



MONTHLY BUDGET REVIEW

Fiscal Year 1999

A Congressional Budget Office Analysis

Based on the Monthly Treasury Statement for June and the Daily Treasury Statements for July

August 11, 1999

CBO estimates that the surplus for the first 10 months of fiscal year 1999 was \$67 billion, an increase of \$24 billion over the surplus at the same time last year. CBO expects that a small deficit in August will be followed by a surplus of more than \$50 billion in September, yielding a total surplus for the fiscal year of close to \$120 billion.

JUNE RESULTS

(In billions of dollars)

| | Preliminary | | Difference |
|----------|-------------|--------|------------|
| | Estimate | Actual | |
| Receipts | 199.0 | 199.5 | 0.5 |
| Outlays | 144.9 | 145.9 | 1.0 |
| Surplus | 54.1 | 53.6 | -0.6 |

SOURCES: Department of the Treasury and Congressional Budget Office.

The surplus in June was \$53.6 billion, very close to CBO's projection. Revenues were slightly higher than anticipated, but outlays were \$1.0 billion more than CBO estimated. Spending by the Departments of Transportation, Justice, and the Treasury accounted for most of the difference in outlays.

ESTIMATES FOR JULY

(In billions of dollars)

| | Actual 1998 | Preliminary 1999 | Estimated Change |
|-------------|-------------|------------------|------------------|
| Receipts | 119.7 | 121.8 | 2.1 |
| Outlays | 143.8 | 149.1 | 5.3 |
| Deficit (-) | -24.1 | -27.3 | -3.2 |

SOURCES: Department of the Treasury and Congressional Budget Office.

CBO estimates that the deficit in July was about \$27 billion, \$3 billion more than in July 1998. Revenues were up by only 2 percent over last year, but this July had one fewer business day, which would mean about \$5 billion less in revenues than would otherwise be expected. Outlays were up by about 4 percent over last year's figure. July spending was unusually high in 1998 and 1999 because August 1 fell on a weekend in both years and about \$10 billion in payments normally made in August were instead disbursed in July.

BUDGET TOTALS THROUGH JULY

(In billions of dollars)

| | October-July | | Estimated Change |
|----------|--------------|---------|------------------|
| | FY1998 | FY1999 | |
| Receipts | 1,428.7 | 1,500.1 | 71.3 |
| Outlays | 1,385.7 | 1,433.0 | 47.3 |
| Surplus | 43.0 | 67.0 | 24.0 |

SOURCES: Department of the Treasury and Congressional Budget Office.

CBO estimates that the total surplus for the first 10 months of fiscal year 1999 was about \$67 billion—an increase of about \$24 billion compared with the same period last year. Receipts for the 10 months were about \$71 billion higher than last year, and outlays were up by an estimated \$47 billion.

RECEIPTS THROUGH JULY

(In billions of dollars)

| Major Source | October-July | | Percentage Change |
|-------------------|--------------|---------|-------------------|
| | FY1998 | FY1999 | |
| Individual Income | 682.8 | 729.7 | 6.9 |
| Corporate Income | 150.4 | 140.5 | -6.6 |
| Social Insurance | 483.0 | 506.9 | 5.0 |
| Other | 112.6 | 122.9 | 9.2 |
| Total | 1,428.7 | 1,500.1 | 5.0 |

SOURCES: Department of the Treasury and Congressional Budget Office.

Overall, receipts were 5.0 percent higher in the first 10 months of this fiscal year than in the same period last year. Corporate tax payments decreased by \$10 billion, or 6.6 percent, making it likely that corporate taxes will drop this year for the first time since 1990. Receipts from all other sources increased.

NOTES: Unless otherwise indicated, the figures in this *Monthly Budget Review* include the Social Security trust funds and the Postal Service fund, which are off-budget. Numbers may not add up to totals because of rounding.

A number of factors should raise the growth rate of receipts for the rest of the year above the 5.0 percent experienced to date. The last two months of this year will have one more business day than was the case last year, whereas the year so far has had one fewer day. During the first part of the year, a 24 percent increase in tax refunds lowered net revenue growth, but few refunds are expected in August and September. In addition, excise tax receipts are projected to be \$5 billion higher in the last two months than they were last year, because in 1998 payments of highway and airport taxes were postponed from August and September until October.

OUTLAYS THROUGH JULY
(In billions of dollars)

| Major Category | October-July | | Percentage Change |
|---------------------|----------------|----------------|-------------------|
| | FY1998 | FY1999 | |
| Defense—Military | 215.2 | 218.7 | 1.6 |
| Social Security | | | |
| Benefits | 309.2 | 318.4 | 3.0 |
| Medicare | 181.0 | 178.4 | -1.4 |
| Medicaid | 84.4 | 89.0 | 5.4 |
| Net Interest on the | | | |
| Public Debt | 208.4 | 196.2 | -5.9 |
| Other | <u>387.5</u> | <u>432.4</u> | 11.6 |
| Total | 1,385.7 | 1,433.0 | 3.4 |

SOURCES: Department of the Treasury and Congressional Budget Office.

CBO estimates that outlays were 3.4 percent higher in the first 10 months of fiscal year 1999 than in the same period last year.

Medicare outlays were about 3 percent below last year's level in July, leaving them about 1.4 percent below last year's level for the first 10 months of this fiscal year. Lower payments for home health services and a drop in the case-mix index (a measure of the relative costliness of the cases treated in hospitals paid under the prospective payment system) explain most of the decline in Medicare spending so far this year. Some of the drop in home health spending stems from longer payment lags under sequential billing—a new method of processing

claims in which payment is made only if all prior claims have been processed. Medicare suspended that billing process in July, which should increase spending toward the end of the fiscal year. In addition, the use of home health services seems to have dropped substantially, probably as a result of both antifraud activities and an unexpectedly cautious response by home health agencies to new payment rules enacted in 1997.

Net interest costs continue to be about 6 percent below last year's level because interest rates have been lower and budget surpluses have reduced the amount of federal borrowing from the public. To date, the government has spent \$12 billion less on net interest than it had at the same point last year.

Spending for all other categories is running higher than at the same point in 1998. Defense outlays are up by less than 2 percent, and Social Security benefits continue to grow at an annual rate of about 3 percent. Outlays for Medicaid have accelerated recently, exceeding last year's spending by almost 7 percent over the past six months and by 5.4 percent for the year to date. Spending for a variety of other programs and activities is up by almost 12 percent.

**CURRENT PROJECTIONS FOR
FISCAL YEAR 1999**
(In billions of dollars)

| | OMB | CBO |
|-----------------------|-------|-------|
| Total Receipts | 1,827 | 1,821 |
| Total Outlays | 1,728 | 1,701 |
| Total Surplus | 99 | 120 |
| On-budget deficit (-) | -24 | -4 |
| Off-budget surplus | 124 | 125 |

SOURCES: Office of Management and Budget and Congressional Budget Office.

In the past two months, both CBO and the Office of Management and Budget (OMB) have released updated budget projections for fiscal year 1999. CBO estimates that the total surplus this year should reach \$120 billion, with an on-budget deficit of \$4 billion. OMB projects a total surplus of \$99 billion and an on-budget deficit of \$24 billion.