BUDGET BULLETIN

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CORRECTION TO EXPANDED HIGHWAY EDITION

The previous *Bulletin* (No. 7, October 27, 2009) dealt with efforts to increase highway spending despite insufficient highway revenues to pay for it. The *Bulletin* discussed the complexity of the program, which, it turns out, is so great that the *Bulletin* got confused about some of the effects of a recent highway expansion proposal. A correction and clarification follows.

Let's review. The table on page three of the *Bulletin* (No. 7, October 27, 2009) summarized the effects on outlays and resulting transfers from the General Fund under various scenarios of a highway authorizing bill. Line 3 illustrated the $87 billion deficit in and inevitable General Fund transfers to the Highway Trust Fund over 10 years under the CBO baseline for obligation limitations (and associated outlays), even after the $15 billion in General Fund transfers enacted over the last year (not to mention $32 billion in previous General Fund transfers; more on this later). So far, so good.

But there is a real-world implementation issue under the CBO baseline because the baseline rules CBO must follow have a disconnect because the program is upside down this year. Usually, the CBO baseline for highway contract authority exceeds the baseline level for obligation limitations over the baseline window. But the highway authorizers were successful in rescinding the $8.7 billion in contract authority as planned (since 2005) on September 30, 2009, so the CBO baseline now projects contract authority at the post-rescission 2009 level for the next 10 years, while it projects obligation limitations at a level that is higher than the contract authority level.

Ordinarily, contract authority is set at some annual level, and then obligation limitations are enacted to allow the highway program to use some or all of that contract authority. But it is impossible for obligation limitations enacted by Congress to allow more contract authority to be used than has been enacted into law. Yet the latter case is the situation reflected in the baseline. Another disconnect is that even though CBO projects insufficient revenues to the Highway Trust Fund, the baseline, by rule, still projects outlays that are $87 billion more than are possible under the current-law revenue stream. If Congress, through its budget resolution, had decided to leave contract authority at the baseline level, then an authorizing bill increasing contract authority would have had a point of order against it. If such an authorizing bill could not be enacted, then obligation limitations enacted by appropriators would not be able to exceed the available baseline amount of contract authority (as extended in a CR), and outlays might well not outstrip current-law gas taxes by so much, with somewhat less pressure for future transfers from the General Fund.

But the 2010 Budget Resolution did not adopt the CBO baseline for contract authority. Instead, it added, in effect, $137 billion in contract authority (line 5 of the table in the last *Budget Bulletin*) to the allocation for the highway authorizers above the baseline level over the next 10 years. **The Budget Resolution had no business doing this**. Its authors were surely responding to requests to provide sufficient contract authority so that the baseline levels of obligation limitations could actually be enacted. But the Budget Resolution made no effort to encourage Congressional action to increase Highway Trust Fund revenues sufficiently to afford the $87 billion in unfunded outlays in the baseline that would be enabled by handing out free contract authority.

The 2010 Budget Resolution could have and should have included a reserve fund like the one included in the 2004 Budget Resolution. When SAFETEA-LU was being dreamed up, authorizers wanted the 2004 Budget Resolution to magically assume an increase in contract authority to be allocated to them so an expensive highway bill would be free of points of order. The Budget Committee would not go along with that plan to conjure "free money" and instead included a reserve fund that permitted the Budget Committee chairman to increase the authorizers' allocation for a highway bill if their bill included provisions that would increase real receipts to the Highway Trust Fund. Natch, SAFETEA-LU did not include increases in gas taxes to pay for its increased spending, and so the reserve fund could never be used. Instead, in 2004, authorizers enacted $32 billion in transfers from General Fund to the Highway Trust Fund over 10 years.

The problem with lines 5 and 6 of the table in the last *Budget Bulletin* is – authorizing legislation that simply enacted the contract authority levels allocated by the 2010 Budget Resolution would enable Congress to enact the obligation limitations assumed in the baseline. In effect, the Budget Resolution (and legislation fulfilling it) would cause the highway program to be able to spend more than it collects, making future general fund transfers amounting to $87 billion over the next 10 years all but inevitable (on top of the $47 billion in such transfers that have been enacted since 2004). So line 5 would bring true line 3, but it would not result in a whole additional set of outlays on top of the baseline outlays as line 5 had indicated. Because the 6-month highway expansion legislation that authorizers tried to hotline through the Senate last week attempts to restore rescinded contract authority twice, it appeared as if this desired level of outlays would be on top of what has already been allocated by the Budget Resolution, but this seems not to be the case.

While line 6 of the previous Bulletin's table double counts the outlays in the baseline, the 6-month highway expansion legislation also did a double count – by restoring the rescinded contract authority twice, so lines 7 and 8 of that table still hold, with the flow-through from the corrections to lines 5-6 reflected in line 9 in the correct table below. The EPW substitute, if enacted, would result in nearly $150 billion in General Fund transfers and equivalent increases in debt over the next 10 years.

Correction: End-of-Year Balances Show Highway Account is Unsustainable Without GF Transfers If Spending Desires Are To Be Met

($ billions)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1. EOY balance **before** GF transfers [a]	2	-6	-13	-19	-31	-41	-53	-64	-74	-83	-93	-102
2. GF transfers enacted to date	8	7	0	0	0	0	0	0	0	0	0	0
3. EOY balance **after** GF transfers [a]	10	9	2	-4	-16	-26	-38	-49	-59	-68	-78	-87
7. EPW substitute (10/26) CA increase over 2010 Bud. Res. level *[non-add]* [c]			*8*	*8*	*7*	*7*	*7*	7	7	7	7	7
8. Outlays flowing from this Increase [b]			2	5	7	7	7	7	7	7	7	7
9. EOY balance under EPW substitute (10/26)			0	-12	-30	-47	-66	-84	-101	-117	-133	-149

a. Source: CBO's summer update baseline, August 2009 b. Outlays estimated using CBO spendout pattern over 7 years: 27%, 42%, 17%, 6%, 4%, 2%, 2%
c. EPW substitute hotlined on October 26, 2009, as estimated by CBO NOTE: Negative EOY balance indicates insufficient gas taxes under current law to cover spending, suggesting likely claim for transfer from General Fund.

COMPARISON OF 2008 AND 2009 RECEIPTS & OUTLAYS ($ in billions)	2008	2009	$ Change	% Change
Receipts:				
Individual income taxes	1,146	916	-230	-20%
Corporation income taxes	304	138	-166	-55%
Social insurance and retirement receipts:				
Employment and general retirement (on-budget)	198	195	-4	-2%
Employment and general retirement (off-budget)	658	654	-4	-1%
Unemployment Insurance	40	38	-2	-4%
Other retirement contributions	4	4	--	-1%
Excise taxes	67	63	-5	-7%
Estate and gift taxes	29	24	-5	-19%
Customs Duties	28	23	-5	-19%
Miscellaneous receipts	50	52	2	4%
Total Receipts (includes off-budget)	2,524	2,105	-419	-17%
Outlays by Agency				
Legislative Branch	4	5	0*	6%
The Judiciary	6.3	6.6	0*	5%
Agriculture	91	114	24	26%
Commerce	8	11	3	39%
Defense-Military	595	637	42	7%
Education	66	53	-13	-19%
Energy	21	24	2	11%
Health and Human Services	701	796	96	14%
Homeland Security	41	52	11	27%
Housing and Urban Development	49	61	12	24%
Interior	10	12	2	20%
Justice	27	28	1	4%
Labor	59	138	79	135%
State	18	21	4	22%
Transportation	65	73	8	12%
Treasury	549	703	154	28%
Veterans Affairs	85	96	11	13%
Corps of Engineers	5	7	2	35%
Other Defense Civil Programs	46	57	12	25%
Environmental Protection Agency	8	8	0*	2%
Executive Office of the President	1	1	-0*	-37%
General Services Administration	0*	0*	0	-6%
International Assistance Programs	11	15	3	30%
National Aeronautics and Space Administration	18	19	1	7%
National Science Foundation	6	6	0*	3%
Office of Personnel Management	64	72	8	12%
Small Business Administration	1	2	2	325%
Social Security Administration	658	728	70	11%
Other Independent Agencies	45	50	5	11%
Undistributed Offseting Receipts	-278	-274	4	-1%
Total Outlays (includes off-budget)	**2,978**	**3,522**	**543**	**18%**
Deficit	**-455**	**-1,417**	**962**	**212%**

Source: Monthly Treasury Statement, September 2009 *** Less than $500 million**

FY 2009 DEFICIT COMES IN AS EXPECTED AT $1.4 TRILLION

In October, the Treasury released the final Monthly Treasury Statement (MTS) for fiscal year 2009. As shown on the accompanying table, total outlays were $3.5 trillion while receipts totaled $2.1 trillion, resulting in a deficit of $1.4 trillion.

Receipts in 2009 fell by $419 billion (-17%) relative to 2008, illustrating the depth of the economic downturn. Individual income tax receipts fell $230 billion (-20%), while corporate income tax receipts declined $166 billion (-55%).

Spending increased by $543 billion (18%) over 2008 levels. Increases were significant for most federal agencies, with the largest dollar increases occurring in programs of the Departments of the Treasury, Health & Human Services, Labor, and the Social Security Administration.

The Department of the Treasury saw outlays for its programs increase by a net $154 billion or 28% over 2008. Of this amount, $154 billion represented spending under the Troubled Asset Relief Program (TARP), and $96 billion was provided in assistance to the two housing Government Sponsored Enterprises, Fannie Mae and Freddie Mac as part of the effort to stabilize the economic freefall that started right before the beginning of the fiscal year. This new spending was partially offset by a $68 billion drop (-15%) in interest on the public debt due to lower interest rates and a $10 billion (-28%) drop in outlays for the refundable portion of the Child Tax Credit linked to overall declines in employment.

Outlays from the Social Security Administration increased $70 billion (11%) over 2008, with a 5.8% cost-of-living-adjustment (COLA) paid to beneficiaries during 2009 adding to the effects of a 3% increase in the number of beneficiaries over 2008. The 2009 COLA was the highest Social Security COLA since the 1980s, reflecting a spike in oil prices that occurred between the third quarter of 2007 and the third quarter of 2008.

Countercyclical federal programs also contributed to the overall spending increase. Spending on programs within the Department of Labor increased by $79 billion (135%) almost entirely due to a $71 billion (151%) increase in outlays for unemployment insurance. Outlays at the Department of Agriculture increased by $24 billion (26%) over 2008, two-thirds of which were driven by a $16 billion (41%) increase in spending on Food Stamps.

At the Department of Health & Human Services, outlays rose $96 billion (14%) over 2008. The largest dollar increase there ($49 billion) resulted from a 25% increase in Medicaid spending. Medicaid, like Food Stamps and Unemployment Insurance, generally sees significant outlay increases as economic conditions worsen.

However, each of these countercyclical programs saw increased spending not only from higher caseloads due to economic conditions, but also from legislative expansions enacted in February in the stimulus bill. The Administration’s press release accompanying the final 2009 MTS noted that total outlays in 2009 resulting from the February stimulus bill were $113 billion. This accounted for 21% of the total increase in outlays over FY 2008.

Not all agencies experienced an increase in outlays for FY 2009, as the Department of Education posted a net decrease in outlays of $13 billion compared to 2008. The Education Department recorded a $26 billion decrease in outlays stemming from a downward re-estimate of subsidy costs that had previously been estimated and recorded for federal student loan programs (classified by Treasury as proprietary receipts and appearing as an increase in negative outlays). The large downward re-estimate, especially in the FFEL guaranteed loan program, reflects lower volume in consolidation loans and actual lower interest rates than OMB had previously estimated when loans were disbursed. This downward re-estimate more than offset other spending increases in the department, the largest of which was $12.4 billion for the State Fiscal Stabilization Fund enacted in the stimulus bill to provide funding to states for school modernization and to prevent teacher layoffs.