INFORMED BUDGETEER:

THE *BULLETIN'S* "MID SESSION REVIEW"

POSSIBLE BUDGET OUTLOOK FOR FY 2002 & FY 2003
($ in billions)

	2002	2003
Total Surplus or Deficit(-) [CBO March 2002]	**5.2**	**6.3**
Changes Enacted to date		
Job Creation and Worker Assistance Act of 2002[/a]	50.9	42.9
Farm Security and Rural Investment Act of 2002[/b]	1.6	8.4
Interest on Legislative Changes	0.6	3.4
Subtotal, Changes to date	53.1	54.8
Other Changes		
FY 2002 Supplemental[/c]	9.7	30.7
FY 2003 Appropriations[/d]	0.0	23.0
Revenue Shortfall	93.4	84.6
Interest on Other Changes	1.2	7.6
Subtotal, Other Changes	104.3	145.9
Total Changes	157.3	200.7
REVISED TOTAL SURPLUS OR DEFICIT(-)	**-152.2**	**-194.4**
Memo: On-Budget Surplus or Deficit(-)	-309.6	-370.2

Source: Senate Budget Committee Republican Staff, June 2002
/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 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.
/c Estimate assumes outlays from the Senate passed $31.5 billion discretionary supplemental for budget authority for FY 2002, as estimated by CBO. In addition, the estimate assumes $1.1 billion in mandatory outlays in 2002 from the Senate passed supplemental, as estimated by CBO, for veterans compensation and pension benefits. This estimate assumes outlays in FY 2003 from inflating the FY 2002 discretionary budget authority at the Senate passed level.
/d 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.

- As the Congress begins its 4th of July recess, the *Bulletin* updates its periodic budget outlook, anticipating the President's Mid-Session Review, which is expected to be transmitted to the Congress shortly upon its return. (Current law requires the President to submit to Congress a supplemental summary of the budget before July 16.)

- Based on legislation enacted since the beginning of the year, assuming enactment of a 2002 supplemental at the Senate-passed level, and reflecting increasing deterioration in receipts from the slow-down in the economy and the stock market, the *Bulletin* now anticipates that the deficit for FY 2002 will top $152 billion. Not counting the social security surplus, the rest of government (on-budget) deficit will exceed $300 billion.

- The dramatic swing in the fiscal picture from early March when CBO anticipated a very slight surplus of $5 billion this year to this $152 billion deficit estimate is 40% due to legislation enacted since March 6 and 60% due to revenues that are less than had been expected (with much of the revenue reduction already observed from actual revenues recorded by Treasury).

- Assuming the President's appropriation request for next year is enacted, the deficit for FY 2003 may approach $200 billion. Again, this estimate assumes legislation enacted to date, as well as the effects of an FY 2002 supplemental at the Senate-passed level and the drop off in revenues (following current law baseline estimating).

- Note that none of these estimates include other entitlement or tax legislation that might be considered over the remainder of the 107th Congress, such as prescription drug benefits, Medicare add-backs, new welfare and childcare spending, concurrent receipts for military retirees (see below), or pay-go provisions currently under consideration by conference committees on the Energy bill and Trade Promotion Authority legislation. Generally, however, any tax provisions would affect FY 2002 not at all and FY 2003 only minimally.

SENATE "VOICES" CONCURRENT RECEIPT

- On June 19th, by a voice vote, the Senate adopted an amendment to the Department of Defense (DoD) authorization bill (S. 2514). The completed 2003 DoD authorization bill, as amended, was then adopted on June 27. The amendment would allow full "concurrent receipt" of both military retired pay from DoD and Veterans disability compensation from the Department of Veterans Affairs (VA). Under current law that has been in place for more than 100 years, military retirees (those who retire from military service after 20 years) can not receive concurrently their full military retired pay and full veterans disability payment. Therefore, those who receive disability benefits have their retirement pay reduced by the amount of disability payment. (Disability payments are exempt from income tax, while retirement pay is taxable.)

- When the Senate Armed Services Committee reported S. 2514, it included a limited version of concurrent receipt affecting only a subset of the more than 100,000 military retirees who currently receive their retirement pay net of their disability payment. The committee's version was designed to be consistent with the policy and the committee's allocation contemplated by the 2003 Budget Resolution reported by the Senate Budget Committee on March 20, with entitlement costs of $17.3 billion over the next 10 years.

- But that budget resolution has yet to be considered by the Senate and its spending allocations are irrelevant. Instead, the relevant enforceable document is still the FY 2002 Budget Resolution conference agreement adopted a year ago, under which the Armed Services Committee has only a small allocation remaining that does not come close to covering the cost of its reported bill.

- Despite the fact that the budget currently in effect does not accommodate the cost of any version of concurrent receipt and that a 60-vote point of order could have been raised, the Senate adopted the full-blown version of concurrent receipt, nearly tripling the cost of the Committee-reported proposal to $45.8 billion over the next 10 years. This amendment would also result in additional discretionary spending of $15.4 billion over 10 years. The increase in discretionary spending would mostly come from the DOD accrual payment to the military retirement fund which is administered by the Treasury Department.

- OMB's Statement of Administration Policy suggests the President's senior advisors would recommend a veto of the bill if concurrent receipt is included in the conference agreement.

A PRESCRIPTION FOR DRUG COVERAGE

- In the biennial rhythm of an election year, the House last week passed a Medicare bill (H.R. 4954) to provide prescription drug benefits to seniors, largely along party lines by a vote of 221 to 208. The bill also contained a package of Medicare provider givebacks for hospitals, physicians, and other health providers. CBO's preliminary cost estimate for the bill is $349 billion over 2003 through 2012.

- The House GOP bill would provide a new entitlement to prescription drug coverage under Medicare, beginning in 2005, using competition among private sector insurance plans. Drug coverage would be provided either by Medicare+Choice plans or certified Prescription Drug Plans (PDP) offering stand-alone drug insurance coverage. Plans would be required to offer at least a standard package of benefits and would receive federal subsidy payments to reduce premium costs for all enrolled beneficiaries and to provide reinsurance for plans with high cost enrollees. The private plans would assume the insurance risk for costs above the federal subsidy.

- The standard package under the GOP bill would consist of: a $250 annual deductible; beneficiary cost sharing of 20 percent of drug costs between $250 and $1000 in drug spending; cost sharing of 50 percent of costs between $1000 and $2000; no coverage between $2000 and $3700 (beneficiaries cover 100 percent of costs); and full coverage of all drug costs once a beneficiary's out-of-pocket spending had reached the "stop loss" of $3700. Plans would charge premiums for enrollment -- CBO estimates that monthly premiums for the standard plan would be approximately $33 in 2005. CBO's preliminary estimate for the prescription drug component of the bill is $320 billion over the 2003-2012 period.

- Good budgeteers should note that this common description of the plan mixes apples and oranges. The gap between $2000 and $3700 is often referred to as the “hole in the doughnut” because beneficiaries do not receive benefits in this interval. But the “stop loss” amount refers only to beneficiary out-of-pocket spending, while the $2000 includes spending by both beneficiaries and plans. At the $3700 stop loss amount, total drug spending would in fact equal $4800, so the actual size of the “hole” is $2800, not $1700.

- The House prescription drug plan also includes subsidies for low-income individuals. Beneficiaries with incomes below 150 percent of the federal poverty level ($13,290 for an individual in 2002) would receive a complete subsidy; those with incomes between 150 percent and 175 percent of the poverty level would receive sliding scale subsidies for premium costs.

- In addition to the drug benefit, the House bill also includes a number of provider “givebacks” in the continued rollback of the 1997 Balanced Budget Amendment reforms to Medicare. CBO preliminarily estimates the 10-year cost of these provisions at $29 billion. Among the major provisions are increased payments for physicians to counteract the effects of the sustainable growth rate reductions (see May 28, 2002 *Bulletin*), along with increased payments for hospitals, skilled nursing facilities, and rural health providers.

- Debate on prescription drugs for seniors could move to the Senate in July. It remains to be seen whether the Senate will take up a tri-partisan package crafted by the Finance Committee or whether the leadership will instead choose to bring a Democratic bill straight to the floor.

BUDGET QUIZ

Question: When was the Congressional Budget Act of 1974 amended to require 10-year budgets, as asserted by Budget Committee Chairman Conrad during debate in the Senate on June 20, 2002?

Answer: Never!

During debate of an amendment (to the Department of Defense authorization bill) that would have provided some minimal budget enforcement for the coming fiscal year, Chairman Conrad stated (in defense of the Majority’s failure to bring a budget resolution for FY 2003 to the Senate floor):

> I say to my colleague [referring to Senator Nickles], one of the key reasons we have not brought the budget resolution to the floor is because the House passed a 5-year budget *when the requirement of the law is a 10-year budget*. The President submitted a 10-year budget. We passed a 10-year budget through the Senate Budget Committee...
>
> Now, how are we ever going to reconcile a 10-year budget in the Senate, *which is what the law requires*, with a 5-year budget in the House...
>
> That is a fundamental reason that we have passed a budget resolution through the committee and not brought it to the floor because we know we would spend a week of the Senate’s time and never be able to reconcile with the House because they have adopted rosy scenario forecasts, and they have adopted a 5-year budget *when a 10-year budget is required*. (see *Congressional Record*, June 20, 2002 starting on page S5819.)

The Bulletin wonders which section of the Budget Act Chairman Conrad is talking about? Section 301, which is headed “Content of Concurrent Resolution on the Budget”, requires that a budget resolution sets forth levels for such year (meaning the budget year) and “for at least each of the 4 ensuing fiscal years.” In addition, section 302, which sets forth the committee allocation process and enforcement thereof requires that the allocations be provided for a period of the first fiscal year covered by the budget resolution and for “at least each of the ensuing 4 fiscal years” (except for the allocation to the Appropriations Committee). No where in the Act can one find a requirement that a budget resolution cover 10 years. As a matter of fact, 10-year budgets have only been adopted twice (for FY 2000 and FY 2002) in the entire history of the Budget Act. And given the repeated criticism by the Chairman and many members of his caucus of last year’s resolution and the 10-year projection on which it was based, the *Bulletin* wonders why in the world is the Chairman so insistent on doing a 10-year budget anyway?

If the Chairman feels it is not worth the Senate’s time to consider a resolution just because conference may be difficult with the House of Representatives, perhaps the *Bulletin* should concede that the congressional budget process really is dead and the final stake through its heart was stabbed by the Chairman of the committee and the Democratic leadership, as they are clearly unwilling to allow the Senate to speak to what the fiscal policy priorities of this country ought to be. The President has spoken, the House of Representatives has spoken, yet the Senate remains silent. This is indeed a sad state of affairs for “the world’s greatest deliberative body.”

EDITOR’S NOTE

Shifting Defense Analysts

After more than 30 years of public service, with the last 6 and ½ years spent as the GOP Defense Budget Analyst with the Senate Budget Committee, Winslow Wheeler is retiring. Over a career dedicated to national security issues, Winslow has served four different U.S. Senators, from both political parties, and has worked for the U.S. General Accounting Office. Winslow will continue to work on national security issues in his “retirement” at the Center for Defense Information. Good luck Winslow.

Replacing Winslow is Roy Phillips, who served on the Senate Budget Committee from 1990-1995, and who returns after having spent the last four years working with the US Air Force. Most recently, he served as Senior Advisor to Air Force Deputy Assistant Secretary for Science and Technology (S&T) on a congressionally mandated study to determine the future of the Air Force's S&T program. Prior to his work with the Air Force, Roy was research Assistant Professor at American University in the School of International Service. He taught international economic policy and led a study on the contribution of basic research to Air Force technological superiority. Roy holds a doctorate in Policy Analysis from the Rand Graduate School.