



John Spratt,
Chairman

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON THE BUDGET

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

Revised: February 5, 2007

Updated Analysis of the President's Fiscal Year 2008 Budget

** This document has not been reviewed and approved by the House Budget Committee and may not reflect the views of all Members.*

Table of Contents

Overview	1
Deficits, Debt, and Rosy Economic Assumptions	3
Appropriations Overview	4
Veterans' Health Care	5
Defense and Homeland Security	6
Education	7
Health Care	7
Safety Net Programs	9
Law Enforcement and Firefighters	10
Environmental Protection	10
Agriculture	10
Social Security	11
Transportation	11
Other Noteworthy Items	12

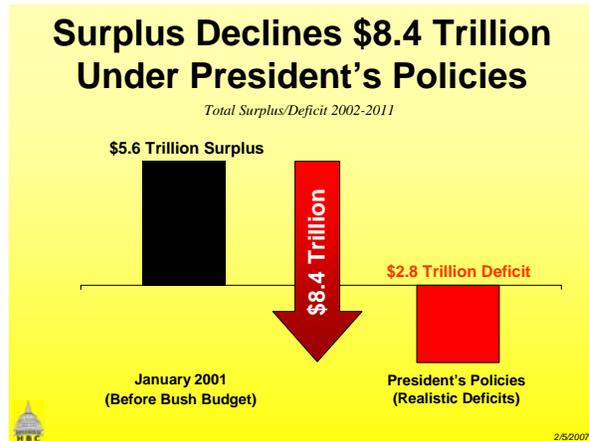
Overview

The budget submitted today continues the same policies that helped create the fiscal mess now facing the federal government. While the Administration's budget claims to reach balance in 2012, unfortunately this budget is in deficit every year based on realistic estimates of the President's policies. Meanwhile, the budget continues to make the wrong choices for the

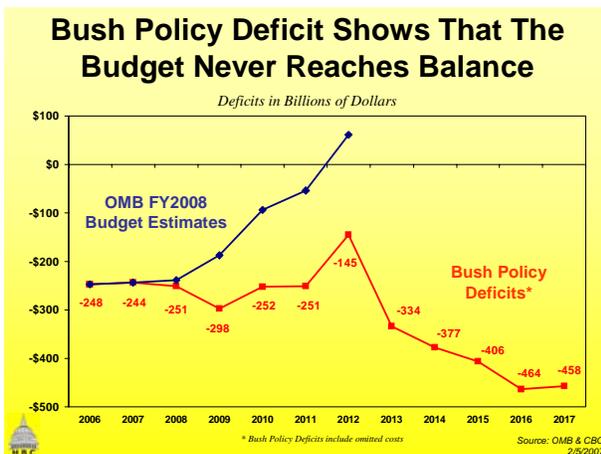
2008 Budget Summary	
Total Revenues	\$2.662 trillion
Total Expenditures	<u>\$2.902 trillion</u>
Total Deficit	\$239 billion

American people. It proposes substantial cuts to Medicare (without reinvesting the savings in program improvement) and Medicaid and cuts other critical priorities like education and the environment – all to help pay for an expensive tax agenda that heavily benefits those who need the help the least.

Administration Has Worst Fiscal Record in History — During the six years of the Bush Administration, the government has posted the highest deficits in the nation's history. The Administration has squandered the budget surplus it inherited, transforming a \$5.6 trillion projected ten-year surplus (2002-2011) into a deficit of \$2.8 trillion over the same period, a swing of \$8.4 trillion based on realistic estimates of the costs of the President's policies. The President's new budget calls for a deficit of \$244 billion for 2007 and \$239 billion for 2008, marking six years in a row of deficits of more than \$200 billion. Meanwhile, this budget continues the climb of our nation's debt, which has already grown by \$3 trillion during this Administration.



Budget Never Reaches Balance Under Realistic Assumptions — Rather than taking a new direction, the President's 2008 budget continues the same policies that have worsened the country's fiscal situation. As in previous years, the budget relies on omissions and optimistic assumptions that have the effect of understating the size of the fiscal problems it creates. Adjusting the Administration's numbers simply to reflect realistic costs of Alternative Minimum Tax (AMT) reform and the Administration's Iraq policy shows that the Administration's budget never reaches balance, and under its policies the deficit totals \$3.2 trillion over the next ten years.



- ***Excludes Cost of AMT Reform Beyond One Year*** — To date, the Administration’s budgets have not lived up to its stated goal of repairing the AMT in a deficit-neutral way, and today’s budget again fails to include any costs for more than a one-year repair of the AMT. If the President’s tax policies are extended, the Administration’s budget omits \$1 trillion from the cost of a full repair of the AMT, based on Congressional Budget Office (CBO) figures.
- ***Omits Full Cost of the Administration’s Policy in Iraq and Afghanistan*** — Although for the first time the Administration’s budget includes full-year funding for the wars in the coming year, it discontinues the funding after just a down payment for 2009, even though the Administration is increasing troop strength and has no current plans to withdraw from Iraq or Afghanistan. A recent CBO scenario estimated war costs for Iraq, Afghanistan, and the Global War on Terror could be as much as \$603 billion higher over ten years than what is included in the Administration’s budget.
- ***Uses Rosy Assumptions that Boost the Bottom Line*** — The President’s 2008 budget relies on unrealistically rosy assumptions that the economy will grow its way back to a budget surplus. For example, in 2012 it assumes revenues that are \$155 billion higher than comparable projections made by CBO. Without these optimistic assumptions, a claimed 2012 surplus of \$61 billion becomes a \$94 billion deficit.

Budget Sends the Deficit in the Wrong Direction — The Administration’s policy choices are driving deficits higher by over \$1 trillion over the next five years. The cost of extending the tax cuts along with other revenue policies exceeds \$600 billion. The Administration does provide significant savings from mandatory proposals, but they are nowhere near enough to offset the cost of the President’s tax cuts. On net, discretionary spending – largely driven by costs for the war and increases in non-emergency defense spending – also adds to the deficit hole. Even the apparent decline in the unified deficit from 2007 to 2008 relies solely on the increase in the Social Security surplus.

Budget Makes Wrong Choices for Average Americans — The President’s 2008 budget continues to make choices that are wrong for the American people. It cuts vital investments and services for children and working families, yet includes a costly tax agenda that heavily benefits those who least need the help.

Imposes Misguided Spending Cuts While Cutting Taxes Yet Again — To help pay for nearly \$2 trillion in tax cuts over the next ten years, the budget cuts Medicare by \$252 billion over ten years without reinvesting those savings in Medicare or other health program improvements, and imposes net legislative cuts of \$28 billion over ten years to Medicaid. Meanwhile, appropriated funding for the Department of Education is cut by \$1.5 billion below the 2007 level¹, the budget

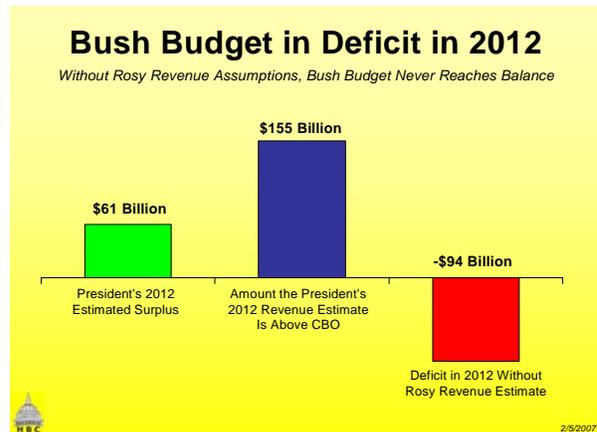
¹Unless otherwise noted, the 2007 level refers to the funding level in H.J.Res. 20, the Revised Continuing Appropriations Resolution, as passed by the House on January 31, 2007.

for the Environmental Protection Agency is cut by \$509 million, and the budget imposes \$4.9 billion over ten years in new fees on veterans.

Need to Put the Budget on the Right Track — Congressional Democrats have repeatedly expressed the desire to work constructively with the Administration to restore fiscal responsibility to the federal budget in a manner consistent with the nation’s priorities. But this budget is marked by a disappointing commitment to the failed policies of the past rather than a commitment to a new course.

Deficits, Debt, and Rosier Economic Assumptions

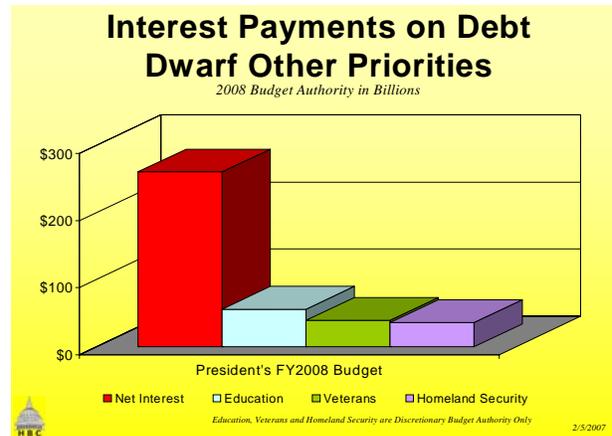
Administration Uses Rosier Economic Assumptions to Get to Balance in 2012 — The Administration’s economic forecast is more optimistic than that of CBO, and in every possible way that boosts its bottom line. (The Administration is also more optimistic than the Blue Chip forecasts in the major economic indicators of output (GDP), unemployment, and short-term interest rates.) In 2012, the Administration’s forecast of GDP is \$608 billion higher than CBO’s, with the corporate profits tax base \$116 billion higher and the wages and salaries tax base \$435 billion higher. Compared with CBO, the Administration also assumes higher inflation and lower unemployment in every year, both of which boost revenues. The level of 2012 revenues implied by CBO's economic baseline, adjusted to account for the Administration's cost of its tax proposals, is \$155 billion below the Administration's policy forecast. In other words, without the boost in revenues produced by the Administration's rosier scenario, the claimed 2012 surplus of \$61 billion becomes a \$94 billion deficit.



Tax Cuts Fall Far Short of “Paying for Themselves” — Revenues are still far below where the Administration estimated they would be without the tax cuts, even though the Administration’s rosier scenario results in forecast revenues that are \$424 billion higher over five years (2008-2012) than implied by CBO’s baseline adjusted for the Administration’s proposed tax cuts. In its first budget issued in early 2001, the Administration projected that without the tax cuts, revenues would reach nearly \$3.5 trillion in 2011, or \$379 billion more than the \$3.1 trillion in its current policy outlook.

Burden of Debt Service Continues to Mount —

Annual net interest is expected to grow by 19.1 percent, to \$285 billion over five years under the Administration’s policies. This cost shows the growing burden of the national debt on working families. American households already devote an annual average of almost \$2,000 in taxes to paying the interest on the national debt, about twice the total of appropriations for the entire Department of Education, all veterans’ health care, and homeland security programs.



Millions of Americans Will Pay the AMT with Just a One-year “Patch” — The budget includes only a one-year AMT “patch,” allowing the AMT to revert to its prior form in 2008 and thus allowing the number of AMT taxpayers to skyrocket to 26.5 million in 2008, up from 3.5 million in 2006. By 2012, nearly 40 million taxpayers will be subject to the AMT under the President’s tax policies. The lack of a long-term AMT patch is the primary reason why the President’s tax cuts are not more expensive.

Appropriations Overview

The budget increases regular 2008 defense funding by more than 10 percent relative to the 2007 level. At the same time, the budget funds domestic programs slightly below the 2007 level.

Budget Increases Non-Emergency Appropriations Overall But Cuts Domestic Funding — The President’s budget provides \$929.8 billion in regular appropriations for 2008, which is \$26.3 billion above the amount needed to maintain purchasing power at the 2007 level and \$51.5 billion above the \$878.3 billion in non-emergency funding provided for 2007. However, as shown in the table on the next page, despite the increase in total appropriations, the President’s budget cuts funding for domestic services by \$13.0 billion below the amount needed to maintain purchasing power, and by \$1.5 billion below the 2007 level. This overall cut includes cuts to many domestic agencies, including the Departments of Education and Labor and the Environmental Protection Agency. In contrast, the budget increases appropriations for the other categories of non-emergency discretionary funding: defense funding increases to \$501.9 billion, which is \$36.5 billion above the amount needed to maintain purchasing power at the 2007 level, and international affairs funding rises to \$36.2 billion, which is \$2.8 billion above that level.

Total Funding for Appropriated Programs

(Budget Authority in Billions of Dollars)

	2007	Keep pace with 2007	2008 Request	Request v. Keep pace with 2007
<u>Non-Emergency Amounts:</u>				
Domestic	393.2	404.7	391.7	-13
National Defense	452.5	465.4	501.9	36.5
International Affairs	32.7	33.4	36.2	2.8
Total Non-Emergency Appropriations	878.3	903.5	929.8	26.3
<u>Emergency Amounts:*</u>				
Iraq/Afghanistan Supplemental Funds	169.6	n.a.	145.2	n.a.
Border security	1.8	n.a.	0	n.a.
Hurricane related expenses	3.4	n.a.	0	n.a.
Total including emergencies	1053.2	n.a.	1075	n.a.

Notes: 2007 non-emergency amounts are the enacted level for the Defense and Homeland Security appropriation bills and the levels in H.J. Res 20 for other bills. The 2007 emergency amounts are those enacted plus additional amounts requested in the 2008 budget.

**Congress has enacted \$70 billion for the war for 2007. The President's budget includes an additional \$100 billion for 2007 and \$145 billion for 2008. Congress has enacted \$2 billion for border security. The President's budget includes a request of \$3 billion for disaster relief.*

National Defense is Function 050, which includes DOD and nuclear weapons-related activities of the Department of Energy.

More Emergency Funding for 2007 and 2008 — The President's budget provides an additional \$103.0 billion in supplemental emergency funding for 2007. Unlike past years, the budget also incorporates the Administration's best estimate (\$145 billion) of the full costs of the President's policies for the budget year as well as a down payment of \$50 billion toward war costs in 2009. For 2007, Congress has already provided \$71.8 billion in emergency supplemental funding: \$70 billion all for Iraq and Afghanistan and \$1.8 billion for border security. The additional \$103.0 billion in the President's budget for 2007 includes \$99.6 billion for Iraq and Afghanistan and \$3.4 billion for additional hurricane-related disaster relief.

Veterans' Health Care

Fails to Maintain Veterans' Medical Care Funding over Time — The President's budget includes \$39.6 billion for appropriated veterans' programs, which is \$3.1 billion (8.5 percent) more than the 2007 level and \$1.9 billion (5.1 percent) above the amount needed to maintain purchasing power at the 2007 level. However, the budget asks veterans to pay new and increased health care fees and, after 2008, cuts veterans' funding. Over five years (2008-2012), these cuts total \$3.4 billion below the level needed to maintain purchasing power at the 2007 level. About 90 percent of appropriated veterans' funding goes to provide medical care and hospital services.

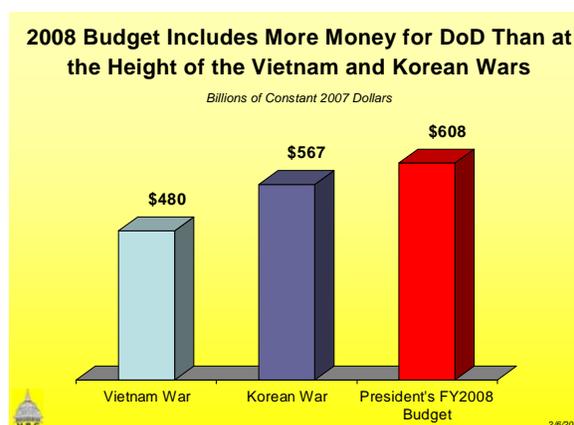
Imposes New Enrollment Fee and Increases Co-payments for Veterans — The budget raises fees on veterans for their health care by \$355 million in 2008, \$2.3 billion over five years, and \$4.9 billion over ten years. The budget imposes an annual enrollment fee ranging from \$250 to \$750, depending on income, for VA health care. It also increases pharmacy co-payments from \$8 to \$15 for Priority 7 and Priority 8 veterans, who do not have service-connected disabilities rated above zero percent and who have incomes above \$27,790. Congress has rejected such proposals in each of the last four years.

Increases Medical Care Fees for Military Retirees — The budget increases enrollment fees and deductibles under Tricare for military retirees under the age of 65. This proposal assumes savings of \$1.9 billion for 2008 and \$14.5 billion over five years.

Defense and Homeland Security

Provides \$294.8 Billion for Operations in Iraq and the Global War on Terror — The President's budget includes \$294.8 billion of new emergency funding over 2007 through 2009 to finance military operations, reconstruction, and other efforts in support of the Iraq war and the global war on terror. The budget includes a 2007 supplemental request totaling \$99.6 billion, a 2008 war funding request totaling \$145.2 billion, and a \$50 billion down payment on 2009 war costs. The budget includes no funding for the wars beyond 2009. The \$99.6 billion for 2007 is in addition to the \$70.0 billion already passed in the 2007 defense appropriations bill and increases total 2007 war funding to \$169.6 billion, nearly a \$50 billion increase above the 2006 enacted level. According to CBO, Congress has appropriated \$503 billion for military, reconstruction, and foreign aid operations in Iraq and the war on terrorism since 2001. The President's budget increases this total to \$798 billion by 2009.

Includes the Largest Defense Budget Since World War II — The President's DoD budget totals \$622.8 billion and measured in constant 2007 dollars (\$608 billion) is the largest defense budget since World War II, surpassing the peak funding years of both the Vietnam and Korean wars. The 2008 DoD budget is comprised of two pieces – a \$481.4 billion base budget to finance non-war operations, and a \$141.4 billion budget to finance military operations in Iraq and Afghanistan. The 2008 base defense budget marks a \$49.3 billion (11.4 percent) increase above the 2007 level.



Homeland Security Funding — The President's budget includes a total of \$53.8 billion for all homeland security activities for 2008, \$4.3 billion more than the 2007 level. That total includes mandatory and discretionary programs (including homeland security funding for the Department of Defense and homeland security activities that are fee-funded). Net appropriations for domestic homeland security activities – a total that excludes all national defense and

international affairs funding as well as fee-funded activities – for 2008 total \$32.1 billion. The 2008 domestic total reflects a \$3.1 billion increase above the 2007 non-emergency level. (The “2007 non-emergency level” is based on OMB’s estimates, and reflects funding at the short-term continuing resolution level for most agencies.)

Education

Cuts Education Funding by \$1.5 Billion — For the third year in a row, the President has submitted a budget that cuts education funding. The 2008 budget includes appropriations of \$56.0 billion for the Department of Education, a cut of \$1.5 billion below the 2007 level. The budget increases funding for a few signature programs only by cutting funding for others, including eliminating 44 education programs entirely.

Offsets Pell Grant Increase with Other Higher Education Cuts — The President’s budget increases the maximum Pell Grant from the 2007 level of \$4,310 to \$4,600, but cuts \$1.4 billion of other college assistance by eliminating nine higher education programs, including Supplemental Educational Opportunity Grants (funded at \$771 million for 2007) and Perkins loans (\$484 million). It does not provide the funding necessary for the increase in Pell Grants; rather, it pays for the increase primarily by cutting \$39.5 billion over ten years (2008-2017) from subsidies to lenders in the student loan program.

Underfunds “No Child Left Behind” K-12 Programs — The 2008 budget increases funding for elementary and secondary education programs authorized under the No Child Left Behind Act by about \$1 billion over the 2007 level – which still leaves funding about \$15 billion below the level authorized for 2007. However, the increase is mostly a \$1.1 billion increase for Title I (Education for the Disadvantaged) and \$300 million for two new programs to provide vouchers to students in failing schools to either attend a different public or private school or get intensive tutoring. To pay for these increases, the budget eliminates many existing programs – including education technology state grants (\$272 million) and the Even Start family literacy program (\$99 million) – and dramatically cuts others, including Safe and Drug-Free Schools state grants (cut \$247 million) and Teacher Quality state grants (cut \$100 million).

Health Care

Imposes Gross Cuts to Medicaid of \$24.7 Billion Over Five Years — The budget makes gross legislative cuts to Medicaid of \$12.0 billion over five years (\$29 billion over ten years) and imposes another \$12.7 billion in cuts through regulatory changes over five years, for total gross cuts of \$24.7 billion over five years. The budget includes \$1.1 billion in Medicaid costs over five years, for a net effect of \$23.6 billion in Medicaid legislative and regulatory cuts.

Rather than assisting states to reduce the number of Americans without insurance, the budget’s cuts will either increase state costs or lead to a reduction in Medicaid benefits. The budget

reduces payments for targeted care case management, changes prescription drug benefits by allowing states to use managed formularies, changes payments to government providers, and reduces state administrative payments. The detrimental effects of these new cuts only compound the harm created by the cuts enacted in the 2006 Republican reconciliation spending cut bill (S. 1932), which cut Medicaid by \$28.3 billion over ten years. That legislation will result in higher co-payments for health care services for 13 million low-income individuals (including 4.5 million children), higher co-payments for prescription drugs for 20 million individuals (including 6.6 million children), the loss of health insurance coverage for 65,000 people because they cannot afford higher premiums, and benefit cuts for at least 1.6 million people.

Fails to Provide Sufficient Funding for Children and Families Receiving SCHIP — The budget provides \$4.2 billion for the State Children’s Health Insurance Program (SCHIP) over five years and \$9.7 billion over ten years in additional funds (\$5.9 billion over five years and \$12.6 billion over ten years, excluding Medicaid interactions), less than the amount needed to maintain benefits for those now receiving SCHIP. A broad coalition of organizations, including the Chamber of Commerce and the American Hospital Association, has called for an increase in SCHIP funding.

Cuts Medicare by \$252 Billion but Protects Wasteful Managed Care Overpayments — The President’s budget includes legislative Medicare spending cuts of \$252 billion over ten years (\$65.6 billion over five years). Most of these savings come from cutting payments to hospitals and other service providers. Providers facing payment cuts include hospitals (inpatient and outpatient), skilled nursing facilities, home health, and inpatient rehabilitation facilities. In addition to the legislated cuts, the budget assumes \$10.2 billion of Medicare regulatory savings over five years but does not provide specifics on the policies behind these cuts. While making deep cuts on the fee-for-service side, the budget makes no effort to address the well-documented overpayments to Medicare managed care plans. On average, managed care plans receive 11 percent more per beneficiary than fee-for-service Medicare, even though the rationale for managed care is that it is supposed to save money by controlling costs.

Expands Income-related Medicare Premiums — The budget includes \$10.4 billion of savings over five years from expanding the number of people affected by income-related Medicare Part B premiums and for the first time applying income-related premiums to the Medicare drug benefit. Currently, beneficiaries with incomes above \$80,000 a year pay an additional income-related Part B premium. The income threshold is indexed to inflation. The President’s budget eliminates the indexing, with the result that more seniors will be affected by the higher premium every year. The budget uses the same income thresholds to establish income-related premiums for the Medicare prescription drug benefit.

Fails to Address Medicare Physician Reimbursement Issues — CBO estimates that under current law, doctors will experience a Medicare payment rate cut of 10 percent in 2008 and additional cuts in the following years. Every year since 2003, Congress has passed a one-year fix to prevent physician rate cuts from going into effect. The budget fails to reform the physician payment system.

Reduces Tax Breaks for Employer-provided Health Coverage and Promotes Health Savings Accounts — The President's budget treats employer contributions for health coverage as taxable compensation for income and payroll tax purposes, and it provides a new flat deduction (\$7,500 for individuals, \$15,000 for families) against income and payroll taxes to tax filers with either employer-provided or individually purchased coverage. The Administration estimates that about 80 percent of workers will pay less taxes under the President's plan, while the 20 percent whose employers provide more than \$15,000 worth of health benefits will see their taxes rise. These percentages are not stable over time. The President's plan indexes the deduction to inflation, but health insurance premiums generally grow at a much faster rate. As a result, the plan reduces tax revenues by \$121.2 billion from 2008 through 2012 but increases taxes in the second five years, for a net tax increase of \$5.2 billion from 2008 through 2017. The President also proposes to reduce tax revenues by \$10.4 billion over ten years by expanding on existing tax subsidies for Health Savings Accounts (HSAs), which are vehicles designed to encourage the purchase of high-deductible health plans. Taken as a whole, the President's package of flat deductions and HSA tax breaks gives incentives to relatively healthy and well-off individuals to opt out of the employer-provided system and purchase high-deductible plans, thereby driving up costs in the employer system and further undermining access to insurance for older, sicker, and poorer individuals.

Safety Net Programs

Eliminates the Commodity Supplemental Food Program (CSFP) — As it did last year, the budget eliminates funding for the Commodity Supplemental Food Program, which provides food packages designed to address specific nutrient deficiencies for about 500,000 low-income elderly persons, women, and children each month. The program was funded at \$107 million for 2007.

Sharply Reduces Housing Assistance for the Elderly and Disabled — The budget reduces rental assistance for the disabled by \$112 million (47.3 percent) below the 2007 level, and cuts rental assistance for the elderly by \$160 million (21.8 percent) below the 2007 level.

Cuts Low-Income Home Energy Assistance (LIHEAP) — The budget cuts LIHEAP, which helps low-income families pay their heating and cooling bills, by \$420 million (19 percent) below what is needed to keep pace with inflation.

Terminates Food Stamps for Approximately 280,000 Families — The budget reduces food stamp spending by \$611 million over five years below the level projected under current law by cutting off food stamps for an estimated 280,000 families that qualify for help because they receive non-cash welfare assistance. The change disproportionately affects 11 states that operate simplified food stamp programs (Delaware, Maine, Maryland, Massachusetts, Michigan, North Dakota, Oregon, South Carolina, Texas, Washington, and Wisconsin).

Law Enforcement and Fire Fighters

Cuts Assistance to Firefighters Grants (ASGs) by More than Half — The budget cuts grants to local first responders for protective gear, training, and equipment used to protect the public from fires and related hazards to \$300 million, a 54.7 percent cut below the 2007 level.

Cuts State and Local Law Enforcement Assistance — The President's 2008 budget reduces funding for programs that assist state and local governments in combating violent crime. The budget cuts the funding necessary to maintain current services by more than 60 percent, or \$660 million.

Nearly Eliminates Community Oriented Policing Services (COPS) — The President's budget provides only \$32 million in new funding for the COPS program for 2008, compared with 2007 funding of more than \$542 million, and it also cancels \$87 million of the program's existing resources. COPS provides grants and other assistance to help communities hire, train, and retain police officers and to improve law enforcement technologies.

Environmental Protection

Cuts Environmental Protection Measures — For 2008, the President's budget again cuts funding for the Environmental Protection Agency, providing \$7.2 billion in appropriations, a \$509 million cut from the 2007 level. Much of the cut is to the Clean Water State Revolving Fund, which is cut by \$396 million (36.5 percent) from the 2007 level.

Includes Drilling in the Arctic National Wildlife Refuge — For the seventh consecutive year the President's budget assumes opening the Arctic Refuge to oil and gas exploration. Although the revenues are assumed in the budget, the Administration cannot implement the proposal without congressional approval. Over the 2008-2012 period, the President's budget includes \$4.0 billion from lease bonuses for the federal treasury and \$4.0 billion collected and distributed to the State of Alaska.

Agriculture

Increases Farm Bill Spending by \$5 Billion over Ten Years — The budget includes major changes for the "farm bill"— the main authorizing act for the U.S. Department of Agriculture's (USDA) primary commodity support, natural resource conservation, and nutrition programs — that expires at the end of 2007. It makes significant changes to existing farm and rural community programs that will increase direct spending by a net of \$5 billion over ten years (2008-2017) above OMB's estimate of spending under current law.

- About \$20.4 billion in spending increases over ten years (2008-2017), primarily for certain natural resource conservation, farm direct payment, and research programs.

- About \$ 15.5 billion in spending decreases over ten years (2008-2017), primarily under commodity support and crop insurance programs.

Farm Bill Elements — The Administration’s farm bill proposal includes a number of changes to the commodity support and crop insurance programs that are likely to be controversial. These proposals include substantive revisions to the marketing assistance loans and counter-cyclical payment programs, as well as significant changes to the commodity support payment limits and eligibility requirements.

Social Security

Worsens Deficits and Debt by Diverting Resources to Private Accounts — The budget again includes the President's plan to divert up to one-third of workers' Social Security payroll contributions into private accounts and to impose steep cuts to traditional Social Security benefits. The date for starting the private accounts was shifted from 2010 (in the President’s previous budget) to 2012; without this shift, the President’s Budget could not have claimed budget balance in 2012. The President’s plan, announced in 2005, has failed to win the support of the American public or Congress. Private accounts by themselves do nothing to reduce the long-term budget challenges associated with the aging of the American population; they simply make the budget situation worse. OMB estimates the private accounts cost \$637.4 billion through 2017, but that figure understates the annual fiscal effect of the plan because the budget assumes implementation of the plan will not begin until 2012, the last year of the President’s budget window. The plan adds trillions of dollars to the government’s publicly held debt over the next six decades.

Includes Other Social Security Spending Cuts — The budget reduces spending on Social Security by \$3.2 billion over five years relative to current law through four policy changes: it requires school attendance by child beneficiaries age 16 and up, enforces provisions related to pensions from employment not covered by Social Security, changes the disability insurance/workers compensation offset, and increases program integrity efforts in the Disability Insurance program.

Transportation

Surface Transportation Funding Guarantees Not Met — The negotiated authorization for surface transportation programs (SAFETEA-LU) included guaranteed funding levels for both the Highway and Mass Transit programs. For 2008, the President’s budget cuts the general fund portion of Mass Transit programs by \$308 million below the amount authorized. With respect to the Federal-Aid Highway Program, the budget cancels an estimated upward Revenue Aligned Budget Authority (RABA) adjustment of \$631 million and rescinds \$1.4 billion in unobligated contract authority.

Cuts Amtrak Funding — The President’s budget provides only \$900 million for Amtrak, a cut of \$393 million (30.4 percent) from the 2007 level. The budget provides \$500 million for Amtrak’s capital expenses (a \$272 million cut from the 2007 level), \$300 million for operating expenses (a \$190 million cut), and \$100 million for capital matching grants to states.

Cuts FAA Funding for Airport Improvements During Reauthorization Holding Pattern — Both the funding and financing of aviation programs expire at the end of 2007. The Administration extends Federal Aviation Administration (FAA) programs in 2008, but limits grants to improve airports to \$2.8 billion, a cut of \$765 million from the 2007 level and \$832 million below the level needed to maintain current services.

Other Noteworthy Items

Includes Mixed Support for Energy Efficiency and Renewable Energy — The budget provides a \$73 million (6.3 percent) increase over the 2006 enacted level for the Department of Energy’s Office of Energy Efficiency and Renewable Energy. Funding for biofuels research and development nearly doubles from the 2006 enacted level, totaling \$179 million. The budget increases funding for solar and hydrogen technologies to \$148 million (81 percent) and \$213 million (40 percent) over 2006 enacted levels, respectively. These increases contrast sharply with the elimination of funding for geothermal and hydropower technologies, and the 40 percent cut (\$98 million) from the 2006 enacted level for weatherization assistance grants, which help low-income households make their homes more energy efficient.

Increases Funding for International Programs — The President’s budget provides \$36.2 billion in non-emergency funding for appropriated international affairs programs. This amount is \$3.5 billion (10.8 percent) more than the 2007 level of non-emergency funding and \$2.8 billion (8.5 percent) above the amount needed to maintain purchasing power at the 2007 level. The budget also includes emergency funding of \$6.0 billion for 2007 and \$3.3 billion for 2008 to support Iraq and the Global War on Terror.

Cuts Community Development Block Grant (CBDGs) — The budget cuts funding for the Community Development Block Grant – which local communities use to address challenges like affordable housing, job creation, and economic development – by \$1.2 billion (30.3 percent) below the amount needed to maintain purchasing power at the 2007 level.

Increases NASA Funding by \$1.1 Billion — In contrast to the budget’s cuts in many other domestic services, funding for NASA increases by 6.5 percent (\$1.1 billion), to a total of \$17.3 billion for 2008. This includes a \$522 million (15.4 percent) increase for continued development of a new vehicle and advanced technical support systems to return humans to the moon, and from there to eventually launch flight to Mars. The budget provides a total of \$3.9 billion for these purposes, some of which is offset by cuts in other areas. The budget provides \$554 million for aeronautics research critical to advances in aviation safety and

capacity, which is a \$336 million (37.8 percent) cut below the 2007 level, for programs already hit hard by funding cuts in previous years.

Sharply Increases Fees for Citizenship and Immigration Services (CIS) — The Administration intends to increase immigration examination fees in 2008, but currently is allowing public comment on its proposal and does not include its scheduled fee increase in the 2008 budget. Under current law, CIS has the authority to adjust its fees to offset its costs of processing immigration and naturalization applications and petitions. According to the Administration's estimates, application fees will increase, on average, by 66 percent. CIS spends the fees in addition to its appropriated funds.

President's Budget Omits Major Costs

The President's Budget Understates the True Costs of His Policies

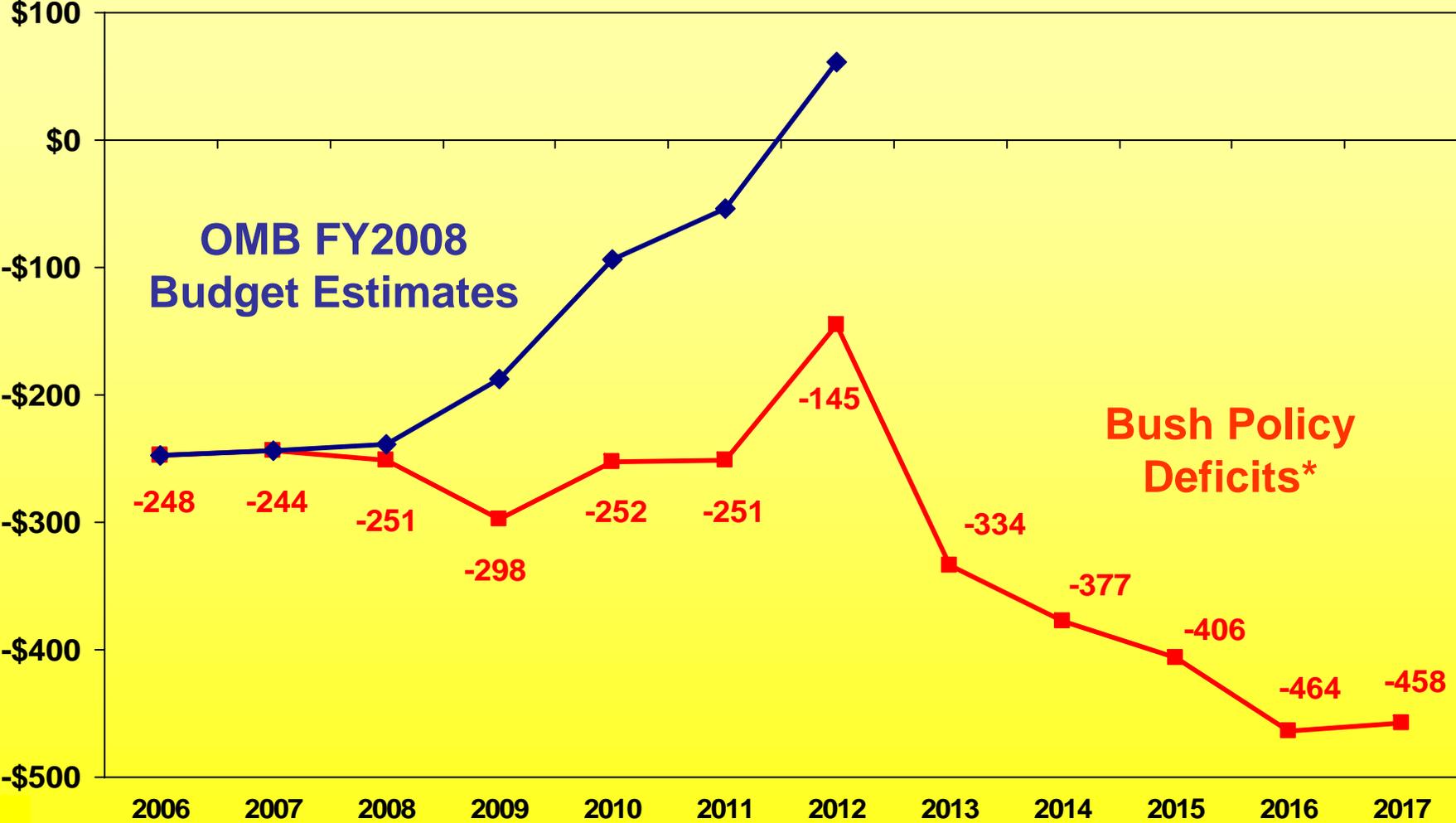
Omitted Costs

- Likely War Costs
- Fix the Alternative Minimum Tax
- Realistic Revenue Growth



Bush Policy Deficit Shows That The Budget Never Reaches Balance

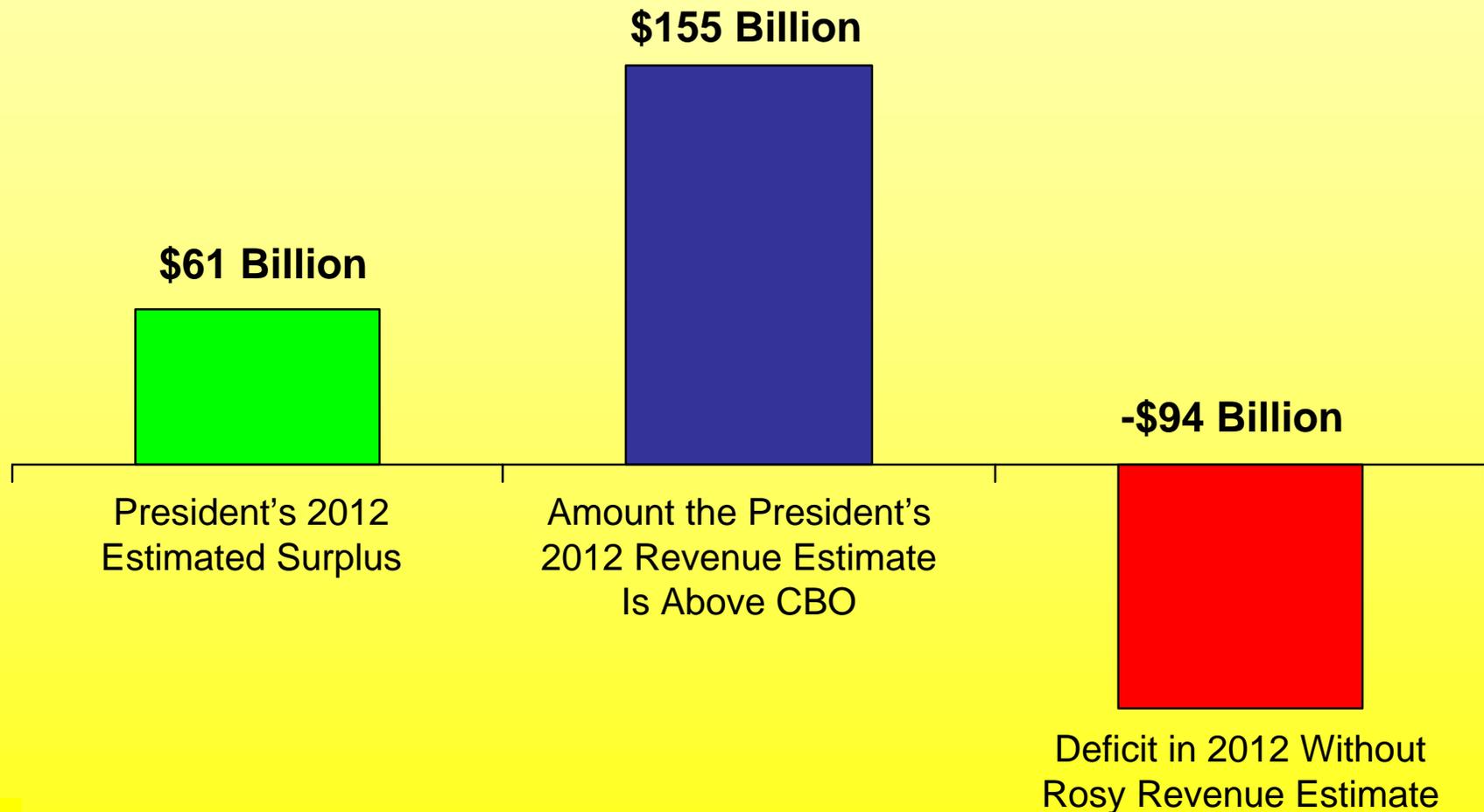
Deficits in Billions of Dollars



* Bush Policy Deficits include omitted costs

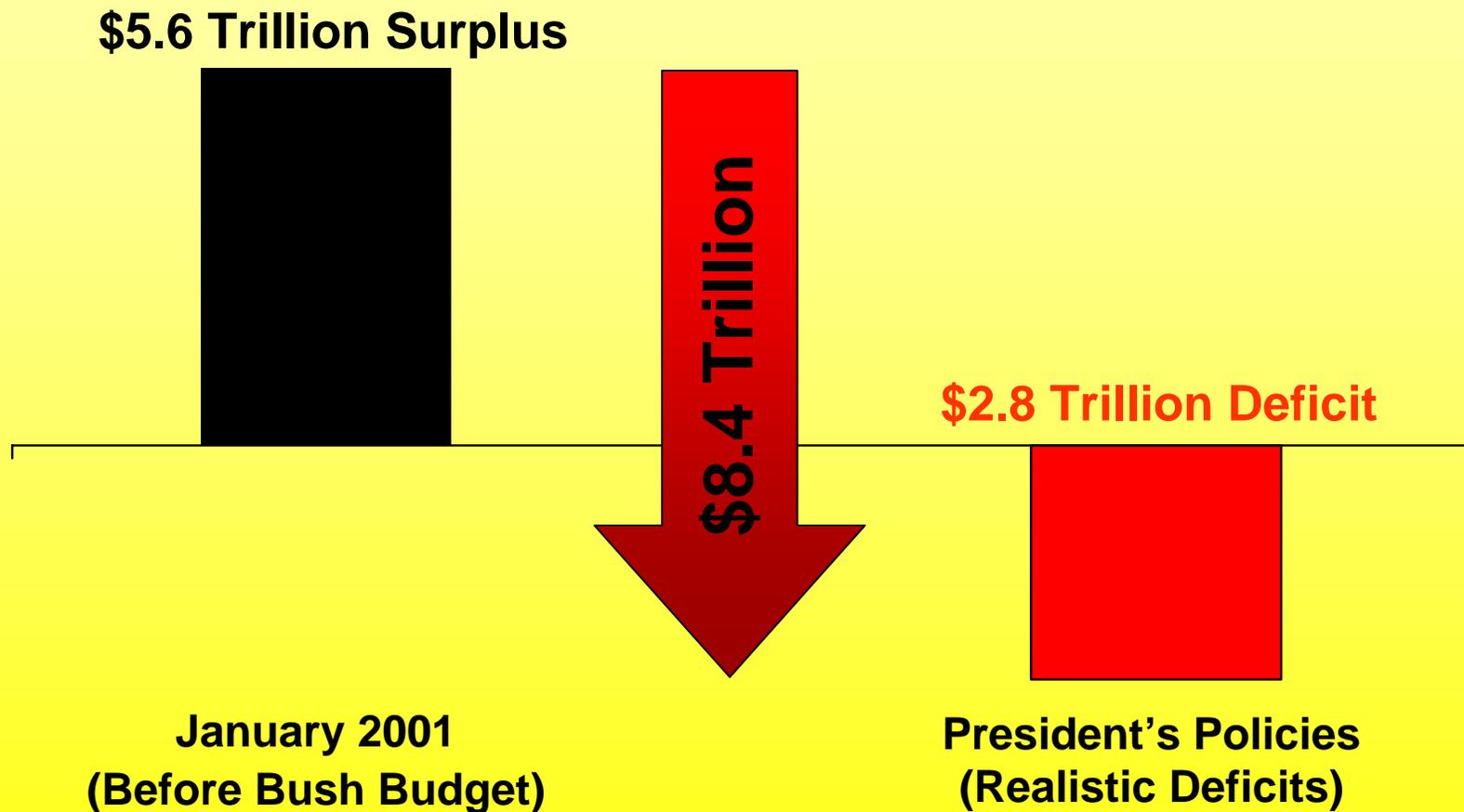
Bush Budget in Deficit in 2012

Without Rosy Revenue Assumptions, Bush Budget Never Reaches Balance



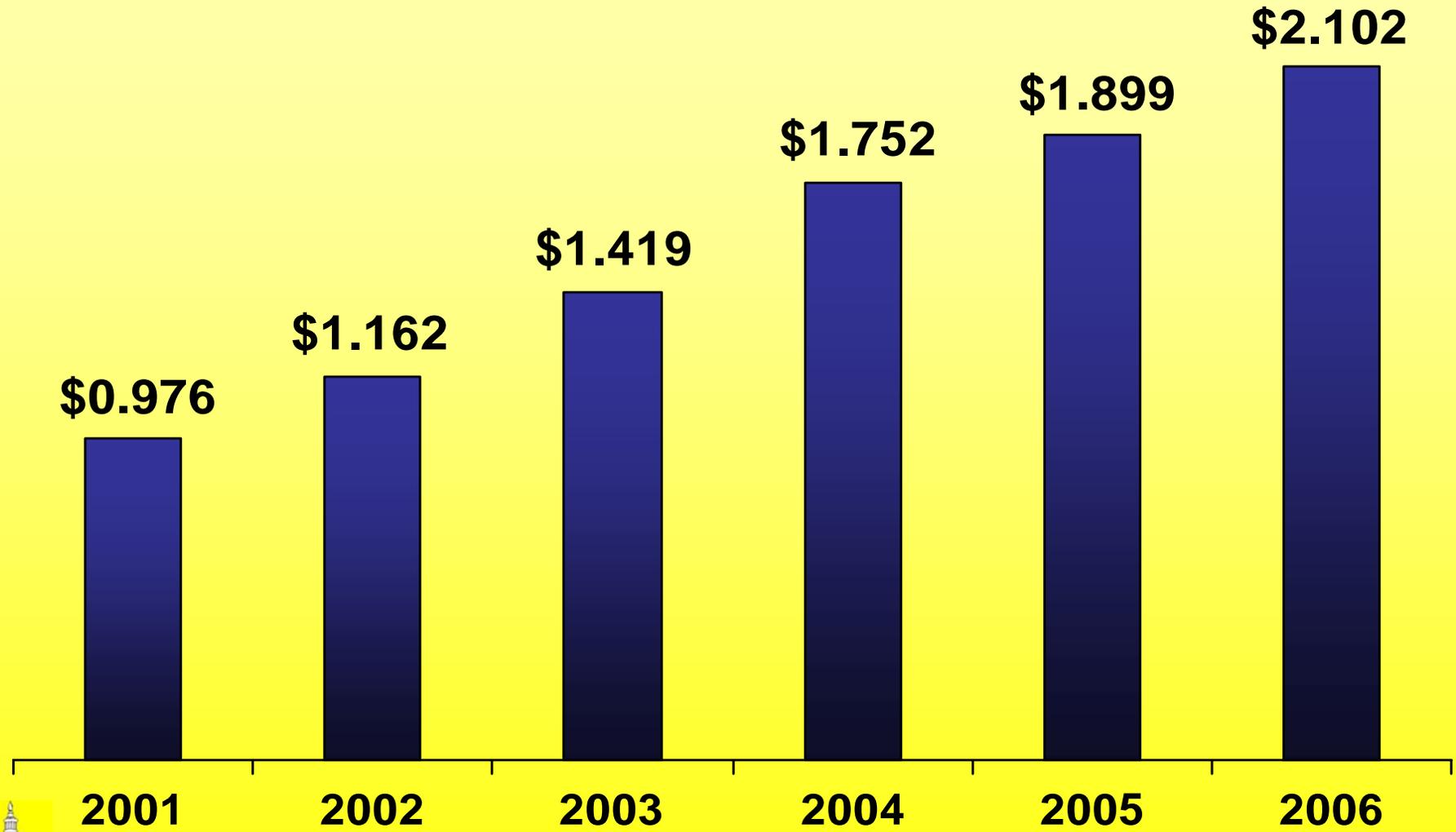
Surplus Declines \$8.4 Trillion Under President's Policies

Total Surplus/Deficit 2002-2011



Amount of Foreign-Held Debt More Than Doubles Under Bush Administration

Trillions of Nominal Dollars

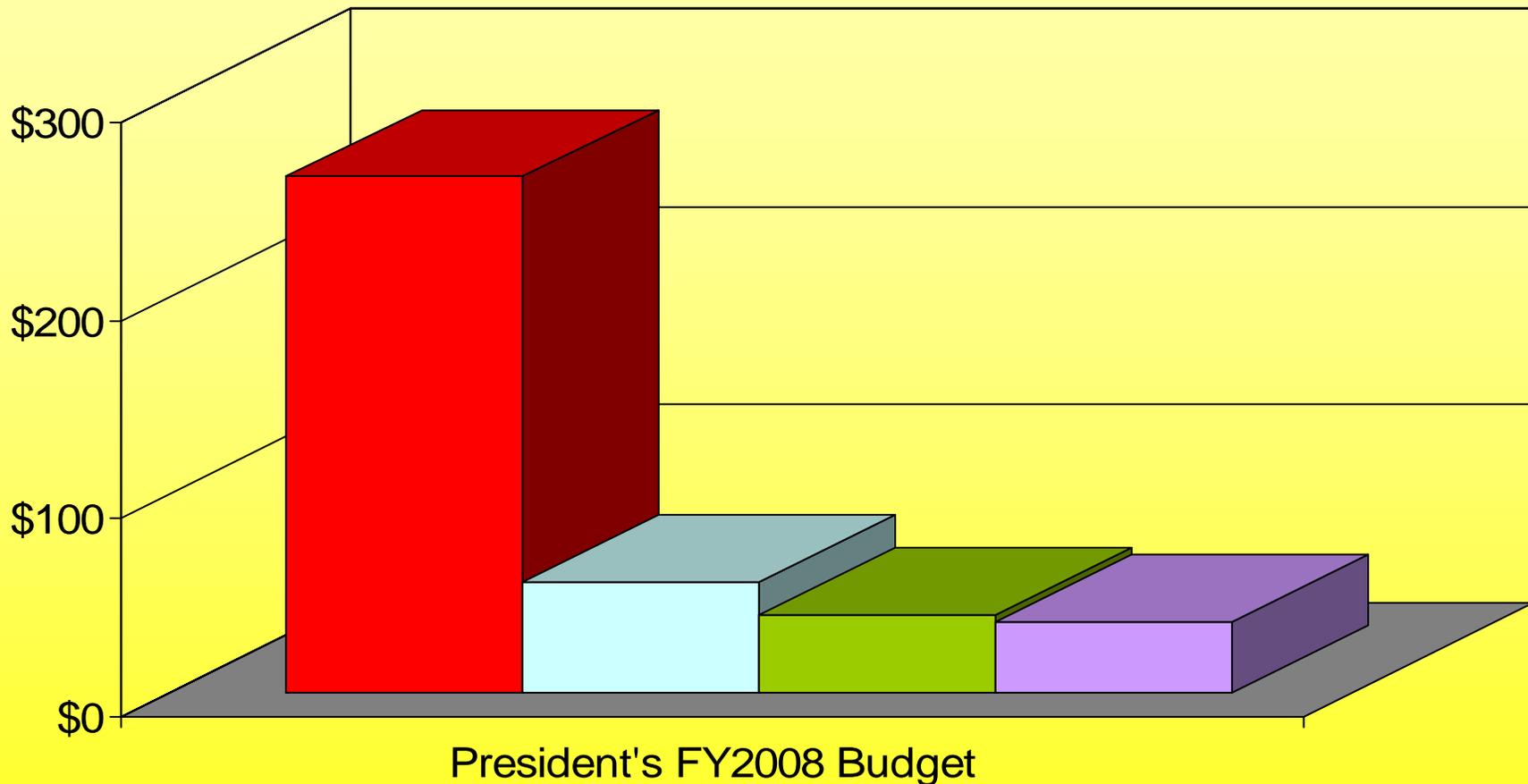


Annual totals calculated in July of each year

2/5/2007

Interest Payments on Debt Dwarf Other Priorities

2008 Budget Authority in Billions



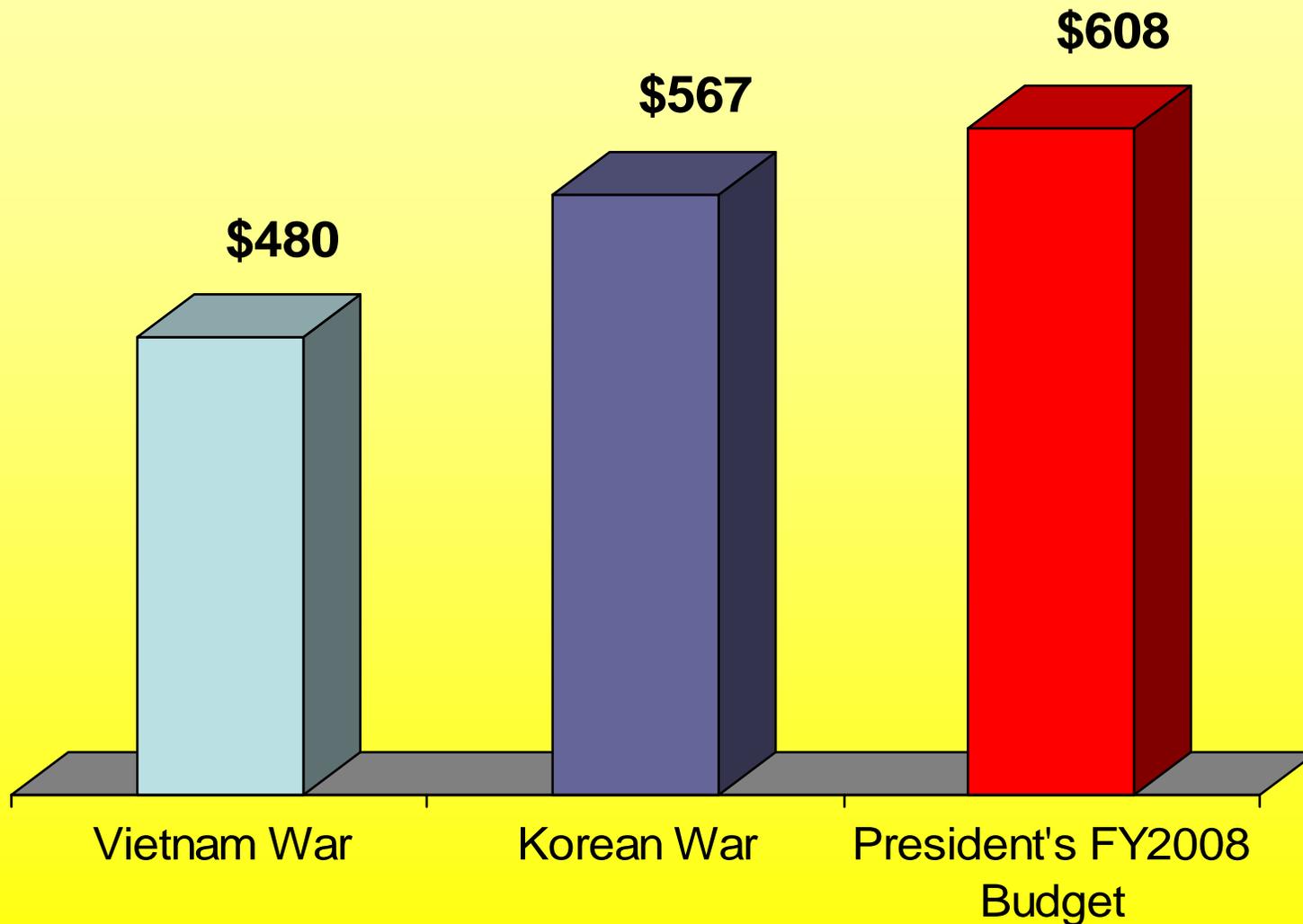
■ Net Interest ■ Education ■ Veterans ■ Homeland Security

Education, Veterans and Homeland Security are Discretionary Budget Authority Only



2008 Budget Includes More Money for DoD Than at the Height of the Vietnam and Korean Wars

Billions of Constant 2007 Dollars



Statutory Debt

Debt When Bush Took Office	\$5.7 Trillion
Debt Today	\$8.7 Trillion
Debt Added So Far	\$3.0 Trillion
Debt Projected At The End of Bush Presidency	\$9.5 Trillion
Total Bush Increases To The Debt	\$3.9 Trillion

Deficits Without Social Security Surplus

On-Budget Deficit, 2007	\$427 Billion
On-Budget Deficit, 2008	\$451 Billion

Cost of Debt Service

Net Interest, 2002	\$171 Billion
Net Interest, 2008	\$261 Billion



The President's 2008 Budget

Billions of Dollars

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	Total 2008-2017	Total 2013-2017
CBO Baseline	-172	-98	-116	-137	-12	170	159	185	208	192	249	800	
Remove Repeating Supplemental	---	43	65	78	86	92	98	104	111	118	125	920	
CBO Baseline w/o repeating supp	-172	-55	-51	-59	73	262	257	289	319	309	374	1720	
The President's Budget	-244	-239	-187	-94	-54	61							
Omitted Items and the Second Five Years													
Tax Policies*							-269	-273	-273	-267	-259		-1342
Entitlement Programs							31	35	41	48	55		210
Defense Appropriations							-50	-50	-50	-51	-53		-254
Non-Defense Appropriations							34	36	37	38	39		184
Social Security Reform							-67	-109	-130	-142	-160		-608

Repair AMT**	---	-11	-70	-69	-80	-93	-106	-120	-135	-151	-168	-1004	-681
Ongoing Military Operations**	---	---	-39	-79	-100	-87	-69	-59	-58	-56	-57	-603	-299
Subtotal of Omitted Items	---	-11	-108	-148	-180	-179	-495	-541	-569	-582	-604	-3417	-2790
Debt Service	---	-0	-3	-9	-17	-27	-96	-125	-157	-191	-228	-852	-796
Total Changes	---	-11	-111	-157	-198	-206	-591	-666	-725	-773	-831	-4270	-3586
Resulting Deficits	-244	-251	-298	-252	-251	-145	-334	-377	-406	-464	-458	-3235	-2038

* Includes outlay effects

** CBO estimates of policy adjusted for what is already included in President's Budget.

negative items make deficits worse

Debt Service costs based on CBO's January estimates

Baseline estimates assume tax cuts expire as written in law and 2007 emergency supplemental funding repeats every year and grows with inflation