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February 7, 2008

Summary and Analysis

of the

President's Fiscal Year 2009 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 following abbreviations are used:

for the Congressional Budget Office, CBO;
for the Office of Management and Budget, OMB; and
for Gross Domestic Product, GDP.

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

The amount needed to maintain purchasing power at the 2008 level is calculated based on OMB's estimate of baseline levels, unless otherwise noted.

Numbers in tables may not add due to rounding.

Summary and Analysis of the President's 2009 Budget

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Overview

The President's 2009 budget contains the same misguided policies as his previous budgets. Rather than balancing in 2012 as the Administration has repeatedly promised, under realistic assumptions, this budget will create large deficits for "as far as the eye can see." Using OMB estimates, the 2008 deficit will reach \$410 billion (the second largest in history), followed by a 2009 deficit of \$407 billion, a number that is likely to grow as the full costs of Administration policies are included. Deep cuts in key programs – ranging from health care to education, most of which have proven unpopular when proposed in the past – are again used to pay for tax cuts that heavily benefit the most fortunate Americans.

Administration 2009 Budget Reflects the Same Misguided Priorities — As in prior years, the budget prioritizes permanent extension of the 2001 and 2003 tax cuts, at the expense of funding for critical domestic services and investments.

Budget Never Reaches Balance Under Realistic Assumptions — The budget seriously understates its true impact by failing to fully account for several key policies including Alternative Minimum Tax (AMT) reform, ongoing Iraq and Afghanistan war costs, and associated debt service. In addition, the Administration relies upon overly optimistic economic assumptions that mask the full fiscal effects of the underlying policies.

2009 Budget Summary	
in Billions of Dollars	
Total Revenues	\$2,697
Total Expenditures	\$3,107
Total Deficit	-\$407

Misguided Priorities

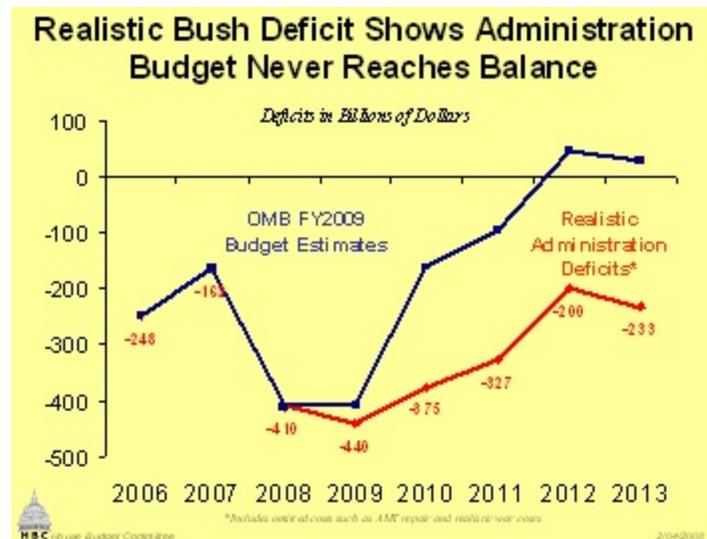
Winners

- 2001/2003 tax cuts (\$3.0 trillion over 10 years)

Losers

- Domestic priorities including education, health research, first responders
- Medicare beneficiaries
- Future generations burdened by growing debt

HBC House Budget Committee 2/24/2008



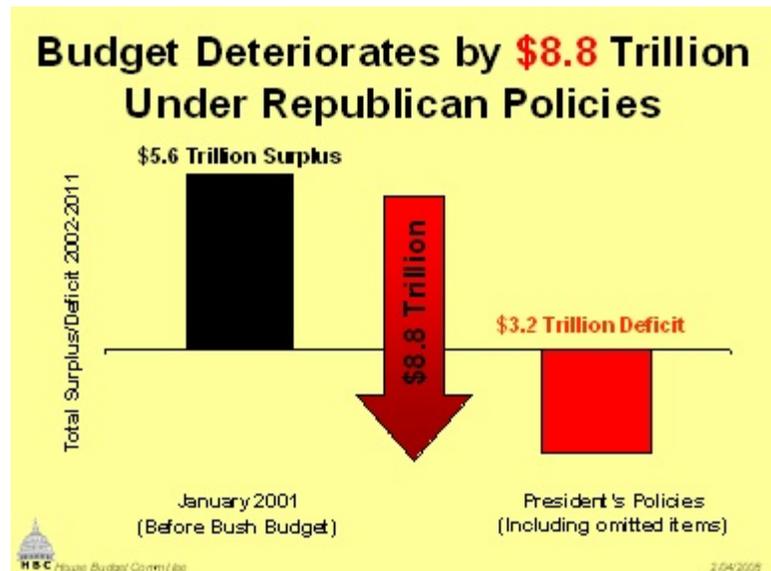
Administration's Economic and Budget Record

The budget represents the last policy statement this Administration is likely to put forward. Together with previous proposals, the budget paints a comprehensive overview of the Administration's economic and budget record. The picture that emerges is one of diminished government services, record deficits and debt, and the gradual deterioration of the country's economic security.

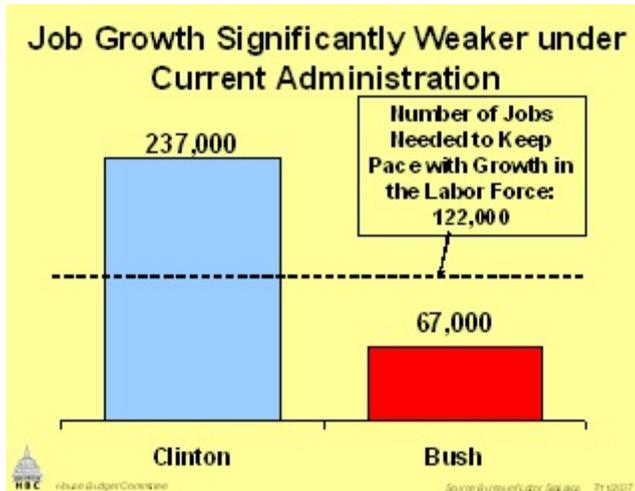
Broken Government: Government Core Capabilities Have Deteriorated — The collapse of the Minneapolis bridge, FEMA's failed response to Hurricane Katrina, and persistent patient neglect at Walter Reed have served as some of the most poignant and visible examples of the strains under which the federal government has been operating. But the stresses brought about by seven years of indifferent management and budget cuts are taking their toll in many other ways as well. Basic government services are falling badly behind. Social Security disability backlogs are approaching a record 750,000, with the wait for a hearing averaging 17 months. The veterans' disability compensation system is under significant strain, with claims processing backlogs growing more than 50 percent since 2003. Long-term infrastructure investments are not being made. Important improvements in homeland security have been deferred.

Broken Budget: Administration Posts Record Debts and Deficit —

The Administration's estimated deficit of \$407 billion marks a \$1.1 trillion deterioration for one year alone relative to the \$710 billion surplus estimated for 2009 when the Administration took office. In all, the \$5.6 trillion projected ten-year surplus that the Administration inherited when it took office has been converted, under realistic estimates, into a \$3.2 trillion deficit. This represents a swing of \$8.8 trillion in the wrong direction – the largest fiscal deterioration in American history. More than 80 cents of every dollar of new debt since 2001 is owed to foreign investors, including foreign governments. The high level of indebtedness to foreign investors heightens the economy's exposure to potential instability from abroad or even financial threat from unfriendly foreign governments, and places additional burdens on our children and grandchildren.



Broken Economy: Economic Record is Stagnant — The combination of underperforming government and reckless fiscal policy have resulted in an economic record that offers little cause for celebration. The current turmoil in the American economy comes on the heels of years of lackluster economic performance. The brief recession of 2001 was followed by the weakest recovery in modern history – with GDP, investment, and other key indicators growing at below their average growth rates for other economic expansions. Even with the relatively weak performance of the economy as a whole, the typical American family has fared even worse.

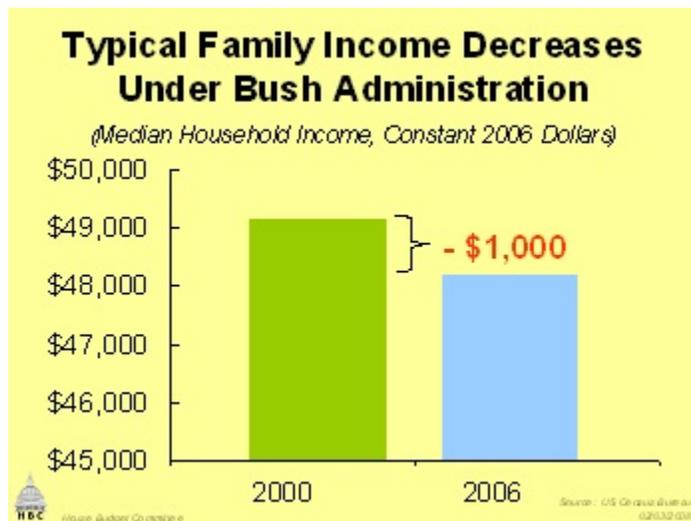


Job Creation Is Down, Long-Term Unemployment Remains Persistently High

— The economy, which created more than 200,000 jobs per month between 1993 and 2000, has averaged only 67,000 new jobs a month since 2001 – only about half the pace needed to keep up with the growth of the working-age population. This weak job market has left nearly 1.6 million more workers unemployed and increased long-term unemployment by 62 percent. The manufacturing sector has been particularly hard hit, with a loss of over 3 million jobs.

Many Lower- and Middle-Income American Families Are Left Behind

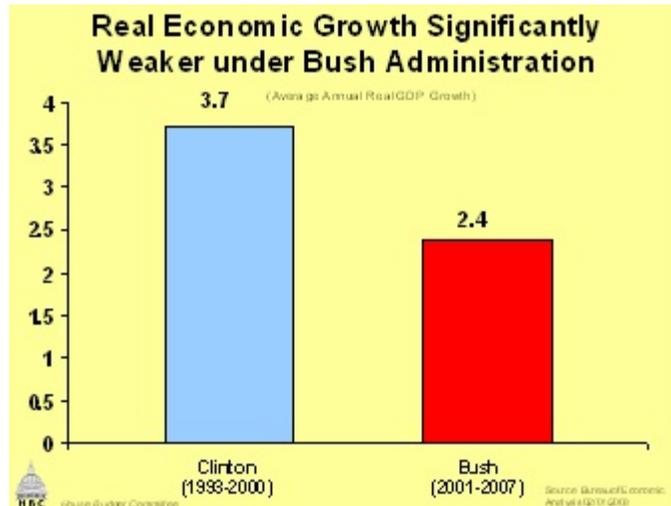
— American workers are more productive than ever, but the benefits have flowed disproportionately to the most fortunate. A recent analysis by CBO shows that real after-tax income *increased* an average of nearly \$180,000 (or more than 20 percent) for households in the top one percent in 2005 alone (the latest year of tax return data). Meanwhile, since 2000 the real income of a typical family has *fallen* by almost \$1,000, and our most vulnerable citizens have fared the worst. In 2006 (the last year for which Census data are available), the official poverty rate was 12.3 percent. That is 36 million Americans living in poverty – an increase of 4.9 million people since 2000. Nearly 13 million children are now living in poverty, representing over 17 percent of all American kids.



Families Are Being Squeezed — Rising energy prices and health care costs are making it harder for American families to make ends meet. In 2006 (the last year for which data are available), 47 million Americans were making do without health insurance. From 2000 to 2006, 8.6 million people lost their coverage. Those with health insurance are losing more and more of their paychecks to premiums, without receiving more generous benefits. Gas is over \$3 a gallon – more than twice its price when the President took office. A gallon of milk is now approaching \$4 in many cities.



Administration Fiscal Policy Has Produced the Weakest Economy since World War II — Since the implementation of the tax cuts, economic growth has failed to match the CBO estimate of economic growth without the tax cuts. The current expansion is now the weakest of all the economic expansions since the end of World War II.



Moving Forward

The economy is slowing, American households are hurting, and Congress is responding. The Congress just recently passed a stimulus bill, the result of careful negotiation between the Administration and Congressional leaders.

Over the next year, Congress will continue to advance proposals that will improve our economic security and strengthen the fiscal fundamentals. This will include investing prudently in high impact programs and supporting families struggling to make ends meet in the slowing economy— all within a framework of fiscal responsibility.

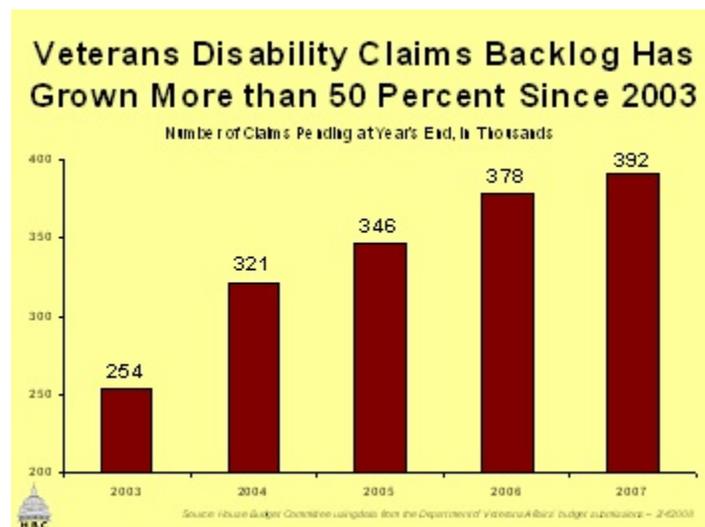
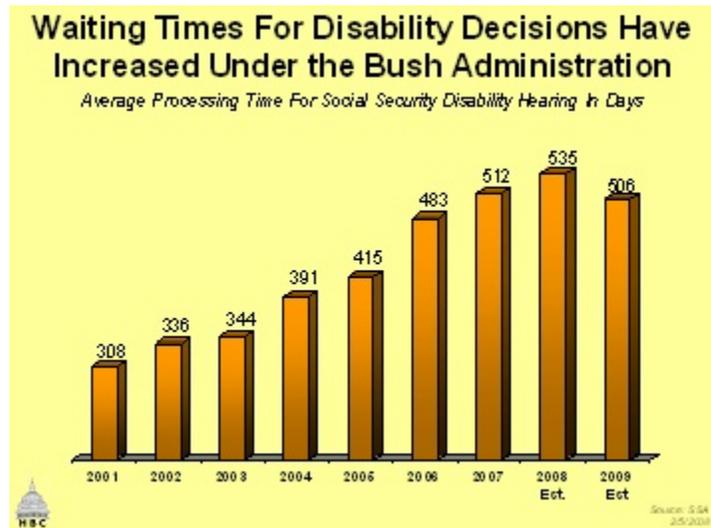
Broken Government

At the same time deficits and debt are setting records, the level of government services and responsiveness has deteriorated significantly over the past several years as a result of persistent underfunding by this Administration and previous Republican Congresses. Social Security, Veterans, State, and other departments and agencies are experiencing record backlogs for essential government services, investments in critical infrastructure are being delayed, and needed improvements in homeland security and emergency response are not being made.

Record Backlogs for Essential Government Services

Social Security Administration

Backlogs Top 17 Months — The Social Security Administration is currently experiencing a record backlog of 746,744 pending disability hearings, with the wait for a hearing averaging 17 months. Social Security cases will increase by about 90,000 annually over the next five years, likely resulting in a backlog of one million cases by 2010. The cause of the backlogs is mostly the result of chronic understaffing and increased claims. Lengthy waits can lead to bankruptcies, foreclosures, and a high degree of personal stress. “People have died waiting for a hearing,” said Social Security Commissioner Michael Astrue in July 2007.



Veterans Claims Backlog Has Risen 50 Percent since 2003

— In March 2007, the Government Accountability Office described a veterans’ disability benefits system on the verge of crisis. As the number of veterans disability claims grew from 735,000 in 2003 to 838,000 in 2007, the President’s budgets and the Administration’s policies failed to respond adequately. As a result, the number of claims pending at year’s end – the “backlog” – grew by more than 50

percent from 2003 to 2007, to nearly 392,000 claims. On average in 2007, a veteran's compensation or pension claim was pending with VA for six months. If a veteran appeals VA's determination, it takes an average of nearly two years (657 days) to resolve the appeal. Congress has provided significant funding increases for 2007 and 2008 to hire another 2,900 claims processors and begin to reduce this large backlog. For more information, see *Function 700 (Veterans)*.

Deferred Maintenance and Infrastructure Spending

Nearly 300,000 Units of Affordable Housing

Lost — Data from the Department of Housing and Urban Development (HUD) show a steady loss of housing for low-income families and elderly and disabled people who live in public housing or receive federal

subsidies for private apartments. Each year, the Administration has ignored and added to the \$18 billion backlog in deferred maintenance for public housing units, instead allowing the units to deteriorate until they are uninhabitable. Last summer, HUD simply failed to make contract payments on time to landlords across the country that provide affordable housing through Project-Based Rental Assistance. Most of the payments were delayed by one to three months, and some were delayed even longer. HUD recently acknowledged that last year's budget request was \$2.6 billion less than was needed to fully fund the contracts.

"I cannot tell you exactly when the property will be paid."

Letter from HUD Administrator to Landlord

Inadequate Resources for Homeland Security and Emergency Response

Underfunded Homeland Security and Emergency Response — Despite persistent threat of attack, the Administration's budgets have repeatedly cut the funding for several programs that would either make us safer from attack or would bolster our ability to respond if such an attack occurred. Every year the Administration has proposed large cuts to first responder grant programs. The President's 2009 budget cuts funds for first responders by \$2.0 billion below the level needed to keep pace with inflation. Every year the Administration has proposed either no funding, or inadequate funding, to address the more than \$5 billion in basic security measures that the Coast Guard has assessed that our ports need. The President's 2009 budget cuts port security grants by \$190 million below the 2008 enacted level.

Inadequate Consumer Protections

Food and Drug Administration Unable to Keep Pace — The inability of the Food and Drug Administration (FDA) to support its mission has become an all-too-common story in recent years. Peter Barton Hutt, a former chief counsel of the FDA, testified:

“the agency is barely hanging on by its fingertips.”

As an example, he pointed to the problems experienced this past year with contaminated pet food. Given insufficient resources, FDA must leave particular areas neglected. According to Hutt, “This is what happened with contaminated pet food, one of many areas which have been neglected because of a lack of agency resources.”

“FDA has become a paradigmatic example of the ‘hollow government’ syndrome – an agency with expanded responsibilities, stagnant resources, and the consequent inability to implement or enforce its statutory mandates.”

Peter Barton Hutt, former FDA Chief Counsel

Last year, Representative Stupak, Chairman of the Subcommittee on Oversight and Investigations of the Energy and Commerce Committee, highlighted the problems FDA faces in protecting the nation’s food supply during hearings on the topic:

“Due to the globalization of the American economy, there has been a dramatic increase in the amount of imported food in recent years. In the last decade alone, USDA-regulated meat and poultry imports have increased by 87 percent . . . At a time when food imports are sharply increasing, FDA inspections of imported food have decreased by 90 percent from 50,000 inspections in 1972 to just 5,000 in 2006. The FDA now inspects less than 1 percent of all imports and only a fraction of that number are even tested. This is simply unacceptable.”

Consumer Product Safety Commission Plagued by Insufficient Budget — The failure of the nation’s product safety system became apparent last year with the record number of consumer product recalls. As Chairman Dingell of the Energy and Commerce Committee stated, “We’ve had a failure in our product safety system that allowed millions of dangerous and unacceptable products to pass right under our noses with the potential to harm the people who use them.”

The ability of the Consumer Product Safety Commission to provide effective oversight has been harmed by years of decreasing staffing at the agency. The budget the Administration submitted last year would have provided for the fewest number of staff in the agency’s history. To address these issues, the House passed bipartisan legislation last year that will provide the needed budget and staff resources while also tightening federal standards for lead in toys.

The Near-Term Economic Outlook

Probability of Recession Rising — Fears of recession began to grow last summer, when the crisis in the subprime mortgage market began to spread to credit markets as a whole, spurring prominent economists – most notably, Martin Feldstein and Lawrence Summers – to start talking about the need for fiscal stimulus. The Administration and the Congressional Budget Office both locked in their latest economic forecasts in November and December of last year, respectively, and although the forecasts had already become less optimistic than previously, the economic news since December has only gotten worse. In recent (January 29) testimony before the House Budget Committee, Dr. Summers put the probability of recession sometime in calendar year 2008 at more than 50 percent and warned that the slowing economy could result in deficits approaching \$500 billion per year (or back to over 3 percent of GDP).

Recent Economic News Very Worrisome — The health of the overall labor market suddenly took a turn for the worse in recent weeks, as the Labor Department reported first a three-tenths of one percent increase in the unemployment rate (from 4.7 to 5.0 percent) in December, and then a loss of 17,000 jobs in January. In addition, the latest jobless claims data (for the week ending January 26) showed a huge increase of 69,000 in initial claims, to 375,000; this was the largest weekly increase in more than two years. All of these labor market indicators are far worse than expected and are characteristic of an economy that could already be in recession. Consumer spending appears to be suffering as well, with a 0.4 percent drop in retail sales (also far worse than expected) in December. Concerns about inflation are growing: producer inflation in 2007 was the highest in 26 years, and there is some evidence that through rising energy costs, inflation may be spreading to overall consumer prices as well. The housing markets continue to worsen, with home construction, sales, and values falling, and foreclosures rising. In late January the Commerce Department reported that the economy nearly ground to a halt in the fourth quarter of 2007, with real growth at a mere 0.6 percent annual pace.

Monetary Policy in Overdrive, Yet Fiscal Stimulus Needed — In mid-January Federal Reserve Chairman Ben Bernanke testified before the House Budget Committee and expressed his growing concern about the stability of the U.S. economy and the need for a well-constructed fiscal stimulus package as a complement to the monetary easing that began last fall. On January 22, following a dramatic, one-day slide in global financial markets, the Federal Open Market Committee of the Federal Reserve felt compelled to take emergency action and cut the federal funds rate by 75 basis points—the biggest single cut in a quarter century. On January 30, the day of the negative news on fourth quarter 2007 GDP and just eight days after its emergency rate cut, the Fed cut rates by another 50 basis points. Since last fall the Fed has cut the federal funds rate by 2.25 percentage points to its current level of 3 percent, and it has signaled that it is prepared to cut further in the months ahead. Leading economists believe that the U.S. economy needs the bolstering of a well-constructed fiscal stimulus package in order to avoid a major near-term deterioration in the economic outlook. Although fiscal stimulus would add to the deficit in

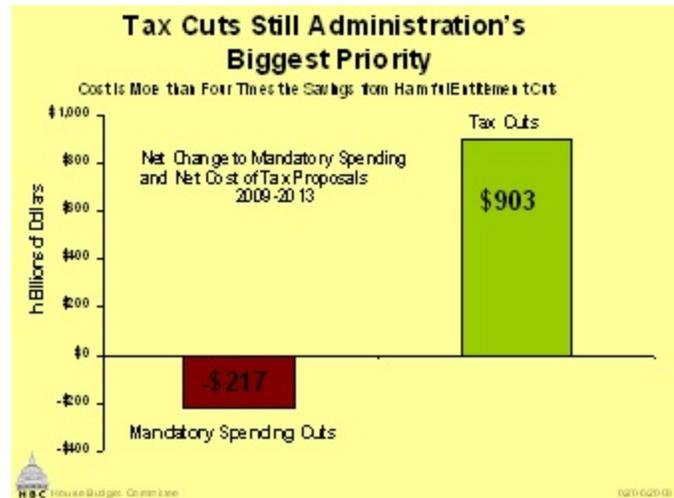
calendar year 2008, these economists view the stimulus package as an “insurance policy” against bigger economic losses that could have a lasting effect on the budget outlook for years to come.

Slowing Economy Worsens the Budget Outlook — Lower interest rates reduce federal government spending by reducing debt service costs, but that is about the only mechanism through which the slowing economy is (only *indirectly*) helping the bottom line of the federal budget. The federal government has so far posted a 2008 deficit of \$106 billion. This represents a substantial increase over the \$80 billion deficit recorded for the first three months of 2007. This is partially due to declining corporate tax receipts, along with increased outlays for both defense and domestic spending. CBO showed in the January outlook report that adverse economic developments alone have worsened their ten-year budget outlook by \$218 billion over five years and \$486 billion over ten years, even with their economic forecast which was set in early December before the most recent and more negative news. The Administration’s economic forecast was set even earlier, in late November, and is significantly more optimistic than that of CBO. If the Administration’s revenue forecast were adjusted to correspond to CBO economic assumptions, revenues would be \$337 billion lower over five years (partially offset by lower mandatory outlays), and the Administration’s budget would remain in deficit in 2012 and 2013.

Fiscal Policy for the Near Term vs. Fiscal Policy for the Long Run — The fiscal stimulus necessary in the near-term will inject some stability into an economy that is operating at less than full capacity and less than full employment. This near-term condition calls for increasing aggregate demand, which is mostly composed of household spending. The appropriate prescription for our economy’s short-term ailments does not negate the need for moving forward on longer-term strategies to boost economic growth once the economy’s slack has been taken up. But instead of pursuing policies that would boost national saving and economic growth over the longer term, the Administration since 2001 has been imposing fiscal policies that do just the opposite.

Revenues

The President's Budget Is More of the Same: Tax Cuts Still the Biggest Priority — Having already enacted over \$2 trillion in tax cuts since 2001 (nearly \$4 trillion including interest costs), the Administration's budget calls for additional tax cuts costing \$903 billion (\$1.0 trillion including interest) over five years and \$2.4 trillion (\$3.0 trillion including interest) over ten years. At the same time, as in last year's budget, the Administration fails to provide for relief from the Alternative Minimum Tax (AMT) beyond the current (2008) tax year, while extending the full complement of 2001 and 2003 tax cuts, which do not expire until December 31, 2010. While the Administration claims that spending is responsible for the deterioration in the fiscal outlook, its recommended \$217 billion in harmful cuts to mandatory spending (over five years) represents less than a fourth of what it proposes in tax cuts.



Extension of Signature Tax Cuts Are Bulk of Tax Proposals — The extension of the 2001 and 2003 tax cuts accounts for nearly three fourths (73.7 percent) of the cost of the President's tax proposals over five years, and for all but a tenth (90.3 percent) over ten years. The health insurance standard deduction proposal costs \$106 billion over five years, but raises \$32.5 billion in revenue over ten years. The President's budget also extends other expiring tax provisions, including one year of AMT relief and permanent extension of the research and experimentation tax credit. As in prior budgets, the Administration provides for expansion of tax-free savings opportunities, which involve large and growing revenue losses over the longer run, beyond the ten-year budget window.

New Tax Cuts for High-Income Households Use Gimmicks to Hide Budget Costs — The budget again includes a provision 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 are tax-free. Individuals can also annually place another \$2,000 each into a tax-sheltered "Retirement Savings Account" (RSA). These RSAs replace IRAs, but the income limits on who can use IRAs are eliminated. Few of the benefits from these new savings accounts 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. Because the proposals 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 generate revenues in the short run. After the first four years, however, the proposals reduce revenues substantially. The Urban-Brookings Tax Policy Center argues that over time, the proposal would be tantamount to complete exemption of capital income from taxation, and annual revenue losses could exceed 0.3 percent of GDP after 25 years.

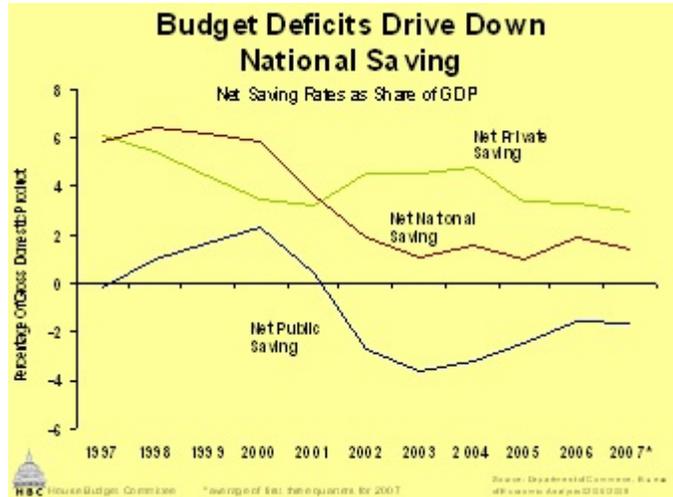
Meanwhile, Administration's Simplification of Tax Policy for Low-Income Families Reduces Benefits — The budget simplifies tax laws for families by clarifying the definition of a qualifying child and modifying qualification requirements for the Earned Income Tax Credit (EITC) and the refundable child tax credit. Together these changes save \$2.7 billion over five years and \$6.4 billion over ten years.

Administration Tax Policy Increases Income Inequality — According to CBO data, since the passage of the tax cuts in 2001, the after-tax incomes of the wealthiest Americans have risen faster than the after-tax incomes of everyone else. In fact, high-income households have seen their after-tax incomes rise even faster than their pre-tax incomes. According to estimates by the Urban-Brookings Tax Policy Center, over half of the cost of last year's tax cuts went to households in the top ten percent of the income distribution. Eighteen percent went to the relative handful of Americans making more than one million dollars per year. These households received an average tax cut of more than \$100,000, while households making \$40,000-\$50,000 (around median income) received less than \$900. Across the spectrum, higher-income households got a larger percentage of their income back in tax cuts than lower-income taxpayers, implying that contrary to what the Administration claims, its tax policy agenda has been highly regressive.

Administration Tax Cuts Fall Far Short of Paying for Themselves — In 2001 and 2003, supply-side proponents of the President's tax agenda claimed the tax cuts would encourage so much economic growth that they might even pay for themselves after a few years. But no such economic boom has been produced by the tax cuts, and revenue growth is now slowing with the economy. Corporate tax receipts grew by 27.2 percent between 2005 and 2006, but by just 4.6 percent in 2007, and CBO and the Administration now expect those revenues to decline slightly in dollar terms in 2008. Total revenues for 2007 came in \$268 billion below where the Administration estimated they would have been *without* the tax cuts, back in 2001. The Administration's policy forecast now shows a 2011 level of revenues that is \$407 billion below their pre-policy forecast for 2011 revenues made in 2001. The tax cuts have already cost trillions of dollars, just as the official revenue estimates in 2001 predicted they would.

Administration Budget Policy Drives Down National Saving and Hence Long-Term Economic Growth — The most important contributor to long-term economic growth is national saving. By producing record budget deficits which represent negative public saving, the tax cuts have

helped cause national saving to fall from the six to six-and-a-half percent of GDP range in the late 1990s and 2000, to just one to two percent of GDP since 2002. National saving has mirrored movements in the deficit, because contrary to claims by tax cut proponents that the marginal tax rate cuts would spur increases in private saving, private saving has instead fallen since the late 1990s (to about half of what it was), and has fallen *since 2004*, after the capital gains and dividend tax cuts were passed.



Health Tax Policy

The President’s budget again makes fundamental changes to the tax treatment of health expenses and continues to support the expansion of tax-favored savings vehicles linked to high-deductible health plans. In total, the budget’s tax policies related to health coverage cost \$110 billion over five years and save \$21.0 billion over ten years.

Budget Effects of Health Tax Policy Proposals		
(In billions of dollars)		
	<u>2009- 2013</u>	<u>2009- 2018</u>
<i><u>Changes in Revenue</u></i>		
Provide flat deduction for health insurance	-94.1	41.1
Expand flexibility of Health Savings Accounts	-4.3	-11.5
<i><u>Changes in Spending</u></i>		
Provide flat deduction for health insurance: Earned Income Tax		
Credit interactions	11.5	8.5
Net Budget Cost	110.0	-21.0

Restructures the Tax Treatment of Health Coverage — Current law excludes employer contributions for health insurance from workers’ pay for income and payroll tax purposes and allows itemized deductions against income for medical expenses if expenses exceed 7.5 percent of income. The self-employed can deduct their premiums, but others who buy insurance on the individual market get no tax break on their premiums. The President’s plan replaces existing tax preferences with a new deduction (\$7,500 for individuals, \$15,000 for families) to workers with either employer-provided or individually purchased coverage. (Under the President’s plan, the tax treatment of employers would not change – employer contributions toward health insurance would remain a deductible business expense.) The President’s plan aims to equalize the tax treatment of individually purchased and employer-provided insurance plans. The Administration estimates that a net 8 million of the 47 million uninsured would get coverage under the plan.

Health Inflation Leads to Tax Increases over Time — The Administration estimates that about 80 percent of workers will pay less taxes under the President’s plan to establish a flat deduction, while the 20 percent whose employers provide more than \$15,000 worth of health benefits will see their taxes go up. 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 \$94.1 billion from 2009 through 2013 but increases taxes by \$135 billion in the five years after that (2014-2018).

Affects Social Security Benefits — Low- and middle-income workers would pay lower payroll taxes if they have a health plan valued at less than the deduction limit. However, they would also receive lower Social Security benefits when they retire. The budget includes no information on the long-term effects to these individuals, many of whom rely on Social Security benefits the most.

Expands Flexibility of Health Savings Accounts — The President’s budget also includes \$11.5 billion over ten years to expand the use of Health Savings Accounts (HSAs), which are tax-favored savings vehicles available to individuals covered by high-deductible health plans (HDHPs). The budget expands the definition of HDHPs to include plans with coinsurance rates of at least 50 percent, expands the definition of qualified medical expenses under HSAs, and makes it easier for individuals and their employers to contribute to HSAs under certain circumstances. HSA tax subsidies tilt the playing field in favor of HDHPs relative to other types of insurance. HSAs mainly benefit the healthy and wealthy, since this type of coverage is most attractive to those who have low health care costs and are in higher tax brackets.

Total Plan May Weaken Coverage for Those Who Need It Most — 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, with the potential effect of driving up costs in the employer system and further undermining access to insurance for older, sicker, and poorer individuals. Workers with health problems – even minor ones – find it very difficult to buy coverage on the individual market, because there are inadequate mechanisms for risk-pooling. Currently, the federal government partially subsidizes the care of the uninsured through special Medicare and Medicaid payments to hospitals that serve large numbers of low-income individuals. The Administration supports the concept of redirecting these payments to help individuals with low incomes or in poor health to purchase coverage. The budget does not explain how or whether the federal government would ensure that viable individual markets for affordable health coverage would exist in every region of the country to make up for the loss of compensation to the hospitals that care for the uninsured.

Entitlements and Other Mandatory Spending

The category of federal spending known as mandatory – also called direct spending – refers to programs for which spending is not determined by annual appropriations acts. Mandatory spending includes entitlements to individuals such as Social Security, Medicare, student loans, and food stamps; payment of interest on the public debt; certain payments to states; and any other program where the level of spending is determined by the language of the law that created the program.

President’s Budget Cuts Mandatory Spending by \$618 Billion over Ten Years

— The President’s budget cuts spending on mandatory programs by \$618 billion over ten years (2009-2018) through a combination of service reductions and increases in fees and premiums. Fees and premiums are treated as offsets to spending, so a provision increasing Medicare premiums, for example, would appear as a spending cut. The bulk of the spending cuts – \$556 billion – result from reducing payments to Medicare providers. See *Function 570 (Medicare)* for more information. Other significant mandatory policy changes include \$46.7 billion in legislative cuts to Medicaid, \$18.5 billion from increasing Pension Benefit Guaranty Corporation premiums, and \$15.0 billion in savings from eliminating the Social Services Block Grant.

Mandatory Spending in the President’s Budget, 2009-2018		
<i>(billions of dollars)</i>		
	<u>2009- 2013</u>	<u>2009- 2018</u>
Mandatory Proposals	-217.1	-617.7
Social Security Private Accounts	30.3	647.2
Outlay Effects of Tax Proposals	39.3	110.7

Some Cuts Are Offset by Spending Increases — Within the \$618 billion of mandatory changes, the President’s budget increases spending in a few areas. For example, the budget increases spending for the State Children’s Health Insurance Program by \$50.0 billion over ten years, although this investment of new resources in health is almost completely offset by cuts to Medicaid.

Budget Worsens Deficits and Debt by Diverting Resources to Social Security 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. 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 \$647 billion through 2018, but that figure understates the annual fiscal effect of the plan because the budget assumes implementation of the plan will not begin until 2013, the last year of the President’s five-year

budget window. The plan adds trillions of dollars to the government's publicly held debt over the next six decades.

Effect of Tax Proposals on Mandatory Spending — Some tax policies affect mandatory spending by virtue of their effect on refundable tax credits such as the Earned Income Tax Credit (EITC). These spending effects associated with the President's tax proposals increase mandatory spending in the budget by a total of \$111 billion over ten years. The President's new tax deduction (\$15,000 for a family, \$7,500 for an individual) for the purchase of health insurance has interaction effects that increase EITC spending by \$8.5 billion over ten years. Child Tax Credit spending increases by \$95.9 billion over ten years resulting from extension of the 2003 tax cuts, and EITC spending increases by \$12.6 billion due to extension of marriage penalty relief. Partially offsetting the EITC and Child Tax Credit increases are changes in the eligibility guidelines for the EITC and the Child Tax Credit that have the effect of reducing spending by \$6.3 billion over ten years.

Appropriations Overview

The President's budget continues the pattern of recent budgets, increasing base defense funding by 7.3 percent while at the same time domestic programs are funded well below the level needed to keep pace with inflation. Discretionary totals for years beyond the budget year are once again unrealistic.

Total Funding for Appropriated Programs				
(Budget Authority in Billions of Dollars)				
	2008	Keep pace with 2008	2009 Request	Request v. Keep pace with 2008
Regular Amounts:				
Domestic	410.9	426.2	413.4	-12.8
National Defense	500.2	513.1	536.8	+23.7
International Affairs	34.0	34.8	39.5	+4.7
Total Regular Appropriations	945.1	974.2	989.8	+15.6
Emergency Amounts:*				
Iraq/Afghanistan	197.4	n.a.	70.0	n.a.
Other emergencies	11.3	n.a.	5.8	n.a.
Total Including Emergencies	1,153.8	n.a	1,065.5	n.a.

Notes: 2008 regular amounts are the enacted level, including contingent amounts provided for the Department of Veterans Affairs programs. The 2008 emergency amounts are those enacted plus additional amounts requested in the 2009 budget.

**For the war, Congress has enacted \$89.4 billion for 2008 and the President's budget includes an additional \$108.1 billion for 2008 and \$70.0 billion for 2009. For other 2008 emergencies, Congress has enacted \$11.3 billion and the President's budget includes an additional \$5.8 billion for Corps of Engineers construction.*

Budget Increases Non-Emergency Appropriations Overall but Cuts Domestic Funding — The President's budget provides \$990 billion in regular appropriations for 2009, which is \$15.6 billion above the amount needed to maintain purchasing power at the 2008 level and \$44.6 billion above the \$945 billion in non-emergency funding already provided for 2008. However, as shown in the table above, despite the increase in total appropriations, the President's budget cuts funding for domestic services by \$12.8 billion below the amount needed to maintain purchasing power.

This overall cut includes reductions in many domestic agencies, including the Department of Health and Human Services, the Department of Labor, and the Environmental Protection Agency. Many of the cuts will affect the most vulnerable in our society – children and the elderly – and erode public health, safety, and environmental protection. See *Damaging Cuts and Freezes* for specific details about some of the programs cut by the President's budget.

In contrast, the budget increases appropriations for the other categories of non-emergency discretionary funding: defense funding increases to \$537 billion, which is \$23.7 billion above the amount needed to maintain purchasing power at the 2008 level, and international affairs funding rises to \$39.5 billion, which is \$4.7 billion above that level.

More Emergency Funding for 2008 and 2009 — The budget provides an additional \$108 billion in supplemental emergency funding for 2008 for the wars in Iraq and Afghanistan. However, unlike last year when the budget provided a full war funding request for the budget year, this budget returns to the earlier Administration practice of only providing partial funding (\$70 billion). This does not allow for a full look at the budget’s fiscal imbalance as Congress makes its spending decisions. Under a likely war funding scenario developed by CBO, war funding would total \$161 billion for 2009. For 2009, the budget also provides \$5.8 billion for Corps of Engineers construction related to Hurricane Katrina and other 2005 storms.

Funding for 2009 Through 2013

Domestic Funding Cut Even More Deeply Over Time — As deep as domestic funding cuts are for 2009, they only get more painful over the next four years covered by the President’s budget. The official budget materials assert that there is no policy attached to the funding levels beyond 2009, but clearly a budget that in 2012 provides \$52.7 billion (11.2 percent) less than needed to maintain purchasing power for domestic services will deeply cut many programs.

Domestic Funding Cut Deeply						
(Discretionary Non-Defense, Non-International Budget Authority in Billions of Dollars*)						
	2009	2010	2011	2012	2013	2009-2013
President’s Budget**	413.4	412.5	413.4	415.2	416.3	2,070.9
Maintain 2008 Level	426.2	434.3	445.5	457.1	469.0	2,232.1
Cuts in Budget	-12.8	-21.8	-32.1	-41.9	-52.7	-161.2
Percent Cut in Budget	-3.0%	-5.0%	-7.2%	-9.2%	-11.2%	n.a.

*Excludes emergency funding.

**Excludes FAA proposal, which reduces budget authority from 2010 through 2013. The reduction is related to a change in the financing mechanism for FAA programs, which lowers governmental receipts by a similar amount.

Imposes Defense and Non-Defense Discretionary Funding Caps — Like last year’s budget, the President’s 2009 budget limits total discretionary funding for the next five years. Caps are set separately for defense and non-defense programs for 2008 through 2010; a single cap is set for 2011 through 2013. Caps are at the levels proposed in the budget with one exception. The Administration’s changes to the financing of the Federal Aviation Administration are not

incorporated; upon enactment of the proposal, the caps would be adjusted. Portions of the caps, totaling \$968 million in 2009, are only available for specific program integrity initiatives. Mandatory savings related to two of the initiatives are included in the budget estimates.

Unrealistically Low Outyear Levels Make Proposed Funding Caps Implausible — The budget's caps on discretionary funding are based on the levels in this year's budget through 2013. Similarly, last year the 2008 budget set discretionary caps at the levels in that budget. For 2009, the caps in the 2008 budget would have been \$531 billion for defense and \$433 billion for non-defense programs. The President's current request for 2009 would have exceeded last year's proposed caps by \$5 billion for defense programs and almost \$18 billion for non-defense programs.

Damaging Cuts and Freezes

The President's final budget includes wide-ranging, deep cuts affecting a broad spectrum of services and constituencies. At the same time, the budget includes significant tax cuts and a level of defense spending that is higher than at any point since World War II. Belt tightening is limited to domestic programs – including Medicare, Medicaid, LIHEAP, COPS, and the EPA. It is children and families, seniors, and state and local communities that will bear the brunt of the President's reductions. The following sections provide illustrative examples of the damaging cuts and freezes included in the budget.

Cuts Affecting Children, Families, and the Elderly

Cuts Medicare by \$556 Billion over Ten Years but Does Not Address Wasteful Managed Care Overpayments — The budget includes legislative Medicare spending cuts of \$178 billion over five years and \$556 billion over ten years. Most of these savings come from cutting payments to hospitals and other service providers, but \$25.9 billion comes from requiring more beneficiaries to pay extra premiums based on their income. These provisions are described in further detail in *Function 570 (Medicare)*. While making deep fee-for-service cuts, the budget makes no effort to address the well-documented overpayments to Medicare managed care plans.

\$33.3 Billion in Cuts to Medicaid Over Five Years and \$82.6 Billion Over Ten Years — The budget makes legislative cuts to Medicaid of \$18.6 billion over five years and \$47.9 billion over ten years. It imposes another \$14.7 billion in cuts through regulatory changes over five years and \$34.7 billion over ten years, for total gross cuts of \$33.3 billion over five years and \$82.6 billion over ten years. The budget includes \$1.2 billion in increased Medicaid spending over five years, for a net effect of \$32.1 billion in Medicaid legislative and regulatory cuts over five years and \$81.4 billion over ten years. The new cuts proposed in the budget are on top of the cuts enacted in the measure labeled the Deficit Reduction Act of 2005 (S. 1932), which reduced Medicaid by \$28.3 billion over ten years.

Cuts Low-Income Home Energy Assistance Program (LIHEAP) Despite Rising Energy Costs — The budget cuts total LIHEAP funding by \$570 million below the 2008 level and cuts regular (non-contingency) funding by \$320 million below the level needed to keep pace with inflation. According to the Department of Energy, home heating costs for the average family have increased by almost 80 percent since 2001. The Administration has proposed cuts below the amount needed to maintain current services in six of the past eight years, and the program currently serves only 16 percent of eligible households.

Slashes the Social Services Block Grant (SSBG) — The budget cuts SSBG funding by \$500 million (29.4 percent) in 2009 and completely eliminates it in 2010. This grant provides

states with discretion to use these funds for social services such as child care, child welfare, home-based services, employment services, prevention and intervention programs, and special services for the disabled. Many states depend on the SSBG to help them avoid cuts in social services due to tightening state budgets.

Eliminates Community Services Block Grant — The President's 2009 budget repeats past Administration budgets in eliminating the Community Services Block Grant and three other community services programs, cutting \$698 million for a range of services to reduce poverty and to provide assistance in the areas of housing, health, nutrition, energy, and substance abuse.

Cuts Affecting Public Health and Research and Veterans' Health Care

Cuts Centers for Disease Control and Prevention (CDC) — The budget provides \$5.7 billion for CDC, \$433 million (7.1 percent) below the 2008 level. The budget eliminates the Preventive Health and Social Services Block Grant (\$97 million), and reduces Occupational Safety and Health by \$111 million (25.0 percent) below the 2008 level. These cuts come at a time when there are critical public health needs to be addressed in our nation.

Freezes Funding for National Institutes of Health (NIH) — The budget provides \$29.3 billion for NIH, \$630 million below the amount needed to maintain purchasing power at the 2008 level. Without sufficient resources to cover inflation, NIH will be unable to make critical advances in medical research that lead to improvements in health.

Provides Inadequate Funding for Veterans' Medical Care — The 2009 budget for veterans' medical care is \$38.7 billion, which is a little more than \$2.0 billion above the 2008 level, but the President's budget cuts total veterans funding by a net \$20.0 billion from 2009 to 2013. Because medical care funding is more than 85 percent of total veterans appropriations, it faces large cuts over the five-year period in the President's budget.

Cuts Affecting Communities and Economic Development

State and Local Law Enforcement Assistance Severely Cut — The President's 2009 budget reduces funding for programs that assist state and local governments in combating crime. The Administration's budget eliminates several key programs, such as the State Criminal Alien Assistance Program, the Edward Byrne Memorial Justice Assistance Program, Byrne Discretionary Grants, and Drug Courts, and instead creates two, smaller flexible grant programs. While the 2008 appropriation for the state and local programs totaled \$908 million, excluding emergencies, the 2009 budget provides \$404 million in new funding (a 55.5 percent cut), making communities compete for a much smaller pool of resources.

Community Oriented Policing Services (COPS) Eliminated — The President’s budget eliminates the COPS program. Instead, it consolidates the program into the flexible State and Local Law Enforcement Assistance grants. COPS provides grants and other assistance to help communities hire, train, and retain police officers and to improve law enforcement technologies. In 2008 it received \$587 million.

Environmental Protection Agency (EPA) Funding Cut Again — For 2009, the President’s budget once again cuts EPA funding, providing only \$7.1 billion, a \$330 million (4.4 percent) cut from the 2008 level. As in previous years, the majority of this decrease is attributed to large cuts in grants to states and tribal governments that help protect public health and maintain environmental quality. At a time when many state and local governments are facing difficult economic and budgetary conditions, the budget compounds their challenges by cutting valuable financial assistance for environmental protection efforts.

Surface Transportation Funding Cut Below Authorized Levels — The surface transportation reauthorization included specified funding levels for both the highway and mass transit programs. For 2009, the President’s budget provides \$39.4 billion in obligation limitation for the Federal-Aid Highways Program. This funding level is \$800 million short of the adjusted obligation limitation specified in the reauthorization (highway funding is adjusted down based on updated estimates of revenue into the Highway Trust Fund). Also, in providing \$10.1 billion for mass transit, the budget does not fully fund transit programs. The majority of the \$203 million transit cut comes at the expense of a grant program that assists states in building or extending major mass transit projects. The budget provides \$1.4 billion for safety programs, which includes a shift of \$122 million from the general fund to the Highway Trust Fund.

Federal Aviation Administration (FAA) Funding Cut — The budget limits grants to improve airports to \$2.8 billion, a cut of \$765 million from the 2008 level.

Amtrak Funding Slashed Again — The President’s budget provides only \$800 million in direct assistance for Amtrak, a cut of \$525 million (39.6 percent) from the 2008 level.

Continues Pattern of Cutting the Community Development Block Grant Program — The budget again cuts the Community Development Block Grant (CDBG) program. It provides just \$2.9 billion for 2009, which is \$731 million (19.9 percent) less than is needed to maintain purchasing power at the 2008 level. CDBG, which provides funding for local solutions to challenges like affordable housing, job creation, and economic development, has been reduced by \$1.5 billion since 2001. At the same time the United States has lost over 3 million manufacturing jobs and nearly a million units of affordable housing.

Cuts Funding for Rural Development Programs; Eliminates Rural Low-Income Direct Loan Programs — The budget cuts total rural development funding by 42.9 percent below the level

needed to maintain purchasing power at the 2008 level, eliminating funding for rural empowerment zones and enterprise community grants. The budget also rescinds \$39 million in unspent economic development grant funding and cuts Economic Development Assistance Programs, which are used to generate or retain jobs and attract new private-sector investment, by \$148 million (60.9 percent). The budget also reflects a dramatic alteration in USDA's role in providing housing assistance to low- and very low-income borrowers and renters, eliminating direct lending for single-family home purchases under Section 502 and for multifamily housing development under Section 515 and shifting resources to unsubsidized guaranteed loans.

Homeland Security

The homeland security budget spans approximately 20 agencies, the largest of which are the Department of Homeland Security (51.1 percent of total resources), the Department of Defense (25.8 percent), the Department of Health and Human Services (6.5 percent), and the Department of Justice (5.5 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

The President’s budget includes a total of \$68.5 billion for all homeland security activities for 2009, \$6.7 billion more than the 2008 non-emergency level. These totals include 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 2009 total \$37.3 billion. The 2009 domestic total reflects a \$5.4 billion (16.9 percent) increase above the 2008 non-emergency level, \$2.2 billion of which is an advance appropriation for Project BioShield. When excluding the \$2.2 billion, the increase drops to \$3.2 billion (10.1 percent).¹ Additionally, when including the \$2.7 billion of emergency-designated funding provided in 2008 (mostly for border security), the 2009 increase is smaller – only \$528 million (1.5 percent).

Homeland Security Funding				
(Billions of Dollars)				
	<u>2008</u>	<u>2009</u>	<u>Increase</u>	<u>% Increase</u>
Total Resources	61.8	68.5	6.7	10.8
Mandatory Programs	2.9	3.2	0.4	12.3
Fee-Funded Discretionary Programs	5.3	5.3	0.0	0.1
Net Appropriated Programs:	53.6	59.9	6.3	11.8
<i>National Defense (Function 050)</i>	21.6	22.2	0.5	2.4
<i>International Affairs</i>	0.1	0.5	0.4	509.6
<i>Domestic Discretionary (Excl. Emergency)</i>	31.9	37.3	5.4	16.9
<i>Domestic Discretionary (Less BioShield)</i>	31.9	35.1	3.2	10.1
<i>Domestic Disc. (Inc. Emergencies/Less BioShield)</i>	34.5	35.1	0.5	1.5

All numbers are based on OMB estimates. Numbers may not add exactly due to rounding.

¹ In 2004, Congress appropriated \$5.6 billion for Project BioShield to cover ten years of the program – \$3.4 billion from 2004 through 2008, and \$2.2 billion from 2009 through 2013. Therefore, to get an apples-to-apples comparison of homeland security resources, it is necessary to exclude this funding.

Program Highlights

Project BioShield — The budget reflects \$2.2 billion for Project BioShield, funding that was appropriated in 2004, but not made available until 2009. This funding will finance initiatives to bolster medical countermeasures in preparation against chemical, biological, radiological, and nuclear attacks. Efforts include pre-purchasing vaccines and medications to be placed in the Strategic National Stockpile. In 2004, Congress appropriated \$5.6 billion for Project BioShield to cover ten years of the program – \$3.4 billion from 2004 through 2008, and \$2.2 billion from 2009 through 2013.

First Responders — The budget includes a total of \$1.3 billion within the Department of Homeland Security for first responder funding, which is \$1.1 billion (46.1 percent) less than the amount enacted for 2008 and \$1.2 billion (47.2 percent) below the amount needed to keep pace with inflation. Within this total cut, the budget decreases State Homeland Security grants by \$708 million, Urban Area Security Initiative grants by \$12 million, and Firefighter Assistance grants by \$465 million. For the Department of Justice, the budget eliminates the Byrne Justice Assistance grant program and the Community Oriented Policing Services (COPS) program. (See *Function 750* for a detailed discussion.)

First Responders

(Millions of Dollars)

	2008	2009	2009	Cut	
	Enacted	Inflation	Request	Below	
		Adj. Level		Inflation	Percent
				Adj. Level	
<u>Department of Homeland Security</u>					
State Homeland Security Program	890	908	200	-708	-78.0%
Urban Area Security Initiative	820	837	825	-12	-1.4%
Firefighters Assistance Grants	<u>750</u>	<u>765</u>	<u>300</u>	<u>-465</u>	<u>-60.8%</u>
Subtotal	2,460	2,510	1,325	-1,185	-47.2%
<u>Department of Justice</u>					
Byrne Grants	170	173	0	-173	-100.0%
Community Oriented Policing Services	<u>587</u>	<u>596</u>	<u>0</u>	<u>-596</u>	<u>-100.0%</u>
Subtotal	757	769	0	-769	-100.0%
Total	3,217	3,279	1,325	-1,954	-59.6%

Note: While the budget deleted funds for the Byrne Grant program, the budget includes \$200 million for a new program called "Byrne Public Safety and Protection Program." However, it is not clear whether this program will provide similar assistance to that provided under the Byrne Grant Program.

Port Security Grants — 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 2009 budget provides \$210 million for port security grants, a \$190 million cut below the enacted level for 2008. The Security and Accountability for Every (SAFE) Port Act of 2006 authorized \$400 million per year for the port security grant program. The Coast Guard estimated that basic security measures such as installing fencing, lighting, and surveillance cameras at our ports will cost more than \$5 billion over ten years.

Customs and Border Protection — The budget includes \$9.5 billion in appropriated funding for U.S. Customs and Border Protection at the Department of Homeland Security, \$1.6 billion (20.6 percent) more than the 2008 non-emergency level. When comparing the budget to the 2008 level including emergency-designated funding, it reflects a much smaller increase – \$88 million (0.9 percent). Most of the increased funding is for hiring, training, and equipping new border patrol agents. This increase is partially offset by a decrease in funding for the Secure Border Initiative (SBI). For 2009, the President's budget includes \$775 million for SBI – a \$450 million decrease from the 2008 level.

Transportation Security Agency (TSA) — The budget includes \$6.4 billion in total resources (including fees) for TSA, an increase of \$106 million (1.7 percent) above the 2008 enacted level. However, when excluding fees the budget reflects a reduction of \$61 million (1.5 percent). The budget also eliminates the Federal Air Marshals program as a stand-alone line item and merges it within the Aviation Security program.

Budget Process Proposals

The President's budget includes process reforms similar to those offered in the past. The major proposed reforms, as listed below, would have long-term consequences if enacted.

Budget Enforcement for Entitlements Ignores Impact of Revenue Losses — The Administration proposes several rules addressing the impact of mandatory spending on the deficit and the long-term obligations of major entitlement programs. Unlike the Budget Enforcement Act of 1990, these rules do not attempt to control revenue reductions, thereby opening the door to fiscal irresponsibility. The proposed rules are summarized below.

- ***One-Sided Pay-As-You-Go (PAYGO) Rule*** — Although the Administration first proposed a statutory extension of PAYGO in 2001 that applied to both taxes and spending, the 2009 budget applies PAYGO to mandatory spending only. Under this proposal, mandatory increases that are not offset by mandatory spending cuts would result in sequestration of direct spending programs. However, there would be no enforcement against tax cuts that are not offset.
- ***Congressional Procedural Hurdle for Expansions in Entitlement Programs*** — The budget proposes a point of order against legislation that expands major entitlement programs including Social Security, Medicare, federal civilian and military retirement, veterans disability compensation, and Supplemental Security Income. Other entitlement programs would be included once actuarial estimates are available for those programs. The budget proposes a rule requiring the Administration to report on any enacted legislation that expands the programs covered by the new point of order.
- ***Automatic Cuts in Payments to Medicare Providers*** — The budget proposes a rule that would impose automatic cuts to Medicare once trustees issue a warning that general revenue Medicare funding is expected to exceed 45 percent of Medicare's total expenditures. Under the proposal, payments to providers would be cut by four-tenths of one percent in the year the threshold is exceeded unless Congress has taken applicable action first and would continue to be cut by an additional four-tenths of one percent every year the threshold continues to be breached.
- ***Funding Warning for Social Security Disability Insurance (DI)*** — The budget proposes a new funding warning to highlight fiscal problems facing DI. If the Social Security Administration actuaries project a negative cash flow that is more than 10 percent of program costs for four consecutive years in the upcoming 10 years, the Board of Trustees will issue a warning in its annual report.

Discretionary Spending Caps — The Administration proposes to reinstate discretionary spending caps for years 2008 through 2013 at levels of appropriations in the President's budget. The budget proposes separate defense and non-defense caps for years 2008 through 2010 and separate outlay categories for Federal Highway and Mass transit programs for 2008 and 2009. In addition, the budget creates a separate category for Project BioShield. A portion of the cap

would be protected for specific program integrity funding. For more discussion on these caps and appropriated levels in the President's budget, see *Appropriations Overview*.

Assumed Extension of the Administration's Tax Agenda — The budget proposes that CBO and OMB assume in their baselines the extension of all tax cuts expiring under the Economic Growth and Tax Relief Reconciliation Act of 2001, and certain tax provisions expiring under the Jobs and Growth Tax Relief Reconciliation Act of 2003. Under the Budget Enforcement Act, these tax provisions expire in the baseline at the time they expire in law.

Emergency Designations and Baseline Exclusions — The budget proposes to include provisions in the Budget Enforcement Act that define emergencies as “necessary, sudden, urgent, and unforeseen.” The budget would exclude discretionary funding for emergencies from the baseline. Under the proposal, the President would have to agree to the designation before it would take effect.

Earmark Reform — While the President's budget recognizes the 110th Congress made some progress by enacting rules requiring disclosure of earmarks, the budget states that the reduction in and transparency of earmarks remains a priority for the Administration.

Credit Reform Initiative — The budget proposes that the Administration, in conjunction with Congressional Committees, CBO and GAO, address the following issues relating to budgetary accounting for Federal credit programs: scope of the Federal Credit Reform Act; treatment of administrative costs in credit program estimates; improvements for making credit subsidy cost estimates; and treatment of financial risk insurance programs.

Review of Treatment of Federal Insurance Programs — The budget proposes to adopt implementation of accrual budgeting for insurance programs.

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. It is an internal blueprint for Congressional budget decisions. The Administration proposes that Congress enact a joint budget resolution that would require the President's signature and be enforced by sequestration. Sequestration would require across-the-board cuts to offset spending above the budget totals.

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. However, the President's 2009 budget provides details for only one year, thus making biennial budgeting impossible under the Administration's plan. In addition, this proposal does not address a process for updating economic and budget projections.

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. Again this year, the budget proposes to create a constitutional line-item veto. The initiative would grant the President authority to propose rescissions of new spending only, not targeted tax benefits. Congress would then be required to vote on the rescissions under expedited provisions that do not allow for consideration of amendments. The budget does not address the number of rescissions the President may send forward in any year, the extent to which the President may resubmit proposals previously rejected by the Congress, or the authority of the President to withhold funds pending Congressional consideration of rescission proposals. The budget states that savings from line item veto provisions would be applied to deficit reduction.

Automatic Continuing Resolution — An automatic continuing resolution prevents a government shut-down in the event that Congress does not enact regular or temporary appropriations at the beginning of a fiscal year. The budget proposes automatic funding at the lower of either its proposed funding levels or the funding levels enacted the previous year.

Results and Sunset Commissions — The budget proposes Results Commissions and a Sunset Commission to evaluate the restructuring, consolidation, or termination of existing programs. Recommendations of the Commissions would be considered in Congress under expedited procedures.

Original President's Budget

Function Totals

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Five Year</u>
Budget Authority	3,013.088	3,025.590	3,064.367	3,192.328	3,266.881	3,438.114	15,987.280
Outlays	2,931.222	3,107.355	3,091.340	3,171.233	3,221.828	3,398.886	15,990.642
Revenue	2,521.175	2,699.947	2,931.348	3,076.423	3,269.878	3,428.235	15,405.831
Surplus (+)/Deficit (-)	-410.047	-407.408	-159.992	-94.810	48.050	29.349	-584.811
Debt Held by the Public	5,429	5,856	6,031	6,140	6,110	6,097	
Debt Subject to Limit	9,625	10,386	10,928	11,432	11,845	12,256	
050 National Defense							
Budget authority	693.214	611.131	549.774	556.292	565.135	575.643	2,857.975
Outlays	607.263	675.084	590.357	560.748	563.67	572.142	2,962.001
150 International Affairs							
Budget authority	39.465	38.441	39.363	40.041	40.943	41.346	200.134
Outlays	34.826	38.027	37.408	38.71	39.352	39.266	192.763
250 General Science, Space							
Budget authority	27.407	29.555	30.78	32.08	33.449	34.884	160.748
Outlays	27.631	29.170	29.661	30.678	32.437	33.685	155.631
270 Energy							
Budget authority	2.823	3.113	3.09	3.071	2.934	2.557	14.765
Outlays	3.005	3.104	2.914	3.055	2.968	2.6	14.641
300 Natural Resources and Environment							
Budget authority	33.045	35.456	27.844	29.182	30.004	29.607	152.093
Outlays	35.549	35.546	31.206	32.943	30.99	29.866	160.551
350 Agriculture							
Budget authority	18.706	19.976	19.29	19.098	19.137	18.813	96.314
Outlays	20.967	19.070	18.354	18.113	17.959	17.547	91.043
370 Commerce and Housing Credit							
Budget authority	9.304	13.375	15.467	10.546	10.502	8.085	57.975
Outlays	7.361	4.182	4.612	0.817	-0.252	-0.192	9.167
400 Transportation							
Budget authority	76.318	70.338	75.717	76.198	76.448	76.711	375.412
Outlays	80.268	83.901	71.71	67.82	65.957	66.02	355.408
450 Community and Regional Development							
Budget authority	19.804	11.280	11.127	11.293	11.345	11.324	56.369
Outlays	27.601	23.345	19.25	15.066	12.8	11.872	82.333
500 Education, Training, Employment, and Social Services							
Budget authority	91.729	87.891	89.088	89.865	92.115	87.065	446.024
Outlays	93.389	88.313	89.37	89.353	89.62	90.003	446.659
550 Health							
Budget authority	286.032	297.008	315.347	335.236	356.088	379.628	1,683.307
Outlays	284.499	299.393	314.061	331.004	352.181	375.037	1,671.676
570 Medicare							
Budget authority	402.918	413.491	427.529	460.625	454.518	504.927	2,261.090
Outlays	396.333	413.324	427.608	460.365	454.193	504.958	2,260.448
600 Income Security							
Budget authority	383.556	402.229	414.277	428.253	425.409	439.318	2,109.486
Outlays	388.440	401.711	412.164	423.208	420.293	433.44	2,090.816
650 Social Security							
Budget authority	617.903	652.455	689.754	728.791	772.489	851.603	3,695.092
Outlays	615.256	649.332	686.689	725.468	768.681	847.38	3,677.550
700 Veterans							
Budget authority	87.963	91.275	93.966	97.385	100.767	103.529	486.922
Outlays	86.618	91.875	93.691	100.434	95.947	102.87	484.817
750 Administration of Justice							
Budget authority	46.423	47.288	47.488	48.292	48.759	49.235	241.062
Outlays	46.202	51.143	48.859	48.294	48.617	49.035	245.948
800 General Government							
Budget authority	20.300	22.034	25.877	22.113	22.191	21.89	114.105
Outlays	19.809	21.534	24.839	21.191	21.768	21.41	110.742
900 Net Interest							
Budget authority	243.920	260.232	279.983	293.537	299.872	302.467	1,436.091
Outlays	243.947	260.231	279.982	293.536	299.871	302.466	1,436.086
920 Allowances							
Budget authority	0.000	-0.543	-0.52	-0.528	-0.53	-0.531	-2.652
Outlays	0.000	-0.495	-0.521	-0.528	-0.53	-0.532	-2.606
950 Undistributed Offsetting Receipts							
Budget authority	-87.742	-80.435	-90.874	-89.042	-94.694	-99.987	-455.032
Outlays	-87.742	-80.435	-90.874	-89.042	-94.694	-99.987	-455.032

Original President's Budget
DISCRETIONARY

	2008	2009	2010	2011	2012	2013	Five Year
Budget Authority	1,153.798	1065.513	990.484	998.352	1009.646	1021.650	5,085.645
Outlays	1,136.505	1211.532	1100.487	1059.366	1055.607	1062.162	5,489.154
NDD BA	464.031	458.717	445.069	446.514	449.080	450.620	2,250.000
NDD Outlays	532.817	540.817	514.515	503.092	496.525	494.650	2,549.599
Domestic BA	422.199	419.203	404.797	405.556	407.276	408.457	2,045.289
Domestic Outlays	494.377	500.294	474.691	461.876	454.691	452.909	2,344.461
050 National Defense							
Budget authority	689.767	606.796	545.415	551.838	560.566	571.030	2,835.645
Outlays	603.688	670.715	585.972	556.274	559.082	567.512	2,939.555
150 International Affairs							
Budget authority	41.832	39.514	40.272	40.958	41.804	42.163	204.711
Outlays	38.440	40.523	39.824	41.216	41.834	41.741	205.138
250 General Science, Space							
Budget authority	27.282	29.430	30.655	31.955	33.324	34.759	160.123
Outlays	27.434	29.017	29.525	30.546	32.309	33.560	154.957
270 Energy							
Budget authority	4.946	4.492	4.300	4.380	4.782	4.764	22.718
Outlays	4.959	4.742	4.668	4.568	4.978	4.962	23.918
300 Natural Resources and Environment							
Budget authority	31.737	34.647	27.973	28.204	28.078	27.972	146.874
Outlays	34.980	35.167	31.586	31.927	29.043	28.585	156.308
350 Agriculture							
Budget authority	6.477	5.714	5.577	5.637	5.625	5.619	28.172
Outlays	9.521	6.082	5.876	5.829	5.632	5.610	29.029
370 Commerce and Housing Credit							
Budget authority	3.047	3.974	6.654	1.823	1.429	1.506	15.386
Outlays	3.050	3.834	5.893	2.769	1.414	1.404	15.314
400 Transportation							
Budget authority	27.291	23.397	19.022	19.261	19.433	19.622	100.735
Outlays	78.122	81.463	69.257	65.388	63.503	63.406	343.017
450 Community and Regional Development							
Budget authority	20.310	11.462	11.289	11.439	11.467	11.497	57.154
Outlays	27.789	23.547	19.440	15.237	12.948	12.058	83.230
500 Education, Training, Employment, and Social Services							
Budget authority	79.771	79.545	78.562	79.621	80.144	80.071	397.943
Outlays	82.668	81.214	80.255	79.380	79.735	80.102	400.686
550 Health							
Budget authority	53.359	54.854	50.993	51.528	51.464	51.391	260.230
Outlays	54.340	55.238	53.539	52.184	52.292	52.080	265.333
570 Medicare							
Budget authority	4.915	5.425	5.230	5.289	5.263	5.239	26.446
Outlays	5.022	5.414	5.197	5.239	5.222	5.207	26.279
600 Income Security							
Budget authority	52.317	54.058	52.521	52.822	52.581	52.301	264.283
Outlays	58.589	58.357	56.991	56.142	54.680	53.050	279.220
650 Social Security							
Budget authority	4.979	5.233	5.200	5.313	5.287	5.261	26.294
Outlays	4.900	5.202	5.224	5.307	5.289	5.265	26.287
700 Veterans							
Budget authority	43.268	44.917	42.884	43.157	42.845	42.459	216.262
Outlays	41.866	44.374	42.699	42.636	42.295	41.842	213.846
750 Administration of Justice							
Budget authority	45.401	44.140	46.227	47.067	47.569	48.091	233.094
Outlays	43.774	48.393	47.121	46.967	47.503	47.982	237.966
800 General Government							
Budget authority	17.099	18.390	18.166	18.520	18.443	18.360	91.879
Outlays	17.363	18.677	17.877	18.217	18.306	18.252	91.329
900 Net Interest							
Budget authority	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Outlays	0.000	0.000	0.000	0.000	0.000	0.000	0.000
920 Allowances							
Budget authority	0.000	-0.475	-0.456	-0.460	-0.458	-0.455	-2.304
Outlays	0.000	-0.427	-0.457	-0.460	-0.458	-0.456	-2.258
950 Undistributed Offsetting Receipts							
Budget authority	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Outlays	0.000	0.000	0.000	0.000	0.000	0.000	0.000

NOTE: Totals and Function 550 amounts include Bioshield

Original President's Budget
MANDATORY ONLY

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Five Year</u>
Budget Authority	1,859.287	1,960.077	2,073.883	2,193.976	2,257.235	2,416.464	10,901.635
Outlays	1,794.714	1,895.823	1,990.853	2,111.867	2,166.221	2,336.724	10,501.488
BA without Interest	1,615.367	1,699.845	1,793.900	1,900.439	1,957.363	2,113.997	9,465.544
Outlays without Interest	1,550.767	1,635.592	1,710.871	1,818.331	1,866.350	2,034.258	9,065.402
050 National Defense							
Budget authority	3.447	4.335	4.359	4.454	4.569	4.613	22.330
Outlays	3.575	4.369	4.385	4.474	4.588	4.630	22.446
150 International Affairs							
Budget authority	-2.367	-1.073	-0.909	-0.917	-0.861	-0.817	-4.577
Outlays	-3.614	-2.496	-2.416	-2.506	-2.482	-2.475	-12.375
250 General Science, Space							
Budget authority	0.125	0.125	0.125	0.125	0.125	0.125	0.625
Outlays	0.197	0.153	0.136	0.132	0.128	0.125	0.674
270 Energy							
Budget authority	-2.123	-1.379	-1.210	-1.309	-1.848	-2.207	-7.953
Outlays	-1.954	-1.638	-1.754	-1.513	-2.010	-2.362	-9.277
300 Natural Resources and Environment							
Budget authority	1.308	0.809	-0.129	0.978	1.926	1.635	5.219
Outlays	0.569	0.379	-0.380	1.016	1.947	1.281	4.243
350 Agriculture							
Budget authority	12.229	14.262	13.713	13.461	13.512	13.194	68.142
Outlays	11.446	12.988	12.478	12.284	12.327	11.937	62.014
370 Commerce and Housing Credit							
Budget authority	6.257	9.401	8.813	8.723	9.073	6.579	42.589
Outlays	4.311	0.348	-1.281	-1.952	-1.666	-1.596	-6.147
400 Transportation							
Budget authority	49.027	46.941	56.695	56.937	57.015	57.089	274.677
Outlays	2.146	2.438	2.453	2.432	2.454	2.614	12.391
450 Community and Regional Development							
Budget authority	-0.506	-0.182	-0.162	-0.146	-0.122	-0.173	-0.785
Outlays	-0.188	-0.202	-0.190	-0.171	-0.148	-0.186	-0.897
500 Education, Training, Employment, and Social Services							
Budget authority	11.958	8.346	10.526	10.244	11.971	6.994	48.081
Outlays	10.721	7.099	9.115	9.973	9.885	9.901	45.973
550 Health							
Budget authority	232.673	242.154	264.354	283.708	304.624	328.237	1,423.077
Outlays	230.159	244.155	260.522	278.820	299.889	322.957	1,406.343
570 Medicare							
Budget authority	398.003	408.066	422.299	455.336	449.255	499.688	2,234.644
Outlays	391.311	407.910	422.411	455.126	448.971	499.751	2,234.169
600 Income Security							
Budget authority	331.239	348.171	361.756	375.431	372.828	387.017	1,845.203
Outlays	329.851	343.354	355.173	367.066	365.613	380.390	1,811.596
650 Social Security							
Budget authority	612.924	647.222	684.554	723.478	767.202	846.342	3,668.798
Outlays	610.356	644.130	681.465	720.161	763.392	842.115	3,651.263
700 Veterans							
Budget authority	44.695	46.358	51.082	54.228	57.922	61.070	270.660
Outlays	44.752	47.501	50.992	57.798	53.652	61.028	270.971
750 Administration of Justice							
Budget authority	1.022	3.148	1.261	1.225	1.190	1.144	7.968
Outlays	2.428	2.750	1.738	1.327	1.114	1.053	7.982
800 General Government							
Budget authority	3.201	3.644	7.711	3.593	3.748	3.530	22.226
Outlays	2.446	2.857	6.962	2.974	3.462	3.158	19.413
900 Net Interest							
Budget authority	243.920	260.232	279.983	293.537	299.872	302.467	1,436.091
Outlays	243.947	260.231	279.982	293.536	299.871	302.466	1,436.086
920 Allowances							
Budget authority	-0.003	-0.068	-0.064	-0.068	-0.072	-0.076	-0.348
Outlays	-0.003	-0.068	-0.064	-0.068	-0.072	-0.076	-0.348
950 Undistributed Offsetting Receipts							
Budget authority	-87.742	-80.435	-90.874	-89.042	-94.694	-99.987	-455.032
Outlays	-87.742	-80.435	-90.874	-89.042	-94.694	-99.987	-455.032

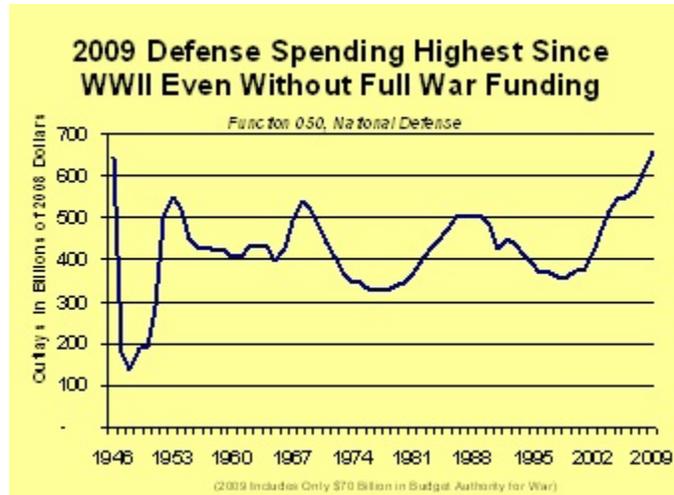
Function 050: National Defense

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 2009 budget includes \$607 billion for Function 050 (National Defense) – \$537 billion for non-war related national defense appropriated activities and \$70 billion as a placeholder for the wars in Iraq and Afghanistan. Of the non-war amount, \$515 billion is for DoD, \$16.1 billion is for the nuclear weapons-related activities of DoE, and \$5.2 billion is for miscellaneous national security activities in other agencies such as the Federal Bureau of Investigation and the Coast Guard.

National Defense (Function 050)				
Budget Authority in Billions of Dollars				
	<u>2008</u>	<u>2009</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Discretionary (Excl. War)				
Department of Defense	479.5	515.4	36.0	7.5
Atomic Energy Activities	15.3	16.1	0.8	5.5
Other Defense Activities	<u>5.4</u>	<u>5.2</u>	<u>-0.2</u>	<u>-3.6</u>
Total Discretionary (Excl. War)	500.2	536.8	36.6	7.3
War Funding	189.6	70.0	-119.6	-63.1
Total Discretionary (Incl. War)	689.8	606.8	-83.0	-12.0
Mandatory	3.4	4.3	0.9	25.8
Total Function 050 (Excl. War)	503.7	541.1	37.5	7.4
Total Function 050 (Incl. War)	693.2	611.1	-82.1	-11.8

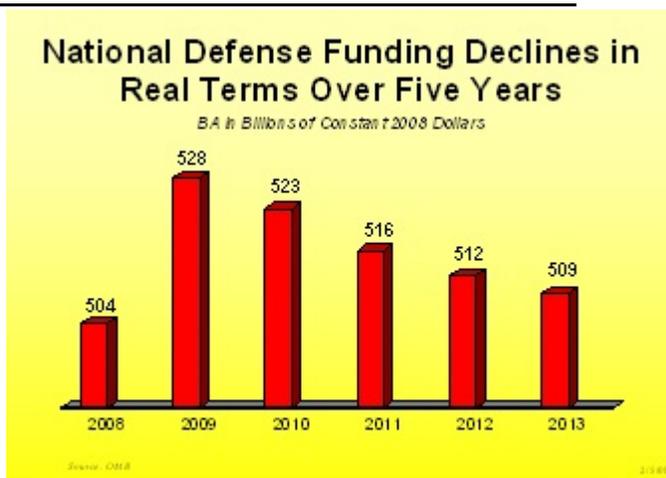
2009 Defense Spending Highest Since World War II — Spending (outlays) on national defense totals \$675 billion in 2009 and measured in constant 2008 dollars (\$658 billion) ranks as the largest defense budget since World War II, surpassing the peak spending years of both the Vietnam and Korean wars. Spending reaches this high level even though the budget includes only \$70 billion in new budget authority to finance a portion of the total cost of the nation’s deployments in Iraq and Afghanistan in 2009. Spending in 2009 will increase above this level once war costs for the full year are realized.



Non-War Funding Reflects \$21.2 Billion Change Since Last Budget Submission — Funding levels for national defense, excluding emergency funding, increase by \$21.2 billion as compared with the outyear projections of the 2008 budget. For 2009, the President’s budget includes a \$5.2 billion increase above last year’s submission. While a \$21.2 billion increase in the defense top line is significant, it actually represents a slowdown in defense increases. Last year’s budget included a top line increase of more than \$100 billion over five years.

Comparison with 2008 President’s Budget for National Defense						
Discretionary Budget Authority in Billions of Dollars						
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total 2009-13</u>
FY 2008 Budget	531.6	542.0	548.0	556.9	565.9	2,765.6
FY 2009 Budget	<u>536.8</u>	<u>545.4</u>	<u>551.8</u>	<u>560.6</u>	<u>571.0</u>	<u>2,744.4</u>
Change	+5.2	+3.4	+3.8	+3.7	+5.2	+21.2

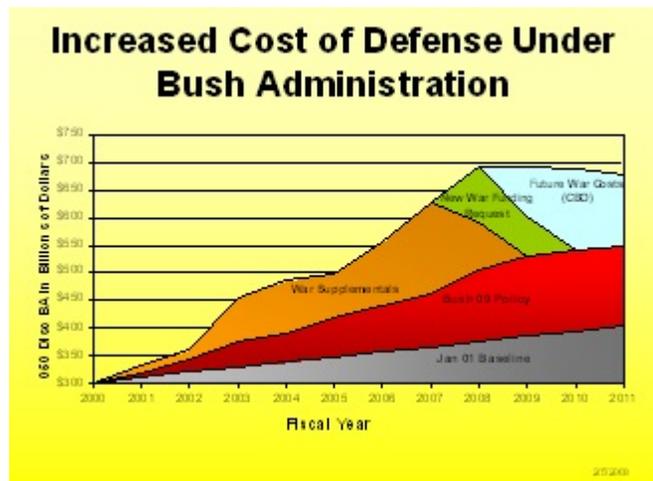
In Constant Dollars, Defense Increases in 2009 but Then Declines — The President’s budget includes \$541 billion (\$528 billion in constant 2008 dollars) for the “base,” or non-war, defense budget for discretionary and mandatory programs. This represents an increase of \$37.5 billion (7.4 percent) above the 2008 enacted level. However, looking beyond the budget year, defense funding tapers off in real terms. By 2013, the budget reflects a 3.6 percent cut below



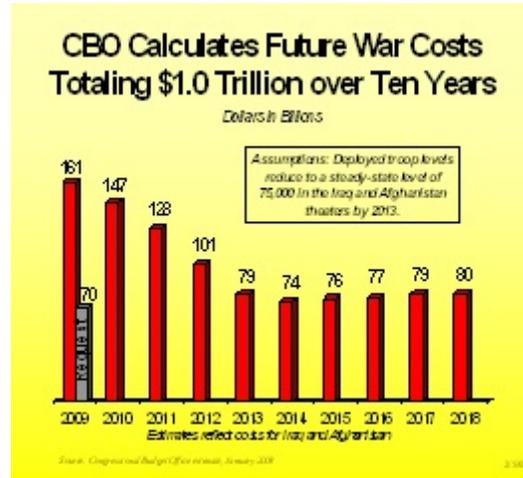
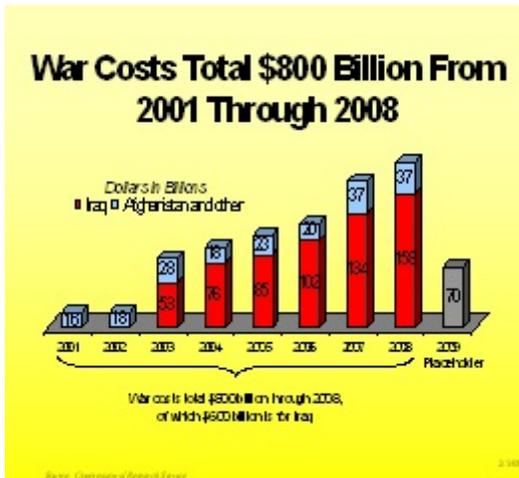
the level needed to keep pace with the 2009 current services level. However, this level still represents 1.0 percent real growth above the 2008 enacted level.

Defense Increases Under the Administration

— The outyear slowdown in non-war defense spending comes after a period of unprecedented growth in the defense budget over the last seven years. The chart shows the increase in the defense budget from \$301 billion in 2000 to \$552 billion for 2011, which does not include war funding. If CBO’s projection of likely war costs are included, funding could increase to \$680 billion by 2011, doubling the amount for defense in just ten years.



War Costs Grow Even With Only Partial Request for 2009 — The budget includes a request of \$70 billion for military operations in Iraq and Afghanistan, which the Administration acknowledges is just a placeholder level that will not fund the full cost its policy for 2009. To date, including the Administration’s full 2008 war request, the cost of the wars has been \$800 billion, and including the 2009 request makes brings that total to \$870 billion. According to a CBO scenario that assumes deployed troop levels in the Iraq and Afghanistan theaters will reduce to a steady-state level of 75,000 by 2013, costs over the next ten years could run to \$1 trillion – which would bring the total to \$1.8 trillion.



The Department of Defense

Military End Strength — The budget includes \$20.5 billion, an increase of \$8.7 billion above the 2008 enacted level, to increase personnel levels for the Army and the Marine Corps by 7,000 and 5,000, respectively. This is one of a series of planned troop and marine increases that began in 2007 to increase the size of the military by 92,000 by 2011.

Retired Military Health Benefits — The budget for the third year in a row increases enrollment fees and deductibles under Tricare for military retirees under the age of 65. This proposal generates savings of \$1.2 billion for 2009 and \$15.9 billion over five years.

Military Pay and Benefits — The budget includes a 3.4 percent military pay raise (equal to the Employment Cost Index [ECI]) totaling \$2.7 billion and a 2.9 percent pay increase for the civilian workforce (equal to ECI minus 0.5 percent) totaling \$1.9 billion. Congress has repeatedly rejected similar proposals to provide smaller pay raises to civilian employees.

Department of Defense by Title — The following table compares the President’s base budget request with both the 2008 enacted level and the level that is needed to maintain purchasing power at the 2008 level (the “Inflation-Adjusted” column).

The DoD “Base” Budget by Title: Comparisons with the 2008 Enacted Level and the Level Needed to Maintain Purchasing Power, Excluding War Funds							
Discretionary Budget Authority in Billions of Dollars							
	Enacted 2008	2009 Budget	Dollar Change	Percent Change	Inflation Adjusted 2008	Dollar Change	Percent Change
Personnel	116.5	125.2	8.8	7.5	120.1	5.1	4.2
O&M	164.2	179.8	15.6	9.5	168.7	11.1	6.6
Procurement	99.0	104.2	5.2	5.3	101.0	3.2	3.2
RDT&E	76.5	79.6	3.1	4.0	78.3	1.4	1.7
Mil Construction	17.8	21.2	3.4	19.3	18.1	3.1	16.9
Family Housing	2.9	3.2	0.3	11.7	2.9	0.3	9.5
Other DoD	<u>2.7</u>	<u>2.2</u>	<u>-0.5</u>	<u>-19.3</u>	<u>2.8</u>	<u>-0.6</u>	<u>-21.9</u>
Total DoD	479.5	515.4	35.9	7.5	491.9	23.5	4.8

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 \$8.8 billion (7.5 percent) above the 2008 enacted level, and is \$5.1 billion above the level needed to maintain purchasing power at the 2008 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 \$15.6 billion (9.5 percent) above the 2008 enacted level, and \$11.1 billion (6.6 percent) above the level needed to maintain purchasing power at the 2008 level.

Procurement — The budget includes \$104 billion for procurement of weapons systems and military equipment including aircraft, ships, vehicles, and satellites. This level is \$5.2 billion (5.3 percent) more than the 2008 enacted level, and is \$3.2 billion (3.2 percent) above the amount needed to maintain purchasing power at the 2008 level.

Research and Development — The budget includes \$79.6 billion for research, development, test, and evaluation programs (RDT&E). This level is \$3.1 billion above the 2008 enacted level and \$1.4 billion (1.7 percent) above the amount needed to maintain purchasing power at the 2008 level.

Military Construction — These accounts fund the facilities where military personnel work and the barracks where single enlisted personnel live. The 2009 funding level of \$21.2 billion for construction of new facilities in the budget is \$3.4 billion (19.3 percent) above the 2008 enacted level, and is \$3.1 billion (16.9 percent) above the amount needed to maintain purchasing power at the 2008 level. Of this increase, \$1.9 billion is for implementation of base realignment and closure (BRAC) decisions.

Selected Program Highlights

Ballistic Missile Defense — The budget includes \$10.4 billion for ballistic missile defense programs, an increase of \$858 million (9.0 percent) above the 2008 enacted level. The 2009 budget continues the production of additional ground- and sea-based interceptors and supports the production and fielding of forward-deployed radars.

Shipbuilding — The budget includes procurement of eight new ships in the shipbuilding budget. They include: one Virginia class submarine, one DDG-1000 destroyer, two littoral combat ships, two auxiliary cargo ships (T-AKEs), and two joint high speed vessels (one of which is for the Army). However, the budget includes only a portion of the full cost of the DDG-1000 destroyer. Future budgets will need to include funds to complete the ship.

DoD Nonproliferation — The bulk of U.S. nonproliferation funding is within DoE, but the DoD budget includes the Cooperative Threat Reduction program, often called the “Nunn-Lugar” program (named after its primary legislative sponsors, former Senator Sam Nunn and Senator Richard Lugar). The Nunn-Lugar program focuses on the dismantling of nuclear missiles and chemical weapons. The budget includes \$414 million for the Nunn-Lugar program, which is \$12 million (2.8 percent) below the 2008 enacted level, and \$21 million below the level needed to maintain current services.

Atomic Energy Defense Activities

The budget provides \$16.1 billion for the nuclear weapons-related activities of DoE and other agencies. This is \$835 million (5.5 percent) above the 2008 level. It is \$515 million (3.3 percent) above the amount needed to maintain purchasing power at the 2008 level.

Nuclear Nonproliferation Programs — DoE oversees several important programs to stop the spread of nuclear materials to terrorist groups and nations that are of concern to the United States. Most of these programs are focused on stopping the spread of materials located in Russia and other states of the former Soviet Union. The budget provides \$1.2 billion for these programs for 2009, which is \$411 million below the 2008 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 \$320 million (5.1 percent) more than the 2008 level.

Cleanup of Former Weapons Production Sites — The budget provides \$5.3 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 \$53 million (1.0 percent) below the 2008 level.

Function 150: International Affairs

Function 150 covers funding for 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 payments to international organizations; and contributing to international peacekeeping efforts. This funding constitutes about one percent of the federal budget. The major agencies in this function include the Department of State and the U.S. Agency for International Development.

For 2009, the President's budget provides \$39.5 billion in non-emergency funding for appropriated international affairs programs, an increase of \$5.5 billion (16.1 percent) above the 2008 level. The budget does not include any emergency supplemental funding related to overseas military deployments for 2009. Congress has appropriated \$2.4 billion in emergency appropriations for international affairs for 2008.

Key Administration Initiatives

Global HIV/AIDS Relief— The budget includes \$5.1 billion for global HIV/AIDS relief programs in this budget function, \$112 million (2.2 percent) more than 2008. (The budget includes another \$300 million for HIV/AIDS relief in the budget for the National Institutes of Health, which is in Function 550 [Health].) Since 2004, Congress has appropriated almost \$20 billion for HIV/AIDS relief, almost \$5 billion more than the initial authorization for the President's Emergency Plan for AIDS Relief (PEPFAR). The President proposes that the United States provide \$30 billion in HIV/AIDS relief funding over the next five years.

Millennium Challenge Corporation — The budget includes \$2.2 billion for the Millennium Challenge Corporation (MCC), \$681 million (44.1 percent) above the 2008 level of \$1.5 billion. MCC's appropriations since its inception in 2004 total \$7.5 billion. MCC funds are available to countries with low and moderate per capita incomes. Countries receive MCC funds based on their performance on 17 economic and performance indicators grouped in three clusters: governance, investments in health and education, and economic policy. MCC has signed compacts, or agreements, with 15 countries and projects that it will sign compacts with up to five other countries in 2008. In recent years, billions of dollars in funding for MCC from previous years remained unspent.

International Clean Technology Fund — The budget includes \$400 million for a new fund to help developing countries increase their use of efficient and renewable energy technologies. The President proposes that the United States provide \$2 billion over the next three years.

International Security Assistance

Foreign Military Financing — The budget provides \$4.8 billion in non-emergency funding for Foreign Military Financing (FMF), \$362 million (8.1 percent) more than 2008. The top recipients of FMF aid are Israel (\$2.6 billion), Egypt (\$1.3 billion), Pakistan (\$300 million), and Jordan (\$235 million). The United States signed a new agreement with Israel in 2007 to provide \$30 billion in FMF over ten years.

International Narcotics Control and Law Enforcement — The budget provides \$1.2 billion in non-emergency funding for these programs, \$646 million (116.0 percent) more than 2008. Most of the increase is for the Merida Initiative with Mexico and Central America, which is intended to strengthen security in these countries. The budget includes \$450 million for Mexico and \$100 million for Central American nations for 2009. (The President is seeking emergency supplemental appropriations for 2008 to begin the initiative.) For Afghanistan, the budget provides \$250 million for narcotics control and law enforcement, \$23 million less than 2008.

Non-Proliferation, Anti-Terrorism, Demining, and Related Programs (NADR) — The budget provides \$499 million for NADR, \$16 million (3.3 percent) less than the 2008 level. The budget includes increased funding to support weapons dismantling activities in North Korea.

Diplomacy and Selected Assistance Programs

Diplomatic and Consular Programs — The budget provides \$5.4 billion in non-emergency funding for operations of most diplomatic and consular programs, including the support of U.S. embassies and much of the Department of State. This budget is \$819 million (18.0 percent) more than non-emergency funding for 2008. The budget proposes more than 1,000 new diplomats.

Embassy Security, Construction, and Maintenance — The budget provides \$1.8 billion for U.S. embassies, which is \$364 million (25.5 percent) more than the 2008 level.

Economic Support Fund — The budget provides \$3.2 billion in non-emergency appropriations for the Economic Support Fund, which provides bilateral economic assistance to countries of particular importance to U.S. foreign policy. The budget is \$706 million (28.9 percent) more than the 2008 level.

Development Assistance — The budget provides \$1.6 billion for 2009 for this program, which is only \$15 million (0.9 percent) more than the 2008 level. This assistance goes to countries that face long-term development challenges.

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 function also includes a small amount of funding for programs within the Department of Transportation.

Last year, Congress passed and the President signed into law the America COMPETES Act, authorizing critical increased investment in education, science, and technology to keep America competitive in the global economy. This legislation authorized significant increases for both NSF and the DOE Office of Science.

Function 250 is one of the few areas of domestic policy where the President's 2009 budget increases funding. The budget provides \$29.6 billion in funding for Function 250 programs for 2009, which is \$2.1 billion (7.8 percent) above the 2008 level, and \$1.6 billion (5.5 percent) above the amount needed to maintain purchasing power at the 2008 level. All three agencies receive an increase.

NASA Funding Increases by \$497 Million —

Funding for NASA increases by 2.9 percent (\$497 million) from 2008, to a total of \$17.6 billion for 2009. Of that total, \$446 million is included in Function 400 (Transportation), \$117 million is in Function 500 (Education), and the remainder is in this function. These increases do not fully cover the costs of the President's announced mission to the moon and Mars (the Vision for Space Exploration), which is supplemented through funding cuts to existing programs.

- ***Aeronautics Research Cut Deeply*** — The budget provides \$446 million for aeronautics research critical to advances in aviation safety and capacity. This represents a \$65 million (12.7 percent) cut below the 2008 level for programs already hit hard by funding cuts in previous years.
- ***Education Programs Cut*** — The budget cuts funding for NASA education programs to \$117 million, a cut of \$31 million (27 percent) below the 2008 enacted level.

National Science Foundation Funding Increases by \$821 Million — The President's budget provides \$7.0 billion for NSF programs for 2009, including \$67 million in Function 050 (National Defense). This is an increase of \$821 million (13.3 percent) over the 2008 level or \$697 million (11.1 percent) above the level needed to keep pace with inflation. Despite the Administration's

Science Funding Increases		
Includes some funding outside Function 250		
(Billions)	<u>2009</u>	<u>Increase</u> <u>v. 2008</u>
NASA	\$17.6	\$0.5
NSF	\$7.0	\$0.8
DOE Science	\$4.7	\$0.7
Total Increase for Agencies		\$2.1
Memorandum: Total Increase in Function 250		\$1.6

stated focus on improving teaching and achievement in math and science, the Education and Human Resources account in NSF has suffered deep cuts since 2004 when its funding peaked at \$944 million. The 2008 budget proposes \$790 million for this account, which is a \$64 million increase from last year, but represents a \$154 million (16.3 percent) cut below the 2004 enacted level.

DOE Office of Science Funding Increases by \$749 Million — The 2009 budget provides \$4.7 billion for general science programs in DOE, an increase of \$749 million (18.9 percent) above the 2008 level, or \$668 million (16.5 percent) above the level needed to keep pace with inflation. The 2009 budget increases funding for every program in the Office of Science. Notably, it provides a \$298 million (23.5 percent) increase over the 2008 enacted level for the Basic Energy Sciences program, which designs and constructs scientific facilities and manages research, for total funding of \$1.6 billion. It provides \$493 million for the Fusion Energy Sciences program, an increase of \$207 million (72.1 percent) over the 2008 enacted level. It also provides a large increase – \$43 million (64.9 percent) over the 2008 level – for Science Laboratories Infrastructure, which receives \$110 million for 2009.

Function 270: Energy

Function 270 comprises energy-related programs including research and development, environmental clean-up, and rural utility loans. Most of the programs covered by this function are within the Department of Energy, although the rural utility program is part of the Department of Agriculture. Despite the name of this budget function, it covers only about 20 percent of appropriated funding for the Department of Energy.

For 2009, the President's budget provides \$4.5 billion in appropriated funding, \$454 million (9.2 percent) less than the 2008 level. Total mandatory spending for this function is negative because the U.S. government collects more money than it spends marketing federally-produced power. The government also collects fees from commercial nuclear reactors.

Selected Appropriated Energy Programs

Energy Efficiency and Renewable Energy Programs — The budget provides \$1.3 billion for these programs, \$467 million (27.1 percent) less than the \$1.7 billion in funding for 2008. The President's budget for 2008 also proposed cutting these programs by hundreds of millions of dollars. Cuts to these programs in the President's budget for 2009 include:

- ***Solar Energy*** — The budget of \$156 million is \$12 million (7.1 percent) less than 2008.
- ***Hydrogen and Vehicle Technologies*** — The budget provides \$367 million, \$57 million (13.4 percent) less than the 2008 level.
- ***Weatherization and Intergovernmental Activities*** — The budget terminates the weatherization assistance program, which received \$227 million for 2008.

Strategic Petroleum Reserve — The budget provides \$344 million, \$157 million (84.0 percent) more than 2008. The reserve provides emergency oil in the event of a severe disruption in supply. Its storage capacity is 727 million barrels, and the President proposes to double capacity to 1.5 billion barrels by 2029. See *Function 950 (Undistributed Offsetting Receipts)* for information on how filling this new capacity will reduce government receipts.

Fossil Energy Research and Development — The budget provides \$754 million for fossil energy research and development for 2009, \$11 million (1.5 percent) above the 2008 level. Within this program, the budget increases coal research and development to \$624 million, which is \$130 million (26.4 percent) more than the 2008 level.

Nuclear Energy Research, Development, and Infrastructure — For 2009, the budget provides \$854 million, \$183 million (17.7 percent) less than the 2008 level of \$1.0 billion.

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 Department of Defense and Energy. See *Function 050 (Defense)* for information on those programs.

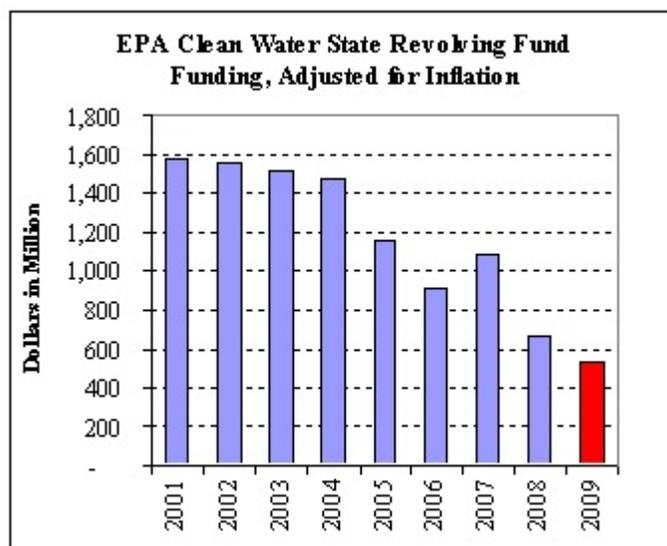
Eighth Straight Year of Cuts to Environmental Programs

The Administration continues to tout its commitment to environmental protection and conservation, but reality does not match the rhetoric. For 2009, the President's budget once again significantly cuts funding for programs that protect public health and environmental quality. The budget provides \$28.9 billion in discretionary funding for these programs, which is \$2.1 billion (6.8 percent) below the 2008 level, and is \$2.6 billion (8.3 percent) below the level needed to keep pace with inflation. These substantial cuts undermine the ability to meet critical environmental needs and jeopardize our nation's treasured natural resources.

Budget Details

Environmental Protection Agency (EPA) Funding Cut Again — For 2009, the President's budget once again cuts EPA funding, providing only \$7.1 billion, a \$330 million (4.4 percent) cut from the 2008 level. As in previous years, the majority of this decrease is attributed to large cuts in grants to states and tribal governments that help protect public health and maintain environmental quality. At a time when many state and local governments are facing difficult economic and budgetary conditions, the budget compounds their challenges by cutting valuable financial assistance for environmental protection efforts.

- ***Evaporating Support for Clean Water*** — The budget heavily cuts support for EPA's Clean Water State Revolving Fund by providing only \$555 million for 2009, a cut of \$134 million (19.4 percent) from



the 2008 level and a cut of \$792 million (58.8 percent) from the 2001 level. In inflation-adjusted dollar terms (see figure), the picture is even more stark: since 2001, the Administration has substantially reduced the federal government's commitment to state and local governments to help share the cost of implementing the Clean Water Act and protecting water quality.

- ***Funding for Groundwater Contamination Continues to Decline*** — The budget cuts funding for EPA's Leaking Underground Storage Tank (LUST) Program despite the Government Accountability Office's findings in a 2007 estimate that the public cost of cleaning up about 54,000 of the known leaking tanks will likely cost upwards of \$12 billion. In 2009, total LUST Program funding is \$72.2 million, a reduction of \$33.6 million (31.8 percent) from 2008.

Includes Drilling in the Arctic National Wildlife Refuge — For the eighth consecutive year, the President's budget opens the Arctic Refuge to oil and gas exploration. Over the 2009-2013 period, the budget includes \$4.0 billion from lease bonuses for the federal treasury and \$4.0 billion distributed to the State of Alaska. None of this funding is reflected in Function 300 — see *Function 800 (General Government)* and *Function 950 (Undistributed Offsetting Receipts)*.

Cuts Non-Emergency Funding for Army Corps of Engineers — Despite the recent enactment of the Water Resources Development Act of 2007, which authorized a number of high-priority flood control, navigation, and environmental projects, the President's budget heavily cuts funding for the Corps of Engineers non-emergency construction and maintenance activities. For 2009, the budget provides \$4.7 billion, \$845 million (15.1 percent) below the 2008 level. Importantly, the budget includes \$5.8 billion in new emergency funding in 2009 to provide 100-year storm protection to the greater New Orleans area.

Sows Bitter Harvest for Agricultural Conservation Funding — The budget provides the Natural Resources Conservation Service (NRCS) only \$801 million in 2009 in appropriated funding, a cut of \$136 million (or 14.5 percent) from 2008. On the verge of a new farm bill that would expand conservation activities, the President heavily cuts technical assistance funding and personnel from the primary agency responsible for delivering the farm bill's conservation programs. Such a substantial reduction would significantly impact NRCS's ability to deliver needed resource conservation that would enhance water quality, restore wetlands, and improve wildlife habitat. As part of the cut, the President's budget eliminates two programs — the Resource Conservation and Development Program and the Watershed and Flood Prevention Operations. These programs provide assistance to rural communities to deliver locally driven conservation activities and install water supply and flood control infrastructure projects.

The President's Land and Water Conservation Fund Support Never Matched Initial Promises — In his

final budget, the President again fails to keep commitments to fully fund the Land and Water Conservation Fund (LWCF) at the authorized level of \$900 million. Importantly, the budget provides only \$43 million in 2009 for federal land acquisition to better preserve parks, forests, wildlife refuges, and open space. This represents a cut of \$87 million (67.2 percent) from the 2008 level and almost \$411 million (90.6 percent) relative to 2001. In inflation-adjusted dollar terms (see figure), the Administration has repeatedly slashed LWCF funding for federal land acquisition.



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 and education programs, economics and statistics services, administration of the farm support programs, farm loan programs, meat and poultry inspection, and a portion of the Public Law 480 international food aid program. The mandatory programs include commodity support programs, crop insurance, and certain farm loans.

Mandatory Programs

Overall Mandatory Spending Projected to Increase Largely Due to Higher Crop Insurance Costs — For 2009, mandatory agriculture spending under the Administration's estimates of current law will increase above the 2008 level by \$2.2 billion. The main driver of the increased direct spending is the larger cost associated with the federal crop insurance program. Because market prices for many commodity crops covered by the crop insurance program are at or near record highs, the public's costs for subsidizing the insurance are projected to increase markedly in 2009.

Appropriated Programs

The budget provides \$5.7 billion in appropriations for programs in this function, a cut of \$141 million (2.4 percent) from the 2008 level and \$312 million (5.2 percent) below the amount needed to keep pace with inflation.

Cuts Research and Extension Activities — The budget provides a total of \$1.0 billion for the Agricultural Research Service's main salaries account, a cut of \$84 million (7.5 percent) below the 2008 level. The budget also provides a total of \$1.0 billion in appropriated funding for the Cooperative State Research, Education, and Extension Service, a decrease of \$189 million (15.8 percent) below the 2008 level. The budget derives the cuts by eliminating or redirecting funding for Congressional research priorities.

Enhances Animal and Plant Health Funding — The budget provides \$919 million for the Animal and Plant Health Inspection Service's main salaries account, a \$51 million (5.9 percent) increase above the 2008 level. The new funding will support increased surveillance and disease outbreak response activities under USDA's Food and Agriculture Defense efforts.

Imposes New User Fees — The budget imposes a variety of new user fees, including:

- ***Country of Origin Labeling*** — The budget imposes a new mandatory fee to help the Agricultural Marketing Service implement the Country of Origin Labeling (COOL) requirements for certain food products. The budget estimates the agency would collect \$10 million in new fees to fund random compliance reviews.
- ***Grain Inspection, Packers, and Stockyards Administration (GIPSA)*** — The budget imposes \$27 million in new fees in 2009 for GIPSA to fund the development, review, and maintenance of grain standards, as well as licensing packers, stockyards, and other meat and poultry participants.
- ***Animal and Plant Health Inspection Service (APHIS)*** — The budget creates a new fee to help cover the costs associated with the Animal Welfare Act, Virus Serum Toxin Act, and Plant Protection Act. The budget estimates that APHIS would collect \$20 million in fees in 2009.
- ***Risk Management Agency (RMA)*** — The budget establishes a new fee to cover RMA's costs to build a modern IT system. Beginning in 2010, the fee would generate \$15 million annually through an assessment of about one-quarter cent per premium dollar collected from companies participating in the Federal Crop Insurance Program.

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) and the Department of Agriculture (USDA); 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).

The President's budget provides \$4.0 billion in appropriations for programs in this function, an increase of \$927 million over 2008 levels.

Mortgage Credit Programs

Rural Low-Income Direct Loan Programs Eliminated — The budget reflects a dramatic alteration in USDA's role in providing housing assistance to low- and very low-income borrowers and renters. The budget eliminates direct lending for single-family home purchases under Section 502 and for multifamily housing development under Section 515. The budget shifts resources to unsubsidized guaranteed loans. Guaranteed loans generally cost borrowers more than direct loans because interest rates are higher. Moreover, they are likely to be less widely accessible to very low-income potential borrowers.

Transforms Federal Housing Administration — The budget includes provisions that affect potential homeowners with poor credit histories or little savings in various ways. One provision increases FHA's loan limit in high-cost areas. Another provision extends to borrowers mortgages with premiums tied to credit records and the size of down payments. This provision permits FHA to attach risk-based premiums to mortgages. The budget intends the premium amount to sufficiently outweigh the need for credit subsidy appropriation. Risk-based premiums potentially could prohibit some borrowers with very poor credit or very little money down from receiving this kind of mortgage.

Commerce-Related Programs

Raises Costs for Small Business Administration Microloan Borrowers — The budget restructures the microloan program to zero subsidy, by raising the rate at which intermediaries borrow. This program will provide an estimated \$25 million in loans in 2009 to primarily low-income entrepreneurs. Intermediaries continue to receive a better-than-market rate on interest loans, but borrowers could potentially face higher costs. The budget also eliminates microloan technical assistance.

Increases Funding for Census Bureau — Continuing preparation for the 2010 census, the budget provides \$2.6 billion for the Census Bureau, \$1.4 billion over the 2008 level. In 2009, the Bureau will begin opening and staffing local Census offices.

Weakens Support for Minority Business Development — The budget continues to freeze funding for the Minority Business Development Agency at \$29 million. The agency provides management and technical assistance services to minority business enterprises.

Increases Patent and Trademark Office Operating Budget — The budget includes \$2.1 billion for Patent and Trademark Office operations, an increase of \$160 million (8.3 percent) above the 2008 level.

Eliminates Funding for the Manufacturing Extension Partnership, Eliminates Advanced Technology Program — The budget provides only \$4 million for the Manufacturing Extension Partnership, phasing out the program that was previously funded at \$90 million in 2008. 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. The budget eliminates the Advanced Technology Program, a grant program to help businesses develop new technologies for commercial use.

Function 400: Transportation

Function 400 consists 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 Department of Homeland Security: the Coast Guard and the Transportation Security Administration (TSA). In addition, this function includes several small transportation-related agencies and the research program for civilian aviation at the National Aeronautics and Space Administration.

For 2009, the President's budget provides \$75.3 billion in appropriated budgetary resources (budget authority plus obligation limitations). This is \$5.4 billion below the 2008 level.

Budget Details

Surface Transportation Funding Does Not

Meet Authorized Levels — The surface transportation reauthorization included specified funding levels for both the highway and mass transit programs. For 2009, the President's budget provides \$39.4 billion in obligation limitation for the Federal-Aid Highways Program. This funding level is \$800 million short of the adjusted obligation limitation specified in the reauthorization (highway funding is adjusted down based on updated estimates of revenue into the Highway Trust Fund). Also, in providing \$10.1 billion for mass transit, the budget does

not fully fund transit programs. The majority of the \$203 million transit cut comes at the expense of a grant program that assists states in building or extending major mass transit projects. The budget provides \$1.4 billion for safety programs, which includes a shift of \$122 million from the general fund to the Highway Trust Fund.

The Administration projects that the Highway Account of the Highway Trust Fund will deplete its cash balance in 2009 and will be unable to pay \$3.2 billion in reimbursements to states. To fix this shortfall in the trust fund, the budget transfers \$3.2 billion from the Mass Transit Account of the Highway Trust Fund so the highway program can make all of its payments to states. At some point in the future, the Highway Account would repay this advance.

Federal Aviation Administration (FAA) Funding Cut — The President's budget provides \$14.6 billion for the FAA for 2009, which is \$273 million (1.8 percent) below the 2008 level. The budget limits grants to improve airports to \$2.8 billion, a cut of \$765 million from the 2008 level. The budget continues FAA's expiring financing mechanism (receipts from passenger ticket taxes, taxes on aviation fuel, and general fund contributions) through 2009.

Cuts the Essential Air Service (EAS) — The EAS program provides financial assistance to rural communities geographically isolated from hub airports so that they may operate smaller airports. In 2008, the program was funded at \$125 million, through a combination of appropriations and fees on foreign air carriers. The budget again cuts funding for EAS by eliminating the federal subsidy and limiting the program to only spending \$50 million in fees (more than a 50 percent cut from 2008). Congress has consistently rejected this Administration proposal.

Beginning in 2010, the budget requires that commercial airlines pay a new user fee, in place of fuel taxes, that offsets the costs of FAA's operations. General Aviation (GA) users will continue to pay excise taxes on aviation fuel, but adjusted for their cost to the air traffic control system. The Administration estimates user fee collections of \$8.6 billion in 2010. Over the 2010-2013 period, the user fees total \$36.7 billion. However, because the user fees are not revenue, the new cost-based system reduces receipts by \$38.8 billion over the four-year period.

Amtrak Funding Slashed Again — The President's budget provides only \$800 million in direct assistance for Amtrak, a cut of \$525 million (39.6 percent) from the 2008 level. The budget provides \$525 million for Amtrak's capital expenses and \$275 million for efficiency grants (operating expenses). In addition, the budget provides \$100 million for capital matching grants to states, a \$70 million increase from the 2008 level. In order to use the capital grants, states must fund alternatives to Amtrak or provide any needed operating subsidies to Amtrak.

Federal Grants to Amtrak							
(budget authority in millions)							
	2003	2004	2005	2006	2007	2008	2009
President's Request	\$521	\$900	\$900	\$360	\$900	\$800	\$800
Appropriated	\$1,043	\$1,218	\$1,207	\$1,293	\$1,293	\$1,325	--

Coast Guard — For 2009, the President's budget provides \$7.8 billion in discretionary funding for the Coast Guard. This is \$403 million (5.4 percent) higher than the 2008 level, excluding supplemental funding.

Port Security Grants — 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 2009 budget provides \$210 million for the grants, well below the \$400 million that Congress authorized in the Security and Accountability for Every (SAFE) Port Act of 2006.

Transportation Security Administration (TSA) Fee Proposal — The President’s 2009 budget includes a temporary increase to the Passenger Security Fee, collected at the time an airline passenger purchases a ticket. The current fee (\$2.50 per enplanement, capped at two enplanements per one-way trip) increases by 50 cents per enplanement with a maximum increase of \$1.00 per one-way trip or up to \$6.00. The increased fee is dedicated to a mandatory capital fund and used for explosive detection equipment to screen checked baggage. The proposal raises \$426 million in 2009.

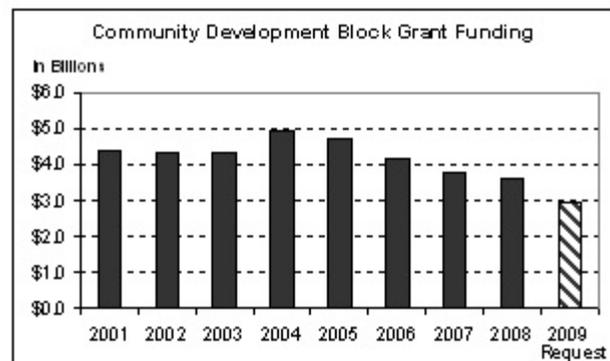
Function 450: Community and Regional Development

Function 450 includes federal programs to improve community economic conditions, promote rural development, and assist in federal preparation for and response to disasters. This function provides appropriated funding for the Community Development Block Grant, Department of Agriculture rural development programs, the Bureau of Indian Affairs, the Federal Emergency Management Agency, and other disaster mitigation and community development-related programs. It also provides mandatory funding for the federal flood insurance program.

For 2009, the President's budget provides \$11.5 billion in appropriations for programs in this function, a cut of \$2.8 billion below the 2008 level and of \$3.1 billion below the amount needed to maintain purchasing power at the 2008 level.

Community Development

Continues Pattern of Cutting the Community Development Block Grant Program — The budget again cuts the Community Development Block Grant (CDBG) program. It provides just \$2.9 billion for 2009, which is \$731 million (19.9 percent) less than is needed to maintain purchasing power at the 2008 level. CDBG, which provides funding for local solutions to challenges like affordable housing, job creation, and economic development, has been reduced by \$1.5 billion since 2001. At the same time, the United States has lost over 3 million manufacturing jobs and nearly a million units of affordable housing.



Cuts Funding for Lead Hazard Reduction — The budget cuts funding for the Lead Hazard Reduction Grant program, which protects children from lead poisoning by removing lead paint from their homes, by \$29 million (20.0 percent) below the 2008 level.

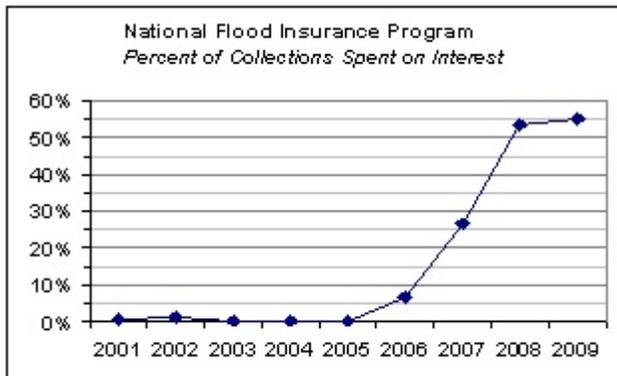
Reduces Investments in Economically Distressed Communities — The budget cuts funding for the Community Development Financial Institutions fund by 69.1 percent, \$65 million below the 2008 level. About half the cut is a result of eliminating the Bank Enterprise Award (BEA) – an incentive for banks and thrifts to increase lending, investment, and service activities in economically distressed areas – and the set-aside for Native American and Hawaiian initiatives, which provides grants to Native Americans and Hawaiians to start small businesses.

Increases Funding for Information Technology at Department of Housing and Urban Development (HUD) Despite Concerns about Strategic Plan — The budget increases appropriations for HUD computer system maintenance and development by \$78 million, a 33.2 percent increase, to help improve data management for community development and housing programs. Last year, Congress reduced funding and restricted transfers of funds to this account because of concern about poor planning and cost overruns.

Disaster Prevention and Relief

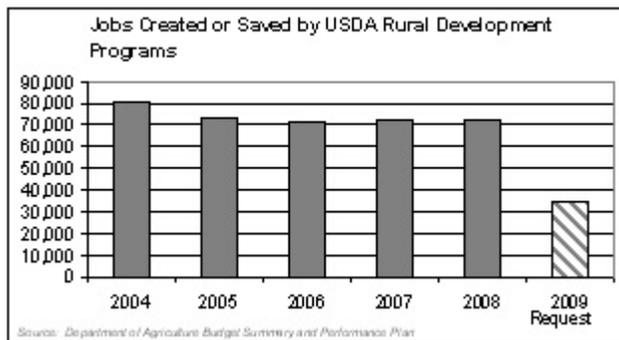
More than Half of National Flood Insurance Program (NFIP) Collections Will Be Spent on Interest Payments

— As in previous years, the budget does not address the \$17.3 billion debt NFIP accumulated while paying claims related to Hurricanes Katrina, Rita, and Wilma. As a result, in 2009 the NFIP will spend \$1.8 billion, 55.0 percent of the premiums and other fees collected from homeowners, to pay interest on its debt. The Congressional Budget Office has previously estimated that even with a very



substantial increase in premium rates, NFIP would be unable to repay the debt in the next ten years. By law, NFIP is forbidden to spend more than its income from collections and borrowing. Its current borrowing limit is \$20.8 billion. The budget allows for additional borrowing from the Treasury, but projects a relatively mild flood season that will not require it.

Rural and Economic Development



Cuts Funding for Rural Development Programs, Including Those Focused on Jobs

— The budget cuts total rural development funding by 42.9 percent below the level needed to maintain purchasing power at the 2008 level, eliminating funding for rural empowerment zones and enterprise community grants. The budget also rescinds \$39 million in unspent economic development grant funding and cuts Economic Development Assistance Programs, which are used to generate or retain jobs and

attract new private-sector investment, by \$148 million (60.9 percent).

Slashes Rural Infrastructure Funding — The budget cuts appropriations for water and waste disposal system grants, which are used to finance water purification and waste disposal in rural areas and in towns and cities with a population of 10,000 or less, by \$318 million (59.3 percent) below the 2008 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 2009 budget cuts appropriations for programs in this function in each of the next four years. For 2009, the President's budget provides \$79.5 billion in discretionary funding for these programs, a cut of \$166 million below the 2008 level and of \$1.7 billion below the amount needed to maintain purchasing power for the non-emergency programs at the 2008 level.

Education

Changes to Student Loan Program — In addition to recalling federal capital contributions to the Perkins Loan program for a mandatory savings of \$1.1 billion in 2009 and \$7.2 billion over ten years (2009-2018) as was proposed in previous budgets, the budget also cuts student loan benefits just enacted earlier this year in the College Cost Reduction and Access Act. The budget:

- Restricts eligibility for the new loan forgiveness program for individuals in public service and non-profit jobs to new borrowers after July 2009. This saves \$1.4 billion in 2009.
- Eliminates the interest subsidy on loans eligible for income-based repayment for loan recipients that meet certain economic hardship criteria. This saves \$260 million in 2009 and \$788 million over ten years (2009-2018).

Vouchers by Another Name — The budget includes a new \$300 million “Pell Grants for Kids” program which is basically a renamed voucher program.

After-School Funds Cut — The 21st Century Learning Opportunities (after-school) funds are reduced and converted from a community-based program to vouchers.

Pell Grants Receive Slight Increase — The budget increases appropriated funding for Pell Grants by \$2.6 billion – much of which is needed to cover the Pell Grant shortfall. The discretionary share of the maximum Pell Grant would cover awards to \$4,310. Including mandatory funding, the total maximum Pell Grant award would rise to \$4,800 for the 2009-10 school year, an increase of \$69 over last year's level. The budget makes room for additional Pell

Grant funding by eliminating the Supplemental Educational Opportunity Grants Program (funded at \$758 million in 2008) and terminating, cutting, or freezing other higher education programs.

Freezes Education Funding — Despite significant unmet needs and the high priority the Administration has placed on education, the budget includes no additional appropriations for the Department of Education, instead providing the 2008 level of \$59.2 billion. Increases are proposed for a few Administration favored programs such as Reading First and school vouchers while significant cuts are made in many other programs and 47 programs are proposed for elimination (see table, next page). The vast majority of education programs are frozen at 2008 levels. Impact aid is funded at \$1.2 billion, math/science partnerships receive \$179 million, and School Improvement Grants receive \$491 million.

\$14.7 Billion Shortfall in No Child Left Behind Funding — As in previous years, the 2009 budget provides a modest increase above 2008 levels of \$125 million in elementary and secondary education programs authorized under the No Child Left Behind Act. However, the 2009 funding is still \$14.7 billion below authorized levels for a cumulative shortfall of \$85.6 billion since enactment.

A Few Increases Offset by Large Cuts — Higher funding levels are requested for Title I (\$406 million increase), Reading First (\$607 million), and a few other smaller programs. But to make room for these increases, the budget includes significant cuts below 2008 levels in a number of existing programs including:

- 21st Century Community Learning Centers (cut \$281 million), potentially resulting in the loss of services to 660,000 students;
- Teacher Quality programs (cut \$100 million), affecting 540,000 students;
- Safe and Drug-Free Schools state grants (cut \$195 million); and
- Teaching American History (cut \$68 million).

Program terminations include:

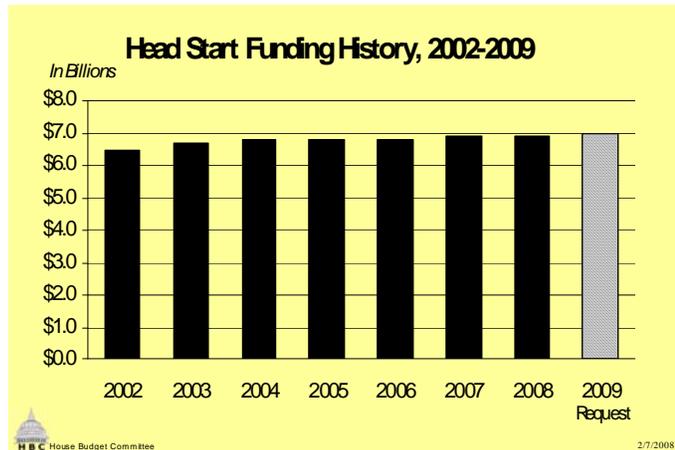
- Career and Technical Education (\$1.2 billion in 2008);
- Education Technology state grants (\$268 million in 2008); and
- Even Start family literacy program (\$67 million in 2008).

47 Discretionary Education Programs Eliminated in the President's 2009 Budget			
Dollars in Millions, 2008 Level			
Program	2008 \$	Program	2008 \$
Improving Teacher Quality:		Higher Education:	
Teacher Quality Enhancement	34	Supplemental Ed. Opportunity Grants	758
National Writing Project	24	Perkins Loans Cancellations	64
Advanced Credentialing	10	Leveraging Ed. Assist. Partnerships	64
School Leadership	15	Byrd Honors Scholarships	40
Ready to Teach	11	Strengthening Alaska Native & Native Hawaiian-Serving Institutions	12
Smaller Learning Communities	80	Demos for Students with Disabilities	7
Tech-Prep Education State Grants	103	Thurgood Marshall Legal Education	3
Physical Education	76	Underground Railroad Program	2
Parental Info. And Resource Centers	39	B.J. Stupak Olympic Scholarships	1
Arts in Education	38	Rehabilitation Services:	
Alaska Native Education Equity	33	Supported Employment Grants	29
Grants for Incarcerated Youth	22	Projects With Industry	19
Mentoring	49	Recreational Programs	3
Comprehensive School Reform	2	Migrant & Seasonal Farmworkers	2
Academies for American History and Civics	2	Alcohol Abuse Reduction	32
Exchanges with Historic Whaling and Trading Partners	9	Mental Health Integration	5
Javits Gifted and Talented Education	8	Close Up Fellowships	2
Civic Education	32	Foundations for Learning	1
Education for Native Hawaiians	33	New in 2009:	
Excellence in Economic Education	1	Career and Tech Ed National Programs	8
Women's Educational Equity	2	Career and Tech Education State Grants	1161
Education Technology State Grants	268	Reading is Fundamental	25
Elementary/Secondary Counseling	49	Special Olympics	12
Even Start	67	Teachers for a Competitive Tomorrow	2
		Tribally Controlled Postsecondary	8
Total Programs Eliminated = \$3.3 billion			

Social Services

Slashes the Social Services Block Grant (SSBG) — The budget cuts SSBG funding by \$500 million (29.4 percent) in 2009 and completely eliminates it in 2010. This grant provides states with discretion to use these funds for social services such as child care, child welfare, home-based services, employment services, prevention and intervention programs, and special services for the disabled. Many states are counting on the SSBG to help them avoid cuts in social services due to tightening state budgets.

Provides Small Increase for Head Start — The budget increases funding for Head Start by \$149 million (2.1 percent). Head Start funding has not kept pace with inflation since 2003, causing cuts in its services for children. Head Start centers have laid off staff, eliminated summer programs, and cut transportation for children. This year's increase will not be enough to erase the deficit caused by years of stagnant funding.



Increases Funding for “Abstinence Only” Sex Education Programs While Slightly Reducing Funding for Evaluation — The budget increases discretionary funding for grants to “abstinence-only” sex education programs by \$28 million over the 2008 level, a 25.7 percent increase, for total program funding of \$191 million. The budget reduces funding for Public Health Service evaluations of the effectiveness of the grants by 2.0 percent. The program evaluations and other public health activities are part of Function 550 (Health).

Eliminates Community Services Block Grant — The President’s 2009 budget repeats past Administration budgets in eliminating the Community Services Block Grant and three other community services programs, cutting \$698 million for a range of services to reduce poverty and to provide assistance in the areas of housing, health, nutrition, energy, and substance abuse.

Cuts National Service Programs — The budget provides \$759 million for the Corporation for National and Community Service, a cut of \$20 million from the 2008 level.

Employment, Training, and Other Programs

Replaces Training Programs with Personal Accounts and Cuts the Funding — The President’s 2009 budget eliminates four job training and employment programs (see table at right) and replaces them with personal Career Advancement Accounts of up to \$3,000 per year for up to two years. The budget would reduce total funding for job training by \$1.1 billion compared with the 2008 level, a 28.5 percent cut.

	Funding Level	Workers Served
Adult Employment and Training	-\$849 million	-247,222
Dislocated Worker Employment and Training	-\$1.4 billion	-352,312
Youth Training	-\$924 million	-249,411
Employment Service Career Advancement Accounts	+\$736 million	+13 million
Net Impact	-\$1.1 billion	-2.5 million

Source: Department of Labor 2009 Congressional Budget Justification

Slashes Community Service Employment for Older Americans — The budget cuts the Community Service Employment for Older Americans programs by \$182 million (34.2 percent) below the level needed to keep pace with inflation.

Major Cuts to the Corporation for Public Broadcasting (CPB) — The budget includes the largest cut to public broadcasting in its 40-year history. The program level for CPB would be \$126 million – a cut of \$267 million, or 68 percent, from appropriated levels. The \$267 million cut includes a \$200 million rescission from the \$393 million that was previously appropriated for 2009. The additional \$67 million results from a proposed carve-out from the remaining \$200 million in 2009 advance funding – \$27 million for a new radio interconnection system and \$40 million for digital programming. By tradition, the CPB is funded through advance appropriations – a practice that this budget would discontinue.

Funding for National Endowments — The President’s budget decreases funding for the National Endowment for the Arts (down \$17 million from the 2008 level of \$145 million), and continues to basically freeze funding for the National Endowment for the Humanities at \$144 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

Appropriated Levels Decrease — The President's budget provides \$54.9 billion for appropriated programs covering health care services, health research and training, consumer safety, and biodefense activities of the Department of Homeland Security. This amount is a decrease of \$2.1 billion (3.6 percent) below the level needed to maintain purchasing power.

Mandatory Levels Receive a Slight Increase Relative to Current Law — The budget increases mandatory spending relative to current law by \$1.1 billion over five years. This change is primarily due to the net effect from an increase in spending for the State Children's Health Insurance Program (SCHIP), which is mostly offset by a reduction to Medicaid spending.

The Administration's Legacy

Since 2001, the number of uninsured Americans has increased by 18 percent, from 39.8 million in 2001 to 47.0 million in 2006. Rather than focusing on efforts to address the uninsured, the Administration has repeatedly proposed significant legislative and regulatory cuts to Medicaid that threaten the public safety net by shifting costs to states or increasing beneficiary costs. Some of the cuts became law as part of a measure labeled the Deficit Reduction Act of 2005. Further, when the President had the chance to expand health insurance coverage to an additional four million children, the President twice vetoed the bipartisan legislation.

Years of cutting non-defense discretionary spending in constant dollars has harmed our nation's public health agencies. This is particularly true over the past four years. Funding for public health programs has increased on average by 0.7 percent annually since 2004. This amount is less than half the level needed to keep pace with inflation. Agencies have been unable to meet increasing demands, which is evident throughout public health programs, ranging from the Food and Drug Administration's challenges in protecting our nation's food supply to the Consumer

Product Safety Commission’s inability to adequately monitor children’s toys. This year’s budget proposes reductions in public health funding for critical areas. The Administration reduces public health funding for the Centers for Disease Control and Prevention (CDC), the Health Resources and Services Administration (HRSA), and the Indian Health Services (IHS) while also freezing funding for the National Institutes of Health (NIH).

Medicaid and the State Children’s Health Insurance Program (SCHIP)

\$33.3 Billion in Cuts to Medicaid Over Five Years and \$82.6 Billion Over Ten Years —

The budget makes legislative cuts to Medicaid of \$18.6 billion over five years and \$47.9 billion over ten years. It imposes another \$14.7 billion in cuts through regulatory changes over five years and \$34.7 billion over ten years, for total gross cuts of \$33.3 billion over five years and \$82.6 billion over ten years. The budget includes \$1.2 billion in increased Medicaid spending over five years, for a net effect of \$32.1 billion in Medicaid legislative and regulatory cuts over five years and \$81.4 billion over ten years. The new cuts proposed in the budget are on top of the cuts enacted in the Deficit Reduction Act of 2005 (S. 1932), which reduced Medicaid by \$28.3 billion over ten years.

The budget reduces state matching payment rates, reduces reimbursement of generic drugs, cuts payments to government

Cuts to Medicaid (dollars in billions)		
	<u>2009- 2013</u>	<u>2009- 2018</u>
Legislative Cuts:		
<i>Cuts State Administrative Match Rates</i>	5.5	12.9
<i>Reduces Case Management Match Rates to States</i>	1.1	2.5
<i>Cuts Family Planning Match Rates to States</i>	3.3	8.2
<i>Cuts Payments for Administrative Costs (Cost Allocation)</i>	1.8	3.7
<i>Links Reimbursement to State Performance Reporting</i>	0.3	1.3
<i>Lowers Maximum Allowable Home Equity Amount to \$500,000</i>	0.5	1.2
<i>Expands Private Sector Coverage for Acute Care Benefits</i>	0.7	2.3
<i>Allows States to Mandate Managed Care Enrollment for Certain Populations</i>	2.1	6
<i>Enhances Third Party Liability</i>	0.5	1.2
<i>Reduces Reimbursement for Generic Drugs</i>	1.1	2.6
<i>Tests Asset Verification System</i>	1.2	4.3
<i>Other Legislative Changes</i>	0.6	1.6
Total Legislative Cuts	18.6	47.9
Regulatory Cuts:		
<i>Limits Provider Payments to Cost</i>	5.7	12.9
<i>Limits Reimbursement for School-Based Services</i>	3.6	8.6
<i>Reduces Medicaid Funding for Graduate Medical Education (GME)</i>	1.8	4.4
<i>Limits Reimbursement for Rehabilitation Services</i>	2.7	6.9
<i>Limits Managed Care Services</i>	0.8	1.9
Total Regulatory Cuts	14.7	34.7
Total Legislative and Regulatory Cuts	33.3	82.6
Program Extensions/Modifications	1.2	1.2
Net Medicaid Cut	32.1	81.4

* Table does not include SCHIP costs or Medicaid interactions with the SCHIP, SSI and Medicare policy.

providers, cuts reimbursements for school-based and rehabilitation services, and includes many other cuts. Many of the budget's cuts will either increase state costs or lead to a reduction in Medicaid benefits. Nearly all of the regulatory cuts reflect previous proposals that Congress has issued moratoriums on due to their effects.

The budget's Medicaid cuts do not assist states to reduce the number of Americans without insurance. Rather, the cuts will harm states at the same time they are facing fiscal challenges due to the economy. Many states are projecting budget shortfalls in their upcoming fiscal year. When states experience shortfalls, it places pressure on them to reduce services, which puts their public health care safety nets at risk. This pressure often occurs at the same time as the number of uninsured increases due to economic conditions.

Provides \$19.3 Billion over Five Years for Children's Health Coverage — For the State Children's Health Insurance Program (SCHIP), the budget provides an additional \$19.3 billion (\$19.7 billion in SCHIP allotments) over five years. While these funds represent an increase relative to the President's 2008 proposal, the budget falls far short of the amount Congress provided in bipartisan legislation that would have expanded coverage to nearly four million additional children if the President had not twice vetoed the legislation.

Legislative Cuts of \$18.6 Billion Over Five Years, and \$47.9 Billion Over Ten Years — The budget includes the following gross legislative changes to Medicaid that will cut funding by \$18.6 billion over five years, and \$47.9 billion over ten years.

- ***Cuts State Administrative Match Rates*** — The budget reduces funding for certain administrative activities that received a higher match rate. This policy reduces funding to states by \$5.5 billion over five years and \$12.9 billion over ten years.
- ***Reduces Case Management Match Rates to States*** — The budget reduces funding to states for reimbursement of certain case management activities. This policy reduces funding to states by \$1.1 billion over five years and \$2.5 billion over ten years.
- ***Cuts Family Planning Match Rates to States*** — The budget reduces the match rate for family planning services from 90 percent to the State's normal match rate. The policy reduces Medicaid spending to states by \$3.3 billion over five years and \$8.2 billion over ten years.
- ***Cuts Payments for Administrative Costs (Cost Allocation)*** — The budget reduces federal reimbursement for Medicaid state administrative costs to reflect the costs shared by Medicaid and the Temporary Assistance for Needy Families program in determining

eligibility, a policy known as “cost allocation.” This policy reduces administrative spending by \$1.8 billion over five years and \$3.7 billion over ten years.

- ***Links Reimbursement to State Performance Reporting*** — The budget proposes to link federal funding to a state’s performance on a set of universal performance measures. The policy reduces Medicaid spending to states by \$310 million over five years and \$1.3 billion over ten years.
- ***Lowers Maximum Allowable Home Equity Amount to \$500,000*** — The budget eliminates the state option to use a higher home equity limit in determining individuals’ eligibility for Medicaid nursing facility services. The policy reduces Medicaid spending by \$480 million over five years and \$1.2 billion over ten years.
- ***Expands Private Sector Coverage for Acute Care Benefits*** — The budget expands private sector coverage to certain optional aged, blind, and disabled groups for acute care services. The policy reduces Medicaid spending by \$650 million over five years and \$2.3 billion over ten years.
- ***Allows States to Mandate Managed Care Enrollment for Certain Populations*** — Repeals the rule exempting children with special needs, dual eligibles, and Indians from the managed care state option. The policy reduces Medicaid spending by \$2.1 billion over five years and \$6.0 billion over ten years.
- ***Enhances Third Party Liability*** — The budget alters the Medicaid payment time frame to enable states to “cost avoid” in situations where there is a third party liability, yielding savings of \$470 million over five years and \$1.2 billion over ten years.
- ***Reduces Reimbursement for Generic Drugs*** — The budget limits payments for generic drugs to 150 percent of the average manufacturers’ price, for savings of \$1.1 billion over five years and \$2.6 billion over ten years.
- ***Tests Asset Verification System*** — The budget reduces Medicaid payments to individuals by expanding access to the Social Security Administration’s (SSA) asset verification system to determine benefit eligibility. It yields savings of \$1.2 billion over five years and \$4.3 billion over ten years.

Regulatory Medicaid Cuts of \$14.7 Billion Over Five Years, \$34.7 Billion Over Ten Years — The budget includes \$800 million in new regulatory cuts over five years and \$1.9 billion over ten years. These are in addition to the previously proposed regulatory cuts for which the Administration has already taken action to alter program rules. The previously proposed

regulations total \$13.9 billion over five years and \$32.8 billion over ten years. The Administration assumes all these regulations in its baseline. The following description details these regulations.

- ***Limits Provider Payments to Cost*** — The budget cuts payments to providers by prohibiting states from paying government-owned providers more than “cost,” for five-year savings of \$5.7 billion and ten-year savings of \$12.9 billion. In effect, this policy eliminates the “upper payment limit (UPL),” which currently lets states pay government providers an amount above their costs. It also limits the types of providers that qualify to receive payments. While some states may have used the UPL to draw down Medicaid matching dollars above what their Medicaid match rate would normally allow, many of them have phased out this mechanism, and others reinvest the funds into the Medicaid program or other health programs.
- ***Limits Reimbursement for School-Based Services*** — The budget limits the types of school-based administration and transportation services that are permitted for Medicaid reimbursement, for savings of \$3.6 billion over five years and \$8.6 billion over ten years.
- ***Eliminates Medicaid Funding for Graduate Medical Education (GME)*** - The budget eliminates Medicaid funding for the Graduate Medical Education program, which provides physician training programs. The policy reduces funding to states by \$1.8 billion over five years and \$4.4 billion over ten years.
- ***Limits Reimbursement for Rehabilitation Services*** — The budget limits the types of rehabilitation services that are permitted for Medicaid reimbursement, for savings of \$2.7 billion over five years and \$6.9 billion over ten years. This policy may negatively affect chronically ill and disabled beneficiaries by limiting their access to rehabilitative services.
- ***Limits Managed Care Services*** — The budget includes a new regulatory proposal that will specify allowable services for managed care. This policy results in savings of \$800 million over five years and \$1.9 billion over ten years.

Appropriated Health Programs

Cuts Centers for Disease Control and Prevention (CDC) — The budget provides \$5.7 billion for CDC, \$433 million (7.1 percent) below the 2008 level. The budget eliminates the Preventive Health and Social Services Block Grant (\$97 million), and reduces Occupational Safety and Health by \$111 million (25.4 percent) below the 2008 level. These cuts come at a time when there are critical public health needs to be addressed in our nation.

Freezes Funding for National Institutes of Health (NIH) — The budget provides \$29.3 billion for NIH, \$630 million below the amount needed to maintain purchasing power at the 2008 level. Without sufficient resources to cover inflation, NIH will be unable to make critical advances in medical research that lead to improvements in health.

Increases Food and Drug Administration (FDA) — The budget provides FDA with a program level of \$2.4 billion, consisting of an appropriation of \$1.8 billion, \$607 million in existing user fees, including \$14 million to reauthorize animal drug user fees, and \$21 million in proposed discretionary user fees. This program level is a \$130 million increase (5.7 percent) above the 2008 level. The budget provides an increase of \$42 million for food protection activities. While this represents a 6.8 percent increase above the 2008 level, some experts have suggested significantly larger increases may be needed. The budget again imposes user fees that would require manufacturers and laboratories to pay the full costs of reinspections and expands the current drug, animal drug, and medical device export certification fee to also include food and animal feed. In addition, the budget again assesses an industry-funded generic drug user fee to speed approval of generic drugs.

Slashes HRSA Funding and Eliminates Several Programs — The budget funds the Health Resources and Services Administration (HRSA) at \$5.9 billion for 2009, a decrease of nearly \$1.0 billion (14.5 percent) from the 2008 level. HRSA is one of the principal agencies responsible for increasing health care access to under-served populations. The budget again eliminates several HRSA programs, including Children’s Hospital Graduate Medical Education (\$302 million in 2008), EMS for children (\$19 million in 2008), Universal Newborn Hearing Screening (\$12 million in 2008), and the Traumatic Brain Injury program (\$9 million in 2008).

Cuts Substance Abuse and Mental Health Services Administration (SAMHSA) — The budget funds SAMHSA at \$3.0 billion for 2009, a decrease of \$209 million (6.5 percent) from the 2008 level and \$275 million (8.3 percent) below the amount needed to maintain purchasing power at the 2008 level. As part of these cuts, the budget reduces funding by \$144 million (48.2 percent) for mental health service programs of regional and national significance.

Cuts Indian Health Service (IHS) — The budget provides IHS with \$3.3 billion for 2009, a decrease of \$21 million (0.6 percent) from the 2008 level and \$106 million below the amount needed to maintain purchasing power. Within this amount, the budget cuts facilities construction by \$21 million and increases clinical services by \$42 million.

Slashes Rural Health Activities — The budget provides \$25 million for rural health activities, which is a \$150 million (85.7 percent) cut from the 2008 level.

Level Funding for the Consumer Product Safety Commission (CPSC) — The budget funds CPSC at \$80 million for 2009, the same level of funding as 2008.

Increases Pandemic Funding — The budget provides \$820 million to fund the next phase of the Pandemic Influenza Plan to expand egg based vaccine capacity and purchase medical countermeasures. The amount is a \$517 million (171.2 percent) increase over the 2008 level.

Increases Public Health and Social Services Emergency Fund (PHSSEF) — The budget provides \$811 million for PHSSEF, an increase of \$156 million above the 2008 level, which funds coordination activities to respond to public health emergencies.

Function 570: Medicare

Function 570 (Medicare) includes only the Medicare program, which provides health insurance to 44 million senior citizens and persons with disabilities. Congress provides an annual appropriation for the costs of administering and monitoring the Medicare program. Nearly 99 percent of spending in this function occurs on the mandatory side of the budget, and almost all of the mandatory spending consists of payments for Medicare benefits.

The President's budget provides net Medicare mandatory spending of \$408 billion for 2009, a reduction of \$12.2 billion from projected spending under current law.² For administrative activities related to Medicare, the budget provides \$5.4 billion, an increase of \$510 million above the 2008 level. However, reported functional totals for Medicare administrative spending are not always meaningful because of accounting procedures used in the appropriations process.

The Administration's Legacy

Over the past seven years, the President worked with prior Congresses to make changes to the Medicare program that significantly worsened the nation's long-term fiscal situation. In 2003, the President signed into law the Medicare Prescription Drug, Improvement and Modernization Act (MMA). That legislation created a prescription drug benefit for Medicare beneficiaries that was largely deficit-financed. The Medicare Trustees project that the prescription drug benefit will add \$8.4 trillion in unfunded obligations to the federal budget's bottom line over the next 75 years – nearly double the size of Social Security's projected shortfall over that same time period (\$4.7 trillion).

The MMA also created the Medicare Advantage program, through which private plans operating in Medicare are paid an average of 13 percent more per enrollee than the cost of traditional Medicare for comparable beneficiaries. There is no systematic information on whether these extra payments translate into better health outcomes for Medicare Advantage enrollees. CBO projects that these extra payments to Medicare Advantage private plans will cost about \$150 billion over the next ten years. The Office of the Actuary at the Centers for Medicare and Medicaid Services estimates that the extra payments to Medicare Advantage shorten the life of the Hospital Insurance Trust Fund by two years. The excess costs are also driving up premiums for the 35 million beneficiaries who remain in traditional Medicare.

²Net mandatory spending reflects total spending on benefits, less the amount collected from beneficiaries in the form of premiums.

Medicare Legislative and Regulatory Policies

Cuts Medicare by \$556 Billion over Ten Years but Does Not Address Wasteful Managed Care Overpayments — The budget includes legislative Medicare spending cuts of \$178 billion over five years and \$556 billion over ten years. Most of these savings come from cutting payments to hospitals and other service providers, but \$25.9 billion comes from requiring more beneficiaries to pay extra premiums based on their income. These provisions are described in further detail below. While making deep fee-for-service cuts, the budget makes no effort to address the well-documented overpayments to Medicare managed care plans, as discussed above.

Medicare Legislative Cuts of \$556 Billion Over Ten Years

(dollars in billions)

	2009- 2013	2009- 2018
Cut Inpatient & Outpatient Hospital Update	-70.3	-230.5
Cut Skilled Nursing Facility Update	-17.0	-53.7
Cut Home Health Update	-11.0	-40.5
Cut Hospice Update	-5.1	-16.1
Cut Inpatient Rehabilitation Facility Update	-4.8	-13.6
Cut Long-term Care Hospital Update	-2.9	-8.9
Cut Ambulance Update	-1.3	-4.7
Cut Ambulatory Surgical Center Update	-0.5	-2.0
Reduce Hospital Disproportionate Share Payments by 30%	-20.7	-53.3
Reduce Indirect Medical Education Add-On from 5.5% to 2.2%	-12.9	-35.0
Eliminate Double Payments for Indirect Medical Education	-8.9	-23.3
Reduce Hospital Capital Payments by 5% in 2009	-3.1	-7.1
Establish Hospital Value-Based Purchasing Program	-1.7	-5.2
Competitive Bidding for Clinical Laboratory Services	-2.3	-6.8
Limit Oxygen Rental Period to 13 Months	-3.0	-6.8
Adjust Payments for Post-Acute Care	-1.7	-4.1
End-Stage Renal Disease (ESRD) Payment Modernization and Bundling	-1.1	-3.6
60-Month Medicare Secondary Payer Status for ESRD	-1.1	-2.7
Phase Out Payments for Medicare Bad Debt	-8.5	-30.3
Eliminate Indexation of Income-Related Part B Premium Thresholds*	-2.6	-14.9
Established Income-Related Medicare Drug Benefit Premium*	-3.2	-11.0
Establish 13-Month Rental Period for Power Wheelchairs	-0.7	-1.7
Other Proposals	-0.3	-2.0
Extend QI1 Program for One Year/Other Premium Interactions	6.5	21.7
Total Medicare Legislative Cuts	-\$178.0	-\$556.1

*The budget effect of this proposal includes: (1) reduced spending from beneficiaries opting not to sign up for the benefit, and (2) increased premium collections from those affected beneficiaries who continue receiving the benefit.

Steep Cuts to Hospitals — The budget cuts Medicare payments to hospitals in several ways:

- ***Freezes Reimbursement Rates for Three Years*** — The budget provides no inflation update for inpatient and outpatient hospital payments for three years. For 2012 and beyond, the budget provides payment updates of market basket (a measure of medical inflation) minus 0.65 percent. This policy saves \$70.3 billion over five years and \$231 billion over ten years.
- ***Reduces Disproportionate Share Payments*** — Hospitals that serve large numbers of low-income patients are known as “disproportionate share hospitals” (DSH) and receive extra funding to compensate for the added costs of treating low-income individuals. The budget phases in a 30 percent reduction in DSH payments over two years, saving \$20.7 billion over five years and \$53.3 billion over ten years.
- ***Reduces Indirect Medical Education (IME) Add-On*** — Under current law, Medicare makes IME payments to teaching hospitals to compensate for the relatively high costs these hospitals incur when treating Medicare patients. The budget reduces IME payments by \$12.9 billion over five years and \$35.0 billion over ten years.
- ***Stops Double Payments for Indirect Medical Education (IME)*** — The payment structure for Medicare Advantage managed care plans essentially causes Medicare to pay twice for IME for Medicare Advantage beneficiaries: as a payment to teaching hospitals, and as a factor in the payment rate to private plans. The budget eliminates the IME payments to teaching hospitals, for savings of \$8.9 billion over five years and \$23.3 billion over ten years.
- ***Cuts Hospital Capital Payments*** — Medicare pays a share of hospitals’ capital costs based on the proportion of hospital services used by Medicare beneficiaries. The budget reduces hospital capital payments by 5 percent in 2009, saving \$3.1 billion over five years and \$7.1 billion over ten years.

Cuts Payment Updates for Other Providers — The budget provides payment updates permanently below the level of medical inflation for several other categories of providers, using the rationale that this will motivate providers to be more efficient. Some of the providers facing cuts in their payment rate updates include:

- ***Skilled Nursing Facilities*** — The budget cuts payments for skilled nursing facilities by freezing payment rates at the 2008 level through 2011 and providing an update of market basket minus 0.65 percent thereafter, resulting in savings of \$17.0 billion over five years and \$53.7 billion over ten years.
- ***Home Health*** — The budget cuts payments for home health providers by freezing payments through 2013 and providing an update of market basket minus 0.65 percent thereafter, for savings of \$11.0 billion over five years and \$40.5 billion over ten years.
- ***Hospice*** — The budget cuts payments for hospice by freezing payment rates at the 2008 level through 2011 and providing an update of market basket minus 0.65 percent

thereafter, resulting in savings of \$5.1 billion over five years and \$16.1 billion over ten years.

- ***Inpatient Rehabilitation Facilities*** — The budget cuts payments for inpatient rehabilitation facilities by freezing payment rates at the 2009 level in 2010 and 2011 and providing an update of market basket minus 0.65 percent thereafter, resulting in savings of \$4.8 billion over five years and \$13.6 billion over ten years.

Applies Competitive Bidding to Laboratory Services — The budget extends competitive bidding to laboratory services, similar to the competitive bidding system currently in place for durable medical equipment. This policy saves \$2.3 billion over five years and \$6.8 billion over ten years. The President's 2008 budget also included this policy change.

Adjusts Payments for Post-Acute Care — The budget adjusts payments for the care of beneficiaries recovering from certain acute episodes (such as a hip replacement) so that the payment rates across different post-hospital settings are better aligned. This policy saves \$1.7 billion over five years and \$4.1 billion over ten years. The President's 2008 budget included a similar policy change.

Phase Out Payments for Medicare Bad Debt — Currently, Medicare reimburses some Medicare providers, such as skilled nursing facilities, for 70 to 100 percent of their bad debt (cost-sharing owed by Medicare patients that has not been collected). The budget phases out Medicare reimbursements for bad debt over four years, for savings of \$8.5 billion over five years and \$30.3 billion over ten years.

Applies Income-Related Medicare Premiums to More Beneficiaries — As a result of the MMA and subsequent legislation, seniors with annual incomes above \$82,000 (\$164,000 for couples) will pay additional income-related premiums for Medicare Part B this year. The income thresholds that trigger the higher premiums are indexed to inflation. However, the President's budget again eliminates the indexing, with the result that a growing proportion of middle-income seniors will be affected by the means-tested premium every year, analogous to the problem with the Alternative Minimum Tax. The Administration projects that 4.2 million seniors will pay higher premiums in 2018 under this policy, compared with 2.2 million under current law in that same year. The budget uses the same unindexed income thresholds to establish new income-related premiums for the Medicare prescription benefit, which will affect an estimated 3.7 million beneficiaries in 2018. The combined effect of these proposals is to reduce net Medicare spending by \$5.8 billion over five years and \$25.9 billion over ten years.

Fails to Address Medicare Physician Reimbursement Issues — Under current law, doctors are slated for a Medicare payment rate cut of 10 percent starting in July of this year, with additional cuts in the following years. Every year since 2003, Congress has passed short-term fixes to prevent physician rate cuts from going into effect. Once again, the budget fails to propose a

reform to the physician payment system. The payment rate cuts are required under the Sustainable Growth Rate (SGR) formula, which was created in 1997 in an attempt to control the growth of total spending on physician services. Under the formula, if total spending exceeds certain targets, then payment rates are cut for all physicians without regard to individual physicians' practice patterns. The targets allow total spending to keep pace with inflation and enrollment growth. Spending has exceeded the targets in recent years because the volume and intensity of services provided per patient has grown.

Creates Automatic Across-the-Board Cut in Medicare — The MMA requires the Medicare Trustees to estimate in each of their annual reports the point at which Medicare general revenues – as opposed to premiums and payroll taxes – will finance at least 45 percent of Medicare costs. Once the Trustees estimate in two successive reports that this 45-percent level will be exceeded within seven years, they are to issue a “Medicare funding warning.” The warning triggers a requirement that the President submit a proposal to Congress the following year to reduce the share of Medicare spending funded by general revenues below the 45-percent threshold, and that such legislation be considered in Congress under expedited procedures. The Trustees issued their first “Medicare funding warning” last year, so the President by law must submit a Medicare proposal to Congress this year – within 15 days of submitting his budget to Congress. The budget repeats a provision from previous years to impose an across-the-board cut to all Medicare provider payments of 0.4 percent in the year the threshold is exceeded if Congress does not enact applicable changes before then. The across-the-board cut will become deeper in each subsequent year, until legislation is enacted to bring general revenue funding below 45 percent of total Medicare expenditures. The budget projects that across-the-board cuts would not occur within the ten-year budget window under the President’s Medicare policies.

Assumes \$20.0 Billion in Regulatory Cuts — In addition to the legislated cuts, the budget assumes \$8.0 billion of Medicare regulatory savings over five years and \$20.0 billion of savings over ten years. The regulatory actions assumed in the budget include:

- withholding increased Medicare payments to hospitals for certain health conditions that were not present at the time of admission to the hospital;
- increasing the hospital inpatient length-of-stay threshold that triggers reductions in hospital payments for patients transferring home for home health services;
- recalculating the case-mix distribution in the skilled nursing facility payment system;
- phasing out the hospice-specific wage index adjustment over three years; and
- unspecified program integrity efforts.

Function 600: Income Security

Function 600 consists of a range of income security programs that provide cash or near-cash assistance (e.g., housing, nutrition, and energy assistance) to low-income persons, and benefits to certain retirees, persons with disabilities, and unemployed workers. Housing assistance programs account for the largest share of discretionary funding in this function. Major federal entitlement programs in this function include unemployment insurance, trade adjustment assistance income support, food stamps, Temporary Assistance to Needy Families (TANF), foster care, and Supplemental Security Income (SSI). Federal and other retirement and disability programs, which comprise approximately one third of the funds in this function, are discussed here and in Function 950 (Undistributed Offsetting Receipts).

For 2009, the President's budget provides \$343 billion for the mandatory programs in this function, a cut of \$93 million below the amount of spending projected under current law. Over five years, mandatory spending decreases by a total of \$5.5 billion from the total projected under current law.

The President's budget provides \$54.1 billion in appropriations for Function 600 discretionary programs, a \$613 million (1.1 percent) cut below the amount needed to maintain purchasing power at the 2008 level.

Unemployment Insurance and Trade Adjustment Assistance

Unemployment Insurance (UI) is financed through a combination of state and federal taxes. State taxes pay for regular unemployment insurance benefits. Federal taxes, which are generated by a 0.8 percent employer tax on the first \$7,000 of each employee's wages, support federal and state unemployment administration and training services, the federal government's share of extended benefits for workers who have searched for work without finding it for more than 26 weeks, and loans to states that are unable to pay benefits because their state trust funds have run low. Some workers who lost their jobs as a result of increased trade are eligible to receive additional weeks of income support from the federal Trade Adjustment Assistance for Workers program (TAA) while they participate in training. Those benefits are separately financed.

Extends Trade Adjustment Assistance Program and Caps Training Benefits for Some Workers — The budget continues the current TAA program with some modifications. The current program, which pays the full cost of approved training for eligible workers, is replaced with "New Economy Scholarships" with a limit of \$8,000 per worker. The budget continues income support for workers participating in training, but eliminates waivers of the training requirement and replaces them with a policy allowing 13 weeks of extended income support for all trade-affected workers, regardless of whether they participate in training. The training budget,

funded in Function 500 (Education), remains frozen at \$260 million a year and continues to function as a cap on income support benefits, since workers must participate in training in order to receive income support after the initial period. The budget also phases out the Alternative Trade Adjustment Assistance program, which provides wage subsidies to some older workers who return to work at a lower wage, and replaces it with a different wage subsidy program. The net effect of these changes is to increase TAA spending by \$15 million over the first five years and to decrease it by \$81 million over a ten-year period (2009-2018).

Repeats Proposals to Reduce Overpayments, Including Use of Private Collection Agencies —

As it has for the past several years, the budget reduces spending on unemployment insurance payments by \$1.7 billion over five years by implementing a variety of policies targeting overpayments, including new penalties, the use of private collection agencies, garnishment of tax refunds, and allowing states to use recovered overpayments to fund additional collection activities.

Funds New Reviews of Unemployment Eligibility but Eliminates the Employment Service —

The budget provides \$40 million for in-person interviews with unemployed workers to confirm that they are meeting the job search requirement and to provide referrals and labor market information. But it eliminates funding for local Employment Service offices, which administer the “work test” requirement and help individuals find new jobs. More information about the Employment Service and job training is provided in *Function 500 (Education)*.

Nutrition

Expands Food Stamp Eligibility for Some Families While Terminating It for Others — The budget repeats a number of past proposals affecting food stamp eligibility. The net effect of these changes is to increase food stamp spending by \$332 million over the next five years. They include:

- ***Cuts off Food Stamps for Some Working Families Who Qualify for Food Stamps By Receiving Non-Cash Assistance*** — Last year, CBO estimated that this change, which primarily affects families that receive subsidized child care, transportation, or other work supports from the Temporary Assistance to Needy Families program, would end food stamps for 280,000 families. Some children who lose access to food stamps will also lose free school lunches.
- ***Excludes Some Assets and Expenses When Determining Food Stamp Eligibility*** — The budget allows individuals to deduct the value of retirement savings accounts and IRS-approved college savings accounts from their income when applying for food stamps, and allows working parents to deduct their full child care costs.

- ***Continues to Exclude Combat Pay When Calculating Food Stamp Eligibility for Military Families*** — This policy was first adopted in 2005 and has been renewed annually.

Caps Administrative Funding for the Women, Infants, and Children Program (WIC) — The budget includes \$6.1 billion for WIC for 2009, an increase of \$80 million over the 2008 level (including emergency funding). The Administration estimates that this funding level, together with \$145 million in savings from capping the per-person grant for state administrative expenses at the 2007 national average, will be sufficient to accommodate a \$1 per person increase in the cost of the monthly food package and serve an average of 8.6 million individuals per month, 100,000 more than in 2008. Last year, higher-than-anticipated food prices caused a significant WIC shortfall, which was addressed with emergency funding.

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 received \$140 million in 2008.

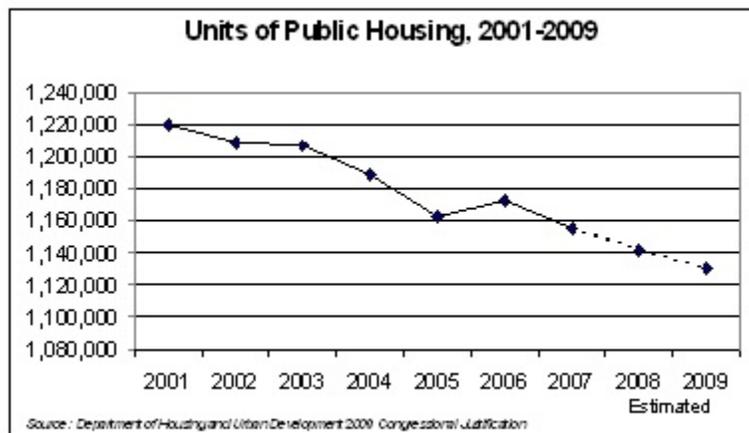
Housing Assistance

Increases Funding for Project-Based Rental Assistance to Avoid a Repeat of This Year's Payment Delays to Landlords — The budget increases funding for Project-Based Rental Assistance by \$617 million (9.7 percent) for 2009 and by an additional \$400 million for 2010. Landlords in the program contract with the Department of Housing and Urban Development (HUD) to provide affordable housing for very low-income families and elderly and disabled households. Last summer, HUD payments to landlords were delayed by as much as three months. HUD recently acknowledged that last year's budget request was \$2.6 billion less than was needed to fully fund the contracts. The 2008 Consolidated Appropriations Act reduced the gap, but the President's 2009 budget would essentially maintain the shortfall at its current level. It appears that the budget would, however, provide enough funding to renew landlord contracts expiring in the first quarter of 2009 for a full 12 months and to pay partial-year contracts with the remaining landlords into the first quarter of December 2010, preventing a repeat of last summer's defaults.

Cuts Largest Federal Housing Assistance Program — The budget cuts the Housing Choice Voucher Program, which provides housing assistance to approximately 2 million low-income families, by \$599 million (3.6 percent) below the amount needed to maintain purchasing power at the 2008 level, and reduces the advance appropriation for 2010 by \$158 million (3.8 percent), compared with the one provided for 2009. The 2008 appropriation rescinded \$723 million in unusable balances held by public housing agencies (balances in excess of what agencies need to use 100 percent of their authorized vouchers) in order to meet the President's budget level and

still fully fund renewal of all vouchers in use in 2007. The budget rescinds an additional \$600 million from the agencies. Agencies do have some remaining reserves, but it is unclear whether they can fund a \$600 million rescission without returning funds needed to fund their full allotment of authorized vouchers for families in need. The budget also provides a \$100 million increase in the Public Housing Operating Fund, which is not enough to prevent a reduction (from 81.7 percent to 81.0 percent) in the share of public housing agency costs covered by the fund.

Fails to Address Maintenance and Repair Backlog in Public Housing — The budget cuts funding for the Public Housing Capital Fund by \$461 million (18.7 percent) below the amount needed to keep pace with inflation, providing only \$2.0 billion for 2009. After transfers to other funds, the budget allocates less to repair grants than the \$2.0 billion a year that HUD had previously estimated was necessary to keep up with current maintenance needs. According to HUD’s most recent estimate, public housing has an \$18.0 billion backlog of unmet need for repairs and modernization. The budget also terminates the Hope VI program, which transforms severely distressed public housing into vibrant mixed-income neighborhoods.



Reduces Housing Assistance for the Elderly and Disabled — The budget reduces rental assistance for the disabled by \$78 million, or 33.1 percent below the 2008 level, and cuts rental assistance for the elderly by \$196 million, or 26.7 percent below the 2008 level.

Increases Funding for Homeless Assistance — The budget provides \$1.6 billion for homeless assistance grants, a \$17 million (1.1 percent) increase over the amount needed to maintain purchasing power at the 2008 level.

Family Support

Cuts Low-Income Home Energy Assistance Program (LIHEAP) Despite Rising Energy Costs — The budget cuts total LIHEAP funding by \$570 million below the 2008 level and cuts regular (non-contingency) funding by \$320 million below the level needed to keep pace with inflation. According to the Department of Energy, home heating costs for the average family have increased by almost 80 percent since 2001. The Administration has proposed cuts below the

amount needed to maintain current services in six of the past eight years, and the program currently serves only 16 percent of eligible households.

Reduces Total Funding for Child Care Assistance and Quality Improvement — The budget freezes both mandatory and discretionary funding for child care assistance and quality improvement at the 2008 level, for a total funding level of \$5.0 billion. The budget also cuts the Social Services Block Grant (SSBG) by \$500 million (29.4 percent) in 2009 and completely eliminates it in 2010. SSBG is a flexible block grant many states use to supplement child care, in addition to funding child welfare, home-based services, adult protective services, prevention and intervention services, and services to the disabled. The cut is likely to place additional pressure on state budgets at a time when nearly half of states have announced they will face budget shortfalls in 2009. SSBG is funded in Function 500 (Education).

Extends Supplemental Security Income (SSI) Eligibility for Refugees and Asylees — As in past years, the budget extends the current seven-year eligibility period for refugees and asylees to eight years to allow for immigration processing and other delays. The extension increases SSI spending by \$57 million over the next three years.

Spending Associated with Tax Proposals

Eliminates Tax Credits for Certain Low- and Middle-Income Taxpayers — The budget changes the eligibility guidelines for the Earned Income Tax Credit (EITC) and the Child Tax Credit so that certain taxpayers no longer qualify for these benefits. The changes will reduce spending on the refundable portion of the Child Tax Credit by \$4.3 billion over ten years and will reduce spending on the refundable portion of the EITC by \$2.0 billion over ten years. For more information on the President's tax policies, see the *Revenues* chapter.

General and Federal Retirement and Disability

Federal Employees' Pay Raise — The budget increases federal civilian pay rates by 2.9 percent in January 2009, which is well below the 3.4 percent increase for military personnel.

Other Mandatory Spending

Pension Benefit Guaranty Corporation (PBGC) — The budget again includes pension reforms to protect the long-term solvency of the PBGC. The recently enacted Pension Protection Act included funding rules to fully pay for pension plans and adjusted both the variable and flat rate premiums. The budget will give the PBGC board the authority to raise premiums companies pay to PBGC to produce revenue necessary to meet expected future claims and retire the PBGC

deficit over ten years. This provision saves \$380 million in 2009, \$8.9 billion over the 2009-2013 period, and \$18.5 billion over ten years.

Federal Employees Compensation Act — The budget again 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 provision saves \$288 million over the ten-year period (2009-2018).

Federal Employee Health Benefits Program Statute — The budget again amends the Federal Employee Health Benefits program statute to increase price competition among health plans offered to federal employees and retirees through the Federal Employees Health Benefits program. This proposal saves \$3.7 billion over the ten-year period (2009-2018). The savings for this proposal are shown in Function 550 (Health).

Function 650: Social Security

Function 650 includes the two payroll tax-financed programs which collectively are known as “Social Security”: Old-Age and Survivors Insurance and Disability Insurance. This function includes discretionary resources to fund the Social Security Administration (SSA).

Budget Summary

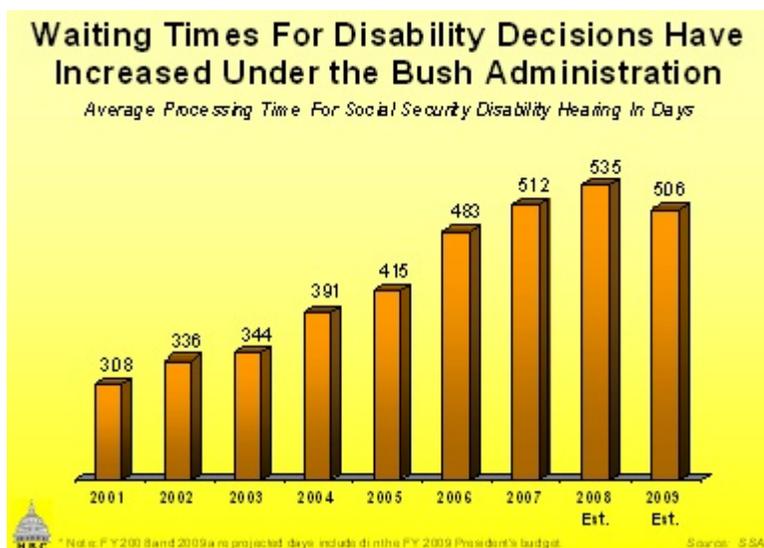
Old-Age and Survivors Insurance (OASI) — Under current law, SSA will pay \$535 billion in retirement and survivors benefits to 42 million recipients in 2009. This is an increase of \$28.1 billion (5.5 percent) over the 2008 projected outlays. This spending is mandatory and off-budget.

Disability Insurance (DI) — Under current law, SSA will pay \$110 billion in disability insurance benefits to 9.3 million recipients in 2009. This is an increase of \$6.6 billion (6.4 percent) above the 2008 projected outlays. This spending is mandatory and off-budget.

Income — Under current law, income to the OASI and DI programs are projected to be \$855 billion, an increase of \$47.0 billion (5.8 percent) over 2008. Income from payroll taxes and interest from the Treasury is off-budget. The transfer of individual income taxes on Social Security benefits is treated as on-budget mandatory spending with a corresponding off-budget receipt in the trust funds. Under current law, proceeds from the taxation of benefits will be \$22.9 billion in 2009.

SSA Administrative Resources —

The President’s budget includes \$10.5 billion for 2009 for the Social Security Administration’s operating budget (this amount includes funding for Supplemental Security Income and Medicare-related activities SSA conducts). The level is an increase of \$596 million (6.0 percent) over the 2008 level. This spending is discretionary. Of this total, \$5.2 billion is related to OASDI activities and is off-budget.



SSA is currently experiencing a record backlog of 746,744 pending disability hearings, with the wait for a hearing averaging 17 months. Since the beginning of the Administration, the average waiting time has increased from

308 days to 512 days in 2007. The cause of the backlogs is mostly the result of chronic understaffing and increased claims. The budget increases funding to address these backlogs and waiting times. Lengthy waits can lead to bankruptcies, foreclosures, and a high degree of personal stress. “People have died waiting for a hearing,” said Social Security Commissioner Michael Astrue in May 2007.

Legislative Proposals

Worsens Deficits and Debt by Diverting Resources to Social Security 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 2012 (in the President’s previous budget) to 2013. 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. The budget reflects costs of \$647 billion through 2018, but that figure understates the overall fiscal effect of the accounts because the budget assumes implementation of the plan will not begin until 2013, 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.

Reduces Retroactive Period to Six Months for Disability Insurance Benefits — The budget changes the initial month of entitlement for DI benefits, from as much as twelve months prior to the month of application to no earlier than six months prior to the month of application. The proposal reduces DI spending by \$3.4 billion over five years and \$9.7 billion over ten years.

Combines Retroactive OASDI Benefits with Monthly Benefit — The budget combines retroactive OASDI benefits with the next scheduled check to simplify the payment system. This proposal decreases spending by \$1.1 billion over five years and \$1.4 billion over ten years.

Includes Disability Insurance (DI) Funding Warning — The budget requires the Social Security Trustees to issue a warning in its annual Trustees Report if the Social Security actuaries project the DI program has a negative cash flow of more than ten percent of program costs for four consecutive years over a ten-year period.

Cap Adjustment for Disability Insurance (DI) Program Integrity Activities — The budget includes administrative funding cap adjustments for 2009 through 2011 to fund program integrity activities. The budget includes a cap adjustment of \$240 million in 2009, with up to \$74 million available for disability process improvements or improvements in the asset verification process. According to OMB, the program integrity activities resulting from the cap adjustment save \$1.8 billion over five years and \$2.6 billion over ten years.

Enforcement of Windfall Elimination Provision/Government Pension Offset — Public sector workers who are not covered by Social Security, for either their entire careers or a portion of it,

are subject to offsets that are designed to prevent them from earning higher overall Social Security benefits than if they had spent their entire careers covered by Social Security. The budget establishes a mandatory system for collecting data on pensions not covered by public employment. The proposal reduces spending by \$460 million over five years and \$2.5 billion over ten years.

Requires Full-Time School Attendance at Age 16 — Under current law, to remain eligible for benefits, 18-year-olds must be full-time secondary or elementary students. (Benefits stop upon reaching age 19 or completion of grade 12.) Making this provision apply to 16- and 17-year-olds would reduce spending by \$598 million over five years and \$1.6 billion over ten years.

Replaces DI/Worker's Comp Offset with Unified Offset — The budget changes the formula for how disability insurance and worker's compensation benefits are integrated. It reduces spending by \$515 million over five years and \$1.1 billion over ten years.

Function 700: Veterans Benefits and Services

Function 700 covers the programs of the Department of Veterans Affairs (VA), including veterans' medical care, compensation and pensions, education and rehabilitation benefits, and housing programs. It also includes the Department of Labor's Veterans' Employment and Training Service. More than 99 percent of appropriated veterans funding goes to VA, and more than 85 percent of this funding is for VA medical care and hospital services.

For 2009, the President's budget provides \$44.9 billion in appropriations for veterans, which is \$1.6 billion (3.8 percent) more than the 2008 level of \$43.3 billion. After 2009, the budget cuts funding by billions of dollars. The 2010 level is \$2.0 billion less than the 2009 level, and the budget never returns to the 2009 level. Over five years, the budget cuts veterans funding by \$20.0 billion compared with the level needed to maintain purchasing power at the 2008 level.

Total Appropriated Funding for Veterans in billions of dollars						
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2009-2013</u>
2009 President's Budget	44.9	42.9	43.2	42.8	42.5	216.3
Current Services Level	44.5	45.8	47.2	48.6	50.1	236.2
Amount Budget Above/Below Current Services	+0.4	-2.9	-4.0	-5.8	-7.6	-20.0

Numbers may not add due to rounding.

Medical Care

Cuts Funding for Veterans' Medical Care After 2009 — The President's budgets consistently have provided inadequate funding to give veterans the timely, high-quality care that they deserve and have earned. The President agreed to the historic 2008 level provided by Congress – \$3.7 billion more than his budget – even though he had previously indicated that his 2008 budget was “more than sufficient to address all needs.” The 2009 budget for medical care is \$38.7 billion, which is a little more than \$2.0 billion above the 2008 level. This amount includes funding to serve an estimated 5.8 million veterans and other patients. The President's budget does not specify medical care funding after 2009 but cuts total veterans funding by a net \$20.0 billion from 2009 to 2013. Because medical care funding is more than 85 percent of total veterans appropriations, it faces large cuts over the five-year period in the President's budget.

Imposes New Enrollment Fees and Increases Co-Payments — The President's budget raises fees on veterans for their health care even though Congress has rejected such fee increases on a bipartisan basis in each of the last five years. The budget increases fees by \$2.3 billion over five years. For 2009, the budget increases pharmacy co-payments from \$8 to \$15 for Priority 7 and 8

veterans. These veterans do not have service-connected disabilities and have incomes above \$28,000. The budget also eliminates the practice of offsetting veterans' co-payments by the amount third-party health insurers pay. The budget results in veterans having to pay higher co-payments to VA up front, with no guarantee that third-party insurers will reimburse the veterans. Finally, beginning in 2010, the budget imposes on Priority 7 and 8 veterans an annual income-based enrollment fee ranging from \$250 to \$750. VA estimates that the fee increases would discourage many of its 1.4 million Priority 7 and 8 patients from using VA's health care system.

May Not Cover the Full Costs of Care for the Large Number of New War Veterans — The budget states that it covers full health care costs in 2009 for an estimated 333,275 veterans of the Iraq and Afghanistan wars. That number is 39,930 (13.6 percent) more than the 293,345 new war veterans VA expects to treat in 2008 and is 127,647 (62.1 percent) more than the 205,628 that VA treated in 2007. However, after 2009, the budget cuts veterans funding – more than 85 percent of which is for medical care – making it more difficult to accommodate health care for all of the veterans returning from these wars.

Continues to Deny Care to Millions of Priority 8 Veterans — On January 17, 2003, VA stopped enrolling new Priority 8 veterans for medical care. The budget continues this policy. According to VA, if it were to lift this restriction, hundreds of thousands of veterans might enroll.

Reduces Medical and Prosthetic Research — The budget provides \$442 million for medical and prosthetic research, which is \$38 million (7.9 percent) less than the 2008 level. VA's research and development program benefits all veterans, but it is particularly important for new veterans returning from the wars in Iraq and Afghanistan. This research includes work to improve the treatment of post-traumatic stress disorder and blast-related brain and other injuries.

Selected Other Discretionary Programs

Cuts Construction Funding — The budget provides \$1.0 billion for VA construction, \$876 million (46.0 percent) less than the 2008 level. VA construction funding goes to each of VA's three administrations (health, benefits, and cemeteries), some central staff offices, and grants to states for extended care facilities and cemeteries.

Provides a Modest Increase for Veterans Benefits Administration — In March 2007, the Government Accountability Office described a veterans' disability benefits system on the verge of crisis. The claims pending at year's end (the "backlog") grew by more than 50 percent from 2003 to 2007, to nearly 392,000. On average in 2007, a veterans' compensation or pension claim was pending with VA for six months. Congress provided large funding increases for 2007 and 2008 to hire another 2,900 claims processors and reduce the backlog. The budget provides \$33 million (3.0 percent) more than the 2008 level for compensation and pensions administration.

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); Border and Transportation Security (BTS); the Bureau of Alcohol, Tobacco, 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. This function includes several components of the Department of Homeland Security.

For 2009, the President's budget provides \$44.1 billion in appropriations for programs in this function, an increase of \$1.4 billion above the 2008 level, excluding emergency funding. The budget increases several federal law enforcement programs that are tied to homeland security. However, like previous budgets submitted by the Administration, the 2009 budget significantly cuts state and local law enforcement programs. These cuts hurt first responders' ability to protect their communities on a day-to-day basis.

Federal Law Enforcement Increased

Customs and Border Enforcement Builds Staffing and Barriers — Customs and Border Enforcement protects air, land, and sea ports of entry. The President's 2009 budget provides \$9.5 billion in discretionary funding for the agency, an increase of \$1.6 billion over the 2008 enacted level, excluding emergency spending. However, factoring in emergency funding from 2008 (\$1.5 billion), the budget only increases overall funding by \$88 million. The budget includes \$775 million for border protection fencing, infrastructure, and technology along the southwest border of the United States (\$1.1 billion in emergency funding was provided in 2008 for this purpose). Overall, the budget provides resources for the agency to hire 2,200 new border patrol agents and improve processing at points of entry.

Federal Bureau of Investigation Receives Significant Increase — The FBI's responsibilities include detecting, investigating, and prosecuting federal crimes, as well as contributing towards counterintelligence and protecting national security. Overall, the budget provides \$7.1 billion for the FBI, a \$598 million (9.2 percent) increase over last year's level, excluding emergency spending. Of the total funding, more than 60 percent of the Bureau's budget is classified as law enforcement activities. The majority of the increase goes toward increasing the Bureau's intelligence, surveillance, communication, and information technology capabilities.

Other Law Enforcement Receives More Modest Increases — Other federal law enforcement programs receive more modest increases in discretionary funding. Those agencies include the Secret Service (a \$29 million increase over the 2008 level), the U.S. Marshals Service (an

\$83 million increase), the Drug Enforcement Administration (an \$82 million increase) and the Bureau of Alcohol, Tobacco, Firearms, and Explosives (a \$20 million increase).

First Responder Funding is Cut

State and Local Law Enforcement Assistance Severely Cut — The President's 2009 budget reduces funding for programs that assist state and local governments in combating crime. The Administration's budget eliminates several key programs, such as the State Criminal Alien Assistance Program, the Edward Byrne Memorial Justice Assistance Program, Byrne Discretionary Grants, and Drug Courts, and instead creates two, smaller flexible grant programs. While the 2008 appropriation for the state and local programs totaled \$908 million, excluding emergencies, the 2009 budget provides \$404 million in new funding (a 55.5 percent cut), making communities compete for a much smaller pool of resources.

Community Oriented Policing Services (COPS) Eliminated — The President's budget eliminates the COPS program. Instead, it consolidates the program into the flexible State and Local Law Enforcement Assistance grants. COPS provides grants and other assistance to help communities hire, train, and retain police officers and to improve law enforcement technologies. In 2008 it received \$587 million.

Juvenile Justice Programs Cut — The 2009 budget cuts juvenile justice programs by \$199 million or 51.8 percent. The programs provide grants to communities to reduce delinquency, to prevent sexual exploitation, and to improve the juvenile justice system.

Violence Against Women Prevention Program Underfunded — The Violence Against Women prevention program provides varied assistance to prevent and prosecute abuse committed against women. The budget provides \$280 million for Violence Against Women programs for 2009, a \$120 million cut from 2008 (30.0 percent).

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.

In total, the budget provides \$22.0 billion for 2009 and \$114 billion over five years (2009-2013). For 2009, the President's budget provides \$18.4 billion for appropriated programs in this function, \$1.3 billion above the 2008 level and \$927 million above the amount needed to maintain purchasing power at the 2008 level.

Mandatory

Arctic National Wildlife Refuge Lease Receipts — For the eighth consecutive year, the President's budget opens the Arctic Refuge to oil and gas exploration. Over the 2009-2013 period, the President's budget includes \$8.0 billion from lease bonuses in Function 950 (Undistributed Offsetting Receipts) and \$4.0 billion distributed back to the State of Alaska in this function.

Forest County Safety Net Payments — The budget provides \$200 million for an extension of forest county safety net payments. The payments will be adjusted downward each year and phased out.

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 \$202 million over 2008 through 2010.

Discretionary

Internal Revenue Service (IRS) — The budget includes \$10.8 billion for general government programs in the Internal Revenue Service, an increase of \$81 million above the level needed to maintain purchasing power at the 2008 level and \$460 million above the 2008 level.

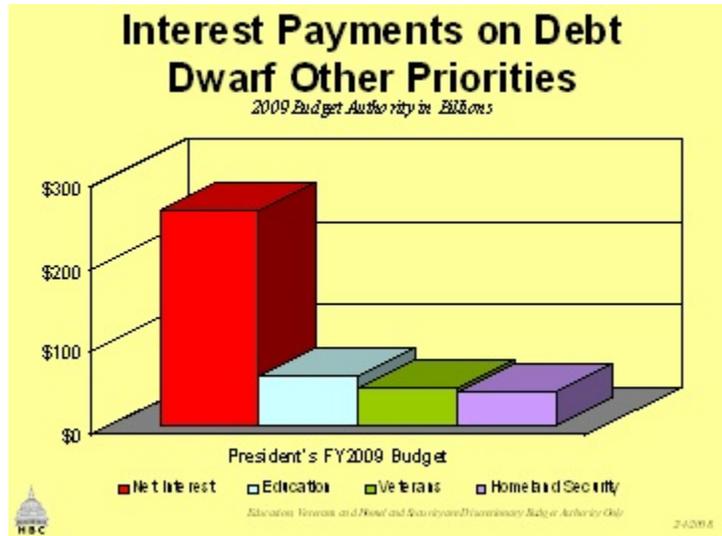
Legislative Branch — The budget includes \$4.1 billion, \$493 million above the level needed to maintain purchasing power and \$608 million above the 2008 level, for the Legislative Branch. The funding provides resources for the operations of the House and Senate as well as support agencies such as the Government Accountability Office, the Library of Congress, and the Congressional Budget Office.

Executive Office of the President — The budget includes \$356 million for the Executive Office of the President, \$19 million above the 2008 level. One-third of the increase is for expenses related to the Presidential transition.

District of Columbia's Courts — The budget includes \$272 million for the District of Columbia's courts, \$8 million below the amount needed to maintain purchasing power at the 2008 level.

Function 900: Net Interest

Burden of Debt Service Continues to Mount — When the Administration came to office in 2001, CBO projected that large surpluses would help pay down the national debt, and that net interest payments would shrink to \$58 billion by 2009. Instead, annual net interest is expected to cost \$260 billion in 2009, and grow by 16 percent, to \$302 billion by 2013 under the Administration's policies. These interest payments impose significant costs on American families, representing almost ten percent of total tax payments in 2009. The budget devotes nearly twice as much to net interest as the total of appropriations for the entire Department of Education, veterans' health care, and homeland security programs combined.



Net Interest Will Eventually Soak Up Most Revenues Under the President's Policies — The Government Accountability Office's assessment of the long-run budget outlook shows that if the tax cuts are extended and discretionary spending continues to grow with the size of the economy, by 2040 almost two-thirds of revenues will be required just to pay the interest on the debt. Under this projection, net interest becomes the largest federal spending program, larger than Social Security, and larger than Medicare and Medicaid combined.

Net Interest Is Truly Wasteful Spending — Interest on the debt represents wasted spending that, under more prudent fiscal policies, could be put toward more worthwhile needs, such as education, homeland security, improving our nation's infrastructure, paying down the debt, or providing tax relief for working families. Over the five-year budget window, the President's budget estimates \$1.4 trillion will be spent on net interest payments.

Function 920: Allowances

This function displays the budgetary effect of proposals that cannot easily be distributed across other budget functions.

Adjustments to the Legislative Branch Request — The budget includes a reduction of \$475 million for 2009 to the Legislative Branch budget request. By tradition, to maintain comity between the branches, OMB submits the Legislative Branch request as presented to it. The reduction assumed in the budget is thus reflected in the allowances function rather than with the Legislative Branch accounts.

Debt Collection Initiatives — The budget again includes debt collection initiatives to enhance the Financial Management Service's opportunities to collect delinquent debt. The budget eliminates the ten-year limitation on collecting debt owed to federal agencies and shifts the cost of collection enforcement to delinquent tax debtors. The budget also revises an existing exception to the Right to Financial Privacy Act to allow the federal government to trace and recover federal payments sent electronically to the wrong account. These initiatives save \$68 million in 2009 and \$804 million over a ten-year period (2009-2018).

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 2009, the budget assumes undistributed offsetting receipts of \$80.4 billion. Over the five-year period (2009-2013), the budget assumes undistributed offsetting receipts of \$455 billion.

Federal Employee Retirement System — For 2009, federal agencies will pay \$67.8 billion toward federal employee retirement (including the Civil Service Retirement System, Military Retirement System, Medicare Health Insurance Trust Fund, and the Social Security trust funds). 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 2.9 percent in January 2009, which is well below the 3.4 percent increase for military personnel.

Transfers Royalty Oil to the Strategic Petroleum Reserve — The budget provides funding in Function 270 (Energy) to begin increasing the storage capacity of this emergency reserve of oil from the current 727 million barrels to 1.5 billion barrels by 2029. “Royalty oil,” or payment of outer continental shelf royalty fees in oil rather than cash, will be used to fill the new storage facilities. As a result, offsetting receipts to the government will be reduced by \$795 million in 2012 and a total of \$18.0 billion over the ten-year period 2009-2018.

Arctic National Wildlife Refuge Lease Receipts — For the eighth consecutive year the President’s budget assumes opening the Arctic Refuge to oil and gas exploration. Over the 2009-2013 period, the President’s budget includes \$8.0 billion from lease bonuses for the federal treasury in this budget function and \$4.0 billion distributed back to the State of Alaska in Function 800 (General Government).

Federal Communications Commission Spectrum Auctions and License Fees — The budget assumes the FCC would continue to auction spectrum licenses after September 30, 2011 (the current expiration of the commission’s authority). In addition, the commission clarifies its

authority to auction domestic satellite service spectrum, requires licensing of unauctioned spectrum, and sets fees for the license of ancillary terrestrial component spectrum (currently granted free of charge). Fee collections from auctions and licensing will total \$2.8 billion over the 2009-2013 period and \$7.0 billion over the 2009-2018 period.

Misguided Priorities

Winners

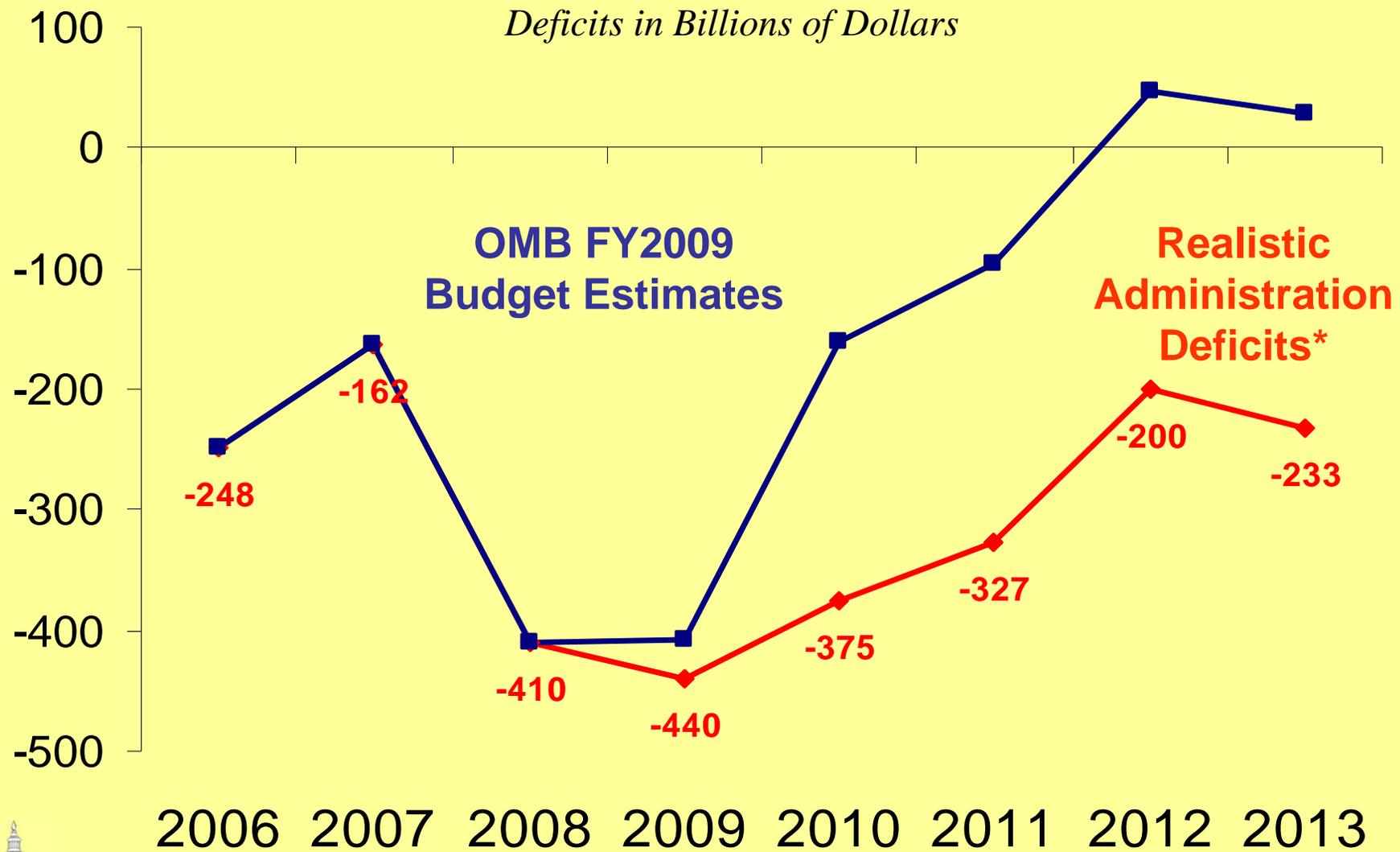
- 2001/2003 tax cuts
((\$3.0 trillion over 10 years))

Losers

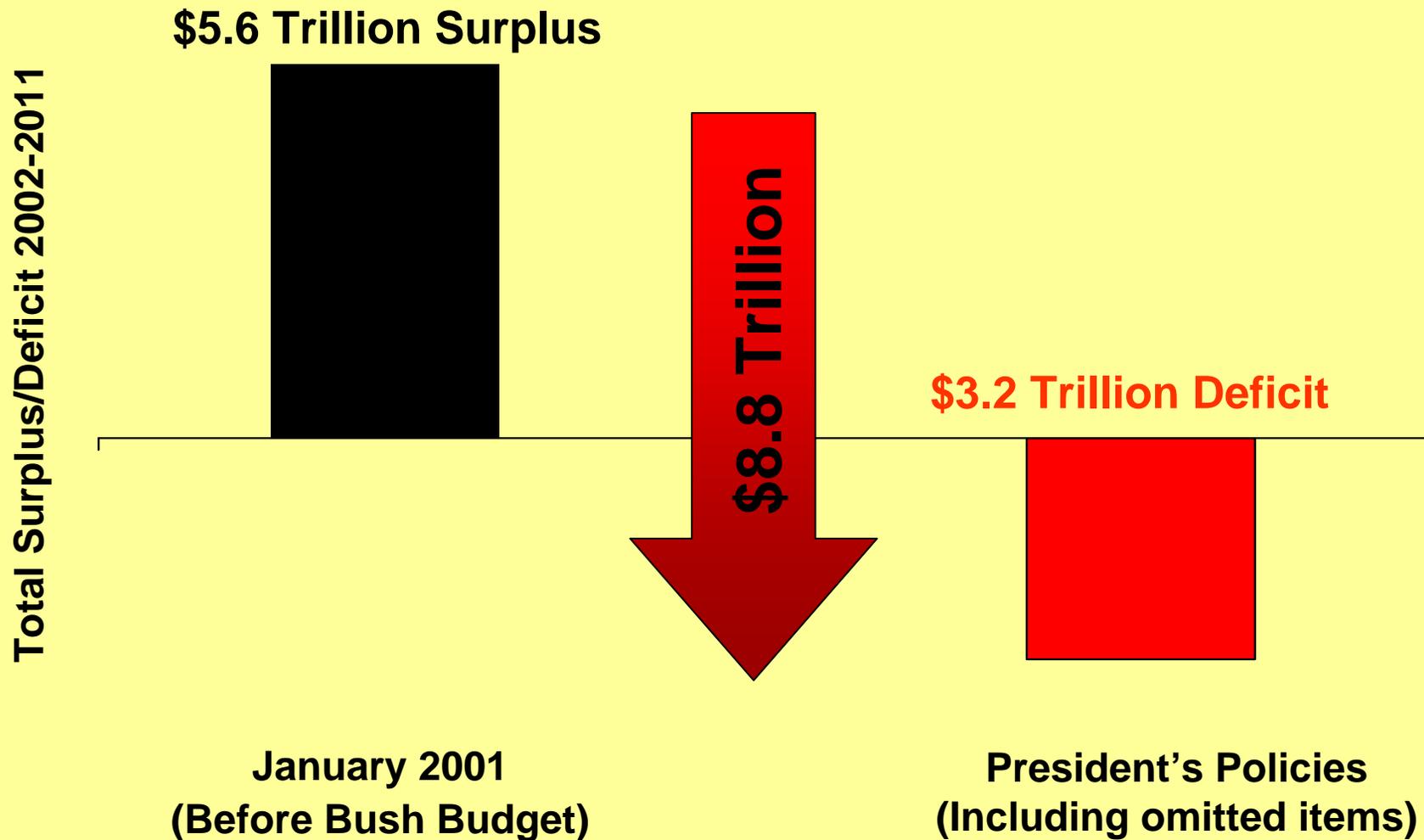
- Domestic priorities including education, health research, first responders
- Medicare beneficiaries
- Future generations burdened by growing debt



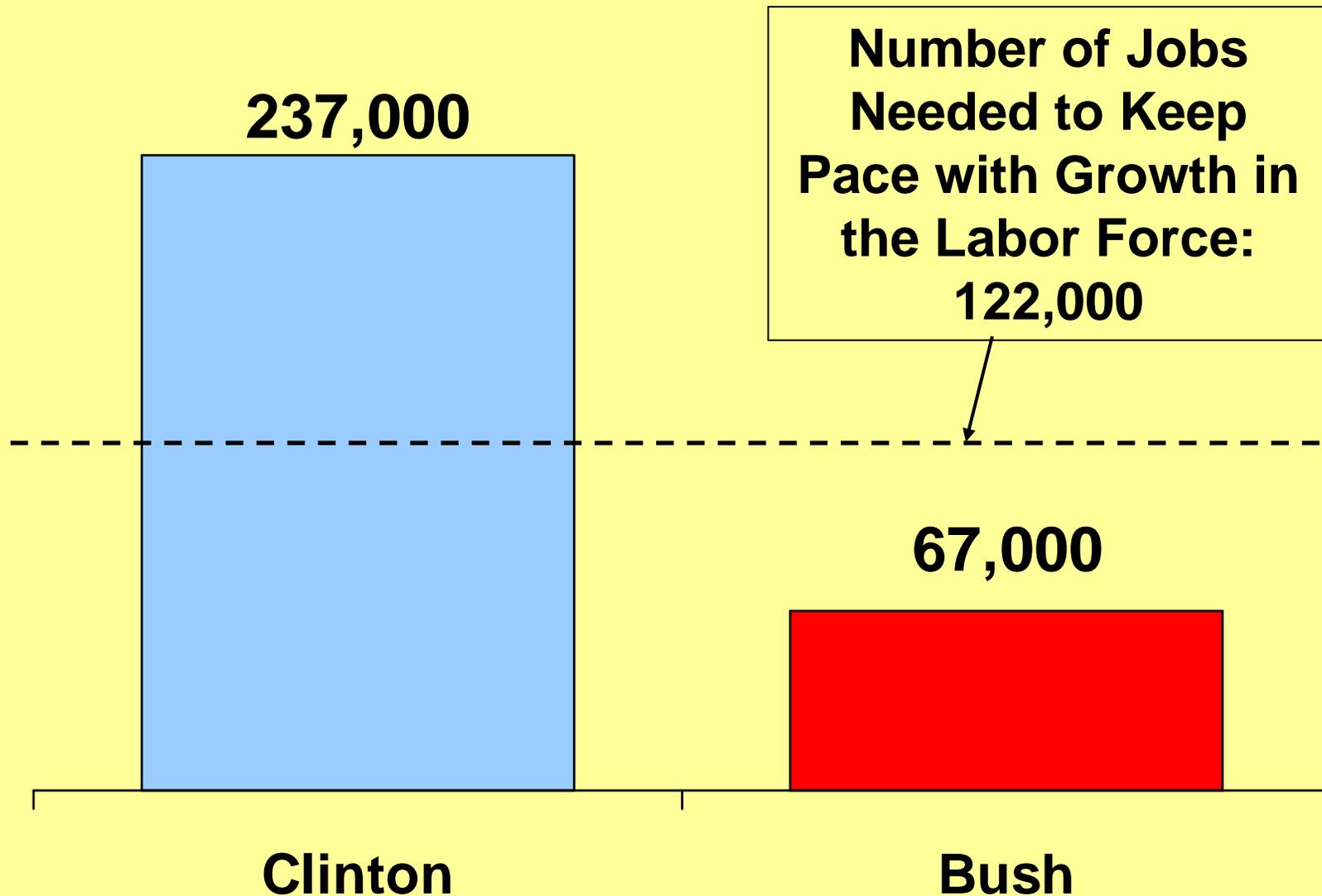
Realistic Bush Deficit Shows Administration Budget Never Reaches Balance



Budget Deteriorates by **\$8.8 Trillion** Under Republican Policies

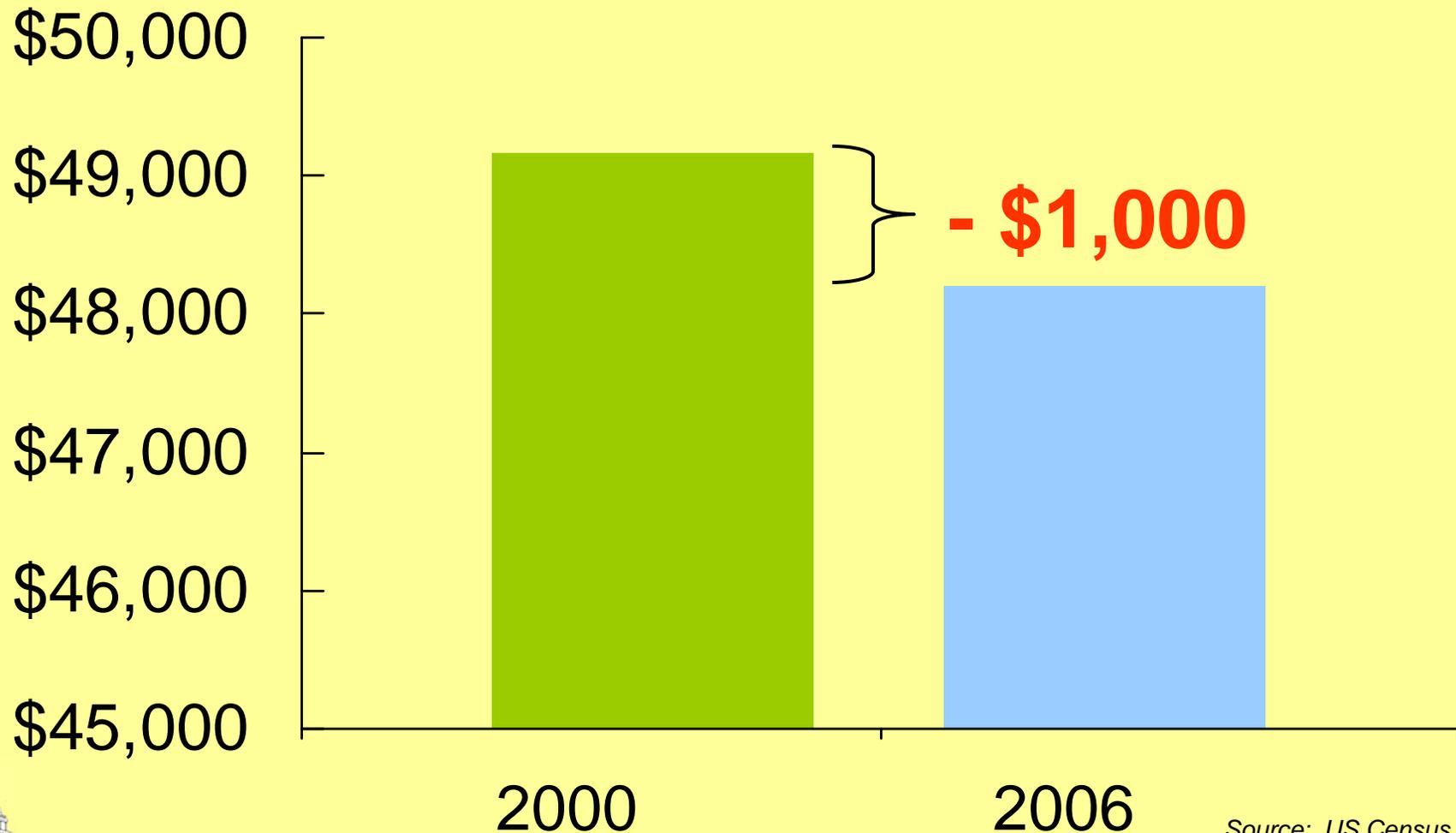


Job Growth Significantly Weaker under Current Administration

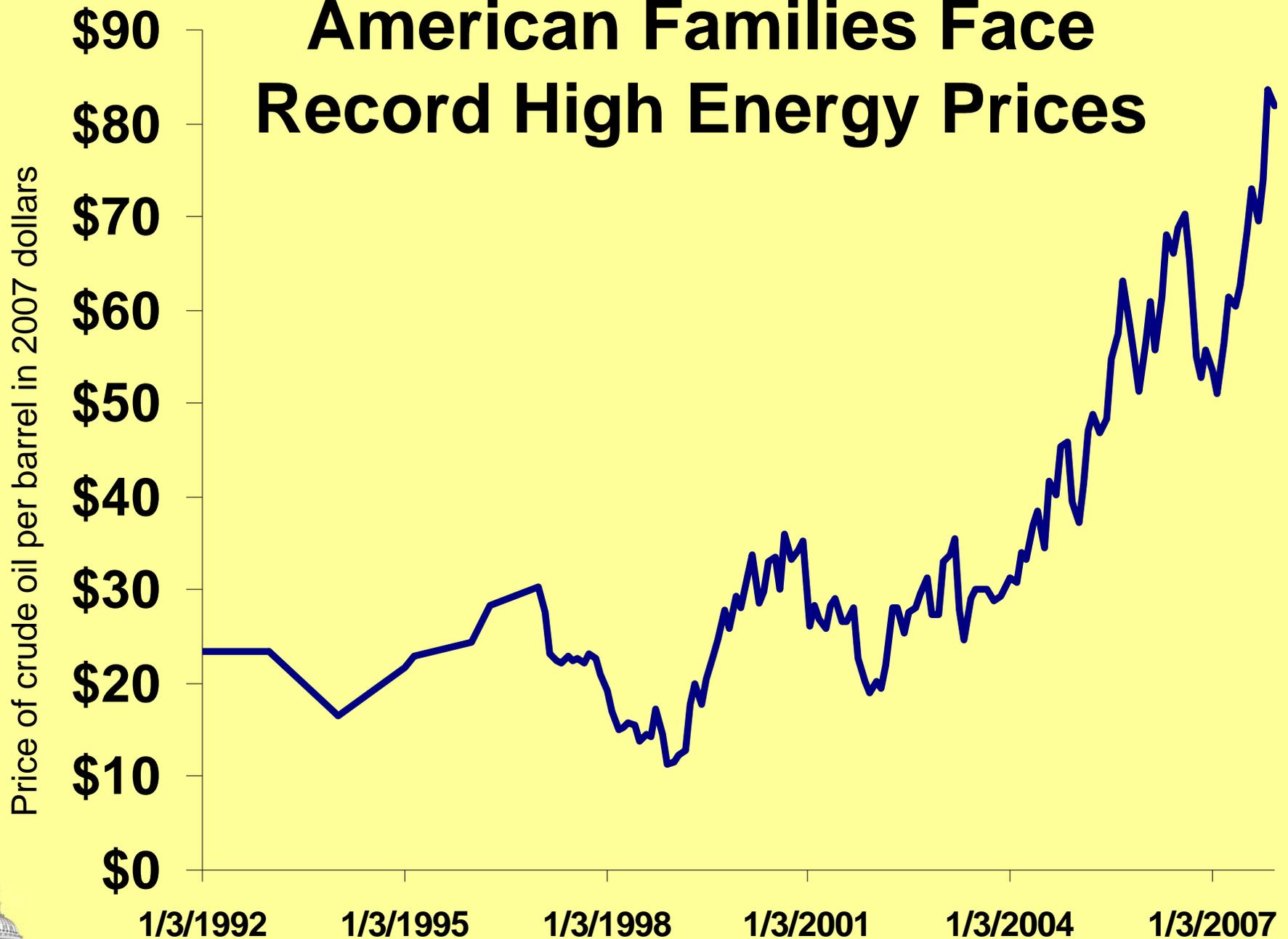


Typical Family Income Decreases Under Bush Administration

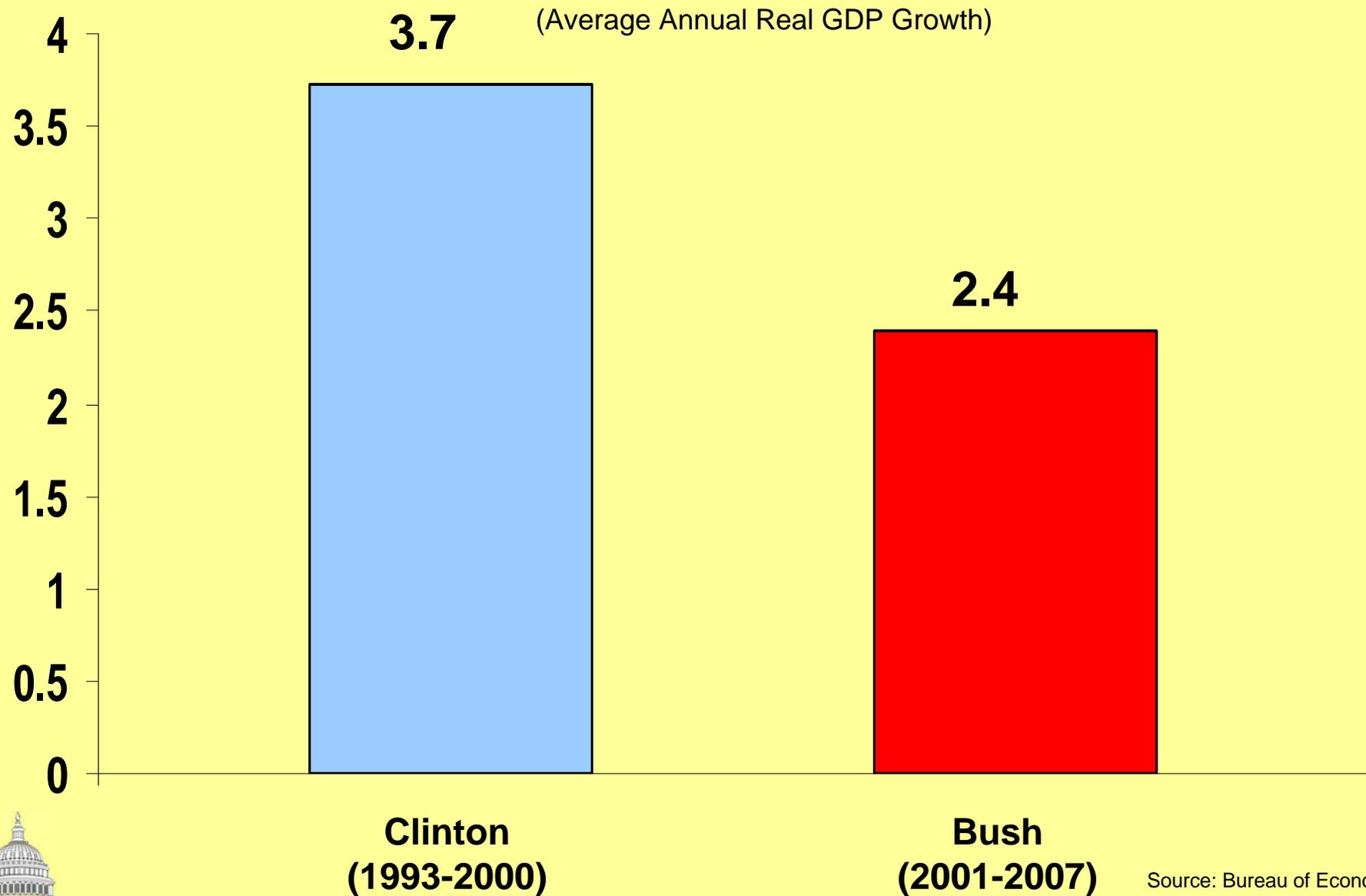
(Median Household Income, Constant 2006 Dollars)



American Families Face Record High Energy Prices

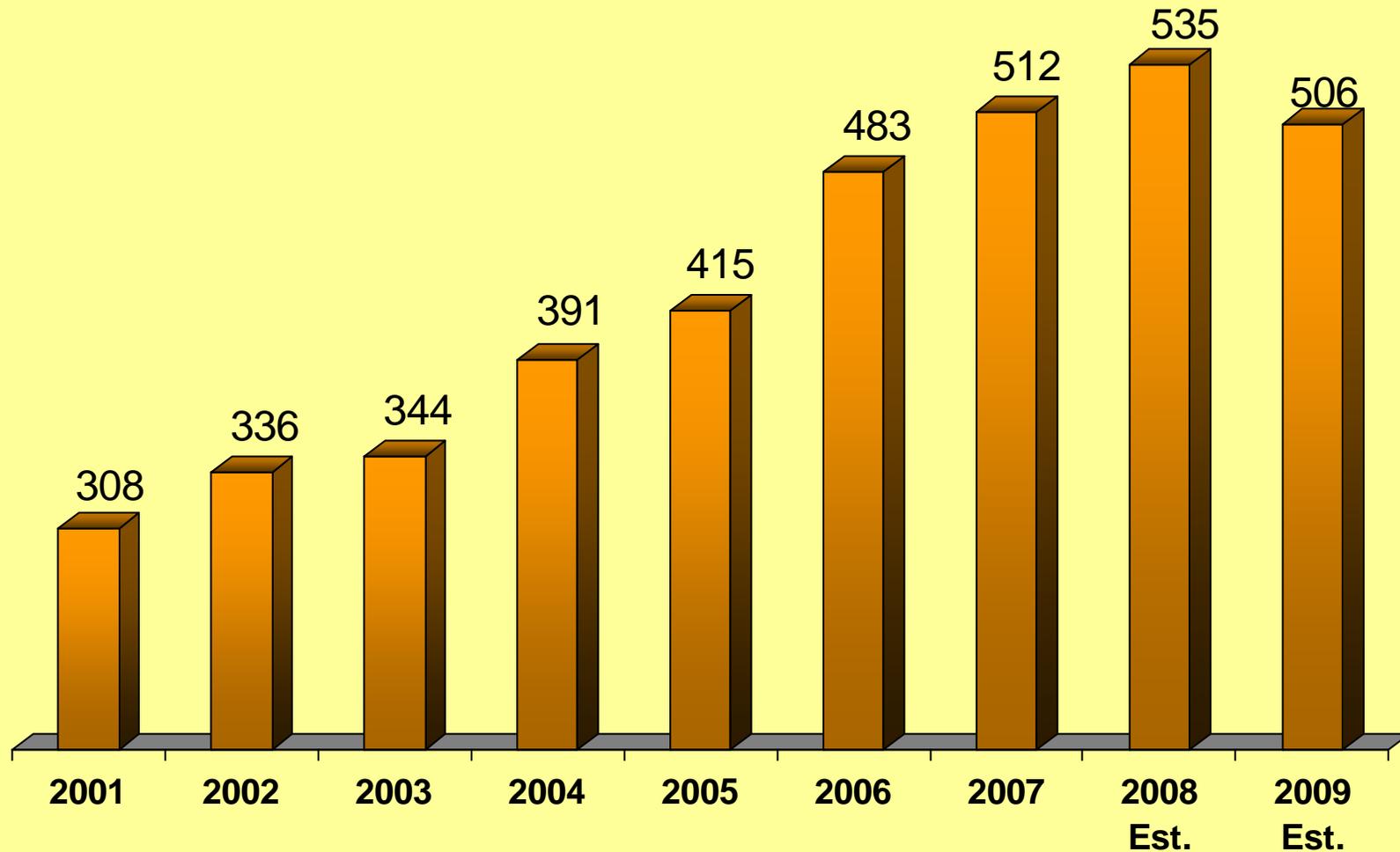


Real Economic Growth Significantly Weaker under Bush Administration



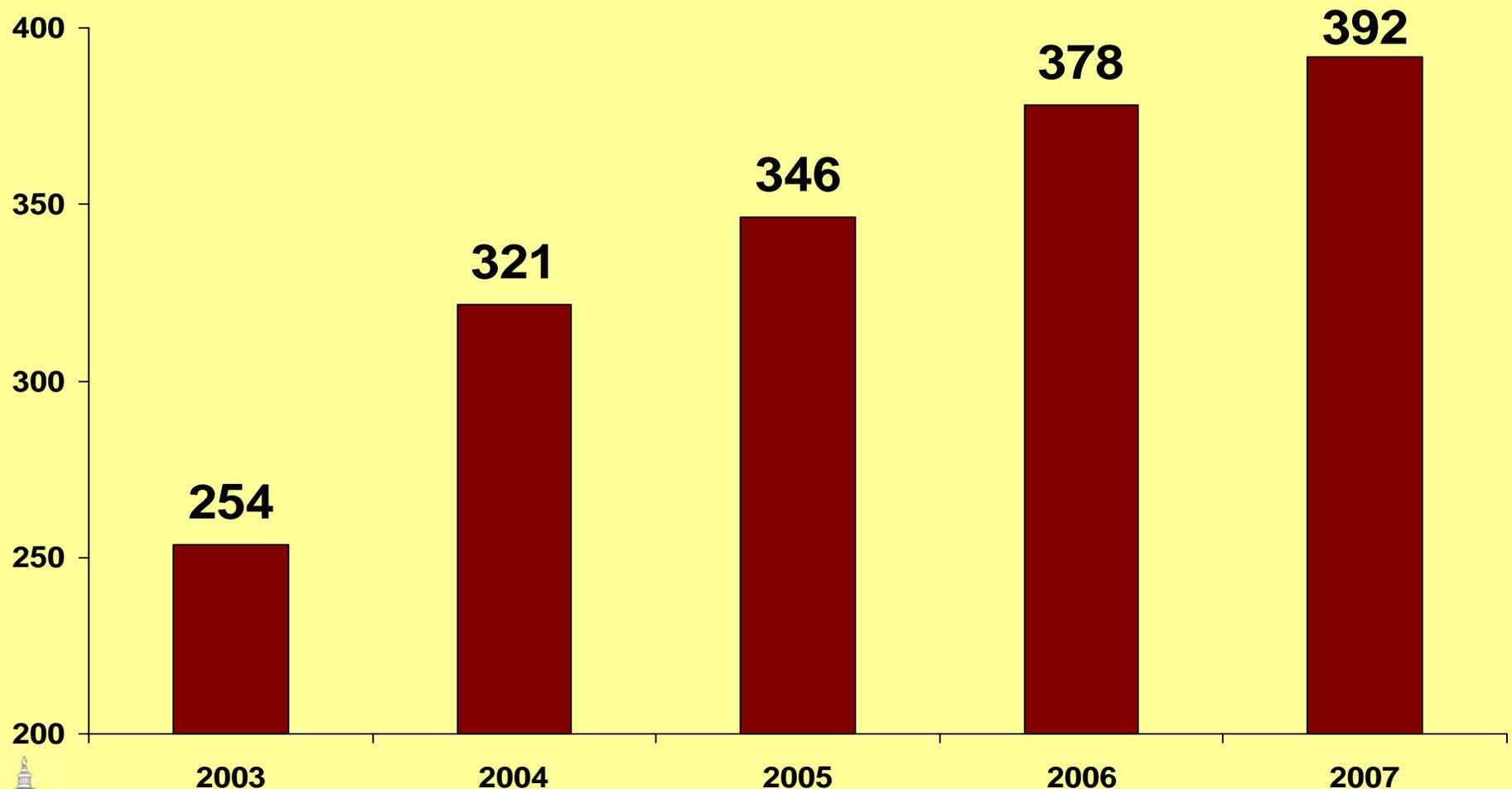
Waiting Times For Disability Decisions Have Increased Under the Bush Administration

Average Processing Time For Social Security Disability Hearing In Days



Veterans Disability Claims Backlog Has Grown More than 50 Percent Since 2003

Number of Claims Pending at Year's End, in Thousands

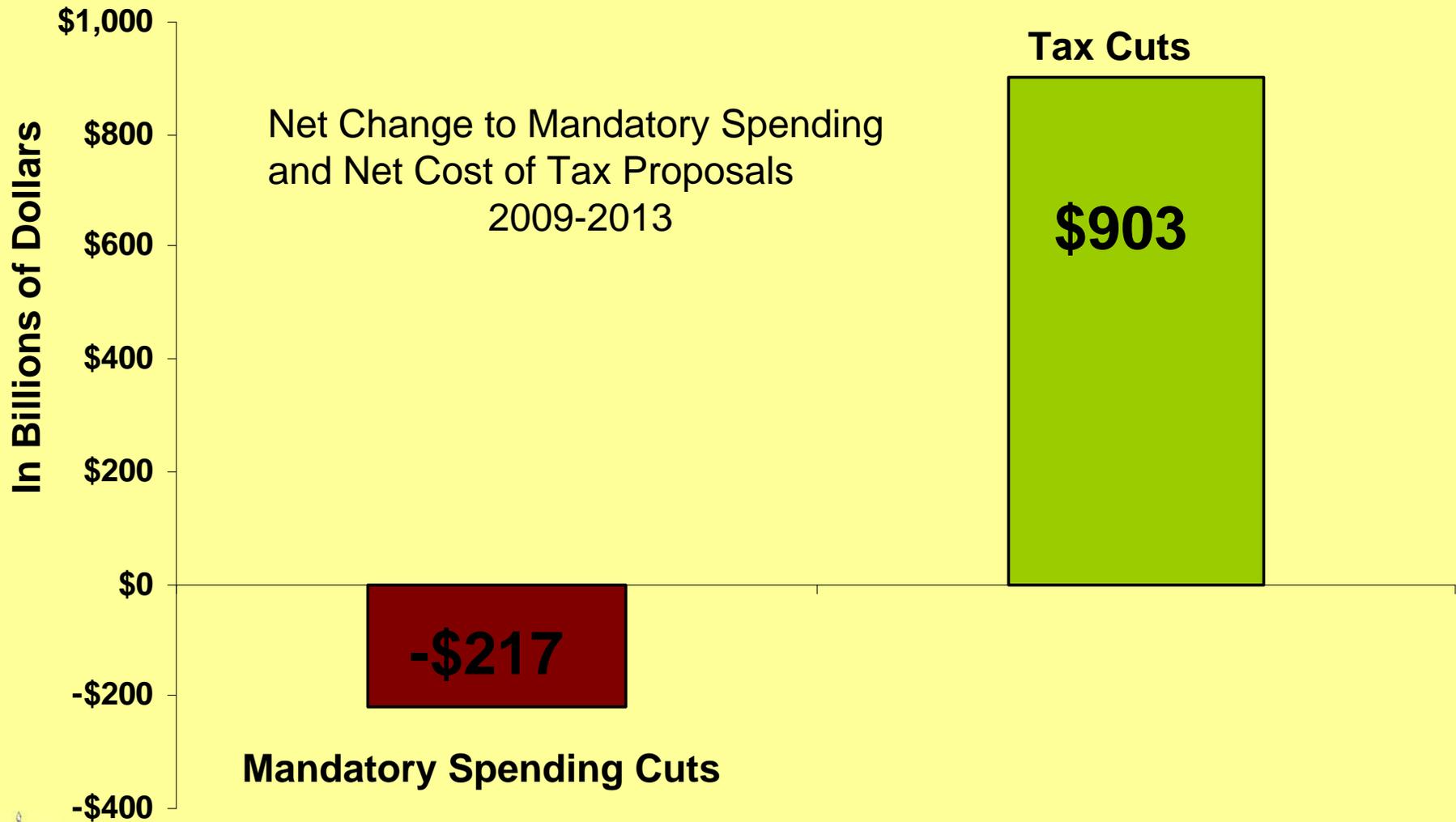


HBC House Budget Committee

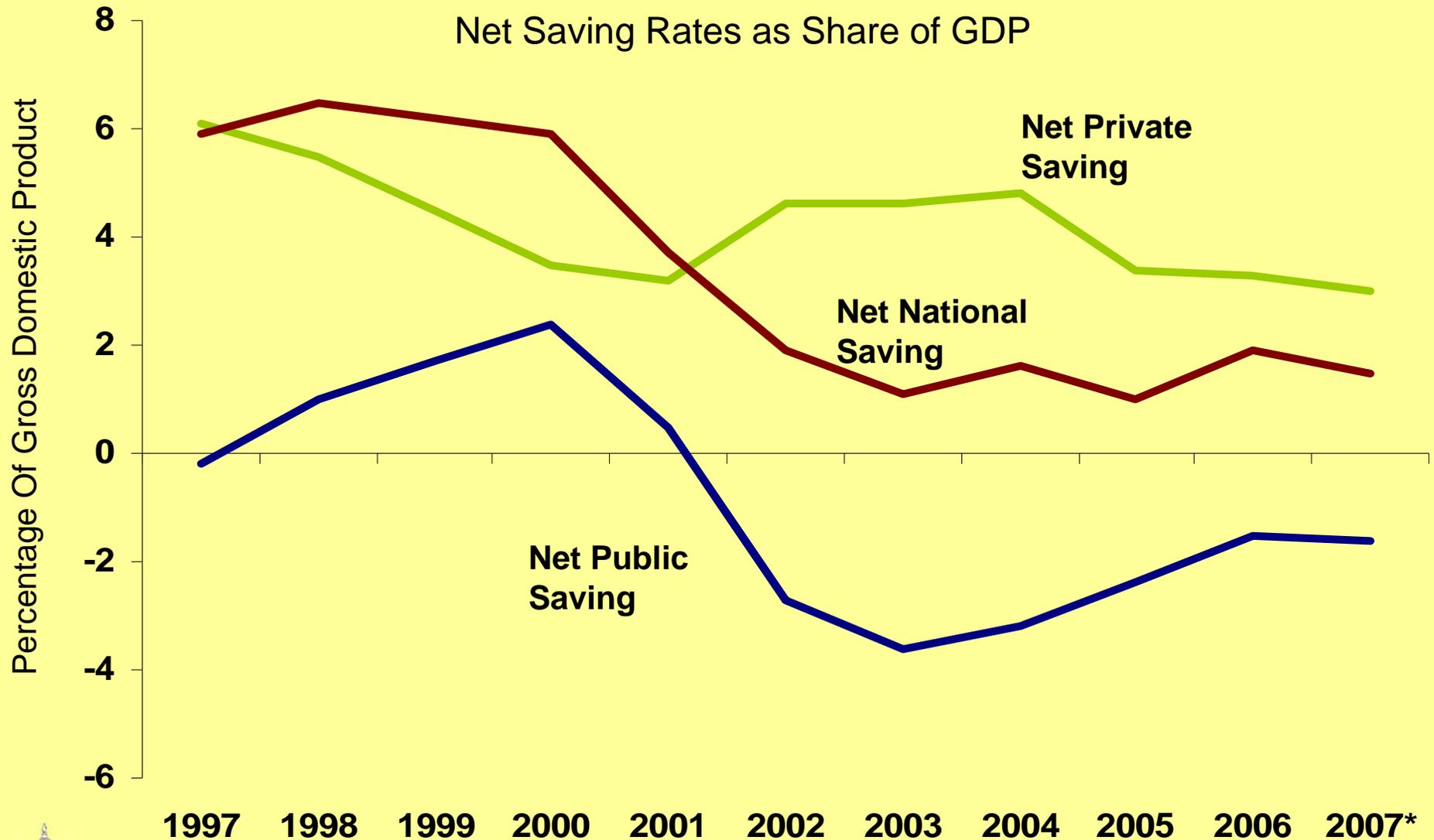
Source: House Budget Committee using data from the Department of Veterans Affairs' budget submissions – 2/4/2008

Tax Cuts Still Administration's Biggest Priority

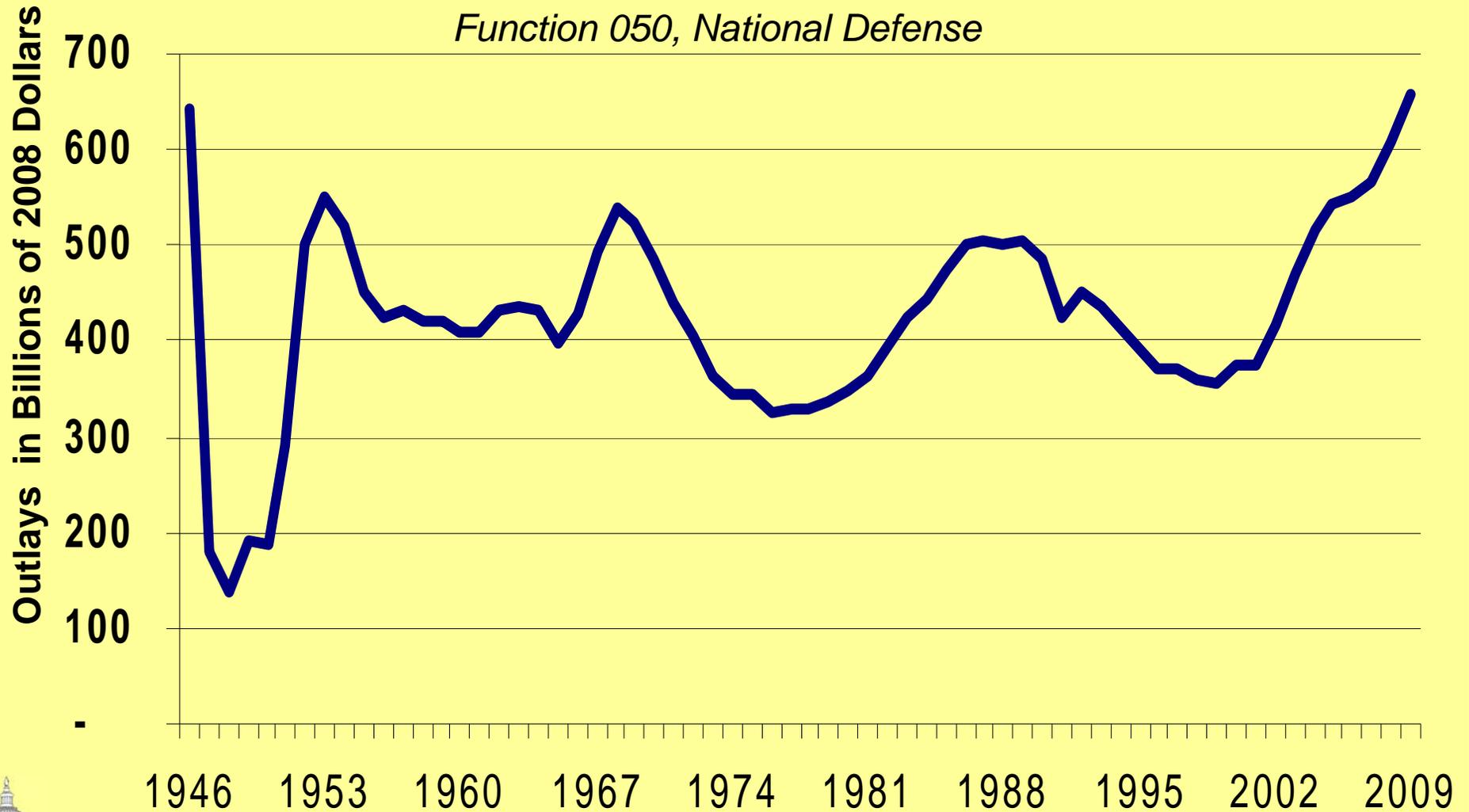
Cost is More than Four Times the Savings from Harmful Entitlement Cuts



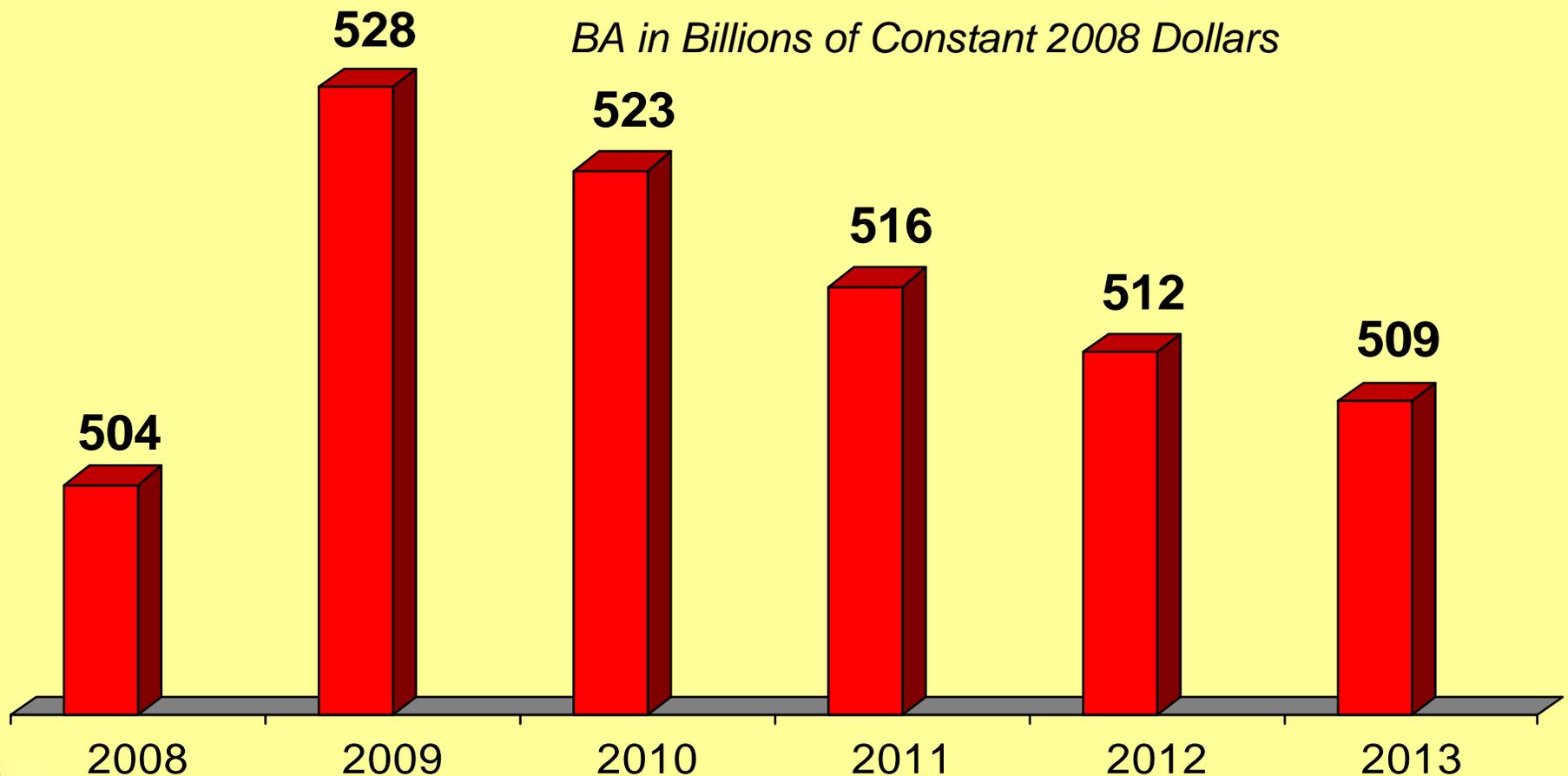
Deficit-Financed Tax Cuts Drive Down National Saving



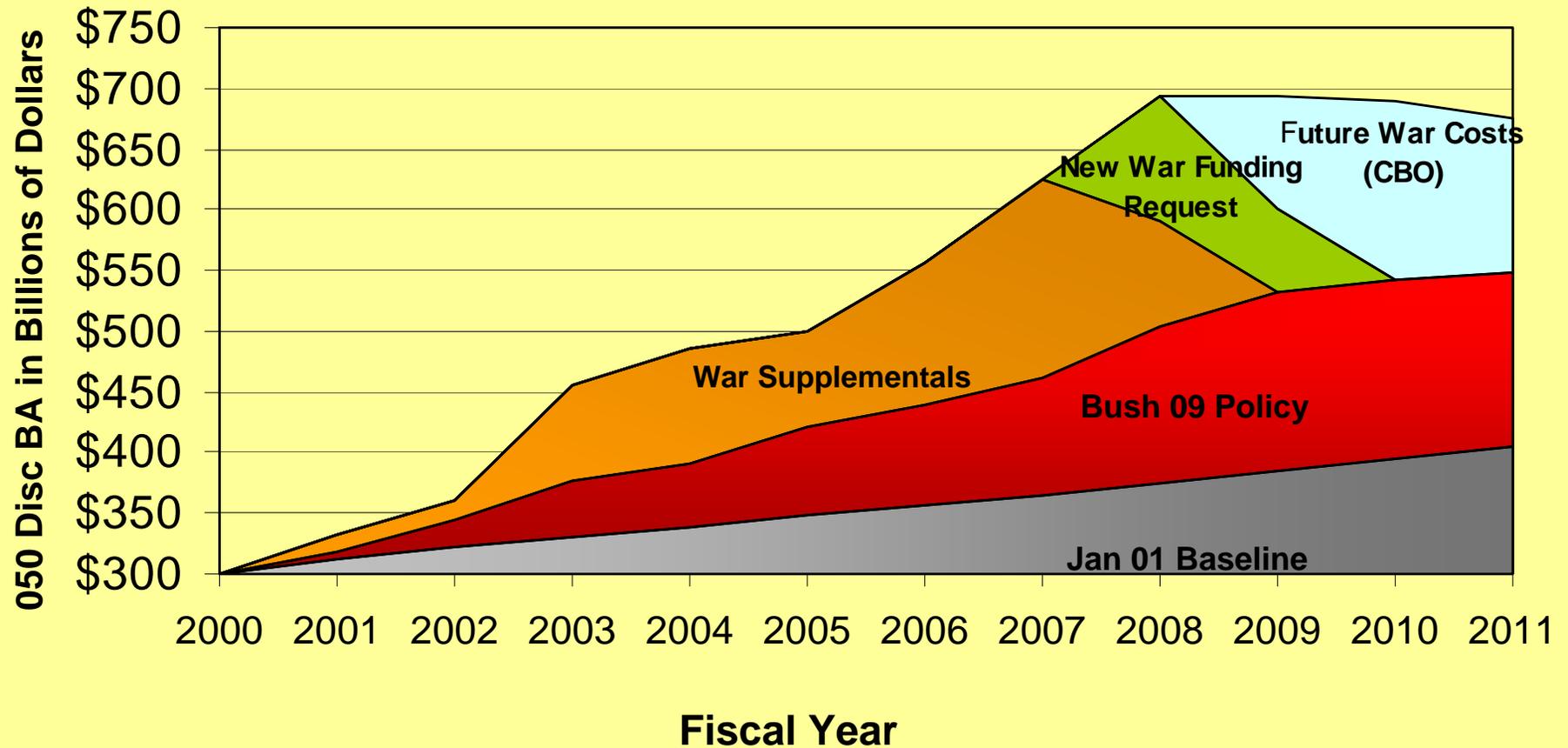
2009 Defense Spending Highest Since WWII Even Without Full War Funding



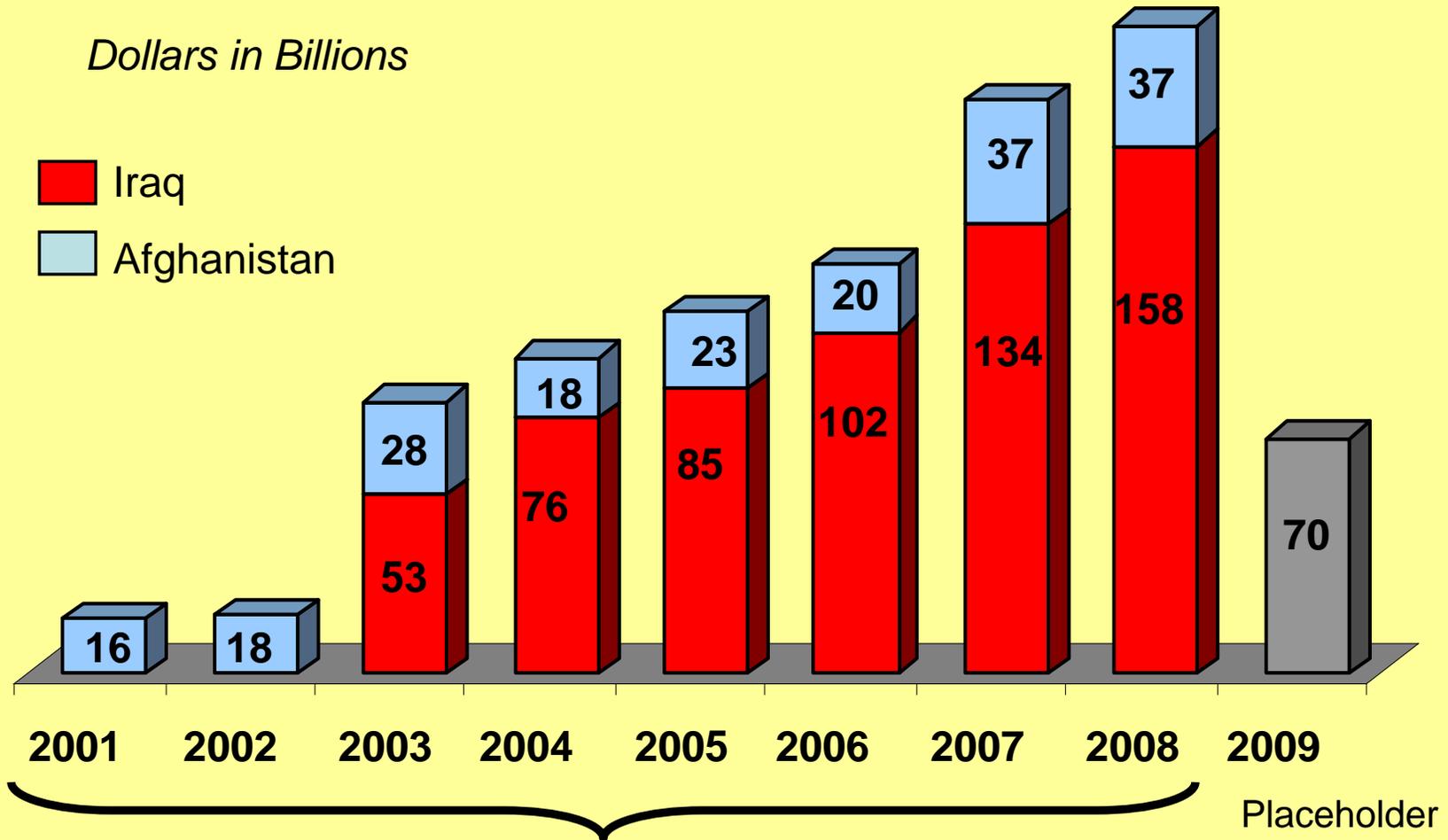
National Defense Funding Declines in Real Terms Over Five Years



Increased Cost of Defense Under Bush Administration



War Costs Total \$800 Billion From 2001 Through 2008

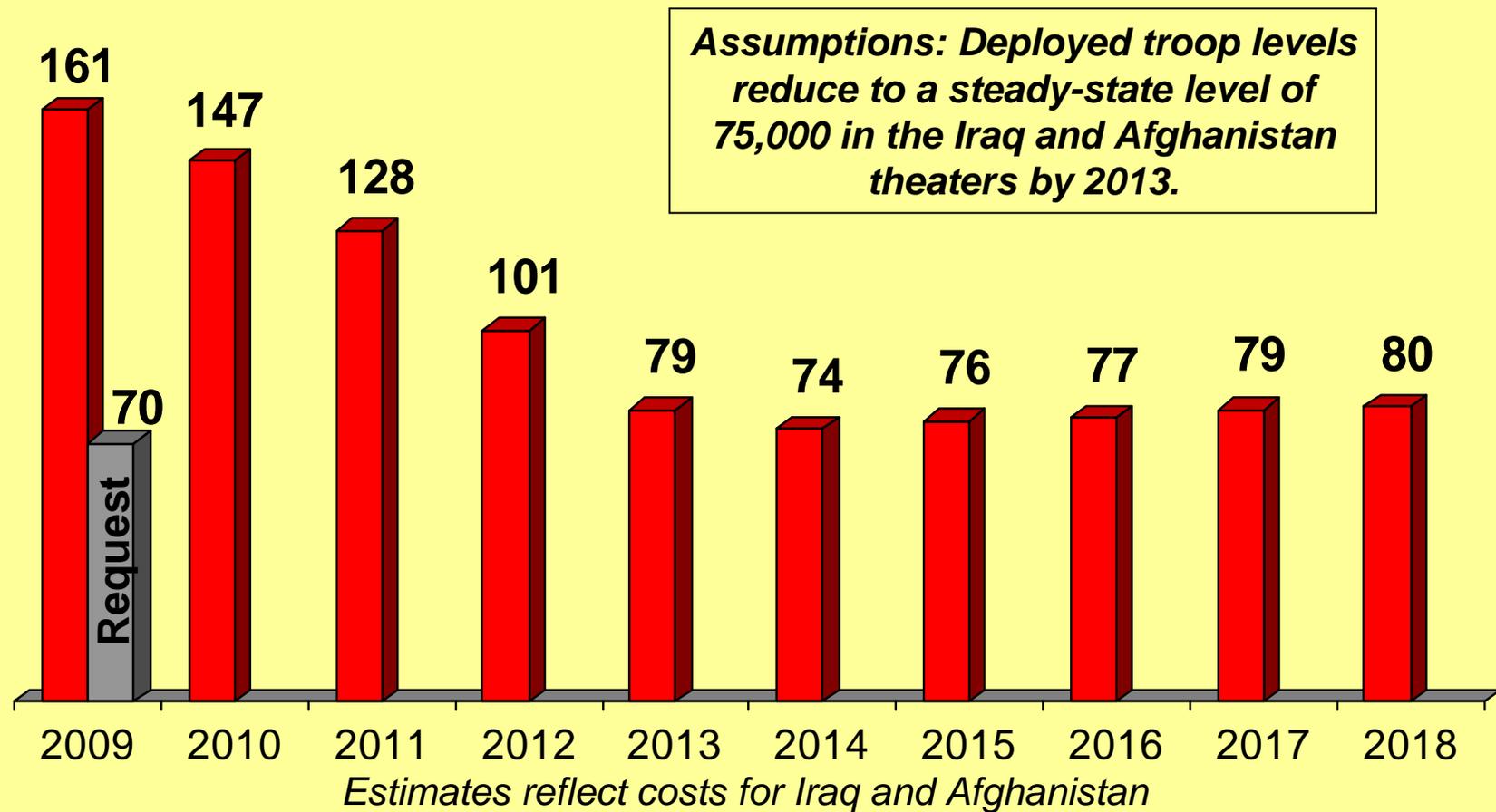


War costs total \$800 billion through 2008,
of which \$600 billion is for Iraq

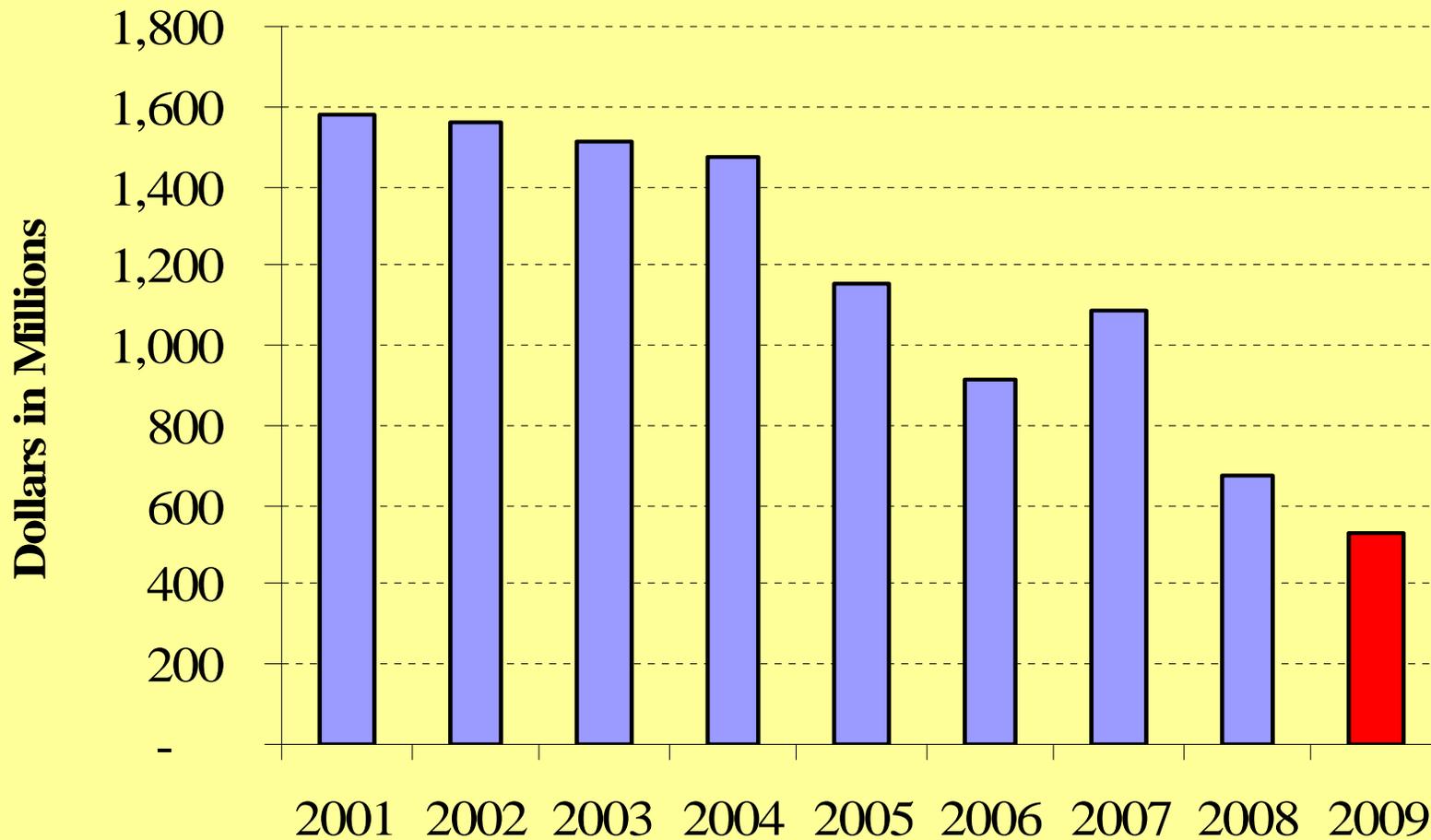


CBO Calculates Future War Costs Totaling \$1.0 Trillion over Ten Years

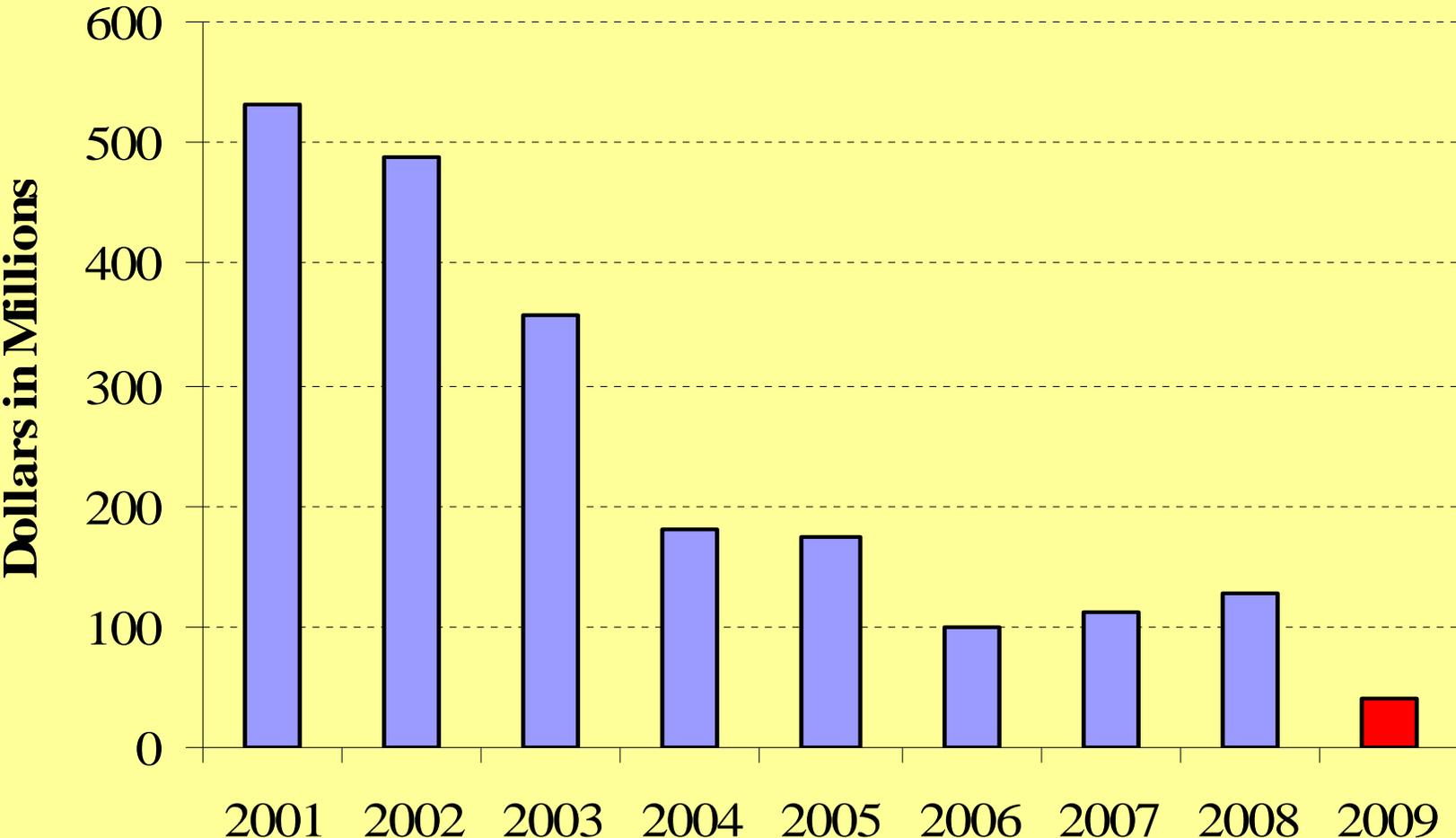
Dollars in Billions



EPA Clean Water State Revolving Fund Funding, Adjusted for Inflation

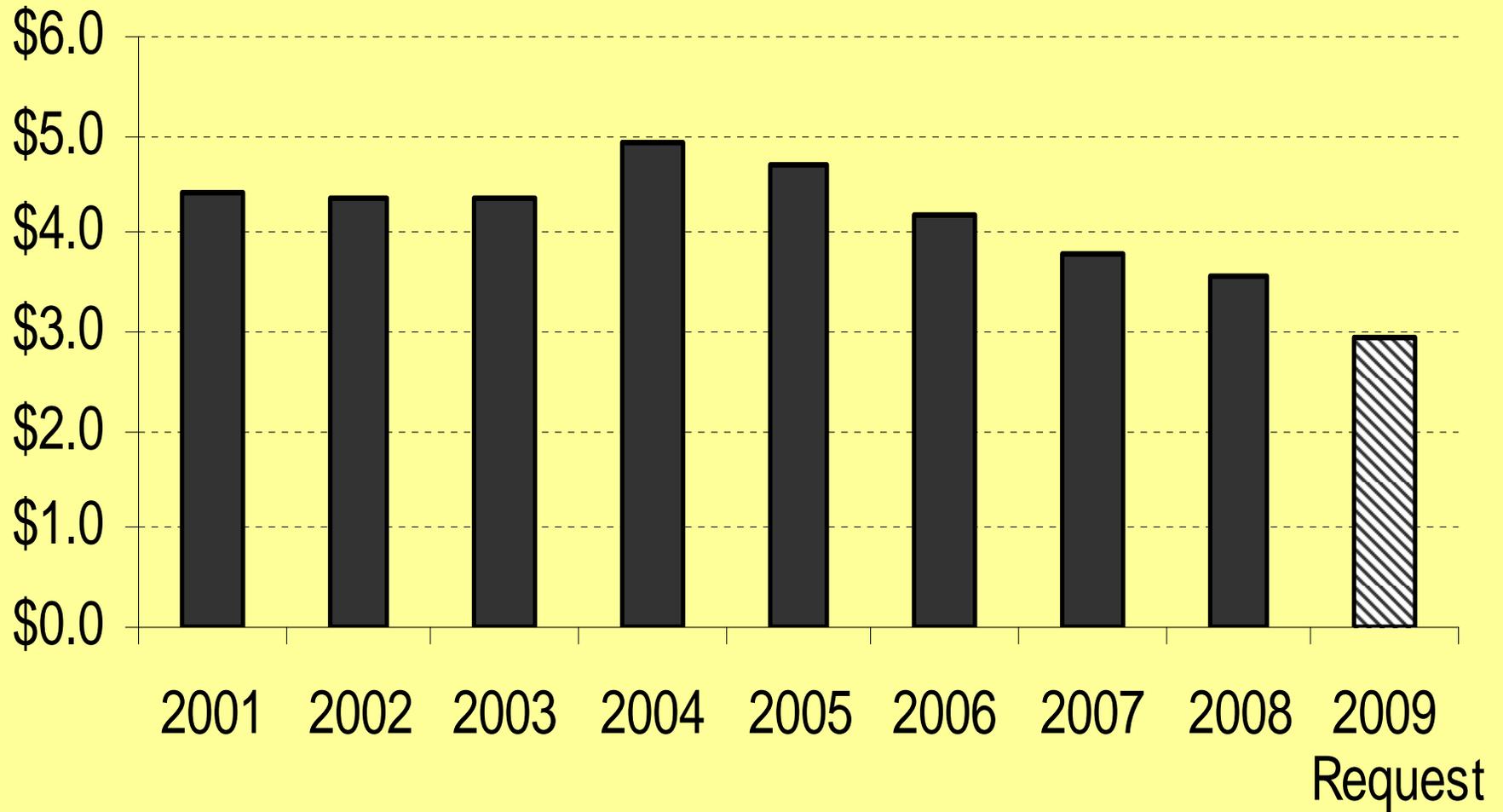


Shrinking LWCF Funding for Federal Land Acquisition Adjusted for Inflation



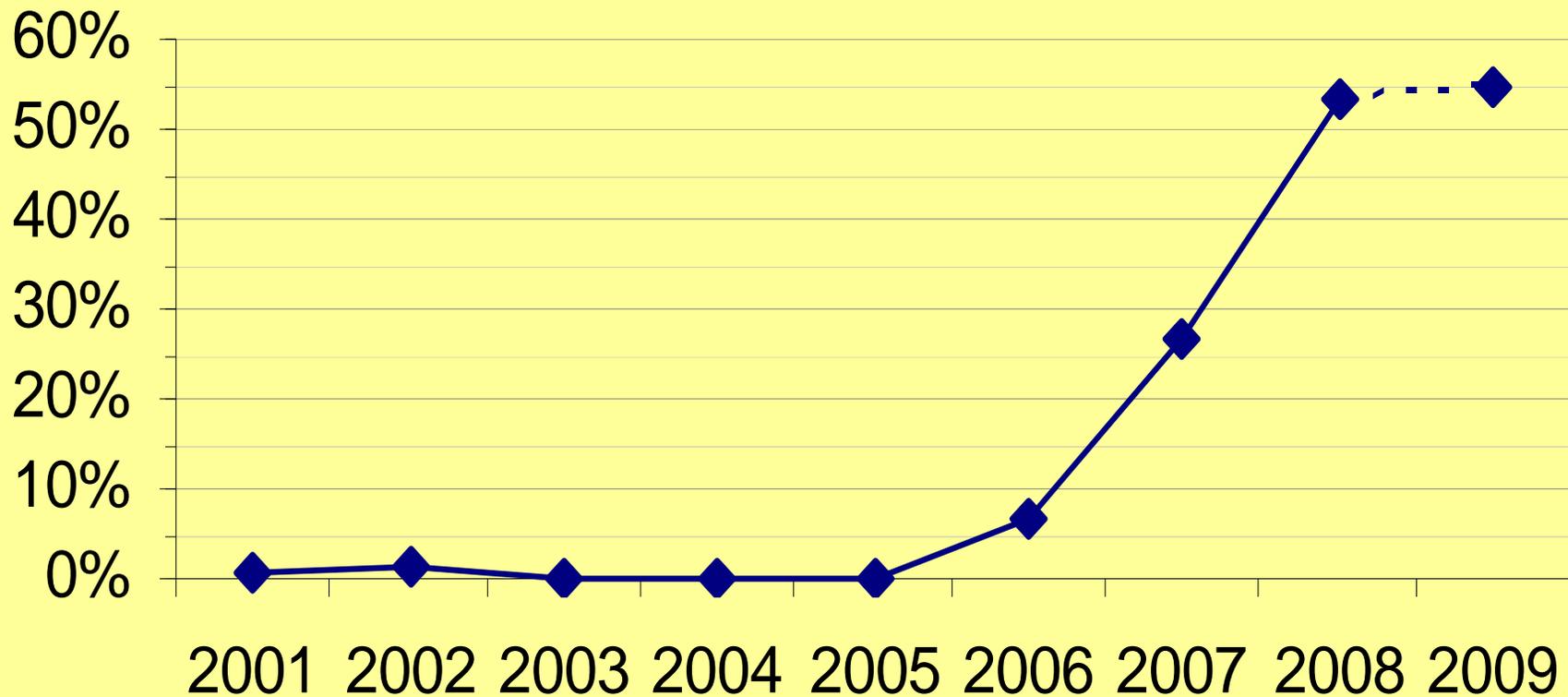
Community Development Block Grant Funding

In Billions

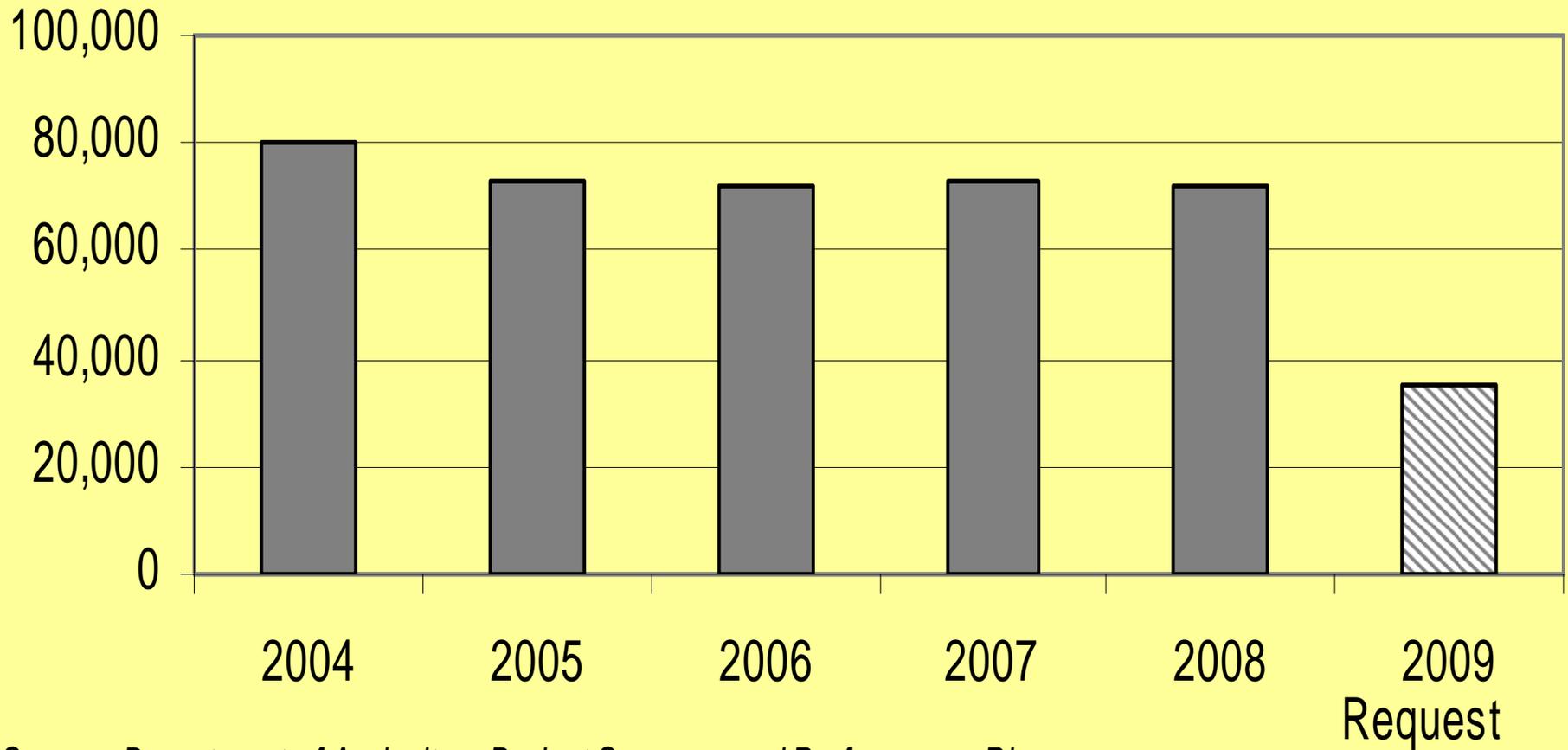


National Flood Insurance Program

Percent of Collections Spent on Interest



Jobs Created or Saved by USDA Rural Development Programs

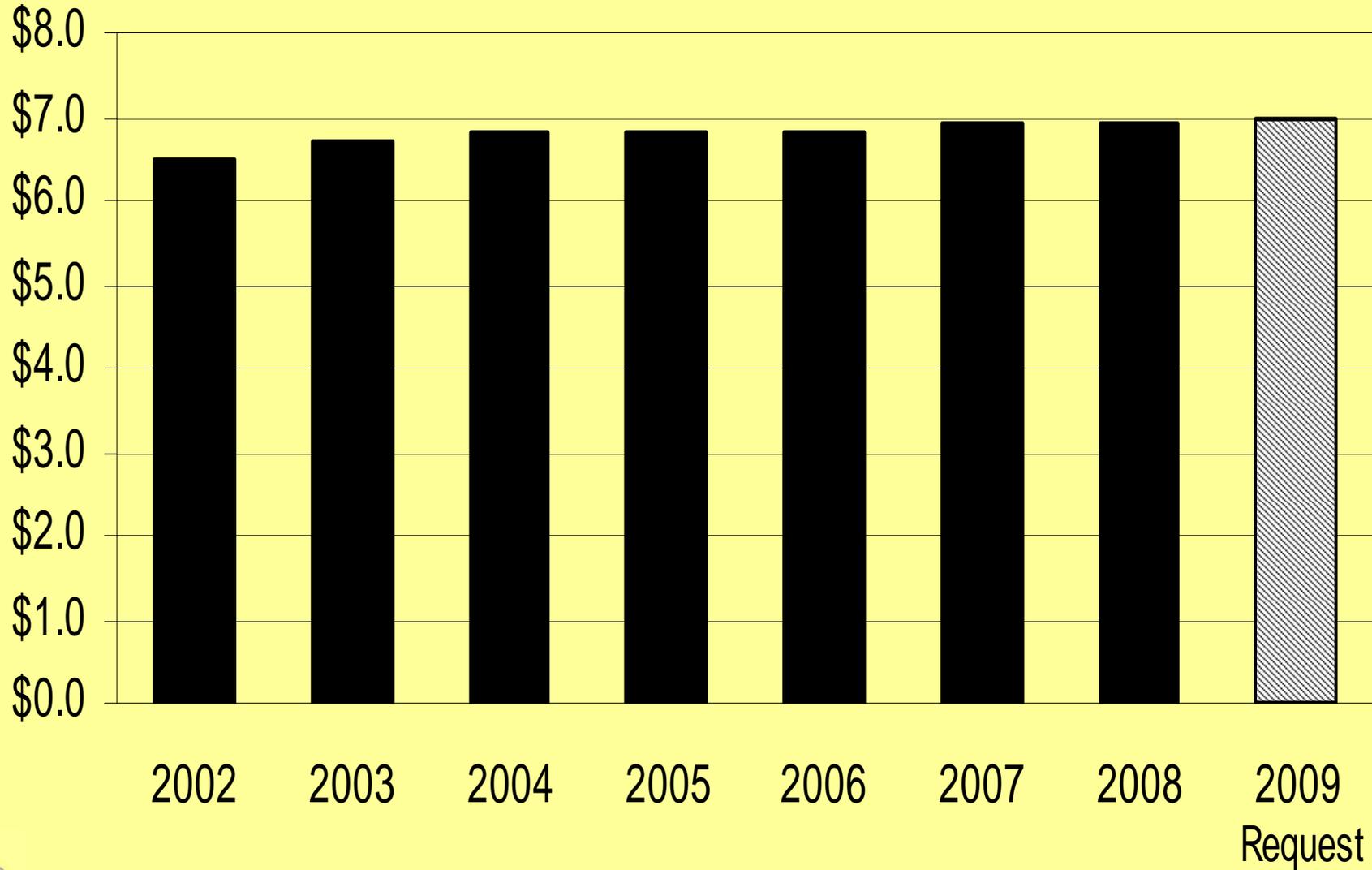


Source: Department of Agriculture Budget Summary and Performance Plan



Head Start Funding History, 2002-2009

In Billions



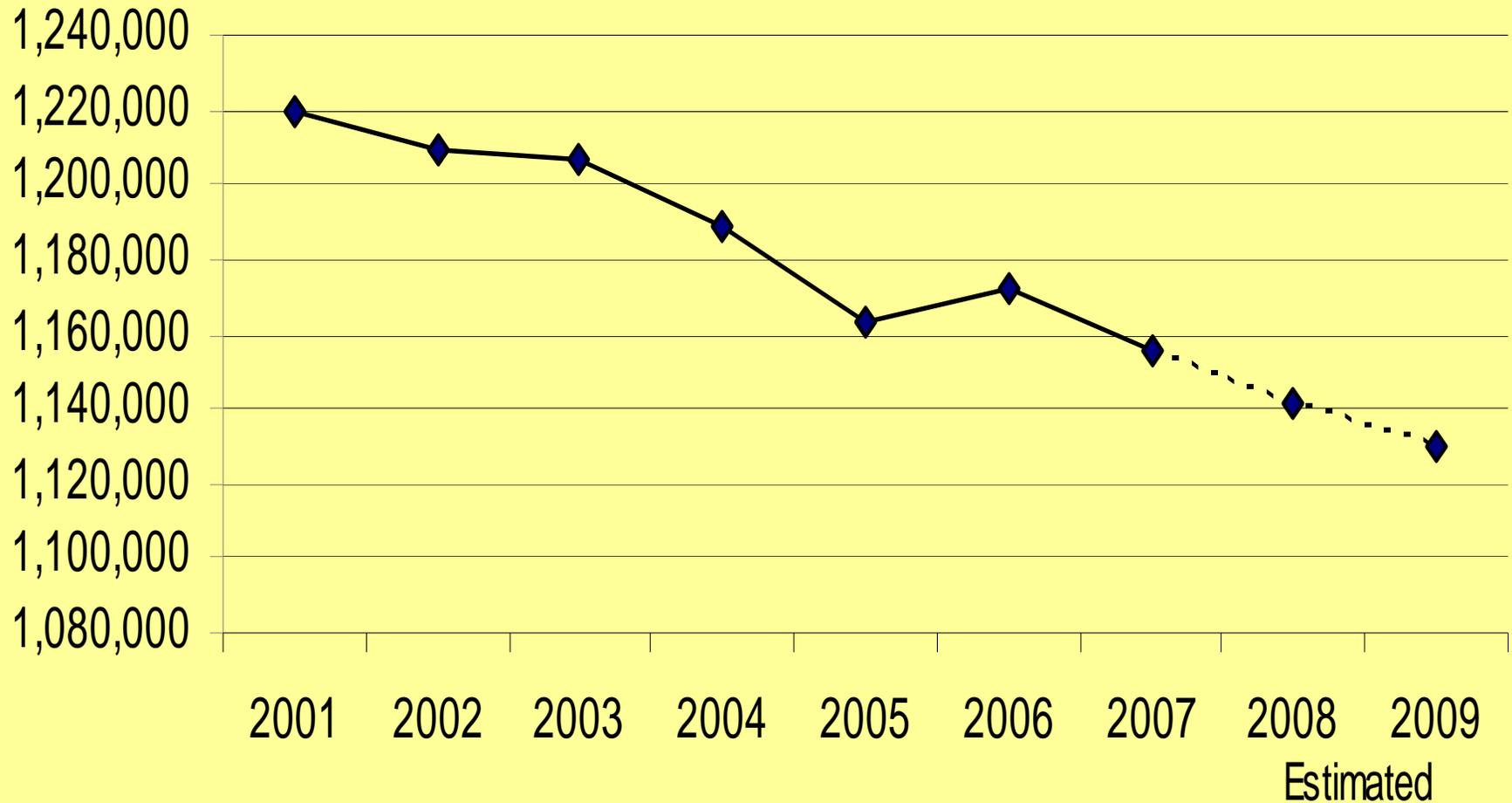
Budget Change in Job Training Programs

	Funding Level	Workers Served
Adult Employment and Training	-\$849 million	-247,222
Dislocated Worker Employment and Training	-\$1.4 billion	-352,312
Youth Training	-\$924 million	-249,411
Employment Service	\$-736 million	-13 million
Career Advancement Accounts	+\$2.8 billion	+11 million
Net Impact	-\$1.1 billion	-2.5 million

Source: Department of Labor 2009 Congressional Budget Justification



Units of Public Housing, 2001-2009

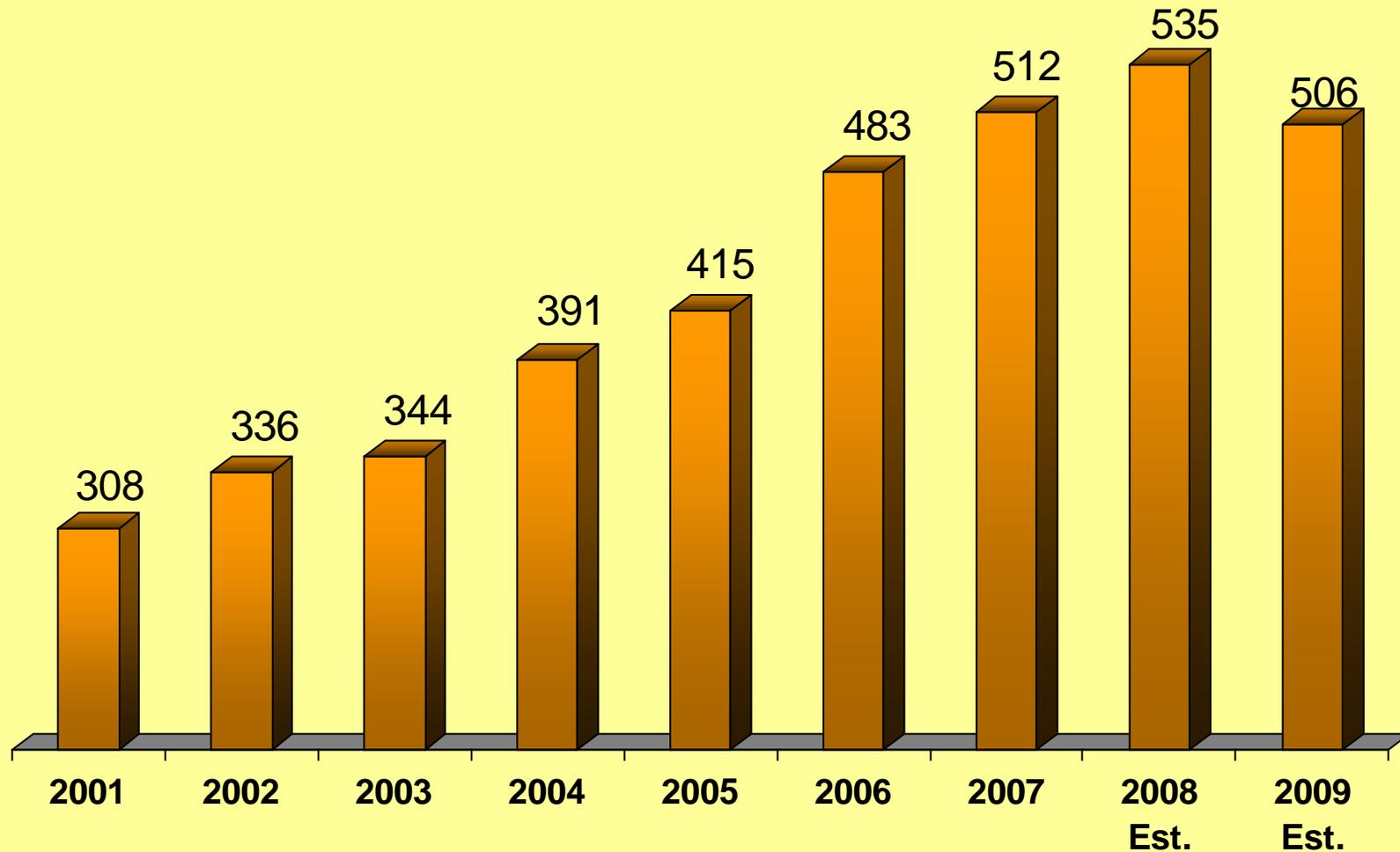


Source: Department of Housing and Urban Development 2009 Congressional Justification



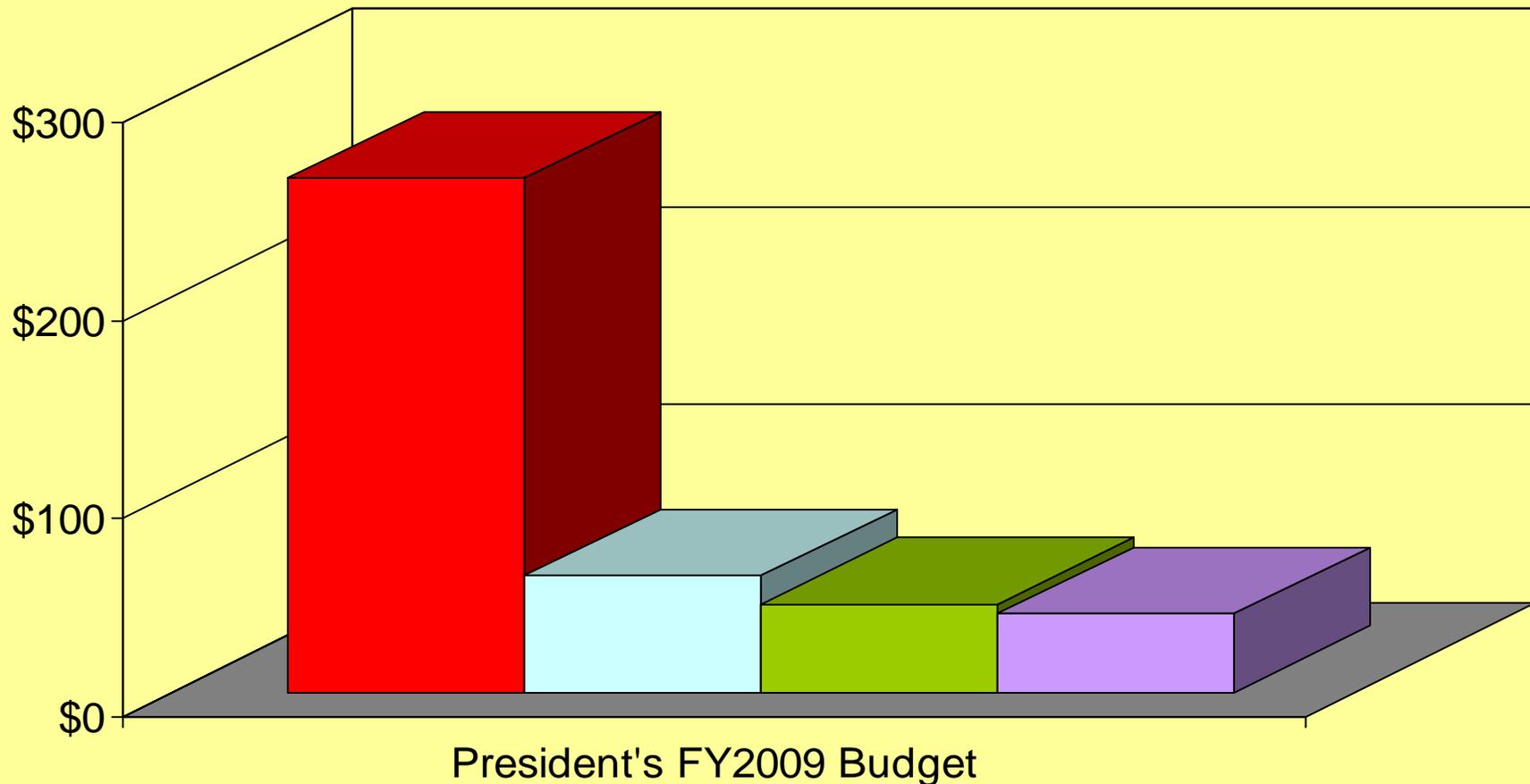
Waiting Times For Disability Decisions Have Increased Under the Bush Administration

Average Processing Time For Social Security Disability Hearing In Days



Interest Payments on Debt Dwarf Other Priorities

2009 Budget Authority in Billions



■ Net Interest ■ Education ■ Veterans ■ Homeland Security

Education, Veterans and Homeland Security are Discretionary Budget Authority Only





John Spratt,
Chairman

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON THE BUDGET

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

February 4, 2008

What's At Stake?

State-by-State Analysis

of the

President's Fiscal Year 2009 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.

Executive Summary

Today's budget continues the same failed Bush fiscal and economic legacy: large deficits, a growing burden of debt, a weakened economy, and an expensive deficit-financed tax agenda offset only in part by cuts to important services including Medicare, Medicaid, environmental protection, the Centers for Disease Control, and the Low-Income Home Energy Assistance Program (LIHEAP). Though the Administration claims its budget eventually reaches balance, under realistic assumptions it remains in deficit in every year. The Administration now shows that the 2008 deficit will be \$410 billion (the second largest in history), followed by a deficit for 2009 currently estimated to be \$407 billion (the third largest in history) but likely to grow once the full costs of Administration policies are included.

To better understand the impact of the President's budget cuts for families and communities, the House Budget Committee staff compared the funding levels in the President's budget with the level needed to maintain current service levels for selected programs. The programs analyzed are critical to state and community efforts to educate children, fight crime, and create jobs. The tables that follow estimate the size of the President's cuts in each state and their likely impact on our everyday lives, impacts that range from fewer police officers on the street to lower private-sector investment in American manufacturing.

The tables that follow only show the impact of the President's 2009 cut. In many cases, the programs analyzed have suffered repeated cuts below the level needed to keep pace with inflation since 2001, and the budget would continue cutting them in the future.

Listing of State-by-State Tables

Community Safety and Security

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Homeland Security State Grants

The President's budget cuts funding for homeland security grants, which include the State Homeland Security Program, Urban Area Security Initiative, Metropolitan Medical Response System, and the Citizen Corps Program, by \$762 million below the level needed to maintain current services. The purpose of these programs is to enhance the capabilities of states and localities to prevent, respond to, and recover from terrorist attacks and other disasters. These grants fund a range of preparedness activities, including planning, equipment purchase and training for first responders, and management and administration costs. The President has proposed cuts to these programs every year despite Congress repeatedly rejecting them.

The following table estimates the impact of the President's cut below the amount needed to maintain services using the assumptions detailed in the technical notes.

	President's Cut From 2008 (adjusted for inflation)		President's Cut From 2008 (adjusted for inflation)
Alabama	-\$7,275,000	Montana	-\$3,767,000
Alaska	-\$4,442,000	Nebraska	-\$4,443,000
Arizona	-\$15,250,000	Nevada	-\$5,866,000
Arkansas	-\$4,244,000	New Hampshire	-\$4,105,000
California	-\$102,168,000	New Jersey	-\$25,092,000
Colorado	-\$9,646,000	New Mexico	-\$4,105,000
Connecticut	-\$6,096,000	New York	-\$83,363,000
Delaware	-\$3,767,000	North Carolina	-\$13,476,000
District of Columbia	-\$23,856,000	North Dakota	-\$3,767,000
Florida	-\$38,739,000	Ohio	-\$23,132,000
Georgia	-\$18,990,000	Oklahoma	-\$7,069,000
Hawaii	-\$5,610,000	Oregon	-\$7,080,000
Idaho	-\$3,768,000	Pennsylvania	-\$28,097,000
Illinois	-\$36,113,000	Rhode Island	-\$5,613,000
Indiana	-\$11,483,000	South Carolina	-\$6,383,000
Iowa	-\$4,128,000	South Dakota	-\$3,767,000
Kansas	-\$5,086,000	Tennessee	-\$10,822,000
Kentucky	-\$7,007,000	Texas	-\$55,369,000
Louisiana	-\$11,955,000	Utah	-\$4,106,000
Maine	-\$3,768,000	Vermont	-\$3,767,000
Maryland	-\$15,445,000	Virginia	-\$17,815,000
Massachusetts	-\$16,791,000	Washington	-\$14,013,000
Michigan	-\$18,756,000	West Virginia	-\$3,768,000
Minnesota	-\$9,627,000	Wisconsin	-\$9,146,000
Mississippi	-\$4,106,000	Wyoming	-\$3,767,000
Missouri	-\$13,198,000		

Sources and Technical Notes: This analysis assumes that states receive the same shares of the State Homeland Security Program Grants, the Metropolitan Medical Response System, the Citizen Corps Grant Program, and the Urban Area Security Initiative as in 2007 under both the President's budget and the current services level. The President's funding level is from his 2009 budget and the inflation rate for the current services level is from the Office of Management and Budget.

Byrne Justice Assistance Grants

The President's budget eliminates formula funding for the Edward Byrne Memorial Justice Assistance Grants (JAG), which provide funding to states and local law enforcement agencies for crime prevention, law enforcement, prosecution, drug treatment, corrections (prisons), and performance improvement, providing \$174 million below the level needed to maintain services at the 2008 level. After years of steady decline, violent crime has increased in both of the last two years. The Government Accountability Office estimates that for every one percent increase in the number of officers, the violent crime rate decreases by 0.4 percent, but the Administration has repeatedly proposed deep cuts in local law enforcement funding. If the President's cut to JAG were adopted, the amount of federal law enforcement funding lost to communities would be equal to the amount needed to pay the salaries of more than 3,500 law enforcement officers.

The following table estimates the impact of the President's cut below the amount needed to maintain services using the assumptions detailed in the technical notes. The grants can be used for any of the statutory purposes, but if 100 percent of the lost funding were used to hire new police officers, the table below provides data on the potential impact.

	President's Cut From 2008 (adjusted for inflation)	Change in Police Officers Funded		President's Cut From 2008 (adjusted for inflation)	Change in Police Officers Funded
Alabama	-\$2,626,000	-76	Montana	-\$435,000	-11
Alaska	-\$836,000	-15	Nebraska	-\$1,149,000	-30
Arizona	-\$3,618,000	-73	Nevada	-\$1,920,000	-34
Arkansas	-\$1,921,000	-63	New Hampshire	-\$862,000	-21
California	-\$19,890,000	-293	New Jersey	-\$4,236,000	-61
Colorado	-\$2,607,000	-50	New Mexico	-\$1,623,000	-43
Connecticut	-\$1,827,000	-33	New York	-\$9,760,000	-203
Delaware	-\$932,000	-20	North Carolina	-\$4,839,000	-128
District of Columbia	-\$1,017,000	-18	North Dakota	-\$435,000	-11
Florida	-\$11,721,000	-247	Ohio	-\$5,408,000	-122
Georgia	-\$5,030,000	-137	Oklahoma	-\$2,286,000	-70
Hawaii	-\$932,000	-20	Oregon	-\$1,924,000	-38
Idaho	-\$996,000	-24	Pennsylvania	-\$6,341,000	-126
Illinois	-\$7,350,000	-133	Rhode Island	-\$835,000	-18
Indiana	-\$3,084,000	-75	South Carolina	-\$3,285,000	-93
Iowa	-\$1,622,000	-39	South Dakota	-\$435,000	-12
Kansas	-\$1,704,000	-44	Tennessee	-\$4,316,000	-130
Kentucky	-\$2,061,000	-57	Texas	-\$12,856,000	-288
Louisiana	-\$3,029,000	-103	Utah	-\$1,391,000	-34
Maine	-\$838,000	-24	Vermont	-\$435,000	-13
Maryland	-\$3,907,000	-78	Virginia	-\$3,476,000	-77
Massachusetts	-\$3,593,000	-74	Washington	-\$3,199,000	-55
Michigan	-\$5,827,000	-120	West Virginia	-\$1,150,000	-36
Minnesota	-\$2,525,000	-53	Wisconsin	-\$2,546,000	-56
Mississippi	-\$1,610,000	-34	Wyoming	-\$435,000	-11
Missouri	-\$3,508,000	-101			

Sources and Technical Notes: This analysis estimates state allocations using the statutory formula, 2007 Census Bureau population estimates, and 2004-2006 crime data from the Department of Justice. The estimates assume all funding is allocated to states according to the statutory formula. State allocations do not equal the total cut because the table does not show funding for set-asides and some non-state regions. The illustrative officer estimate is based on state average police officer salaries as reported by the Bureau of Labor Statistics. New York salaries are based on neighboring state averages because NY data was not available. The President's funding level is from his 2009 budget and the inflation rate for the current services level is from the Office of Management and Budget.

Assistance to Firefighters Grants

The President's budget cuts Assistance to Firefighters Grants (Fire Grants) by \$465 million below the level needed to maintain current services, providing only \$300 million for 2009. Fire Grants help local fire departments obtain critically needed equipment, protective gear, emergency vehicles, training, and other resources needed to protect the public and emergency personnel from fire and related hazards. In 2006, fires killed 3,245 people, injured nearly 17,000 more, and caused \$11.3 billion in direct property loss. If the funding cut resulted in a reduction to the number of grants rather than a reduction in the size of the grants, the President's cut would reduce the number of grants to local fire departments by more than 5,000 in 2009.

The following table estimates the impact of the President's cut using the assumptions detailed in the technical notes.

	President's Cut From 2008 (adjusted for inflation)	Potential Change in Number of Fire Department Grants		President's Cut From 2008 (adjusted for inflation)	Potential Change in Number of Fire Department Grants
Alabama	-\$20,845,000	-232	Montana	-\$5,526,000	-61
Alaska	-\$714,000	-8	Nebraska	-\$4,164,000	-46
Arizona	-\$3,824,000	-42	Nevada	-\$811,000	-9
Arkansas	-\$7,286,000	-81	New Hampshire	-\$3,130,000	-35
California	-\$16,898,000	-188	New Jersey	-\$11,722,000	-130
Colorado	-\$3,041,000	-34	New Mexico	-\$1,383,000	-15
Connecticut	-\$5,185,000	-58	New York	-\$31,989,000	-355
Delaware	-\$1,048,000	-12	North Carolina	-\$17,327,000	-193
Florida	-\$6,423,000	-71	North Dakota	-\$2,328,000	-26
Georgia	-\$8,410,000	-93	Ohio	-\$24,018,000	-267
Hawaii	-\$251,000	-3	Oklahoma	-\$10,270,000	-114
Idaho	-\$2,567,000	-29	Oregon	-\$8,790,000	-98
Illinois	-\$19,987,000	-222	Pennsylvania	-\$39,044,000	-434
Indiana	-\$13,672,000	-152	Rhode Island	-\$1,917,000	-21
Iowa	-\$9,524,000	-106	South Carolina	-\$7,597,000	-84
Kansas	-\$4,717,000	-52	South Dakota	-\$2,829,000	-31
Kentucky	-\$12,594,000	-140	Tennessee	-\$10,608,000	-118
Louisiana	-\$6,563,000	-73	Texas	-\$17,067,000	-190
Maine	-\$6,343,000	-70	Utah	-\$2,094,000	-23
Maryland	-\$9,812,000	-109	Vermont	-\$1,378,000	-15
Massachusetts	-\$8,476,000	-94	Virginia	-\$7,871,000	-87
Michigan	-\$14,950,000	-166	Washington	-\$15,283,000	-170
Minnesota	-\$13,928,000	-155	West Virginia	-\$5,525,000	-61
Mississippi	-\$7,463,000	-83	Wisconsin	-\$13,243,000	-147
Missouri	-\$12,494,000	-139	Wyoming	-\$1,134,000	-13

Sources and Technical Notes: This analysis assumes that historical funding patterns, which are extremely consistent, continue, and funds are distributed in the same pattern as the most recent fully distributed year (2006). State cuts are not equal to the total cut because the table does not include the 12 percent of total funds the statute sets aside for fire safety grants, emergency medical services, and administration, which do not necessarily go to specific states or fire departments. The President's funding level is from his 2009 budget and the current services level is from the Office of Management and Budget. The analysis also assumes average grant size is the average of the last five years (2003-2007). Fire damage statistics are from the U.S. Fire Administration.

Clean Water State Revolving Fund

The President's budget cuts the Clean Water State Revolving Fund (CWSRF), one of the government's most successful federal water quality programs, by \$148 million below the level needed to maintain current services, providing only \$555 million for 2009. The CWSRF program provides capitalization grants to states to help finance the construction of municipal wastewater facilities and nonpoint source pollution control projects. The Administration has repeatedly tried to cut CWSRF funding and has blocked the release of updated infrastructure needs assessments of our water systems, even though a 2000 Environmental Protection Agency (EPA) report documented over \$181 billion in unmet clean water infrastructure needs. The failure to provide safe drinking water has real-world public health consequences: According to an EPA investigation, 7.1 million Americans a year contract mild illnesses from bad water and 1,200 die.

The following table estimates the impact of the President's cut using the assumptions detailed in the technical notes.

	President's Cut From 2008 (adjusted for inflation)		President's Cut From 2008 (adjusted for inflation)
Alabama	-\$1,701,000	Montana	-\$747,000
Alaska	-\$911,000	Nebraska	-\$778,000
Arizona	-\$1,027,000	Nevada	-\$747,000
Arkansas	-\$995,000	New Hampshire	-\$1,520,000
California	-\$10,880,000	New Jersey	-\$6,217,000
Colorado	-\$1,217,000	New Mexico	-\$747,000
Connecticut	-\$1,864,000	New York	-\$16,791,000
Delaware	-\$747,000	North Carolina	-\$2,745,000
District of Columbia	-\$747,000	North Dakota	-\$747,000
Florida	-\$5,135,000	Ohio	-\$8,564,000
Georgia	-\$2,572,000	Oklahoma	-\$1,229,000
Hawaii	-\$1,178,000	Oregon	-\$1,718,000
Idaho	-\$747,000	Pennsylvania	-\$6,026,000
Illinois	-\$6,880,000	Rhode Island	-\$1,021,000
Indiana	-\$3,666,000	South Carolina	-\$1,562,000
Iowa	-\$2,059,000	South Dakota	-\$747,000
Kansas	-\$1,373,000	Tennessee	-\$2,210,000
Kentucky	-\$1,936,000	Texas	-\$6,953,000
Louisiana	-\$1,672,000	Utah	-\$802,000
Maine	-\$1,178,000	Vermont	-\$747,000
Maryland	-\$3,679,000	Virginia	-\$3,113,000
Massachusetts	-\$5,165,000	Washington	-\$2,646,000
Michigan	-\$6,541,000	West Virginia	-\$2,371,000
Minnesota	-\$2,796,000	Wisconsin	-\$4,113,000
Mississippi	-\$1,371,000	Wyoming	-\$747,000
Missouri	-\$4,217,000		

Sources and Technical Notes: This analysis assumes that state shares of total funding continue to follow the statutory allocation formula. The President's funding level is from his 2009 budget and the inflation rate for the current services level is from the Office of Management and Budget. Other information about clean water needs and the impact of unsafe water is from the Environmental Protection Agency.

Community Development Block Grant

The President's budget cuts the Community Development Block Grant (CDBG) by \$731 million below the level needed to maintain current services, providing only \$2.9 billion for 2009. CDBG, which created over 55,000 new jobs in 2006, provides flexible funding to communities and states for economic development and job creation, affordable housing, and help for citizens in need. The Administration has proposed deep cuts in CDBG in most years, leading to a current funding level that is \$816 million (18 percent) below the 2001 level. Over the same time period, the United States has lost over 3 million manufacturing jobs and 1 million affordable housing units. If the President's cut to CDBG were adopted this year, each of the 4,800 communities that currently receives CDBG funds would be at risk of cuts.

The following table estimates the impact of the President's cut using the assumptions detailed in the technical notes.

	President's Cut From 2008 (adjusted for inflation)	Number of Communities at Risk		President's Cut From 2008 (adjusted for inflation)	Number of Communities at Risk
Alabama	-\$9,157,000	54	Montana	-\$1,702,000	3
Alaska	-\$876,000	2	Nebraska	-\$3,591,000	2
Arizona	-\$10,072,000	31	Nevada	-\$3,762,000	9
Arkansas	-\$5,114,000	14	New Hampshire	-\$2,454,000	5
California	-\$86,239,000	368	New Jersey	-\$18,669,000	427
Colorado	-\$7,067,000	40	New Mexico	-\$3,916,000	5
Connecticut	-\$7,739,000	22	New York	-\$64,527,000	313
Delaware	-\$1,333,000	15	North Carolina	-\$13,262,000	41
District of Columbia	-\$3,418,000	1	North Dakota	-\$1,178,000	3
Florida	-\$29,780,000	223	Ohio	-\$29,956,000	306
Georgia	-\$15,337,000	60	Oklahoma	-\$5,610,000	9
Hawaii	-\$2,820,000	3	Oregon	-\$6,800,000	44
Idaho	-\$2,268,000	6	Pennsylvania	-\$41,053,000	982
Illinois	-\$32,314,000	376	Rhode Island	-\$3,184,000	6
Indiana	-\$12,950,000	44	South Carolina	-\$7,202,000	32
Iowa	-\$7,633,000	11	South Dakota	-\$1,484,000	2
Kansas	-\$5,177,000	32	Tennessee	-\$9,256,000	22
Kentucky	-\$8,465,000	10	Texas	-\$47,418,000	209
Louisiana	-\$12,123,000	18	Utah	-\$3,836,000	23
Maine	-\$3,675,000	27	Vermont	-\$1,550,000	1
Maryland	-\$10,223,000	52	Virginia	-\$11,318,000	47
Massachusetts	-\$20,330,000	36	Washington	-\$11,381,000	117
Michigan	-\$24,247,000	223	West Virginia	-\$4,653,000	8
Minnesota	-\$10,741,000	252	Wisconsin	-\$12,289,000	126
Mississippi	-\$6,558,000	6	Wyoming	-\$784,000	2
Missouri	-\$12,438,000	103			

Sources and Technical Notes: This analysis assumes that funding to states is allocated as described in the President's 2009 budget. The President's funding level is from his 2009 budget and the inflation rate for the current services level is from the Office of Management and Budget. Totals do not add up to the funding difference because the table does not include funding to the territories and other non-state allocations. Housing statistics are from the Department of Housing and Urban Development (HUD) and economic statistics are from the Bureau of Labor Statistics. Number of communities at risk includes both the 1,149 entitlement communities and communities that received state-administered CDBG funds in 2007. Hawaii chose to stop participating in the State-Administered program, so Hawaii's funds are HUD-administered.

Dislocated Worker Program

The President's budget cuts funding for Dislocated Worker state grants by \$271 million below the level needed to maintain current services, providing only \$943 million for state grants in 2009. This program successfully provides job training, career guidance, placement, and other services for dislocated workers, including those who lost their jobs due to trade. In 2005, 83 percent of people participating in the program found a job within three months, and the vast majority remained employed after nine months. If the President's cut is adopted, nearly 65,000 fewer workers will receive job training and other services to help them find work.

The following table estimates the impact of the President's cut using the assumptions detailed in the technical notes.

	President's Cut From 2008 (adjusted for inflation)	Change in Number of Workers Helped		President's Cut From 2008 (adjusted for inflation)	Change in Number of Workers Helped
Alabama	-\$1,721,000	-538	Missouri	-\$5,059,000	-1,581
Alaska	-\$975,000	-305	Montana	-\$276,000	-86
Arizona	-\$2,074,000	-648	Nebraska	-\$516,000	-161
Arkansas	-\$2,528,000	-790	Nevada	-\$1,541,000	-482
California	-\$33,285,000	-10,401	New Hampshire	-\$463,000	-145
Colorado	-\$1,795,000	-561	New Jersey	-\$4,350,000	-1,359
Connecticut	-\$2,011,000	-629	New Mexico	-\$601,000	-188
Delaware	-\$280,000	-87	New York	-\$11,200,000	-3,500
District of Columbia	-\$823,000	-257	North Carolina	-\$5,559,000	-1,737
Florida	-\$6,780,000	-2,119	Ohio	-\$14,369,000	-4,490
Georgia	-\$4,516,000	-1,411	Oklahoma	-\$1,581,000	-494
Hawaii	-\$319,000	-100	Oregon	-\$3,470,000	-1,084
Idaho	-\$340,000	-106	Pennsylvania	-\$5,454,000	-1,704
Illinois	-\$11,198,000	-3,499	Rhode Island	-\$775,000	-242
Indiana	-\$3,816,000	-1,192	South Carolina	-\$5,978,000	-1,868
Iowa	-\$1,109,000	-346	South Dakota	-\$252,000	-79
Kansas	-\$1,220,000	-381	Tennessee	-\$3,601,000	-1,125
Kentucky	-\$4,410,000	-1,378	Texas	-\$9,886,000	-3,089
Louisiana	-\$2,007,000	-627	Utah	-\$558,000	-174
Maine	-\$724,000	-226	Vermont	-\$281,000	-88
Maryland	-\$2,331,000	-728	Virginia	-\$2,332,000	-729
Massachusetts	-\$4,726,000	-1,477	Washington	-\$3,757,000	-1,174
Michigan	-\$23,430,000	-7,322	West Virginia	-\$814,000	-255
Minnesota	-\$2,623,000	-820	Wisconsin	-\$5,375,000	-1,680
Mississippi	-\$4,547,000	-1,421			

Sources and Technical Notes: This analysis estimates state allocations, which are awarded on a calendar-year basis, based on the statutory formula and using the most recent 12 months of unadjusted unemployment data from the Bureau of Labor Statistics (BLS) and CRS estimates of 2007 long-term unemployment. The President's funding level is from his 2009 budget and the inflation rate for the current services level is from the Office of Management and Budget. Both are distributed according to current law. The table does not show the mandated reserve fund or the funding for some states and outlying areas. For illustrative purposes, the number of workers affected is estimated using the Department of Labor's 2008 cost per participant under current law. North Dakota and Wyoming are not shown because allocations could not be estimated with statistical significance due to small sample sizes in the Census Bureau's data.

Manufacturing Extension Partnership

The President's budget essentially eliminates the Manufacturing Extension Partnership (MEP), cutting funding by \$87 million below the level needed to maintain current services and providing only \$4 million for 2009. MEP provides resources and services to U.S. manufacturers to help them create jobs, leverage private-sector investment, and be more competitive. The Administration has proposed MEP cuts in every year since 2002, even though over 3 million manufacturing jobs have been lost since 2001. If the President's cut were adopted, private-sector investment in U.S. manufacturing could be reduced by an estimated \$1.5 billion and approximately 37,000 fewer jobs could be created or retained.

The following table estimates the impact of the President's cut using the assumptions detailed in the technical notes.

	President's Cut From 2008 (adjusted for inflation)	Estimated Jobs Lost	Estimated Private Invest- ment lost		President's Cut From 2008 (adjusted for inflation)	Estimated Jobs Lost	Estimated Private Invest- ment lost
Alabama	-\$1,489,000	-734	-\$30,463,000	Montana	-\$428,000	-211	-\$8,758,000
Alaska	-\$674,000	-332	-\$13,795,000	Nebraska	-\$501,000	-247	-\$10,254,049
Arizona	-\$885,000	-436	-\$18,105,000	Nevada	-\$632,000	-312	-\$12,932,405
Arkansas	-\$787,000	-388	-\$16,099,000	New Hampshire	-\$352,000	-174	-\$7,206,949
California	-\$9,662,000	-4,764	-\$197,730,000	New Jersey	-\$1,404,000	-692	-\$28,731,455
Colorado	-\$548,000	-270	-\$11,208,000	New Mexico	-\$1,137,000	-561	-\$23,278,332
Connecticut	-\$859,000	-423	-\$17,577,000	New York	-\$4,571,000	-2,253	-\$93,537,428
Delaware	-\$253,000	-125	-\$5,173,000	North Carolina	-\$1,853,000	-913	-\$37,911,808
Florida	-\$2,862,000	-1,411	-\$58,569,000	North Dakota	-\$408,000	-201	-\$8,349,139
Georgia	-\$2,133,000	-1,052	-\$43,660,000	Ohio	-\$3,799,000	-1,873	-\$77,755,416
Hawaii	-\$365,000	-180	-\$7,477,000	Oklahoma	-\$820,000	-404	-\$16,783,382
Idaho	-\$425,000	-210	-\$8,704,000	Oregon	-\$651,000	-321	-\$13,319,333
Illinois	-\$3,434,000	-1,693	-\$70,285,000	Pennsylvania	-\$4,404,000	-2,171	-\$90,133,097
Indiana	-\$561,000	-277	-\$11,483,000	Rhode Island	-\$376,000	-186	-\$7,701,921
Iowa	-\$1,554,000	-766	-\$31,804,000	South Carolina	-\$1,896,000	-935	-\$38,797,214
Kansas	-\$1,559,000	-769	-\$31,902,000	South Dakota	-\$321,000	-158	-\$6,571,569
Kentucky	-\$442,000	-218	-\$9,049,000	Tennessee	-\$1,047,000	-516	-\$21,421,029
Louisiana	-\$492,000	-243	-\$10,073,000	Texas	-\$4,788,000	-2,360	-\$97,982,868
Maine	-\$722,000	-356	-\$14,772,000	Utah	-\$755,000	-372	-\$15,461,251
Maryland	-\$335,000	-165	-\$6,859,000	Vermont	-\$331,000	-163	-\$6,782,370
Massachusetts	-\$1,977,000	-975	-\$40,453,000	Virginia	-\$1,067,000	-526	-\$21,841,349
Michigan	-\$1,896,000	-935	-\$38,797,000	Washington	-\$1,557,000	-768	-\$31,872,776
Minnesota	-\$1,685,000	-831	-\$34,486,000	West Virginia	-\$280,000	-138	-\$5,735,411
Mississippi	-\$839,000	-414	-\$17,171,000	Wisconsin	-\$2,653,000	-1,308	-\$54,296,989
Missouri	-\$1,763,000	-869	-\$36,090,000	Wyoming	-\$311,000	-153	-\$6,364,394

Sources and Technical Notes: This analysis assumes that state shares of total funding are the same as in FY 2007. MEP grants are awarded based on merit, but state shares of total funding have been very constant over the past five years. The President's funding level is from his 2009 budget and the current services level is from the Office of Management and Budget. Data on manufacturing jobs are from the Bureau of Labor Statistics. Illustrative estimates of private-sector investment and jobs assume that future MEP investments will generate the same return on the dollar as the average for MEP clients in FY 2005. Data collected by the National Institutes of Standards and Technology (NIST) since 1997 show the private investment return on federal investment rising or remaining essentially constant in every year except 2001, when there was a small decline. Jobs created per dollar of federal investment have risen or remained nearly constant in every year except 2004, when the cost per job created briefly increased by \$22.

Improving Teacher Quality State Grants

The President's budget cuts funding for Improving Teacher Quality state grants by \$130 million below the level needed to maintain current services, providing only \$2.8 billion for 2009. The grant program provides states with flexible funding to help ensure that schools have highly qualified teachers in core academic subjects, which is a requirement of the No Child Left Behind Act. States can use the funding to recruit, train, and retain high-quality teachers in a variety of ways, including reforming certification requirements, providing professional development, and mentoring teachers. Funding for the program had been frozen around \$2.9 billion under this Administration. If the President's cut were adopted, an estimated 540,000 fewer children would be taught by highly qualified teachers.

The following table estimates the impact of the President's cut below the amount needed to maintain services using the assumptions detailed in the technical notes.

	President's Cut From 2008 (adjusted for inflation)	Change in Children With Highly Qualified Teachers		President's Cut From 2008 (adjusted for inflation)	Change in Children With Highly Qualified Teachers
Alabama	-\$2,079,000	-9,014	Montana	-\$619,000	-2,683
Alaska	-\$619,000	-2,683	Nebraska	-\$631,000	-2,737
Arizona	-\$2,128,000	-9,227	Nevada	-\$677,000	-2,937
Arkansas	-\$1,267,000	-5,493	New Hampshire	-\$619,000	-2,683
California	-\$14,724,000	-63,834	New Jersey	-\$2,905,000	-12,593
Colorado	-\$1,453,000	-6,301	New Mexico	-\$1,023,000	-4,436
Connecticut	-\$1,188,000	-5,150	New York	-\$10,170,000	-44,089
Delaware	-\$619,000	-2,683	North Carolina	-\$2,981,000	-12,922
District of Columbia	-\$619,000	-2,683	North Dakota	-\$619,000	-2,683
Florida	-\$5,913,000	-25,634	Ohio	-\$4,788,000	-20,759
Georgia	-\$3,487,000	-15,116	Oklahoma	-\$1,502,000	-6,512
Hawaii	-\$619,000	-2,683	Oregon	-\$1,276,000	-5,533
Idaho	-\$619,000	-2,683	Pennsylvania	-\$5,134,000	-22,259
Illinois	-\$5,228,000	-22,664	Rhode Island	-\$619,000	-2,683
Indiana	-\$2,225,000	-9,644	South Carolina	-\$1,671,000	-7,246
Iowa	-\$991,000	-4,297	South Dakota	-\$619,000	-2,683
Kansas	-\$1,008,000	-4,372	Tennessee	-\$2,254,000	-9,773
Kentucky	-\$2,002,000	-8,678	Texas	-\$10,894,000	-47,228
Louisiana	-\$2,902,000	-12,579	Utah	-\$839,000	-3,637
Maine	-\$619,000	-2,683	Vermont	-\$619,000	-2,683
Maryland	-\$1,840,000	-7,976	Virginia	-\$2,320,000	-10,059
Massachusetts	-\$2,305,000	-9,995	Washington	-\$2,125,000	-9,212
Michigan	-\$4,998,000	-21,668	West Virginia	-\$1,060,000	-4,593
Minnesota	-\$1,712,000	-7,424	Wisconsin	-\$2,063,000	-8,943
Mississippi	-\$1,900,000	-8,237	Wyoming	-\$619,000	-2,683
Missouri	-\$2,255,000	-9,775			

Sources and Technical Notes: This analysis assumes that funding to states is allocated as described in the President's 2009 budget. The inflation rate for the current services level is from the Office of Management and Budget. State allocations do not total to the difference in funding levels because the table does not show funding for administration and other set-asides or funding for non-state regions other than the District of Columbia. Number of children taught by high-quality teachers is estimated using per-teacher cost of training derived from National Commission on Teaching and America's Future 2000 estimate and updated for inflation, National Center for Education Statistics projected teacher salaries, and an average class size of 22.

Career and Technical Education

The President's 2009 budget again slashes funding for career and vocational education in high schools and community and technical colleges, this time completely eliminating the program, which is a \$1.2 billion cut below the level needed to maintain current services. The President has proposed to either eliminate this program entirely or reduce it by up to half in each of the last five years. The President's cut would withdraw assistance for the approximately 8 million students currently supported by federally funded vocational education.

The following table estimates the impact of the President's cut using the assumptions detailed in the technical notes.

	President's Cut From 2008 (adjusted for inflation)		President's Cut From 2008 (adjusted for inflation)
Alabama	-\$19,543,000	Montana	-\$5,503,000
Alaska	-\$4,242,000	Nebraska	-\$7,058,000
Arizona	-\$25,022,000	Nevada	-\$7,792,000
Arkansas	-\$12,509,000	New Hampshire	-\$5,746,000
California	-\$126,922,000	New Jersey	-\$25,557,000
Colorado	-\$15,358,000	New Mexico	-\$9,070,000
Connecticut	-\$10,595,000	New York	-\$59,947,000
Delaware	-\$4,876,000	North Carolina	-\$35,356,000
District of Columbia	-\$4,242,000	North Dakota	-\$4,242,000
Florida	-\$60,628,000	Ohio	-\$45,210,000
Georgia	-\$38,814,000	Oklahoma	-\$15,190,000
Hawaii	-\$5,746,000	Oregon	-\$14,131,000
Idaho	-\$6,661,000	Pennsylvania	-\$44,819,000
Illinois	-\$44,508,000	Rhode Island	-\$5,746,000
Indiana	-\$25,771,000	South Carolina	-\$19,161,000
Iowa	-\$12,205,000	South Dakota	-\$4,381,000
Kansas	-\$11,066,000	Tennessee	-\$23,574,000
Kentucky	-\$18,020,000	Texas	-\$93,638,000
Louisiana	-\$21,176,000	Utah	-\$12,775,000
Maine	-\$5,746,000	Vermont	-\$4,242,000
Maryland	-\$17,344,000	Virginia	-\$24,864,000
Massachusetts	-\$19,579,000	Washington	-\$21,774,000
Michigan	-\$39,948,000	West Virginia	-\$8,482,000
Minnesota	-\$17,563,000	Wisconsin	-\$21,712,000
Mississippi	-\$14,062,000	Wyoming	-\$4,242,000
Missouri	-\$23,413,000		

Sources and Technical Notes: This analysis assumes that funding to states is allocated as described in the President's 2009 budget. The inflation rate for the current services level is from the Office of Management and Budget. State allocations do not total to the difference in funding levels because the table does not show funding for administration and other set-asides or funding for non-state regions other than the District of Columbia.

21st Century Learning Centers

The President's 2009 budget changes the structure of the 21st Century Learning After-School Centers program and cuts funding by \$303 million below the amount needed to maintain services at the current level, providing only \$800 million for 2009. This program provides a safe place for supervised after-school activities for 1.6 million students, providing services that include academic assistance, career exploration, skills development and internships, and athletic programs. Funding reductions in the program could reduce the number of children served by the program, or reduce the quantity or quality of services provided by the after-school centers. If the President's cut were adopted and all of the funding cut resulted in a reduction in the number of after-school slots available, then at least 660,000 fewer students could receive these important services.

The following table estimates the potential impact of the President's cut if all of the reduced funding resulted in fewer available after-school slots, using the assumptions detailed in the technical notes.

	President's Cut From 2008 (adjusted for inflation)	Potential Change in Number of Children		President's Cut From 2008 (adjusted for inflation)	Potential Change in Number of Children
Alabama	-\$3,930,000	-9,202	Montana	-\$1,486,000	-3,303
Alaska	-\$1,486,000	-3,303	Nebraska	-\$1,486,000	-3,303
Arizona	-\$7,294,000	-14,923	Nevada	-\$2,143,000	-4,471
Arkansas	-\$1,794,000	-4,908	New Hampshire	-\$1,486,000	-3,303
California	-\$42,181,000	-88,749	New Jersey	-\$4,551,000	-11,194
Colorado	-\$2,478,000	-5,806	New Mexico	-\$1,838,000	-4,490
Connecticut	-\$3,108,000	-6,346	New York	-\$34,948,000	-70,640
Delaware	-\$1,486,000	-3,303	North Carolina	-\$4,559,000	-12,392
District of Columbia	-\$1,486,000	-3,303	North Dakota	-\$1,486,000	-3,303
Florida	-\$11,089,000	-26,734	Ohio	-\$8,702,000	-20,890
Georgia	-\$8,985,000	-20,319	Oklahoma	-\$1,860,000	-5,069
Hawaii	-\$1,486,000	-3,303	Oregon	-\$1,987,000	-5,141
Idaho	-\$1,486,000	-3,303	Pennsylvania	-\$11,301,000	-25,651
Illinois	-\$18,512,000	-36,332	Rhode Island	-\$1,486,000	-3,303
Indiana	-\$5,735,000	-12,306	South Carolina	-\$4,034,000	-9,237
Iowa	-\$1,666,000	-3,614	South Dakota	-\$1,486,000	-3,303
Kansas	-\$1,929,000	-4,364	Tennessee	-\$3,290,000	-8,679
Kentucky	-\$3,436,000	-8,396	Texas	-\$23,782,000	-55,417
Louisiana	-\$5,352,000	-12,788	Utah	-\$1,486,000	-3,303
Maine	-\$1,486,000	-3,303	Vermont	-\$1,486,000	-3,303
Maryland	-\$5,344,000	-10,867	Virginia	-\$4,007,000	-9,527
Massachusetts	-\$4,413,000	-10,156	Washington	-\$4,652,000	-9,865
Michigan	-\$8,988,000	-21,493	West Virginia	-\$1,306,000	-3,481
Minnesota	-\$2,540,000	-5,715	Wisconsin	-\$6,400,000	-12,499
Mississippi	-\$3,763,000	-8,507	Wyoming	-\$1,486,000	-3,303
Missouri	-\$4,122,000	-9,625			

Sources and Technical Notes: This analysis assumes that funding to states is allocated as described in the President's 2009 budget. The inflation rate for the current services level is from the Office of Management and Budget. State allocations do not total to the difference in funding levels because the table does not show funding for administration and other set-asides or funding for non-state regions other than the District of Columbia. For illustrative purposes, the number of children losing access to after-school care is estimated using the 2009 national per-child cost for this program under the President's proposal and current law, as provided in the Department of Education Congressional Budget Justification.

Child Care Development Block Grant

The President's budget cuts discretionary funding for the Child Care Development Block Grant (CCDBG) by \$41 million below the level needed to maintain current services, providing only \$2.1 billion for 2009. CCDBG reduces child care costs for low-income children while their parents work, and also monitors and improves quality and safety of care for all children. The Administration's failure to keep up with inflation will also reduce dedicated federal resources to improve the quality, safety, and availability of child care by \$1.6 million below the level needed to keep pace with inflation in 2009. Appropriated CCDBG funding has been effectively frozen since 2001, even as the percentage of children under six with only working parents has grown.

The following table estimates the impact of the President's funding cut using the assumptions detailed in the technical notes.

	President's Cut From 2008 (adjusted for inflation)		President's Cut From 2008 (adjusted for inflation)
Alabama	-\$793,000	Montana	-\$118,000
Alaska	-\$81,000	Nebraska	-\$233,000
Arizona	-\$1,025,000	Nevada	-\$293,000
Arkansas	-\$507,000	New Hampshire	-\$94,000
California	-\$4,551,000	New Jersey	-\$699,000
Colorado	-\$475,000	New Mexico	-\$366,000
Connecticut	-\$273,000	New York	-\$2,064,000
Delaware	-\$90,000	North Carolina	-\$1,339,000
District of Columbia	-\$57,000	North Dakota	-\$75,000
Florida	-\$2,229,000	Ohio	-\$1,342,000
Georgia	-\$1,593,000	Oklahoma	-\$629,000
Hawaii	-\$144,000	Oregon	-\$448,000
Idaho	-\$239,000	Pennsylvania	-\$1,231,000
Illinois	-\$1,492,000	Rhode Island	-\$107,000
Indiana	-\$834,000	South Carolina	-\$730,000
Iowa	-\$363,000	South Dakota	-\$109,000
Kansas	-\$374,000	Tennessee	-\$907,000
Kentucky	-\$709,000	Texas	-\$4,403,000
Louisiana	-\$846,000	Utah	-\$454,000
Maine	-\$136,000	Vermont	-\$58,000
Maryland	-\$498,000	Virginia	-\$770,000
Massachusetts	-\$491,000	Washington	-\$668,000
Michigan	-\$1,134,000	West Virginia	-\$269,000
Minnesota	-\$517,000	Wisconsin	-\$596,000
Mississippi	-\$642,000	Wyoming	-\$55,000
Missouri	-\$773,000		

Sources and Technical Notes: This analysis assumes that funding to states is allocated as described in the President's 2009 budget. The current services level is from the Office of Management and Budget. Analysis does not include \$2.9 billion in mandatory funding authorized under current law. 2000 Statistics on the number of children receiving assistance are from the Department of Health and Human Services and 2009 estimate is from the Office of Management and Budget. Statistics on working parents are from the Census Bureau's American FactFinder.

Low-Income Home Energy Assistance Program

The President's budget cuts total Low-Income Home Energy Assistance Program (LIHEAP) funding by \$367 million below the amount needed to maintain services at the current level, providing only \$2.0 billion for 2009. LIHEAP helps about 5.8 million very low-income households, the majority of which include a child under five or an elderly or disabled person, keep the heat on in the winter or mitigate dangerously hot summer temperatures. According to the Department of Energy, home heating costs for the average family have increased by 80 percent since 2001, but the Bush Administration has proposed cuts below the amount needed to maintain current services in six of the past eight years. The average benefit level has declined since 2001, and the program currently serves about 16 percent of eligible families.

The following table estimates the impact of the President's cut using the assumptions detailed in the technical notes. The table only shows the state impact of the \$320 million cut in formula funding and does not project which states will be affected by the cut in available contingency funds.

	President's Cut From 2008 (adjusted for inflation)		President's Cut From 2008 (adjusted for inflation)
Alabama	-\$2,691,000	Montana	-\$1,912,000
Alaska	-\$1,197,000	Nebraska	-\$2,899,000
Arizona	-\$1,203,000	Nevada	-\$615,000
Arkansas	-\$2,065,000	New Hampshire	-\$2,501,000
California	-\$14,404,000	New Jersey	-\$12,235,000
Colorado	-\$5,063,000	New Mexico	-\$1,508,000
Connecticut	-\$6,605,000	New York	-\$39,984,000
Delaware	-\$877,000	North Carolina	-\$5,862,000
District of Columbia	-\$1,026,000	North Dakota	-\$2,058,000
Florida	-\$4,282,000	Ohio	-\$16,173,000
Georgia	-\$3,386,000	Oklahoma	-\$2,260,000
Hawaii	-\$341,000	Oregon	-\$3,833,000
Idaho	-\$1,879,000	Pennsylvania	-\$21,512,000
Illinois	-\$18,282,000	Rhode Island	-\$2,169,000
Indiana	-\$8,276,000	South Carolina	-\$2,150,000
Iowa	-\$5,866,000	South Dakota	-\$1,680,000
Kansas	-\$2,687,000	Tennessee	-\$4,363,000
Kentucky	-\$4,307,000	Texas	-\$7,126,000
Louisiana	-\$2,767,000	Utah	-\$2,306,000
Maine	-\$4,123,000	Vermont	-\$1,874,000
Maryland	-\$5,057,000	Virginia	-\$6,160,000
Massachusetts	-\$13,207,000	Washington	-\$6,191,000
Michigan	-\$17,224,000	West Virginia	-\$2,851,000
Minnesota	-\$12,505,000	Wisconsin	-\$11,256,000
Mississippi	-\$2,316,000	Wyoming	-\$908,000
Missouri	-\$7,302,000		

Sources and Technical Notes: This analysis assumes that funding to states is allocated as described in the President's 2009 budget. The current services level is from the Office of Management and Budget. All data on household energy costs are from the Department of Energy. Information on LIHEAP households and benefits is from the Department of Health and Human Services and the National Energy Assistance Program Directors Association.

Social Services Block Grant

The President's budget slashes the Social Services Block Grant (SSBG) by \$500 million below the level needed to maintain current services, providing only \$1.2 billion for 2009, and then eliminates SSBG in 2010. 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, prevention and intervention programs, and special services for the disabled. Since 2006, the President has sought to cut the grant every year, but he has proposed his largest cut yet at a time when nearly half of all states are facing budget shortfalls in 2009. If the President's cut were adopted, important services could be cut in needy communities across the country.

The following table estimates the impact of the President's cut using the assumptions detailed in the technical notes.

	President's Cut From 2008 (adjusted for inflation)		President's Cut From 2008 (adjusted for inflation)
Alabama	-\$7,638,000	Montana	-\$1,569,000
Alaska	-\$1,113,000	Nebraska	-\$2,937,000
Arizona	-\$10,240,000	Nevada	-\$4,144,000
Arkansas	-\$4,668,000	New Hampshire	-\$2,184,000
California	-\$60,545,000	New Jersey	-\$14,489,000
Colorado	-\$7,894,000	New Mexico	-\$3,246,000
Connecticut	-\$5,820,000	New York	-\$32,062,000
Delaware	-\$1,418,000	North Carolina	-\$14,708,000
District of Columbia	-\$966,000	North Dakota	-\$1,056,000
Florida	-\$30,042,000	Ohio	-\$19,062,000
Georgia	-\$15,551,000	Oklahoma	-\$5,944,000
Hawaii	-\$2,135,000	Oregon	-\$6,146,000
Idaho	-\$2,435,000	Pennsylvania	-\$20,660,000
Illinois	-\$21,310,000	Rhode Island	-\$1,773,000
Indiana	-\$10,485,000	South Carolina	-\$7,176,000
Iowa	-\$4,953,000	South Dakota	-\$1,298,000
Kansas	-\$4,590,000	Tennessee	-\$10,029,000
Kentucky	-\$6,985,000	Texas	-\$39,039,000
Louisiana	-\$7,121,000	Utah	-\$4,235,000
Maine	-\$2,195,000	Vermont	-\$1,036,000
Maryland	-\$9,326,000	Virginia	-\$12,693,000
Massachusetts	-\$10,690,000	Washington	-\$10,622,000
Michigan	-\$16,766,000	West Virginia	-\$3,020,000
Minnesota	-\$8,581,000	Wisconsin	-\$9,228,000
Mississippi	-\$4,833,000	Wyoming	-\$855,000
Missouri	-\$9,703,000		

Sources and Technical Notes: This analysis assumes that funding to states is allocated as described in the President's 2009 budget. The program's current services level is from the Office of Management and Budget.

Public Housing Capital Fund

The President's budget cuts the Public Housing Capital Fund by \$461 million below the level needed to maintain current services, providing only \$2.0 billion for 2009. Within that amount, the budget provides less than the \$2.0 billion a year that the Department of Housing and Urban Development (HUD) has previously estimated is necessary to keep up with current maintenance needs, and less than half of the 2001 available funding of \$4.5 billion. According to HUD's most recent estimate, public housing also has an \$18.0 billion backlog of unmet need for repairs and modernization. Failure to maintain buildings leads to substantially higher repair costs and also creates dangerous living conditions for the residents. If the President's cut were adopted, it would mean another year of deferred repairs for 2.1 million residents of public housing, who are overwhelmingly elderly, disabled, or families with children.

Using the assumptions detailed in the technical notes, the following table estimates the impact of the President's cut. The final column of the table lists the number of public housing residents in each state, any of whom could be affected by the budget cut.

	President's Cut From 2008 (adjusted for inflation)	Number of Residents Potentially Affected		President's Cut From 2008 (adjusted for inflation)	Number of Residents Potentially Affected
Alabama	-\$13,417,000	72,590	Montana	-\$662,000	4,380
Alaska	-\$545,000	3,120	Nebraska	-\$1,891,000	11,001
Arizona	-\$2,054,000	17,372	Nevada	-\$1,589,000	8,857
Arkansas	-\$4,251,000	25,461	New Hampshire	-\$1,154,000	6,930
California	-\$18,775,000	95,509	New Jersey	-\$16,128,000	64,326
Colorado	-\$2,802,000	18,114	New Mexico	-\$1,381,000	9,308
Connecticut	-\$5,944,000	26,583	New York	-\$74,934,000	407,868
Delaware	-\$1,132,000	3,199	North Carolina	-\$11,669,000	75,616
District of Columbia	-\$5,138,000	not available	North Dakota	-\$487,000	2,986
Florida	-\$12,946,000	71,277	Ohio	-\$19,473,000	85,526
Georgia	-\$16,542,000	79,323	Oklahoma	-\$3,756,000	23,137
Hawaii	-\$2,476,000	13,884	Oregon	-\$2,208,000	7,966
Idaho	-\$263,000	1,441	Pennsylvania	-\$32,399,000	79,104
Illinois	-\$35,498,000	77,738	Rhode Island	-\$2,813,000	16,352
Indiana	-\$6,186,000	29,655	South Carolina	-\$5,151,000	31,933
Iowa	-\$1,113,000	5,972	South Dakota	-\$695,000	2,435
Kansas	-\$2,499,000	13,317	Tennessee	-\$12,164,000	63,929
Kentucky	-\$8,247,000	42,664	Texas	-\$19,874,000	123,777
Louisiana	-\$10,623,000	40,426	Utah	-\$648,000	5,004
Maine	-\$1,183,000	8,418	Vermont	-\$588,000	3,052
Maryland	-\$8,664,000	15,720	Virginia	-\$10,459,000	43,572
Massachusetts	-\$12,650,000	55,140	Washington	-\$6,260,000	14,215
Michigan	-\$8,807,000	37,335	West Virginia	-\$2,181,000	11,583
Minnesota	-\$6,934,000	35,362	Wisconsin	-\$3,805,000	21,264
Mississippi	-\$4,484,000	27,315	Wyoming	-\$201,000	1,430
Missouri	-\$7,439,000	31,334			

Sources and Technical Notes: This analysis assumes that funding to states is allocated as described in the President's 2009 budget. The program's current services level is from the Office of Management and Budget. The current number of public housing residents is from the Department of Housing and Urban Development Resident Characteristics Report as of November 30, 2007.

Federal-Aid Highways Program

The President's budget cuts the Federal-Aid Highways Program (the highway program) by \$800 million below the level needed to maintain current services, providing only \$39.4 billion for 2009. The highway program provides federal assistance to states to build, rehabilitate, and improve the National Highway System and other roads and bridges, primarily in the form of flexible, formula-based assistance. Federal spending is restricted by annual ceilings on obligations that are provided in appropriations acts. The President's budget would lower the 2009 obligation limitation by \$800 million. Because many highway projects are major capital investments that take several years to plan and complete, states could lose formula funding needed for both new projects and projects that are already underway.

The following table estimates the impact of the President's cut below the amount needed to maintain services using the assumptions detailed in the technical notes.

	President's Cut From 2008 (adjusted for inflation)		President's Cut From 2008 (adjusted for inflation)
Alabama	-\$12,328,000	Montana	-\$5,889,000
Alaska	-\$5,323,000	Nebraska	-\$4,557,000
Arizona	-\$11,859,000	Nevada	-\$4,143,000
Arkansas	-\$7,643,000	New Hampshire	-\$2,903,000
California	-\$54,269,000	New Jersey	-\$16,454,000
Colorado	-\$8,001,000	New Mexico	-\$5,791,000
Connecticut	-\$8,387,000	New York	-\$28,783,000
Delaware	-\$2,412,000	North Carolina	-\$17,656,000
District of Columbia	-\$2,557,000	North Dakota	-\$3,857,000
Florida	-\$30,777,000	Ohio	-\$22,125,000
Georgia	-\$21,786,000	Oklahoma	-\$9,469,000
Hawaii	-\$2,686,000	Oregon	-\$6,926,000
Idaho	-\$4,561,000	Pennsylvania	-\$28,651,000
Illinois	-\$20,673,000	Rhode Island	-\$3,101,000
Indiana	-\$15,588,000	South Carolina	-\$10,154,000
Iowa	-\$6,693,000	South Dakota	-\$4,041,000
Kansas	-\$6,509,000	Tennessee	-\$13,352,000
Kentucky	-\$10,645,000	Texas	-\$51,631,000
Louisiana	-\$9,355,000	Utah	-\$4,447,000
Maine	-\$2,866,000	Vermont	-\$2,631,000
Maryland	-\$9,839,000	Virginia	-\$16,404,000
Massachusetts	-\$10,468,000	Washington	-\$10,474,000
Michigan	-\$18,835,000	West Virginia	-\$6,595,000
Minnesota	-\$9,755,000	Wisconsin	-\$12,010,000
Mississippi	-\$7,260,000	Wyoming	-\$4,024,000
Missouri	-\$14,260,000		

Sources and Technical Notes: This analysis assumes that formula funds are distributed in the same shares as in 2006 and 2007, the first full years of the SAFETEA-LU Highway Authorization, based on Federal Highway Administration data. The analysis assumes that the share of funds not distributed under the formula grants (Allocated Programs, High Priority Projects, Projects of Regional and National Significance, Corridor Infrastructure Projects, Sec. 144(g), and Transfers to Sections 154 & 164) remains at the average level from 2006 and 2007 under both the President's budget and current services, and those funds are not shown in the table. The President's funding level is from his 2009 budget and the current services level is the authorized level under the Highway Act, as adjusted by estimates of revenue aligned budget authority (RABA).

Essential Air Service

The President's budget cuts the Essential Air Service (EAS) by \$61 million below the level needed to maintain current services, providing only \$50 million for 2009. Without the EAS, which preserves passenger air service at rural airports that would otherwise not be able to provide it, rural Americans would have to travel on average an additional 35 miles to reach an airport, and some residents would have to travel as far as 196 miles from their current airport. If the President's cut were adopted, over 100 rural airports would be at risk of closing.

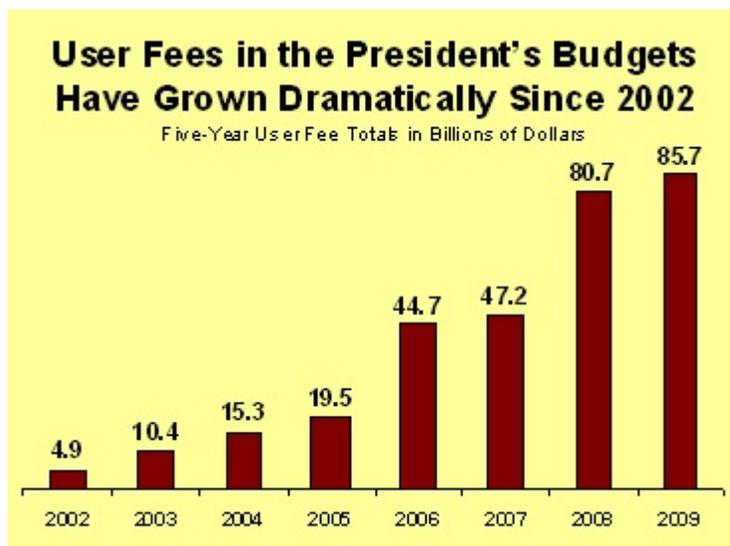
The following table estimates the impact of the President's cut using the assumptions detailed in the technical notes. By statute, an EAS subsidy is only provided if an airport cannot maintain passenger service without it, so cuts in the subsidy lead to loss of access to air travel in affected communities. State cuts may not equal the total cut because of rounding.

	President's Cut From 2008 (adjusted for inflation)	Rural Airports at Risk		President's Cut From 2008 (adjusted for inflation)	Rural Airports at Risk
Alabama	-\$816,000	1	Montana	-\$3,840,000	8
Alaska	-\$11,762,000	39	Nebraska	-\$3,252,000	7
Arizona	-\$2,081,000	4	Nevada	-\$351,000	1
Arkansas	-\$1,820,000	5	New Hampshire	-\$580,000	1
California	-\$1,385,000	3	New Mexico	-\$1,926,000	5
Colorado	-\$1,478,000	3	New York	-\$2,721,000	6
Georgia	-\$339,000	1	North Dakota	-\$2,373,000	3
Illinois	-\$2,173,000	4	Oregon	-\$352,000	1
Iowa	-\$1,682,000	3	Pennsylvania	-\$2,869,000	6
Kansas	-\$3,933,000	8	South Dakota	-\$1,744,000	3
Kentucky	-\$491,000	1	Tennessee	-\$491,000	1
Maine	-\$1,942,000	4	Texas	-\$276,000	1
Maryland	-\$463,000	1	Utah	-\$1,495,000	3
Michigan	-\$1,461,000	4	Vermont	-\$460,000	1
Minnesota	-\$1,115,000	2	Virginia	-\$352,000	1
Mississippi	-\$497,000	1	West Virginia	-\$791,000	5
Missouri	-\$2,184,000	5	Wyoming	-\$791,000	2

Sources and Technical Notes: The EAS receives a combination of mandatory and discretionary funding. This analysis assumes that current airports remain eligible for subsidy and any changes in funding are evenly distributed across states. Analysis of data from the past five years shows that EAS airports and subsidy levels are extremely constant from year to year. States not shown do not currently have EAS-subsidized air service. Data on EAS subsidy distribution, rules, and impact is from the Office of Aviation Analysis, U.S. Department of Transportation. The number of airports at risk is the total number of airports in the state currently receiving EAS subsidy. The President's funding level is from his 2009 budget and the current services level is from the Office of Management and Budget.

User Fees and Charges

Fees in the President's Budgets Have Grown Dramatically — Over the course of this Administration, the President's budgets have included growing amounts of new fees and user charges. The President's budget for 2009 imposes fees of \$85.7 billion over five years – \$80.8 billion more than the President's budget for 2002. The fees in the 2009 budget are 17 times greater than those in the 2002 budget. The accompanying chart illustrates the dramatic growth in new user fees and charges in the President's budgets since 2002.



Congress Has Already Rejected Many of These Fees — Despite annual bipartisan rejection of many of these fees, the President continues to propose them. Fees in the 2009 budget include:

- ***Veterans' health care fee increases*** — The budget imposes new enrollment fees and drug co-payment increases of \$2.3 billion over five years and \$5.2 billion over ten years.
- ***Military retirees' health care fee increases*** — The budget increases enrollment fees and deductibles under Tricare for military retirees under the age of 65, with fees totaling \$15.9 billion over five years.
- ***Medicare premium increases*** — The budget eliminates the indexing of income thresholds that trigger higher Medicare premiums. As a result, a growing proportion of middle-income seniors will be affected by the means-tested premium every year. The budget uses the same unindexed income thresholds to establish new income-related premiums for the Medicare prescription drug benefit. The combined effect of these proposals is to increase premium receipts by \$5.2 billion over five years.
- ***User fees for air traffic control*** — The budget institutes a new user fee system for air traffic control services. Beginning in 2010, commercial airlines will pay a new user fee instead of an excise tax on aviation fuel, which offsets the costs of the Federal Aviation Administration's operations. General aviation users continue to pay excise taxes on aviation fuel, but adjusted for their cost to the air traffic control system. The new system generates fees totaling \$36.7 billion through 2013. These fees will not quite cover the loss in revenues to the U.S. government of \$38.8 billion over the same period.

User Fee and Other User Charge Proposals ¹
In the President's 2009 Budget

(Estimated collections in millions of dollars)

	2008	2009	2010	2011	2012	2013	2009-2013
OFFSETTING COLLECTIONS AND RECEIPTS							
DISCRETIONARY:							
<i>1. Offsetting collections</i>							
Department of Agriculture							
Forest Service: Fees for ecosystem services	10	.....	.....	.....	.....	10
Department of Defense							
Medical care enrollment fees and deductible	1,184	2,598	3,703	4,043	4,397	15,925
Department of Health and Human Services							
Food and Drug Administration:							
Drug review user fees for generic animal drugs	5	5	5	5	5	25
Generic drug review activities fees	17	17	17	17	17	84
Follow-on biologics user fees
Animal drug user fee reauthorization	14	14	14	14	15	70
Centers for Medicare and Medicaid Services: Survey and certification user fees	35	34	34	34	34	171
Department of the Interior							
Bureau of Land Management: Repeal Energy Act fee prohibition	34	34	34	34	34	170
Department of Transportation							
Federal Aviation Administration: User fee proposal	8,550	8,849	9,392	9,953	36,744
<i>2. Offsetting receipts</i>							
Department of Housing and Urban Development							
Office of Federal Housing Enterprise Oversight	-67	-64	-65	-65	-70	-331
Subtotal, discretionary user charge proposals	1,232	11,187	12,590	13,473	14,384	52,867
MANDATORY:							
<i>1. Offsetting collections</i>							
Department of Labor							
Pension Benefit Guaranty Corporation premiums	380	2,217	2,093	2,127	2,056	8,873
Federal Housing Enterprise Regulator							
Government-Sponsored Enterprises regulatory fee	107	110	113	116	119	565
Federal Housing Finance Board							
Federal Home Loan Bank fees	-38	-40	-41	-43	-43	-205
<i>2. Offsetting receipts</i>							
Department of Agriculture							
Food Safety and Inspection Service user fees ²	96	98	100	102	104	500
Grain, Inspection, Packers, and Stockyards Administration user fees ²	27	30	30	31	32	150
Animal and Plant Health Inspection Service user fees ²	20	27	27	28	29	131
Agricultural Marketing Service inspection and grading services	10	10	10	10	10	50
Federal crop insurance fees ²	15	15	15	15	60
Department of Health and Human Services							
Food and Drug Administration: Re-inspection fees and export certification fees ²	27	28	28	29	30	142
Centers for Medicare and Medicaid: Additional Medicare premiums	410	730	1,000	1,320	1,720	5,180
Department of Homeland Security							
Passenger security fee surcharge to fund baggage screening systems	426	426	426	426	.....	1,704
Department of Housing and Urban Development							
Government-Sponsored Enterprises oversight fees	6	6	6	6	6	30

User Fee and Other User Charge Proposals ¹

In the President's 2009 Budget

(Estimated collections in millions of dollars)

	2008	2009	2010	2011	2012	2013	2009–2013
Department of the Interior							
Arctic National Wildlife Refuge lease bonuses:							
Collections for payment to Alaska	.....	.....	3,502	2	503	3	4,010
Collections deposited in the Treasury	.....	.....	3,502	2	503	3	4,010
Require upfront payment of coal bonus bid receipts:							
Collections for payment to States	.....	385	676	-48	-506	-225	282
Collections deposited in the Treasury	.....	385	676	-48	-506	-225	282
Amend Bureau of Land Management's Federal land sale authority	.....	5	10	50	50	55	170
Department of Labor							
Foreign labor certification fees	.....	95	95	95	95	95	475
Department of Veterans Affairs							
Pharmacy co-pay increase ²	.....	335	292	287	334	355	1,603
Income-based medical care enrollment fees ²	.....	.....	129	127	130	128	514
Third-party insurance co-payment offset ²	.....	44	44	44	43	43	218
Corps of Engineers—Civil Works							
Additional recreation fees	.....	9	17	17	17	17	77
Environmental Protection Agency							
Pesticide user fees ²	.....	48	48	47	47	59	249
Pre-manufacture notice user fees ²	.....	4	8	8	8	8	36
Commodity Futures Trading Commission							
Transaction fees ²	.....	96	100	103	107	111	517
Federal Communications Commission							
Spectrum license fee authority	50	150	300	300	400	450	1,600
Prospective ancillary terrestrial component spectrum license fees	30	60	100	125	125	125	535
Extend spectrum auction authority	.....	.....	.....	.....	200	200	400
Domestic satellite spectrum auctions	250	100	100	75	20	15	310
Subtotal, mandatory user charge proposals	330	3,187	13,256	4,993	5,737	5,295	32,468
Subtotal, user charge proposals that are offsetting collections and receipts	330	4,419	24,443	17,583	19,210	19,679	85,335
GOVERNMENTAL RECEIPTS							
Department of the Interior							
Migratory bird hunting and conservation stamps	.....	14	14	14	14	14	70
Department of Transportation							
Federal Aviation Administration overflight fees	.....	.....	-54	-56	-58	-60	-228
Corps of Engineers—Civil Works							
Inland waterways trust fund (net impact)	.....	99	103	104	136	103	545
Subtotal, governmental receipts user charge proposals	.....	113	63	62	92	57	387
Total, user charge proposals	330	4,532	24,506	17,645	19,302	19,736	85,722

¹ A negative sign indicates a decrease in collections.

² If enacted, the Administration will work to classify the collections as discretionary offsets beginning in 2010.

Note: This table is based on information in Table 18-3 of the Analytical Perspectives volume of the President's 2009 Budget.