

INFORMED BUDGETEER: DROUGHT OF REVENUE AND RAIN

POSSIBLE BUDGET OUTLOOK – FY 2002 and FY 2003 (\$ in billions)		
	FY 2002	FY 2003
Total Surplus (CBO March 2002)	5.2	6.3
Changes Enacted to Date		
Job Creation and Worker Assistance Act of 2002 ^a	50.8	42.9
Other Revenue Changes ^b	0.4	0.7
FY 2002 Supplemental ^c	5.9	22.6
Farm Security and Rural Investment Act of 2002 ^d	1.6	8.4
Trade Act ^e	0.0	0.3
Spectrum Auctions ^f	0.0	2.6
Interest on Legislative Changes	0.2	2.8
Subtotal, Changes to date	58.9	80.3
Economic and Technical Changes		
Revenue Shortfall (interest included)	103.2	83.5
Economic and Technical outlays (interest incl.)	-0.1	-12.4
Subtotal, other changes	103.1	71.1
Total Changes	162.1	151.4
Total Surplus/Deficit(-) (CBO August 2002)	-156.9	-145.1
Appropriations for FY 2003		
FY 2003 Appropriations ^g	0.0	24.7
Interest 2003 Appropriations	0.0	0.4
Subtotal, FY03 Appropriations	0.0	25.2
Revised Total Surplus/Deficit(-)	-156.9	-170.3
Memo: On-Budget Surplus/Deficit(-)	-313.9	-340.2

Source SBC Republican Staff, August 2002. Totals may not add due to rounding.
^a 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.
^b Other revenue changes include revenue provisions in the Clergy Housing Clarification Act of 2002 (P.L. 107-181), the Emergency Supplemental Appropriations and Recissions of 2002 (P.L. 107-206), and the Trade Act of 2002 (P.L. 107-210).
^c Estimate assumes outlays from the \$24.2 billion in 2002 budget authority in P.L. 107-206 (the Emergency Supplemental Appropriations and Recissions of 2002), as estimated by CBO. The estimate also assumes \$13.5 billion in new outlays in FY 2003 from inflating into 2003 the FY 2002 discretionary budget authority from the supplemental.
^d CBO cost estimate for the Farm Security and Rural Investment Act of 2002 (P.L. 107-171). The estimate is scored relative to the CBO March 2002 baseline.
^e CBO cost estimate for the Trade Act of 2002 (P.L. 107-210).
^f CBO cost estimate for the Auction Reform Act of 2002 (P.L. 107-195).
^g Estimate assumes appropriations from the President's FY 2003 Budget, as estimated by CBO. The President's budget provides \$759.1 billion in budget authority and \$784.2 billion in outlays in 2003.

- Last week, CBO released its August update of its *Budget and Economic Outlook*. As anticipated by the *Bulletin's* estimates earlier this summer and mirrored by OMB's Midsession review in July, CBO's March estimate of a slight 2002 surplus has turned into a likely 2002 deficit of \$157 billion.
- By the end of the summer, with additional months of data in hand, it appears the economic slowdown has resulted in a revenue falloff of more than \$100 billion in 2002. Combining this with the \$50 billion effect of economic stimulus legislation enacted in March to address the slowdown (along with the \$6 billion effect of the recent 2002 supplemental) explains nearly all of the change in CBO's 2002 budget outlook.
- To arrive at its 2003 baseline deficit of \$145 billion, CBO is expecting the revenue drought to persist (compared to its previous estimates), driving an overall reversal in the budget outlook of almost exactly the same size as in 2002. Remember that this latest deficit figure also reflects only CBO's baseline estimate of discretionary spending—representing, as required by law, a projection of 2003 discretionary spending based on adjusting 2002 appropriations only for inflation. It is not a prediction of what the 2003 enacted appropriations will eventually be.
- To provide a slightly more realistic picture of what a 2003 deficit could look like (bringing it to \$170 billion), the table above adds the \$25 billion increase in outlays (compared to the CBO baseline) that

would result from the President's budget request of \$759 billion for discretionary BA in 2003.

- In addition, because the resulting deficit picture would expand if 2003 appropriations increase beyond the President's request, the table has not altered the baseline assumption that the level of discretionary appropriations in the recently enacted \$24 billion supplemental will continue in some way in 2003 (adjusted for inflation). This allows for nearly \$13.5 billion in additional outlays that might occur in the form of additional appropriations in the regular 2003 bills this fall or a 2003 supplemental appropriation next spring to respond to emergencies and disasters such as fires or farm drought assistance (see articles below) or in the event of expanded military activities (not to mention enacting any new mandatory spending).
- As the Congress returns to work for the fall could make a difference in whether the CBO projections for a return to balance and surpluses in 2006 and beyond are realized or made more difficult. Congress must be careful and ever vigilant to avoid a return to permanent deficit spending once economic recovery has been assured and the war on terrorism has been won.

SUPPRESSION IN FIRE FUNDING

- Due to severe drought conditions and a build up of overly dense vegetation in our national forests, this year's fire season looks like it will be the worst in recent history. More than 61,000 fires have burned over 6.3 million acres in 2002, which is almost twice as much as the 10-year average, and the fire season is not yet over. Together, the Forest Service and BLM have already obligated \$1.1 billion for fire suppression activities. By the end of this fire season, these agencies expect that they will have spent nearly \$1.7 billion on fire suppression activities, and this is a low estimate.
- Curiously, these agencies received a total of only \$492 million for fire suppression activities for FY 2002 (\$382 million in regular appropriations, \$100 million in emergency funding and \$9 million in carryover from FY2001). This means that the agencies may end up spending at least \$1.2 billion more than they originally received in FY 2002 (see table below). You might wonder how the agencies can do this?

FIRE SUPPRESSION FUNDING AND COSTS IN FY 2002 (\$ in millions)			
	2002 Interior Appropriations	Cost Est.	Est. Unfunded Need ^c
Forest Service			
Fire Suppression	255		
Fire Suppression Emergency ^a	66		
Subtotal	321	1,250	929
Bureau of Land Management			
Fire Suppression ^b	136		
Fire Suppression Emergency	34		
Subtotal	170	445	275
Total	492	1,695	1,203

Source: SBC Republican Staff, based on Forest Service and BLM information.

Totals may not add due to rounding.

^a The full amount appropriated was \$266 million, but \$200 million was used to repay accounts borrowed from FY 2001.

^b Includes \$9 million in carry-over funds.

^c On August 30, the President requested \$825 million, with the Forest Service receiving \$636 million and the BLM receiving \$189 million.

- Both the Forest Service and BLM have the authority to transfer funds from virtually all accounts within the agency to pay for emergency wildland fire suppression. In the past, the Forest Service has borrowed from its timber sale trust funds, and the BLM from other Interior Department bureaus, with little disruption to ongoing activities. Recently, however, the Forest Service trust funds no

longer have sufficient funds (because of declining timber sales) to cover firefighting costs that have escalated because of the increasing severity of recent fire seasons.

- Now, the Forest Service must borrow from its other programs. The Forest Service has signaled it will borrow from the working capital fund, the K-V restoration fund, the land acquisition and construction accounts, the unobligated funds in the National Forest System, and as a last resort, from the fire preparedness and hazardous fuels reduction accounts. To ensure that there is adequate funding for fire suppression, the Forest Service has suspended all non-emergency activities through the rest of the fire season.
- The BLM must operate similarly by borrowing from their own land acquisition and construction accounts as well as those of the Bureau of Indian Affairs, National Park Service, and the Fish and Wildlife Service. It seems that the complexity and inefficiency of all this borrowing, program suspension, and eventual repayment could be avoided by simply providing additional funds to fight fires.
- On August 30, the President submitted an emergency supplemental request for \$825 million that would partially cover the \$1.2 billion shortfall in fire suppression funding, with the Forest Service receiving \$636 million and the BLM receiving \$189 million.
- An earlier effort to provide the additional 2002 firefighting funds (as part of the emergency supplemental appropriations bill enacted last month) was unsuccessful, in part to limit the bill to the President's target for the overall spending level for the supplemental. So all the funds eventually will have to be added to a different bill -- perhaps with the President's supplemental request increased and added as an amendment to the 2003 Interior Appropriations bill, which is scheduled to come to the Senate floor this week. This means that the overall spending level for FY 2003 is likely to increase by at least \$1.2 billion, ringing true the old adage—"Pay now, or pay later".

ALREADY READY FOR A NOT-SO-RAINY DAY

- The weather plays a dominant role in the outcome of crops and livestock around the country, as evidenced by the seemingly annual agriculture "disaster" legislation enacted in recent years. This summer, different weather conditions have been a challenge for both farmers and ranchers. In the West and the Southeast, prolonged hot and dry conditions have stressed agriculture, while in the Midwest, conditions were first too wet before turning hot and dry. But the growing season is not over, and it is too early to determine the final impact the weather will have on the crops.
- To the extent that there are eventually losses to yields and income, USDA's crop insurance program provides a first line of defense that has expanded significantly in recent years. Under crop insurance, both farmers and the federal government share the cost of premiums that purchase insurance coverage, which can guarantee between 50% and 85% of expected crop revenue.
- Because of reforms enacted in 1999 and 2000 that increased the levels of coverage available and increased the federal government's share (or subsidy) of the total premium costs, participation in the program has increased. Such reforms were attempts "to end the need for costly and unanticipated legislation to assist agricultural producers through weather and related disasters" (H. Rpt. 106-300).

- In fact, the acreage enrolled in coverage beyond the basic catastrophic plan has increased by 18% between 1999 and 2002. USDA estimates that over 80% of eligible acres are enrolled in crop insurance this year. Assuming eventual losses this year are in line with losses in recent years, USDA would expect to pay out about \$3 billion in insurance to make up for farmers' lost income. To the extent that the weather ends up resulting in higher losses than have been experienced lately, payments would be even higher.
- For ranchers, who typically do not have insurance to cover livestock losses, the Secretary of Agriculture announced in July that they may conduct emergency grazing on land in 18 states that was supposed to be set aside under contracts in the Conservation Reserve Program (CRP) in exchange for federal payments. Even though that land may now be used, ranchers will be able to retain 75% of the payments they had received for promising to idle it. Since CRP payments in those states amounted to \$1.7 billion in 2002, this emergency policy extends about a \$1.3 billion benefit to ranchers affected by the drought.
- Other, smaller programs also exist under current law that fill niches of need for emergency situations (see table below). Today, about \$5 billion in federal assistance to farmers and ranchers is available to offset their income losses from this summer's drought.

DISASTER RELATED AGRICULTURE SPENDING (\$ in billions)		
Program	Objective	FY 2002 (est.)
Crop Insurance	Protects crop producers from unavoidable risks (weather, weather-related diseases, and insects).	3.0
Conservation Reserve Program and Emergency Grazing	Ranchers in 18 states allowed to graze livestock on land that was set aside and still keep 75% of CRP payment.	1.3
Non Insured Crop Program	Producers of a crop that is ineligible for insurance may be eligible for direct payments.	0.2
Supplemental Feed	Makes feed available to ranchers of Cow-calf operations during drought.	0.2
Assistance for Apples and Onions	Secretary of Agriculture will make market loss payments to apple and onion producers.	0.1
Other	Emergency Water Conservation Program, Crop Disaster Assistance, Livestock Indemnity Program, Pasture Recovery Program	0.2
Total		5.0

Source: SBC Republican Staff