

OVERVIEW OF THE PRESIDENT'S 2006 BUDGET

The 2006 Budget builds on the progress the President and the Congress achieved in meeting the priorities of the Nation during the first term. We are funding efforts to defend the homeland from attack. We are transforming our military and supporting our troops as they fight and win the Global War on Terror. We are helping to spread freedom throughout the world. We are promoting high standards in our schools, so that our children gain the tools they need to succeed. We are promoting the pro-growth policies that have helped to produce millions of new jobs and restore confidence in our economy. And we are taking additional action to enforce spending discipline.

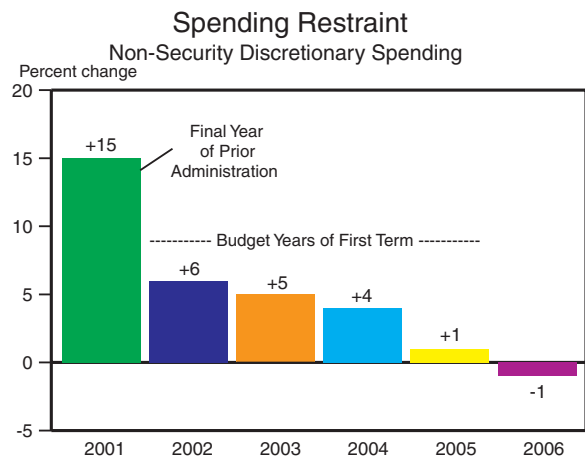
During his first term, the President worked with the Congress to respond to a stock market collapse, recession, the terrorist attacks of September 11, 2001, and the revelation of corporate scandals. To meet the economy's significant challenges, in each year the President proposed and signed into law major tax relief that fueled recovery, business investment, and job creation.

To rebuild and transform our Armed Forces, the President raised spending for our military by more than a third, the largest increase in defense spending since the Reagan Administration. To make our homeland safer, the President created the Department of Homeland Security and nearly tripled funding for homeland security activities.

These actions had significant consequences for our Nation, and for the Budget. The President committed to spend what was needed to win the War on Terror and protect the homeland and committed to enforce restraint elsewhere. The President and the Congress succeeded in bringing down the rate of growth in non-security discretionary spending each year of his first term. In the last Budget year of the previous Administration, non-security discretionary spending grew by 15 percent. In 2005, such spending will rise only about 1 percent.

Because of this increased spending restraint, deficits are below what they otherwise would have been. Last year's Budget projected a deficit of 4.5 percent of Gross Domestic Product (GDP) in 2004, or \$521 billion. The President set out to cut that deficit in half by 2009. Largely because economic growth generated stronger revenues than originally estimated, and because the Congress adhered to the spending restraint called for in the President's Budget, the 2004 deficit came in \$109 billion lower than originally estimated. At 3.6 percent of GDP, the actual 2004 deficit, while still too large, was well within historical range and only the 10th biggest deficit in the last 25 years. With continuation of the President's pro-growth economic policies and responsible spending restraint, we will remain on track to cut the deficit in half by 2009, to a level that is well below the 40-year historical average deficit of 2.3 percent of GDP.

With a growing economy, tax receipts are rising, which is helping to bring down the deficit as a percentage of GDP. In order to sustain our economic expansion, however, we must exercise even greater spending restraint than in the past. When the Federal Government focuses on its priorities,



and limits the resources it takes from the private sector, the result is a stronger, more productive economy.

When achieved through spending restraint rather than through tax increases, deficit reduction bolsters confidence in America's economy. This confidence of global capital markets in America brings important advantages to our economy in the form of lower real interest rates and lower borrowing costs, which in turn lead to more investment and more jobs. Keeping America's fiscal house in order, while holding taxes down, sustains growth and justifies investors' confidence in the U.S. economy.

The Administration proposes to tighten spending further this year by limiting the growth in overall discretionary spending, even after significant increases in defense and homeland security, to 2.1 percent—less than the projected rate of inflation. In other words, under the President's 2006 Budget, overall discretionary spending will see a reduction in real terms. In non-security discretionary accounts, the President proposes to cut spending by nearly 1 percent—the tightest such restraint proposed since the Reagan Administration.

The Budget also proposes more than 150 reductions and eliminations in non-defense discretionary programs, saving about \$20 billion in 2006, and an additional set of reforms in mandatory programs, saving about \$137 billion over the next 10 years.

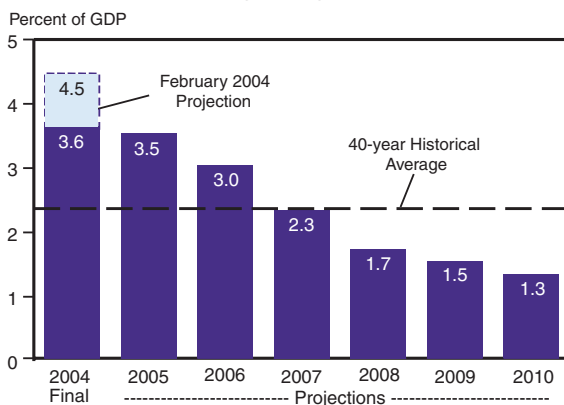
In restraining spending in the 2006 Budget, the Administration was guided by three major criteria:

First: Does the program meet the Nation's priorities? The Budget increases funding to strengthen our Armed Forces, improve our homeland defenses, promote economic opportunity, and foster compassion.

Second: Does the program meet the President's principles for appropriate use of taxpayer resources? If an appropriate Federal role could not be identified in a program's mission, the Budget proposes to reduce or eliminate its funding.

Third: Does the program produce the intended results? The President's Management Agenda (PMA) has been in existence for nearly four years. As a part of the PMA's Budget and Performance Integration Initiative, the Program Assessment Rating Tool (PART) measures the success of programs in meeting goals and identifies which are achieving their intended results and which are not. The PART can help determine when two programs that perform similar tasks produce starkly different results—and helps the Administration to reward only those that succeed, thus reducing redundancies in the Federal Government. For programs that have achieved their desired results, and do not merit continued funding, the Administration has recommended eliminations.

A Declining Budget Deficit



The Budget forecasts that the deficit will continue to decline as a percentage of GDP. In 2005, we project a deficit of 3.5 percent of GDP, or \$427 billion. And if we maintain the policies of economic growth and spending restraint reflected in this Budget, in 2006 and each of the next four years, the deficit is expected to decline. By 2009, the deficit is projected to be cut by more than half from its originally estimated 2004 peak—to just 1.5 percent of GDP, which is well below the 40-year historical average deficit, and lower than all but seven of the last 25 years.

While the Budget projects steady and solid improvement over the five-year budget window, the Nation faces substantial deficit challenges about a decade from now. At that point, when the major effects of the retirement of the Baby Boom generation begin to be felt, deficits are projected to rise indefinitely. That is why it is necessary to act

this year to strengthen Social Security. While the program can deliver promised benefits to today's seniors, it has made promises to young workers that it cannot keep. Social Security's unfunded obligations total more than \$10 trillion, and that figure grows by hundreds of billions of dollars with every year of inaction. This year, the President will work with the Congress on Social Security reform that includes personal accounts and fixes the problem permanently. Such reforms are much-needed, both to provide young workers the opportunity to build a nest egg for retirement, and to take a major step in confronting the long-term fiscal danger posed by the unfunded obligations of our entitlement programs.

Highlights of the President's Budget

- Overall discretionary spending rises by just 2.1 percent, lower than the rate of expected inflation.
- Non-security discretionary spending falls by nearly 1 percent, the tightest such restraint proposed since the Reagan Administration.
- The deficit is forecast to fall to 3.0 percent of GDP in 2006, compared with 3.5 percent in 2005.
- The deficit is forecast to fall to 1.5 percent of GDP by 2009, well below the 40-year historical average of 2.3 percent of GDP.

HIGHLIGHTS OF PROGRAM INCREASES AND NEW INITIATIVES

(All figures depicting increases are above the 2005 enacted levels.)

Defense, Foreign Assistance, and Homeland Security

- Raises overall Defense spending by 4.8 percent, or 41 percent since 2001.
- \$35 billion more between now and 2011 to reorganize the total Army forces and increase the number of active Army combat brigades by 30 percent.
- \$3.5 billion more between 2006 and 2011 to implement the Global Posture Initiative, which will increase U.S. responsiveness and allow for the return of 70,000 U.S. troops from Cold War bases.
- \$1.7 billion for unmanned vehicles, which perform hazardous tasks without risking the lives of soldiers, sailors, airmen, and Marines.
- \$3 billion, an increase of \$1.5 billion, to expand the Millennium Challenge Account for foreign assistance, to encourage sound economic and governance policies in the developing world.
- \$4.2 billion for the Department of Health and Human Services (HHS), a \$154 million increase, to address the threat of bioterrorism.
- \$600 million for a Targeted Infrastructure Protection Program in the Department of Homeland Security (DHS) to assist State and local governments in reducing the vulnerability of critical infrastructure, such as chemical facilities, ports, and transit systems.
- \$581 million, a 45-percent increase, for research and development of radiological and nuclear detection systems and countermeasures at DHS, the Department of Energy, and HHS.
- An increase of \$555 million for the Federal Bureau of Investigation, an 11-percent increase over 2005 levels, and a 76-percent increase since 2001.

Economic Opportunity and Education

- \$10 billion over 10 years in tax incentives to create economic Opportunity Zones in areas transitioning to new and emerging industries.
- \$3.7 billion for a new economic and community development program that consolidates 18 ineffective or duplicative programs into a flexible and targeted program.
- \$200 million to provide home purchase downpayment assistance to 40,000 low-income families.
- \$28 billion increase for student aid programs through 2015, including the retirement of the Pell Grant shortfall, an increase in the maximum Pell award by \$500 over five years, and additional benefits to student borrowers, helping more than 10 million needy students cover the costs of college.
- \$1.5 billion for the President's High School Initiative to extend No Child Left Behind (NCLB) reforms into high schools through improved testing and programs for at-risk youth.
- \$11.1 billion for IDEA special education grants to States, an increase of \$508 million, taking the total increase in Federal funding for IDEA grants to \$4.8 billion, or 75 percent, since 2001.
- \$603 million more for Title I to provide grants to improve education in low-income communities and support NCLB reforms, a total increase of \$4.6 billion, or 52 percent, for Title I since 2001.
- \$500 million for schools and teachers to close the achievement gap and attract high-quality teachers to high-need schools.

Health and Compassion

- \$74 billion over 10 years for health-insurance tax credits for low-income individuals and families that will ultimately help 15 million families purchase affordable health insurance.
- \$4 billion in grants to States to establish health insurance purchasing pools, through which people who qualify for the tax credit and others can obtain coverage.
- \$28.5 billion over 10 years for tax deductions for premiums for high deductible insurance, which will ultimately help six million Americans save for their health care costs in tax-free accounts.
- \$19.2 billion over 10 years for tax rebates for small businesses that contribute to their employees' health savings accounts, encouraging more small employers to offer health benefits.
- \$2.0 billion for Health Centers in medically underserved areas, a \$304 million increase, fulfilling the President's commitment to create or expand 1,200 center sites by 2006 and begin the commitment to establish a health center in every high-poverty county that can support one.
- \$1 billion in grants over two years for Cover the Kids, a new campaign to enroll millions more low-income children in Medicaid and the State Children's Health Insurance Program.
- \$125 million for Health Information Technology to help achieve the President's goal that most Americans have electronic health records by 2014.
- \$3.2 billion, an increase of \$382 million, to continue to expand the President's Emergency Plan for AIDS Relief.
- \$1.2 billion for international food aid, including a new initiative to provide \$300 million as cash assistance, allowing emergency food aid to be provided more quickly to address the most urgent needs.
- \$4 billion, an increase of 8.5 percent, for Federal housing and social programs for the homeless, including \$1.4 billion for Homeless Assistance Grants.
- \$100 million to fund competitive grants for States to develop innovative approaches to promote healthy marriages.
- \$3.1 billion over 10 years in tax incentives to promote donations to charitable organizations from individual retirement accounts.

Science and Environment

- \$27 billion through 2010, to make permanent the Research and Experimentation tax credit, a critical element in our innovation economy.
- \$5.6 billion for the National Science Foundation's vital science, education, and basic research programs, an increase of \$132 million.
- \$511 million to advance new and cutting-edge nuclear energy technology to provide reliable, affordable, and emissions-free sources of energy.
- \$260 million for the President's Hydrogen Fuel Initiative, to help reduce our dependence on foreign sources of oil and create a new generation of hydrogen-powered vehicles.
- \$286 million for the President's Clean Coal Research Initiative to research, develop, and demonstrate clean coal technologies, including the FutureGen Initiative to create the world's first zero-emissions coal-based power plant.
- \$485 million, an added \$34 million, or 7.5-percent increase, for the core fundamental research and facilities of the National Institute of Standards and Technology.
- \$210 million, an increase of \$46 million, for assessment and clean-up of about 600 brownfields sites, spurring development in former manufacturing areas in our inner cities.
- \$144 million increase to continue upgrading National Park Service facilities to an acceptable condition.