Senate Budget Committee Republican Staff
BUDGET BULLETIN
A Weekly Bulletin produced when the Senate is in session.

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INFORMED BUDGETEER: FY 2005 BUDGET CYCLE BEGINS

CONGRESSIONAL BUDGET TIMETABLE

- The first business of the second session of the 108th Congress was finishing the fiscal year 2004 appropriations process. Now begins the 2005 budget process, starting with the release of CBO's new baseline on January 26. The following table summarizes the statutory requirements for completing the process, as laid out in section 300 of the Congressional Budget Act of 1974.

- Note that the Senate is planning to be in recess April 12-18, and the House is planning to be in recess April 5-18. In order to comply with the April 15 deadline for completing the budget resolution, both Houses would need to agree to the conference report prior to their April breaks.

Date/Deadline	*Action to be Completed*
January 26	CBO submits report on budget and economic outlook to Budget Committees
February 2	President submits budget to Congress
February 20	Each Committee submits to its respective Budget Committee a views and estimates letter on matters within its jurisdiction
April 1	Senate Budget Committee reports budget resolution
April 15	Congress completes action on budget resolution
June 10	House Appropriations Committee reports last regular appropriation bill
June 30	House completes action on regular appropriation bills
October 1	Fiscal year begins

CBO BUDGET AND ECONOMIC OUTLOOK, 2005-2014

- The Director of the Congressional Budget Office testified before the Senate and House Budget Committees on January 27, the day after CBO released its annual report. The testimony and report outline CBO's latest economic assumptions and budget projections based on current law, including the enactment of the omnibus appropriations bill.

- Absent new legislation, CBO expects the federal budget to be in deficit this year, and each year through 2013. A small surplus is projected for 2014.

- The law defines CBO's baseline as a neutral benchmark against which to measure the effects of possible changes in tax and spending policies. The baseline is a starting point against which both anticipated and unanticipated events are measured. CBO's baseline does not predict the country's precise future fiscal position.

- For example, in order to produce its discretionary spending baseline (in the absence of statutory caps), CBO takes the latest snapshot of the 2004 discretionary level and inflates it. Remember, 2004 discretionary spending included a large supplemental ($87 billion out of $876 billion, about 10 percent of total 2004 appropriations). The inflated costs of the supplemental are carried forward throughout the projection period. If the inflated 2004 supplemental is removed from the baseline, the deficit would be $40 billion lower in 2005 and $1.1 trillion lower over ten years.

- On the other hand, since the baseline is projected according to current law, the tax cuts passed in 2001 and 2003 that are slated to expire under current law also expire in the baseline. If the tax cuts (except the partial expensing provisions, which were meant to be temporary) are extended, the deficit would be $14 billion larger in 2005 and $1.4 trillion larger over ten years.

- In any case, legislative action that Congress considers will be measured against the new baseline. Any legislation that is enacted will become part of CBO's future baselines.

CBO BASELINE PROJECTIONS - JANUARY 2004
($ billions)

	2004	2005	2005-2014
Revenues	1,817	2,049	28,004
Outlays	2,294	2,411	29,897
Deficit	-477	-362	-1,893

Source: CBO

ROAD TO RUIN

- Last week the Senate began consideration of a six-year reauthorization of transportation programs (S. 1072). The last authorization bill, TEA-21, covered 1998-2003; the programs covered by that legislation are currently operating under a temporary extension, which will expire on Feb. 29 (see related *Bulletin* article, November 12, 2003).

- Looking through the windshield, the shape of this bill is still hazy. Four Senate committees have a role in writing the bill: Environment and Public Works (EPW), Commerce, Banking, and Finance, with the first three committees responsible for authorizing spending and the Finance Committee responsible for finding sources of revenue to pay for such spending. But the Finance Committee did not report its title until one whole week of debate had already elapsed. Despite delayed progress on the bill, leadership has insisted that the bill keep moving ahead.

- What has gone awry for a bill that one might expect to be very popular? It might be that it wants to be too popular, promising spending that cannot be paid for without increasing the deficit. For the last six years, TEA-21 took a user-fee approach. Under that structure, gas taxes and related receipts deposited in the highway trust fund were to be linked dollar-for-dollar with spending for transportation (with the exception, as it turned out, of the RABA – revenue aligned budget authority – debacle that adjusted for receipts that never materialized). Unfortunately, this trusty vehicle has been scrapped, to be replaced by a souped-up model that makes the financing of these transportation programs – already one of the most obscure in the budget – even more complicated.

- The following table compares the amounts allocated by the 2004 Budget Resolution to the levels the committees seek in the bill, the President's 2005 Budget request, and TEA-21.

TRANSPORTATION BILL COMPARISONS
CONTRACT AUTHORITY TOTALS FOR 2004 – 2009
($ BILLIONS)

Committee/Title	2004 Conference Budget Res.	Senate Transportation Bill	Pres. 2005 Budget	TEA-21 1998-2003
EPW – Highways	231	255	208	174
Banking – Transit	37	46	36	41
Commerce – Safety	4	7	6	3
Total	272	308	250	218

Source: Senate Budget Committee

- As the table shows, contract authority provided by each committee exceeds the levels allocated by the budget resolution, so a 60-vote point of order (under section 302(f)) applies to EPW's bill, as well as to the amendments that will be offered to add the transit and safety titles from the Banking and Commerce committees, respectively.

- One way to remedy any 302(f) point of order would be to take advantage of the mechanism set out in section 411 of the 2004 budget resolution. The budget resolution anticipated that spending demands would outstrip even the increased levels that it provided. Section 411 says that if the EPW, Banking, or Commerce committees report a bill (or an amendment thereto is offered) that provides new budget authority in excess of the budget resolution levels, the Budget Committee Chairman may increase the allocation to the relevant committee "to the extent such excess is offset by . . . an increase in receipts appropriated" to the highway trust fund. Such legislation increasing real receipts must be reported by the Finance Committee.

- But the Finance Committee has decided not to fulfill the intent of this mechanism with real new receipts that have some connection to the highway trust fund. Instead, the committee has proposed to "credit" the highway trust fund with amounts the government is not collecting (and that, on net, we will continue not to collect – such as gas taxes not collected on ethanol because it is taxed at a lower rate).

- One wonders why advocates of this approach don't just deem that the gas tax has been increased by an amount sufficient to cover the amounts credited to the trust fund to cover new spending? No one would pay more at the pump, but the government could spend more by borrowing more. Because these new sources of revenue to the trust fund are only "pretend" and do not reflect new receipts to the government, many members have objected to this deficit financing of the proposed increase in transportation spending.

- Responding to these objections, the Finance Committee has approved increases in other taxes (such as corporate tax loophole closers) – unrelated to transportation activities – that would come into the general fund to offset the general-fund financing of increased transportation spending. While the cost to the general fund, and therefore the increase in the deficit, would be roughly $30 billion over the next six years (in outlays to be offset by new general fund revenues), the revenue "replenishment" to the general fund proposed by the Finance Committee amounts to only $11 billion over the same period (though they total $22 billion over 10 years), as estimated by the Joint Committee on Taxation.

- Because of the six versus ten-year discrepancy (but not because of the discrepancy from the $30 billion deficit increase), the chairman and ranking member of the Finance Committee made the following commitment to the Budget Committee ranking member (with the Budget chairman seconding his interest): before the transportation bill is passed, the Finance Committee would devise an acceptable alternative to using revenue shifts from 2010-2013 to pay for costs in 2004-2009. Thus far, no acceptable, non-gimmicky fix has been unveiled.

- Despite the fact that the desired spending in this bill is not paid for, sponsors are impatient to cement the perception that these levels will be guaranteed through an amendment creating highway and transit firewalls. A sop to interest groups, such firewalls, if enacted, would not be enforceable and would have no effect (because overall statutory caps on discretionary spending and the related enforcement regime expired at the end of 2002). But because they deal with matter in the jurisdiction of the Budget Committee, there would be a Budget Act point of order (under section 306) against such an amendment.

- Debate on this bill over the course of the month will determine whether concerns expressed in the Senate about the deficit are real or rhetorical. But if deficit financing of highways and transit is inevitable, perhaps the supporters of that approach will at least take pity on budgeteers and spare them the shibboleths about how $1 billion in highway spending creates X jobs or prevents Y highway fatalities. Lots of jobs besides highway-related ones can be created by borrowing $1 billion (whether it's the federal government doing the borrowing and spending or it's the private sector investing the money in the economy in job-creating activity), with less waste and more productive impact on the economy. And there is little correlation between the additional highway dollar spent and a change in the number of traffic deaths. Meanwhile, is that beeping sound a fiscal time bomb counting down to detonation, or an overloaded concrete truck backing up?

COMMITTEE CALENDAR

February 12, 10 AM
The President's FY2005 Budget Proposal

Witness: **The Honorable Tommy Thompson**
Secretary, Dept. of HHS

February 13, 10 AM
The President's FY2005 Budget Proposal

Witness: **The Honorable John Snow**
Secretary, Dept. of the Treasury

February 25, 10 AM
The President's FY2005 Budget Proposal

Witness: **The Honorable Tom Ridge**
Secretary, Dept. of Homeland Security

February 26, 10 AM
The President's FY2005 Budget Proposal

Witness: **The Honorable Colin Powell**
Secretary, Dept. of State

The Republican staff of the Senate Budget Committee has completed its *Instant Analysis* of President Bush's FY 2005 Budget. The document can be found on our web site at the following address:
http://budget.senate.gov/republican/analysis/2004/Instant/2005Instant.pdf