**COMMITTEE ON THE BUDGET**
**MAJORITY CAUCUS**
U.S. House of Representatives
107th Congress — Washington, DC

# THE CONCURRENT RESOLUTION ON THE BUDGET – FISCAL YEAR 2002

## BRIEFING POINTS ON THE CHAIRMAN'S MARK

## HOUSE COMMITTEE ON THE BUDGET MAJORITY CAUCUS

**21 March 2001**

## CONTENTS

# DEBT REDUCTION

## SUMMARY

- The budget resolution pays down $2.3 trillion of debt held by the public over the next 10 years.
- As a result, the Government's publicly held debt would decline to 7 percent of Gross Domestic Product [GDP], its lowest level in more than 80 years.
- For comparison, debt held by the public was 80 percent of GDP in 1950 (following World War II), 42 percent in 1990 (following the cold war), and 35 percent as recently as 2000.

## KEY POINTS

- This proposal pays off the maximum amount of public debt that can reasonably be retired by 2011.
- The roughly $1 trillion remaining debt in 2011 is considered "non-retireable" or "non-redeemable." It consists of marketable bonds that will not have matured, savings bonds, and special bonds for State and local governments, among others.
- The Federal Government would have to pay a "premium" as high as $150 billion to persuade bond holders to sell back these bonds – and even then the holders would not be required to release the bonds before maturity, because these instruments are not "callable."
- In this environment, the budget says, the Government will begin accumulating "excess cash balances" (when surpluses exceed the amount of maturing debt).
- This excess cash could force the Government to begin buying up private assets, leading to substantial – and undesirable – Government ownership of the private economy.
  - House Majority Leader Richard K. Armey has warned that excess surpluses invested in private assets could have serious political

consequences. "In no time, the Federal Government would use its vast new economic influence to advance any number of politically correct causes," he wrote in a February 6 memo to Members. "It would forever change the relationship between the Government and our people."

- From an economic perspective, Federal Reserve Chairman Alan Greenspan has warned that the political pressure connected with such investments would risk "sub-optimal performance" by capital markets, a less efficient economy, and weaker growth in living standards. As a result, Chairman Greenspan calls this "the critical longer-term fiscal policy issue" facing Congress and the administration.

## REFUTING THE CRITICS

### Too Little Debt Reduction

- **Potential Criticism:** *Because of the Republicans' excessive tax cut, the budget doesn't eliminate the debt, or even pay down all the available debt.*

- **Rebuttal:** The budget pays off the maximum amount of public debt that can reasonably be retired by 2011.

  - The roughly $1 trillion remaining debt in 2011 is considered "non-retireable" or "non-redeemable." It consists of marketable bonds that will not have matured, savings bonds, and special bonds for State and local governments, among others.

  - The Federal Government would have to pay a "premium" as high as $150 billion to persuade bond holders to sell back these bonds – and even then the holders would not be required to release the bonds before maturity, because these instruments are not "callable."

  - In this environment, the budget says, the Government will begin accumulating "excess cash balances" (when surpluses exceed the amount of maturing debt).

  - This excess cash could force the Government to buy up private assets, leading to substantial – and undesirable – Government ownership of the private economy.

## Optimistic Economic Assumptions

- **Potential Criticism:** *Like much of the budget, the Republicans' debt reduction prediction depends on their economic assumptions. If the economy slows, the amount of debt reduction will be reduced as well – leading to higher-than projected interest payments that could squeeze other priority programs, including education and Medicare.*

- **Rebuttal:** The assumptions in the budget resolution are very much in line with those of private forecasters. Indeed, CBO's projection of long-term growth is more conservative than that of private forecasters – even though the latter recently lowered their growth projections for the coming year.

# TAX REDUCTION

**SUMMARY**

- The resolution allows taxpayers to keep roughly one-fourth of projected surpluses over the next 10 years (28.9 percent of $5.61 trillion) through lower tax bills for all taxpayers.
  - Overall, taxpayers will keep at least $1.62 trillion of their earnings over the next 10 years.
  - The budget implements this tax reduction through four reconciliation bills with the possibility of additional tax relief based on the Congressional Budget Office's [CBO's] summer reestimate.
- The resolution anticipates four pillars of the tax reduction package:
  - Retroactive marginal rate reduction, as already passed by the House.
  - Doubling the child tax credit.
  - Providing relief from the marriage penalty.
  - Eliminating the death tax.
- The potential additional tax reduction could include: availability of charitable deductions to non-itemizers; refundable tax credits for private health insurance; Medical Savings Account extension; Education Savings Account expansion and other education provisions; IRA deductibility increase; making the research and experimentation tax credit permanent; and capital gains rate reduction.

## KEY POINTS

### The Benefits to Taxpayers

- The tax relief plan will cut taxes for everyone who pays income taxes today.
- The greatest *percentage* reduction will go to the lowest income families.
- Six million of the lowest income American families will be completely removed from the tax rolls.
- One in five taxpaying families with children would no longer pay any income tax at all.
  - A married couple with two children and one income making up to $37,000 will get a 100-percent tax cut.
  - That same family making $50,000 would get a 50-percent cut (at least $1,600).
  - In contrast, a person making more than $80,000 will receive a tax cut of less than 20 percent.
- Because the long economic expansion that began almost 10 years ago is slowing, elements of the tax cut (i.e., marginal rate reduction) *are made retroactive*. This allows taxpayers to keep more of their income *now* as a cushion against any economic slowdown.
- The tax reduction reconciled in this resolution is smaller than the tax cuts advocated by both President John F. Kennedy 40 years ago and Ronald Reagan 20 years ago.

### The Context of Tax Reduction

- The Federal Government is collecting taxes at an unprecedented rate in peacetime – and consequently is running up substantial amounts of excess funds not needed for any Government purpose.
  - Federal taxes will consume more than 20 percent of total income (gross domestic product [GDP]) throughout the 2002-2011 period, the highest rate since World War II.
  - Just 8 years ago, in 1993, tax revenues were only 17.6 percent of GDP.

- Most of the tax growth in the recent past and the projected future is from individual income taxes. In fiscal year 2000, individual income tax receipts increased by more than 14 percent, and at current rates these collections would reach 10.5 percent of GDP by 2011, their highest level ever.

- The two principal contributing factors were, and will continue to be: 1) rapid growth of taxable income, such as wages, interest, and business income; and 2) increases in the effective tax rate, because more of taxpayers' incomes fell into higher tax brackets. Both trends are projected to continue, although at slower rates.

■ Consequently, the Government will collect $28.0 trillion in taxes over the next 10 years under current law – of which approximately $21.2 trillion will be outside of Social Security.

■ The budget proposes that taxpayers keep about 7.5 percent of this non-Social Security tax burden, or about 6 percent of total taxes.

- The Government then would collect the full $6.7 trillion for Social Security and another $19.6 trillion for the rest of Government.

- By comparison, the Federal Government collected $15.6 trillion in taxes over the previous 10 years (1992-2001).

- Even under static scoring, Federal revenues will grow by 69 percent over 10 years after the tax cut (compared with 79 percent without tax reduction).

- The Federal Government will still collect $10.7 trillion more from taxpayers over the next 10 years after the tax relief package is enacted than it did over the previous 10 years.

■ This tax reduction plan still leaves ample resources for the following priorities:

- Fully protecting the Social Security and Medicare Hospital Insurance [HI] surpluses.

- Paying down all the debt held by the public that can be paid.

- Financing the President's initiatives in education, national defense, and elsewhere.

- Still leaving a cushion of about one-half trillion dollars in non-Social Security funds for other purposes.

## REFUTING THE CRITICS

### Optimistic Economic Assumptions

- **Potential Criticism:** *The tax cut is based on shaky economic assumptions. If the economy slows, the amount of revenues will be reduced as well. Then, because of this huge tax cut, we'll run into deficits again.*

- **Rebuttal:** The assumptions in the budget resolution are very much in line with those of private forecasters. Indeed, CBO's projection of long-term growth is more conservative than that of private forecasters – even though the latter recently lowered their growth projections for the coming year.

### Tax Cuts Too Big

- **Potential Criticism:** *The $1.62 trillion tax cut is the largest in history and will result in a return to deficits and unfunded national priorities.*

- **Rebuttal:** The tax cut proposed by Democrat President John F. Kennedy in 1961 was larger as a percentage of GDP and as a percentage of total revenues, the economically relevant measures.

  - The surplus after this tax cut is still $3.6 trillion total, and about a half trillion outside of Social Security and Medicare Hospital Insurance.

  - Under the "revenue stream" provided in this budget, there is still a non-Social Security ("on-budget") surplus in every year – a deficit is never approached.

### Tax Cuts Too Small

- **Potential Criticism:** *The tax cut is insufficient to spur economic recovery and support sustained economic growth and prosperity.*

- **Rebuttal:** The important issue is this: if the economy is slowing, working people and families should keep more of their own earnings as a cushion, rather than continuing to send more money to Washington than Washington needs. Furthermore:

  - The tax cut supported by this budget will reduce the Federal Government's take from almost 21 percent of the economy currently to less than 20 percent after 2002 and less than 19 percent after 2007.

- The resolution also allows the tax cut to be expanded using any increases in the non-Social Security, non-Medicare Part A surpluses estimated by CBO in the summer update.

- The marginal rate reduction already passed by the House is retroactive, to help taxpayers as soon as possible.

### The Tax Cut Is Really Larger

■ **Potential Criticism:** *The size of the tax cut is really closer to $2.5 trillion due to the costs of debt service interest, reform of the Alternative Minimum Tax [AMT], and extenders.*

■ **Rebuttal:** CBO's baseline revenue estimates are reduced by $1.62 billion, not $2.1 billion or $2.5 billion or any other amount. Other points:

- The budget accommodates all necessary interest payments.

- The revenue estimates of the budget assume the current AMT law. Justified AMT reform can be addressed within the $1.62 billion 10-year total or in the future based on revised surplus estimates and when AMT thresholds begin to affect a larger proportion of taxpayers. Contrary to the claims of some, the budget includes the so-called extenders (tax provisions expiring in 2001 are renewed for 1 year). The R&D tax credit is in effect through 2005 and, therefore, is not part of these required extenders but a separate policy issue.

### Tax Cuts For The Rich

■ **Potential Criticism:** *Most of this tax cut goes to the rich. People making less than $50,000 get less than 25 percent of the money.*

■ **Rebuttal:** First, a tax cut is not an entitlement check or some other benefit payment by the Government. It simply means taxpayers send less of their own earnings to Washington – which is especially appropriate because Washington is collecting far more in taxes than it needs. In fact, *under this tax reduction plan, Federal taxes will become even more progressive than they are under current law*.

- People making $50,000 or less today pay 5.6 percent of all individual income taxes. Under the budget, their tax burden share would be reduced by more than half – to only 2.4 percent.

- The tax cut for incomes up to $30,000 would average more than 100 percent due to the refundable nature of some of the tax credits.

- People making between $30,000 - $40,000 would get a 38-percent tax cut, while those making up to $50,000 would get a 28-percent cut.

- But families with incomes greater than $50,000 are hardly rich. In fact, many two-earner households in urban areas with combined incomes up to $100,000 can also struggle to make ends meet when considering the cost of housing, food, clothes, transportation, education, and so on. This tax proposal dedicates more than half of its tax relief to these middle-class families – 54.4 percent. Correspondingly, the middle class tax burden is reduced from 30 percent of all individual income taxes paid today to about 25 percent.

- As for the so-called rich, taxpayers with incomes greater than $100,000 will pay more of all individual taxes than they do now: 74.2 percent vs. 70.0 percent.

### Tax Cuts for the *Very* Rich

▪ **Potential Criticism:** *Most of the tax cuts go to the top 1 percent.*

▪ **Rebuttal:** First, this is not true; and second, this plan makes the code more progressive.

- In strictly dollar terms, taxpayers with more than $200,000 in income get 25 percent of the individual tax reduction, with most of the tax cut (75 percent) going to everyone else.

- Second, taxpayers with more than $200,000 in income will pay 3 percent more of all the individual taxes paid than they currently do, resulting in a 46-percent share for about 1 percent of the taxpaying population.

- Finally, the top 1 percent of taxpayers actually make $250,000 a year or greater, so the ratios quoted above are even more progressive than stated. *A note of caution: 70 percent of this 1 percent are small business owners who create the jobs on which a majority of the working men and women of America so depend!*

## There Should Be a Trigger

- **Potential Criticism:** *The absence of a trigger on the tax cut threatens the surplus, debt reduction, social security and other national priorities.*

- **Rebuttal:** This is exactly backwards.

  - What threatens the surplus and debt reduction most is uncontrolled spending. If discretionary spending is responsibly allowed to grow at up to 4 percent a year, the surplus is maintained and 100 percent of all publicly held debt available for repayment will be retired. Social Security and Medicare receipts are fully locked up and protected in this budget to pay the entire cost of these programs, with their surpluses only available for debt reduction and program reform and expansion.

  - Surpluses also could be threatened by a lack of economic growth in the U.S. economy. The best way to guarantee that growth is to allow more investment in productive, job creating activities by the private sector. The repayment of the public debt and the repayment of the tax overpayment by the Federal Government to the private sector will return significant financial resources to the economy and result in an infusion of lower-cost capital into the market. Most important to reaping the full benefit of this capital is that private citizens have the necessary confidence to save and invest it. To do so, they need the assurance that the tax relief will, in fact, materialize and won't be taken away. A tax trigger does the opposite, and also prioritizes spending the surplus by holding tax relief hostage to it.

# NON-DEFENSE DISCRETIONARY SPENDING

## SUMMARY

- The budget resolution provides $335.7 billion in nondefense discretionary budget authority in fiscal year 2002.
- This allows an overall increase of about 3.5 percent, roughly the rate of inflation.

## KEY POINTS

- Since 1998 nondefense discretionary spending has grown at an average rate of about 7.3 percent a year.
- Within the 3.5-percent boost, the budget provides larger percentage increases in priority areas, such as education and the National Institutes of Health.
- These increases are offset by measures such as terminating funding for one-time projects and earmarks in fiscal year 2001, or reducing rates of growth in lower-priority programs.
- The nondefense discretionary level also includes a prudent $5.6-billion emergency set-aside for natural disasters. In the absence of such a planned contingency fund, previous emergency funding measures – viewed as must-pass legislation – have become magnets for special-interest and pork-barrel spending that would not otherwise survive the political and legislative process.

## REFUTING THE CRITICS

### Cuts in Discretionary Spending

- **Potential Criticism:** *The budget cuts nondefense discretionary spending.*
- **Rebuttal:** Nondefense discretionary spending grows by 3.5 percent in fiscal year 2002. This prudent growth follows average increases of about 7.3 percent a year since 1998.

## Cutting Needed Programs for Tax Cuts

- **Potential Criticism:** *The budget's squeeze in nondefense discretionary spending deprives important programs of needed funds solely to allow for a larger, and more irresponsible, tax cut.*

- **Rebuttal:** Within the overall 3.5-percent boost, the budget provides larger percentage increases in priority areas, such as education and the National Institutes of Health. These increases are offset by responsible savings measures, such as terminating funding for one-time projects and earmarks in fiscal year 2001.

## Growth Not Fast Enough

- **Potential Criticism:** *Nondefense discretionary spending will not maintain its level of purchasing power or keep pace with population. Hence real per-capita spending will decline.*

- **Rebuttal:** This is a product of the "baseline" mentality that assumes Government spending must grow at least as fast as inflation – or else it's being cut. In fact, the reason we have surpluses today, allowing us to pay down debt, is that *the economy is outgrowing the government* – and that's the way it should be.

## Inadequate Emergency Funding

- **Potential Criticism:** *The budget's $5.6-billion contingency fund won't be enough to cover even needed emergency funding for farmers, let alone other disasters.*

- **Rebuttal:** The figure reflects the annual average for natural disaster funding over the past 5 years.

# NATIONAL DEFENSE
**(FUNCTION 050)**

## SUMMARY

- The resolution provides $324.6 billion in budget authority and $319.3 billion in outlays for National Defense in fiscal year 2002, a $14.3-billion, or 4.6-percent, increase over fiscal year 2001.

- It provides the first down payment for the President's plan to transform the U.S. military to meet the new threats of the post-cold war world.

  - This includes $2.6 billion for R&D in "leap-ahead" technologies to ensure U.S. superiority in speed, stealth, information, and firepower.

  - The investment would total $20 billion over 5 years.

- Secretary of Defense Rumsfeld's strategic review will identify the need for any additional increases.

## KEY POINTS

- **Addressing Immediate Needs:** The budget resolution – consistent with the President's recommendations – takes steps to address immediate needs:

  - It accommodates the President's proposal to increase military pay and other compensation by $1.4 billion in 2002. The pay raise is set at 4.6 percent, or 0.5 percent above the Economic Cost Index.

  - It assumes an additional $400 million to improve the quality of housing for military personnel and their families by providing new construction, renovation of existing housing, and measures to reduce out-of-pocket expenses.

  - It provides $3.9 billion for the first year of expanded health benefits for over-65 military retirees (TRICARE for Life) – consistent with legislation passed by Congress last year.

- After declining by 11.2 percent from 1990 through 1997, the defense budget increased by an average annual rate of 4.6 percent from 1998 through 2001, reaching $310.3 billion. This increase was only possible because Republican Congresses added $34.4 billion to the inadequate defense budgets of the previous administration from 1998 through 2001.

- But these increases could not catch up with the mounting readiness and retention shortfalls that remained – especially following the previous administration's open-ended peacekeeping operations and confused budget priorities.

■ **Facing Longer-Term Challenges:** The resolution also provides $2.6 billion as a down-payment on President Bush's plan for transforming the U.S. military to meet emerging, and increasingly complex, global threats.

- The research and development increase keeps the President's pledge to develop defenses against missile threats in a world where several countries are racing to acquire terror weapons.

- When the strategic review is completed, the Pentagon will be able to lay out its long-term budget priorities. The resolution provides a mechanism to fund those priorities.

## REFUTING THE CRITICS

### Premature Spending

■ **Potential Criticism:** *We're writing the budget before we know the strategy.*

■ **Rebuttal:** The resolution is consistent with the President's belief that the Nation's defense strategy should drive decisions on defense resources, not the other way around.

- Secretary of Defense Rumsfeld is undertaking a comprehensive review to build a new, more capable military that is able to meet the threats of an uncertain future. The review will be completed in the April or May.

- The resolution accommodates any potential increases needed to fund the recommendations of the review.

### Too Much of the Same

- **Potential Criticism:** *It's just the Clinton budget.*

- **Rebuttal:** The previous administration multiplied overseas deployments even as it cut National Defense to a low of $254 billion in its initial fiscal year 1997 request. Republican Congresses added $54.4 billion over 6 years to the previous administration's inadequate requests (see table).

**Defense Spending: Clinton Request versus Actual Appropriations**
(in billions of dollars)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | Total |
|---|---|---|---|---|---|---|---|
| **Clinton Request (including supplementals and rescissions)** | 257.2 | 251.6 | 267.6 | 275.8 | 282.7 | 305.3 | **1,640.2** |
| **Final Appropriation (including supplementals and rescissions)** | 264.5 | 264.3 | 270.8 | 289.6 | 295.1 | 310.3 | **1,694.6** |
| **Difference** | 7.3 | 12.7 | 3.2 | 13.8 | 12.4 | 5.0 | **54.4** |

Note: For fiscal year 1995, the 104th Congress rescinded a net $1 billion in function 050. If this is included, the difference between the Clinton request and the congressional appropriation is $53.4 billion.

### Too Little Spending

- **Potential Criticism:** *Defense needs a bigger increase*.

- **Rebuttal:** Again, the strategy should drive the budget.

  - The current budget is a down payment that corrects immediate needs for quality of life problems pending completion of the administration's strategic review.

  - DOD is managed by three military departments, 24 Defense agencies, and several dozen subordinate organizations. It is the largest holder of Federal Government assets, at $1.3 trillion, and purchases about $150 billion in goods and services, using more than 250,000 contracts. It cannot be reformed simply by pumping in more money; successful management will require a top-to-bottom review. The defense budget assumed in the resolution provides the resources to meet immediate requirements, but holds off on new spending until completion of the review. The strategy must drive the budget, not the other way around.

**Too Much Spending**

- **Potential Criticism:** *The defense budget is too big.*
- **Rebuttal:** In total, the eight defense budgets of the previous administration fell $330 billion short of inflation. The resolution's 4.5-percent increase provides modest real growth to meet immediate needs. Potential longer-term requirements will be met after Secretary Rumsfeld's review is completed.

# INTERNATIONAL AFFAIRS
**(FUNCTION 150)**

## SUMMARY

- The resolution provides $23.9 billion in budget authority and $19.6 billion in outlays for International Affairs in fiscal year 2002, a $1.4 billion, or 6.3 percent, increase over fiscal year 2001.
- This resolution accommodates the President's proposal to increase funding for the Department of State by $888 million, or 18.6 percent, over fiscal year 2001, to support the worldwide operations of the Department of State and to provide new resources for information technology and human resources designed to improve overseas diplomatic and consular activities.

## KEY POINTS

- **Security:** The resolution provides for better security of foreign service personnel and embassies: the budget provides an additional $213 million, or 19.8 percent, for embassy security, construction and maintenance over fiscal year 2001, to address infrastructure needs including the construction of new, secure facilities and to improve security operations including additional security officers essential to the prevention and deterrence of terrorist attacks.
- **Drug Interdiction:** It supports the President's initiative to increase funding for international narcotics control and law enforcement with $624 million, an increase of 193 percent over fiscal year 2001, to strengthen U.S. efforts to stem the flow of cocaine and heroin from Colombia and its neighbors and to increase stability in the Andean region.
- **Health Care in Poor Countries:** It provides for improved health care in poor countries, with $1 billion for activities that combat global HIV/AIDS and improve primary education in Africa and other parts of the developing world.
- **Protecting the Environment:** It helps protect the environment, assuming the President's Tropical Forest Initiative to increase resources for the protection of tropical forests, and making more funds available for "debt-for-nature" swaps

and other market-oriented methods authorized under the Tropical Forest Conservation Act.

## REFUTING THE CRITICS

### Not Enough Funding

- **Potential Criticism:** *The budget increase is not as large as advertised.*

- **Rebuttal:** The budget increases funds for the State Department by $888 million, or 18.6 percent, and for foreign operations by $284 million, or 1.9 percent, over fiscal year 2001.

  - In addition, the budget assumes the President's proposal to shift $223 million in Export-Import Bank [Ex-Im] credit subsidies that primarily benefit corporations rather than individuals to other, higher priority foreign assistance programs. If Ex-Im is deducted, foreign operations funding will increase by $507 million or 3.6 percent over fiscal year 2001.

  - The budget also assumes increases for the Child Survival and Diseases Fund; Development Assistance; U.S. Agency for International Development operating expenses; Peace Corps; International Narcotics Control and Law Enforcement; Migration and Refugee Assistance; Nonproliferation, Anti-Terrorism, Demining; military assistance to Israel; Peacekeeping Operations; and the Multilateral Development Banks.

# GENERAL SCIENCE, SPACE, AND TECHNOLOGY
**(FUNCTION 250)**

## SUMMARY

- The resolution provides $22.2 billion in budget authority and $21.0 billion in outlays for the function in 2002.

- It provides $4.5 billion for the National Science Foundation [NSF], a $56-million increase from 2001.

- It provides $14.5 billion for the National Aeronautics and Space Administration [NASA], a 2-percent increase over 2001 and a 7-percent increase over 2000.

## KEY POINTS

- **National Science Foundation [NSF]:** Of the NSF total, $1.5 billion for new research and education awards in 2002, funding nearly 10,000 new competitively-reviewed awards. These include:

  - $200 million to begin the President's Math and Science Partnership initiative which provides States with funds to join with institutions of higher learning in strengthening math and science education in grades K-12.

  - $20 million for multi-disciplinary mathematics research, aimed at transferring the results of mathematical research to the science and engineering disciplines.

- **NASA:** The budget provides $14.5 billion for NASA, a 2-percent increase over 2001.

  - It increases funding for International Space Station development and operations consistent with a strategy of constraining Space Station cost growth.

- It provides a 64-percent increase over 2001 for NASA's Space Launch Initiative, helping to meet the launching needs of commercial industry and dramatically reducing space transportation costs while improving safety and reliability.

- It provides for six space shuttle flights per year, and continues funding safety improvements within NASA to establish safety investment priorities.

## REFUTING THE CRITICS

### Underfunding Science Investments

- **Potential Criticism:** *The budget provides too little investment in science.*

- **Rebuttal:** The budget provides a 5.7-percent increase in budget authority in this function. This is on top of average annual increases of 4.1 percent since 1998. The Appropriations Committee will determine the priorities.

### Insufficient Funding for NSF

- **Potential Criticism:** *The budget cuts funding for the National Science Foundation [NSF]:*

- **Rebuttal:** The budget provides $56 million more than the 2001 budget. It also achieves $45 million in savings by not renewing earmarked and lower-priority projects; and another $13 million in savings by not starting any new major facility projects in 2002.

### NSF Education Cuts

- **Potential Criticism:** *The budget cuts NSF funding for education programs.*

- **Rebuttal:** The budget adds $90 million to NSF education programs and forms the Math and Science Partnership initiative, assimilating part of current NSF education programs.

## NASA Cuts

- **Potential Criticism:** *The budget cuts funding for NASA.*

- **Rebuttal:** The budget provides a 2-percent increase over 2001 and a 7-percent increase over 2000. The budget also eliminates lower priority aeronautics programs and reduces under-performing information technology programs.

- **Potential Criticism:** *The budget cuts funding for the Pluto-Kuiper Express and Solar Probe space missions:*

- **Rebuttal:** The budget concentrates funding on a more robust Mars Exploration Program and provides critical technology funding to support future decisions on high-energy astrophysics missions.

- **Potential Criticism:** *The budget cuts earth science programs:*

- **Rebuttal:** The budget provides a 5 percent increase in 2002 for a science-driven Earth Observing System [EOS] Follow-On program while discontinuing low-priority projects to ensure the success of the EOS program.

# ENERGY
## (FUNCTION 270)

### SUMMARY

- The resolution assumes $835 million in budget authority and - $234 million in outlays for the function in fiscal year 2002.

- It assumes the President's proposals for savings by reducing corporate subsidies; reforming the Department of Energy's procurement and contracting; and reducing congressionally earmarked programs that have led to funding for low-priority programs.

- The budget does not assume the President's proposal to generate additional receipts by developing oil reserves within the Arctic National Wildlife Refuge [ANWR].

### KEY POINTS

- **Weatherization Assistance:** The budget provides $1.4 billion over 10 years – a $120-million increase – for the Department of Energy's Weatherization Assistance Program to help low-income families who live in poorly insulated homes or have insufficient heating or cooling systems.

- **Reducing Pollution:** The budget provides more than $2 billion over 10 years to reduce the environmental impact of using coal to generate electricity.

- **Supporting Oil Reserves:** It provides $8 million to support the Northeast Heating Oil Reserve established in 2001 because of the low heating oil stock.

### REFUTING THE CRITICS

#### Insufficient Funding

- **Potential Criticism:** *The budget cuts energy spending on the Department of Energy during an energy crisis. This doesn't make sense.*

- **Rebuttal:** The budget provides $19.0 billion for discretionary programs within the Department of Energy for fiscal year 2002. That's an increase of 13 percent over the fiscal year 1998 level of $16.8 billion.

  - The proposed funding level in the budget allows a 6-percent increase in spending over the fiscal year 2000 level.

  - Average spending for the Department has increased above the level of inflation during the past 4 years.

### Shortchanging Needed Programs

- **Potential Criticism:** *The budget cuts essential programs like energy research and development.*

- **Rebuttal:**.The administration is currently developing policy proposals to help solve the Nation's energy problems.

  - Priority programs such as weatherization for the poor and weapons stockpile stewardship receive significant increases.

  - Savings come from reducing funding for congressionally earmarked programs that were not funded through the competitive process, and that are of low priority.

# NATURAL RESOURCES AND ENVIRONMENT
## (FUNCTION 300)

### SUMMARY

- The resolution provides $26.7 billion in budget authority and $26.4 billion in outlays for the function in 2002. This comes after a 4-year period in which spending on the function averaged an increase of 4.6 percent annually.

- The budget provides $3.7 billion for the Environmental Protection Agency's [EPA] operating budget of core regulatory, research, and enforcement activities – the second highest level ever.

### KEY POINTS

- **State and Tribal Grants:** The budget provides more than $1 billion in grants for States and tribes within EPA's operating budget to administer environmental programs – the highest level in history.

- **Land and Water Conservation:** It fully funds the Land and Water Conservation Fund at $900 million starting in 2002. This is an increase of $356 million over 2001, and represents the largest funding ever for this activity.

- **Wastewater Grants:** It provides wastewater grants to States at a level $500 million more than requested by the 4 prior administrations.

- **Park Maintenance:** It adds $440 million in 2002 as a down payment on eliminating the National Park Service's deferred maintenance backlog currently pegged at $4.9 billion. This is a 30-percent increase in park maintenance funding over 2001.

- **Protecting Species:** It provides $50 million for States to establish grant programs that protect imperiled species and their habitats.

- **Firefighting:** [Note: The Committee is expected to accept proposed Sense of Congress language urging the Appropriators to preserve the Assistance to Firefighters Grant Program.]

## REFUTING THE CRITICS

### Insufficient Funding

- **Potential Criticism:** *The budget cuts funding for protecting the environment:*

- **Rebuttal:** The overall spending for the EPA is $56 million higher than the fiscal year 2001 request by the Clinton administration.

  - *Emergency Spending:* Most of the slight reductions in funding are due to lapsed emergency spending for last year's fires.

  - *LWCF:* The budget includes large funding increases for land and water conservation, national park maintenance, and wastewater treatment.

  - *Species Protection:* The budget will enhance natural resource protection by strengthening science-based management through the Natural Resource Challenge, increasing NPS operations by $20 million to accelerate biological resource inventories, control non-native species, and preserve endangered and threatened species habitat on park lands.

### Corps of Engineers Cuts

- **Potential Criticism:** *The budget cuts funding for the Army Corps of Engineers.*

- **Rebuttal:** The budget directs Corps of Engineers funding away from lower-priority projects like recreational harbors and toward important projects which save human lives and valuable property, such as flood control. It also ceases funding for some projects that are environmentally harmful. The Corps received a 22-percent increase in 1997, and a 10-percent increase in last year's budget, to $4.5 billion.

# AGRICULTURE
## (FUNCTION 350)

### SUMMARY

- The resolution provides $19.1 billion in budget authority and $17.5 billion in outlays for agriculture in fiscal year 2002. This compares to $20.6 billion in budget authority for fiscal year 2001 (excluding fiscal year 2001 emergencies).
- In the resolution, discretionary programs administered by the Department of Agriculture will have had an average annual growth rate of 3.1 percent during the period 1998-2002.
- While additional emergency assistance to combat low commodity prices or other income issues farmers could encounter may be needed later in the year, the budget has not prematurely assumed the amount that might be needed.
- The budget endorses the approach of the Freedom to Farm policy contained in the 1996 farm bill, which eliminated requirements that farmers obtain Government permission when making planting decisions. The budget follows the President's proposal to implement policy goals – such as removing unfair trade barriers and eliminating burdensome regulation – on which the 1996 farm bill depends. These were ignored by the prior administration.

### KEY POINTS

- **Crop Insurance:** The budget assumes implementation of the Crop Insurance reforms adopted in the 106th Congress.
- **Operating Funds:** In general, the resolution funds Department of Agriculture [USDA] bureaus at or above the 2001 enacted level, not including the one-time emergency funding and unrequested projects provided in 2001.
- **Food Safety:** The budget supports USDA food safety activities, including providing 7,600 meat and poultry inspectors.

- **Conservation Assistance:** It allocates conservation assistance to 650,000 landowners, farmers and ranchers.

- **Firefighting:** It maintains funding for priority activities in the Forest Service's wildland fire management plan, including hazardous fuels reduction.

- **Research:** It redirects USDA research to provide new emphasis in key areas such as biotechnology, the development of new agricultural products, and improved protection against emerging exotic plant and animal diseases as well as crop and animal pests.

- **Emergency Payments:** It does not assume continuation of the $27 billion in one-time emergency payments to commodity producers enacted over the past 3 fiscal years.

## REFUTING THE CRITICS

### Unrealistic Assumptions

- **Potential Criticism:** *The budget makes unrealistic cuts in Agricultural funding, especially between fiscal year 2001 and fiscal year 2002.*

- **Rebuttal:** The budget assumes the very high level of emergency spending in fiscal year 2001 will not be repeated in future years.

### Lack of Emergency Funds

- **Potential Criticism:** *The budget fails to provide for emergency commodity payments, which totaled $27 billion over the past 3 years.*

- **Rebuttal:** The budget does not assume what amounts might be needed without the policies that will be determined in a new farm bill. But it should be noted:

  - The emergency payments of the past 3 years might not have been needed, or might have been much smaller, if the previous administration had taken action on the other policy fronts that was necessary to make the 1996 farm bill work.

  - For example, the administration did nothing to break down trade barriers overseas that harm American farm exports. It even failed to obtain fast-track trade authority to enable it to negotiate new trade agreements.

  - It also did nothing to lighten the regulatory burden on farmers.

## Cuts Farmers' Support

- **Potential Criticism:** *The budget makes deep cuts in agriculture, hurting farmers. It makes no provision for future agriculture disasters such as continued low prices or drought. Not adding at least an additional $9 billion in mandatory funding in fiscal year 2002 to cover potential disasters means this budget is unrealistic.*

- **Rebuttal**: With spring planting just starting, it is too soon to guess about potential weather and farm market conditions in the future. Congress should not simply pull a number out of the air and assume that it will be needed for farm producers until we know what conditions they will actually face.

  - Farmers are currently receiving additional emergency payments of more than $4 billion from previously enacted emergency legislation, and are expected to receive another $8 billion from legislation this year.

  - The budget assumes a 10-year reserve fund that is designated for meeting unanticipated needs such as those that may arise in agriculture.

  - Proposed changes to the tax laws elsewhere in the budget such as death tax relief will substantially reduce the tax burden on farmers and ranchers, providing them with significant relief within a year.

## Farmers Need More Money

- **Potential Criticism:** *The Farm Bureau and other commodity groups say producers will need an additional $9 billion in fiscal year 2002 and an additional $12 billion each year thereafter to meet emergency conditions. The budget ignores this plea.*

- **Rebuttal:** These groups have not addressed how this additional funding will be used. They do not have a policy, only a request for more money.

  - Although it is true that farming operations face tough times, it is also true that farmers are more economically viable than they were in the past. According to USDA estimates, average farm household income in 1998 (the last year for which figures are available) was $59,855, compared to $51,855 for average U.S. household income.

  - Often because of off-farm income, farmers as a group are wealthier today than the average American. That is a significant improvement in income compared to most of the last century for farm families.

# COMMERCE AND HOUSING CREDIT
## (FUNCTION 370)

### SUMMARY

- The resolution provides $8.6 billion in budget authority and $5.6 billion in outlays for the function in fiscal year 2002.

- Funding levels recognize that Federal deposit insurance funds have now become fully capitalized, resulting in reduced receipts to the government from bank and savings institution deposit insurance premium payments.

- Spending associated with conducting the decennial census has also wound down with completion of the 2000 census and dissemination of its findings.

### KEY POINTS

- **FHA:** The budget assumes the President's policy increasing premiums for some FHA programs, such as condominiums, rehabilitation loans, and multi-family loans. As a result, all FHA borrowers will pay the same premiums, and the programs will operate without the need for a subsidy.

- **Commerce Department Programs:** The resolution also supports the President's proposals for the Department of Commerce. They are the following:

  - Continued funding for core Department of Commerce activities.

  - A sum of $83 million in new funding to continue procurement of an advanced weather satellite system being developed jointly with the Department of Defense.

  - Increased funding for the collection and calculation of basic economic statistics by 18 percent, or $9 million, to improve key measures used by government and business policy makers.

- Reduced funding for several Commerce programs, particularly those that provide subsidies to private corporations and other assistance that is of reduced priority.

- Suspension of new funding for the Advanced Technology Program, pending a re-evaluation of the program.

- Rescission of $125 million of funding from the Emergency Steel and Oil and Gas Loan Guarantee programs after the second round of applications is funded.

- Reallocations within the National Oceanic and Atmospheric Administration to ensure that highest priority activities are fully funded.

## REFUTING THE CRITICS

### Eliminating the Department?

- **Potential Criticism:** *The budget appears to be a backdoor attempt to fulfill a 1990s 'Contract with America' promise to eliminate the Department of Commerce.*

- **Rebuttal:** The resolution provides the Department of Commerce with $4.8 billion for 2002, $600 million more than the 1998 funding level and an average growth of 3.3 percent.

# TRANSPORTATION
**(FUNCTION 400)**

## SUMMARY

- The resolution provides $61.0 billion in budget authority and $55.6 billion in outlays for Transportation in fiscal year 2002. After deducting $2.8 billion spent in fiscal year 2001 on one-time earmarks and special projects, this represents an increase of $1.7 billion, or 2.9 percent, over fiscal year 2001.

- The resolution accommodates the President's proposal to fully fund the authorized levels provided for highways ($32.3 billion) and transit ($6.7 billion) under the Transportation Equity Act for the 21st Century [TEA-21], and for the Federal Aviation Administration's operating ($6.9 billion), capital ($2.9 billion), and airport grants ($3.3 billion) programs under the Aviation Investment and Reform Act for the 21st Century [AIR-21].

- To assist Americans with disabilities in overcoming transportation barriers to work, the budget assumes the President's $145 million proposal to fund two new programs under his New Freedom Initiative.

## KEY POINTS

- **Strengthening Drug Enforcement/Maritime Safety:** The budget provides $5.3 billion for the U.S. Coast Guard, an increase of $795 million, or 17.6 percent, over fiscal year 2001. The increase is provided to eliminate Coast Guard vessel and aircraft spare parts problems, to improve personnel training, to fund new Department of Defense entitlements, and to operate drug interdiction assets at optimal levels.

- **Promoting Highway Safety:** The budget fully funds the TEA-21 guaranteed levels for the Federal Motor Carrier Safety Administration and the National Traffic Highway Safety Administration.

- **Provides Relief for Airport Congestion and Airline Delays:** The budget increases funding for Federal Aviation Administration operations by $317 million, or 4.9 percent, air traffic control modernization by $195 million, or 7.2

percent, and airport construction grants by $107 million, or 3.4 percent, over fiscal year 2001.

## REFUTING THE CRITICS

### Slashing Transportation

- **Potential Criticism:** *The budget slashes transportation.*

- **Rebuttal:** The resolution represents an increase of $1.7 billion, or 2.9 percent, over fiscal year 2001 after deducting $2.8 billion spent in fiscal year 2001 on over 90 one-time earmarks and special projects.

### Too Little for the Coast Guard

- **Potential Criticism:** *The budget provides insufficient funding for the Coast Guard.*

- **Rebuttal:** The budget provides $5.3 billion for the U.S. Coast Guard, an increase of $795 million, or 17.6 percent, over fiscal year 2001. The resolution fully funds the Coast Guard's own analysis of its current requirements, including funds to begin the acquisition phase of the Integrated Deepwater System project; to eliminate Coast Guard vessel and aircraft spare parts problems; to improve personnel training; to fund new Department of Defense entitlements; and to operate drug interdiction assets at optimal levels.

### Too Little for Amtrak

- **Potential Criticism:** *The budget provides insufficient funding for Amtrak.*

- **Rebuttal:** the resolution supports the railroad's glidepath to achieve operational self-sufficiency mandated by the Amtrak Reform and Accountability Act of 1997 (Public Law 105-134).

  - The Act provided Amtrak with a refundable tax credit of $2.2 billion in 1998-1999, over and above the annual Federal subsidies Amtrak receives through the appropriations process.

  - The purpose of the tax credit was to give Amtrak the extra capital, equipment, and improvements necessary to facilitate attainment of the self-sufficiency goal.

# COMMUNITY AND REGIONAL DEVELOPMENT

**(FUNCTION 450)**

## SUMMARY

- The resolution provides $10.1 billion in budget authority and $11.4 billion in outlays for the function in fiscal year 2002, or $351 million less than in fiscal year 2001.

- The budget fully funds core activities of the Federal Emergency Management Agency [FEMA]. It consolidates disaster assistance funds and provides a $5.6 billion annual emergency reserve that FEMA can draw on to fund disaster assistance programs.

## KEY POINTS

- **CDBGs:** The budget continues Community Development Block Grant [CDBG] formula funding at the fiscal year 2001 level.

- **Firefighting:** The budget will include bipartisan language, to be offered at markup, expressing support for preservation of the Assistance To Firefighters Grant Program.

## REFUTING THE CRITICS

- **Potential Criticisms:** *The budget cuts FEMA disaster assistance. What will happen to future victims of floods, earthquakes, tornadoes, or hurricanes?*

- **Rebuttal:** The budget funds FEMA's core mission. It does not contain any plug assumption about future additional disaster funding, which may or may not be needed due to natural disasters which are as yet unforseen. The $5.6-billion emergency reserve set aside in the budget is intended for such a purpose.

# EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES
## (FUNCTION 500)

### SUMMARY

- The resolution provides $82.1 billion in budget authority [BA] and $76.2 billion in outlays for education, training, and employment in fiscal year 2002, a $5.2-billion, or 7-percent, increase in BA.

- The resolution accommodates the President’s proposed increase in program spending of the Department of Education by $4.6 billion, or 11.5 percent, in fiscal year 2002.

- The resolution assumes sufficient funding in elementary and secondary education for the President’s “No Child Left Behind” education reform plan. Key initiatives include:

  - A “Reading First” initiative to strengthen early reading education.

  - Annual testing in reading and math in grades three through eight.

  - Options to parents of children who attend consistently failing schools.

  - Consolidation and streamlining of existing Federal elementary and secondary education programs.

- The resolution also assumes the President’s proposal to maintain labor law enforcement agencies at their 2001 levels, with a renewed emphasis on compliance assistance.

### KEY POINTS

- **No Child Left Behind:** The resolution provides sufficient resources to accommodate the elementary and secondary spending proposals in the President’s budget. These include:

- A tripling of reading education funds, to $900 million in 2002, and a total increase in reading education spending of $5 billion over 5 years.

- The provision of $2.6 billion for States to improve teacher quality through high quality professional development, recruitment and retention activities.

- Sufficient funds to help States to develop annual assessments of students, establish strong accountability systems, and expand State participation in the National Assessment of Education Progress, so that parents, teachers and policymakers can ensure that students are improving.

■ **Special Education:** The budget creates a $1.25-billion reserve fund for the Individuals with Disabilities Education Act Part B grants to States. This reserve can be accessed if the Appropriations Committee reports a bill allocating funds for special education above the current level, with the increase ceiling set at $1.25 billion. A $1.25-billion increase would raise the percent of the average per-pupil expenditure [APPE] covered by Federal funds above the current 15-percent level, moving the Federal Government closer to its original promise of providing 40 percent of APPE to the States.

■ **Pell Grants:** To provide financial assistance to low-income college students, the budget accommodates the President's proposal to increase the Pell Grant program by $1 billion.

■ **Education Tax Proposals (part of tax relief assumptions):** Although not technically part of Function 500, the education tax proposals assumed in this budget – part of the President's larger tax relief plan – would provide significant educational help to families. These proposals include the following:

- A 10-fold increase in the annual contribution ceiling (from $500 to $5,000) for Education IRAs, providing about $5.6 billion in tax relief over 10 years. Under this proposal, Education IRAs, now used only for higher education expenses, could also be used for K-12 costs.

- A tax deduction for teachers that allows them to deduct up to $400 to help defray the costs associated with out-of-pocket classroom expenses, such as books, school supplies, professional enrichment programs, and other training.

- A full tax exemption for all qualified pre-paid tuition savings plans.

- A provision to allow State private-activity bonds to be used for school construction and repair.

- **Foster Care:** The budget strengthens the child welfare system by targeting families in crisis and expediting the adoption of children caught in the foster care system.

## REFUTING THE CRITICS

### Budget Increases Overstated

- **Potential Criticism:** *The proposed increase is not really $4.6 billion (or 11.5 percent), as advertised, but only $2.5 billion (or 5.9 percent) – because last year's appropriations bill provided $2.1 billion in advance funding for 2002.*

- **Rebuttal:** The critics who raise this point are using fuzzy math:

  - Under this budget, the Department of Education will spend $44.5 billion on programs in 2002, up $4.6 billion from $39.9 billion in fiscal year 2001. It does not matter if part of that funding comes from advance appropriations that are assumed in the budget. The increase is whatever it is. Besides, such advance appropriations are merely a gimmick to avoid annual spending caps.

  - This year's $2.5-billion increase in the agency's discretionary budget authority comes on top of annual increases averaging 13 percent since 1996 (see table on the next page).

  - Having spent more than $130 billion on elementary and secondary education programs since 1965, Congress is learning that money alone does not improve education. That is why this budget also provides for the accountability measures in the President's "No Child Left Behind" reform plan. It emphasizes performance over compliance; annual tests will measure progress, failing schools will face sanctions, and successful schools will be rewarded with greater flexibility to use Federal resources in ways that work best for their students.

### Too Little for Special Education

- **Potential Criticism:** *The budget provides an insufficient increase to Part B (grants to States) of the Individuals with Disabilities in Education Act [IDEA]. The budget should provide for "full funding" of Part B by granting to States the authorized maximum of 40 percent of national average per pupil expenditure [APPE] per disabled child served.*

- **Rebuttal:** The budget creates a $1.25-billion reserve fund for IDEA, which can be accessed if the Appropriations Committee reports a bill allocating IDEA funds above the current level, with an increase ceiling of $1.25 billion.

  A $1.25-billion increase would raise the percent of the average per-pupil expenditure [APPE] covered by Federal funds above the current 15-percent level, closer to its promise of providing 40 percent of APPE to the States.

  Beyond this, the criticism is demagogic and hypocritical.

  - States have never received close to the 40 percent level. Funding at the current 15 percent level has been achieved only at the urging of congressional Republicans, who appropriated more for the program than President Clinton requested over the past 5 years – increasing it, on average, 23 percent per year.

  - It would cost an additional $11 billion to "fully fund" IDEA in 2002 alone. A much-discussed proposal to phase-in full funding gradually over the next decade would cost about $110 billion over 10 years.

  - The President's initiatives – supported by this budget – address special education in at least three ways: increasing IDEA funding above the current $6.3 billion level; allowing States to redirect up to $1.2 billion of 2001 school construction funds to special education; and providing almost $1 billion for early reading programs, which should reduce the number of students inappropriately designated as learning disabled and steered into special education classrooms.

**Education Spending Trends**
(in billions of dollars of discretionary budget authority, and percentage increases)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | Avg. Annual Increase (1996-2001) |
|---|---|---|---|---|---|---|---|
| **Department of Ed. (total)** | $23.0B<br>— | $26.6B<br>(16%) | $29.9B<br>(12%) | $33.5B<br>(12%) | $35.6B<br>(6%) | $42.1B<br>(18%) | **13%** |
| **Total Elementary-Secondary** | $14.7B<br>— | $16.9B<br>(15%) | $18.6B<br>(10%) | $21.4B<br>(15%) | $23.2B<br>(8%) | $27.8B<br>(20%) | **14%** |
| **IDEA (Part B State grants)** | $2.3B<br>— | $3.1B<br>(35%) | $3.8B<br>(23%) | $4.3B<br>(13%) | $5.0B<br>(16%) | $6.4B<br>(28%) | **23%** |
| **Pell Grants** | $4.9B<br>— | $5.9B<br>(20%) | $7.3B<br>(24%) | $7.7B<br>(5%) | $7.6B<br>(-1%) | $8.8B<br>(16%) | **13%** |

* From 1996 through 2001, the percent of the average per-pupil expenditure [APPE] covered by Federal funds doubled, rising from 7 percent to 15 percent.

## Job Training Cuts

- **Potential Criticism:** *The budget cuts the Department of Labor's discretionary budget authority by $600 million dollars ($11.9 to $11.3 billion). It appears that the bulk of the cuts will be in job training programs.*

- **Rebuttal:** Congress began consolidating existing job training programs when it passed the Workforce Investment Act of 1998. The budget does not include a specific assumption for the Department of Labor. It accommodates a 4-percent increase for overall discretionary spending; the Appropriations Committee will determine specific funding levels for agencies and programs, including Labor and its job training programs.

## No Figure for Head Start

- **Potential Criticism:** *The budget provides no specific budgetary details regarding Head Start. This may result in a decrease in the number of children and families receiving Head Start services in 2002.*

  **Rebuttal:** Consistent with recent efforts of congressional Republicans, the President recommends reforming Head Start by making school readiness – pre-reading and numeracy skills – Head Start's top priority. One way this may be accomplished is by moving the program to the Department of Education. Head Start has received bipartisan support while providing comprehensive early childhood development services to low-income children since 1965. Federal spending for Head Start almost quadrupled from the 1990 level of $1.6 to the 2001 level of $6.2 billion. In the past 2 years, from 1999 to 2001, the Head Start budget increased by $1.5 billion, or 32 percent.

# HEALTH
## (FUNCTION 550)

### SUMMARY

- The resolution provides $204.0 billion in budget authority [BA] and $201.1 billion in outlays for health in fiscal year 2002, a $21.4-billion, or 11.7-percent increase in BA over the fiscal year 2001 level.

- The resolution accommodates the President’s proposal to double the National Institutes of Health [NIH] 1998 funding level of $13.6 billion by 2003. To accomplish this, the 2002 budget assumes $23.1 billion for NIH, a $2.8 billion increase above the 2001 level.

- The budget assumes the adoption of the provisions of the President’s budget to increase the level of insurance coverage or to provide for the provision of care to the uninsured. Key provisions are the following:

  - Increased funding for community health centers.

  - A refundable tax credit of health insurance purchase.

  - Increased flexibility for Medicaid and the State Childrens’ Health Insurance Program.

- In addition, the budget assumes the enactment of H.R. 600, the Family Opportunity Act of 2001. Under this Act, States would have the option to expand Medicaid coverage for children with special needs, allowing families of disabled children with the opportunity to purchase coverage under the Medicaid program for such children.

- The budget does not assume the Upper Payment Limit [UPL] proposal contained in the President’s budget. That proposal to prohibit new hospital UPL plans approved after December 31, 2001from receiving the higher UPL proposed in a final rule issued by the Health Care Financing Administration.

## KEY POINTS

- **Doubling NIH Funding:** The budget continues the goal of doubling funding for the National Institutes of Health by fiscal year 2003. This goal is an attempt to speed up finding new treatments, diagnostics, cures, and preventive measures for cancer, heart disease, diabetes, Alzheimer's, Parkinson's, AIDS, and other diseases.

- **The Uninsured:** The budget supports the President's initiatives to reduce the level of uninsured. (In 1999, 198.6 million non-elderly Americans had health insurance coverage, while 42.1 million were uninsured. Both the number and the percentage of the uninsured population declined in 1999, to 17.5 percent.)

- **Tax Credit for Insurance Purchase:** As proposed in the President's budget, to help lower-income families purchase private health insurance, the budget assumes the enactment of a new refundable tax credit for individuals and families who do not have access to employer-sponsored health insurance.

- **Strengthening the Safety Net:** To strengthen the health care safety net, the budget assumes the President's $124-million increase for community health centers. In the President's budget this would be the first installment for a multi-year initiative to double the number of people served.

- **Family Opportunity Act:** By assuming the enactment of The Family Opportunity Act of 2001, the resolution reduces the financial burden on families with disabled children.

  - Under H.R. 600, a new optional Medicaid eligibility category would allow States to expand Medicaid coverage to children with disabilities up to age 18, who would be eligible for SSI disability benefits but for their family income or resources.

  - States could offer the new coverage to such children in families with incomes up to 300 percent of poverty ($51,150 for a family of four). In participating States, an eligible family would decide whether or not to buy into Medicaid for their child with a disability.

  - States may charge Medicaid premiums up to the full cost of the premium but cannot exceed 5 percent of the families' income.

  - A State may require a parent to take employer-offered insurance (within specified conditions). Medicaid would be the secondary payer to any private health insurance. This year Medicaid payments (Federal and State combined) for the blind and disabled are estimated to exceed $11,000 per enrollee.

## REFUTING THE CRITICS

### Underfunding Health

- **Potential Criticism:** *The budget underfunds health other than the NIH.*

- **Rebuttal:** For fiscal year 2002, the budget provides $41.0 billion in discretionary budget authority for Health (Function 550). This represents a $2.2-billion, or 5.8-percent increase.

  - This increased funding is on top of a $4.9-billion, or 14.6-percent increase last year.

  - The assumed funding for fiscal year 2002 represents a $7.2-billion or a 21-percent increase, over the fiscal year 2000 level.

### Cutting DSH Payments

- **Potential Criticism:** *The budget should freeze Medicaid disproportionate share hospital [DSH] payments levels at the 2001 level, instead of allowing them to be further reduced as enacted in BBA97. The tax cut would be reduced to pay for increased Medicaid outlays.* [Mr. Bentson offered an amendment last year to freeze DSH levels.]

- **Rebuttal:** The level of the tax cut proposed is needed and appropriate. DSH complaints are largely based on how States distribute DSH funds with their State. Increases in the aggregate DSH level are not necessary. Any restrictions on how States may distribute DSH payments, if required at all, are more appropriately addressed by the authorizing committees, not the Budget Committee.

### Eliminating Community Access Program

- **Potential Criticism:** *The budget should restore the $125 million for the Community Access Program.*

- **Rebuttal:** The budget assumes the President's proposal to save $125 million by eliminating the relatively new Community Access Program. This program provides grants to community providers such as hospitals and community health centers that serve the uninsured to allow these providers to develop and coordinate their care network. The administration states in its budget that it supports policies for integrating health care services and giving States greater flexibility to merge and align health care delivery through existing channels.

## Health Professions Cuts

- **Potential Criticism:** *Unspecified reductions to Health Professions funding should be restored.*

- **Rebuttal:** The President's budget recommends a reduction to Health Professions' funding, which provides training grants to institutions. These training grants were created almost 40 years ago when a physician shortage was looming. Today, a physician shortage no longer exists. Also, a Federal funds are questionable in this area given that these professionals earn very high incomes after graduation and market forces are much more effective in determining supply. Instead, the budget will refocus resources on the Health Professions training grants that address current workforce shortages, such as nursing and diversity in the health professions.

## Stem Cell Research

- **Potential Criticism:** *The budget should urge the President and Secretary Thompson to keep the stem cell guidelines issued by the National Institutes of Health.* [On March 16, Mr. McDermott issued a dear colleague signed by Mr. Spratt and 89 other members on NIH stem cell research guidelines.]

- **Rebuttal:** The NIH stem cell guidelines do not have direct budget impact, neither lower nor higher funding is being requested for NIH. Consequently, the budget resolution in not the proper vehicle for a debate on what is a highly contentious issue. Both proponents and opponents have strongly held ethical views on this issue.

## Medicaid Cuts

- **Potential Criticism:** *The budget's $17.4 billion cut in Medicaid Upper Payment Limit [UPL] will make it more difficult for States to cover the uninsured.*

- **Rebuttal:** The budget resolution does not contain Medicaid savings. It does endorse, however, the President's proposal to increase Medicaid and SCHIP flexibility so more people can be covered. The National Governors' Association voted on February 27 in favor of giving States flexibility to design health coverage programs for the uninsured at all income levels without seeking Medicaid waivers.

# MEDICARE
## (FUNCTION 570)

### SUMMARY

- The budget provides $229.1 billion in budget authority [BA] and $229.1 billion in outlays for Medicare in fiscal year 2002, an $11.6-billion, or 5.3-percent, increase over fiscal year 2001.

- Over the period 1998-2001, total BA in Function 570 rose from $193.7 billion to $217.5 billion, a 3.9 percent average annual increase. The recent slowdown in Medicare spending is in contrast to the early 1990s when Medicare spending increased more than 50 percent.

- Medicare spending is expected to double over the next 10 years. This unsustainable rate of growth is one of the main reasons Medicare needs to be reformed.

- The budget supports the President's goal of Medicare reform, including prescription drug coverage, estimated at $153 billion over 10 years. Comprehensive reform should substantially correct the current liabilities of the Medicare Program.

- Accordingly, the budget is consistent with the provisions of the Social Security and Medicare Lock-Box Act of 2001, which passed the House on February 13. The measure creates a procedural "lock-box" so that the Medicare Hospital Insurance [HI] surplus can be used only for debt reduction or Medicare reform.

### KEY POINTS

- **Medicare Reform/Prescription Drugs:** The budget supports the President's goal of Medicare reform, including prescription drug coverage, estimated at $153 billion over 10 years. Some of the principal arguments for reform are:

  - *Medicare's Financial Liabilities:* According to the 2001 Trustees Report, the Medicare HI Trust Fund is projected to become insolvent by 2029. But that is only part of Medicare's total financial outlook.

In fact, according to CBO, *the total Medicare Program is already generating huge liabilities: in 2002, Medicare will require $64 billion in general revenue and, over 10 years, Medicare will require $1.1 trillion in general revenue.* This is due to the fact that 75 percent of SMI [Part B] financing comes out of general revenues.

Beyond the 10-year budget window, Medicare's financial liabilities will be exacerbated by the retirement of the baby-boomers in about 2011. As they retire, the growth of the working population – who will finance retiree's benefits – will not keep pace with that of the retired population. In fact, there is projected to be a permanent shift in the ratio of workers to beneficiaries, from 4.0 workers to beneficiaries today, to 2.3 in 2030 and 2.0 in 2075.

Equally ominous, the 2001 Trustees Report significantly revised upward the long-range Medicare cost growth assumptions following a recommendation of the 2000 Medicare Technical Review Panel. The Panel believed that Medicare costs and overall health care spending will grow faster than GDP based on the historical impact of advances in medical technology on health care cost increases. Consequently, the Trustees estimate that total Medicare spending will increase from 2.34 percent of GDP in 2001 to 8.49 percent of GDP in 2075. In other words, over the long-term, Medicare will nearly quadruple its share of the economy.

- *Medicare's Outmoded Benefit:* Medicare's benefits consistently lag behind modern medicine, as evidenced by its lack of coverage for prescription drugs and catastrophic costs. Consequently, beneficiaries need other supplemental forms of coverage; on average, Medicare only covers around half of a beneficiary's costs. Moreover, a recent report by the Lewin Group found that it takes between 15 months and 5 years to add new technologies to the Medicare Program.

- *The Mismanagement of Medicare:* Last year, a number of witnesses testifying to the House Budget Committee Task Force on Health contended that Medicare's complex billing and regulatory schemes can actually influence the decisions doctors make in treating their patients. This, coupled with the increasingly close scrutiny by the program's administrators – specifically the Health Care Financing Administration [HCFA] – led one witness to say: "The sense of intimidation and fear of HCFA among physicians is widespread and troubling."

  The Mayo Foundation says there are more than 110,000 pages of Medicare regulations and supporting documents, and some interpretations of them contradict others. The result: doctors are forced to take time away from patient care to deal with Medicare's rules – and then may still be left wondering whether they have really complied.

Medicare's complexity also is wasteful. Says Uwe E. Reinhardt, professor of political economy at Princeton University: "[T]he statutes and rules governing Medicare . . . now run the risk of becoming themselves a form of waste, fraud, and abuse." Yet despite all these rules, improper fee-for-service Medicare payments totaled $11.9 billion in fiscal year 2000 – and the measure used to detect them is not even designed to identify fraud.

- **The President's Medicare Reform Principles:** The budget endorses the broad principles the President has laid out for Medicare reform:

  - Medicare's current guarantee of access to seniors must be preserved.

  - Every Medicare recipient must have a choice of health plans with the option of purchasing prescription drugs coverage.

  - Medicare must cover expenses for low-income seniors.

  - Reform must include streamlined access to the latest medical technologies.

  - Medicare payroll taxes must not be increased.

  - Reform must establish an accurate measure of the solvency of Medicare.

- **Medicare Lock-Box:** The budget is consistent with the provisions of H.R. 2, the Social Security and Medicare Lock-Box Act of 2001 which passed the House on February 13 of this year by a vote of 407-2.

  - The Act creates a point of order against legislation that would reduce the total unified surplus below the combined total of the Social Security Trust Fund surplus and the Medicare Hospital Insurance [HI] Trust Fund surplus.

  - The point of order would not apply to legislation reforming Social Security or Medicare, and would terminate upon enactment of such legislation.

- Consequently, the measure creates a procedural "lock-box" protecting the Social Security and Medicare surpluses from being used for any purpose other than debt reduction until the enactment of Social Security and Medicare reform legislation.

## REFUTING THE CRITICS

### Tax Cuts Threaten Medicare

- **Potential Criticism:** *The budget's huge tax cuts set the stage for dipping into the Medicare surpluses in fiscal year 2005.*

  **Rebuttal:** The budget does not touch the HI surpluses. The budget is consistent with the provisions of the Social Security and Medicare Lock-Box Act of 2001 which passed the House on February 13 of this year by a vote of 407-2. *Every Democratic Member of the House Budget Committee voted for this legislation.* The measure protects the Medicare surpluses from being used for any purpose other than debt reduction until the enactment of Medicare reform legislation.

### Lock-Box

- **Potential Criticism:** *The Medicare lock-box is weak. If Republicans were serious about Medicare, they would take it off budget.*

- **Rebuttal:** Taking Medicare "off-budget" would do nothing to fix Medicare: it would not address Medicare's financial liabilities and it would not add prescription drugs.

  Nevertheless, all Medicare funds will be saved for Medicare. The budget is consistent with the provisions of the Social Security and Medicare Lock-Box Act of 2001 which passed the House on February 13 of this year by a vote of 407-2. *Every Democratic Member of the House Budget Committee voted for this legislation.* The measure protects the Medicare surpluses from being used for any purpose other than debt reduction until the enactment of Medicare reform legislation.

### Threatening HI Solvency

- **Potential Criticism:** *The budget would use HI Trust Fund surpluses for Medicare reform/prescription drugs, thereby hastening insolvency.*

- **Rebuttal:** The budget is consistent with the provisions of the Social Security and Medicare Lock-Box Act of 2001 which passed the House on February 13 of this year by a vote of 407-2. *Every Democratic Member of the House Budget Committee voted for this legislation.* The measure protects the HI surpluses from being used for any purpose other than debt reduction until the enactment of Medicare reform legislation.

  Still, it is important to note that, according to CBO, *Medicare is already generating huge liabilities: in 2002, Medicare will require $64 billion in general revenue and, over 10 years, Medicare will require $1.1 trillion in general revenue.* This is because 75 percent of SMI [Part B] financing comes out of general revenues. In fact, it is widely acknowledged that HI Trust Fund solvency is a poor indicator of Medicare's overall financial health. Said the Bipartisan Medicare Commission: "[T]he only meaningful solvency test of this entitlement program is one based on the amount of general revenues needed to fund program outlays." Consequently, the Bipartisan Medicare Commission (and President Bush) recommended a new definition of Medicare "solvency."

  Comprehensive reform, such as that proposed by the President and supported in the budget, should substantially correct the current liabilities of the Medicare Program.

**Reform Takes Too Long**

- **Potential Criticism:** *Reform takes time. People need prescription drug coverage now.*

  **Rebuttal:** Coupling a new prescription drug benefit with comprehensive reform is a responsible, balanced approach. *The Democratic Medicare reform proposal falls short of the President's approach and would simply be irresponsible.*

  At a recent House Budget Committee hearing, a Medicare Trustee testified: "While I believe the new drug benefit initiative featured in the President's [prescription drug] plan is carefully crafted to balance competing concerns about the sustainability of Medicare and the hardship faced by some beneficiaries, I do not think a plan providing universal drug coverage with no conditions about other reforms would be a financially responsible policy option ... without a comprehensive reform, adding comprehensive drug coverage will likely produce rapidly growing costs."

  Moreover, Gail Wilensky, the Chair of the Medicare Payment Advisory

Commission (MedPAC), stated at a recent House Budget Committee hearing: "Although I believe a reformed Medicare package should include outpatient prescription drug coverage, I believe just adding this benefit is not the place to start the reform process. The most obvious reason is that there are a series of reforms needed to modernize Medicare. To introduce a benefit addition that would substantially increase the spending needs of a program that is already financially fragile without addressing these other issues of reform is a bad idea."

### Medicare Add-Backs

- **Potential Criticism:** *The budget doesn't restore excessive Medicare cuts made as part of the BBA.*

- **Rebuttal:** The budget includes the substantial Medicare add-backs provided for in the Balanced Budget Refinement Act of 1999 and the Benefits Improvement and Protection Act of 2000. The Balanced Budget Refinement Act of 1999 increased Medicare and Medicaid spending by $16 billion over five years and $27 billion over 10 years. The Benefits Improvement and Protection Act of 2000 increased Medicare spending and decreased Medicaid spending for a net increase in spending of $17 billion over 5 years and a net increase of $15 billion over 10 years.

  Any further add-backs should be considered in the overall context of Medicare reform, and should be considered by the authorizing committees.

# INCOME SECURITY
## (FUNCTION 600)

### SUMMARY

- The resolution provides $271.5 billion in budget authority and $272.1 billion in outlays for Income Security programs in fiscal year 2002, a $15.6-billion, or 6.1-percent, increase over fiscal year 2001.

- The resolution continues to encourage State innovation and mobilization of the private sector, corporate, and faith-based sources for addressing the needs of low-income Americans, which began with the welfare reform law of 1996.

### KEY POINTS

- **New Initiatives:** The budget assumes the presidential proposals for a new Compassion Capital Fund, and new programs intended to help prison inmates and their children.

- **Expiring Housing Contracts:** The budget provides for renewing all expiring housing contracts and creates an additional 34,000 housing vouchers for families within the Section 8 housing program.

- **LIHEAP:** The resolution provides $1.4 billion for Low Income Home Energy Assistance Program [LIHEAP] funding.

- **WIC:** Funds the Special Supplemental Nutrition Program for Women, Infants and Children [WIC] at 7.25 million persons per month, maintaining the current program level.

- **Food Stamps:** It provides $20.9 billion to maintain current law policies in the Food Stamp Program.

- **Vehicle/Shelter Allowance:** It implements changes made by the prior administration permitting States to set the vehicle allowance at the level of their TANF vehicle allowance, and increasing the shelter deduction by inflation.

## REFUTING THE CRITICS

### Expiring TANF Provisions

- **Potential Criticism:** *Your budget doesn't reauthorize TANF expiring provisions.*

- **Rebuttal**: The resolution assumes the President's requests for income security programs, which did not include reauthorizing TANF supplemental grants or the contingency fund.

  - But, it assumes spending increases for new initiatives proposed by the President that *exceed* the amount needed to reauthorize the expiring TANF provisions.

  - The Committee on Ways and Means will decide whether to use the additional funding on all of the President's proposed new initiatives or on some other mix of policies which may include reauthorization of the expiring TANF provisions.

### Public Housing

- **Potential Criticism:** *The budget cuts funding for public housing programs.*

- **Rebuttal**: The budget increases the number of low-income families receiving assistance, renewing all expiring rental assistance contracts and providing 34,000 new housing vouchers. While the budget assumes a reduction in public housing capital funding, public housing authorities currently have amassed $6 billion in unspent balances for this.

### Faith-Based Initiatives

- **Potential Criticism:** *The President's faith-based initiatives will break down the barriers between church and state and will lead to taxpayer money being used to teach religion.*

- **Rebuttal**: Existing Federal law prohibits the use of Federal funds for sectarian worship and religious instruction. The budget assumptions are consistent with this law and will not fund religious instruction or worship.

  - The budget allows faith-based and other neighborhood serving charities to compete for Federal funds to deliver valid public sector services such as moving people from welfare to work and conquering drug addiction.

- Funds can only be used to help the needy. Funds cannot be used to teach religion.

- Government does not have a monopoly on compassion. Government cannot be replaced by charities, but it can welcome them as partners, not as competitors.

## LIHEAP

- **Potential Criticism:** *High energy prices are forcing the poor to choose between heating their homes and eating, but the budget isn't increasing funding for LIHEAP.*

- **Rebuttal:** The budget funds LIHEAP at the same level as last year, $1.4 billion.

  - The budget covers the period beginning October 1, 2001. That is more than six months into the future, and we cannot know today how severe next winter's weather will be, or what energy prices will be like next fall. It is reasonable to provide the same amount next year that we had this year, when energy prices rose steadily while temperatures were more severe than in recent winters.

  - The Clinton administration once proposed eliminating the LIHEAP program. The Bush administration opposes cutting LIHEAP.

# SOCIAL SECURITY
## (FUNCTION 650)

### SUMMARY

- Social Security's spending path is unsustainable in the long run. This trend is driven largely by demographics. As demographics change and costs increase, the challenge is to ensure that the Social Security system is strengthened for tomorrow's retirees.

- The President intends to meet that challenge by establishing a bipartisan Presidential Commission this spring to put Social Security on a sound and sustainable foundation over the long haul through reform. The Commission will make its recommendations this fall and Congress can act by the end of the year.

- This budget resolution supports the President's approach through the following specific measures:

  - It assumes provisions of the Social Security and Medicare Lock-Box Act of 2001 (H.R. 2), recently passed by the House, which prohibits using Social Security surpluses for any purpose other than debt reduction or Social Security reform.

  - It provides $7.7 billion for the Social Security Administration [SSA], an increase of $456 million, or 6.3 percent, above fiscal year 2001 – consistent with the President's budget. The increase will allow SSA to process 100,000 more initial disability claims in 2002 than in 2001.

  - It makes no changes in current Social Security benefits or taxes.

### PRINCIPLES FOR SOCIAL SECURITY REFORM

The budget supports the President's principals for Social Security reform, which are:

- Modernization must not change existing benefits for current retirees or near-retirees, and it must preserve the disability and survivors' components. Promises made to current retirees must be kept.

- The Social Security surplus must be preserved only for Social Security. For 30 years, Social Security surpluses were used to mask spending increases in programs unrelated to Social Security. Surpluses in the Social Security Trust Funds will total $2.6 trillion over the next 10 years. These surpluses will be saved for Social Security reform and $2 trillion will be used to reduce all available debt held by the public.

- Social Security payroll taxes must not be increased, as they have been 20 times since the program began in 1937.

- The Government itself must not invest Social Security funds in the private economy.

- Successful Social Security reform must be built upon individually controlled, voluntary personal retirement accounts that will augment the Social Security safety net.

## REFUTING THE CRITICS

### No Reform

- **Potential Criticism:** *The budget doesn't really do anything to reform Social Security.*

- **Rebuttal:** Legislatively, Social Security is outside the Budget Committee's jurisdiction. It is also off-budget – so it cannot be considered in the budget numbers. All the Budget Committee can do is make sure the funds for reform are protected – which the resolution does.

### Such Reform is Not Possible

- **Potential Criticism:** *It is impossible to meet Social Security's obligations while some people are opting out for personal accounts, as the President has proposed and the budget seems to endorse.*

- **Rebuttal:** Although the transitional issues are complicated, experts already have shown that the principles outlined above can be met. Besides, no one would fully "opt out." Taxpayers simply would be allowed to put a small percentage of their payroll taxes into personal accounts. Finally, experts once said it would be impossible to balance the budget and cut taxes at the same time. That was before 1998.

### Too Much Risk

- **Potential Criticism:** *Personal retirement accounts would mean that American workers would be gambling their Social Security in the stock market – a dicey proposition, especially considering recent market trends.*

- **Rebuttal:** The approach would be more safe than the critics like to believe:

  - Proposals now under consideration would direct only a small portion – perhaps just 2 percentage points – of an individual's payroll taxes to personal accounts.

  - The investment portfolios – probably mutual funds similar to those now available to Federal employees under the Thrift Savings Plan – could be screened to assure they were reasonably secure.

  - The decision of whether to invest this way would be entirely up the taxpayer.

  - The expansion of retirement funds – such as 401(k) plans and other individual retirement accounts – has proven such approaches to be quite secure.

  - A balanced portfolio of stocks and bonds can, in the long run, yield almost a 5.5 percent real rate of return. Even a portfolio of inflation-adjusted Government bonds yields a 3.0 percent real rate of return. Both are significantly better investments than those implicit in the current Social Security system, which, for many younger workers, could ultimately result in a negative rate of return.

### Threatening Social Security Itself

- **Potential Criticism:** *Such a change would threaten the foundation of Social Security.*

- **Rebuttal:** Social Security as currently designed cannot meet its obligations when the baby-boomers retire without large cuts in benefits or increases in taxes. These factors threaten Social Security far more than any potential reform.

## Government Investment

- **Potential Criticism:** *It would be better if the Government simply invested Social Security surpluses.*

- **Rebuttal:** Examples from other public investments, reported in the *Columbia Law Review*, support concerns about the kind of political interference that can result from Government investment:

  - In Pennsylvania in 1976, the public school employees' and State employees' retirement funds were pressured by State officials into assisting in the financing of a new Volkswagen plant when the State could not come up with the funds it promised. The plant closed a decade later, and when Sony moved in it required the State to forgive $40 million of the original $70 million loan and provide new loans of $23 million, as well as job-training grants.

  - In Kansas in 1991, the Public Employees' Retirement System [KPERS] invested heavily in local businesses, including a steel mill and a savings and loan. The steel mill eventually closed, the S&L failed, and the fund lost more than $100 million, $65 million of it on the steel mill alone.

  - Also in the early 1990s, the workers at an Illinois printing company in financial distress attempted to buy the plant from its owners, a Kohlberg, Kravis, Roberts [KKR] leveraged buyout fund. The State treasurer threatened to withhold future pension fund investments from KKR funds if KKR did not ensure the plant continued to operate without any layoffs – and to "alert State pension boards across the country about the situation."

  - The California State Teachers' Retirement System operates under a Statement of Investment Responsibility that says: "Noneconomic factors will supplement profit factors in making investment decisions." By virtue of this principle, companies whose equities are held by the fund are expected to promote, among other things, "equal access to housing, medical care, transportation, recreation, and education."

# VETERANS BENEFITS AND SERVICES
## (FUNCTION 700)

### SUMMARY

- The resolution provides $52.3 billion in budget authority [BA] and $51.6 billion in outlays for veterans benefits and services in fiscal year 2002, a $5.6-billion, or a 11.9-percent, increase in BA over the fiscal year 2001 level.

- Funding in this resolution accommodates the President's commitment to ensure that veterans receive high-quality health, accurate and timely entitlement benefits, and continues the Nation's commitment to ensure that veterans' cemeteries remain National shrines.

- The budget assumes a $1.7 billion (7.6 percent) increase in discretionary budget authority over the fiscal year 2001 level. This will finance increases in health care spending and will rejuvenate the Department of Veterans Affairs' [VAs'] efforts to ensure timely and accurate processing of veterans' disability compensation claims.

- In addition, the budget assumes a $3.9 billion (16 percent) increase in mandatory spending for veterans. The increase assumes the enactment of H.R. 801, the Veterans Opportunity Act of 2001 (for enhanced burial benefits) and substantial increases in Montgomery GI Bill monthly education benefits.

### KEY POINTS

- **Benefits Outstrip Inflation:** While the number of veterans is declining, the Congress continues to fund veterans benefits and services at rates of increase that substantially outstrip inflation. Since 1995, the number of veterans has declined from 26.1 million to 23.9 million in 2001, an 8 percent decline. Since 1995, total budget authority has increased from $38.2 billion to $46.7 billion in 2001, a 22-percent increase. Under the fiscal year 2002 budget, per-capita spending on veterans will have increased by 52 percent since 1995 (see table on next page). The budget assumes the enactment of the veterans' benefits enhancements in H.R. 801, the Veterans' Opportunity Act of 2001. These enhancements to benefits include the following:

- It increases burial and funeral expenses benefits for veterans whose death is service connected from $1,500 to $2,000.

- It increases burial and funeral expenses for veterans with non-service connected disabilities from $300 to $500.

- It increases the burial plot allowance from $150 to $300.

- It increases the amount of assistance for automobile and adaptive equipment for severely disabled veterans from $8,000 to $9,000.

- It increases the amount of assistance for specially adapted housing grants for severely disabled veterans from $43,000 to $48,000 and increases the amount for additional adaptions that may be necessary later in the life of the unit from $8,250 to $9,250.

- It extends coverage under the servicemembers Group Life Insurance program to dependent spouse and children.

**Veterans Spending**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|
| Total BA (billions) | $38.2 | $38.8 | $39.9 | $42.8 | $44.2 | $45.5 | $46.7 | $52.3 |
| Number of Vets | 26,062 | 25,752 | 25,423 | 25,062 | 24,679 | 24,290 | 23,888 | 23,477 |
| Per-Capita Spending | $1,464 | $1,505 | $1,572 | $1,707 | $1,789 | $1,874 | $1,954 | $2,228 |

**Increase in per-capita spending 1995-2002 = 52 percent.**

- **Montgomery GI Bill:** The budget assumes increases in mandatory spending for GI Montgomery Bill education benefits improvements. Monthly education benefits are assumed to increase from the current level of $650 to $800 in 2002, to $950 in 2003, and to $1,100 in 2004 and beyond.

- **Permanent Extensions:** The budget assumes the permanent extension of several expiring provisions of existing law pertaining to veterans benefits. These include IRS income verification for means tested veterans and survivor benefits; limiting VA pension to Medicaid recipients in nursing homes; continuing current housing loan fees. (It does not assume extension of the round down of disability benefits to the next lower dollar amount after COLA adjustments.) It also assumes the other veterans' initiatives, redirection of resources, and recommended reforms contained in the President's *A Blueprint for New Beginnings,* except the elimination of the "Vendee" loan program.

## REFUTING THE CRITICS

- **Potential Criticism:** *The budget's $1.7 billion increase in discretionary spending is insufficient. More money is needed for VA medical care. Increase total discretionary spending from the fiscal year 2001 level of $22.5 billion to $25.8 billion, as recommended by the Independent Budget.*

- **Rebuttal:** The budget resolution discretionary spending assumes a $1.7 billion increase in total discretionary spending, $700 million above the increase recommended by the Department of Veterans Affairs. For 2002, total discretionary spending for veterans benefits and services would be $24.2 billion. In addition to these funds, the department can make greater use of exercise existing authority to collect and retain copayments from higher income veterans.

### Round-Down Unfair

- **Potential Criticism:** *The budget inclusion of the round down of disability compensation is unfair to disabled veterans.*

- **Rebuttal:** The budget does not include the round down extender, even though it is contained in the President's budget.

# ADMINISTRATION OF JUSTICE
## (FUNCTION 750)

### SUMMARY

- The resolution provides $30.9 billion in budget authority and $30.3 billion in outlays for Administration of Justice in fiscal year 2002, an $293 million, or 1.0 percent, increase over fiscal year 2001.

- The resolution accommodates the President's proposals to increase funding for the Drug Enforcement Agency by 9 percent; the Federal Bureau of Investigation by 8 percent; the Federal Bureau of Prisons by 8 percent; the U.S. Attorneys by 7 percent; and to hire and train 550 new Border Control agents.

- As part of the development of the next National Drug Control Strategy, the administration will review current approaches, with the goal of distinguishing areas that are yielding sufficient results from those areas that are not.

### KEY POINTS

- **Strengthening Drug Enforcement:** The budget assumes funding for reimbursing localities for costs associated with drug prosecutions along the Southwest Border; assistance to State and local law enforcement agencies for the clean up of methamphetamine labs; and maintain funding for drug courts at historically high 2001 enacted levels.

- **Promoting School Safety:** The budget supports the President's proposed Safe Schools Task Forces to coordinate better prosecutorial resources devoted to promoting school safety through appropriate firearms prosecutions; and Project Sentry to fund a dedicated juvenile gun prosecutor in each of the 94 U.S. Attorneys offices around the country.

- **Promoting Gun Safety:** The budget supports the president's proposed new partnership program to ensure that child safety locks are available for every handgun in America by providing $75 million annually in Federal matching funds through the Department of Justice.

- **Strengthening Border Control and Enforcement:** The budget provides funds to support the hiring and training of 550 new Border Patrol agents, as well as technology to supplement the new agents.

## REFUTING THE CRITICS

### Not Enough Funding

- **Potential Criticism:** *The budget cuts Justice Department funding.*

- **Rebuttal:** Overall funding for the Justice Department – consistent with the President's proposal – is $19.9 billion (adjusted to reflect delays in spending from the Crime Victims Fund), down $500 million, or 2.5 percent, from the adjusted level for fiscal year 2001. The President's budget blueprint, however, points out that Justice's State and local grant assistance programs have grown more than five-fold since 1992, reaching $4.6 billion in 2001, spread over 60 programs of varying size. The President's budget proposes redirecting $1.5 billion from programs that have accomplished their initial objective or are of questionable merit. The reallocation will permit increases within the Department for Federal law enforcement agency priorities, as well as for selected State and local grants, including Violence Against Women Act programs, Weed and Seed crime prevention, drug treatment at State prisons, and targeted local prosecutor initiatives. In addition, it should be noted that Justice Department funding grew an annual average of 5.2 percent from fiscal year 1998 to fiscal year 2001.

### Weak Civil Rights Provisions

- **Potential Criticism:** *The budget provides insufficient resources to the Equal Employment Opportunity Commission [EEOC].*

- **Rebuttal:** The budget assumes the President's request of $310 million for EEOC, an increase of $7 million, or 2.3 percent, over the fiscal year 2001 enacted level. This includes funding to meet increased staff costs.

# GENERAL GOVERNMENT
## (FUNCTION 800)

### SUMMARY

- For fiscal year 2002, the resolution assumes budget authority [BA] of $16.7 billion and outlays of $16.3 billion.

- Over the period 1998-2001, total budget authority in Function 800 rose from $16.0 billion to $16.3 billion, a 0.4 percent average annual increase.

- The General Government function consists of the activities of the Legislative Branch; the Executive Office of the President; general tax collection and fiscal operations of the Department of Treasury (including the Internal Revenue Service); the property and personnel costs of the General Services Administration and the Office of Personnel Management; general purpose fiscal assistance to States, localities, the District of Columbia, and U.S. territories; and other general government activities.

# NET INTEREST
## (FUNCTION 900)

### SUMMARY

- Because of the budget's substantial debt reduction, interest payments will decline steadily over the next 10 years (see table below).

- Indeed, whereas the Government now spends about 14 cents on the dollar for interest, by 2011 that figure will be down to about 2 cents on the dollar.

**Net Interest**
(in billions of dollars)

| 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| 182.2 | 169.9 | 155.4 | 138.0 | 121.9 | 105.5 | 87.0 | 66.8 | 44.6 | 20.9 |

# ALLOWANCES
## (FUNCTION 920)

**SUMMARY**

- The Allowances function is used for planning purposes to address the budgetary effects of proposals or assumptions that cross various other budget functions. Once such changes are enacted, the budgetary effects are distributed to the appropriate budget functions.

- In this function, the budget assumes the $5.6-billion emergency reserve proposed by the President.

# UNDISTRIBUTED OFFSETTING RECEIPTS
**(FUNCTION 950)**

## SUMMARY

- The resolution provides -$50.8 billion in budget authority [BA] and outlays for this function in fiscal year 2002, reflecting a $4.6-billion, or 10-percent, increase in receipts compared tor fiscal year 2001.

- Receipts recorded in this function are either intrabudgetary (a payment from one Federal agency to another, such as agency payments to the retirement trust funds) or proprietary (a payment from the public for some kind of business transaction with the government). The main types of receipts recorded in this function are: the payments Federal employees and agencies make to employee retirement trust funds; payments made by companies for the right to explore and produce oil and gas on the Outer Continental Shelf; and payments by those who bid for the right to buy or use public property or resources, such as the electromagnetic spectrum. These receipts are treated as *negative spending*.

- For fiscal year 2002, the resolution assumes extension of the provision in the Balanced Budget Act of 1997 that would raise agency retirement contributions for employees in the Civil Service Retirement System [CSRS]. Enactment of this provision would result in estimated outlays of -$315 million beginning in fiscal year 2003, and -$1.97 billion over 10 years.

## KEY POINT

- **Agency Contributions:** The budget assumes extension of the BBA provision on agency contributions, which is not controversial. It is necessary to better reflect the true cost of CSRS and to avoid an increased unfunded liability in that system.