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ADMINISTRATION'S BUDGET WOULD CUT HEAVILY INTO MANY AREAS OF DOMESTIC DISCRETIONARY SPENDING AFTER 2005

The President's budget calls for significant cuts in domestic discretionary spending over the next five years. ("Discretionary" programs are those whose funding is determined by the 13 annual appropriations bills. The term excludes entitlements, such as Medicare or veterans' pensions.) While attention has focused on programs the President proposes to cut or to increase in 2005, there has been far less attention to the longer-run plan included in the President's budget to cut discretionary spending in nearly all domestic areas of the government in the years from 2006 to 2009.

By 2006, funding for most *domestic discretionary programs outside homeland security* would be cut below the 2004 funding levels for those programs adjusted for inflation (i.e., below the Office of Management and Budget baseline). Moreover, the cuts would grow over time. By 2009, the Administration's budget would set funding for these programs \$49 billion below the OMB baseline, a 12 percent cut in funding. By contrast, defense and homeland security programs would be funded above the OMB baseline in all years from 2005 to 2009.¹

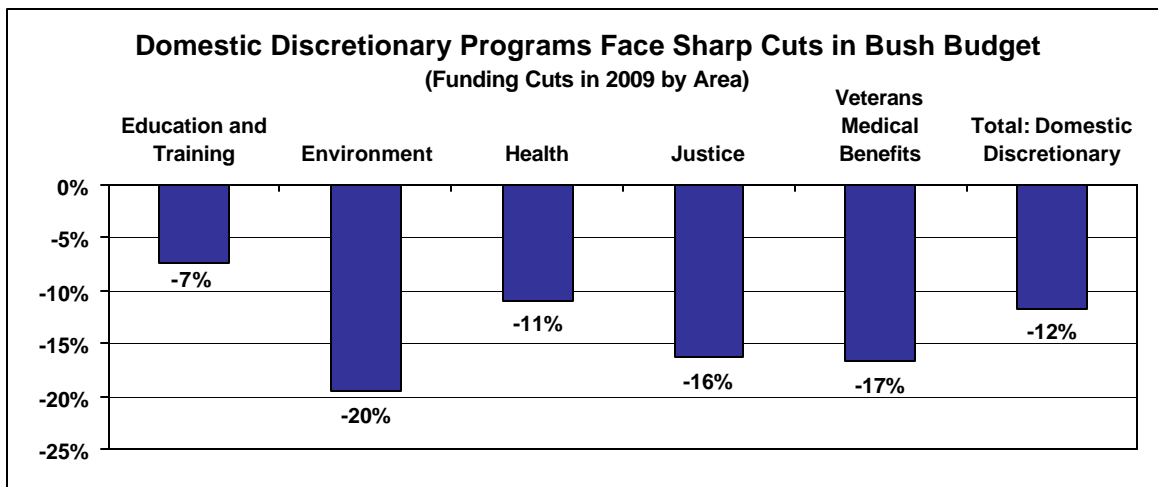
The budget also would institute binding discretionary caps that would essentially lock in place this level of reduction in domestic discretionary programs. Under the President's budget proposals, if Congress approved funding for discretionary programs above the capped levels, across-the-board cuts would be made automatically.

There is a good reason that the cuts proposed for years after 2005 have largely been overlooked in initial reporting on the budget. The budget tables that would normally show these cuts are missing from the budget books that OMB issued on February 2.² To find these cuts, one must access a 1,000-page OMB document that covers all budget accounts and underlies the budget and that has been provided, in conjunction with the budget, to the House and Senate Budget Committees and the Congressional Budget Office.³

¹ If the Administration's FY2009 domestic discretionary funding levels are compared to the CBO baseline, the cut in 2009 is \$45.4 billion, or 10.4 percent below the FY2004 level adjusted for inflation. This analysis compares OMB proposed funding levels to the OMB baseline rather than the CBO baseline for ease of analysis. The CBO baseline is slightly lower in aggregate than the Administration's because of lower inflation projections.

² Starting with the FY 1998 budget, one of the volumes released with the budget — known as the *Analytical Perspectives* — included proposed funding figures for the budget year and the next four years. This is the first budget in seven years that has not shown the Administration's proposed funding levels in the four years after the budget year.

³ This document can be accessed on the OMB Watch website at: <http://www.onbwatch.org/article/articleview/2046/1/18/>.



Analysis of the OMB document shows:

- The proposed cuts would affect nearly every part of government — including environmental programs, education and job training, veterans programs, health, and transportation. Under the federal budget, all government programs are placed into one of 19 categories, known as “budget functions.” Examples of budget functions include national defense, energy, education, veterans’ benefits and services, agriculture, transportation, and health.⁴ Overall discretionary funding would be cut after 2005 in every category except three: defense, international affairs, and general science, space and technology.⁵*
- The cuts grow deeper each year in almost every budget function. Cuts in energy programs would grow from 17 percent in 2006 to 27 percent in 2009; cuts in environmental and natural resources programs would grow from 13 percent in 2006 to 20 percent in 2009; and cuts in employment and job training would grow from 3 percent in 2006 (the Administration proposes to *increase* funding modestly in 2005 as compared with baseline levels) to 7 percent in 2009. (These figures represent cuts compared with baseline levels — that is, they represent the percentage by which funding for each of these program categories would be set below the 2004 level, adjusted for inflation.) These cuts would result in reductions in government services.*
- Many programs touted as Administration priorities that would receive increased funding in 2005 would face reduced funding after 2005. For example, the President’s budget highlights the increased funding it would provide for special education (i.e., for resources provided to states for education and other services for children with disabilities).⁶ Special education funding would indeed be*

⁴ See Appendix B for a description of these budget functions.

⁵ The Commerce and Housing Credit function would not be cut in 2009 below the CBO baseline, but discretionary spending in the function would be cut in 2005 through 2008. The 2009 increase is necessary to fund the 2010 Census. Other activities in the function would be cut in 2009.

⁶ *Budget of the United States Government, Fiscal Year 2005*, page 5.

increased in 2005. But funding in 2006 for the special education account would be \$310 million *below* the 2005 level. By 2009, special education funding would fall \$530 million below the funding provided in 2004, adjusted for inflation.

Among the programs or program areas that would be cut are the following:

- **Education for the Disadvantaged:** By 2009, Title I funding (funding for school districts to improve educational outcomes for low-income and other disadvantaged children) would fall \$660 million below the 2004 level adjusted for inflation.
- **Environment:** In 2005, funding for the Clean Water Act State Revolving Fund, which loans money to states to pay for sewage treatment plants, would be cut 37 percent below the 2004 level adjusted for inflation. The budget calls for even deeper cuts in this area by 2009.
- **Veterans Health Benefits:** Funding for veteran's health services in 2009 would fall 17 percent — or \$5.7 billion — below the 2004 level, adjusted for inflation.
- **Housing Assistance:** Under the President's budget, funding for the housing voucher program, the nation's principal low-income housing assistance program would be cut sharply. By 2009, state and local housing agencies would be forced to reduce the number of low-income families and elderly and disabled households assisted by 600,000 — or 30 percent — or to reduce sharply the level of assistance provided to voucher tenants by raising the rents these families pay by an average of \$2,000 a year. Most of these families live below the poverty line.
- **Head Start and WIC:** Head Start funding would fall 7 percent below baseline levels in 2009, resulting in an estimated reduction of 62,000 in the number of children able to participate in Head Start programs. In the Supplemental Nutrition Program for Women, Infants and Children, funding cuts would cause the number of low-income pregnant women and young children at nutritional risk that the programs serves to be cut by approximately 450,000 by 2009.

Budget Includes Proposals to Enforce Discretionary Funding Cuts

Some might dismiss these low domestic discretionary funding levels in years after 2005 as little more than a budget gimmick to make the deficit *appear* lower in 2009 than it really will be. Such a dismissal would be a mistake. The Administration's budget includes a mechanism designed to force Congress to exact cuts of about this magnitude in discretionary programs.

The budget proposes to lock in place for each year through 2009 the overall discretionary funding levels that the budget proposes. This would be done through the enactment of a binding

Domestic Discretionary Programs Represent a Small Percentage of the Budget But Are a Large Target for Cuts in the President's Budget Proposal

Although these cuts in domestic discretionary programs outside homeland security would lead to real reductions in government services, they would have only modest effects on the size of the budget deficit. Domestic discretionary spending outside homeland security constitutes just one-sixth of the federal budget.

Moreover, the savings the Administration would achieve through these cuts in domestic discretionary programs would pale in comparison to the cost of the Administration's tax cuts. In 2009, the tax cuts enacted since 2001 and the new tax cuts included in this year's budget would cost a total of either \$240 billion or \$300 billion, depending on whether the likely costs associated with continuing to provide relief from the Alternative Minimum Tax (in order to prevent the AMT from canceling out some of the tax cuts for millions of filers) are included. The cost of the tax cuts thus is between *five and six times* the \$49 billion in cuts in domestic discretionary programs outside homeland security that the Administration is proposing for 2009.

Indeed, the total savings from all of the cuts in domestic discretionary programs outside homeland security that the Administration is proposing for the years from 2005 through 2009 amount to substantially less than the cost in those years of the income tax cuts just for the one percent of households with the highest incomes. These discretionary cuts thus can be viewed not as contributing to deficit reduction but as helping to finance tax cuts, especially for high-income individuals.

discretionary funding cap. This cap would tie the hands of future policymakers. If approved, it would make funding cuts of the magnitude that the budget documents show likely to occur.⁷

Under the Administration's "cap" proposal (which is outlined in Chapter 14 of the OMB budget volume entitled "Analytical Perspectives"), nearly all discretionary programs — including domestic discretionary programs, defense, and homeland security programs — would be considered together under the same funding cap for each of the next five years. If Congress enacted appropriations bills that provided overall funding for discretionary programs in excess of the cap, the law would require across-the-board cuts in discretionary funding to ratchet discretionary funding back to the cap.⁸ The caps would make it more likely that cuts of the dimensions that the budget proposes in domestic discretionary programs would be enacted.

⁷ Technically, there would be two discretionary caps for each year — one on overall funding (or "budget authority") for discretionary programs and one on projected spending (or "outlays") for those programs. If appropriations bills are enacted in any year that cause *either* of the two caps to be breached, across-the-board funding reductions would be triggered automatically. For simplicity sake, this analysis discusses only the funding, or budget authority, cap.

Budget authority represents new resources provided to a program through the appropriations bills that are enacted for a given fiscal year. Outlays represent actual program expenditures in that year. In many programs, the budget authority and outlay figures for a given year differ, because funding provided in one year may be spent over two or more years. For example, if funding is provided for the purchase of military airplanes, the Department of Defense may purchase those airplanes over a period of more than one year.

⁸ It should be noted that the discretionary spending caps were respected through much of the 1990's; they were widely flouted only after surpluses returned. The new fiscal environment increases the likelihood that the caps would be enforced if enacted.

President's Budget May Understate Magnitude of Domestic Discretionary Cuts

The President's budget may *understate* the likely size of the cuts in domestic discretionary funding outside homeland security if the caps are enacted. Defense, homeland security programs and other domestic programs would all be under the same cap; the cap for each year would be set equal to the total amount of funding the Administration's new budget proposes for discretionary programs in that year. If such caps are enacted, any attempt to make cuts in domestic discretionary programs less severe would entail reducing funding for defense or homeland security programs below the levels the budget shows. In the current environment, this seems unlikely to occur.

What is equally likely is that the funding levels provided for defense and for anti-terrorism efforts in years after 2005 will be *greater* than the amounts shown for those years in the Administration's current budget. The findings of a major analysis that the Congressional Budget Office issued last year indicate that the President's budget significantly *understates* likely defense costs in coming years.

CBO found that the amounts that the budget the Administration issued a year ago showed for defense in the "out-years" were significantly below the costs in those years of the Administration's own Future-Year Defense Plan, which serves as the Administration's multi-year defense blueprint. The levels the Administration's current budget shows for defense in years after 2005 continue this pattern and again understate the costs of the Administration's own multi-year defense plan, as estimated by CBO. This suggests the Administration may request higher levels for defense in future budgets than the levels shown in the Administration's current budget.

The Administration's current budget also leaves out the ongoing costs associated with combating terrorism after fiscal year 2004. CBO has estimated the military, intelligence and other costs associated with continuing to combat international terrorist organizations (excluding costs associated with continuing military operations in Iraq and Afghanistan) at roughly \$25 billion a year.

If the proposed caps are enacted and Congress ultimately approves higher amounts for defense and anti-terrorism efforts in years after 2005 than the levels the Administration's current budget shows, domestic discretionary programs outside homeland security will face cuts even larger than those described here. Each additional dollar of funding for defense and fighting terrorism would mean an additional dollar of cuts in domestic programs.

It also is important to note that the budget includes cuts in some domestic programs that are unlikely to be enacted. For example, the President's budget calls for the *elimination* of the COPS program, a community policing initiative that helps state and local governments hire additional police officers and enjoys broad, bipartisan support. If this or other popular programs are spared from budget cuts or are cut less steeply than the budget shows, then other programs will have to be cut more deeply to comply with the discretionary caps that the Administration is proposing.

Administration's Claim that Out-Year Cuts Do Not Represent Policy Choices Is Misleading

Recently, some Administration officials have argued that the cuts in discretionary programs shown in the budget documents for years after 2005 do not represent actual Administration policy. They have described the out-year cuts as “mechanical” and “formulaic” and suggested that the out-year cuts should be disregarded.

Such protestations are sharply at odds with the Administration's own budget proposals.

- *The cuts are not strictly “formulaic,” as different areas are cut by different amounts and some areas – including defense, homeland security, international affairs, and general science and space are spared cuts entirely. The fact that the budget proposes different levels of cuts for different programs in fiscal years 2006 through 2009 indicates the Administration did make explicit policy decisions.*
- *The Administration's budget includes a proposal to impose binding caps on discretionary spending **based on the sum of the funding levels it has proposed for each program account.** For example, in 2006, the Administration is proposing to place a cap on overall discretionary funding levels equal to \$843 billion. This figure *exactly matches* the sum of the funding levels the Administration has proposed for each discretionary program account in 2006.**
- *While the Administration could revisit the exact funding levels being proposed for various programs in subsequent budgets, if its proposed caps are enacted, any increase in funding for one program would mean deeper cuts in another program. Taken together, the Administration's budget proposes to cap discretionary funding at particular levels and provides a roadmap for how it proposes to adhere to those caps by providing proposed funding levels for each year through 2009. If the caps themselves are enacted, Congress will not be able to increase one program above the Administration's proposed levels without cutting funding below the Administration's levels in other areas.*

By claiming that the out-year cuts do not represent actual Administration policy, the Administration appears to be trying to have it both ways — to get credit for reducing discretionary spending without having to accept responsibility for the cuts necessary to produce these discretionary spending reductions.

*The figure excludes spending on highways, mass transit, and Project BioShield, which would be subject to separate spending caps.

In a similar vein, the budget assumes the government will receive “offsetting receipts” from a number of new or increased user fees that the Administration is proposing. The receipts from some of these fees would be used to lower the net cost of some discretionary programs. But versions of these fees have repeatedly been proposed (by both this and previous administrations) and have consistently been rejected by Congress. Such fees are likely to be rejected again. Without the increased fee income, total discretionary costs will be higher, and discretionary programs would have to be cut more deeply to fit within the Administration's proposed discretionary caps.

For example, the budget proposes new user fees for food safety inspection services that would save approximately \$124 million in fiscal year 2005. A variant of this proposal has been submitted to Congress for many years, including under the Clinton Administration. Congress has always rejected it. If this fee is rejected again, as seems likely, discretionary programs would need to be cut an additional \$124 million in 2005, and to be cut by similar additional amounts in the years that follow.

Cuts Proposed Across the Spectrum of Domestic Government Programs

The proposed cuts in 2009 are not isolated to a few areas. They affect nearly every area of domestic discretionary spending. Government programs are grouped into budget categories, known as budget “functions,” based on the purpose of the spending. (See Appendix B for a description of which discretionary programs are in each budget function.) Table 1 shows, for each of the budget categories, the amount and percentage by which the President’s proposed funding level for 2009 differs from the OMB baseline for that year. The baseline represents the 2004 funding level, adjusted for inflation, and is sometimes thought of as the amount needed to maintain services at the current level.

Overall, domestic discretionary funding outside of homeland security would be cut in 2009 by \$49 billion relative to the OMB baseline, or 12 percent. Put another way, the nominal level of spending in the area of domestic discretionary in FY2009 is frozen at the FY2005 level. Every domestic budget function except one would be cut.⁹ In fiscal year 2009:

- *Energy programs* would be cut by 27 percent, or \$1.2 billion.
- The programs in the *natural resources and environment* function, which fund environmental protection and natural resources management, would be cut 20 percent, or \$6.8 billion.
- *Community and regional development* programs would be cut by 20 percent, or \$2.7 billion.
- *Veterans’ medical benefits and other services* would be cut by 17 percent, or \$5.7 billion.
- Discretionary *health* programs, which include funding for the National Institutes of Health, the Centers for Disease Control and Prevention, the Food and Drug Administration, and community health centers would be cut by 11 percent, or \$5.6 billion.
- The part of the budget that includes *elementary and secondary education*, as well as *job training* and other social service programs, would be cut by 7 percent, or \$6.2 billion.

⁹ Appendix A presents more detail on the 2005 and 2009 proposed funding levels by budget function.

Table 1 President's 2005 Budget Proposed Funding in 2009 for Domestic Discretionary Programs Outside Homeland Security, by Budget Category		
Budget Function	Change in 2009 Relative to Baseline (In Billions of Dollars)	Percent Change from Baseline
General Science, Space, and Technology	\$0.3	1.3%
Energy	-\$1.2	-27.2%
Natural Resources and Environment	-\$6.8	-19.5%
Agriculture	-\$1.1	-17.4%
Transportation	-\$5.4	-8.1%
Community and Regional Development	-\$2.7	-20.1%
Education, Training, Employment, and Social Services	-\$6.2	-7.3%
Health (NIH, CDC, and other, not Medicare or Medicaid)	-\$5.6	-10.9%
Income Security (Housing, WIC, child care, and other) *	-\$2.9	-9.2%
Veterans Benefits Services (primarily medical care)	-\$5.7	-16.8%
Administration of Justice	-\$5.0	-16.2%
General Government (White House, Congress, IRS)	-\$4.0	-19.4%
Other	<u>-\$2.7</u>	<u>-19.6%</u>
Total Discretionary Other than Defense, International Affairs, and Homeland Security	-\$49.0	-11.7%
Notes: * The Section 8 "housing voucher" program is not included in these figures. See Appendix C. Notes to Appendix A table also apply to this table.		

The only area of domestic discretionary spending that would see an increase in 2009 under the President's plan is general science, space, and technology. Within this budget function, research, science and technology programs would be cut. But those cuts would be more than offset by substantial increases for the National Aeronautics and Space Administration, reflecting increasing funding for the proposed manned and robotic exploration of the moon and, ultimately, Mars.

Table 2 Which Budget Categories Bear the Cuts in 2009?			
	Cuts in Funding Compared to 2004 Level, Adjusted for Inflation	Share of Total 2009 Cut	Share of Domestic Discretionary Funding Outside Homeland Security in 2004
Natural Resources and Environment	-\$6.8	14%	8%
Education, Training, Employment, and Social Services	-\$6.2	13%	21%
Veterans Benefits Services (primarily medical care)	-\$5.7	12%	8%
Health (NIH, CDC, and other, not Medicare or Medicaid)	-\$5.6	12%	13%
Transportation	-\$5.4	11%	17%
Administration of Justice	-\$5.0	10%	7%
General Government (White House, Congress, IRS)	-\$4.0	8%	5%
Income Security (Housing, WIC, child care, and other)*	-\$2.9	6%	8%
Community and Regional Development	-\$2.7	6%	3%
Energy	-\$1.2	2%	1%
Agriculture	-\$1.1	2%	1%
General Science, Space, and Technology	\$0.3	-1%	6%
Other	<u>-\$2.7</u>	<u>5%</u>	<u>2%</u>
Total Discretionary Other than Defense, International Affairs, and Homeland Security	-\$49.0	100%	100%

Notes: * The Section 8 “housing voucher” program has been removed from these figures. See Appendix C. Notes to Appendix A table also apply to this table.

Table 2 shows which of the budget areas would bear the largest shares of the President’s proposed \$49 billion cut in domestic discretionary spending in 2009. The natural resources and environment function would absorb 14 percent of the cut, despite representing just 8 percent of domestic discretionary spending outside of homeland security. Other budget categories that

would contribute large amounts toward the \$49 billion reduction include education and training, veterans' medical benefits, health programs, transportation, and the administration of justice.

Examples of Programs Slated For Cuts

The above analysis of cuts in domestic programs by budget function shows the breadth of the cuts. Because each budget function encompasses a wide array of programs, however, the analysis presented above does not readily illustrate how these cuts would affect individual programs. By analyzing individual budget accounts within these larger budget functions, the cuts to particular government services become apparent. (Note: The OMB budget document that shows discretionary funding levels for each year between 2005 and 2009 provides this information at the *budget account* level. In some cases a budget account includes funding for only one program. In other cases, a "budget account" may group together several individual, but similar, government programs.)

Table 3 shows the Administration's proposed funding levels for 2005 and 2009 for selected domestic discretionary programs. These programs are not unusual in the magnitude of the funding cuts to which they would be subjected. They generally are in line with the level of cuts proposed in the broader functional categories. The table compares the Administration's proposed funding levels with the OMB baseline funding levels. In most cases, the OMB baseline simply reflects the funding needed to maintain the government program or service at its 2004 level after accounting for inflation.

As this table shows, programs that would be cut over the next five years cover a broad range. In some cases, the Administration is proposing to increase funding in 2005, but then to reduce funding in 2006 and the years after that.

- *Education:* Title I of the Elementary and Secondary Education Act provides funding for school districts to use primarily to improve the educational outcomes of low-income children. The Administration's budget would provide \$15.2 billion in Title I funding in 2005, an increase in funding above the OMB baseline. In 2006, however, funding would drop to \$14.8 billion. By 2009, the Administration proposes to provide \$14.9 billion for Title I — *\$660 million below the funding level provided in 2004*, after adjusting for inflation. These funding levels are far below the funding authorized in the No Child Left Behind Act, which called for Title I funding of \$20.5 billion for 2005.
- *Veterans' Health Services:* The Administration's budget would cut veterans health services substantially. By 2009, funding would fall \$5.7 billion — or 17 percent — below the 2004 level adjusted for inflation. In a section of the Administration's budget that cites Administration accomplishments and funding priorities, the Administration touts the increases in veterans' health services since 2001. This part of the budget fails to explain, however, that the Administration is proposing to *reduce* funding for veterans health services by large amounts over the next five years. A sizeable share of the funding reduction comes from a

proposal to impose new fees on certain veterans who wish to access the veterans' health system.

- *National Institute of Health:* The Administration's budget would increase NIH funding modestly in 2005, as compared with the OMB baseline level. By 2009, however, funding for NIH (outside of the homeland security functions that NIH performs) would fall \$2.3 billion *below* the inflation-adjusted 2004 funding level, an 8 percent decline in funding. The Administration's budget cites the Administration's commitment to increasing NIH funding: "The President fulfilled his commitment to double the NIH Budget by 2003, so that NIH could make every effort to fulfill its scientific mission of improving the health and well being of the American people. Over the course of this doubling, the dedicated and talented scientists and researchers funded by NIH have made numerous notable discoveries towards treatments or cures to the diseases that plague our Nation and our world." The text does not note that the President proposes to reduce NIH funding in the years after 2005.
- *Health Resources and Services Administration:* HRSA funds a wide range of health services, including the direct provision of health care at health clinics in low-income and medically underserved areas, training for health care professionals and health support services such as the organ transplant national registry. The Administration's budget proposes to cut HRSA funding by almost 11 percent in 2005, primarily by reducing funding for training and facilities improvement. By 2009, the budget would cut HRSA 19 percent below the 2004 funding level, adjusted for inflation. Since 60 percent of HRSA spending is for community health centers, AIDS treatment and supportive services, and maternal and child health services, it is likely that funding for these activities would have to be cut significantly.
- *Employment and Training Services:* Under the Administration's budget, funding for training and employment services would be below the OMB baseline level beginning in 2005. By 2009, funding for this budget account, which includes programs such as the Workforce Investment Act job training programs, dislocated worker training, the employment service, Job Corps, training for former prisoners, and the President's community college initiative would fall \$330 million below the 2004 funding level adjusted for inflation, a 5 percent funding cut. Federal Reserve Chairman Alan Greenspan recently spoke of the importance of helping lower-skilled workers upgrade those skills so they can succeed in today's economy. In a speech before the Greater Omaha Chamber of Commerce on February 20, Greenspan stated, "The single central action necessary to ameliorate these imbalances and their accompanying consequences for income inequality is to boost the skills, and thus earning potential, of those workers lower on the skill ladder."¹⁰

¹⁰ "Greenspan Calls for Better-Educated Workforce," *The New York Times*, February 21, 2004.

- *Environmental Protection Agency's State and Tribal Assistance Grants:* EPA provides grants to states and Indian tribes to support a range of environmental protection, land preservation, and clean-up activities. Under the President's proposal, overall funding for this budget account would be cut by \$700 million in 2005, a 17.7 percent reduction in real terms. The majority of the cut in 2005 would come from the Clean Water Act State Revolving Fund, which lends money to states to pay for sewage treatment plants. Funding for this activity would be cut from \$1.34 billion in 2004 to \$850 million in 2005, or 37 percent below the 2004 level adjusted for inflation. Since the cuts in this budget account would grow larger between 2005 and 2009, the cut in the Clean Water Act State Revolving Fund would likely grow still deeper after 2005.
- *Special Supplemental Nutrition Program for Women, Infants and Children (WIC):* The Administration has touted its support for the highly successful WIC program. In 2005, the budget proposes to provide "full funding for all those estimated to be eligible and seeking services."¹¹ But as in most other programs, the Administration would cut funding for WIC beginning in 2006. By 2009, the proposed funding level for the WIC program would fall \$310 million below the OMB baseline. The proposed funding level would mean that approximately 450,000 *fewer* low-income pregnant and breastfeeding women, infants, and young children could participate in the program.¹² The WIC program has been shown to reduce the incidence of low birth weight and to improve children's nutritional status.
- *Head Start:* Funding for the Head Start program is included in the "Children and Family Services" budget account and comprises more than three-quarters of the overall funding provided in that account. The Administration's budget proposes to increase funding for "Children and Family Services" budget account modestly in 2005 but then to reduce funding in the years that follow. By 2009, funding for this account would fall \$650 million below the OMB baseline, a 6.8 percent funding cut. If the average cost per Head Start participant remains at current levels (adjusted for inflation), an estimated 62,000 *fewer* children could attend Head Start programs in 2009, as compared with enrollment in 2004.¹³ These cuts in the Head Start program would come at the same time that funding for child

¹¹ *Budget of the United States Government, Fiscal Year 2005*, page 68.

¹² The estimate of the reduction in the number of WIC participants that would result from the Administration's proposed funding level was derived by assuming that the inflation-adjusted value of WIC benefits would remain constant over the period. To determine the projected cost of WIC benefits in 2009, food costs were assumed to grow at the same rate as OMB's estimated growth in the Thrifty Food Plan, and the cost of WIC nutrition services was assumed to grow at the average rate of growth of these services over the last five years.

¹³ Data from the Department of Health and Human Services indicate that 912,345 children participated in Head Start in an average month in fiscal year 2003. The estimated reduction in the number of Head Start participants in 2009 assumes that participation in Head Start programs in 2004 remains at 2003 levels. The estimate also assumes that if funding in 2009 is 6.8 percent below the inflation-adjusted funding level in 2004, the number of participants will fall by 6.8 percent. If Head Start grantees are able to reduce their per-participant cost, the loss in participants would be lower, but the quality of the programs could decline due to reduced per-participant resources.

care programs also would be cut below the levels needed to maintain current service levels. In fact, the Administration's own budget includes a table showing that, based on the Administration's proposed funding levels for child care and the TANF block grant, the Administration projects the number of children receiving child care subsidies will be 200,000 lower in 2009 than in 2004.¹⁴

- *Homeless Assistance Grants:* Funding for homeless assistance grants would fall 8 percent below the OMB baseline by 2009. This cut would cause the number of homeless people receiving housing and supportive services through the federal Shelter Plus Care program to drop by almost 15,000 or force other sharp cuts in services for the homeless.¹⁵

These cuts in homeless program funding would come at the same time that large cuts in other housing programs — particularly the Section 8 housing voucher program — almost certainly would be *increasing* the ranks of the homeless. The Administration is proposing deep cuts in the Section 8 housing voucher program, which helps low-income families and elderly individuals pay rent. By 2009, these cuts could lead to a reduction in the number of families receiving rental subsidies by 600,000 or to sharp increases in the rent paid by families receiving subsidies. Many families receiving Section 8 subsidies use those subsidies to transition out of homelessness or to prevent being evicted and becoming homeless. Thus, the Administration is proposing to cut funding for services for the homeless at the same time that increases in the number of families and individuals needing such services are likely. (See Appendix C for further discussion.)

- *Elderly Housing Programs:* This program (known as the Section 202 housing program) provides grants to non-profit organizations to build and operate housing that is affordable to low-income elderly people. The Administration's budget would cut this funding by one percent in 2005 and 10 percent in 2009, as compared with OMB baseline levels. This cut would be part of a broader reduction in housing assistance for the elderly. As noted, the housing voucher program would be cut deeply; that program currently helps more than 300,000

¹⁴ The table is found on page 361 of the *Analytical Perspectives* volume of the Administration's FY 2005 budget. It should be noted that the Administration's table assumes that the funding that states allocate to child care programs under the Temporary Assistance for Needy Families block grant will remain constant. Yet elsewhere in the budget, the Administration shows (as CBO does, as well) that overall TANF expenditures will *fall* by \$2 billion — or 11 percent — between 2004 and 2009, even before adjusting for inflation. Experience with the TANF program confirms that when TANF expenditures are reduced, TANF expenditures for child care decline. Taking this decline into account yields an estimate that the number of children receiving child care assistance would be about 365,000 lower in 2009 under the Administration's budget than it was in 2004, and 445,000 lower than in 2003. See Jennifer Mezey, et al, "Reversing Direction On Welfare Reform: President's Budget Cuts Child Care for More Than 300,000 Children," February 2004, http://www.clasp.org/DMS/Documents/1076435768.7/CC_reversing.pdf.

¹⁵ The number of families or individuals that will lose assistance was estimated by dividing the amount of the cut (\$109 million) by an estimate by the National Alliance to End Homelessness that the average cost of serving a household under Shelter Plus Care in 2009 will be \$7,324

**Table 3
Selected Programs Facing Cuts in the President's Budget**

Program Account	Proposed funding level (In millions)	<u>2005</u> Change relative to baseline (In millions)	Percentage change from baseline	Proposed funding level (In millions)	<u>2009</u> Change relative to baseline (In millions)	Percentage change from baseline
Animal and Plant Inspection Service	\$670	\$10	2.2%	\$650	-\$100	-13.7%
Child Care and Development Block Grant (discretionary funding only)	\$2,100	-\$10	-0.7%	\$2,060	-\$200	-9.0%
Children and Family Services Programs (<i>includes Head Start, Community Service Block Grants, child welfare, and other social service programs</i>)	\$9,060	\$170	1.9%	\$8,900	-\$650	-6.8%
EPA's State and Tribal Assistance Grants	\$3,230	-\$700	-17.7%	\$3,200	-\$1,010	-24.0%
Federal Prison System	\$4,670	\$130	2.8%	\$4,590	-\$650	-12.5%
Food Safety Inspection Service	\$680	-\$120	-14.7%	\$670	-\$270	-28.8%
Health Resources and Services Administration	\$5,980	-\$730	-10.9%	\$5,880	-\$1,340	-18.6%
HOME Investment Partnerships Program	\$2,080	\$50	2.6%	\$2,050	-\$130	-6.1%
Homeless Assistance Grants	\$1,280	\$10	0.5%	\$1,260	-\$110	-8.0%
Housing for the Elderly	\$770	-\$10	-1.4%	\$760	-\$80	-9.6%
Indian Health Services	\$2,600	\$20	0.9%	\$2,550	-\$290	-10.1%
K-12 Education for the Disadvantaged (Title I of the Elementary and Secondary Education Act)	\$15,210	\$670	4.6%	\$14,940	-\$660	-4.2%
Low Income Home Energy Assistance	\$2,000	\$90	4.6%	\$1,970	-\$90	-4.2%
National Institutes of Health	\$26,820	\$260	1.0%	\$26,360	-\$2,320	-8.1%
Pell Grants	\$14,700	\$510	3.6%	\$14,440	-\$780	-5.1%
Special Education	\$12,180	\$530	4.5%	\$11,970	-\$530	-4.3%
Special Supplemental Nutrition Program for Women, Infants and Children	\$4,790	\$120	2.5%	\$4,710	-\$310	-6.1%
Training and Employment Services (<i>including WIA programs, job corps, the employment service, and other training programs</i>)	\$5,920	-\$60	-0.9%	\$5,920	-\$330	-5.3%
Veteran's Medical Care and Other Veterans Services	\$29,480	-\$330	-1.1%	\$28,330	-\$5,710	-16.8%

Note: Many programs and budget accounts include funding for activities that are considered "homeland security" activities. This table excludes the funding related to homeland security that is part of the budget accounts and programs in this table. For example, in 2004, the Food Safety Inspection Service received a total of \$775 million, which included \$13 million in funding for homeland security-related activities. In this table, that \$13 million is excluded. For programs and budget accounts in this table that include any homeland security-related funding, the funding related to homeland security represents only a small minority of that funding. Moreover, in none of the programs included in this table would the addition of the homeland security-related funding eliminate the funding shortfall in 2009.

low-income elderly households afford housing. Two key programs that help low-income elderly individuals afford housing thus would both be cut.

- *U.S. Department of Agriculture Food Inspection Services:* Two programs within USDA help to protect the food supply. The Food Safety Inspection Service is “responsible for assuring that meat, poultry and egg products are safe and wholesome and for reducing the risk of food borne illness.”¹⁶ The Animal and Plant Inspection Service “monitors the condition of agricultural crops and animals for signs of infestations, and, when appropriate, takes action to eradicate them.”¹⁷ While both programs are increased modestly in 2005, funding for both programs would then be cut in 2006 and beyond. By 2009, combined funding for the two inspection services would fall \$370 million, or 22 percent, below OMB baseline levels.¹⁸ About one-third of these savings would come from a proposal to increase food inspection user fees, the fees that food producers pay USDA. As discussed earlier, increases in these fees have been proposed for many years and rejected by Congress. Even if the fees are excluded from this analysis, and additional appropriations are assumed to be provided in the full amounts that the proposed fees would have raised, funding for the two inspection services in 2009 would still be \$250 million — or almost 15 percent — below the 2004 inflation-adjusted levels.

Conclusion

Under the guise of deficit reduction, the Administration’s budget singles out domestic discretionary programs for deep cuts after FY2005. Even many of the programs that the Administration highlights as programs it would increase in 2005 are slated for cuts in 2006 and subsequent years.

At the same time, the Administration is proposing significant new tax cuts that would cost more than these program cuts would save. As a result, the net effect of the Administration’s budget proposals would be to increase the deficit above what it would otherwise be. These cuts in domestic discretionary programs would essentially be used not to shrink the deficit but to finance a small portion of the cost of the existing and proposed tax cuts.

Serious deficit-reduction efforts of the sort made in the 1990’s, as well as in the latter part of the 1980’s, are again needed. Those efforts involved shared sacrifice, coupling reasonable restraints on discretionary programs with tax increases (especially on those who could most afford them) and entitlement reductions. The current proposals by contrast, single out domestic discretionary programs and the people they serve for cuts of considerable depth, while asking no sacrifice of many other Americans — and even seeking to confer more lavish tax-cut benefits on those who

¹⁶ *Budget of the United States Government, Fiscal Year 2005*, page 67.

¹⁷ *Ibid.*

¹⁸ This analysis excludes the portion of these programs devoted to homeland security-related food supply expenditures. Even if the homeland security-related expenses are included, however, funding for the programs in 2009 is below the CBO baseline funding levels.

already are most well off. This represents neither a serious effort to address the nation's mounting fiscal problems more a balanced and fair treatment of the various parts of the federal budget or of much of the American public.

**Appendix A
President's 2005 Budget Proposed Funding for Domestic Discretionary Programs
Outside Homeland Security, by Budget Category in Billions of Dollars ***

Budget Function	2005			2009		
	Proposed funding level	Change relative to baseline **	Percentage change from baseline	Proposed funding level	Change relative to baseline **	Percentage change from baseline
General Science, Space, and Technology	\$23.8	\$0.7	2.9%	\$25.4	\$0.3	1.3%
Energy	\$3.4	-\$0.3	-7.2%	\$3.2	-\$1.2	-27.2%
Natural Resources and Environment	\$28.3	-\$2.6	-8.5%	\$27.9	-\$6.8	-19.5%
Agriculture (other than most price supports)	\$5.3	-\$0.3	-5.4%	\$5.2	-\$1.1	-17.4%
Transportation ***	\$61.4	-\$1.0	-1.6%	\$62.0	-\$5.4	-8.1%
Community and Regional Development	\$10.4	-\$2.2	-17.4%	\$10.9	-\$2.7	-20.1%
Education, Training, Employment, and Social Services	\$80.1	\$1.0	1.2%	\$78.9	-\$6.2	-7.3%
Health (NIH, CDC, and other, not Medicare or Medicaid)	\$46.7	-\$0.8	-1.8%	\$46.0	-\$5.6	-10.9%
Income Security (Housing, WIC, child care, and other)****	\$28.9	\$0.0	-0.1%	\$28.5	-\$2.9	-9.2%
Veterans Benefits Services (primarily medical care)	\$29.5	-\$0.3	-1.1%	\$28.3	-\$5.7	-16.8%
Administration of Justice	\$26.2	\$0.0	-0.1%	\$25.8	-\$5.0	-16.2%
General Government (White House, Congress, IRS)	\$17.0	-\$1.1	-5.8%	\$16.7	-\$4.0	-19.4%
Other *****	\$7.8	-\$2.1	-21.2%	\$10.9	-\$2.7	-19.6%
Total Discretionary Other than Defense, International Affairs, and Homeland Security	\$369.0	-\$9.1	-2.4%	\$369.7	-\$49.0	-11.7%
National Defense	\$420.7	\$13.1	3.2%	\$506.5	\$55.8	12.4%
International Affairs	\$31.6	\$4.3	15.9%	\$35.1	\$5.5	18.7%
Homeland Security Outside National Defense and International Affairs	\$30.6	\$1.8	6.2%	\$36.4	\$5.1	16.2%
Total Discretionary Funding	\$851.9	\$10.2	1.2%	\$947.6	\$17.3	1.9%

Notes: * Figures do not include savings to mandatory programs assumed to be enacted by appropriators.

** Change relative to OMB baseline adjusted for inflation.

*** Transportation includes obligations.

**** The Section 8 "housing voucher" program has been removed from these figures. See Appendix C.

***** Other category includes Commerce and Housing Credit (function 370), administrative costs for Medicare (function 570) and Social Security (function 650), and Allowances (function 920).

Appendix B

Discretionary Spending in Each Budget Function

Function 050: National Defense — Includes the military activities of the Department of Defense (DOD), the nuclear-weapons related activities of the Department of Energy (DOE) and the National Nuclear Security Administration (NNSA). The programs in this function include: the pay and benefits of active, Guard and reserve military personnel; DOD operations including training, maintenance of equipment and facilities; health care for military personnel and dependents; procurement of airplanes, ships, weapons and munitions; research and development; construction of military facilities, including housing; research on nuclear weapons; and the clean-up of nuclear weapons production facilities.

Function 150: International Affairs — Funding for all U.S. international activities, including: operating U.S. embassies and consulates throughout the world; providing military assistance to allies; aiding developing nations; dispensing economic assistance to fledgling democracies; promoting U.S. exports abroad; making U.S. payments to international organizations; and contributing to international peacekeeping efforts.

Function 250: General Science, Space, and Technology — The National Science Foundation (NSF), programs at the National Aeronautics and Space Administration (NASA) except for aviation programs, and general science programs at the Department of Energy (DOE).

Function 270: Energy — Energy-related programs including research and development, conservation, rural electrification, and non-defense environmental clean-up.

Function 300: Natural Resources and Environment — Programs for environmental protection and enhancement; recreation and wildlife areas; and the development and management of the nation's land, water, and mineral resources.

Function 350: Agriculture — Most agriculture programs other than farm income stabilization. The discretionary programs include agricultural research, education, and rural development programs; economics and statistics services; meat and poultry inspections, and administrative expenses for farm income stabilization programs.

Function 370: Commerce and Housing Credit — Financial regulatory agencies such as the Securities and Exchange Commission (SEC); mortgage credit programs such as the Federal Housing Administration (FHA), the Government National Mortgage Administration (GNMA), and the Rural Housing Insurance Fund (RHIF); the Census Bureau, The Department of Commerce business promotion programs and technology development programs; and other regulatory agencies such as the Federal Communications Commission (FCC).

Function 400: Transportation — Programs administered by the Department of Transportation (DOT), including programs for highways, mass transit, aviation, and maritime activities. This function also includes two components of the new Department of Homeland Security: the Coast Guard and the Transportation Security Administration (TSA).

Function 450: Community and Regional Development — Federal support for community and regional development in economically distressed urban and rural communities. Includes Community Development Block Grants, the Economic Development Administration, the Appalachian Regional Commission, rural development programs in the Department of Agriculture and the Bureau of Indian Affairs, and disaster relief.

Function 500: Education, Employment, Training, and Social Services — Includes most funding for the Department of Education (other than student loans), such as grants to states for elementary and secondary education and Pell Grants. Also includes some social services programs within the Department of Health and Human Services (including Head Start and aging programs) and employment and training programs within the Department of Labor. Contains funding for the Library of Congress and various independent research and art agencies such as the Corporation for Public Broadcasting, the Smithsonian Institution, and the National Endowments for the Arts and Humanities.

Function 550: Health — Discretionary health programs include most health programs other than Medicare and Medicaid. Examples include the National Institutes of Health (NIH), the Health Resources and Services Administration (HRSA), the Centers for Disease Control and Prevention (CDC), Indian Health Services (IHS), the Food Safety and Inspection Service (FSIS), and the Food and Drug Administration (FDA).

Function 570: Medicare — Medicare benefits are mandatory. Discretionary appropriations are used to administer and monitor the Medicare program.

Function 600: Income Security — Housing assistance programs account for the largest share of discretionary funding in this function. Others include the Special Supplemental Program for Women, Infants and Children (WIC) program, the Low Income Home Energy Assistance Program (LIHEAP), some child care funding, and administrative expenses for the Supplemental Security Program (SSI) and Unemployment Compensation. Most income security programs are mandatory.

Function 650: Social Security — Social Security retirement and disability benefits are mandatory. Discretionary appropriations are used to administer these programs.

Function 700: Veterans Benefits and Services — Discretionary spending in the Department of Veterans Affairs (VA) is primarily veterans' medical care.

Function 750: Administration of Justice — Federal law enforcement programs, litigation and judicial activities, correctional operations, and state and local justice assistance. Agencies that administer programs within this function include the Federal Bureau of Investigation (FBI); the Drug Enforcement Administration (DEA); the US Customs and Border Protection (CBP); the Bureau of Alcohol, Tobacco, and Firearms (ATF); the United States Attorneys; legal divisions within the Department of Justice; the Legal Services Corporation; the Federal Judiciary; and the Federal Bureau of Prisons. Portions of these agencies are classified as "homeland security."

Function 800: General Government — This function includes the activities of the IRS and other Treasury fiscal operations, the White House, the Legislative Branch, and programs designed to carry out the legislative and administrative responsibilities of the federal government, including personnel management, and property control.

Function 920: Allowances — This function includes the President’s proposed downward adjustments to the legislative and judicial branches’ budget requests in functions 750 and 800.

Appendix C

Housing Voucher Program Faces Deep Cuts

The President's budget proposes to reduce spending under the "Section 8" housing voucher program in 2009 by more than \$4.6 billion below the amount that the Congressional Budget Office estimates would be required to support the program at its current level. This is the largest cut proposed for any low-income program since the early years of the Reagan Administration. If the cut is enacted, the number of low-income families receiving voucher assistance in 2009 could be reduced by as many as 600,000 – or about 30 percent – and many families that currently rely on vouchers to help pay their rent could be forced to live in overcrowded or substandard housing or in shelters. (The President also proposed to cut voucher funding by more than \$1.6 billion in 2005 and replace the existing program with a block grant. For more information, see *Administration Seeks Deep Cuts in Housing Vouchers and Conversion of Program to a Block Grant*, available on the internet at <http://www.cbpp.org/2-12-04hou.htm>.)

This large cut in the voucher program in 2009 is not included in the total reduction of \$49 billion in discretionary funding discussed in this paper. This is the case because the \$49 billion figure was calculated by comparing the President's proposed funding levels for 2009 with the OMB baseline funding levels for that year. OMB's baseline funding level for Section 8 in 2009, however, is anomalous. It is far below the CBO baseline and far below the amount that would be needed to maintain the program at its current level.

OMB's 2009 baseline is insufficient to maintain FY2004 current services largely because it was projected based on an artificially low funding level in 2004. In 2004, Congress provided \$19.3 billion to support Section 8. This amount was drawn from two sources: \$16.4 billion in newly appropriated funds and \$2.8 billion in unspent funds from 2003 and prior years that Congress made available for Section 8 in 2004. It appears likely that the full \$19.3 billion will likely be needed to maintain existing levels of assistance in 2004. The OMB baseline, however, projects the baseline funding amount forward to 2009 based only on the \$16.4 billion in new funding provided in 2004, even though this amount on its own would have fallen well short of what is needed to maintain the program in 2004.

By adjusting the \$16.4 billion figure only for inflation, OMB produced a baseline funding level of \$17.8 billion in 2009. This low baseline causes the President's proposal that \$18.1 billion be provided for Section 8 in 2009 to appear to be an *increase* of \$300 million. In fact, the President is proposing to reduce total funding for Section 8 in 2005 and subsequent years well below the amounts needed to maintain the program. The true size of the cut becomes apparent when the Administration's estimate of the amount of Section 8 *expenditures* that would result in 2009 from the funding levels it is proposing is compared with the level of expenditures that CBO estimates will be needed to maintain the program at its current level of service. This comparison reveals that the Administration's budget is proposing a cut in 2009 of more than \$4.6 billion in the resources used to provide housing assistance under this program.

Because of the problems with the OMB baseline, CBPP excluded the Section 8 housing voucher program budget account from our budget function analysis. If Section 8 housing were included, it would significantly understate the size of the overall cuts to income security programs. Therefore, Table 1 illustrates the Administration's proposed cuts to domestic income security program minus Section 8 housing vouchers.