INFORMED BUDGETEER: PRESIDENT'S 2003 BUDGET

President's Budget Policy
($ Billions)

	2002	2003	2003-2007
Discretionary Outlays:			
Defense	336	368	2,041
Nondefense	382	405	2,112
Emergency Response Fund	22	16	27
Total Discretionary Outlays	741	789	4,180
Mandatory Outlays:			
Social Security	456	472	2,591
Medicare	223	231	1,308
Medicaid	145	159	930
Other	310	297	1,488
Total Mandatory Outlays	1,133	1,159	6,318
Net Interest	178	181	933
Total Outlays	2,052	2,128	11,431
Total Revenues	1,946	2,048	11,588
Surplus (+) / Deficit (-)	-106	-80	157

Source: OMB

- The table above summarizes the levels of spending and revenues (with resulting surpluses or deficits) proposed in the President's 2003 budget. The budget would have a deficit of $80 billion in 2003, approach balance in 2004, and return to increasing surpluses in 2005 and thereafter.

- The deficits would be lower and the surpluses even higher, however, if the President's proposed economic security package were not enacted. Since the stimulus bill was pulled off the Senate floor last week, that scenario is looking increasingly likely. The table below summarizes the effect that the major policy proposals in the budget would have on the budget outlook.

Impact of Budget Policy on the Surplus
($ in Billions)

	2002	2003	03-07
Current Adjusted Baseline Surplus (+) / Deficit (-)	-9	51	764
Budget Proposals:			
Defense and Homeland Security	0	-31	-224
Medicare Reform	0	-2	-50
Farm bill reauthorization	-4	-7	-34
Charitable giving incentives	-1	-2	-15
Health tax credits	0	-1	-36
Reform unemployment	0	-1	-18
Extend expiring tax provisions	-1	-3	-26
Other proposals	0	-6	-20
Related debit service	0	-1	-43
Subtotal, budget proposals	-7	-54	-466
Surplus (+) / Deficit (-) *without* Economic security package	-16	-3	298
Economic security package	-90	-77	-141
Surplus (+) / Deficit (-) *with* Economic security package	-106	-80	157

Source: OMB
NOTE: OMB's adjusted baseline does not include the outlay and debt service effects of inflating the $20 billion emergency response fund over 2003-2007.

- Because of the addition of $40 billion in Emergency Response funds to the regular discretionary (appropriated) part of the budget in 2001 and 2002, it has become somewhat complicated to make comparisons of funding levels across years and compared to baseline projections. The table below provides alternate presentations of discretionary levels with and without components of the Emergency Response Fund.

- For budgeteers, both the definition of programs that qualify as "homeland security" and the base level of spending will be debated. (See Chapter 7, "Homeland Security" in *The Budget and Economic Outlook: Fiscal Years 2003-2012,* Congressional Budget Office, January 2002.) If the 2002 Emergency Response Fund spending (enacted after September 11) is included in the base level of funding for 2002, then it could be argued that domestic homeland security spending will increase from approximately $20 billion this year to the President's proposed $25.2 billion next year, a 27 percent increase.

Discretionary Budget Authority Totals in the President's FY 2003 Budget[a]
($ Billions)

	01	02	03	Difference 02-03	% Chg 02-03
Discretionary Budget Authority *with* the Emergency Response Fund					
Homeland Security	13	20	25	5	27%
War on Terrorism[b]	318	334	379	46	14%
Other Operations of Government	340	364	362	-2	-0%
TOTAL	**672**	**718**	**767**	**49**	**7%**
Emergency Trust Fund					
Homeland Security	3	8	0	—	—
War on Terrorism[b]	13	3	10	—	—
Other Operations of Government	5	9	0	—	—
TOTAL	**20**	**20**	**10**	—	—
Discretionary Budget Authority *without* the Emergency Response Fund					
Homeland Security	10	12	25	13	111%
War on Terrorism[b]	306	331	369	38	12%
Other Operations of Government	336	355	362	7	2%
TOTAL	**652**	**698**	**757**	**59**	**8%**

Source: OMB, SBC Republican Staff
/a These figures include an adjustment for retirement accruals that is contingent upon adoption of a proposed policy.
/b These figures include the defense discretionary budget authority for the Department of Defense only.

- Not included at this time in the President's budget submission is any request for additional 2002 supplementals that would increase the base level of spending and that the Administration indicated in December would be forthcoming in this session of Congress. But however comparisons are made, it is clear that the President's budget and nearly every member of Congress is committed to the high priority of providing the necessary level of resources for homeland security without regard to the short-term budget outlook.

MEDICARE PRESCRIPTION DRUGS - A FIRST STEP

- As the budget year begins, the issue of Medicare reform and a prescription drug benefit will once again be high on the agenda. In his 2003 budget, the President has proposed an interim measure for addressing the issue of prescription drug coverage for low-income Medicare beneficiaries.

- The President's budget allocates $77.1 billion over 10 years for a prescription drug benefit for low-income seniors. The subsidy has two components. States could expand drug-only coverage to people on Medicare who have incomes less than the federal poverty level at the regular Medicaid matching rate, at a cost to the federal government of $16.9 billion over 10 years.

- On the average, the federal government covers 57 percent of total Medicaid expenditures, and states fund the remaining 43 percent.
- As an additional incentive to expand prescription drug coverage even further, states that extend coverage to seniors with incomes between 100 and 150 percent of poverty would receive a 90 percent federal matching rate, at a cost of $60.2 billion over 10 years. The entire subsidy program would eventually enable 3 million seniors to acquire prescription drug coverage.

- Although the budget allocates resources for the low-income subsidy for 10 years, the Administration envisions that this program will be integrated into a larger Medicare modernization initiative by 2006. Towards this end, the budget includes additional funds totaling $116 billion over 10 years for long-term Medicare changes, such as the addition of a universal prescription drug benefit, coupled with increased use of competition to control costs. Total new funding for Medicare in the President's budget (net of some initial savings measures that can be implemented immediately) is $190 billion over 10 years.

BUDGET QUIZ

Question: Current law sets a 2003 level for highway appropriations that is $8.6 billion less than the 2002 level, which the President's budget simply reflects. Why does this happen?

Answer: According to Transportation Equity Act for the 21st Century (TEA-21), which has dictated highway funding levels since 1998, the actual funding level for each year is determined by adjusting the original funding levels written in TEA-21 to reflect the difference between actual gas tax receipts and estimated levels. The provision that adjusts funding for changes in gas tax receipts is known as revenue aligned budget authority (RABA). The following table shows why the 2003 funding level is $8.6 billion less than the 2002 level:

($ in billions)	2001	2002	2003
Original Funding in TEA-21:	26.7	27.2	27.7
RABA Adjustment:	3.1	4.5	-4.4
Total Funding*:	29.7	31.7	23.3

(* Note that additional money was appropriated in 2002 above the TEA-21 level. Numbers may not add due to rounding.)

TEA-21dictates that changes from the original funding level must reflect differences between estimated and actual receipts. TEA-21 caused the $4.5 billion increase in 2002. It also mandates the $4.4 billion reduction in 2003. There is no flexibility under the law on this. So the real question is not why the President's request reflects a required $8.6 billion change in highway funding, but why is the 2003 RABA adjustment such a large negative number?

The revenue estimates used for 2001 funding were made in 1999 and, like almost all estimates at that time for 2001, did not predict a recession. They were optimistic and very wrong, and states got more funding than TEA-21 contemplated. The law mandates that estimating errors be corrected for actual experience. In fact, states got $3.5 billion more in 2001 than they should have, which means they got an advance, or borrowed, in 2001 from the resources they would have received in 2003.

Now TEA-21 mandates that we lower the 2003 funding level by the same amount – $3.5 billion. That is the main reason for the -$4.4 billion RABA adjustment. The remainder of the -$4.4 billion reduction in 2003 (-$0.9 billion) results because 2003 gas tax receipts are now expected to be that amount lower than originally assumed in TEA-21. This should not be viewed as a drop in 2003 funding. Instead, states were advanced some funding in 2001 that they would have otherwise received in 2003.

The authors of TEA-21 always intended we check our math and correct our errors. They insisted that all money coming from gas tax receipts be spent on highways. To win credibility on this point, they were very clear on symmetry: that a drop in gas tax receipts would result in a drop in spending. This point is made very clearly by the former Chairman of the House Committee on Transportation and Infrastructure, Bud Shuster, when he said "Should there be more revenue going into the trust fund, that money will be available to be spent. Should there be less revenue going into the trust fund, then we will have to reduce the expenditures. It is fair, it is equitable, and it is keeping the faith with the American people" *(Congressional Record*, May 22, 1998, page H3946). The question now is will Congress keep the faith with the law?

QUOTE OF NOTE

An impression has been fostered by some that when the federal government runs an on-budget deficit -- which it will likely do over the next several years -- then Social Security gets shortchanged. Those who claim near-term budgets are going to "raid" or "invade" the Social Security surplus ought to listen to what Robert Bixby, executive director of the Concord Coalition, told the Senate Budget Committee at a hearing last Wednesday:

"Regardless of what is done with the Social Security surplus, the program's trust funds will be credited the same amount of IOUs, and the taxpayers will have to begin redeeming those IOUs in about 2016."

CALENDAR

Unless otherwise noted, all hearings will be held in Dirksen 608 at 10:00 AM. Additional hearings and witnesses will be scheduled.

February 12 - HEARING: The President's FY 2003 Budget. Secretary of State, Collin Powell.

February 13 - HEARING: The President's FY 2003 Budget. Deputy Secretary of Defense, Paul Wolfowitz.

February 14 - HEARING: The President's FY 2003 Budget. Health and Human Services Secretary, Tommy Thompson.

February 27 - HEARING: Long Term Budget Projections. Comptroller General, GAO, David Walker.

EDITOR'S NOTE

Copies of the SBC-GOP Staff analysis of the President's 2003 Budget, prepared on February 4th, 2003, can be obtained through the Committee's Offices, by calling 202-224-6988, or on the Committees republican website at:

http://www.senate.gov/~budget/republican/index.html