

The President's FY 2005 Budget Proposal:

Overview and Briefing Charts

June 2004

Overview

In February 2004, the President sent his \$2 trillion FY 2005 budget proposal to Congress. At its most fundamental, the President's annual budget request to Congress is an outline of the Administration's priorities for the nation, and a statement of how the Administration proposes to pay for them. Priorities outlined in the Administration's FY 2005 budget request focus on the war on terror, homeland security, and the economy, with the federal deficit predicted to reach a record \$528 billion this year, marking the third consecutive year in which total government spending significantly outpaces total revenues.

The Office of Management and Budget estimates that deficits will continue for some time, totaling \$1.8 trillion over the five-year period from FY 2005-2009 (Figures 1-3). Within this larger context, the President's budget proposes to increase defense spending by 7 percent, homeland security by 10 percent and holds the rest of discretionary spending to just 0.5 percent growth. The Administration also proposes to extend the tax cuts enacted in 2001 and 2003, at a total cost over 10 years of \$936 billion. This proposal could have a significant effect on the nation's long-term fiscal situation (Figure 4).

This set of briefing charts presents information on the President's FY 2005 budget proposal to Congress. It begins with an overview of federal surplus/deficit spending patterns dating back to 1969, and summarizes information on the overall composition of the Administration's budget request. It then presents detailed information on the President's funding proposals for some of the major programs administered by the Department of Health and Human Services (HHS), including Medicare, Medicaid, and the State Children's Health Insurance Program (SCHIP), as well as discretionary public health programs, including those at the National Institutes of Health, the Substance Abuse and Mental Health Services Administration, the Indian Health Service, the Centers for Disease Control and Prevention, and the Health Resources and Services Administration.

How the President's FY 2005 Budget Funds Major Health Programs

Funding for federal health programs is a major part of the federal budget, representing more than 1 in every 5 federal dollars spent (Figure 5). Total spending on health programs under the Department of Health and Human Services (HHS) proposed in the President's budget is \$531 billion. Fifty-five percent of these funds will be spent on Medicare, 34 percent on Medicaid, 10 percent on public health programs, and less than 1 percent on SCHIP (Figure 6). Against the backdrop of the federal deficit, the President's budget proposes no new major changes to health entitlement programs, such as Medicare and Medicaid, and proposes limited new resources for other health programs.

Medicare

Spending on Medicare in FY 2005 is estimated at \$290 billion (Figure 7). The President's budget proposes no major changes to the Medicare program, focusing instead on implementing the Medicare Modernization Act enacted in late 2003 that provides a prescription drug benefit for Medicare beneficiaries starting in 2006. However, federal spending projections on Medicare, estimated by the Office of Management and Budget,

differ substantially from the Congressional Budget Office projections and reflect disagreement over the actual costs of the new prescription drug benefit (Figure 8).

Medicaid and SCHIP

In FY 2005, federal spending on the Medicaid program is estimated to reach \$182 billion (Figure 9). The Administration's spending projections for Medicaid assume an 8 percent growth rate for the program through FY 2009. The budget does not propose major legislative changes to the Medicaid program but expresses commitment to a major Medicaid restructuring the Administration made last year (Figure 10). The proposal would have allowed states to accept a cap on federal funding in exchange for a restructuring of people and services covered by the program. The FY 2005 budget expresses support for this approach but says that the Administration will attempt to pursue it on a state-by-state basis through waivers of existing federal Medicaid law.

This year's budget also proposes to improve federal oversight of the Medicaid program through new "program integrity" measures that are estimated to save the federal government \$1.5 billion in FY 2005 and \$23.5 billion over 10 years (Figure 11). In FY 2005, federal budget authority provided for the State Children's Health Insurance Program (SCHIP) is \$4.1 billion, which although higher than the FY 2004 SCHIP funding level is significantly lower than federal funding levels in previous years. These funding levels were established when Congress created SCHIP as part of the Balanced Budget Act of 1997 (Figure 12).

Public Health Programs

The President's budget proposes only a slight, 0.5% increase in funding for all discretionary, or non-entitlement programs in the federal budget that are unrelated to defense or homeland security (Figure 13). Within this context, the Administration proposes to increase spending for discretionary health programs by just 0.6 percent in nominal terms (Figure 14). The budget proposes to increase total funding for the Food and Drug Administration, the Indian Health Services, the National Institutes of Health, and the Substance Abuse and Mental Health Services Administration, but it proposes to reduce funding for the Centers for Disease Control and Prevention and the Health Resources and Services Administration. Within each of these major HHS agencies, funding levels for individual programs vary, with some proposed increases and some proposed decreases (Figures 15-19). For example, overall funding for CDC would decline by 5.9 percent, but individual programs such as infectious disease and HIV/AIDS, STDs & TB prevention would receive funding increases. Total funding for HRSA would decline by 9 percent, largely due to decreases in funding for the Community Access Program, health professions training grants, and rural health. At the same time, the Administration's budget proposes to double funding for abstinence programs in FY 2005 to over \$270 million (Figure 20).

Funding for HIV/AIDS

In FY 2005, proposed funding for HIV/AIDS is estimated to total \$19.8 billion which would represent a 7 percent increase over FY 2004 HIV/AIDS funding levels. Fifty-nine percent of the proposed funding will be spent on HIV/AIDS care while 15 percent is for

research and 5 percent is designated for prevention (Figure 21). Slightly more than half of the funding for HIV/AIDS comes from mandatory programs such as Medicaid, Medicare, Social Security Disability Insurance and Supplemental Security Income, and the remainder (47%) is provided through discretionary programs such as the Ryan White CARE Act at HRSA, programs at the CDC and the NIH, and all funding for international activities (Figures 22 and 23). An estimated \$2.7 billion is for global HIV/AIDS, including \$200 million in contributions to the Global Fund to fight AIDS, TB, and Malaria (Figures 24 and 25).

Health Care Tax Credit

The President's budget also re-proposes a refundable health care tax credit to help individuals under age 65 purchase health insurance. The refundable tax credit would subsidize part of a health insurance premium, and set at a maximum of \$1,000 for individual adult, \$500 per child and \$3,000 for a family of four. The credit would phase out at incomes of \$30,000 for an individual and \$60,000 for a family, and would cost the federal government an estimated \$70 billion over ten years. The budget also proposes to make premiums for high-deductible health plans tax deductible if the plans qualify for the new Health Savings Accounts created in the Medicare drug law, and to create a new long-term care tax deduction and a tax exemption for individuals who provide in-home care to family members.

The Congressional Budget Process

The President's budget proposal is just the beginning of the process of developing the federal budget. Congressional action determines the actual funding levels that different programs will receive for FY 2005, and occurs in a number of steps. Congress first develops a budget resolution, which defines the parameters of all subsequent budget-related legislation for the year by outlining the overall size of the federal budget and levels of federal spending and revenues for the fiscal year. For discretionary programs, appropriations committees must establish funding levels in appropriations acts. In years in which Congress makes changes to entitlement programs, it must do so by changing the authorizing laws that govern these programs.

Data Sources

These briefing charts use data from the President's *Fiscal Year 2005 Budget*, the US Department of Health and Human Services' *Budget in Brief FY 2005*, the Congressional Budget Office's *Budget and Economic Outlook, January 2004*, and the US Department of the Treasury's *2004 Blue Book, General Explanations of the Administration's Fiscal Year 2005 Revenue*.

Acknowledgements

This overview was prepared by Victoria Wachino and Molly O'Malley of the Kaiser Commission on Medicaid and the Uninsured with significant contributions from Alan Schlobohm, Jennifer Kates, Tricia Neuman, and Gary Claxton.

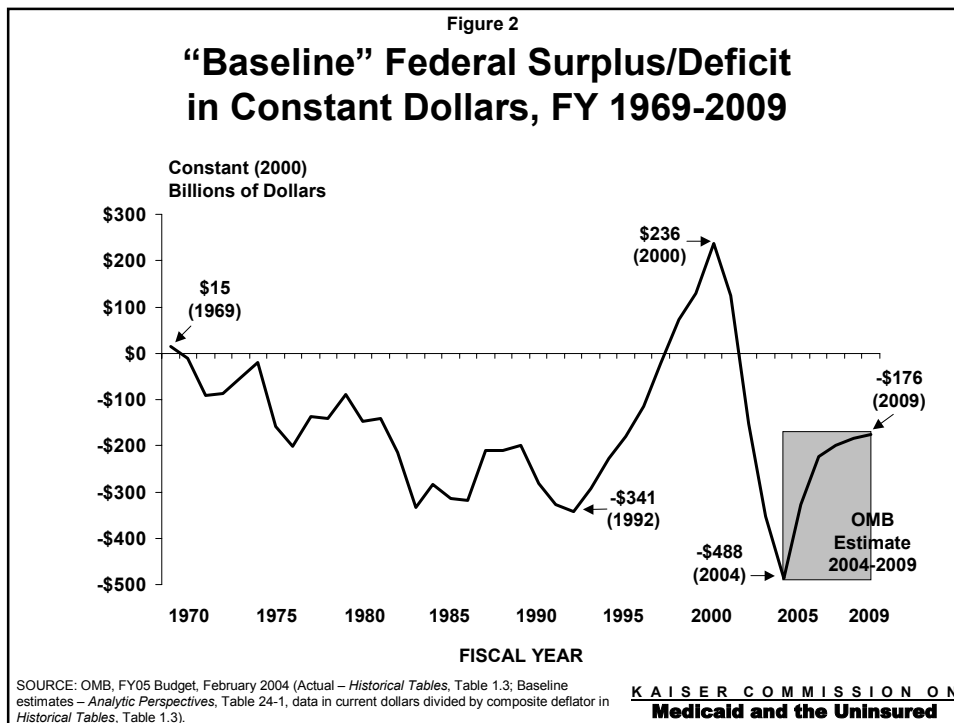
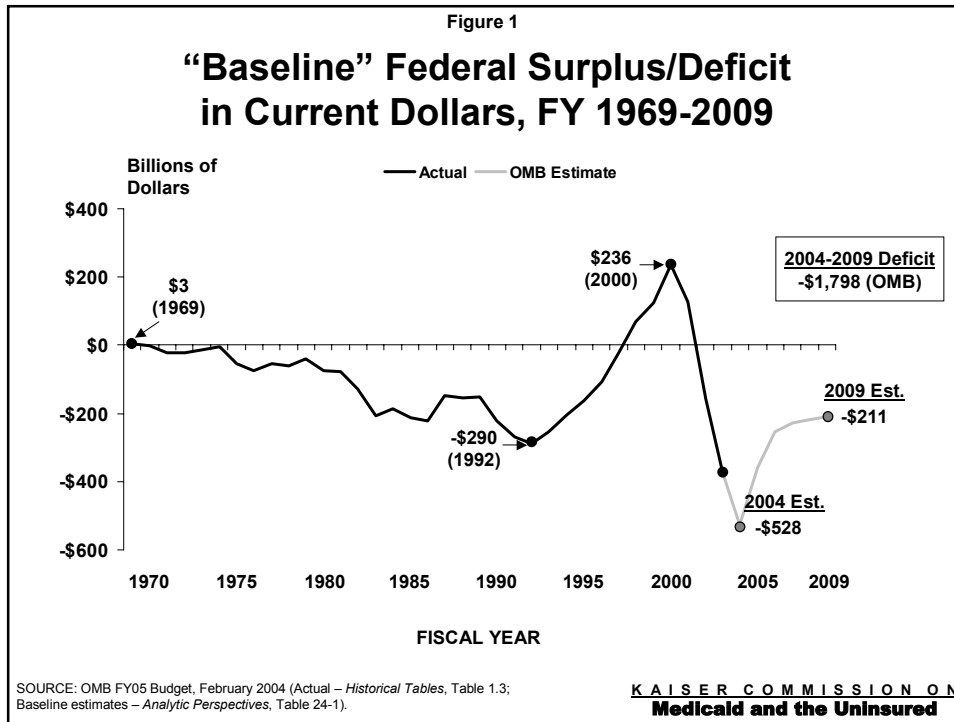
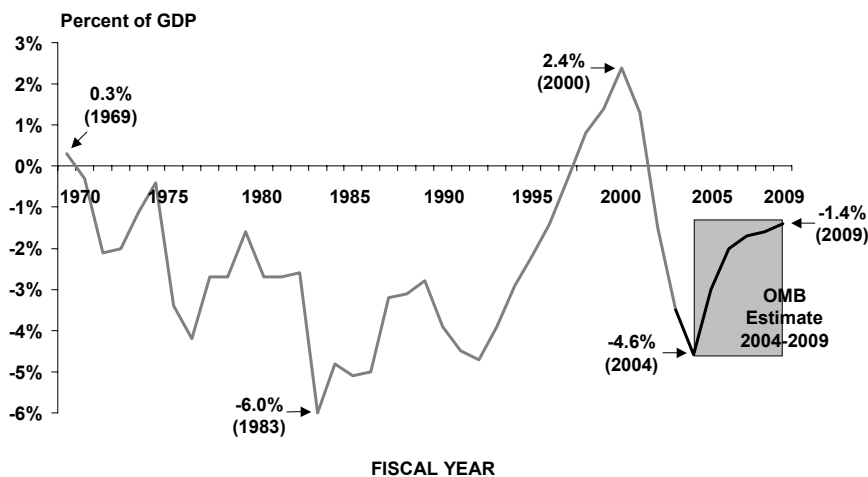


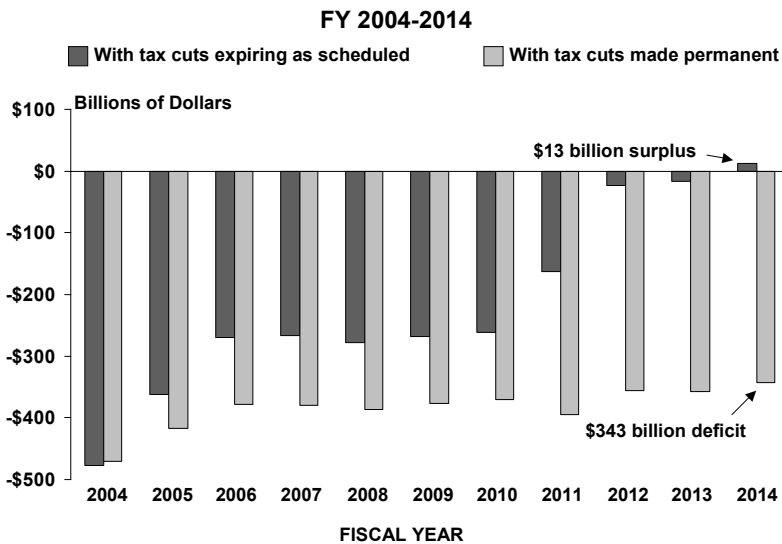
Figure 3
“Baseline” Federal Surplus/Deficit as a Percent of GDP, FY 1969-2009



SOURCE: OMB, FY05 Budget, February 2004 (Actual—Historical Tables, Table 1.3; Baseline estimates—Analytic Perspectives, Table 24-1, data divided by GDP from FY05 Budget of the United States, Table S-1, p. 365).

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Figure 4
Projected Federal Budget Surpluses/Deficits, With and Without Extension of Expiring Tax Cuts

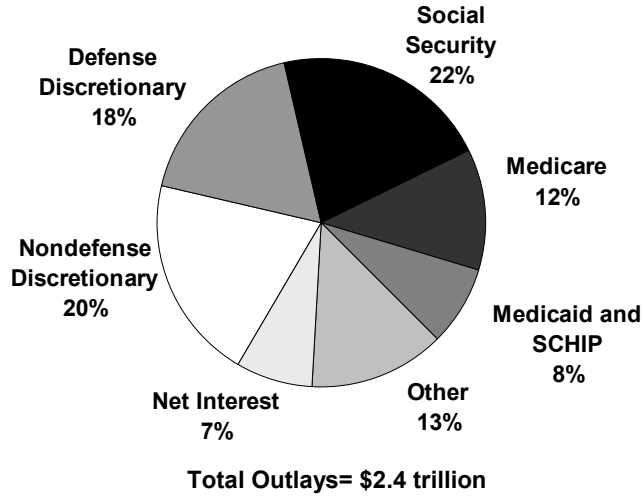


SOURCE: CBO, *The Budget and Economic Outlook*, Table 1-3, January 2004

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Figure 5

Composition of Spending in the President's FY 2005 Budget

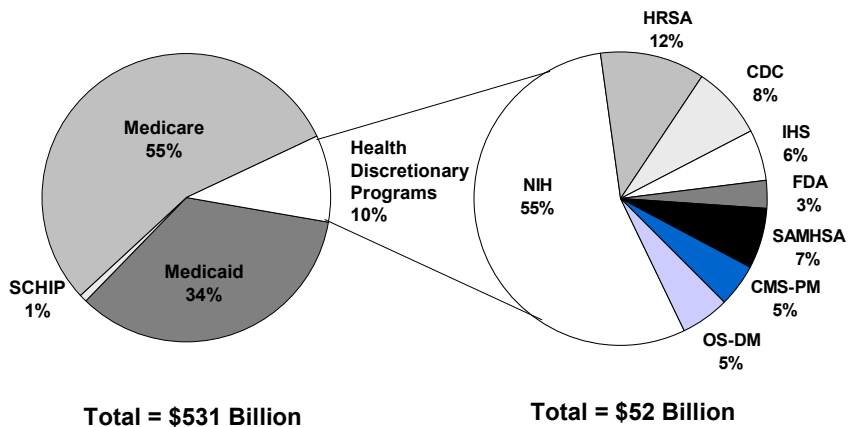


SOURCE: OMB, Fiscal Year 2005 Budget, February 2004.

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Figure 6

Funding Proposed for HHS Health Programs in Bush Administration's FY 2005 Budget



Notes: Totals do not include funding for the Administration on Children and Families, the Administration on Aging and Program Support Center. AHRQ funding is entirely through transfers from other HHS agencies

SOURCE: HHS, Budget in Brief FY 2005, February 2004.

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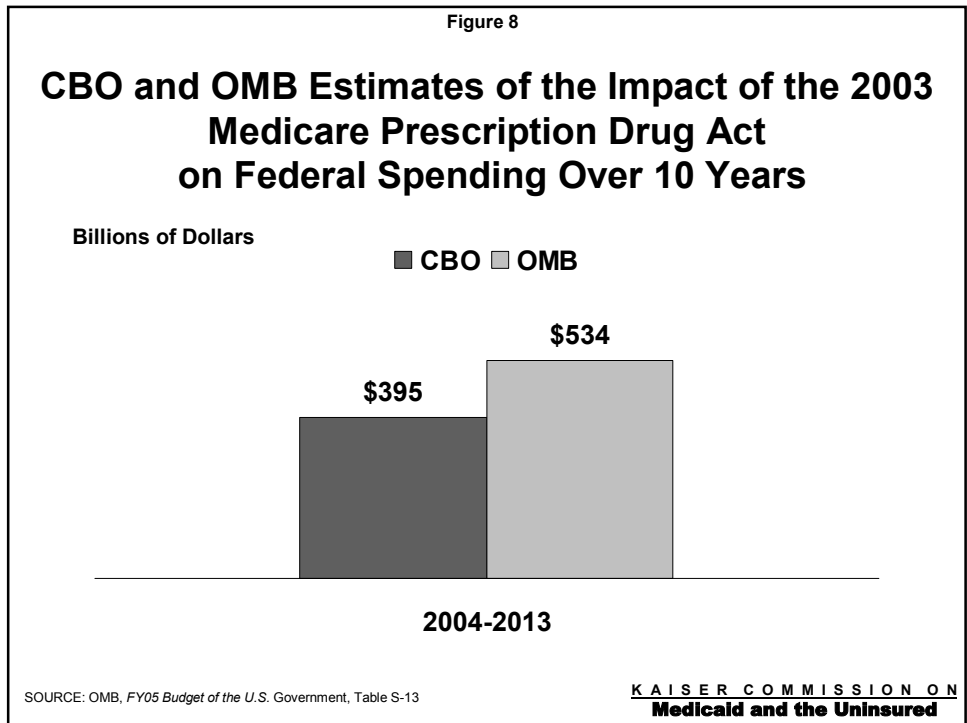
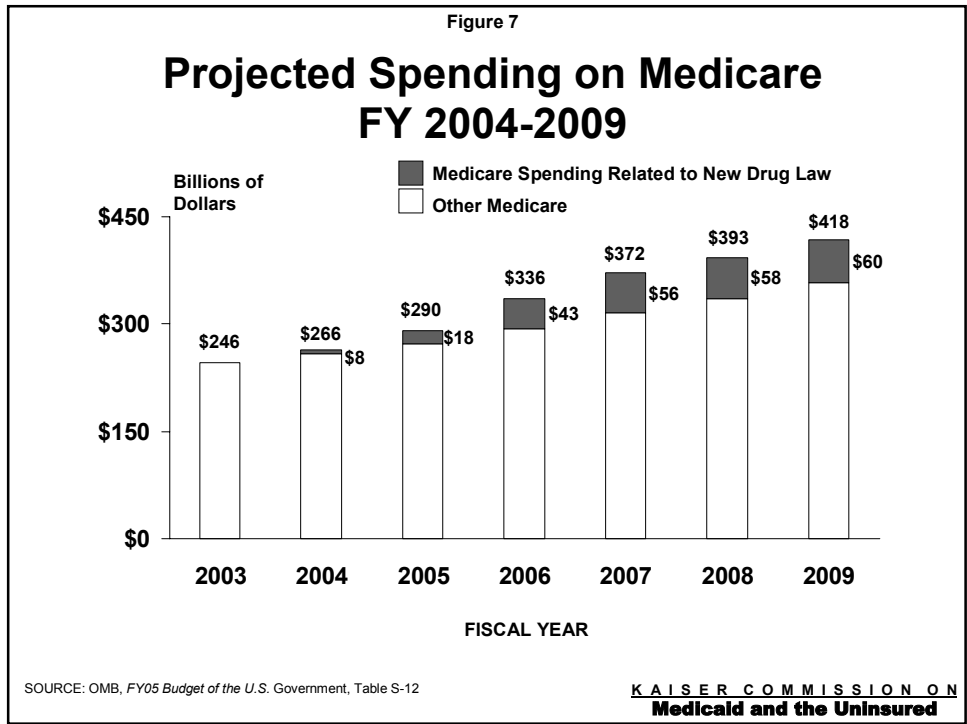
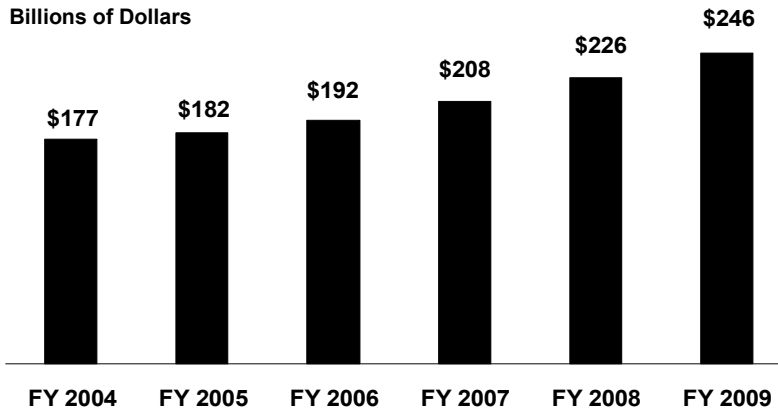


Figure 9

Projections of Federal Medicaid Spending, FY 2004–2009



NOTE: Projections do not reflect baseline spending but reflect Bush Administration's policies including program integrity savings totaling \$9.65 billion over 5 years.

SOURCE: OMB, FY2005 Historical Tables, February 2004.

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Figure 10

Medicaid Proposals in Administration's FY 2005 Budget

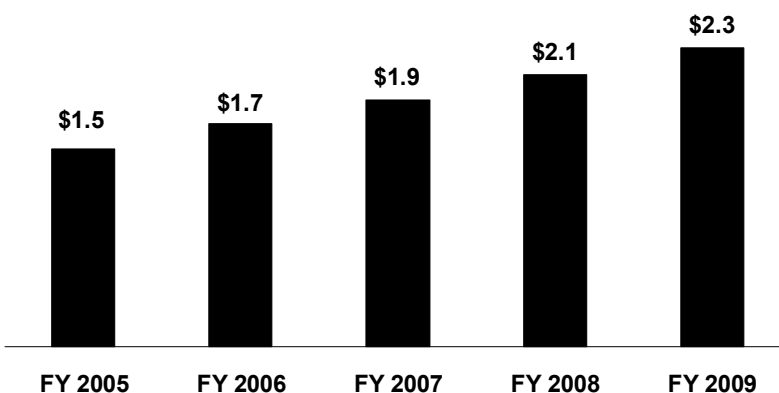
- Expresses general support for Administration's 2003 proposal to restructure and cap federal funding and suggests Administration will pursue capped funding through waivers
- Does not propose to extend \$20 billion in federal fiscal relief to states, which expires in June
- Proposes "program integrity" savings of \$1.5 billion in FY 2005 and \$23.5 billion between FY 2005 and 2014; House and Senate budget resolutions include similar savings
- Small Medicaid proposals (TMA extension, eliminating higher matching rate for administration)
- No changes to SCHIP proposed

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Figure 11

Federal Medicaid Program Integrity Savings Projections, FY 2005–2009

Billions of Dollars



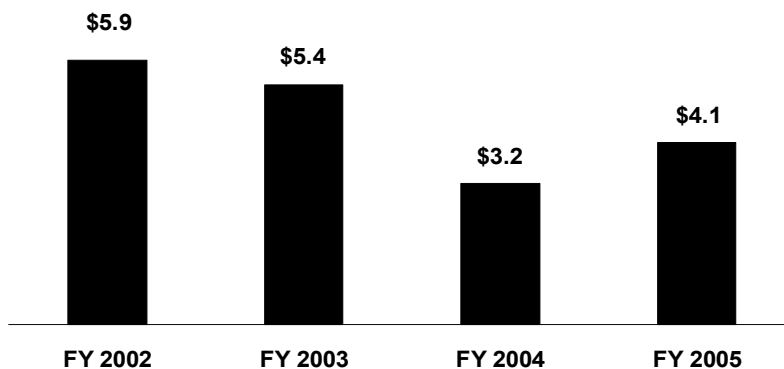
SOURCE: OMB, FY2005 Budget, February 2004.

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Figure 12

Federal SCHIP Budget Authority FY 2002–2005

Billions of Dollars



SOURCE: OMB, FY2005 Budget, Analytical Perspectives, February 2004.

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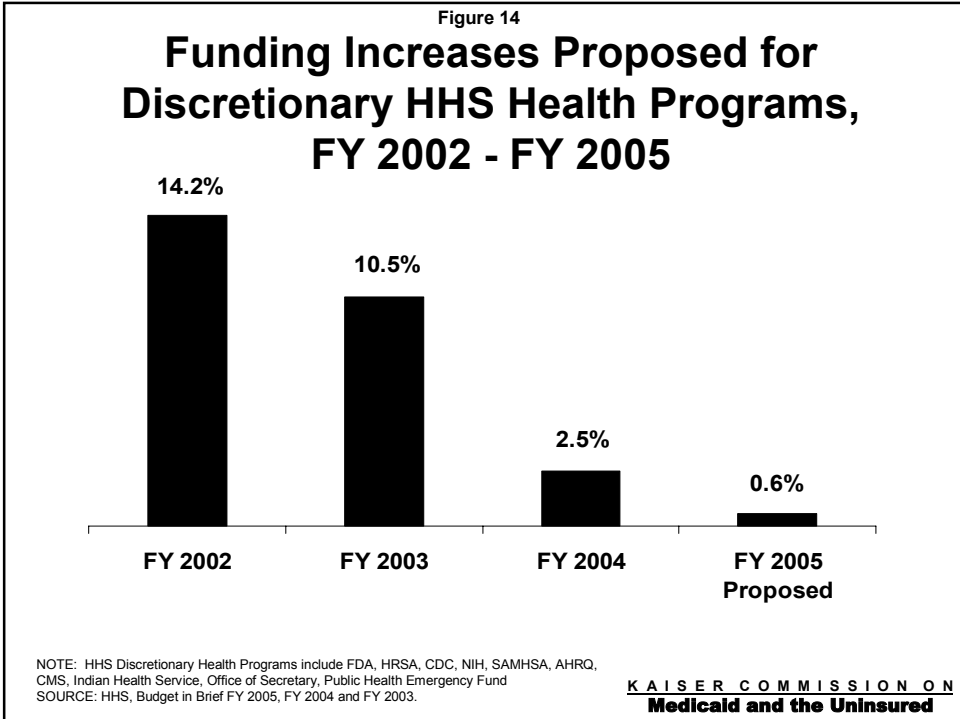
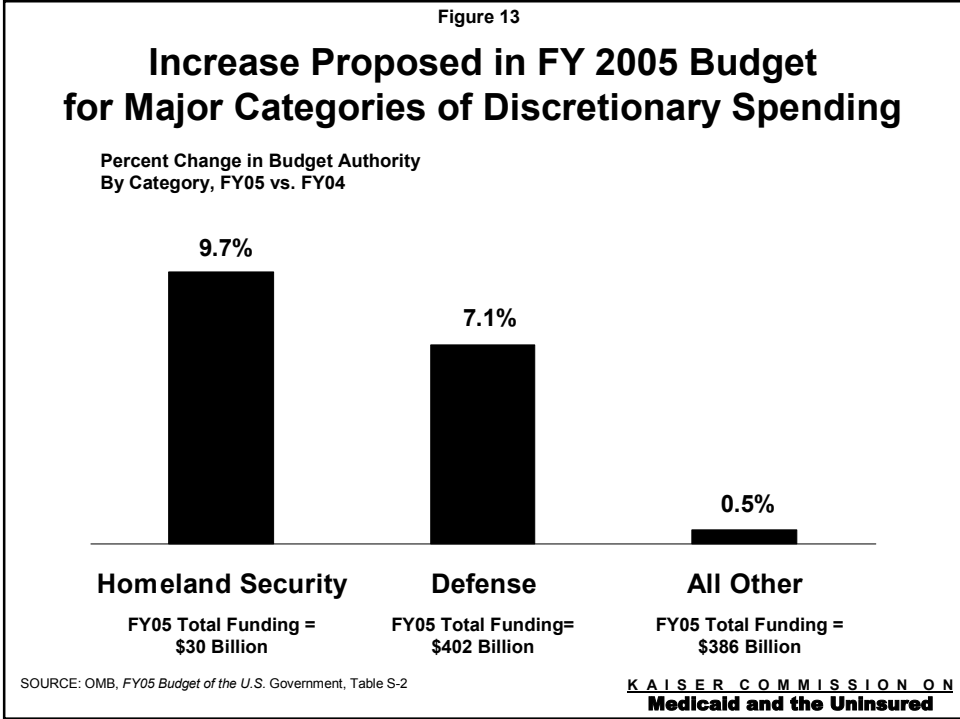
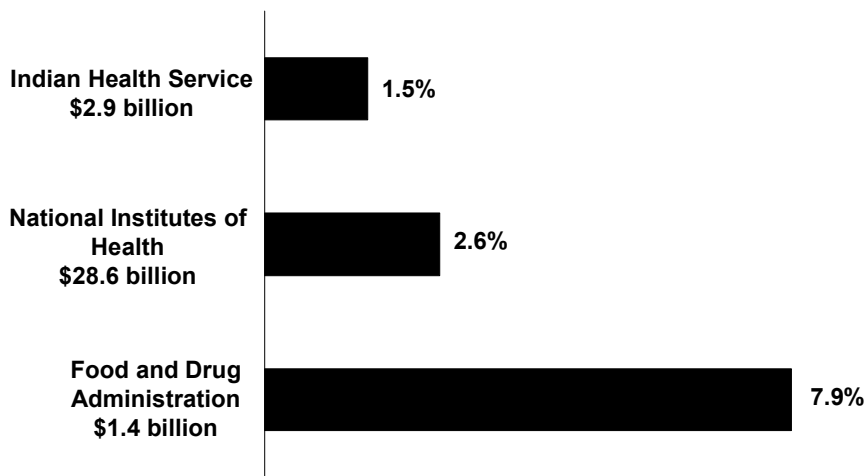


Figure 15

Impact of Proposed FY 2005 Budget on Selected HHS Programs



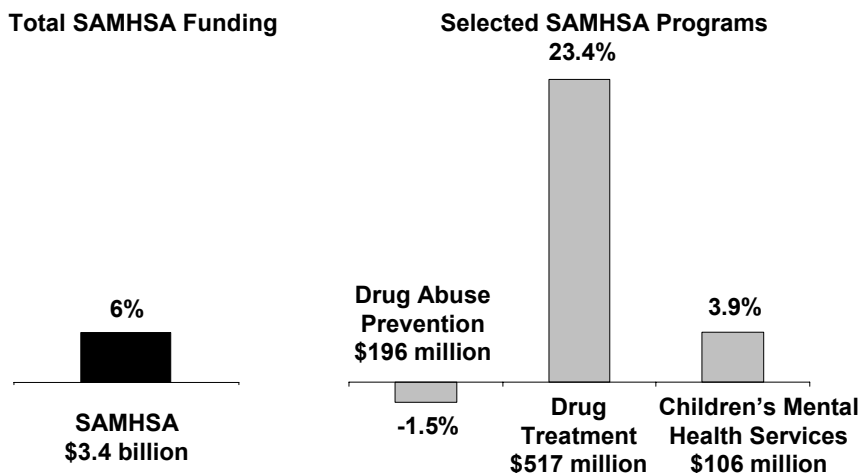
NOTE: Funding for FDA includes budget authority only, additional FDA funding is also proposed thru user fees.

SOURCE: HHS, Budget in Brief FY 2005, February 2004.

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Figure 16

Impact of FY 2005 Budget – Substance Abuse & Mental Health Services



SOURCE: HHS, Budget in Brief FY 2005, February 2004.

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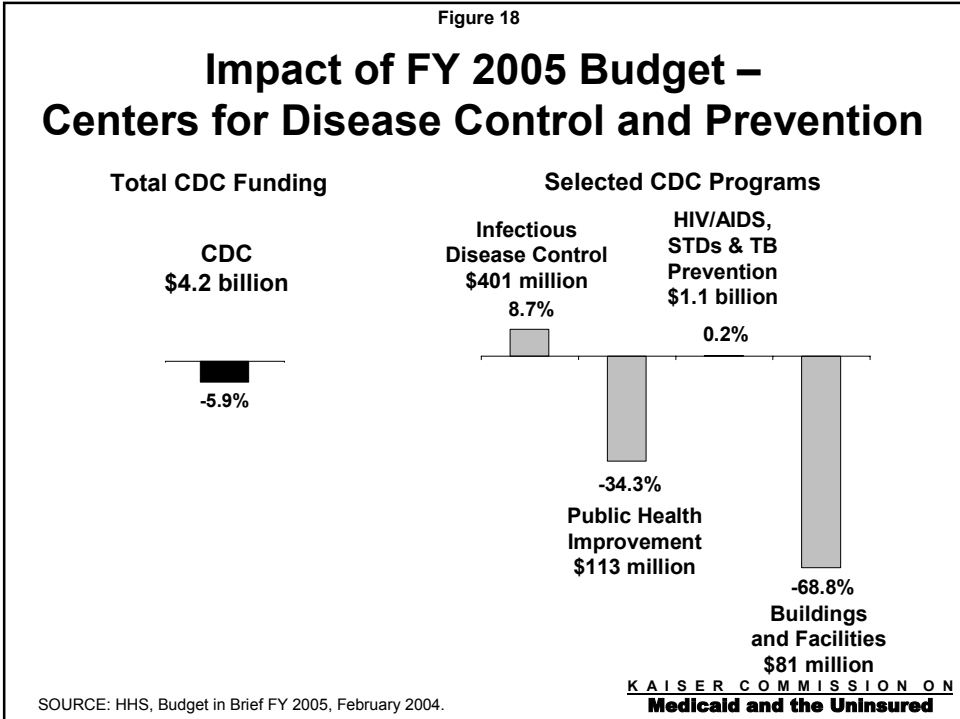
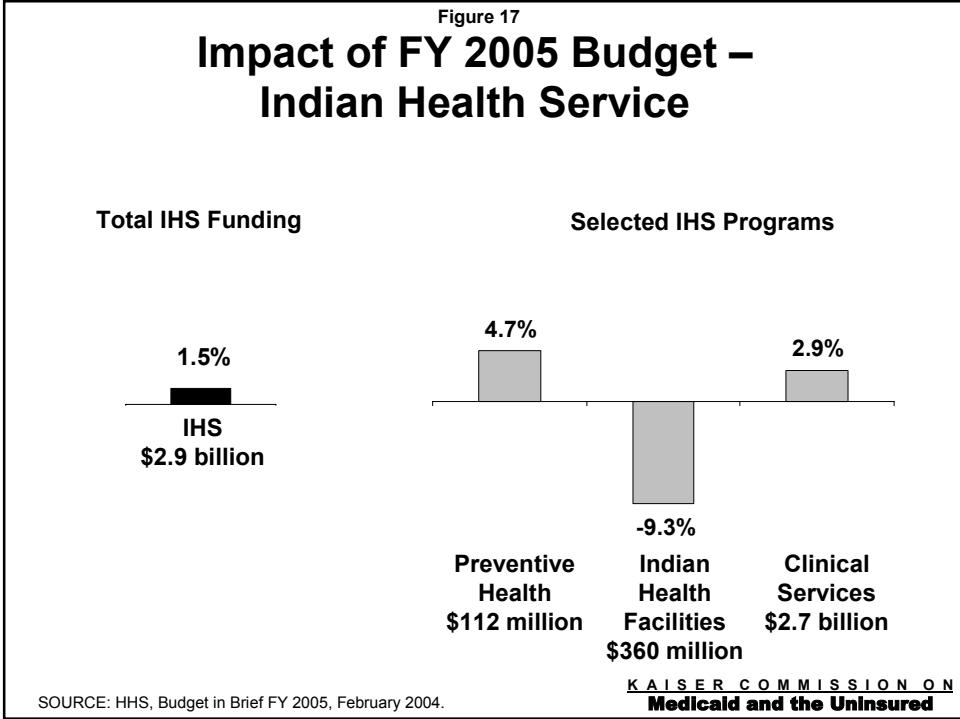
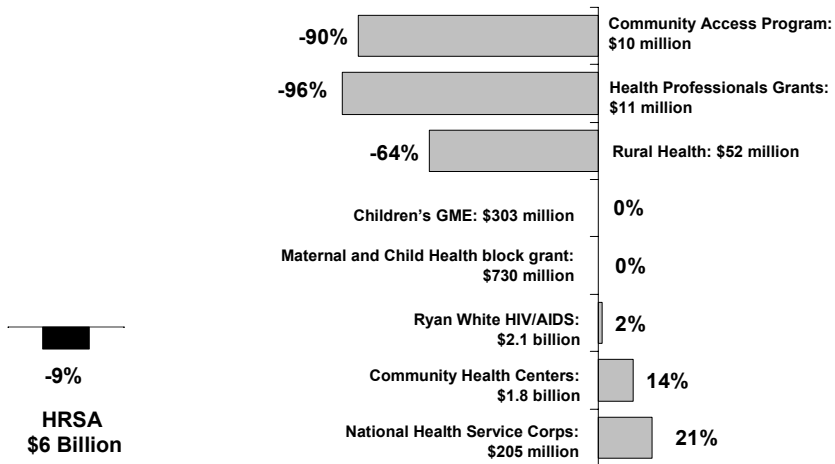


Figure 19
Impact of FY 2005 Budget – Health Resources & Services Administration Programs

Total HRSA Funding

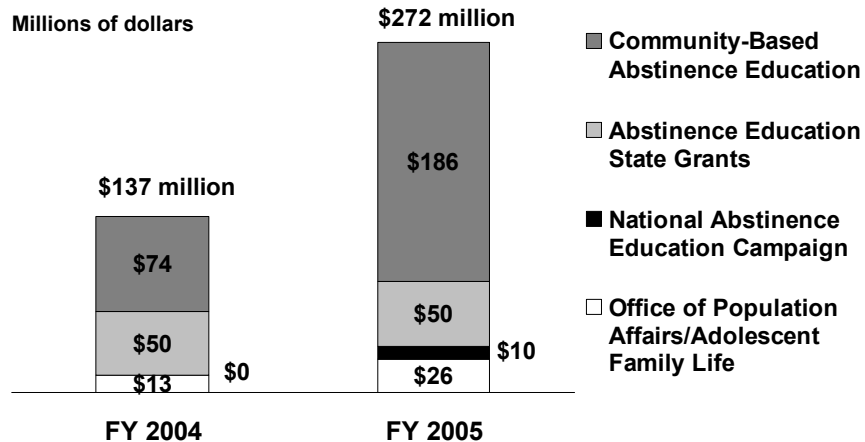
Selected HRSA Programs



SOURCE: HHS, Budget in Brief FY 2005, February 2004.

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Figure 20
Total Federal Funding Proposed for Abstinence Programs Doubled in FY 2005

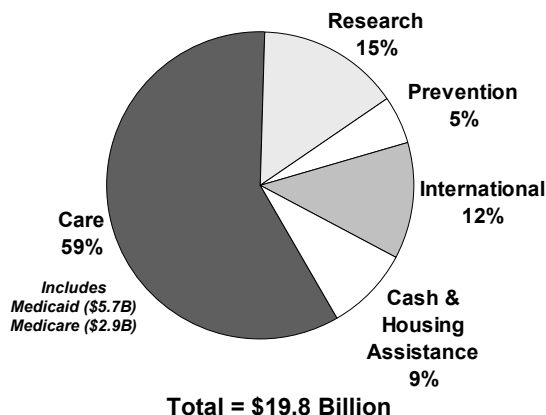


SOURCE: HHS, Budget in Brief FY 2005, February 2004.

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Figure 21

Federal Funding for HIV/AIDS by Category, FY 2005 Budget

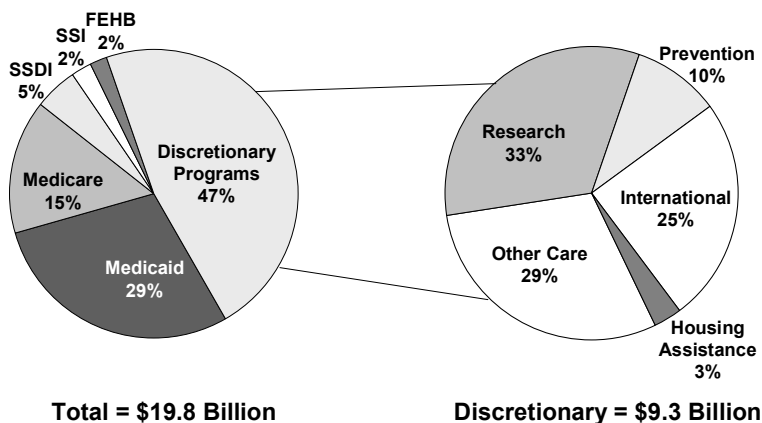


Note: Excluded from the International category is \$366 million in international research funding (\$355 million at NIH that is included in the Research category and \$11 million at CDC that is included in the Prevention category). If international research is shifted to the International category, international activities would comprise 14% of the total HIV/AIDS budget.
 SOURCES: OMB, FY 2005 Budget; Kaiser Family Foundation, *Fact Sheet: Federal Funding for HIV/AIDS: The FY 2005 Budget Request*, February 2004.

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Figure 22

Federal Funding for HIV/AIDS, Total & Discretionary Accounts, FY 2005 Budget



Note: Excluded from the International category is \$366 million in international research funding (\$355 million at NIH that is included in the Research category and \$11 million at CDC that is included in the Prevention category).
 SOURCES: OMB, FY 2005 Budget; Kaiser Family Foundation, *Fact Sheet: Federal Funding for HIV/AIDS: The FY 2005 Budget Request*, February 2004.

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Figure 23

Major Domestic Discretionary HIV/AIDS Funding, FY 2004- FY 2005

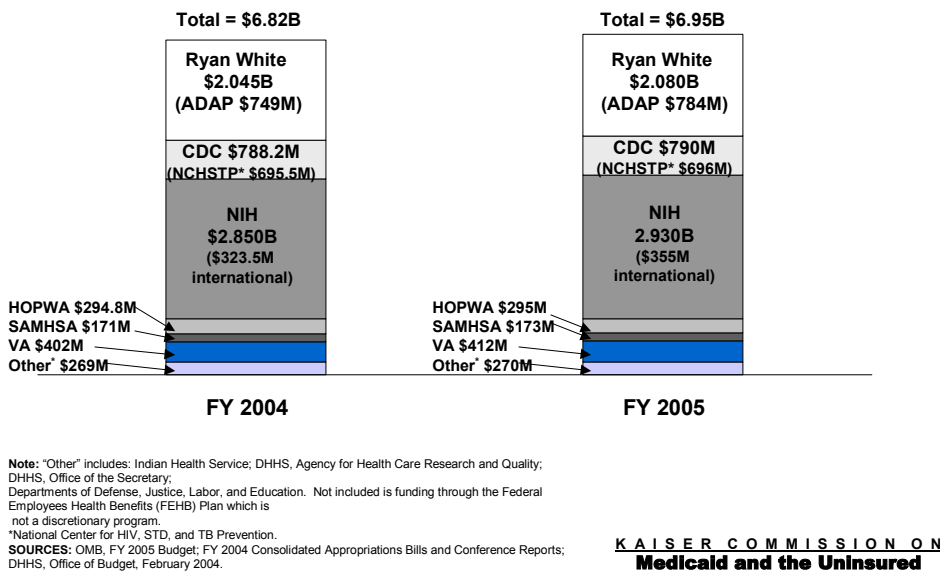
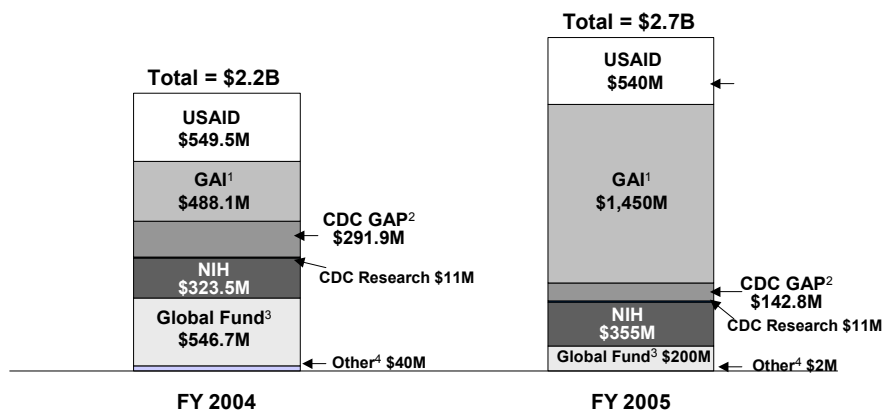


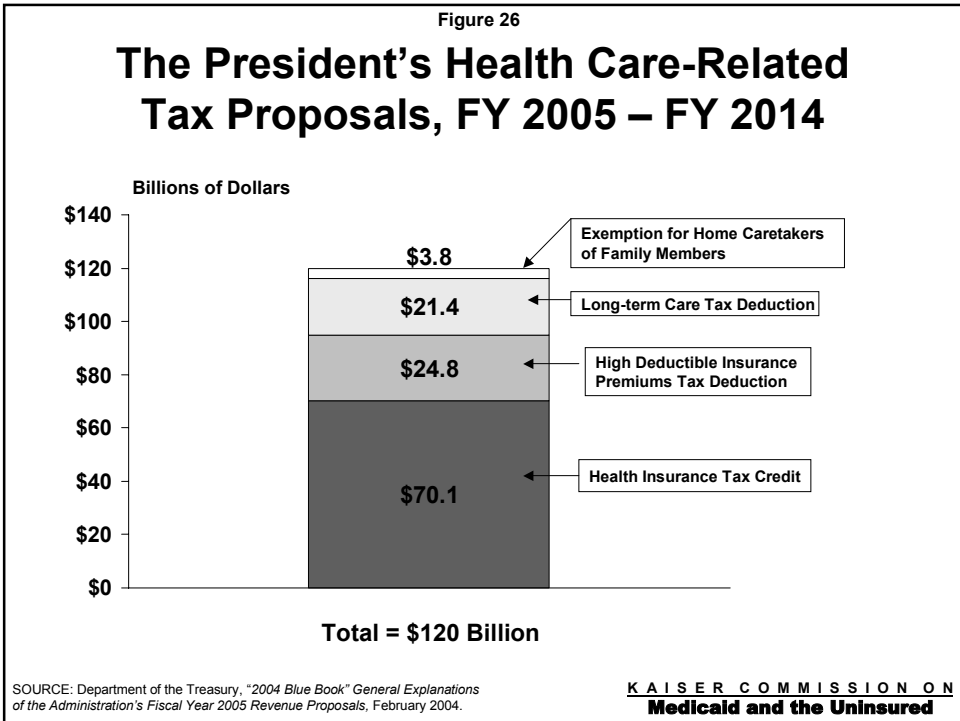
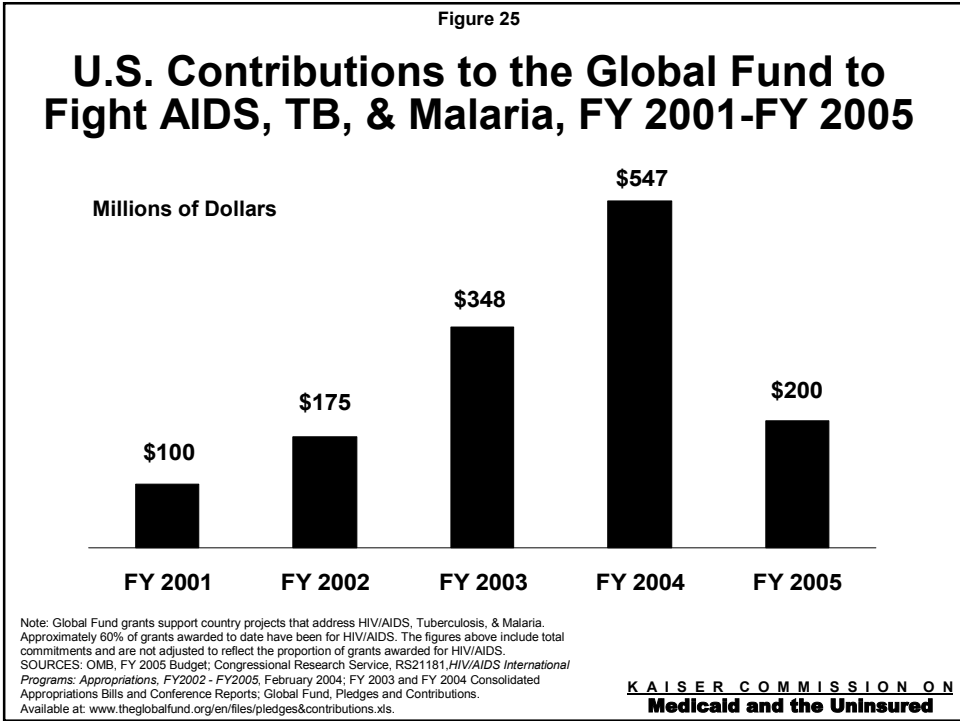
Figure 24

Funding for Global HIV/AIDS, FY 2004 - FY 2005



Notes: 1. GAI = Global AIDS Initiative at the Department of State; 2. Decrease at CDC's Global AIDS Program (GAP) between FY 2004 & FY 2005 reflects a shift in funding for the International Mother to Child HIV Prevention Initiative from GAP to GAI; 3. Global Fund grants support country projects that address HIV/AIDS, Tuberculosis, & Malaria. Approximately 60% of grants awarded to date have been for HIV/AIDS. The figures above include total commitments and are not adjusted to reflect the proportion of grants awarded for HIV/AIDS; 4. Other: in FY 2004, Foreign Military Financing, DoD, DOL, and USDA; in FY 2005, represents Foreign Military Financing.
SOURCES: OMB, FY 2005 Budget; FY 2004 Consolidated Appropriations Bills and Conference Reports; DHHS, Office of Budget, February 2004; Congressional Research Service, RS21181, HIV/AIDS International Programs: Appropriations, FY2002 - FY2005, February 2004.

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