

INFORMED BUDGETEER:

Comparison of <i>Bulletin</i> and OMB Budget Estimates (\$ in Billions, Outlays and Revenues)				
	<i>Bulletin</i>		OMB	
	2002	2003	2002	2003
Total Baseline Revenues^a	2,006	2,086	2,011	2,121
Total Baseline Outlays^a	2,001	2,080	2,020	2,070
Total Baseline Discretionary^a	731	761	732	749
Total Baseline Surplus/Deficit(-)^a	5	6	-9	51
<i>Changes Enacted to date:</i>				
Job Creation/Worker Assistance ^b	51	43	59	39
Farm Bill ^c	2	8	2	13
Auction Reform Act	0	1	0	2
Interest on Legislative changes	1	3	0	3
Subtotal	53	56	61	57
<i>Other Changes:</i>				
FY 2002 Supplemental ^d	10	31	14	7
FY 2003 Appropriations ^e	0	23	0	31
Other Admin. Revenue Proposals	-	-	1	6
Other Admin. Outlay Proposals	-	-	0	3
Outlay Estimating Differences	-	-	-11	2
Revenue Shortfall	93	85	91	50
Interest on Other Changes	1	8	0	5
Subtotal	104	146	95	104
Total Changes	157	201	156	161
Revised Total Revenues	1,870	1,962	1,867	2,029
Revised Total Outlays	2,022	2,157	2,032	2,138
Revised Total Discretionary	740	815	748	787
Revised Total Surplus/Deficit(-)	-152	-195	-165	-109
Memo: On-Budget Surplus/Deficit(-)	-310	-371	-321	-288

Source: Senate Budget Committee Republican Staff, OMB, July 2002

a/ The Senate Budget Committee Republican staff estimates use CBO's March baseline figures, whereas OMB uses baseline figures from the President's FY 2003 budget.

b/ CBO and OMB cost estimates for the Job Creation and Worker Assistance Act of 2002 (PL 107-147). The estimates include both a reduction in taxes and an increase in outlays.

c/ CBO and OMB cost estimates for the Farm Security and Rural Investment Act of 2002 (PL 107-171). The CBO estimate is scored relative to the CBO March 2002 baseline.

d/ SBC Republican estimate assumes outlays from the Senate-passed \$31.5 billion discretionary supplemental for BA for FY 2002, as estimated by CBO although revised supplemental figures are emerging from a conference committee. In addition, the estimate assumes \$1.1 billion in mandatory outlays in 2002 for veterans disability benefits. The estimate also assumes outlays in FY 2003 from inflating the FY 2002 discretionary BA at the Senate passed level. OMB's FY 2003 estimate does not assume inflation of the \$28.4 billion in BA in the President's FY 2002 supplemental assumption.

e/ SBC Republican and OMB estimates assume appropriations from the President's FY 2003 budget, as estimated by CBO and OMB, respectively. The president's budget provides \$759.1 billion in budget authority.

- OMB recently released its Mid-Session Review (MSR) for the President's FY 2003 budget, providing its latest deficit estimates associated with the President's policy proposals, new economic assumptions, and legislation enacted since the budget was first submitted in February.
- The President's MSR expects the current year deficit to reach \$165 billion (up from a small baseline deficit of \$9 billion estimated in February that did not include the President's policy proposals for 2002), and a \$109 billion deficit next year (up significantly from a \$51 billion baseline surplus estimated in February).
- Differences between these latest MSR estimates and those of other budgeteers, including recent estimates by the *Bulletin*, have been the subject of some discussion (though for 2002, the two deficit estimates are essentially identical). The OMB Director implied that the *Bulletin's* deficit estimates "had given up on the taxpayer" because those estimates expect more spending is likely to occur than OMB does (note that the distance between spending scenarios is less than 1%). This despite the fact that nearly 80% of the difference in FY 2003 deficit estimates is due not to spending, but revenue estimates.
- The MSR reflects what OMB thinks will happen and has requested what they want to happen, for revenues and outlays, respectively. In contrast, the *Bulletin's* estimates try to predict CBO's next baseline projection of revenues and assess what outlays are likely to be.
- For 2003, of the \$86 billion difference in deficit estimates, \$67 billion is due simply to the OMB's higher estimate of revenues compared to the *Bulletin*.

- Why the difference in revenue estimates for next year? OMB expects total revenues to increase 8.7% next year. The primary reason for the increase is the Administration's forecast of a "V-shape" recovery in corporate profits, with pre-tax profits increasing 21% between 2002 to 2003. Although the *Bulletin* is skeptical of a rapid recovery in corporate profits, a 21% increase in profits is not without precedent: such an increase was recorded following the 1981 - 1982 recession.
- Further, productivity has been rising faster than worker compensation, resulting in declining unit labor costs. Declines in this statistic usually lead to higher profits. Similar declines in unit labor costs occurred after the 1981-82 recession.
- However, the stock market is not signaling the kind of optimism about corporate profits that it did after the 1981-82 recession. In the first six months of 1983, the stock market increased 20% compared to a decline of 14% in the analogous period this year.
- The *Bulletin* also expects total federal revenues to increase next year, but at a more modest pace of 4.9% (compared to OMB's 8.7%).
- While budget events over the past year have made clear how risky any estimates are (they're all guaranteed to be wrong), one can only appreciate differences between sets of estimates by understanding how they are put together.

WHAT'S IN A DEFINITION?: HOMELAND SECURITY

- The *Bulletin* recently summarized (June 24th) the President's proposal for a Department of Homeland Security (DHS) as amounting to \$36 billion for FY 2003. This differed from the President's \$37.5 billion figure because the *Bulletin* excluded the President's moribund proposal to fully fund the accrual cost of employee retirement and health benefits. Budgeteers may have assumed that the level for the proposed department was the same as the \$37.7 billion in homeland security funding included in the President's budget in February. Given the similarity in the two numbers, making such an assumption would have been understandable. But confusingly, making such an assumption would also have been incorrect.
- Of the \$37.7 billion in homeland security funding proposed in the President's 2003 budget, only \$24.6 billion would be included in the new DHS. In other words, \$13.1 billion dollars – more than one-third of the homeland security spending for FY 2003 in the President's budget request – would fall outside of the proposed department. At the same time, nearly \$11.5 billion in spending that was not considered homeland security funding in the President's FY 2003 budget, nonetheless will be under the jurisdiction of the new department.
- What factors account for the apparently different definitions of homeland security? The back page of this *Bulletin* provides a detailed table comparing the request for homeland security in the President's budget to funding by agency for the proposed DHS budget. The difference between the two homeland security proposals has several straightforward explanations.
- Consider first the \$11.5 billion in spending that was not included in the President's budget for homeland security, but now appears in the proposal for the DHS. Almost all of this can be attributed to the fact that the proposal for the new department moves a number of agencies or entities in their entirety, even when only a portion of the agency's budget is for homeland security purposes. Examples of this include the Coast Guard, the INS, the Customs Service, the Secret Service, the Lawrence Livermore National Laboratory, the Animal and Plant Health Inspection Service, and the Federal Protective Services of the GSA.
- Two explanations account for the fact that \$13.1 billion in homeland security spending requested in the President's budget does not appear in the proposal for the DHS. The first is that the President's new department would omit certain agencies or entities, even though at least part of the mission of that agency or entity is homeland security related. Examples of this include several Department of Justice agencies (the FBI, the U.S. Marshals Service, the Detention Trustee, and the U.S. Attorneys Office), the ATF, the FDA, the Agricultural Research Service, the Food Safety and Inspection Service, the Combat Air Patrols, the visa program at the State Department, decontamination and drinking water

safety activities at the EPA, and the Nuclear Regulatory Commission.

- The second explanation is that some of the homeland security funding requested in the budget was to enhance the physical security of specific agencies, but such funding is not slated to be transferred to the new DHS. The homeland security budget for FY 2003 in the President's request included large amounts for the physical security of the Department of Energy, DoD, and the Department of State (for facilities in the United States). In addition, a number of other agencies received at least a small amount of funding for physical security purposes.
- As the proposal to create the DHS has already begun to move through Congress, it is apparent that it will change and evolve. It seems likely that some or all of the agencies currently included in the proposal may not, in the end, become part of the new department. Opposition to transferring nearly every agency or entity in the proposal has already emerged. For example, it is nearly certain that not all of Lawrence Livermore National Laboratory will be in the final version of the new department.
- On the other hand, some homeland security funding for FY 2003 in the President's budget request that is not currently in the President's proposal for the new department may eventually be transferred. The Department of Justice's Detention Trustee, for example, is likely to become a part of any final version of the new department.

Comparison of the Department of Homeland Security Budget for FY 2003 and the Homeland Security Spending Request in the President's FY 2003 Budget (\$ in billions)			
	Homeland Security Funding in FY03 Request	Dept. of Homeland Security	Dif.
Department of Transportation	7.727	10.985	-3.258
Coast Guard	2.913	6.185	-3.272
Transportation Security Agency	4.800	4.800	0
Other	.014	--	.014
Department of Justice	7.159	6.418	.741
INS	4.698	6.265	-1.567
Nat'l Infrastructure Protection Center	.151	.151	0
Nat'l Domestic Preparedness Office	.002	.002	0
Office of Domestic Preparedness	--	--	--
FBI	1.096	--	1.096
U.S. Marshals Service	.203	--	.203
Detention Trustee	.615	--	.615
Office of Justice Programs	.040	--	.040
U.S. Attorneys	.115	--	.115
Other	.239	--	.239
FEMA	3.553	6.161	-2.608
Department of Treasury	2.925	4.907	-1.982
U.S. Customs Service	2.332	3.693	-1.361
U.S. Secret Service	.369	1.214	-.845
Departmental Offices	.094	--	.094
IRS	.052	--	.052
ATF	.050	--	.050
Federal Law Enforcement Training Cntr.	.018	--	.018
Financial Crimes Enforcement Network	.007	--	.007
Other	.003	--	.003
Department of HHS	4.388	4.096	.293
Chem, Bio, Radiological, and Nuclear	2.104	2.103	.001
Civilian Biodefense Research Program.	1.993	1.993	0
CDC Rapid Toxic Screen	0.014	--	.014
FDA	.159	--	.159
HRSA - EMS for Children	.040	--	.040
SAMSHA	.010	--	.010
CIP and COOP	.068	--	.068

table continued			
	Homeland Security Funding in FY03 Request	Dept. of Homeland Security	Dif
Department of Energy	1.205	1.299	-.094
Lawrence Livermore National Lab	.093	1.188	-1.095
Nuclear Incident Response	.091	.091	0
Nat'l Infrastructure Simulation Center	.020	.020	0
Weapons Complex security	.420	--	.420
Transportation security	.143	--	.143
WMD Sensor R&D	.079	--	.079
Environmental Management	.261	--	.261
Security and Emergency operations	.076	--	.076
Departmental Administration	.014	--	.014
Federal Energy Regulatory Comm.	.002	--	.002
Office of Intelligence	.002	--	.002
Power Marketing Administration	.005	--	.005
Department of Agriculture	.551	1.137	-.586
Animal and Plant Inspection Service	.455	1.111	-.656
Plum Island Animal Disease Center	.026	.026	0
Agricultural Research Service	.029	--	.029
Departmental Administration	.009	--	.009
Food Safety and Inspection Service	.002	--	.002
Forest Service	.003	--	.003
Office of the CIO	.010	--	.010
Office of the Secretary	.018	--	.018
Department of Defense	7.844	.575	7.269
Nat'l BW Defense Analysis Center	.420	.420	0
National Communications System	.155	.155	0
Physical Security	4.605	--	4.605
Research and Development	.415	--	.415
Combat Air Patrols	1.300	--	1.300
Other	.949	--	.949
General Services Administration	.342	.429	-.087
Federal Protective Services	.326	.418	-.092
Federal Computer Incident Center	.011	.011	0
Fed. Public Key Infrastructure Program	.004	--	.004
Continuity of Operations	.002	--	.002
Department of Commerce	.140	.037	.103
Critical Infrastructure Assurance	.027	.027	0
Computer Security at NIST	.015	.010	.005
Departmental Management	.003	--	.003
Bureau of Export Administration	.065	--	.065
NOAA	.027	--	.027
Patent and Trademark Office	.003	--	.003
Department of State	.814	--	.814
Visa Program	.643	--	.643
Domestic Physical Security	.171	--	.171
National Science Foundation	.236	--	.236
Critical Infrastructure R&D	.192	--	.192
Research to combat Bioterrorism	.027	--	.027
Cybercorp/Scholarship for service	.011	--	.011
Physical/IT security	.006	--	.006
Environmental Protection Agency	.130	--	.130
Improving Decontamination	.075	--	.075
Drinking Water Safety	.022	--	.022
CT Emergency Response	.014	--	.014
Additional Physical Security	.019	--	.019
NASA	.129	--	.129
Social Security Administration	.119	--	.119
Corp for Nat'l and Community Service	.118	--	.118
Department of Interior	.099	--	.099
National Park Service	.047	--	.047
Bureau of Reclamation	.029	--	.029
Office of Secretary	.012	--	.012
Other	.011	--	.011
Army Corps of Engineers	.065	--	.065
Executive Office of the President	.048	--	.048
Nuclear Regulatory Commission	.034	--	.034
Department of Veterans Affairs	.034	--	.034
Department of Labor	.020	--	.020
District of Columbia	.015	--	.015
National Archives and Records	.007	--	.007
TOTAL	37.702	36.044	

Source: SBC Republican Staff