

## INFORMED BUDGETEER

Federal Budget Outlook – FY 2002 (\$ in Billions)	
2002	
<b>Surplus – CBO Baseline (March 2002)</b>	<b>5</b>
<b>Minus</b>	
<b>Changes enacted to date</b>	
Job Creation and Worker Assistance Act of 2002 <sup>a</sup>	51
Farm Security and Rural Investment Act of 2002 <sup>b</sup>	2
Interest on legislative changes	1
Subtotal, changes enacted to date	53
<b>Other likely changes</b>	
FY 2002 Supplemental <sup>c</sup>	10
Revenue shortfall	78
Interest on other changes	1
Subtotal, other likely changes	89
<b>Total Changes</b>	<b>142</b>
<b>Latest Deficit Estimate<sup>d</sup></b>	<b>-137</b>

Source: Senate Budget Committee Republican Staff      Totals may not add due to rounding

<sup>a</sup> CBO cost estimate for the Job Creation and Worker Assistance Act of 2002 (P.L. 107-147). The estimate includes both a reduction in taxes and an increase in outlays.

<sup>b</sup> CBO cost estimate for the Farm Security and Rural Investment Act (P.L. 107-171). The estimate is scored relative to the CBO March 2002 baseline.

<sup>c</sup> Estimate assumes discretionary outlays from the Senate reported supplemental request, as estimated by CBO, including \$1.1 billion in mandatory outlays for veterans benefits as requested by the President on May 21, 2002.

<sup>d</sup> The Railroad Retirement and Survivors' Improvement Act of 2000 (P.L. 107-90) directed the OMB to treat the purchase of \$15.3 billion in non-Federal assets pursuant to the legislation as a means of financing. If that legislation had not sidestepped conventional budget practice, the FY 2002 unified deficit would be \$152 billion.

- The *Bulletin* begins its watch on the FY 2002 budget outlook with this edition. We will update periodically as legislation is enacted during the remainder of the 107<sup>th</sup> Congress, which by our count has only 12 weeks to go.
- The *Bulletin* believes the \$5 billion surplus CBO projected in March has now turned into a deficit of at least \$137 billion. Excluding the budget gimmick Congress imposed on budgeteers with the adoption of a Railroad Retirement bill last fall, the real deficit would be closer to \$152 billion.
- Enacted legislation from the “mini” stimulus bill to the farm bill have reduced taxes or increased spending nearly \$53 billion since CBO’s March outlook. Enactment of an FY 2002 supplemental bill expected shortly after this recess is expected to increase deficit spending at least \$10 billion this year. All told then, legislated spending increases or tax cuts, along with interest costs, since March have turned a slight surplus into a deficit of at least \$58 billion this year.
- But swamping these legislative changes is another round of dour revenue re-estimates. The March surplus estimate assumed revenues for this year would reach almost \$2 trillion. Based on actual revenue reports to the Treasury through the end of April (\$1.116 trillion) and conservative estimates for the 5 months remaining this year, the *Bulletin* expects revenues to fall short of the March estimate by nearly \$78 billion.
- The result: a budget outlook that has gone from \$5 billion in surplus in March to a deficit of at least \$137 billion here at the end of May.

## SENATE EXPANDS SUPP

- A \$32.1 billion emergency supplemental appropriations bill heads to the Senate floor following Memorial Day recess week. The bill includes \$31 billion in discretionary spending and \$1.1 billion in mandatory spending for veterans’ compensation and pension benefit payments that the President requested only the day before committee approval on May 22. According to CBO, discretionary BA in the Senate bill is \$2.6 billion above the President’s request, and \$1.6 billion above the House-reported bill.

President’s Request Compared to Senate Reported FY 2002 Supplemental Appropriations (BA, \$ in Millions)			
	Pres.	Senate	Difference
<b>Defense Emergencies</b>	<b>14,022</b>	<b>14,022</b>	<b>0</b>
<b>International Emergencies</b>	<b>1,609</b>	<b>1,802</b>	<b>193</b>
State Department	519	462	-57
International Assistance	1,083	1,333	250
Broadcasting Board of Governors	7	7	0
<b>Homeland Security Emergencies</b>	<b>5,294</b>	<b>8,383</b>	<b>3,089</b>
Department of Transportation	4,678	5,606	929
FEMA - Grants to First Responders	327	745	418
U.S. Postal Service	87	87	0
Securities and Exchange Commission	0	9	9
GSA	54	54	0
Justice	51	471	421
Energy	26	330	304
NSF - Cybercorps/Scholarships	19	19	0
Commerce	13	132	119
EPA	13	113	100
Legislative	8	11	4
Executive Office of the President	5	5	0
Agriculture	0	191	191
Health and Human Services	0	388	388
Judiciary	14	20	6
Army Corps of Engineers	0	0	0
Interior	0	55	55
Smithsonian Institution	0	2	2
Treasury	0	76	76
District of Columbia	0	68	68
<b>Assistance to New York Emergencies</b>	<b>5,467</b>	<b>5,467</b>	<b>0</b>
FEMA - disaster relief	2,750	2,660	-90
HHS - Public Health & Social Services	0	90	90
Transportation	1,967	1,967	0
HUD - CDBG for Lower Manhattan	750	750	0
<b>Economic Recovery Emergencies</b>	<b>750</b>	<b>400</b>	<b>-350</b>
<b>Disaster Assistance for Unmet Needs</b>	<b>0</b>	<b>80</b>	<b>80</b>
<b>Pell Grants<sup>a</sup></b>	<b>1,276</b>	<b>1,000</b>	<b>-276</b>
<b>Nonemergencies and offsets</b>	<b>-14</b>	<b>-153</b>	<b>-139</b>
<i>Nonemergencies</i>	240	1,290	1,050
Veterans Affairs - medical care	142	417	275
Army Corps of Engineers - O&M	0	10	10
Agriculture	75	198	123
SEC - Division of Enforcement	20	20	0
Migration and Refugee Assistance	0	50	50
Child Survival and Health programs	0	100	100
District of Columbia	0	45	45
Election Administration Reform	0	450	450
Other	3	0	-3
<i>Offsets</i>	-254	-1,443	-1,189
Transportation	0	-593	-593
Airline Loan Program Limitation	0	-393	-393
Highway Trust Fund	0	-200	-200
International Assistance Programs	-157	-159	-2
Export Import Bank	0	-50	-50
Economic Support Fund	0	-25	-25
HHS	-50	-30	20
HUD	-20	-350	-330
Agriculture	-9	-33	-24
Energy	0	-27	-27
Justice	0	-16	-16
District of Columbia	0	-45	-45
Departmental Management	0	-45	-45
Other	-18	-70	-121
<b>TOTAL</b>	<b>28,405</b>	<b>31,001</b>	<b>2,596</b>

Source: Senate Budget Committee Republican Staff

Note: The Senate reported bill includes \$1.1 billion in mandatory spending for veterans benefits as requested by the President on May 21, 2002.

<sup>a</sup> The President requested a Pell Grant supplemental as a regular appropriation, but did not submit a rescission request to offset the spending. The Senate-reported bill designates \$1 billion for Pell Grants as a contingent emergency.

- The Senate Appropriations committee approves the President’s requested amount of \$14 billion for the Department of Defense and the war on terrorism.

- Following the House lead, the Senate adds funding to international affairs programs for Israel (\$200 million), Palestine (\$50 million), and the Global AIDS Fund (\$100 million in lieu of the House's \$200 million), none of which were requested by the President. The Senate also adds \$50 million for migration and refugee assistance to help repatriate Afghani and other refugees.
- The Senate bill provides \$8.4 billion for non-defense homeland security purposes, which is \$3.1 billion above the President's request, and \$2.8 billion above the House bill.
- Major increases above the President's request go to the Transportation Security Administration (+\$929 million), to the Coast Guard for port security (+411 million); to the Department of Justice (+\$421 million); and to the Department of Energy (+\$304 million).
- The Senate adds funding not requested by the President for bioterrorism, security, and, in some cases, to accelerate projects requested in the President's FY 2003 budget for the Departments of Agriculture (nearly \$175 million); Health and Human Services (\$357 million); the Department of Interior (\$50 million); and the District of Columbia (\$68 million).
- The bill also contains its own "all or nothing" provision. Any amount in the bill designated as emergency spending for purposes of the Congressional Budget Act shall not be available for obligation unless all such amounts are also declared an emergency by the President. In other words, the President cannot spend the emergency money he requests and the Congress approves unless he also concurs with and declares that any additional emergency funding added by Congress is also emergency spending. The House had its own "all or nothing" provision for defense spending only, but that language was deleted during the full House Appropriations Committee mark-up.
- Language is included in the Senate bill to require the obligation and disbursement of \$34 million previously approved for the U.N. Population Fund, reopening for conference the debate that had been snuffed out in the House Committee.
- To top off the homeland security provisions, the bill would make the Director of the Office of Homeland Security a position requiring Senate confirmation effective 30 days after the enactment of this bill, presumably paving the way for Congress to insist on future testimony by Governor Ridge to the Congress.
- Physician groups have argued that they cannot sustain these cuts to their reimbursements, and that reductions in payments will threaten Medicare beneficiaries' access to physician services. Consequently, concerned lawmakers introduced legislation last year (H.R. 3351/S. 1707) to soften the adjustment from a 5.4 percent reduction to a 0.9 percent reduction. But any legislative attempt to adjust the payment rate update would require Congress to find additional funds to avoid a budget act point of order. CBO estimated the cost of these bills at \$1.1 billion in 2002.
- Absent enactment of such legislation, many on Capitol Hill have called for CMS to administratively adjust its formula calculations to produce a smaller payment reduction. An administrative fix would not require Congress to find offsetting funds or to waive the Budget Act. Such a change would not "score," and the costs would be incorporated into CBO's next updated baseline. But CMS has repeatedly stated that the formula for calculating the fee update is specified in law, and the agency therefore has limited ability to make changes.
- Last week, however, the American Medical Association and other medical groups issued a memo offering the opinion that CMS does have some discretion to change the way it made corrections to prior year payment updates and that at least some part of the cut in payments to physicians could be restored through administrative action. Some members of the House seized on this notion and sought to include language in an unrelated bill (the bioterrorism conference report) stating that CMS was not precluded from making changes that would mitigate some of the payment cut. The idea was that this language would provide for a "free" fix to the physician payment problem, since it would be handled administratively rather than through legislation.
- But, as good budgeteers know, there is no such thing as a free lunch. CBO rightly concluded that any language passed by Congress encouraging the Administration to change the physician payment rate should be scored, in this case at \$1.2 billion in 2003 and \$43 billion over 10 years. CBO's rationale was that the Administration's current position on the physician payment adjustment is a reasonable and consistent interpretation of the formula in the law, and any language Congress might pass to prompt a change in that interpretation should result in the legislation being charged with spending the additional funds.

#### EDITOR'S NOTE

#### CBO DIAGNOSES REAL COST OF PHYSICIAN PAYMENT?

- The reduction in Medicare payments for physician services that went into effect in January 2002 has been the focus of much legislative attention. So what's the story?
- The amount that Medicare pays for each physician service in 2002 will be on average 5.4 percent less than in 2001. The reduction results from a formula - the sustainable growth rate (SGR) - that was instituted in the Balanced Budget Act of 1997 to control Medicare's total expenditures on physician services. While physicians have received payment increases for the last several years under this formula, the sharp decline in payments this year comes as a result of the slowing economy (GDP is a factor in the SGR formula) and corrections to prior year payment adjustments made by the Center for Medicare and Medicaid Services (CMS). CMS made some miscalculations in recent years, resulting in overpayments to physicians that were corrected for in this year's payment adjustment.

The *Bulletin* reports one departure from and one arrival to the Senate Budget Committee Republican Staff. After two and a half years of service, Walter Hearne has left the committee for the House Appropriations Committee. He will be working with the Subcommittee on Treasury, Postal Service and General Government. While we will miss him, the *Bulletin* wishes Walter all the best in his new endeavors.

Coming on board to pick up Walter's education budget responsibilities is David Pappone. David currently is a budget analyst with the Department of Education, Office of Federal Student Aid, CFO. Welcome to the Hill, David.