two biggest pieces of health homeland security funding are the Public Health and Social Services Emergency Fund and biodefense research at the National Institutes of Health.

Transportation Security Agency (TSA) **—** The budget provides $5.6 billion for the TSA, now part of the Department of Homeland Security, for 2006. This amount is $156 million (2.9 percent) more than the 2005 enacted level.[1] In addition, the President proposes to increase

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[1]Some estimates show that 2006 funding is $300 million above the 2005 enacted level. This discrepancy exists because of a $109.04 million R&D transfer to the Science and Technology Directorate, and a $34.9 million transfer of Secure Flight to the Office of Screening Coordination and Operations within the Border and Transportation Security Directorate. Without accounting for this transfer, the 2006 level increases to $5.7 billion.

airline security passenger fees to cover a larger portion of screening costs. On a typical one-way ticket, the passenger security fee will rise from $2.50 to $5.50. For passengers flying multiple legs on a one-way ticket, the fee will rise from $5.00 to $8.00. This will raise $8.9 billion over five years (2006-2010).

***Coast Guard* —** The President's budget provides $8.1 billion for the Coast Guard, also now part of the Department of Homeland Security. Of this amount, $6.9 billion is appropriated funding and $1.2 billion is mandatory spending, which consists mostly of retirement pay. The 2006 appropriated funding is $644 million (10.2 percent) higher than 2005 enacted level. As was the case with last year's budget, the funding increase is attributable to the Coast Guard's expanded role in homeland security.

***Customs and Border Protection* —** The budget includes $5.6 billion in appropriated funding for U.S. Customs and Border Protection at the Department of Homeland Security, $304 million (5.8 percent) more than the 2005 enacted level. Customs and Border Protection consists of the inspection forces of the former Customs Service and the former Immigration and Naturalization Services, the Agriculture Quarantine and Inspection program, and the Border Patrol.

Damaging Cuts

The federal budget is a reflection of values and priorities, and the spending choices made in the 2006 budget bring into focus where this Administration's priorities lie. The budget makes tax cuts for the most affluent members of our society a top priority. By contrast, it puts little or no priority on programs that provide services to veterans and low-income households, provide health care to the most vulnerable members of society, build infrastructure, and protect our environment.

Specifically, the President's 2006 budget essentially freezes discretionary spending at the 2005 level of $840.3 billion. Within this amount, the budget cuts domestic non-homeland discretionary spending by $9.6 billion below the 2005 enacted level. Over five years, domestic funding is cut by $179.3 billion below the amount that CBO estimates is needed to maintain 2005 purchasing power. These funding cuts include the elimination or substantial reduction of 150 programs, as announced by the President in the State of the Union. For example, the Department of Education eliminates 48 programs, costing a total of $4.3 billion, and the Department of Health and Human Services eliminates 33 health and social services programs costing $2.0 billion.

Damaging Cuts in the President's Budget (Illustrative List)

- ❑ **Medicaid:** $60 billion gross cut over ten years; $45 billion net cut over ten years
- ❑ **Education:** Eliminates all vocational education programs — cut of $1.2 billion in 2006
- ❑ **Environmental Protection Agency:** $452 million cut in 2006
- ❑ **Low-Income Home Energy Assistance:** $182 million cut in 2006
- ❑ **Veterans:** Provides $762 million less than amount needed to maintain current services for discretionary programs, most of which are health care services
- ❑ **Community Development Block Grant:** Eliminates CDBG — cut of $4.6 billion in 2006

Domestic Funding Cut Deeply

(Budget Authority in Billions of Dollars)

	2005	***2006***	***2007***	***2008***	***2009***	***2010***	***2006-10***
President's budget	378.7	367.8	367.5	369.6	371.0	373.1	1849.1
CBO baseline level	378.7	386.5	395.8	405.1	416.8	424.3	2028.4
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Percent below baseline	n.a.	-4.8%	-7.1%	-8.7%	-11.0%	-12.1%	n.a.

The budget also makes deep cuts to mandatory spending, cutting spending for Medicaid, farm subsidies, student loans and first responders, for five-year savings of $38.7 billion and ten-year savings of $71.1 billion.

The Administration defends these cuts in the name of deficit reduction, but it has no concern about spending $1.6 trillion for tax cuts that provide the greatest benefit to those who need it the least, or $754 billion for Social Security privatization. The choice to cut programs that address so many of the nation's needs while funding tax cuts for higher-income households and undermining Social Security is a clear a statement of the Administration's priorities.

Cuts to Veterans

***Inadequate Veterans Discretionary Funding* —** The budget provides $31.0 billion for veterans discretionary programs, most of which are health care services — a $762 million cut below the amount CBO estimates is needed to maintain purchasing power at the 2005 enacted level.

Eliminates Funding for Extended Care Facilities — The budget eliminates all funding for state grants for extended care facilities. This reflects a reduction of $105 million from the 2005 enacted level.

Cuts Funding for Medical and Prosthetic Research — The budget cuts $9 million from medical and prosthetic research activities. These cuts could be deeper if the additional fees the budget proposes for Priority 7 and Priority 8 veterans – totaling $424 million in 2006 – were eliminated.

Reduces Medical Personnel — The budget proposes medical personnel reductions totaling more than 3,000. Most of these are nurses.

Cuts to Education

Eliminates $4.3 Billion of Education Programs — The budget eliminates 48 education programs that receive $4.3 billion this year, which is 7.5 percent of all current education funding. The eliminations include wiping out $1.3 billion for all vocational education programs, $522 million for all education technology programs, and $29 million for all civic education programs. The budget eliminates other large programs including the Even Start family literacy program ($225 million) and state grants for safe and drug-free schools and communities ($437 million).

Cuts Student Loan Programs — The President's budget makes changes to the Education Department's student loan programs related to the upcoming reauthorization of the Higher

Education Act. The changes result in net savings – less spending on student loan programs – of $10.7 billion over ten years (2006-2015), compared with OMB's estimate of current law.

Cuts to Homeland Security

***First Responders Cut by $1.6 Billion* —** The budget includes a total of $2.5 billion within the Department of Homeland Security for first responder funding, which is $560 million (18.1 percent) less than the amount enacted for 2005. Within this total, the budget decreases firefighter assistance grants by $215 million; decreases formula-based grants by $280 million; and decreases funding for specific high-threat urban areas by $65 billion.

Cuts to Health Programs

Deep Cuts for Medicaid — The budget cuts Medicaid by $60 billion, of which $15 billion is used for new spending within Medicaid, for a net cut of $45 billion over ten years. Cuts of this magnitude cannot be found by simply closing loopholes — the pain will be felt somewhere, either by shifting costs to beneficiaries or states, or by cutting payments to providers.

Severely Cuts Health Professions Training Programs — As in prior years, the budget eliminates all funding for health professions training programs, with the exception of programs that expand the number of health professions students from minority and disadvantaged backgrounds. In 2005, these programs received $300 million, but this year only receive $11 million, a cut $289 million (96.3 percent).

Slashes Rural Health Activities — The budget provides $30 million for rural health activities, a $115 million cut (79.3 percent) from the 2005 enacted level.

***Freezes Nurse Training Programs* —** The budget provides $150 million for nurse training programs, a cut of $1 million below the 2005 enacted level.

Slashes Construction Funding for Indian Health Facilities — The budget nearly eliminates Indian health facilities construction, cutting funding from its 2005 level of $89 million, to only $3 million in 2006. Overall, the budget funds IHS at $3.0 billion for 2006, an increase of $63 million (2.1 percent) above the 2005 enacted level, but essentially a freeze at the amount that CBO estimates is needed to maintain purchasing power at the 2005 level.

Cuts that Damage the Safety Net

***Tightens Eligibility for Food Stamps* —** The budget includes a provision to make it more difficult for certain low-income families receiving TANF non-cash assistance to qualify for food stamps. The budget also includes a provision to allow states to use the National Directory of New Hires to verify Food Stamp participants' employment and wage information. The combined effect of these provisions, along with the food stamp effects of the Administration's child support proposals is to reduce food stamp spending by $1.1 billion over ten years. Most of the savings comes from the TANF provision.

***Cuts Public Housing Capital Fund by Nearly One-Tenth* —** The budget provides $2.3 billion to local public housing authorities for capital repairs and improvements to their housing stock. This amount is $252 million, or 9.8 percent, below the 2005 level. The capital fund was funded at $3.0 billion for 2001 and has received steadily less each year since then.

***Cuts Housing for the Disabled and Freezes Housing for the Elderly* —** The budget provides $120 million for a program that provides supportive housing and other housing assistance for persons with disabilities, 50 percent less than the amount enacted for 2005. The budget freezes a similar housing program for the elderly at $741 million.

***Cuts Low-Income Energy Assistance* —** The budget provides $2.0 billion for the Low-Income Home Energy Assistance Program (LIHEAP), a cut of $182 million, or 8.3 percent, below the 2005 level (including contingency funding). LIHEAP provides help with energy bills to about 4.5 million households each year. About 35 percent of LIHEAP households include a member 60 years of age or older, and about half include a member with a disability.

***Eliminates Community Services Block Grant* —** The budget eliminates the Community Services Block Grant (CSBG), currently funded at $637 million, as well as five other community service programs currently funded at $65 million. The CSBG is a state grant that funds a range of services to reduce poverty, and provide income, housing assistance, nutrition, energy, and health assistance.

Cuts That Weaken Our Communities

***The Community Oriented Policing Services (COPS) Program Nearly Eliminated* —** COPS provides grants and other assistance to help communities hire, train, and retain police officers and to improve law enforcement technologies. The budget provides $118 million for COPS for 2006. Of the $118 million, however, $96 million is funding carried over from previous years, and only $22 million is new budget authority. The 2005 enacted levels included $598 million available funds, of which $499 million was new budget authority. The budget cuts COPS available funds by $480 million (80.3 percent) below the 2005 level, and cuts COPS new budget authority by $477 million (95.6 percent) below the 2005 level.

***State and Local Criminal Justice and Juvenile Justice Consolidated and Cut* —** State and local criminal justice and juvenile justice programs provide resources to help communities combat and deter crime. The budget eliminates currently-funded state and local justice programs and creates new initiatives within the Office of Justice. However, the budget provides only $1.2 billion for Office of Justice state and local law enforcement initiatives for 2006, thereby cutting overall funding for state and local justice assistance by $496 million below the 2005 level.

***Community Development Block Grant (CDBG) Program Eliminated* —** The CDBG program enables states and localities to target federal formula grants and other financial assistance toward improving housing and economic conditions in low- and moderate-income neighborhoods. The budget eliminates CDBG formula grants and most CDBG set-aside programs, which were funded at a total of $4.6 billion for 2005.

***Urban and Rural Empowerment Zones/Enterprise Communities Eliminated* —** These programs provide financial incentives to attract business development and job growth in designated disadvantaged areas. The budget eliminates these programs, which are currently funded at $22 million.

***Brownfields Redevelopment Program Eliminated* —** The Brownfields Redevelopment program provides funds and other incentives to encourage clean-up of health and environmental hazards on underused or abandoned commercial and industrial sites. The budget eliminates this program, which is now funded at $24 million.

Cuts that Hurt Rural America

***Rural Housing and Economic Development Program Eliminated* —** The Rural Housing and Economic Development program provides funds to improve housing and economic development among rural communities. The budget eliminates the Rural Housing and Economic Development program, which is currently funded at $24 million.

***Rural Community Advancement (RCA) Program Cut* —** The RCA program provides grants, loans, and loan guarantees to stimulate economic growth and build facilities in rural communities. The budget provides $522 million for the RCA, a $165 million (24.0 percent) cut below the 2005 enacted level, and a $179 million (25.6 percent) cut below the level needed to keep pace with inflation.

***Funding Cuts for the Essential Air Service (EAS) and Small Community Air Service Programs* —** The EAS program provides financial assistance to rural communities geographically isolated from hub airports so that they may operate smaller airports. The President's 2006 budget once again cuts funding more than 50 percent for the EAS program by establishing a $50 million cap. Congress has consistently rejected the Administration's proposal.

In addition, as in previous years, the President does not include any funds for the Small Community Air Service Program, which helps communities that suffer from infrequent service and high air fares. Congress authorized $35 million per year for this program as part of the 2004 Federal Aviation Administration (FAA) reauthorization bill (although only $20 million was provided in 2005 funding).

Cuts to Infrastructure and Environment

***Budget Cuts Environmental Protection Agency (EPA) Funding* —** For 2006, the President's budget once again cuts EPA funding, providing $7.6 billion in appropriations, a 5.6 percent ($452 million) decrease from the 2005 enacted level. As in previous years, the majority of this decrease is attributed to considerably reduced funding for water infrastructure programs that protect public health and the environment.

***Deep Cuts to Farm Conservation Programs* —** The President once again cuts vital Farm Bill programs that would help farmers and ranchers protect and enhance natural resources by well over $450 million for 2006 alone. The Conservation Security Program (CSP) is capped at $274 million. The Environmental Quality Incentives Program (EQIP) is cut by $200 million (a 16.7 percent cut); the Wildlife Habitat Incentives Program (WHIP) by $25 million (29.4 percent); Farmland Protection by $16 million (16 percent); Agriculture Management Assistance by $14 million (70.0 percent); and the Watershed Rehabilitation Program by $210 million (100 percent). These cuts are just some examples. The approximate $4 billion backlog in applications waiting to be filled (if full funding were available) for these and other programs, such as the Wetlands Reserve Program (WRP), is also not addressed.

***Elimination of Amtrak Operating Subsidies* —** The Administration continues to press for the privatization of Amtrak, believing that the current system is too inefficient to be viable. The Administration has proposed cutting Amtrak funding in previous years while pressing for its privatization, but this year's budget takes matters one step further by only providing funding to cover the capital expenses of Amtrak, not the operating expenses. The President's budget provides only $360 million in 2006 funding for Amtrak, a cut of $847 million, or 70.2 percent, from the 2005 enacted level.

Budget Process Proposals

The President's budget includes a number of provisions that, if enacted or enforced, would dramatically change congressional consideration of budget-related legislation with serious long-term consequences for the budget. Following is an overview of the President's proposed changes.

***Budget Enforcement that Ignores the Impact of Revenue Losses* —** The Administration proposes a rule that it claims is largely based on the Pay-As-You-Go (PAYGO) provisions that were adopted under the Budget Enforcement Act of 1990 (BEA) and expired in 2002.[2] In actuality, the Administration's proposal is only a partial reinstatement of PAYGO since it ignores key enforcement provisions relating to tax cuts.

The BEA's PAYGO provisions required that tax cuts as well as increased mandatory spending be completely offset by either tax increases or decreases in mandatory spending. PAYGO was enforced through sequestration of mandatory programs. The Administration's proposed rule significantly guts PAYGO because it provides budgetary enforcement solely on the spending side, offsetting mandatory increases with mandatory cuts. But, under the proposed rule, tax cuts would not have to be offset by tax increases or mandatory reductions. Additionally, mandatory increases could not be offset by tax increases.

PAYGO rules under the BEA have been widely credited with helping to convert massive deficits into record surpluses during the 1990's. Unlike the PAYGO rule under the BEA, the proposed rule fails to recognize that fiscal discipline means constraints on both spending and tax cuts, particularly at a time of record deficits.

***Pay-As-You-Go Rules for Administrative Action Proposals* —** The budget also proposes an unprecedented PAYGO rule that would require agencies to propose offsets for any administrative proposal that would increase mandatory spending.

***Discretionary Spending Caps* —** Discretionary spending caps were first established under the BEA in 1990 to limit appropriations with automatic adjustments for a few items such as emergencies. The caps were enforced through sequestration of non-exempt programs. The discretionary spending caps were extended twice and expired in 2002.

The Administration proposes to reinstate discretionary spending caps for years 2005 through 2010 at levels of appropriations in the President's budget. For 2006, however, the President's budget significantly cuts non-homeland security domestic appropriations and leaves out the full cost of priorities such as funding operations in Iraq and Afghanistan. (See also *Appropriated Programs* section.) In years 2007 through 2010, the President's budget provides no detailed policy for appropriated programs and, therefore, fails to show how the Administration plans to achieve the drastic cuts in domestic services that would be needed to abide by the caps.

[2] Analytical Perspectives, p. 238

The budget proposes separate defense and non-defense caps for years 2005 through 2007 and merges the two categories for years 2008 through 2010. The budget creates a separate transportation category for years 2005 through 2010, but discontinues conservation categories.

***Administration Would Change Budget Rules to Make it Easier to Extend the 2001 and 2003 Tax Cuts* —** In general, policy changes are shown separately from the budget baseline of currently enacted programs and taxes. But the Administration wants to make an exception for extending the tax cuts, most of which are now scheduled to expire in 2010. This would in effect treat the extension of the cuts as if it had already been enacted. Under this change, CBO and OMB would be required to show the cost of legislation to extend the tax cuts or to make them permanent as "zero." (In reality, CBO estimates that extending the tax cuts and making them permanent would cost $1.6 trillion over the next ten years.) This is one more Administration effort to disguise the true costs of its tax cuts.

***Point of Order Against Entitlement Legislation* —** The budget proposes a point of order against legislation expanding major entitlement programs such as Social Security, Medicare, veterans disability compensation, Supplemental Security Income, and federal civilian and military retirement. The budget further proposes reporting requirements on legislative action expanding these programs. The budget states that these proposals are necessary to prevent additional increases in long-term obligations. However, the budget fails to propose any mechanisms to address the long-term revenue losses resulting from tax cuts.

***Joint Budget Resolution* —** Under current law, the Congressional budget resolution is an annual concurrent budget resolution that does not go to the President for his signature. Instead, it is an internal document governing Congressional budget decisions. The budget proposes that Congress enact a joint budget resolution that would require the President's signature and be enforced by sequestration that would require across-the-board cuts to offset spending above the budget totals. Opponents of joint budget resolutions argue that this proposal skews negotiating power toward the Administration by allowing the President an opportunity to veto Congressional budget priorities. In addition, critics add that tax and spending bills might be delayed since enactment of the budget resolution would present such high political stakes. Additionally, the joint budget resolution could be used as a vehicle to enact non-budget related items.

***Biennial Budgeting and Appropriations* —** The budget includes a proposal to adopt budgets and appropriations every two years, in odd-numbered years, with the even-numbered years devoted to enacting authorizing legislation. Under current law, Congress adopts a budget resolution and enacts appropriations on a yearly basis. Biennial budgeting proposals have been defeated with many arguing that Congressional oversight may be weakened if programs are appropriated half as often. In addition, constant and significant changes in budget estimates may cause policies to become outdated by the second year. Also, biennial budgeting may lead to even more supplemental funding, which is routinely held to less scrutiny. Since the current Administration has been in office, ten supplemental bills have been enacted under the current yearly budgeting process. Finally it is ironic that the same budget that proposes biennial budgeting includes account-level detail for only one year, not two years or the usual five or ten years covered by past Administration budgets.

Line Item Veto **—** The Line Item Veto Act of 1996 gave the President authority to cancel new spending and limited tax benefits. The United States Supreme Court ruled the Act unconstitutional in 1998. The Administration proposes a constitutional line-item veto that would grant the President authority to *cancel new spending only,* not tax benefits. The savings from the cancelled spending would be applied to deficit reduction.

Automatic Continuing Resolution **—** The budget proposes an automatic continuing resolution to prevent a government shut-down if neither a regular appropriations measure nor a temporary continuing resolution is in place after a fiscal year has begun. The proposal would automatically fund programs at the *lower* of either the funding levels in the President's budget or the funding levels enacted the previous year. This proposal could encourage Members of Congress who favor spending cuts to oppose regular appropriations bills that include higher levels of funding.

Emergency Designations and Baselines **—** The discretionary spending caps, which expired in 2002, exempted emergency designations from their totals. The budget, which proposes to extend discretionary caps at levels set in the President's budget for years 2006 through 2010, also proposes to include provisions in the BEA that define emergencies.   Under the proposal, both Congress and the President would have to agree that a spending item is "necessary, sudden, urgent, unforeseen, and not permanent" in order for that item to be exempt from budget totals.[3] The definition is designed to preclude Congress and the President from applying emergency designations to domestic and natural disasters that total within the five-year average for such disasters, and expected and on-going military and national security operations. This is ironic since the President's budget includes no funding for operations in Iraq and Afghanistan.

The budget also proposes that baselines, which estimate federal spending and revenues for a fiscal year based on enacted policies, exclude designated emergency spending. Under current guidelines, baselines include emergency spending in the budget year and years beyond. The proposal would provide that baselines include any designated emergency funding only for the year in which it is enacted.

Baseline Proposals for Expiring Housing Contracts and Social Insurance Administrative Expenses **—** The budget proposes to eliminate BEA sections that make adjustments in the baseline for expiring housing contracts and social insurance administrative expenses. This provision is particularly problematic in calculating funding for Section 8 housing programs. Under current law, the baseline for Section 8 housing is adjusted to reflect the costs of renewing expiring, multi-year subsidized housing contracts. Without this adjustment, the current services baseline estimate for the housing contract part of the program would be artificially low and would

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[3] Analytical Perspectives, p. 239

underestimate the amount of funding necessary to maintain the current level of services in the program.

Baseline Adjustment for Federal Pay Raises **—** The budget proposes that, since the effective date for federal pay raises occurs in January, the baseline not assume that pay raises take effect at the beginning of the fiscal year in October.

Changes in Pell Grant Funding **—** The budget changes the way that education Pell Grants are funded and scored. The program is currently funded through appropriations, although it can have a shortfall or a surplus of budget authority from year to year because of inaccurate estimates of the number of participating students. The program currently spent $4.3 billion more than Congress has provided.

The President's budget changes the program to a hybrid of mandatory and discretionary funding. Discretionary budget authority would continue to support the cost of the current $4,050 maximum award, while mandatory spending would pay for the additional costs of increasing the maximum award by $100 in each of the next five years. This new mandatory funding would be available only if Congress enacts controversial changes in the student loan program; if Congress does not make these entitlement changes, the maximum award would remain frozen. Mandatory budget authority also would retire the $4.3 billion shortfall, but because the money has already been spent on these Pell Grants, there would be no outlays associated with the budget authority, and there would be no consequence to the deficit.

All the new mandatory spending is contingent upon enactment of a rule that would score an appropriations bill with the amount of discretionary budget authority that OMB estimates is needed to support the maximum award set in the bill, regardless of the level Congress actually provided in the bill. Under this rule, if Congress provided $13.0 billion to support a maximum award of $4,050 but OMB estimated that $13.5 billion was needed, the bill would be scored as containing the full $13.5 billion.

Accrual Accounting of Federal Retiree Costs **—** The budget again proposes accrual accounting of federal retiree costs. Under this plan, agencies are required to pay up front all retirement pension and health costs for federal employees. Current federal accounting procedures include these retirement costs as future mandatory payments that do not show up in agency costs. The budget proposes to change this practice so that each agency shows these retirement costs as current discretionary costs, therefore increasing the need for discretionary appropriations to cover these payments.

The budget also proposes that Congress make permanent a provision enacted for 2005 that allowed the Patent and Trademark Office to use the fees it collects to cover current accruing costs of post-retirement annuities and health and life insurance benefits. The budget also proposes that the pensions savings the Postal Service receives pursuant to P.L. 108-18 be used to place the Postal Service on a path to fully funding retiree health benefits and liabilities rather than be held in escrow.

Results Commissions and Sunset Commission **—** The budget proposes that the President be granted authority to create various Results Commissions and a Sunset Commission. Results Commissions would examine ways to restructure and/or consolidate existing programs. Recommendations by the Commissions would be considered in Congress under expedited procedures. The Sunset Commission would consider whether to retain, restructure, or eliminate programs according to a schedule enacted by Congress. Programs would automatically terminate pursuant to the review process unless Congress took action to reauthorize them.

Advance Appropriations **—** The budget proposes to freeze all advance appropriations, excluding BioShield, over years 2006 through 2010 at $22.6 billion, the level of advance appropriations for 2007 in the President's budget. The levels would be enforced by counting additional advance appropriations above the 2007 level against the discretionary caps in the year they are enacted.

The budget also proposes that, if an appropriations provision delays mandatory budget authority obligations, that not only would the first year be scored as a savings (since it is included in an appropriations act and reduces spending in that year), but that the second year impact would be treated as an advanced appropriation to be scored against the discretionary caps.

Project BioShield Category **—** The budget proposes to create a separate category of spending under the BEA – neither mandatory nor discretionary – to provide funding for BioShield to prevent reductions in the program and disallow its use as an offset.

The Budget by Function

The following three tables show the President's budget plan broken down by function. The first table shows the total budget (mandatory and discretionary) for each budget function. The second table shows the budget for appropriated (discretionary) funding, which is funding controlled by the annual appropriations process. The final table shows the budget for mandatory spending, which is spending provided through authorizing legislation. Mandatory spending includes entitlement programs such as Medicare, Medicaid, and Social Security, as well as interest payments on the federal debt. Detailed descriptions of each function (except *Function 900: Net Interest,* which is directly tied to the funding levels in the other budget functions and revenues) follow the tables.

Function 050: National Defense

The National Defense function includes the military activities of the Department of Defense (DOD), the nuclear-weapons related activities of the Department of Energy (DOE) and the National Nuclear Security Administration (NNSA), the national security activities of several other agencies such as the Selective Service Agency, and portions of the activities of the Coast Guard and the Federal Bureau of Investigation. The programs in this function include: the pay and benefits of active, Guard, and reserve military personnel; DOD operations including training, maintenance of equipment, and facilities; health care for military personnel and dependents; procurement of weapons; research and development; construction of military facilities, including housing; research on nuclear weapons; and the cleanup of nuclear weapons production facilities.

The President's budget includes $438.8 billion for all national defense appropriated activities, including $419.3 billion for DOD, $16.6 billion for the nuclear weapons-related activities of DOE, and $2.9 billion for miscellaneous national security activities in other agencies such as the Federal Bureau of Investigation and the Coast Guard functions of the Department of Homeland Security.

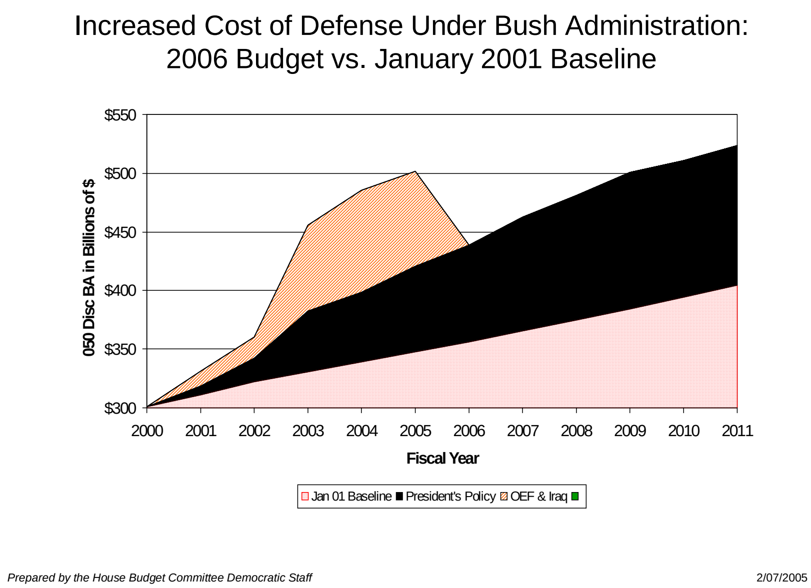
In order to provide an apples-to-apples comparison with the budget request, all comparisons that follow in this section either to the 2005 enacted level or to the amount needed to maintain 2005 purchasing power exclude the 2005 disaster relief supplemental funding.[4]

Funding for National Defense Increases Even After "Cut" — The budget reduces the Defense Department's Future Years Defense Program (FYDP) – 2006 through 2011 – by $30 billion. However, even with these reductions, the budget still increases funding for defense well above the levels needed to keep pace with inflation. Excluding supplemental funding for operations in Iraq and Afghanistan, the budget request for appropriated national defense programs is $18.8 billion (4.5 percent) above the 2005 enacted level, and $8.2 billion (1.9 percent) above the level needed to maintain 2005 purchasing power. It increases funding for national defense by $137.2 billion (6.1 percent) above the amounts needed to maintain purchasing power at the 2005 appropriated level over the next five years.

Long-Term Defense Increase is Significant — The increases in defense spending over the five years covered by this budget are only a portion of the actual and planned surge in defense since the beginning of the Bush Administration. The following chart shows the increase in the defense budget from $301 billion in 2000 to more than $500 billion planned for 2011. Consequently, the total defense spending increase under this Administration's policies (including the costs of our

[4] The 2005 enacted level includes no funding for the wars in Iraq and Afghanistan. The $25 billion war reserve made available for operations in Afghanistan and Iraq in the 2005 defense appropriations bill for 2005 is considered to be funding enacted for 2004. This is because Congress made the funds available immediately upon enactment of the appropriations bill to finance 2004 shortfalls.

military operations in Iraq and Afghanistan through 2005) will exceed the CBO baseline released in January 2001, when the President took office, by more than $1.1 trillion for the ten-year period from 2002 through 2011.



Even without the considerable debt service that results from this increased spending, the rapid increases in defense spending under this Administration are a major reason why the $5.6 trillion surplus projected over this same period when President Bush took office has vanished. While part of this increase is attributable to the response to the attacks of September 11, 2001, the subsequent war on terrorism (Operation Enduring Freedom) in Afghanistan, and the war in Iraq, the vast majority of the actual and planned increased defense spending under Administration policies is not directly related to Iraq or to the war on terrorism.

***No Funds for Operations in Iraq and Afghanistan* —** In the President's State of the Union last year he said: "... I will send you a budget that funds the war." He did not. Again this year, the President's budget excludes costs for operations in Iraq and Afghanistan in fiscal year 2006 and later. The Administration will submit an $81 billion supplemental request to finance these operations through 2005. However, this funding will not finance operations for 2006. The Administration will have to submit another supplemental funding request by the end of this year to avoid running out of war funds. On February 2, 2005, before the Senate Armed Services Committee, Deputy Defense Secretary Paul Wolfowitz testified that the Congress can expect a "substantial request for supplemental funding in FY 2006." If war spending continues at the current rate of $6 billion per month, a 2006 supplemental request would total more than $70 billion.

The Department of Defense

Increase for the Department of Defense (DOD) **—** The budget increases funding for appropriated DOD programs by $19.2 billion (4.8 percent) above the enacted 2005 amount. The budget request of $419.3 billion for DOD is $8.9 billion (2.2 percent) above the amount needed to maintain purchasing power at the 2005 level.

Military Pay and Benefits **—** The budget includes an across-the-board military pay raise of 3.1 percent. DOD civilians would receive a lower 2.3 percent pay raise.

Restructuring U.S. Forces **—** The budget proposes accelerating the restructuring of U.S. ground forces, including the Army's initiative to increase the number of active army brigades from 33 maneuver brigades to 43 brigade combat teams. However, no additional funding is included in the current request for these initiatives until 2007. For 2005 and 2006, the Administration plans to request funding in upcoming supplemental requests.

Funding for Increased Army Personnel Strengths Delayed **—** The budget does not include funding for Army and Marine Corps personnel increases – 30,000 for the Army and 9,000 for the Marine Corps – until 2007. DOD is planning to fund the additional 2005 and 2006 costs in upcoming supplemental requests.

Base Realignment and Closure (BRAC) **—** The budget includes $1.9 billion in 2006 and $5.7 billion in 2007 to finance implementation of decisions from the 2005 BRAC Commission. According to the Administration, previous BRAC rounds eliminated about 21 percent of DOD infrastructure and generated savings of about $7 billion per year.

Department of Defense by Title **—** The following table compares the President's request with both the 2005 enacted level and the level that CBO estimates is needed to maintain purchasing power at the 2005 level (the "Inflation-Adjusted" column).

The DOD Budget by Title:
Comparisons with the 2005 Enacted Level and
the Level Needed to Maintain Purchasing Power,
Excluding 2005 Supplemental Funds
(Discretionary Budget Authority in Billions of Dollars)

	Enacted 2005	2006 Budget	Dollar Change	Percent Change	Inflation Adjusted 2005	Dollar Change	Percent Change
Personnel	103.7	108.9	5.2	*5.0*	107.5	1.4	*1.3*
O&M	138.3	147.8	9.5	*6.9*	142.1	5.7	*4.0*
Procurement	78.3	78.0	-0.3	*-0.4*	79.6	-1.5	*-1.9*
RDT&E	68.6	69.4	0.8	*1.1*	69.8	-0.5	*-0.7*
Mil Construction	5.9	7.8	1.9	*31.3*	6.1	1.7	*28.7*
Family Housing	4.1	4.2	0.2	*4.7*	4.1	0.1	*2.4*
Other DOD	1.1	3.1	2.0	*172.7*	1.2	2.0	*168.3*
Total DOD	400.2	419.3	19.2	*4.8*	410.4	8.9	*2.2*

***Military Personnel* —** The military personnel accounts fund the pay and allowances of active and reserve personnel, and include accrual payments for future retirement and health benefits. The personnel budget is $5.2 billion (5.0 percent) above the 2005 enacted level, and $1.4 billion (1.3 percent) above the level needed to maintain purchasing power at the 2005 level.

***Operations and Maintenance (O&M)* —** The O&M accounts are critical to readiness because they fund training, military exercises and operations, spare parts, fuel, and all the other items a military force needs to operate its forces and installations. As the table indicates, the O&M budget is $9.5 billion (6.9 percent) above the 2005 enacted level, and $5.7 billion (4.0 percent) above the level needed to maintain purchasing power at the 2005 level. Since the budget contains no funds for ongoing operations in Iraq and Afghanistan, the Army and the other services are likely to need to divert some of these funds from their intended purposes such as training and maintenance in order to finance the cost of any such operations until a supplemental for 2006 is enacted.

The budget reduces army O&M funding (including active army, the reserves, and the National Guard) $124 million below the enacted level for 2005, and $1.0 billion below the amount needed to maintain purchasing power at the 2005 level.

***Procurement* —** The budget includes $78.0 billion for procurement of weapons systems and military equipment including aircraft, ships, vehicles, and satellites. This level is $283 million (0.4 percent) less than the 2005 enacted level, and is $1.5 billion (1.9 percent) below the amount needed to maintain purchasing power at the 2005 level.

***Research and Development* —** The budget includes $69.4 billion for 2006 for research, development, test, and evaluation programs (RDT&E). This level is $754 million (1.1 percent) more than the 2005 enacted level, and $472 million (0.7 percent) less than the amount needed to maintain purchasing power at the 2005 level.

***Military Construction* —** These accounts fund the facilities where military personnel work and the barracks where single enlisted personnel live. The 2006 funding level of $7.8 billion for construction of new facilities in the budget is $1.9 billion (31.3 percent) above the 2005 enacted level, and is $1.7 billion (28.7 percent) above the amount needed to maintain purchasing power at the 2005 level. All of the increase is attributed to the $1.9 billion budgeted for BRAC.

Selected Program Highlights

***Ballistic Missile Defense* —** The budget includes $8.8 billion for ballistic missile defense (BMD) programs, a decrease of $1.1 billion (10.7 percent) below the 2005 enacted level. The 2006 budget will add five Ground-Based Interceptors for a total of 21 and 11 Standard Missile 3 missiles for a total of 22 sea-based interceptors.

***Selected Weapons Programs* –** The budget increases funding over the 2005 enacted level for the Joint Strike Fighter aircraft by $694 million to $5.0 billion and for the Army's Future Combat System vehicles by $604 million (a 21.6 percent increase) to $3.4 billion. Funding is reduced for the Unmanned Aerial Vehicles, or UAVs, by $359 million to $1.5 billion; for the F-22 Raptor by $385 billion; for Stryker Armored Vehicles by $669 billion; and for the Joint Direct Attack Munition (JDAM) by $359 million. The budget terminates the C-130J and the Joint Common Missile programs.

***Science and Technology R&D* –** Science and technology (S&T) programs represent investment in the future technologies needed to keep our military capability second to none. Both the Administration and Congress have embraced the goal of devoting 3.0 percent of DOD resources to S&T programs. However, for the fifth straight year, the Administration's budget increases overall R&D funding levels while funding S&T programs below the previous year's enacted level, and below the 3.0 percent goal. The budget funds S&T programs at $10.5 billion for 2006, a decrease of $2.5 billion from the 2005 enacted level. This would reduce the share of DOD funding devoted to S&T programs to 2.5 percent.

***DOD Nonproliferation* —** The bulk of U.S. nonproliferation funding is within DOE, but the DOD budget includes the Cooperative Threat Reduction program. This program is often called the Nunn-Lugar program, after its primary legislative sponsors, former Senator Sam Nunn and Senator Richard Lugar. The Nunn-Lugar program focuses on the dismantlement of nuclear missiles and chemical weapons. The budget includes $416 million for the Nunn-Lugar program, which is $7 million (1.7 percent) above the 2005 enacted level.

Atomic Energy Defense Activities

The budget provides $16.6 billion for the nuclear weapons-related activities of DOE and other agencies. This is $543 million (3.2 percent) less than the 2005 enacted level. It is $838 million (4.8 percent) below the amount needed to maintain purchasing power at the 2005 level.

***Nuclear Nonproliferation Programs* —** DOE oversees several important programs to stop the spread of nuclear materials to terrorist groups and nations that are hostile to the United States. Most of these programs are focused on Russia and other states of the former Soviet Union. The budget provides $1.6 billion for these programs for 2006, which is $228 million above the 2005 enacted level and $205 million above the amount needed to maintain purchasing power at the 2005 level.

***Weapons Activities/Stockpile Stewardship* —** This program maintains the safety and reliability of nuclear weapons in the absence of underground tests. Stockpile stewardship relies on computer modeling, surveillance of weapons, and experiments that do not produce nuclear yields. The budget provides $6.6 billion for the stockpile stewardship program, which is $156 million (2.4 percent) more than the 2005 enacted level. This is $51 million (0.8 percent) above the amount needed to maintain purchasing power at the 2005 level.

***Cleanup of Former Weapons Production Sites* —** The budget provides $5.2 billion in the accounts dedicated to environmental activities, primarily the cleanup of nuclear and other hazardous waste, at DOE's weapons production sites. This is $864 million (14.3 percent) less than the 2005 enacted level. It is $961 million (15.6 percent) below the amount needed to maintain purchasing power at the 2005 level.

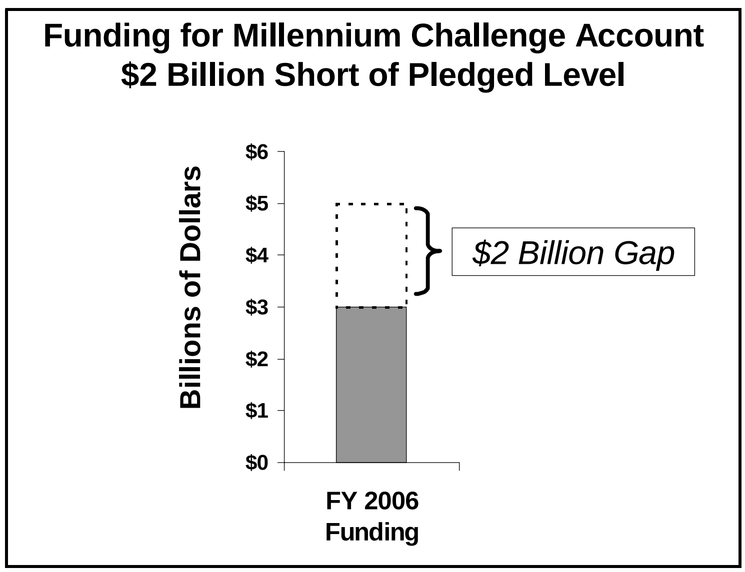
Function 150: International Affairs

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

Overall, the President's budget provides $33.7 billion in funding for appropriated international affairs programs. This amount is $3.7 billion (12.4 percent) more than the $29.9 billion in regular funding enacted for these programs for 2005 and $3.2 billion (10.4 percent) more than the amount needed to maintain purchasing power at the 2005 level.

Major Administration Initiatives

Millennium Challenge Corporation (MCC) — The budget includes $3.0 billion for this initiative, $1.5 billion more than the funding provided for 2005. Funds from the MCC are made available on a competitive basis to countries with low and moderate per capita incomes. Countries receive MCC funds based on their performance on 16 economic and political indicators, grouped into three clusters: good governance, investment in people, and economic policy. Previously, the Administration had indicated its intention to request MCC levels adequate to provide $5 billion in annual assistance by 2006; the 2006 budget falls $2 billion (40 percent) short of this level.



Global AIDS Initiative —In his 2003 State of the Union Address, the President announced his Emergency Plan for AIDS Relief, a five-year, $15 billion U.S. commitment to fight AIDS internationally. For 2006, the budget contains a total of $3.2 billion toward this initiative spread throughout numerous Function 150 and HHS accounts — with roughly three-fourths of this total included in Function 150. This represents an increase of about $240 million above the level enacted for 2005. The largest piece of the international affairs portion of this funding is $2.0 billion for the Global HIV/AIDS Initiative at the State Department. Among other funds, the budget also includes $300 million for the Global Fund to Fight AIDS, Tuberculosis, and Malaria, $200 million of which is in Function 150.

***Other Development Accounts* —** The budget provides $1.1 billion for the Development Assistance account, $322 million less than the amount enacted for 2005. Most of this reduction results from a shift of Development Assistance funds for Afghanistan, Ethiopia, Haiti, and Sudan to the Transition Initiatives account, which is increased by $276 million above the 2005 enacted level. The budget provides $1.3 billion for Child Survival and Health Programs, a reduction of $280 million (18.3 percent) below the 2005 enacted level. The majority of this reduction ($170 million) results from the shift of HIV/AIDS funds from the Child Survival and Health account to the a State Department HIV/AIDS account.

> ***No Specific 2006 Funding for Tsunami Relief* —** The budget does not contain specific funding for 2006 to respond to the December Indian Ocean tsunami. A request of approximately $1 billion for supplemental 2005 funding for tsunami relief and reconstruction is expected from the Administration soon.

Funding for Iraq and Afghanistan

Iraq — The budget provides $414 million for Iraq in specific accounts: $360 million in Economic Support Fund (ESF) assistance, $27 million in the Non-Proliferation, Anti-Terrorism, Demining, and Related Programs account, $26 million in International Narcotics Control and Law Enforcement funding, and less than $1 million for International Military Education and Training. The ESF funds are targeted to the areas of political and economic governance, as well as private sector and agricultural development programs. To date, $20.9 billion has been appropriated for Iraq relief and reconstruction. As of January 2005, a total of $13.1 billion of these funds had been obligated, and $4.6 billion actually spent. The budget provides no funding for the new American embassy in Iraq; the upcoming 2005 supplemental request is reportedly expected to include funding for this purpose, which could exceed $1 billion.

***Afghanistan* —** The budget provides approximately $1 billion in funding for Afghanistan, of which $920 million — $36 million less than for 2005 — is assigned to specific accounts, including $430 million in ESF funding and $260 million in International Narcotics Control and Law Enforcement funding. The 2006 total includes no funding for Foreign Military Financing (FMF); the 2005 level for this account was $397 million. Additional funding for military training and equipment for Afghanistan may be included as part of a 2005 supplemental request from the Administration, either in the FMF account or Department of Defense accounts.

International Security Assistance

Foreign Military Financing — The FMF program provides grants to help U.S. allies acquire military articles, services, and training from the United States. The budget provides $4.6 billion in funding for FMF, which is $306 million (6.3 percent) less than the amount enacted for 2005. The budget provides no FMF funding for 2006 for Afghanistan, which received $397 million for 2005 (see above). The top four recipients of FMF financing in the 2006 budget are Israel, Egypt, Pakistan, Jordan.
In 1998, Israel and the United States reached an agreement to increase FMF assistance to Israel

by $60 million per year for ten years and to decrease Economic Support Fund aid (see below) by $120 million per year for ten years. The budget maintains the funding glide path envisioned in the 1998 agreement, providing $2.28 billion for FMF assistance for Israel for 2006. The budget includes $1.3 billion in FMF funding for Egypt, the typical level of FMF assistance for Egypt since 1986. The budget provides $300 million for Pakistan, and $206 million for Jordan.

Economic Support Fund (ESF) — The ESF program provides bilateral economic assistance to countries of particular importance to U.S. foreign policy. The budget provides $3.0 billion for ESF activities for 2006, which is $704 million (30.2 percent) more than the amount enacted for 2005. More than half of this increase ($360 million) results from ESF funding for Iraq, which received no ESF funding for 2005.

The budget maintains the funding glide path envisioned in the 1998 agreement between Israel and the United States discussed above, providing $240 million for ESF assistance for Israel for 2006. In a separate agreement reached by Egypt and the United States in 1998, ESF assistance to Egypt was scheduled to decrease by $40 million per year. The budget continues the glide path envisioned in this agreement, including $495 million in ESF funding for Egypt for 2006. The budget provides $430 million in ESF funding for Afghanistan (nearly double the $223 million provided for 2005), $360 million for Iraq, $300 million for Pakistan, and $250 million for Jordan.

> ***Middle East Partnership Initiative —*** The budget provides $120 million of ESF funding for the Middle East Partnership Initiative, which is $30 million less than the Administration requested for 2005 and $46 million (61.3 percent) more than the 2005 enacted level. This initiative is designed to encourage structural reforms in the region by funding programs that, among other things, expand economic and educational opportunities and support democratic reforms and the rule of law.

Non-Proliferation, Anti-Terrorism, Demining, and Related Programs (NADR) — The budget provides $440 million for NADR programs, which, among other things, provide anti-terrorism training to foreign governments and work to reduce the dangers posed by nuclear material. This amount is $41 million (10.3 percent) more than the amount enacted for 2005.

State Department and Related Programs

Diplomatic and Consular Programs — The budget provides $4.5 billion for the operations of most diplomatic and consular programs, including the support of our embassies and much of the State Department. This amount is $300 million (7.2 percent) more than the amount enacted for 2005.

Embassy Security Construction and Maintenance (ESCM) — ESCM funding supports the construction and maintenance of U.S. diplomatic facilities. The budget provides $1.5 billion for ESCM activities. This amount is just enough to maintain purchasing power at the 2005 level.

International Broadcasting and Exchange Programs — The budget provides $652 million for the Broadcasting Board of Governors for 2006, an increase of $60 million (10.1 percent) above the 2005 enacted level. The budget provides $430 million for Educational and Cultural Exchange programs, an increase of $74 million (20.8 percent) above the 2005 enacted level.

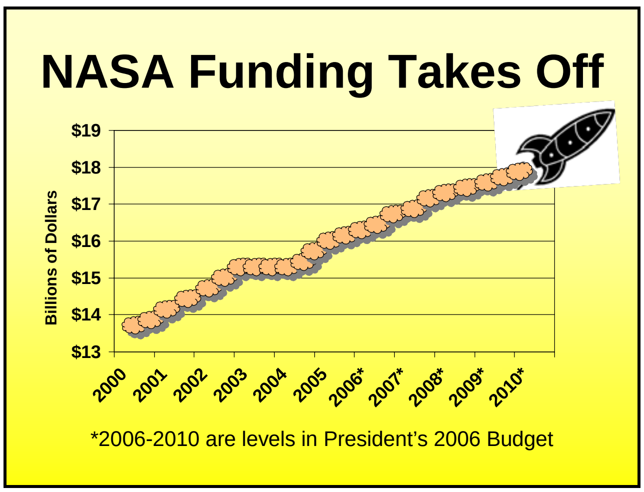
Function 250: General Science, Space, and Technology

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

The President's budget provides $24.6 billion in funding for appropriated science and technology programs for 2006, which is $439 million above the 2005 enacted level. The budget splits the increase between NASA and NSF, and freezes funding for DOE science programs.

Increases Funding for NASA — "The [President's exploration] vision remains an Administration priority in a challenging budget environment," states the National Aeronautics and Space Administration's (NASA's) 2006 budget materials. Indeed, although the Administration cuts funding for most other domestic agencies, it increases NASA's 2006 budget by $384 million (2.4 percent) over the 2005 enacted level, and increases funding over five years (2006-2010) by $923 million above the amount needed to maintain purchasing power at the 2005 level. NASA's 2006 budget is $16.5 billion, with $852 million included in Function 400 (Transportation) and the remainder in this function.

Congress provided NASA with a $692 million (4.5 percent) increase from 2004 to 2005 to begin implementing the President's initiative to return to the moon in the next decade, and from there, to launch humans to Mars and beyond. By 2014, NASA plans to develop a new rocket – the Crew Exploration Vehicle – to carry humans out of the earth's orbit that will replace the shuttle, which NASA will cease funding in 2010 along with the space station.



- ***Shuttle*** — Funding for the shuttle for 2006 is frozen at the 2005 enacted level of $4.5 billion, but begins to decline in 2007. The budget provides $17.8 billion for the shuttle in the next five years, before retiring the shuttle in 2010.

- ***Space Station***— The 2006 budget increases funding for the space station to $1.9 billion, an increase of $180 million over the 2005 enacted level. From 2006 until 2010, when federal funding ceases, the budget provides $10.0 billion for the space station.

- ***Trips to the Moon* —** The 2006 budget provides $1.1 billion to begin the work for the President's initiative to go to the moon and beyond. This is an increase of $594 million (112.9 percent) over the 2005 enacted level. Of the total, the budget provides $753 million to begin developing the Crew Exploration Vehicle and systems to launch it.

***Increases Funding for National Science Foundation* —** The President's budget provides $5.6 billion for appropriated programs in NSF for 2006, including $68 million in Function 050 (National Defense). This is an increase of $132 million (2.4 percent) over the 2005 enacted level. However, the 2006 budget includes $48 million that is transferred to NSF from the Coast Guard to fund icebreakers that support scientific research in the polar regions; excluding that transfer, funding for current NSF initiatives increases by less than the amount needed to maintain purchasing power at the 2005 level. NSF's only major funding decrease is a cut of $104 million for education programs. That includes a $19 million cut for the Math and Science Partnership program, which will make no new awards; last year, the program was cut by $59 million, to $79 million.

***Cuts DOE General Science Programs* —** The 2006 budget provides $3.5 billion for general science programs in DOE, which is $137 million below the 2005 enacted level. To support basic scientific research, DOE science programs design and construct scientific facilities, as well as manage the research done there. The 2006 budget cuts funding in a number of areas, including high energy physics (cut $23 million), nuclear physics (cut $34 million), and biological and environmental research (cut $126 million, or 21.7 percent).

Function 270: Energy

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

Energy Bill Not Included in Budget — The President continues to pay lip service to the passage of comprehensive energy legislation. In his State of the Union address, the President once again urged Congress to pass the measure. His budget, however, fails to reflect increased funding related to the energy bill. The conference report on last year's H.R. 6, the Energy Policy Act of 2003, increased direct spending by $5.4 billion and reduced revenues by $25.7 billion over ten years (2004-2013). The budget includes $6.7 billion in energy-related tax provisions, far short of the revenue effects of the energy bill. The energy bill increased mandatory spending by $3.1 billion over the period 2006-2010, an amount not included in the President's budget totals.

Energy-Related Tax Proposals

Millions of Dollars

Proposal	Ten-Year Cost
Extend & modify tax credit for producing electricity from certain sources	1,779
Provide tax credit for residential solar energy systems	104
Modify treatment of nuclear decommissioning funds	1,881
Provide tax credit for purchase of certain hybrid and fuel cell vehicles	2,532
Provide tax credit for combined heat and power property	394
Total	**6,690**

Mandatory Spending

The receipts from marketing federally produced power and the fees that commercial nuclear reactors pay when generating electricity are recorded as negative mandatory spending in this function. Consequently, total mandatory spending is negative; the government takes in more money than it spends on these energy programs.

In total, the budget cuts mandatory spending by $40 million in 2006, by $3.1 billion over five years (2006-2010), and by $12.2 billion over ten years (2006-2015) relative to spending under current law. The budget also changes how certain fees are treated, which appears to increase mandatory spending but has no net effect on the deficit.

Power Marketing Administrations (PMAs)

PMAs market electricity generated by hydropower projects at federal dams to public utilities and cooperatives. Currently, three of the four PMAs are federally subsidized: Southeastern Power Administration, Southwestern Power Administration, and Western Area Power Administration. Bonneville Power Administration recovers all of its costs through sales of electricity and transmission, and is not supported through annual appropriations.

- ***New "Taxes" for PMA Customers*** **—** The President's budget changes the rates charged by PMAs from cost-based to market-based. While details of the proposal remain unclear, the cost of electricity sold from federal dams could increase by 20 percent per year until rates are at an undetermined market level. Much of this power goes to rural electric cooperatives that operate at cost and have no choice but to pass the increase on to their consumers in the form of a rate increase.

- ***Increase for Bonneville Borrowing Authority*** **—** The budget increases the limit on Bonneville's debt by $200 million, and clarifies the liabilities and obligations that should be counted towards Bonneville's statutory cap on borrowing authority. The change would ensure that certain transactions, such as lease-purchases, are treated as debt.

The budget reclassifies some of the receipts generated by the PMAs as discretionary rather than mandatory to offset the funds appropriated for program direction at the facilities. The budget also allows Southeastern, Southwestern, and Western to directly finance the Corps of Engineers' and Bureau of Reclamation's power-related operation and maintenance expenses from power receipts instead of appropriations (Bonneville already does this). While these funds represent federal resources available to the PMAs, the funds do not negatively impact the deficit because the Treasury is repaid. Similarly, PMAs also arrange to buy and re-sell, or "wheel," power from other electricity producers on behalf of their customers, who then reimburse the PMAs.

The budget provides $57 million for PMAs in 2006, but the amount of total federal resources available to PMAs is much greater because of the funding mechanisms noted above. The budget provides $38 million in spending authority for Southeastern, $31 million for Southwestern, and $452 million for Western.

Nuclear Waste Disposal

The budget provides a total of $651 million for 2006 to fund the Office of Civilian Radioactive Waste Management, which implements federal policy for disposal of commercial spent nuclear fuel and high-level radioactive waste resulting from the nation's atomic energy defense activities. Over half of the funding for this program, $351 million, is included in Function 050 (National Defense), for disposal of weapons-related nuclear waste. The total amount is $229 million (26.0 percent) below the President's 2005 request.

The Nuclear Waste Disposal Fund, which is financed by fees on nuclear-generated electricity, collects $754 million in 2006. The budget does not reclassify receipts from this fund to offset appropriations for nuclear waste disposal, as it did last year. The 2005 budget provided a total of $880 million to fund the Office of Civilian Radioactive Waste Management, but used $749 million from the Nuclear Waste Disposal Fund to offset discretionary appropriations. The portion of the funding included in Function 050 (National Defense), $131 million, was not effected by the reclassification. For 2005, Congressional appropriators followed the President's recommended funding levels, but because the fee reclassification was not enacted, nuclear waste funding was shorted by $749 million. Originally provided with only $131 million – the defense portion of the program – nuclear waste disposal programs received only $572 million for 2005.

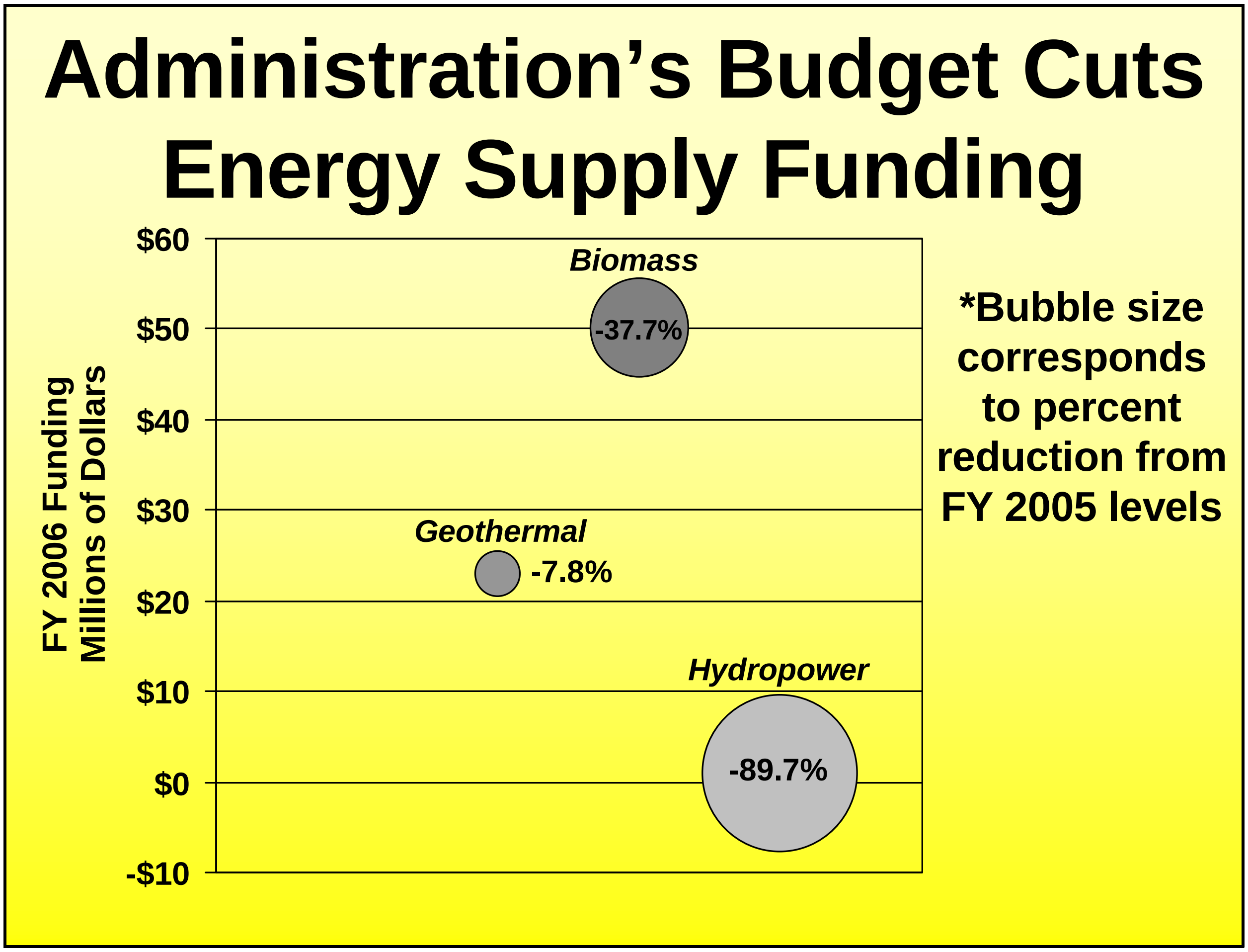
Appropriated Programs

The budget for 2006 provides $3.7 billion in appropriated funding for energy programs, which is $978 million (20.9 percent) below the amount that CBO estimates is needed to maintain purchasing power at the 2005 level.

***Energy Conservation* —** The budget contains $847 million for energy conservation programs for 2006, $36 million (4.1 percent) below the amount CBO estimates is needed to maintain purchasing power at the 2005 level. The budget includes $298 million for Weatherization Programs, which help low-income Americans improve the energy efficiency of their homes, a cut of nearly $11 million (3.5 percent) from the 2005 appropriated level. The budget provides $166 million for Vehicle Technologies, which help develop alternative-fuel and energy-efficient vehicles, about the same amount as the 2005 appropriated level; and $84 million for Fuel Cell Technologies, which help develop reliable fuel cells for transportation and stationary applications, an increase of almost $9 million (11.5 percent) from the 2005 appropriated level.

***Fossil Energy Research and Development* —** The budget provides $491 million for fossil energy research and development for 2006, $94 million (16.1 percent) below the level CBO estimates is needed to maintain purchasing power at the 2005 level. The budget funds coal and other power systems at $351 million, which is the same as last year's level. The budget cuts funding for natural gas technologies to $10 million, $35 million (77.7 percent) below the 2005 comparable appropriation.

***Energy Supply* —** The budget provides $891 million for energy supply programs, a cut of $64 million (6.7 percent) above the amount CBO estimates is needed to maintain purchasing power at the 2005 level. That figure includes $99 million for hydrogen technology, an increase of $5 million (5.4 percent) above the comparable 2005 appropriation; and $44 million for wind energy, an increase of $3 million (8.4 percent). Hydropower receives less than $1 million, a cut of over $4 million (89.7 percent) from the comparable 2005 appropriation; biomass receives $50 million, a cut of $30 million (37.7 percent); geothermal receives $23 million, a cut of nearly $2 million (7.8 percent), and solar energy receives $84 million, about the same as the 2005 comparable amount.



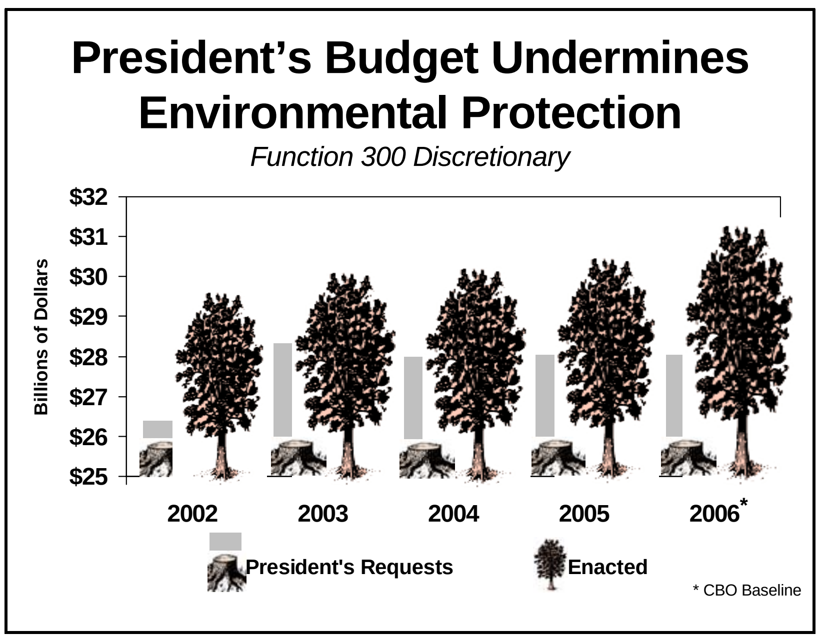
Function 300: Natural Resources and Environment

Function 300 includes programs concerned with environmental protection and enhancement; recreation and wildlife areas; and the development and management of the nation's land, water, and mineral resources. It includes programs within the following federal departments and agencies: Agriculture, Commerce, Interior, Transportation, the Army Corps of Engineers, and the Environmental Protection Agency. This function does not include the large-scale environmental clean-up programs at the Departments of Defense and Energy. See *Function 050 (Defense)* for information on those programs.

Fifth Straight Year of Cuts to Environmental Programs

In the area of natural resources and environment, the President's 2006 budget repeats the pattern of each of the last four years. The Administration continues to tout its commitment to environmental preservation and conservation, but reality does not match the rhetoric. In yet another misplaced priority, the President's budget rejects vital investments in clean air, safe drinking water, and conservation measures that impact American families every day.

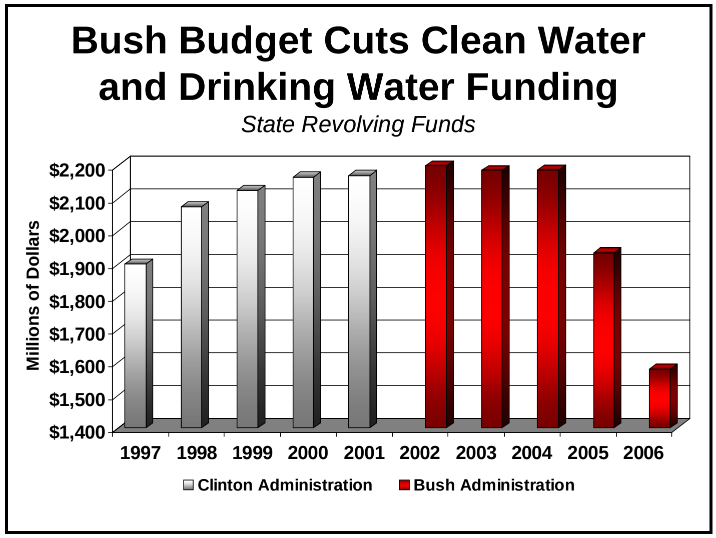
For 2006, the President's budget significantly cuts funding for programs that protect public health and the environment. The budget provides $28.0 billion in discretionary funding for these programs, which is $2.4 billion (8.0 percent) below the 2005 enacted level, excluding supplemental funding, and is $3.3 billion, or 10.6 percent, below the level needed to maintain current services. These drastic cuts undermine the public's demand to meet certain environmental priorities, and they jeopardize our nation's most treasured resources.



Budget Details

Budget Cuts Environmental Protection Agency (EPA) Funding — For 2006, the President's budget once again cuts EPA funding, providing $7.6 billion in appropriations, a 5.6 percent ($452 million) decrease from the 2005 enacted level. As in previous years, the majority of this decrease is attributed to considerably reduced funding for water infrastructure programs that protect public health and the environment.

- ***Clean Water and Drinking Water Needs Ignored* —** The President claims that the 2006 funding levels continue his commitment to the Clean Water and Drinking Water State Revolving Funds (SRFs). However, analyses by EPA, CBO, and other organizations have found that the nation's water systems need significant investments in infrastructure to ensure the provision of safe drinking water and to better protect public health.



While its rhetoric claims to continue the Clinton Administration's water infrastructure commitment, the President's budget results in a significant cut in funding overall. The Clean Water SRF is provided only $730 million for 2006, a cut of $361 million, or 33.1 percent, from the 2005 enacted level. The Drinking Water SRF is provided $850 million, a mere $7 million (0.8 percent) increase from the 2005 level, but $6 million below the level required to maintain current services.

These low funding levels dramatically inhibit our ability to meet current needs, as well as reduce pollution, establish a sound wastewater treatment infrastructure, provide safe drinking water for millions of Americans, and protect against potentially deadly water contamination. Studies have consistently shown that the quality of water is one of the leading concerns among the vast majority of Americans.

- ***"Polluter Pays" Principle Still Abandoned*** — The President's 2006 budget continues to abandon the "polluter pays" principle regarding clean-up of the nation's most toxic sites. All of the funding this year is again supplied from general revenues. The Superfund Trust Fund historically supplied most of the funds appropriated for the Superfund program. However, the taxes that fed into the trust fund expired in 1995, and the Trust Fund's balance is depleted.[5]

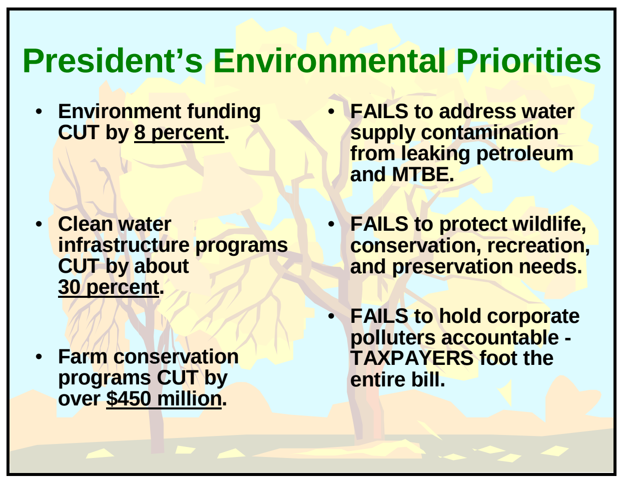
The Superfund program is provided $1.3 billion for 2006, an increase of only $32 million from the 2005 enacted level. The President does not reinstate the Superfund taxes in his 2006 budget, but rather calls for an "innovative approach" for corporate clean-up measures while taxpayers foot the entire bill for corporate polluters. Meanwhile, 501 of the 1,349 non-federal Superfund sites await clean-up and nearly 70 million Americans — including 10 million children — live within four miles of a Superfund site.

[5]The taxes that expired in 1995 consisted of excise taxes on petroleum and chemical feedstocks and a corporate environmental income tax.

- ***Leading Source of Groundwater Contamination Inadequately Addressed*** — Leaking Underground Storage Tank (LUST) funding is $73 million for 2006, an increase of $4 million from the 2005 enacted level. However, there are currently 136,000 underground storage tanks that are leaking petroleum and methyl tertiary-butyl ether (MTBE) and contaminating groundwater and drinking water supplies. This level of funding is insufficient to meet current needs, especially considering that 50 percent of the nation relies on groundwater for its drinking water, and the LUST Trust Fund has a balance of over $2 billion. (Note that the Trust Fund is financed by a 0.1-cent per gallon tax on motor fuels that must be periodically extended and is scheduled to expire on March 31, 2005. The Administration proposes to extend the tax.)

Continued Push to Drill in the Arctic National Wildlife Refuge — Despite the controversial nature of this proposal, for the fifth consecutive year the President's budget assumes opening the Arctic Refuge to oil and gas exploration. Although revenues are assumed in the budget, the Administration cannot implement the proposal without Congressional approval. Over the 2006-2010 period, the President's budget includes $1.3 billion from lease bonuses for the U.S. Treasury and $1.3 billion collected and distributed to the State of Alaska.

Cuts Funding for Army Corps of Engineers — In yet another repeat from the previous four years, the President's budget significantly cuts appropriations for the Army Corps of Engineers. For 2006, the Corps budget is restricted to $4.3 billion, $336 million below the 2005 enacted level. In an effort to reduce the agency's backlog of work on ongoing projects, the budget directs funding toward those ongoing projects that "have a very high net economic and environmental return." As such, the Administration anticipates that 20 projects will be completed and significant progress will be made on nine high-priority, high-return projects. In addition, 31 projects that were requested in the President's 2005 budget and subsequently funded by Congress are now scheduled for suspension or cancellation.



Abandons our Farmers and Ranchers — The President once again cuts vital Farm Bill programs that would help farmers and ranchers protect and enhance natural resources by well over $450 million for 2006 alone. The Conservation Security Program (CSP) is capped at $274 million. The Environmental Quality Incentives Program (EQIP) is cut by $200 million (a 16.7 percent cut); the Wildlife Habitat Incentives Program (WHIP) by $25 million (29.4 percent); Farmland Protection by $16 million (16 percent); Agriculture Management Assistance by $14 million (70.0 percent); and the Watershed Rehabilitation Program by $210 million (100 percent). These cuts are just some examples. The approximate $4 billion backlog in applications waiting to be filled (if full funding were available) for these and other programs, such as the Wetlands Reserve Program (WRP), is also not addressed.

Broken Promise to Fully Fund the Land and Water Conservation Fund (LWCF) — The President fails once again to fully fund the LWCF at the authorized level of $900 million. In 2005, the President claimed to meet the $900 million level, yet in reality provided only $314 million for the intended LWCF purposes of preserving parks, forest, wildlife refuges, and open space. For 2006, the President claims to provide $681 million for the LWCF. However, only $147 million is actually provided for the intended LWCF purposes, a cut of over 42 percent from the 2005 enacted level. In addition, the President eliminates the stateside LWCF program and only provides funding for the federal side program.

Bush's Broken Promise to Fully Fund Land and Water Conservation Fund

LWCF	2006 Request (in thousands)
Dept. Of Interior	
Federal Land Acquisition	
BLM	*$13,350*
FWS	*$40,992*
NPS	*$52,880*
U.S. Forest Service	
Federal LWCF Land Acquisition	$40,000
Actual LWCF Funding	**$147,222**
Other non-LWCF Programs	$533,331
President's Claimed LWCF Funding	**$680,553**

Unmet Fire Prevention Needs — The President once again does not fully fund his Healthy Forests Initiative, providing only $492 million for hazardous fuels reduction, an increase of $28 million from the 2005 enacted level, but $268 million below the authorized level.

Endangered Species at Further Risk — The Fish and Wildlife Service endangered species recovery program is provided $64 million, which is 8.1 percent below the 2005 enacted level. More than 200 species currently listed under the Endangered Species Act that are on the verge of extinction will be at greater risk.

Amends the Southern Nevada Public Land Management Act (SNPLMA) — The President's budget amends the SNPLMA, passed in 1998, which permitted Nevada to sell public lands around Las Vegas. The law was designed to pay for local conservation and recreation efforts primarily in Clark County, and is also used to fund restoration at Lake Tahoe and other projects outside southern Nevada. Current law stipulates that the State of Nevada is to distribute 5 percent of proceeds to schools; 10 percent for water and highway projects; and 85 percent for various conservation programs, including buying up ecologically sensitive areas, managing a multi-species habitat plan, and developing parks and trails. The President proposes to shrink the 85 percent share for conservation to 15 percent and divert the remainder (the 70 percent share) to the U.S. Treasury. This would raise $2.6 billion for the federal government over five years (2006-2010).

***Environmental Tax Incentives* —** The President's budget again contains two environmental tax incentives, one intended to encourage the clean-up of brownfields and the other to encourage voluntary land protection. First, the budget permanently extends the provision in current law that allows businesses to expense certain environmental remediation costs that would otherwise count as capital investments. This would apply to expenditures incurred after December 31, 2005. This extension of current law lowers federal revenues by $935 million over five years (2006-2010).

Second, the budget includes a tax incentive intended to encourage voluntary land conservation. The budget excludes from income 50 percent of any gains from sales of land for conservation purposes. This incentive lowers federal revenues by $304 million over five years (2006-2010).

Function 350: Agriculture

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

Mandatory Spending

Farm Bill Programs — The Administration's budget extends the Milk Income Loss Contract program for two years at a cost of $1.2 billion, but cuts mandatory agriculture programs by $8.6 billion over ten years (2006-2015) and $5.4 billion over five years (2006-2010). At the same time, the Administration continues to pursue its misguided tax policies that largely benefit the most fortunate, increasing the deficit by almost $1.6 *trillion* over the same ten-year period.

President's Budget Cuts Agriculture	**Savings Over Ten Years (2006-2015)**
Cut crop and dairy payments to farmers by five percent	$3.6 billion
Crop insurance changes	$1.3 billion
Reduce payment limit cap for individuals to $250,000 for commodity payments and remove three-entity rule	$1.2 billion
Limit Loan Deficiency Payments to historical production	$1.1 billion
Squeeze the dairy price support program (tilt adjustment requirement)	$610 million
Impose a new fee on sugar producers	$437 million
Impose new user fees for GIPSA, APHIS, and AMS	$427 million
Total Cut to Agriculture Programs	**$8.6 billion**
Extend Administration's Tax Policies, Primarily Benefitting the Most Fortunate	**almost $1.6 trillion**

The House Agriculture Committee estimates that the 2002 Farm Bill has spent $15 billion less than projected when the bill passed. The safety net has worked: federal supports are there when farmers need them, and programs spend less when the market improves. The 1996 Farm Bill required billions of dollars of emergency ad hoc spending, and demonstrated the impact of removing the safety net. Cuts to 2002 Farm Bill programs in the middle of the legislation's authorization causes uncertainty for producers, their bankers, and rural communities as a whole.

CCC Funding Changes **—** The President's budget allows the Secretary of Agriculture to limit spending under the Commodity Credit Corporation (CCC) for bioenergy and the Market Access Program (MAP). The 2002 Farm Bill authorized $150 million in 2006 for a bioenergy incentive program, which allows the CCC to make incentive payments to ethanol, biodiesel, and other bioenergy producers to expand production of bio-based fuels. The budget limits this spending to $60 million, generating savings of $40 million in 2006. The budget also limits funding for the Market Access Program to $125 million in 2006; MAP was authorized in the 2002 Farm Bill at $200 million. The budget uses these savings to offset general discretionary funding.

Initiative for Future Agriculture and Food Systems **—** The 2002 Farm Bill reauthorized the Initiative for Future Agriculture and Food Systems through 2011, providing $140 million for the program for 2005 and $160 million for 2006. The funding for this program is cancelled each year in the appropriations bill, and the 2006 budget continues the practice of blocking the funding for this program. Because money is available for two years under the program, the budget blocks both 2005 and 2006 funding, claiming savings of $300 million.

Appropriated Programs

The President's budget provides $5.3 billion for appropriated agriculture programs for 2006, $753 million (12.5 percent) below the amount that CBO estimates is needed to maintain purchasing power at the 2005 level.

Animal and Plant Health Inspection Service (APHIS) **—** The budget provides a program level of $1.0 billion for APHIS for 2006, which includes a $55 million increase for food and agriculture defense efforts. The budget includes almost $6 million to combat sanitary and phytosanitary trade barriers, and $4.5 million to address issues related to genetically modified organisms. The budget seeks $17 million to continue the current enhanced surveillance effort to combat bovine spongiform encephalopathy ("mad cow" disease).

As in past years, the budget includes new user fees for animal welfare inspections (raising $11 million in 2006).

Grain Inspection, Packers and Stockyards Administration (GIPSA) **—** The budget provides a program level of $82 million for GIPSA for 2006, comprised of $15 million in appropriated funding, $42 million from existing user fees, and $25 million from new user fees. The budget assesses new user fees for grain standardization and Packers and Stockyards licensing activities.

Farm and Foreign Agricultural Services **—** The budget provides 2006 program levels of $35.3 billion for the Farm Service Agency, $4.1 billion for the Risk Management Agency, and $6.3 billion for the Foreign Agriculture Service. The Farm Service Agency delivers farm credit, disaster assistance, commodity, and conservation programs, and provides administrative support for the CCC. The Risk Management Agency administers the federal crop insurance program, which protects producers against risks caused by natural disasters and price fluctuations. The Foreign Agriculture Service promotes U.S. exports, develops markets overseas, and fosters trade and economic growth in developing countries. It administers several international assistance programs, including P.L. 480, the Bill Emerson Humanitarian Trust, Food for Progress, the McGovern-Dole International Food for Education and Child Nutrition Program, and Section 416(b) Donations.

***Research, Education, and Economics* —** The budget includes program levels for 2006 of $1.1 billion for the Agricultural Research Service; $1.0 billion for the Cooperative State Research, Education, and Extension Service; $81 million for the Economic Research Service; and $145 million for the National Agricultural Statistics Service.

Function 370: Commerce and Housing Credit

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

Appropriated Programs

***Provides No Subsidy for Small Business Loans* —** The budget continues a policy put in place for 2005 of providing no subsidy funding for Section 7(a) general business guaranteed loans, a program run by the Small Business Administration (SBA). While the budget provides a total Section 7(a) loan volume for 2006 of $16.5 billion – a $500 million increase from 2005 – it assumes that the program will be funded entirely through loan fees, which raises costs for entrepreneurs.

***Eliminates Microloans and a Variety of Other Aid to Small Businesses* —** The budget provides no resources for microloans, a program that will provide an estimated $15 million in loans in 2005 mainly to low-income entrepreneurs. In addition to loan programs, SBA runs a number of activities such as business information centers, women's business centers, and technical assistance to help entrepreneurs. The budget provides a total of $108 million for these activities in 2006, a $66 million reduction from the 2005 level. Within the total, the budget eliminates funding for several activities, including microenterprise technical assistance.

***Slashes Funding for the Manufacturing Extension Partnership* —** The budget provides $47 million for the Manufacturing Extension Partnership, a 56.5 percent cut from the 2005 level of $108 million. This program, which also receives state, local, and private funding, provides information and consulting services to help small businesses adopt advanced manufacturing technologies and business practices that will help them compete in a global market. Funding for the program has fluctuated dramatically in recent years, going from $106 million in 2003 to $40 million in 2004 and back to $108 million in 2005.

***Increases Patent and Trademark Office Operating Budget* —** The budget includes $1.7 billion for Patent and Trademark Office operations, an increase of $199 million (13.2 percent) above the 2005 enacted level.

***Terminates the Advanced Technology Program* —** The budget ends the Advanced Technology Program, which provides assistance to U.S. businesses and joint ventures to improve their competitive position. The goal of the program is to accelerate the commercialization of technology that is risky to develop but promises significant national economic benefits. This program received $136 million in 2005.

***Provides New Mortgage Programs to Reduce Barriers to Homeownership* —** The budget includes two new products through the Federal Housing Administration mortgage program. One allows first-time buyers with strong credit records to make a zero downpayment and finance their closing costs. The other program, for buyers with limited or weak credit histories, initially charges a higher insurance premium but reduces the borrower's premiums once the borrower establishes a history of regular payments and demonstrates creditworthiness. The total loan volume supported by the budget for these two new programs is $33.3 billion.

***Cuts Department of Agriculture Rural Housing Direct Loans but Increases Guaranteed Loans* —** The funding level in the budget for rural housing direct loans will support a loan volume of $1.0 billion for the Section 502 single-family housing direct loan program, a reduction of $141 million (12.4 percent) from the 2005 level. The budget also reduces the loan volume for Section 515 multi-family housing from $99 million in 2005 to $27 million in 2006. The budget supports an increase in the loan volume for rural housing guaranteed loans. The funding level in the budget supports a total loan volume of $3.9 billion for single- and multi-family housing guaranteed loans, an increase of $500 million, or 14.8 percent, from the 2005 level.

Mandatory Programs

***Federal Deposit Insurance Programs Merged* —** The budget merges two insurance fund programs, the Bank Insurance Fund and the Savings Association Insurance Fund, which offer an identical product. The budget anticipates that merging these funds will reduce the need for insured financial institutions to increase their premium payments in the near term. This policy reduces collections by $1.2 billion through 2010.

Function 400: Transportation

Function 400 is comprised mostly of the programs administered by the Department of Transportation (DOT), including programs for highways, mass transit, aviation, and maritime activities. This function also includes two components of the new Department of Homeland Security: the Coast Guard and the Transportation Security Administration (TSA). The function also includes several small transportation-related agencies and the research program for civilian aviation at the National Aeronautics and Space Administration.

Budget Summary

The President's budget provides $57.5 billion in appropriated budgetary resources (budget authority plus obligation limitations) for 2006. This is $490 million (0.8 percent) below the 2005 enacted level, as calculated by the Office of Management and Budget.

Budget Details

Surface Transportation Reauthorization — The President's budget provides for a six-year transportation authorization bill of $284 billion, dubbed the Safe, Accountable, Flexible, and Efficient Transportation Equity Act (SAFETEA). This is $28 billion over the Administration's reauthorization proposal from last year. For 2006, the President's revised SAFETEA proposal provides $34.7 billion for the Federal-Aid Highway Program; $7.8 billion is provided for mass transit (this includes the obligation limitation and the discretionary budget authority).

108th Congress
TEA-21 Reauthorization Proposals

	2004-2009
Administration	$256 billion
House	$284 billion
Senate	$318 billion

The Transportation Equity Act for the 21st Century (TEA-21) expired on September 30, 2003. Since then, surface transportation programs have been operating under a series of short-term extensions, the most recent of which (the sixth overall) provides funding through May 2005. Last year, House and Senate transportation reauthorization conferees were unable to bridge the $62 billion gap separating the Administration's proposal of $256 billion on the low side and the Senate's $318 billion proposal on the high side.

Highway Trust Fund **—** The Highway Trust Fund (HTF) was set up to be self-financed through federal excise taxes on gasoline and diesel fuel, as well as other products such as gasohol, ethanol/methanol, truck tires, truck sales, and truck use. However, HTF-related taxes are not permanent and must be periodically extended. TEA-21 last extended these taxes through

September 30, 2005. The President's budget extends the taxes at current rates through September 30, 2011. The budget also allows for $15 billion in tax-exempt financing for private highway projects and rail-truck transfer facilities by state and local governments. This would reduce Highway Trust Fund receipts by $333 million from 2006-2010.

For most of its 50-year history, the HTF has collected more revenue than it has spent. But this situation has been changing in the last few years as funding has exceeded incoming receipts for the given year, drawing down the HTF balance, especially in the Highway Account. The HTF is sustainable in the near term if funding levels remain consistent with HTF receipts. According to CBO's January 2005 estimate, HTF revenue is estimated to total $210 billion from 2005-2009, and $256 billion from 2005-2010. However, given current transportation reauthorization proposals and incoming revenue estimates, the HTF cannot be sustained beyond the short-term without additional incoming revenue.

***Elimination of Amtrak Operating Subsidies* —** The Administration continues to press for the privatization of Amtrak, believing that the current system is too inefficient to be viable. The Administration has proposed cutting Amtrak funding in previous years while pressing for its privatization, but this year's budget takes matters one step further by only providing funding to cover the capital expenses of Amtrak, not the operating expenses. The President's budget provides only $360 million in 2006 funding for Amtrak, a cut of $847 million, or 70.2 percent, from the 2005 enacted level.

Federal Grants to Amtrak
(budget authority in millions)

	2002	**2003**	**2004**	**2005**	**2006**
President's Request	$521	$521	$900	$900	$360
Enacted	**$831***	**$1,043**	**$1,218**	**$1,207**	**--**

**includes $310 million in supplemental appropriations.*

Funding Cuts for the Essential Air Service (EAS) and Small Community Air Service Programs — The EAS program provides financial assistance to rural communities geographically isolated from hub airports so that they may operate smaller airports. The President's 2006 budget once again cuts funding more than 50 percent for the EAS program by establishing a $50 million cap. Congress has consistently rejected the Administration's proposal.

In addition, as in previous years, the President does not include any funds for the Small Community Air Service Program, which helps communities that suffer from infrequent service and high air fares. Congress authorized $35 million per year for this program as part of the 2004 Federal Aviation Administration (FAA) reauthorization bill (although only $20 million was provided in 2005 funding).

Transportation Security Agency (TSA) — The budget provides $5.6 billion for the TSA, now part of the Department of Homeland Security, for 2006. This amount is $156 million

(2.9 percent) more than the 2005 enacted level.[6] In addition, the President proposes to increase airline security passenger fees to cover a larger portion of screening costs. On a typical one-way ticket, the passenger security fee will rise from $2.50 to $5.50. For passengers flying multiple legs on a one-way ticket, the fee will rise from $5.00 to $8.00. This will raise $8.9 billion over five years (2006-2010).

***Coast Guard* —** The President's budget provides $8.1 billion for the Coast Guard, also now part of the Department of Homeland Security. Of this amount, $6.9 billion is appropriated funding and $1.2 billion is mandatory spending, which consists mostly of retirement pay. The 2006 appropriated funding is $644 million (10.2 percent) higher than 2005 enacted level. As was the case with last year's budget, the funding increase is attributable to the Coast Guard's expanded role in homeland security.

***Port Security Grants* —** These grants were authorized as part of the port and maritime security legislation passed by the Congress and signed into law in November 2002. Port security grants from the Department of Homeland Security provide funds for port agencies to install the fencing, surveillance technologies, and other measures needed to prevent terrorists from gaining access to docks and other port facilities. The President's budget does not include any funding for grants to port authorities for security upgrades. However, the budget does include $600 million in grants to supplement state and local infrastructure protection efforts. This could potentially include, among other things, port security measures. The Coast Guard reports needs in this area totaling $4.4 billion over ten years.

***Maritime Administration* —** The President's budget does not include any funding for new loan guarantees under the Maritime Guaranteed Loan (Title XI) Program. This program guarantees loans for purchases from the U.S. shipbuilding industry and for shipyard modernization. For 2006, the President's budget provides $4 million, enough to cover only the cost of administering pre-existing loan guarantees. (Congress accepted the President's proposal to eliminate new loan guarantees last year and provided only $5 million in administrative expenses for 2005.)

[6] Some estimates show that 2006 funding is $300 million above the 2005 enacted level. This discrepancy exists because of a $109.04 million R&D transfer to the Science and Technology Directorate, and a $34.9 million transfer of Secure Flight to the Office of Screening Coordination and Operations within the Border and Transportation Security Directorate. Without accounting for this transfer, the 2006 level increases to $5.7 billion.

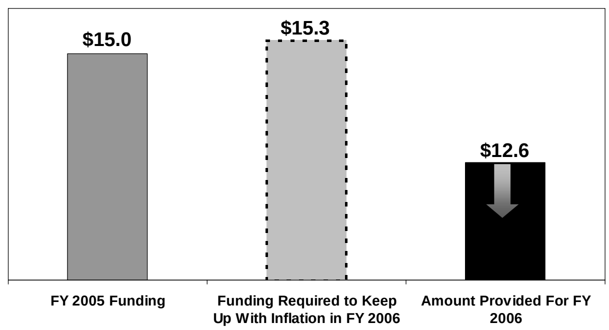
Function 450: Community and Regional Development

Federal community and regional development programs provide financial and technical assistance to improve economic conditions among low- and moderate-income communities and aid areas impacted by disasters. Major agencies and programs in this function include the Community Development Block Grant program, the Economic Development Administration, the Appalachian Regional Commission, rural development programs in the Department of Agriculture, the Bureau of Indian Affairs, Empowerment Zones and Enterprise Communities, the Disaster Relief program, and the Emergency Preparedness and Response program.

The President's budget provides $12.6 billion in discretionary appropriations for the Community and Regional Development function for 2006, a $2.4 billion (15.9 percent) cut below the 2005 enacted level and a $2.7 billion (17.8 percent) cut below the amount needed to keep pace with inflation. Following is an overview of the President's treatment of several programs in this function.

President's Budget Slashes Community and Regional Development Funding

Numbers in Billions



The Administration's Budget Cuts Development Funding — The budget creates the Strengthening America's Communities Grants program in order to eliminate many current development programs and consolidate a substantial portion of develop assistance into one initiative. However, the budget provides only $3.7 billion for the initiative, thereby cutting the overall funding available to benefit distressed communities by at least $1.5 billion. Below is an outline of some of the programs that are eliminated through the consolidation.

Community Development Block Grant (CDBG) Program Eliminated — The CDBG program enables states and localities to target federal formula grants and other financial assistance toward improving housing and economic conditions in low- and moderate-income neighborhoods. The budget eliminates CDBG formula grants and most CDBG set-aside programs, which were funded at a total of $4.6 billion for 2005. As detailed below, the budget cuts the few CDBG set-asides that it retains as separate programs.

Economic Development Assistance (EDA) Programs Eliminated — EDA programs direct public works grants, technical assistance grants, and economic adjustment grants to low-income regions. The budget eliminates EDA programs, which were funded at $284 million for 2005.

Rural Housing and Economic Development Program Eliminated — The Rural Housing and Economic Development program provides funds to improve housing and economic development among rural communities. The budget eliminates the Rural Housing and Economic Development program, which is currently funded at $24 million.

Urban and Rural Empowerment Zones/Enterprise Communities Eliminated **—** These programs provide financial incentives to attract business development and job growth in designated disadvantaged areas. The budget eliminates these programs, which are currently funded at $22 million.

Community Development Financial Institutions (CDFI) Program Eliminated **—** The CDFI enables specialized financial institutions to provide an array of funds and services to promote economic development among low-income and/or native communities. The President's budget eliminates the CDFI program, which is now funded at $56 million. For 2006, the budget provides $8 million for CDFI general expenses solely to cover administrative expenses for the New Markets Credit Program and existing loan portfolios.

Brownsfields Redevelopment Program Eliminated **—** The Brownsfields Redevelopment program provides funds and other incentives to encourage clean-up of health and environmental hazards on underused or abandoned commercial and industrial sites. The budget eliminates this program, which is now funded at $24 million.

Rural Community Advancement (RCA) Program Cut **—** The RCA program provides grants, loans, and loan guarantees to stimulate economic growth and build facilities in rural communities. The budget provides $522 million for the RCA, a $165 million (24.0 percent) cut below the 2005 enacted level, and a $179 million (25.6 percent) cut below the level needed to keep pace with inflation.

First Responders Cut **—** The budget includes a total of $2.5 billion within the Department of Homeland Security for first responder funding, which is $560 million (18.1 percent) less than the amount enacted for 2005. Within this total, the budget cuts firefighter assistance grants by $215 million below the 2005 level; decreases formula-based grants by $280 million; and decreases funding for specific high-threat urban areas by $65 billion.

High Energy Costs Grants Eliminated **—** The High Energy Costs Grants program provides funds to improve energy facilities among communities that have residential energy costs equal to at least 275 percent of the national average. The budget eliminates the high energy costs grants program, which is funded at $51 million for 2005. The budget does not consolidate this program with any other initiative.

Community Development Block Grant Set-Asides Cut **—** As mentioned above, the budget eliminates CDBG formula grants and most CDBG set-aside programs. The few remaining CDBG programs are cut. The budget provides $30 million for the Self-Help Homeownership Opportunity program, a $22 million (42.3 percent) cut below the 2005 enacted level. The budget provides $58 million for the Indian Community Block Grant program, a $84 million (59.2 percent) cut below the enacted level. The budget transfers the Youthbuild program to the Labor Department and Function 500 (Education) and provides $61 million, a $6 million (9.0 percent) cut below the 2005 enacted level.

***Disaster Relief Program Maintained* —** The disaster relief program administers federal assistance to areas devastated by disasters. The budget provides $2.1 billion for the program, a $98 million increase over the 2005 enacted level.

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

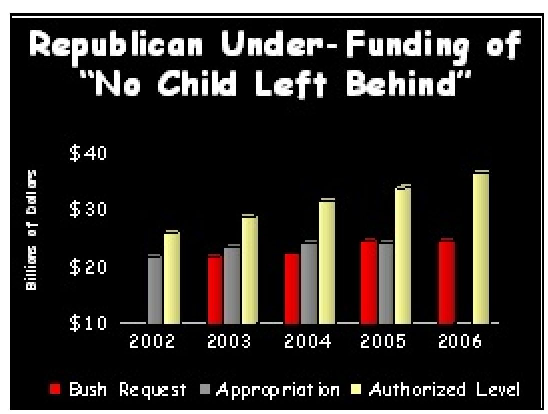
Function 500 includes funding for the Department of Education, social services programs within the Department of Health and Human Services, and employment and training programs within the Department of Labor. It also contains funding for the Library of Congress and independent research and art agencies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

The President's budget for 2006 provides $77.9 billion in discretionary funding for programs in this function, $1.8 billion (2.3 percent) below a freeze at the 2005 enacted level, and $2.8 billion (3.5 percent) below the amount CBO estimates is needed to maintain purchasing power for these programs at the 2005 level. Over five years (2006-2010), funding for these programs falls $38.6 billion behind the level needed to maintain services at the current level; for 2010 alone, funding is $12.0 billion (13.8 percent) below current services.

Education

Cuts Department of Education Funding to $56.0 Billion — The President's budget cuts 2006 funding for the Department of Education by $1.3 billion below the amount needed to maintain purchasing power at the current level, and by $530 million below the 2005 enacted level of $56.6 billion. This is the first time since 1989 that an Administration has submitted a budget that cuts the Department's funding. Overall, the budget eliminates 48 education programs, cuts funding for 16 others, and increases just a few programs – for a net loss of $530 million. These cuts hit programs that help children, high school students, college students, and adults.

Eliminates $4.3 Billion of Education Programs — The budget eliminates 48 education programs that receive $4.3 billion this year, which is 7.5 percent of all current education funding. The eliminations include wiping out $1.3 billion for all vocational education programs, $522 million for all education technology programs, and $29 million for all civic education programs. The budget eliminates other large programs including the Even Start family literacy program ($225 million) and state grants for safe and drug-free schools and communities ($437 million). See the complete list of eliminated programs on the next page.



"No Child Left Behind Act" Is $12.0 Billion Below Authorized Level — The budget provides $24.8 billion

48 Education Programs Eliminated in the President's 2006 Budget

(Dollars in Millions, 2005 Enacted Level)

Program	*2005 $*	*Program*	*2005 $*
Vocational Education – every program:		Higher Education:	
Vocational Education State Grants	1,194.3	Perkins Loans	66.1
Tech-Prep Education State Grants	105.8	Leveraging Ed. Assist. Partnerships	65.6
Voc. Education National Programs	11.8	Byrd Honors Scholarships	40.7
Occupational & Employment Info.	9.3	Demos for Students with Disabilities	6.9
Tech-Prep Demonstration	4.9	Thurgood Marshall Legal Education	3.0
		Underground Railroad Program	2.2
		B.J. Stupak Olympic Scholarships	1.0
		Interest Subsidy Grants	1.5
Improving Teacher Quality:		High School:	
Teacher Quality Enhancement	68.3	Gaining Early Awareness (GEAR-UP)	306.5
National Writing Project	20.3	Smaller Learning Communities	94.5
Foreign Language Assistance	17.9	School Dropout Prevention	4.9
School Leadership	14.9	TRIO Talent Search	144.9
Ready To Teach	14.3	TRIO Upward Bound	312.6
Prisoner Education:		Safe and Drug-Free Schools:	
Grants for Incarcerated Youth	21.8	State Grants	437.4
Literacy Programs for Prisoners	5.0	Alcohol Abuse Reduction	32.7
Even Start	225.1	Comprehensive School Reform	205.3
Ed. Technology – every program:		Rehabilitation Services:	
Ed. Technology State Grants	496.0	Supported Employment Grants	37.4
Community Technology Centers	5.0	Projects With Industry	21.6
Star Schools	20.8	Recreational Programs	2.5
		Migrant & Seasonal Farmworkers	2.3
Regional Education Laboratories	66.1	Parental Info. and Resource Centers	41.9
Civic Education	29.4	Elementary/Secondary Counseling	34.7
Arts in Education	35.6	Women's Educational Equity	3.0
Exchanges with Historic Partners	8.6	Javits Gifted and Talented Education	11.0
Close Up Fellowships	1.5	Mental Health Integration in Schools	5.0
Excellence in Economic Education	1.5	Foundations for Learning	1.0
Total Programs Eliminated = $4.3 billion			

Three Programs Account for Two-Thirds of Education Funds	
Title I	$13.3 Billion
Special Ed.	$11.1 Billion
Pell Grants	$13.2 Billion
All Other	$18.4 Billion
ED, total	**$56.0 Billion**

for elementary and secondary education programs under the No Child Left Behind Act, which is $12.0 billion below the level authorized for 2006 even though it is an increase of $315 million over the 2005 enacted level. The budget eliminates many programs, such as comprehensive school reform and smaller learning communities. Other programs are reduced, but most programs are frozen at the 2005 enacted level.

High School Initiative Funded by Eliminating Similar Programs — Funding for high school students drops by $301 million from 2005 to 2006. The President has touted a new $1.5 billion high school initiative to help states develop and implement annual tests in math and language arts for more grades in high school, and to help at-risk high school students. But the cost of these two new programs plus increases for three existing high school programs is more than offset by eliminating $2.1 billion of other programs targeted to high school students. The programs eliminated are:

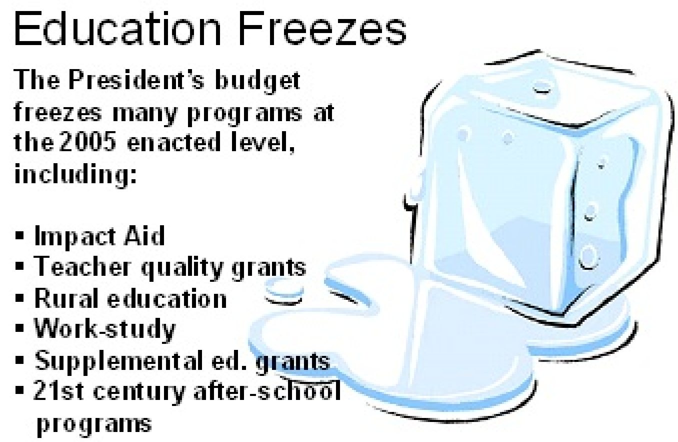
- all five vocational education programs ($1.3 billion);
- the GEAR-UP program to help low-income students prepare to enter college ($306 million); and
- TRIO Upward Bound ($313 million) and Talent Search ($145 million), which help disadvantaged high school students and veterans enroll in a postsecondary education program.

Potential Pell Grant Increase Is Offset by Cuts to Other Higher Education Programs — The budget changes the Pell Grant program to a hybrid of mandatory and discretionary funding. Discretionary budget authority would continue to support the cost of the current $4,050 maximum award, while mandatory spending would cover additional costs of increasing the maximum award by $100 in each of the next five years. This new mandatory funding would be contingent on Congress enacting controversial changes in the student loan program; if Congress does not make these entitlement changes, the maximum award would remain frozen. Beginning in 2007, the cost of the increase would be partially offset by raising the minimum award, thus cutting off students who currently qualify for only the smallest awards. The Pell increase also would be offset by eliminating the $66 million Perkins Loan program and by other changes in the student loan program. The other campus-based aid programs are frozen at the 2005 enacted level. For information on how the President's budget changes scoring of Pell Grant funding, see *Budget Process Proposals*.

Education Programs Cut in 2006

	Cut in Millions
Adult Education	$370 (63%)
FIE National Programs	$228 (89%)
FIPSE	$140 (86%)
Teacher Credentialing	$ 9 (53%)
Special Education Research	$ 11 (13%)
Special Ed. Technology	$ 7 (18%)

Title I Increase Leaves Children Behind — The 2006 budget increases funding for Title I (Education for the Disadvantaged) by $603 million, to $13.3 billion, which is still $9.4 billion below the authorized level. At the 2006 level of funding, 2.9 million eligible children will not receive Title I services.



Special Education Increase Does Not Keep Pace — The budget provides $11.1 billion for special education state grants, an increase of $508 million. However, the total is $3.6 billion less than the amount authorized for 2006 in the Individuals with Disabilities Education Improvement Act that the President signed into law just two months ago. The 2006 funding freezes the federal contribution at only 18.6 percent of the national average per pupil expenditure, still less than half the 40 percent "full funding" federal contribution ceiling allowed by IDEA.

Teacher Quality Improvement Funding Increases — The budget increases funding for teacher programs by $486 million, to $3.9 billion. This includes a new $500 million program to reward qualified teachers for staying in high-poverty schools and a new $40 million adjunct teacher corps. These increases are partially offset by eliminating $136 million for five programs to improve teacher quality. The state grant program is frozen at $2.9 billion.

Cuts Student Loan Programs — The President's budget makes changes to the Education Department's student loan programs related to the upcoming reauthorization of the Higher Education Act. The changes result in net savings – less spending on student loan programs – of $10.7 billion over ten years (2006-2015), compared with OMB's estimate of current law. See the following table for a list of changes and their effects on spending

Student loan costs are mandatory spending not controlled by annual appropriations. The budget uses mandatory savings from the student loan program to make two changes to the Pell Grant program, which is an appropriated program. The first change is to use mandatory budget authority to retire the program's $4.3 billion funding shortfall, created over the past few years when funding did not keep pace with the increase in the number of participating students. Because the money has already been spent on these Pell Grants, there are no outlays associated with this budget authority, so there is no consequence to the deficit. The budget also uses mandatory outlays to pay for $100 increases in the maximum award in each of the next five years, while continuing to use discretionary budget authority to operate the program at the current maximum award of $4,050.

Student Loan Programs Cut by $10.7 Billion (Outlays in Billions of Dollars)	
Direct Loan and Federal Family Education Loan Program Changes	***Cost, 2006-15***
Policies affecting lenders and guaranty agencies:	
Eliminate rollover of tax-exempt special allowance	-5.4
Create new .25% annual loan-holder fee on non-consolidation loans	-6.5
Reduce lender insurance to 95%	-1.9
Reduce reinsurance rates	-1.1
Set Exceptional Performer Insurance to 97%; tighten eligibility	-0.3
Reduce guaranty agency retention of default collections to 16%	-0.7
Increase lender fee on consolidation loans by .5% (to 1%)	-1.2
Policies affecting students:	
Require guaranty agencies to charge 1% origination fee	-3.0
Change from fixed-rate to variable interest rates on consolidations	-2.6
Standardize extended repayment plans on the Direct Loan model	-2.3
Retain variable interest rates for non-consolidation loans after 2006	4.4
Increase loan limits	3.1
Extend the $17,500 loan forgiveness program for certain teachers	0.5
Other:	
3 provisions affecting distance education and low-default schools	0.1
Interactive effects of all proposals	-2.8
Non-add: Modification costs in 2005	*0.6*
Total, net effect of all Direct Loan and FFEL changes	**-19.7**
Recall federal portion of Perkins Loans institutional revolving funds	-6.0
Use mandatory outlays to make five annual $100 increases in the maximum Pell Grant award, and index minimum award to the increases	15.0
Non-add: Retire the Pell Grant shortfall using mandatory budget authority	*4.3*
Total, changes in mandatory outlays from education policy	**-10.7**

Employment and Training

The President’s 2006 budget cuts funding for training and employment to $6.8 billion, a $318 million (4.4 percent) cut below the 2005 enacted level. It eliminates three training programs worth $133 million.

Block-Grants and Cuts Training Programs — The budget consolidates four programs and cuts their funding by $146 million. The new $3.9 billion block grant includes the Workforce Investment Act's youth, adult training, and dislocated worker programs, as well as state employment service grants. In addition to the funding above, governors could lump in other federal funds, including vocational rehabilitation, trade adjustment assistance training, adult education, veterans' employment, and food stamp employment and training.

Job Corps and YouthBuild — The budget cuts funding for Job Corps by $29 million below the 2005 enacted level of $1.5 billion. It transfers the $59 million YouthBuild program from the Department of Housing and Urban Development to the Department of Labor.

Eliminates Three Training Programs — The budget eliminates the migrant and seasonal farmworkers program ($76 million), the program to reintegrate young offenders ($50 million), and the Denali Commission ($7 million).

Social Services

The budget provides $11.1 billion for social services programs for 2006, which is $920 million (7.6 percent) below the amount CBO estimates is needed to maintain purchasing power at the 2005 level.

Eliminates Community Services Block Grant — The budget eliminates the Community Services Block Grant (CSBG), currently funded at $637 million, as well as five other community service programs currently funded at $65 million. The CSBG is a state grant that funds a range of services to reduce poverty, and provide income, housing assistance, nutrition, energy, and health assistance.

Essentially Freezes Head Start — The budget provides $6.9 billion for Head Start, a $45 million (0.7 percent) increase that is earmarked for the President's plan to allow nine states to pilot projects to run their own programs that merge federal Head Start and state preschool and child care funding. The funding will provide no additional children with Head Start services.

Freezes Social Services Block Grant (Title XX) — The budget keeps funding for the Social Services Block Grant at $1.7 billion, the level at which funding has been frozen since 2003. This grant provides states with broad discretion to use these funds for social services such as child care, child welfare, home-based services, employment services, adult protective services, prevention and intervention programs, and special services for the disabled.

Freezes National Service — The budget includes $921 million for the Corporation for National and Community Service, a freeze at the 2005 enacted level. This total includes $421 million to fund 75,000 volunteers in AmeriCorps, and $220 million for the Senior Corps program.

Cultural Agencies

Cuts Corporation for Public Broadcasting — By custom, the Corporation for Public Broadcasting receives an appropriation two years in advance. Congress in 2004 enacted $400 million in funding for 2006. The 2006 budget rescinds $10 million of this funding, resulting in a 2006 level of $390 million. The budget also ends the practice of such "advance appropriations" and therefore does not include any additional funding for any future year.

Freezes Funding for National Endowments — The President's budget freezes funding at the 2005 enacted level for both the National Endowment for the Arts (frozen at $121 million) and the National Endowment for the Humanities (frozen at $138 million).

Function 550: Health

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

Overview

Overall Appropriated Levels Cut — The President's budget provides $51.0 billion for appropriated programs in Function 550 (Health) for 2006, a cut of $931 million (1.8 percent) below the 2005 enacted level. Part of this funding cut is due to the elimination of 33 programs worth $2.0 billion at the Department of Health and Human Services.

Funding Over Five-Years for Appropriated Programs — The budget provides five-year (2006 to 2010) funding amounts for health appropriated programs in a lump sum. Unlike past years, it does not provide more detailed five-year numbers, nor does it split between homeland security and non-homeland security funding, making it impossible to see the increase or decrease for each subcategory in isolation. Looking at health appropriated programs overall, the budget restricts these programs to an average annual growth rate of -0.4 percent, providing $22.0 billion less than the amount that CBO estimates is needed over the five-year period to maintain purchasing power at the 2005 level.

Overall Mandatory Increase — The budget increases mandatory spending relative to current law by $25.0 billion over five years and $59.2 billion over ten years. This change is primarily due to an increase in spending to pay for the refundable portions of a new health insurance tax credit and a rebate to employers for contributions to health savings accounts, and which is partially offset by cuts to the Medicaid program.

Medicaid and the State Children's Health Insurance Program

Deep Cuts for Medicaid — The budget cuts Medicaid by $60.1 billion, of which $15.2 billion is used for new spending within Medicaid, for a net cut of $44.9 billion over ten years. Cuts of this magnitude cannot be found by simply closing loopholes — the pain will be felt somewhere, either by shifting costs to beneficiaries or states, or by cutting payments to providers.

- ***"Program Integrity"*** — The budget limits use of financing mechanisms such as the "upper payment limit" and "intergovernmental transfers" and provider taxes that some states may be using to draw down Medicaid matching dollars above what their Medicaid match rate would normally allow. These mechanisms are permitted under current law and are an important source of state financing for Medicaid. Such dramatic cuts of $22.8 billion over ten years would have a negative affect on states' ability to finance their Medicaid programs.

- ***Targeted Case Management*** — The budget lowers payments for targeted case management for disabled children, adults, and others by $4.0 billion over ten years, which could negatively affect states' ability to serve these populations.

- ***Block Grant for Medicaid Administrative Claims*** — The budget block-grants state Medicaid administrative budgets, for savings of $6.0 billion over ten years. Capping administrative funding may make it hard for states to continue program integrity efforts to undertake the administrative task of determining eligibility for the program.

- ***Prescription Drugs*** — The budget changes the way that Medicaid reimburses pharmacies for prescription drugs, for cuts of $15.1 billion over ten years. The budget also changes the formula used to calculate the Medicaid rebate, but this policy is budget neutral.

- ***Reform of Asset Transfers*** — The budget tightens the rules under which seniors can transfer assets to their children, resulting in fewer seniors becoming eligible for Medicaid long-term care, for cuts of $4.5 billion over ten years.

Summary of Medicaid Policies
(Dollars in Billions)

	2006	2006 to 2010	2006 to 2015
Medicaid Cuts			
"Program Integrity"	**-0.2**	**-9.0**	**-22.8**
Targeted Case Management	**-0.1**	**-3.1**	**-11.7**
Pharmacy Reimbursement for Prescription Drugs	**-0.5**	**-5.4**	**-15.1**
Block Grant for Medicaid Administrative Claims	**0.0**	**-1.1**	**-6.0**
Reform of Asset Transfer Policy	**-0.1**	**-1.5**	**-4.5**
Total Medicaid Cuts	**-1.0**	**-20.1**	**-60.1**

	2006	2006 to 2010	2006 to 2015
Medicaid Spending			
New Freedom Initiative	**0.0**	**0.9**	**2.9**
Increased Medicaid Enrollment from "Cover the Kids" Outreach*	**0.4**	**4.1**	**10.0**
Transitional Medicaid Assistance	**0.6**	**0.6**	**0.6**
Medicare Premium Assistance**	**0.2**	**0.2**	**0.2**
Vaccines for Children	**0.1**	**0.7**	**1.4**
Total Medicaid Spending	**1.3**	**6.4**	**15.2**
Net Medicaid Effect	**0.3**	**-13.7**	**-44.9**

*Only reflects Medicaid costs from increased Medicaid enrollment under "Cover the Kids" outreach proposal. The SCHIP costs and the $1.0 billion in outreach grants under "Cover the Kids" are reflected in other accounts.
**The Medicare program reimburses Medicaid for these costs.

Reinvests $15 Billion of Medicaid Cuts Back Into Health Programs — Of the $60.1 billion in Medicaid cuts, an estimated $15.2 billion is reinvested in Medicaid and the State Children's Health Insurance Program.

- ***New Freedom Initiative*** — The budget includes a package of policies, known as the New Freedom Initiative, to promote work incentives and home and community-based care options for people with disabilities, at a cost of $2.9 billion over ten years.

- ***"Cover the Kids" Outreach*** — The budget provides $1.0 billion in outreach grants to states — and estimates that those outreach efforts will result in increased enrollment — and new Medicaid and SCHIP spending on benefits of $10.3 billion over ten years. Those enrollment estimates may be optimistic since states will need to put up some matching money, which may be hard in the face of overall Medicaid cuts and generally tight budgets.

- ***Transitional Medicaid Assistance*** — The budget includes a one-year extension of Transitional Medicaid Assistance, at a cost of $560 million.

- ***Extends Assistance with Medicare Premiums for Qualified Individuals*** — Under the Qualified Individuals program (QI), Medicaid pays the Medicare Part B premiums for certain low-income Medicare beneficiaries. The budget extends this program through 2006, at a cost of $230 million.

- ***Modifies Vaccines for Children Program*** — Vaccines for Children (VFC) is administered by the Centers for Disease Control and Prevention and funded by Medicaid. The budget provides $1.4 billion over ten years in Medicaid to allow under-insured children to receive VFC-administered inoculations at state and local health departments.

Reauthorizes the State Children's Health Insurance Program — The State Children's Health Insurance Program (SCHIP) is not scheduled to expire until 2007, but the budget reauthorizes it early, at a ten-year cost of $124 million.

Opens Door to Medicaid Funding Caps and Smaller Benefits for Certain Beneficiaries — The budget allows states the flexibility to provide smaller benefit packages to certain populations without going through the waiver process. Any package of changes made by a state would be within some set federal amount of funding, so additional federal funds would not be available to states if costs exceeded some set level. There are limited details provided on this policy, but this flexibility to cut benefits could encompass many optional services (such as prescription drugs) and optional beneficiaries (who constitute approximately 30 percent of Medicaid beneficiaries, and include low-income disabled and elderly individuals). Overall, 65 percent of Medicaid dollars are spent on optional services and optional beneficiaries.

Health Tax Policy and Other Forms of New Health Coverage

Provides $125 Billion for Tax Credits and to Promote Health Savings Accounts — The number of individuals lacking health insurance increased by 5.2 million from 2000 to 2003, for a total of 45 million uninsured individuals in 2003. The Administration's response to this problem is a package of policies, estimated at $125.2 billion over ten years, that is geared toward the healthy and wealthy and that relies heavily on relatively untested insurance products.

- ***Tax Credits*** — The budget recycles a proposal from earlier years to create a refundable tax credit that people can use to purchase health insurance in the individual market, at a ten-year cost of $74.0 billion. A portion of the tax credit also may be put into a health savings account. Even with these credits, insurance in the individual market will still not be affordable for many individuals, particularly those who are older or in poorer health. Individuals who take advantage of these tax credits are likely to be younger and healthier employees, who may depart their employer-sponsored insurance, destabilizing that market by leaving it with a sicker pool of people. Independent analyses estimate that these tax credits would reduce the number of uninsured by only 1.9 million individuals.

- ***Health Savings Accounts* —** The Medicare Modernization Act created Health Savings Accounts (HSAs), which allow tax-free deposits and withdrawals for qualified medical expenses. In order to participate in the program, an individual must purchase a high-deductible, catastrophic health insurance plan. The budget goes further, making premiums for catastrophic health insurance tax deductible at a cost of $28.5 billion over ten years. The budget also provides an estimated $22.7 billion over ten years for rebates to small employers who contribute to their employees' HSAs. HSAs mainly benefit the healthy and the wealthy since this type of coverage is most attractive to those who have low health care costs.

***State Health Insurance Purchasing Pools* —** The budget provides $4.0 billion in grants to states over ten years to establish health insurance purchasing pools.

Other Health Policies

***Medical Malpractice* —** The President has repeatedly endorsed capping medical malpractice awards as a solution to rising health care costs, despite the fact that CBO reports that such reforms will only lower health care costs by half of one percent. The budget mentions this policy, but does not include a formal proposal nor does it include any savings.

***Association Health Plans* —** The President has promoted the idea of allowing small businesses to band together in Association Health Plans (AHPs) to buy health insurance coverage and negotiate insurance rates, while allowing them to sidestep state consumer protection laws. While the budget makes mention of this idea, it is not presented as a legislative proposal. CBO estimates that AHPs will only increase overall health insurance enrollment by 330,000 individuals. Furthermore, AHPs can "cherry-pick" small businesses with healthier employees, destabilizing the existing small group insurance market.

***National Marketplace for Health Insurance* —** The budget includes a new policy to allow individuals to purchase health insurance across state lines. While such a policy is promoted under the pretense of competition, it may in fact be a way to evade state regulations that govern the insurance industry and to undermine consumer protections.

***Postal Service Reforms* —** The budget takes the pension savings that are provided to the Postal Service and would otherwise be held in escrow in 2006 and beyond, and uses them to fully fund its retiree health benefit liabilities. This policy does not change retiree health benefits, but rather changes where those costs are displayed so that $32.1 billion in costs over ten years is now reflected in retiree health benefits. This amount is offset elsewhere throughout the budget.

Appropriated Health Programs

Increase for Health Homeland Security Activities — Health-related homeland security activities are spread across the Departments of Health and Human Services, Homeland Security, Labor, and Agriculture. These activities include protection of the nation's food supply; preparation against potential bioterrorism attacks, including development and procurement of vaccines; research to develop countermeasures; and preparations for public health emergencies. The budget provides $4.5 billion for health homeland security activities, a $195 million (4.6 percent) increase over the 2005 enacted level. The two biggest items are the Public Health and Social Services Emergency Fund and biodefense research at the National Institutes of Health.

Provides Negligible Increase for NIH — After doubling the NIH budget from 1998 to 2003, the budget provides $28.6 billion for 2006, limiting NIH growth to 0.5 percent over the 2005 enacted level. This funding level is a cut of $376 million (1.3 percent) below the amount CBO estimates is needed to maintain purchasing power at the 2005 enacted level. The NIH total includes $1.7 billion for biodefense research.

Cuts Centers for Disease Control — The budget provides $4.0 billion for CDC, a cut of $555 million (12.1 percent) below the 2005 level. The budget eliminates the Preventive Health and Social Services Block Grant ($131 million) and cuts funding for buildings and facilities from $270 million to $30 million. The budget increases funding for the strategic national stockpile by $203 million, for total funding of $600 million, but simultaneously cuts funding for state and local emergency response preparedness by $130 million (14.0 percent), for funding of $797 million.

Increases Food and Drug Administration **—** The budget provides FDA with a program level of $1.9 billion, consisting of an appropriation of $1.5 billion and $381 million in user fees. This program level is an $81 million increase (4.5 percent) above the 2005 program level. The main increase within this amount is $30 million for activities to defend the nation's food supply food.

Boosts Food Safety and Inspection Service (FSIS) **—** The budget provides FSIS with a program level of $973 million, consisting of an appropriation of $711 million, existing user fees of $123 million, and new user fees of $139 million. The appropriation is a $106 million cut (13.0 percent) from the 2005 enacted level, but the program level is a $36 million increase (3.8 percent). The new user fees will be charged to industry for federal inspection overtime costs.

Cuts Substance Abuse and Mental Health Services Administration (SAMHSA) — The budget funds SAMHSA at $3.2 billion for 2006, a decrease of $54 million (1.7 percent) from the 2005 enacted level.

Cuts Health Resources and Services Administration (HRSA) — The budget funds HRSA at $6.0 billion in 2006, a cut of $838 million (12.3 percent) below the 2005 enacted level. Since two programs within HRSA (Community Health Centers and Ryan White) receive a combined increase of $314 million, that means that the remaining programs are cut by a total of $1.2 billion in order to reach the net decrease of $838 million. The largest cut of $483 million is from eliminating "one-time projects," which encompass many Congressional earmarks.

Eliminates Several HRSA Programs — The budget eliminates several HRSA programs, including health professions training grants ($252 million in 2005), state planning grants ($11 million in 2005), EMS for children ($20 million in 2005), Healthy Communities Access Grants ($82 million in 2005), Universal Newborn Screening ($10 million in 2005), and the Traumatic Brain Injury program ($9 million in 2005).

Increase for Community Health Centers — The budget increases funding for community health centers by $304 million (17.5 percent) above the 2005 enacted level, for total funding in 2006 of $2.0 billion. The Administration estimates that this increase will allow it to complete the President's goal of creating 1,200 new or expanded health centers. The budget also announced a new goal to help every poor county in America that lacks a health center and can support one.

Severely Cuts Health Professions Training Programs — As in prior years, the budget eliminates all funding for health professions training programs, with the exception of programs that expand the number of health professions students from minority and disadvantaged backgrounds. In 2005, these programs received $300 million, but this year only receive $11 million, a cut $289 million (96.3 percent).

Freezes Nurse Training Programs — The budget provides $150 million for nurse training programs, a cut of $1 million below the 2005 enacted level.

Ryan White AIDS Programs Do Not Keep Pace With Inflation — For 2006, the budget funds Ryan White AIDS programs at $2.1 billion. This is an increase of $10 million (0.5 percent) above the 2005 enacted level, but a $45 million (-2.1 percent) cut from the amount CBO estimates is needed to maintain purchasing power at the 2005 level.

Freezes Title X Family Planning — The budget for Title X family planning programs is frozen at the 2005 enacted level of $286 million.

Slashes Rural Health Activities — The budget provides $30 million for rural health activities, a $115 million cut (79.3 percent) from the 2005 enacted level.

Slashes Construction Funding for Indian Health Facilities — The budget nearly eliminates Indian health facilities construction, cutting funding from its 2005 level of $89 million, to only $3 million in 2006. This funding level is consistent with HHS's overall policy to "take a pause" in construction funding this year throughout the agency. Overall, the budget funds IHS at $3.0 billion for 2006, an increase of $63 million (2.1 percent) above the 2005 enacted level, but essentially a freeze at the amount that CBO estimates is needed to maintain purchasing power at the 2005 level.

Slight Increase for Occupational Safety and Health Administration (OSHA) — The budget funds OSHA at $467 million, a slight increase of $3 million (0.6 percent) over the 2005 enacted level, but an $11 million (2.3 percent) cut from the amount CBO estimates is needed to maintain purchasing power at the 2005 level. The budget eliminates OSHA's training grants, which are funded at $10.2 million in 2005.

Freezes Funding for Mine Safety and Health Administration (MSHA) **—** For 2006, the budget provides $280 million for MSHA, essentially a freeze at the 2005 enacted level, but an $11 million cut (3.8 percent) below the amount CBO estimates is needed to maintain purchasing power at the 2005 level.

Function 570: Medicare

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

Medicare Administration

Increase for Medicare Administration — Medicare's administrative budget is $5.1 billion in 2006, of which $3.2 billion is appropriated to the Centers for Medicare and Medicaid Services (CMS), and the remainder is transferred from the Medicare Trust Funds to other agencies for Medicare-related administrative activities. The overall budget is a $1.0 billion increase above the 2005 level, while the CMS appropriation is $505 million above the 2005 enacted level.

Medicare Benefits and Spending Trends

Medicare Spending in 2006 — The budget projects that Medicare net mandatory spending will be $340.4 billion in 2006 under current law.[1] Over ten years (2006-2015), total spending grows an average of 7.8 percent annually. The budget projects Medicare net mandatory spending of $4.9 trillion over the ten-year period.

Medicare Prescription Drug Spending — The budget includes $1.2 trillion in gross Medicare outlays for the prescription drug benefit over ten years (2006 - 2015). This spending is offset by beneficiary premiums and by the Medicaid "clawback," which is the provision where Medicare recovers some of the states' Medicaid savings under the drug benefit. When accounting for these amounts, net Medicare outlays for the prescription drug benefit are $912.7 billion over ten years.

Medicare Prescription Drug Benefit (Dollars in Billions)

	2006 - 2015
Gross Medicare Spending for Drug Benefit	**1192**
Beneficiary Premiums	-145
Medicaid "Clawback"	-134
Net Medicare Spending for Drug Benefit	**913**
Federal Medicaid Savings	-189
Net Federal Cost (Medicare and Medicaid)	**724**

Overall federal spending for the drug benefit also includes federal Medicaid savings from shifting the cost of prescription drugs for dual eligibles from Medicaid to Medicare. Once these savings are included, the net federal costs for the drug benefit are $723.8 billion from 2006 - 2015.

[1] Net mandatory spending reflects total spending on benefits, less the amount collected from beneficiaries in the form of premiums. This number excludes administrative costs.

This number is consistent with the Administration's earlier estimate for the drug benefit and the Medicare Modernization Act (MMA) — any change only reflects the change in the budget window. Specifically, the bill was originally scored for the 2004 - 2013 budget window, whereas the new Medicare numbers include the expensive years of 2014 and 2015. When looking at spending for 2004 - 2013, the new estimate of overall federal spending for the drug benefit is $517.6 billion.

Estimates for 2004 - 2013 (Dollars in Billions)	Federal drug benefit	Overall Score for MMA
2006 Budget Estimate	518	NA
Original Administration Estimate (January 2004)	511	534
Comparable CBO Estimate (November 2003)	408	395

Medicare Legislative, Regulatory and Administrative Policies

Budget Fails to Address Medicare Physician Payment Cut — The budget includes no new major legislative policies for Medicare. Notably, the budget does not address the Medicare payment formula for physicians that will result in cuts to physician payments of around 5 percent for 2006 and further cuts for the following six years.

Regulatory Savings from Rehabilitation Hospital Regulation — The budget includes regulatory savings of $70 million in 2006 and $810 million over five years from payment changes for rehabilitation hospitals (known as the "75 percent rule").

***Regulatory Savings from Hospital Post-Acute Transfer* —** The budget includes regulatory savings from expanding a current policy that limits payments for patients who are transferred from an inpatient hospital to a post-discharge acute setting. This regulation saves $740 million in 2006, and $4.7 billion over five years.

Regulatory Savings from Skilled Nursing Facilities — The budget reforms the payment system for skilled nursing facilities, resulting in savings of $1.5 billion in 2006 and $10.1 billion over five years.

***Administrative Costs for Medicare Advantage* —** The beneficiaries who join private plans in Medicare (known as Medicare Advantage plans), are typically healthier and thus less expensive to care for than beneficiaries in the traditional Medicare program. Under current law, Medicare is implementing a risk adjustment process that adjusts payments to private plans to reflect their lower costs for healthier beneficiaries. The Administration is now planning to slow-down implementation of risk adjustment, which means higher payments for private plans, at a cost of $2.2 billion in 2006 and $8.3 billion over five years.

Function 600: Income Security

Function 600 consists of a range of income security programs that provide cash or near-cash assistance (e.g., housing, food, and energy assistance) to low-income persons, and benefits to certain retirees, persons with disabilities, and the unemployed. Housing assistance programs account for the largest share of discretionary funding in this function. Major federal entitlement programs in this function include unemployment insurance, food stamps, Temporary Assistance to Needy Families (TANF), child care, and Supplemental Security Income (SSI). The function also includes spending associated with the refundable portions of the Earned Income Tax Credit (EITC) and Child Credit. Federal and other retirement and disability programs, which make up approximately 30 percent of funds in this function, are discussed here and in *Function 950 (Undistributed Offsetting Receipts)*.

For 2006, the President's budget provides $304 billion for the mandatory programs in Function 600, a decrease of $2.5 billion from projected spending under current law. Over five years, spending decreases by a total of $19.0 billion relative to current-law projections. This decrease is largely a result of provisions affecting the Pension Benefit Guaranty Corporation, described in further detail below.

For Function 600 discretionary programs, the budget provides $47.3 billion for 2006, which is $1.2 billion, or 2.7 percent, above the 2005 enacted level as estimated by the Office of Management and Budget (OMB).

Nutrition Assistance

Tightens Eligibility for Food Stamps — The budget includes a provision to make it more difficult for certain low-income families receiving TANF non-cash assistance to qualify for food stamps. The budget also includes a provision to allow states to use the National Directory of New Hires to verify Food Stamp participants' employment and wage information. The combined effect of these provisions, along with the food stamp effects of the Administration's child support proposals (described below) is to reduce food stamp spending by $1.1 billion over ten years. Most of the savings comes from the TANF provision.

Funds Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) — The budget includes $5.5 billion in 2006 for WIC, an increase of $275 million above the 2005 enacted level. The Administration estimates that this funding, combined with $82 million in recoveries from prior-year monies, is sufficient to serve all 8.5 million individuals expected to be eligible and seeking services.

Housing Assistance

The President's budget includes $30.6 billion for discretionary housing assistance programs. This amount is $1.2 billion above the 2005 enacted level as estimated by OMB, and it is $196 million, or less than one percent, above the amount CBO estimates is necessary to maintain purchasing power at the 2005 level. Within this total, the President's budget increases funding for some programs, reduces or eliminates others, and creates a new program for displaced residents of rural subsidized housing. For information on housing credit programs, see *Function 370 (Commerce and Housing Credit)*.

Creates New $214 Million Rural Housing Voucher Program — A recent Supreme Court decision is expected to result in about 46,000 units of subsidized housing in rural areas converting to market rates. The tenants of these units would be at risk of substantial rent increase and possible loss of decent housing. To address this matter, the budget provides $214 million through the Department of Agriculture for a new program to provide rural housing vouchers for low-income residents displaced from subsidized housing.

Increases Funding for USDA Rental Assistance Program — The budget provides $650 million to fund all expiring rural rental assistance contracts and to provide contracts for new construction of farm labor housing projects. This funding level is $63 million, or 10.7 percent, above the 2005 enacted level.

Continues Shifting Housing Choice Voucher Program Toward a Block Grant — The budget provides $15.8 billion for the Housing Choice Voucher program, which provides about two million low-income individuals and families with rental vouchers they can use to obtain affordable housing on the private market. The budget amount, which is $1.1 billion above the 2005 enacted level, is sufficient to maintain the current number of families served, according to preliminary estimates. Within the budget total is $354 million for 50,000 tenant protection vouchers for families scheduled to lose other rental housing assistance for management reasons.

Traditionally, the budget for Section 8 was based on the cost of maintaining the number of families served, plus any incremental costs if Congress chose to increase the number of vouchers available and therefore increase the number of families served. (Only about one out of four eligible families now receives this type of federal housing assistance; most local housing authorities have long waiting lists for housing vouchers.) The President's budget continues a shift begun in 2004 away from this "unit-based" budgeting approach to a "dollar-based" approach, which means that local public housing authorities will receive a dollar amount that may bear no relation to the actual costs of serving families. The budget also promises local housing authorities "greater administrative flexibility" to meet local housing objectives. If funding does not keep up with costs, local housing authorities will face a choice between serving fewer families or reducing the value of the vouchers, effectively making housing unaffordable for more low-income families, elderly, and persons with disabilities.

***Rescinds Funding for HOPE VI Rehabilitation of Distressed Public Housing* —** The budget rescinds the $143 million provided for the HOPE VI program for 2005 and proposes no new funding for 2006. HOPE VI has successfully transformed severely distressed public housing projects into vibrant mixed-income neighborhoods. This program was funded at $570 million for 2003 but only $149 million for 2004 and $143 million for 2005.

Cuts Public Housing Capital Fund by Nearly One-Tenth — The budget provides $2.3 billion to local public housing authorities for capital repairs and improvements to their housing stock. This amount is $252 million, or 9.8 percent, below the 2005 level. The capital fund was funded at $3.0 billion for 2001 and has received steadily less each year since then.

***Cuts Public Housing Operating Fund* —** The budget provides $3.4 billion for the public housing operating fund, which local public housing authorities use for operating costs not covered by rental income. This fund received $2.4 billion for 2005, but that amount was artificially low by nearly $1 billion because of a timing shift that changed funding to a calendar-year budget cycle. After adjusting for this timing shift, the funding level in the budget for 2006 is about $25 million below the comparable 2005 level. When funding falls short of operating costs, local housing authorities often have no alternative but to let some units sit empty, thereby decreasing the supply of affordable housing available to low-income families.

***Cuts Housing for the Disabled and Freezes Housing for the Elderly* —** The budget provides $120 million for a program that provides supportive housing and other housing assistance for persons with disabilities, 50 percent less than the amount enacted for 2005. The budget freezes a similar housing program for the elderly at $741 million.

Selected Cuts to Housing Programs in 2006 Budget

(budget authority, millions of dollars)

	2005 Enacted	2006 Request	Difference
Housing Opportunities for People With AIDS	282	268	-14
Public Housing Operating Fund	3,432*	3,407	-25
HOPE VI	143	0	-143
Housing for Persons with Disabilities	238	120	-118
Public Housing Capital Fund	2,579	2,327	-252
Rural Housing and Economic Development	24	0	-24

*includes $994 million adjustment for timing shift

Zeroes Out Rural Housing and Economic Development — The budget eliminates this $24 million program, which encourages new and innovative approaches to serve the housing and economic development needs of rural populations through grants to local community-based organizations. The budget consolidates this program into a new community development program administered by the Department of Commerce.

Increases Funding for Homeless Assistance — The budget provides $1.4 billion for Homeless Assistance Grants, an increase of $199 million above the 2005 enacted level.

Increases Funding for HOME Investment Partnerships — The budget provides $1.9 billion for expanding the supply and affordability of housing through construction, acquisition, and rehabilitation, as well as providing rental assistance to tenants. This amount is $41 million above the 2005 enacted level. The budget also includes a separate $40 million for housing counseling services for homebuyers, homeowners, renters, and homeless individuals in subjects such as financial management and rental counseling. Housing counseling is currently funded through a set-aside in the HOME appropriation.

Relies on Recaptures of Prior–Year Monies to Fund Project-Based Rental Assistance — The budget provides $5.1 billion for project-based rental subsidy contracts and related activities. This amount is $226 million below the 2005 level, but this funding will be supplemented by $807 million in recoveries of prior-year obligations. Counting these recoveries, the budget provides sufficient funding to meet CBO's estimate of the amount needed to maintain current services in this program.

Welfare and Related Family Support Programs

Most provisions of the landmark Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) were set to expire at the end of 2002. Congress has not yet approved a comprehensive reauthorization but has passed several temporary extensions. The current extension runs through March 31, 2005. PRWORA replaced the former federal welfare entitlement program with flexible TANF block grants, increased child care funding, improved child support collection, and reduced funding for the Title XX Social Services Block Grant.

The proposals for welfare-related programs in the 2006 budget are not significantly different from the package put forth in the 2005, 2004, and 2003 President's budgets. The budget freezes funding for some major activities but provide increases in other areas. The budget also extends for one year the Transitional Medicaid Assistance for families leaving welfare. See *Function 550 (Health)* for information on Medicaid.

Freezes Most Welfare Funding — The President's budget again freezes funding for most components of the TANF program and maintains this frozen funding level for the five-year budget window. The budget freezes basic family assistance grants to states and territories at $16.6 billion. In addition, the budget provides $240 million a year for new grant programs to promote marriage and family formation activities and research. These new initiatives are largely offset by a redirection of funding from a program of bonuses for high-performing states (saving an average of $100 million a year) and by eliminating bonuses to states for reducing out-of-wedlock births ($100 million a year). The budget continues supplemental grants to states for population increases ($319 million a year). Because the supplemental grant program is by law excluded from official projections of current-law funding, continuing the supplemental grant program is treated as an increase relative to current-law projections. Current law also provides a $2 billion contingency fund for states experiencing economic hardships. The budget makes the contingency fund more accessible to states but projects that spending as a result of these modifications will increase by only $141 million over five years compared with current law. The House Republican welfare reauthorization bill, H.R. 240, mirrors the President's policy of freezing most welfare funding but does provide an extra $200 million a year for child care.

***Child Care Funding Frozen for Fourth Straight Year* —** The budget once again freezes funding for the Child Care and Development Fund (CCDF) at the 2005 enacted level of $4.8 billion, providing $2.1 billion in appropriations for the Child Care and Development Block Grant, and $2.7 billion in mandatory child care funding to the states. CCDF funding has been frozen since 2002. As a result, inflation has eroded its purchasing power. To keep pace with inflation since 2002, the CCDF would have needed approximately $5.1 billion in 2005. Total federal resources for child care also include TANF and Social Services Block Grant funds spent on child care at state discretion. Considering all funding available for child care, the budget projects that the number of children receiving assistance will decline from 2.3 million in 2004 to 2.0 million in 2010. Meanwhile, the President's plan to increase work requirements for welfare recipients will increase the demand for affordable child care.

***No Increase for Social Services Block Grant (Title XX)* —** The budget again freezes funding for the Social Services Block Grant at $1.7 billion. This grant provides states with broad discretion to use these funds for social services such as child care, child welfare, home-based services, employment services, adult protective services, prevention and intervention programs, and special services for the disabled. Funding for the Social Services Block Grant is included in *Function 500 (Education, Training, Employment, and Social Services).*

Changes Funding Structure for Foster Care — The budget repeats a proposal put forth in previous Administration budgets to change the method of making payments to states for the $4.7 billion foster care program. Funding for this entitlement program is traditionally based on estimates of numbers of eligible children and levels of assistance payments. The budget offers states the option of receiving foster care funds in the form of "flexible grants." In exchange for agreeing to a fixed allocation of funding for five years, states are given considerably more administrative flexibility and discretion as to what activities can be funded. Over the ten-year budget window, this proposal increases spending relative to current law in some years and reduces it in others, for a net ten-year increase of $49 million. A separate budget provision reduces spending by $834 million over ten years by clarifying a definition used in the program to respond to a court ruling that conflicts with long-standing agency interpretation of the foster care law.

Increases Child Support Collections and Gives More to Families — The budget again includes a package of changes to increase child support collections and direct more of these payments to families. The budget also includes a provision to increase medical child support collections on behalf of children without health insurance. The child support proposals generate savings to the Medicaid program, but on net they increase federal spending by $55 million in 2006-2010 and by $122 million through 2015, compared with current law.

Extends Supplemental Security Income (SSI) Eligibility for Refugees and Makes Other Changes — Under current law, refugees and asylees lose eligibility for SSI after seven years in the U.S. unless they become citizens. The budget allows refugees and asylees to receive SSI for eight years, but the policy sunsets after 2008. This proposal increases SSI spending by $80 million over three years. Other changes to SSI include a requirement to review a larger share of initial SSI disability eligibility determinations for accuracy before starting benefit payments. The net effect of these changes is to reduce SSI spending by $105 million over five years, and by $493 million over ten years. These changes also affect Medicaid spending. Medicaid effects are recorded in *Function 550 (Health*).

***Cuts Low-Income Energy Assistance* —** The budget provides $2.0 billion for the Low-Income Home Energy Assistance Program (LIHEAP), a cut of $182 million, or 8.3 percent, below the 2005 level (including contingency funding). LIHEAP provides help with energy bills to about 4.5 million households each year. About 35 percent of LIHEAP households include a member 60 years of age or older, and about half include a member with a disability.

Unemployment Insurance (UI)

The Unemployment Insurance program is financed through a combination of state and federal taxes. State taxes pay for regular unemployment insurance benefits. Federal taxes currently support federal and state unemployment administration and retraining services, the federal government's share of extended benefits for workers out of work more than 26 weeks, and loans to states that are unable to pay benefits because they have run out of funds.

***Budget Includes Plan to Recapture UI Overpayments* —** The budget includes a provision allowing the government to recapture overpaid unemployment benefits by reducing the federal tax refunds of workers with such overpayments, for an estimated savings of $281 million in the first year and $3.1 billion over ten years.

***Other Changes to Reduce Improper Payments* —** The budget includes four provisions estimated to save $1.6 billion over ten years. One provision saves $229 million over ten years by giving states financial incentives to identify, collect, and prevent UI overpayments. The budget saves $798 million over ten years by requiring states to impose a minimum 15 percent penalty on fraudulent overpayments and dedicating the proceeds to further reductions of fraudulent payments. The third provision allows private collection agencies collecting overpayments and delinquent employer taxes on behalf of states to keep a portion of the amounts they recover, for an estimated ten-year savings of $369 million. States currently find the cost of hiring private collection agencies prohibitive, because fees must be paid out of UI administrative funds. The final provision charges employers for any UI benefits improperly paid as a result of employers failing to respond to state queries regarding their former workers' eligibility for UI (for example, a query about whether a worker was fired), for ten-year savings estimated at $227 milion.

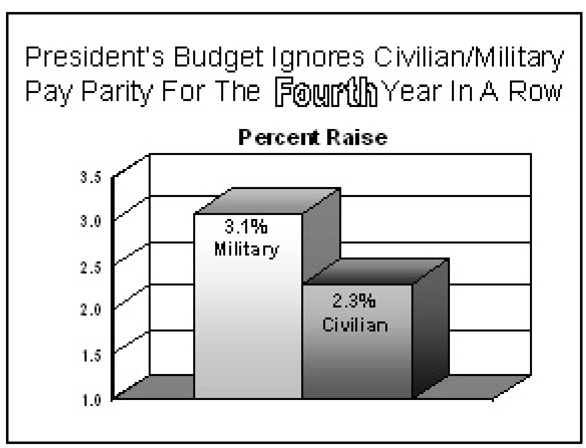
Spending Associated with Tax Proposals

The budget includes a provision to perfect the intent of the uniform definition of a qualifying child provisions in the Working Families Tax Relief Act of 2004 (WFTRA). Under previous law, recipients of the Earned Income Tax Credit (EITC) who claimed relatives as dependents were required to prove, among other facts, that they were the primary care provider for such dependents. WFTRA eliminated this requirement on the grounds that it was subjective and difficult to enforce, but this created the opportunity for some families to match dependents with eligible taxpayers in order to maximize total benefits. The provision in the budget clarifies that if a child resides with a parent for half the year, only the parent would be eligible to claim the child as a dependent for EITC purposes. This provision will reduce spending on the refundable portion of the Child Tax Credit by $670 million over ten years, and it will reduce spending on the refundable portion of the EITC by $1.6 billion over ten years.

General and Federal Retirement and Disability

Federal Employees' Pay Raise —The budget increases federal civilian pay rates by 2.3 percent in January 2006, below the average 3.1 percent pay raise for military personnel. This is the fourth year that the budget has ignored the tradition of "pay parity" for civilian and military employees.

Baseline Adjustment for Federal Pay Raises — The budget proposes that, since the effective date for federal pay raises occurs in January, the baseline not assume that pay raises take effect at the beginning of the fiscal year in October.



Mandatory

Pension Benefit Guaranty Corporation — The budget protects the long-term solvency of the PBGC and reforms single-employers pension plans. The budget reforms funding rules to fully fund pension plans, and updates both the variable and flat rate premiums to reflect the real risks and costs of benefits, and requires that plans provide timely information on their funding status to workers, investors and regulators to ensure greater accountability. The budget will increase flat-rate premiums currently used in single-employer pension plans from $19 per participant to $30 per participant and future increases will be indexed to wage growth. Variable rates would be reformed to reflect new funding targets, which will be determined based on expected claims. This proposal saves $2.2 billion in 2006, $15.5 billion over the 2006-2010 period, and $26.5 billion over ten years.

There are concerns that under the President's plan, the single-employer pension plans will be forced to pay over $2 billion in new premiums next year. Most of the increased premiums will come from those companies with weaker pension plans that are at risk of failing and adding to the debt of the PBGC, which the Government Accountability Office (GAO) recently placed on its watch list of high-risk federal agencies for the second year in a row. This proposal may cause even more plans to fail, increasing the record PBGC deficit ($23 billion) and jeopardizing healthy pension plans.

Federal Employees' Compensation Act — The budget includes reforms to strengthen program integrity and make benefits more equitable and easier to administer to Federal workers who sustain work-related injuries. The reforms include imposing an up-front waiting period for benefits, streamlining claims processing, and permitting the Department of Labor to recapture compensation costs from responsible third parties. This proposal saves $172 million over the ten-year period (2006-2015).

Function 650: Social Security

Function 650 includes mandatory spending to pay Social Security retirement and disability benefits to 48 million people and appropriated funding to administer these programs.

Old -Age and Survivors Insurance (OASI) — Under current law, the Social Security Administration (SSA) will pay $428.8 billion in retirement and survivors benefits to 39.8 million recipients in 2005. It will pay $447.9 billion in retirement and survivors benefits to 40.3 million recipients in 2006. This spending is mandatory and off-budget.

Disability Insurance (DI) — Under current law, SSA will pay $81.7 billion in disability insurance benefits to 8.0 million recipients in 2005. It will pay $87.6 billion in disability insurance benefits to 8.3 million recipients in 2006. This spending also is mandatory and off-budget.

Administrative Costs — SSA will spend $4.4 billion to administer the OASI and the DI programs in 2005. The Administration has requested $4.7 billion for 2006, an increase of roughly $300 million, or 7.0 percent. This spending is discretionary. It is virtually all off-budget.

Income — Under current law, income to the OASI and DI programs will be $680.7 billion in 2005 and will be $718.8 in 2006. This spending is mandatory. Income from payroll taxes and interest from the Treasury is off-budget. Proceeds from taxation of benefits deposited in the trust funds are on-budget. Under current law, proceeds from taxation of benefits will be $16.4 billion in 2005 and $16.0 billion in 2006.

Legislative Changes to Program — The budget does not change FICA taxes or benefit formulas. It does assume a legislative change requiring full-time school attendance for dependent's benefit recipients at age 16. This provision saves $10 million in 2006 and $1.3 billion from 2006 through 2015.

Function 700: Veterans Benefits and Services

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

Discretionary Programs

Provides Inadequate Funding for Veterans Medical Care — The President's 2006 budget provides $31.4 billion for appropriated veterans programs, which includes $424 million of new enrollment fees and increased co-payments for Priority 7 and Priority 8 veterans to offset health care costs. Including these increased fees, the budget reflects an increase of $675 million (2.2 percent) above the 2005 enacted level, but a $338 million reduction (1.1 percent) below the amount that CBO estimates is needed to maintain purchasing power at the 2005 level. However, when excluding these new fees from the totals, the budget increases discretionary funding only $251 million (0.8 percent), which is $762 million (2.4 percent) below the amount CBO estimates is needed to maintain purchasing power at the 2005 enacted level.

The table below illustrates the 2006 veterans discretionary budget excluding the new fees that the budget proposes to use to augment veterans' health care funding. Almost all appropriated funding for veterans pays for medical care and hospital services.

Total Appropriated funds

(Budget Authority in Billions)

	2005 Enacted	2006 Requested	Dollar Change	Percent Change	Inflation Adjusted 2005	Dollar Change	Percent Change
2006 Budget Request	**30.7**	**31.4**	**0.7**	***2.2%***	**31.7**	**-0.3**	***-1.1%***
New fees proposed	-	**-0.4**	-	-	-	-	-
Total minus fees	**30.7**	**31.0**	**0.3**	***0.8%***	**31.7**	**-0.8**	***-2.4%***

Requires an Enrollment Fee for Priority Level 7 and 8 Veterans — For the third straight year, the President's budget imposes a $250 annual enrollment fee for medical care on Priority 7 and Priority 8 veterans. These are veterans without service-connected disabilities rated above zero percent who also have incomes above VA means-tested levels. During 2004, these income thresholds ranged from incomes of $25,163 or more for veterans with no dependents to $36,950 for veterans with five or more dependents. The budget assumes five-year savings of $1.2 billion from this proposal. Congress rejected this proposal in the last two budgets.

Increases Co-payments for Priority Level 7 and 8 Veterans — Once again, the President's budget attempts to increases pharmacy co-payments for Priority 7 and 8 veterans from $7 to $15. The budget assumes five-year savings of $898 million from this proposal. Congress rejected this proposal in the last two budgets.

Stops Enrollment of New Priority 8 Veterans — On January 17, 2003, VA stopped enrolling new Priority 8 veterans for medical care. The President's budget continues this policy.

Eliminates Some Co-payments or Out-of-pocket Expenses — The President's budget eliminates co-payments for veterans receiving hospice care and for former Prisoners of War, and allows the VA to pay for emergency room care received in non-VA facilities for enrolled veterans.

Assumes Savings to Partially Offset Health Care Costs — The 2006 budget assumes the VA will achieve management savings totaling $590 million to offset the cost of health care. It plans for improved standardization policies in the procurement of supplies, pharmaceuticals, and other capital purchases to yield these savings. This year marks the fourth year that the budget assumes "management savings" to help offset health care costs. The savings assumed in the preceding three years total $1.3 billion.

Reduces Medical Personnel — The budget proposes medical personnel reductions totaling more than 3,000. Most of these are nurses.

Eliminates Funding for Extended Care Facilities — The budget eliminates all funding for state grants for extended care facilities. This reflects a reduction of $105 million from the 2005 enacted level.

Cuts Funding for Medical and Prosthetic Research — The budget cuts $9 million from medical and prosthetic research activities. These cuts could be deeper if the additional fees the budget proposes for Priority 7 and Priority 8 veterans – totaling $424 million in 2006 – were eliminated.

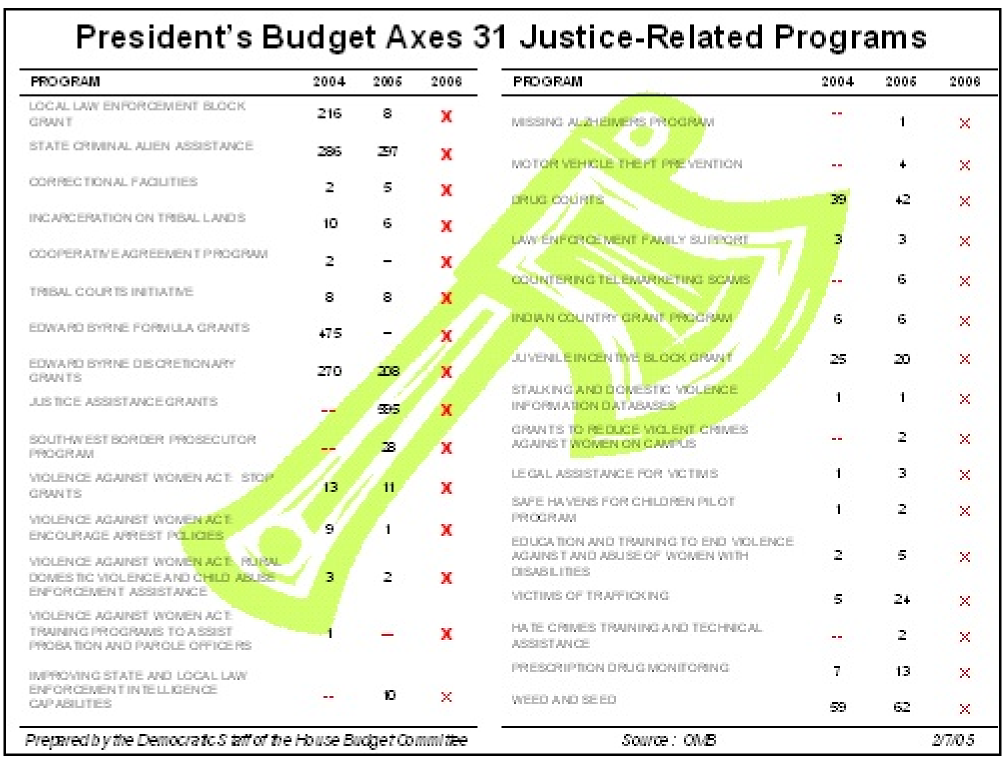
Provides Less Funding for CARES than Previously Recommended — The budget proposes $540 million for major construction for 2006, or only half the amount former VA Secretary Anthony Principi had previously recommended. Secretary Principi advocated $1 billion per year investment in medical construction over five years to implement the Capital Asset Realignment for Enhanced Services (CARES) program.

Function 750: Administration of Justice

The Administration of Justice function consists of federal law enforcement programs, litigation and judicial activities, correctional operations, and state and local justice assistance. Agencies within this function include: the Federal Bureau of Investigation (FBI); the Drug Enforcement Administration (DEA); the Department of Border and Transportation Security (BTS); the Bureau of Alcohol, Tobacco, and Firearms and Explosives; the United States Attorneys; legal divisions within the Department of Justice; the Legal Services Corporation; the Federal Judiciary; and the Federal Bureau of Prisons.

The President's budget provides \$38.7 billion in discretionary funding for this function, the same amount as the 2005 enacted level. The budget increases several federal law enforcement programs that are tied to homeland security. However, the 2006 budget, like previous budgets submitted by the Administration, significantly cuts state and local law enforcement programs.

State and Local Criminal Justice and Juvenile Justice Consolidated and Cut — State and local criminal justice and juvenile justice programs provide resources to help communities combat and deter crime. The budget eliminates currently-funded state and local justice programs and creates new initiatives within the Office of Justice. However, the budget provides only \$1.2 billion for Office of Justice state and local law enforcement initiatives for 2006, thereby cutting overall funding for state and local justice assistance by \$496 million below the 2005 level. The chart details programs eliminated.



President's Budget Axes 31 Justice-Related Programs

PROGRAM	2004	2005	2006
LOCAL LAW ENFORCEMENT BLOCK GRANT	216	8	X
STATE CRIMINAL ALIEN ASSISTANCE	286	297	X
CORRECTIONAL FACILITIES	2	5	X
INCARCERATION ON TRIBAL LANDS	10	6	X
COOPERATIVE AGREEMENT PROGRAM	2	–	X
TRIBAL COURTS INITIATIVE	8	8	X
EDWARD BYRNE FORMULA GRANTS	475	–	X
EDWARD BYRNE DISCRETIONARY GRANTS	270	208	X
JUSTICE ASSISTANCE GRANTS	--	595	X
SOUTHWEST BORDER PROSECUTOR PROGRAM	--	28	X
VIOLENCE AGAINST WOMEN ACT: STOP GRANTS	13	11	X
VIOLENCE AGAINST WOMEN ACT: ENCOURAGE ARREST POLICIES	9	1	X
VIOLENCE AGAINST WOMEN ACT: RURAL DOMESTIC VIOLENCE AND CHILD ABUSE ENFORCEMENT ASSISTANCE	3	2	X
VIOLENCE AGAINST WOMEN ACT: TRAINING PROGRAMS TO ASSIST PROBATION AND PAROLE OFFICERS	1	—	X
IMPROVING STATE AND LOCAL LAW ENFORCEMENT INTELLIGENCE CAPABILITIES	--	10	X
MISSING ALZHEIMERS PROGRAM	--	1	X
MOTOR VEHICLE THEFT PREVENTION	--	4	X
DRUG COURTS	39	42	X
LAW ENFORCEMENT FAMILY SUPPORT	3	3	X
COUNTERING TELEMARKETING SCAMS	--	6	X
INDIAN COUNTRY GRANT PROGRAM	6	6	X
JUVENILE INCENTIVE BLOCK GRANT	25	20	X
STALKING AND DOMESTIC VIOLENCE INFORMATION DATABASES	1	1	X
GRANTS TO REDUCE VIOLENT CRIMES AGAINST WOMEN ON CAMPUS	--	2	X
LEGAL ASSISTANCE FOR VICTIMS	1	3	X
SAFE HAVENS FOR CHILDREN PILOT PROGRAM	1	2	X
EDUCATION AND TRAINING TO END VIOLENCE AGAINST AND ABUSE OF WOMEN WITH DISABILITIES	2	5	X
VICTIMS OF TRAFFICKING	5	24	X
HATE CRIMES TRAINING AND TECHNICAL ASSISTANCE	--	2	X
PRESCRIPTION DRUG MONITORING	7	13	X
WEED AND SEED	59	62	X

Prepared by the Democratic Staff of the House Budget Committee *Source: OMB* *2/7/05*

***The Community Oriented Policing Services (COPS) Program Nearly Eliminated* —** COPS provides grants and other assistance to help communities hire, train, and retain police officers and to improve law enforcement technologies. The budget provides $118 million for COPS for 2006. Of the $118 million, however, $96 million is funding carried over from previous years, and only $22 million is new budget authority. The 2005 enacted levels included $598 million available funds, of which $499 million was new budget authority. The budget cuts COPS available funds by $480 million (80.3 percent) below the 2005 level, and cuts COPS new budget authority by $477 million (95.6 percent) below the 2005 level.

***Federal Law Enforcement Increased* —** Federal law enforcement programs include agencies such as the FBI, BTS, the United States Secret Service, the DEA, civil rights enforcement agencies such as the Equal Employment Opportunity Commission (EEOC) and the Office for Civil Rights, and the ATF. The budget provides $22.8 billion for federal law enforcement programs, a $1.8 billion increase over the 2005 level. Below are details for several federal law enforcement agencies. (See also *Department of Homeland Security* section for descriptions of additional enforcement agencies and programs.)

Border and Transportation Security — BTS enforces federal customs and immigration laws and secures our national borders from threats. The budget provides $16.1 billion for the agency, a $1.5 billion increase over the 2005 level. The increase goes toward hiring additional border patrol agents, improving border patrol aircraft and other surveillance equipment, and detaining and removing illegal entrants.

Federal Bureau of Investigation — The FBI's responsibilities include detecting, investigating, and prosecuting federal crimes. The budget provides $5.7 billion for the Federal Bureau of Investigation, a $556 million (10.8 percent) increase over last year's level. The increases go toward improving intelligence capabilities and counter-terrorism efforts.

Drug Enforcement Administration — The DEA enforces laws relating to illicit drug manufacturing and distribution. The budget provides $1.7 billion for the DEA, maintaining the agency at the 2005 level.

***United States Marshals Service* —** The US Marshals Service performs a variety of missions related to security, protection, and investigations. The budget provides $790 million for the US Marshals Service, a $42 million increase over the 2005 level.

Bureau of Alcohol, Tobacco, Firearms and Explosives — The Bureau of Alcohol, Tobacco, Firearms, and Explosives investigates and enforces laws relating to the items for which it is named. The budget provides $804 million for the Bureau, a $74 million cut below last year's level. The budget proposes that the agency collect an additional $120 million in user fees for explosives to help offset costs of the Bureau's regulation of the explosives industry.

Civil Rights Law Enforcement — The budget provides $331 million for EEOC, a $4 million increase over the 2005 level. It provides $39 million for Fair Housing and Equal Opportunity activities, a $7 million (15.2 percent) cut below the 2005 level. The budget also provides $92 million for the Department of Education's Office for Civil Rights, $3 million above the 2005 level, and $9 million for the Commission on Civil Rights, maintaining the program at the 2005 level.

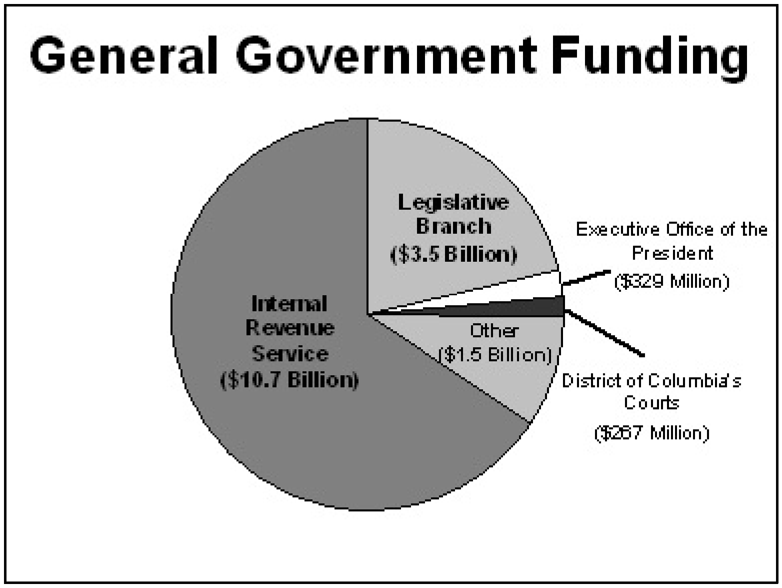
Legal Services Corporation Cut — The Legal Services Corporation provides free legal assistance for low-income people. The President's budget provides $318 million for the Legal Services Corporation, a $13 million cut below the 2005 level.

United States Attorneys Increased — The budget provides $1.6 billion for United States Attorneys, a $84 million increase above the 2005 level.

Federal Correctional Activities — The federal corrections system maintains and operates federal prisons. The budget provides $4.8 billion for federal corrections, the same as the 2005 level. The budget provides $1.2 billion for the Detention Trustee office, a $348 million increase over the 2005 level. The increase goes toward housing and supervising the increasing federally detained and incarcerated populations.

Function 800: General Government

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



The President's 2006 budget provides $16.3 billion for general government, $174 million below the level CBO estimates is needed to maintain constant purchasing power at the 2005 level and $415 million above the 2005 enacted level. The federal buildings fund is not included in the above comparison because OMB and CBO have differing assumptions about the program.

Legislative Branch — The budget includes $3.5 billion, $330 million above the level needed to maintain constant purchasing power, for the Legislative Branch. The funding provides resources for the operations of the House and Senate as well as support agencies such as the Government Accountability Office, the Library of Congress, and the Congressional Budget Office (CBO).

Executive Office of the President — The budget includes $329 million for the Executive Office of the President (EXOP), $75 million or 18.6 percent below the 2005 enacted level.

Internal Revenue Service (IRS) — The budget includes $10.7 billion for the Internal Revenue Service, an increase of $443 million above the 2005 enacted level. Almost all of the IRS budget is in this function.

District of Columbia's Courts — The budget includes $267 million for the District of Columbia's courts, $35 million above the level needed to maintain constant purchasing power at the 2005 level.

Federal Buildings Fund — The budget does not provide funding for GSA's federal buildings fund in 2006.

Mandatory

Payments to Alaska — The budget includes $1.2 billion in 2006 and $1.6 billion over ten years in mandatory spending for payments to Alaska for drilling in the Arctic National Wildlife Refuge. See *Function 950 (Undistributed Offsetting Receipts)* for further discussion.

National Indian Gaming Commission — The budget amends the current limitation on assessments that the Commission is authorized to collect in gaming activity fees. This proposal costs $43 million over ten years (2006 - 2015).

Internal Revenue Collections for Puerto Rico — The budget extends for two years the higher payments it makes to Puerto Rico and the Virgin Islands based on excise taxes on rum imported from places other than Puerto Rico and the Virgin Islands. This proposal costs $75 million for the two years (2006-2007).

Tax and Trade Bureau Regulatory Activity User Fees — The budget establishes user fees to cover the costs of the Tax and Trade Bureau's regulatory functions. The new user fees include filing fees for Certificate of Label Approvals, proposed formulas, and permit applications. This proposal saves $297 million over ten years.

Function 920: Allowances

This function displays the budgetary effect of proposals that cannot easily be distributed across other budget functions. In the past, this function has included funding for emergencies or proposals contingent on certain events. The President's budget for this function includes the $81 billion supplemental appropriation anticipated for 2005, funding for adjustments to the legislative and judicial branches' requests, and the effects of debt collection initiatives.

Anticipated Supplemental — The budget contains a place holder for the anticipated ($81 billion) supplemental appropriations bill for the operations in Iraq and Afghanistan, as well as tsunami relief.

Adjustments to the Legislative and Judicial Branches' Requests — The budget includes cuts of $400 million for 2006 and of $2.0 billion over the five-year period (2006-2010) from adjustments to the legislative and judicial branch accounts for excessive funding requests. Each year, these branches make a request to OMB to cover their funding needs. OMB, in turn, adjusts the overall funding level to better reflect the historical funding levels for these branches of government. However, these reductions are reflected in this function rather than in the budget functions that contain the judicial and legislative branches to maintain comity among the three branches of government.

Debt Collection Initiatives — The budget again proposes debt collection initiatives that were not enacted in the 2005 Omnibus Appropriations Act and the Jumpstart Our Business Strength Act. The budget proposes to increase and enhance the Financial Management Service (FMS) opportunities to collect delinquent debt by eliminating the 10-year limitation on collecting debt owed to federal agencies and allowing collection of tax refunds for delinquent state unemployment insurance overpayments. These initiatives save $11 million in 2006 and $65 million over the ten-year period (2006-2015).

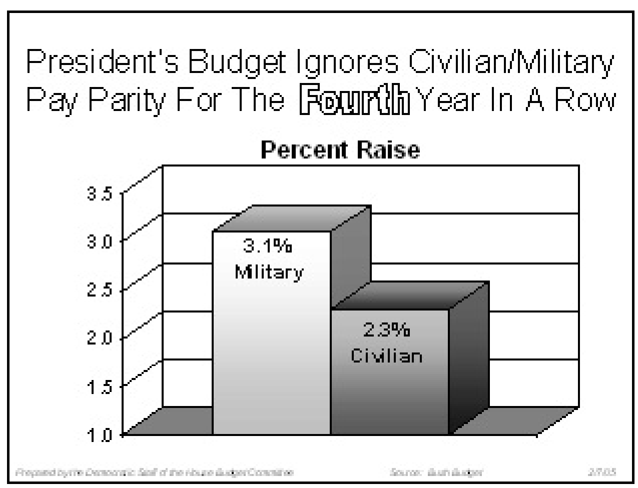
Function 950: Undistributed Offsetting Receipts

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

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

For 2006, the budget assumes offsetting receipts of $69.8 billion. Over the five-year period (2006-2010), the budget assumes offsetting receipts of $419.4 billion.

Federal Employee Retirement System — For 2006, federal agencies will pay $51.2 billion to the federal employee retirement funds (the Civil Service Retirement System, Military Retirement System, and Federal Employees Retirement System). Federal agencies also make payments to the Medicare Health Insurance Trust Fund and the Social Security Trust Funds on behalf of federal employees. As employees' pay increases, agencies are required to increase their payments to these funds.



Federal Employees' Pay Raise — The budget increases federal civilian pay rates by 2.3 percent in January 2006, below the average 3.1 percent pay raise for military personnel. This is the fourth year that the budget has ignored the tradition of "pay parity" for civilian and military employees.

Accrual Accounting of Federal Retiree Costs — The budget again accounts for federal retiree costs on an accrual basis. Under this plan, agencies are required to pay up front all retirement pension and health costs for all federal employees. Under current federal accounting procedures, these retirement costs are future mandatory payments and do not show up in agency costs. The budget changes this practice so that each agency shows these retirement costs as current discretionary costs, therefore increasing the need for discretionary appropriations to cover these payments.

Mandatory

Arctic National Wildlife Refuge Lease Receipts — The budget assumes the opening of the Arctic National Wildlife Refuge (ANWR) for oil drilling to supplement the funding for renewable and related energy research. The budget assumes leasing begins in 2007, generating $2.4 billion in receipts, with $1.2 billion for the Department of Interior to conduct environmentally responsible oil and gas exploration. The Congress rejected this proposal, which was also included in the 2005 budget. See *Function 800 (General Government)* for further details.

Postal Service Reforms **—** The budget takes the pension savings that are provided to the Postal Service and would otherwise be held in escrow in 2006 and beyond, and uses them to fully fund its retiree health benefit liabilities.

Analog Spectrum Lease Fee — The budget again establishes a $500 million annual lease fee on the use of analog spectrum by commercial broadcasters beginning in 2007. Individual broadcasters will be exempt from the fee upon returning their analog spectrum licenses to the FCC (and thus completing their transition from analog to digital broadcasting). The fee is expected to generate $1.9 billion over the next five years (2006-2010) and $2.6 billion over the next ten years (2006-2015).

Spectrum Auction Authority and Spectrum License User Fee — The budget again extends indefinitely the authority of the FCC to auction spectrum. This authority currently expires at the end of 2007. The budget also authorizes the FCC to set user fees on unauctioned spectrum. These two proposals are expected to generate a total of $5.1 billion over the next five years (2006-2010) and $8.2 billion over the next ten years (2006-2015).

Appendix A.
User Fees and Other User Charge Proposals in the President's Budget

Estimated Collections in Millions of Dollars

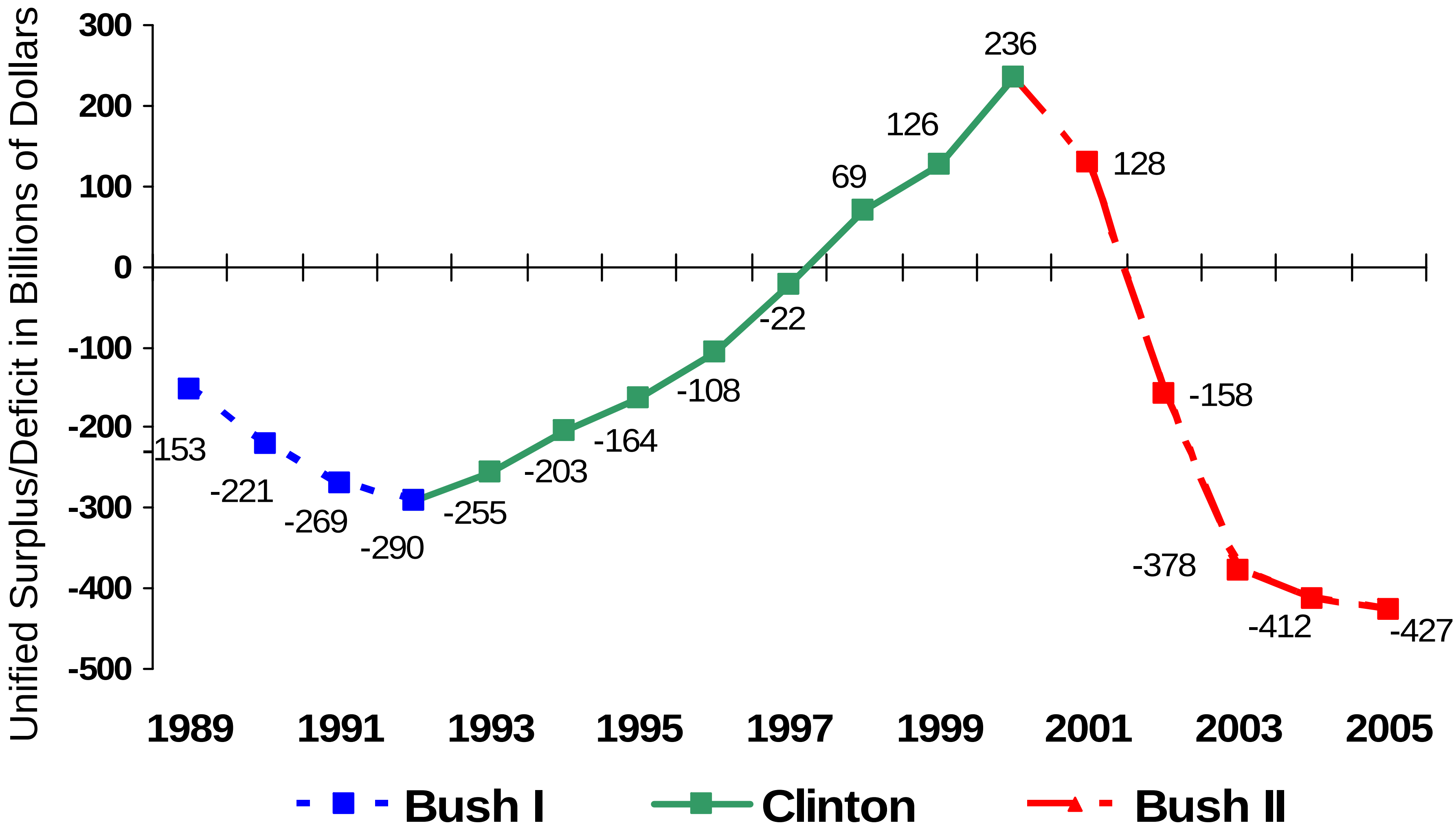
	2006	2007	2008	2009	2010	2006-10
DISCRETIONARY						
1. Offsetting collections						
Department of Commerce						
Patent and Trademark Office	—	168	145	115	81	509
Department of Homeland Security						
Transportation Security Administration: Aviation security fees	1,479	1,622	1,776	1,937	2,108	8,922
Department of Housing and Urban Development						
Office of Federal Housing Enterprise Oversight: Government-sponsored enterprise (GSE) regulation	–60	–59	–59	–58	–57	–293
2. Offsetting receipts						
Nuclear Regulatory Commission						
Extend Nuclear Regulatory Commission fees	365	351	350	346	337	1,749
MANDATORY						
1. Offsetting collections						
Department of Housing and Urban Development						
Government-sponsored enterprise (GSE) regulation	6	6	6	6	6	30
Department of Labor						
Pension Benefit Guaranty Corporation	2,195	3,702	3,490	3,199	2,836	15,422
Department of the Treasury						
Office of Housing Finance Supervision: Government-sponsored enterprise (GSE) regulation	96	94	94	95	95	474
Federal Deposit Insurance Corporation						
Merge the bank insurance fund and the savings association insurance fund	—	—	—	–380	–856	–1,236
Federal Housing Finance Board						
Government-sponsored enterprise (GSE) regulation	–36	–37	–38	–39	–40	–190
2. Offsetting receipts						
User Fee Proposals						
Department of Agriculture						
Animal and Plant Health Inspection Service user fees	11	11	11	12	12	57
Food Safety and Inspection Service user fees	139	142	145	148	151	725
Grain Inspection, Packers and Stockyards Administration user fees	25	26	26	27	27	131
Agricultural Marketing Service standardization user fees	3	3	3	3	3	15
Department of Justice						
Bureau of Alcohol, Tobacco, Firearms and Explosives: Explosives regulation user fees	120	120	120	120	120	600
Department of Transportation						
St. Lawrence Seaway Development Corporation user fees	8	17	17	17	17	76
Department of the Treasury						
Alcohol and Tobacco Tax and Trade Bureau regulatory activity user fees	29	29	29	29	29	145
Department of Veterans Affairs						
Establish an annual enrollment fee for non-disabled, higher income veterans	248	248	248	248	248	1,240
Increased pharmaceutical copayments	176	178	180	181	183	898
Environmental Protection Agency						
Pre-manufacture notice user fees	4	8	8	8	8	36
Pesticide tolerance user fees	20	20	21	21	22	104
Pesticide registration user fees	26	27	27	28	28	136

(Continued on next page)

	2006	2007	2008	2009	2010	2006-10
Federal Communications Commission						
Authorize spectrum license user fees	—	50	150	300	300	800
Analog spectrum lease fees	—	500	500	480	450	1,930
Other Proposals						
Department of Agriculture						
Forest Service: Administration of rights-of-way	5	5	5	5	5	25
Forest Service: Facilities enhancement	42	42	42	65	65	256
Department of Energy						
Power Marketing Administrations: Charge market rates	40	157	446	1,145	1,406	3,194
Department of Homeland Security						
Immigration examination fees	31	31	31	31	31	155
Department of the Interior						
Arctic National Wildlife Refuge, sale of leases:						
--Collections for payments to Alaska	—	1,200	1	101	1	1,303
--Federal receipts	—	1,200	1	101	1	1,303
Department of Labor						
Foreign labor certification fees	40	40	40	40	40	200
Corps of Engineers - Civil Works						
Additional recreation fees	9	17	17	17	17	77
Federal Communications Commission						
Extending spectrum auction authority	—	—	–1,083	2,156	3,239	4,312
GOVERNMENTAL RECEIPTS						
Department of the Interior						
Abandoned mine reclamation fees	304	312	318	322	323	1,579
Increase Indian Gaming Commission, activity fees	—	4	4	5	5	18
Total, User Fees and Other Charges	***5,325***	***10,234***	***7,071***	***10,831***	***11,241***	***44,702***

Backsliding Into the Deficit Ditch

From Deficit to Surplus to Deficit Again



Prepared by the House Budget Committee Democratic Staff Source: OMB 2/7/05

Administration Has No Credible Plan To Cut Deficit By Half In Five Years

Budget Forgets to Include:

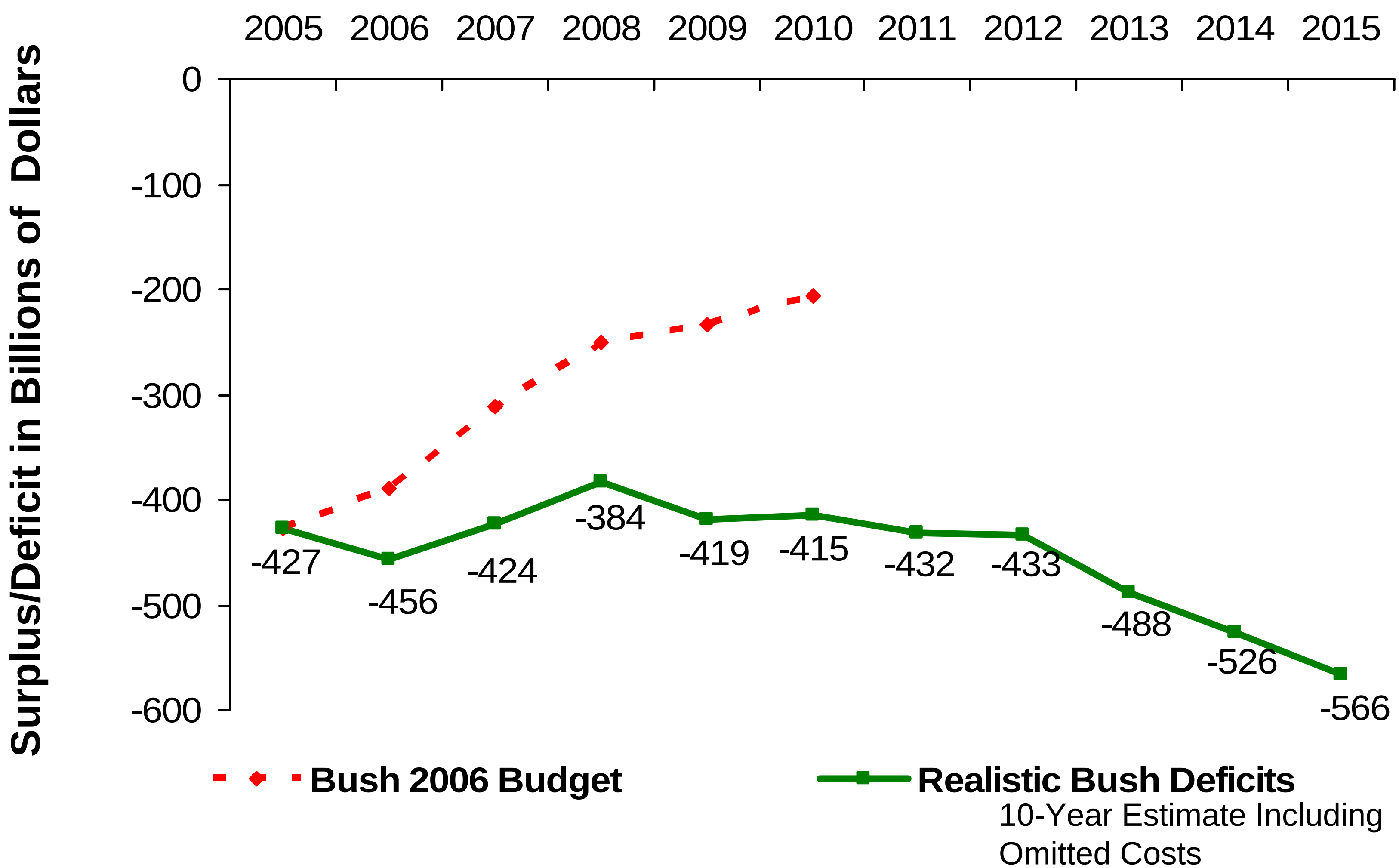
- Full Repair of the Alternative Minimum Tax
- Cost of Social Security Privatization
- Realistic War Costs
- Debt Service

Bush Budget Omits Ten-Year Costs

Realistic Deficit Picture Much Worse Than Administration Admits

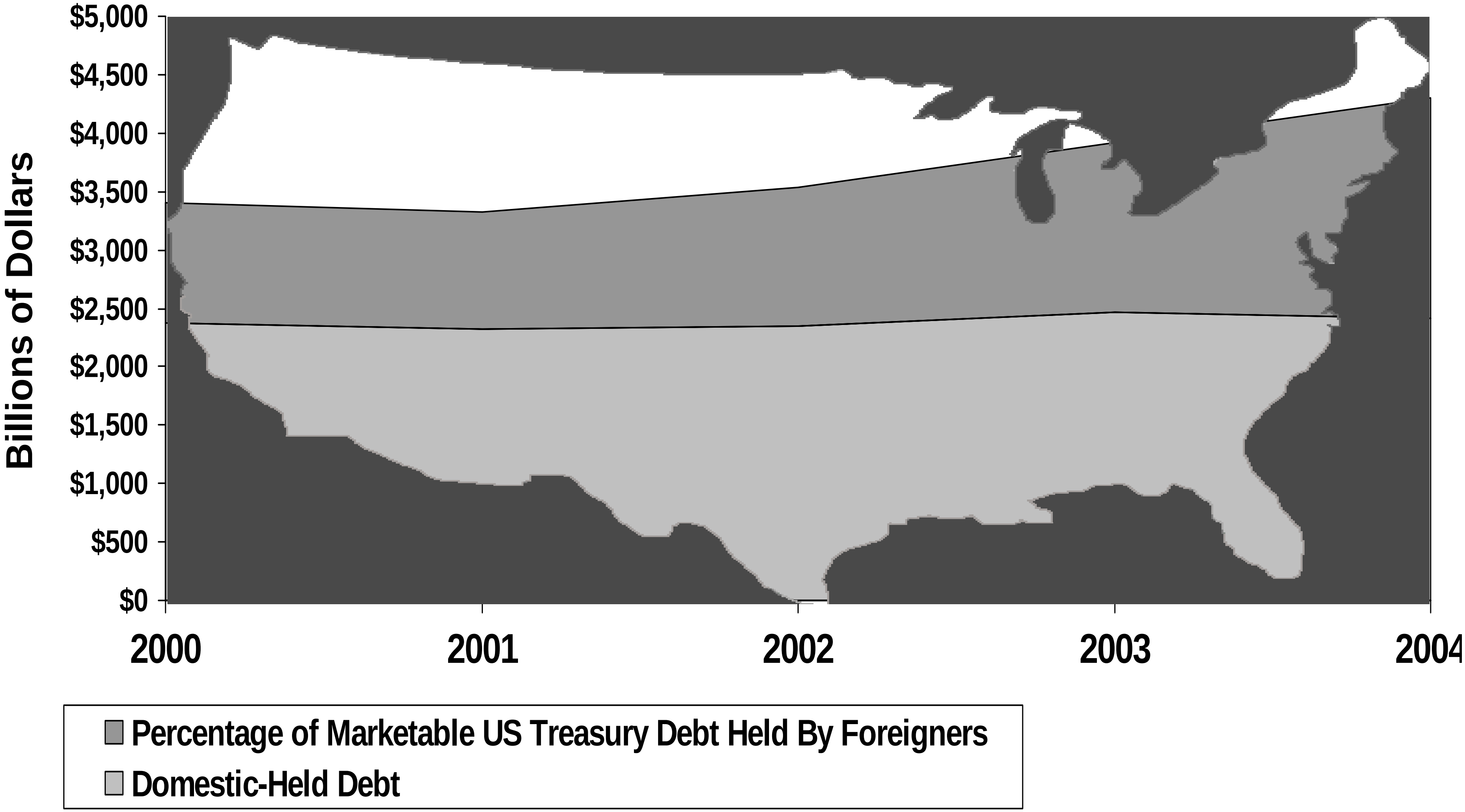
▪Cost of Social Security Privatization	$754 Billion
▪Cost to Repair AMT	$642 Billion
▪Realistic War Costs Beyond $80 Billion for 2005	$384 Billion
▪Debt Service	$267 Billion
▪Total Outlays, 2006-2015	$2.0 Trillion

More Accurate Estimate Shows Even Bleaker Budget Outlook



Prepared by the House Budget Committee Democratic Staff 2/7/05

Portion of Foreign-Owned Debt Rises To 41% Under Bush Administration



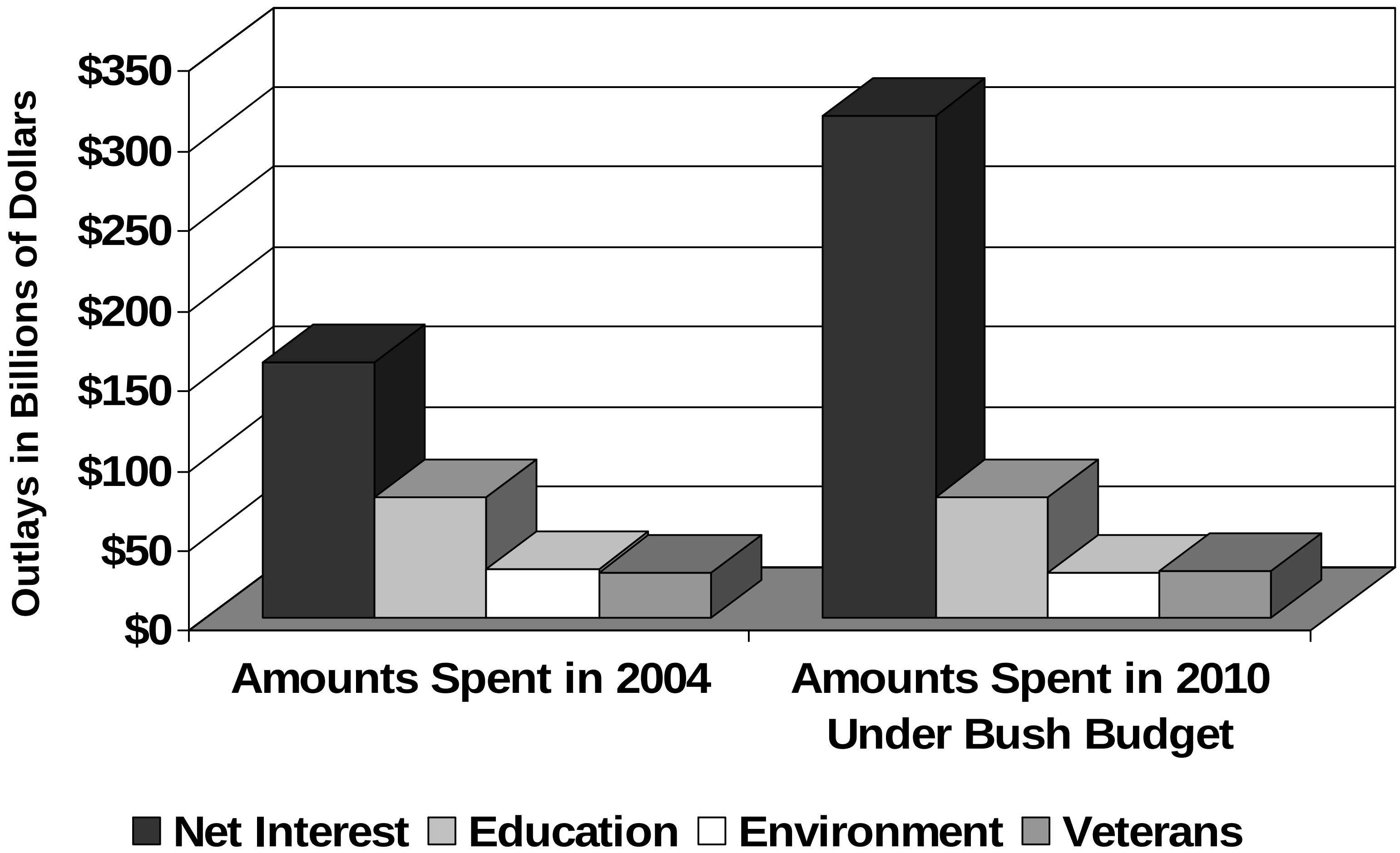
Prepared by the Democratic Staff of the House Budget Committee *Source: Treasury International Capital System* *2/7/05*

Republicans Increase the Debt Limit

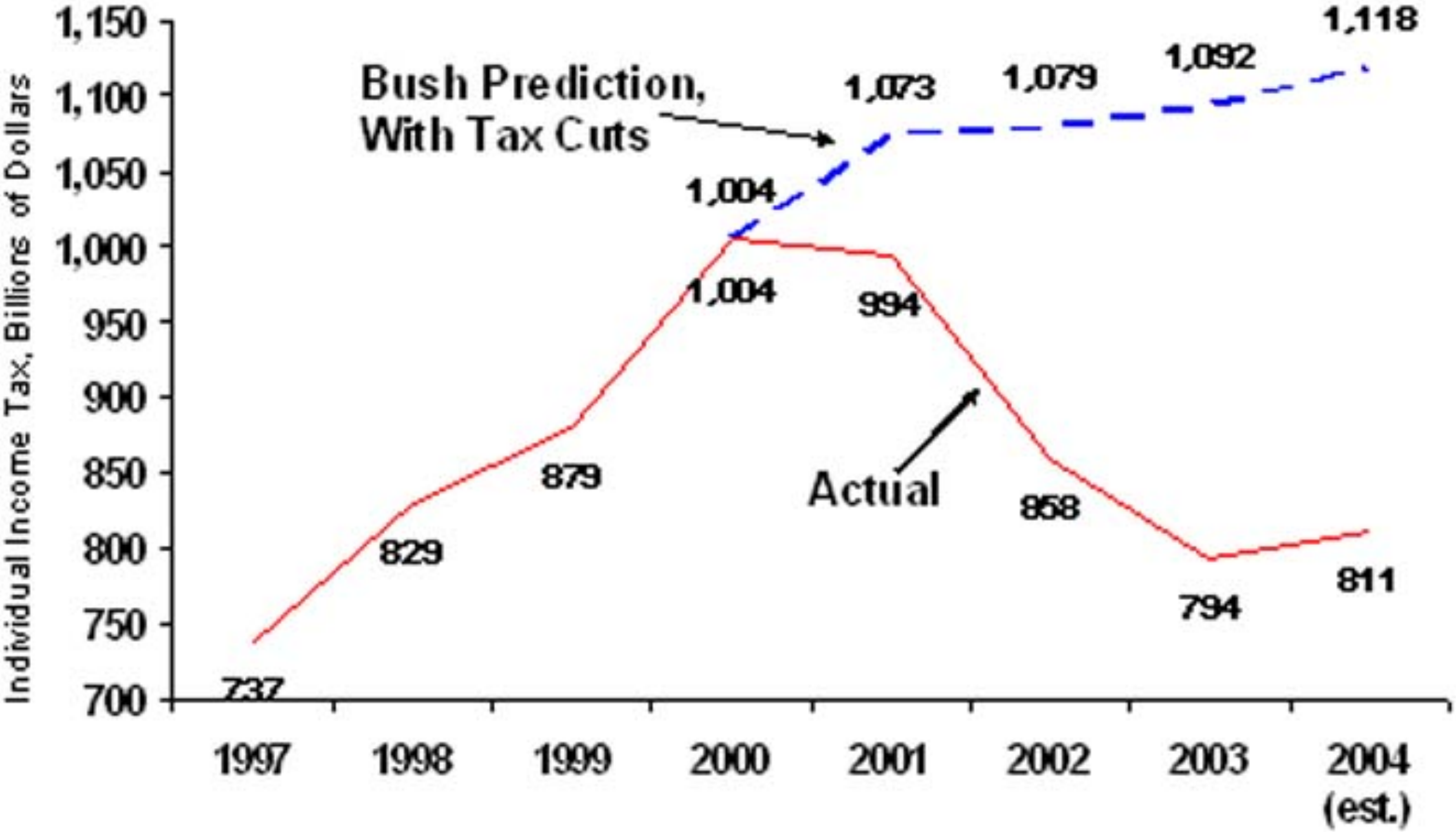
Debt Limit Increases, Billions of Dollars

2002	**$450**
2003	**$984**
2004	**$800**
Total	**$2,234**

Interest Payments Dwarf Spending On Other Priorities; Only Getting Worse

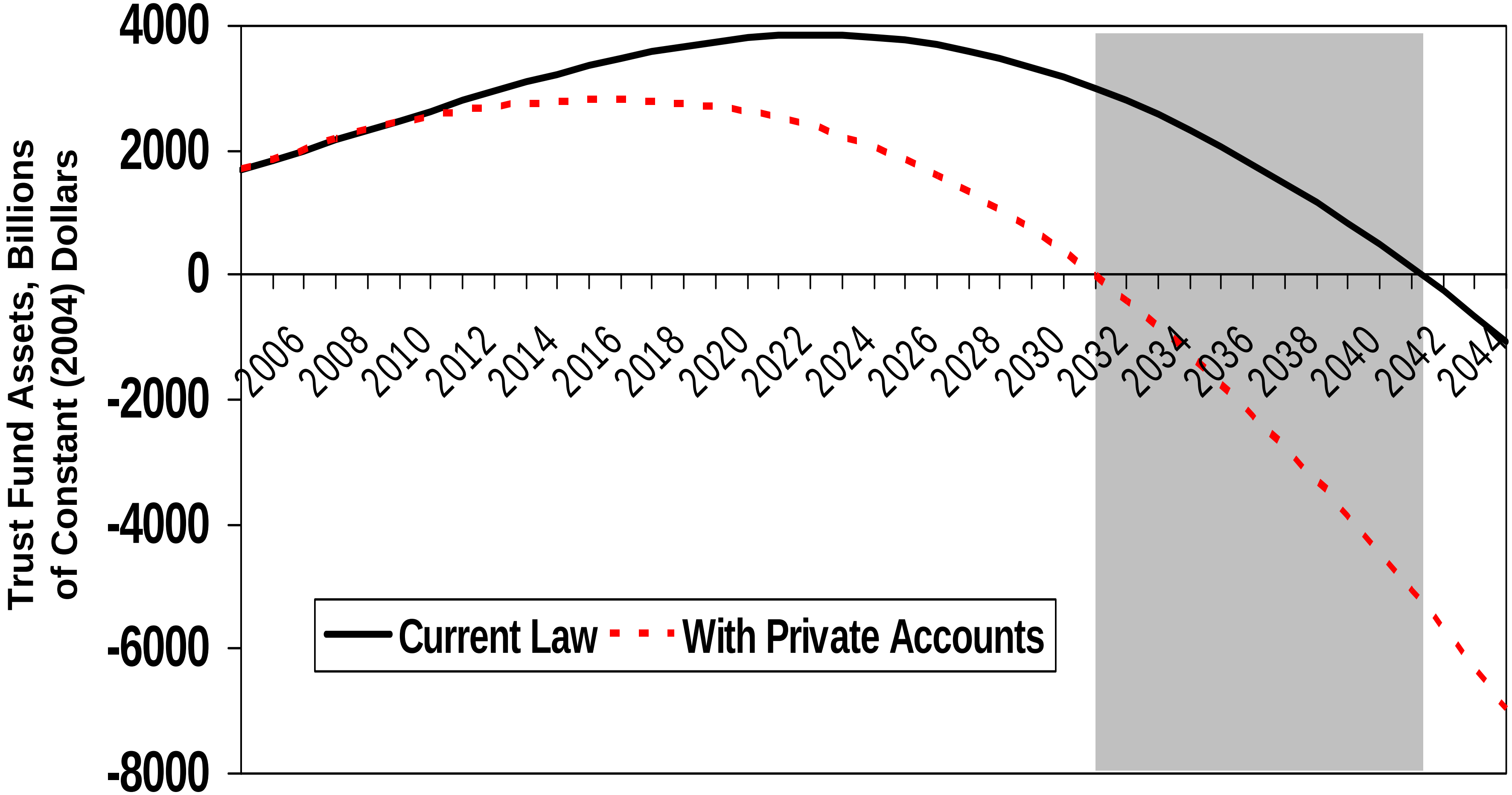


Revenues Fall Short of Projection



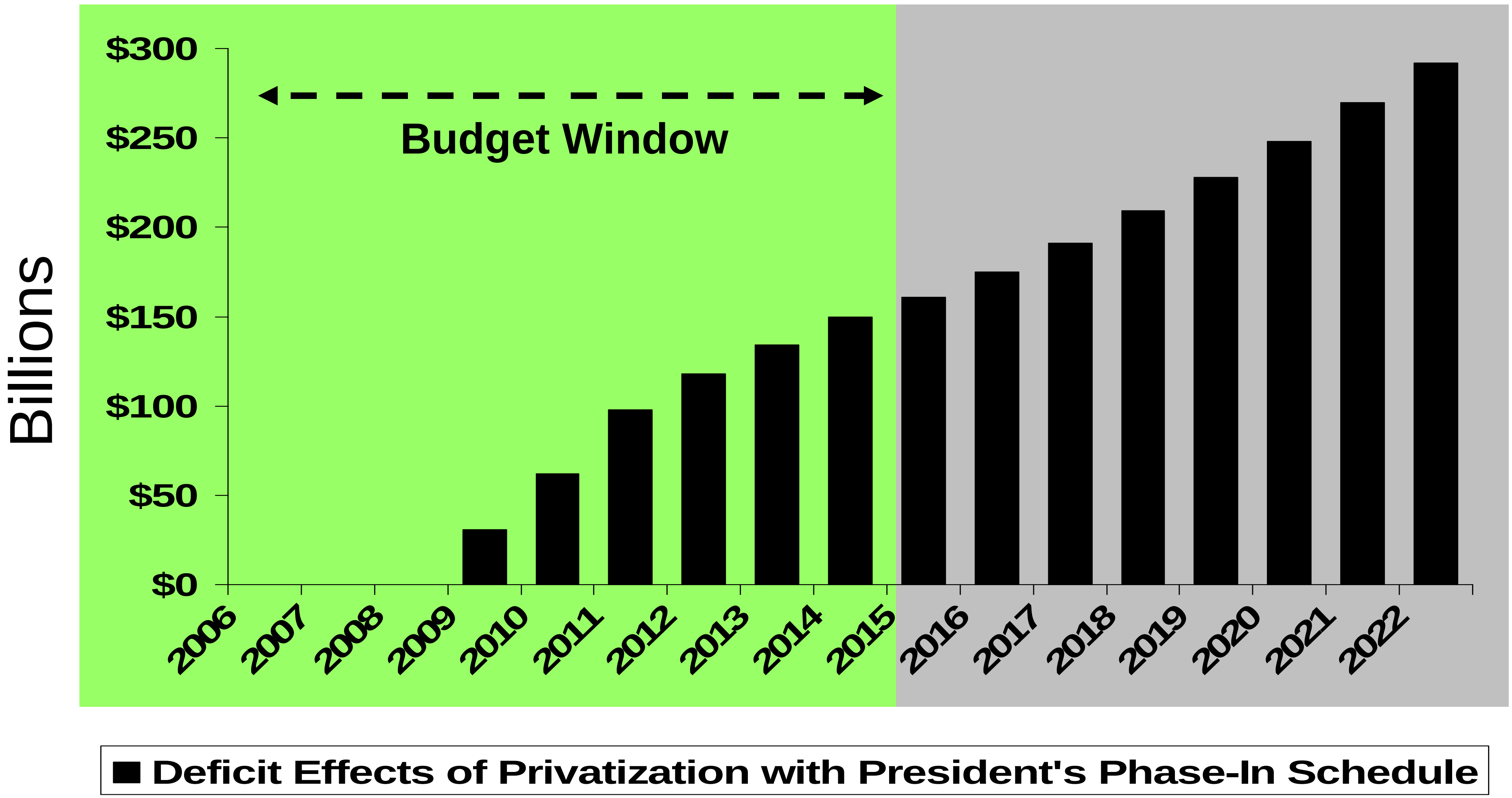
Prepared by the Democratic Staff of the House Budget Committee 09/07/04

Privatization Plan Exhausts Trust Fund 11 Years Earlier Than Current Law



Prepared by the Democratic Staff of the House Budget Committee *Source: CBPP using SSA economic assumptions* *2/7/05*

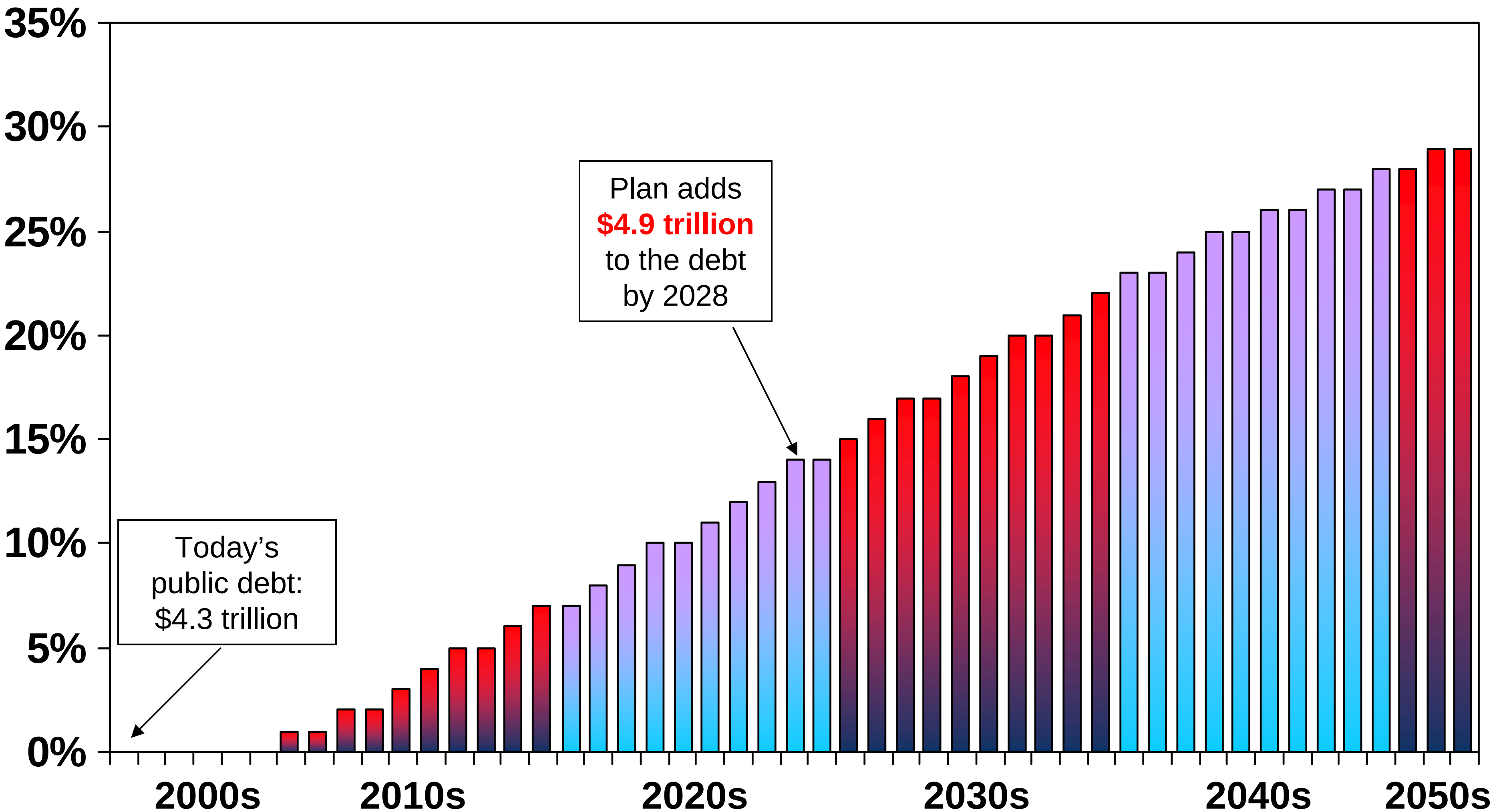
President's Privatization Plan Hides Long-Term Costs Beyond 10-Year Budget Window



Prepared by the Democratic Staff of the House Budget Committee *Source: CBPP using SSA economic assumptions* *2/7/05*

President's Social Security Privatization Plan Worsens Debt for Decades to Come

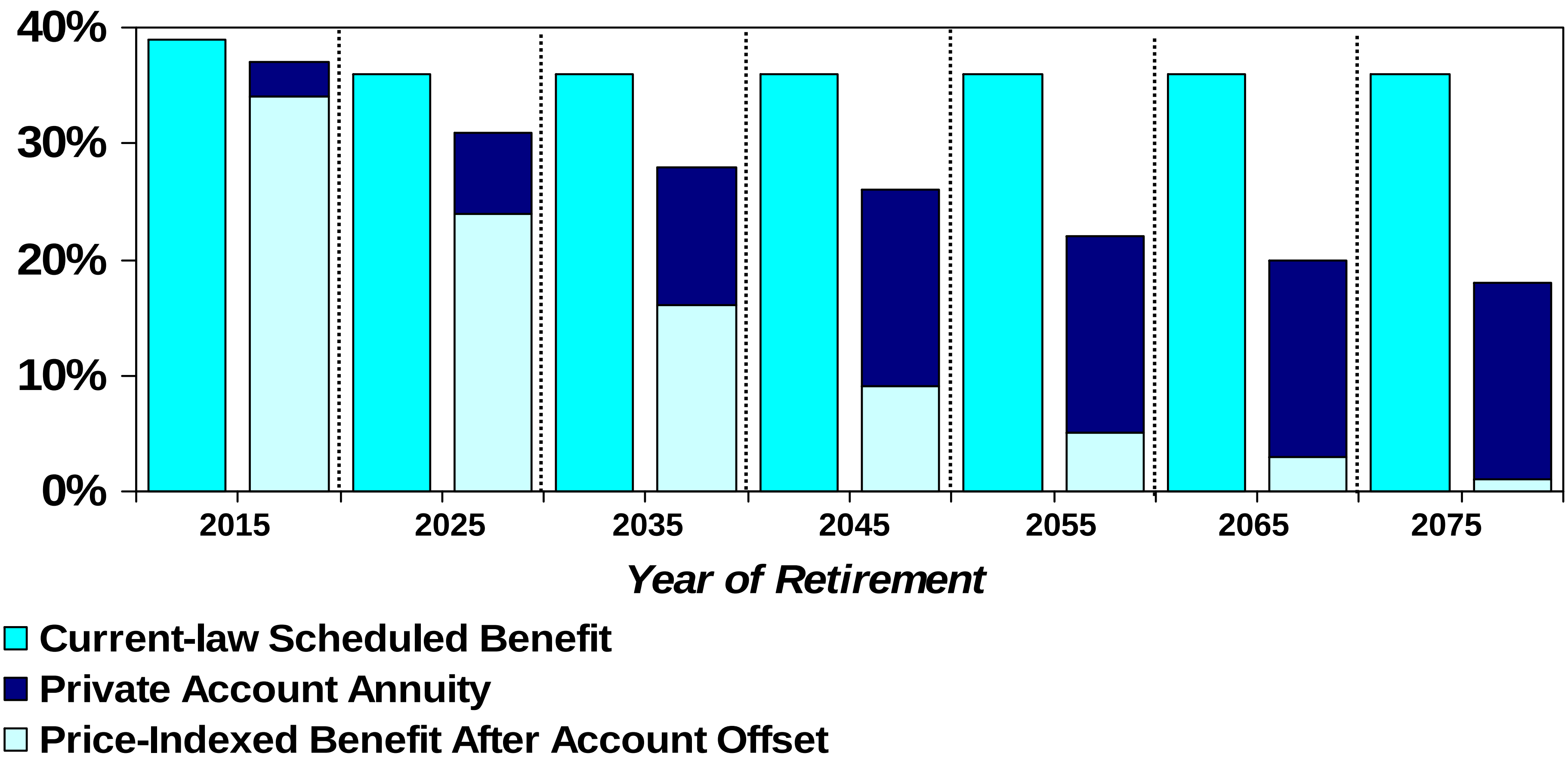
Increase in Debt as a Percentage of GDP



Prepared by the Democratic Staff of the House Budget Committee *Source: CBPP using SSA economic assumptions* *2/7/05*

President's Plan Implies Steep Benefit Cuts To Assure Social Security Solvency

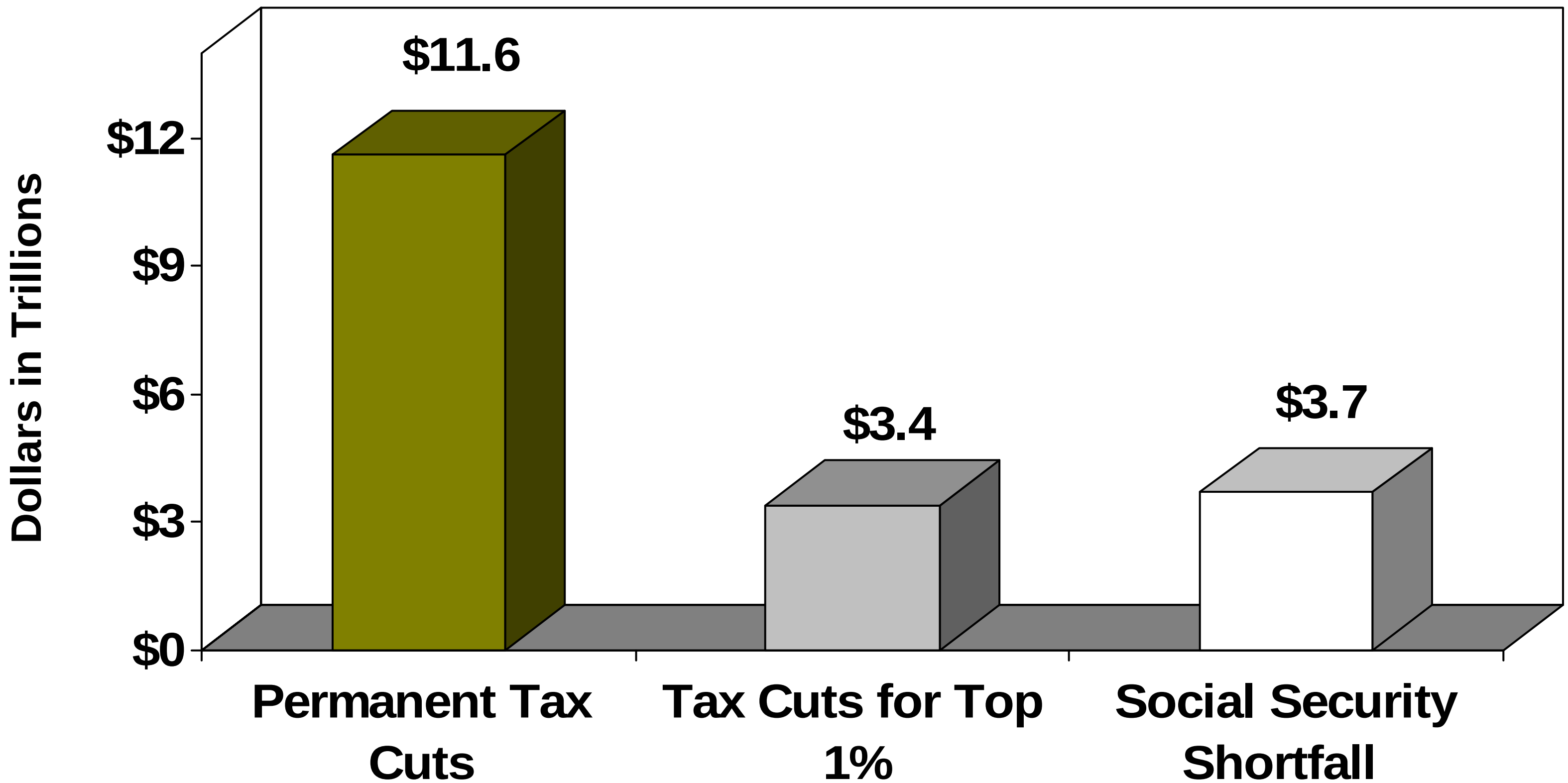
Estimated first-year benefits and account annuities for medium worker retiring at age 65, expressed as percentage of average pre-retirement earnings



Prepared by the Democratic Staff of the House Budget Committee *2/10/05*

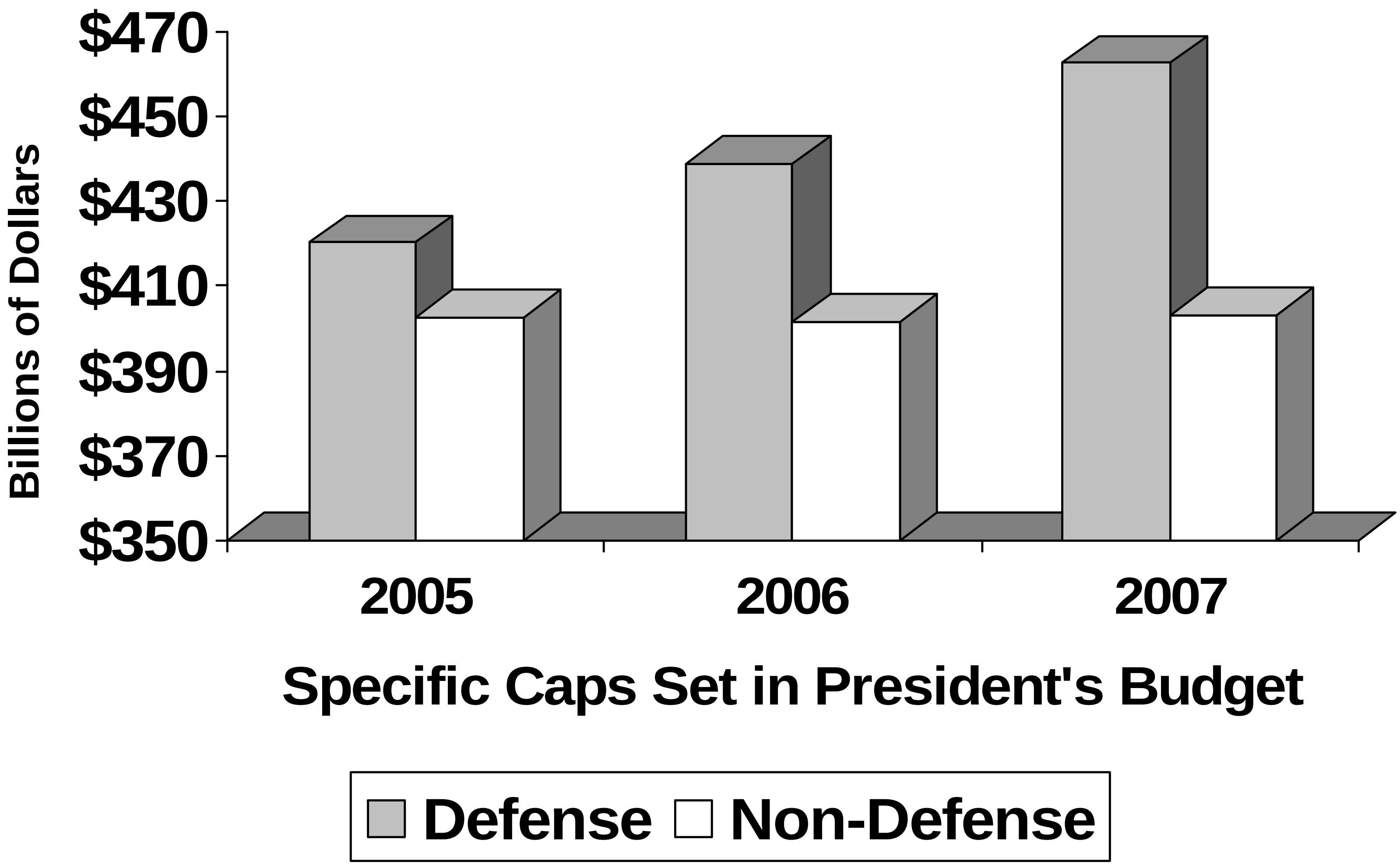
Tax Cuts Cost More than Social Security Shortfall

*In Trillions Of Dollars Over 75 Years**



*Measured in present value

Budget Freezes Non-Defense Funding Through at Least 2007



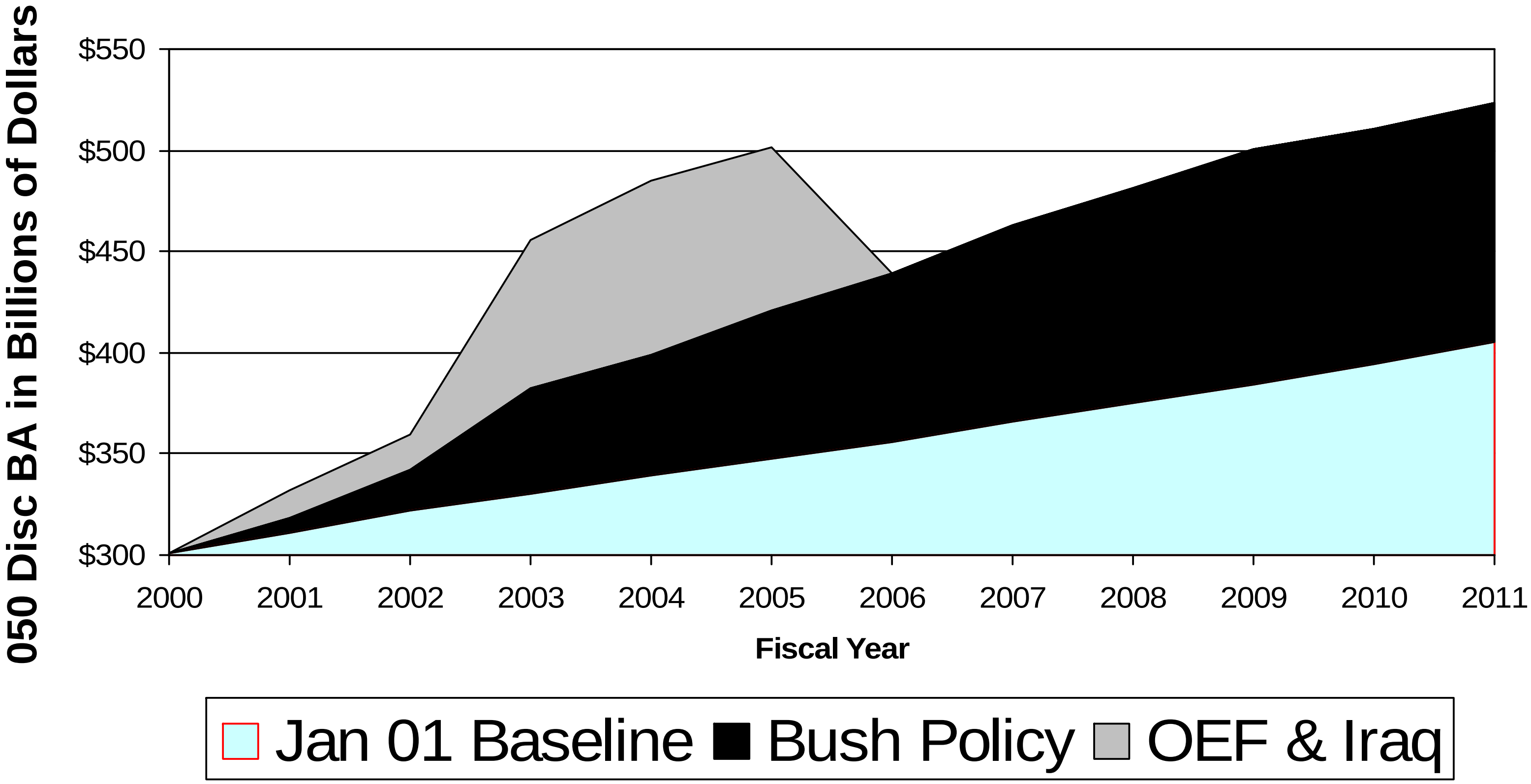
Defense Increases During Bush Administration

National Defense Discretionary Budget Authority in Billions of Dollars

	2002-2004	2005	2006	2007	2008	2009	2010	2011	2002-2011
CBO January Baseline 2001	991.0	347.4	356.3	365.5	374.9	384.6	394.5	404.9	3619.0
Policy Increases Excluding Supplemental and Assuming $60 Billion Cut									
Included in Latest Baseline	133.9	73.4	74.4	74.8	76.2	77.5	78.7	80.1	669.0
Above Latest Baseline	-	-	8.2	22.3	29.9	39.0	37.8	38.8	175.9
Iraq/Afghanistan/ Enhanced Security	176.8	81	85	65	50	35	25	25	542.8
Cost Risk	-	19.7	17.7	20.9	28.1	33.7	39.8	48.6	208.5
Total Increase	310.7	174.1	185.2	183.0	184.3	185.1	181.3	192.4	1,596.1
Total Bush Defense Program	1301.7	521.5	541.5	548.5	559.1	569.7	575.8	597.3	5,215.2

Prepared by the Democratic Staff of the House Budget Committee 2/7/05

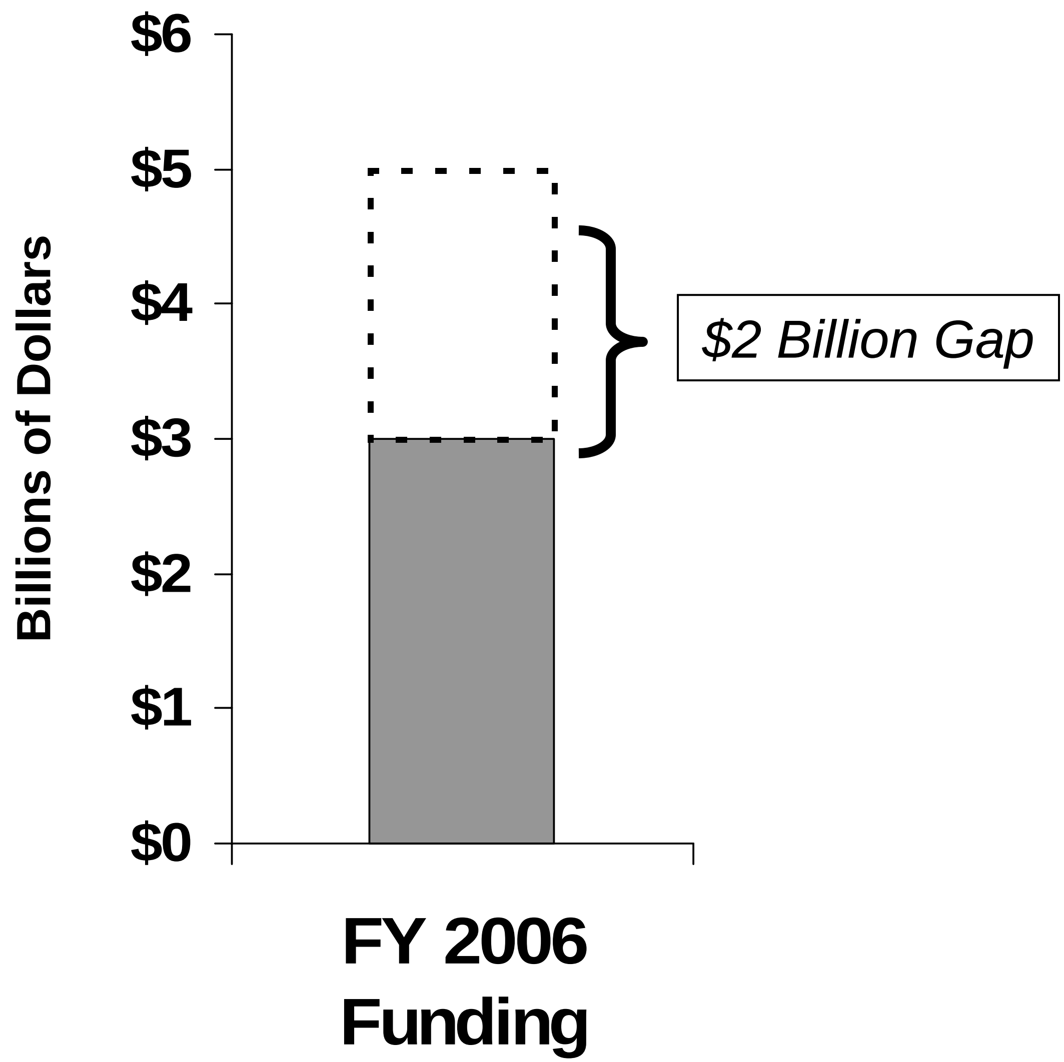
Increased Cost of Defense Under Bush Administration: 2006 Budget vs. January 2001 Baseline



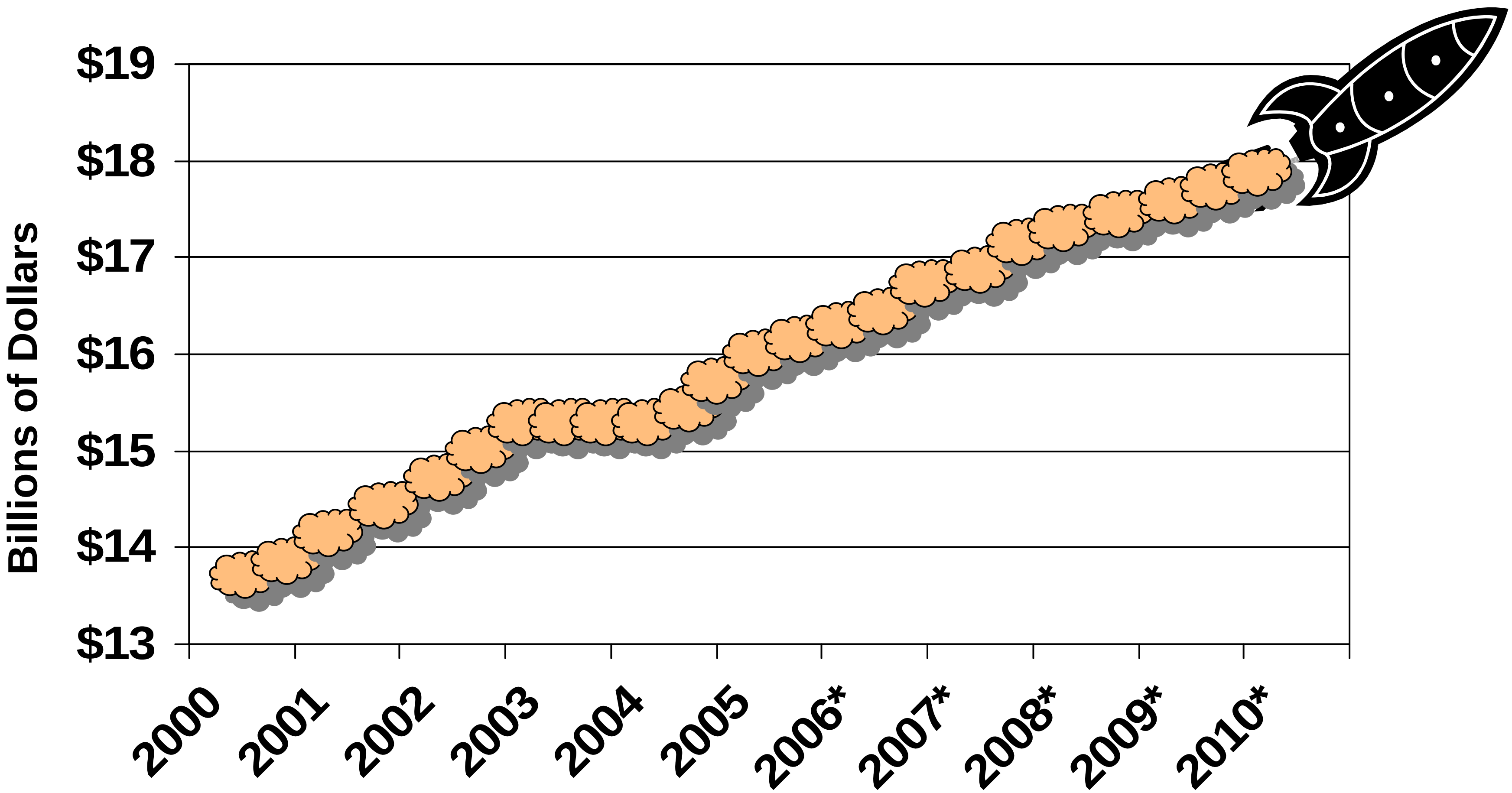
Prepared by the House Budget Committee Democratic Staff

2/07/2005

Funding for Millennium Challenge Account $2 Billion Short of Pledged Level



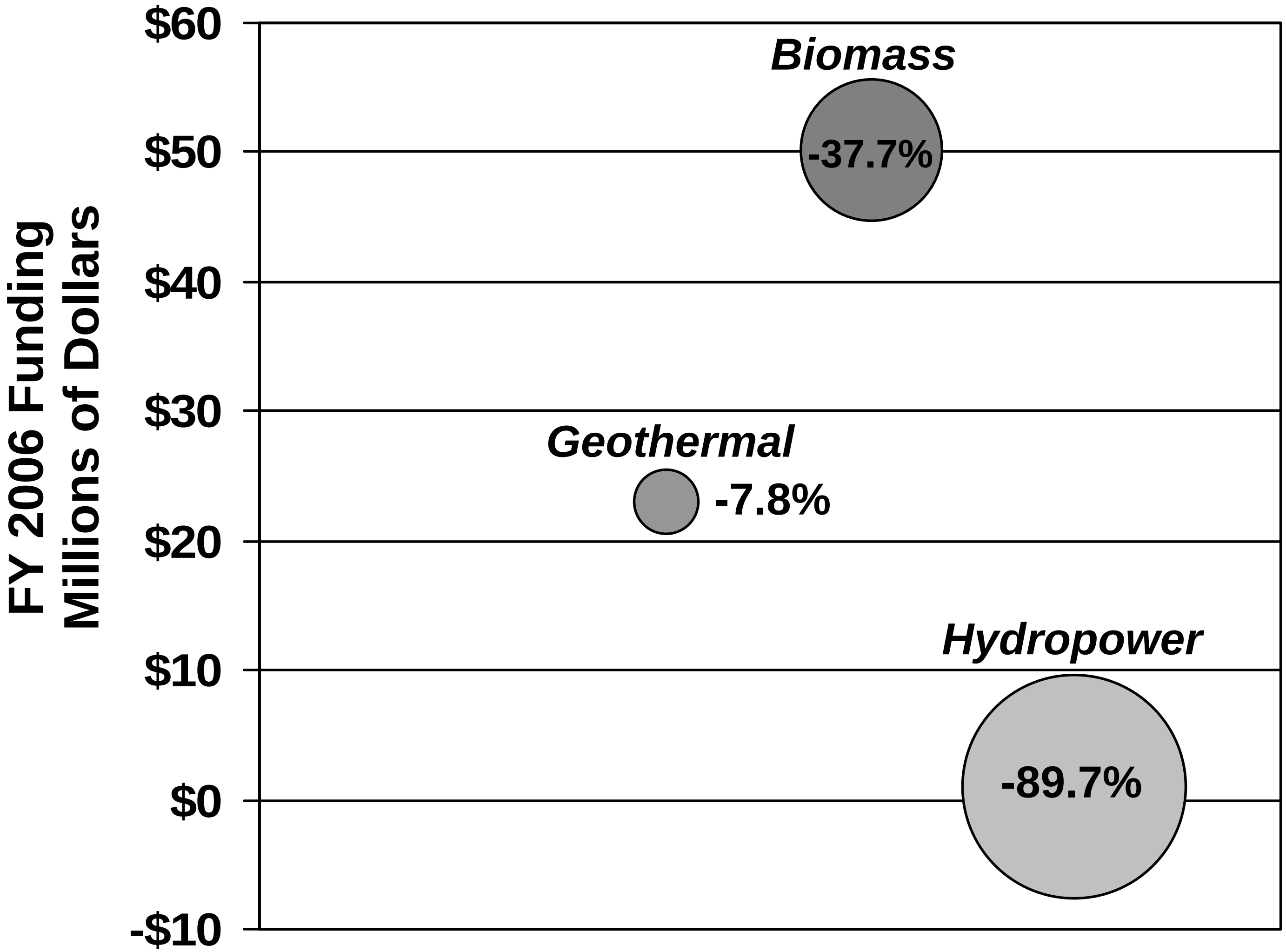
NASA Funding Takes Off



*2006-2010 are levels in President's 2006 Budget

Source: Bush Budget, Table 5.4 in Historical Tables for 2000-2006 / NASA 2006 Budget; Material for 2007-2010
Prepared by the House Budget Committee Democratic Staff *2/7/05*

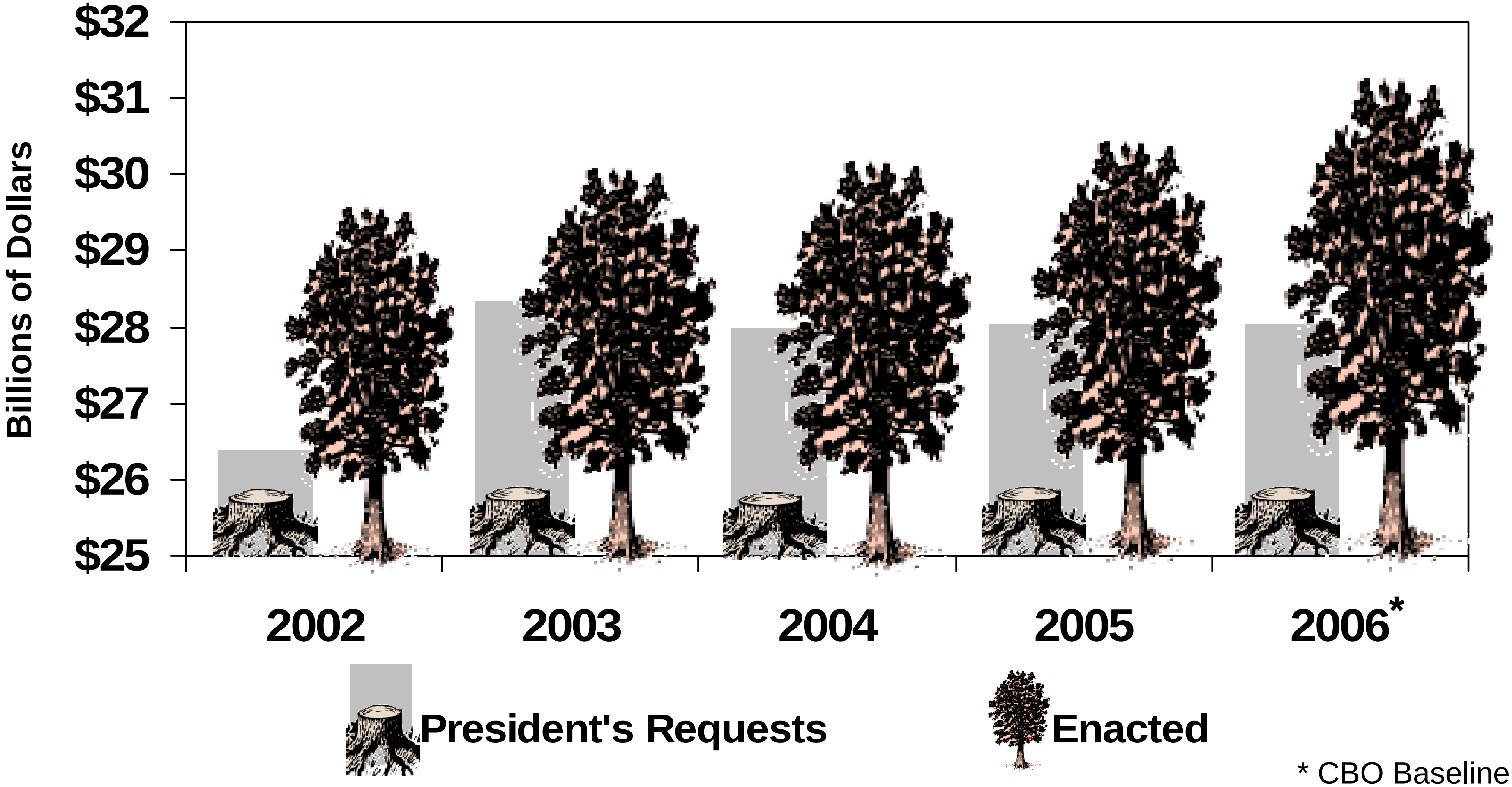
Administration's Budget Cuts Energy Supply Funding



***Bubble size corresponds to percent reduction from FY 2005 levels**

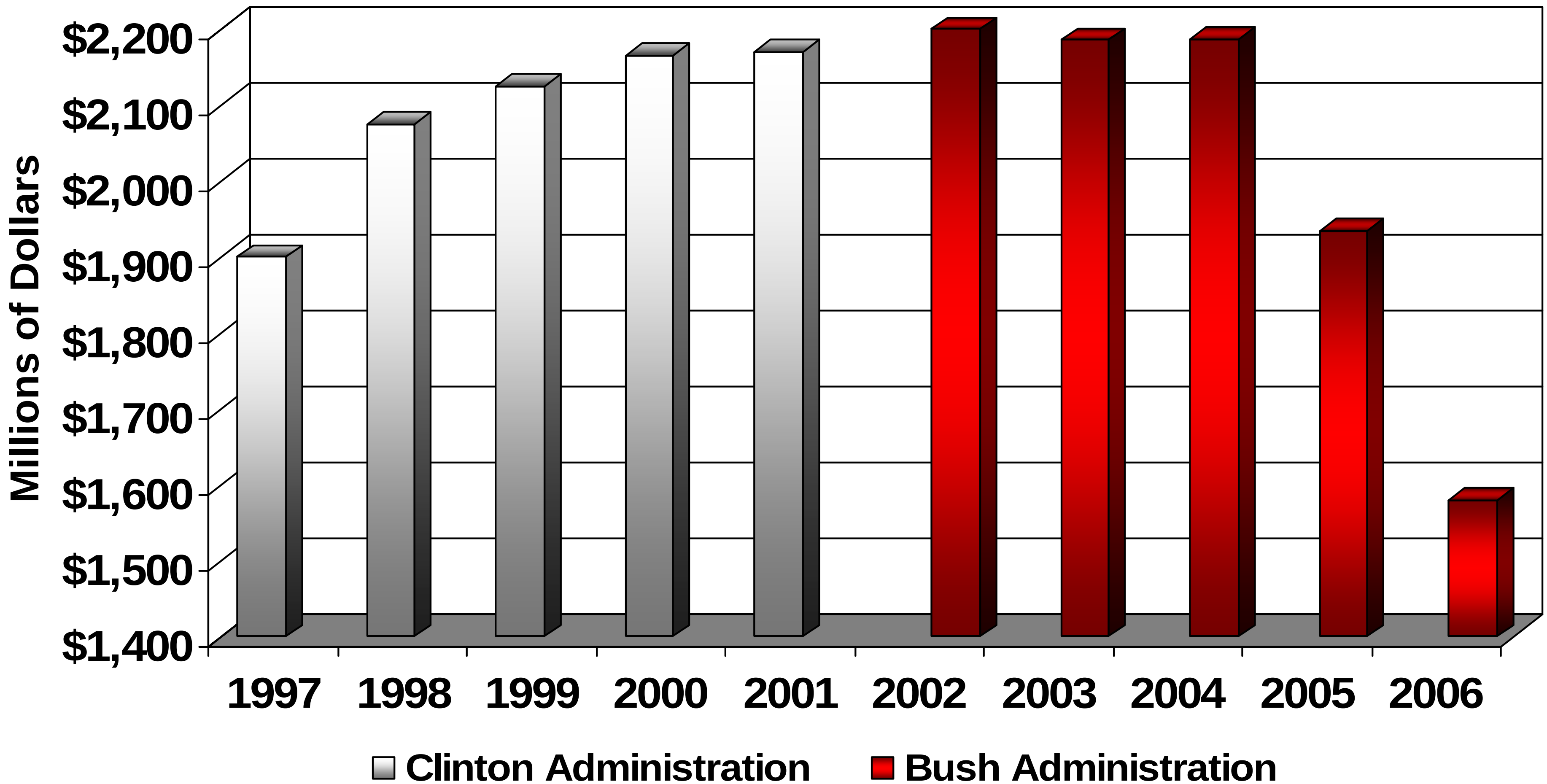
President’s Budget Undermines Environmental Protection

Function 300 Discretionary



Bush Budget Cuts Clean Water and Drinking Water Funding

State Revolving Funds



Prepared by the Democratic Staff of the House Budget Committee *Source: OMB* *2/7/05*

President's Environmental Priorities

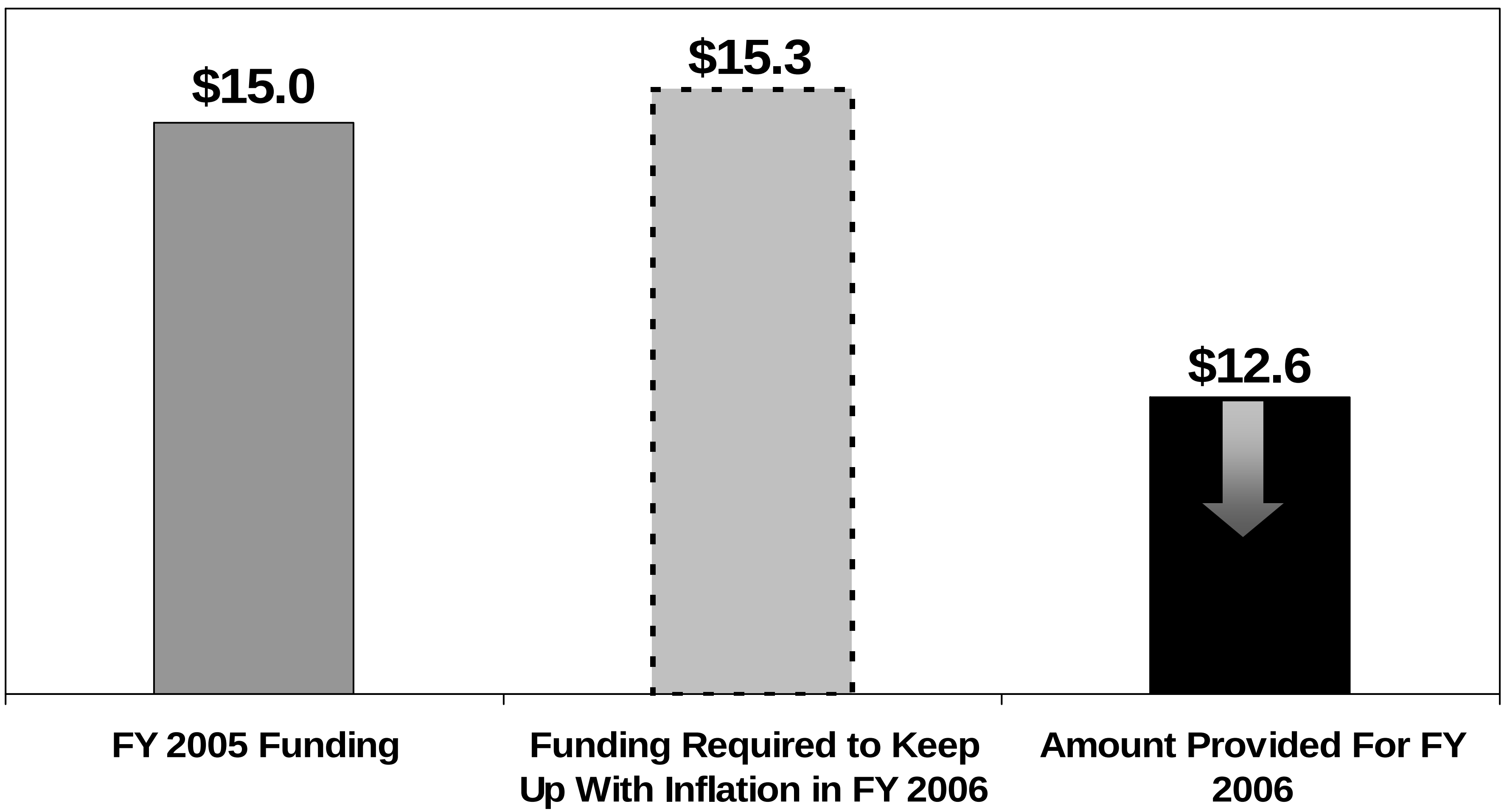
- **Environment funding CUT by <u>8 percent</u>.**
- **Clean water infrastructure programs CUT by about <u>30 percent</u>.**
- **Farm conservation programs CUT by over <u>$450 million</u>.**
- **FAILS to address water supply contamination from leaking petroleum and MTBE.**
- **FAILS to protect wildlife, conservation, recreation, and preservation needs.**
- **FAILS to hold corporate polluters accountable - TAXPAYERS foot the entire bill.**

Bush's Broken Promise to Fully Fund Land and Water Conservation Fund

LWCF	2006 Request (in thousands)
Dept. Of Interior	
Federal Land Acquisition	
BLM	*$13,350*
FWS	*$40,992*
NPS	*$52,880*
U.S. Forest Service	
Federal LWCF Land Acquisition	$40,000
Actual LWCF Funding	**$147,222**
Other non-LWCF Programs	$533,331
President's Claimed LWCF Funding	**$680,553**

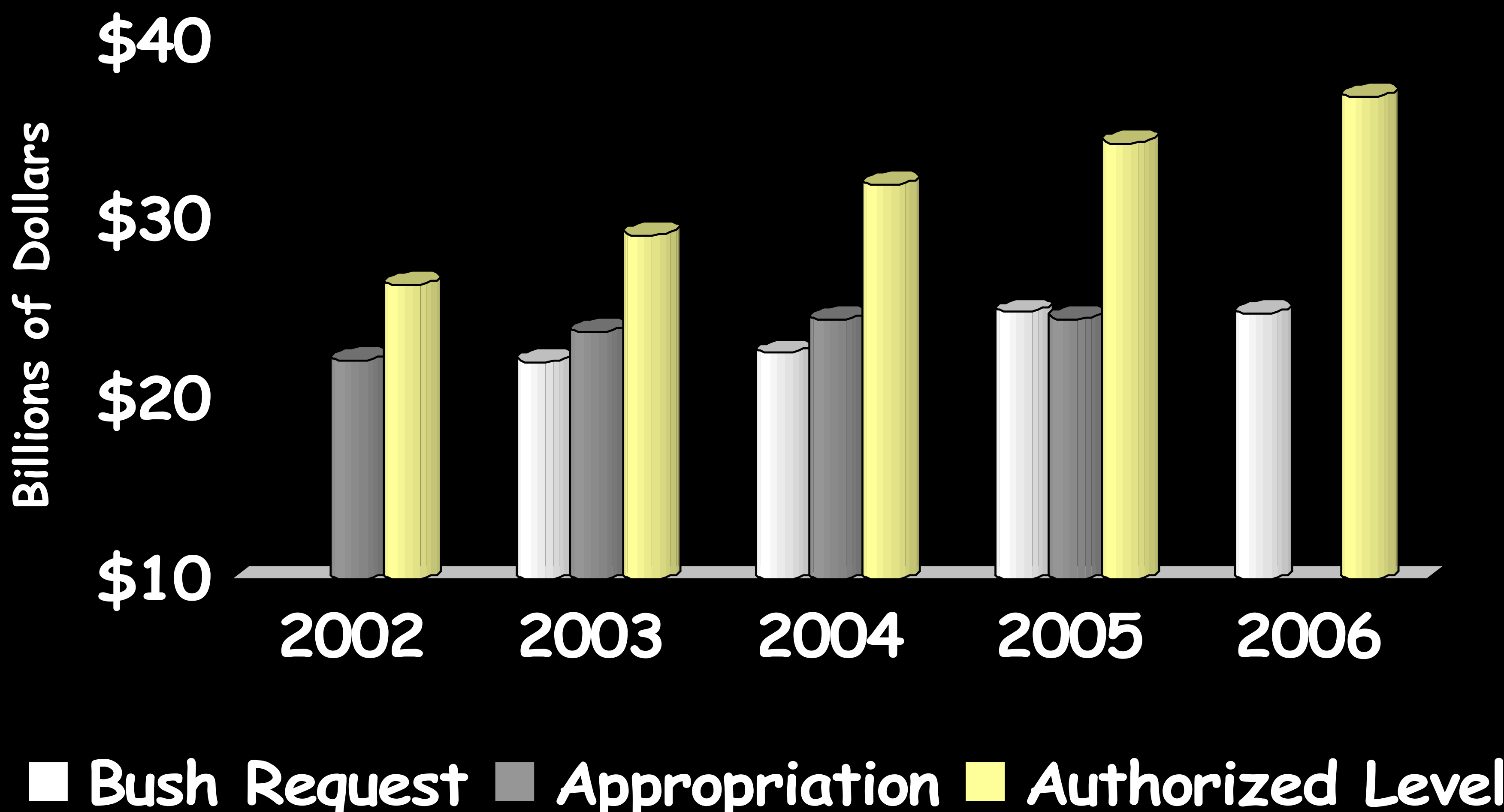
President's Budget Slashes Community and Regional Development Funding

Numbers in Billions



Prepared by the Democratic Staff of the House Budget Committee *Source: OMB* *2/7/05*

Republican Under-Funding of "No Child Left Behind"



Prepared by the House Budget Committee Democratic Staff   Source: NCLB Act of 2001; Appropriations Committee, Democratic Staff   2/7/05

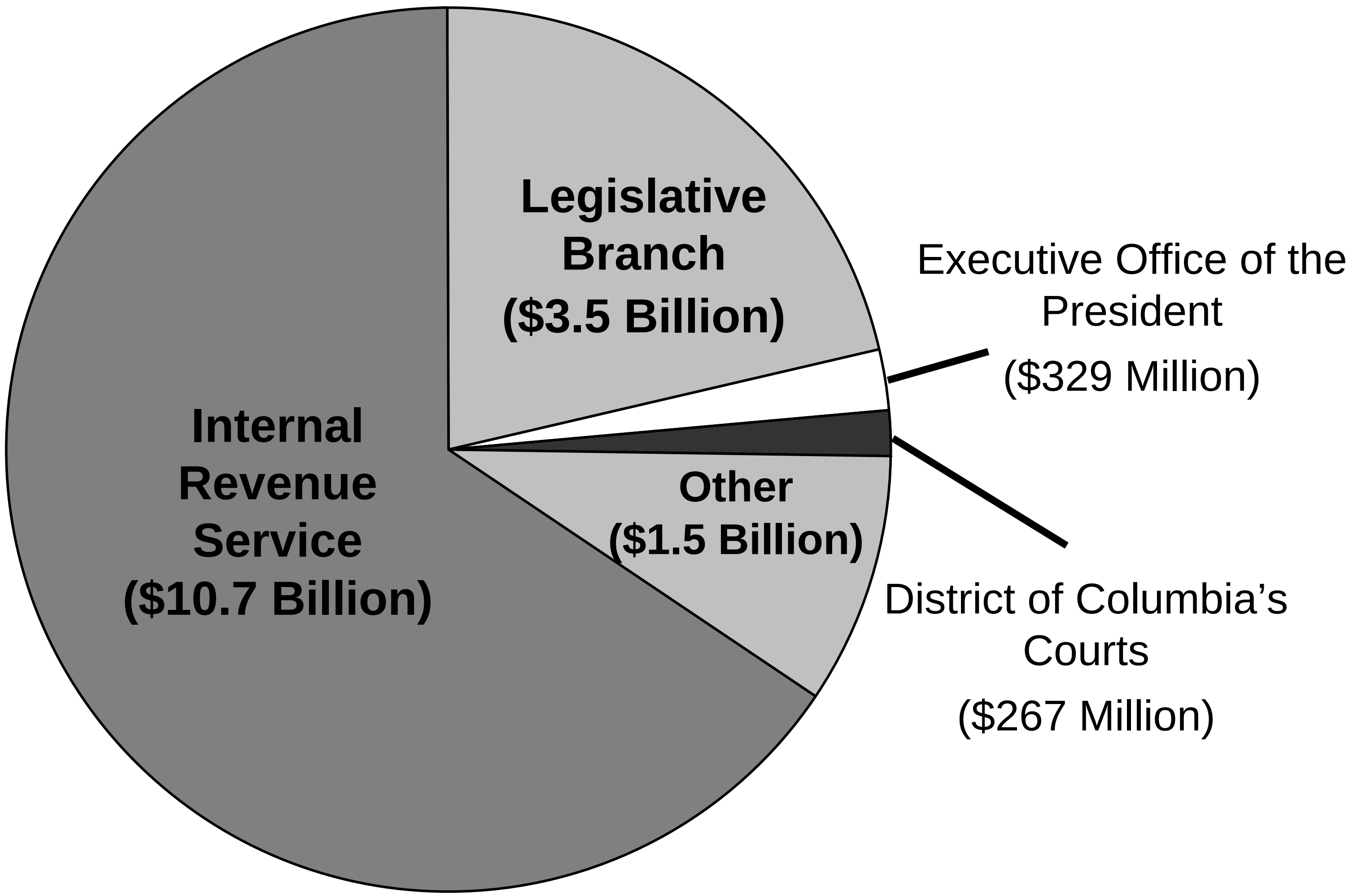
President's Budget Axes 31 Justice-Related Programs

PROGRAM	2004	2005	2006
LOCAL LAW ENFORCEMENT BLOCK GRANT	216	8	X
STATE CRIMINAL ALIEN ASSISTANCE	286	297	X
CORRECTIONAL FACILITIES	2	5	X
INCARCERATION ON TRIBAL LANDS	10	6	X
COOPERATIVE AGREEMENT PROGRAM	2	--	X
TRIBAL COURTS INITIATIVE	8	8	X
EDWARD BYRNE FORMULA GRANTS	475	--	X
EDWARD BYRNE DISCRETIONARY GRANTS	270	208	X
JUSTICE ASSISTANCE GRANTS	--	595	X
SOUTHWEST BORDER PROSECUTOR PROGRAM	--	28	X
VIOLENCE AGAINST WOMEN ACT: STOP GRANTS	13	11	X
VIOLENCE AGAINST WOMEN ACT: ENCOURAGE ARREST POLICIES	9	1	X
VIOLENCE AGAINST WOMEN ACT: RURAL DOMESTIC VIOLENCE AND CHILD ABUSE ENFORCEMENT ASSISTANCE	3	2	X
VIOLENCE AGAINST WOMEN ACT: TRAINING PROGRAMS TO ASSIST PROBATION AND PAROLE OFFICERS	1	--	X
IMPROVING STATE AND LOCAL LAW ENFORCEMENT INTELLIGENCE CAPABILITIES	--	10	X

PROGRAM	2004	2005	2006
MISSING ALZHEIMERS PROGRAM	--	1	X
MOTOR VEHICLE THEFT PREVENTION	--	4	X
DRUG COURTS	39	42	X
LAW ENFORCEMENT FAMILY SUPPORT	3	3	X
COUNTERING TELEMARKETING SCAMS	--	6	X
INDIAN COUNTRY GRANT PROGRAM	6	6	X
JUVENILE INCENTIVE BLOCK GRANT	25	20	X
STALKING AND DOMESTIC VIOLENCE INFORMATION DATABASES	1	1	X
GRANTS TO REDUCE VIOLENT CRIMES AGAINST WOMEN ON CAMPUS	--	2	X
LEGAL ASSISTANCE FOR VICTIMS	1	3	X
SAFE HAVENS FOR CHILDREN PILOT PROGRAM	1	2	X
EDUCATION AND TRAINING TO END VIOLENCE AGAINST AND ABUSE OF WOMEN WITH DISABILITIES	2	5	X
VICTIMS OF TRAFFICKING	5	24	X
HATE CRIMES TRAINING AND TECHNICAL ASSISTANCE	--	2	X
PRESCRIPTION DRUG MONITORING	7	13	X
WEED AND SEED	59	62	X

Prepared by the Democratic Staff of the House Budget Committee *Source: OMB* *2/7/05*

General Government Funding



President's Budget Ignores Civilian/Military Pay Parity For The Fourth Year In A Row