

**\$ INFORMED BUDGETEER: Appropriations End Game \$**

**EMERGENCIFICATION**

- Perplexed budgeteers have been asking the *Bulletin*: what is the end game for the 1999 appropriations process? Short answer: ask the appropriators. But with the new fiscal year deadline just 10 days away (actually, it's shifted to Oct. 9, with a short-term CR just cleared for the President) no apparent solution is in sight.
- While this muddled situation has the *Bulletin* talking to itself, at least we can frame the parameters of the end game. Starting with the obvious, it's all about getting the contents of the remaining 12 bills passed by the Congress and signed by the President. The table below compares the President's request for each appropriations bill to the current 302(b) allocation in the Senate, which **reflect the existing statutory caps agreed to by the President and Congress in the Balanced Budget Act last year.**

President's 1999 Request vs. Senate 302 (b) Allocation \$ in Billions						
	President's request <sup>A</sup>		Senate 302 (b)		Difference	
	BA	OT	BA	OT	BA	OT
<b>Ag</b>	13.7	14.1	13.7	14.1	*	*
<b>Commerce</b>						
def	0.3	0.3	0.3	0.3	*	*
non-def	27.5	27.0	26.8	26.3	0.8	0.7
crime	5.5	4.6	5.5	4.7	*	-0.1
<b>Defense</b>	250.8	246.5	250.3	244.9	0.4	1.6
<b>DC</b>	0.5	0.5	0.5	0.5	*	*
<b>Energy</b>						
def	12.3	11.9	12.0	11.8	0.3	0.1
non-def	8.7	8.8	8.9	8.9	-0.2	-0.1
<b>For. Ops.</b>	14.1	13.0	12.6	12.6	1.5	0.4
<b>Interior</b>	14.1	14.4	13.4	14.0	0.7	0.4
<b>Labor-H</b>	84.9	81.4	82.7	80.8	2.1	0.6
<b>Leg</b>	2.5	2.4	2.4	2.3	0.1	0.1
<b>branch</b>	7.8	9.1	8.5	9.2	-0.7	-0.1
<b>Mil. Con.</b>						
<b>Transp.</b>	0.3	0.3	0.3	0.3	*	*
def	11.8	13.6	11.6	13.3	0.1	0.3
non-def	0.2	21.3	--	21.9	0.2	-0.6
highways	0.2	4.8	--	4.4	0.2	0.4
transit	13.6	13.3	13.3	12.2	0.3	1.1
<b>Treasury</b>	70.1	81.1	70.0	80.8	0.1	0.3
<b>VA-HUD</b>						
<b>TOTAL</b>	271.6	268.2	271.6	266.6	0.1	1.6
def	0.2	21.3	--	21.9	0.2	-0.6
highways	0.2	4.8	--	4.4	0.2	0.4
transit	5.8	4.8	5.8	5.0	*	-0.1
crime	261.1	269.3	255.6	265.4	5.3	3.9
non-def						
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Memo: President's adjustments to non-defense						
Tobacco Tax					-3.6	-3.6
Superfund Tax					-1.8	-1.8
President's budget vs. caps					-0.1	-1.5

\*Less than \$50 million, Prepared by SBC majority staff, 9/16/98. <sup>A</sup>CBO reestimate of President's Request.

- The totals at the bottom of the table reinforce the notion that most of the disagreements are in the area of nondefense spending, especially in Labor-H, Foreign Ops, and CJS. The table shows that the President wants to appropriate at least \$5.3 billion more for these purposes than is available under law. The memo at the bottom of the table reminds us that the President had hoped to make the additional appropriations possible by enacting tobacco and superfund taxes, and crediting \$5.4 billion of the new revenues to the nondefense caps.
- The Budget Enforcement Act (BEA) does not allow tax increases to be used as an offset to appropriations for the purpose of meeting the caps. Interpreting a tax increase to be a spending cut is a stretch by anyone's imagination except, apparently, the

President's Office of Management and Budget.

- Even if the BEA allowed tax increases to be used to expand the caps, it is abundantly apparent that this Congress, after much debate, does not intend to enact such taxes. So the increased spending promised by the President's budget was based on a slim reed indeed. Reducing the President's request by the amount of the unrealistic and unrealized revenues, it appears the existing allocations are sufficient to fund the balance of the President's request.
- But the "excess" request is even larger than the \$5.3 billion because of further additional spending (offset by user fees or decreases in mandatory spending) that is embedded in the request for each bill. So the President harps that his agenda in areas such as increased education funding is unfulfilled in current versions of the relevant appropriation bills.
- Even though significant relief has already been provided to the appropriators to squeeze in additional spending within the caps (see related *Bulletin* article), the Administration's letters and SAPs on the appropriation bills almost invariably include the following language: "the allocation is simply insufficient to make the necessary investments...[for] key Presidential priorities...The only way to achieve the appropriate investment level is to offset discretionary spending by using savings in other areas...We want to work with the Congress on mutually agreeable mandatory and other offsets...to increase high-priority discretionary programs."
- But the missives fail to identify specific offsets the Administration wants added to a particular bill. Complicating completion of these bills is that there is no final set of 302(b) allocations agreed to by the House and Senate, and most conference committee activity has yet to begin in earnest. Further, an emerging strategy of "emergencification" appears to be confusing the outlook for final action. For more on that, see next item.

**SAY AGAIN, WHAT'S AN EMERGENCY (TAKE 2)?**

- Last week's *Bulletin* included the statement: "Throughout the 1990's the annual level of emergency spending has been increasing, despite (or perhaps as a result of) increasingly tight discretionary spending caps." That statement seemed to be contradicted by a table that appeared alongside.
- In part, that's because the table was incorrect. The corrected table is below. It shows that emergency spending, aside from Desert Storm, has varied within the range of \$5 billion to \$12 billion annually from 1992-1998, with no apparent increasing pattern.

<b><u>Historical Summary of Emergency Spending</u></b> (Discretionary BA, \$ in billions)			
Fiscal Year	Desert Storm <sup>A</sup>	Other	Total
1991	44.2	0.9	45.1
1992	14.0	8.3	22.3
1993	0.6	4.6	5.2
1994	*	12.2	12.2
1995	*	7.7	7.7
1996	--	5.0	5.0
1997	—	9.3	9.3
1998	--	5.7	5.7
<b>TOTAL</b>	<b>58.8</b>	<b>53.7</b>	<b>112.5</b>

\*less than 50 million. <sup>A</sup>Includes Desert Shield spending. SOURCE: OMB Sequestration Update Report (August 26, 1998).

- Although the statement was not supported by historical fact, perhaps it was prescient in anticipating action on emergency appropriations for 1999. Thus far, the President has requested

\$8.0 billion for emergency activities to be funded outside the constraints of the caps (see table below).

- In addition, the President and the Congress appear to be converging on extending the emergency designation, to the tune of \$9.8 billion, to activities such as “defense readiness”, Bosnia, and agricultural disasters.
- Yet that’s not all. Some have floated the idea that in the end-game negotiations, spending on medical research that the Congress wants and education spending the President wants also may be designated as emergencies. The *Bulletin* guesses these amounts could be in the \$3 billion range, which could bring the total emergency pot to more than \$20 billion.

<b>Potential Emergency Appropriations for 1999</b> (BA in Billions)	
	Total
<u>Presidential Requests:</u>	
Disasters	2.9
Year 2000 Problems	3.3
Embassy Security <sup>A</sup>	1.4
Terrorism/Korean floods <sup>A</sup>	0.4
Subtotal	8.0
<u>Requests Originating in Congress:</u>	
Defense Readiness	4.0
Agriculture Disasters	3.9
Bosnia	1.9
Subtotal	9.8
<u>Trial Balloons:</u>	
Medical Research & Education	3.0
<b>TOTAL:</b>	<b>20.8</b>

<sup>A</sup>President’s request imminent.

- To the extent that items that were expected to be funded under the caps, either by the President (\$1 billion for Y2K activities and increases for education in his request) or by the Congress (\$4 billion for defense readiness), become designated as emergencies, that would create additional room under the caps for spending that is not now possible in the bills. And this would affect decisions on final 302(b) allocations.
- A possible counterweight to this trend, however, is certain members in the House who insist that all emergency spending be offset. This, in effect, denies the advantage that the Budget Enforcement Act gives to emergency spending (can be considered outside caps) and reintroduces the discipline of making all spending fit within the caps.
- Of course, the larger the pot of emergency spending grows, the more difficult it will be to find legitimate offsets. But the larger the pot of emergency spending grows, the more difficult it will be to justify every item as an emergency, and the more legitimate becomes the argument that at least some of it should be offset. Otherwise, the caps enacted last year will have not survived even one year without being ignored, gimmicked, or gamed.
- Perhaps it would be easier to appropriate what’s necessary to reach a deal between the President and Congress. Then waive the budget act and change the law to explicitly increase the caps by taking it out of the surplus instead of employing “emergencies”, selective scoring, or bizarre interpretations of the BEA.

### **NONDEFENSE OUTLAY CAP RELIEF**

- On July 30, Senator Harkin raised an amendment to the Defense Appropriations bill that would require CBO to adjust the scoring for nondefense discretionary outlays in a manner consistent with adjustments made for defense discretionary outlays. Senator Harkin seemed troubled by an adjustment that the Chairman of the Budget Committee had made to the scoring of the Defense Appropriations bill. Chairman Domenici agreed to review CBO’s scoring of the Labor HHS appropriations bill, and Senator Harkin withdrew his amendment.

- During debate on the budget resolution in early April, Senators Thurmond and Stevens had raised a concern that CBO scored FY 1999 defense outlays \$3.6 billion higher than OMB. Chairman Domenici agreed to review their concerns and wrote them on April 27, 1998, indicating that there was a justification to review \$2.0 billion in scoring differences between OMB and CBO on policy issues. The Chairman agreed to adjust CBO’s scoring of outlays if the defense bill included language that implemented the policy assumptions underlying OMB’s scoring of the defense bill.

- Senator Harkin’s complaint appears to be that nondefense spending wasn’t getting the same treatment. For nondefense discretionary spending, CBO scores outlays under the President’s budget request at \$3.5 billion higher than OMB’s estimates. Policy differences aside, the nondefense caps have already been changed or other adjustments have already been made to provide \$1.5 billion in relief to nondefense.

- The biggest change to the caps resulted from the enactment of the TEA-21 which established separate caps, or “firewalls”, for highway and transit funding. OMB scores highway and transit outlays at \$1.1 billion lower than CBO. If OMB’s estimates were used to establish the separate caps, Congress would have to cut highway and transit spending by \$1.1 billion to meet those caps. Since the purpose of the highway and transit “firewalls” was to guarantee an increase in spending, this option did not generate a lot of enthusiasm during the TEA-21 conference.

- If CBO’s estimates were used, all other nondefense spending would have fully absorbed the \$1.1 billion difference in outlay scoring due to highways and transit. OMB objected to this option. The result was that CBO’s estimates were used to calculate the separate highway and transit outlay caps and OMB’s estimates were used to calculate the reduction in the nondefense outlay caps. The net effect was that \$1.1 billion in outlays was effectively added to nondefense discretionary spending.

- It didn’t end there with respect to TEA-21. In scoring the bill, CBO was misled about a change in FY 1998 highway obligations and the result was that CBO scored the bill as achieving \$28 million in FY 1999 outlay savings that will not materialize. In addition, in making the reduction to the nondefense discretionary spending cap, TEA-21 failed to take out spending for the Washington Metropolitan Transit Authority (WMATA) that would be funded out of the transit cap. Chalk up another \$202 million in nondefense outlays.

- Not all scoring relief has been in the transportation area. In the 1999 budget request, the Federal Housing Administration (FHA) requested \$0.8 billion for administrative costs associated with running its mortgage insurance programs. In past years, the level of appropriations has been \$0.5 billion, which was supplemented by an additional \$0.2 billion per year spent out of FHA’s liquidating and financing accounts, contrary to the requirements of credit reform and the anti-deficiency act!

- The appropriators decided not to fund FHA’s attempt to go legit for 1999, and have provided FHA only \$0.5 billion, apparently assuming that FHA will continue its practice of drawing the additional funds necessary to operate its programs from unauthorized sources. The appropriators should be scored for the (at least) additional \$0.2 billion that will be spent, but the budget committee agreed to provide forbearance for this one last time.

**Adjustment for Nondefense Discretionary  
FY 1999 Outlays**  
(\$in millions)

TEA-21 adjustment to the nondefense caps	1,101
under-estimate of highway outlays	28
<u>WMATA error</u>	202
Subtotal, TEA-21	1,331
<u>FHA administrative expenses (BA &amp; OT)</u>	200
<b>TOTAL</b>	<b>1,531</b>