

Revised March 28, 2007

PRESIDENT'S BUDGET CALLS FOR DEEP CUTS IN A WIDE RANGE OF DOMESTIC PROGRAMS

Cuts Start in 2008 and Grow Deeper Over Time

By Sharon Parrott and Matt Fiedler

Under the Administration's budget, domestic discretionary programs — the programs that are funded each year through the annual appropriations process, other than defense and international programs — are slated for sizable reductions over the next five years. The budget calls for these cuts to start in 2008, when domestic discretionary programs as a whole would be funded *below* a freeze of the levels provided for 2007 in the full-year continuing resolution now moving through Congress.ⁱ The cuts would then grow deeper each year after 2008, and would come from almost every part of the domestic budget. The largest cuts would come in 2012, when domestic programs would be cut \$34 billion, or 7.6 percent, relative to the 2007 funding level, adjusted for inflation. (See Figure 1)

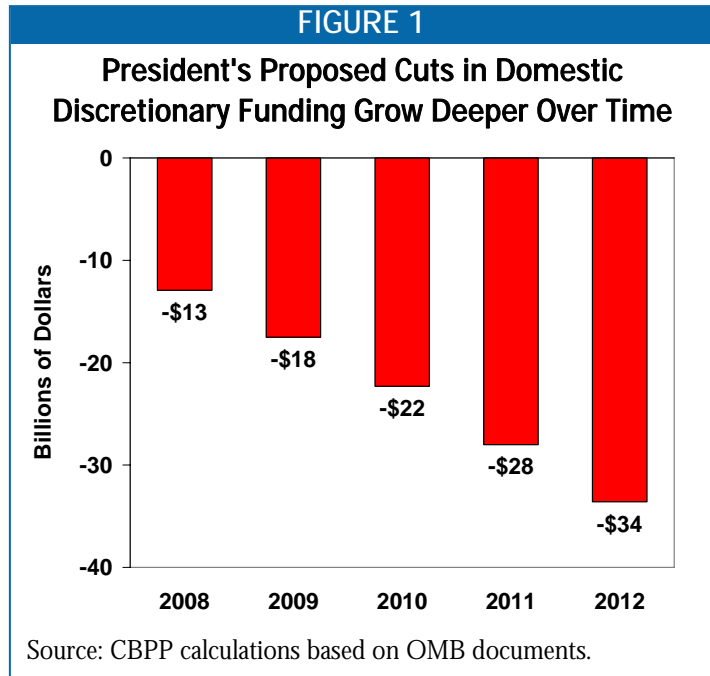
Data from back-up information provided by the Office of Management and Budget (OMB) to the Congressional Budget Committees (but not made readily available to the public) show that key domestic priority areas — including areas such as education, environmental protection, veterans health care, and medical research — would be slated for large funding cuts over the 2008 to 2012 period.

While the budget documents the Office of Management and Budget (OMB) released on February 5 spell out the President's proposed funding levels for each discretionary program for fiscal year 2008, they do not specify the funding levels that the President is proposing in discretionary programs for years *after* 2008.ⁱⁱ Breaking with normal budgeting procedures, the Administration has chosen for each of the past three years *not* to show in its standard budget materials the funding levels that it is proposing for each discretionary program or "budget account" for years after the coming fiscal year (in this case, for years after fiscal year 2008).

KEY FINDINGS

- Information the Administration has provided to Congress but has *not* made readily available to the public shows that its new budget would make large cuts in key domestic priorities between 2008 and 2012.
- Environmental programs would sustain some of the biggest cuts. Funding for pollution control, for example, would be cut by a total of \$5.5 billion over the next five years (relative to the expected 2007 funding level adjusted for inflation).
- K-12 and vocational education would be cut by \$10 billion over five years.
- The part of the budget that includes community health centers, domestic HIV/AIDS programs, and maternal and child health would be cut by \$2.5 billion over five years.
- Funding for hospital and medical care for veterans would be increased next year but cut in each of the four years after that.

Nevertheless, some important information on the Administration's planned cuts in discretionary programs in the years 2009-2012 is available. Data are available on the *overall* funding levels that the President is proposing for each of the next five years for the discretionary programs in each of 15 broad budget categories in the budget, known as "budget functions." Data on the overall discretionary funding levels the Administration is proposing also are available for each of the 74 smaller budget categories known as budget "subfunctions." These data come from OMB "back-up" documents provided to the Congressional Budget Committees (but not made readily available to the public).



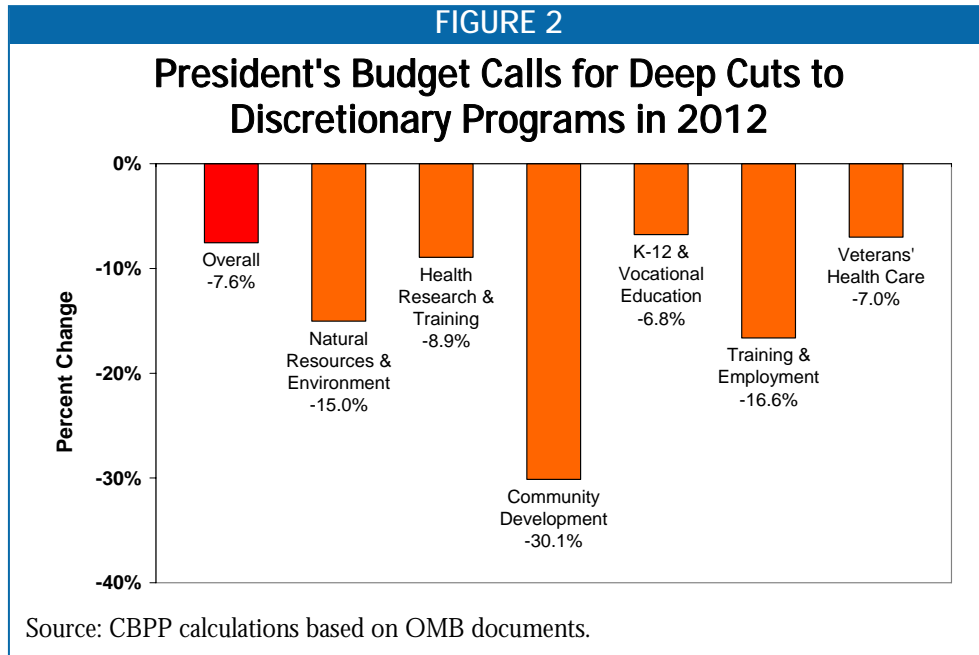
In some cases, the reductions that the President's new budget calls for would be on top of cuts that have been made in domestic discretionary programs over the past few years. For example, funding for child care and Head Start has essentially been frozen since about 2002, with no adjustment for inflation. In certain other areas, such as education initiatives associated with the No Child Left Behind Act and biomedical research, the cuts proposed for the next five years would undo some or all of the increases made earlier under this Administration.

By failing to identify how the large domestic discretionary program cuts that the Administration is proposing for years after 2008 would be achieved, the Administration has made it difficult for policymakers and the public to assess some of the trade-offs and priority choices upon which its budget is based. These priorities become more apparent, however, when the proposed reductions in domestic discretionary programs the budget calls for in 2009-2012 are examined by program area.

The Domestic Discretionary Cuts Would be Widespread

Under the budget, discretionary programs in nearly all domestic program "functions" and "subfunctions" — with only a few exceptions, such as the "general science, space, and technology" budget function, one set of veterans programs, and the subfunction containing the Strategic Petroleum Reserve — would be slated for cuts over the next five years. Figure 2 and Table 1 show the cuts in a number of areas. The cuts include:

- **Environmental Protection:** Environmental programs would be slated for some of the deepest cuts in the budget. The President proposes to cut overall funding for discretionary programs in the Natural Resources and Environment budget function by \$2.5 billion in 2008 and by \$20.1 billion over the 2008-2012 period, relative to the expected fiscal year 2007 funding



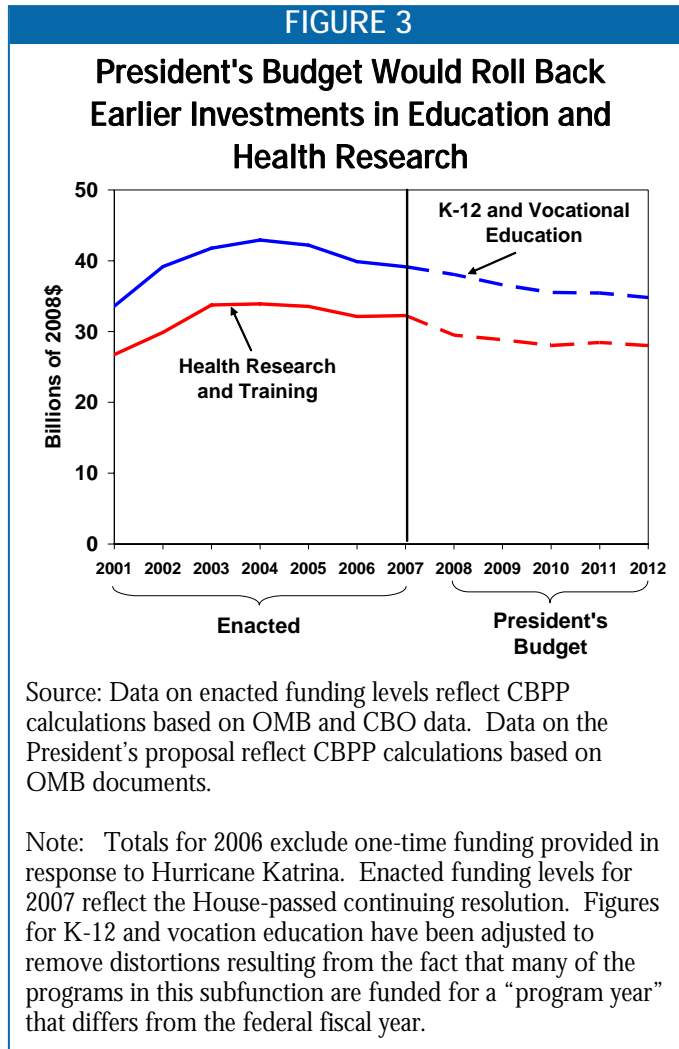
level adjusted for inflation. The cuts would start at 8 percent in 2008 and reach 15 percent in 2012.

Every subcategory of programs in this budget function would be cut, including funding for water resources, conservation and land management, recreational resources such as national parks, and pollution control and abatement. For example, funding for pollution control and abatement — which includes, among other things, grants to states and localities for projects to improve water safety and reduce water pollution — would be cut by \$706 million in 2008 and by \$1.4 billion, or 15.7 percent, in 2012.

- **Elementary, Secondary, and Vocational Education:** This subfunction includes funding for K-12 education, vocational and adult education, and special education. It includes funding for the No Child Left Behind initiatives, including Title I funding that provides schools with additional resources for disadvantaged children, as well as special education funding. The President's budget would cut overall funding for these education programs by \$9.9 billion over the next five years, relative to the expected fiscal year 2007 funding level adjusted for inflation. In 2012, funding for these programs would be reduced \$2.8 billion, or 6.8 percent. As shown in Figure 3, these cuts would largely roll back the expansions in these education programs that enacted earlier this decade.
- **Health care:** The discretionary programs in the budget subfunction known as "health care services" include community health centers, HIV/AIDS programs (for U.S. residents), maternal and child health programs, the Indian Health Service, substance abuse and mental health treatment, and domestic bioterrorism efforts. This subfunction is slated for \$2.5 billion in cuts over the next five years, relative to the expected fiscal year 2007 funding level adjusted for inflation. The cuts would reach \$861 million, or 4.1 percent, in 2012.

- Hospital and Medical Care for Veterans:** The President proposes to *increase* funding for these programs by nearly \$1.4 billion (or 4 percent) in 2008. But the increase would only be temporary. The President proposes to *cut* the programs in this subfunction in each subsequent year, from 2009 through 2012; in each of those years, the programs would be funded at levels below the amount provided for 2007, adjusted for inflation. In 2012, the cut would be \$2.7 billion, or 7 percent.ⁱⁱⁱ

- Employment and Training Services:** The President’s budget would cut the inflation-adjusted funding for “employment and training services,” the subfunction that includes funding for programs under the Workforce Investment Act (such as one-stop career centers, training for dislocated workers, employment programs for youth, and the employment service), by \$1.2 billion in 2008 and \$5.8 billion over the next five years. The cut would reach 17 percent in 2012. The proposed funding level for programs in this subfunction falls below a *freeze* of the expected fiscal year 2007 funding level in every one of the next five years. As shown in Figure 4, the President’s proposed cuts would come on top of the already deep cuts imposed since 2001.



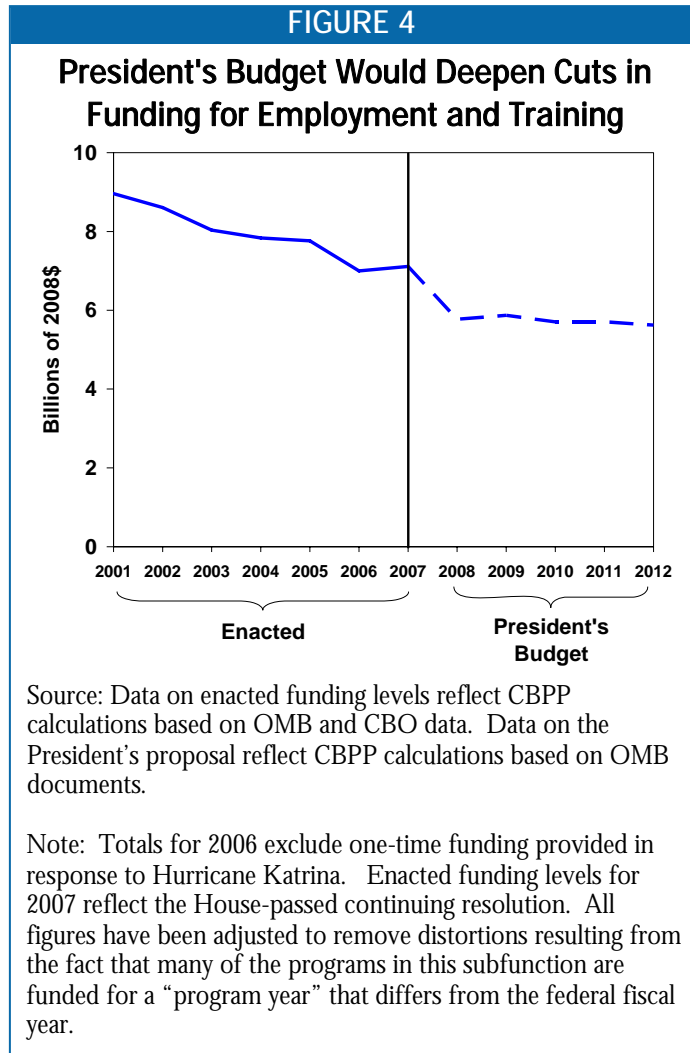
The President would achieve the savings in this area in 2008 by consolidating, into a single grant to states, the funding now provided for adult training, training for dislocated workers, youth training, the employment service, and certain administrative functions — and by funding the consolidated grant at a significantly lower funding level than the programs being consolidated currently receive.

- Criminal Justice Assistance:** The “criminal justice assistance” subfunction, which includes programs that provide funding to state and local governments for law enforcement efforts, is slated for substantial cuts starting in fiscal year 2008. Over the five-year period, funding would be cut by \$9.4 billion, relative to the expected 2007 level adjusted for inflation. Funding would be cut by more than 45 percent in each of the five years.

To achieve these savings, the Administration is proposing to consolidate 20 law enforcement grant programs collectively known as “state and local law enforcement assistance grants” into

three grant programs with substantially less overall funding. In fiscal year 2008, funding for the three programs would total \$415 million, \$660 million below the expected fiscal year 2007 funding level for the programs that would be consolidated even *before* adjusting for inflation. The Administration's budget calls for reductions in other criminal justice programs as well, including funding for the Community Oriented Policing Services (COPS) program and funding for violence against women prosecution and prevention.

- **Community Development:** The Administration proposes deep cuts in the community development category, which includes the Community Development Block Grant (CDBG) and some smaller programs. The budget proposes to cut overall community development funding by \$1.2 billion — or by more than one-quarter — in 2008, and by \$6.9 billion over the five-year period, relative to the expected 2007 level, adjusted for inflation. The Administration also is proposing to target the reduced CDBG funding that would remain more heavily on low-income communities.



- **Health Care Research and Training:** The "health care research and training" subfunction is largely composed of funding for the National Institutes of Health. Funding for NIH increased markedly from 1998 to 2005, but the President proposes significant reductions in this area in his new budget. Under the proposal, funding for this subfunction would fall by \$1.1 billion in 2008 and by \$11.4 billion over the next five years, relative to the expected fiscal year 2007 funding level adjusted for inflation. The cut in 2012 would reach 8.9 percent. As shown in Figure 3, these cuts would essentially roll back funding increases enacted earlier this decade.
- **Social Services:** The largest program in the "social services" subfunction is Head Start, which comprised 58 percent of the subfunction in fiscal year 2006. This subfunction also includes several programs for abused and neglected children, as well as programs funded under the Older Americans Act (such as nutrition programs for the elderly and caregiving programs) and programs funded under the Community Services Block Grant (which funds local community action agencies). The budget proposes to cut funding for the programs in this subfunction by \$8.3 billion over the next five years, compared to the expected fiscal year 2007 funding level adjusted for inflation. The cuts would begin in 2008 and would be achieved in part by

TABLE 1

Proposed Funding Reductions for Selected Budget Sub-Categories

(President's Proposal Relative to Expected FY 2007 Levels Under H.J. Res. 20, Adjusted for Inflation)

Budget Sub-Category	Change in 2008		Change in 2012		Five Year Change: 2008-2012
	Billions of Dollars	Percent Change	Billions of Dollars	Percent Change	billions of dollars
Community Development	-\$1.2	-25.5%	-\$1.5	-30.1%	-\$6.9
Elementary, secondary, and vocational education	-\$0.5	-1.3%	-\$2.8	-6.8%	-\$9.9
Pollution Control and Abatement	-\$0.7	-8.8%	-\$1.4	-15.7%	-\$5.5
Health care research and training	-\$1.1	-3.5%	-\$3.0	-8.9%	-\$11.4
Health care services	+\$0.1	+0.6%	-\$0.9	-4.1%	-\$2.5
Hospital and medical care for veterans	+\$1.4	+4.0%	-\$2.7	-7.0%	-\$5.1
"Other" Income Security (includes energy assistance, child care)	-\$0.4	-5.4%	-\$0.9	-10.8%	-\$3.6
Training and Employment	-\$1.2	-16.8%	-\$1.2	-16.6%	-\$5.8
Social Services (includes head start, programs for abused and neglected children, aging)	-\$1.6	a	-\$1.8	-14.3%	-\$8.3

^a The Administration achieves some of its savings in this subfunction in 2008 by cutting the Social Services Block Grant, a mandatory program, and counting the savings as discretionary savings. This makes it difficult to compute a meaningful percentage reduction for the subfunction in this year. (This is not an issue after FY 2008 when the cut in SSBG is accounted for on the mandatory side of the budget.) Excluding the cut in SSBG, the discretionary programs in this subfunction would be cut by 9.2 percent in 2008 under the President's proposal.

eliminating the Community Services Block Grant and by funding Head Start and aging programs slightly below the expected fiscal year 2007 level *before* adjusting for inflation (i.e., slightly below a freeze level).

- **"Other Income Security:"** This subfunction includes discretionary child care funding, funding for the Low-Income Home Energy Assistance Program (LIHEAP), and administrative costs associated with operating the Supplemental Security Income (SSI) program for poor elderly individuals and people with disabilities. This subfunction is slated for \$434 million in cuts in 2008 and \$3.6 billion in reductions over the next five years. In 2008, the reductions would stem from a large cut in energy assistance for low-income Americans, most of whom are elderly, and from a continuation of a long-term freeze on discretionary child care funding.^{iv} The reduction

in LIHEAP would be particularly sharp; funding for LIHEAP in 2008 would fall \$420 million, or 19 percent, below the expected fiscal year 2007 level adjusted for inflation (and 17.5 percent below a freeze at the FY 2007 level). This would mean that despite the increases in energy costs over the last several years, LIHEAP funding would fall to its lowest inflation-adjusted level since 1999.

It may be noted that a substantial number of these proposed reductions would represent a cost-shift to states, which would be presented with the choice of cutting services in these or other areas or raising taxes to cope with the funding shortfalls these reductions in federal funding would create.

Conclusion

The President's budget calls for substantial reductions in a range of domestic discretionary programs. In many key domestic priority areas — including education, the environment, and state and local law enforcement — funding in fiscal year 2008 would fall below the expected fiscal year 2007 level, adjusted for inflation.

The cuts would then grow deeper in the years after 2008. The cuts would total \$114 billion over five years, and would reach \$34 billion in a single year by 2012, relative to the expected fiscal year 2007 funding levels adjusted for inflation.

At the same time that the budget proposes reductions in most domestic discretionary program areas, it proposes to make permanent virtually all of the tax cuts enacted in 2001 and 2003. The budget's priorities are clear: extending virtually every tax cut, including those that benefit the most affluent Americans, takes precedence over maintaining current levels of investment in education, biomedical research, and the environment; and over maintaining current levels of services and benefits in the low-income home energy assistance program upon which many poor seniors depend, in the Head Start and child care programs for low-income children, in programs that assist state and local governments in combating crime, and even in veterans' health care programs.

The cost of extending the tax cuts would be \$317 billion in 2012 alone.^y This is several times the amount that would be saved from the entire universe of cuts in domestic discretionary program cuts that the President proposes for that year. It also is several times larger than the total domestic program reductions the President is seeking on the mandatory and discretionary sides of the budget combined.

ⁱ Discretionary funding for all programs outside of the Departments of Defense and Homeland Security is currently provided by a temporary continuing resolution, which is scheduled to expire on February 15. In this analysis, however, the 2007 funding level for domestic programs is taken as the funding provided in H.J. Res 20, passed by the House on January 31. That legislation, which would supersede the current continuing resolution and provide full-year appropriations for programs outside of the defense and homeland security departments, is being considered by the Senate at this time and is likely to be enacted into law without major changes. In this analysis, proposed cuts in 2008 and subsequent years are calculated by comparing the proposed funding levels in the budget for those years with the 2007 level in H.J. Res.20, adjusted for inflation.

Note: The administration has said that its budget calls for a one percent increase in funding for domestic programs for 2008, but it derives this percentage figure by comparing its proposed level of funding for domestic discretionary funding

in 2008 to an assumed funding level for 2007 that is *below* the amount provided by H.J. Res 20. In addition, in comparing its proposed 2008 level to the level assumed for 2007, the Administration does not adjust the 2007 level for inflation. In actuality, the overall level of funding that the administration is proposing for domestic discretionary programs in 2008 is \$1.5 billion *below* the level for 2007 reflected in H.J. Res. 20 even before inflation is taken into account, and \$12.9 billion below that level after adjustment for inflation.

ⁱⁱ In the past, the back-up tables to the budget that were provided by this and previous administrations included proposed funding levels for each budget account for each year that the budget covered. Budget accounts often consist of a single program but sometimes include multiple, related programs.

ⁱⁱⁱ Note that the cost of providing health care to veterans is likely to rise faster than the overall inflation rate because health care inflation is higher than the overall inflation rate.

^{iv} For more information on the impact of the funding reductions on the number of low-income children who could receive child care assistance, see "Families Forgotten: Administration's Priorities Put Children Low on the List," by Danielle Ewen and Hannah Matthews, Center for Law and Social Policy, http://www.clasp.org/publications/2008_budget_child_care.pdf, February 2007.

^v This cost reflects the cost of extending the President's tax cuts, assuming Alternative Minimum Tax relief is continued. See Aviva Aron-Dine, "Extending the President's Tax Cuts and AMT Relief Would Cost \$3.5 Trillion Through 2017," Center on Budget and Policy Priorities, January 31, 2007, p. 3.