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THE PRESIDENT'S BUDGET FOR FISCAL YEAR 2003

A BRIEFING BOOK FOR MEMBERS
UNITED STATES HOUSE OF REPRESENTATIVES

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THE PRESIDENT'S BUDGET
FOR FISCAL YEAR 2003
REPUBLICAN MEMBERS' BRIEFING BOOK

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[This briefing book was prepared by the Majority Staff of the House Committee on the Budget]

OVERVIEW AND HIGHLIGHTS OF THE PRESIDENT'S BUDGET

SUMMARY

The President's $2.1-trillion fiscal year 2003 budget request places the highest priority on the war against terrorism overseas and at home, and supporting the economic recovery to assist unemployed workers and foster job creation.

To implement that agenda, the President's budget proposal focuses resources on security and economic priorities, and limits the overall growth in discretionary spending, excluding national and homeland security, to 2 percent.

KEY COMPONENTS

- **Protecting the Homeland:** The budget provides an increase of $38 billion for homeland security. This amount includes $3.5 billion in grants are designed to equip and train "first responders" (firefighting, law enforcement, emergency medical personnel) to respond to potential future threats. Total spending for the Department of Health and Human Services' bioterrorism efforts would rise $1.5 billion to $4.3 billion to counter the threat of bioterrorism with enhancements in hospitals and other public health facilities, research and development, pharmaceutical stockpile, and a national information network for better detection of biological attacks as well as natural disease outbreaks. The budget also provides significant increases for the Immigration and Naturalization Service, the United States Customs Service, the United States Coast Guard, and the Transportation Security Administration [TSA]. The TSA will improve aviation security by deploying explosive detection systems and other airport security equipment, facilitating airport passenger and baggage inspection, and hiring and deploying more Federal Air Marshals.

- **Winning the War on Terrorism Abroad:** The Department of Defense budget request of $369.3 billion – a 12-percent increase over the previous year's level – would be the largest DOD budget increase in 20 years, and is intended to provide the resources needed to win the war on terrorism. The budget supports 250,000 forward-deployed troops in the war on terrorism, and increases funding for programs found effective in the war in Afghanistan, including at least $3 billion to improve intelligence gathering and computer networking. In addition to the $369-billion budget plan, the President has requested a $10 billion "war reserve" that can be tapped as needed to prosecute the global war on terrorism. This is a major departure from previous practice; military contingency operations have traditionally been paid for after the fact by means of supplemental budget requests.

The budget expands efforts to reduce the threat of proliferation of weapons of mass destruction by $1.5 billion. It also increases and targets military assistance to sustain key countries supporting the United States in the war on terrorism by increasing Foreign Military Financing [FMF] by $457 million.

- **Returning to Economic Vitality:** The President has included in the budget the "Bipartisan Economic Security Plan," based on legislation passed in the House in December but not acted on in the Senate. Specifically, the budget contains $8 billion in spending and $65 billion in tax relief in fiscal year 2003 to create new jobs and assist dislocated workers. In addition, the President's budget proposal limits the overall growth in discretionary spending, excluding national and homeland security, to 2 percent, and proposes returning the budget to balance by no later than fiscal year 2005.

- **Other Tax Policies:** The President's budget also contains the following tax provisions:

  - *Provide Incentives For Charitable Giving* - Allow deductions for non-itemizers; permit tax-free withdrawals from IRA accounts; raise the cap on corporation contributions, expand and increase the Enhanced Charitable Deduction for Contributions of Food Inventory; reform the excise tax based on the investment income of private foundations; modify tax on unrelated business taxable income of charitable remainder trusts; modify basis adjustment to stock of S Corporations contributing appreciated property; and allow expedited consideration of applications for exempt status.

  - *Strengthen And Reform Education* - Provide refundable tax credits for private school costs of students attending failing public schools, and allow teachers to deduct out-of-pocket classroom expense.

  - *Invest In Health Care* - Provide a refundable tax credit for the purchase of health insurance; provide an above-the-line deduction for long-term care insurance premiums; allow up to $500 in unused benefits in a Health Flexible Spending Arrangement to be carried forward to the next year; provide additional choice with regard to unused benefits in a Health Flexible Spending Arrangement; permanently extend and reform Archer Medical Savings Accounts; and provide an additional personal exemption to home caretakers of family members.

  - *Assist Americans With Disabilities* - Exclude from income the value of employer-provided computers, software, and peripherals.

- *Help Farmers And Fishermen Manage Economic Downturns* - Establish Farm, Fish, and Ranch Risk Management [FFARRM] Savings Accounts.

- *Increase Housing Opportunities* - Provide tax credits for developers of affordable single-family housing.

- *Encourage Savings* - Establish Individual Development Accounts [IDAs].

- *Protect The Environment* - Permanently extend expensing of brownfields remediation costs, and exclude 50 percent of gains from the sale of property for conservation purposes.

- *Increase Energy Production And Promote Energy Conservation* - Extend and modify the tax credit for producing electricity from certain sources; modify treatment of Nuclear Decommissioning Funds; provide excise tax exemption for ethanol; and provide tax credits for: residential solar energy systems, the purchase of certain hybrid and fuel cell vehicles, energy produced from landfill gas, and combined heat and power property.

OTHER ISSUES

▪ **Education:** The budget funds the No Child Left Behind Act, which includes $1 billion for the Reading First Initiative and a $1 billion increase to help low-income students meet new reading and math standards. It also provides an historically high funding level of $8.5 billion for special education.

▪ **Health:** The budget doubles (compared with 1998) National Institutes of Health funding; proposes a prescription drug benefit through Medicare; initiates a refundable tax credit to subsidize up to 90 percent of the cost of health insurance; and includes a $9 million increase to expand breast and cervical cancer screening for low-income women.

▪ **Compassion:** The budget funds the President's Compassion and Faith-Based Initiatives, totaling $6 billion annually when fully phased in. Included are new charitable giving tax credits, $100 million for the Compassion Capital Fund, $10 million for Maternity Group Homes, $25 million for Mentoring Children of Prisoners, and $20 million for a Responsible Fatherhood Initiative.

▪ **Income Assistance:** The President requests $4.8 billion for the Women, Infants, and Children [WIC] program; $277 million for low-income weatherization assistance; $1.5 billion to support 122 Jobs Corps residential training centers; and a new tax credit for low- and middle-income Americans for up to 50 percent of the cost of constructing a new home or rehabilitating an existing home.

- **Environment:** The budget provides more than $900 million for the Land and Water Conservation Fund; $54 million for National Wildlife Refuges; and record levels for the Environmental Protection Agency's [EPA's] operating budget and State grant programs.

- **Agriculture:** The budget proposes $73.5 billion over 10 years to fund a farm bill that will provide a solid safety net for all farmers and ranchers, expand markets abroad, and increase resource conservation.

- **Energy:** The administration proposes $9.1 billion in tax incentives over 10 years to develop alternative technologies, including renewable electricity generation, residential solar energy systems, and hybrid and fuel cell vehicles.

- **Election Reform:** In line with recommendations made by former Presidents Carter and Ford, the budget provides $1.2 billion over three years to assist States with the acquisition of new voting machines, voter education, and poll worker training.

BUDGET SUMMARY
A BREAKDOWN BY THE NUMBERS OF THE PRESIDENT'S PLAN

THE SURPLUS OUTLOOK

President Bush proposes $2.128 trillion in Federal spending for fiscal year 2003, which begins on 1 October 2002. Federal receipts for that year are recommended at $2.048 trillion. The proposed combination of spending and revenue results in a deficit of $80 billion. For fiscal year 2002, the current fiscal year, the administration expects spending of $2.052 trillion and receipts of $1.946 trillion, with a resulting deficit of $106 billion. Near-term deficits would give way to surpluses in fiscal year 2005, under the President's proposal. Over the 5-year budget horizon proposed by the administration, surpluses would total $157 billion.

Table 1: The President's Budget Projections
(by fiscal year, in billions of dollars)

	2002	2003	2004	2005	2006	2007	2003-07
Including Economic Security Plan							
Revenues	1,946	2,048	2,175	2,338	2,455	2,572	11,588
Outlays							
Discretionary Spending	741	789	815	838	858	880	4,180
Mandatory Spending	1,133	1,159	1,185	1,248	1,323	1,402	6,318
Net Interest	178	181	189	190	188	185	933
Total	2,052	2,128	2,189	2,277	2,369	2,468	11,431
Surplus or Deficit(-)	-106	-80	-14	61	86	104	157
Excluding Economic Security Plan							
Revenues	2,008	2,113	2,223	2,348	2,438	2,554	11,675
Outlays							
Discretionary Spending	741	789	815	838	858	880	4,180
Mandatory Spending	1,106	1,151	1,184	1,248	1,323	1,402	6,308
Net Interest	177	176	181	180	177	175	889
Total	2,024	2,116	2,180	2,267	2,358	2,457	11,377
Surplus or Deficit(-)	-16	-3	43	81	80	97	298

The bipartisan economic security plan, which the House passed in December, will have a significant effect on the bottom line. According to the Office of Management and Budget

[OMB], that legislation would reduce revenues and increase outlays by a total of $90 billion in fiscal year 2002, $77 billion in fiscal year 2003, and $231 billion over the 6-year period 2002 through 2007. As shown in Table 1 on the previous page, failure to reach agreement on the economic security plan will move the budget to surplus in fiscal year 2004.

THE PRESIDENT'S DISCRETIONARY SPENDING PROPOSALS

The budget recommends discretionary budget authority [BA] of $758 billion for fiscal year 2003. That amount would provide the Appropriations Committee with $393 billion for defense activities (military and civilian, including $10 billion for the emergency response fund), and $365 billion for nondefense activities. Included in those figures is about $8 billion for homeland security under the Department of Defense, and $30 billion for such activities under other agencies. According to OMB's estimates, fiscal year 2003 outlays total $376 billion for defense and $404 billion for nondefense.

Those figures do not include the impact of the administration's proposal to charge agencies' discretionary appropriations for the full accrual cost of the retirement benefits of employees under the age of 65. That proposal, which does not affect the surplus or deficit but rather whether costs are considered to be discretionary or mandatory, would increase fiscal year 2003 budget authority and outlays by roughly $9 billion, growing slightly in years after 2003.

Compared with the OMB baseline for fiscal year 2003 – which assumes that the $20 billion in fiscal year 2002 emergency spending in response to terrorist attacks is one-time spending – defense BA increases by $40 billion and nondefense BA increases by $8 billion. Outlays rise by $28 billion for defense, and $3 billion for nondefense. Excluding spending from the emergency response fund, discretionary budget authority in 2003 would grow by 11.4 percent for defense, 5.7 percent for nondefense, and 8.5 percent overall. For the 2003-2007 period, the President would have discretionary budget authority grow at an annual rate of 3.7 percent, about 1.3 percentage points faster than the rate of inflation. Defense spending would grow at an average annual rate of 5.0 percent, slightly over twice the rate of inflation, while nondefense BA would grow at 2.3 percent, about the rate of inflation. Table 2 on the next page compares administration policy with the OMB baseline.

Compared with OMB estimates of the Budget Enforcement Act [BEA] baseline for fiscal year 2003 (which is similar conceptually to the baseline projections of the Congressional Budget Office and assumes the continuation of all 2002 emergency spending), the administration calls for an increase of $36 billion in defense BA, and a *reduction* of $8 billion in nondefense BA. Year over-year growth relative to the BEA baseline is 13.0 percent for defense, 1.0 percent for nondefense, and 6.9 percent overall.

The administration offsets a small portion of nondefense discretionary spending with various user fees totaling $1.5 billion in fiscal year 2003 and $8.8 billion over 5 years. The largest of these imposes a new copayment for veterans' medical care of $1,500 per year on veterans with incomes above specified levels. These user fees are considered to be negative spending in the budget, and thus reduce the level of discretionary budget authority contained in the request.

Table 2: The President's Discretionary Levels
(by fiscal year, in millions of dollars)

		2002	2003	2004	2005	2006	2007
Defense							
Administration Baseline	BA	347,570	353,222	361,347	369,692	378,764	388,079
	OL	344,792	347,952	355,636	366,484	372,105	377,603
Recommended Change	BA	–	39,523	39,128	51,806	63,751	76,336
	OL	–	27,695	33,527	42,222	51,482	59,714
Administration Policy	BA	347,570	392,745	400,502	421,498	442,515	464,415
	OL	344,792	375,647	389,163	408,706	423,587	437,317
Nondefense							
Administration Baseline	BA	361,720	357,235	366,875	375,393	384,734	394,065
	OL	387,182	401,411	410,967	416,147	423,119	432,814
Recommended Change	BA	–	7,934	11,564	9,708	6,437	6,434
	OL	1	2,970	4,686	3,081	535	-1,016
Administration Policy	BA	361,720	365,169	378,439	385,101	391,171	400,499
	OL	387,183	404,381	415,653	419,228	423,654	431,798
Total							
Administration Baseline	BA	709,290	710,457	728,249	745,085	763,498	782,144
	OL	731,974	749,363	766,603	782,631	795,224	810,417
Recommended Change	BA	–	47,457	50,692	61,514	70,188	82,770
	OL	1	30,665	38,213	45,303	52,017	58,698
Administration Policy	BA	709,290	757,914	778,941	806,599	833,686	864,914
	OL	731,975	780,028	804,816	827,934	847,241	869,115

Note: Figures exclude administration proposal to appropriate for certain retirement costs currently classified as mandatory.

THE PRESIDENT'S ENTITLEMENT PROPOSALS

For mandatory spending, the budget provides for net increases of $152 billion over the 2002-2007 period, including $37 billion from the economic security plan. Over the 10-year period 2003-2012, mandatory initiatives total a net of $353 billion (see Table 3 on the next page), including $10 billion for economic security. Medicare reform including prescription drug coverage – at $190 billion over the 2003-2012 period – accounts for the largest increase in mandatory spending proposed by the President. Partly offsetting mandatory initiatives are almost $34 billion in mandatory savings, much of which comes from rationalizing drug payments, the President's proposal for the Arctic National Wildlife Reserve, and the spectrum.

Table 3: The President's Mandatory Proposals
(by fiscal year, in millions of dollars)

	2002	2003	2004	2005	2006	2007	2003-07	2003-12
Total Mandatory Increases	31,200	18,555	19,559	20,905	35,581	42,002	136,602	386,557
Strengthening Medicare	*0*	*1,680*	*3,375*	*5,068*	*17,485*	*22,497*	*50,105*	*190,159*
Total Mandatory Offsets	0	3,658	-6,457	-3,978	-6,781	-2,644	-16,202	-33,651
User Fees	*0*	*-49*	*-79*	*-136*	*-179*	*-737*	*-1,180*	*-4,865*
Net Mandatory Policies	31,200	22,213	13,102	16,927	28,800	39,358	120,400	352,906

THE PRESIDENT'S REVENUE PROPOSALS

The budget calls for a reduction in revenue of $240 billion over the 2002-2007 period, including $65 billion in fiscal year 2002. The bulk ($149 billion) of that amount results from the economic security legislation. Other initiatives include providing tax incentives to encourage the purchase of health insurance coverage ($68 billion over the 2003-2012 period), charitable giving ($40 billion), and energy independence ($9 billion) (see Table 4 below). In addition, the extension for two years of tax provisions that expired in 2001 reduces receipts by $4 billion over both the 5-year and 10-year periods.

Table 4: The President's Revenue Proposals
(by fiscal year, in millions of dollars)

	2002	2003	2004	2005	2006	2007	2003-07	2003-12
Economic Security Plan	-62,000	-65,000	-47,500	-9,500	17,000	18,000	-87,000	-43,500
Charitable Giving Incentives	-828	-2,030	-2,014	-2,903	-4,225	-4,291	-15,463	-40,218
Invest in Health Care	–	-887	-2,985	-5,008	-5,698	-6,946	-21,524	-67,879
Increase Energy Production/Conservation	-402	-801	-953	-1,071	-1,294	-1,411	-5,440	-9,141
Extend for 2 Years Provisions that Expired in 2001	-1,437	-2,517	-1,186	-210	-129	-88	-4,130	-4,335
All Other	47	-1,872	-4,492	-9,235	-11,688	-14,697	-41,984	-425,947
Total Revenue Proposals	-64,620	-73,107	-59,130	-27,927	-6,034	-9,433	-175,541	-591,020

SECURING AMERICA'S FUTURE

PROTECTING THE HOMELAND

SUMMARY

In the aftermath of the terrorist attacks of 11 September, and the subsequent threat of biological agents (such as anthrax) being used as weapons, the President has made homeland defense and security the Government's highest domestic priority, proposing $38 billion for homeland security endeavors in fiscal year 2003.

KEY COMPONENTS

- **Grants to First Responders:** The President proposes to create a new Federal grant program for States and localities to improve the ability of first responders to save lives when terrorists strike. The budget provides $3.5 billion in 2003 for these grants, which will be administered by the Federal Emergency Management Administration [FEMA]. The grants will allow local fire departments, police departments and emergency rescue teams to hire needed employees, train staff, enhance preparedness, and purchase needed equipment to improve their ability to rescue victims of terrorism in the critical early hours after an attack when it is more likely that lives can be saved.

- **Defending Against Biological Terrorism:** Total spending for the Department of Health and Human Services' bioterrorism efforts would rise from $2.8 billion in fiscal year 2002 to $4.3 billion in fiscal year 2003. Funds would be used to counter the threat of bioterrorism through enhancements in hospitals and other public health facilities, research and development, pharmaceutical stockpile, and a national information network for better detection of biological attacks as well as natural disease outbreaks.

- **Securing the Nation's Borders:** The budget requests an increase in funding for the Immigration and Naturalization Service [INS] of $852 million, or 15 percent (not including the emergency supplemental), which will support the hiring of 570 Border Patrol agents and 1,160 inspection agents. It also includes $380 million for a new visa system that will better track the entry and exit of immigrants. The proposed fiscal year 2003 budget for the Customs Service is $3.2 billion, an increase of $400 million, or 14.4 percent. Of that total, $744 million will be devoted to Northern Border Security – an increase of $212 million, or 39.8 percent – and $684 million to Maritime Security – an increase of $329 million, or 92.7 percent.

- **Securing U.S. Maritime Borders:** The budget increases funding for the Coast Guard by $1.6 billion, or 28.2 percent. After 11 September, the Coast Guard's port security mission grew from approximately 1 percent to 2 percent of daily operations to between 50 percent to 60 percent today. In addition, the Coast Guard has important national security missions such as illegal immigrant and drug interdiction and port security.

- **Aviation Security:** The Transportation Security Administration [TSA] was created pursuant to the Aviation and Transportation Security Act (Public Law 107-71) to improve aviation security by accelerating deployment of explosive detection systems and other airport security equipment, facilitating airport passenger and baggage inspection, and hiring and deploying more Federal Air Marshals. In order to implement this legislation, the administration proposes hiring 41,300 new full-time equivalents [FTEs] – including more than 30,000 screeners, an executive team, law enforcement officers, Federal air marshals, and support personnel – for the TSA. The budget requests $4.8 billion in budget resources: $2.454 billion in new budget authority and $2.2 billion in offsetting collections raised through a combination of new passenger and air carrier fees.

- **USA Freedom Corps/Service Initiatives:** These proposals include an expansion of existing programs – AmeriCorps ($230 million), SeniorCorps ($50 million) and the Peace Corps – as well as the creation of a new program called Citizen Corps ($230 million), which will focus specifically on homeland security. All the above programs will be grouped under a new USA Freedom Corps Council run out of the White House.

WINNING THE WAR ON TERRORISM ABROAD

SUMMARY

The Department of Defense [DOD] budget request of $369.3 billion – a 12-percent increase over the previous year's level – would be the largest DOD budget increase in 20 years, and is intended to provide the resources needed to prosecute the war on terrorism. In addition, the request contains a $10-billion war reserve fund that can be tapped as needed to prosecute the global war on terrorism. This is a major departure from previous practice: military contingency operations have traditionally been paid for after the fact by means of supplemental budget requests.

Secretary Rumsfeld has argued that the need for transforming DOD to fight the war on terrorism, and the successes this transformation can bring are underscored by the war in Afghanistan. He has cited the first major confrontation of the war in Mazar-e Sharif: "The battle for Mazar was a transformational battle. It had U.S. Special Forces troops on horseback communicating with antique, 40-year-old B-52s" to direct modern, laser-guided bombs to their targets.

KEY COMPONENTS

- **Forward Deployment:** The DOD budget supports 250,000 forward-deployed (in theaters of operation) troops in the war on terrorism.

- **Intelligence Enhancements:** The budget increases funding for programs found effective in the war on terrorism in Afghanistan, including at least $3 billion to improve intelligence gathering and computer networking.

- **Unmanned Aerial Vehicles [UAVs]:** A total of $158 million will be used to buy missile-firing Predator drones like those used for the first time against the Taliban. A sum of $629 million will speed production of Global Hawk, the long-range UAV that also debuted in Afghanistan.

- **Precision Munitions:** The 2003 budget requests $1.6 billion to buy 45,00 laser-guided bomb kits and 33,000 new satellite-guided bomb kits.

- **Space-Based Radar:** The President has given top priority to developing a constellation of satellites that would track moving vehicles on the ground as well as aircraft.

- **Nonproliferation:** The budget expands efforts to reduce the threat of proliferation of weapons of mass destruction by $1.5 billion.

- **Military Assistance:** The budget increases and targets military assistance to sustain key countries supporting the United States in the war on terrorism by increasing Foreign Military Financing [FMF] by $457 million or 12.5 percent. It also increases funding for International Military Education and Training [IMET] by $10 million, or 14.3 percent.

- **Stopping Terrorist Financing:** The Treasury Department's Financial Crimes Enforcement Network [FinCEN] and Office of Foreign Assets Control [OFAC] have acted since September 11, 2001, to freeze $34 million in terrorist assets (Taliban, Hamas, and al Qaeda) and assisted America's allies in freezing $33.9 million. The fiscal year 2003 budget provides FinCen with $52 million and OFAC with $22 million.

- **Global Broadcasting:** The budget also strengthens global broadcasting and public diplomacy to communicate American ideals and beliefs to vital audiences in countries in conflict and transition, especially in the Middle East, by increasing funding for International Broadcasting Operations by $40 million, or 9.1 percent.

- **Peace Corps:** The budget increases funding for the Peace Corps by $42 million, or 15.1 percent.

RETURNING TO ECONOMIC VITALITY

SUMMARY

The President urges quick passage of an economic package modeled along the lines of the bipartisan compromise that passed the House in December and that was supported by a bipartisan majority in the Senate. The President has included this "Bipartisan Economic Security Plan" in his budget for fiscal year 2003. Specifically, the Budget includes a multi-year total of $36.5 billion in mandatory spending and $105.5 billion in revenue reductions to both create new jobs and assist dislocated workers. In the current fiscal year, which ends in 8 months, $27 billion in new spending and $62 billion in tax relief are proposed for economic revitalization.

The Council of Economic Advisors has estimated that the President's economic security plan would boost 2002 gross domestic product [GDP] by one-half percentage points and lead to the creation of 300,000 new jobs. OMB has based its economic forecasts on the assumption that an economic package will be enacted.

KEY COMPONENTS

The "Bipartisan Economic Security Plan" consists of the following:

- Accelerating the individual income tax rate reductions the Congress passed last year.
- Tax refunds to lower- and moderate-income individuals and families.
- Immediate assistance to laid-off workers by extending their unemployment benefits by 13 weeks.
- Increased resources for job training.
- Tax credits for unemployed workers to retain their health insurance coverage.
- Reforming prospectively the alternative minimum tax on businesses.
- Better tax treatment for employers and entrepreneurs who invest in new equipment.

BUDGET IMPLICATIONS OF THE WAR

SUMMARY

The onset of recession and the economic effects of the terrorist attacks have resulted in a rapid deterioration of the near-term fiscal outlook, according to the President's budget. Tax revenues have declined while spending has risen for defense, homeland security, and cyclical programs such as unemployment insurance.

Deficits appear likely at least over the next 2 years. But if the Government pursues pro-growth policies and maintains spending discipline, the budget should return to surplus by 2005, the administration budget says. Although reducing the tax burden may worsen the deficit in the short term, it will generate the growth that ultimately produces surpluses.

KEY FACTORS

The President's budget identifies the following key factors related to the budget and economic situation.

- Economic weakness is the largest source of erosion in the fiscal year 2003 budget projection, accounting for two-thirds of the deterioration.

- Spending as a result of the 11 September attacks accounted for an additional 20 percent of the decline in the budget outlook.

- The combined effects of recession and war interrupted the process of paying down the national debt. Nevertheless, publicly held debt as a percentage of gross domestic product will continue to diminish over the long term: from 50 percent in the mid-1990s, to 33 percent in 2003, to 25 percent by 2007.

- Despite the favorable long-term picture for publicly held debt, total Government debt has been rising gradually over time; it is expected that the statutory debt limit will be reached sometime in early 2002. This is principally because of intergovernmental transfers, which are counted as part of the overall debt subject to a statutory limit.

- As a result of inaccuracies in budget projections of a year ago, the administration proposes to phase out 10-year budget projections by 2004 in favor of 5-year projections.

- The administration also intends to reform what it regards as the disorderly budget process by proposing "legally enforceable mechanisms" such as making the congressional budget resolution a law and extending statutory limits on spending.

Policy Summary – Cabinet Departments

[Note: The President's budget also evaluates the effectiveness of select Federal programs and the performance and management of Government agencies. In this summary, these discussions are reflected under "Other Issues" for each agency.]

DEPARTMENT OF AGRICULTURE

SUMMARY

The President's budget request for the Department of Agriculture [USDA] provides a total of $75.8 billion in funds. A sum of $56 billion, a decrease of 1 percent from 2002, is allocated to mandatory activities, while $19.8 billion, the same level as 2002, goes to discretionary budget authority. Funding reductions include $175 million for the U.S. Forest Service [USFS] and $69 million for Research, Education, and Economics. Programs increased include Commodity and International ($464 million) and Marketing and Regulatory Programs ($99 million).

The Department also administers major nutrition programs, such as food stamps and school lunch and breakfast programs.

KEY COMPONENTS

Agriculture Programs

The President's budget contains a number of key initiatives related to agriculture, including the following:

- **Farm Programs:** The budget requests $73.5 billion in funds over 10 years for farm programs. The funding level is identical to that of H.R. 2646, the House Agriculture Committee's proposed Farm Bill, which passed the House last year. Inclusion of these funds will maintain a safety net for farmers and provide long-term certainty to benefit them in their planning efforts.

- **Crop Insurance Reform:** The President proposes amending the Federal Crop Insurance Act by capping underwriting gains to 12.5 percent of each insurance companies retained premiums for the year. This change will save taxpayers $115 million in 2003.

- **Homeland Security:** Funding for agriculture-related homeland security efforts is increased by $271 million to $2.4 billion. The lion's share of this increase goes to the Animal Plant and Health Inspection Service [APHIS] responsible for protecting U.S. agriculture from pests and animal diseases. Included in this increase are: a $101-million increase in pest and animal disease control management; a $48-million increase in plant and animal health monitoring; and a $19-million increase in the Agriculture Quarantine Inspection Service for inspections at land border crossings and on flights entering the mainland. The President's plan also adds $34 million to support research aimed at protecting the Nation's agriculture and food system from attack.

- **Food Safety:** An increase of $75 million is proposed for pest and disease exclusion and monitoring programs to protect against foreign animal diseases such as Foot and Mouth Disease entering the United States.

- **Research:** The budget increases by $58 million funding for in-house research, including bio-based products, biotechnology, counter-terrorism, invasive species, genomics, and upgrades to the National Agriculture Laboratory. It also doubles funds for the National Research Initiative [NRI], USDA's major discretionary competitive grant program to $240 million. It generates savings by eliminating funds for numerous unrequested projects added by Congress during the past 2 years.

- **Trade Expansion:** The President fully funds Foreign Agricultural Service [FAS] which represents U.S. agricultural interests overseas and plays a critical role in gathering market intelligence. Included in this funding stream is a $300 million increase for the Commodity Credit Corporation's [CCC] Export Credit Guarantee Program, which facilitates exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but not available without CCC guarantees. The budget provides the maximum allowable funds under the Uruguay Round for the Export Enhancement Program [EEP] and the Dairy Export Incentive Program [DEIP]. It also funds the Market Access Program at the current $90 million level but substantially below the $200 million level proposed in the House passed Farm Bill.

- **Field Office Structure:** The budget proposes Freedom to Manage Act which reforms the Department's current field office structure. The purpose of this legislation is to develop a plan for co-locating at least 200 additional Farm Services Agency [FSA], Natural Resources Conservation Service [NRCS], and Rural Development [RD] offices in 2003 and centralize loan servicing functions that do not need to be performed at the field level.

- **Phase-Out of USDA Flood Mitigation Projects:** The President's plan would close USDA's Watershed and Flood Prevention Operations which struggles to achieve the required cost-benefit ratio. The proposal combines this program with the Army Corps of Engineer's flood damage reduction program which returns 50 cents more per dollar invested than USDA's program.

Environmental Programs

- **Environment:** The budget promotes voluntary environmental improvements by targeting its technical and financial assistance to farmers and ranchers who operate in watersheds with the greatest needs. The President's request also increases Natural Resources Conservation Service funds to $118 million to provide annual feeding operation owners with technical assistance to develop voluntary nutrient management plans for water quality protection.

- **Forest Service:** The President calls for the establishment of "charter forests." This proposal would establish certain forests or portions of forests as separate entities outside the Forest Service structure that would report to a local trust entity for oversight. The proposed plan would avoid central bureaucracy and reduce organizational inefficiencies while emphasizing local involvement and specific programmatic goals such as ecological restoration and hazardous fuels reduction.

- **Timber Sale Reform:** The budget promotes increased competition for the Federal timber sale program by allowing conservation and recreation groups to bid on timber sales.

- **Forest Service Management Reforms:** The budget proposes co-locating 22 Forest Service and Bureau of Land Management offices by the end of 2005. It increases resources to field by reducing Forest Service indirect expenses in half by 2005, and places Forest Service personnel closer to the actual resources by relocating and reassigning Washington, DC office and regional office employees.

- **Fire Suppression:** The Forest Service Hazardous Fuels Treatments Program is funded at $229 million, with more than 70 percent of funds directed to the wildland urban interface. Provides funds for wildfire suppression at a 10 year average of $423 million.

Nutrition Programs

- **WIC:** The budget cites the Special Supplemental Feeding Program for Women, Infants and Children as one of the more successful Federal programs. The budget notes that WIC has improved the nutritional intake of pregnant and post-partum mothers and their babies through education and support for purchasing nutritious foods such as milk,cheese, eggs, fruit juices, peanut butter, tuna fish, and cereals. This has led to a reduction in the adverse affects of poor nutrition and diet among lower income American children. The President recommends spending $4.7 billion for WIC in fiscal year 2003 to serve 7.8 million women and children. The funding level would provide WIC benefits to all of the WIC-eligible population in the U.S.

- **Food Stamps for Noncitizens:** The President's budget proposes to repeal a provision of the 1996 welfare reform law that denies food stamp eligibility to non-citizen adults under 65. The provision, originally intended to remove welfare programs as a magnet for immigration, has previously been modified to permit non-citizen children, senior citizens, and disabled individuals to obtain food stamps if they entered the United States prior to 22 August 1996, the date the welfare reform law was enacted. Under the administration's proposal, non-citizens who have resided in the United States for at least 5 years would be eligible for food stamp benefits, even if they entered the country after the enactment of the 1996 welfare reform law.

- **Food Stamp Program Simplification:** The budget contains several proposals to simplify food stamp rules, such as replacing the vehicle limit with an allowance of one vehicle per household; standardizing the excess medical care and dependent care deductions; and increasing State flexibility in using Employment and Training funds.

- **Food Stamp Spending Levels:** The overall mix of the President's proposals, including benefit expansions, simplification, and savings from proposals such as improved quality control and reduced error rates result in a net spending increase of $29 million in 2003, and $4.2 billion over 10 years.

- **Other Child Nutrition Programs:** The budget provides funding to permit all current child nutrition programs, such as the school lunch and breakfast programs, to meet growing levels of demand and to accommodate the rising cost of food. Efforts will continue to make the meals served nutritionally healthy while improving the appeal of meals to program participants.

OTHER ISSUES

Status Report on Select Programs

The budget cites the Special Supplemental Feeding Program for Women, Infants, and Children [WIC] as an effective program that has been successful and cost-effective at improving the health of nutritionally at-risk women and their children. It also gives the Forest Service Operating Program low marks because as much as 60 percent of the money spent on this program goes to planning and litigation rather than to projects.

Performance and Management

Some USDA financial systems do not comply with Federal financial management systems requirements or applicable accounting standards. The budget recommends USDA align processes and accounts to track the full costs of programs and measure achievement of program goals.

DEPARTMENT OF COMMERCE

SUMMARY

The President's proposal for the Department of Commerce [DOC] provides $5.3 billion in budget authority for fiscal year 2003. That is the same as the fiscal year 2002 appropriated level. This is significant considering the over $200 million increase included to address Census Bureau needs and planning towards the 2010 Decennial population count and other homeland security needs, including a $31 million increase for the Bureau of Export Administration.

KEY COMPONENTS

- **The Census Bureau:** The budget proposes a $223-million increase for the Bureau of the Census ($737 million total) for a variety of activities, including the Commerce Department's efforts to reengineer the 2010 Census. The goal is to continuing improving the accuracy of the Census (the net undercount was reduced from 1.6 percent in 1990 to 0.06 percent in 2000) while controlling, if not reducing, its cost per home (which rose from $32 in 1990 to $56 in 2000). As a major part of this work, Census will launch the American Community Survey, which will provide detailed demographic data on an annual – rather than decennial – basis. During 2003, Census will be collecting data for two other cyclical censuses, the Economic Census and the Census of Governments.

- **Economic Data:** The President calls for a $10-million increase for the Bureau of Economic Analysis ($76 million total) to improve the statistical processing systems for its economic data and accelerate the release of major economic estimates, such as Gross Domestic Product [GDP].

- **Patent and Trademark Office:** The administration budget proposes a $239 million increase (21 percent).

- **NIST:** The budget proposes a $70 million increase (21 percent) for the core research at the National Institute for Standards and Technology ($402 million total for NIST).

- **Technology Funds:** The President requests a $172-million reduction in industrial technology services to $121 million. The proposal is to phase out funding for the Manufacturing Extension Partnership [MEP] centers as the original authorizing legislation intended. The Advanced Technology Program [ATP] is reduced from $185 million in 2002 to $108 million in 2003 with new awards reduced to $35 million.

- **TOPS:** The budget terminates the $15 million Technology Opportunities Program [TOPS] which provides grants for applications of telecommunications technologies.

- **NOAA:** The President calls for a $121 million reduction from the 2002 enacted level in overall funding for the National Oceanic and Atmospheric Administration [NOAA] to $3.2 billion. The reduction is largely due to the elimination of earmarks and is still higher than 2001 funding.

- **EDA:** A slight reduction in funding is proposed for the Economic and Development Administration [EDA] – from $368 million to $350 million – to bring resources in line with congressionally authorized levels and program needs.

- **ITA:** The budget calls for a $22 million increase (6 percent) in the International Trade Administration [ITA], but with a 2002 study of fee options to develop an appropriate model of cost recovery from firms that receive trade promotion services in the future.

OTHER ISSUES

Status Report on Select Programs

The President's budget rates the Bureau of the Census, the National Institute of Standards and Technology, and the National Weather Service as "effective." It rates the International Trade Administration, Advanced Technology Program, and National Marine Fisheries Service in NOAA as "unknown."

Performance and Management

DOC needs to improve its competitive sourcing and financial management over the next 2 years. Its E-Government systems are sound and advanced in the context of the Federal Government, according to the President's budget.

DEPARTMENT OF DEFENSE

SUMMARY

As the lead agency for direct combat operations against terrorism, the Department of Defense is the first funding priority in the President's budget. The administration's fiscal year 2003 proposal for the Department of Defense calls for $369.3 billion in discretionary budget authority [BA] – a $37.8 or 12 percent increase over the previous year's appropriated level. If enacted, it would be the largest increase in the military budget in since fiscal year 1982, when President Reagan achieved a 17 percent increase.

In addition to the $369-billion budget plan, the President has requested a $10 billion "war reserve" that can be tapped as needed to prosecute the global war on terrorism. This is a major departure from previous practice; military contingency operations have traditionally been paid for after the fact by means of supplemental budget requests.

KEY COMPONENTS

- **Military Pay Raise:** The budget includes a 4.1-percent across-the-board pay raise for military personnel beginning in January 2003. This proposal comes on top of this year's 4.6-percent raise.

- **Procurement:** The fiscal year 2003 budget requests $68.7 billion for military procurement, a $7.6-billion increase over this year's level. The procurement request is the largest since fiscal year 1993.

- **Research and Development:** The budget proposes $53.9 billion for research, development, test, and evaluation – the seed money for the next generation of weapons. This represents a $5.5 billion increase over this year's appropriated level. The request is the largest ever.

- **Missile Defense:** The President's budget seeks $7.8 billion to explore technologies to protect against missile attack, the same amount as appropriated in 2002.

- **Readiness:** The operations and maintenance accounts, which fund the services' readiness to conduct military operations, receive $140.4 billion, a $12.7-billion increase over this year's appropriated level. This is the largest operation and maintenance request ever [note: some summary tables show Operations and Maintenance BA at $150.4 billion — but that includes the "war reserve fund"].

- **Health Care:** Military health care is primarily funded by discretionary accounts within operations and maintenance. The fiscal year 2003 request calls for $22.4 billion, a $4.1-billion increase over this year's appropriated level. The administration seeks this increase to continue to fund the expansion of military health care mandated by the Fiscal Year 2001 Defense Authorization Act.

- **Reconfigured Submarines:** The budget provides $1.0 billion to convert four cold war era Trident submarines from nuclear warhead ballistic missile launchers to Tomahawk cruise missile shooters.

- **Army Future Combat System:** This combination of sensors, robots and remotely fired artillery, intended to make the tank obsolete, will receive $707 million.

- **Tactical Aircraft:** The budget requests $5.2 billion to buy the next 23 F-22 air superiority fighters, up from $3.9 billion and 13 aircraft this year.

OTHER ISSUES

Status Report on Select Programs

Weapon system cost growth is a strong concern; many programs continue to exceed cost and schedule targets. The Army's chemical demilitarization program is a particular program of concern: costs have increased more than 60 percent, from $15 billion to $24 billion.

Performance and Management

A significant challenge is the Defense Health Program. There is currently a lack of incentives in both the internal Government system and among private contractors to control costs. The Government paid $655 million in overruns to DOD health care contractors in 2001.

DEPARTMENT OF EDUCATION

SUMMARY

A 2.8-percent increase is requested for the agency's program level budget, increasing the total by 1.4 billion, from $48.9 billion to $50.3 billion. Between 1998 and 2002, the Education Department received annual increases averaging 13 percent, including a 16 percent increase last year.

The budget provides a $1-billion increase for special education and a $1-billion increase for aid to low-income schools (the main component of the education reform law recently signed by the President). A tax credit for parents seeking to transfer their child from a failing public school to another public or private school is proposed, as is a new charter school grant program and a school choice demonstration fund.

KEY COMPONENTS

- **Special Education:** The budget includes a $1-billion increase for Part B of the Individuals with Disabilities Education Act [IDEA]. The program authorizes the Federal Government to pay to the States 40 percent of the excess cost of educating schoolchildren enrolled in special education. The proposed increase, from $7.5 billion to $8.5 billion, would raise the Federal share from 16.5 percent to 18 percent. From 1998 through 2002, Federal IDEA funding rose an average of 19 percent a year. The proposed 2003 increase in funding is 13 percent.

- **Title I Grants to Low-Income Schools:** The President proposes an increase of $1 billion, or 10-percent, for grants to low-income school districts, raising the total from $10.35 billion to $11.35 billion. The proposed increase would be allocated through the targeted grants formula, which focuses resources on the highest poverty school districts. The proposed increase is $4.5 billion short of the "full funding" level, or authorization ceiling, for this program, the centerpiece of the new education reform law. From 1998 to 2002, Title I funding rose by an average of 12 percent annually.

- **Reading First:** A $100-million increase is included for this program (11 percent), which was created under the recently enacted education reform law. The increase would bring total funding to $1 billion. Reading First is designed to help States and school districts teach reading to children in grades K-3. Congress funded the program last year at the authorized level of $900 million.

- **Pell Grants:** The President calls for a $549-million increase, which would cover an expected increase in the number of students eligible for these grants to low-income undergraduates. The new funds would be insufficient to raise the size of the grant received by each student, currently set at a maximum amount of $4,000. The budget also proposes a $1.3 billion supplemental in 2002 to address a shortfall in the Pell account.

- **Education Tax Proposals:** The budget contains a refundable tax credit of 50 percent of the first $5,000 in tuition, fees, and transportation costs incurred when parents transfer their child from a failing public school to another public or private school. This proposal totals $175 million in 2003 and $4.4 billion over 10 years. The budget also assumes a proposal allowing teachers to deduct out-of-pocket classroom expenses that has no cost in 2003, but would cost $1.7 billion over 10 years.

- **Charter Schools and School Choice:** The budget provides $100 million to help charter schools purchase, construct, renovate or lease academic facilities. Also, a new, $50 million Choice Demonstration Fund is proposed, which would fund efforts to develop, implement, and evaluate innovative approaches to school choice.

- **Loan Forgiveness for Teachers:** An expansion of loan forgiveness is offered for highly qualified math, science, and special education teachers serving low income communities, from $5,000 to a maximum of $17,500. A similar proposal was requested last year. The proposal would cost $81 million in 2003, and $243 million over 10 years.

- **Minority Colleges:** Historically Black Colleges, Universities, and Graduate Institutions receive an overall increase of $9 million, from $255 million to $264 million. Hispanic-Serving Institutions receive a $3.1-million increase, from $86 million to $89.1 million. The President has pledged to increase funding for minority college programs by 30 percent between 2001 and 2005.

- **Significant Reductions and Eliminations:** The budget recommends the following:

  - Large reductions in two programs, much of whose budgets were steered toward congressional earmarks in 2002. The Fund for the Improvement of Education [FIE] is reduced from $833 million to $84 million, and the Fund for the Improvement of Postsecondary Education [FIPSE] is reduced from $181 million to $39 million.

  - Due to concerns about its effectiveness, the Safe and Drug Free Schools Program is reduced by $103 million by eliminating funding for national activities involving expelled students, alcohol abuse, and mentoring.

- The Even Start family literacy program is reduced by $50 million, allowing a redirection of funds toward the President's Reading First program.

- The LEAP program [Leveraging Educational Assistance Partnerships] is eliminated. LEAP awards matching grants for State student aid scholarships. The administration argues that LEAP fulfilled its purpose by stimulating all States to establish need successfully encouraging -based grant programs for college students.

OTHER ISSUES

Status Report on Select Programs

The budget states: "[This agency] has almost no programs with evaluations reflecting overall positive performance, and very few of its nearly 200 separate grant programs have objective data to gauge their effectiveness." Regarding the No Child Left Behind Law, it states: "While most of the President's objectives were met in the new Act, some were not. Congress has continued about two dozen programs that the administration sought to eliminate because they were narrowly focused or ineffective, and added a half dozen more programs that the administration did not think were necessary." *Thirty-five programs are proposed for termination in this budget, freeing up nearly $1 billion for high-priority activities.*

Performance and Management

The administration proposes to allow the Internal Revenue Service to match the income reported on student aid applications with tax return data. An estimated $138 million would be saved in 2003. This savings, however, is not assumed in the President's budget.

In an attempt to reduce administrative costs and better target resources, the budget proposes to transfer the agency's $936 million annual budget for student aid into a single, discretionary account. This budget is currently divided among various accounts, both discretionary and mandatory.

DEPARTMENT OF ENERGY

SUMMARY

The President's budget proposal for the Department of Energy [DOE], both civilian (functions 250 and 270) and defense (function 050), provides $21.9 billion in budget authority for fiscal year 2003. This is $952 million, or 4.5 percent, above the fiscal year 2002 appropriated baseline (non-Emergency Response Fund) level. The President's budget includes the following initiatives:

KEY COMPONENTS

- **Stockpile Stewardship:** The 2003 President's budget requests $6.1 billion for nuclear stockpile stewardship, $455 million above the 2002 level.

- **PNGV:** The budget replaces the Partnership for a New Generation of Vehicles [PNGV] 80 mpg car with Freedom CAR [Cooperative Automotive Research], a hydrogen-based fuel cell car. Freedom CAR is funded solely by DOE, not inter-agency like PNGV, and will strictly adhere to cost-sharing requirements with limited Federal support of automakers.

- **Weatherization Assistance:** The budget increases conservation through the Department of Energy's Weatherization Assistance Program to help low-income families who live in poorly insulated housing or have insufficient heating or cooling systems. The budget proposes to weatherize 123,000 homes in 2003, a 17-percent increase over 2002.

- **Coal Research:** The new Coal Research Initiative totals $326 million in fiscal year 2003. The President plans to spend $2 billion over 10 years to reduce the environmental impact of using coal to generate electricity.

- **ANWR:** The budget allows safe and controlled oil and gas exploration by opening a small part of the Arctic National Wildlife Refuge [ANWR] generating $3.2 billion in bonus bid receipts, mostly in 2004. Of this revenue, $1.2 billion will supplement renewable energy R&D spending, $1.6 billion is the State of Alaska'a share, and $400 million will be devoted to land conservation and reducing maintenance backlogs on public lands in the Department of the Interior.

- **Power Marketing Administrations:** The budget proposes that, in 2003, the Southeast Power Authority, the Southwest Power Authority, and the Western Area Power Authority begin directly financing the Corps of Engineers' power-related operating and maintenance expenses.

- **Tax Incentives:** The President's budget includes more than $9 billion in tax credits and other tax incentives over the next 10 years (2003-2012) to increase energy production and promote energy conservation: $3 billion for a new tax credit for the purchase of hybrid and fuel cell vehicles; $2 billion in modified tax treatment of the costs of decommissioning nuclear power plants; $1.8 billion to extend and modify the tax credit for producing electricity from certain renewable sources such as biomass and wind; $1.1 billion for a tax credit for energy produced from landfill gas; $1.1 billion for a tax credit for combined heat and power (co-generation) properties; and $72 million for a tax credit for residential solar energy systems. The tax exemption or credit for ethanol also is extended.

OTHER ISSUES

Status Report on Select Programs

The President's budget rates the Naval Reactors program and Office of Science as "effective;" the National Nuclear Security Administration's Weapons Activities as "moderately effective"; and the Defense Environmental Restoration and Environmental Management programs, the fossil and nuclear R&D, and science and technology programs as "ineffective." The budget seeks to redirect resources away from lesser performing programs to more effective or higher priority programs.

Performance and Management

E-Government, especially management of DOE's information technology investments, is DOE's weakest link. One additional management area particularly important for DOE is contract reform and project management. DOE spends more than 90 percent of its budget through contracts.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

SUMMARY

For the Department of Health and Human Services [HHS], the President proposes $491.9 billion in budget authority for fiscal year 2003, a 1-year increase of $23.4 billion. The budget would complete the 5-year effort to double the National Institutes of Health [NIH] funding by providing $27.3 billion to NIH, an increase of $3.9 billion over fiscal year 2002. The Centers for Disease Control and Prevention [CDC] would receive $4.0 billion. The President also proposes to reauthorize the Temporary Assistance to Needy Families [TANF] block grant at $16.7 billion annually. TANF is the Nation's primary welfare program for low-income families with children. Medicare spending, net of premiums, would be $234.4 billion, an increase of $8.0 billion over 2002. Federal Medicaid spending would increase $14.0 billion, to $158.8 billion. Medicare and Medicaid are administered by the Centers for Medicare and Medicaid Services [CMS] in HHS.

BIOTERRORISM

Program Summary

As noted in the section on "Protecting the Homeland," strengthening efforts to prevent and address bioterrorism is a priority for the Department of Health and Human Services [HHS]. HHS is the lead agency in the effort, with assistance from the Centers for Disease Control and Prevention [CDC], the Food and Drug Administration [FDA], the Health Resources and Services Administration [HRSA], and the National Institutes of health.

Key Components

- **Spending:** Total spending for HHS bioterrorism efforts would rise from $2.8 billion in fiscal year 2002 to $4.3 billion in fiscal year 2003.

- **Framework:** The fiscal 2003 budget counters the threat of bioterrorism with enhancements in hospitals and other public health facilities, research and development, pharmaceutical stockpile, and a national information network for better detection of biological attacks as well as natural disease outbreaks. (Please see the section on "Protecting the Homeland" for additional details.)

NATIONAL INSTITUTES OF HEALTH AND OTHER HEALTH AGENCIES

Agency Summary

The President's fiscal year 2003 budget proposes to complete the doubling of the National Institutes of Health [NIH] budget over 5 years, to build on the 2002 Community Health Centers and National Health Service Corps Presidential Initiative, and several health tax provisions.

Key Components

The President's budget includes the following proposals:

- **Doubling NIH:** The budget proposes to increase NIH funding by $3.9 billion, increasing total NIH funding to $27.3 billion. This would complete the doubling of the NIH budget over 5 years, from the 1998 level of $13.6 billion. The proposed NIH budget includes $5.5 for cancer research at the National Cancer Institute and other NIH institutes.

- **Community Health Centers:** The budget builds on the 2002 Community Health Centers Presidential Initiative to increase the number of health center sites by 1,200 to serve an additional 6.1 million people by 2006. An additional 178 sites would be added in 2003.

- **Health Tax Provisions:** The biggest of the President's Health Tax Credit proposals is a new refundable tax credit for low- and moderate-income individuals and families without health insurance, totaling $35.6 billion over over 5 years. In addition, the President's budget includes provisions to improve and permanently expand Medical Savings Accounts [MSAs]; a deduction for long-term care insurance premiums; an additional personal exemption to caretakers of family members in need of long-term care services; and improved flexible spending accounts [FSAs]. These proposals total $11.0 billion over 5 years.

WELFARE

Program Summary

In the area of income security and welfare, the President's budget proposes the reauthorization of the 1996 welfare reform law, which replaced the Aid to Families with Dependent Children [AFDC] program with the Temporary Assistance to Needy Families [TANF] block grant. The TANF block grant provides $16.7 billion per year to States to support low income families while they transition from welfare to work. The President's 2003 budget recommends reauthorization of TANF with no change in funding levels.

The President's budget also recommends increased participation by faith-based providers of social services in the effort to improve the lives of low income Americans.

Key Components

- **Reauthorization of TANF:** The budget recommends reauthorization of this block grant to States – the primary Federal welfare program for low-income families with children – at the current level of $16.7 billion annually. Minor changes to the law are proposed, such as restoring the defunct contingency fund, from which States may borrow during an economic downturn; reauthorizing the lapsed supplemental TANF grants to States with historically low benefit levels; and eliminating the illegitimacy reduction bonus and using those funds instead to conduct research on successful initiatives that reduce out of wedlock births.

- **Tax Credits for Charitable Giving:** The President again proposes new tax credits to encourage charitable giving, worth $2 billion in 2003 and $41 billion for the period 2003-2012. Taxpayers who do not itemize could claim on their 2002 returns $100 if single and $200 if married. Those levels would rise, reaching $500 for singles and $1,000 for married couples in 2012.

- **Individual Development Accounts [IDAs]:** The administration proposes allowing financial institutions to deduct up to $500 per year in matching funds that they provide to low- income persons who open IDA bank accounts as a means of building assets for financial independence. The administration seeks the creation of 900,000 such accounts over the next 6 years.

- **Compassion Initiatives:** The budget contains the following proposals aimed at voluntary charities or faith-based organizations:

    - $110 million for a Compassion Capital Fund. The funds would provide assistance to faith-based community organizations that provide services in low-income communities.

    - $10 million for Maternity Group Homes to assist young unwed mothers.

    - $25 million for mentoring children of prisoners.

    - $20 million for a Responsible Fatherhood Initiative to encourage noncustodial fathers to play a role in their children's lives and to help these fathers to economically support their children.

- **Child Support Enforcement:** The budget proposes to allow States to provide children of TANF participants to obtain the full amount of child support collected on their behalf.

Under current law, half of those collections must be returned to the Federal Government. The budget also proposes offering States Federal matching funds of up to $100 per month when the States pass along their share of child support collections to the custodial parent. These initiatives are paid for by proposals to strengthen State child support collection tools, as well as imposing a $25 user fee on non-TANF families that benefit from State child support enforcement programs. The net cost of the child support provisions is $66 million in 2003 and $186 million over 10 years.

- **Child Welfare and Foster Care:** The budget proposes to increase funding for the Safe and Stable Families program by $130 million in 2003 to provide additional resources to help children remain with their at-risk families rather than enter foster care. It also proposes an increase of $60 million in the Independent Living program to provide vouchers worth $5,000 to certain children who are aging out of foster care. The vouchers would be for education or training to help recipients become financially independent.

- **Social Services Block Grant:** The President's budget provides $1.7 billion for the block grant in 2003, the same funding level available in 2002.

- **Head Start:** The budget increases funding for Head Start by $130 million in 2003 to maintain program participation. But the budget also recommends reforming the program by returning it to its original purpose of preparing young children to be ready to learn when they enter school. The administration is appointing a task force to recommend improvements in Head Start and to prepare for transferring it to the Department of Education.

- **LIHEAP:** The budget proposes $1.7 billion in funding for the Low-Income Home Energy Assistance Program [LIHEAP]. This level contains a contingency fund of $300 million to meet unanticipated needs.

- **Child Care:** The budget funds the discretionary Child Care and Development Block Grant at $2.1 billion and the mandatory Child Care Entitlement to States under the current law formula at $2.7 billion for 2003.

- **Community Services Block Grant [CSBG]:** The budget funds CSBGs at $570 million in fiscal year 2003, a reduction of $80 million from the 2002 level of $650 million. The administration notes that the grants provide a small fraction of the budget to a largely static group of organizations. Moreover, it contends, little performance data exist to show the outcome of CSBG funding. The reduction was transferred to other higher-priority high performing programs.

MEDICARE

Program Summary

The President's budget emphasizes providing a prescription drug benefit as a component of strengthening the program. The budget proposes $190 billion over 10 years to fundamentally reform Medicare, addressing its financial liabilities and management problems as well as modernizing the program and offering a prescription drug benefit. The key components of the President's plan include the "President's Framework for Strengthening Medicare" and several transitional proposals to offer immediate prescription drug assistance to beneficiaries. These transitional proposals include a Medicare Prescription Drug Card Program; a "Pharmacy Plus" Model Waiver Program; Medicare Low-Income Drug Assistance; Additional Funding for Private Health Insurance Plans; and Additional Medigap Options for Prescription Drugs.

Key Components

- **President's Framework for Strengthening Medicare:** This component of the President's Medicare reform plan is a comprehensive reform of the Medicare Program, costing $28.2 billion over 5 years. Among other things, this proposal seeks to strengthen the program's long-term financial security, reform Medicare's regulatory procedures, reduce waste, fraud and abuse, provide better coverage for serious illnesses, and add a prescription drug benefit as part of modernized Medicare.

- **Immediate Assistance for Seniors as Part of Legislation to Strengthen Medicare:** Full implementation of the President's Framework for Strengthening Medicare will take several years. In the mean time, the President proposes the following initiatives to give Medicare beneficiaries immediate help for their medications:

  - *Medicare Prescription Drug Card Program:* This initiative would create a Medicare-endorsed Drug Card Program that allows Medicare beneficiaries to pool together to use their buying power to get better prices from drug manufacturers. Under this budget-neutral program, private Drug Card sponsors would secure manufacturer rebates and pass the savings to beneficiaries.

  - *Medicare Low-Income Drug Assistance:* Under current law, some low-income Medicare beneficiaries are also eligible for drug coverage under Medicaid. This proposal, costing $20.7 billion over 5 years, would give States the option to expand drug coverage to all Medicare beneficiaries up to 100 percent of poverty at current Medicaid matching rates. In addition, the President's proposal would offer States an incentive to further expand drug coverage between 100 and 150 percent of poverty with the Federal Government paying 90 percent of the cost, with the States covering the remaining 10 percent.

- *"Pharmacy Plus" Model Waiver Program:* The budget neutral "Pharmacy Plus" Program would give States the option to use their Medicaid Programs to extend drug coverage up to around 200 percent of poverty. In addition, the program would give States the flexibility to use private-sector cost-control mechanisms, such as preferred drug lists, that are currently discouraged under Medicaid law.

- *Additional Funding for Private Health Insurance Plans:* Although many beneficiaries prefer Medicare+Choice plans because of their enhanced benefits, including prescription drug coverage, the Medicare+Choice payment system has failed to reflect rising health costs. Consequently, hundreds of Medicare+Choice plans have left Medicare or reduced their service areas. This proposal, costing $3.7 billion over 5 years, would offer additional funds for Medicare+Choice plans to better reflect increased health care costs.

- *Additional Medigap Options for Prescription Drugs:* The President proposes the addition of two new Medigap plans to the Medicare Program. (Currently, there are 10 standard "Medigap" plans that offer coverage of certain Medicare deductibles, copayments, and some services not covered by Medicare.) These new plans would offer prescription drug coverage and protection against catastrophic illness. The proposal would save $600 million over 5 years.

■ **Miscellaneous Provisions:** The President's Medicare proposal also includes a number of miscellaneous provisions. These include competitive-bidding for durable medical equipment [DME], certain budget-neutral provider payment adjustments, Medicare Secondary Payer [MSP] reform, reform of payments for the limited number of prescription drugs currently covered under Medicare, extending the subsidy of Medicare premiums for certain qualified individuals, and graduate medical education [GME] payment reform.

MEDICAID

Program Summary

The President's fiscal year 2003 budget reviews the administration's progress over the past year in reforming the way Medicaid and the State Children's Health Insurance Program [SCHIP] provides health coverage to the poor and near poor. In consultation with the States, the administration has developed ideas to increase State flexibility. States have greater flexibility to use private health insurance, when possible, and to coordinate with employment-based insurance for those who have access to it.

Under the President's budget, Medicaid for fiscal year 2003 includes outlays of $159 billion. This represents a net increase of $14 billion, or 9.7 percent, over the fiscal year 2002 level. Over the 5-year period 2003 to 2007, total outlays for Medicaid are $930 billion. About $3.2 billion is available to the States for SCHIP programs in addition to about $11 billion in unspent funds from prior years.

The budget assumes savings resulting from the publication of a final rule on 17 January, reducing the Medicaid upper payment level [UPL] from 150 percent of the allowable Medicare levels to 100 percent of those levels. Under the UPL loophole, there is a financial incentive for States to make higher than usual payments for care provided at non-State government facilities – namely, county and city facilities – allowing States to claim higher Federal Medicaid matching dollars. States then require these facilities to transfer the excess Medicaid costs back to the State. States then use these funds to cover part of the State Medicaid share or for other purposes.

Key Components

The President's budget includes the following proposals:

- **Reform of Medicaid and SCHIP:** In cooperation with the States, the administration will develop ideas to increase coverage and efficiency in the Medicaid and SCHIP programs by giving States more flexibility to meet health care coverage goals. As a first step, the administration introduced the Health Insurance Flexibility and Accountability [HIFA] demonstration initiative. In fiscal 2003, the administration will build on HIFA by giving the States the statutory authority to provide broader coverage to low-income uninsured Americans and to design innovative programs without seeking waivers.

- **Availability of SCHIP Funds:** The administration proposes to extend the availability of expiring SCHIP funds until 2006. These funds would otherwise be reallocated among States which have exhausted their funds and, if not used, a year later the funds would be returned to the Treasury.

- **Program Integrity:** The budget proposes to strengthen program integrity relating to the States use of upper payment limits and provision of school-based services provided to Medicaid-eligible children.

- **Medicaid Prescription Drugs:** The "Pharmacy Plus" Program (discussed under Medicare) would give States flexibility through waivers to extend Medicaid drug coverage to Medicare beneficiaries with incomes up to 200 percent of poverty. In addition, the program would give States the flexibility to use private-sector cost-control mechanisms, such as preferred drug lists, that are currently discouraged under Medicaid law.

OTHER ISSUES

Status Report on Select Programs

The budget assessments of HHS programs range from ineffective – for Health Resources and Services Administration's [HRSA] health programs and HRSA's Community Access Program – to effective for HRSA's community health centers, HRSA's national health service corps, Centers for Disease Control and Prevention's childhood immunizations program, and the Administration for Children and Families' Temporary Assistance for Needy Families [TANF]. The Indian Health Service is rated as moderately effective.

Performance and Management

The budget states that in few Federal agencies is the need for organizational reform more acute than at HHS, where a long history of decentralized decision-making has produced a Department with 13 operating divisions functioning with relative autonomy. The result is a patchwork of uncoordinated and duplicative management practices that hinder its efforts to accomplish its mission efficiently.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

SUMMARY

The President's Budget provides $31.5 billion in discretionary budget authority for Housing and Urban Development [HUD] programs for fiscal year 2003, an increase of 2 percent over the estimated funding level of $29.5 billion in fiscal year 2002.

The budget seeks to achieve significant improvements in the quality of services HUD provides and strengthen overall management of HUD programs primarily by redirecting resources from lower-priority activities to programs which are more effective, or which are more critical to meeting the needs of lower-income American families.

KEY COMPONENTS

- **Tax Credits:** The budget provides a new tax credit to developers to encourage the construction of affordable single-family housing. The tax credit of up to 50 percent of the cost of constructing a new home or rehabilitating an existing property would be available to developers who sell the properties to home buyers who have incomes 80 percent or below the area median income.

- **Section 8 Contracts:** The budget provides for the renewal of all expiring Section 8 Housing subsidy contracts, while expanding the number of Section 8 vouchers by 34,000.

- **Minority Home Ownership:** The President's plan funds initiatives to increase the overall home ownership level among minority families to 50 percent, including a three-fold increase, or $65 million, for the Self-Help Homeownership Opportunity Program to provide competitive grants to non-profit faith-based and community-oriented organizations that support home ownership. The budget quadruples the President's Down Payment Assistance Initiative from its 2002 level to $200 million. The funds provide State and local governments matching grants to provide down payment assistance to first time home buyers.

- **Affordable Housing:** The budget includes a $100-million increase for the HOME block grant. This will produce about 23,000 new affordable rental units in 2003, and rehabilitate another 23,000. The Low-Income Housing Tax Credit will also generate about 100,000 units of moderate-rent housing a year.

- **Public Housing:** Public housing programs are reformed by allowing Public Housing Authorities [PHAs] to finance the capital needs of their properties with private mortgages, while the Federal Government will continue to subsidize operating and debt service costs not met by tenant rent payments. Funds obtained will be used to meet the $20 billion in modernization costs estimated over the next 10 years while improving the overall number of units that meet HUD's physical quality standards. Additionally, tenants will be given the flexibility to move within the Housing Authority's properties after one year while retaining their subsidy, thus introducing competitive market forces and choice into the program.

- **Homelessness:** The President seeks to end chronic homelessness over the next decade by establishing a base measurement of the chronic homeless population in 2003 and setting a goal of reducing the number of chronically homeless persons by up to one-half over 5 years. Funding for homeless programs will increase to $2.2 billion in 2003, of which $1.1 billion will be provided within HUD. Management of major homeless programs will be consolidated into five agencies rather than seven.

- **Community Development Block Grants [CDBG]:** The budget proposes a legislative change to reduce grants to the wealthiest 1 percent of eligible communities, defined as those with per-capita incomes of twice the national average. Savings from the proposal will fund a regional initiative to increase affordable housing, economic opportunities, and infrastructure within the Colonias. The Colonias are communities within 150 miles of the U.S.-Mexican border that lack adequate infrastructure and basic services such as sewers and electricity. CDBG formula funds would also be increased by $95 million in fiscal year 2003.

- **Poor-Performing and Duplicative Economic Development Programs:** The budget eliminates Rural Housing and Economic Development Grants and Round II Empowerment Zone grants because of a lack of demonstrated effectiveness. Since 1999, these two programs have spent $430 million. Savings will be reinvested in the CDBG program.

OTHER ISSUES

Status Report on Select Programs

The budget notes that the Public Housing program is ineffective, because the 1.2 million people it serves are trapped in poor quality housing concentrated in high-poverty or isolated areas. Homeless programs and the Community Development Block Grant are rated as having "unknown" effectiveness. Housing vouchers and lead paint abatement are classed as effective programs which have increased the availability of decent affordable housing for low income families while reducing the exposure of children to hazardous lead paint residue.

Performance and Management

The budget identifies numerous weaknesses in HUD's performance and management, including an aging workforce that is not positioned well to do the work needed; deficiencies in financial management, which contribute to overpayments of rent subsidies; lack of proper supervision of contractors; and insufficient measurement of the outcomes resulting from HUD programs.

DEPARTMENT OF THE INTERIOR

SUMMARY

The President's budget proposal for the Department of Interior [DOI] provides level funding of $10.5 billion in discretionary budget authority. Funding reductions include the Bureau of Land Management [BLM] (-$36 million) and the U.S. Geological Survey [USGS] (-$46 million) DOI agencies that saw increases include the National Park Service [NPS] (+$34 million), the Bureau of Indian Affairs [BIA] (+$24 million), and the U.S. Fish and Wildlife Service [USFWS] (+$8 million).

KEY COMPONENTS

The President's budget includes the following initiatives related to the environment and natural resources:

- **NPS O&M Backlog:** The budget provides more than $660 million in funds for reducing the National Park Service's $5 billion backlog in operations and maintenance. This year's budget request represents nearly a doubling of this account since 1996 ($354 million) and follows an unprecedented 30 percent increase in 2002.

- **USFWS Refuges:** The President adds $57 million for operations at the U.S. Fish and Wildlife Service's refuge system—an 18 percent increase above last year's request of $319 million. $52 million of this amount would go toward the highest priority operations, maintenance, and planning needs. The remaining $5 million would be spent on challenge cost-share programs on wildlife refuges. The wildlife refuge budget supports 538 wildlife refuges and a number of wildlife education programs.

- **LWCF:** The plan fully funds the Land and Water Conservation Service at over $900 million to promote conservation efforts.

- **ANWR:** The budget also provides for the safe and ecologically controlled resource exploration of oil and natural gas in Alaska's Arctic National Wildlife Refuge and other public lands, generating $3.2 billion in total revenue. Of that total, $400 million would go to the Department of the Interior for public land conservation and maintenance.

- **Conservation Tax Credit:** Incentives for private, voluntary land protection are included through a 50-percent capital gains tax exclusion.

- **Endangered Species:** The President calls for $126 million for the USFWS' Endangered Species program which supports the direct efforts of the FWS to implement the Endangered Species Act. The budget also includes $25 million to help carry out the "reasonable and prudent" alternative to the Columbia Basin biological opinion. The administration expects to remove five species off the ESA list in 2003 because of recovery measures.

- **Cooperative Conservation Incentive [CCI]:** The budget allocates under CCI $100 million in matching funds for natural resource conservation projects. Half of these funds would be allocated through cost-shared programs between non-Federal partners and various DOI agencies. The other half would be distributed to States as part of the LWCF State grant program.

- **NPS Natural Resource Challenge:** The budget increases by $18 million funding for this initiative which is designed to collect and inventory baseline park resources such as nitrogen levels in streams and populations of waterbirds.

- **Grazing:** The Bureau of Land Management expects to process approximately 1,500 expiring grazing permits, allowing the backlog to be completely eliminated by 2004.

- **Energy:** In addition to ANWR, the President's energy policy includes promoting enhanced oil and natural gas recovery from existing wells through new technology, placing a higher priority on developing alternative energy sources that may reduce our dependence on foreign oil and eventually replace fossil fuels, and increasing domestic coal production.

- **Energy Leases and Research:** The budget increases the Bureau of Land Management [BLM] budget by $350,000 to improve access for geothermal energy leasing in California, Nevada, Utah, Oregon, and New Mexico. The U.S. Geological Service [USGS] also receives an increase of $500,000 for geothermal energy research and information.

- **Bureau of Indian Affairs [BIA]:** The budget places new emphasis on improving academic performance at BIA schools, and continues the current initiative to eliminate the school maintenance and repair backlog. The President also proposes to use competition to improve the academic performance at the worst performing BIA-operated schools. Following tribal consultations, the BIA will solicit private entities to manage those schools that the tribes do not elect to contract themselves through self-determination grants. Finally, the administration proposes an increase of $84 million to remedy deficiencies in the financial control systems of Indian trust funds.

OTHER ISSUES

Status Report on Select Programs

Cites the Bureau of Indian Affairs School Performance and the National Fish Hatchery System as ineffective programs. Positive reviews are given to the National Fish Wildlife Refuge System and the Offshore Minerals Management program.

Performance and Management

Due to problems with its tribal trust accounting, the DOI cannot provide assurances that its trust management systems and internal controls meet Federal standards. All other DOI components do meet these standards.

DEPARTMENT OF JUSTICE

SUMMARY

Consistent with the top priorities of the President, the Department of Justice [DOJ] will have a major role in fighting terrorism and ensuring homeland security. The President's budget proposes to spend $30.2 billion in budget authority [BA] for the Department in fiscal year 2003 – a $3.4-billion, or 13-percent, increase over 2002 spending. Specifically, a proposed $2.0 billion would go toward initiatives for combating terrorism.

KEY COMPONENTS

- **Federal Bureau of Investigation [FBI]:** The budget increases FBI spending to $4.44 billion, an increase of $814 million, or about 22 percent (excluding the counterterrorism supplemental funding). Much of the increase will be used for improving information technology and acquiring new advanced surveillance aircraft. The budget will also fund an additional 263 special agents. A total of $186 million will be used for information technology infrastructure and additional upgrades.

- **Immigration and Naturalization Service [INS]:** The budget sets funding for the INS at $6.5 billion, an $852-million, or 15-percent, increase over 2002 spending (excluding the counterterrorism supplemental). It provides for an increase of 570 Border Patrol agents and 1,160 inspection agents. It also includes funds for improving border and information technology and surveillance equipment, including aircraft and remote operated infrared cameras along isolated sections of the border.

- **Drug Enforcement Administration [DEA]:** The budget increases DEA spending to $1.7 billion, an increase of $100 million, or about 7 percent, including funding for an additional 55 agents.

- **U.S. Marshals Service:** To increase security at or around Federal judicial buildings, the President's budget increases funding for the U.S. Marshals service to $737 million, an increase of $88 million, or about 14 percent (excluding the counterterrorism supplemental), and will allow for an additional 190 U.S. Marshals.

- **Federal Bureau of Prisons [BOP]:** The budget calls for a total of $4.6 billion for BOP spending, This is a $17 million, or 0.6 percent, decrease in BOP spending. The change reflects proposed alternatives to prison construction, but would add an additional 995 correctional officers.

- **Office of Justice Programs [OJP]:** The budget sets OJP funding at $3.8 billion, $1.2 billion, or about 33 percent, less than the prior year. This is primarily attributed to the funding consolidation efforts to aid "first responders," specifically the transfer of the Office for Domestic Preparedness to the Federal Emergency Management Agency.

- **State and Local Law Enforcement Assistance/Community Oriented Policing Service [COPS]:** In an effort to streamline support for State and local law enforcement, the budget consolidates a number of duplicative State and local law enforcement accounts and establishes funding at $2.1 billion. This amount is $1.3 billion, or almost 60 percent, less than the prior year.

- **Election Reform Grants:** The budget includes $400 million for a new DOJ matching grant program for localities to take advantage of improved voter technologies and administration.

OTHER ISSUES

Status Report on Select Programs

The President's budget reports that the Immigration services were virtually ineffective due to the unacceptable large application backlogs and lengthy processing times for those who wish to legally enter the United States. It further reports that the effectiveness of COPS and other State and Local Grant Programs is virtually unknown as the net effect on police hiring and national crime rates is uncertain, and due to the widely varying program objectives and lack of performance measures of the various other programs.

INS Reform and Restructuring

The INS has suffered from systemic problems the last few years, particularly those related to INS' dual missions of service and enforcement. These systemic problems include: competing priorities; insufficient accountability between field offices and headquarters; over-lapping organizational relationships; and lack of consistent operations and policies. To address these problems the President plans to restructure and split the INS into two agencies with separate chains of command and accountability, reporting to a single policy leader in the Department of Justice. One agency will be focused exclusively on service and the other will be focused exclusively on law enforcement.

DEPARTMENT OF LABOR

SUMMARY

The Labor Department budget is reduced by $900 million, or 7 percent, from $12.3 billion to $11.4 billion. Job training is cut by $476 million. The budget proposal anticipates an actual increase in job training services provided, however, for two reasons: carryover of $1.3 billion in unspent resources from State formula grant training and employment programs; and an expected carryover into 2003 of $3 billion of the $4 billion in National Emergency Grants [NEGs] funding proposed as part of the President's economic stimulus package. NEG funding can be used to retrain workers who lost jobs due to large-scale layoffs. The budget request, therefore, anticipates an increase of 36 percent in available job training funds in 2003, and 500,000 to 800,000 more participants in job training than the 2.2 million expected in 2002.

KEY COMPONENTS

- **Consolidation of Job Training Programs:** The budget would reduce the number of job training programs in the Federal Government from 48 to 28. Job training programs are identified in 10 different Federal agencies.

- **Job Corps:** The budget proposes an increase of $73 million, or 5 percent, for the Job Corps. This would increase funding for teacher pay and new residential training centers. The program budget would rise from $1.46 billion to $1.53 billion.

- **Closing Ineffective Programs:** Two programs proven to be ineffective are terminated: the Migrant and Seasonal Farm worker program, and the National Skills Standard Board.

OTHER ISSUES

Status Report on Select Programs

The only three programs identified as "effective" in the Labor Department are the Job Corps, the Bureau of Labor Statistics, and the Pension Benefit Guaranty Corporation.

Performance and Management

Both short and long term reforms are proposed as part of a comprehensive reform of the Unemployment Insurance [UI] and Employment Service [ES] systems. Near-term reforms include an extension of unemployment benefits by up to 13 weeks and an immediate distribution to the States of $9 billion in excess funds from the U.S. Treasury's Unemployment Trust Fund. In the long term, it is proposed that States run the UI and ES programs.

DEPARTMENT OF STATE AND INTERNATIONAL ASSISTANCE PROGRAMS

SUMMARY

As part of the War on Terrorism, the Department of State and international assistance programs play a vital role in maintaining and expanding support of the international coalition against terrorism. The administration's fiscal year 2003 proposal for International Affairs [Function 150] calls for $25.4 billion in BA and $22.5 billion in outlays – a $1.4 billion or 5.9 percent increase over the previous year's appropriated level.

KEY COMPONENTS

- **Military Assistance:** The budget increases and targets military assistance to sustain key countries supporting the United States in the war on terrorism by increasing Foreign Military Financing [FMF] by $457 million (not including the fiscal year 2002 emergency supplemental), or 12.5 percent. It also increases funding for International Military Education and Training [IMET] by $10 million, or 14.3 percent.

- **Nonproliferation:** Efforts to diminish the threat of the proliferation of nuclear and biological weapons are expanded, as are measures to train foreign law enforcement and armed services to improve their counter-terrorism capabilities. The budget increases funding for Nonproliferation, Anti-Terrorism, Demining, and Related programs by $59 million (not including the fiscal year 2002 emergency supplemental), or 18.8 percent.

- **Drug Trafficking:** The budget attacks narcotics trafficking in source countries through training, equipment, and law enforcement cooperation. It increases funding for the Andean Counterdrug Initiative by $86 million, or 13.3 percent.

- **Development Assistance:** Funding to support bilateral economic assistance, the Child Survival and Health Program, international HIV/AIDS programs, and international environmental programs is increased by $128 million, or 4.9 percent.

- **International Financial Institutions:** The budget increases funding for international financial institutions by $185 million, or 17.2 percent. These institutions include the

World Bank, its associated regional banks, and the International Development Association. The administration's proposal links U.S. support for international financing institutions to performance.

- **Global Environmental Protection:** The administration plan increases the U.S. commitment to preserving the world's tropical forests, and promotes environmental stability by increasing funding for the Global Environment Facility by $78 million, or 77.2 percent.

- **Peace Corps:** The budget increases funding for the Peace Corps by $42 million, or 15.1 percent.

- **Export-Import Bank:** The loan subsidy for the Export-Import Bank is reduced by $186 million, or 25.6 percent. The reduction in appropriations will not, however, result in a reduction in Export-Import Bank lending. This is because OMB and the Export-Import Bank have developed a new methodology of risk assessment that more accurately estimates the cost to the U.S. Government of a country's default; this methodology permits a 37 percent reduction in appropriations to maintain the current level of lending, thus even with reduced appropriations, Export-Import Bank lending is expected to be as much as 10 percent greater than in fiscal year 2002.

- **Diplomatic Security:** The administration focuses on providing employees at U.S. diplomatic missions with safe, secure, and functional facilities. The budget increases funding for the State Department's Diplomatic and Consular Programs by $310 million (not including the fiscal year 2002 emergency supplemental), or 8.4 percent, which includes an increase in spending for worldwide security upgrades of $65 million, or 13.3 percent. Nonsecurity-related construction of overseas facilities, including embassies, is increased $35 million or 233.3 percent, and ongoing construction and maintenance by $57 million, or 12.8 percent.

- **Global Broadcasting:** The budget also strengthens global broadcasting and public diplomacy to communicate American ideals and beliefs to vital audiences in countries in conflict and transition, especially in the Middle East, by increasing funding for International Broadcasting Operations by $40 million, or 9.1 percent.

OTHER ISSUES

Status Report on Select Programs

The President's budget states that the U.S. has spent more than $2.9 billion on non-security assistance to Russia with mixed, and often disappointing, results. The administration is considering restructuring the economic assistance program for Russia and is developing a comprehensive set of benchmarks for use in management and funding decisions.

Performance and Management

The State Department is undertaking several initiatives to improve the performance and management of its programs, and a review of overseas staffing to identify the number of U.S. employees abroad, which agencies they represent, their cost, and their purpose.

DEPARTMENT OF TRANSPORTATION

SUMMARY

As demonstrated by the terrorists attacks of 11 September 2001, the Department of Transportation [DOT] is on the front line in the war against terrorism – and the President's budget reflects this recognition. The major DOT homeland defense initiatives include the first full year of funding for the Transportation Security Administration [TSA] to provide security screening of airline passengers; the deployment of Federal Air Marshals to provide security on commercial aircraft; and the United States Coast Guard enhancing port security and deploying Sea Marshals to secure commercial passenger and cargo vessels as they enter and exit U.S. ports. The administration's fiscal year 2003 proposal for Transportation calls for $64.3 billion in BA and $60.0 billion in outlays – a $388 million or 6 percent decrease from the previous year's appropriated level. The budget also includes a $4.4 billion negative adjustment in the Federal Highway Administration's Revenue Aligned Budget Authority [RABA], an automatic adjustment based on receipts from Federal highway user taxes.

KEY COMPONENTS

- **TEA-21:** The budget fully funds highway, bridge, transit and safety programs at the levels guaranteed by the Transportation Equity Act for the 21st Century [TEA-21] (Public Law 105-85). Because highway funding is automatically adjusted based on receipts from Federal highway user taxes, the fiscal year 2003 request of $23.2 billion is $8.6 billion below the fiscal year 2002 enacted budget.

- **Transportation Security Administration [TSA]:** The TSA was created pursuant to the Aviation and Transportation Security Act (Public Law 107-71) to improve aviation security by accelerating deployment of explosive detection systems and other airport security equipment, facilitating airport passenger and baggage inspection, and hiring and deploying more Federal Air Marshals. In order to implement this legislation, the administration proposes hiring 41,300 new full-time equivalents [FTEs] – including more than 30,000 screeners, an executive team, law enforcement officers, Federal air marshals, and support personnel – for the TSA. The budget requests $4.8 billion in budget resources: $2.5 billion in new budget authority and $2.2 billion in offsetting collections raised through a combination of new passenger and air carrier fees.

- **U.S. Coast Guard:** The budget provides $7.1 billion for the Coast Guard, an increase of $1.6 billion (not including the fiscal year 2002 emergency supplemental), or 28.2 percent. After 11 September, the Coast Guard's port security mission grew from approximately 1-2 percent of daily operations to between 50 percent and 60 percent today. In addition, the Coast Guard has important national security missions such as illegal migrant and drug interdiction and port security. This proposed increase in funding is primarily divided between a $736 million proposed lump sum payment to a newly formed USCG Military Retirement Fund; $732 million for operations; and $92 million for acquisition.

- **Air Traffic Control and Safety:** The budget requests $14.0 billion for the Federal Aviation Administration [FAA], an increase of $937 million (not including the fiscal year 2002 emergency supplemental), or 7.2 percent, over fiscal year 2002 (not including emergency supplemental funding). The administration plan focuses upon the reduction of runway incidents, and ties budget resources to airspace modernization program performance goals.

- **Transportation for the Disabled:** The President's budget seeks $145 million to expand transportation opportunities for individuals with disabilities through the New Freedom Initiative. The administration will propose legislation to authorize this initiative within the Federal Transit Administration.

OTHER ISSUES

Status Report on Select Programs

The administration reports the Federal Aviation Administration's management of the Air Traffic Control system has been ineffective, and the effectiveness of the Coast Guard's Integrated Deepwater Systems Project to replace aging ships and aircraft is unknown.

Performance and Management

The Department of Transportation lacks a systematic performance management process and an effective cost accounting system. The FAA has significant cost, schedule and performance problems with some major projects, and material control weakness in property accounting.

Department of the Treasury

SUMMARY

As part of the War on Terrorism, the Department of the Treasury plays a vital role, with the Customs Service and the Bureau of Alcohol, Tobacco, and Firearms working in concert with other Federal agencies to protect the Nation's borders and provide homeland security; and the Secret Service protecting Government officials, and fighting money-laundering by terrorists and drug cartels. The administration's fiscal year 2003 proposal for the Department of the Treasury calls for $15.9 billion in budget authority – a $769-million, or 5.1-percent, increase over the previous year's appropriated level.

KEY COMPONENTS

- **Internal Revenue Service [IRS]:** The proposed fiscal year 2003 budget for Tax Administration is $10.4 billion, an increase of $489 million, or 4.9 percent. The budget includes $450 million for technology investments and $102 million for new customer service and compliance staffing.

- **United States Customs Service:** The proposed fiscal year 2003 budget for the Customs Service is $3.2 billion, an increase of $400 million (not including the fiscal year 2002 emergency supplemental), or 14.4 percent, which will support the hiring of 26 new special agents and 288 new inspectors. Of the total, $744 million will be devoted to Northern Border Security – an increase of $212 million, or 39.8 percent – and $684 million to Maritime Security – an increase of $329 million, or 92.7 percent. A total of $313 million is provided for the Automated Commercial Environment [ACE] system.

- **Customs User Fees:** The President's budget includes a proposal to raise the air/sea passenger fee and the cruise vessel passenger fee. The proposal is intended to increase receipts and enhance Customs' homeland security efforts. The air/sea passenger fee would be raised to $11 per passenger, from its 1986 level of $5. The cruise vessel passenger fee would be raised from $1.75 to $2 per passenger.

- **Bureau of Alcohol, Tobacco, and Firearms:** The proposed fiscal year 2003 budget for the Bureau of Alcohol, Tobacco, and Firearms is $913 million, an increase of $62 million (not including the fiscal year 2002 emergency supplemental), or 7.3 percent.

- **United States Secret Service:** The proposed fiscal year 2003 budget for the United States Secret Service is $1.0 billion, an increase of $124 million (not including the fiscal year 2002 emergency supplemental), or 13.4 percent.

- **Stopping Terrorist Financing:** The Financial Crimes Enforcement Network [FinCEN] and Office of Foreign Assets Control [OFAC] have acted since 11 September 2001, to freeze $34 million in terrorist assets (Taliban, Hamas, and al Qaeda) and assisted U.S. allies in freezing $33.9 million. The fiscal year 2003 budget provides FinCen with $52 million and OFAC with $22 million.

OTHER ISSUES

Status Report on Select Programs

The President's budget reports that the Internal Revenue Service's Customer Service and Tax Compliance Enforcement are ineffective due to outmoded technology and management practices, which means that the IRS provides poor service to taxpayers and that the IRS is unable to ensure that all citizens pay the taxes they owe under the law.

Performance and Management

The Treasury Department is facing many workforce problems stemming from a lack of planning and effective personnel management, and is intending to complete a comprehensive plan in 2002 that will involve a fundamental restructuring to improve service to taxpayers.

DEPARTMENT OF VETERANS AFFAIRS

SUMMARY

Under the President's budget proposal, the Department of Veterans Affairs [VA] for fiscal year 2003 includes $25.6 billion in discretionary budget authority to administer veterans' benefits and provide medical care and burial services. This represents a net increase in discretionary authority of $1.73 billion, or 7.3 percent, over the 2002 level. Mandatory outlays of $30.3 billion are proposed, representing a net increase of $3.3 billion, or 12.4 percent, over the 2002 level. Veterans medical care would be funded at $23.5 billion, an increase of $1.47 billion, or 6.6 percent, over the 2002 level. Medical collections, including a proposal for a $1,500 medical deductible, would provide an additional $1.5 billion (an increase of $438 million) for VA medical care.

KEY COMPONENTS

The President's budget includes the following initiatives:

- **Claims Processing:** The budget seeks to guarantee that veterans disability claims are processed accurately and quickly. The VA is automating its existing processes slowly and is attempting to identify and remedy the underlying cause of sluggish processing.

- **Health Care Delivery:** The plan aims at improving health care delivery by coordinating the medical care systems of the Departments of Veterans Affairs and Defense. The VA and the Department of Defense [DOD] will share information and technology to a greater degree during fiscal year 2003.

- **New Deductible:** Focusing medical resources on treating disabled and low-income veterans in another priority. The VA will attempt to reverse the decline in the percent of disabled and low-income patients treated by the VA. The budget proposes a new $1,500 annual deductible for the lowest-priority veterans, thereby providing resources for the higher-priority disabled or lower-income veterans.

- **Cemetery Expansion:** The budget provides funding major expansion in cemeteries to prepare for increased demands. The VA's goal is to ensure compassionate and good service, while searching for more efficient ways to meet increased burial demands.

OTHER ISSUES

Status Report on Select Programs

The budget assessments of VA programs range from ineffective for disability and pension claims processing and care for disabled low-income veterans to effective for cemetery benefits and health care quality. The budget states that an assessment of medical care infrastructure cannot be made because VA has fallen behind schedule on the first of 22 regional studies.

Performance and Management

VA's strategy, business plan, and infrastructure will need to adapt to long-term decline in the number of veterans and nearer-term increase in usage of some VA benefits and services, as veterans age and more women draw on them.

POLICY SUMMARY – NON-CABINET AGENCIES

[Note: The President's budget also evaluates the effectiveness of select Federal programs and the performance and management of Government agencies. In this summary, these discussions are reflected under "Other Issues" for each agency.]

CORPS OF ENGINEERS – CIVIL WORKS

SUMMARY

The President's budget calls for total discretionary budget authority of $4.1 billion – a $500-million, or 11-percent, reduction in funds for the Army Corps of Engineers [ACOE]. Programs taking the biggest cuts include General Construction ($296 million), General Investigations ($51 million), and Flood Control, Mississippi River and Tributaries ($65 million).

KEY COMPONENTS

- **Flood Damage Reduction:** Besides funding legitimate flood damage reduction projects, the 2003 budget continues assistance to States and local communities to reduce flood risks through planning and promoting better floodplain management.

- **Homeland Security:** The budget provides $65 million for continuing costs of additional guard positions at critical Corps' facilities.

- **Navigation:** The plan includes $77 million for construction of Olmsted Lock and Dam in Illinois and Kentucky, an increase of $37 million over 2002, to expedite completion of this Ohio River project. The budget also provides an increase of $31.5 million for total funding of $120 million to accelerate the transportation cost savings and other economic benefits of deepening the Port of New York/New Jersey. The 2003 budget request targets funds to those waterways that provide the greatest economic return, and substantially reduces funding for those that provide minor commercial navigation benefits.

- **Environmental Restoration-Everglades:** The President provides $245 million in total funding for Everglades restoration. Included in this total is Corps' funding of $149 million, a $10-million increase over last year. The budget includes $46 million for implementation of the Comprehensive Everglades Restoration Plan of which $37 million is for the Corps.

- **Pacific Northwest Salmon Recovery:** Also included is $128 million for the Corps' salmon conservation efforts, a $19-million, or 17-percent, increase over 2002. This allocation includes $100 million for the Columbia River Fish Mitigation and Lower Columbia River Ecosystem Restoration programs, $17 million for operation and maintenance activities, and $11 million for studies and other activities needed to ensure compliance.

- **No New Corps Projects:** The budget reduces the backlog of ongoing construction projects in the budget from $21 billion to $13 billion over the next 5 years. It proposes to do so by providing $1.44 billion for the Corps's ongoing construction program in 2003 and comparable levels in future years, providing no funds for discretionary new construction in 2003, targeting funds to projects that fall within the Corps' primary responsibilities, and significantly dropping funds for studies of potential future construction projects.

- **Efficiency Improvements:** The President proposes an increase of $17 million, or 13 percent, in funding for the Corps' regulatory program for activities affecting navigable waters and wetlands. This increase allows the Corps to reduce the average time for reviewing individual permit applications from 160 days in 2002 to 120 days in 2004.

- **Power Marketing Administrations:** The budget includes a proposal for the Department of Energy's Power Marketing Administrations to provide direct funding from power sales revenue for the operation and maintenance of Corps' hydropower facilities. This new financing arrangement will permit more timely maintenance of hydropower facilities, which will enable the Corps to reduce facility downtime and increase power generation.

OTHER ISSUES

Status Report on Select Programs

Areas in need of improvement include the Corps' regulatory program, where acceleration of the permit process is necessary, and its shallow-draft program, where many projects provide recreational benefits rather than commercial.

Performance and Management

The Corps' 2003 budget submission included little integration of either outcome or output performance information to support proposed resource levels. Auditors were unable to give an opinion on the Corps' 2000 financial statements because of unresolved issues with valuing property, plant, and equipment.

ENVIRONMENTAL PROTECTION AGENCY

SUMMARY

The President's budget calls for $7.7 billion in discretionary budget authority – a decrease from the previous fiscal year of $300 million. Environmental Protection Agency [EPA] programs receiving funding reductions in fiscal year 2003 include targeted water infrastructure funding ($386 million) and the Clean Water State Revolving Funds [CWRSF] ($138 million). Programs receiving modest increases include the EPA's operating program ($71 million) and the Superfund program ($4 million).

KEY COMPONENTS

- **Homeland Security:** The budget includes $75 million in new research funding to help develop technologies to clean up buildings attacked by bioterrorists. It also provides $20 million to continue assessing and addressing potential vulnerabilities of the Nation's drinking water systems.

- **Brownfields:** The President's plan doubles EPA funding to assist States and municipalities to clean up brownfields or contaminated industrial sites. It calls for $200 million for this effort – a 104-percent increase over last year's request of $98 million. The budget also permanently extends tax expensing of brownfields remediation costs, a benefit of $2.4 billion over 10 years.

- **Air Pollution:** The budget allocates $560 million for reducing air emissions. The administration is also developing legislation for a flexible, market-based program to significantly reduce and cap emissions of sulfur dioxide, nitrogen oxides, and mercury from electric power generators. The program would be phased in over a reasonable period of time, provide regulatory certainty, and offer market-based incentives to help achieve required reductions.

- **Water Quality and Safe Drinking Water:** The President provides approximately $3 billion to support its performance goal of clean and safe water, including $2 billion to improve local wastewater and drinking water infrastructure through the CWRSF and drinking water State revolving fund.

- **Wetlands:** The budget reduces average time to process an individual wetlands permit by about 25 percent, or 40 days, by 2004, while strengthening wetlands protection.

- **Watershed Initiatives:** The plan includes $21 million for a new EPA initiative to protect, preserve, and restore waterways across the country. The program is designed to address water quality problems such as habitat loss, nutrient enrichment, pathogens, and invasive species. The budget also funds several pilot projects on water quality trading.

- **Biotechnology Research:** The President calls for new biotechnology research addressing three areas: allergenicity risk from genetically modified foods, the ecological risks from genetically modified organisms, and the management of gene transfers and resistance issues.

- **Sound Science:** With 60 percent of the agency's physical scientists and chemists in the Office of Research and Development eligible for retirement by 2005, the agency plans to complete a workforce restructuring plan by 31 May 2002.

- **State Grants:** The budget strengthens EPA's partnership with States by shifting more enforcement responsibility and resources to States through establishment of a new $15-million State enforcement grant program.

OTHER ISSUES

Status Report on Select Programs

The EPA's pesticide reregistration program has had little success identifying and reducing exposure to high risk pesticides. In addition, the agency's environmental education program has been cited for promoting environmental advocacy instead of its intended purpose.

Performance and Management

The EPA is unable to provide unqualified assurance statement as to systems of management accounting and administrative controls. The agency is also suffering from its inability to update its mission goals to support its strategic plan.

FEDERAL EMERGENCY MANAGEMENT AGENCY

SUMMARY

The Federal Emergency Management Administration [FEMA] is the primary source of funding for the Federal response to natural disasters or terrorist attacks that befall American communities. The administration's fiscal year 2003 budget significantly augments the resources and responsibilities of FEMA as it enhances homeland defense. Discretionary budget authority for FEMA will grow to $6.6 billion in fiscal year 2003, a 114-percent increase over estimated funding levels of $3.1 billion in fiscal year 2002.

KEY COMPONENTS

- **Grants to First Responders:** As noted in the discussion under "Protecting the Homeland," the President proposes to create a new Federal grant program for States and localities to improve the ability of first responders to save lives when terrorists strike. The budget provides $3.5 billion in 2003 for these grants, which will be administered by the Federal Emergency Management Administration [FEMA]. The grants will allow local fire departments, police departments and emergency rescue teams to hire needed employees, train staff, enhance preparedness, and purchase needed equipment to improve their ability to rescue victims of terrorism in the critical early hours after an attack when it is more likely that lives can be saved.

- **Office of National Preparedness:** The budget provides $50 million in 2003 for funding the Office of National Preparedness, the office within FEMA that works with State and local governments to ensure that their planning, training and equipment needs are addressed. The office will also administer the new first responder grant program.

- **Disaster Mitigation:** The budget creates a new $300-million Disaster Mitigation Grant program, which will replace the formula-based Hazard Mitigation Grant Program. The new grants will be competitively based.

- **Flood Mapping:** The budget provides $350 million to modernize the Nation's flood maps, and to digitize them and make them available over the internet. Flooding is the single most pervasive disaster faced in the Nation, and among the most preventable. Flood damage represents 57 percent of the total disaster relief resources consumed by the

Nation annually. But many of the Nation's flood insurance maps are out of date or inaccurate. The new funding seeks to correct this problem.

- **Disaster Relief:** The budget provides $2.9 billion in disaster relief funding for 2003, including $1.8 billion in new budget authority. Additionally, the budget proposes an intensive review of unspent balances beginning with the 1994 Northridge Earthquake in California which is expected to generate $1.1 billion in grant recoveries over a 2-year period. Unspent balances often result from mitigation and other projects that appeared to be needed after a disaster but which were not pursued after further public review or examination.

- **Reform of the National Flood Insurance Program:** The budget proposes savings from the National Flood Insurance Program by phasing out taxpayer subsidies of coverage for second homes and vacation properties. It also proposes that mortgage borrowers insure the full replacement value of their properties, ending State taxation of flood insurance policies, and adding the expected costs of erosion losses in the premiums issued in coastal areas. The reforms are projected to save $43 million in 2003 and $2 billion over the next 10 years.

- **Emergency Food and Shelter Program:** Since 1983, FEMA has operated the Emergency Food and Shelter Program to help the hungry and homeless. The budget proposes to transfer this program to the Department of Housing and Urban Development, where it will be consolidated with other programs that provide such services.

OTHER ISSUES

Status Report on Select Programs

FEMA's terrorism-related programs and Disaster Response and Relief programs are rated effective at meeting the needs of victims and communities after disasters strike, and for creating well-established working relationships among first responders. The Flood Insurance program is rated moderately effective for processing damage claims quickly, although many at-risk homes are not insured. Disaster mitigation grants and the Flood Map program are rated ineffective because the funding formula for the grants lacks cost-benefit criteria, while the map program is inadequately funded to fulfill its objectives.

Performance and Management

While FEMA generally performs well at getting resources to stricken communities and disaster victims quickly, its performance at oversight to ensure effective use of this assistance is not as good. Areas in which FEMA is charged to improve are reducing its inability to measure program performance and linking resources to performance information.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

SUMMARY

The President's budget requests an increase in National Aeronautics and Space Administration [NASA] funding from $14.8 billion for fiscal year 2002 to $15 billion in fiscal year 2003, an increase of $207 million, or 1.4 percent. The President proposes realigning science programs, getting massive cost overruns under control, reducing NASA's operational and institutional burdens while promoting cost management reforms to ensure ongoing NASA projects meet performance, cost, and schedule plans.

KEY COMPONENTS

- **Earth Sciences:** The budget provides $1.6 billion for Earth Sciences, a $2.7-million increase over fiscal year 2002. With several of NASA's Earth Observing System [EOS] missions facing costly delays in completion, this area sees little increase in funding. An exception is in Mission Operations, which receives an increase of $200 million due to the transfer of funding responsibility for space communications and the EOS Data Information System to Mission Operations.

- **Biological and Physical Research Enterprise:** The budget requests $849 million for fiscal year 2003, an increase of $28.3 million, or 3 percent. Two new initiatives are Generations ($11.2 million) and Space Radiation ($10.1 million). The Generations project will study the effects of the space flight environment on biological systems; the Space Radiation initiative will generate knowledge, assess heath risks to astronauts and develop radiation-shielding, as well as countermeasures that can be employed on future space missions.

- **Space Science:** The Office of Space Science is slated to get $3.4 billion, an increase of $547 million, or 19 percent. Mission Operations will receive a $263.7 million increase, and Technology Programs a $210.4-million increase over the fiscal year 2002 level. The Gamma-Ray Large Area Space Telescope [GLAST] will receive an additional $48.5 million.

- **Human Space Flight:** The Office of Space Flight's request for $6.13 billion for fiscal year 2003 reflects an 11-percent decrease from 2002. These savings are reflected in a

$230-million reduction for the International Space Station as the core section nears completion, and by NASA reducing the number of Space Shuttle flights supporting the International Space Station from seven to four per year.

- **Aerospace Technology:** The budget provides for $2.8 billion for the Office of Aerospace Technology, an increase of $308 million, or 11 percent, from fiscal year 2002. Most of the additional funds are for an increase of $292.2 million for the Second Generation Reusable Launch Vehicle Program, which is approaching its systems requirement review kickoff in November 2002.

- **Climate Change Research Initiative [CCRI]:** The President proposes a multiagency program review. NASA will not initiate development of new follow-on satellite missions until a Governmentwide review of the United States Global Research Program determines the best means for achieving CCRI goals.

OTHER ISSUES

Status Report on Select Programs

The administration's review of eight NASA programs revealed that only the Discovery and Exploration Programs were found to be effective. The Mars Exploration Program, the Space Launch Initiative, the Earth Observing System Program, and Aeronautics Research were all found to be moderately effective; and the Outer Planets Program, the Space Shuttle Safety Upgrades, and the International Space Station were all found to be ineffective programs.

Performance and Management

Based on the Governmentwide President's Management Agenda, NASA failed in four of the areas and received mixed reviews in the financial management area. NASA was found to be in need of developing and implementing a overall human capital strategic plan; found to be lagging behind in competitive outsourcing; failing to adequately justify its information technology investments, and found to be having difficulty in identifying appropriate annual research and development costs for multi-year programs.

NATIONAL SCIENCE FOUNDATION

SUMMARY

The administration's fiscal year 2003 proposal for the National Science Foundation [NSF] calls for $5.4 billion. This represents a $246.6-million, or 5.1-percent, increase over fiscal year 2002. NSF represents about 4 percent of the total Federal budget for research and development, but it supports roughly 50 percent of the non-medical fundamental research at colleges and universities.

KEY COMPONENTS

- **Research and Related Activities:** Funding for the National Science Foundation's major grant program is $3.8 billion, an increase of $185 million, or 5.1 percent. The budget request provides $37 million to increase the annual stipend from $21,500 to $25,000 in the Graduate Research Fellows, Graduate Teaching Fellowships in K-12 Education, and Integrative Graduate Education and Research Traineeship programs.

- **Math and Science Partnerships [MSP]:** The budget proposes $200 million for the second year of the President's Math and Science Partnership Initiative, part of a planned $1 billion, 5-year investment. The MSP brings States and local school districts together with science, engineering, and mathematics departments of institutions of higher education to strengthen K-12 math and science education.

- **Priority Research Areas:** The budget includes a new Mathematical Science priority area ($60 million), provides seed funding for a new priority area in the Social, Behavioral, and Economic Sciences ($10 million), and sustains funding for four established priority areas: Biocomplexety in the Environment ($79 million), Information Technology Research ($286 million), Nanoscale Science and Engineering ($221 million), and Learning for the 21st Century Workforce ($187 million).

- **Major Research Equipment and Facilities Construction:** The budget requests $126 million for the Major Research Equipment and Facilities Construction account, and proposes funding three new projects: $35 million for EarthScope (an earthquake detection and research network); $12 million for the National Ecological Observatory Network; and $30 million for Phase II of the Atacama Large Millimeter Array.

OTHER ISSUES

Status Report on Select Programs

- The administration's review of NSF's programs found a number of areas that were performing well and two programs that, while moderately effective, could be improved. Information Technology Research, Nanotechnology, and Core Research all scored as "Effective" while Education and Human Resources and Major Research Equipment and Facility Construction were found to be moderately effective but in need of improvement.

Performance and Management

Overall, NSF out-performed most other parts of Government. NSF is the leader in financial management and meets most of the standards for expanding E-Government. NSF is working to improve its human capital, competitive sourcing and budget/performance integration. NSF's reputation for running an efficient research programs has allowed it to provide leadership to other agencies, such as the Environmental Protection Agency and the Department of Education, in how they can improve their research programs.

SMALL BUSINESS ADMINISTRATION

SUMMARY

After a 15-percent appropriation reduction in fiscal year 2002, the Small Business Administration [SBA] budget authority is stabilized at $797 million in 2003. That is $15 million, or 2 percent, more than current funding.

KEY COMPONENTS

- **Business Loans:** Business loan spending goes up from $208 million supporting and subsidizing $9.2 billion in direct and guaranteed loans in 2002 to $223 million in 2003, increasing such loans by $1 billion.

- **Disaster Loans:** Disaster loan spending goes down $17 million to $197 million, supporting $976 million in disaster loans, consistent with the past 5 years' activity average. (Disaster loans in 2002 total nearly $1.4 billion due to one-time Emergency Response Fund spending in response to 11 September.)

- **Technical Assistance:** Technical assistance spending totals $161 million in the President's budget, cutting $31 million for the One-Stop-Capital Shop program and the Program for Reinvestment in Microentrepreneurs [PRIME]. Technical assistance programs funded in the Budget include Small Business Development Centers [SBDCs], the Service Corps of Retired Executives [SCORE], and the section 8(a) program.

OTHER ISSUES

Status Report on Select Programs

The President's budget rates as "effective" the Small Business Investment Company [SBIC] and the disaster direct loan program, and as "moderately effective" the 7(a) General Business Loan Program . The Small Business Development Centers are assessed as "unknown" and the section 8(a) program and One-Stop-Capital Shops are rated as "ineffective."

Performance and Management

Among the best Executive Branch Management Scorecards, SBA had three out of five ratings that it "achieved some but not all of the criteria" for: financial management; E-Government; and Budget/Performance Integration. Only one other agency, the Social Security Administration, had three ratings that high. Nevertheless, the Loan Monitoring System [LMS], SBA's largest information technology investment, which is critical to SBA's ability to effectively manage its $50 billion loan portfolio, is behind schedule, over budget, and not performing to specifications.

SMITHSONIAN INSTITUTION

SUMMARY

The budget proposal focuses on management issues, and future changes in direction for the Smithsonian museums. Overall budget authority is increased 6 percent, from $497 million to $528 million. This proposal completes Federal funding for construction of the National Museum of the American Indian and continues restoration of the Patent Office Building. It also provides funding to decrease the large backlog of required maintenance.

KEY COMPONENTS

- **Security:** The Smithsonian received $20 million in emergency supplemental funding in 2002 to maintain the security of its facilities.

- **Maintenance:** The budget increases resources for maintenance, boosting funds to reduce the large backlog of currently identified revitalization needs by 6 percent from 2001.

- **Repair Priorities:** The Smithsonian's maintenance and restoration budget would need to increase four-fold within 5 years to eliminate the current backlog. Because this will not be possible under current budget constraints, the Smithsonian will set priorities for repair and restoration. (See below: Cost Overruns and Deterioration)

OTHER ISSUES

Performance and Management

The budget analyzes the efficiency of providing museum services at the various Smithsonian museums by comparing the operating cost of each facility with its level of attendance. It finds that more than 85 percent of all Smithsonian visitors are received by just five facilities. The remaining 11 facilities welcome only 15 percent of visitors, yet consume more than 35 percent of the Smithsonian's operating costs. The cost to taxpayers of a visit to a Smithsonian museum ranges from about $2 to nearly $20.

The budget also says that, because the Smithsonian does not allocate any of its research and development grants through merit-based competition, the administration may, in future years, transfer necessary amounts to the National Science Foundation.

Finally, the budget notes that the Smithsonian does not stay within cost estimates for significant projects, and the deterioration of existing buildings at the expense of expansion has created a huge maintenance and restoration backlog.

SOCIAL SECURITY ADMINISTRATION

SUMMARY

Under the President's budget proposal, the Social Security Administration [SSA] for fiscal year 2003 includes $8.4 billion in discretionary budget authority to administer the distribution of benefits for the elderly, disabled, and their dependents. This represents a net increase in discretionary authority of $377 million, or 4.7 percent, over the 2002 level. Mandatory outlays of $492.9 billion are proposed, representing a net increase of $16.3 billion, or 3.4 percent, over the 2002 level. Social Security benefits for disability recipients and retirees and their dependents [OASDI] would be $471.8 billion, an increase of $16.4 billion, or 3.6 percent over fiscal year 2002. (These benefit payments are off budget.) Supplemental Security Income [SSI] would be funded at $32.5 billion, an increase of $1.1 billion, or 3.7 percent, over the 2002 level.

In December 2001, the President's Commission to Strengthen Social Security released its analysis of the financial problems confronting Social Security and its recommendations for addressing them. The Commission determined that reforming Social Security to include personal retirement accounts would lead to better long run outcomes for future beneficiaries, the Social Security program, and the economy as a whole. The President's 2003 budget calls for a year-long national dialog to carefully consider the Commission's recommendations as well as the consequences of inaction.

The Commission's findings, echoed in the budget documents, are as follows:

- Personal accounts would increase retirement security because they would facilitate wealth creation for all participants.
- Asset ownership would lead to improved financial security by diversifying risk.
- Partial advance funding should be a goal of any effort to strengthen Social Security.
- A Social Security system with personal accounts would offer higher total expected benefits to individuals than a system without accounts, regardless of what other steps are taken to balance the system's finances.

- Personal accounts can reduce the long-term cost growth of Social Security, thus improving its fiscal sustainability.

- Social Security could be made fiscally sustainable in a number of ways, all of which would require some combination of changing the rate of benefit growth and committing additional revenues to the system generated by taxation or by the proceeds of investment.

- Congress and the President should engage in a period of national discussion for at least one year to carefully consider all policy alternatives, as well as the consequences of inaction, and then take the appropriate steps necessary to strengthen and modernize Social Security.

The President's 2003 budget also includes resources to increase productivity in customer service areas of the SSA while also redeploying staff to front line customer service positions, thus improving performance in important areas such as the timely processing of retirement claims and the ability to conduct customer service activities via the Internet.

KEY COMPONENTS

- **Benefits:** The budget includes $471.8 billion for retirement, disability, spousal and survivor benefits in 2003, an increase of 3.6 percent over fiscal year 2002. (These amounts are off budget.)

- **Cost-of-Living-Adjustment [COLA]:** The budget includes a 2.6 percent cost-of-living-adjustment for Social Security beneficiaries, an annual increase of $264 for the average Social Security recipient.

- **Detecting and Preventing Payment Errors:** The administration's budget includes $1.05 billion for conducting disability reviews and re-determinations to minimize improper payment of benefits.

- **Information Technology:** The budget includes $688 million for SSA information technology which will allow the agency to maintain and expand its Internet services, improve security capabilities, support electronic wage reporting by employers and make a variety of other improvements.

OTHER ISSUES

Status Report on Select Programs

Ticket to Work is legislation passed in the 106th giving disability recipients greater freedom to work without sacrificing Medicare, Medicaid, or other benefits. The legislation also increased the allowance for substantial gainful activity. The program is expected to increase the percentage of DI and SSI beneficiaries who are employed. Hence the President's budget includes $40 million for SSA's return-to-work activities in 2003.

Performance and Management

The President's budget sets specific performance goals for 2003. SSA will strive to: 1) increase the percent of retirement claims processed within 14 days from 83 percent in 2001 to 88 percent in 2003; 2) increase the percent of SSA's customer-initiated services available to customers either electronically via the Internet or through automated telephone service from 21 percent in 2001 to 40 percent in 2003; and 3) increase the number of callers that access SSA's 800 number within five minutes of their first attempt from 92 percent in 2001 to 94 percent in 2003.

FEDERAL DRUG CONTROL PROGRAMS

SUMMARY

The President's budget sets funding for Federal drug control programs at $19.2 billion in budget authority [BA] for fiscal year 2003. The Office of National Drug Control Policy [ONDCP], which is responsible for developing a Government-wide National Drug Control Strategy, is funded at $497 million in BA in the budget proposal and intends to focus Federal Government efforts on treatment and prevention through education. The President further proposes a significant restructuring of the national drug control budget to correct weaknesses in the methodologies agencies use to measure drug control spending.

KEY COMPONENTS

- **Greater Emphasis on Education and Community Action:** The budget includes $180 million for the National Youth Anti-Drug Media Campaign and $60 million in matching grants to local anti-drug coalitions to prevent the illegal use of drugs, alcohol, and tobacco by youths.

- **Safe and Drug-Free Schools:** The President's budget directs the Department of Education to develop an evaluation plan for the Safe and Drug-Free Schools program to improve accountability and alert schools to problem areas.

- **Increasing Support for Drug Treatment:** The President's budget proposes an increase of nearly $110 million for Substance Abuse and Mental Health Services Administration's Targeted Capacity Expansion program, designed to support a rapid response to emerging trends in substance abuse. The budget also includes a $60 million increase for the Substance Abuse Prevention and Treatment Block Grant, which will provide additional funding to States for treatment and prevention services.

- **Disrupting Drug Trafficking:** The budget attacks narcotics trafficking in source countries through training, equipment, and law enforcement cooperation. The President's budget includes $731 million for the Andean Counterdrug Initiative, an increase of $86 million, or 13.3 percent.

- **High Intensity Drug Trafficking Areas [HIDTA]:** The budget includes $206 million for High Intensity Drug Trafficking Areas, $20 million less than fiscal year 2002, and provides funding to measure performance since no systematic evaluation of the HIDTA program has ever been conducted and no credible performance measures have been developed.

- **Drug Courts Program:** The budget includes $52 million to support the Drug Courts Program. The courts leverage coercive power to force abstinence from drugs and to alter behavior with escalating sanctions, mandatory drug testing, treatment, and strong aftercare programs.

- **Treating Drug Abuse Among Prison Inmates:** The President's budget proposes $77 million for the Residential Substance Abuse Treatment program [RSAT] to distribute funds to States that support drug and alcohol treatment in State correctional systems.

OTHER AGENCIES

SUMMARY

The President's budget contains a single chapter concerning various other Government agencies. Among the key ones are the following:

KEY COMPONENTS

- **National Endowment for the Arts [NEA]:** NEA funding increases from $115 million to $117 million. In 2003, NEA will promote hands-on art education programs for children from pre-school through grade 12.

- **National Endowment for the Humanities [NEH]:** NEH increases from $124 million to $127 million.

- **Institute of Museum and Library Services ([MLS]:** The budget increases funding from $195 million to $211 million for core IMLS activities benefitting libraries and museums. A new $10-million initiative to recruit and train library professionals is proposed, due to an expected future shortage in the field. IMLS is up for reauthorization, and the administration endorses such legislation.

- **Equal Employment Opportunity Commission [EEOC]:** The $324 million budgeted for EEOC is a reduction due to expected workforce restructuring and a reduction of management layers. EEOC will be able to continue reducing its case backlog, and also make $15 million in critical information technology improvements.

- **Securities and Exchange Commission [SEC]:** The President's budget includes $481 million – an increase of $58 million, or 14 percent – to regulate U.S. capital markets and the securities industry. But SEC fees are expected to total more than $1.3 billion in fiscal year 2003.

- **Commodity Futures Trading Commission [CFTC]:** The President's budget includes $83 million to regulate U.S. futures and options markets, $9 million more than the non-emergency fiscal year 2002 level. The budget also proposes a new fee on each transaction to offset $33 million of the $83 million.

BUDGET PROCESS

SUMMARY

For the first time since the mid 1980s, the Congress and the President are entering a budget cycle in which there are no budget controls that are enforced through automatic spending cuts. Both the discretionary spending limits [caps] and the pay-as-you-go [PAYGO] rule for entitlement tax legislation, which were adopted in 1990 and most recently extended in 1997, are scheduled to expire at the end of the current fiscal year.

In lieu of calling for an outright extension of the caps and PAYGO, as it did last year, the administration's budget says that it will "work with Congress to develop appropriate controls to ensure funding is consistent with the proposed funding levels." It goes on to state a preference for making the budget resolution into a joint resolution, which would have the force of law, and using it to establish spending limits. It says, however, that it would also accept a simple extension of the caps and PAYGO requirements.

The focus of this year's process proposals is on increasing linkages between agency performance and funding as well as in a revised presentation of agency retirement costs.

Additionally, the administration reiterates its support for an automatic continuing resolution [CR], enhanced recision, and biennial budgeting.

KEY COMPONENTS

- **Performance Budgeting:** The administration proposes the first of a multi year plan to tie funding decisions to agency performance. This year the administration's budget documents charge the agencies for the full costs of accruing retirement benefits. The administration is also developing a companion proposal to charge the appropriate agencies for any resources they utilize, including support services.

- **Joint Budget Resolution:** The administration proposes converting the existing congressional budget resolution into a joint resolution that is submitted to the President for his signature or veto. It appears to view the joint resolution as an alternative vehicle for periodically setting endorsable spending and revenue limits.

- **Line-Item Veto:** The administration proposes to reinstate some form of line item veto. In 1998, the Line Item Veto Act was enacted only to be overturned by the U.S. Supreme Court. While the administration does spell out a specific proposal, it could include a requirement under which Congress is required to vote on the President's proposed rescissions within a specified period of time.

- **Automatic CR:** The administration proposes legislation that would trigger an interim appropriation for any agencies for which appropriations are not adopted by the beginning of the fiscal year. The idea is to prevent an agency shut down during the inevitable funding lapses of every appropriations cycle.

- **Biennial Budgeting:** The administration somewhat downplays its continuing support of putting the budget resolution and appropriation bills on a biennial cycle. The House Budget Committee struck key biennial budgeting provisions from a budget process reform bill it considered last year.

OTHER ISSUES

- **Debt Limit:** The administration has requested an increase in the statutory ceiling on the debt. This ceiling covers both debt held by the public and debt held in other Government accounts, principally trust funds. The debt limit was last set in 1997 at $5.950 trillion. The administration would increase it to $6.7 trillion. Virtually all of the increase in the debt has been due to increasing surpluses in the Social Security and Medicare trust funds. Over this same period, the Federal Government has actually reduced debt held by the public by $495 billion.

- **Triggers:** Fed Chairman Greenspan recently testified in favor of tying further tax cuts or entitlement initiatives to surplus or debt targets. In response, Senate Budget Committee Chairman Conrad pledged to include a trigger in the budget resolution.

ECONOMIC ASSUMPTIONS

SUMMARY

Economic growth decelerated sharply beginning in the middle of calendar year 2000. The Federal Reserve cut the Federal funds 11 times in 2001, resulting in a total 4¾-percentage-point reduction for the year. In addition, the President last June signed the Economic Growth and Tax Relief Reconciliation Act of 2001 to stimulate the slowing economy. Under normal circumstances, these monetary and fiscal policy responses would have been more than sufficient to reinvigorate the stalled economy. But the terrorist attacks of 11 September temporarily shattered consumer and business confidence, moving the economy from the edge of recession into recession.

There have recently been signs indicating that the recession may be bottoming out. Most forecasters expect economic growth to resume early this year. While private forecasters anticipate a mild recession and a steady recovery, the administration assumes a more gradual recovery, despite its assumption that the policies proposed in the budget – notably, the bipartisan economic security package to insure that the recovery does not falter – will be adopted.

The assumptions employed by the administration's Office of Management and Budget [OMB] project real gross domestic product [GDP] growth rates of 0.7 percent in calendar year 2002, 3.8 percent in 2003, 3.7 percent in 2004, and 3.6 percent in 2005. In contrast, the Congressional Budget Office [CBO] assumes a stronger and more rapid recovery. CBO projects real GDP growth rates of 0.8 percent in 2002, 4.1 percent in 2003, 3.7 percent in 2004, and 3.2 percent in 2005. (See table, next page).

The administration projects inflation rates of 2.0 percent and 1.8 percent in calendar year 2002 and 2003 in terms of chain-weighted GDP price index (favored by the Federal Reserve Chairman Greenspan), and 1.8 percent and 2.2 percent in terms of the Consumer Price Index [CPI]. In comparison, CBO forecasts growth in the GDP price index of 1.4 percent and 2.0 percent in 2002 and 2003 and CPI of 1.8 percent and 2.5 percent. Blue Chip Consensus forecasts GDP price index of 1.6 percent and 1.9 percent and CPI of 1.7 percent and 2.4 percent.

The administration projects unemployment rates of 5.9 percent and 5.5 percent in calendar year 2002 and 2003. The 2002 rate is 0.2 percentage point lower than both CBO and Blue Chip, and the 2003 rate is 0.2 percentage point lower than Blue Chip and 0.4 percentage point lower than CBO. In the medium term, CBO projects 0.3 percentage points higher unemployment rates than the other two. The administration projects 4.9 percent unemployment rate in the medium term, as it revised its NAIRU (non-accelerating inflation rate of unemployment) from 4.6 percent to 4.9 percent. The private forecasters also project 4.9 percent unemployment rate, while CBO projects 5.2 percent.

Comparison of Economic Assumptions
(calendar years 2002-2007)

	Forecast[a]		Projected			
	2002	**2003**	**2004**	**2005**	**2006**	**2007**
Real GDP (percentage change year over year):						
CBO	0.8	4.1	3.7	3.2	3.2	3.2
OMB	0.7	3.8	3.7	3.6	3.2	3.1
Blue Chip	1.0	3.4	3.4	3.3	3.2	3.1
GDP Price Index (percentage change year over year):						
CBO	1.4	2.0	2.0	2.0	2.0	2.0
OMB	2.0	1.8	1.7	1.8	1.9	1.9
Blue Chip	1.6	1.9	2.1	2.1	2.2	2.2
Consumer Price Index (percentage change year over year):						
CBO	1.8	2.5	2.5	2.5	2.5	2.5
OMB	1.8	2.2	2.3	2.4	2.4	2.4
Blue Chip	1.7	2.4	2.6	2.7	2.7	2.7
Unemployment Rate (percent, annual rate):						
CBO	6.1	5.9	5.4	5.2	5.2	5.2
OMB	5.9	5.5	5.2	5.0	4.9	4.9
Blue Chip	6.1	5.7	4.9	4.9	4.8	4.9
3-month Treasury Bill Rate (percent, annual rate):						
CBO	2.2	4.5	4.9	4.9	4.9	4.9
OMB	2.2	3.5	4.0	4.3	4.3	4.3
Blue Chip	2.1	3.4	4.5	4.7	4.8	4.8
10-year Treasury Note Rate (percent, annual rate):						
CBO	5.0	5.5	5.8	5.8	5.8	5.8
OMB	5.1	5.1	5.1	5.1	5.2	5.2
Blue Chip	5.1	5.6	5.7	5.7	5.7	5.8

[a] OMB's 2002 and 2003 figures are projections.
Source: CBO and OMB.

The administration also projects lower interest rates than CBO and Blue Chip Consensus. Three-month Treasury Bill rates are projected at 2.2 percent in calendar year 2002 and 3.5 percent in 2003, while CBO forecasts 2.2 percent and 4.5 percent. Blue Chip's forecasts are closer to the Administration's in the near term. In the medium term, the administration's projections are 0.4 to 0.6 percentage point lower than the other two. The administration's projection of 10-year Treasury note rates are 5.1 percent for 2002 and 2003, increasing slightly in the out-years. OMB assumes that the Federal Reserve pursues a monetary policy that supports a return to sustainable growth while continuing to keep inflation under control. CBO and Blue Chip project higher long-term interest rates, ranging from 5.5 percent to 5.8 percent.

It should be noted that although OMB is more pessimistic than CBO in some of its economic assumptions, its budget projections are not necessarily more cautious.

COMPARISON OF BASELINES

INTRODUCTION

As the fiscal year 2003 budget process begins, the Office of Management and Budget [OMB] and Congressional Budget Office [CBO] have projected new baselines. A baseline is constructed to serve as a benchmark against which the budgetary effects of proposed changes in Federal revenue and spending are measured. It is an estimate of future revenue and spending levels – and therefore surpluses or deficits, and debt held by the public – under current laws and policy. Hence, a baseline is updated periodically to reflect changes in the economic outlook and enacted legislation.

Both OMB and CBO construct baselines using the statutory guidance of the Budget Enforcement Act [BEA]. This year, OMB also has constructed an *adjusted* baseline reflecting the one-time nature of spending in response to last September's terrorist attacks. To facilitate comparison with CBO's baseline, this analysis looks only at OMB's BEA (or current services) baseline.

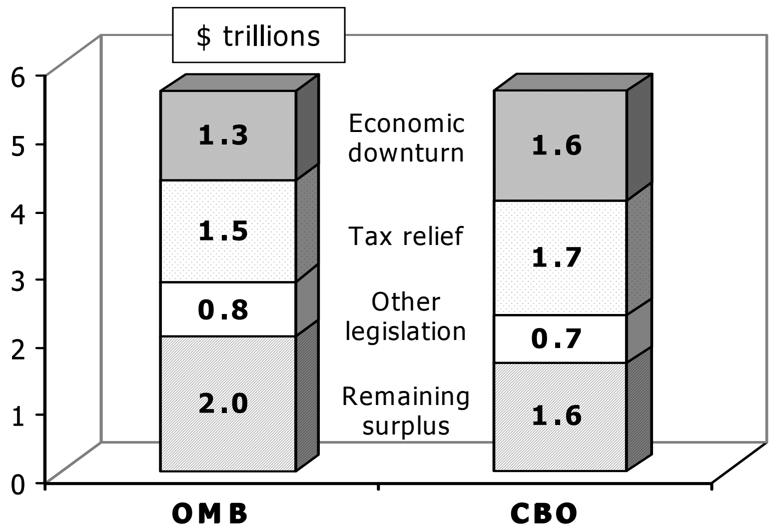
Generally, OMB and CBO baseline projections differ somewhat due to their different assumptions about economic and technical factors, such as gross domestic product [GDP] growth, inflation, interest rates, the rate at which a Government agency spends the money it is appropriated (the spendout rate), and composition of GDP (which affects the tax base).

CHANGES FROM 2001 TO 2002

At the start of last year's budget process, both OMB and CBO projected cumulative surpluses of $5.6 trillion for the fiscal years 2002-2011. In January 2002, CBO lowered its estimate of the projected surplus by $4 trillion, to $1.6 trillion for the same period. OMB lowered its own estimate by $3.6 trillion, to $2.0 trillion. The sources of revision are broken down as shown in the chart on the next page.

When the remaining surplus is excluded, both OMB and CBO baseline revisions indicate that previously enacted legislation (including both spending increases and tax reductions) accounts for roughly 60 percent of the reduction in the 10-year surplus, while the economic downturn accounts for 40 percent. *In other words, the tax cuts enacted last year were not responsible for most of the decline in the surplus*.

In the near term, CBO estimates the economic downturn accounts for a greater amount of the surplus reduction than does OMB: 72 percent for fiscal year 2002 and 58 percent for fiscal year 2003, according to CBO; 68 percent and 49 percent, respectively, according to OMB.



DIFFERENCES BETWEEN THE CURRENT OMB AND CBO BASELINE PROJECTIONS

For fiscal year 2003, the differences between OMB and CBO baseline projections are shown in Table 1 below (by fiscal year, in billions of dollars of revenues and outlays):

Table 1: Baseline Comparisons
(by fiscal years, in billions of dollars)

	OMB			CBO			Difference		
	2003	2003-07	2003-12	2003	2003-07	2003-12	2003	2003-07	2003-12
Revenues	2,121	11,764	27,072	2,070	11,633	27,030	51	131	42
Discretionary	759	3,991	8,467	764	4,021	8,575	-4	-30	-108
Mandatory	1,145	6,249	14,464	1,147	6,268	14,615	-2	-19	-151
Net Interest	175	855	1,455	174	908	1,577	1	-53	-122
Surplus/Deficit	41	669	2,686	-14	437	2,263	55	232	423

REVENUES

As indicated clearly in the table, the primary difference between the two baselines in the near term arises from revenue projections. OMB's estimate of revenues is $51 billion higher than CBO's in fiscal year 2003, and $131 billion higher for the fiscal years 2003-2007. Two-thirds of the difference in fiscal year 2003 comes from corporation income tax receipts, and about one-fifth comes from individual income tax receipts. The sources of that difference are more or less equally divided between economic and technical factors. For the fiscal years 2003-2012, the difference in revenue estimates declines to $42 billion. The source of that $42 billion difference is predominantly technical. CBO projects higher revenues from both individual and corporation income tax receipts during the second half of projection period.

NET INTEREST

Net interest estimates account for the second largest difference in both the 5-year and the 10-year periods. The sources of difference are economic as well as technical. In terms of economic factors, OMB assumes significantly lower short- and long-term interest rates, resulting in a lower interest paid per dollar on the Federal Government debt. In terms of technical factors, OMB baseline projects a better budget bottom line in each year, resulting in less government debt on which interest must be paid.

OUTLAYS

The differences in an estimate of outlays are very small in the near term. In aggregate (excluding net interest), outlays differ by $6 billion for fiscal year 2003 and $49 billion for fiscal years 2003-2007, which are less than 0.5 percent of the Federal budget in both cases. For the fiscal years 2003-2012, the difference totals to $259 billion. The difference in discretionary outlays is fairly small in the early years, but it increases over time and totals to $108 billion in 10 years. This divergence is almost entirely explained by the differences in assumptions of inflation. OMB's projection assumes lower inflation, leading to lower spending.

The difference in the projections of mandatory outlays is complex. The total difference ($2 billion in fiscal year 2003, $19 billion in fiscal years 2003-2007, and $151 billion in fiscal years 2003-2012) masks the significant technical difference in Medicare spending. OMB's projection of Medicare spending is $7 billion lower than CBO's for technical reasons in fiscal year 2003, $81 billion for fiscal years 2003-2007, and $301 billion for fiscal years 2003-2012. This $301 billion is offset by higher projection of other mandatory spending. OMB's projection of Medicaid spending is $7 billion higher for technical reasons in fiscal year 2003, $38 billion for fiscal years 2003-2007, and $72 billion for fiscal years 2003-2012. Likewise, OMB's projection of spending by other programs (such as earned income tax credit, veterans' compensation and pensions, and Federal civilian retirement) is higher than CBO's by $2 billion in fiscal year 2003, $50 billion for fiscal years 2003-2007, and $173 billion for fiscal years 2003-2012.

On the economic side, OMB's projection of mandatory outlays is lower in all major programs – by $3 billion in fiscal year 2003, $25 billion for fiscal years 2003-2007, and $95 billion for fiscal years 2003-2012. OMB's assumptions of lower inflation and lower unemployment rate explain most of this difference.

Overall, OMB's baseline surplus projection is higher than CBO – by $55 billion in fiscal year 2003, $232 billion for fiscal years 2003-2007, and $423 billion for fiscal years 2003-2012. Put in different perspectives, each figure consists of 0.5 percent, 0.4 percent, and 0.3 percent of projected nominal GDP for respective fiscal years, or consists of 2.7 percent, 2.1 percent, and 1.7 percent of projected total baseline outlays for respective fiscal years (no difference whether based on OMB or CBO baselines).

SECURE AMERICA'S FUTURE

<u>Budget Priorities</u>

<u>Win the War!</u> **Fund Defense Priority**

Double ***Homeland Security*** **Funding**

Stimulate the Economy and ***Create Jobs***

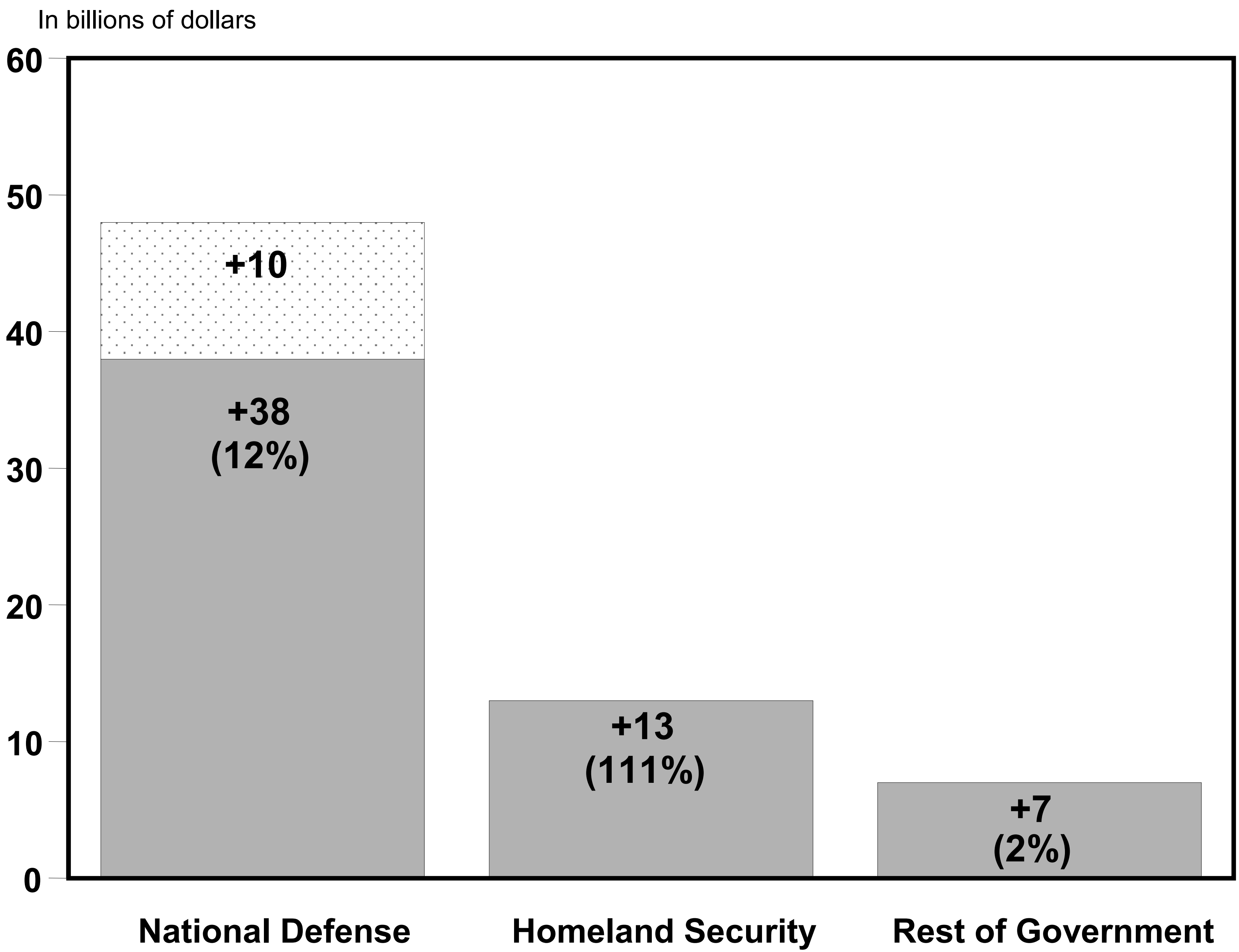
Fund America's Priorities First!

Hold **Down Government Spending**

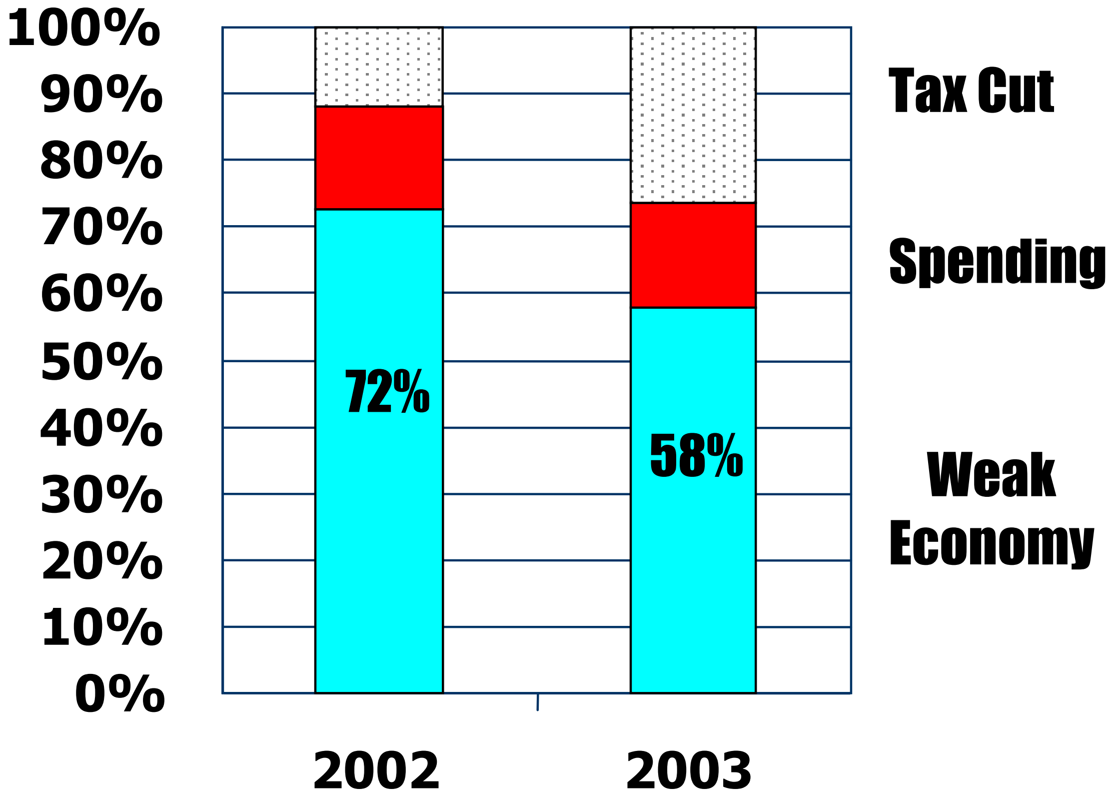
Modernize Medicare **with Drug Benefit**

<u>BACK TO BALANCE</u> ***as soon as possible!***

Winning the War Against Terrorism



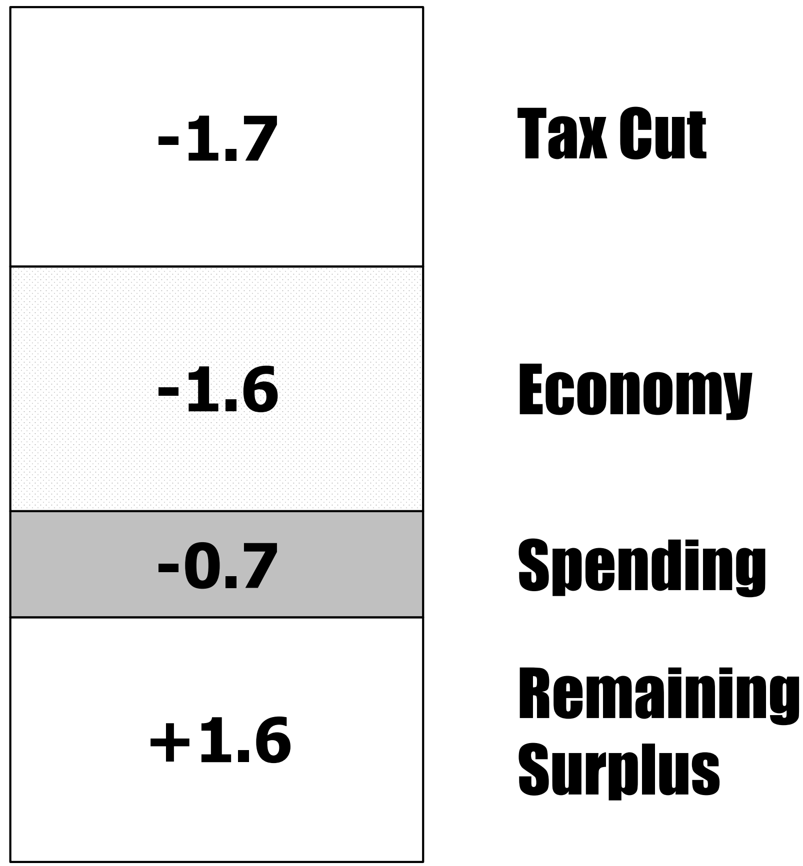
Largest Cause of Deficits in 2002 and 2003 is the Economy!



- The Economic downturn accounts for 72% & 58%, respectively, of the total 2002 and 2003 changes.

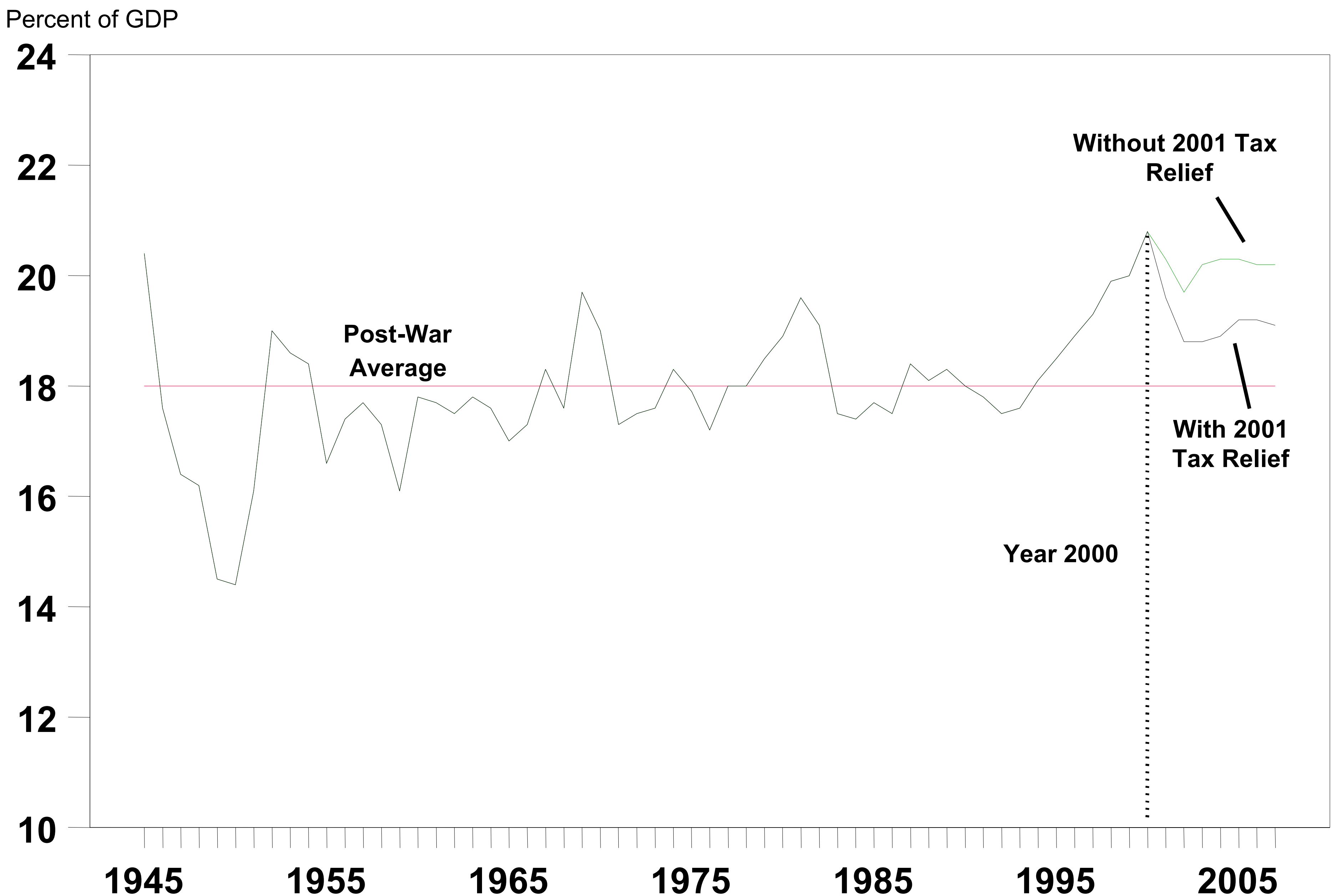
10 Year Surplus "Estimates" Drop Sharply

From +$5.6 Trillion Last January to +$1.6 Trillion This January

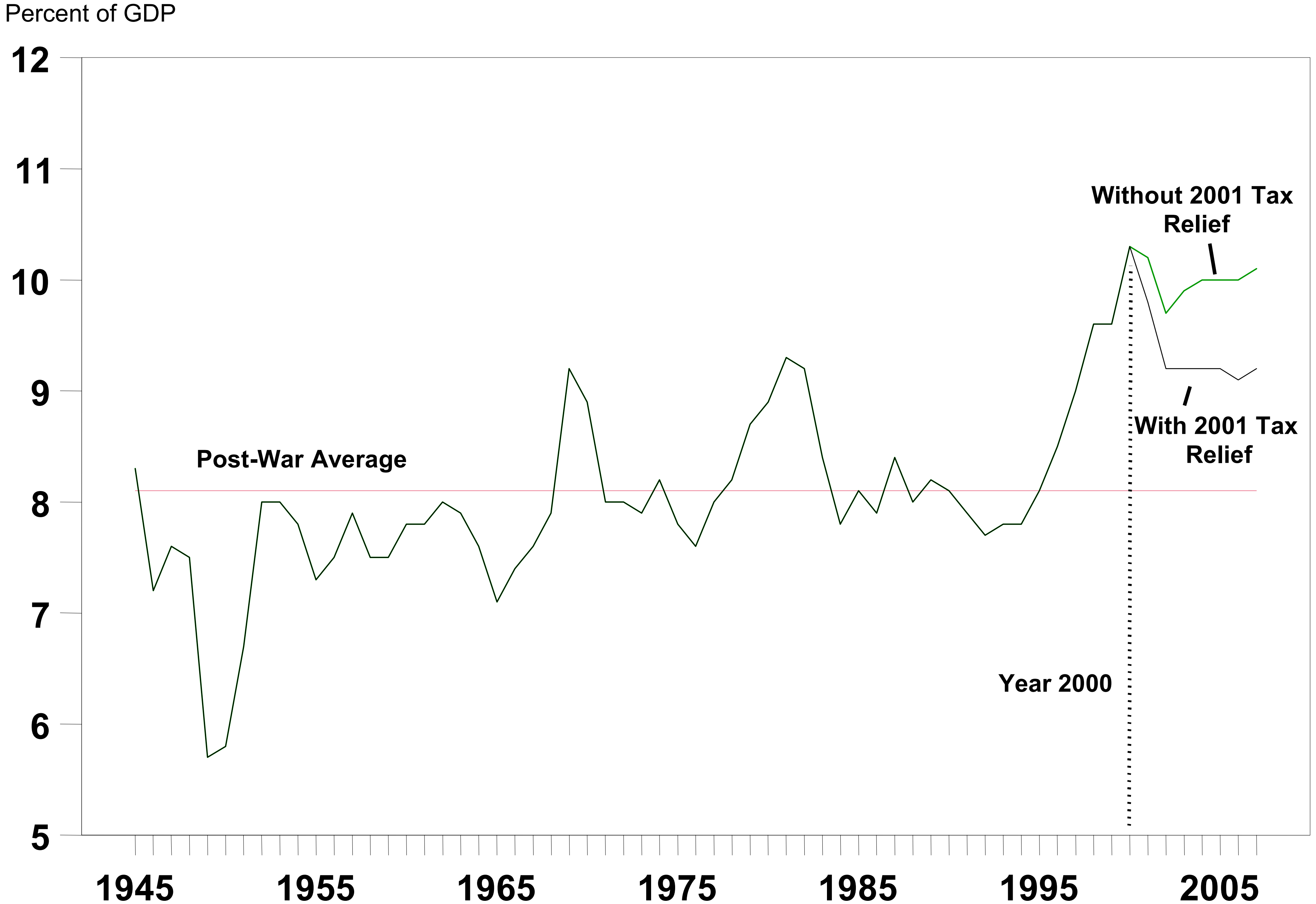


2002-2011 Total (Trillions)

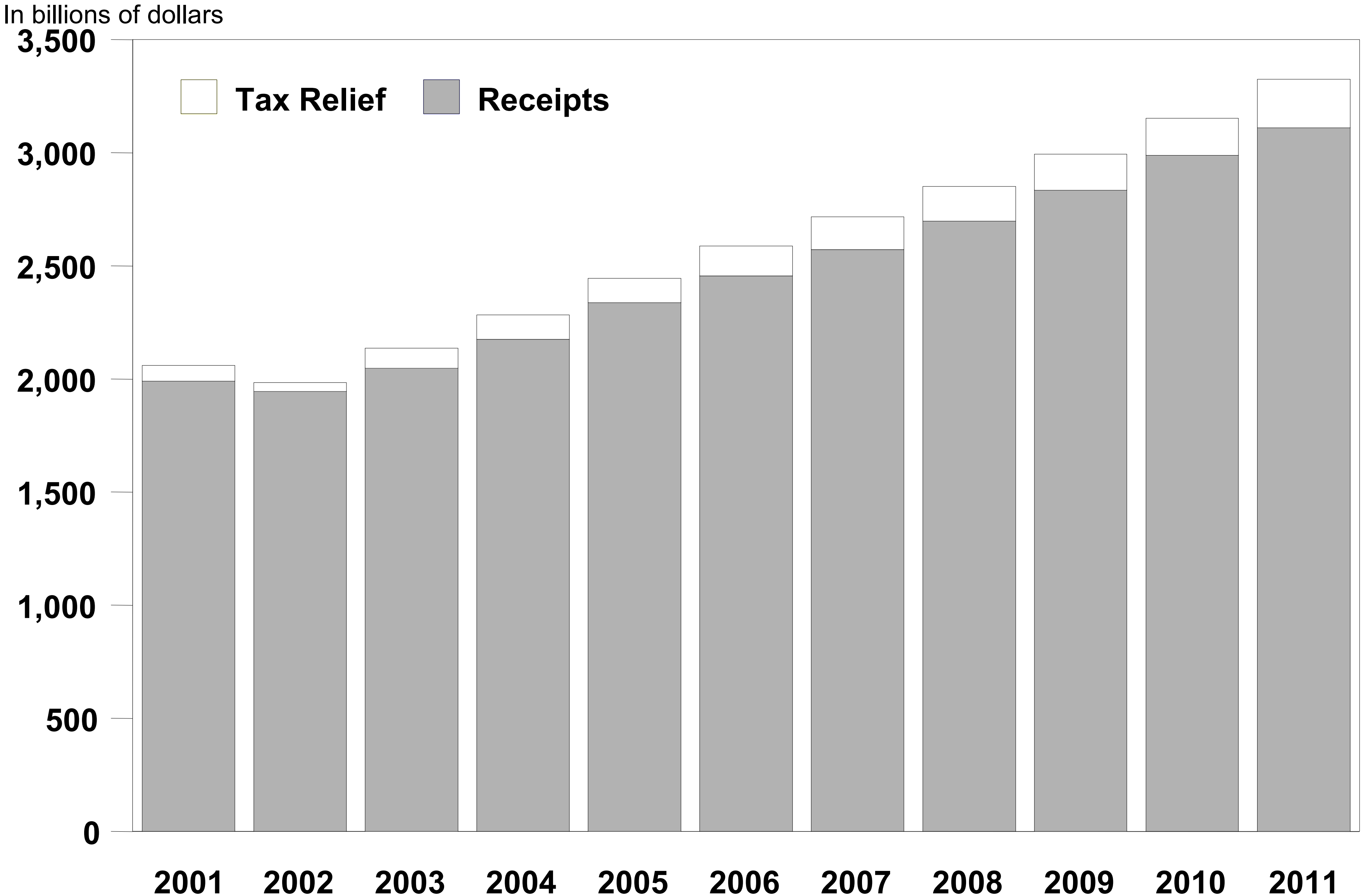
Tax Take Remains Historically High



Individual Tax Take Still Near Record High

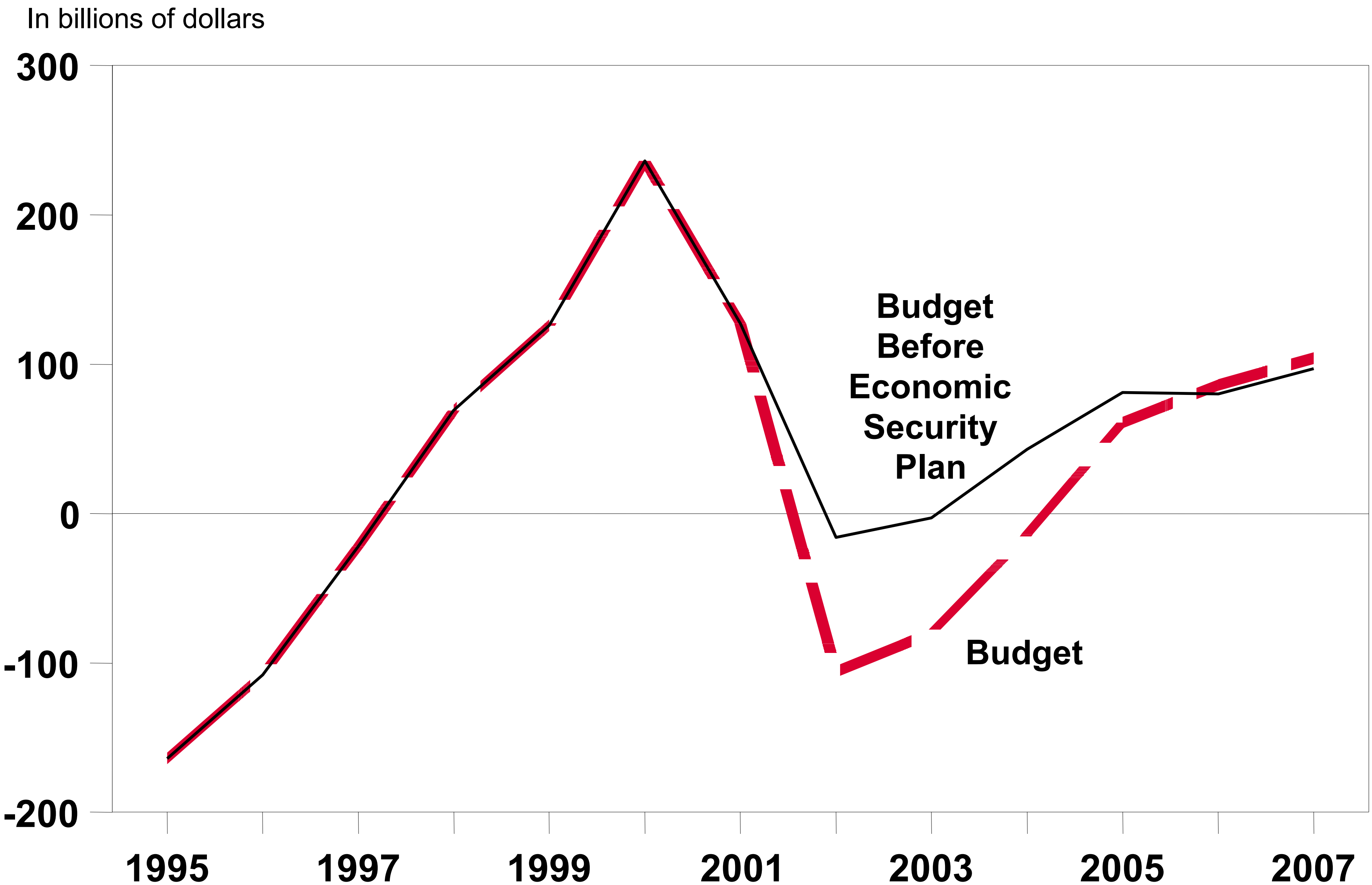


Revenues Grow by 55% Despite 2001 Tax Relief

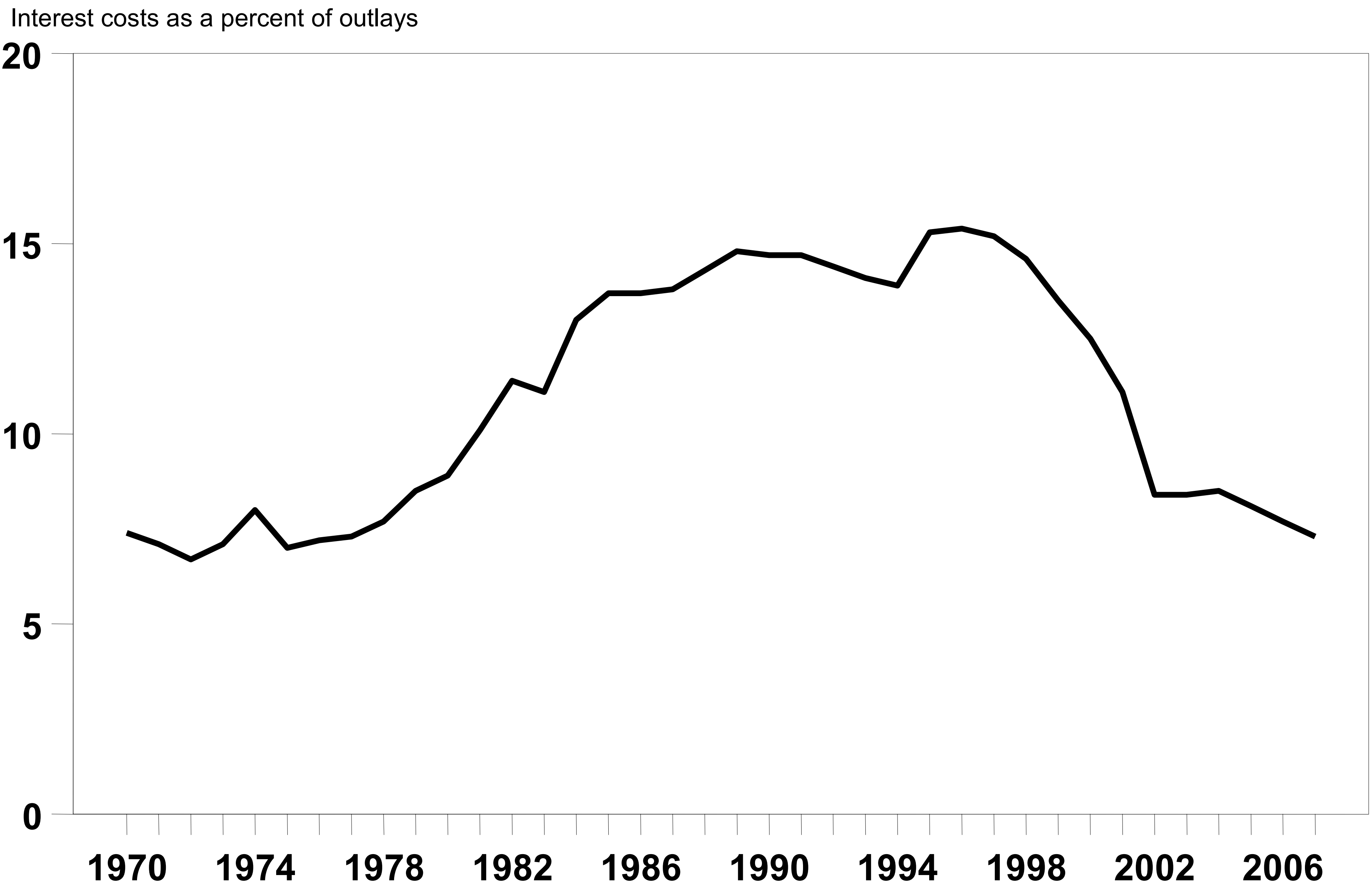


Note: Tax relief includes proposed extension of provisions beyond 2010.

Budget in Balance Without Economic Security Plan



Government Debt Burden Continues to Fall



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Interest Rates At 40-Year Lows