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Nonprofit Sector Research Fund Announces 2002 Grants Competition

The Nonprofit Sector Research Fund, a program of the Aspen Institute, announces the availability of grants to support research on philanthropy and the nonprofit sector, including hospitals, universities, human service agencies, arts organizations, advocacy groups, and other tax-exempt entities.

The Nonprofit Sector Research Fund encourages applications both from researchers currently engaged in the study of the nonprofit sector and also from scholars grounded in academic disciplines, who may be new to nonprofit research. Applications in the following areas are currently being sought:

- Nonprofits, philanthropy, and public policy - including studies of the impact of government spending on nonprofits, philanthropy, and the people they serve, and privatization and contracting issues.
- Foundations - including studies of foundation leadership, strategies, and impact.
- Doctoral dissertation research - including studies that examine a broad range of nonprofit and philanthropic activities in the U.S. and other countries.

For application information, see www.nonprofitresearch.org or e-mail nsrf@aspeninstitute.org

The deadline for applications is October 1, 2002.

Freeze The Tax Cuts And Just Say No To More Tax Cuts

It's time to seriously work towards freezing the tax cuts that are scheduled to be phased in 2004, and oppose all new tax cuts. This is one of the most important issues facing us as a nation, and will affect our lives for decades to come.

As most of us have heard, the recently released Congressional Budget Office (CBO) Budget and Economic Update projects both a growing budget deficit for this year and diminishing surpluses for the coming decade. According to that report, \$845 billion of the \$1 trillion surplus that might still occur in the decade from 2003 through 2012 will happen in 2011 and 2012, **after** the tax cuts enacted last year expire. (See [this related Watcher article for more information on the CBO report.](#))

In spite of vague assurances (that are contrary to most accepted economic analyses) that the tax cuts are somehow helping the economy, their cost and the resulting deficits should lead to the more logical assumption that perhaps we can't afford the tax cuts. After all, since the CBO estimates are based on current law—they do not take into account a prescription drug benefit for seniors, increased homeland security and military spending, the state fiscal crises, or other emergencies or needs that are likely to arise during the next decade—the possibility of **any** surplus over the next decade is a pretty shaky prospect. Whether the budget is in surplus or in deficit is not the real issue. The real issue is the political will to make the resources available for the country's priorities. However, it is politically much harder to make the case for more domestic investment to accomplish the priorities of ordinary Americans when there is a deficit, as we are now seeing. With looming deficits, the mantra of "fiscal responsibility" always translates into "cut domestic spending."

In spite of this picture and flying in the face of all the evidence that we can't afford the tax cuts that are currently scheduled to go into effect, President Bush is expected to promote new tax expenditures, like reducing capital gains taxes, along with raising contribution limits for IRA's and 401(k) accounts, revising the tax on corporate dividends, and increasing the limit on the amount that can be deducted for stock market losses. Once again, President Bush's solution is to provide tax benefits to the wealthiest -- benefits that will never trickle down to the rest of the country. While it is unlikely that any of these proposals will get passed this year, it is very likely that they will be used to attempt to influence voters to cast their ballot for the party that cuts taxes.

We think, and research shows, that many Americans would much rather see the return of a balanced budget, and resources to accomplish priorities like making sure Social Security is on a solid footing, or improving education, or providing some assistance to struggling states so that important services will not be cut, or passing a meaningful prescription drug benefit. While our priorities might vary, the fact is that without the resources, none of them will get accomplished.

While some will portray postponing the tax cuts that are scheduled to go into effect in 2004 as raising taxes, we think that it is simply good common sense. No blame game need be played. When the tax cuts were passed, there were projections of large surpluses to come. With the downturn in the economy and the attacks on September 11 and the threat of more attacks, we just don't have the resources for more tax expenditures. Since the tax cuts are being phased in, it would be easy to simply freeze them for now.

OMB Watch is proud to be part of a coalition of nonprofit organizations who are advocating for freezing the tax cuts at current levels and opposing additional tax cuts. In August 2002, the coalition issued a [call](#) to freeze the tax cuts and oppose any further tax cuts. This is one of the most important issues facing the country right now, and will affect our future for decades to come. We urge you to [take a look at this effort and contact your Members of Congress about it](#). If your organization is interested in the effort, please contact Stephenie Foster at [People For the American Way](#) at (202) 467-4999.

CBO 10-Year Budget Update Shows \$5.6 Trillion Surplus Now Only \$1.0 Trillion

The Congressional Budget Office's (CBO) annual "[Budget and Economic Outlook: An Update,](#)" released on August 27, reports federal budget deficits through the end of 2005 and a relatively modest 10-year total surplus and has added more fodder to the debate in Washington over who's to blame for the \$5.4 trillion drop in the 10-year surplus forecast since January 2001.

CBO's [January 2002 10-year budget forecast](#) and its annual assessment of the President's budget, [released in March 2002](#) also included 10-year surplus estimates revised downward to take into account the combined effects of the \$1.35 trillion tax cut enacted in June 2001, the slowed economy, and the costs of the post-September 11 recovery efforts.

This CBO analysis reports that the unemployment rate, currently at 5.9% will remain at or near 6% until the middle of 2003 and then will decrease somewhat, for an average rate of 5.3% for the period 2004-07. CBO's forecasters expect the economy to grow at an average rate of 3.0% in 2003, and at 3.2% annually from 2004-07. But while including economic growth forecasts and unemployment rate estimates for the coming decade, the CBO report's primary focus is on the reasons behind the further reductions in the surplus since its March 2002 report.

CBO's report attributes the most recent \$1.4 trillion drop in the 10-year surplus since March 2002, in equal parts, to lower-than-expected revenues and increased spending. A recent brief from the [Center on Budget and Policy Priorities \(CBPP\)](#) uses the CBO calculations to show that a decrease in projected revenue actually is responsible for 82 percent of the total drop in the 10-year budget surplus since January 2001. These estimates include the additional interest costs that accompanied the expansion of the deficit as revenue dropped, as well as the actual drop in revenue itself. The CBPP analysis highlights the huge jump from the January 2001 CBO estimate of \$0.6 trillion in interest payments from 2002-11 to CBO's estimate in its latest report of \$1.9 trillion for the same period. CBPP also estimates that legislation enacted by Congress and the White House is responsible for \$3 trillion of the total surplus lost since January 2001, with 56% of this coming from tax cuts, another 28% from increased defense, homeland security and international spending, and another 10% from domestic discretionary spending.

Though CBO's report estimates a 10-year surplus of just over \$1 trillion, the 5-year forecast shows a cumulative federal budget deficit of \$229 billion. This is markedly different from the White House Office of Management and Budget's (OMB) July 2002 5-year estimate of a \$392 billion *surplus*. CBO attributes the difference to OMB's more optimistic expectations

for the economy's rate of growth through 2005, CBO's incorporation of additional spending included in the emergency supplemental appropriations bill enacted after the OMB report was released, and the associated interest costs on the increased debt resulting from the larger deficit.

OMB has worked to make the point that last year's \$1.35 trillion tax cut has played no role in reducing the surplus, citing this and other CBO reports indicating that the recession and necessary spending has taken the largest toll on the surplus. Many in the administration have even claimed that the tax cut has helped limit the damage of the economic slowdown. Now that the CBO 10-year forecast includes the years 2011 and 2012 – the first two years the tax cut will not be in effect after its scheduled expiration at the end of 2010 – however, we are able to see just what role the tax cut does play in the 10-year budget picture. Though CBO's official forecast does not include the effects of extending the tax cuts provisions past their legislated expiration date in 2011, the report did include a separate analysis of indicating that the costs of extending the tax cuts would be very great. In 2011, the cost of extending last year's tax cut would be \$157 billion; in 2012, this would jump to \$265 billion, for a total 10-year cost of nearly \$555 billion. The great cost of extending the tax cut means that of the projected 10-year \$1.0 trillion surplus, \$845 billion comes in the last 2 years of the decade!

With so many numbers and letters circulating this month, from OMB and CBO, from the Democrats and the White House, it is understandable that many of us may feel a bit overwhelmed by the seemingly endless supply of information and absence of guidance on what to make of it all. It seems, though that a few conclusions are possible:

1. It is likely we haven't heard the last of the deficit blame game and this issue will remain heated as we move into the November elections.
2. The prolonged timetable for the deficits also suggests that we will be hearing much more from so-called "deficit hawks" in both parties, who seem to agree with OMB Director Mitch Daniels' words, "We have to control what we can control, and that is spending." Perhaps the only point of contention will be around what type of spending needs to be controlled – the White House should be sure to read the full CBO report to be reminded that tax cuts cost a lot of money.
3. Regardless of where blame for these deficits should be placed, we will need to move past this issue, recognize that we are now dealing with deficits, and figure out how to meet the country's needs under these new circumstances.
4. Specifically, the focus on decreasing spending at a time when the country's needs are many has the potential for exacerbating the "investment gap," through which the forced compression of the country's priorities list will lead to greater and more pressing needs in the future. It is precisely because of these needs that we cannot afford to allow a seemingly endless blame game or a reshuffling of numbers to distract us from addressing the spending needs of the country – a prescription drug benefit for our seniors, investments in the education and well-being of our children, maintaining Social Security as the system we can all depend on, health care, and environmental protection and ... the list goes on and on, which is why we must begin this debate soon.

For more on one effort to address this issue by freezing the next rounds of tax cuts, see [this related Watcher article](#).

White House to Propose Regulations Implementing Faith-Based Agenda

According to a Washington Post story on August 31, the Bush administration does not plan to wait for Congress to pass the CARE Act before moving forward with proposed changes in regulations aimed at making it easier for faith-based groups to apply for and receive federal funds.

The proposed regulations are to be completed by the end of this year. The [White House Office on Faith Based and Community Initiatives](#) will also host a series of conferences around the country, beginning in Atlanta on October 10. Details are not yet available.

The purpose of the conferences is not clear, but it is expected the focus will be on federal grant procedures and how they apply to faith-based organizations. The administration has not given up on the CARE Act, however, saying it is a priority for this fall. The bill, which passed the Senate Finance Committee in June, would need to be reconciled with the House version, [HR 7](#), which has much more controversial provisions on charitable choice. Supporters of the CARE Act are urging the House to adopt the Senate version of the faith-based initiative in order to avoid what a Senate strategist told the Washington Post would be a debate that would "dredge up a lot of wounds and suspicion and ill will." See a [summary of the CARE Act](#) as passed by the Senate Finance Committee.

Past administration efforts at regulatory implementation of the faith-based initiative have reflected preferences for faith-based groups over secular ones, including attempts to set aside funds that only faith-based groups would be eligible to apply for. These discriminatory efforts were withdrawn after objections were raised, but may reappear in this new regulatory initiative. For details see [this OMB Watch article](#) on regulatory implementation of charitable choice.

The regulatory changes are likely to feature recommendations from the administration's August 2001 report [Unlevel Playing Field](#), which found that many of the barriers faith-based organizations find in the grantmaking process are not legislatively mandated and could be changed through the regulatory process. See our [summary and analysis](#).

FEC Holds Hearings on Broadcast Regulations

Last week the Federal Election Commission (FEC) held public hearings on its proposed regulations implementing the ban on broadcasts that refer to federal candidates within 60 days of an election or 30 days of a primary. The Bipartisan Campaign Reform Act of 2002 creates the new restriction on broadcasts by corporations, including nonprofits, and labor unions, but gives the FEC authority to create exemptions for broadcasts that are not related to elections. The hearing focused on how broad or narrow these exemptions should be.

OMB Watch presented testimony to support our [written comments](#) asking for exemptions for public charities, exempt under Section 501(c)(3) of the tax code, since these groups are already prohibited from supporting or opposing candidates, and were not the source of the problematic soft money ads in the 2000 elections. Yet these FEC restrictions might limit lobbying activities during the election season. Other groups, including the [Alliance for Justice](#), [Independent Sector](#) and the American Taxpayers Alliance, also testified about the need exemptions for grassroots lobbying and similar communications. Campaign finance reform groups like [Common Cause](#) agreed that such exemptions may be needed, but urged a much narrower definition of what could be allowed. They said no exemptions would be preferable to overly broad ones. The [Ballot Initiative Strategy Center](#) testified in support of an exemption for broadcasts relating to state or local referendums in which federal candidates, including Members of Congress, urge the public to support or oppose the measure.

Several members of the Commission expressed interest in exemptions broad enough to avoid unintended consequences under the rule. Chairman David Mason gave the example of a regular broadcast of church services during which a candidate might be mentioned from the pulpit. Commissioner Karl Sandstrom noted that ads for a movie based on Sen. John McCain's recent autobiography could be banned if he runs for President in 2004.

The Commission is scheduled to publish final regulations in early October, but they will not become effective until the day after this year's election. [Comments filed](#) in this rulemaking are published on the FEC's website. More information on BCRA and new regulations is available on the [OMB Watch website](#).

Federal Judge Holds Parts of Stealth PAC Law Unconstitutional

The "Stealth PAC" law of 2000 requires political action committees (PACs) exempt under Section 527 of the federal tax code to register with the IRS and report their contributions and expenditures. (Contributions to 527 organizations are not tax deductible.) The National Federation of Republican Assemblies filed a constitutional challenge to the law in federal court in Alabama soon after it passed. On August 27 Judge Richard Vollmer of the U.S. District Court for Southern Alabama upheld part of the law and overturned part as unconstitutional.

The ruling upheld a requirement that PACs disclose contributors in federal elections, but said expenditures do not have to be reported. The court also held that the provisions requiring disclosure of expenditures and contributors in state and local elections violates states' rights.

It is not yet clear whether or not the Justice Department will appeal the case to the Circuit Court. However, the IRS has said it will continue to enforce the law. Implementation and enforcement have been problematic, especially for PACs that only work on state and local elections. See [this previous Watcher article](#) for details.

Patents on Hypertext and Legal Challenges to Deep Linking

Nonprofits face an increasingly challenging online environment in which both the ability and the manner in which information from outside sources is linked across sites are open to legal dispute. Though currently waged in a mostly commercial context, the stakes and implications for what is available, by whom, and when raise questions around long-held practices and core technologies of the Web itself. [Read more here](#).

OMB Reviewing EPA Report on Children's Health

In an effort well outside the scope of its traditional activities, the Office of Management and Budget is reviewing an Environmental Protection Agency (EPA) report on children's health before publication -- the first time, to our knowledge, OMB has ever involved itself in the shaping of a scientific study.

[Under executive order](#), agencies must submit major regulatory proposals to OMB for review. Reports and studies, however, that involve questions of science -- and do not involve a policy decision -- have always been left to the agencies, which have the technical expertise that OMB lacks. Not surprisingly, high-level EPA officials questioned the White House about the appropriateness of OMB's review, according to an article in the August 20 issue of the Risk Policy Report, a publication of [Inside Washington](#).

EPA was nearing publication when OMB requested to review the report -- America's Children & the Environment: Measures of Contaminants, Body Burdens and Illnesses -- which updates a 2001 report on indicators linked to environmental hazards for children, including asthma, lead levels, and cancer.

Unfortunately, OMB's review is probably not an aberration, but a sign of things to come. John Graham, administrator of OMB's Office of Information and Regulatory Affairs (OIRA), has signaled his intent to enter the scientific arena. Among other things, he has advised agencies on how to conduct scientific risk assessment, initiated a first-of-its-kind

"partnership" with EPA to actually develop -- not just review -- a non-road diesel standard, and added four scientists to OIRA's team of economists and policy analysts, the first scientists to ever work for OIRA.

More recently, Graham pushed two industry-friendly toxicologists -- Dennis Paustenbach and Roger McClellan -- to serve on the advisory committee to the Center for Disease Control's National Center for Environmental Health, according to the August 30 issue of [Science Magazine](#), when the administration put 11 new members on the 16-person panel -- a move environmental health advocates charge stacks the deck in industry's favor. Paustenbach, who conducts paid risk assessment for industry, testified on behalf of Pacific Gas & Electric, which was ultimately found guilty of poisoning drinking water, in the trial that made Erin Brockovich famous. McClellan is the former director of the Chemical Industry Institute of Toxicology.

It's clear why Graham would want to involve himself in questions of science. A report or study on health or environmental problems can often create pressure for regulation. For instance, a [recent EPA report](#) acknowledging that global warming is caused by human activity created a minor storm and raised politically embarrassing questions about the administration's plan, or lack thereof, to deal with climate change.

The problem for the administration is that it's steadfastly and ideologically opposed to strong health and environmental protections; it's not interested in evidence that runs counter to this position. If the administration can shape a report's findings before it's made public, it can head off calls for stronger regulation and protect its political soft spot.

Sensitive but Unclassified

Last week officials from the [Office of Management and Budget \(OMB\)](#) requested a meeting with various public interest groups concerned with public access to government information. The purpose was to discuss OMB's upcoming efforts to define the category of "sensitive but unclassified" for government information. This vague term generated a great deal of confusion and concern among information advocates when addressed in a memo prepared at the request of Andrew Card, White House Chief of Staff.

Card released a [memo on March 19](#), instructing agency and department heads to undergo "an immediate reexamination" of current measures for identifying and protecting information on weapons of mass destruction as well as "other information that could be misused to harm the security of our nation and the safety of our people." A second memo was attached that provided guidance for the process. The guidance urged agencies to look at their classified, reclassified and declassified information, but also created a new and vague category, called "sensitive but unclassified." The guidance stated, "The need to protect such sensitive information from inappropriate disclosure should be carefully considered, on a case-by-case basis."

OMB is now preparing to draft the definition of this term -- or a similar term such as "homeland security sensitive" information -- and clarify its role in information management. Before starting, OMB plans to meet with various constituencies concerned about information and access policies, such as the one mentioned above, and a group of academic representatives. A very broad representation of public interest organizations attended the meeting with groups representing librarians, reporters, newspapers, privacy advocates and the academic community. OMB officials assured attendees that the draft definition would be published in the Federal Register with an opportunity for public comment. However, OMB officials were less than clear about everything else. They were unclear about the exact timeline for this guidance, the current thinking for the scope of the term, or exactly with whom else they would be meeting. Only time will tell.

Chemical Security Heats Up

Sen. Jon Corzine's (D-NJ) [Senate Environment and Public Works Committee](#) July 25. Reports indicate that Corzine plans to offer the bill as an amendment to the Senate's [National Homeland Security and Combating Terrorism Act of 2002 \(S. 2452\)](#). The Senate will likely address homeland security immediately upon its return. However, in an effort to prevent passage of the Corzine language, industry, which is strongly opposed to it, recently sent a letter signed by 30 industry groups to all Senators, urging them to oppose the bill.

Signers of the letter included industry groups such as the American Chemistry Council, the [American Petroleum Institute](#), the [National Association of Manufacturers](#), the [U.S. Chamber of Commerce](#), and [Edison Electric Institute](#). The groups stated that they have been working with various agencies "to ensure our nation is prepared to defend against terrorist attacks to our facilities." The letter also asserted that Corzine's bill would "splinter security responsibility away from the Department of Homeland Security and grant [the Environmental Protection Agency (EPA)] extensive new authority that may be detrimental to advancing our nation's critical infrastructure security."

Under Corzine's plan facilities must conduct vulnerability assessments, identify any potential hazards, and prepare a plan to address those hazards, including using fewer chemicals or less toxic chemicals and storing smaller amounts of toxic substances. The plans would be due one year after implementation of the regulations and would be reviewed by EPA and the Homeland Security Office.

Additionally, it was reported in a BNA article that EPA, which has opposed the bill, plans to issue a proposed rule of security regulations for chemical plants "within two weeks." EPA is reported saying it could implement regulations faster by going through the rulemaking process. However, critics have noted that since EPA has wavered for a year since the September 11th attacks over whether or not the agency has the authority to require vulnerability assessments it is unlikely that it will maintain an aggressive timeline without a clear mandate from Congress.

Data Quality Guidelines Continue to Churn

Even though the deadline of May 1st for agencies to produce drafts of their Data Quality Guidelines has long past, several agencies and departments have only recently completed and published their drafts for public comment. Among the recent drafters were several major departments such as the Department of Energy, Department of the Interior, Bureau of Land Management, Fish & Wildlife Service, Office of Surface Mining, National Parks Service, and U.S. Geological Survey. Other agencies included Bureau of Reclamation, Export-Import Bank of the U.S., National Endowment for the Humanities, Office of Government Ethics, and Office of Personnel Management.

Due to the late release the public comment periods for these draft guidelines ranged from August 16th to September 14th. Currently most of the data quality guidelines drafted by other agencies, having completed their public comment periods, are in the process of being updated and submitted to the [Office of Management and Budget \(OMB\)](#) for review and approval.

OMB Watch has raised the issue of the data quality guidelines and the ongoing debate over whether the guidelines are legally binding on agencies with OMB. The regulated community, with clear intentions of using the data quality guidelines to challenge and slow regulations they disagree with, has aggressively promoted the view that the guidelines are legally binding. Even agency representatives have been uncertain. Our hope is that OMB in clearing agency guidelines will be clear that agencies have flexibility to implement the rules based on agency need, that the process of assessing data quality is not legally binding, and that OMB will not second-guess agency decisions on data quality.

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