

S B

12

BILL FILE LOG

BILL # 12

1/25 Back-up received from Mike Scott -

Fararson's office (examples of
federal budget cuts)

2/1 Fiscal note received - Dept of Revenue

2/1 John Katz memo

2/5 FB Pro

2/18 OK Conference of Mayors - Halliwell resolution

2/19 Democratic Study Group special report

2/19 1st hearing - passed out

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date _____

REQUEST

Bill/Resolution No: SB 12
Title: Federal Budget Impact Fund

Sponsor: Ferguson
Requestor: Senate Judiciary
Date of Request: January 30, 1985

FISCAL DETAIL

Agency Affected: Department of Revenue
Program Category Affected: _____

BRU, Program of Subprogram(s) Affected:
Treasury

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 SUPPLIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS	-	-	-	-	-	-
800 MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page for analysis.

Prepared By: Milt Barker MB
Division: Treasury

Phone: 465-2350
Date: January 30, 1985

Approved by Commissioner: James Prokelo
Agency: Department of Revenue

Date: 1/31/85

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

RESOLUTION OF THE ALASKA CONFERENCE OF MAYORS
84-7

A RESOLUTION CALLING FOR "HOLD HARMLESS" LEGISLATION TO OFFSET
FEDERAL REVENUE SHARING REDUCTIONS

WHEREAS, the amount of Federal Revenue Sharing received by local governments in Alaska will decrease \$12.7 million dollars during the period October 1, 1984 to September 30, 1985; and

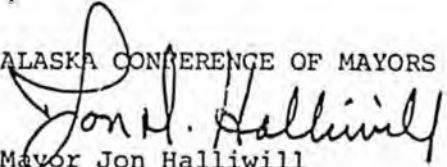
WHEREAS, the primary cause for this Federal Revenue Sharing decrease is the change in Alaska corporate taxing policies in 1982, which shifted the emphasis from corporate tax to a severance on oil; and,

WHEREAS, Federal Revenue Sharing is used by municipalities to reduce property taxes, so that the reduction in Federal Revenue Sharing means local governments are assuming an increased share of the cost of providing services to Alaska citizens; and


WHEREAS, the Alaska Conference of Mayors adopted a resolution at the special meeting held July 13, 1984 in Anchorage, Alaska, endorsing an increase in the level of state assistance to offset the \$12.7 million reduction in federal assistance;

NOW THEREFORE BE IT RESOLVED: that the Alaska Conference of Mayors urges the Governor and the State Legislature to enact "Hold Harmless" legislation to offset Federal Revenue Sharing reductions.

ADOPTED this 16th day of November, 1984

ALASKA CONFERENCE OF MAYORS

Mayor Jon Halliwill
President

ATTEST:


Mayor John Coghill
Secretary-Treasurer

FEB 4 1985

FEDERAL BUDGET IMPACT FUND RSAs

No.	Agencies	Title	\$ Amount	Approved
83-5X-377	Gov./Labor	Apprentice Outreach	\$ 107,700	10/06/82
379	Gov./DEC	Funds for Heating Sewage to avoid Freeze Up	82,600	10/15/82
381	Gov./DEC	Community Wastewater Disposal Facility	80,000	10/12/82
387	Gov./H&SS	Rural Health Services	185,000	11/23/82
388	Gov./H&SS	Eye Care	52,400	11/23/82
402	MA/DEC	Emmonak	60,000	10/12/82
460	Gov./DEC	Safe Drinking Water Supply Program	112,000	11/10/82
461	Gov./Commerce	Kawerak Reindeer Herder's Association	74,000	11/02/82
483	Gov./H&SS	Rural Citizens Airport Assistance Program	6,000	11/08/82
508	Gov./DEC	Emergency Water & Sewer	734,000	11/16/82
509	Gov./H&SS	Family Planning Services	21,700	11/10/82
510	Gov./H&SS	Improved Pregnancy Outcome	126,100	11/10/82
511	Gov./H&SS	Family Emergency Services	44,500	11/16/82
512	Gov./H&SS	RurAL CAP - Bristol Bay Area Health Corporation	16,700	11/10/82
513	Gov./Labor	UI Investigations	60,500	11/10/82
528	Gov./UofA (F)	Immunologica Aspects of Brucellosis	80,000	11/23/82
529	Gov./UofA (F)	Arsenic Studies	35,000	11/23/82
530	Gov./UofA (F)	Seismic Risks Assessments Operations in Cook Inlet	141,800	11/23/82
531	Gov./UofA (F)	Mineral Industry Research Lab	150,000	11/23/82
532	Gov./UofA	Pribilof Islands Education Center	100,000	11/23/82
533	Gov./ UofA	Alaska Health Careers	28,000	11/23/82
556	Gov./DOE	Chevak	39,000	11/16/82
557	Gov./H&SS	ANHS-Rural Itinerant Nursing	162,100	11/22/82
558	Gov./H&SS	Medicaid Replacement Fund	1,500,000	11/22/82
561	Gov./DEC	Field Sanitarian Replacement	52,000	11/23/82
566	Gov./Admin.	Senior Opportunity Service	60,900	11/23/82
567	Gov./Admin.	Services for Elderly Alaskans Title III	100,000	11/23/82
568	Gov./Admin.	Senior Employment Title V	92,400	11/23/82
582	Gov./Commerce	RurAL CAP Community Development Energy Project	325,000	11/26/82
585	Gov./Commerce	Fisheries Extension Service for Western Alaska	80,000	11/28/82
588	Gov./F&G	Eskimo Walrus Commission	67,100	12/01/82
592	Gov./Commerce	Marketing Assistance for Western Alaska	52,000	12/01/82

FEDERAL BUDGET IMPACT FUND RSAs

No.	Agencies	Title	\$ Amount	Approved
596	Gov./H&SS	State Health Planning and Development Agency	88,500	12/01/82
599	Gov./UofA (F)	Oceanic Conditions in the Beaufort Sea	104,500	12/01/82
613	Gov./C&RA	Yukon/Kuskokwim CRSA Board	64,300	12/01/82
625	Gov./H&SS	Alaska VD Control Program	28,300	12/02/82
626	Gov./H&SS	VD Lab Testing	19,400	12/02/82
627	Gov./H&SS	WIC	100,655	12/02/82
628	Gov./H&SS	Child Development Services	46,200	12/02/82
651	Gov./DNR	Youth Conservation Corps	133,500	12/08/82
664	Gov./H&SS	ANHS Alcoholism & Drug Abuse	76,584	12/10/82
669	Gov./Labor	Employment Training	50,400	12/17/82
670	Gov./Labor	Apprentice Outreach Program	60,000	12/13/82
686	Gov./Revenue	Amendment #1 to 83-5X-377		
755	Gov./H&SS	Restoration of Federal Funding RurAL CAP-Bristol Bay Area Health Corp.	65,000 (10,113)	12/10/82 02/28/83
820	Gov./H&SS	Amendment #1 to 83-5X-512 Improved Pregnancy Outcome	(28,500)	03/31/83
882	Gov./DOE	Amendment #1 to 83-5X-510 State Contracts Program	1,124,100	03/31/83
883	Gov./DOE	School Food Service Reimbursement	12,766.44	03/31/83
908	Gov./H&SS	Alaska Native Health Alcoholism & Drug Abuse	106,316	03/11/83
925	Gov./DOE	BIA School Transfer	7,901,600	
942	Gov./DOE	AK. Repertory Theatre	386,700	03/11/83
TOTAL			<u>15,158,708.44</u>	

*Central Council
Strength & Handicapped
Indian Tribes of
Alaska*

*Housing Improvement
Programs*

419,000 6/02/83

Income Records - 83-84

14,447,520.10 spent

973,901.05 unexpended

*4,578,599.85 not expended
or unexpended*

Weather

Today: Mostly sunny and cold.
High: 35-39. Low: 25-32.
Saturday: Sunny and warmer.
High: 50-53.
Yesterday: AQI: 30. Temp. range:
42-34. Details on Page C2.

The Washington

108TH YEAR No. 2

© 1984, The Washington Post Company

FRIDAY, DECEMBER

Programs Face Elimination

2 Dozen Proposed Cuts Include Revenue-Sharing

By Spencer Rich and Margaret Shapiro
Washington Post Staff Writers

The \$34 billion in budget cuts to which President Reagan has provisionally agreed would mean eliminating more than two dozen programs, including such familiar ones as revenue-sharing, postal and dairy subsidies, and legal services for the poor.

Of special impact in the Washington area are Reagan's proposed 5-percent salary cut for all federal civilian employees, including more than 300,000 here, and a freeze on the federal payment to the District of Columbia and on funds for St. Elizabeths Hospital.

A portion of the impact-aid program that compensates local school districts for educating children whose parents live or work on federal land would be terminated. District and suburban school districts

with large numbers of federal employees' children would be affected.

Programs for the poor also would be frozen or scaled back, with the largest cut coming in Medicaid, the health program for needy aged, blind and disabled people and low-income families with children.

In addition, the administration proposes cuts in food stamps, Head Start, low-income fuel aid, Aid to Families with Dependent Children (AFDC) and the Women, Infants and Children (WIC) program, which provides food for poor mothers and their children. Rental subsidies for the poor would be frozen for two years and the Job Corps eliminated altogether.

Student loans would be frozen and provided only to families earning \$30,000 or less. Total student aid to any person would be limited to \$4,000 from all sources. Boat owners who need Coast Guard help

See PROGRAMS, A9, Col. 1

■ Reagan budget proposal envisions U.S. withdrawal from U.N. food agency.

Page A48

prove not "one nickel more" for next year's budget than they did for this year, saying, "I am willing to lead the charge, to go to the people."

If the Administration is to meet its goal for deficit reduction next year, an additional \$8 billion in savings must be found, possibly by slowing the military buildup.

But Defense Secretary Caspar W. Weinberger is "ready to stand his ground" and fight for a larger increase in the Pentagon budget, a Defense Department official said today. Both Pentagon and White House officials cited what one called "the identity of views" held by Mr. Reagan and Mr. Weinberger on military matters.

A document given to the Cabinet on Wednesday lays out in detail the programs that the President would freeze, those he would cut and those he would eliminate. The proposals are subject to change, either before the White House completes its budget or in Congress next year. Many of the agencies involved have yet to see the specific proposals, which means some of the details are still unclear.

Following are some of the major program proposals, based on the document.

Medicare

The budget proposal would reduce reimbursement rates for hospitals treating patients under Medicare, the Federal health insurance program for 30 million elderly and disabled people.

Rates have been allowed to increase in proportion to the cost of goods and services used by hospitals, plus a 1 percent allowance for new technology, subject to certain limits. Under current law, the increase for the fiscal year 1986 would be limited to this "hospital market basket" plus 0.25 percent.

The proposed budget would cut back the 1986 increase to the market basket minus 2 percent, thus allowing hospitals less than they would need to keep pace with inflation.

The budget would also continue a freeze on physician fees, which under current law would expire Sept. 30, 1985. There would also be a freeze on Medicare payments to home health agencies and skilled nursing homes.

The budget calls for an increase in the Medicare premiums that elderly people pay for insurance to cover doctors' bills. The premiums, which now meet 25 percent of such costs, would be increased to cover 35 percent. The Congressional Budget Office has estimated that the proposed increase in Medicare premiums would add \$7 to the monthly premium in 1986, raising it to \$25 from \$18.

Taken together, these proposals would save the Government \$2.8 billion in the fiscal year 1986, \$5.9 billion in 1987 and \$10.2 billion in 1988. Even with those savings, Medicare outlays would

The Budget Losers

Selected Federal programs and the type of cut suggested for each in the fiscal year starting Oct. 1, 1985. Most freezes would be for one year.

FREEZE ON PAY OR COST-OF-LIVING ADJUSTMENT

Railroad retirement/black lung benefits	Veterans' compensation and pensions
Food stamps	Federal civilian retirement
Child nutrition	Pay cut for Federal employees outside Defense Department
Supplemental Security Income	Coast Guard pay

CANCELLATION

Upper income subsidy for child nutrition	Economic Development Administration and Appalachian programs
Library grants	Amtrak and other rail subsidies
National employment and training programs	Health professions education
Payments to school districts near military bases	Agricultural conservation programs
Job Corps	Urban mass transit
Work Incentive program	Civil defense buildup
Legal services and community services block grant	Community development block grant loan guarantees
NASA civilian aeronautical research and development	Small Business Administration
Postal subsidy	Urban Development Action Grants
	General revenue sharing
	Sewer grants

APPROPRIATION FREEZE OR DEEPER CUTS

Block grants for disadvantaged and handicapped education	Agricultural research and extension
Vocational education, science and math, other elementary and secondary	National Science Foundation and energy science
College student financial aid	National Institutes of Health and other health research
Public broadcasting	Public lands and parks
Women, Infants and Children nutrition	Law enforcement
Low-income energy aid	Environmental Protection Agency
Bilingual and Indian education and Indian health service	Other regulatory agencies
Head Start and child welfare	Federal cultural programs
Older Americans services, centers and jobs	Water projects and navigation
Handicapped rehabilitation services	Veterans' medical
Health block grants	Housing construction loans for the elderly and handicapped
Nuclear fusion and fission research and development	Subsidized housing
Fossil, solar, conservation and other nonnuclear fuel research and development	Farm price supports
	Space program
	Medicare
	Medicaid
	Peace Corps
	Coast Guard

Source: Office of Management and Budget

rise from \$68 billion in the current fiscal year to \$83.7 billion in 1988.

Medicaid

The proposal would cut \$1 billion from the amount that would otherwise be spent in Federal grants to the states for medical treatment of poor people. With no change in current law, spending would rise from \$23.2 billion in 1985

to \$24.6 billion in 1986 and \$29.5 billion in 1988. Budget documents distributed to the Cabinet this week do not specify how the savings would be achieved.

The budget anticipates savings of \$2.3 billion in 1987 and \$3.9 billion in 1988 from a ceiling that would permit Medicaid expenditures to grow no faster than the rate of inflation in the national economy.

College Stu

The proposals sharply into the various programs for primarily by making many families to

Under present law family whose income adjustments, is less automatically estimated loans, while a with adjusted gross \$30,000 must under need. The new law would rule out for families with adjusted over \$30,000, even if

At the same time would increase to rent \$3,000 the total could borrow each lower-income student

The proposal also what it calls the "loophole." The Administration pressed concern that students obtaining loans they are "independent." Since such students fairly modest income easier to qualify for from their parents proposal would save \$1.198 billion in 1987 in 1988.

Farm Price S

The proposal would now paid on grain year, for example, ible for price support a subsidy of \$1.00 a bushel \$3.38 they are getting would set a limit of and other cash aid farmer; the current and the average when 1,000 acres will get subsidies this year.

In addition, the price support loans to farmer.

There is no limit on grain and cotton far more than \$200,000. It rate the dairy price under which the Federal buys and stores surplus and dried milk. For a program has cost at least equally. The dairy program placed with an aid program farmers, which would eliminate all the big government price aid to save \$1.2 billion in 1987 and \$6.683 billion

Veterans' Ben

The budget proposal health benefits to show that they are still financial need. Thus, budget plan, there would test for all except disabled. In addition, the budget usually to "shrink" the

Proposed Reductions In Budget Summarized

PROGRAMS, From A9

Environmental Protection Agency \$25 million and for other regulatory agencies \$26 million. Elimination of subsidies for Amtrak and commuter railroads would save \$535 million. Killing health-professions education programs would save \$85 million.

The National Endowments and other cultural institutions would be reduced by \$6 million. Agricultural conservation programs would be eliminated, saving \$630 million in the first year. The National Oceanic and Atmospheric Administration would take a 10 percent cut in its budget authority, worth some \$97 million. A one-year freeze at the Internal Revenue Service, the Census Bureau and in the federal payment to the District would save \$224 million.

A freeze on spending for water

projects would save \$97 million, and user fees to defray the cost of constructing, operating and maintaining harbors and inland waterways would net the government \$326 million.

Phasing out most urban mass-transit funding would save \$798 million. Freezing VA medical outlays and imposing an income ceiling on use of VA health facilities for nondisabled veterans would save \$431 million.

Cuts in agricultural inspection, services and information would save \$18 million. A freeze on the costs of administering a variety of social benefit programs and the elimination of 19,000 jobs at the Social Security Administration would save \$102 million.

Federal administrative accounts and services would be cut by \$563 million. The Peace Corps would be

scaled back \$5 million. The Federal Emergency Management Agency and other civil defense programs would be reduced by \$80 million; the U.S. Information Agency would be cut \$21 million.

The 10-percent cut in the legislative branch would save \$166 million. A one-year freeze on Coast Guard military pay and budget authority would save \$97 million and new Coast Guard user fees would produce \$100 million.

Community Development Block Grant loan guarantees would be abolished, saving \$164 million, and the block grants would be cut 10 percent, \$23 million. Urban Development Action Grants, which many cities have combined with private investments to revitalize their downtowns, are slated for elimination, saving \$32 million next year.

The \$4.5 billion revenue-sharing program would be abolished in 1987.

Grants for new sewer projects would be eliminated, saving \$50 million in 1987. All postal subsidies except for schoolbook shipments and for the blind would be ended to save \$785 million.

A proposal to phase out Rural Electrification Administration-insured loans by 1990 and to increase charges on a variety of REA loans would save \$206 million in next year's budget. Phasing out low-income weatherization assistance by 1990 would save \$50 million next year.

In addition, the rural housing-subsidy program would be abolished and merged into other subsidized-housing programs. That would save \$2.2 billion.

Restrictions on new highway-construction contracts would save \$208 million.

Medicaid would be cut \$1 billion next year; after that, spending for the program would be allowed to increase only at the rate of inflation.

The welfare program would be reduced by \$188 million by requiring all states to enact "workfare" laws that would force recipients to earn their benefits. In addition, in cases where mothers who are minors are living with relatives, the total income of the entire group, not just the mother, would be used to determine eligibility.

A two-year moratorium would be

imposed on subsidized housing for a reduction of \$102 million by 1987. Public-housing operating subsidies would be reduced \$88 million next year. A modified freeze on federal aid for foster care and adoption assistance would cut the program by \$53 million.

The elimination of subsidized farm-ownership loans and new restrictions in other parts of the farm-credit program would reduce the program by \$2.5 billion. A five-year phaseout of various crop-insurance subsidies would save \$92 million next year.

In the farm price-support program, the administration is proposing to reduce subsidies, abolish the dairy program, limit so-called deficiency payments—the gap between the expected and actual sale price—to \$10,000 per farmer and put in place other loan limits. The administration estimates that the changes will reduce spending by \$1.2 billion next year.

Another \$82 million would be cut from the budget by abolishing rural water and sewer programs.

The Export-Import Bank would be cut \$356 million through elim-

ination of all direct increased fees for guarantee. In addition, it proposes the Small Business Administration to sell its loan assets for \$1.6 billion from net savings.

Another \$400 million would be saved by reducing the sale or lease of government property.

A moratorium on new federal spending for the Strategic Defense Initiative would save \$2 billion. Other \$56 million would be saved by eliminating subsidies for research and development.

The space program would be cut by \$100 million by reducing funding for the program.

A new 5 percent cap on federal spending for veteran-housing loans and other federally insured programs would cut the budget by \$1 billion.

Finally, putting in place various proposals by the administration, including meat inspection and recreational use of federal lands, would reduce next year's budget by \$973 million.

Planned Cuts Would Kill Two Dozen Programs

PROGRAMS, From A1

would have to pay fees in some cases. Free care in Veterans Administration hospitals would be limited to lower-income persons.

Major policy changes are foreshadowed in the fine print of the budget proposal being studied by the Cabinet and in the offices of Republican members of Congress. Land acquisitions for public parks would end. Poor people would be required to work for welfare benefits. The budgets of many regulatory agencies, including the Environmental Protection Agency, would be frozen. And, spreading the pain to the Capitol, the budget authority for the legislative branch would be cut by 10 percent. The Supreme Court and other federal judges are exempt because the Constitution prohibits cutting sitting judges' salaries.

The largest single reduction in the proposed fiscal 1986 budget would be \$2.8 billion in Medicare, the health insurance program for aged and disabled people. Payments to hospitals would be held 2 percentage points below inflation, doctors' fees would stay frozen, and patient premiums would rise to 35 percent of the cost of the doctor-insurance portion of Medicare instead of 25 percent.

The proposed administration cuts were circulated in a 26-page document provided by the White House yesterday to Republican members of Congress.

The proposal is designed to reduce the federal deficit—now estimated at \$206 billion—to about \$170 billion in fiscal 1986. It calls for domestic spending cuts of \$34 billion next year. Reagan still needs \$8 billion in cuts to meet his goal,

and officials said this is expected to come from the Pentagon.

Many of the programs have been targeted by the administration in the past without much success.

A point-by-point summary of the administration's proposal follows.

Some of the spending reductions listed are dollar cuts from year to year; others are cuts in the rates of growth that would occur if the president or Congress left them alone.

Six federal pension and benefit programs would be frozen at current budget-authority levels for a year, for total savings of about \$1.8 billion in fiscal 1986. The programs affected are railroad retirement and black lung benefits, food stamps, child nutrition, Supplemental Security Income, veterans compensation and pensions, civil service and related retirement payments. The food stamp cuts would not show up until the 1987 budget.

In addition, the administration would eliminate a \$672 million subsidy for the school-lunch program for students in the upper range of income eligibility and would cut the civil service retirement program by \$248 million along the lines recom-

mended recently by a commission headed by business executive J. Peter Grace. Reducing the salaries of all civilian federal employees by 5 percent would save another \$2.2 billion.

Block grants for education of the disadvantaged and the handicapped would be frozen at current levels for a savings of \$37 million. Programs for vocational education, science, mathematics and other secondary school assistance would also be frozen, saving \$8 million.

A one-year freeze on college student financial aid would save \$49 million; the student-aid rule changes would save another \$161 million. A freeze on library aid and education research would save \$3 million, although the administration proposes saving \$29 million more by killing grants to libraries.

The administration would freeze or kill other employment and training funds for a total savings of \$50 million. Budget authority for public broadcasting would also be frozen but would not produce savings until fiscal 1988.

A freeze in the WIC program and a 17 percent cut in the allowable

caseload would further reduce the budget by \$286 million. A one-year freeze in low-income energy assistance would save \$87 million. A freeze in Indian health programs and bilingual education programs would save \$61 million. Eliminating part of the impact-aid program and freezing the rest would save \$122 million.

Job Corps funding would fall \$120 million in fiscal 1986 and be terminated altogether a year later. The Head Start program of enriched preschool education for disadvantaged children and another child-welfare program would be cut by \$59 million.

Programs providing jobs and services to senior citizens would be cut \$34 million. Rehabilitation services for the handicapped would be cut \$47 million. The Work Incentive Program to help welfare clients find jobs would be terminated, saving \$226 million.

Community Services grants, which go to local groups to help the poor, and the Legal Services Corp., which provides free legal care to the needy, would be terminated. Funds for ACTION, which operates

volunteer social programs, would be frozen for savings for all three million.

Cuts in nuclear fusion research and development total \$227 million; energy research and development would be cut \$292 million. Civilian aeronautical development would be cut \$310 million.

Agricultural research would be cut by \$129 million. Science Foundation programs would be cut \$119 million. The National Health, the Alcoholism and Mental Health programs and other health programs would be cut a total of \$1.1 billion.

The Economic Development Administration and aid to the area would be phased out over several years. By eliminating purchases of lands and through other changes the administration proposes to save \$303 million.

Funds for law enforcement would be cut \$217 million.

See PROGRAMS, Page 1.

BILL SHEFFIELD
GOVERNOR



State of Alaska
OFFICE OF THE GOVERNOR
WASHINGTON, D.C.

December 20, 1984

MEMORANDUM

TO: THE HONORABLE BILL SHEFFIELD, Governor
THE CABINET
SPECIAL ASSISTANTS
JOHN SHIVELY, Chief of Staff

FROM: *JWK* JOHN W. KATZ, Director of State/Federal Relations
and Special Counsel to the Governor

SUBJECT: FEDERAL BUDGET PROPOSALS

President Reagan has proposed \$34 billion in non-Defense related budget cuts for 1986. \$8 billion in additional cuts is needed to reach the OMB deficit reduction target of \$42 billion. We are attaching a 26-page briefing document distributed by the White House that outlines the programs and cuts proposed.

Our analysis is directed toward the 1986 spending levels and specifically those program cuts projected to have a greater impact on Alaska. Since virtually all of the proposed cuts would have some impact, our assessment is judgmental, and we invite your suggestions regarding the list.

We are presenting a priority list (with page and line references to the briefing document) to identify the most significant cuts in program results, as well as in dollar terms. Most cuts will result in national impact and we anticipate advocacy by broad-based coalitions which we can join to ensure that Alaska's views will be contained in their positions. The purpose of the priority list is to assist us in identifying the issues with which we want to be actively involved.

The budget proposal from OMB is presented in five categories. These five categories are:

1. Proposed Formula Program Freezes That Are Feasible
2. Programs For Which The Baseline Budget Authority Is Already Frozen
3. Programs For Which The Proposed Freeze Is Difficult Because Of Dedicated Funding Sources

Page 2

4. Programs For Which No Formula Freeze Savings Are Possible Due To Technical, Legal, Or Structural Barriers - Ad Hoc Cuts Or Reforms Are Necessary
5. Department Of Defense, Social Security, Medicare, And Net Interest - "Mega Policy" Choices

We are recommending no immediate advocacy action due to uncertainty over the exact proposals that the President will make in his budget message to Congress. It is also unclear at this time what the reaction from the Congress will be to the President's formal proposal. Any budget changes of the magnitude proposed by the President are unlikely to receive hasty consideration or approval by the Congress. There should be some opportunity to develop Alaska-specific impact statements for use in the advocacy and Congressional committee processes.

Attachment

SUGGESTED PRIORITY LIST

Category	Page	Line	Description
1 - Proposed Formula Program Freezes -	5	21	Low Income Energy Aid - 1 year budget Authority Freeze
	5	22	Bilingual and Indian Education, and Indian Health Service-1 year Budget Authority Freeze
	5	23	Impact Aid - 1 year Budget Authority Freeze
	7	37	Community Services Grants and Legal Services Corporation, ACTION 1-year Budget Authority Freeze
	7	41	Terminate Legal Services and Community Services Block Grant
	8	49	EDA and Appalachian Program, 1-year Budget Authority Freeze
	8	52	Terminate EDA and Appalachian Programs
Additional Proposed Reforms	11	77	VA Medical Care Structural Reforms: Means-Test for all except disabled Veterans
	11	78	Restructure SSI and SSA Administration; Cut 19,000 FTE in SSA
	13	89	Limited Coast Guard User Fees
	13	90	Terminate Community Development Block Grant Loan Guarantees
	13	90	Terminate Community Development Block Grant Loan Guarantees
2 - Programs For Which The Baseline Budget Authority Is Already Frozen- And Additional Reforms Are Proposed	14	5	General Revenue Sharing
	14	10	Rural Electrification Act
	14	15	Low Income Weatherization/Conservation
	14	17	Geological Survey/Bureau of Mines
	14	22	Terminate General Revenue Sharing after authorization expires in 1986
	14	23	Sewer Grants: Terminate funding for new project starts - complete existing segments
	15	25	REA: raise direct insured loans to Treasury cost and phase out by 1990; raise private co-financing to 50% by 1990 and phase out; no new powerplant and transmission project loans
	15	26	Low income weatherization; phase out by 1990

Category	Page	Line	Description
3 - Programs For Which The Proposed Freeze Is Difficult Because Of Dedicated Funding Sources-	16 16 16 16 16	8 10 11 12 16	Highway Program (Trust Fund) Airport Grants FAA Operations (Trust Fund) FAA Facilities and Equipment Highway programs: Freeze 1986 obligation rate at 1985 level to correct receipt short fall
4 - Ad Hoc Cuts Or Reforms	17 17 17 17 18 18 19 19 20 22 24	1 4, 6 7 13, 15 16, 18 22, 24 34, 36 43, 45 52, 54 89, 91 109	Medicaid - Cap \$1 billion below baseline Subsidized Housing - 2 year moratorium on new assisted units Public Housing Operating Subsidy - formula cost factors, modified freeze AFDC-CSE Mandatory workfare and maintain minor mothers in family unit Rural Housing - Eliminate program in 1986; merge into HUD subsidized housing program Adoption Assistance/Foster Care - Cap 1986 budget authority at 1985 level Rural water, sewer facilities - Eliminate all programs, merge function with community development block grant Small Business Administration-Eliminate agency and all programs Payments to states/counties from Mineral Receipts Shift from 50% gross receipt to net profit sharing Air Carrier Subsidies Eliminate all subsidies Miscellaneous Grace Commission reforms: Welfare Administration block grants
5 - Mega - Policy Choices	25	6	Medicare modified freeze-Market basket minus 2% for Diagnostic Related Groups; physician freeze; other provider freezes such as Skilled Nursing Facilities, home health; raise part B premium to 35%.

WHITE HOUSE BRIEFING DOCUMENT

SUMMARY OF 1986 BUDGET TARGETS AND "FREEZE PLUS" SAVINGS MEASURES

Item	1985 Enacted	1986 (billions)	1987	1988
<u>3-Year Deficit Target Path</u>				
1) Deficit Share of GNP	5.4%	4.0%	3.0%	2.0%
2) Target Deficit Level	\$210	\$170	\$138	\$99
<u>Spending Freeze Targets and Required Savings</u>				
3) Total Baseline Outlays	\$968	\$1,030	\$1,118	\$1,199
4) Minus Net Interest	133	154	168	174
5) Program Spending Baseline	835	876	950	1,026
6) Policy Savings from Baseline Needed to Achieve 1986 Program Spending Freeze and Deficit Targets (Line 2)	---	-42	-85	-110
7) Spending Level With Target Savings	835	834	865	916
8) Spending Growth Over Prior Year with Target Savings	13.5%	0%	3.7%	5.9%
<u>"Freeze Plus" Savings Measures Reviewed to Date</u>				
9) Formula Freeze Savings	---	\$-6	\$-9	\$-11
10) Freeze Equivalent Savings (Medical Programs)	---	-4	-8	-14
11) Reforms, Cuts and Terminations	---	-24	-43	-50
12) Total, Savings to Date	---	-34	-60	-75
13) Savings Shortfall to Date (Line 6 minus Line 12)	---	8	25	35

THE BASIC BUDGET STRUCTURE: "FREEZE PLUS" REVIEW CATEGORIES

	<u>1985</u>	<u>1986</u> (billions)	<u>1987</u>	<u>1988</u>
<u>Program Structure Type</u>				
1) <u>Category #1: Formula Program Freeze Feasible</u>				
2) Baseline Outlays	163.0	169.9	176.9	186.3
3) Savings to Date	---	-13.4	-20.9	-25.9
4) <u>Category #2: Baseline Already Frozen</u>				
5) Baseline Outlays	22.8	21.1	20.9	20.2
6) Savings to Date	---	-1.1	-6.3	-6.8
7) <u>Category #3: Freeze Difficult -- Dedicated Funding Source</u>				
8) Baseline Outlays	36.2	38.9	40.7	42.3
9) Savings to Date	---	-0.7	-1.1	-0.7
10) <u>Category #4: Technical, Legal Structural Barriers -- Ad Hoc Cuts or Reforms Necessary</u>				
11) Baseline Outlays	111.4	111.5	116.3	122.3
12) Savings to Date	---	-14.4	-24.4	-29.6
13) <u>Category #5: DOD, Social Security, Medicare, Net Interest -- Mega Policy Choices</u>				
14) Baseline Outlays	643.2	715.5	788.0	855.7
15) Savings to Date	---	-3.9	-7.3	-11.7
16) <u>Category #6: Off-setting Receipts, Business Revolving Funds and Other Small Uncontrollable Items:</u> <u>No Freeze Savings</u>				
17) Baseline Outlays	-8.3	-26.6	-24.7	-27.5
18) Savings to Date	---	0	0	0
<u>Total Budget Baseline</u>				
19) Baseline Outlays	968.3	1,030.3	1,118.1	1,199.3
20) Baseline Programmatic Outlays	834.9	875.9	949.7	1,025.6
<u>Total Program Savings to Date</u>				
21) Programmatic Savings	---	-33.6	-60.0	-74.6
22) Revised Programmatic Outlays	834.9	842.3	889.7	951.0

CATEGORY #1: FORMULA PROGRAM FREEZE FEASIBLE

A. COST-OF-LIVING ADJUSTMENT PROGRAM (EXCLUDING SOCIAL SECURITY)

<u>Program</u>	<u>1985 Enacted</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
<u>Formula Freezes</u>				
1) Railroad Retirement/Black Lung Benefits	<u>5,257</u>	<u>5,474</u>	<u>5,542</u>	<u>5,716</u>
o 1-year COLA freeze	---	-191	-249	-254
2) Food Stamps	<u>12,441</u>	<u>12,821</u>	<u>13,372</u>	<u>13,948</u>
o 1-year COLA freeze	---	---	-465	-468
3) Child Nutrition	<u>4,161</u>	<u>4,466</u>	<u>4,812</u>	<u>5,176</u>
o 1-year COLA freeze	---	-59	-228	-245
4) Supplemental Security Income	<u>8,578</u>	<u>8,971</u>	<u>9,345</u>	<u>10,549</u>
o 1-year COLA freeze	---	-304	-418	-471
5) VA Compensation & Pensions	<u>13,962</u>	<u>14,165</u>	<u>14,422</u>	<u>14,705</u>
o 1-year COLA freeze	---	-427	-644	-675
6) Federal Civilian Retirement/FECA	<u>23,747</u>	<u>25,569</u>	<u>27,414</u>	<u>29,292</u>
o 1-year COLA freeze	---	-780	-1,195	-1,225
7) Non-DOO Civilian Pay Raise Allowance	<u>409</u>	<u>2,017</u>	<u>3,323</u>	<u>5,760</u>
o 1-year pay freeze	---	-848	-1,354	-2,647
8) Subtotal, COLA Programs	<u>68,555</u>	<u>73,483</u>	<u>78,230</u>	<u>85,146</u>
o 1-year freeze	---	-2,609	-4,563	-5,985
<u>Additional Structural Reforms</u>				
9) Child Nutrition: Eliminate Upper Income Subsidy	---	-672	-737	-802
10) Civilian Retirement: Grace Commission Reforms	---	-248	-300	-769
11) Civilian Pay: 5% Pay Cut	---	-1,486	-1,681	-1,750
12) Subtotal	---	-2,406	-2,718	-3,321
<u>Grand Total</u>				
13) Total Savings, Freezes and Reforms	---	-5,015	-7,281	-9,306

B. FORWARD-FUNDED PROGRAMS

<u>Program</u>	<u>1985 Enacted</u>	<u>1985</u>	<u>1987</u>	<u>1988</u>
<u>Formula Freeze of 1986 Budget Authority</u>				
14) Disadvantaged and Handicapped Education, Block Grant	<u>5,191</u>	<u>5,460</u>	<u>5,752</u>	<u>5,982</u>
o 1-year B.A. freeze	---	-37	-219	-276
15) Vocational Education, Science & Math, Other Elementary and Secondary	<u>1,013</u>	<u>1,082</u>	<u>1,159</u>	<u>1,203</u>
o 1-year B.A. freeze	---	-8	-37	-48
16) College Student Financial Aid	<u>4,324</u>	<u>4,734</u>	<u>4,912</u>	<u>5,081</u>
o 1-year B.A. freeze	---	-49	-195	-238
17) Employment and Training	<u>3,169</u>	<u>3,064</u>	<u>3,128</u>	<u>3,220</u>
o 1-year B.A. freeze	---	-20	-81	-98
18) Libraries and Educational Research	<u>180</u>	<u>189</u>	<u>195</u>	<u>204</u>
o 1-year B.A. freeze	---	-3	-7	-9
19) Public Broadcasting	<u>151</u>	<u>160</u>	<u>167</u>	<u>176</u>
o 1-year B.A. freeze	---	---	---	-9
20) Subtotal, Forward Funded Programs	<u>14,028</u>	<u>14,689</u>	<u>15,313</u>	<u>15,866</u>
o 1-year freeze	---	-117	-540	-678
<u>Additional Reforms and Terminations</u>				
21) Student aid reform package: \$4,000 mega-cap; \$30,000 AGI cap; close "independent student" loophole	---	-161	-1,002	-980
22) Zero-out library grants.....	---	-29	-85	-125
23) Zero-out National Employment and Training Programs	---	-30	-200	-210
24) Subtotal, reforms, terminations.....	---	-220	-1,287	-1,315
<u>Grand Total</u>				
25) Total Savings, Freezes, Reforms and Terminations.....	---	-337	-1,827	-1,993

C. OTHER DISCRETIONARY PROGRAMS -- CURRENT YEAR-FUNDED

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
<u>Formula Freeze of 1986 Budget Authority</u>				
20) Women, Infants, Children	<u>1,517</u>	<u>1,598</u>	<u>1,668</u>	<u>1,735</u>
o 1-year B.A. freeze	---	-72	-87	-83
21) Low-Income Energy Aid	<u>2,100</u>	<u>2,197</u>	<u>2,291</u>	<u>2,382</u>
o 1-year B.A. freeze	---	-87	-100	-105
22) Bilingual & Indian Education, & Indian Health Service ..	<u>1,344</u>	<u>1,392</u>	<u>1,441</u>	<u>1,491</u>
o 1-year B.A. freeze	---	-31	-45	-50
23) Impact Aid	<u>706</u>	<u>735</u>	<u>756</u>	<u>787</u>
o 1-year B.A. freeze	---	-25	-34	-37
<u>Additional Reforms, Reductions and Terminations</u>				
24) WIC: Deny 1985 Supplemental, Cut Caseload by 17% to Maintain Appropriated Level	---	-214	-254	-271
25) Terminate Impact Aid Part R	---	-97	-131	-138
26) Indian Health: Improve efficiency and Third-Party Recovery	---	-30	-50	-50
27) <u>Page Subtotals</u>				
o Baseline	<u>5,667</u>	<u>5,922</u>	<u>6,156</u>	<u>6,395</u>
o 1-Year B.A. Freeze	---	-215	-266	-275
o Other Savings	---	-341	-435	-459
o Total Savings, Page Subtotal	---	-556	-701	-734

<u>Program</u>	<u>1985 Enacted</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
<u>Formula Freeze of 1986 Budget Authority</u>				
28) Jobs Corps	<u>598</u>	<u>661</u>	<u>650</u>	<u>676</u>
o 1-year B.A. freeze	---	-27	-28	-29
29) Head Start & Child Welfare	<u>1,214</u>	<u>1,294</u>	<u>1,353</u>	<u>1,410</u>
o 1-year B.A. freeze	---	-59	-62	-65
30) Older Americans Services/Centers/Jobs	<u>1,017</u>	<u>1,052</u>	<u>1,085</u>	<u>1,119</u>
o 1-year B.A. freeze	---	-34	-36	-37
31) Handicapped Rehabilitation Services	<u>1,331</u>	<u>1,275</u>	<u>1,338</u>	<u>1,395</u>
o 1-year B.A. freeze	---	-47	-58	-65
32) WIN & Other Human Development Services	<u>482</u>	<u>515</u>	<u>531</u>	<u>548</u>
o 1-year B.A. freeze	---	-16	-18	-19
33) Health Block Grants, Other Health, & St. Elizabeth's ...	<u>2,164</u>	<u>2,243</u>	<u>2,323</u>	<u>2,392</u>
o 1-year B.A. freeze	---	-82	-85	-89
<u>Additional Reforms, Reductions and Terminations</u>				
34) Terminate Job Corps	---	-93	-622	-647
35) Terminate WIN	---	-226	-289	-301
36) <u>Page Subtotals</u>				
o Baseline	<u>6,806</u>	<u>7,040</u>	<u>7,280</u>	<u>7,540</u>
o 1-Year B.A. Freeze	---	-265	-287	-304
o Other Savings	---	-319	-911	-948
o Total Savings, Page Subtotal	---	-584	-1,198	-1,252

<u>Program</u>	<u>1985 Enacted</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
<u>Formula Freeze of 1986 Budget Authority</u>				
37) Community Services Grants & Legal Services Corporation, ACTION	815	856	895	929
o 1-year B.A. freeze	---	-33	-38	-40
38) Nuclear Fusion & Fission R&D	1,085	1,164	1,221	1,157
o 1-year B.A. freeze	---	-122	-127	-111
39) Fossil, Solar, Conservation & Other Non-Nuclear R&D	1,964	1,650	1,722	1,621
o 1-year B.A. freeze	---	-139	-159	-173
40) NASA Aeronautical R&D	610	664	692	706
o 1-year B.A. freeze	---	-60	-65	-63
<u>Additional Reforms, Reductions and Terminations</u>				
41) Terminate Legal Services & Community Services Block Grant	---	-531	-700	-720
42) 10% 1986 BA Cut in Nuclear Fission and Fusion R&D	---	-105	-110	-113
43) 10% 1986 BA Cut in Fossil, Solar, Conservation and Other Non-Nuclear R&D	---	-153	-187	-190
44) Terminate NASA Civilian Aeronautical R&D	---	-250	-292	-297
45) <u>Page Subtotals</u>				
o Baseline	4,474	4,334	4,530	4,413
o 1-Year B.A. Freeze	---	-354	-389	-387
o Other Savings	---	-1,039	-1,289	-1,320
o Total Savings, Page Subtotal	---	-1,393	-1,678	-1,707

<u>Program</u>	<u>1985 Enacted</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
<u>Formula Freeze of 1986 Budget Authority</u>				
46) Agricultural Research & Extension	<u>1,132</u>	<u>1,205</u>	<u>1,190</u>	<u>1,215</u>
o 1-year B.A. freeze	---	-33	-39	-42
47) NSF & Energy Science	<u>2,144</u>	<u>2,244</u>	<u>2,361</u>	<u>2,390</u>
o 1-year B.A. freeze	---	-36	-63	-70
48) National Institutes of Health, ADMIA & Other Health Research	<u>5,633</u>	<u>5,860</u>	<u>6,089</u>	<u>6,323</u>
o 1-year B.A. freeze	---	-239	-249	-259
49) EDA & Appalachian Program	<u>496</u>	<u>459</u>	<u>440</u>	<u>429</u>
o 1-year B.A. freeze	---	-2	-7	-12
50) Public Lands & Parks	<u>2,220</u>	<u>2,367</u>	<u>2,330</u>	<u>2,393</u>
o 1-year B.A. freeze	---	-67	-116	-133
<u>Additional Reforms, Reductions and Terminations</u>				
51) 10% 1986 BA Cut in Agricultural Research and Extension ..	---	-96	-115	-116
52) Terminate EDA and Appalachian Programs	---	-31	-155	-153
53) Public Lands and Parks: No New Land Acquisitions; BLH/ Forest Service County Level Consolidation; and Other Management Improvements	---	-236	-3	-394
54) <u>Page Subtotals</u>				
o Baseline	<u>11,625</u>	<u>12,135</u>	<u>12,410</u>	<u>12,750</u>
o 1-Year B.A. Freeze	---	-377	-474	-516
o Other Savings	---	-353	-582	-773
o Total Savings, Page Subtotal	---	-740	-1,056	-1,289

<u>Program</u>	<u>1985 Enacted</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
<u>Formula Freeze of 1986 Budget Authority</u>				
55) Law Enforcement	<u>5,898</u>	<u>6,035</u>	<u>6,143</u>	<u>6,278</u>
o 1-year B.A. freeze	---	<u>-217</u>	<u>-246</u>	<u>-256</u>
56) EPA Operations	<u>1,223</u>	<u>1,274</u>	<u>1,306</u>	<u>1,347</u>
o 1-year B.A. freeze	---	<u>-25</u>	<u>-36</u>	<u>-40</u>
57) Other Regulatory Agencies	<u>2,534</u>	<u>2,543</u>	<u>2,582</u>	<u>2,628</u>
o 1-year B.A. freeze	---	<u>-26</u>	<u>-32</u>	<u>-34</u>
58) Amtrak & Other Rail Subsidies	<u>1,172</u>	<u>1,026</u>	<u>937</u>	<u>940</u>
o 1-year B.A. freeze	---	<u>-33</u>	<u>-37</u>	<u>-41</u>
59) Health Professions Education	<u>236</u>	<u>246</u>	<u>255</u>	<u>265</u>
o 1-year B.A. freeze	---	<u>-10</u>	<u>-11</u>	<u>-11</u>
<u>Additional Reforms, Reductions, and Terminations</u>				
60) Terminate AMTRAK and Other Rail Subsidies	---	-502	-763	-797
61) Terminate Health Professions Education	---	-75	-202	-240
62) <u>Page Subtotals</u>				
o Baseline	<u>11,063</u>	<u>11,124</u>	<u>11,223</u>	<u>11,458</u>
o 1-Year B.A. Freeze	---	<u>-311</u>	<u>-362</u>	<u>-382</u>
o Other Savings	---	<u>-577</u>	<u>-965</u>	<u>-1,037</u>
o Total Savings, Page Subtotal	---	<u>-888</u>	<u>-1,327</u>	<u>-1,419</u>

<u>Program</u>	<u>1985 Enacted</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
<u>Formula Freeze of 1986 Budget Authority</u>				
63) Endowments & Other Cultural Institutions	366	355	367	383
o 1-year B.A. freeze	---	-6	-14	-17
64) Agricultural Conservation Programs	650	642	635	646
o 1-year B.A. freeze	---	-8	-13	-14
65) IRS, NOAA, Census, D.C. Payment & Other Basic Functions .	8,699	8,589	9,797	9,031
o 1-year B.A. freeze	---	-224	-291	-323
66) Water Projects & Navigation	4,353	4,225	4,097	4,177
o 1-year B.A. freeze	---	-97	-116	-122
<u>Additional Reforms, Reductions and Terminations</u>				
67) Terminate Agricultural Conservation Programs	---	-622	-627	-631
68) 10% 1986 Cut in NOAA	---	-97	-138	-152
69) Navigation User Fees: 100% Deep Port O&M; 30-70% Construc- tion; 70% Inland Waterway O&M and Construction	---	-326	-713	-1,020
70) <u>Page Subtotals</u>				
o Baseline	14,068	13,811	14,896	14,237
o 1-Year B.A. Freeze	---	-335	-434	-476
o Other Savings	---	-1,045	-1,478	-1,803
o Total Savings, Page Subtotal	---	-1,380	-1,912	-2,279

<u>Program</u>	<u>1985 Enacted</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
<u>Formula Freeze of 1986 Budget Authority</u>				
71) Urban Mass Transit Fund	<u>3,817</u>	<u>3,386</u>	<u>2,938</u>	<u>2,832</u>
o 1-year B.A. freeze	---	-26	-50	-84
72) VA Medical	<u>8,970</u>	<u>9,429</u>	<u>9,832</u>	<u>10,283</u>
o 1-year B.A. freeze	---	-431	-514	-538
73) Housing Construction Loans for Elderly & Handicapped	<u>670</u>	<u>636</u>	<u>634</u>	<u>625</u>
o 1-year B.A. freeze	---	---	-10	-30
74) Agricultural Inspection, Services & Information	<u>1,189</u>	<u>1,201</u>	<u>1,222</u>	<u>1,242</u>
o 1-year B.A. freeze	---	-18	-22	-23
75) Federal Entitlement Admin: SSI, Civil Services, Social Security, UI, Medicare	<u>5,049</u>	<u>5,187</u>	<u>5,320</u>	<u>5,448</u>
o 1-year B.A. freeze	---	-22	-22	-22
<u>Additional Reforms, Reductions and Terminations</u>				
76) Terminate Urban Mass Transit	---	-772	-1,588	-2,725
77) VA Medical Care Structural Reforms: Means-Test for All Except Disabled Veterans; Shrink System Size Gradually ..	---	0	0	-400
78) Restructure SSI and SSA Administration: Grace Commission 19,000 FTE Cut in SSA: 10% Cut in Other Programs	---	-80	-193	-323
79) <u>Page Subtotals</u>				
o Baseline	<u>19,695</u>	<u>19,839</u>	<u>19,946</u>	<u>20,430</u>
o 1-Year B.A. Freeze	---	-497	-618	-697
o Other Savings	---	-852	-1,791	-3,448
o Total Savings, Page Subtotal	---	<u>1,349</u>	<u>-2,399</u>	<u>-4,145</u>

<u>Program</u>	<u>1985 Enacted</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
<u>Formula Freeze of 1986 Budget Authority</u>				
80) Other Federal Administrative Accounts & Services	<u>3,168</u>	<u>3,242</u>	<u>3,295</u>	<u>3,360</u>
o 1-year B.A. Freeze	---	-300	-334	-473
81) FEMA Emergency Preparedness & Other Defense Related	<u>444</u>	<u>503</u>	<u>580</u>	<u>703</u>
o 1-year B.A. freeze	---	-59	-70	-94
82) Peace Corps	<u>124</u>	<u>130</u>	<u>134</u>	<u>138</u>
o 1-year B.A. freeze	---	-5	-5	-5
83) BIB/USIA	<u>910</u>	<u>1,136</u>	<u>1,293</u>	<u>1,282</u>
o 1-year B.A. freeze	---	-21	-24	-24
<u>Additional Reform, Reductions and Terminations</u>				
84) 10% 1986 B.A. Cut in Other Federal Administration Costs .	---	-263	-313	-326
85) 10% 1986 B.A. Cut in Legislative Branch	---	-166	-177	-181
86) Terminate Civil Defense Build-Up	---	-21	-70	-176
87) <u>Page Subtotals</u>				
o Baseline	<u>4,646</u>	<u>5,011</u>	<u>5,302</u>	<u>5,483</u>
o 1-Year B.A. Freeze	---	-385	-433	-596
o Other Savings	---	-450	-560	-683
o Total Savings, Page Subtotal	---	-835	-993	-1,279

<u>Program</u>	<u>1985 Enacted</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
<u>Formula Freeze of 1986 Budget Authority</u>				
88) Coast Guard	<u>2,355</u>	<u>2,493</u>	<u>2,590</u>	<u>2,583</u>
o 1-year military pay & B.A. freeze	---	<u>-97</u>	<u>-140</u>	<u>-171</u>
<u>Additional Reforms, Reductions and Terminations</u>				
89) Limited Coast Guard User Fees: Documentation Inspection and Other Specific Services; Small SAR	---	-100	-125	-150
90) Terminate CDBG Loan Guarantees	---	-164	-237	-135
91) <u>Totals, Other Discretionary Programs (Category 1-C)</u>				
o Baseline	<u>80,394</u>	<u>81,710</u>	<u>83,334</u>	<u>85,285</u>
o 1-Year B.A. Freeze	---	<u>-2,836</u>	<u>-3,403</u>	<u>-3,804</u>
o Other Savings	---	<u>-5,250</u>	<u>-8,363</u>	<u>-10,756</u>
o Total Savings	---	<u>-8,086</u>	<u>-11,766</u>	<u>-14,560</u>
92) <u>Totals, Category I (A-C)</u>				
o Baseline	<u>162,977</u>	<u>169,882</u>	<u>176,877</u>	<u>186,297</u>
o 1-Year B.A. Freeze	---	<u>-5,562</u>	<u>-8,506</u>	<u>-10,467</u>
o Other Savings	---	<u>-7,876</u>	<u>-12,368</u>	<u>-15,392</u>
o Total Savings	---	<u>-13,438</u>	<u>-20,874</u>	<u>-25,859</u>

CATEGORY #2: BASELINE BUDGET AUTHORITY ALREADY FROZEN

<u>Program</u>	<u>1985</u>	<u>1986</u> <u>(millions)</u>	<u>1987</u>	<u>1988</u>
<u>Current Services Baseline Outlays</u>				
1) Social Services Block Grant	2,842	2,704	2,700	2,700
2) Community Development Grants	3,900	3,526	3,482	3,539
3) UDAG	490	512	531	512
4) Disaster Relief Grants	200	200	200	200
5) General Revenue Sharing	4,574	4,574	4,574	4,575
6) Sewer Grants	2,500	2,340	2,240	2,220
7) RR Windfall Benefits	405	392	375	355
8) Postal Subsidy	1,041	835	839	827
9) Treasury Claims & Judgments	390	331	281	281
10) REA	3,325	2,803	2,775	2,140
11) Flood Insurance and Trade Adjustment Assistance	132	72	18	-27
12) Voluntary Contributions to International Organizations and Refugee Aid (State)	648	578	579	569
13) Refugee Aid (IHS)	490	453	454	456
14) Aid to Higher Education & Black Colleges	732	704	730	753
15) Low Income Weatherization/Conservation	385	340	340	340
16) Juvenile & Criminal Justice Grants	222	214	167	169
17) Geological Survey/Bureau of Mines	549	552	569	578
18) Total Baseline Outlays	<u>22,825</u>	<u>21,130</u>	<u>20,854</u>	<u>20,187</u>
19) 1986 Budget Authority freeze impact	---	-0-	-0-	-0-
<u>Additional Reforms, Reductions, and Terminations</u>				
20) 10% cut in 1986 CDBG BA	---	-23	-146	-329
21) Terminate UDAG program	---	-32	-148	-251
22) Terminate General Revenue Sharing after authorization expires in 1986	---	0	-4,575	-4,576
23) Sewer grants: terminate funding for new project starts -- complete existing segments	---	0	-50	-150
24) Terminate postal subsidy except for blind and school books	---	-785	-787	-772

<u>Program</u>	<u>1985</u>	<u>1986</u> (millions)	<u>1987</u>	<u>1988</u>
25) REA: raise direct insured loans rates to Treasury cost and phase-out loans by 1990; raise private co-financing on FFB-guaranteed loans to 50% by 1990 and phase-out; no new powerplant and transmission project loans	---	-206	-480	-527
26) Low-income weatherization: phase-out by 1990	---	-50	-110	-175
27) Juvenile and criminal justice grants: restrain to President's request level	---	-14	-26	-40
28) Total savings, freezes, reforms, reductions, terminations	---	-1,110	-6,322	-6,820

CATEGORY #3: FREEZE DIFFICULT -- DEDICATED FUNDING SOURCE

<u>Program</u>	<u>1985</u>	<u>1986</u> (millions)	<u>1987</u>	<u>1988</u>
<u>Business Revolving Funds or Similar: Forest Service; Nuclear Waste; Uranium Enrichment and Power Marketing Administration</u>				
1) Gross program outlays	4,437	4,621	4,916	5,088
2) Off-setting receipts	-4,584	-4,027	-4,480	-4,650
3) Net baseline outlays	-147	+594	+436	+438
4) B.A. freeze savings	---	-0-	-0-	-0-
<u>Programs with Dedicated Taxes or User Fee Trust Funds; Baseline Outlays</u>				
5) Federal-State Employment Service (FUTA Tax) and Unemployment Insurance (State Taxes)	17,654	17,484	18,147	18,640
6) Office of Surface Mining & Reclamation	283	325	366	391
7) Superfund	425	570	616	615
8) Highway Program (Trust Fund)	13,165	14,349	14,912	15,671
9) Mass Transit Capital Fund	359	727	1,032	1,166
10) Airport Grants	760	824	914	987
11) FAA Operations (Trust Fund) and Other Airport & Airways ..	2,764	2,853	2,931	2,973
12) FAA - Facilities & Equipment, Research & Engineering ...	935	1,153	1,322	1,466
13) Total baseline outlays, lines 5-12	36,245	38,879	40,240	41,909
14) Memo: user tax receipts	-42,074	-42,023	-40,918	-40,149
<u>Additional Reform Savings</u>				
15) Reform savings: Implement modified Grace Commission plan to raise PMA debt service interest rates to Treasury cost of money and impose mandatory amortization schedule on \$12 billion debt	---	-536	-451	-506
16) Highway programs: Freeze 1986 obligation rate at 1985 level to correct receipt shortfall under current law (\$1.2 billion cut)	---	-208	-676	-195

CATEGORY #4: NO FORMULA FREEZE SAVINGS POSSIBLE DUE TO TECHNICAL,
LEGAL, STRUCTURAL BARRIERS: AD HOC CUTS OR REFORMS NECESSARY

<u>Program</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
1) <u>Medicaid: Mandatory, Opened-ended State Reimbursement (55%) of State-Generated Costs</u>				
2) <u>Baseline outlays</u>	<u>23,187</u>	<u>24,573</u>	<u>26,924</u>	<u>29,479</u>
3) <u>Modified freeze: 1986 reimbursement cap \$1 billion below baseline; GNP deflator cap thereafter</u>	---	-1,000	-2,340	-3,913
4) <u>Subsidized Housing: Legal Obligations on 4.1 Million Assisted Housing Contracts Funded over Last 25 years</u>				
5) <u>Baseline outlays</u>	<u>9,509</u>	<u>9,886</u>	<u>10,712</u>	<u>11,354</u>
6) <u>Modified freeze: 2-year moratorium on new assisted units (\$20 billion BA cut)</u>	---	0	-102	-310
7) <u>Public Housing Operating Subsidy: Local PHA Entitlement Based on Cost Formula Factors</u>				
8) <u>Baseline outlays</u>	<u>1,348</u>	<u>1,353</u>	<u>1,224</u>	<u>1,274</u>
9) <u>Modified freeze: formula cost factors</u>	---	-88	-159	-168
10) <u>Earned Income Tax Credit: Participation Rate Driven</u>				
11) <u>Baseline outlays</u>	<u>1,053</u>	<u>1,242</u>	<u>1,175</u>	<u>1,112</u>
12) <u>Savings: none</u>	---	-0-	-0-	-0-
13) <u>AFDC - CSE: No COLA -- Extensive Reform 1981-84</u>				
14) <u>Baseline outlays</u>	<u>8,541</u>	<u>9,088</u>	<u>9,399</u>	<u>9,640</u>
15) <u>Reform savings: mandatory workfare and maintain minor mothers in family unit</u>	---	-188	-259	-341

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
16) <u>Rural Housing: Outlays Reflect Net Lending and Takedown Lags</u>				
17) <u>Baseline Outlays</u>	<u>2,228</u>	<u>2,598</u>	<u>2,785</u>	<u>2,935</u>
18) <u>Termination savings: Eliminate Program in 1986; merge into HUD subsidized housing program (50/50 split of new units starting in 1988)</u>	---	-2,238	-3,094	-3,692
19) <u>Guaranteed Student Loans: Outlays Reflect Legal Obligations on Existing \$30 Billion Portfolio From Prior Years</u>				
20) <u>Baseline outlays</u>	<u>3,375</u>	<u>3,724</u>	<u>3,495</u>	<u>3,162</u>
21) <u>Reform savings: Mega cap; administrative savings.</u>	---	-145	-147	-192
22) <u>Adoption Assistance/Foster Care: Open-ended Entitlement to States Based on Number of Children Protected</u>				
23) <u>Baseline outlays</u>	<u>581</u>	<u>567</u>	<u>578</u>	<u>602</u>
24) <u>Modified freeze: Cap 1986 BA at 1985 level</u>	---	-53	-82	-114
25) <u>Energy Security Reserve: Baseline Outlays Reflect only Synfuels Contracts Already Committed</u>				
26) <u>Baseline outlays</u>	<u>157</u>	<u>300</u>	<u>427</u>	<u>524</u>
27) <u>Savings: none</u>	---	-0-	-0-	-0-
28) <u>VA Burial Benefits; Life Insurance; GI Bill; Entitlement; Legal Obligation; No COLAs</u>				
29) <u>Baseline outlays</u>	<u>2,029</u>	<u>1,859</u>	<u>1,697</u>	<u>1,609</u>
30) <u>Savings: none</u>	---	-0-	-0-	-0-

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
31) <u>Subsidized Farm Credit (FmHA): Outlays Reflect Net Lending, Loan Takedown Lags and Repayment Deferrals</u>				
32) Baseline outlays	<u>2,318</u>	<u>2,630</u>	<u>1,319</u>	<u>1,844</u>
33) <u>Reform savings</u> : Terminate ownership loans; shift all crop loans to 70-90% guarantees; 5% guarantee origination fee; raise disaster loans to T-bill rates	---	-2,474	-2,907	-3,148
34) <u>Rural Water, Sewer Facilities: Outlays Reflect Net Lending, Loan Takedown Lags and Repayment Deferrals</u>				
35) Baseline outlays	<u>3,445</u>	<u>2,864</u>	<u>2,588</u>	<u>3,018</u>
36) <u>Termination savings</u> : Eliminate all programs, merge function with COBG	---	-82	-168	-258
37) <u>Marad Operating Subsidy: 20-year Legally Binding Contracts</u>				
38) Baseline outlays	<u>368</u>	<u>384</u>	<u>401</u>	<u>417</u>
39) <u>Savings</u> : none	---	-0-	-0-	-0-
40) <u>Export-Import Bank: Preliminary Commitments Binding -- Delayed Takedown; Outlays are Net of Repayments</u>				
41) Baseline outlays	<u>1,404</u>	<u>1,022</u>	<u>841</u>	<u>452</u>
42) <u>Reforms savings</u> : eliminate all direct loans; raise origination fees on guaranteed loans as per Grace Commission:	---	-356	-1,361	-2,012
43) <u>SBA Programs: Disaster Loans; Direct Loans; Defaults on Prior Loans/Guarantees</u>				
44) Baseline outlays	<u>1,149</u>	<u>1,269</u>	<u>1,354</u>	<u>1,436</u>
45) <u>Termination savings</u> : eliminate agency and all programs; sell loan assets	---	-1,627	-1,919	-1,844

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
46) <u>Payments to Territories & Puerto Rico: Rebate of Excises Reformed in 1984</u>				
47) <u>Baseline outlays</u>	452	395	401	413
48) <u>Savings: none</u>	---	-0-	-0-	-0-
47) <u>Farm Price Supports: 1986 Outlays Locked-in; Baseline Assumes Target Price/Support Loan Freeze for 1986-89 Crop Years</u>				
50) <u>Baseline outlays</u>	14,420	10,976	12,987	12,879
51) <u>Reform savings: lower target prices and deficiency payments; cap deficiency payments at \$10,000/farmer and support loans at \$200,000/farmer; abolish dairy program and replace with small farmer aid; 5% origination fee on CCC export credit</u>	---	-1,226	-5,851	-6,683
52) <u>Payments to States/Counties from Mineral Receipts: Automatic 60% of Gross Receipt Collections</u>				
53) <u>Baseline outlays</u>	755	815	909	996
54) <u>Reform savings: shift from gross receipt to net profit sharing</u>	---	-400	-420	-430
55) <u>Federal Employees Health Benefits: Driven by Carrier Premiums, Employee Selection</u>				
56) <u>Baseline outlays</u>	1,309	1,467	1,641	1,848
57) <u>Savings: none</u>	---	-0-	-0-	-0-
58) <u>Strategic Petroleum Reserve: Baseline Purchases Capped at 159,000 bbls/day; Big Hill Construction Spend-out</u>				
59) <u>Baseline outlays</u>	2,135	2,175	2,116	2,138
60) <u>Modified freeze: moratorium on new purchases; cancel Big Hill</u>	---	-2,175	-2,116	-2,138

61) DOE - Weapons Production: Most Funding Driven by Weapons Stockpile Memorandum

62) Baseline outlays	<u>7,245</u>	<u>7,879</u>	<u>8,346</u>	<u>9,145</u>
63) Reform savings: tighten management -- per Grace Commission	---	-109	-123	-128

64) Multilateral Development Banks: Near-Term Outlays Driven by Prior Commitments and Appropriations --
Very Slow Drawdown

65) Baseline outlays	<u>1,358</u>	<u>1,394</u>	<u>1,677</u>	<u>1,818</u>
66) Modified freeze: Budget for no new commitments ..	---	-5	-126	-324

67) PL-480: 1985 Program at Supplemental Peak; Baseline Shows Declining Tonnage

68) Baseline outlays	<u>1,590</u>	<u>1,342</u>	<u>1,329</u>	<u>1,318</u>
69) Savings: none	---	-0-	-0-	-0-

70) Bilateral Development Aid: Near-term Outlays Reflect Prior Obligations -- Very Slow Spend-out
from New Obligations

71) Baseline outlays	<u>2,068</u>	<u>2,145</u>	<u>2,230</u>	<u>2,276</u>
72) Modified freeze: cap BA at 1985 level	---	-0-	-0-	-13

73) Space Program: Outlays Driven Primarily by Shuttle, Manned Space Station & Prior Commitments

74) Baseline	<u>6,649</u>	<u>7,076</u>	<u>7,409</u>	<u>7,860</u>
75) Modified freeze: no new science or applications starts -- stretch out space station funding	---	-100	-446	-646

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
77) <u>Foreign Military Sales: Outlays Driven by Current and Prior Commitments -- 70% Israel/Egypt and Base Rights Countries</u>				
78) <u>Baseline outlays</u>	<u>4,516</u>	<u>4,554</u>	<u>4,290</u>	<u>4,154</u>
79) <u>Savings: none (add-on likely)</u>	<u>---</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
80) <u>Economic Support Fund: Baseline Reflects Existing Commitments and Elimination of 1985 Congressional Israel Add-on (Not Realistic)</u>				
81) <u>Baseline outlays</u>	<u>3,750</u>	<u>3,347</u>	<u>3,433</u>	<u>3,503</u>
82) <u>Savings: none (add-on likely)</u>	<u>---</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
83) <u>Military Grant Assistance: Baseline Essentially Frozen at Existing Commitment Level for Central America and Other Strategic Areas</u>				
84) <u>Baseline outlays</u>	<u>876</u>	<u>903</u>	<u>908</u>	<u>932</u>
85) <u>Savings: none</u>	<u>---</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
86) <u>State Department Operations: Baseline Rising Due to Embassy Security Initiative -- but Only Partially Reflected in Baseline</u>				
87) <u>Baseline outlays</u>	<u>1,573</u>	<u>1,583</u>	<u>1,798</u>	<u>1,852</u>
88) <u>Savings: none</u>	<u>---</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
89) <u>Air Carrier Subsidies:</u>				
90) <u>Baseline outlays</u>	<u>56</u>	<u>56</u>	<u>55</u>	<u>57</u>
91) <u>Termination savings: eliminate all subsidies since deregulation completed</u>	<u>---</u>	<u>-56</u>	<u>-55</u>	<u>-57</u>

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
92) <u>Stockpile Transactions: Driven by Stockpile Materials Goals</u>				
93) <u>Baseline outlays</u>	<u>197</u>	<u>135</u>	<u>105</u>	<u>33</u>
94) <u>Modified freeze: eliminate 1985 Congressional add-on (copper)</u>	---	-107	-75	-0-
95) <u>International Organization Assessed Contributions</u>				
96) <u>Baseline outlays</u>	<u>553</u>	<u>549</u>	<u>593</u>	<u>609</u>
97) <u>Modified freeze: terminate FAO commitment</u>	---	-0-	-0-	-48
98) <u>Crop Insurance Subsidies: Driven by Program Operating Losses and 100% Federal Funding of Expenses</u>				
99) <u>Baseline outlays</u>	<u>300</u>	<u>312</u>	<u>324</u>	<u>335</u>
100) <u>Reform savings: phase-out premium subsidy and operating expense subsidy over 5 years as per Grace Commission</u>	---	-92	-224	-372
101) <u>Veterans Housing: Outlays Driven by Mortgage Defaults, Baseline Reflects 1984 Reform (Grace Commission)</u>				
102) <u>Baseline Outlays</u>	<u>348</u>	<u>352</u>	<u>245</u>	<u>504</u>
103) <u>Reform savings: 5% loan origination fee as per Grace Commission (also apply to FIIA insured mortgages)</u>	---	-953	-998	-1,040
104) <u>Veterans Medical Care Construction: Outlays Reflect Already Approved Projects (5 in 1985)</u>				
105) <u>Baseline outlays</u>	<u>515</u>	<u>705</u>	<u>578</u>	<u>754</u>
106) <u>Savings: none</u>	---	-0-	-0-	-0-

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
107) <u>Crosscutting Grace Commission Reforms:</u>				
108) <u>Baseline outlays</u>	---	---	---	---
109) <u>Miscellaneous Grace Commission reforms: PBGC premium increase; 15-basis point user fee on sponsored credit agencies; meat inspection and grazing user fees; flood insurance reform; raise recreation user fees from 7% to 25% of Federal cost; welfare administration block grant; Treasury user fees; numerous line item management improvements</u>	---	-973	-1,458	-1,697
110) <u>Category Total</u>				
111) <u>Baseline outlays</u>	<u>111,357</u>	<u>111,519</u>	<u>116,293</u>	<u>122,282</u>
112) <u>Savings</u>	---	-14,447	-24,430	-29,568

CATEGORY #5: DOD, SOCIAL SECURITY, MEDICARE AND NET INTEREST: MEGA-POLICY CHOICES OR MANDATORY

<u>Program</u>	<u>1985</u>	<u>1986</u> (billions)	<u>1987</u>	<u>1988</u>
1) Defense Department	<u>254.2</u>	<u>286.2</u>	<u>321.5</u>	<u>358.8</u>
2) Savings: under review	---	-0-	-0-	-0-
3) DOD civilian payroll: impact of 5% government-wide payout	---	-1,082	-1,354	-1,419
4) Social Security Benefits	<u>187.6</u>	<u>200.5</u>	<u>214.9</u>	<u>229.3</u>
5) Savings: Exempt	---	-0-	-0-	-0-
6) Medicare	<u>68.0</u>	<u>74.4</u>	<u>83.2</u>	<u>93.9</u>
7) Modified Medicare freeze: market basket minus 2% for DRG's; physician freeze; other provider freezes (SNF's, Home Health); raise part B premium to 35%; reform medical school and capital cost reimbursement under DRG	---	-2,769	-5,916	-10,242
8) Net Interest	<u>133.4</u>	<u>154.4</u>	<u>168.4</u>	<u>173.7</u>
9) Total, Category #5	<u>643.2</u>	<u>715.5</u>	<u>788.0</u>	<u>855.7</u>
10) Programmatic Savings to Date	---	-3,851	-7,270	-11,661

DEFENSE REAL GROWTH: 1980 TO ENACTED 1985 BUDGET
(Billions of Nominal Budget Authority)

<u>Component</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
I. <u>Purchases: Weapons Systems, Materials, Contracts</u>						
1) Strategic Weapons	\$9.4	\$11.8	\$16.1	\$21.3	\$31.9	\$35.3
2) Major Conventional Weapons	14.5	19.4	24.2	34.1	28.0	30.6
3) Non-Major Conventional Procurement	14.2	20.4	29.0	31.0	35.4	41.4
4) O&M Purchases	25.5	35.2	40.2	40.8	43.7	49.8
5) Non-Strategic RDT&E	9.4	9.6	11.7	14.9	16.2	19.5
6) Family Housing and Non-Strategic Military Construction	3.7	5.3	6.9	7.0	6.8	8.0
7) Revolving Funds and Other	0.6	2.1	1.8	0.7	2.0	1.1
8) Total purchases and weapons	<u>\$77.3</u>	<u>\$103.8</u>	<u>\$129.9</u>	<u>\$149.8</u>	<u>\$164.0</u>	<u>\$185.7</u>
9) Real Growth (%)	---	22.4%	18.7%	10.8%	4.8%	8.0%
<u>People on DOD Payroll: Pay and Retirement</u>						
10) Active-duty Military Personnel	31.0	36.9	42.9	45.7	48.4	51.3
11) Military Retirement Accrual	10.1	11.5	12.8	15.4	16.5	17.3
12) Civilian Pay	22.3	23.9	26.1	27.8	29.1	30.3
13) Total Pay	<u>63.4</u>	<u>72.3</u>	<u>81.8</u>	<u>88.9</u>	<u>94.0</u>	<u>98.9</u>
14) Real Growth (%)	---	1.1%	3.1%	2.2%	2.1%	1.9%
III. <u>Grand Total, DOD Budget Authority</u>						
15) Total Defense BA	<u>\$140.7</u>	<u>\$176.1</u>	<u>\$211.7</u>	<u>\$238.7</u>	<u>\$258.0</u>	<u>\$284.5</u>
16) Real Growth (%)	---	12.4%	12.0%	7.5%	3.8%	5.5%

* Growth related to increased end strength.



HON. MATTHEW F. McHUGH (New York) — Chairman

RICHARD P. CONLON, Executive Director
FEB 10 1985

February 8, 1985

Correction

DSG SPECIAL REPORT NO. 99-2, FEBRUARY 5, 1985

REAGAN'S FY 1986 BUDGET -- AN OVERVIEW

On page 19, Table 7 entitled "Major Program Cuts" contains an incorrect figure for the Administration's request for the Community Services Block Grant. The figure in the first column, entitled "FY 1986 Administration Request," should be 4, rather than 390.

The same table on page 19 gives the figures for Civil Service Retirement in terms of budget authority rather than outlays. While the budget authority figures are accurate, outlays provide a more meaningful measure of the President's proposed cuts in this program. Accordingly, the figure in the first column should be 24,208* (the asterisk indicates outlays) rather than 41,642, the figure in the second column should be 288 (rather than 108) and the figure in the third column should be -1 (rather than **).

* * *



SPECIAL REPORT

No. 99-2

February 5, 1985

REAGAN'S FY 1986 BUDGET -- AN OVERVIEW

The central feature of the new Reagan budget is a direct transfer of roughly \$30 BILLION from domestic programs to the military. President Reagan is calling for a \$32 BILLION military spending increase next year, while simultaneously insisting that overall federal spending must be frozen at this year's levels. Accordingly, he is proposing to finance his military spending increase by cutting domestic programs \$32 BILLION below the current year level.

In short, all of the drastic domestic spending cuts in the new Reagan budget really do nothing to help meet the President's oft-stated goal of bringing down federal spending. Rather, these domestic spending cuts all go solely to pay for military budget increases.

Many observers are suggesting that the massive military spending increases proposed in this budget are really just a negotiating ploy, and that, after suitable posturing, the Administration and the Republican Senate leadership will agree on a compromise defense spending increase which is merely large -- instead of huge. Even if this occurs, the net effect would still be a large transfer of resources from the domestic budget to defense -- for the fifth year in a row -- and continued record-high deficits as far as the eye can see.

This DSG Special Report provides a brief overview of President Reagan's new budget. A second report, to be published next week, will provide additional details regarding the numerous major spending cuts proposed in this budget.

	<u>page</u>
I. Background and Summary	1
II. Deficits and Deficit Reduction	5
III. Spending Priorities	11
IV. Tax Proposals	23
Appendix: Budget Tables	

Section I

BACKGROUND AND SUMMARY

Throughout the 1984 campaign, Ronald Reagan and the Republicans ridiculed and attacked Walter Mondale's deficit reduction plan while refusing to specify how they would go about reducing the massive deficits brought about by the tax and spending policies of the Reagan Administration.

In a virtual replay of the 1980 campaign, President Reagan insisted that we could have it all: big tax cuts, a massive military buildup, and the basic government services that the public wants and expects. As for the deficit, the President and his allies maintained that the problem could be solved through a combination of economic growth and Grace Commission proposals for cutting "fraud, waste, and abuse."

Almost as soon as the campaign was over, however, there was a dramatic change in tone. Within days of the election, the White House discovered a deficit problem of alarming proportions -- with projected deficits climbing steadily throughout the foreseeable future -- and President Reagan pledged to submit a budget to Congress which would bring the deficits down sharply.

Last weekend, the Administration's new budget was finally unveiled. The new budget is little more than a continuation of the same policies that President Reagan has been pursuing since he took office four years ago. It continues the rapid military buildup, provides for no new revenue increases, and continues to seek deficit reductions solely through cuts in the same domestic spending programs that have been targeted for cuts throughout the Reagan Administration. The new budget also yields the same results as produced by the President's past four budgets: record-high deficits.

SUMMARY

According to the Administration's own projections, the new Reagan budget is expected to produce massive deficits and to fall far short of the deficit-reduction goal which the President set for himself last December.

Even if all of the proposed new spending cuts are enacted, the FY 1986 deficit would be \$180 BILLION, more than twice the \$79 BILLION deficit recorded during President Carter's last fiscal year. Under the Reagan budget, the projected FY 1988 deficit would be \$144 BILLION, well above the President's goal of bringing the deficit down below \$100 BILLION in the next three years.

The new budget calls for continued large military spending increases. In terms of budget authority (appropriations), the President is seeking a \$30 BILLION increase in the military budget for FY 1986. After adjustment for inflation, this represents "real" spending growth of 5.9%. The proposed FY 1986 appropriation is \$176 BILLION above the FY 1980 level. Before adjustment for inflation this is a 121% increase over six years; after adjustment for inflation the increase would be 60%.

The new budget also calls for very large new cuts in many domestic programs:

- The President is proposing a freeze on Medicare payments to hospitals and physicians, increases in premiums charged to the elderly for Medicare coverage, limits on payments to the states for running Medicaid programs, reductions in financial aid for college students, a means test for VA health care, and a two-year moratorium on new commitments for housing assistance.
- * Under the new budget, federal civilian employees would take a 5% pay cut, civilian and military retirees would have no cost-of-living adjustment next year, and there would be major reductions in pension benefits for future federal retirees.
- * The budget calls for outright elimination of a large number of programs, including general revenue sharing, Export-Import Bank direct lending, Small Business Administration loan programs, the Legal Services Corporation, the Job Corps, Urban Development Action Grants, and the Economic Development Administration.
- * In terms of farm and rural programs, crop loan and target price support programs would be cut, the cap on the amount of assistance per farm would be lowered, Farmers Home Administration direct farm ownership and operating loans would be eliminated, soil and water conservation programs would be ended, and loans to rural electric cooperatives would be phased out.

DISTRIBUTION OF FEDERAL SPENDING UNDER REAGAN'S FY 1986 BUDGET

TOTAL \$973.7 BILLION

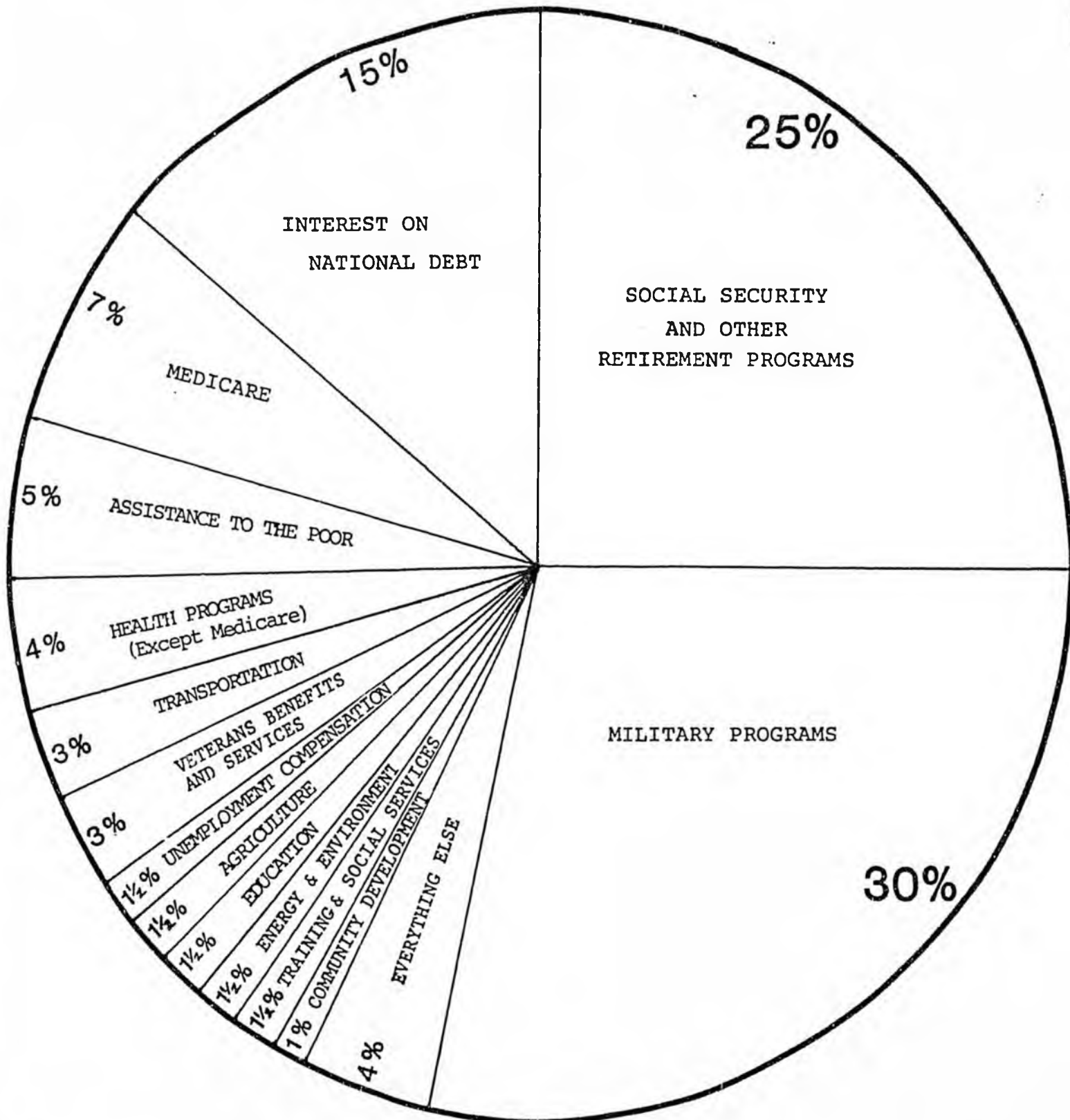


Table 1

REAGAN SPENDING PRIORITIES
(\$ in BILLIONS)

	Proposed FY 1986 Outlays-	Percentage FY 1986 Budget
Military (including military foreign aid)	\$294.9	30.3%
Social Security & Other		
Retirement	249.3	25.6
Social Security	(202.2)	(20.8)
Interest on Debt	142.6	14.6
Medicare	67.2	6.9
Aid to the Poor	52.4	5.4
Housing Assistance	(12.3)	(1.3)
Food & Nutrition	(18.3)	(1.9)
Cash Assistance & Related	(21.8)	(2.2)
Health	34.9	3.6
Medicaid	(23.7)	(2.4)
Other Health	(11.2)	(1.2)
Transportation	25.9	2.7
Veterans' Benefits & Services	26.8	2.8
Unemployment Compensation	16.3	1.7
Education	16.9	1.7
Energy & Environment	16.6	1.7
Energy	(4.7)	(0.5)
Natural Resources & Environment	(11.9)	(1.2)
Agriculture	12.6	1.3
Community & Regional Development	7.3	0.7
Job Training & Social Services	12.5	1.3
Job Training	(5.6)	(0.6)
Social Services	(6.9)	(0.7)
All Others	35.2	3.6
International Affairs (except military foreign aid)	(9.1)	(0.9)
Science, Space, & Technology	(9.3)	(1.0)
Revenue Sharing & Other Fiscal Assistance	(2.8)	(0.3)
General Government	(4.8)	(0.5)
Courts & Law Enforcement	(6.6)	(0.7)
Commerce & Housing Credit	(2.2)	(0.2)
Allowances	(0.4)	(0.0)
Total	\$1,011.4	103.9%
Undistributed Offsetting		
Receipts	-37.5	-3.9
TOTAL OUTLAYS	973.7	100

Note: Figures not in parentheses correspond to divisions of the pie chart shown in Figure 1. Figures in parentheses are components of those pie chart divisions. Columns may not add due to rounding.

* * *

Section II

DEFICITS AND DEFICIT REDUCTION

President Reagan's new budget calls for substantial deficit reductions, to be accomplished almost entirely through cuts in domestic spending. Nevertheless, these deficit reductions fall far short of the goals which the Administration set for itself last December. Even if all of the President's new budget-cutting proposals are enacted and all of the President's optimistic economic projections come true, budget deficits are expected to remain well over \$100 BILLION for the next several years.

According to the Reagan Administration's latest estimates, if current policies were continued without change, the budget deficit would continue to grow, rising from \$224 BILLION in the current fiscal year to \$230 BILLION in FY 1986 and \$248 BILLION in FY 1988*. By comparison, the deficit in FY 1984, which ended last September, was \$185 BILLION, while the deficit in FY 1981 -- the last fiscal year of the Carter Administration -- was \$79 BILLION. These Administration "current services" estimates -- which are shown on the top line of Table 2 below -- represent the spending and deficits that would result if defense spending were increased in accordance with the Administration's previous budget request and if domestic spending were increased only to keep pace with inflation and rising caseloads.

THE PRESIDENT'S DEFICIT REDUCTION PLAN

President Reagan is calling for deficit reductions totaling \$50 BILLION in the next fiscal year, \$234 BILLION over the next three fiscal years, and \$502 BILLION over the next five fiscal years. The basic elements of these proposed deficit cuts are shown in Table 2. As the table indicates, all of these deficit reductions are to be accomplished through cuts in spending, rather than increases in taxes. The President is calling for only some relatively small miscellaneous tax changes, and the net effect of these changes would be a slight reduction in revenues and therefore a slight increase in the deficit.

Spending cuts in domestic programs far outweigh cuts in defense spending. In FY 1986, defense accounts for only 19% of total proposed cuts in program spending (spending on everything except interest). Over the next five years as a whole, defense accounts for only 12% of the proposed cuts.

*All figures in this report refer to total spending and deficits, including items considered "off budget" under current law. The new Administration budget proposal is presented in terms of total spending and deficits because the Administration is proposing to eliminate the distinction between "off budget" and "on budget" programs.

Table 2

PROPOSED DEFICIT REDUCTIONS
(\$ in BILLIONS)

	FY 86	FY 87	FY 88	FY 86-88	FY 86-90
Deficit -- Under Current Policies	\$230.3	\$245.6	\$247.8	\$723.7	\$1,180.9
Proposed Spending Cuts	50.8	82.7	105.3	238.8	506.9
Defense	8.9	9.2	10.1	28.2	52.8
Nondefense	38.7	63.4	78.1	180.4	371.0
Interest Costs	3.1	9.9	17.1	30.2	83.1
Proposed Revenue Cuts*	(0.5)	(2.0)	(1.9)	(4.4)	(5.1)
TOTAL, Proposed Deficit Reductions	50.3	80.7	103.4	234.4	501.7
Deficit -- Under New Admin. Proposals	\$180.0	\$164.9	\$144.4	\$489.3	\$679.2

*Note that these are revenue reductions, which increase the deficit.

Note: Cuts in spending (outlays) and revenues are measured from "current services" levels. Figures refer to total outlays and deficits, including items which are "off budget" under current law. Details may not add to the totals shown due to rounding differences.

Source: Office of Management and Budget, Budget of the U.S. Government for FY 1986

It should be understood that these spending cuts are measured from the Administration's "current services" projections -- which indicate the amounts of spending that would be needed to continue current programs without change -- rather than from current-year spending levels. These Administration projections treat defense spending somewhat differently than domestic spending, however. For domestic programs, the current services projections indicate the amounts that would be needed just to keep up with inflation and rising caseloads in various entitlement programs (for example, to keep up with increases in the number of retirees eligible for Social Security and Medicare).

For defense, however, the current services projections are simply set equal to the Administration's previous budget request -- the so-called Rose Garden compromise announced in March of last year. This previous request called for substantial increases in defense spending in FY 1986 above the amounts needed to keep pace with inflation. Thus, the baseline from which the defense "cuts" are measured already has significant real (inflation-adjusted) increases built in, while the baseline for measuring the nondefense cuts has no such built-in real spending increases.

The Administration's proposed "cuts" in the defense budget would only slow down the planned rate of increase. Even after all of the cuts are made next year, the defense budget would still rise by 5.9% more than what would be needed to keep up with inflation. The Administration's proposed cuts in domestic spending, however, would do far more than slow the increase. Rather, these cuts would bring total domestic spending in FY 1986 well below the current year's level in actual dollar amounts.

DEFICITS UNDER THE PRESIDENT'S BUDGET

Despite the large deficit reductions proposed in the President's new budget, the deficit remains quite high. Last December, President Reagan indicated that he would seek to propose a budget that would bring the deficit down to 4% of gross national product (GNP) in FY 1986, 3% of GNP in FY 1987, and 2% in FY 1988. This translates into deficit targets of \$168 BILLION in FY 1986, \$137 BILLION in FY 1987, and \$98 BILLION in FY 1988.

The President's new budget falls far short of this goal. According to the Administration's own estimates, the President's budget would produce deficits of \$180 BILLION in FY 1986, \$165 BILLION in FY 1987, and \$144 BILLION in FY 1988. As a percentage of GNP, these deficits are 4.3%, 3.6%, and 2.9% respectively.

Some additional perspective on the size of the deficits expected under the new Reagan budget is provided in Table 3, which compares these projected deficits with deficits recorded during the earlier years of the Reagan Administration and during the two previous administrations. As the table indicates, the deficit proposed by President Reagan for the coming fiscal year is more than twice the size of the deficit during the last fiscal year of the Carter Administration.

Before President Reagan took office, the deficit had exceeded 3% of GNP only three times since the end of World War II. Since President Reagan took office, however, the deficit has exceeded 3% of GNP -- indeed, exceeded 4% of GNP -- each year, and is expected to remain above the 3% level at least until FY 1988, even if all of President Reagan's new budget cuts are enacted and all of the President's economic forecasts come true.

Table 3 also shows the levels of total national debt expected over the next several years, and compares these with previous levels. At the end of the Carter Administration's last fiscal year, the debt stood at just over \$1 TRILLION. By the end of FY 1986, the Reagan Administration projects that the debt will exceed \$2 TRILLION -- having more than doubled in the space of five years.

Table 3

DEFICITS IN PERSPECTIVE
(\$ in BILLIONS)

	Total Deficit*		Total Federal Debt Outstanding**
	\$ Amt.	% of GNP	
FORD ADMINISTRATION			
FY 1976	\$73.7	4.5%	\$631.9
FY 1977	53.6	2.9%	709.1
CARTER ADMINISTRATION			
FY 1978	\$59.0	2.8%	\$780.4
FY 1979	40.2	1.7%	833.8
FY 1980	73.8	2.9%	914.3
FY 1981	78.9	2.7%	1,003.9
REAGAN ADMIN., ACTUAL			
FY 1982	\$127.9	4.2%	\$1,147.0
FY 1983	207.8	6.4%	1,381.9
FY 1984	185.3	5.2%	1,576.7
REAGAN ADMIN., PROPOSED			
FY 1985	\$222.2	5.7%	\$1,841.1
FY 1986	180.0	4.3%	2,074.2
FY 1987	164.9	3.6%	2,308.3
FY 1988	144.4	2.9%	2,546.4
FY 1989	107.5	2.0%	2,763.8
FY 1990	82.4	1.4%	2,975.2

*Including amounts considered "off budget" under current law
**Debt at the end of the fiscal year

Source: Office of Management and Budget, Budget of the U.S. Government for FY 1986

THE PRESIDENT'S ECONOMIC ASSUMPTIONS

The accuracy of the deficit projections contained in the President's new budget depend heavily on the accuracy of the economic forecast on which they are based. Key economic assumptions used in preparing the Administration budget include the following:

- * Strong economic growth will continue throughout the remainder of the decade, with increases in real GNP averaging 4.0% per year over the period 1985 through 1988, and 3.6% to 3.8% in 1989 and 1990.
- * Inflation will remain at low levels, with the annual increase in the Consumer Price Index remaining in the range of 4.1% to 4.3% during the period 1985 through 1987, and falling below 4% thereafter.
- * Interest rates will fall steadily. For example, the annual average rate on three-month Treasury bills will fall from 9.6% in 1984 to 7.9% in 1986, 5.9% in 1988, and 5.0% in 1990.

Many observers believe these economic assumptions to be overly optimistic. For example, the 4% economic growth rate projected by the Administration for the next several years is rather high by historical standards -- well above the 3.1% average growth rate recorded during the 1970s, and comparable to the 3.9% average growth rate of the 1960s. Given the various problems facing the economy such as unprecedented trade deficits and persistently high real interest rates, many would question whether such a high growth rate can be sustained.

Further, the Administration's assumption that inflation will remain low may not be consistent with its projection of a sustained economic boom. And the Administration's assumption of steadily falling interest rates may be far too optimistic given the heavy demands which the huge budget deficits will be making on private credit markets.

The House Budget Committee has published preliminary estimates of the deficits likely to be produced by President Reagan's budget policies, based on what the committee terms "more realistic" economic assumptions. These estimates are presented in Table 4. As the table indicates, under these less optimistic economic assumptions, the deficit remains more or less steady at roughly \$170 BILLION per year over the next three years, even if all of President Reagan's budget cuts are enacted in full.

Table 4

DEFICITS UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS
(\$ in BILLIONS)

	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990
Administration Projections	\$180	\$165	\$144	\$107	\$82
House Budget Committee Projections	179	173	171	167	168

Note: All figures represent total budget deficits, including items considered "off budget" under current law.

Source: House Budget Committee, President Reagan's FY 1986 Budget

* * *

Section III

SPENDING PRIORITIES

President Reagan is describing his FY 1986 budget proposal as a freeze on federal spending. In fact, the total budget figure represents a freeze only if interest costs are disregarded. And within the overall spending freeze, the Administration is proposing large increases in defense spending, while recommending cuts for most domestic programs.

Under President Reagan's proposal, total federal spending would rise slightly from FY 1985 to FY 1986, increasing by \$14.6 BILLION, or 2%. Interest payments on the debt would increase by \$15 BILLION. Spending on all items except interest -- which the Administration refers to as "program spending" -- would be essentially unchanged, totaling \$804.0 BILLION in FY 1986. This is what President Reagan means when he says that overall spending would be frozen next year. Within this freeze, however, there would be a substantial shift in spending from domestic programs to defense:

- * Defense spending would increase by \$31.9 BILLION in FY 1986, while
- * Total domestic spending would be cut by \$32.3 BILLION, and
- * Domestic spending on all programs except Social Security would be cut by \$43.4 BILLION.

Additional details on proposed increases and decreases in spending are shown in Figure 2 and Table 5.

It should be understood that all of the foregoing figures represent proposed increases or decreases in spending from FY 1985 to FY 1986, before any adjustments are made for inflation, changing workloads, or anything else. A more meaningful method of calculating the actual spending cuts being proposed is to compare requested FY 1986 spending not with this year's level but rather with an estimate of the amounts that would be needed to keep up with inflation and rising caseloads. When measured on this basis, the Administration is proposing to cut domestic spending over the next three years, FY 1986 through FY 1988, by a total of \$180.4 BILLION.

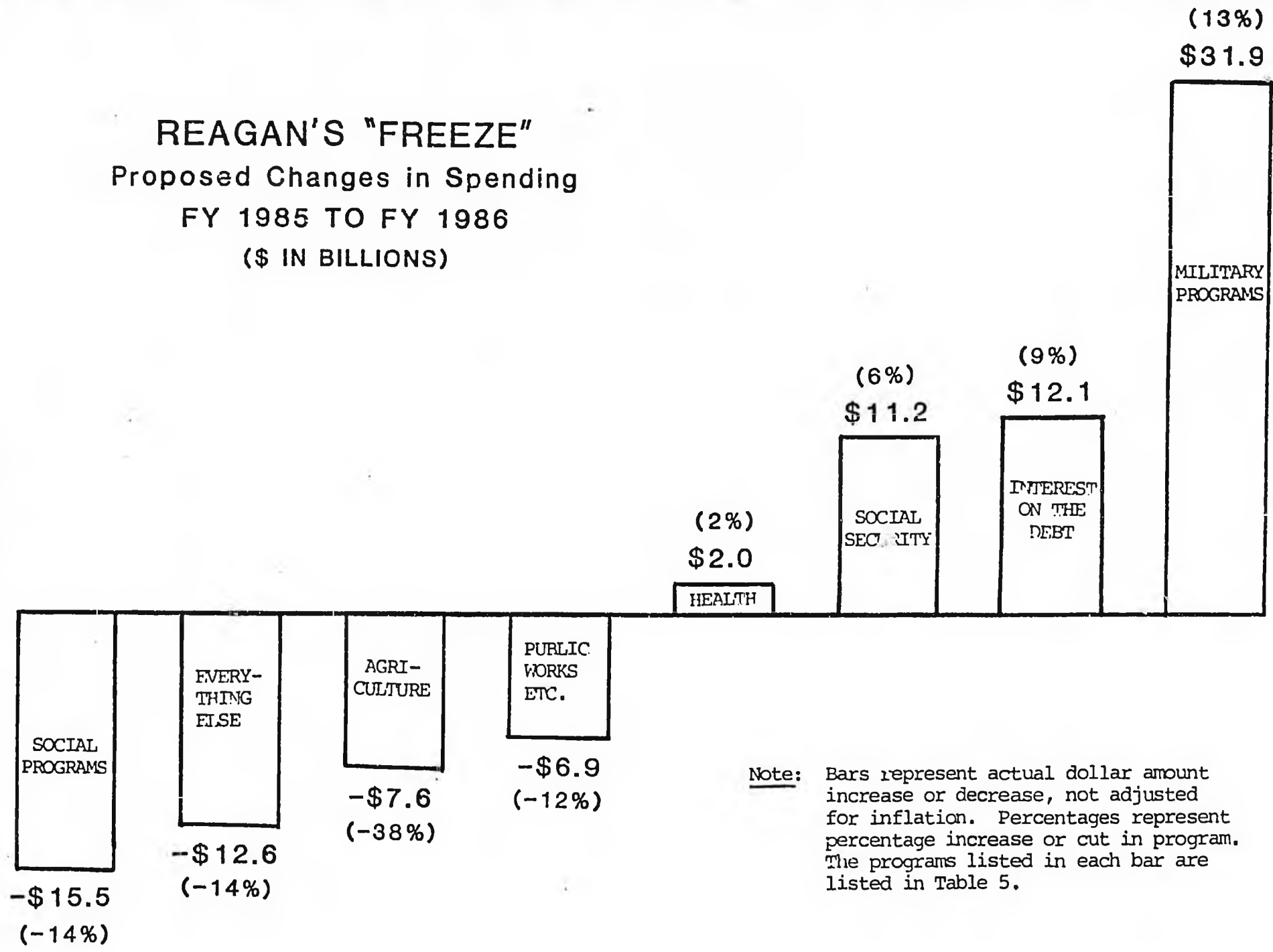
Table 5

PROPOSED CHANGES FROM FY 1985
AND FROM FY 1986 CURRENT SERVICES LEVEL
(\$ in BILLIONS)

Program	FY 1986 Request	Change from FY 1985		Change from FY 1986 Current Services	
		\$ Amt.	%	\$ Amt.	%
Military Programs	\$285.7	+\$31.9	+13%	-\$8.9	-3%
Interest	142.6	+12.2	+9	-3.2	-2
Social Security	202.3	+11.2	+6	—	--
Health	102.1	+2.0	+2	-5.9	-5
Medicare	67.2	+0.9	+1	-4.1	-6
Medicaid	23.7	+0.7	+3	-1.0	-4
Other Health	11.2	+0.3	+3	-0.8	-7
Social Programs	98.0	-15.5	-14	-5.6	-5
Education	16.8	-0.6	-3	-1.2	-7
Training & Employment	5.6	-0.4	-6	-0.4	-7
Social Services	6.9	-0.1	-1	-0.4	-5
Unemployment Comp.	16.3	-0.5	-3	--	--
Housing Assistance	12.3	-13.0	-51	-1.7	-12
Food & Nutrition	18.3	-0.3	-2	-0.7	-4
Other Income Security	21.8	-0.5	-2	-1.2	-5
Agriculture	12.6	-7.6	-38	-5.5	-30
Public Works, etc.	49.8	-6.9	-12	-7.5	-13
Transportation	25.9	-1.1	+4	-2.0	-7
Community & Regional Development	7.3	-1.3	-15	-1.0	-12
Natural Resources & Environment	11.9	-1.1	-8	-1.3	-10
Energy	4.7	-3.5	-43	-3.2	-41
Everything Else	80.7	-12.6	-14	-14.1	-15

REAGAN'S "FREEZE"
Proposed Changes in Spending
FY 1985 TO FY 1986
(\$ IN BILLIONS)

Figure 2



Note: Bars represent actual dollar amount increase or decrease, not adjusted for inflation. Percentages represent percentage increase or cut in program. The programs listed in each bar are listed in Table 5.

The Administration also claims that it is proposing to cut defense spending by \$8.9 BILLION from the current services level in FY 1986. However, this "cut" is illusory because in calculating its current services baseline, the Administration has treated defense differently than other programs. Instead of determining the amount needed to keep up with inflation, the Administration has simply set the current services baseline for defense equal to its previous FY 1986 defense spending proposal -- which called for substantial increases over what would be needed to keep up with inflation. When compared to the amounts that would be needed to keep up with inflation, the Administration's defense request is not a cut at all, but rather an increase of roughly \$10 BILLION.

SPENDING UNDER REAGAN

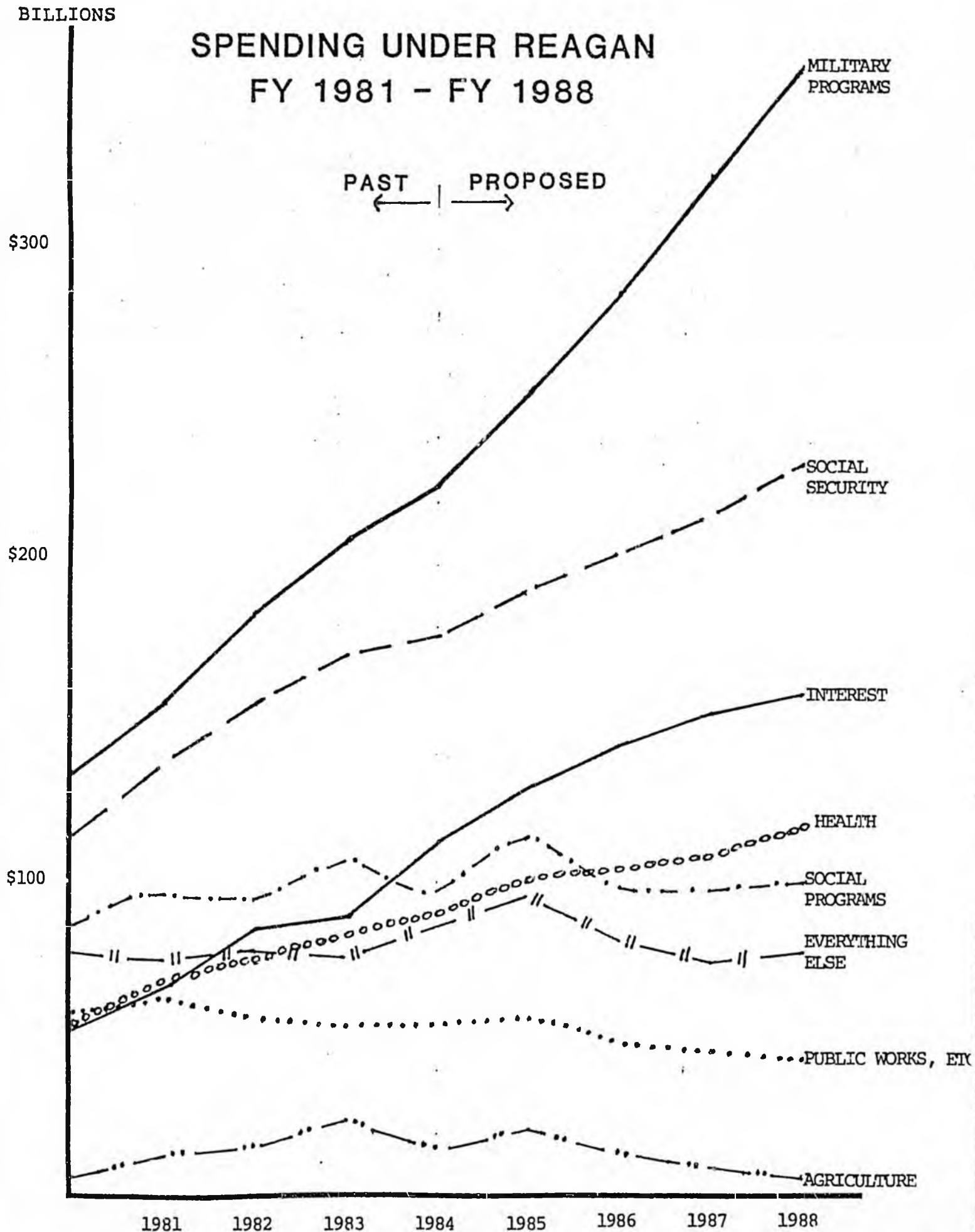
Figure 3 shows proposed changes in spending for various basic components of the federal budget, including both actual spending levels during the first Reagan Administration and proposed spending under the new Reagan budget.

As President Reagan and other Republicans often point out, total federal spending has in fact continued to rise under President Reagan, climbing from \$678.2 BILLION in FY 1981 to \$959.1 BILLION in FY 1985. It should be understood, however, that most of this increase can be accounted for by growth in just a few large items. Many domestic spending programs -- which Republicans often refer to as "out of control" -- have actually increased hardly at all, even before any adjustments are made for inflation and similar factors.

As is clear from the graph, the most dramatic increases have come in defense and interest costs. Outlays for defense have grown from \$157.5 BILLION in FY 1981 to \$253.8 BILLION in FY 1985, while interest costs have climbed from \$68.7 BILLION to \$130.4 BILLION. Substantial increases have also occurred in certain other large programs as well. For example, spending for Social Security has continued to increase -- despite cutbacks made in this program in 1981 and 1983 -- because of annual cost-of-living adjustments and increases in the elderly population. Medicare spending has also risen, due to rapidly rising health care costs and increased numbers of beneficiaries. Spending on all these categories -- but especially defense and interest -- would continue to increase under the new Reagan budget.

In contrast to the dramatic increase in defense expenditures, spending on many domestic programs has generally held steady or declined during the first Reagan term, and would decline or hold steady during the second Reagan term under the President's FY 1986 budget. For example, spending on social programs -- education, job training and employment, social services, unemployment compensation, housing assistance, food and nutrition programs, and other income security programs -- totaled \$96.7 BILLION in FY 1981 and would reach only \$98.0 BILLION in FY 1986 under the Reagan proposal, and \$99.6 BILLION in FY 1988. Spending on public-works-related programs (transportation, community and regional development, natural resources and environment, and energy programs), which totaled \$62.8 BILLION in FY 1981, will decline to \$49.8 BILLION in FY 1986 and to \$43.8 BILLION in FY 1988 if the President's budget is adopted.

Figure 3



DEFENSE INCREASES

The new budget calls for a continuation of President Reagan's unprecedented peacetime military buildup. In terms of appropriations (budget authority), the FY 1986 request represents an increase of \$29.6 BILLION, or 10.1%, over the current year's level. Even after adjustment for inflation, the increase would be 5.9%.

The military budget has already received real appropriations increases -- that is, increases above inflation -- for each of the past six years. The appropriations request for FY 1986 represents an increase of \$176.4 BILLION, or 121%, over the FY 1980 level. Adjusted for inflation, the increase still amounts to 60%.

The President's budget calls for a continuation of these real defense spending increases throughout the rest of the decade. The Administration calls for defense appropriations to rise by \$118.9 BILLION over the next three years -- for a total three-year increase of 41% before adjustment for inflation and 24% after adjustment for inflation.

Table 6 shows defense appropriations enacted for the last six fiscal years, the Administration's proposals for the next five years, and the percentage increase in defense spending for each of these years.

The level of defense outlays proposed for FY 1986 is somewhat lower than the requested appropriations. Defense outlays tend to lag behind appropriations because it often takes several years for appropriations to be actually spent. The proposed rate of increase in outlays is even faster than the proposed increase in appropriations, however, reflecting the actual spending of the large increases in appropriations made in previous years. Under President Reagan's budget, defense outlays would rise by \$31.9 BILLION in FY 1986, an increase of 12.6% before adjustment and 8.2% after adjustment for inflation. Proposed outlays for FY 1986 would be \$151.7 BILLION, 113% above the FY 1980 level.

Defense spending would account for 29% of the federal budget in FY 1986, compared to 23% in FY 1980. If closely related spending categories such as military foreign aid and veterans' benefits are considered as well, defense-related spending represents 33% -- fully one-third -- of the FY 1986 budget request.

Table 6

DEFENSE SPENDING
(Budget Authority, \$ in BILLIONS)

	\$ Amt.	% Increase Over Previous Year	
		Before Adj. for Inflation	After Adj. for Inflation
FY 1980	\$145.8	14.1%	2.1%
FY 1981	182.4	25.1	12.7
FY 1982	218.7	19.9	12.3
FY 1983	245.8	12.4	7.9
FY 1984	264.2	7.5	4.1
FY 1985	292.6	10.7	6.0
FY 1986	322.2	10.1	5.9
FY 1987	363.3	12.8	8.1
FY 1988	411.5	13.3	8.7
FY 1989	448.9	9.1	4.9
FY 1990	488.1	8.7	4.7

Source: House Budget Committee, President Reagan's FY 1986 Budget

As with previous Reagan military budgets, this budget emphasizes the development and procurement of weapons, rather than spending for personnel or operations and maintenance. Under the President's request, appropriations for procurement and research and development would rise by \$17.8 BILLION in FY 1986. These two categories account for 60% of the requested FY 1986 increases, although they represent only 44% of this year's budget.

The President's budget calls for appropriations for procurement to rise by 10.3% and appropriations for research and development to rise by 24.8% in FY 1986, while spending on personnel would grow by 7.3% and spending on operations and maintenance would grow by 5.4%.

DOMESTIC CUTS

The Administration's budget calls for freezing FY 1986 appropriations for a number of programs at current-year levels, and for eliminating various cost-of-living adjustments. In addition to these freezes, however, the Administration calls for deep cuts below current levels for many other items, outright elimination of a large number of programs, and major reductions in benefits under several entitlement programs. The Administration also proposes a 10% cut in administrative expenses for various federal agencies, a 5% pay cut for federal civilian employees, and new user fees totaling \$2.9 BILLION in FY 1986 and \$10.9 BILLION over the next three years.

Some of the major FY 1986 spending cuts included in the new budget are shown in Table 7. Highlights of the Administration's domestic proposals are provided below; more detailed information will be included in a subsequent Special Report.

Programs To Be Eliminated

The President is proposing the outright termination of a large number of federal programs, including the following:

- * General Revenue Sharing;
- * Export-Import Bank direct loan program;
- * Federal support for Amtrak;
- * Job Corps;
- * Small Business Administration loan programs;
- * Urban Development Action Grants;
- * Community Services Block Grant;
- * Legal Services Corporation;
- * Work Incentive (WIN) program (provides job services, training, and public service employment to AFDC recipients);
- * Economic Development Administration; and
- * Appalachian Regional Commission.

Table 7

MAJOR PROGRAM CUTS
(\$ in Millions)

Program	FY 1986 Administration Request	Proposed Cuts From	
		Current Services \$ Amt.	%
× General Revenue Sharing	—	-\$4,567	-100%
Mass Transit Grants	—	-2,785	-100
Urban Develop. Action Grants	—	-440	-100
✓ Community Develop. Block Grants	\$3,125	-343	-10
Community Services Block Grant	390	-386	-99
Economic Development Administration	—	-208	-100
Small Business Loan Programs	—	-528	-100
✓ Legal Services Corporation	—	-319	-100
Work Incentives (WIN)	—	-278	-100
Job Corps	—	-644	-100
✓ Low-Income Energy Assistance	1,291	-868	-40
Child Nutrition	4,073	-689	-14
✓ AFDC & Child Support Enforcement	8,827*	-427	-5
Subsidized Housing	499	-10,719	-96
Housing for Elderly & Handicapped	20	-672	-97
Public Housing Operating Subsidy	1,011	-492	-33
Commodity Credit Corporation	9,495	-2,335	-20
Agriculture Stabilization and Conservation Service	—	-221	-100
Appalachian Regional Commission	—	-155	-100
✓ Rural Water and Wastewater Grants	25	-94	-79
Soil Conservation Flood Control	63	-127	-67
Medicare	67,158*	-3,825	-5
Medicaid	23,690	-306	-1
Health Professions Training	4	-269	-99
✓ Student Financial Assistance	3,569	-1,283	-26
✓ Guaranteed Student Loans	2,715	-807	-23
Military Retirement	17,800*	-286	-2
Civil Service Retirement	41,642	-108	**
AMTRAK & Northeast Corridor	—	-741	-100
Export-Import Bank Direct Loans	—	-3,436	-100
Strategic Petroleum Reserve	—	-1,760	-100
Postal Rate Subsidies	39	-832	-96
Juvenile Justice Assistance	—	-73	-100
Historic Preservation Fund	—	-27	-100
Refugee Assistance	317	-127	-29
✓ Bureau of Reclamation Construction	532	-234	-31

**less than 1%

Note: All figures represent budget authority except those marked by an asterisk (*), which are outlays.

Source: Calculated by DSG from President Reagan's FY 1986 Budget, House Budget Committee

Other Major Reductions

Other major domestic spending cuts being proposed in President Reagan's FY 1986 budget include the following:

- * Medicare -- The President proposes to cut Medicare spending by a total of \$18.7 BILLION over the next three years compared to the amounts that would be needed to continue current services. Major cuts include a one-year freeze on payment rates to hospitals and a one-year extension of the present freeze on payments to physicians. The Administration is also proposing to raise the premiums that retirees pay for coverage under Medicare Part B, which pays doctors bills.
- * Medicaid -- The Administration is seeking to impose new limits on federal payments to the states to operate Medicaid programs. These limits are expected to reduce payments approximately \$6.5 BILLION below the amounts needed to continue current services over the next three years.
- * Special Supplemental Food Program for Women, Infants, and Children (WIC) -- Proposed cutbacks in this program, which provides nutritious food supplements to low-income young children and pregnant women, could result in assistance to 100,000 fewer people next year.
- * Elementary, Secondary, and Vocational Education -- The Reagan budget calls for holding appropriations at this year's level for compensatory, handicapped, vocational, and adult education programs, and proposes cutting bilingual education, impact aid, and state education block grant programs well below current levels.
- * Student Financial Aid -- The Administration proposes to limit Guaranteed Student Loans to students from families earning less than \$32,000 a year and to limit to \$4,000 a year the total amount of grant and loan aid that a student may receive. In addition, the President calls for eliminating two programs for needy students -- the supplemental education opportunity grant, and state student incentive grant programs -- and an end to new federal contributions to the direct student loan program.

- * Federal Pay -- The President proposes a 5% pay cut for federal civilian employees, effective January 1986. Military personnel would not be subject to this cut; instead, they would receive a special 3% pay raise in July 1985, but the military pay raise scheduled for January 1986 would be eliminated.
- * Federal Retirement -- The new budget calls for extensive changes in the retirement program for federal civilian employees. The cost-of-living adjustment (COLA) scheduled for 1986 would be eliminated, future COLAs would be limited to the lesser of the increase in the Consumer Price Index or federal salaries, and COLAs would be reduced for retirees with pensions above \$10,000. Additional proposed changes affecting future retirees include reducing pensions for early retirees and changing the base used for computing pensions. Military retirees would also have their January 1986 COLA eliminated.
- * Veterans' Health Care -- The Administration proposes to establish a means test for free Veterans' Administration hospital and medical care.
- * Small Business Administration -- The Administration proposes to terminate the Small Business Administration's loan programs and to transfer other programs to the Commerce Department.
- * Housing Programs -- The Administration proposes a two-year moratorium on new housing assistance commitments under HUD programs, on new direct-loan obligations for elderly and handicapped housing, and on the rental rehabilitation program which was enacted to supplement the housing voucher program.
- * Sewage Treatment Plant Construction -- The Administration proposes to end the federal sewage treatment plant construction grant program within the next four years, and to limit funding for plants currently underway.
- * Mass Transit -- The Administration proposes to cut federal assistance for mass transit by two-thirds, to \$1.4 BILLION in FY 1986. Under the President's budget, discretionary capital grants and operating assistance would be eliminated and the minimum local match on federal mass transit aid would be increased from 20% to 30%.

- * Farm Programs -- The Administration's budget proposes a major restructuring of farm programs. The proposal includes cutting crop loan and target price supports to bring them into "alignment" with market prices; lowering the cap on the amount of assistance any one farm can receive; and phasing out production controls and acreage reductions. The Administration also proposes to eliminate Farmers Home Administration direct farm ownership and operating loans, and instead to provide loan guarantees only. The Administration's budget also proposes to restrict emergency disaster loans to areas where federal crop insurance is not available, and to phase out payments to help farmers pay the premiums on federal crop insurance.
- * REA -- The Administration proposes to terminate Rural Electrification Administration (REA) lending to electric cooperatives by 1990 and, in the interim, to increase the interest rate on REA direct loans from 5% to the Treasury's cost of borrowing plus 1-1/8th percent.
- * Soil and Water Conservation -- The Administration proposes to terminate soil and water conservation programs.
- * Strategic Petroleum Reserve -- The Administration proposes to stop buying oil for the Strategic Petroleum Reserve.
- * Low-Income Weatherization -- The Administration proposes to eliminate programs to help low-income families weatherize their homes, and to help schools and hospitals weatherize their facilities.

* * *

Section IV
TAX PROPOSALS

The new Reagan budget calls for a number of small tax changes, which would have only a minor effect on the overall level of federal revenues.

The Reagan Administration is renewing several proposals made previously for new or expanded tax benefits, including proposals for establishment of "enterprise zones," creation of new tuition tax credits and higher education savings accounts, and expansion of the tax credit for child care. The Administration is also calling for increases in taxes used to finance hazardous waste cleanup, certain other small miscellaneous revenue increases, and measures to improve tax compliance. Taken together, the net effect of all of the tax proposals in the new budget would be to decrease revenues by \$1.5 BILLION over the next three years.

The budget proposals do not include the Reagan Administration's promised plan for tax simplification and reform. Instead, the Administration states that this plan will be submitted in the future, and notes that the plan is not expected to have any effect on the total level of federal revenues.

The various tax proposals included in the new Reagan budget are described briefly below, and their revenue effects are shown in Table 8.

TAX REDUCTIONS

Extension of Research and Experimentation Credit

The Administration proposes to extend through 1988 the tax credit which is currently available for certain increases in research and experimentation expenditures by businesses. Under current law, this credit is scheduled to expire at the end of 1985.

Tuition Tax Credit

The Administration is again proposing creation of a new tax credit equal to 50% of tuition expenses paid to private elementary and secondary schools -- up to a maximum credit of \$100 per dependent in 1985, \$200 per dependent in 1986, and \$300 per dependent in 1987 and thereafter. The maximum credit would be lower for families with incomes between \$40,000 and \$60,000, and the credit would not be available at all for families with incomes in excess of \$60,000. Credits would be provided for expenses incurred after July 31, 1985, and would not be allowed for tuition paid to schools practicing racial discrimination.

Table 8

REVENUE EFFECTS OF TAX PROPOSALS
(\$ in BILLIONS)

	FY 1986	FY 1987	FY 1988
TOTAL, Proposed Revenue Changes	-\$0.2	-\$1.0	-\$0.7
Extension of research and experimen- tation tax credit	-\$0.7	-\$1.3	-\$1.5
Tuition tax credit	-0.4	-0.6	-0.9
Enterprise zone tax incentives	-0.1	-0.5	-0.9
Savings accounts for higher education	*	-0.1	-0.3
Dependent care tax credit	*	-0.2	-0.2
Superfund expansion	+0.6	+0.7	+0.7
Increased IRS enforcement	—	+0.5	+1.5
Black lung trust fund	+0.2	+0.2	+0.3
Deposits of taxes from state and local governments	+0.4	+*	+0.3
Railroad unemployment taxes	+0.1	+0.2	+0.2
Taxation of railroad pensions	+*	+0.1	+0.1
IRS user fees	+*	+*	+*
DC Government retirement contributions	+*	+*	+*

*Change of less than \$50 million

Note: Total shown for proposed revenue changes differs from total shown in Table 2 in Section II for various technical reasons, primarily because the table in Section II also includes the effect of the proposed federal pay cut on revenues from Social Security taxes and retirement deductions while this table does not. Details may not add to the total shown due to rounding differences.

Source: Office of Management and Budget, Budget of the U.S. Government for FY 1986.

Enterprise Zone Tax Incentives

The Administration is renewing its proposal for creation of special "enterprise zones." Under this plan, up to 25 such zones would be created each year in economically distressed areas -- up to a maximum of 75 zones. Effective January 1, 1986, various tax incentives would be provided to businesses in these zones, including exemption from capital gains tax for certain qualified property, a tax credit for employees equal to 15% of the first \$10,500 of wages earned, a tax credit for employers equal to 10% of any increase in their payroll (with additional credits for employment of certain disadvantaged individuals), an increase in the regular investment tax credit for purchase of equipment, creation of a new investment tax credit for construction or reconstruction of buildings, and the continued availability of financing through tax-exempt "small issue" industrial development bonds. These incentives would generally remain fully in effect for 20 years, and be phased out over the succeeding four years.

Savings Accounts for Higher Education

This renewed Administration proposal would allow families to set up special savings accounts to help pay for the future higher-education expenses of their dependent children. The interest earned on such accounts would be tax-exempt. Families with incomes of \$40,000 or less would be allowed to deposit up to \$1,000 per child per year in these accounts. Families with incomes between \$40,000 and \$60,000 would be permitted to deposit smaller amounts, and families with incomes above \$60,000 would not be eligible to participate at all. The proposal would take effect on January 1, 1986.

Dependent Care Tax Credit

The Administration is also renewing its proposal for restructuring and increasing the tax credit for work-related child care expenses. Under present law, individuals or married couples with adjusted gross incomes of \$10,000 or less are allowed to take a credit equal to 30% of child or dependent care expenses -- up to a specified maximum amount (\$2,400 in expenses for care of one child, \$4,800 in expenses for two or more children). This credit is reduced as income rises, until it reaches 20% for taxpayers with incomes above \$28,000.

Under the Administration's proposal, the dependent care credit would be raised to 40% for taxpayers with incomes of \$10,000 or less. The credit would be reduced as income rises, and would be phased out entirely for taxpayers with incomes above \$60,000.

SUPERFUND EXPANSION

The Administration proposes to increase the taxes used to finance the Hazardous Substance Response Fund -- commonly known as "Superfund" -- which pays for the cleanup of hazardous waste sites. The Administration estimates that this proposal would increase receipts to the fund by \$900 million per year over the period 1986 through 1988, and would be sufficient to finance the level of spending proposed for hazardous waste cleanup in FY 1986 and future years.

MISCELLANEOUS REVENUE INCREASES

Other Reagan Administration proposals expected to produce small increases in revenues over the next several years include the following:

- * Increased Internal Revenue Service (IRS) staffing to improve enforcement and compliance with tax laws;
- * An increase in the fees on coal production which finance the Black Lung Disability Trust Fund;
- * Acceleration of deposits of Social Security payroll taxes from state and local governments by gradually making these governments subject to the same rules as private employers;
- * Extension of regular federal/state Unemployment Insurance coverage and taxes to railroad employees (who are presently covered by a special railroad unemployment system);
- * Modification of the income tax treatment of certain railroad industry pension benefits;
- * Establishment of IRS user fees for determination of tax status of pension funds and tax-exempt organizations and for "private letter rulings" (which clarify the IRS position in certain unprecedented tax situations); and
- * An increase in the District of Columbia Government's contributions to the civil service retirement fund to the levels needed to cover the full cost of pensions for its employees.

* * *

APPENDIX

BUDGET PROPOSALS BY CATEGORY AND MAJOR PROGRAM

The following tables compare the Administration's FY 1986 budget request with FY 1985 spending and with FY 1986 "current services" levels.

In these tables, the FY 1985 levels reflect congressional action to date -- that is, actual appropriations levels and the amounts needed to fully fund entitlements under current law. These estimates do not reflect discretionary supplemental appropriations and/or rescissions for FY 1985 proposed in the Administration's new budget. Therefore, figures for proposed changes from FY 1985 to FY 1986 shown here may differ from figures cited elsewhere, which often do reflect supplementals and rescissions for FY 1985.

For domestic programs, the FY 1986 current services levels represent the amounts needed to continue federal programs at current levels of services, and reflect increases or decreases from FY 1985 spending resulting from increased costs, changing case-loads, previously enacted legislation, and similar factors. The difference between the current services level and the Administration's request for FY 1986 represents changes in spending due only to proposed policy changes, as distinct from changes due to factors such as inflation and increased numbers of beneficiaries.

For defense, however, the Administration has simply set its FY 1986 current services baseline equal to its previous defense spending proposal. Therefore, the reduction below current services shown simply represents a reduction of the current request below the amount the Administrator was previously planning to request.

Two tables are presented in this appendix: one for budget authority and the other for outlays. Budget authority represents permission granted by Congress to a federal agency to spend money. Outlays represent the actual spending of that money. Appropriations provide budget authority; outlays result when this budget authority is spent. As can be seen from these tables, the level of budget authority proposed for a particular program is often different from the proposed level of outlays. Such differences occur, for example, because funds appropriated in one year may not actually be spent until succeeding years, or funds spent in one year may have been derived from appropriations in previous years.

Totals are shown for all 20 major spending categories (known as "budget functions"); however, within each category only major programs are shown. All figures used in this table represent official Administration estimates, and include all items considered "off budget" under current law.

BUDGET AUTHORITY
(\$ in millions)

Program	FY 1985*	FY 1986 Admin. Request	Admin. Request Over(+)/Under(-)	
			FY 1985	FY 1986 Current Services
DEFENSE	\$292,110	\$322,205	\$30,095	-\$11,437**
Defense Department (military programs)	284,281	\$313,705	+29,424	-11,100**
Atomic Energy Defense Activities	7,334	8,047	+713	-276**
INTERNATIONAL AFFAIRS	25,978	20,569	-5,409	-3,930
Foreign Economic and Financial Assistance	5,382	5,343	-39	-136
International Security Assistance	12,854	10,748	-2,106	-581
Export-Import Bank	3,940	—	-3,940	-3,570
GENERAL SCIENCE, SPACE, AND TECHNOLOGY	9,116	9,524	+408	-12
General Science & Basic Research	2,234	2,260	+26	-1
Space Programs	6,881	7,264	+383	-10
ENERGY	8,857	5,110	-3,747	-3,370
Energy Supply	5,599	4,216	-1,383	-1,048
Energy Conservation	474	176	-298	-276
Strategic Petroleum Reserve	2,056	6	-2,050	-1,973
NATURAL RESOURCES & ENVIRONMENT	12,280	10,920	-1,360	-2,145
Water Resources Conservation & Land Management	3,939	3,091	-848	-916
Recreational Resources	760	569	-191	-469
Pollution Control & Abatement	1,523	1,070	-453	-610
	4,270	4,577	+307	+155
AGRICULTURE	22,547	13,038	-9,509	-5,358
Farm Income Stabilization	20,676	11,395	-9,281	-5,093
Agricultural Research & Services	1,871	1,643	-228	-266
COMMERCE & HOUSING CREDIT	12,469	7,822	-4,647	-2,527
FHA Mortgage Credit	208	128	-80	--
Housing for the Elderly & Handicapped	564	20	-544	-620
Rural Housing	6,720	2,306	-4,414	-2,012
Postal Service Subsidy	2,443	1,827	-616	-768
Small Business Assistance	1,404	2,487	+1,083	+963

*excluding newly proposed supplements and rescissions

**change from previous Administration FY 1986 spending projections

Program	FY 1985*	FY 1986 Admin. Request	Admin. Request Over(+)/Under(-)	
			FY 1985	FY 1986 Current Services
TRANSPORTATION	\$29,287	\$25,488	3,799	-\$4,636
Highway Systems	14,855	15,210	+355	-116
Highway Safety	341	271	-80	-10
Mass Transit	4,178	1,428	-2,750	-2,859
Railroads	804	56	-748	-775
Air Transportation	5,996	5,697	-299	-463
Water Transportation	2,939	2,660	-279	-406
COMMUNITY & REGIONAL DEVELOPMENT	8,323	5,129	-3,194	-2,799
Community Development				
Block Grants	3,472	3,125	-247	-343
Urban Development Grants	440	—	-440	-440
Rural Development	2,437	1,374	-1,063	-354
Economic Development				
Assistance	228	15	-213	-224
Indian Programs	1,082	1,044	-38	-46
Regional Commissions	155	—	-155	-162
Tennessee Valley Authority	120	39	-81	-86
Disaster Relief & Insurance	301	-565	-866	-955
EDUCATION, TRAINING, EMPLOYMENT & SOCIAL SERVICES	31,852	26,946	-4,906	-5,123
Compensatory Education	3,696	3,647	-49	-219
Education Block Grant & Special Programs	758	648	-110	-142
Impact Aid	695	543	-152	-185
Handicapped Education	1,321	1,306	-15	-76
Vocational & Adult Education	838	838	—	-39
Guaranteed Student Loans	3,744	2,715	-1,029	-615
Campus-Based Student Financial Aid	4,871	3,569	-1,302	-1,266
Institutional Aid	777	542	-235	-243
Job Training & Employment	5,416	4,136	-1,280	-1,328
Social Services	7,241	6,800	-441	-622
HEALTH	33,585	34,741	+1,156	-2,339
Medicaid	21,845	23,691	+1,846	-1,051
Federal Employee Health Benefits	1,342	1,606	+264	—
Other Health Care Services	3,239	3,016	-224	-295
Health Research	5,413	5,099	-314	-530
Education and Training of Health Care Workers	553	290	-263	-289
SOCIAL SECURITY & MEDICARE	270,889	288,705	+17,816	-732
Social Security	199,418	207,007	+7,589	+151
Medicare	71,471	81,698	+10,227	-883

*excluding newly proposed supplementals and rescissions

Program	FY 1985*	FY 1986 Admin. Request	Admin. Request Over(+)/Under(-)	
			FY 1985	FY 1986 Current Services
INCOME SECURITY	\$162,434	\$144,147	-\$18,287	-\$11,832
Railroad Retirement	5,482	5,898	+416	+125
Federal Civilian				
Retirement & Disability	39,971	41,642	+1,671	-681
Military Retirement	26,966	30,031	+3,065	+566
Unemployment Compensation	20,946	21,271	+325	+128
Subsidized Housing	10,759	499	-10,260	-9,599
Public Housing Operating				
Subsidy	1,138	1,011	-127	-222
Low-Rent Public Housing				
Loans	14,949	1,822	-13,127	-73
Food Stamps	12,577	12,681	+104	-33
Child Nutrition &				
Related Programs	5,982	5,588	-394	-700
Supplemental Security				
Income (SSI)	9,210	9,861	+651	+1
AFDC & Related Assistance	8,919	8,746	-173	-232
Refugee Assistance	405	317	-88	--
Low-Income Energy				
Assistance	2,100	1,291	-809	-901
VETERANS' BENEFITS & SERVICES	27,357	27,393	+36	-1,472
Compensation & Pensions	15,054	15,414	+360	--
Hospital & Medical Care	9,931	9,902	-29	-1,026
Veterans Housing	307	--	-307	-405
ADMINISTRATION OF JUSTICE	6,656	6,542	-114	-418
Law Enforcement	3,643	3,652	9	-57
Courts & Judicial				
Activities	2,186	2,044	-142	-286
GENERAL GOVERNMENT	5,698	4,975	-723	-938
Legislative Branch	1,430	1,388	-42	-193
Internal Revenue Service	3,543	3,511	-32	-127
GENERAL PURPOSE FISCAL ASSISTANCE	6,508	1,634	-4,874	-4,991
General Revenue Sharing	4,575	6	-4,569	-4,569
Payments & Loans to D.C.	499	498	-1	-19
NET INTEREST	130,535	142,550	12,015	-3,256
ALLOWANCES	1,500	24	-1,476	-1,385
Civilian Pay Raise	--	24	+24	-1,385
UNDISTRIBUTED OFFSETTING RECEIPTS	-32,170	-37,478	-5,308	+1,515

*excluding newly proposed supplementals and rescissions

OUTLAYS
(\$ in millions)

Program	FY 1985*	FY 1986 Admin. Request	Admin. Request Over(+)/Under(-)	
			FY 1985	FY 1986 Current Services
DEFENSE	\$253,240	\$285,669	+\$32,429	-\$8,908**
Defense Department (military programs)	245,859	277,505	+31,646	-8,700**
Atomic Energy Defense Activities	7,000	7,700	+700	-179**
INTERNATIONAL AFFAIRS	19,312	18,349	-963	-658
Foreign Economic and Financial Assistance	5,293	5,278	-15	+147
International Security Assistance	10,177	9,213	-964	-699
Export-Import Bank	1,359	603	-756	-393
GENERAL SCIENCE, SPACE, AND TECHNOLOGY	8,742	9,285	+543	+8
General Science & Basic Research	2,118	2,237	+119	+4
Space Programs	6,623	7,048	+425	+4
ENERGY	8,700	4,671	-4,029	-3,194
Energy Supply	5,476	3,170	-2,306	-1,388
Energy Conservation	546	301	-165	-112
Strategic Petroleum Reserve	1,906	300	-1,521	-1,650
NATURAL RESOURCES & ENVIRONMENT	13,049	11,884	-1,165	-1,299
Water Resources	4,321	3,566	-755	-616
Conservation & Land Management	946	719	-227	-263
Recreational Resources	1,634	1,361	-273	-304
Pollution Control & Abatement	4,392	4,579	+187	+81
AGRICULTURE	20,176	12,629	-7,547	-5,519
Farm Income Stabilization	18,346	10,937	-7,409	-5,268
Agricultural Research & Services	1,830	1,691	-139	-252
COMMERCE & HOUSING CREDIT	6,014	2,206	-3,808	-3,056
Mortgage Purchase Activity (GNMA)	-441	-447	-6	--
FHA Mortgage Credit	-802	-1,330	-528	-241
Housing for the Elderly & Handicapped	572	590	+18	--
Rural Housing	4,564	2,312	-2,252	-2,226
Postal Service Subsidy	1,361	1,217	-144	+212
Small Business Assistance	1,376	689	-687	-712

*excluding newly proposed supplementals and rescissions

**change from previous Administration FY 1986 spending projections

Program	FY 1985*	FY 1986 Admin. Request	Admin. Request	
			Over(+)/Under(-) FY 1985	FY 1986 Current Services
TRANSPORTATION	\$27,025	\$25,860	-\$1,165	-\$2,081
Highway Systems	13,077	13,664	+587	+2
Highway Safety	283	309	+26	-5
Mass Transit	4,217	3,330	-887	-768
Railroads	1,097	411	-686	-604
Air Transportation	4,992	5,175	+183	-249
Water Transportation	3,186	2,792	-394	-454
COMMUNITY & REGIONAL DEVELOPMENT	8,619	7,323	-1,296	-927
Community Development				
Block Grants	3,900	3,520	-380	-7
Urban Development				
Action Grants	500	522	+22	-22
Rural Development	1,950	1,612	-338	-147
Economic Development				
Assistance	262	158	-104	-75
Indian Programs	1,157	1,114	-43	-18
Regional Commissions	200	157	-43	-37
Tennessee Valley Authority	145	40	-105	-85
Disaster Relief & Insurance	326	-84	-410	-461
EDUCATION, TRAINING, EMPLOYMENT & SOCIAL SERVICES	30,621	29,288	-1,333	-2,028
Compensatory Education	3,566	3,787	+221	-14
Education Block Grant & Special Programs	514	646	+132	-69
Impact Aid	747	635	-112	-127
Handicapped Education	1,403	1,241	-162	-6
Vocational & Adult Education	914	858	-56	-1
Guaranteed Student Loans	3,431	2,898	-533	-412
Campus-Based Student Financial Aid	4,506	4,447	-59	-324
Institutional Aid	698	613	-85	-82
Training & Employment	5,327	4,931	-396	-411
Social Services	7,035	6,863	-172	-402
HEALTH	33,905	34,920	+1,015	-1,736
Medicaid	22,985	23,691	+706	-1,051
Federal Employee Health Benefits	1,143	1,460	+317	--
Other Health Care Service	3,118	3,052	-66	-272
Health Research	4,978	5,204	+226	-164
Education and Training of Health Care Workers	478	455	-23	-71
SOCIAL SECURITY & MEDICARE	257,394	269,404	+12,010	-4,196
Social Security	191,116	202,245	+11,129	-95
Medicare	66,278	67,158	+880	-4,102

*excluding newly proposed supplementals and rescissions

Program	FY 1985*	FY 1986 Admin. Request	Admin. Request Over(+)/Under(-)	
			FY 1985	FY 1986 Current Services
INCOME SECURITY	\$128,278	\$115,769	\$12,509	-\$5,047
Railroad Retirement	3,895	4,023	+128	-34
Federal Civilian				
Retirement & Disability	23,293	24,208	+915	-741
Military Retirement	15,809	17,800	+1,991	-491
Unemployment Compensation	16,708	16,294	-486	-3
Subsidized Housing	9,722	9,093	-629	-1,326
Public Housing				
Operating Subsidies	1,381	1,126	-255	-242
Low-Rent Public				
Housing Loans	15,065	1,928	-13,137	-74
Food Stamps	12,607	12,684	+77	-21
Child Nutrition & Related				
Programs	6,066	5,584	-482	-666
Supplemental Security				
Income (SSI)	9,511	9,890	+379	+2
AFDC & Related Assistance	8,970	8,827	-143	-236
Refugee Assistance	450	362	-88	--
Low-Income Energy				
Assistance	2,100	2,100	--	-92
VETERANS' BENEFITS & SERVICES	26,868	26,769	-99	-1,051
Compensation & Pensions	14,754	15,135	+381	--
Hospital & Medical Care	9,634	9,994	+360	-413
Veterans Housing	358	-288	-646	-605
Education, Training, & Rehabilitation	1,295	1,110	-185	--
ADMINISTRATION OF JUSTICE	6,688	6,587	-101	-263
Law Enforcement	3,701	3,610	-91	-5
Courts & Judicial				
Activities	2,169	2,066	-103	-233
GENERAL GOVERNMENT	5,809	4,845	-964	-908
Legislative Branch	1,464	1,417	-47	-171
Internal Revenue Service	3,471	3,441	-30	-124
GENERAL PURPOSE FISCAL ASSISTANCE	6,508	2,797	-3,711	-3,828
General Revenue Sharing	4,574	1,168	-3,406	-3,407
Payments & Loans to D.C.	499	498	-1	-19
NET INTEREST	130,535	142,550	+12,015	-3,256
ALLOWANCES	1,125	399	-726	-1,330
Civilian Pay Raise	--	24	+24	-1,330
UNDISTRIBUTED OFFSETTING RECEIPTS	-32,170	-37,478	-5,308	-1,515

*excluding newly proposed supplementals and rescissions