

INFORMED BUDGETEER: FY2001 Outlook Welcome Back - - 106th Congress: Second Session

WHAT'S THE SURPLUS? DEPENDS ON HOW YOU ASK THE QUESTION

- When the *Bulletin* last left off, the appropriations for 2000 had been concluded, with the Republicans predicting that not one penny of the Social Security surplus will be touched in 2000, while the Democrats argued that the action will consume \$17 billion of the Social Security surplus. The White House has remained silent (indeed, the end-of-session final sequestration report has not yet been released).
- Of course we won't know until the end of October (a few weeks after the end of the fiscal year) the actual on-budget surplus figure for 2000, and there remains plenty of time in the rest of this year to enact other legislation (supplementals?) that could further affect that final figure.
- But now--two months after the appropriations were completed and 3½ months into the fiscal year--the new baselines from both CBO and OMB are rumored to estimate an on-budget surplus for 2000.
- The *Bulletin* estimates that, given congressional action to date, the on-budget surplus for 2000 will be in the neighborhood of \$10 billion to \$20 billion, better than the zero guaranteed by Republicans and even more improved from the sky-is-falling figure of a \$17 billion on-budget deficit fretted over by the Democrats. For 2001, an even larger surplus projection is likely, but how much larger depends on how exactly one constructs a baseline.
- The start of a new millennium is a good time to review: what is a baseline anyway? It is a tool for projecting how it would look in future years to continue some notion of current activity, and then be able to measure the effect of legislated changes against it. For the entire revenue side of the federal budget, and for the two-thirds of the spending side of the budget consumed by mandatory spending, the baseline is relatively straightforward: budgeteers project the levels that will occur if current law is allowed to continue.
- For the remaining one-third of the spending side of the budget that consists of discretionary spending, the baseline is less obvious because there is no **one** notion of current law for future years since discretionary spending decisions are made one year at a time.
- With the advent of the BEA discretionary caps for the decade of the 1990s, one discretionary baseline was typically used – that is, a baseline that assumed that appropriations each year would remain within the statutory caps. But given the broad use of the emergency designation to increase the caps in 1999 and 2000 (by more than \$20 billion each year), and the fact that the caps are essentially flat from 2000 to 2001 and then go down in 2002, it would be fair to question whether appropriations enacted for the next two years are likely to remain within the current statutory levels.
- The table shows hypothetical discretionary baseline scenarios and their stylized impact on potential surpluses. A “**capped**” baseline, assuming adherence to the caps in 2001 and 2002 (with inflation thereafter), would increase the surplus from 2000 to 2001, but seems iffy given the historical experience in 1999 and 2000.
- So what to do instead? One common alternative is to illustrate the same nominal level of appropriations in 2001 as in 2000 – a **freeze** (or, in CBO parlance, WODI—without discretionary inflation) – which would still leave a 2001 surplus similar in size to that for 2000. Another familiar baseline concept is to project the same level of real resources (i.e., **adjusting for inflation**) in future years as provided in 2000, which would further reduce the on-budget surplus (relative to the ‘capped’ baseline), but still leave it greater than zero.
- At this time, it is unknown which baselines and surplus estimates

both CBO and OMB will emphasize in their upcoming publications. The ultimate decision lies with the Congress as they prepare their 2001 Budget Resolution.

Hypothetical Discretionary Baseline Scenarios and Hypothetical Resulting Surpluses					
(\$ in Billions)					
Baseline	On-budget surplus in 2001 would be:	If Discretionary BA looked like this:			
		2000	2001	2002	2003
Capped ^A	60	570	542	550	565
Freeze	20	570	585 ^B	585	585
w/Inflation	10	570	600	620	640

NOTE: ^AThe Baseline assumes the statutory cap for 2001 and 2002 and inflated after ^BA freeze baseline would increase from \$570 billion in 2000 to \$585 billion in 2001 because baselines are done, not in the aggregate, but account by account, and certain actions in 2000 that lower the net BA for that year (such as rescissions and one-time mandatory offsets credited against discretionary spending) are not projected forward to 2001.

THE BIG WINNERS IN 2000

- Ever since Congress adjourned last November, a steady flow of rhetoric streaming from various sources has claimed that one or another discretionary program or programs were the biggest winners in the 2000 appropriation process. Increases in education funding have perhaps gotten the most attention, with members of Congress from both sides of the aisle taking credit for the increase.
- With all of the rhetoric out there, it can sometimes be hard even for an informed budgeteer to separate fact from fiction. Therefore, the *Budget Bulletin* has compiled two lists. One list presents the top ten increases in BA in 2000 when compared with 1999 enacted levels, while the second list shows the top ten increases in BA in 2000 when compared with the President's Request.
- Program increases in the Department of Defense, made DoD the definitive winner in the 2000 appropriation process. Both the number one (defense procurement) and the number three (military personnel) slots were increases in DoD programs. Other big winners in 2000 compared to 1999 included the Decennial Census, the National Institutes of Health (NIH), Veterans medical care, and the foreign military financing program (which received over 75 percent of the money appropriated for the Wye River accord).

2000 Appropriations Compared to 1999 Enacted		
(\$ in Billions)		
	BA	% Increase
Defense Procurement	4.5	8.3
Periodic Censuses and Programs	3.4	73.2
Military Personnel	2.8	3.8
National Institutes of Health	2.3	12.6
Veterans Medical Care	1.8	8.9
Foreign Military Financing Program (Wye)	1.4	29.5
FEMA, Disaster Relief	0.7	23.9
Health Resources and Services	0.5	10.4
Ed. Reform-21st Century Learning Centers	0.5	25.7
Trust Fund Share of FAA Operations.	0.3	5.6

- Compared to the President's Budget, the Department of Defense was also the big winner in 2000. Three of the top five slots, including number one (defense R&D), number two (military construction), and number five (defense procurement), were increases in DoD programs. Other big winners in 2000 compared to the President's Budget included NIH and Veterans medical care.
- In addition, several programs (including state and local law enforcement assistance, state and tribal assistance grants, and

sustainable development assistance programs) had cuts recommended in the President's budget that were not made by Congress. The Decennial Census and the foreign military financing program did not increase relative to the President's budget because the President assumed an increase in funding for these programs.

2000 Appropriations Compared to President's Budget Request (\$ in Billions)		
	BA	% Increase
Defense R&D	3.0	8.0
Military Construction	2.9	35.7
National Institutes of Health	2.0	11.1
Veterans Medical Care	1.7	8.7
Defense Procurement	1.4	2.6
State & Local Law Enforcement Assistance	1.3	44.2
State and Tribal Assistance Grants	0.6	18.1
Sustainable Development Assistance Program	0.5	37.4
Health Resources and Services	0.4	9.7
Public Housing and Capital Fund	0.3	11.9

- So why are education programs conspicuously missing from the top of these lists? There are two reasons, both of which relate to use of advance appropriations. The first reason is that the education for the disadvantaged program only appears to have a large increase in funding between 1999 and 2000. That apparent increase occurs because the program began advancing nearly \$5 billion in funding for 2000 in the 1999 appropriation bill that had previously been forward funded (for the differences between forward funding and advance appropriations, see the September 13, 1999 *Bulletin*).
- The second reason is that the increase in spending for education programs only materializes if the funding advanced into 2001 in the 2000 appropriation bill is included in the totals. When the advance appropriations are included, programs elementary and secondary education increase by almost \$2 billion compared with 1999 and by almost \$1 billion compared with the President's budget.

**NOW THAT THE PARTY'S OVER
HOW MUCH DID Y2K COST?**

Agency Year 2000 Cost Summary (\$ in Millions)						
	1996	1997	1998	1999	2000	Total
Agriculture	2.5	15.1	63.6	92.7	9.8	183.7
Commerce	2.6	12.4	35.6	67.5	6.6	124.7
Defense	23.0	388.0	1199.4	1903.2	82.8	3596.4
Education	0.1	1.4	19.6	18.6	4.3	44.0
Energy	1.0	19.9	83.9	111.0	19.9	235.7
HHS	7.2	32.2	190.9	371.8	204.4	806.5
HUD	0.7	6.9	20.8	28.7	20.9	78.0
Interior	0.2	2.8	10.6	28.7	5.8	154.5
Justice	1.6	7.5	33.6	135.1	2.0	168.4
Labor	1.7	4.9	13.2	30.3	10.3	60.4
State	0.5	49.3	63.1	86.7	6.8	206.4
Transportation	0.4	11.2	121.9	220.5	20.7	374.7
Treasury	8.4	200.2	592.7	651.3	292.9	1745.5
VA	3.3	22.0	63.7	108.4	34.0	231.4
AID	1.1	3.0	21.8	20.0	3.2	49.1
EPA	0.8	5.3	11.5	22.3	1.0	40.9
FEMA	3.8	4.4	3.0	13.1	3.0	27.3
GAS	0.2	0.8	8.7	81.2	14.7	105.6
NASA	0.1	6.2	33.8	23.9	3.5	67.5
NRC	0.0	2.4	4.0	1.9	0.1	8.4

NSF	0.0	0.1	0.6	0.4	0.0	1.1
OPM	1.7	2.1	9.2	3.6	0.3	16.9
SBA	1.7	3.3	2.7	6.8	0.5	15.0
SSA	2.2	13.3	13.9	7.1	3.0	39.5
Total	64.8	814.7	2621.8	4129.8	750.5	8381.6

"Progress on Year 2000 Conversion" U.S. Office of Management and Budget
7th Quarterly Report Issued December 8, 1999

- According to the latest OMB quarterly report on Y2K Conversion, it is estimated the federal government will have spent almost \$8.5 billion fighting the Y2K bug between 1996 and 2000. The Departments of Defense and Treasury will account for \$5.3 billion or 63% of the total amount of money spent for Y2K. The federal government will spend a quarter of billion dollars on Y2K this year alone.
- It is important to note that the federal share of costs for State information system that support federal programs is not included in these calculations. Also, budgeteers should recall that there have been several estimates on the cost of Y2K Conversion. Since February 1997 OMB estimates have increased over 200%. A Y2K-cost analysis will be released by the General Accounting Office in the coming months.

Senate Budget Committee 2000 Hearing Schedule

All hearings will be held in Dirksen 608 at 10:00 am unless otherwise noted. Additional hearings and witnesses may be scheduled.

January 25: Evolving Fiscal Challenges; Witness: Federal Reserve Chairman, Alan Greenspan.

January 26: CBO Annual economic and Budget Outlook; Witness: CBO Director, Dr. Dan. Crippen.

February 1: Federal Spending Priorities: Exercising Oversight; Witness: GAO Comptroller General, David Walker.

February 2: Federalism in the Information Age; Internet Tax Issues. Witnesses: Virginia Governor James Gilmore; Michigan Governor John Engler; and Charles E. McLure, Jr. Senior Fellow, Hoover Institution, Stanford University.

February 3: Joint hearing with Senate Transportation Appropriations Sub-committee: Modernizing the Federal Aviation Administration: Challenges and Solutions; Witnesses: FAA Administrator, Jane Garvey ; Assistant Secretary for Budget and Programs, Office of the Secretary of Transportation, Jack Basso; Inspector General, Department of Transportation, Ken Mead; and Chief Financial Officer, NAV Canada, John Crichton.

February 4: Expanding Foreign Markets for US Agricultural Products: Opportunities and Impacts on Agriculture Policy; Witnesses: Secretary of Agriculture, Dan Glickman, and Secretary of Commerce, William Daley. 10:30am

February 8: President's FY 2001 Budget; Witnesses : Secretary of Treasury, Larry Summers and OMB Deputy Director Sylvia Mathews.

February 9: President's FY2001 Budget; Witness: OMB Director, Jack Lew.

February 10: Budget Spectrum Issues; Witness: TBD

February 11: President's FY2001 Budget; Witness: Secretary of State, Madeline Albright.