

## INFORMED BUDGETEER

## OLD BUSINESS: 2002 ACTUALS

Comparison of 2001 & 2002 Actuals (\$ in Billions)				
	2001	2002	\$ Change	% Change
<b>RECEIPTS:</b>				
Individual income taxes	994.3	858.3	-136.0	-13.7%
Corporation income taxes	151.1	148.0	-3.0	-2.0%
Social insurance taxes	694.0	700.8	6.8	1.0%
Excise taxes	66.2	67.0	0.8	1.1%
Estate and gift taxes	28.4	26.5	-1.9	-6.7%
Customs duties	19.4	18.6	-0.8	-4.0%
Miscellaneous receipts	37.7	34.0	-3.6	-9.6%
<b>Total receipts</b>	<b>1991.0</b>	<b>1853.3</b>	<b>-137.8</b>	<b>-6.9%</b>
<b>OUTLAYS:</b>				
National defense	308.5	347.7	39.1	13%
International affairs	16.6	22.5	5.9	36%
Science, space & technology	19.9	21.8	1.9	10%
Energy	0.1	0.5	0.4	444%
Natural resources & environment	26.3	27.4	1.0	4%
Agriculture	26.6	24.3	-2.2	-8%
Commerce & housing credit	6.0	-0.6	-6.6	-110%
Transportation	55.2	61.2	5.9	11%
Community & regional development	12.0	13.9	1.9	16%
Education, training & social services	57.3	71.1	13.8	24%
Health	172.5	196.3	23.8	14%
Medicare	217.5	230.9	13.4	6%
Income security	269.8	311.7	41.9	16%
Social security	433.1	456.4	23.3	5%
Veterans' benefits & services	45.8	51.0	5.2	11%
Administration of justice	30.6	34.7	4.1	13%
General government	15.2	17.8	2.7	18%
Net interest	206.1	171.2	-34.9	-17%
Undistributed offsetting receipts	-55.2	-47.8	7.4	-13%
<b>Total outlays</b>	<b>1863.8</b>	<b>2011.8</b>	<b>148.0</b>	<b>7.9%</b>
<b>Surplus / Deficit(-)</b>	<b>127.3</b>	<b>-158.5</b>	<b>-285.8</b>	

Source: Financial Management Service, Treasury Dept. Details may not add due to rounding  
October 24, 2002

- The Treasury Department released the final Monthly Treasury Statement (MTS) for fiscal year 2002 on October 24, 2002 – officially recording the figure of \$158.5 billion for the deficit that had been expected for at least six months. (The accompanying table summarizes the 2002 actuals by budget function compared to the previous year. *Bulletin* readers should take care when interpreting percentage changes. Very large percentage changes reflect the size of the base rather than large dollar changes, for the most part.)
- In August, OMB's Midsession review projected a 2002 deficit of \$165 billion. Actual receipts came in \$14 billion lower than OMB projected in August, but OMB's outlay shortfall was even larger (\$21 billion), more than offsetting the overestimate in receipts. Meanwhile, CBO's August update was even closer, with a 2002 deficit estimate of \$157; actual receipts came in \$6 billion lower than CBO projected in August, but CBO's outlay shortfall of \$5 billion was almost exactly offsetting.
- Compared to 2001, the picture for 2002 actuals is dominated by what's happened on the revenue side of the budget. For the second consecutive year, receipts **declined** by 6.9% in nominal terms. According to Treasury, preliminary information suggests that much of the decline in revenues is attributable to reductions in relatively highly taxed forms of income, especially wages and salaries, and that much of the decline in these forms of income is attributable to the 2001 recession. At the same time, the decline in the stock market reduced capital gains receipts.
- On the spending side, net outlays increased somewhat faster (\$148 billion, or 7.9%) in 2002 than in each of the previous two years (4-5%). Across most of the functions, gross outlays marked increases amounting to \$192 billion, which was partially tempered by a few functions that experienced decreases totaling nearly \$44 billion. Of the latter, almost all of the decrease stems from the decrease in net interest paid by the federal government – a situation stemming from

low interest rates and reduced levels of public debt. Excluding these interest payments, spending increased 11 percent.

- As for the increases, spending in just a handful of broad budget areas explains more than two-thirds of the gross increase in outlays. No surprise, spending in the defense function increased 13%, accounting for 20% of the growth in functions with outlay increases. Income security outlays increased 16% (compared to 4-6% in each of the last two years), mainly reflecting more numerous unemployment checks going to larger rolls of unemployed for longer periods. Health spending increased 14%, paralleling the economy's general increase in health care costs. And while Social Security spending increased only 5%, the huge size of the program means that increased Social Security checks contributed just as much to the overall outlay increase as Health expenditures.
- Upon issuing the MTS with the Department of Treasury, OMB Director Daniels commented on the first deficit in five years: "Given these two developments [revenues returning to more 'normal' levels and unexpected new defense and homeland security spending], it is absolutely essential that we set aside business as usual and keep tight control over all other spending."

## UNFINISHED BUSINESS: ONLY 2 FOR 13

- On October 10, the House of Representatives approved (409-14) the Conference Agreement on H.R. 5010, the Department of Defense (DoD) appropriations bill for FY 2003. The Senate followed suit on October 16 with a 93-1 vote. The Military Construction appropriations bill cleared for the President on October 11. The table below highlights the allocation of funds across major defense activities.

Defense and Military Construction Appropriations for FY 2003 (\$ in millions)			
Approps Bill	President's Request <sup>a</sup>	Conference Agreement	Conference less Request
<b>Defense</b>			
Personnel	94,227	93,396	-831
O&M	131,706	129,207	-2,499
Procurement	71,665	71,943	278
RDT&E	55,900	57,586	1,686
Other	2,908	2,698	-210
<b>Total</b>	<b>356,406</b>	<b>354,830</b>	<b>-1,576</b>
<b>Mil. Con.</b>			
Construction	5,453	6,295	842
Family Housing	4,249	4,204	-45
<b>Total</b>	<b>9,702</b>	<b>10,499</b>	<b>797</b>

Source: CBO, SBC Republican Staff

<sup>a</sup> The President's original request included \$20,055 million for the war on terrorism. The DoD subsequently provided detailed information to Congress for \$10,055 billion and this amount is included in the President's request column. The DoD provided vague information for the remaining \$10 billion, and Congress deferred action. This amount is not reflected in the President's request.

- Overall, the Congress provided \$1.6 billion less than the President's request for the Defense appropriations bill. Appropriations for Military Personnel accounts cover pay and allowances for active duty officers and enlisted personnel, and contributions to military retirement funds. The conference agreement included funds for a 4.1 % pay raise.
- Appropriations for Operation and Maintenance (O&M) cover salaries and benefits for civilian employees of the DoD operating, training, and maintenance costs for the armed forces. Funding for these activities comprises the largest departure from the President's budget: the conferees provided \$2.5 billion less than the President requested, steering most of the difference (\$1.7 billion) to Research, Development, Test, and Evaluation (RDT&E). Appropriations for Procurement accounts fund the acquisition of weapons and other equipment.

- One huge difference between the Administration's request and the conference agreement for 2003 Defense appropriations is not apparent from the comparison table. Defense budgeteers will recall the debate in the 2002 bill over the best way (purchase or lease) for the Air Force to acquire 100 new airborne refueling tankers from Boeing. The Congress ultimately gave DoD the authority to lease such refueling planes for 10 years and then return them to Boeing.

- Despite this authority, DoD has not entered into any contract with Boeing in the past year because budget rules require DoD to record against its procurement appropriation the obligations associated with the termination penalty that would be in any contract.

- To remove this budget obstacle, the 2003 Defense bill includes a provision (sec. 8117, which had never appeared in either the House or Senate-passed Defense appropriation bills) directing DoD not to record the use of BA for obligations associated with the termination clause in potential leasing contracts with Boeing.

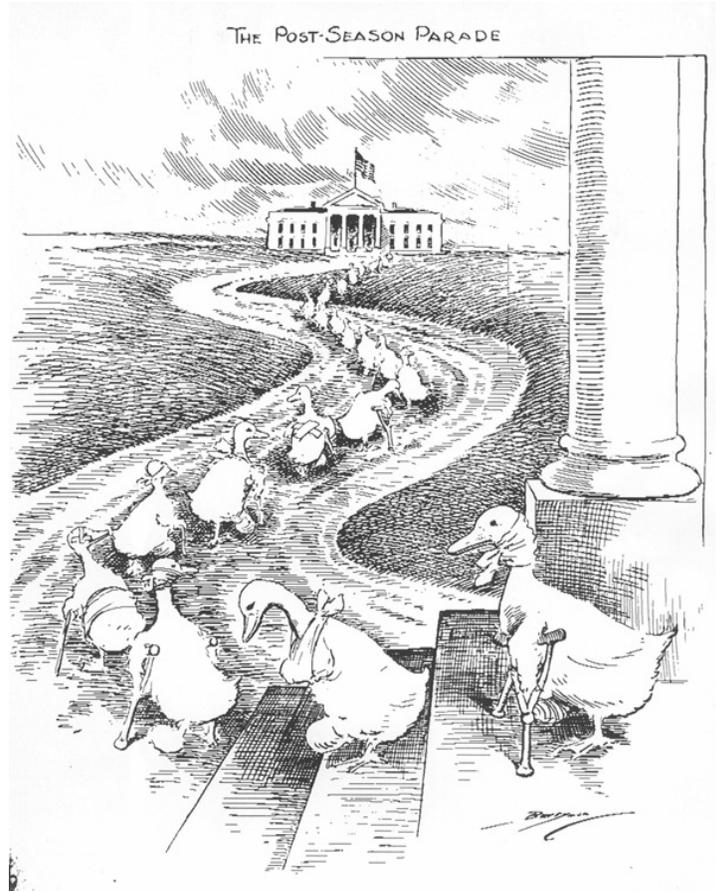
- CBO's table summarizing its scoring of the Defense appropriations bill included the following footnote: "The figures above do not yet include scoring for [a provision] that would allow the Air Force to lease certain aircraft without recording obligations from the termination liability commitments associated with such a lease. Section 8117 would allow the Air Force, during budget execution, to avoid recording such liability and in effect enter into obligations in excess of the amounts of budget authority provided in appropriation acts. Without details on the terms of the lease (i.e. the number of aircraft in the lease and the annual lease payments), **any estimate at this time will be very uncertain. CBO will score the additional budget authority when it receives information on the leasing agreement**, consistent with scorekeeping guideline #11, which requires scoring to cover the costs associated with the possible cancellation of a lease (i.e. termination liability). The scoring will not affect outlays" [emphasis added].

- What's wrong with this picture? The bolded CBO statements provide a clue. First, any estimate CBO does is uncertain, many of them "very" uncertain, so why did CBO take a pass on this one, especially when earlier this summer it had provided an initial estimate of \$84 million (for less than a handful of tankers), which CBO has since changed to zero? And why demur when the provision is expressly designed to make it more favorable and therefore more likely for the Air Force to enter into leases for up to 100 planes, which normally would require the Air Force to record up to \$3 billion in termination liabilities. CBO has done innumerable estimates using probability scoring in similar situations when the range of potential outcomes is uncertain; this situation was tailor-made for such an approach, but CBO ignored its usual practice.

- Second, when CBO says it "will score the additional budget authority when it receives information," it seems not to realize that as the official scorekeepers with only one chance to score a provision that appeared at the last second, they've already missed the boat. "Scoring" means to provide numerical budgetary information about legislation while it's being considered. Once a bill is enacted, one can no longer score it; one can just wait for revised information and estimate the bill's effects for the baseline (note that first-time baseline estimates of recently enacted legislation are often different than the cost estimates that scored such legislation when it was moving through the Congress).

- So CBO's promise to "score it later" was of no use to the Congress as it considered H.R. 5010. CBO, in effect, was telling the Congress that its estimate for the provision was zero, implying that the

provision would not increase by one iota the likelihood of the Air Force entering into tanker leases. Now we'll have to wait for the Administration's action to find out if CBO's "unfinished" estimate at the extreme end of the possible outcomes (zero out of 0-100 leased planes) bears out.



#### NEW BUSINESS

"The Post-Season Parade" by Clifford Berryman - First published in the Washington Evening Star, March 5, 1915 - U.S. Senate Collection, Center for Legislative Archives.



**HOLIDAY P**

The annual SBC-GOP Holiday get to  
at 3:30pm in the North wing of the 6

Building. Be sure to mark your calendars so that you can come and enjoy one last holiday gathering under the outgoing management.

We hope to see you there.