



INFORMED BUDGETEER



MTS 2003 ACTUALS

- Last week, the Treasury Department released the final Monthly Treasury Statement (MTS) for fiscal year 2003. The statement for September reported a monthly surplus of \$26.4 billion; the deficit for all of fiscal 2003 was \$374.2 billion (see table below).
- In July, OMB projected a 2003 deficit of \$455 billion, \$81 billion higher than the actual deficit. Actual receipts came in \$26 billion higher than OMB had projected in August, and outlays came in \$55 billion lower. In comparison, CBO had projected a 2003 deficit of \$401 billion in its August update; actual receipts came in \$13 billion higher than CBO's August projection, and outlays came in \$14 billion lower.
- Receipts declined in nominal terms for the third consecutive year; year-over-year receipts declined 1.7% in 2001, 6.9% in 2002, and another 3.8% in 2003. The decline in receipts in 2003 was less than expected, however. OMB had projected a 5.2% decline in its mid-session review, and CBO had projected a 4.5% decline in its August update. Both individual income and corporate income taxes were actually higher than the two agencies had projected in the summer.
- Outlays continued their inexorable rise, increasing 7.2% in 2003, compared to increases of 7.9% in 2002 and 4.2% in 2001. Function-by-function stories on outlay changes are more complicated and will require more account-level data and analysis.

bill, H.R. 1588, decided to add another \$22 billion in mandatory spending to the budget over the next ten years, with no offset.

- While pleas for concurrent receipt have spanned decades and many U.S. military conflicts, it has only been in the last several years that Congress finally started to give ground on this additional benefit. When members of the military retire after serving 20 or more years, they immediately begin receiving a monthly pension. Of these retirees, some also may apply and qualify for a disability compensation benefit from the Department of Veterans Affairs (VA).
- What veterans (with a disability classification) find objectionable is that they cannot receive their VA disability compensation on top of their military retirement pension. Under current law for more than a century, military retirement income is offset dollar for dollar by the amount of the disability check paid by the VA. But receiving a VA check is not a simple wash, because disability compensation is tax free (and comes with additional health benefits), while a military pension is not. Advocates of concurrent receipt want retirees to be able to receive their full military pension without it being offset by their veteran's disability benefits.
- This spring while debating the Defense authorization bill on the Senate floor, Senator Reid (with 16 co-sponsors from both sides of the aisle) introduced an amendment to give full concurrent receipt to disabled veterans. After a short debate without any Senators speaking in direct opposition to the amendment, it was accepted by a voice vote. The House-passed Defense authorization bill included no provision related to concurrent receipt.
- In 2002, the Senate-passed version of the 2003 Defense authorization bill included full concurrent receipt, which the Administration threatened to veto if included in the conference report. In the end, the conference report included a provision that gave a special compensation to those retirees who have a combat-related disability. Once again in July of this year, the Administration threatened to veto the Senate-passed version of the 2004 Defense authorization bill if the conference report included concurrent receipt.
- But something must have happened over the August recess. Over the last two months, the House leadership has been negotiating with the Administration to include a phased-in full concurrent receipt, which would cost \$37 billion over the next ten years. This timing seemed coincidental with a discharge petition that had been circulating in the House to force floor debate on H.R. 303 (Retired Pay Restoration Act of 2003), which was nearing the needed 218 signatures.
- Given this recent change of heart by the House and the Administration, this year's controversy appears to be about how much concurrent receipt to give and whether its cost should be paid for. In their negotiations, the House and the Administration considered paying for concurrent receipt by restructuring VA disability compensation. Under the offset proposal, VA disability compensation would go to only those new veterans who receive a service-related injury in the performance of his or her duty. Those who become disabled, say while skiing on leave, or who become disabled after they retire, would not be eligible for VA disability compensation.
- Marrying expansion of concurrent receipt with a needed restructuring of VA disability compensation would have prevented concurrent receipt from increasing the deficit. VA disability reform would have saved \$45 billion, producing net

COMPARISON OF 2002 & 2003 ACTUALS
 (\$ in billions)

	2002	2003	\$ Change	% Change
RECEIPTS:				
Individual income taxes	858.3	793.7	-64.6	-7.5%
Corporation income taxes	148.0	131.8	-16.3	-11.0%
Social insurance taxes	700.8	713.0	12.2	1.7%
Excise taxes	67.0	67.5	0.5	0.8%
Estate and gift taxes	26.5	22.0	-4.5	-17.2%
Customs duties	18.6	19.9	1.3	6.8%
Miscellaneous receipts	34.0	34.5	0.5	1.6%
Total receipts	1,853.2	1,782.3	-70.9	-3.8%
OUTLAYS:				
National defense	348.6	404.2	55.6	16.0%
International affairs	22.3	20.6	-1.7	-7.8%
Science, space & technology	20.8	22.6	1.8	8.7%
Energy	0.5	-0.8	-1.3	-269.8%
Natural resources & environment	29.5	27.6	-1.9	-6.4%
Agriculture	22.2	24.1	1.9	8.7%
Commerce & housing credit	-0.4	-1.6	-1.2	-311.4%
Transportation	61.8	65.2	3.4	5.5%
Community & regional development	13.0	17.7	4.7	36.4%
Education, training & social services	70.5	82.1	11.6	16.4%
Health	196.4	219.2	22.8	11.6%
Medicare	230.9	249.4	18.6	8.0%
Income security	312.5	336.1	23.6	7.5%
Social security	456.4	474.7	18.3	4.0%
Veterans' benefits & services	51.0	57.0	6.0	11.8%
Administration of justice	34.3	36.3	2.0	5.6%
General government	17.4	23.5	6.1	35.2%
Net interest	171.1	153.0	-18.1	-10.6%
Undistributed offsetting receipts	-47.8	-54.4	-6.6	-13.8%
Total outlays	2,011.0	2,156.5	145.5	7.2%
Surplus / Deficit (-)	-157.8	-374.2	-216.4	

Source: Dept. of Treasury, September MTS, 2003
 NOTE: *Bulletin* readers should take care when interpreting percentage changes in the accompanying table. For the most part, very large percentage changes reflect the size of the base rather than large dollar changes.

**ON THE DEFICIT –
 ACTIONS ARE LOUDER THAN WORDS**

- Despite bipartisan hand wringing about the increasing federal deficit, both parties continue to compete on locking in larger and larger spending increases that permanently add to the deficit. The latest example lies in the deal reached last week on concurrent receipt for military retirees. After going back and forth for weeks, House and Senate conferees on the Defense authorization

savings over the next ten years of \$7.5 billion. But rejection of this proposal by veterans' service organizations was instant. After a September 23rd hearing in the Senate Veterans Affairs Committee, Senate leadership chose not to back a proposal that would pit one group of veterans against another.

- As a result, the House sent to the Senate on October 15th a new proposal for partial concurrent receipt without any offsets. Unfortunately, this came on the same day Senator Reid offered a bipartisan amendment for full concurrent receipt (costing \$43.7 billion over ten years) to the Iraq Supplemental Appropriations Bill (S. 1689). Although Senator Reid ultimately agreed to withdraw his amendment, the negotiators approved the cheaper House version when confronted with the possibility of the more costly Reid amendment becoming law.

The plan proposed by the House and accepted by the Senate has four parts to it:

- Full concurrent receipt to those with a Purple Heart or combat related disability whose VA disability rating is 0% and above.
- Full concurrent receipt for National Guard and reservists with a combat related disability.
- All other military retirees with a VA disability rating of 50% and above would receive concurrent receipt, phased in over ten years.
- Creates a Veterans' Disability Benefit Commission to report to Congress in 15 months with recommendations on restructuring the disability and death benefits given to veterans and their survivors.

CBO's preliminary estimate of this proposal is that it would increase mandatory spending over ten years by \$22 billion.

CONCURRENT RECEIPT PROPOSALS		
(in \$ billions)		
	FY04	FY04-10
House/Administration deal (cost)		\$37.0
House/Administration deal (savings)		<u>-\$44.5</u>
Net cost/savings of House/Admin deal	N.A.	-\$7.5
Reid Amendment No. 1838 to S. 1689	\$3.4	\$43.7
Oct. 15th deal	\$0.8	\$22.1

Source: CBO

BOEING REFUELING TANKER UPDATE

- On the evening of October 20th, Senators Warner, Levin, McCain, Murray, and Cantwell came to the Senate floor to announce their agreement on language that would authorize the Air Force to sign a modified contract it has negotiated with Boeing for 20 refueling tankers (to be added in conference to the 2004 Defense authorization bill, although others advocate its addition to the Iraq supplemental).
- As explained in the September 3rd *Bulletin*, the Air Force had notified Congress this summer of its intention to sign a "new start" contract to lease 100 planes (with an option to buy, even though the law authorizing the lease prohibited a purchase option). The latest proposal by Senator Warner and others is much improved over the Air Force's summer proposal because it would immediately lease only 20 instead of 100 planes, while authorizing the purchase of the other 80 to be funded later through normal procurement (thereby saving \$5.5 billion compared to the Air Force's original proposal).

- If attached to the Defense authorization bill, Senator Warner's proposal would cost \$4 billion in direct spending ("upfront" scoring in 2004), which the sponsors appear willing to bear.
- The *Bulletin* wonders: the bad public policy and precedent of leasing has been motivated all along by the desire to avoid upfront scoring. If members are willing to stray this far from the Air Force proposal by leasing only 20 planes and incur the upfront cost, why shouldn't Congress simply direct the Air Force to buy the 20 planes instead? CBO would still estimate upfront scoring, but it would be \$0.3 billion less, and the Air Force would then have the budget authority to purchase the planes. Further, purchasing 20 planes would not take any longer for delivery than leasing 20 planes. It's not too late to make it right and save \$300 million.

IS IT CURTAINS FOR SPECTRUM AUCTIONS OR JUST A HALLOWEEN PRANK?

- In the September 29th edition, the *Bulletin* examined a provision in the 2004 Commerce-Justice-State (CJS) appropriations bill (as reported by the Senate Appropriations Committee) that would prevent the Federal Communications Commission (FCC) from conducting auction #53 on January 14, 2004. But the bill goes beyond that rifle shot by including another even more radical provision that could spell doom for the leading-edge auction capability developed by the FCC over the last 10 years.
- Under the section providing the regular annual appropriation (\$278 million) to the FCC, the bill states that the "obligations and expenditures of the [FCC] shall be limited to appropriations made available under this heading, notwithstanding 47 USC 309(j)(8)(B)." Under current law (referenced by that cite), the FCC is authorized to use auction proceeds (i.e. direct spending) to cover the cost of conducting the auctions program without annual appropriations action. CBO had estimated that for 2004 those costs would be about \$100 million, meaning that this provision "saves" \$100 million relative to the subcommittee's 302(b) allocation.
- As the limitation would prevent the FCC from spending that \$100 million, the FCC's total budget for 2004 would drop from the \$378 million to \$278 million – a 26% reduction. What was wrong with the FCC's auction program to warrant zeroing it out?
- The CJS subcommittee never held an oversight hearing this year on the FCC's budget request. And there is no record of the subcommittee ever publicly asking the FCC to respond to any questions the subcommittee may have had about the auction program. Further, the committee report on the bill is silent regarding this provision. In fact, the committee report (by trumpeting its "funding increases that will greatly enhance the FCC's ability to achieve its core objectives") seems unaware that the bill includes such a large overall cut to the FCC, which the FCC has said will result instead in furloughs and program cutbacks.
- If, as FCC Chairman Powell wrote in an October 20, 2003 response to Senator McCain, the FCC would have to shut down the auctions program, it would jeopardize the conduct of the auctions the FCC has planned for the next several years as well as the more than \$21 billion in receipts that CBO includes in its baseline from those auctions. Losing \$21 billion seems like a long way to go to save \$100 million. A trick, not a treat.