AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

107th Congress, 2d Session – – – – – – – – – – – – – House Document 107–245

MID-SESSION REVIEW OF THE BUDGET FISCAL YEAR 2003

COMMUNICATION

FROM

THE DIRECTOR, THE OFFICE OF MANAGEMENT AND BUDGET

TRANSMITTING

A SUPPLEMENTAL UPDATE OF THE BUDGET, PURSUANT TO 31 U.S.C. 1106 (a)

JULY 16, 2002.—Referred to the Committee on the Budget and ordered to be printed

U.S. GOVERNMENT PRINTING OFFICE
99–011 WASHINGTON : 2002

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, DC, July 15, 2002.

Hon. J. DENNIS HASTERT,
Speaker of the House of Representatives,
Washington, DC.

DEAR MR. SPEAKER: Section 1106 of Title 31, United States Code, requires that the President transmit to the Congress a supplemental update of the Budget that was transmitted to the Congress earlier in the year. This supplemental update of the Budget, commonly known as the Mid-Session Review, contains revised estimates of the budget surplus, receipts, outlays, and budget authority for fiscal years 2002 through 2007 and other summary information required by statute. For the first time, the Mid-Session Review addresses the vitally important topic of federal management, and provides detailed updates on executive branch progress on the President's Management Agenda.

Sincerely,

MITCHELL E. DANIELS, Jr.,
Director.

Enclosure.

FISCAL YEAR 2003

MID-SESSION REVIEW

BUDGET OF THE UNITED STATES GOVERNMENT

TABLE OF CONTENTS

	Page
Transmittal Letter	
List of Tables	iii
List of Charts	iv
Summary	1
Economic Assumptions	11
Receipts	17
Spending	19
Progress Implementing the President's Management Agenda	23
Summary Tables	41

GENERAL NOTES

1. All years referred to are fiscal years unless otherwise noted.
2. All totals in the text and tables display both on-budget and off-budget spending and receipts unless otherwise noted.
3. Details in the tables and text may not add to totals due to rounding.
4. Web address: http://www.whitehouse.gov/omb/budget

LIST OF TABLES

		Page
Table 1.	Changes from 2003 Budget	1
Table 2.	Changes from February 2001	6
Table 3.	Economic Assumptions	15
Table 4.	Change in Receipts	17
Table 5.	Change in Outlays	21
Table 6.	Budget Totals	43
Table 7.	Budget Summary by Category	44
Table 8.	Impact of Budget Policy on the Surplus	45
Table 9.	Discretionary Totals	46
Table 10.	Mandatory Proposals	47
Table 11.	Effect of Proposals on Receipts	49
Table 12.	Receipts by Source	52
Table 13.	Discretionary Budget Authority by Agency	53
Table 14.	Discretionary Proposals by Appropriations Subcommittee	54
Table 15.	Outlays by Agency	55
Table 16.	Outlays by Function	56
Table 17.	Estimated Spending from 2003 Balances of Budget Authority: Discretionary Programs	57
Table 18.	Baseline Category Totals	58
Table 19.	Outlays for Mandatory Programs Under Current Law	59
Table 20.	Federal Government Financing and Debt	60

LIST OF CHARTS

		Page
Chart 1.	Income Tax Take Still High Despite Tax Relief	2
Chart 2.	Capital Gains Taxes Closely Track the Stock Market	4
Chart 3.	A Historically Small Deficit Given War and Recession	8
Chart 4.	Security Spending Increases Require Restraint Elsewhere	9
Chart 5.	Current Spending Trends Lock in Perpetual Deficits	10

SUMMARY

When this report was published last year, the nation was in the midst of a recession that, predictably, was already having detrimental effects on the government's finances. What no one could predict was that just 20 days later, a lethal attack on America would exacerbate the recession and trigger extraordinary military, homeland defense, and repair expenditures that would at least temporarily make an enormous difference in the fiscal outlook.

By the February 2002 submission of the Budget for fiscal year 2003, the budgetary effects of the recession and the war on terror were well understood. It was also becoming apparent that the flood of revenue that produced record surpluses in the late 1990s was driven both by underlying economic growth, the traditionally decisive factor, and, in ways not yet fully grasped, by the extraordinary boom in the stock market. The markedly greater dependence of revenues on stock market developments was not yet understood by experts either inside or outside the government.

The economic recovery appears to be underway, the one-time costs of recovery are being paid, and the expense of war-fighting abroad and new protective resources at home have been incorporated in budget plans. Taking all these changes into account, the federal government is now projected to spend $165 billion more than it receives in revenues in 2002, up from the $106 billion projected nearly six months ago. Table 1 below comparing February and July estimates shows a return to the pre-recession pattern of surpluses in 2005, and growing surpluses thereafter. Future improvements, however, depend to a significant extent on two key factors: 1) restraint of the recent rapid growth in federal spending; and 2) a resumption of growth in tax payments produced by a stronger economy and a stronger stock market.

Moving Forward Amid the Backdrop of War

President Bush placed two purposes above all others in his 2003 Budget: Winning the war on terror and restoring the economy to health. On both fronts, initial progress has been encouraging. Military action in Afghanistan has depleted the ranks and greatly weakened the operational capabilities of the terrorists. On the economic front, the nation's gross domestic product (GDP) grew at an impressive 6.1 percent annual rate in the first quarter of 2002, making the recession both shorter and shallower than most and the early recovery far stronger than assumed in February's budget.

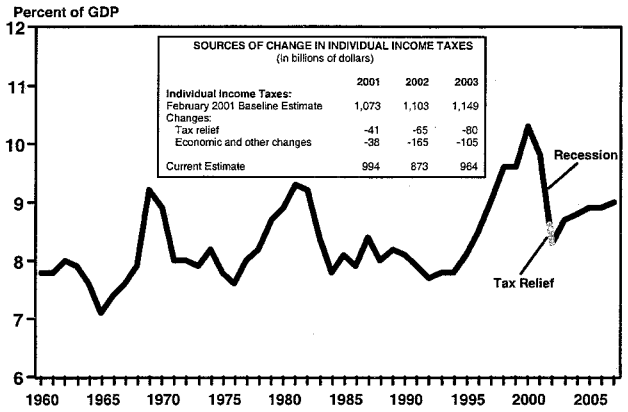
For the future, we can be certain only of the intentions of our adversaries and our own resolve to defeat them. We know neither the length of the conflict nor the budgetary expense of victory. Nor can we be certain the economy will not be weakened by further shocks. To preserve the flexibility to respond to future events while maintaining a fiscal framework that will return the budget to surplus, it is imperative that spending,

Table 1. CHANGES FROM 2003 BUDGET

(In billions of dollars)

	2002	2003	2004	2005	2006	2007	2003–2007
2003 Budget policy surplus	–106	–80	–14	61	86	104	157
Enacted legislation	34	33	17	33	4	2	89
Supplemental and other adjustments to Administration policy	–13	–7	–6	–3	–4	–3	–25
Economic and technical reestimates	–80	–54	–45	–37	–26	–18	–181
Total changes	–59	–29	–34	–8	–26	–20	–117
Mid-Session Review policy surplus	–165	–109	–48	53	60	84	41

Chart 1. Income Tax Take Still High Despite Tax Relief
(Individual Income Taxes as a Percent of GDP)



SOURCES OF CHANGE IN INDIVIDUAL INCOME TAXES
(in billions of dollars)

	2001	2002	2003
Individual Income Taxes:			
February 2001 Baseline Estimate	1,073	1,103	1,149
Changes:			
Tax relief	-41	-65	-80
Economic and other changes	-38	-165	-105
Current Estimate	994	873	964

Tax relief enacted in 2001 reduced individual income taxes as a share of GDP from an all-time high, but five-year forecasts keep them among the highest levels in U.S. history.

especially on programs not related to the primary objectives of the 2003 Budget, be tightly restrained.

Emergencies and Response Increase Outlays

In late March 2002, President Bush requested that Congress provide an additional $27.1 billion, primarily for our efforts in the war against terror. More than half of this amount would fund the war-fighting activities of the Department of Defense and the intelligence community. The major remaining portions of the supplemental request are needed for homeland security, mainly in the new Transportation Security Administration, and for emergency response and recovery efforts in New York City. Most of this spending is one-time in character and will not be continued in future years.

In June, President Bush called on Congress to create the Department of Homeland Security to meet the new threats to our nation's security more effectively. Homeland security responsibilities are now spread among 100 government entities. The new Cabinet agency will be organized to better safeguard against threats at home by integrating similar functions, streamlining communications, coordinating systems, and allowing more comprehensive planning.

Responding to the Effects of Recession

The economic impact of the September 11th attacks and the recession they deepened exacted an additional toll on federal receipts. This impact was partly ameliorated by enactment in June 2001 of the President's tax relief program. As Chart 1 shows, tax relief brought individual income taxes as a share of GDP back from its recent all-time high. Were it not for the recession, receipts would still be historically high despite the tax

cut, and will increase again as the economic recovery proceeds.

"For once, Congress managed to implement a contra-cyclical fiscal policy that should boost economic growth exactly when the economy needs it," said Merrill Lynch's Bruce Steinberg around the time the tax relief bill was passed. Martin Feldstein, president of the authoritative National Bureau of Economic Research, called the subsequent economic turnaround "neither an illusion nor an accident," adding that "[a] primary reason for the strength of consumer spending was the enactment of the tax cut in early 2001." Congressional Budget Office (CBO) Director Dan L. Crippen told the Senate Budget Committee in January, "[T]he tax cuts enacted in June prevented consumption from slowing more than it might have otherwise..."

President Bush called on the Congress in the Fall of 2001 to enact a further tax stimulus program to counteract the recession. Congress responded in March by enacting the Job Creation and Worker Assistance Act. The central feature of this Act was a set of temporary provisions to encourage business investment. Specifically, the Act permits firms to write off 30 percent of the value of their qualified investments in the year of purchase. To help ease the financial pressure on Americans directly affected by the recession, the law also extended for 13 weeks the unemployment benefits available to those who remained out of work since the onset of the recession.

The Fall of Receipts

The recession also meant that funds flowing into the Treasury fell substantially. Receipts in 2002 are now estimated to decline outright by $124 billion, or six percent, from 2001 levels. The last time revenues fell to that extent was in 1955.

The current shortfall represents the mirror image of the revenue explosion of recent years. From 1995 to 2000, federal receipts grew at an average annual rate of more than eight percent, from $1.4 trillion to $2.0 trillion. Growth in total receipts exceeded overall economic growth, driving up the ratio of receipts to GDP, or tax share, from 18.5 percent to 20.8 percent, a peacetime record. The rise in total receipts was driven largely by increases in individual income taxes.

Strong real personal income growth was responsible for some of the rise in the tax share during the late 1990s. The taxable components of personal income per capita rose 6.8 percent annually from 1995 to 2000, far exceeding the average 2.5 percent increase in the Consumer Price Index over this period. An analysis of the period 1995–99 by CBO estimates that when measured by adjusted gross income this real income growth, by pushing workers into higher tax brackets, accounted for just under a third of the rise in the share of individual taxes to GDP.

The strength in individual income tax receipts traced very directly to a period of remarkable stock market gains. Estimated capital gains tax payments almost tripled from $40 billion in 1995 to $118 billion in 2000, rising as a share of GDP from 0.5 percent to 1.2 percent. Thus, while capital gains receipts are a small portion of overall revenues, they accounted for roughly one-third of the rise in the tax share over this period. The leap in realized capital gains was driven primarily by the rise in the stock market, but also by the development of inexpensive trading accounts.

The stock market's rise also increased the value of assets held in tax deferred accounts. The value of these accounts rose from $6 trillion in 1994 to $11.7 trillion in 2000. Withdrawals from these accounts are taxed as ordinary income. CBO estimates that growth in taxes paid on retirement withdrawals, Social Security benefits, and other sources accounts for roughly 10 percent of the increase in the ratio of individual income taxes to GDP in the late 1990s.

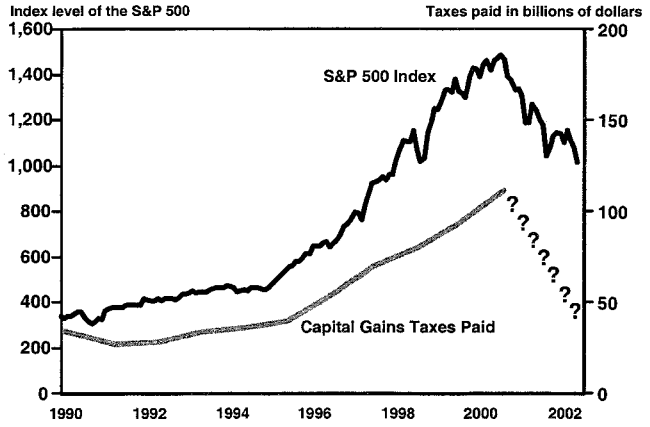
After surging for more than seven years, revenue growth slowed dramatically in 2001, even before accounting for the 2001 tax relief act, and then fell in 2002. The reversal was driven predominantly by the recession and the stock market's decline. Moreover, the drop in receipts has been notably larger than the decline in economic growth. The difference between receipts growth and GDP growth in 2002, even after adjustments for

the 2001 tax relief and the 2002 stimulus act, is projected to reach eight percentage points. This is a much larger divergence than during the 1990–91 recession, even when adjusted for tax legislation at that time. The current receipts situation is similar to those experienced during the far more severe recessions of the 1970s and early 1980s.

Individual income taxes, as opposed to payroll taxes, corporate taxes, or other forms of revenue, account for nearly all of this year's projected drop in receipts. Through May, so-called "non-withheld payments" (largely the final tax payments submitted with April 15th tax returns) were down $80 billion, or 28 percent, from this time last year. Such payments commonly are owed on capital gains from equities, mutual fund distributions, and small business income. Likewise, refunds were up $31 billion, or 23 percent, from last year. Workers who had too much tax withheld from their paychecks, and capital losses suffered by investors are thought to be the main explanations behind the jump in refunds.

The precise causes of this year's income tax drop-off will not be known for some time. However, since taxes on capital gains are often not paid until the April 15th deadline, the size and timing of the decline in receipts through May strongly point to a dramatic decline in net capital gains realizations. (Further discussion of the stock market's impact on revenue appears in the following box and in Chart 2.)

Chart 2. Capital Gains Taxes Closely Track the Stock Market



Capital gains taxes that rose dramatically with the stock market through the latter half of the 1990s are now falling just as sharply.

The Growing Role of the Stock Market in Federal Receipts

As seen in the late 1990s, when the economy grows, income tax receipts tend to grow even faster. Similarly, when the economy slips into recession, income tax receipts tend to decline faster than the economy. As the structure of the economy and the income tax evolve, the nature of their interaction may also evolve, often in surprising ways. This, in fact, appears to have occurred as total tax receipts grew more rapidly than expected at the end of the last decade, and then declined more rapidly than expected this year. A good example was the run-up of the stock market in the late 1990s. When combined with certain market changes, the boom in stocks led to an extraordinary increase in capital gains tax collections.

While the data are not yet available to uncover all the causes of the recent declines in individual income tax receipts over and above what would be expected given the economy's performance, it is likely that the capital gains tax phenomenon is playing a major role. It is clear that most forecasters and analysts did not understand the capital gains tax role previously, or understand it fully today. However, the evidence for this effect is compelling.

From January 1995 to March 2000, the S&P 500 index of stocks rose over 230 percent. It is estimated that capital gains tax receipts increased from $40 billion in 1995 to $118 billion in 2000. The increase in tax receipts was partly due to the rise in the stock market, but it was also likely due in part to the dramatic reduction in the cost of buying and selling equities and the increased ease of doing so through on-line trading. Both likely translated to a further acceleration of capital gains realizations.

The strength of the stock market also encouraged firms to rely more heavily on performance-linked compensation. Employee stock options were particularly popular at start-up firms and technology companies. The number of options granted increased 25 percent from 1997 to 2000, while the income from exercised options jumped 150 percent, from $45 billion to $113 billion. Treasury's Office of Tax Analysis estimates that individual income taxes on exercised stock options increased from $17 billion in 1997 to $42 billion in 2000. Much, though certainly not all, of this revenue was offset as corporations deducted the amounts of exercised options from taxable income.

In the same way, the stock market's decline has likely led to the opposite effect—significantly lower net capital gains receipts. For example, Investment Company Institute data show that capital gains distributions from mutual funds plunged 80 percent in 2001, declining from $326 billion in 2000 to $69 billion in 2001. Also, much of the dip in 2002 receipts occurred with the April 15, 2002, payments of non-withheld taxes, which came in roughly $75 billion under expectations. These payments include capital gains tax liabilities accrued in 2001, along with other sources of tax liability.

As the economy continues to recover, the stock market may well bounce back as a consequence. But it is unclear whether the stock market will rise sufficiently to generate the higher level of revenues experienced in the late 1990s, or follow a more traditional pattern.

In the near term, there is also the question of the realized and unrealized capital losses that have been sustained. The decline in the stock market has generated an enormous amount of capital losses. Some of these losses have already been realized, i.e., the shares have been sold and the capital losses deducted from long-term gains or ordinary income. However, there is an annual limit of $3,000 on losses that can be used to reduce ordinary taxable income, meaning that there probably is a sizable amount of realized capital losses that taxpayers are carrying forward into next year and into years beyond.

The Growing Role of the Stock Market in Federal Receipts—(Continued)

Moreover, this overhang may grow in the near term. Presumably, a large portion of the capital losses incurred since the stock market began its decline have not yet been realized. Some portion of these accrued losses may be realized next year or thereafter, further adding to the amount being charged against current income or carried forward to future tax years.

Most of these losses represent equity shares that will not be sold because shareholders choose to ride out the downturn. However, the stock market may have to experience a significant increase before these accrued losses are erased and shareholders are once again enjoying actual capital gains that would generate tax revenue upon the sale of their assets.

The stock market and the capital gains receipts it generates have become more important than ever to the federal budget outlook. Their volatilities and uncertainties merit a very close inspection by those who participate in the budget process.

Uncertainties in Long-Term Budget Forecasts

As documented in the February budget submission, the exercise of producing 10-year budget forecasts is fraught with problems. Budget forecasters have trouble making accurate predictions for the upcoming year, much less 10 years into the future. Despite the clear deficiencies, some have applied a benchmark status to the 10-year forecast the Administration made over a year ago.

In February 2001, the Administration issued a "baseline" projection reporting that the federal government would run surpluses totaling $5.6 trillion from 2002 to 2011. Like all baseline projections, this one was predicated on three major assumptions:

1) That the economy would perform as expected;

2) That no significant events would alter the budget outlook; and

3) That no policy changes would take place for 10 years.

Obviously, the Administration intended numerous policy changes, the first of which were presented in the February 2001 Budget. The other two assumptions were undermined by events.

The economy had shown signs of stagnating throughout 2000. For example, the stock market began to decline in March 2000, followed by collapsing business investment by the end of the year, and higher unemployment rolls beginning in early 2001. The economy entered official recession in March 2001.

The recession's profound effect was the largest factor changing the projected long-

Table 2. CHANGES FROM FEBRUARY 2001

(In billions of dollars)

	2002	2003	2002–2011
February 2001 baseline surplus	283	334	5,637
Economic and technical reestimates	–278	–194	–1,669
Enacted policy:			
Tax relief	–41	–94	–1,491
Other enacted legislation	–115	–107	–760
Subtotal, enacted policy	–156	–202	–2,251
President's budget proposals	–15	–47	–1,273
Total change	–448	–443	–5,193
Mid-Session Review policy surplus	–165	–109	444

term budget surplus. The $1.7 trillion change in the projected cumulative surplus is due to economically driven lower receipts. This change reflects the recession's immediate impact and a more cautious outlook about long-term revenues.

Other external events had an obvious and dramatic impact on the budget. The September 11th terrorist attacks on New York City, on Washington, and in the Pennsylvania skies had the dual fiscal effect of deepening the recession and requiring unplanned spending of tens of billions of dollars to recover and to protect against future attacks. Spending in response to those attacks, the additional deadly assaults carried out with anthrax, and the necessary additional increases in defense and homeland security spending further reduced projected surpluses.

The assumption of no new policy is, of course, just a budgeting convention. Some policy changes were intended at the Administration's inception; changed circumstances have prompted other shifts.

The surplus also changed because the President believed that some portion of it should be returned to the taxpayers. Prior to 2001, he called for tax relief to strengthen the economy in the long run, and stated his concern about the possibility of economic slowdown in the near term. Congress agreed and enacted the bipartisan Economic Growth and Tax Relief Reconciliation Act (EGTRRA) in June 2001. This legislation changed the 10-year projected surplus by $1.5 trillion from 2002 to 2011. Its impact in 2002 was very limited, accounting for less than 10 percent of the $448 billion total shift in expected surpluses for 2002. (See Table 2 for details.) Clearly, the tax cut did not eliminate the surplus, and, in fact, was remarkably well-timed and well-designed for addressing the recession.

The President's February 2001 Budget also included some new spending measures, for example, the costs associated with the President's Medicare prescription drug proposal, his education reforms, and his initial defense rebuilding proposals. Collectively, these three initiatives would combine to reduce estimated surpluses by approximately $300 billion.

A further impact came from higher than planned discretionary appropriations for 2002, and this year's economic stimulus and farm bills. The latest projected surplus for the 2002–11 period is $444 billion. (For the 10 years 2003–12, that figure grows to $827 billion.) Even this amount depends on congressional adherence to the President's call for spending discipline.

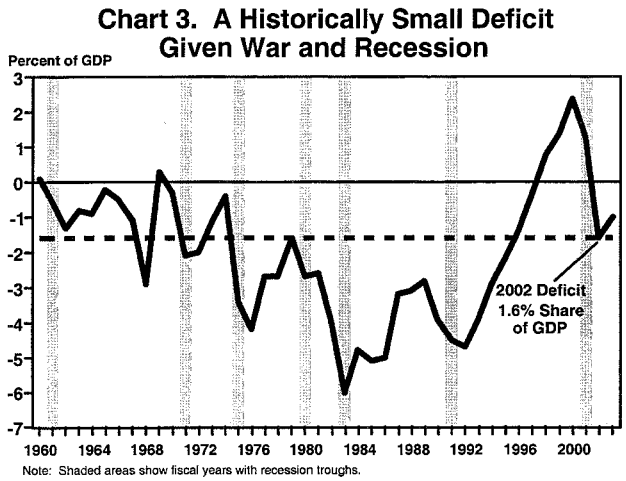
The 10-year, $5.6 trillion baseline surplus projection was a good-faith estimate, consistent with CBO and contemporary forecasts, which also assumed no programmatic changes, no recession, no September 11th, and no war on terror. The 2001 tax cut was the correct fiscal policy response to the recession, had little effect on short-term surpluses, and is not the predominant cause of the reduction in the projected surplus.

An Improved Economic Outlook Over the Horizon

The combination of higher spending necessitated by the attacks of September 11th and lower than expected receipts meant a sharp fiscal reversal from the $127 billion surplus posted in 2001. Nonetheless, the deficit as a percentage of GDP is small historically, as Chart 3 shows.

This period in deficit should be brief, because economic fundamentals have stayed strong. The budget outlook for 2003 is more favorable than 2002, assuming overall spending growth is held to a more sustainable five percent. With a rebound in receipts from depressed 2002 levels, the projected deficit for 2003 is $109 billion, down from $165 billion currently projected for 2002. The pattern is repeated in fiscal year 2004, where four percent spending growth coupled with seven percent revenue growth reduces the deficit to $48 billion.

Current estimates show a return to surplus in 2005. The strong fundamentals of the U.S. economy—low inflation, strong productivity growth, and a healthy labor market—should combine to deliver growing surpluses and the opportunity to resume paying down the national debt in the years beyond.



The 2002 deficit's 1.6 percent share of gross domestic product is small compared to deficits incurred in the last 40 years.

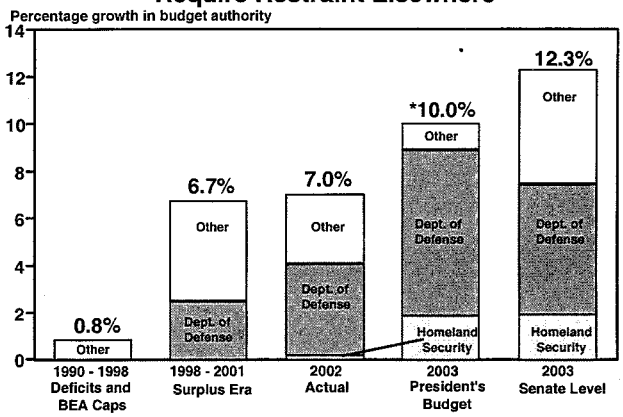
Spending Restraint Is Key

The budget outlook, as always, is subject to innumerable uncertainties. New developments or a widening of the war on terror may require additional outlays, potentially for years to come. A weaker economy than projected may lead to additional revenue disappointments, whereas a resurgent stock market may reverse the recent declines in net capital gains receipts. These still-unfolding events provide new reasons to dispense with the misplaced emphasis on 10-year budget projections, as the Administration has previously suggested. Even the latter years contained in five-year estimates, which the Administration is required by statute to present, must be viewed warily.

Despite these uncertainties, the risks remain manageable, provided policymakers exercise appropriate discipline. Overall non-emergency discretionary budget authority for 2002 is up an estimated $45 billion, or seven percent, from 2001. If one includes emergency appropriations in response to September 11th and the Administration's proposed supplemental funding, discretionary budget authority rises $72 billion, or 11 percent, from 2001. Overall outlays are up an estimated $169 billion, or nine percent, from 2001, of which $36 billion is the result of emergency appropriations in response to September 11th, including the Administration's proposed supplemental funding. The risks to our long-term fiscal health will decline greatly if policymakers act to slow the recent rapid growth in discretionary spending. Overall appropriations have been allowed to grow an average of seven percent annually since 1998. Chart 4 shows pressures for continued rapid spending growth have not subsided even amid the new fiscal realities.

Achieving the restrained spending growth detailed in the President's Budget is essential if we are to return to budget balance. To that end, the Administration renews its call for legally enforceable budget discipline tools, such as making the budget resolution law

Chart 4. Security Spending Increases Require Restraint Elsewhere



Note: Data for Homeland Security not available before 2001.
* On 7-03-02 the President requested $10 billion for the war on terrorism, raising the 2003 increase from 8.5% to 10%.

To start back toward balanced budgets, the required increases for the war on terrorism and homeland security must be balanced by a slower rate of increase of two percent in other government spending.

and reimposing caps on overall spending levels.

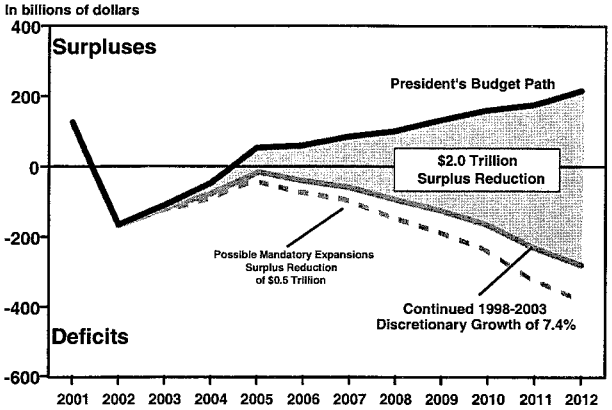
Even absent the budgetary demands of war and the need to return to balance, fiscal discipline is needed to address looming fiscal threats posed by entitlement, or mandatory, spending growth. For the moment, Medicare and Social Security spending, both of which are estimated to increase by approximately 4.5 percent in 2003, help to moderate total federal spending growth rates. Other mandatory spending programs, such as agricultural and veterans spending, are growing more rapidly.

With the recent enactment of the farm bill, mandatory agriculture commodity and conservation spending will increase by an estimated 25 percent in 2003. Veterans mandatory spending is projected to increase by 15 percent. Even so, Congress is considering significant expansions in agriculture for drought assistance, in Medicare, and in veterans mandatory spending. As Chart 5 illustrates, continued unconstrained growth in discretionary spending and expansion in mandatory spending would eliminate any hope of balanced budgets, let alone surpluses and debt reduction.

In the long run, Social Security, Medicare, and Medicaid spending will accelerate with the retirement of the baby boom generation. The President has proposed a long-term reform plan for Medicare that includes a prescription drug benefit. Meanwhile, the President's Commission on Social Security Reform confirmed what others have demonstrated: the Social Security system is heading for acute financial difficulties in the not-too-distant future.

It bears repeating: a return to balanced budgets depends on slowing the recent growth in discretionary spending. Just as interest compounds rapidly to the benefit of savers,

Chart 5. Recent Spending Trends Lock In Perpetual Deficits



Continuing discretionary spending growth as its recent rate produces permanent deficits by spending $2 trillion more through 2012 vs. the President's Budget path, which, by contrast, would return the budget to surpluses beginning in 2005.

so, too, does incremental spending compound to add dramatically to future outlays. Chart 5 illustrates the effect, with the widening difference between the current spending course and the President's budgetary path amounting to $2 trillion by 2012. The problem is exacerbated by the unfortunate illogic through which each program's funding level this year is treated as the starting point for next year's budget deliberations. The effect is a bias toward increasing spending, with too little attention given to identifying what works, what doesn't, and what isn't worth keeping at all. Measuring and acting on the performance of government programs is a major point of emphasis for the Administration. This initiative, long sought by government reform advocates, must culminate in a commitment to make these practices routine and their contributions to better government permanent.

The kind of restraint the President has called for should not be difficult to achieve. Most states are demonstrating it now. Overall state spending growth for 2002 was held to two percent, the same figure the President has recommended for non-war, non-homeland defense activities. Governors' proposed budgets for 2003 collectively foresee a 1.4 percent rise in spending, the smallest since 1983.

For now, the fundamentals of the economy and the federal government's fiscal outlook remain strong. The best way to protect both, as we do what we must to defend the lives of Americans, is to approach all other governmental spending increases with great caution in the years directly ahead.

ECONOMIC ASSUMPTIONS

Introduction

The U.S. economy has displayed remarkable resilience in the face of unprecedented shocks. The economic slowdown that began in mid-2000 turned into a full-blown recession in March 2001. The disruption to economic activity caused by the September 11th attacks contributed to the brief contraction of economic activity.

Thanks to timely fiscal and monetary policy responses and the willingness of households and businesses to trust in the future, a recovery in economic activity is underway, making the recent recession the mildest on record. Economic growth resumed in the fourth quarter of last year, accelerated sharply in the first quarter of 2002, and continued in the second quarter, albeit at a slower pace. Growth will continue to be supported by higher after-tax incomes resulting in part from the tax relief enacted last year and by the incentives for business investment in the recently enacted stimulus package.

The brevity of the contraction and the strength of the subsequent recovery were not anticipated in forecasts made at the turn of the year. Since January, forecasters—including the Administration's—have raised their projections for growth over the near-term. If the upturn in capital spending is delayed or if consumer spending weakens, the balance of the recovery might be weaker than projected. Still, the longer-term economic outlook remains favorable. The recent strong productivity performance, even during the recession, provides encouraging evidence that the improvement in business productivity observed during the last half of the 1990s has become a structural feature of our economy.

The Administration's economic projections are virtually identical to the consensus of private sector forecasts. They anticipate a healthy but reasonable expansion that will create more private-sector jobs, higher incomes, and growing profits. The Administration's economic policies—providing tax relief, shifting spending to the most effective, high-priority programs, promoting efficient regulation, and freeing resources to be used more effectively in the private sector—will be important factors in achieving a strong, sustained expansion.

Fiscal Policy: Fiscal policy played a valuable role in enabling the economy to return quickly to sustained, noninflationary growth. In June 2001, the President signed the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), which provided substantial tax relief to the American people. The goal of the Act was to reduce tax burdens permanently. The Act, however, could not have been better timed from a cyclical perspective.

Beginning in July 2001, 85 million taxpayers received rebate checks totaling $36 billion reflecting the new, lower 10 percent tax bracket. In addition, income tax withholding schedules were reduced to incorporate the first stage of the lower marginal income tax rates for those in the 28 percent tax bracket and higher. In January 2002, withholding schedules were lowered again to reflect the 10 percent tax bracket. The rebate and lower withholding rates reduced personal income tax liabilities by $44 billion in calendar year 2001 and by $52 billion in 2002. Altogether, EGTRRA reduced taxpayers' 2002 calendar year liabilities by about $70 billion.

Fiscal policy provided further support to the recovery with the passage in March 2002 of the Job Creation and Worker Assistance Act. The Act provides an incentive for businesses to invest by permitting them to expense 30 percent of the value of qualified new capital assets including equipment and software. The balance is depreciated according to existing schedules. The expensing provisions, which expire in September 2004, reduce the cost of capital and so provide an additional incentive for businesses to invest during the vulnerable initial phase of the expansion. The Act also provides up to 13 weeks of additional unemployment benefits for the long-

term unemployed who exhaust regular unemployment insurance benefits.

Budget Surpluses and Interest Rates: Recent years have featured repeated assertions that large federal surpluses were necessary to keep interest rates low. Although there is no historical correlation between the fiscal net position and interest rates, this view still seems to have its adherents. It is important, therefore, to note that a return to deficits has coincided so far with falling and extraordinarily low interest rates (see next section).

Monetary Policy: Low inflation has permitted the Federal Reserve to pursue a monetary policy focused on reviving economic activity. During the first eight months of 2001, the Federal Reserve reduced the federal funds rate from 6½ percent to 3½ percent. Then, after September 11th, the rate was cut to just 1¾ percent by December, the lowest level since the early 1960s; it has remained at that level during the first half of 2002. Short-term interest rates declined sharply as the Federal Reserve reduced the federal funds rate.

At the longer end of the maturity spectrum, rates declined significantly in late 2000 and remained close to those levels during 2001 and the first half of 2002. The yield on the 10-year Treasury note was around five percent in late 2001 and the first five months of 2002. Except for a brief period in 1998 and again in early 2001, this was its lowest level in 35 years. The rate on 30-year conventional mortgages was around seven percent in 2001 and the first five months of 2002, also one of the lowest levels since the mid-1960s. In June, long-term rates edged down further.

Recent Developments

Real Gross Domestic Product (GDP) grew at a 1.7 percent annual rate in the fourth quarter of 2001, following a 1.3 percent decline in the third quarter. In the first quarter of 2002, growth accelerated to a 6.1 percent pace, the fastest advance in over two years. The recovery in economic activity was led by the household sector, with additional contributions to growth from higher government spending, and a much reduced rate of inventory liquidation. Business capital spending and the foreign sector remained ongoing restraints on growth. Although the growth rate in the second quarter of 2002 will not be announced until the end of July, it appears that the economy continued to expand, although at a more moderate pace than in the first quarter.

Consumer confidence, and with it consumer spending, fell sharply immediately after the September terrorist attacks, but the successful pursuit of the war on terrorism and some strengthening in the stock market during the closing months of 2001 helped restore consumers' confidence. This confidence was manifested in a new willingness to spend, especially on big-ticket discretionary purchases. In the fourth quarter, motor vehicle sales set a record high, boosted by generous sales incentive programs including zero-percent financing. On average, consumer spending adjusted for inflation increased at a 4½ percent annual rate during the fourth quarter of 2001 and the first quarter of 2002, up from only a 1¾ percent rate during the prior half year. Because consumption accounts for two-thirds of GDP, the resurgence of consumer spending was key to restoring economic growth.

The housing sector also contributed significantly to the turnaround in the economy, boosted by low mortgage rates and restored confidence. During the first five months of 2002, combined new and existing home sales reached the highest level on record and new housing starts reached the highest level in three years. Residential investment adjusted for inflation rose at a rapid 14½ percent annual rate in the first quarter of 2002, the fastest quarterly gain in nearly six years.

Government spending on consumption and investment also increased. In the fourth quarter, combined federal and State/local spending rose at a 10 percent annual rate, and in the first quarter of this year, at a seven percent pace. At the federal level, defense spending, driven by the war on terrorism, increased sharply. At the State/local level, the spending increase was led by construction.

In contrast to the household and government sectors, business capital spending continued

to restrain overall growth. During the fourth quarter of last year and the first quarter of 2002, investment in business structures declined sharply. Investment in equipment and software continued to fall in the fourth quarter, but at a slower rate, and increased marginally in the first quarter, the first gain in over a year. Forward-looking indicators of equipment spending during the spring suggest that business capital spending is firming.

A widening of the U.S. net export deficit also restrained GDP growth, especially in the first quarter of 2002. Slow growth in the economies of our trading partners curtailed U.S. exports, while rapid growth of household spending boosted imports. The large monthly trade deficits of the first quarter widened further in April to the highest level on record.

Inflation remained low even as the expansion got underway. During the first five months of 2002, core inflation in the Consumer Price Index (CPI), which excludes the volatile food and energy components, increased at only a 2.3 percent annual rate. For the first five months of the year, the overall CPI increased at a 3.0 percent annual rate.

The turnaround in the economy helped improve the labor market. The nation's payrolls expanded in May and June, following 13 consecutive months of declines. In the hard-hit manufacturing sector, job losses in recent months were much smaller than during the prior year and the workweek, a leading indicator of economic growth, lengthened. The unemployment rate in June was 5.9 percent, about the same level as in April and May, but somewhat higher than the 5.6 percent average of the prior six months.

In financial markets, the 3-month Treasury bill rate was 1.7 percent in June while the yield on the 10-year Treasury note was 4.9 percent, resulting in a steeply upward sloping yield curve. Equity prices fell sharply in the second quarter. By the end of June, major indexes had lost most, or in some cases all, of the gains achieved in the fourth quarter.

Revised Economic Assumptions

The economic assumptions for the Mid-Session Review, summarized in Table 3, have been revised from those used in the Administration's 2003 Budget to incorporate the unanticipated strength and timing of the recovery, and the passage of the Job Creation and Worker Assistance Act (JCWAA). Real GDP growth this year is now expected to be considerably higher than anticipated in the budget. Private sector forecasters have made a similar upward revision. Over the near- and longer-term, the Mid-Session Review projections are close to the consensus of private sector forecasts. The rates of GDP growth and unemployment during the second half of the projection period are the same as in the budget; inflation and interest rate projections are nearly identical to those in the budget.

Real GDP, Potential GDP, and Unemployment: Real GDP growth in the fourth quarter of 2001 and the first quarter of this year was stronger than expected in the budget assumptions. As a result, actual growth last year was 1.2 percent on a year-over-year basis, compared with the 1.0 percent estimated in the budget, and growth this year is projected to be 2.6 percent, compared with 0.7 percent in the budget. Growth during the next few years is projected to be slightly less than anticipated in the budget because the recovery appears to be more front-loaded than expected previously. Growth during 2002–12 averages 3.2 percent per year, the same as in the Blue Chip consensus, an average of 50 private sector forecasts. During 2008–2012, assumed growth is 3.1 percent yearly, the same as in the budget assumptions and the Blue Chip consensus. This is the Administration's estimate of the nation's potential GDP growth rate.

As in the budget assumptions, the unemployment rate is projected to decline during the next few years to 4.9 percent in 2007 and then remain at that low level. That rate is the Administration's estimate of the long-run unemployment rate that is consistent with stable inflation. It is also the same as the outyear projection of the Blue Chip consensus.

Inflation: For 2002, the GDP measure of inflation has been reduced 0.7 percentage point compared with the budget projection to 1.3 percent on a year-over-year basis to incorporate recent lower-than-expected data. The CPI measure of inflation is projected to be 1.7 percent, slightly below the budget projection. Thereafter, during 2003–2012, the GDP and CPI inflation projections are nearly identical to those in the budget. The GDP chain-price index is expected to rise just under two percent each year, and the CPI by slightly less than 2½ percent.

Interest rates: The interest rate projections are very close to those in the budget. Short-term interest rates are assumed to rise as the recovery increases credit demands. The 91-day Treasury bill rate, currently at 1.7 percent, is assumed to increase to 4.3 percent in 2004 and remain at that level. The yield on the 10-year Treasury note is projected to remain steady at 5.2 or 5.3 percent during 2002–2012. The larger gain in short-term rates than in long-term rates is consistent with the interest rate movements that usually occur at this stage of the business cycle.

Income Shares: The share of taxable income in nominal GDP has been revised from the budget assumptions, primarily because of revisions to corporate profits and wages and salaries. Recent data and the passage of the stimulus bill have affected the projection of corporate profits; information about the annual revision to the National Income and Product Accounts that will be released at the end of July has affected the projection of wages and salaries.

The projection of corporate book profits before tax during the next few years incorporates two factors that work in opposite directions. Book profits have been raised because recent data reveal that the recovery raised profits more than had been anticipated in the budget assumptions. On the other hand, the temporary 30-percent expensing provision of JCWAA raises corporate book depreciation through September 11, 2004 and accordingly lowers book profits; thereafter, book profits are raised because the remaining depreciation on the investments eligible for expensing will be lower. Taking both of these factors into account, the share of book profits before tax in GDP is projected to be about the same as in the budget assumptions during 2002–2004 and higher than the budget assumptions during the following years. That difference is gradually reduced so that by the end of the projection horizon there is little difference between the two projections.

Recent information on State personal income reveals that the levels of wages and salaries in the National Income and Product Accounts for 2001 and early 2002 are currently substantially overestimated. These levels will be revised downward officially on July 31st when the Bureau of Economic Analysis releases its annual GDP revision covering the past three years. Starting at a lower level suggests that the wage and salary share in GDP is likely to rise slightly during the projection period, rather than decline as assumed in the budget projections. The projection incorporates this rise.

A lower level of wages and salaries helps to explain some of the shortfall of individual income tax receipts experienced in 2002. The downward revision in the level of wages and salaries will not affect projections of future budget receipts because the level of current receipts is known and not subject to revision. Projections of the growth in future tax receipts depend on the growth rate in wages and salaries, which edges up as a share of GDP through 2006 as the labor compensation share of GDP returns to its historical average.

Table 3. ECONOMIC ASSUMPTIONS [1]

(Calendar years; dollar amounts in billions)

	Actual 2001	Projections										
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Gross Domestic Product (GDP):												
Levels, dollar amounts in billions:												
Current dollars	10,208	10,619	11,206	11,822	12,452	13,111	13,793	14,497	15,230	16,001	16,811	17,662
Real, chained (1996) dollars	9,334	9,581	9,922	10,279	10,629	10,983	11,338	11,694	12,056	12,430	12,816	13,214
Chained price index (1996 = 100), annual average	109.4	110.8	112.9	115.0	117.1	119.4	121.6	124.0	126.3	128.7	131.2	133.6
Percent change, fourth quarter over fourth quarter:												
Current dollars	2.3	5.5	5.6	5.4	5.3	5.3	5.2	5.1	5.1	5.1	5.1	5.1
Real, chained (1996) dollars	0.5	3.7	3.7	3.5	3.4	3.3	3.2	3.1	3.1	3.1	3.1	3.1
Chained price index (1996 = 100)	1.9	1.6	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Percent change, year over year:												
Current dollars	3.4	4.0	5.5	5.5	5.3	5.3	5.2	5.1	5.1	5.1	5.1	5.1
Real, chained (1996) dollars	1.2	2.6	3.6	3.6	3.4	3.3	3.2	3.1	3.1	3.1	3.1	3.1
Chained price index (1996 = 100)	2.2	1.3	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Incomes, billions of current dollars:												
Corporate profits before tax	698	731	885	954	1,196	1,213	1,245	1,278	1,319	1,365	1,409	1,461
Wages and salaries [2]	5,098	5,245	5,562	5,904	6,265	6,596	6,919	7,262	7,624	8,007	8,410	8,833
Other taxable income [3]	2,296	2,357	2,453	2,543	2,600	2,675	2,806	2,931	3,038	3,146	3,229	3,335
Consumer Price Index (all urban): [4]												
Level (1982–84 = 100), annual average	177.1	180.1	184.6	189.1	193.6	198.3	203.0	207.9	212.7	217.6	222.6	227.8
Percent change, fourth quarter over fourth quarter	1.9	2.5	2.4	2.4	2.4	2.4	2.4	2.4	2.3	2.3	2.3	2.3
Percent change, year over year	2.8	1.7	2.5	2.4	2.4	2.4	2.4	2.4	2.3	2.3	2.3	2.3
Unemployment rate, civilian, percent:												
Fourth quarter level	5.6	5.8	5.5	5.3	5.1	5.0	4.9	4.9	4.9	4.9	4.9	4.9
Annual average	4.8	5.8	5.6	5.3	5.1	5.0	4.9	4.9	4.9	4.9	4.9	4.9
Federal pay raises, January, percent:												
Military [5]	3.7	6.9	4.1	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Civilian [6]	3.7	4.6	2.6	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Interest rates, percent:												
91-day Treasury bills [7]	3.4	2.0	3.5	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
10-year Treasury notes	5.0	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.3	5.3	5.3

[1] Based on information available as of early June 2002.

[2] Consistent with the May 24, 2002 Department of Commerce National Income and Product Accounts release for the first quarter of 2002. Does not reflect an anticipated large downward revision to wages and salaries for 2001 and the first quarter of 2002 expected as part of the annual NIPA revision at the end of July. The downward revision in the level of wages and salaries will not affect projections of future budget receipts because the level of current receipts is known and not subject to revision. Projections of the growth in future tax receipts depend on the growth rate in wages and salaries, which is assumed to return the wage and salary share in GDP to its historical average.

[3] Rent, interest, dividend and proprietor's components of personal income.

[4] Seasonally adjusted CPI for all urban consumers.

[5] Percentages apply to basic pay only; 2002 figure is average of various rank- and longevity-specific adjustments; 2003 figure does not include proposed targeted pay raises; adjustments for housing and subsistence allowances will be determined by the Secretary of Defense.

[6] Overall average increase, including locality pay adjustments.

[7] Average rate, secondary market (bank discount basis).

RECEIPTS

The current estimates of receipts for 2002 and 2003 are below the February budget estimates by $78.7 billion and $19.1 billion, respectively. The current estimates are below the February budget estimates by smaller amounts in 2004, 2006 and 2007, and above the February budget estimate in 2005, resulting in a net downward revision in receipts of $21.9 billion over the 5-year period, 2003 through 2007. These changes are the net effect of enactment of the Job Creation and Worker Assistance Act (Economic Stimulus Bill); modification of the Administration's proposals to reflect enactment of the Job Creation and Worker Assistance Act, the Administration's plan to aid small businesses, and other new initiatives announced since February; revised economic projections; and technical reestimates.

The Job Creation and Worker Assistance Act, which was signed by President Bush on March 9, 2002, provides $57.8 billion in tax relief over the 6-year period, 2002 through 2007. The major tax relief provided in this Act allows businesses to expense 30 percent of the cost of new capital assets acquired after September 10, 2001 and before September 11, 2004, in addition to the normal depreciation deduction allowed on the remaining cost basis; extends from two years to five years the carryback period for net operating losses generated in taxable years 2001 and 2002; temporarily extends a number of tax reductions that had expired on December 31, 2001; and provides a number of tax incentives to help an area of New York City referred to as the Liberty Zone recover from the September 11th terrorist attacks. Because the tax relief provided in this Act is less than the total tax relief proposed by President Bush in the budget, receipts are increased relative to the February budget proposals by $182.3 billion over the six years, 2002 through 2007.

The Administration's policy initiatives (see Table 11) are estimated to reduce receipts by $5.8 billion in 2003 and $86.9 billion over the 5-year period, 2003 through 2007. These initiatives include permanent extension of the provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 that sunset on December 31, 2010, and tax incentives for charitable giving, education, the disabled, health care, farmers, the environment, energy conservation and alternative fuels, which were proposed in the February budget. They also include Administration proposals announced since February to: (1) combat abusive tax avoidance transactions; (2) limit related party interest deductions; (3) establish a uniform definition of a child; and (4) aid small businesses by allowing firms that invest less than $325,000 ($200,000 under current law) annually to expense up

Table 4. CHANGE IN RECEIPTS

(In billions of dollars)

	2002	2003	2004	2005	2006	2007	2003–2007
February estimate	1,946.1	2,048.0	2,175.3	2,338.0	2,455.3	2,571.7	
Revisions due to:							
Enacted legislation, relative to February proposals[1, 2]	12.7	37.2	33.7	49.7	25.6	23.5	169.6
Proposed legislation[1]	–0.6	–5.8	–10.9	–18.2	–24.0	–28.0	–86.9
Economic assumptions and technical restimates	–90.8	–50.5	–28.8	–18.3	–6.4	–0.6	–104.5
Total change	–78.7	–19.1	–6.0	13.1	–4.7	–5.1	–21.9
Mid-Session estimate	1,867.4	2,029.0	2,169.3	2,351.2	2,450.5	2,566.5	

[1] Affects both outlays and receipts; only the receipt effect is shown here.

[2] The Job Creation and Worker Assistance Act reduced receipts in each year, 2002 through 2004, and increased receipts in each year, beginning in 2005. The Administration's initiatives would have provided tax reductions in each year.

to $40,000 ($24,000 for 2002 and $25,000 for 2003 under current law) of the first-year cost of new capital assets.

Revised economic projections and technical adjustments reduce receipts by $90.8 billion in 2002 and $50.5 billion in 2003, relative to the February budget. These factors reduce receipts by declining amounts in 2004 through 2007, resulting in a net reduction in receipts of $104.5 billion over the five years, 2003 through 2007. Shortfalls in individual and corporation income tax collections account for most of the downward adjustment in 2002 receipts. These shortfalls in collections are attributable to significantly weaker-than-estimated individual and corporation income tax liability for tax years 2001 and 2002, as reflected in lower-than-expected final payments and higher-than-expected refunds of payments of 2001 tax liability, and lower-than-expected estimated and withheld payments of 2002 liability. A significant portion of the shortfall in 2002 receipts collections is expected to be explained by revisions to components of national income that will be released by the Bureau of Economic Analysis on July 31, 2002.

SPENDING

Total outlays for 2002 are now estimated to be $2,032.5 billion, $19.8 billion below the February budget estimate. The reduction is the combined effect of the enactment of legislation, largely the Job Creation and Worker Assistance Act, which differed from the Administration proposal, the proposed emergency supplemental funding for defense and homeland security, and revisions to estimating assumptions. For 2003, the estimate of total outlays has increased by $9.9 billion relative to February, to $2,138.2 billion. The increase results from continued spending of the proposed supplemental and revisions to economic and technical assumptions.

Policy changes

In total, policy changes reduce outlays by $8.7 billion in 2002 and increase them by $6.3 billion in 2003. Over the five years, 2003 through 2007, policy changes increase outlays by $18.8 billion.

Since the transmittal of the budget, the Administration requested $27.1 billion in supplemental discretionary funding, primarily to support the war on terrorism and enhancements of homeland security. Because the funding would be spent over a period of time, outlays increase by $14.0 billion in 2002, $6.6 billion in 2003, and smaller amounts in subsequent years.

The Job Creation and Worker Assistance Act provided temporary extended unemployment benefits in all States. The Act also provided 2002 funding for Temporary Assistance for Needy Families (TANF) supplemental grants, changed the formula used to determine premiums for the Pension Benefit Guaranty Corporation, and increased payments for Puerto Rico and the Virgin Islands. In total, the Act increased current law outlays by $6.7 billion in 2002 and $3.0 billion in 2003. Because the budget had assumed enactment of a more costly stimulus proposal, the Act had the effect of lowering outlays by $20.3 billion in 2002 and $5.0 billion in 2003 relative to the budget.

The Farm Security and Rural Investment Act made numerous changes to agriculture programs. The Act provided additional assistance to producers to protect them against low commodity prices by adding a new program that establishes target prices for corn, wheat, cotton, and other crops, by increasing the marketing loan rate for many commodities and by providing a new fixed payment to soybean producers. The Act also provided a large increase in funding for conservation programs, extending and expanding existing programs such as the Environmental Quality Incentives Program and the Wetland Reserve Program, and creating new programs such as the Conservation Security Program and the Grasslands Reserve Program. Direct spending was also added for a wide-range of other programs that address rural development, research, energy, forestry, and nutrition programs. Relative to the Administration proposal, the enacted bill lowered outlays by $2.3 billion in 2002, largely because enactment was later than the date assumed in the budget, but increased outlays by $5.4 billion in 2003 and $17.4 billion over the five years 2003 through 2007.

The Auction Reform Act partially implemented the budget proposal to shift deadlines and promote certainty in upcoming auctions of electromagnetic spectrum. The legislation did not include provisions to promote clearing incumbent users from one portion of the spectrum and did not relax the auction deadlines for another portion of the spectrum. On net, the enacted bill will result in $4.0 billion less in receipts from the spectrum auctions over the period 2003 through 2006 than the Administration proposal. Because spectrum receipts are recorded in the budget as negative outlays, this has the effect of increasing outlays by $4.0 billion over the period relative to the budget, although there

is a decrease in outlays of $2.4 billion relative to previous law.

Estimating changes

Changes in estimates can arise from non-policy related factors including changes in economic assumptions, discussed earlier in this Review, and changes in technical factors. For 2002, estimated outlays are $11.2 billion lower than in February for non-policy related reasons. For 2003, estimated outlays are $3.6 billion higher. The following changes in outlay projections all are the result of estimating changes.

Student loans: With student loan interest rates at historic lows, the volume of loan consolidations is expected to nearly double from prior estimates. For each loan consolidation, the government records new subsidy costs resulting in expected outlay increases of $1.1 billion in 2003.

Medicaid: As a result of estimating changes, Medicaid outlays in 2002 and 2003 are projected to increase by $2.0 billion and $1.9 billion, respectively, relative to the February estimates. These increases are attributed primarily to increased actuarial estimates for Medical Assistance Payments.

Medicare: Estimating revisions increase current estimates of Medicare outlays by $1.6 billion in 2003 relative to the February estimate. Higher estimated outlays for skilled nursing facility (SNF), inpatient hospital, and physician services explain most of the increase. These increases result from higher fee-for-service enrollment, regulatory changes, and higher payment updates.

Unemployment compensation: As a result of revised estimating assumptions, outlays for unemployment compensation have decreased by $2.2 billion in 2002 and $0.3 billion in 2003 relative to the February estimates. The assumed ratio of the insured unemployment rate to the civilian unemployment rate has declined thereby reducing the projected number of people eligible for benefits at each level of civilian unemployment. This is partially offset by an increase in the projected civilian unemployment rate.

Child tax credit: Estimates for the refundable child tax credit are $1.0 billion lower in both 2002 and 2003 as the result of estimating adjustments to reflect the fact that actual outlays for this new program have been less than projected.

Supplemental Security Income (SSI): On net, spending for the SSI program is estimated to be $1.8 billion lower in 2003 than projected in February as the result of revised estimating assumptions. Higher collections from previous overpayments reduce outlays by $2.1 billion. Overpayment recoveries have increased primarily to incorporate the effect of retroactively shifting certain SSI beneficiaries to Disability Insurance benefits. Partially offsetting this reduction, projected SSI benefit payments are higher reflecting higher caseloads.

Social Security: Estimated outlays for Social Security are lower than the February estimates by $3.1 billion in 2002 and higher by $1.4 billion in 2003. The reduction in 2002 is primarily the result of a delay in special disability payments to certain SSI recipients eligible for Social Security. Outlays increase for 2003 and 2004 reflecting both increases in the volume of special disability payments and updated demographic data in the latest Trustees report.

Veterans compensation and pensions: As a result of revised estimating assumptions, outlays for veterans disability compensation and pensions increase by $1.1 billion in 2002 and $2.0 billion in 2003 relative to the February estimates. Decreasing the amount of time to process disability compensation claims is a Presidential initiative. VA is aggressively working towards this goal and has processed more claims than expected.

Net interest: Estimates of net interest outlays are $6.9 billion lower in 2002 than in February. Most of the reduction is the result of Treasury issuing a different mix of securities than assumed in the budget. Over the five years 2003 through 2007, net interest outlays are $45.4 billion higher than estimated in February, primarily reflecting increased interest costs associated with lower revenue and higher outlay estimates resulting from estimating changes.

Table 5. CHANGE IN OUTLAYS

(In billions of dollars)

	2002	2003	2004	2005	2006	2007	2003–2007
February estimate	2,052.3	2,128.2	2,189.1	2,276.9	2,369.1	2,467.7	11,431.0
Change due to:							
Policy:							
Supplemental request	14.0	6.6	3.6	1.4	1.1	0.5	13.2
Stimulus bill	–20.3	–5.0	–1.5	–*	–*	–0.1	–6.6
Farm bill	–2.3	5.4	5.1	3.9	2.7	0.2	17.4
Spectrum auction delay	.....	–0.3	4.7	–1.2	0.8	.....	4.0
Other	.....	0.7	1.8	1.1	0.9	0.6	5.1
Related debt service [1]	–0.1	–1.1	–2.2	–3.2	–3.9	–3.8	–14.2
Subtotal, policy	–8.7	6.3	11.5	2.0	1.6	–2.6	18.8
Estimating differences:							
Discretionary programs	1.5	0.3	0.5	–0.6	–0.4	–0.1	–0.2
Student loans	0.5	1.1	–0.1	–0.1	–0.1	–0.1	0.9
Medicaid	2.0	1.9	3.0	4.1	5.1	5.3	19.3
Medicare	0.1	1.6	1.8	3.0	4.4	5.0	15.7
Unemployment	–2.2	–0.3	–0.5	0.7	0.9	0.1	0.9
Child tax credit	–1.0	–1.0	–0.9	–0.9	–1.2	–1.2	–5.2
SSI	–0.2	–1.8	–0.7	0.4	0.6	0.7	–0.8
Social Security	–3.1	1.4	2.8	–0.6	–3.2	–4.6	–4.2
Veterans compensation and pensions	1.1	2.0	2.3	2.2	1.9	1.6	9.9
Other mandatory programs	–3.0	–1.9	–1.3	–0.5	–0.7	–1.3	–5.7
Net interest	–6.9	0.1	9.3	11.4	12.2	12.4	45.4
Subtotal, estimating	–11.2	3.6	16.3	19.1	19.4	17.7	76.1
Total, changes	–19.8	9.9	27.8	21.0	21.0	15.2	94.9
Current estimates	2,032.5	2,138.2	2,216.9	2,297.9	2,390.1	2,482.9	11,525.9

* $50 million or less.

[1] Includes debt service on receipt policy changes.

PROGRESS IMPLEMENTING THE PRESIDENT'S MANAGEMENT AGENDA

> *We are not here to mark time, but to make progress, to achieve results and to leave a record of excellence.*
>
> George W. Bush
> October 15, 2001

Overall Progress

Progress implementing the President's Management Agenda has been significant in many agencies but has not been uniform. NASA is leading the government in its implementation of the five government-wide initiatives; the Departments of Commerce, Education, Energy, Labor and the Treasury, as well as the Office of Personnel Management and Small Business Administration are also progressing very well.

On the other hand, a small number of departments and agencies have not yet made significant progress in one or more initiatives. For example, the Department of Agriculture has three red progress scores, the Corps of Engineers has two red progress scores, while the Departments of the Interior, Department of Transportation, Agency for International Development, and the Smithsonian each have one initiative in which they have not yet made much progress.

With few exceptions, departments and agencies have developed sound plans for long-term success. They have passed to the critical time when planning gives way to execution. Thus far, agencies have made a successful transition to implementation in about half of the cases. Successful execution will require a relentless, disciplined effort, and include adjustments to plans as experience is gained.

Indeed, in order to achieve genuine "breakthrough"—not simply marginal—improvement in performance, agencies will have to set the bar high, aiming at what is theoretically possible. That means seeking results that are not predicated on past performance, but rather pushing for order of magnitude improvements to levels not previously contemplated. An example is the Department of the Treasury which has succeeded in having all of its bureaus "close their books" within three days after the end of the month (most agencies are not even able to close on a monthly basis). Another citizen-centered example is the Govbenefits website which enables someone in need to go to a single point to access the government's 85 major social service programs without having to search agency by agency.

Two critical ingredients for success emerge from early efforts: an integrated strategy, and clear assignment of responsibility for its implementation.

- *Integrated strategy.* To maximize effectiveness, successful implementation requires each agency to have a sound strategy to take advantage of the interconnections and common purpose among the five government-wide initiatives. Success in each area not only supports, but depends on the others. Thus for example, it is not by accident that National Science Foundation (NSF) has been successful in both financial performance and E-government. NSF improved its financial management by embracing advanced information technologies and operating in a paperless environment. So too at the Department of Education, which found it needed to redesign its initial human capital and competitive sourcing plans after recognizing how each affects the other. Education's "One-ED" plan defines a process for simultaneously

performing human capital restructuring with competitive sourcing reviews.

- *Clear assignment of responsibility.* To make their strategies work, departments and agencies must clearly identify the official responsible for integration and implementation of all five elements of the Agenda, and hold that person strictly accountable.

Good progress also is being made with respect to most of the nine program initiatives. Privatization of Military Housing, Reform of Food Aid Programs, and Coordination of Veterans Affairs and Defense Programs and Systems, in particular, are doing well.

The President's Management Agenda

The *President's Management Agenda*[1] is a coordinated strategy to reform federal management and improve program performance. The Agenda targets the government's most apparent deficiencies in core management capabilities where the opportunity to improve performance is the greatest. Five mutually reinforcing government-wide initiatives apply to every department and agency. These initiatives share a common purpose of government reform that is citizen-centered and focused on delivering results that matter to the American public. Together they form a strategy to achieve breakthrough, not simply marginal, improvement in:

- Strategic Management of Human Capital;
- Competitive Sourcing;
- Improved Financial Performance;
- Expanded Electronic Government; and
- Budget and Performance Integration.

In addition, nine program initiatives apply to one or more agencies:

- Faith-Based and Community Initiative;
- Privatization of Military Housing;
- Better Research and Development Investment Criteria;
- Elimination of Fraud and Error in Student Aid Programs and Deficiencies in Financial Management;
- Housing and Urban Development Management and Performance;
- Broadened Health Insurance Coverage through State Initiatives;
- A "Right-Sized" Overseas Presence;
- Reform of Food Aid Programs; and
- Coordination of Veterans Affairs and Defense Programs and Services.

The management agenda was launched just before Labor Day 2001. The following is a mid-year update on how well the departments and agencies are executing the management initiatives since last reported in the budget earlier in the year.

GOVERNMENT-WIDE MANAGEMENT INITIATIVES

In developing the initiatives, the Administration established an Executive Branch Management Scorecard to track how well the departments and major agencies are executing the five government-wide management initiatives and to strengthen a sense of accountability. This scorecard presents an updated assessment of *"status"* and, for the first time, an assessment of *"progress"* being made to address the initiatives.

"Status" is assessed against the standards for success[2] developed for each initiative and published in the 2003 Budget as follows:

Green: Meets all of the standards for success,

Yellow: Achieved some, but not all, of the criteria, and

Red: Has any one of a number of serious flaws.

For example, in financial management, an agency is "red" if its books are in such poor shape that auditors cannot express an opinion on the agency's financial statements, if an agency has a history of spending more money than given to it in law by the Congress, or the agency head is unable to provide an unqualified assurance statement as to the systems of management, accounting and administrative controls. The scorecard in the President's 2003 Budget was an initial

[1] http://www.whitehouse.gov/omb/budget/fy2002/mgmt.pdf

[2] http://www.whitehouse.gov/omb/budget/fy2003/pdf/spec.pdf

baseline evaluation as of 2001. This scorecard is an update as of June 30, 2002. An arrow up or down indicates a change in "status" and from the 2001 baseline.

"Progress" is assessed on a case-by-case basis against the deliverables and time lines established for the five initiatives that have been agreed upon with each agency as follows:

Green: Implementation is proceeding according to plans;

Yellow: Some slippage or other issues requiring adjustment by the agency in order to achieve the initiative objectives on a timely basis; and

Red: Initiative in serious jeopardy. Unlikely to realize objectives absent significant management intervention.

(The Executive Branch Management Scorecard follows at the end of this chapter.)

Significant Developments

Since the 2001 baseline evaluation, the Department of Energy improved its "status" on strategic management of human capital from red to yellow by addressing skill gaps in mission-critical occupations such as contract and project management, actively implementing its workforce restructuring plan, and effectively using available personnel tools and flexibilities (including buyouts and early retirement) to rebuild its workforce.

The Department of Labor has improved its status on financial management from red to yellow. Since the 2001 baseline evaluation, all of Labor's financial management systems have met federal financial management systems requirements and applicable federal accounting and transaction standards. The department received an unqualified and timely audit opinion on its 2001 annual financial statement and has no material internal control weaknesses.

The National Science Foundation now has two green "status" scores. It met the standards for success in E-government by meeting all core criteria and developing a process to implement corrective action plans for program level information technology security weaknesses.

The Social Security Administration improved its status to yellow on the budget and performance integration initiative. SSA released a request for vendor bids to assist in developing systems requirements to better link performance with budgeting and enhanced the agency's performance tracking system by making data available on its Intranet.

On the negative side, two baseline evaluations for financial management were revised to reflect poor 2001 year-end audits. At NASA, new auditors expressed a disclaimer of opinion for 2001 after seven years of unqualified audit opinions. At the Small Business Administration, the Administrator determined that the agency is not in compliance with the Federal Financial Management Improvement Act (FFMIA) and auditors were unable to provide complete, reliable, timely, and consistent financial management information.

Strategic Management of Human Capital

Departments and agencies are responding in a variety of positive ways to the Administration's human capital initiative. The Department of Labor has overhauled its performance appraisal system and created its own internal "human capital" scorecard that monitors agency implementation of reforms on a quarterly basis. The Department of Energy has established a new career intern program, revitalized succession planning with senior executive service (SES) mentoring and candidate development programs, and taken steps to restructure department components in a coordinated, integrated fashion. SSA re-deployed 200 staff support positions to frontline, customer service positions. EPA has implemented an innovative SES mobility program to rotate managers' throughout the agency in an effort to expand program knowledge and transfer skills. The Department of Education has developed a process ("One-Ed") to review, assess and optimize the deployment of personnel within the department. The Department of Defense, while prosecuting the war on terrorism, is also aggressively addressing its long-term human capital problems created by a decade of workforce downsizing. Each military service developed plans to restructure its organization to improve efficiency, to ensure critical skills

are maintained, and to better motivate and reward its employees.

Government-wide, OPM has introduced a model to streamline the SES hiring process from six months to six weeks and is linking SES performance to the management agenda. OPM is reviewing federal compensation to determine its relevance to the current labor market. At the same time, OPM is the managing partner for five E-government reforms: Recruitment One-Stop, e-Training, e-Clearance, Enterprise Human Resources Integration, and e-Payroll. These systems will allow for the integration of data, information sharing and faster, paperless processing.

Further, OPM is focused on increasing agency understanding and awareness of all the flexibilities that can be used under existing law and regulations. OPM is providing assistance to departments and agencies with "strike forces" to meet emergency needs and with a team of "desk officers" who work in collaboration with OMB budget examiners on agency specific assessments as agencies implement their human capital transformation.

Competitive Sourcing

We are seeing tangible forward progress in competitive sourcing. The Department of Defense has conducted the largest competitive sourcing program in the federal government, and the military services are already meeting their 2002 goals by conducting studies of 30,000 positions performing a diverse set of commercial activities. Competitions as well as conversions are focusing the military on mission and more efficient logistics and military base operations to help improve force mobility. In addition, the services are improving the living conditions of military families through privatization of military housing.

The Department of Energy is looking at information technology functions across bureaus, one of the only times a department has ever undertaken such a coordinated initiative. The Federal Emergency Management Agency (FEMA) and the Small Business Administration have developed plans to use the private sector to create rapid response temporary workforces to handle emergency disaster needs. At the Department of Commerce, the Bureau of the Census is conducting a major public-private cost comparison and competition. The study is scheduled for completion by February 15, 2003, and involves 225 full-time-equivalent positions that perform a variety of clerical and administrative support functions on a temporary basis.

On a government-wide basis, the 50-year old process for public-private competition is undergoing an overhaul. The new process will be easier, faster to use, and fair to both public employees and interested private sector bidders. The proposed changes will go out for notice and public comment in the very near future.

Improved Financial Performance

The Administration has set aggressive criteria to measure department and agency success toward the improved financial performance initiative's goal of producing accurate and timely information to support operating, budget, and policy decisions. This year, all agencies produced timely interim financial statements for the period ending March 31, 2002. In order to produce more timely financial information, departments and agencies will accelerate the date by which they produce audited financial statements from February 27th in 2001 to November 15th in 2004. In addition, they are combining Performance and Accountability Reports, which will contain the audited financial statements and performance information, thus providing a more complete picture of an agency's progress and results achieved.

For 2001, the Departments of Justice and Transportation joined 16 other departments and major agencies receiving "clean" audit opinions on their financial statements. The Departments of Agriculture and Education, along with the Agency for International Development, also showed substantial improvement over previous years. NASA and FEMA, however, showed slippage from 2000.

The magnitude of the financial management challenges at the Departments of Defense and Agriculture are central to the General Accounting Office's current inability to render an opinion on the government-wide financial statements. The Department of Defense is aggressively working to reengineer business processes and consolidate/replace the more

than one thousand financial management systems that exist at present throughout the Department, a project that will take a number of years.

The Department of Agriculture has similar challenges. Although four of five of the Department's stand alone audits received unqualified opinions, a significant improvement from the past, auditors were again unable to express an opinion on the Department's 2001 financial statements, citing seven material weaknesses. In addition, the Secretary was unable to give assurance that the Department's systems and internal controls were compliant with financial and other management statutes.

The improved financial performance initiative is also aimed at reducing the billions in erroneous payments made by federal programs each year. Medicare reported a reduction in its erroneous payment rate from 6.8 percent in 2000 to 6.3 percent in 2001. Likewise, the Food Stamp program reduced its national error rate from 8.9 percent in 2000 to 8.7 percent in 2001. Reducing these error rates prevented the waste of almost $1 billion.

To improve its administration of the Food Stamp program, the Department of Agriculture will make states like California and Michigan, which have error rates of 17.4 percent and 13.9 percent, respectively, pay cash sanctions when their error rates greatly exceed the national average. Most agencies have plans in place to meet the budget requirement to estimate the extent of erroneous payments and set targets for reducing them.

Expanded E-Government

The expanded E-government initiative is making government services easier to use and more responsive. E-government is not about putting thousands of government forms or reams of information online. Rather, it is about government making better use of technology to better serve citizens and improve government efficiency, cutting government's time to make decisions from weeks or months to hours or days. The E-government initiative requires agencies to focus IT spending on improving mission performance, reducing duplication, ensuring information security, and cooperating across traditional agency silos. Federal agencies are taking a two-pronged approach for improving efficiency and quality of service, with one prong being modernization of their infrastructure and the other prong being their active involvement in development of cross-agency citizen-centered initiatives.

Agencies are making progress both in agency-specific efforts and 24 cross-agency initiatives, celebrating several major successes since February, 2002. The redesigned Firstgov website now offers citizens "three clicks" to service. As a result, the number of visitors has increased 50 percent, making it one of Yahoo's 50 "Most incredibly useful websites." In addition, the June 2002 United Nations report *Benchmarking E-Government: A Global Perspective* rated the United States as the world leader in E-government on the basis of achievements over the last year.

A new multi-agency social services portal, Govbenefits, was launched to provide citizens with a tool to quickly locate federal assistance programs relevant to their needs. After its launch in April, USA Today added the site to its list of "Hot Sites", stating that "Govbenefits gives you an easy way to see if there are funds, training, or other benefits available for you." Govbenefits receives 50,000 visitors per week.

Sixteen agencies made significant progress in accomplishing the goals of expanded E-government, leveraging information technology to become citizen-centered, and results oriented. The Office of Personnel Management is using E-government to streamline human resources processes and better serve employees, from recruiting to retirement. The National Science Foundation which currently receives 99 percent of its annual proposals on-line is a small agency model for successful E-government.

Agencies continue to be challenged by E-government requirements for joining fragmented service delivery operations. To become fully successful in this initiative, more agencies must actively partner to simplify government processes and integrate IT investments around citizen needs.

Budget and Performance Integration

The Administration has taken unprecedented steps to reform the budget process by establishing a systematic, consistent process for developing program performance ratings and then using that information to make budget decisions. While agencies expend considerable time and effort developing and updating their Government Performance and Results Act (GPRA) plans and reports, this information typically has been of little relevance to the budget process.

To enhance the practical use of performance information, OMB, in collaboration with other federal agencies, has developed draft Program Assessment Rating Tools (PARTs), comprised of assessment criteria on program performance and management. The PART[3] establishes a high, "good government" standard of performance and will be used to rate programs in an open, public fashion. Ratings for 20 percent of programs will be published in the 2004 Budget, and the basis for the rating will be made available to the public. Draft tools were developed in April, tested in May and June, and were revised based on the test results, feedback, and extensive consultation with the President's Management Council, agencies, and outside groups. OMB also convened a Performance Management Advisory Council of outside experts to advise on the rating process.

As a complementary effort in support of the budget and performance integration initiative, agencies and OMB are developing common performance measures in seven cross-cutting areas. The uniform evaluation metrics allow comparison of selected programs with similar goals, such as job training and employment, and flood mitigation. While these comparisons are not determinative, they will help identify potential efficiencies and program improvements.

Achieving the standards of success in this initiative is particularly challenging since it requires a fundamental change in how budgeting is approached. It asks departments and agencies to present a "performance budget" requesting resources based on the results they plan to achieve. Some, including Justice and VA, are restructuring their entire budgets in support of such a presentation; others are starting with specific bureaus. Transportation, for example, is developing a department-wide performance presentation, in order to consider what format would best help them to budget and manage for results. To assist agencies, the Chief Financial Officers Council developed "Getting to Green" guidance identifying concrete steps that agencies can take to meet the goals of the initiative.

Progress by Department/Agency

Department of Agriculture (USDA)—USDA has not advanced on the human capital, competitive sourcing, and budget and performance integration initiatives, but has shown significant progress in financial management and E-government. USDA is the second largest component of the government's balance sheet, and, therefore, is a significant barrier to the government receiving a clean audit opinion. USDA's recent efforts have resulted in receiving unqualified opinions on four of five standalone audits. Targeting efforts to improve the Forest Service's audit results should enable USDA to obtain a clean opinion on the combined USDA financial statement.

In E-government, USDA has developed 28 successful business cases and is developing an enterprise architecture. USDA is working on 18 of the 24 government-wide E-government initiatives, including Recreation One-Stop, which will provide a searchable database of recreation areas nationwide, with online mapping and integrated transactions like campground reservations and the purchase of recreational passes. To improve in the areas of human capital, competitive sourcing, and budget and performance integration, USDA needs to increase its commitment and show actual progress towards meeting these goals.

Department of Commerce—Commerce has made good progress on implementing the President's Management Agenda. The department should exceed the preliminary targets for competitive sourcing in 2003. The Census Bureau is currently studying 225 positions that perform a variety of clerical and administrative functions on a temporary basis, including secretarial duties, data entry, photocopying,

[3] http://www.whitehouse.gov/omb/budintegration/index.html

filing, and preparing mailings. Financial performance is improving with continued implementation of Commerce's integrated financial system. With the National Oceanic and Atmospheric Administration implementing the system ahead of schedule this fall, most of the department will be using the new system. In the human capital area, the Economic Development Administration has completed a workforce restructuring plan and is seeking buyout authority from Congress.

Department of Defense (DoD)—While prosecuting the war on terrorism has been DoD's principal focus since September 11th, the Department has made a major effort to address the President's Management Agenda. DoD took a significant step in addressing its longstanding financial management problem by recently hiring IBM to develop a Defense-wide financial management enterprise architecture and to standardize data and processes. Implementation of this architecture will ensure that DoD's financial statements are more accurate and satisfy a critical need to help the department make more effective decisions.

In addition, DoD has conducted the largest competitive sourcing program in the federal government, and is planning to compete 15 percent of those positions not deemed inherently governmental by 2003. Competitions are spread out over a wide array of military base functions, including communications, computing, and maintenance and repair.

With respect to human capital management, the department has produced strategic plans for both civilian and military human resources. The civilian plan is an important first step in addressing workforce imbalances created by downsizing over the last decade.

Within the information technology area, DoD is actively engaged in four E-government efforts, taking steps to improve its IT security, and increasing visibility into its IT investment process. Finally, DoD is in the early stages of developing metrics to correlate program performance with budgeting decisions for the 2004 budget.

Department of Education—Education has made significant progress implementing the management agenda. Through the "One-ED" plan, the department has developed a framework for improving the efficiency of every major business function by identifying human capital deficiencies and competitive sourcing opportunities. In addition, Education has strengthened its information technology investment review process through significant improvements to its business case analyses. For example, the business case in support of the department's performance-based data management initiative is being used by other agencies as a "best practice" model.

The Department's management team tracks progress on approximately 200 action items tied to meeting the management agenda standards for success. The Deputy Secretary, who chairs the President's Management Council committee on budget and performance integration, heads this team and conducts weekly meetings to ensure that key personnel are carrying out the management agenda.

Department of Energy—DOE made significant progress in addressing the President's management agenda. Status on the human capital initiative improved due to DOE's aggressive development and implementation of its workforce restructuring plan. DOE has crucial top level support for this initiative. The department has restructured large programs such as the Office of Environmental Management to de-layer and improve accountability. DOE's continuing progress hinges in part on its ability to maintain strong central oversight and coordination of the major management, information, and budgetary operations of its diverse programs.

One of the Department's more significant accomplishments is that it identified more than 1,000 positions for competitive sourcing studies. Instead of selecting positions for competitive analysis on a bureau by bureau basis, DOE is selecting functional areas for review across the department, such as financial services, human resources training, and information technology (IT). It plans to conduct a full-scale study of all IT activities, which include a variety of functions at multiple sites including both contracted and federal positions.

Environmental Protection Agency (EPA)—EPA continues to improve its workforce restructuring plan and has implemented an innovative senior executive service mobility

program, which rotates managers' assignments in order to expand program knowledge and transfer executive skill sets. EPA accelerated its competitive sourcing program and will identify positions to be competed to meet both 2002 and 2003 goals by the end of the year. As part of the agency's E-government efforts, EPA is working with States and tribes on such projects as the National Environmental Information Exchange Network and the related Central Data Exchange to reduce reporting burdens to make data collection and access more efficient.

Health and Human Services (HHS)—Although HHS struggles with a historically decentralized organizational structure, the department is working to strengthen internal coordination of management agenda efforts. HHS has provided strong E-government leadership on e-Grants, contributing both staff and first-year funding for the project. This important initiative will simplify and unify government grant systems, particularly through the establishment of a single grantee identifier. In addition, the department's new CIO will focus the department on establishing an enterprise architecture and strengthening information technology security, as described in the information technology five-year plan.

In the area of human capital, HHS has finalized a recruitment and retention strategy and instituted performance-based employment contracts for top managers. To strengthen financial performance, the department has a comprehensive corrective action plan to resolve material weaknesses, and has begun assessment of payment risks in key programs and implementation of a Unified Financial Management System. Finally, in budget and performance integration, a departmental performance plan linking budget and performance information will be developed and various program-specific efforts are underway.

Housing and Urban Development (HUD)—HUD is working to correct longstanding material weaknesses that have reduced its effectiveness and wasted resources. Positive steps include HUD's reassigning more than 300 employees to higher priority work after implementing a new resource allocation system. HUD also developed proposed legislation to help it identify all sources of tenant income to correctly determine the amount of subsidies due—legislation that could reduce the over $1 billion each year in overpaid rent subsidies. HUD improved its capital planning and project management for major information technology investments. For instance, it integrated FHA's many separate financial systems into one system. An enhanced intern program is bringing new talent into the Department as a critical element of a new strategy to address human capital weaknesses, including the potential retirement of up to 49 percent of its workforce within the next three years.

Department of the Interior—Interior is making progress in addressing the President's Management Agenda, but is struggling to approach the agenda from a department-wide perspective. Some of the struggle is due to Interior's complex, multi-mission organization and structure, with everything from vast lands and national parks to island trust territories within its areas of responsibility. Interior recognizes the challenges it faces and is putting substantial time and resources into improving performance. Specifically, Interior has established a Center for Competitive Sourcing Excellence to begin implementing its plans to study direct conversion and public-private competitions of 3,345 positions, including maintenance workers, gardeners, and engineers. Interior has also applied an internal management scorecard to focus senior managers on the President's Management Agenda. Interior needs to continue to aggressively pursue its management agenda for human capital, E-government, and budget and performance integration. However, the Department's failure to make progress on the financial performance agenda item is of the most concern.

Department of Justice—The Department's leadership is now giving attention to the management agenda after some initial delay following the events of September 11th. Justice has revised its strategic plan to align it with its strengthened counterterrorism mission, and is developing a proposed budget structure consistent with the strategic plan and linked to performance. The development of a human capital strategy is proceeding on schedule, with emphasis on overcoming cultural barriers to improvement and refocusing department resources on the enhanced counterterrorism mission. In addition, Justice has achieved passing

grades for business cases supporting all major information technology investments and—with Treasury and FEMA—is taking the lead for the wireless E-government initiative (Project SAFECOM) which will ensure that public safety personnel at all levels of government can communicate and share information as they respond to emergency incidents.

Department of Labor—Labor has demonstrated a sustained commitment to implementation of the management agenda and is making good progress. A key component of the department's success is its Management Review Board, which monitors progress by regularly reviewing department-wide reform implementation. With the correction of deficiencies in its financial systems, Labor's financial management "status" has been upgraded to "yellow." The department is developing a new performance measure to reduce Unemployment Insurance erroneous payments, which could save hundreds of millions annually. In the human capital area, the department overhauled its performance appraisal system. To align resources and performance, Labor is completely redesigning its 2004 Budget. Labor was the leader in the government-wide development of Govbenefits, an online tool to help citizens determine their eligibility for federal assistance programs. The Deputy Secretary of Labor is chairing the President's Management Council committee on E-government.

Department of State—After a slow start, the outlook for State has improved. The department submitted a final competitive sourcing management and competition plan to target for competition 234 warehousing, payroll, architectural/engineering and related services, printing and reproduction, and medical positions. The department is on schedule for a full conversion to the new Regional Financial Management System that will comply with federal requirements for financial performance by the end of 2003. Thus far, State has brought 16 posts on-line. State has improved its E-government planning efforts by integrating information technology and budget decision-making, but needs to complete an enterprise architecture and an adequate security corrective action plan. In addition, while State has improved its planning effort to strategically manage its workforce, the department must still finalize an implementation plan.

Department of Transportation (DOT)—DOT is thus far meeting with mixed results in implementing the President's Management Agenda. Monthly, the Secretary reviews operating administrations' progress. However, DOT has made slow progress in developing a human capital strategy. It expects to complete a department-wide plan this year. DOT will not meet the 2002 competitive sourcing goal on a department-wide basis, although outsourcing is being used extensively by the Transportation Security Administration and additional competitive sourcing opportunities are being explored in the Federal Aviation Administration (FAA). DOT is deploying a new accounting system, has finalized its capital planning and investment control policy guidance, and plans to institute an enterprise architecture early next year. DOT is aggressively leading the online rulemaking E-government project. DOT proposed a performance-based research and capital program for the FAA for 2003 and will aggressively expand performance-based budgeting department-wide in its 2004 budget submission.

Department of the Treasury—Treasury is making significant progress in implementing the management agenda. The department has led the government in financial management improvements. Treasury no longer prepares monthly financial statements weeks after the close of business. Instead, Treasury has succeeded in having all its bureaus "close their books" within three days of the end of the month—a practice more in line with that of private industry. In 2002 and following years, Treasury also plans to complete its financial audit by November 15, meeting the newly announced November 15 audit deadline two years prior to the mandatory 2004 government-wide effective date. Treasury also has an ambitious program to improve citizen services through expanded E-government. It recently introduced a secure, easy to use internet option for taxpayers to confirm that IRS received their tax return and to determine when to expect a refund if one is due.

Department of Veterans Affairs (VA)—VA has moved aggressively to restructure its budget accounts to align with its business lines, addressing complex issues with all budget process stakeholders: VA staff, Treasury, OMB, and Congressional committees. VA's in-

formation technology (IT) management has made strides as the department presented an enterprise architecture implementation plan, a revised FY2004 business case development process, and an excellent corrective action plan for meeting government computer security requirements. One setback has been the delay in improving financial systems. VA began testing a new financial and logistical system at several sites and identified additional requirements: more legacy systems in need of replacement, further changes needed to business processes, and gaps in the IT infrastructure.

U.S. Agency for International Development (USAID)—Historically, USAID has had significant difficulties managing its thousands of projects in over eighty countries because of obsolete and ineffective management systems. As a result, the agency faces serious challenges in improving management given the low starting point for each agenda item and the wide range and complexity of programs it operates. For example, USAID has financial management systems that are unable to produce auditable financial statements. Its management information systems cannot produce basic information, such as real-time obligations data, in a timely manner. The agency does not have a comprehensive workforce planning model for its multiple personnel systems. Nor does it yet have competitive sourcing plans.

Since September 2001, USAID has primarily focused on developing plans to achieve full compliance with the Agenda, and it has taken some concrete steps to improve its performance. The agency is completely re-evaluating business processes to achieve successful deployment of the financial management system to the field as efficiently as possible. It has adopted some automated tools to improve performance in human resources and procurement functions. USAID is also taking steps to link its resource allocation decisions more closely to performance, but has not yet developed a plan to implement competitive sourcing.

Corps of Engineers—The Corps has made only modest progress on the management agenda initiatives overall. It has been most successful in the E-government arena, which is being coordinated effectively by the Corps' Chief Information Officer. The Corps is working to improve its capital planning process for information technology investments and to develop a robust plan for an enterprise architecture. Less progress has been made on other agenda items. In particular, the Corps is a year behind schedule in meeting government-wide competitive sourcing targets, and it is not clear whether the human capital plan that it is developing will meet acceptable criteria. The Corps is making some progress resolving financial management issues regarding computer security and property and construction records, and has begun to engage on crafting suitable program performance criteria and revising its strategic plan.

Federal Emergency Management Agency (FEMA)—FEMA is working to address workforce skill and competency gaps. The agency is also exploring whether its National Processing Servicing Center activities and other commercial activities could be performed by commercial entities with greater efficiency. With respect to financial management, FEMA has launched a balanced program to address deficiencies that resulted in a qualified opinion on its 2001 financial statements. FEMA is also working to make federal disaster programs more citizens centered and will develop a single internet-based portal that will save time and money during the application and disbursement process. FEMA is also promoting interoperability through shared wireless communications networks designed to ensure that public safety personnel, throughout all levels of government, can communicate and share information as they respond to emergencies.

General Services Administration (GSA)—GSA is replacing its core accounting system to improve funds management capabilities and controls. Although GSA experienced difficulties moving the project forward, deliberate planning and leadership helped get the project back on track for implementation by the end of the fiscal year. Furthermore, through a collaborative, interagency approach, GSA is leading the e-Travel initiative, which will provide agencies with a common customer-centric, web-based travel management service. GSA has completed a comprehensive review of its senior executive allocation criteria to ensure that the right leadership is in the appropriate places. Finally, GSA revised its strategic

plan and is developing an automated measurement system to monitor its performance.

National Aeronautics and Space Administration (NASA)—NASA has made notable progress in each area of the management agenda. For example, NASA has developed its first strategic human capital plan; completed a pilot of its first agency-wide human resources tracking system; increased the number of positions that could be open to competition by 70 percent over its 2000 FAIR Act inventory; and developed an interim plan for competing up to 40 percent of the commercial positions on its 2000 inventory. While NASA's financial performance "status" deteriorated because of a disclaimer of opinion on its 2001 audit after a change of auditors, since then NASA has worked with its new auditor to develop an action plan and expects resolution of all outstanding issues by the end of July. In terms of E-government, NASA has strengthened the role of its Chief Information Officer and is improving its capital planning and investment control process and IT security tracking. Finally, NASA has aligned its budget structure with program outputs and prepared for full cost and performance budgeting in 2004.

National Science Foundation—NSF has achieved a green "status" rating in E-government that joins its green "status" for financial performance. NSF did so by making significant progress in fixing identified information security problems. NSF is taking a systemic view of the management agenda, understanding that the five initiatives are intrinsically linked. It developed an Administration and Management Strategic Plan that addresses all five initiatives. This plan includes a comprehensive, multi-year business analysis, which will inform progress in each of the initiatives and will ultimately result in an organization that does business in more efficient ways. Since the initial results of its business analysis will not be available until 2003 at the earliest, NSF is developing near-term plans for addressing the management initiatives. As such, limited progress has been made on the competitive sourcing and budget and performance integration initiatives.

Office of Management and Budget (OMB)—OMB is undertaking an analysis of its human capital requirements and is developing a human capital plan. It has already changed its performance evaluation system and plans to enhance orientation for new employees this summer. In the area of E-government, OMB has redesigned its website to make it more attractive and easier to use. It is leading the way toward on-line rulemaking, thereby improving citizen access to the regulatory process.

Office of Personnel Management (OPM)—OPM has demonstrated measurable progress toward achieving the management agenda's standards for success. Using input from its workforce and employee unions, external customers (like federal agencies and retirees) and the public at large, OPM is restructuring itself to better deliver needed services. OPM is using market-based competition to improve performance and reduce costs by competitively sourcing facilities maintenance, financial system programming and computer operations activities.

OPM is the lead agency on a number of E-government initiatives that will make finding, selecting and keeping good people faster, easier and cheaper. The e-Clearance project lets agencies save time and money by electronically sharing background investigation data. The e-Payroll project will standardize payroll processing across government and eliminate redundant investments. The Retirement System Modernization project is using technology to improve customer service delivery and payment accuracy, while eliminating 120,000 square feet of storage space for paper records and associated storage costs. The OPM Director chairs the President's Management Council's committee on human resources.

Small Business Administration (SBA)—SBA has made significant progress towards achieving the President's Management Agenda. Leading SBA's list of accomplishments is the completion of a plan which rationalizes its field structure by consolidating redundant functions and service centers. SBA is also exploring options to convert clerical work performed by temporary federal workers to commercial entities, which is cost-effective and will provide the agency with additional flexibility. In addition, SBA is implementing a loan-moni-

toring system to improve lender oversight and is participating in ten government-wide information technology initiatives, including e-Loans, e-Grants, Disaster Management and Crisis Response, and the Business Compliance One-Stop, which includes eight federal partners and three states and will help make SBA programs more citizen-centered.

Smithsonian Institution—The Smithsonian has significant work to complete before it can improve its baseline ratings. An overarching issue is that internal cultural barriers and agency history have hindered an institution-wide approach to management improvements. For example, the Smithsonian has hired a contractor to perform a workforce analysis and have canvassed employees at twenty-five percent of the agency's units. The agency is also implementing a replacement of its financial management system to replace its current inadequate system. The new system is on schedule for initial deployment in October 2002. The Smithsonian is aggressively addressing its significant information technology shortcomings. A recent Inspector General report identified several concerns with information security activities, which the Smithsonian does not contest and currently is developing a corrective action plan.

Social Security Administration—SSA has made progress towards achieving the President's Management Agenda. In the area of budget and performance integration, SSA is developing a new budget formulation system that will interface with its financial management systems and have modeling capabilities to formulate and execute budgets in order to better link performance and budgeting. In addition, SSA has moved 200 staff support positions to front-line customer service positions and has developed a new five-level performance appraisal system for senior executive service candidates. SSA continues to make progress in integrating its financial and performance management systems and addressing payment accuracy issues. Furthermore, SSA has committed to building an electronic disability process by the end of 2004.

SPECIFIC PROGRAM INITIATIVES

In addition to the five government-wide management initiatives, the President's Management Agenda includes nine agency-specific reforms. These initiatives provide an opportunity to make a dramatic and material difference in federal management program performance in one or more agencies.

(The Executive Branch Program Initiatives Scorecard follows at the end of this chapter.)

Faith-Based and Community Initiative

Existing regulatory and administrative barriers to the full participation of grassroots faith-based and community organizations (FBO/CBOs) in the delivery of social services have not yet been eliminated. However, the five agencies that are the focus of the Presidential Executive Order on the Faith-Based and Community Initiative—Education, Health and Human Services, Housing and Urban Development, Justice and Labor—have made significant progress in eliminating some unwarranted regulatory barriers and in providing affirmative statements of FBO/CBO eligibility for federal programs. Additional efforts are needed to eliminate the remaining administrative barriers. These agencies are working to provide technical assistance to FBOs and CBOs, but further work is needed to ensure that these initiatives are coordinated and address the needs of small and novice grant applicants.

Privatization of Military Housing

The Department of Defense is tackling the problem of inadequate housing by demolishing dilapidated units, renovating existing houses, and building new homes. Increasingly, DoD relies on the private sector, which has the expertise to manage real property and can increase the quality of DoD-owned housing at less cost and faster than the government. By the end of 2002, DoD is expected to privatize 28,053 units, of which 18,188 are inadequate and will be improved. So far in 2002, DoD has privatized four projects, two of which are at large military locations in Ft. Lewis, Washington, and Ft. Meade, Maryland. In 2003, DoD plans to privatize approximately another 35,600 units. The Army and the Navy plan to meet DoD's goal of eliminating inadequate housing units by 2007. The Air Force plans, however, are still focused on 2010.

Better Research and Development Investment Criteria

Across government, agencies use inconsistent and incomplete data and methods to assess and justify R&D programs. The goal of this initiative is to develop objective investment criteria for federal research and development (R&D) programs and use the criteria in formulating the 2004 Budget for applicable programs across the government. Improving the process for budgeting, selecting, and managing R&D programs will increase the productivity of the federal R&D portfolio, the return on taxpayer investment, and better ensure the investments are in areas of national significance. Based on a pilot implementation at the Department of Energy as part of the 2003 Budget, OMB revised the criteria for broader applicability and sent them to agency heads as part of joint OMB-Office of Science and Technology Policy guidance on R&D. OMB has been working with the agencies to implement the criteria, identifying appropriate reporting levels and systems to address the criteria. For example, DOE is developing a database to collect and present data on its R&D projects, and NASA is recasting its strategic plan, budget justification, and other documents to directly tie to the criteria.

Elimination of Fraud and Error in Student Aid Programsand Deficiencies in Financial Management

The Secretary of Education has launched a major effort to resolve issues preventing the department from achieving an unqualified audit opinion on its financial statements and to have student financial assistance programs removed from GAO's high risk list by successfully addressing management deficiencies. The Department of Education's progress on this initiative has been positive. Working with the Department of the Treasury, Education drafted and submitted to Congress a legislative proposal that would amend the Internal Revenue Code to allow Education to match student applicant data with IRS data for the purpose of verifying applicant eligibility for student financial assistance. The proposed match, if enacted and fully implemented, would eliminate hundreds of millions in erroneous payments in student aid programs. Moreover, Education has improved financial management through deployment of a new general ledger system and significant reductions in unreconciled cash items. While Education has worked to improve default management and prevention strategies, more work needs to be accomplished in assuring compliance with laws and regulations. Business process and system enhancements have yielded improvements in technical assistance to schools, but program monitoring needs more management attention.

Housing and Urban Development Management and Performance

As part of the President's Management Agenda, HUD has committed to tackling long-standing management problems that leave some subsidized families trapped in substandard housing, expose home buyers to fraudulent practices, and result in HUD's paying excessive rent subsidies that otherwise could be used to help additional families. HUD has made progress over the past year, but much remains to be done. The physical condition of subsidized properties has improved. The Administration is asking Congress to help by authorizing a major reform that would use private mortgage financing to recapitalize viable public housing and let tenants move from a troubled project without giving up their subsidy. HUD is making substantial progress toward reducing the multiple types of errors that contribute to over $3 billion in gross annual erroneous rent subsidy payments. It is testing an expert computer system to reduce the 60 percent error rate in calculating subsidies, and it has developed proposed legislation for limited income data matching authority to enable a more efficient and effective means of verifying tenants' income upon which subsidies are based. HUD's Federal Housing Administration has taken steps to protect home buyers from a fraudulent practice known as property flipping, and made a successful start to reduce risk in its financial systems. Finally, HUD is working closely with the states and communities receiving block grants to reduce meaningless compliance burdens and develop a better reporting tool.

Broadened Health Insurance Coverage through State Initiatives

HHS released the Health Insurance Flexibility and Accountability (HIFA) Demonstration Initiative on August 4, 2001. This guidance outlined the Administration's goal of increasing health insurance coverage by coordinating currently available Medicaid and State Children's Health Insurance Program (SCHIP) funding with private insurance. HHS has conducted extensive briefings on the project and HIFA is frequently included in policy discourse on how to improve health insurance coverage among lower income Americans. To date, the Administration has approved HIFA demonstrations in Arizona and California. Both of these demonstrations will extend health insurance coverage to lower income parents of children enrolled in Medicaid or SCHIP. Arizona's demonstration will also cover low income uninsured childless adults. Six State HIFA proposals are currently under review at HHS. The low number of approvals is primarily due to the time required for States to develop programmatic ideas and submit applications. Some review time is also required to work with States to resolve programmatic and budget concerns.

A "Right-Sized" Overseas Presence

The goal of this initiative is to analyze and review U.S. presence overseas and develop a credible and comprehensive overseas staffing allocation process. This will provide the Administration with a means to link overseas assignment with overall U.S. government policy, funding, and agency construction planning. The Administration's interagency rightsizing initiative is moving from recommendations to concrete steps that will have an impact on how resources of all federal agencies are deployed overseas.

On a practical level, OMB, State, and other federal agencies have been working to ensure that a proposed new interagency regional center in Frankfurt, Germany is developed from the outset to serve country-specific and regional needs. State and OMB are analyzing the current staff federal agencies have in Frankfurt as well as some functions federal agencies perform across Europe, to determine which functions could be regionalized in Frankfurt or performed from the United States. A more extensive pilot project on interagency rightsizing is underway to examine all posts within the European and Eurasia Bureau. This pilot effort will involve OMB and interagency cooperation and build upon the rightsizing work of GAO to consider how to conduct rightsizing on a larger scale.

Finally, State and OMB are working to develop a cost sharing mechanism that would apply to all federal agencies to finance the construction of new embassies. If properly designed, a cost sharing mechanism for capital costs could be a powerful on-going incentive to right-size future presence at new posts.

Reform of Food Aid Programs

The Administration announced the results of its interagency process to reform federal food aid programs in conjunction with release of the 2003 Budget. The reforms were designed to address the ad hoc process of funding international food aid, target funding to feeding hungry people, and ensure consistency in USDA and USAID management of food aid programs. The main objectives of the reforms are being accomplished on schedule. By terminating a USDA program that funded food aid through unpredictable surplus commodities and requesting an additional $335 million for a USAID program funded through annual appropriations, the initiative is providing a more reliable method of funding for food aid, while still feeding approximately the same number of hungry people once the reforms are fully implemented. The House Appropriations Agriculture Subcommittee has provided funding consistent with this approach. The Administration is working to conform this initiative with recent changes to farm legislation.

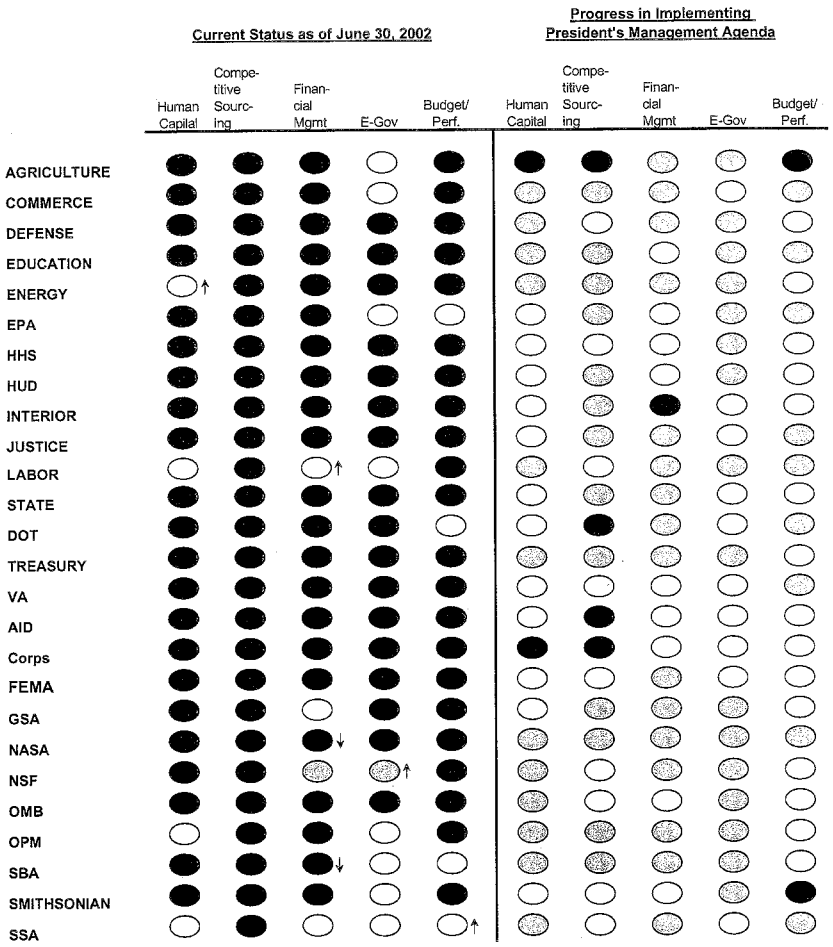
Coordination of Veterans Affairs and Defense Programs and Systems

This initiative is designed to enhance coordination and delivery of veterans benefits and services by VA and DoD. At the release of the President's Budget, VA/DoD sharing of services was given a red score because of lack of a national focus on coordination. Since then, VA and DoD have created an Executive Council that is actively pursuing a national coordination strategy. One area

of great progress is the development of a joint plan for an interoperable patient record for use in the VA and DoD health care systems, and VA's assessment of how it will use DoD's enrollment system. These will allow for greater coordination of care potentially increasing the safety, satisfaction, and quality of care for VA and DoD patients and the seamless transition of enrollment status as active duty members become veterans.

In addition, VA and DoD have agreed to establish a single regionally adjusted discounted rate structure for DoD/VA medical sharing agreements. Using a single regionally adjusted rate simplifies negotiations among facilities, clarifies reimbursement issues, accounts for local cost differences, and will increase opportunities for resource sharing. DoD and VA are also discussing potential savings associated with the joint use of aeromedical evacuation resources and joint training for health care providers.

Executive Branch Management Scorecard



Executive Branch Program Initiatives Scorecard

	Current Status as of June 30, 2002	Progress in Implementation
Faith-Based and Community Initiative	●	○
Privatization of Military Housing	○	◐
Better R&D Investment Criteria	●	○
Elimination of Fraud and Error in Student Aid Programs and Deficiencies in Financial Management	●	○
Housing and Urban Development Management and Performance	●	○
Broadened Health Insurance Coverage Through State Initiatives	○	○
A "Right-Sized" Overseas Presence	●	○
Reform of Food Aid Programs	○	◐
Coordination of VA and DoD Programs and Systems	○	◐

SUMMARY TABLES

45

SUMMARY TABLES

Table 6. BUDGET TOTALS

	2002	2003	2004	2005	2006	2007
In billions of dollars:						
Outlays	2,032	2,138	2,217	2,298	2,390	2,483
Receipts	1,867	2,029	2,169	2,351	2,451	2,567
Deficit/surplus	–165	–109	–48	53	60	84
Debt held by the public	3,529	3,655	3,713	3,669	3,622	3,546
As a percent of GDP:						
Outlays	19.4	19.3	19.0	18.7	18.5	18.2
Receipts	17.8	18.4	18.6	19.1	18.9	18.8
Deficit/surplus	–1.6	–1.0	–0.4	0.4	0.5	0.6
Debt held by the public	33.7	33.1	31.8	29.8	28.0	26.0

Table 7. BUDGET SUMMARY BY CATEGORY

(In billions of dollars)

	2002	2003	2004	2005	2006	2007	2003–2007
Outlays:							
Discretionary:							
Defense	332	371	388	408	423	437	2,028
Nondefense	379	399	413	418	424	432	2,086
Subtotal, discretionary	711	771	801	826	847	870	4,114
Emergency response fund	36	17	8	3	2	1	30
Mandatory:							
Social Security	453	473	494	515	538	566	2,587
Medicare	223	232	242	260	282	307	1,324
Medicaid	147	161	173	188	205	223	950
Other mandatory	291	305	302	307	319	323	1,556
Subtotal, mandatory	1,114	1,171	1,212	1,270	1,345	1,419	6,417
Net interest	171	180	196	198	197	194	965
Total Outlays	2,032	2,138	2,217	2,298	2,390	2,483	11,526
Receipts	1,867	2,029	2,169	2,351	2,451	2,567	11,567
Surplus	–165	–109	–48	53	60	84	41
On-budget surplus	–322	–282	–236	–165	–176	–171	–1,031
Off-budget surplus	157	173	189	219	237	255	1,072

Table 8. IMPACT OF BUDGET POLICY ON THE SURPLUS

(In billions of dollars)

	2003	2004	2005	2006	2007	2003–2007
Current baseline surplus/deficit	-62	17	137	174	219	485
Budget proposals:						
Defense and homeland security	-37	-42	-46	-52	-58	-235
Strengthening Medicare	-2	-3	-5	-17	-22	-50
Provide incentives for charitable giving	-3	-2	-3	-4	-4	-16
Health tax credits	-1	-8	-9	-9	-9	-37
Reform unemployment	-1	-2	-4	-6	-8	-20
Extend expiring tax provisions	-1	-2	-4	-7	-8	-22
Other proposals	-1	-2	-6	-6	-7	-22
Related debt service	-1	-4	-8	-12	-18	-43
Subtotal, budget proposals	-47	-65	-84	-113	-135	-445
Budget surplus/deficit	-109	-48	53	60	84	41

Table 9. DISCRETIONARY TOTALS

(Budget authority, dollar amounts in billions)

	2001	2002	2003	Difference 2002–2003	
				Dollars	Percent
Discretionary Budget Authority:					
Homeland Security	10	12	25	13	111
Department of Defense[1]	303	328	376	48	15
Other Operations of Government	330	348	356	7	2
Total, Discretionary Budget Authority[2]	**643**	**688**	**757**	**69**	**10**
Emergency Response Fund:					
War on Terrorism	13	19			
Homeland Security	3	13			
Other September 11th Response	5	15			
Total, Emergency Response Fund	**20**	**47**			

Note: Adjustments for the full cost of accounting for retirement benefits would add $8 billion in FY 2001 and $9 billion in both FY 2002 and FY 2003.

[1] A 2003 budget amendment increasing the Department of Defense by $10 billion for expenses related to the war on terrorism was transmitted to the Congress on July 3, 2002. Consequently, the total percent increase for discretionary budget authority now stands at 10 percent, up from 8.5 percent in the February Budget.

[2] Excludes budget authority associated with the mass transit budget category.

Table 10. MANDATORY PROPOSALS

(In millions of dollars)

	2003	2004	2005	2006	2007	2003–07	2003–12
Strengthening Medicare	1,680	3,375	5,068	17,485	22,497	50,105	190,159
Medicaid/SCHIP:							
Medicaid/SCHIP Reform	348	125	309	144	161	1,087	1,781
Rationalizing Prescription Drug Payments	–290	–650	–1,090	–1,620	–1,800	–5,450	–17,640
Welfare Reform:							
TANF Reauthorization	–14	288	266	340	387	1,267	2,976
Child Support Enforcement:.							
Federal Collections and Payments to States	–66	–53	60	116	119	176	798
Food Stamps Savings	.....	.....	–37	–47	–49	–133	–402
Medicaid Savings	.....	.....	–5	–15	–20	–40	–210
Subtotal, Child Support Enforcement	–66	–53	18	54	50	3	186
Supplemental Security Income	–2	–6	–15	–25	–32	–80	–419
Medicaid savings	–3	–10	–26	–49	–75	–163	–1,036
Subtotal, Supplemental Security Income	–5	–16	–41	–74	–107	–243	–1,455
Total, Welfare Reform	–85	219	243	320	330	1,027	1,707
Other Proposals:							
Agriculture:							
Increase Timber Competition (use of sealed bids)	.....	–5	–10	–14	–15	–44	–139
Non-Timber Interests Bidding	.....	–5	–5	–10	–10	–30	–80
Collect Fair Market Value from Ski Resorts	.....	–3	–10	–14	–15	–42	–117
Accelerate repayment to reforestation trust fund and payments from special use permits to enhance environmental protection for lands used by ski resorts	.....	13	25	38	40	116	336
Provide permanent recreation fee authority	.....	.....	–10	1	1	–8	–3
Education:							
Teacher loan forgiveness	45	14	17	18	18	112	211
Energy:							
Power Marketing Associations to directly fund Corps of Engineers' operations and maintenance expenses	149	149	150	150	150	748	1,498
Increase BPA's borrowing authority	.....	113	498	89	.....	700	700
ANWR, lease bonuses	.....	–1,200	.....	.....	.....	–1,200	–1,200
Health and Human Services:							
Abstinence education	14	37	42	47	50	190	440
Interior:							
ANWR, lease bonuses:							
State of Alaska's share:.							
Receipts	.....	–1,201	–1	–101	–1	–1,304	–1,587
Expenditure	.....	1,201	1	101	1	1,304	1,587
Federal share	.....	–1	–1	–101	–1	–104	–387
Provide permanent recreation fee authority	.....	.....	–17	7	48	38	490
Correct trust accounting deficiencies in individual Indian money investments	7	.....	.....	.....	.....	7	7
Labor:							
Reform Unemployment Insurance	–28	–32	446	1,515	2,742	4,643	19,141
Refinance Black Lung Disability Trust Fund debt:							
Black Lung Disability Trust Fund	1,606	–446	–435	–430	–427	–132	–2,184
Treasury's interest receipts	–1,606	446	435	430	427	132	2,184
Propose Reforms of FECA for Future Beneficiaries	–12	–24	–27	–29	–32	–124	–310
Redirect H–1B training	80	–15	–48	–17	.....	.....	.....
Treasury:							
Tax credits	987	6,147	6,930	7,463	7,592	29,119	75,261
Veterans Affairs:							
IRS income verification on means tested veterans and survivors benefits	.....	–6	–6	–6	–6	–24	–54
Army Corps of Engineers:							
Recreation user fee increase	–6	–1	–1	–1	4	–5	15
FCC:							
Impose annual analog fees after 2006	.....	.....	.....	.....	–500	–500	–2,680
FEMA:							
Reform National Flood Insurance	–43	–75	–115	–165	–227	–625	–2,080

Table 10. MANDATORY PROPOSALS—Continued

(In millions of dollars)

	2003	2004	2005	2006	2007	2003–07	2003–12
OPM:							
Simplify computation of annuities under the CSRS for individuals with part-time service	3	8	14	20	27	72	313
Multi-Agency:							
Authorize spending of reimbursements for spectrum relocating costs	100	50	100	165	100	515	715
Indirect impact of other proposals (Third scorecard):							
Enact FECA surcharge	.....	–1	–5	–7	–7	–20	–50
Total, mandatory proposals	**2,949**	**8,232**	**12,497**	**25,478**	**31,147**	**80,303**	**268,034**

Table 11. EFFECT OF PROPOSALS ON RECEIPTS

(In millions of dollars)

	2002	2003	2004	2005	2006	2007	2003–2007	2003–2012
Tax Incentives:								
Provide incentives for charitable giving:								
Provide charitable contribution deduction for nonitemizers	–334	–1,924	–1,446	–2,311	–3,613	–3,640	–12,934	–33,640
Permit tax-free withdrawals from IRAs for charitable contributions	–37	–247	–204	–218	–228	–236	–1,133	–2,651
Raise the cap on corporate charitable contributions	–8	–137	–103	–127	–145	–157	–669	–1,667
Expand and increase the enhanced charitable deduction for contributions of food inventory	–3	–56	–54	–59	–66	–72	–307	–796
Reform excise tax based on investment income of private foundations	–17	–280	–187	–189	–193	–205	–1,054	–2,279
Modify tax on unrelated business taxable income of charitable remainder trusts		–4	–3	–4	–4	–4	–19	–49
Modify basis adjustment to stock of S corporations contributing appreciated property	–1	–7	–11	–14	–17	–21	–70	–227
Allow expedited consideration of applications for exempt status[1]								
Strengthen and reform education:.								
Provide refundable tax credit for certain costs of attending a different school for pupils assigned to failing public schools[2]		–9	–23	–35	–50	–61	–178	–210
Allow teachers to deduct out-of-pocket classroom expenses			–21	–214	–217	–220	–672	–1,813
Invest in health care:.								
Provide refundable tax credit for the purchase of health insurance[3]		–300	–1,997	–2,803	–2,761	–2,932	–10,793	–29,225
Provide an above-the-line deduction for long-term care insurance premiums			–261	–506	–1,020	–1,843	–3,630	–18,371
Allow up to $500 in unused benefits in a health flexible spending arrangement to be carried forward to the next year			–441	–723	–782	–830	–2,776	–7,819
Provide additional choice with regard to unused benefits in a health flexible spending arrangement			–23	–39	–45	–52	–159	–566
Permanently extend and reform Archer MSAs		–27	–294	–461	–524	–601	–1,907	–5,939
Provide an additional personal exemption to home caretakers of family members			–318	–362	–345	–348	–1,373	–3,578
Assist Americans with disabilities:.								
Exclude from income the value of employer-provided computers, software and peripherals			–2	–6	–6	–6	–20	–52
Help farmers and fishermen manage economic downturns:.								
Establish FFARRM savings accounts			–133	–350	–244	–171	–898	–1,233
Increase housing opportunities:.								
Provide tax credit for developers of affordable single-family housing		–7	–76	–302	–715	–1,252	–2,352	–15,257
Encourage saving:.								
Establish Individual Development Accounts (IDAs)		–124	–267	–319	–300	–255	–1,265	–1,722
Protect the environment:.								
Permanently extend expensing of brownfields remediation costs			–192	–304	–298	–287	–1,081	–2,378

Table 11. EFFECT OF PROPOSALS ON RECEIPTS—Continued

(In millions of dollars)

	2002	2003	2004	2005	2006	2007	2003–2007	2003–2012
Exclude 50 percent of gains from the sale of property for conservation purposes	.....	–2	–44	–90	–94	–98	–328	–918
Increase energy production and promote energy conservation:								
Extend and modify tax credit for producing electricity from certain sources	.....	–243	–215	–116	–45	–45	–664	–900
Provide tax credit for residential solar energy systems	.....	–9	–7	–8	–17	–24	–65	–75
Modify treatment of nuclear decommissioning funds	–12	–228	–168	–178	–188	–198	–960	–2,111
Provide tax credit for purchase of certain hybrid and fuel cell vehicles	.....	–107	–173	–337	–521	–763	–1,901	–3,035
Provide tax credit for energy produced from landfill gas	.....	–46	–59	–86	–121	–140	–452	–1,145
Provide tax credit for combined heat and power property	.....	–290	–247	–237	–294	–138	–1,206	–1,180
Provide excise tax exemption (credit) for ethanol [1]	.....	.....	.....	.....	.....	.....	.....	.....
Promote trade:								
Extend and expand Andean trade preferences [4]	.....	–322	–213	–226	–58	.....	–819	–819
Initiate a new trade preference program for Southeast Europe [4]	.....	–21	–25	–26	–28	–31	–131	–131
Implement free trade agreements with Chile and Singapore [4]	.....	.....	–61	–85	–105	–130	–381	–1,351
Improve tax administration:								
Implement IRS administrative reforms	.....	60	49	50	52	54	265	559
Combat abusive tax avoidance transactions	.....	37	64	91	101	102	395	958
Limit related party interest deductions	.....	1,282	772	761	761	775	4,351	9,231
Reform unemployment insurance:								
Reform unemployment insurance administrative financing [4]	.....	–1,043	–1,892	–3,100	–4,298	–5,404	–15,737	–13,222
Simplify the tax laws:								
Establish uniform definition of a child	.....	–25	–24	–25	–25	–29	–128	–10
Provide incentives for small business:								
Increase Section 179 expensing	.....	–647	–840	–948	–908	–775	–4,118	–7,474
Expiring Provisions:								
Extend provisions that expired in 2001 for two years:								
Generalized System of Preferences (GSP) [4]	.....	–785	.....	.....	.....	.....	–785	–785
Permanently extend expiring provisions:								
Provisions expiring in 2010:								
Marginal individual income tax rate reductions	.....	.....	.....	.....	.....	.....	.....	–185,420
Child tax credit [5]	.....	.....	.....	.....	.....	.....	.....	–32,324
Marriage penalty relief [6]	.....	.....	.....	.....	.....	.....	.....	–12,420
Education incentives	–1	–5	–10	–15	–20	–26	–76	–2,809
Repeal of estate and generation-skipping transfer taxes, and modification of gift taxes	–169	–281	–814	–1,367	–2,009	–2,312	–6,783	–96,897
Modifications of IRAs and pension plans	.....	.....	.....	.....	.....	.....	.....	–6,490
Other incentives for families and children	.....	.....	.....	.....	.....	.....	.....	–1,278
Research & Experimentation (R&E) tax credit	.....	.....	–906	–2,949	–4,654	–5,623	–14,132	–51,051

Table 11. EFFECT OF PROPOSALS ON RECEIPTS—Continued

(In millions of dollars)

	2002	2003	2004	2005	2006	2007	2003–2007	2003–2012
Total budget proposals	**–582**	**–5,797**	**–10,869**	**–18,237**	**–24,044**	**–27,998**	**–86,945**	**–540,569**

[1] Policy proposal with a receipt effect of zero.

[2] Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is $156 million for 2003, $420 million for 2004, $656 million for 2005, $930 million for 2006, $1,184 million for 2007, $3,346 million for 2003–2007, and $3,991 million for 2003–2012.

[3] Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is $831 million for 2003, $5,727 million for 2004, $6,274 million for 2005, $6,533 million for 2006, $6,408 million for 2007, $25,773 million for 2003–2007, and $60,272 million for 2003–2012.

[4] Net of income offsets.

[5] Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is $9,499 million for 2003–2012.

[6] Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is $1,499 million for 2003–2012.

Table 12. RECEIPTS BY SOURCE

(In billions of dollars)

	2001 Actual	Estimates					
		2002	2003	2004	2005	2006	2007
February estimates							
Individual income taxes	994.3	949.2	1,006.4	1,058.6	1,112.0	1,157.3	1,221.7
Corporation income taxes	151.1	201.4	205.5	212.0	237.1	241.4	250.6
Social insurance and retirement receipts	694.0	708.0	749.2	789.8	835.2	868.7	908.3
Excise taxes	66.1	66.9	69.0	71.2	73.6	75.3	77.5
Estate and gift taxes	28.4	27.5	23.0	26.6	23.4	26.4	23.2
Customs duties	19.4	18.7	19.8	21.9	23.0	24.7	26.2
Miscellaneous receipts	37.8	36.4	40.2	42.8	43.2	44.4	46.2
Bipartisan economic security plan	.....	–62.0	–65.0	–47.5	–9.5	17.0	18.0
Total	**1,991.0**	**1,946.1**	**2,048.0**	**2,175.3**	**2,338.0**	**2,455.3**	**2,571.7**
Mid-Session estimates							
Individual income taxes	994.3	873.2	963.6	1,030.3	1,096.2	1,154.2	1,220.9
Corporation income taxes	151.1	144.8	176.8	194.7	256.1	251.2	256.2
Social insurance and retirement receipts	694.0	702.9	738.1	780.0	832.4	872.3	913.9
Excise taxes	66.1	67.2	69.9	72.8	74.8	76.1	78.3
Estate and gift taxes	28.4	27.5	22.2	25.0	22.7	25.0	22.5
Customs duties	19.4	18.2	18.7	22.1	23.7	25.3	26.9
Miscellaneous receipts	37.8	33.6	39.7	44.3	45.4	46.4	47.8
Bipartisan economic security plan	.....	.....	.....	.....	.....	.....	.....
Total	**1,991.0**	**1,867.4**	**2,029.0**	**2,169.3**	**2,351.2**	**2,450.5**	**2,566.5**
Difference							
Individual income taxes	.....	–76.0	–42.7	–28.2	–15.8	–3.1	–0.7
Corporation income taxes	.....	–56.6	–28.7	–17.2	19.0	9.8	5.6
Social insurance and retirement receipts	.....	–5.1	–11.2	–9.8	–2.8	3.5	5.7
Excise taxes	.....	0.3	0.9	1.6	1.1	0.9	0.8
Estate and gift taxes	.....	*	–0.8	–1.6	–0.8	–1.3	–0.7
Customs duties	.....	–0.5	–1.1	0.2	0.6	0.6	0.8
Miscellaneous receipts	.....	–2.8	–0.5	1.5	2.2	1.9	1.5
Bipartisan economic security plan	.....	62.0	65.0	47.5	9.5	–17.0	–18.0
Total	.....	**–78.7**	**–19.1**	**–6.0**	**13.1**	**–4.7**	**–5.1**

* $50 million or less.

Table 13. DISCRETIONARY BUDGET AUTHORITY BY AGENCY

(In billions of dollars)

	2001 Actual	February estimates						Mid-Session estimates					
		2002	2003	2004	2005	2006	2007	2002	2003	2004	2005	2006	2007
Legislative Branch	2.8	3.0	3.4	3.4	3.5	3.6	3.6	3.0	3.5	3.5	3.5	3.6	3.7
Judicial Branch	4.0	4.3	4.9	5.0	5.1	5.2	5.4	4.3	4.9	5.0	5.1	5.2	5.4
Agriculture [1]	19.4	19.4	19.3	20.6	20.7	21.2	21.7	19.5	19.6	20.3	20.7	21.2	21.7
Commerce	5.1	5.2	5.2	5.7	5.7	5.8	6.0	5.2	5.2	5.7	5.7	5.8	6.0
Defense—Military	302.6	327.7	366.0	383.4	404.1	424.7	446.2	327.7	376.0	383.4	404.1	424.7	446.2
Education	40.1	49.8	50.3	51.4	52.5	53.7	55.0	49.8	50.3	51.4	52.5	53.8	55.0
Energy	20.1	20.9	21.8	22.3	22.8	23.3	23.8	20.9	21.8	22.3	22.8	23.3	23.8
Health and Human Services	54.1	59.4	64.9	66.4	68.1	69.9	71.5	59.4	64.9	66.4	68.1	69.9	71.5
Housing and Urban Development	28.4	29.4	31.4	33.8	34.8	35.6	36.5	29.4	31.4	33.8	34.7	35.6	36.4
Interior	10.3	10.2	10.2	10.5	10.7	10.9	11.2	10.2	10.2	10.4	10.7	10.9	11.2
Justice	21.2	21.5	21.3	24.3	23.6	24.1	24.7	21.5	21.3	24.3	23.6	24.1	24.7
Labor	11.9	12.2	11.3	11.6	11.5	10.3	9.5	12.1	11.3	11.6	10.3	9.2	8.7
State	7.7	8.8	9.1	9.3	9.5	9.8	10.0	8.8	9.1	9.3	9.5	9.8	10.0
Transportation	17.2	15.8	19.0	19.1	19.6	20.0	20.5	15.8	19.0	19.1	19.6	20.0	20.5
Treasury	14.5	15.2	15.9	16.5	16.9	17.3	17.7	15.2	15.9	16.5	16.9	17.3	17.7
Veterans Affairs	22.4	23.8	25.6	25.9	26.4	27.0	27.6	24.0	25.6	25.9	26.4	27.0	27.6
Corps of Engineers-Civil Works	4.7	4.5	4.0	4.1	4.2	4.3	4.4	4.5	4.0	4.1	4.2	4.3	4.4
Other Defense Civil Programs	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2
Environmental Protection Agency	7.8	7.9	7.6	7.8	8.0	6.8	7.0	7.9	7.6	7.7	7.9	6.8	7.0
Executive Office of the President	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.4	0.4
Federal Emergency Management Agency	2.4	3.1	6.6	6.7	6.8	7.0	7.2	3.1	6.6	6.7	6.8	7.0	7.2
General Services Administration	0.5	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.5	0.6	0.6	0.6	0.6
International Assistance Programs	12.6	13.1	13.9	14.3	14.7	15.0	15.4	13.0	13.9	14.3	14.7	15.0	15.4
National Aeronautics and Space Administration	14.3	14.8	15.0	15.6	15.9	16.3	16.7	14.8	15.0	15.6	15.9	16.3	16.7
National Science Foundation	4.4	4.8	5.0	5.1	5.2	5.4	5.5	4.8	5.0	5.1	5.2	5.4	5.5
Office of Personnel Management	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.3
Small Business Administration	0.9	0.8	0.8	0.8	0.8	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.9
Social Security Administration	6.0	6.4	6.7	7.0	7.2	7.3	7.5	6.4	6.7	6.9	7.0	7.2	7.3
Other Independent Agencies	6.7	6.2	6.2	6.1	5.9	5.8	7.0	6.2	6.2	6.1	5.9	5.8	7.0
Allowances	...	–1.3	–0.4	–0.4	–0.4	–0.4	–0.4	–1.3	–0.4	–0.4	–0.4	–0.4	–0.4
Total	**642.6**	**687.9**	**746.5**	**777.5**	**805.1**	**832.1**	**863.3**	**687.9**	**756.8**	**777.1**	**803.8**	**831.0**	**862.5**
Memorandum:													
Emergency Response Fund	20	20	10	...	...	...	...	47.1	...	...	...	...	...

[1] Adjusted for enactment of P.L. 107-171.

Table 14. DISCRETIONARY PROPOSALS BY APPROPRIATIONS SUBCOMMITTEE

(Budget authority, dollar amounts in billions)

Appropriations Subcommittee	2000 Actual	2001 Enacted	2002 Estimate	2003 Proposed	Dollar Change: 2002 to 2003	Dollar Change: 2000 to 2003	Percent Average Annual Increase 2000 to 2003
Agriculture and Rural Development [1]	15.0	16.3	16.6	17.2	0.6	2.2	4.7
Commerce, Justice, State, and the Judiciary	38.8	38.9	39.7	40.3	0.6	1.5	1.3
Defense	278.8	293.6	317.4	367.2	49.8	88.3	9.6
District of Columbia	0.5	0.5	0.4	0.4	*	−0.1	−5.8
Energy and Water Development	21.6	24.2	24.6	25.1	0.5	3.6	5.2
Foreign Operations	16.2	14.6	15.3	16.1	0.8	−0.1	−0.3
Interior and Related Agencies	15.4	19.1	19.1	19.0	−0.1	3.6	7.3
Labor, Health and Human Services, and Education	87.1	109.8	123.8	130.5	6.7	43.4	14.4
Legislative	2.5	2.7	3.0	3.4	0.4	0.9	11.3
Military Construction	8.7	9.1	10.5	8.9	−1.6	0.3	1.1
Transportation and Related Agencies [2]	13.2	17.1	15.6	18.8	3.2	5.6	12.5
Treasury and General Government	13.7	16.0	17.2	18.0	0.8	4.3	9.5
Veterans Affairs, Housing and Urban Development	71.8	80.6	84.8	92.3	7.5	20.6	8.8
Allowances	.....	.....	.....	−0.4	−0.4	−0.4	NA
Total [3]	583.2	642.6	687.9	756.9	69.1	173.7	9.1
Emergency Response Fund	.....	20.0	47.1	.....	NA	NA	NA

* $50 million or less.
NA = Not applicable.
[1] Adjusted for enactment of P.L. 107–171.
[2] All years exclude mass transit budget authority.
[3] All years exclude the full cost of accounting for retirement benefits.

Table 15. OUTLAYS BY AGENCY

(In billions of dollars)

	2001 Actual	February estimates						Mid-Session estimates					
		2002	2003	2004	2005	2006	2007	2002	2003	2004	2005	2006	2007
Legislative Branch	3.0	3.5	3.9	4.0	3.8	3.8	3.9	3.5	3.9	4.1	3.9	3.9	4.0
Judicial Branch	4.4	4.9	5.4	5.5	5.7	5.8	5.9	4.9	5.4	5.5	5.7	5.8	5.9
Agriculture	68.1	76.1	74.0	74.4	74.2	74.7	76.5	72.8	78.8	79.1	78.2	77.5	76.6
Commerce	5.0	5.4	5.5	5.6	5.6	5.7	5.8	5.4	5.5	5.6	5.6	5.7	5.8
Defense—Military	291.0	327.4	357.7	371.1	390.5	405.3	418.7	335.8	360.6	372.3	390.9	405.4	418.8
Education	35.7	47.6	53.8	55.5	57.0	58.4	59.8	48.2	55.9	56.3	57.5	58.7	59.9
Energy	16.4	19.0	19.7	20.2	21.0	20.8	21.1	19.0	19.7	20.2	21.0	20.8	21.1
Health and Human Services	426.4	459.0	488.4	514.2	547.4	585.5	629.3	461.4	492.0	519.4	555.2	595.4	640.0
Housing and Urban Development	33.9	30.9	34.5	36.0	34.8	34.1	33.2	31.0	35.6	36.3	35.2	34.7	33.8
Interior	8.0	10.0	10.5	11.7	10.5	11.0	11.0	10.0	10.5	11.7	10.5	11.0	11.0
Justice	20.8	22.6	28.8	29.7	25.4	25.2	25.6	23.0	27.7	29.9	25.4	25.2	25.6
Labor	39.3	58.5	56.5	51.0	49.5	50.4	52.9	62.9	59.7	51.1	49.6	50.8	52.8
State	7.4	11.0	9.8	9.9	10.1	10.3	10.6	11.2	9.9	10.0	10.2	10.4	10.6
Transportation	54.1	60.0	58.0	56.1	55.8	56.7	58.4	64.1	59.1	57.1	56.8	57.7	59.4
Treasury	389.9	382.0	396.2	424.3	440.9	458.5	473.8	374.1	394.6	430.5	447.6	465.2	480.9
Veterans Affairs	45.0	50.6	55.6	57.7	62.2	62.0	61.3	51.8	57.6	59.8	64.4	63.7	62.8
Corps of Engineers-Civil Works	4.7	4.9	4.2	4.1	4.2	4.3	4.4	4.9	4.2	4.1	4.2	4.3	4.4
Other Defense Civil Programs	34.2	35.5	40.9	40.9	40.8	40.7	40.6	35.5	40.9	40.9	40.8	40.7	40.6
Environmental Protection Agency	7.4	7.7	8.0	8.0	8.0	8.0	8.0	7.7	8.0	8.0	8.0	8.0	7.9
Executive Office of the President	0.2	0.5	0.3	0.3	0.3	0.3	0.4	0.5	0.3	0.3	0.3	0.3	0.4
Federal Emergency Management Agency	4.4	5.8	7.5	7.5	8.1	6.8	6.4	5.6	8.9	8.5	8.4	7.1	6.6
General Services Administration	–*	0.6	–0.1	0.3	0.5	0.5	0.4	0.6	–*	0.3	0.5	0.5	0.4
International Assistance Programs	11.8	13.3	13.0	13.3	13.5	13.9	14.3	14.3	13.2	13.3	13.5	13.9	14.3
National Aeronautics and Space Administration	14.1	14.4	14.8	15.2	15.7	16.1	16.5	14.4	14.8	15.2	15.7	16.1	16.5
National Science Foundation	3.7	4.6	4.9	5.0	5.2	5.2	5.4	4.6	4.9	5.0	5.2	5.2	5.4
Office of Personnel Management	50.9	54.3	57.5	61.1	64.9	68.5	71.8	54.3	57.5	61.1	64.9	68.5	71.8
Small Business Administration	–0.6	1.1	0.6	0.7	0.8	0.8	0.8	1.1	0.6	0.7	0.8	0.8	0.8
Social Security Administration	461.8	492.4	509.4	530.3	558.3	583.7	611.4	489.1	509.0	532.3	557.9	580.9	607.3
Other Independent Agencies	13.8	19.8	16.9	18.1	17.0	16.5	17.4	19.2	16.2	17.8	16.8	16.6	17.4
Allowances	.....	27.0	6.4	0.8	–0.5	–0.3	–0.4	.....	–1.6	–0.7	–0.5	–0.3	–0.4
Undistributed Offsetting Receipts	–191.1	–197.6	–214.4	–243.3	–254.2	–264.0	–277.6	–198.4	–215.3	–239.1	–256.0	–264.5	–279.4
Total	**1,863.9**	**2,052.3**	**2,128.2**	**2,189.1**	**2,276.9**	**2,369.1**	**2,467.7**	**2,032.5**	**2,138.2**	**2,216.9**	**2,297.9**	**2,390.1**	**2,482.9**

* $50 million or less.

Table 16. OUTLAYS BY FUNCTION

(In billions of dollars)

	2001 Actual	February estimates						Mid-Session estimates					
		2002	2003	2004	2005	2006	2007	2002	2003	2004	2005	2006	2007
National defense	305.5	344.8	375.5	389.1	408.7	423.5	437.2	353.4	378.6	390.4	409.0	423.6	437.2
International affairs	16.5	23.4	22.3	22.7	23.2	23.8	24.5	24.8	22.5	22.8	23.2	23.8	24.5
General science, space, and technology	19.8	21.6	22.0	22.7	23.4	23.9	24.5	21.6	22.1	22.7	23.4	23.9	24.5
Energy	*	0.5	0.5	0.3	0.8	0.6	0.6	0.4	0.5	0.3	0.8	0.6	0.6
Natural resources and environment	25.6	29.5	29.8	30.4	30.9	31.7	32.1	29.4	29.9	30.6	31.4	32.5	33.1
Agriculture	26.4	28.7	24.1	22.7	21.1	20.2	20.1	25.9	28.7	26.8	24.0	21.5	18.6
Commerce and housing credit	5.9	3.6	3.5	4.9	3.0	1.0	1.6	1.7	3.0	4.6	2.8	1.2	1.6
Transportation	54.4	61.3	59.5	56.4	56.1	57.1	58.8	65.4	60.6	57.4	57.2	58.1	59.8
Community and regional development	11.9	15.3	17.3	17.9	17.3	15.5	15.3	15.3	19.4	18.9	17.8	16.0	15.6
Education, training, employment, and social services	57.1	71.5	78.9	80.9	82.5	84.1	85.9	72.5	81.3	81.9	82.8	83.9	85.8
Health	172.3	194.8	220.6	241.1	258.9	277.0	296.9	197.1	222.8	245.1	263.8	282.7	302.8
Medicare	217.4	226.3	234.3	244.2	261.2	281.7	305.7	226.4	235.9	246.0	264.2	286.1	310.7
Income security	269.6	310.6	318.4	323.6	332.9	343.7	351.1	313.7	318.7	322.3	333.2	344.5	350.9
Social Security	433.0	459.5	475.8	495.5	519.5	546.0	575.1	456.4	477.2	498.2	518.8	542.6	570.4
Veterans benefits and services	45.0	50.7	55.7	57.7	62.3	62.0	61.4	51.9	57.6	59.9	64.4	63.8	62.9
Administration of justice	29.7	33.6	39.7	42.6	38.6	38.8	39.6	33.8	39.0	43.2	38.9	39.0	39.7
General government	14.6	17.7	17.0	19.0	17.9	18.3	18.5	18.2	17.3	18.9	17.8	18.2	18.4
Net interest	206.2	178.4	180.7	188.8	190.2	188.3	185.3	171.4	179.7	195.9	198.4	196.6	193.9
Allowances	.....	27.0	6.4	0.8	−0.5	−0.3	−0.4	.....	−1.6	−0.7	−0.5	−0.3	−0.4
Undistributed offsetting receipts	−47.0	−46.5	−53.7	−72.1	−71.1	−67.8	−66.1	−46.7	−54.9	−68.4	−73.4	−68.2	−67.5
Total	**1,863.9**	**2,052.3**	**2,128.2**	**2,189.1**	**2,276.9**	**2,369.1**	**2,467.7**	**2,032.5**	**2,138.2**	**2,216.9**	**2,297.9**	**2,390.1**	**2,482.9**

* $50 million or less.

Table 17. ESTIMATED SPENDING FROM 2003 BALANCES OF BUDGET AUTHORITY: DISCRETIONARY PROGRAMS[1]

(In billions of dollars)

	Total
Total balances, end of 2003	859.1
Spending from 2003 balances:	
2004	328.4
2005	179.4
2006	111.5
2007	76.4
Expiring balances, 2004 through 2007	.....
Unexpended balances at the end of 2007	163.4

[1] Required by section 221(b) of the Legislative Reorganization Act of 1970.

Table 18. BASELINE CATEGORY TOTALS

(In billions of dollars)

	2002	2003	2004	2005	2006	2007	2003–2007
Outlays:							
Discretionary:							
Defense	332	344	354	366	372	378	1,814
Nondefense	379	396	409	416	424	434	2,079
Subtotal, discretionary	711	740	763	782	796	812	3,893
Emergency response fund	22	10	5	2	*	*	17
Mandatory:							
Social Security	453	473	494	515	538	566	2,587
Medicare	223	231	239	255	265	284	1,274
Medicaid	147	161	174	190	207	224	955
Other mandatory	291	304	296	298	310	313	1,520
Subtotal, mandatory	1,114	1,168	1,203	1,258	1,320	1,388	6,336
Net interest	171	178	192	191	185	176	922
Total Outlays	2,018	2,097	2,163	2,232	2,301	2,376	11,168
Receipts	1,868	2,035	2,180	2,369	2,475	2,595	11,653
Surplus	–150	–62	17	137	174	219	485
On-budget surplus	–308	–235	–171	–82	–63	–36	–587
Off-budget surplus	157	173	189	219	237	255	1,072

* $500 million or less.

Table 19. OUTLAYS FOR MANDATORY PROGRAMS UNDER CURRENT LAW [1]

(In billions of dollars)

	2001 Actual	Estimate					
		2002	2003	2004	2005	2006	2007
Human resources programs:							
Education, training, employment and social services	2.9	8.1	9.8	8.4	8.2	8.1	8.0
Health	139.1	157.2	177.5	192.2	208.5	226.4	245.5
Medicare	214.1	222.8	230.5	239.0	255.4	264.7	284.3
Income security	225.6	265.6	270.0	272.2	283.0	292.6	298.6
Social security	429.4	452.7	473.2	494.3	514.7	538.5	566.2
Veterans' benefits and services	22.6	28.0	32.2	34.0	38.0	36.9	35.4
Subtotal, human resources programs	1,033.7	1,134.3	1,193.1	1,240.1	1,307.8	1,367.3	1,437.9
Other mandatory programs:							
International affairs	–6.0	–3.4	–3.1	–3.1	–3.1	–3.1	–3.0
Energy	–2.9	–2.9	–3.0	–3.4	–3.4	–3.2	–3.2
Natural Resources and Environment	–0.3	0.6	1.2	2.0	2.5	3.1	3.3
Agriculture	21.3	19.9	23.2	21.2	18.4	15.9	12.8
Commerce and housing credit	4.4	1.4	3.3	4.9	3.4	2.2	1.6
Transportation	4.3	6.5	3.2	2.0	1.9	1.9	1.9
Justice	0.3	1.0	4.5	4.7	2.7	2.6	2.6
General Government	1.6	2.3	1.6	1.7	1.6	1.6	1.6
Undistributed offsetting receipts	–47.0	–46.7	–54.9	–66.0	–73.4	–68.0	–67.0
Other functions	–1.0	0.6	–0.8	–0.6	–0.7	–0.7	–0.8
Subtotal, other mandatory programs	–25.3	–20.7	–24.9	–36.7	–50.1	–47.8	–50.2
Total, outlays for mandatory programs under current law	1,008.4	1,113.6	1,168.2	1,203.4	1,257.7	1,319.5	1,387.7

[1] This table meets the requirements of Section 221(b) of the Legislative Reorganization Act of 1970.