



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

March 17, 2003

**Direct Spending Effects of the  
Consolidated Appropriations Resolution, 2003  
(Public Law 108-7) and Preceding Continuing Resolutions  
(Public Laws 107-229, 107-244, 107-294, 108-2, 108-4, and 108-5)**

### SUMMARY

The purpose of this estimate is to provide the direct spending effects of the recently enacted omnibus appropriations act for fiscal year 2003 (Public Law 108-7) and its immediate predecessors, which took the form of continuing resolutions for the first few months of fiscal year 2003. In addition to providing regular appropriations for fiscal year 2003, those acts specified that the costs of certain provisions should be counted as direct spending. The provisions that affect direct spending will:

- Increase spending for a variety of agricultural assistance programs;
- Raise Medicare payment rates for physicians and certain hospitals;
- Authorize funding at the 2002 level for the Temporary Assistance to Needy Families (TANF), Child Care Entitlement, and Abstinence Education programs through June 30, 2003;
- Extend eligibility for transitional medical assistance under Medicaid through June 30, 2003;
- Extend a program that pays the Medicare Part B premium for certain low-income Medicare beneficiaries through December 31, 2003; and
- Provide \$700 million in additional borrowing authority to the Bonneville Power Administration (BPA).

CBO estimates that those provisions will increase direct spending by \$4.6 billion in 2003 and by \$56.1 billion over the 2003-2013 period. The increased spending in 2003 stems mainly

from \$3.1 billion in additional costs for agricultural assistance programs. Over the 2003-2013 period, most of the additional spending will reflect \$53.4 billion in higher Medicare payments to physicians.

Funding at the 2002 level for the TANF, Child Care Entitlement, and Abstinence Education programs for the first three quarters of 2003 will total \$15.6 billion. However, CBO already assumes that level of funding in its baseline for the programs—with the exception of TANF supplemental grants—as specified in section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985 (Deficit Control Act). Therefore, only the spending for supplemental grants, totaling \$255 million, is an increase relative to baseline.

## **ESTIMATED DIRECT SPENDING**

The estimated budgetary impact of the provisions in the continuing resolutions and omnibus appropriations act that affect direct spending is shown in the following table. The changes in direct spending, which total an estimated \$56.1 billion over the 2003-2013 period, fall within budget functions 270 (energy), 350 (agriculture), health (550), Medicare (570), and income security (600).

## **BASIS OF ESTIMATE**

The effects of each provision, including the effects of the continuing resolutions compared to the omnibus appropriations act, are described below.

### **Agricultural Assistance**

Title II of the omnibus appropriations act, the Agricultural Assistance Act of 2002, will provide a total of \$3.1 billion in assistance to producers who experienced losses of crops and livestock due to drought and other damaging weather conditions during 2001 or 2002. This title also provides funds for emergency surplus removal, and other purposes. The act also modifies the availability of Commodity Credit Corporation (CCC) funds for technical assistance for certain conservation programs without regard to the limitation on reimbursable agreements. The cost of these provisions will be offset by placing a limit on total spending for the Conservation Security Program of \$3.8 billion over the 2003-2013 period. Under prior law, CBO estimated that spending for that program would have totaled about \$6.9 billion over the same period.

By Fiscal Year, in Millions of Dollars

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>CHANGES IN DIRECT SPENDING</b>											
Agricultural Assistance											
Estimated Budget Authority	3,084	60	47	54	-10	-213	-375	-498	-603	-703	-849
Estimated Outlays	3,137	535	184	153	62	-168	-344	-479	-599	-702	-848
Medicare Payments to Physicians											
Estimated Budget Authority	800	2,200	3,000	4,000	5,200	6,500	7,300	7,000	6,300	5,800	5,500
Estimated Outlays	800	2,200	3,000	4,000	5,200	6,500	7,300	7,000	6,300	5,800	5,500
Medicare Payments to Hospitals											
Estimated Budget Authority	250	30	0	0	0	0	0	0	0	0	0
Estimated Outlays	250	30	0	0	0	0	0	0	0	0	0
TANF											
Budget Authority	255	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	238	30	21	-13	6	-19	-8	0	0	0	0
Transitional Medical Assistance											
Medicaid											
Estimated Budget Authority	130	119	16	3	0	0	-3	0	0	0	0
Estimated Outlays	130	119	16	3	0	0	-3	0	0	0	0
SCHIP											
Budget Authority	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	-7	-6	4	0	0	0	7	0	0	0	0
Payment of Medicare Part B Premiums											
Medicare											
Estimated Budget Authority	19	32	0	0	0	0	0	0	0	0	0
Estimated Outlays	19	32	0	0	0	0	0	0	0	0	0
Medicaid											
Estimated Budget Authority	23	-23	0	0	0	0	0	0	0	0	0
Estimated Outlays	23	-23	0	0	0	0	0	0	0	0	0
Bonneville Power Administration											
Estimated Budget Authority	0	300	300	100	0	0	0	0	0	0	0
Estimated Outlays	0	60	210	260	140	30	0	0	0	0	0
Total Changes											
Estimated Budget Authority	4,561	2,718	3,363	4,157	5,190	6,287	6,922	6,502	5,697	5,097	4,651
Estimated Outlays	4,590	2,977	3,435	4,403	5,408	6,343	6,952	6,521	5,701	5,098	4,652

NOTE: SCHIP = State Children's Health Insurance Program. TANF = Temporary Assistance to Needy Families.

**Crop Disaster Assistance.** Section 202 provides an estimated \$2.1 billion in assistance to producers for crop losses during either 2001 or 2002 due to damaging weather. Assistance will be provided in a manner similar to the crop loss disaster program authorized in the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2001 (Public Law 106-387). Producers will receive a payment based on the extent to which their actual production was below 65 percent of normal, multiplied by a payment rate of 50 percent of the average price of the commodity (or 45 percent if the producer did not purchase any available crop insurance coverage for the commodity). Crop loss payments to a producer cannot be more than 95 percent of what the value of the crop would have been in the absence of any losses, as estimated by the Secretary of Agriculture.

To receive crop disaster assistance, producers must agree to purchase additional crop insurance coverage, if available, for the next two crop years. In situations where crop insurance is not available, producers must agree to pay the administrative fee for the Noninsured Assistance Program (NAP) for the next two crop years. Because additional crop insurance purchases result in additional premium subsidies and possible indemnity payments, CBO estimates the crop insurance purchase requirement will increase the cost of the federal crop insurance program by \$15 million per year for both 2003 and 2004.

**Livestock Assistance.** The act provides a total of \$350 million in assistance to livestock producers in counties designated as primary disaster areas due to damaging weather. The act expands the number of producers eligible for the Livestock Compensation Program (LCP). The LCP provides cash payments to producers in designated counties to partially compensate for the loss or increased cost of feed due to adverse weather conditions. Originally, only producers in counties designated as disaster areas between January 1, 2001, and September 19, 2002, were eligible. Section 203 authorizes designation of additional counties and makes producers of commercially raised catfish eligible for LCP payments. CBO estimates that expanding LCP and including catfish as eligible livestock will cost \$100 million.

Section 203 also provides \$250 million for the Livestock Assistance Program (LAP). LAP provides direct payments to eligible livestock producers who suffered grazing losses due to natural disasters during calendar years 2001 or 2002. To be eligible, producers must be in a county designated as a disaster area by the Secretary of Agriculture or the President. Payments received under LAP will be offset by the amounts received from LCP or other livestock assistance programs.

**Emergency Surplus Removal.** Section 204 authorizes the Secretary of Agriculture to transfer \$250 million from CCC to the Section 32 fund to carry out emergency surplus

removal of agricultural commodities. Most of the funds provided are used to purchase specialty crops, including fruits and vegetables for use in the School Lunch program and other types of food assistance.

**Tobacco Payments.** The act will provide producers of certain types of tobacco with market loss payments. Payments are based on a payment rate of 5.55 cents per pound and, according to the U.S. Department of Agriculture (USDA), eligible quota production of around 955 million pounds. CBO thus estimates total tobacco payments to be \$53 million.

**Cottonseed.** Section 206 provides \$50 million in CCC funds for assistance to producers and first-handlers of the 2002 crop of cottonseed. The funds compensate producers for economic losses from reduced production of cottonseed due to adverse weather.

**Hurricane Assistance for Sugar Cane Producers.** The act will provide assistance to producers of sugar cane in Louisiana who suffered losses due to hurricanes in 2002. The Secretary may provide assistance to producers in the form of either 150,000 tons of sugar in the CCC inventory, or payments in an aggregate amount equal to the market value of 150,000 tons of sugar. Since CCC currently has limited inventories of sugar, CBO estimates that the Secretary will provide payments to producers based on an estimated market price of 20 cents per pound of sugar, for a total cost of \$60 million.

**Weather-Related Sugar Beet Losses.** The act authorizes the Secretary to provide \$60 million in CCC funds to assist sugar beet producers that suffered production losses in either 2001 or 2002 crop years. Eligible producers must choose which year they wish to receive assistance.

**Assistance for Water Losses Along the Rio Grande.** Section 209 authorizes the use of \$10 million in CCC funds to make a grant to the state of Texas for assistance to agricultural producers with farming operations along the Rio Grande that have suffered economic losses during the 2002 crop year because Mexico failed to deliver water to the United States in accordance with a 1944 treaty.

**Assistance for New Mexico Spraying Losses.** Section 210 authorizes the use of \$1.65 million in CCC funds to reimburse agricultural producers on farms located in the vicinity of Malaga, New Mexico, for losses incurred during calendar years 2002 and 2003. The losses resulted from the application by the federal government of tebuthiuron on land on or near farms of the producers during August 2002.

**Assistance to Citrus and Lime Growers for Citrus Canker.** The act provides \$18.2 million in CCC funds to compensate commercial citrus and lime growers in the state

of Florida for lost production with respect to trees removed to control citrus canker, and with respect to certified citrus nursery stock within citrus canker quarantine areas. To be eligible, producers must have removed trees after September 30, 2001.

**Conservation Reserve.** Under previous law, producers in designated counties were permitted to hay or graze acres enrolled in the Conservation Reserve Program (CRP), if they agreed to repay a portion of their annual CRP payment. Section 212 eliminates the requirement for producers to repay a portion of their CRP payment due to emergency haying and grazing during calendar year 2002. Based on the amount of average refunds in similar years, CBO estimates this provision will cost \$15 million.

**Technical Assistance.** Section 213 will change the availability of technical assistance funds for conservation programs in the 2002 Farm Act funded by CCC. The change will not affect the total CCC funds available for conservation programs, but will permit expanded use of authorized funds without regard to existing limits on use of CCC funds for reimbursable agreements. Because these funds spend much more quickly than funds used for financial assistance to producers, CBO estimates that outlays for CCC conservation programs will increase by \$936 million over the 2003-2013 period.

The 2002 Farm Act authorized CCC funds to provide financial and technical assistance for certain conservation programs, including the Conservation Reserve Program, the Wetlands Reserve Program (WRP), the Conservation Security Program (CSP), the Farmland Protection Program (FPP), the Grassland Reserve Program (GRP), the Environmental Quality Incentives Program (EQIP), and the Wildlife Habitat Incentives Program (WHIP). The 2002 Farm Act authorizes a fixed amount of CCC funds each year for EQIP, FPP, and WHIP. Expenses for CRP and WRP are limited by acreage caps, while the GRP has both an acreage and a multiyear spending limit of \$254 million over the 2003-2007 period. The CSP was originally unlimited in both funding level and acreage enrollment, but section 216 of the act places a multiyear spending cap on the program. The 2002 Farm Act also limited the amount of CCC funds available for technical assistance to the cap specified in Section 11 of the CCC Charter Act, which limits the amount of CCC funds for reimbursable agreements to around \$57 million per year.

Section 213 authorizes the use of CCC funds provided for CSP, FPP, GRP, EQIP, and WHIP, for technical assistance for all CCC conservation programs. Since authorized funding for each of these programs is limited either by an annual or multiyear spending cap, the expanded use of CCC funds for technical assistance does not affect total authorized CCC funds over the 2003-2013 period. CBO estimates that around \$3.7 billion in CCC conservation spending authorized over the 2003-2013 period will occur after 2013. For

example, financial assistance in EQIP spends out over a 10-year period, none of which is paid to producers the first year. Technical assistance is spent over a three-year period, with 88 percent spent by USDA to cover the cost of program administration during the first year.

**Producer-Owned Cooperative Forfeitures.** Section 214 authorizes producer-owned tobacco cooperative marketing associations to forfeit a portion of their stocks from the 1999, 2000, or 2001 crops of certain types of tobacco without having to increase assessments to the No-Net-Cost fund. Based on information from USDA, CBO estimates this provision will cost \$1 million in 2003.

**Bovine Tuberculosis Eradication.** The act authorizes \$15 million to cover incidental costs incurred by agricultural producers as a result of destroying cattle that had contracted bovine tuberculosis.

**Funding.** Section 216 authorizes the use of \$70 million in CCC funds to cover USDA administrative costs associated with implementation of programs in this title and for continued implementation of commodity programs in the 2002 Farm Act.

This section also places a cap on total spending for the Conservation Security Program over the 2003-2013 period of \$3.8 billion. Under prior law, CBO estimated spending for the CSP would be \$6.9 billion over the 2003-2013 period. Hence, the new spending limit for CSP will result in total savings of \$3.1 billion over the 2003-2013 period. CBO estimates that all savings from this provision will occur after 2007.

### **Medicare Payments to Physicians**

Section 402(a) of the omnibus appropriations act applies to the rates paid to physicians for services they provide to Medicare beneficiaries. The Centers for Medicare and Medicaid Services has reacted to this provision by revising the physician fee schedule for fiscal years 1998 and 1999. This correction replaces a scheduled 4.4 percent reduction in payment rates for 2003 with a 1.6 percent increase in payment rates. CBO estimates that this provision will increase Medicare spending by \$800 million in 2003 and \$53.4 billion over the 2003-2013 period.

### **Medicare Payments to Hospitals**

Section 402(b) of the omnibus appropriations act increases payment rates by 1.6 percent for hospital inpatient services furnished during April through September, 2003, at hospitals

located in rural areas and in urban areas with a population of less than 1 million. CBO estimates that provision will increase Medicare spending by \$250 million in 2003 and by \$30 million in 2004.

### **TANF, Child Care Entitlement, and Abstinence Education**

The continuing resolutions and the omnibus appropriations act extend the authorizations of the TANF, Child Care Entitlement, and Abstinence Education programs through June 30, 2003. The extensions provide funding at the 2002 level totaling \$13.3 billion for TANF, \$2.3 billion for child care, and \$37.5 million for abstinence education. In general, the extensions have no cost relative to baseline because CBO already assumes annual funding at the 2002 levels for the programs in its baseline in accordance with rules for constructing baseline projections, as set forth in section 257 of the Deficit Control Act.

The extensions also fund TANF supplemental grants at their 2002 level for the first three quarters of 2003. The additional funding will total \$255 million. Seventeen states that had lower-than-average TANF grants per poor person or had rapidly increasing populations would be eligible for the supplemental grants. Current law specifies that supplemental grants should not be assumed to continue in baseline projections after 2002, overriding the continuation rules specified in section 257 of the Deficit Control Act. Because many states have unspent balances from prior-year TANF grants, CBO assumes that many states will not spend the new funds quickly. CBO estimates that states will spend \$102 million in 2003 and \$255 million over the 2003-2008 period.

The continuing resolutions and the omnibus appropriations act also will allow states to maintain the authority to transfer up to 10 percent of TANF funds to the Social Services Block Grant (SSBG) for the first three quarters of 2003. (A separate provision in the omnibus appropriations act would extend the authority for the remainder of fiscal year 2003.) That authority was scheduled to fall to 4.25 percent for 2003 and later. In recent years, states have transferred about \$1 billion annually to SSBG.

Maintaining the transfer authority at the higher level makes it easier for states to spend their TANF grants and will tend to accelerate spending relative to current law. Based on recent state transfers, CBO expects that states will transfer an additional \$450 million in 2003 under the provision, but because some of this money would have been spent within the TANF program anyway, only \$135 million of additional spending will occur in 2003. This increased spending will be entirely offset by lower spending in later years. Overall, the transfer authority will increase TANF spending by \$135 million in 2003 and by \$8 million over the 2003-2008 period.

## **Extension of Transitional Medical Assistance**

The continuing resolutions and section 401 of the omnibus appropriations act extend through June 30, 2003, the requirement that state Medicaid programs provide transitional medical assistance (TMA) to certain beneficiaries—usually former recipients—who would otherwise lose eligibility because of increased earnings. This requirement had been set to expire on September 30, 2002.

CBO estimates that the extension of TMA will increase Medicaid spending by \$130 million in 2003 and \$265 million over the 2003-2013 period. The budgetary effects will continue beyond June 30, 2003, because families who qualify for TMA will be entitled to up to 12 months of additional eligibility, even if their eligibility runs beyond that date. Some states provide more than 12 months of TMA through Medicaid waivers; families living in those states could remain eligible into 2006.

The extension will also decrease spending in the State Children's Health Insurance Program (SCHIP) by \$7 million in 2003 and \$2 million over the 2003-2013 period. Without TMA, CBO anticipates that some families leaving welfare between September 30, 2002, and June 30, 2003, would have had incomes high enough to make their children ineligible for Medicaid, and that some of the children in those families would have enrolled in SCHIP instead. The extension of TMA will make those children eligible for Medicaid and (because children who are eligible for Medicaid cannot enroll in SCHIP) lead to savings in SCHIP. Since states have three years to spend their SCHIP allotments, those savings will free up funds that could be spent on benefits in later years.

## **Payment of Medicare Part B Premiums**

The continuing resolutions and the omnibus appropriations act extend through December 31, 2003, a program that pays the Medicare Part B premium for Medicare beneficiaries with incomes between 120 percent and 135 percent of the federal poverty level. The program was set to expire on December 31, 2002. Medicaid will pay for the premiums (with the federal government paying the entire cost instead of the usual federal/state split) and then be reimbursed by Medicare. CBO estimates that the extension will increase Medicare spending by \$19 million in 2003 and \$32 million in 2004. The extension will have no net effect on Medicaid spending, but will increase spending by \$23 million in 2003 and reduce spending by the same amount in 2004.

## **Borrowing Authority for BPA**

The Bonneville Power Administration has the authority to borrow funds from the Treasury to finance its capital expenditures related to electricity transmission, power generation, and energy conservation projects. Such expenditures are repaid over time as BPA sells electricity and transmission services to recoup its investments. Under prior law, the agency could have up to \$3.75 billion in debt outstanding at any time. At the end of fiscal year 2002, BPA had about \$1 billion in borrowing authority available under that ceiling. The omnibus appropriations act increases the ceiling on BPA borrowing by \$700 million, thus increasing the total debt that the agency could have outstanding at any one time to \$4.45 billion.

Based on information from BPA regarding its infrastructure needs and current financial status, CBO expects that the increase in the bond ceiling will allow the agency to pursue infrastructure investments more quickly than it otherwise would and that it will use all of the new borrowing authority. In addition, we estimate that the agency will spend about \$100 million more of its existing borrowing authority than we had assumed in our baseline estimate of spending under prior law. Thus, we estimate that the new borrowing authority will result in additional spending of \$20 million in 2004 and \$800 million over the 2003-2013 period. Because BPA is required to operate on a cost recovery basis, additional spending resulting from new borrowing authority will be offset by additional receipts from the sale of electricity and transmission services over the next 15 to 40 years.

## **COST OF PROVISIONS IN CONTINUING RESOLUTIONS VERSUS THE OMNIBUS APPROPRIATIONS ACT**

The table below shows the effects on direct spending of provisions enacted in continuing resolutions compared to the effect of provisions in the omnibus appropriations act. The changes in direct spending discussed above are due almost entirely to the omnibus appropriations act. CBO estimates that the omnibus appropriations act will increase spending by \$4.3 billion in 2003 and by \$55.7 billion over the 2003-2013 period. The remaining costs—\$0.3 billion in 2003 and \$0.4 billion over the 2003-2013 period—are due to provisions in the continuing resolutions that extended TMA through February 20, 2003, extended the payment of Medicare Part B premiums for certain beneficiaries through April 21, 2003, and authorized funding at the 2002 level for the TANF, Child Care Entitlement, and Abstinence Education programs for the first two quarters of 2003.

By Fiscal Year, in Millions of Dollars

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
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**CHANGES IN DIRECT SPENDING**

Continuing Resolutions											
Estimated Budget Authority	313	34	7	0	0	0	-1	0	0	0	0
Estimated Outlays	284	57	27	-6	6	-13	2	0	0	0	0
Omnibus Appropriations Act											
Estimated Budget Authority	4,248	2,684	3,356	4,157	5,190	6,287	6,923	6,502	5,697	5,097	4,651
Estimated Outlays	4,306	2,920	3,408	4,409	5,402	6,356	6,954	6,521	5,701	5,098	4,652
Total Changes											
Estimated Budget Authority	4,561	2,718	3,363	4,157	5,190	6,287	6,922	6,502	5,697	5,097	4,651
Estimated Outlays	4,590	2,977	3,435	4,403	5,408	6,343	6,952	6,521	5,701	5,098	4,652

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