

## INFORMED BUDGETEER

## EMERGENCY RESPONSE FUND – SIXTH RELEASE

2001 BA Transferred From the Emergency Response Fund (\$ in Millions)	
2001	
<b>First through Fifth Release of Funds<sup>a</sup></b>	<b>9,720.2</b>
<b>Sixth Release of Funds (November 9, 2001)</b>	
Funds available immediately	
<b>Department of Defense</b>	<b>930.5</b>
Increased situational awareness	392.5
Repair of Pentagon	339.0
Improved command and control	71.0
Increased worldwide response	50.0
Initial crisis response	43.0
Enhanced force protection	35.0
<b>Agency for International Development</b>	<b>778.2</b>
Operating expenses, overseas facility security	13.0
International disaster assistance, food distribution	76.0
Assistance to States of former Soviet Union	
Economic and law enforcement assistance to Uzbekistan	40.5
Central Asia regional program on conflict prevention	6.0
International Security Assistance	
Economic support fund, assistance to Pakistan	500.0
Foreign military financing program, Turkey and Uzbekistan	45.0
Nonproliferation, anti-terrorism, and related activities	
Training and equipment for foreign governments	45.5
Border security forces in Central Asia	42.2
Terrorist interdiction program	4.0
International counter terrorism engagement	3.0
Humanitarian demining projects in Afghanistan	3.0
<b>Department of Agriculture</b>	
U.S. food to Afghanistan and other countries	23.0
<b>Department of the Treasury</b>	
Administrative, Air Transportation Stabilization Board	9.4
Subtotal, funds available immediately	1,741.1
Funds available after 15 days	
<b>Department of Defense</b>	<b>7,005.3</b>
Increased worldwide posture	2,643.3
National Guard personnel providing airport security	23.0
Increased situational awareness	1,909.0
Offensive counter terrorism	1,067.0
Enhanced force protection	714.0
Improved command and control	527.0
Initial crisis response	72.0
Repair of the Pentagon	50.0
<b>Department of State</b>	<b>193.5</b>
Embassy security, construction and maintenance	
Security improvements at U.S. embassy compounds	34.9
Emergency egress projects	18.0
Reimburse DoD for personnel and equipment transportation	10.0
Assistance to new refugees in Pakistan and other countries	50.0
Diplomatic and Consular Programs	
Security enhancements at State Department facilities	66.7
Diplomatic security improvements and mail safety	10.0
Health units in overseas posts that do not have them	3.7
Staff, Intelligence Community's Counter terrorism Center	0.2
<b>Department of Transportation</b>	<b>257.5</b>
Federal Aviation Administration	
Additional Federal Air Marshals	170.0
Security equipment for baggage and passenger screening	87.5
<b>Department of Justice</b>	
FBI upgrade, information technology structure	39.7
<b>Broadcasting Board of Governors</b>	
Establish two AM transmitting facilities in middle east	16.4
Subtotal, funds available after 15 days	7,512.4
<b>Subtotal, Sixth release of Funds</b>	<b>9,253.5</b>
<b>Total Released thus far</b>	<b>18,973.7</b>
Defense	13,396.2
Nondefense	5,577.5
Funds available immediately	8,973.7
Funds available after 15 days	10,000.1

Source: OMB

<sup>a</sup> Information on the first through fifth releases are found in *Budget Bulletins* published October 1, 8 (releases 2 and 3), 29 and November 12, 2001, respectively.

- Slightly more than two months after the terrorist attacks, the President has released nearly all of the \$20 billion in emergency

supplemental funding approved for the Emergency Response Fund. The second half of the total \$40 billion promised, which must still be enacted by the Congress and the President (see article below), will likely be attached to the final FY 2002 Defense Appropriations bill.

- In the sixth release of emergency response funds, another \$9.3 billion will go largely to support ongoing military and diplomatic efforts to break the terrorist network and support foreign partners.
- Of the \$1.7 billion immediately available (not subject to 15 day notification rule), \$930.5 million will go to the Department of Defense (DoD), with about one-third going to repair the Pentagon. Another \$778.2 million will flow through international assistance programs with nearly two-thirds of that amount (\$500 million) for assistance to Pakistan through the Economic Support Fund.
- The remaining \$7.5 billion of the \$9.3 billion will be made available under the 15-day notification provision of P.L. 107-38. Defense is again the largest beneficiary of these funds, receiving \$7.0 billion (93 percent) of this latest release.
- Another \$257.5 million will go for aviation security, and \$193.5 million will meet Department of State security requirements. An additional \$9.4 million will establish the Air Transportation Stabilization Board to implement the \$10 billion airline loan guarantee program enacted shortly after the attacks in September.

HOUSE STARTS 2<sup>ND</sup> \$20 BILLION EMERGENCY RESPONSE PACKAGE

House-Reported 2002 Emergency Response Fund Appropriations (BA \$ in Millions)			
Agency	President Request	House Reported	Pres+/- House
Department of Defense	7,349.0	7,348.3	0.7
Federal Emergency Management Agency	5,500.0	4,965.0	535.0
Department of Labor	2,012.6	1,512.6	500.0
Dept. of Health and Human Services	1,595.0	2,095.0	-500.0
Department of Justice	1,112.1	1,528.9	-416.8
Department of Transportation	733.5	733.9	-0.4
Department of Treasury	315.2	484.7	-169.5
General Services Administration	200.5	87.4	113.1
Small Business Administration	150.0	140.0	10.0
Corps of Engineers	139.0	139.0	0.0
Department of Energy	117.7	117.7	0.0
NASA	93.1	120.5	-27.4
Department of Interior	85.5	89.5	-4.0
Environmental Protection Agency	76.0	161.2	-85.2
Executive Office of the President	50.0	0.0	50.0
Department of Agriculture	45.2	45.1	0.1
Department of Commerce	26.9	20.1	6.7
Department of Education	10.0	10.0	0.0
Other Executive Agencies	101.2	113.7	-12.5
Legislative Branch	256.1	256.1	0.0
Judicial Branch	31.5	31.5	0.0
<b>TOTAL</b>	<b>20,000.0</b>	<b>20,000.0</b>	<b>0.0</b>
Defense	7,466.7	7,466.0	0.7
Nondefense	12,533.3	12,534.0	-0.7

- When Congress reconvenes on November 27, the House will attempt to put its stamp on a \$20 billion emergency response package attached to the FY 2002 Defense Appropriations bill.
- The House Appropriations Committee largely kept intact the President's request for DoD at \$7.5 billion, except that it devotes \$224 million more to offensive counter terrorism activities by scaling back areas that have already received significant funding.
- Most FEMA funding – \$4.9 billion – will go to New York, Virginia,

and Pennsylvania for disaster relief efforts. The committee did not approve \$550 million requested for First Responder Training through FEMA. Instead, the bill provides \$400 million for counter terrorism activities through existing Department of Justice programs assisting State and local governments.

- As in the Administration's proposal, another \$5.7 billion will go to New York with additional amounts expected to be added in later supplemental requests next spring or even perhaps this fall, which would exceed the original \$40 billion funding limit agreed to by the Congress and the President immediately after September 11.
- The House bill also beefs up funding for state and local response to bioterrorist attacks, increasing Department of Health and Human Services by \$500 million above the President's request, which is offset by a reduction of \$500 million in the request of \$2 billion for national emergency health coverage grants.
- Transportation funding is targeted to all major modes, and not just aviation. The Coast Guard, Federal Highway Administration, and Federal Transit Administration all receive homeland security resources in the \$733.9 million package for DOT.
- Department of Treasury law enforcement programs receive an additional \$212.2 million above the President's request for homeland security on the northern border and at port cities. The House adds \$109 million to the EPA request specifically for technical support for drinking water vulnerability assessments.
- The bill denies the President his request of \$50 million for his Executive Office to meet additional requirements to respond to the September 11<sup>th</sup> attacks, but approves the request for both Legislative Branch and Judicial Branch security measures.

#### **IF IT QUACKS (AND FLIES) LIKE A DUCK, THEN IT'S A DUCK, OR MAYBE A DUCK MINUS A QUARTER?**

- Every now and then budgeteers are faced with the scorekeeping predicament of deciding whether government-imposed collections from the public are governmental receipts (or revenues, which are, in most cases, taxes) or offsets against the spending side of the budget (offsetting collections, or negative outlays). The House- and Senate-passed versions of the recently enacted aviation security bill are a current events case in point.
- Both bodies passed different bills to improve aviation security. Both bills significantly increased the federal government's role in aviation security. In addition, both measures contained mechanisms to recover a portion of the costs associated with providing heightened security.
- The Senate bill, S. 1447, would have required the Department of Transportation (DOT) to collect \$2.50 from **air carriers** for each passenger enplanement, and that user fee would have been implemented upon enactment of that bill. CBO considered this a new excise tax -- which in general is a fee levied on the manufacture, sale, or consumption of a commodity or privilege -- because its collection is an exercise of the sovereign power of the government, is automatic and compulsory, and is not directly linked to the federal government's cost of providing services (because the source of funding for those services is provided elsewhere). CBO estimated the tax would have raised a gross amount of about \$1.9 billion in 2003 (the first full year of collections) and \$9 billion over the 2002-

2006 period.

- In contrast, the House bill, H.R. 3150, contemplated, but did not actually impose, a DOT charge on **passengers** of up to \$2.50 per one-way trip to cover the costs of passenger screening. If collections from this fee were insufficient to cover passenger screening costs, the legislation would have allowed DOT to **charge air carriers an additional fee** to cover any shortfall. In either case, DOT would not have been able to collect the fees upon enactment of H.R. 3150. Instead, the bill suggested that the annual DOT appropriations bill provide the authority to both collect the fees and spend them for their security purposes on an annual basis.
- Even though such an annually imposed fee bears striking resemblance to the Senate's similar fee that was called an excise tax, CBO correctly took the definitional approach and classified the House fees as offsetting collections (offsets against discretionary spending), because the collection and use of the fees would be subject to approval in future appropriation acts. The fees would have raised about \$1.4 billion in 2003 (the first full year of collections) and \$7.3 billion over the 2002-2006 period.
- A scorekeeping issue that has always dogged user fees in their guise of excise taxes vs. offsetting collections is the "income tax offset", a budget estimating convention (employed by Treasury, CBO and JCT) which assumes that the policy being estimated neither increases nor decreases the level of GDP.
- Within the GDP accounts, excise taxes are a component of "indirect business tax and nontax liability." Because excise taxes reduce business income, and because total GDP is assumed to be unaffected by the legislation, a legislated increase in excise taxes has the effect of reducing the income tax base, and therefore, the amount of income tax collected.
- The decrease in income entails a loss of corporate and individual income tax and payroll tax revenue, offsetting approximately 25 percent of the gross revenue increase from the excise tax. The 25 percent figure represents the average federal tax rate on all forms of income. In contrast, even though an offsetting collection may impose the exact same kind and amount of fee as an excise tax, estimates of such fees have not been subject to an "income tax offset", simply by the nature of the type of bill (appropriations bill instead of a tax bill) in which the fee is imposed.
- CBO's cost estimate of S. 1447 discussed the income tax offset and informed the reader that individual and corporate income tax receipts in reality would fall by about 25 percent of the ticket fees collected. However, contrary to usual CBO practice (which is to show the revenue change net of the 25 percent adjustment), CBO also informed the reader that such an offset, or adjustment, to the excise tax estimate was not included in this particular cost estimate.
- The bottom line: S. 1447 was credited with 25 percent more receipts than the federal government would actually receive, on net. On the other hand, CBO estimated that the net receipt to the federal government from the fees classified as offsetting collections (which would be enacted subsequent to the enactment of H.R. 3150) would be the same as the gross amount of those fees. This is despite the fact that those fees would produce the same 25% reduction in business income taxes that an excise tax would.

- Why did CBO decide to depart from past practice, drop the scoring convention, and credit the Senate bill with gross receipts rather than net receipts? One reason is that offsetting collections (as contemplated by the House bill) are not subject to the same convention of estimating the 25 percent income tax offset, apparently because authorizing committees who decide to raise offsetting collections do not want revenue effects (and the possible jurisdictional problems) associated with their bills. In this case of these two simultaneous aviation security bills, CBO wanted to treat the House and Senate bills consistently, even though current scoring conventions would treat them inconsistently.
- The President signed the compromise airline security bill on November 19<sup>th</sup>. The final bill made the \$2.50 fee subject to approval in future appropriations, thereby assuring its classification as an offsetting collection. This skirted the scorekeeping issue for now, but one may reasonably wonder whether this is just a one-time exception or whether the application (or not) of the income tax offset to excise taxes and offsetting collections is now a debatable question. It is an issue to be discussed by budgeteers at upcoming scorekeeping meetings.