Senate Budget Committee Republican Staff

BUDGET BULLETIN

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INFORMED BUDGETEER

CBO ESTIMATES OF THE SENATE APPROPRIATIONS BILLS FOR FY 2003 COMPARED TO FY 2002 (Budget Authority in billions of $)

Subcommittees	2002 a/	Senate Appropriations Bills b/	% increase or Decrease
Divisions A-K, and Defense and Military Construction Bills			
Agriculture	17.171	17.850	4.0%
CJS	42.995	41.340	-3.8%
Defense	0.560	0.574	2.5%
Nondefense	42.435	40.766	-3.9%
Defense	334.113	354.830	6.2%
DC	0.607	0.512	-15.7%
Energy and Water	25.334	26.164	3.3%
Defense	15.164	15.899	4.8%
Nondefense	10.170	10.265	0.9%
Foreign Ops	16.433	16.249	-1.1%
Interior	19.135	18.953	-1.0%
Labor, HHS	127.659	131.399	2.9%
Legislative	3.254	3.362	3.3%
Mil Con	10.604	10.499	-1.0%
Transportation c/	23.095	21.574	-6.6%
Defense	0.440	0.340	-22.7%
Nondefense	22.655	21.234	-6.3%
Treasury, Postal	18.515	18.220	-1.6%
VA, HUD	95.758	90.349	-5.6%
Defense	0.153	0.144	-5.9%
Nondefense	95.605	90.205	-5.6%
Unallocated Reductions	-0.350	---	
Defense	-0.196	---	
Nondefense	-0.154	---	
TOTAL	734.323	751.301	2.3%
Defense	360.838	382.286	5.9%
Nondefense	373.485	369.015	-1.2%
Division M			
Classified Defense Programs	---	3.895	
Division N			
Election Reform – Title I	---	1.500	
Wildland Fire Management – Title III	---	0.825	
Fisheries Disasters – Title V	---	0.100	
1.6 % ATB reduction in 11 bills	---	-6.395	
Gregg Education amendment	---	5.000	
1.251 % ATB reduction in 11 bills	---	-5.000	
Subtotal	---	-3.970	
TOTAL, Discretionary	734.323	751.226	2.3%
Defense	360.838	385.680	6.9%
Nondefense	373.485	365.546	-2.1%
One-time, non-recurring projects d/	15.946	---	
Defense	1.338	---	
Nondefense	14.608	---	
TOTAL, Discretionary less one-time	718.377	751.226	4.6%
Defense	359.500	385.680	7.3%
Nondefense	358.877	365.546	1.9%
Memo:			
Mandatory Items in Division N			
Title II - Agriculture Drought Relief		2.986	
Title IV - Medicare Physicians		0.600	
Title IV - Rural Hospitals		0.252	
Title IV - Welfare Payments to States		0.173	
Total		4.011	
TOTAL, with Mandatories		**755.237**	

Source: CBO; SBC Republican Staff

NOTES: a/ The 2002 figures include the levels enacted in the FY 2002 appropriation bills, as well as the $24.2 billion in BA in P.L. 107-206 (the Emergency Supplemental Appropriations and Rescissions, 2002), as estimated by CBO.

b/ Reflects the 14 divisions (Divisions A-N) added on the Senate floor to H.J. Res 2 on January 15, 2003, as well as the FY 2003 Defense (P.L. 107-248) and Military Construction (P.L. 107-249) appropriation bills. These bills also include $25.385 billion in advance appropriations, $2.227 billion more than the $23.158 billion in advances from the FY 2002 appropriations bills.

c/ Includes mass transit budget authority of $1.445 billion and a $374 million amendment (by Senator Murray) adopted for Amtrak funding.

d/ The $15.946 billion in one-time, nonrecurring projects and activities were identified in Attachment C of OMB Bulletin 02-06, Supplement No. 1, dated October 4, 2002.

- Finally, the picture for 2003 discretionary spending is beginning to come into focus, as Appropriations Chairman Stevens has added 11 appropriation bills to the omnibus resolution on the floor. The table above reflects each "division" added by Chairman Stevens as well as amendments adopted thus far.

- Division N includes the mandatory items of agricultural drought relief (Title II), Medicare payments to physicians and rural hospitals, and payments to states for Temporary Assistance to Needy Families (all Title IV), which are not counted in the discretionary totals of this bill (even though they are in an appropriations bill). Otherwise, the bill amounts to a 2.3% increase over total 2002 enacted levels. However, adjusting the 2002 level for $16 billion in one-time expenses (which, because they all stemmed from 9/11 response and recovery, truly seem to be non-recurring) results in a year-over-year change of 4.6% instead.

CBO BRIEF ON REVENUE PROJECTIONS AND THE STOCK MARKET

- When one looks for an explanation of both the positive revenue surprises in the late 1990s and the negative revenue surprises in the last two years, it seems natural to focus on the gyrations of the stock market. When the market was up, revenues were up, and when the market was down, revenues fell. If the market goes up again, we can expect higher revenues, right? Well, maybe.

- CBO recently published a policy brief titled, "Revenue Projections and the Stock Market." The paper examines the relationship of stock prices to federal receipts. While the federal tax base is primarily driven by overall GDP, many sources of taxes, such as capital gains, respond to changes in the prices of stocks. The relationship of stock prices to receipts is complex. It involves lags, offsets and other complications, so that revenue components sensitive to the stock market do not necessarily mimic the market's movements. As a result, knowing what the market has done (or will do) is only of limited value in projecting federal receipts.

- CBO examined tax and economic data from 1994-2000, and concluded that the behavior of stock prices probably explains a very large fraction of the growth of receipts relative to GDP (the revenue "surprises") in the late 1990s. Capital gains realizations, income from trusts and estates, distributions from retirement accounts, and the estate tax accounted for about two-thirds of the unexpected revenue surges in the late 1990s. CBO has little hard evidence on 2001 and 2002 receipts, but suspects stock-market sensitive components also played a major part in the fall in receipts of the past two years.

- To project capital gains and related revenues for the current year, for example, CBO uses the actual stock price averages for calendar 2002 compared to previous years to estimate realizations that will be reported in 2003. For future years, CBO assumes that income sources sensitive to the market will grow parallel to the growth in the overall economy.

- CBO acknowledges that stock prices, even when the actuals are known (rather than assumed) have limited value in projecting receipts. Largely because of the stock market drop in 2001, CBO estimated in January 2002 that capital gains tax liability for calendar year 2001 declined by about 20 percent from its level in 2000. Data now available (a year later) show the decline in capital gains tax was closer to 50 percent. In that instance, the incorrect estimate was not due to poor projections of stock market performance (since it was already known), but to the difficulty of modeling taxpayers' decisions about whether and when they realize their accrued gains.

- Revenue estimates over the past five or six years were not too low or too high due to a failure to take the stock market's influence into account. Unfortunately, while certain components of the tax base are sensitive to stock prices, actual reported receipts don't necessarily closely track the market's ups and downs. CBO concludes that knowing what the market does adds only limited information to what is provided by an economic forecast.

LONG-TERM BUDGETARY IMPACT OF APPROPRIATIONS

- Debates over major changes in tax laws or entitlement programs typically focus on ten-year cost estimates, a convention born of the Senate's pay-as-you-go budget enforcement mechanism. In contrast, debates about changes in discretionary spending traditionally consider only the first-year cost of such proposals. Does the short-sighted approach in this latter instance serve the Congress well in setting public policy priorities and making budgetary tradeoffs?

- Informed budgeteers know that once Congress has appropriated funding for the current fiscal year, CBO is required (under Section 257(c) of the Balanced Budget and Emergency Deficit Control Act of 1985) to incorporate those levels into the baseline for discretionary spending and inflate it each year into the future (to hold current appropriations constant in real terms; see Budget Quiz for special case of FY 2003).

- The long-term budgetary effects of an appropriation decision in one year can be appreciated, for example, when people argue (correctly) that a proposed level of discretionary spending less than the baseline in future years represents a reduction from current activity. As annual appropriations are largely incremental, building up from the previous year's level, why then shouldn't Congress consider the ten-year cost of proposals to change discretionary spending in the current year?

- The table below (summarizing six spending amendments offered to the omnibus appropriations measure pending in the Senate) shows that the budgetary effect of increasing discretionary spending is severely underestimated using the typical focus on the first-year impact. The multi-year costs add-up fast, as the discretionary decision in the current year is enshrined in the baseline. If all of these amendments were enacted by Congress, they would have increased budget authority by $362.2 billion over the next ten years (only the Murray amendment was approved by the Senate).

BUDGET QUIZ

Question: In preparing its *Budget and Economic Outlook* for release on January 29, CBO has had an unusual challenge in determining what the discretionary spending baseline will be. Since 1990, CBO has looked to the statutory caps on discretionary spending as well as the appropriations level for the current year (almost always enacted by December). But there are no statutory caps anymore, and CBO can neither hold up its report until Congress completes action on the 11 remaining appropriations bills nor assume that the President's request for 2003 will be enacted (which is what the President will show for 2003 in his 2004 budget request). Since the current CR expires at the end of this month, CBO can't necessarily assume that its spending levels (roughly the FY 2002 levels minus $15 billion in one-time spending items) will continue for the rest of the year… or can it? What is the jumping-off point CBO is using for its discretionary baseline?

Answer: Section 257(c) of the Balanced Budget and Emergency Deficit Control Act of 1985 (subsection (6)) provides that: "If, for any account, a continuing appropriation is in effect for less than the entire current year, then the current-year amount shall be assumed to equal the amount that would be available if that continuing appropriation covered the entire fiscal year." Thus, CBO's upcoming preliminary baseline will include discretionary spending assumptions based upon an FY 2003 CR spending level of $738 billion. But because this level is not likely to mirror levels that ultimately will be enacted for FY 2003, CBO will include several other baseline scenarios for discretionary spending, such as one that starts with a 2003 level of $751 billion which seems likely to emerge from the bill currently on the Senate floor. In addition, CBO's revised baseline, expected in early March, should reflect the 2003 enacted appropriations for all 13 bills, assuming the Congress and the President complete them.

TEN-YEAR COST OF DEMOCRATIC AMENDMENTS TO THE 2003 OMNIBUS APPROPRIATIONS BILL
(Budget Authority, in billions of dollars)

	2003	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2003-12*
Byrd Homeland Security Amendment (Number 2)	5.0	5.1	5.3	5.4	5.5	5.7	5.8	6.0	6.1	6.3	56.2
Kennedy Education Amendment (Number 13)	6.0	6.1	6.3	6.5	6.6	6.8	7.0	7.2	7.4	7.6	67.5
Murray Amtrak Amendment (Number 30)	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	4.2
Harkin Byrne Grant Amendment (Number 32)	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	5.6
Byrd Amendment to Strike the Across the Board Rescissions (Number 36) a/	11.4	11.7	12.0	12.3	12.6	12.9	13.3	13.6	14.0	14.4	128.2
Dodd IDEA Amendment (Number 71)	1.5	1.5	1.6	1.6	1.7	1.7	1.7	1.8	1.8	1.9	16.9
Interest on Amendments	0.4	1.8	3.4	5.1	6.9	8.8	10.8	13.0	15.4	17.9	83.6
TOTAL	25.2	27.2	29.5	31.8	34.3	36.9	39.7	42.7	45.8	49.2	362.2

Source: Senate Budget Committee Republican Staff, using CBO's blended inflator rate
a/ Senator Byrd's amendment to strike the across the board rescissions in Title VI of Division N of H.J. Resolution 2, Amendment 1, would eliminate a 1.6 percent across the board rescission of accounts in Divisions A through K of the bill that would save $6.395 billion, as well as a 1.251 percent rescission of accounts in Divisions A through K of the bill that was agreed to as part of an education amendment sponsored by Senator Gregg (Number 19) that would save $5 billion.