INFORMED BUDGETEER

HAPPY TAX DAY!

- The *Bulletin* reminds its readers that today is the last day to file your 2001 income taxes (unless you applied for an extension). The Economic Growth and Tax Relief Reconciliation Act of 2001 reduced all individual income tax rates for 2001, as well as increased the per child tax credit from $500 to $600.
- Most people received the reduction in the 15% rate to 10% in the form of an advanced refund rebate check last year. All other marginal rates were reduced by ½ percentage point. Taxpayers who did not receive a rebate last summer may be able to claim a rate reduction tax credit when they file their returns this year.

DEFENSE SPENDING IN S. CON. RES. 100

- Last week the *Bulletin* provided a "more-than-skin-deep" examination of the nondefense discretionary numbers in the budget resolution reported by the Senate Budget Committee. This week the *Bulletin* looks at the layers below the top layer of defense numbers.
- The reported resolution wants to have it both ways by including a purported "reserve fund for Defense which, if necessary, would allow for the President's entire defense budget request over the next 10 years" while simultaneously claiming to "pay down more debt than the President would" (unless the defense reserve is needed, in which case the claimed amount of additional debt reduction would not be as great). Since the totals in the resolution omit the reserve fund's defense dollars, a clear choice has been made to provide less for the national defense and more for other things deemed a higher priority.
- So how do we know how much less the resolution provides for defense? The resolution itself provides the answer. Section 213 describes the conditions for revising the levels in the budget resolution and lists for each year 2005-2012 the amount of defense increases that could occur if the reserve fund were ever used. Adding up those amounts yields a total of $245 billion in budget authority and $225 billion in outlays. So the resolution must provide exactly these amounts less than the President for national defense.
- So why did the table in last week's *Bulletin* show that over the 2003-2012 period, S. Con. Res. 100, relative to the President's budget, cuts defense by $160 billion in outlays instead of $225 billion in outlays? The table below expands the table from last week and provides the answer.

S. Con. Res. 100 Increases Taxes and Cuts Defense to Expand Domestic Spending Compared to the President's Budget[/a]
($ in Billions; outlays or revenues)

	FY 2003	FY 2003-2012
How S. Con. Res 100 gets it:		
Increases in taxes	8	553
Cuts in defense discretionary	0	-225
Increases in defense discretionary[/b]	0	65
Defense discretionary subtotal	0	-160
Decreases in interest costs	-3	-17
Amount available for spending or debt reduction	**11**	**730**
How S. Con. Res. 100 spends it:		
Increases nondefense disc. spending	10	106
Increases mandatory spending	3	309
Decrease in mandatory spending[/c]	0	-67
Mandatory subtotal	3	242
Amount spent on new or expanded domestic programs	**14**	**348**
Higher taxes and less defense exceeds increased spending yielding additional debt reduction	**-3**	**382**

Source: SBC Republican Staff
/a CBO's reestimate of the President's Budget, without Economic stimulus and accrual proposal.
/b Increase in defense spending resulting from not adopting the President's proposal for under 65 military retiree health care.
/c Decrease in mandatory spending resulting from not adopting the President's proposal for under 65 military retiree health care.

- The resolution does indeed cut the level of defense discretionary outlays by $225 billion compared to the President's budget, just as the defense reserve fund suggests. But the resolution also ignores a proposal in the President's budget that simply reallocates spending–without changing the overall level–from discretionary to mandatory. The President proposed to shift costs for health care of military retirees under 65 from the discretionary appropriations that DoD currently receives into a mandatory spending account that does not require annual appropriations (just has already been done for military retirees over 65 when Tricare for Life was enacted in 2000).
- The reported resolution instead chooses to require DoD to continue to cover those health care costs out of annual appropriations. Compared to the President's budget, this appears as an increase in defense discretionary outlays of $65 billion over 10 years, which, when combined with the $225 billion cut, yields an apparent reduction of $160 billion *in this category alone.*
- Budget wide–across both discretionary and mandatory categories–the resolution provides $225 billion less spending for our national defense than the President's budget, just as promised.

CBO ESTIMATE OF OPERATIONS IN AFGHANISTAN

- On December 21, Senator Domenici and House Budget Committee Chairman Nussle asked CBO to assess the costs of the conflict in Afghanistan. CBO's estimate, provided on April 10, is $10.2 billion for 2002, taking into account a slowing of the pace of operations and the withdrawal of some U.S. forces over the next six months.
- CBO also provides data to anticipate what operations **might** cost in 2003, depending on what level of activity pertains. If the current tempo of operations continues, the cost could be $750 million per month, or $9.0 billion for 2003; if air operations slow to a "routine" level, costs could drop to $600 million per month, or $7.2 billion for 2003. As CBO makes clear, this assessment assumes operations do not change radically and no expansion of operations occurs. A table summarizing the major components of CBO's estimate follows:

Estimated Costs of Operations in Afghanistan During FY 2002
($ in Billions)

Cost Element	October-March	April-Sept.	Total
Personnel/Personnel Support	0.6	0.5	1.1
Operations Support	4.6	3.3	7.9
Transportation	0.6	0.6	1.2
TOTAL	**5.8**	**4.4**	**10.2**

Source: CBO, April 10, 2002.

SIR, CAN I INTEREST YOU IN A CAP?

- Markup of the 2003 budget resolution in the Senate Budget Committee featured a frustrating discussion of discretionary spending limits that illustrated just how adrift the Congress might be in a year when statutory caps expire and congressional budget enforcement is uncertain. After an effort to include 5-year congressional caps failed, Senator Domenici offered an amendment for a discretionary cap for 2003 only, with a firewall between defense and nondefense.
- Chairman Conrad asked that "members resist this amendment" because he "support[s] the caps but...cannot support the firewall." In response, Sen. Domenici altered his amendment to eliminate the firewall, to which the Chairman indicated he "would support an amendment to have the caps, but not including a firewall provision."

Then the Chairman tried to quickly call for a vote several times, first by voice and then by roll call, but he was repeatedly interrupted by confusion, though he correctly tried to clarify the amendment by saying that the cap was "at the number that is included in the mark [$768 billion BA]. Obviously, if there are emergencies they can be dealt with on the floor."

- Despite that effort, the simple question arose whether the President's 2002 supplemental request would be considered an emergency (nearly all of the $27 billion request is designated as such). But then the question morphed into whether that supplemental would count against the 2003 congressional cap as written in the Domenici amendment. The majority staff answered: "there would be outlay effects in 2003. The defense piece of the supplemental could be adopted with only 50 votes, but if there is a non-defense piece...with the Domenici amendment there would be a 60-vote point of order against adding the outlays on the non-defense side to the cap in 2003."

- The response of some members suggested that this was a "big problem." Alas, it was a problem-- not for the reason they thought-- but instead because the answer was wrong. The staff answer conflated (1) the issue of whether a 60-vote point of order would exist against any nondefense emergency supplementals with (2) the issue of whether congressional caps (or any other caps for that matter) would be adjusted for emergency spending. (Since the President's supplemental request has no net increase in BA that is not designated as an emergency, the question does not arise whether nonemergency supplemental spending would count against the cap.)

- For the record, because the rules of the 2002 budget resolution are still in effect, the 60-vote point of order regarding the use of an emergency designation would still come into play with respect to a 2002 nondefense supplemental (regardless of when the outlays occur). *This has absolutely nothing whatsoever to do with the 2003 budget resolution and whether it includes a cap*. (A further note of potential confusion: the reported resolution, if adopted, would eliminate the 60-vote point of order against emergency nondefense spending, but this would only affect the 2002 supplemental if the 2003 budget resolution conference report containing this repeal were adopted before the 2002 supp is considered on the Senate floor. Such a scenario appears unlikely.)

- And for the record, any time emergency supplemental spending is enacted, statutory spending limits and congressional limits and allocations are automatically adjusted, as Sen. Domenici tried to point out during the markup (see sec. 314 of the Budget Act and sec. 251 of the Balanced Budget and Emergency Deficit Control Act). Though the staff answer indicated otherwise, there is no such thing as a point of order against adding emergency supplemental outlays to "the non-defense side [of] the cap in 2003."

- Nonetheless, because these points were never made clear, Senator Domenici, at the request of the Chairman and others, agreed to several (redundant) changes to his amendment that would guarantee that the 2003 cap would be adjusted for any effects of any supplementals enacted in 2002 and 2003, even though this is already provided in current law at least for emergencies, which was the topic of discussion. In the end, it made no difference to the Chairman who–though he had been prepared to vote for the amendment less than an hour before – said: "let me just say that I have to resist this." Despite his opposition, the amendment was approved on a 13-9 vote.

- This misplaced discussion prevented a more relevant and fundamental question, only obliquely raised, from being brought to the forefront: why is a "congressional cap" important? More specifically, why is such a cap even useful given that, by law (section 302(a)(1) of the Budget Act), the statement of managers accompanying a conference report on a budget resolution must contain a 302(a) allocation to the Committee on Appropriations?

- When caps are set in law, they bind the Senate when considering a budget resolution (section 312(b) provides a 60-vote point of order against any bill or resolution – including a budget resolution – that exceeds the section 251(c) limits) and determine the allocation to the Appropriations Committee (required by section 302(a)(3)(A) to conform with limits and categories set out in section 251(c) of the Balanced Budget and Emergency Deficit Control Act).

- But now that statutory limits have expired for 2003, a congressional cap may be the only way Congress can go on record, in a forthright manner, as to the appropriate level of discretionary spending. It is important to note that the committee allocations, while enforceable, are not contained within the legislative matter (i.e., the budget resolution) pending before the Senate – they are only in the committee report (if any; for example, last year there was no Senate report) or statement of managers. Thus they never explicitly come up for a vote. So the real issue of caps is one of *transparency*.

- Without a cap, there is no restriction on the level of resources a budget resolution (and subsequent allocation) can provide to the Appropriations Committee. Floor amendments incrementally increasing functional levels in the name of discretionary programs can augment the ultimate 302(a) allocation when the resolution is finally passed by the Senate. Moreover, no one can determine the level of discretionary spending from the face of the resolution, especially since the functional levels in the resolution make no distinction between discretionary and mandatory. Congressional caps are the best way to make completely transparent the level of discretionary spending envisioned by the budget resolution.

BUDGET QUIZ

<u>Question:</u> On March 27, the Federal Communications Commission (FCC) announced it would refund 85 percent ($2.8 billion) of the downpayments made by bidders in January 2001 for spectrum auction #35, which was a reauction of licenses the FCC had reclaimed from bankrupt bidders (primarily NextWave) in previous auctions. What is the budgetary impact of providing these refunds?

<u>Answer:</u> Contrary to what you might expect, the refunds, which are likely to be paid near the end of April, **will not affect federal outlays or the deficit for 2002**. Normally when the FCC conducts an auction, it holds the downpayments (which are made at the time of the bid) in escrow until it finally awards the licenses (this could take several months to a year). Only when it awards the licenses does the FCC deposit the downpayments in the Treasury, along with the rest of the bid, which the bidder is obligated to pay at that time. At that time, the total bid is recorded as a receipt. For Auction 35, bidders made downpayments of $3.3 billion, but none of this has ever been recorded as an actual receipt because the licenses have never been awarded. (Recall from the *Bulletin's* coverage of the NextWave saga, the DC circuit appeals court decided last summer that the licenses still belonged to NextWave and were not the FCC's to auction.) In keeping with normal practice, the Monthly Treasury Statement for January 2001

did not show receipt of those bid downpayments. Since the Treasury did not record the downpayments as receipts (or negative outlays) when the FCC received them, then it would not record a refund as positive outlays.

Still, the money for the refunds must come from somewhere and be accounted for someplace, no? Treasury's escrow account for the downpayments means they were collected as cash (and subsequently used) under "means of financing." The refund means the Treasury **will have to borrow $2.8 billion more** (compared to if the FCC were not going to refund the money), and will subsequently **hit the debt limit that much ($2.8 billion) faster** than if the refunds didn't occur.