107th Congress, 2nd Session: No. 28 October 7, 2002

INFORMED BUDGETEER

APPORTIONMENT UNDER A CONTINUING RESOLUTION

- While still no one knows the length and detailed parameters of future continuing resolutions (CRs) for FY 2003, one may wonder in the meantime how agencies access the funds provided by a CR. All funds, including funds appropriated under a CR, are supposed to be drawn from the Treasury by means of an appropriations warrant. A warrant is an official document issued by the Secretary of the Treasury that establishes the amount of money in each appropriations account that the law allows to be withdrawn from the Treasury. In effect, a warrant is the final step needed for putting money into each agency's "checking account."

- But even then, an agency cannot obligate itself to spend any money. The Antideficiency Act requires the Office of Management and Budget (OMB) to apportion (the process by which OMB "switches on" funds available for obligation) not only regular appropriations, but also funds provided by a CR. Normally, an agency submits, and OMB must approve, an apportionment schedule by account. For CRs, OMB (under Circular A-11) has typically permitted funds to be apportioned automatically instead.

- On September 30th, OMB issued Bulletin 02-06 to give guidance on all CRs for FY 2003, including the first two already enacted – House Joint Resolutions 111 and 112, which provide funds for FY 2003 through October 4th and October 11th, respectively. Both the Circular A-11 and the Bulletin 02-06 state that all footnotes and other conditions that apply to the latest apportionment for the prior fiscal year are still applicable under automatic apportionment.

- In addition, these OMB documents allow agencies to submit a written request for reapportionment with adequate justification when seasonal programs require an amount different from the amount automatically apportioned (such as funds to fight forest fires). A reapportionment is simply a change to a previously approved apportionment (including an automatic apportionment).

- Under automatic apportionment, the amount available during the period covered by the current CR is the lesser of either 1) a pro-rated level to reflect a constant rate of obligation over the period or 2) the seasonal rate of obligation. To calculate a pro-rated level, the agency would multiply the annualized appropriation by the number of days the CR is in effect and divide that number by 365 (days in a year). For example, H. J. Res. 111 provides 4/365 and H. J. Res. 112 provides 7/365 of the annualized appropriation.

- To determine a seasonal rate of obligation instead, an agency would first calculate the historical rate of obligation for the period of the CR from either the prior fiscal year or an average of a number of prior years. Then, the agency would multiply that historical rate by the annualized appropriation provided under the CR.

WHAT HAPPENS TO THE NEW TRANSPORTATION SECURITY ADMINISTRATION (TSA) UNDER A CR?

- Even if some agencies win a written apportionment to replace an automatic one, some programs or even entire agencies will have difficulty fulfilling their mission under a long-term CR that lasts 2 to 6 months. A case in point is TSA.

- TSA is currently struggling to meet legislative mandates to take over passenger screening by November 19, 2002 and to screen 100 percent of checked baggage, mail, and cargo by December 31, 2002. Under ordinary circumstances, this would be a herculean task, but the lack of a regular 2003 appropriations bill makes matters more difficult. The President requested $5.3 billion for TSA in 2003. But if the current CR were to stay in place the entire year, the agency would receive $3.7 billion, 32 percent less than requested. The CR funding level for TSA represents a 22 percent decrease from the $4.7 billion the agency had available in 2002 to conduct its initial year of operations. Budgeteers might wonder how an agency can get less money in 2003 than in 2002 under a current rate CR?

- So let's look at where TSA's funding came from in 2002 (see table below). At the beginning of 2002, TSA received a direct appropriation of $95 million and was permitted to spend $1.25 billion in estimated user fees. When the agency almost ran out of money in May, the Administration transferred $1.03 billion in two lumps from unobligated budget authority that the Federal Emergency Management Agency (FEMA) received in 2001 (this transfer was an administrative action and does not count as new budget authority for 2002). Then in August, the 2002 supplemental appropriation provided TSA with an additional $3.37 billion, but directed TSA to transfer $1.03 billion of this amount back to FEMA to compensate them for the earlier "loan." (See lines 4,5, and 6).

TSA Funding
($ in millions)

	2002	2003 CR
(1) Appropriation from Treasury	**95**	**95**
(2) Spending of User Fees	**1,250**	**2,222**
(3) Unobligated FEMA Balance Transfer (2001 BA)[/a]	1,030	–
(4) Summer 2002 Supplemental	3,370	3,370
(5) Transfer Back to FEMA	-1,030	-1,030
(6) Subtotal	**2,340**	**2,340**
(7) New Budget Authority (lines 1,2, and 6)	**3,685**	**4,657**
(8) Minus Unobligated Balances	–	**-1,000**
(9) Total Budget Resources Available (lines 3 and 7)	**4,715**	**3,657**
Memo:		
President's FY 2003 Request[/b]		5,346

Source: SBC Republican staff
/a In May and July of 2002, the Administration transferred a total of 1.03 billion to TSA from funds appropriated to FEMA on September 20, 2001.
/b The President increased his 2003 TSA request from $4.8 billion to $5.3 billion after the he did not designate as an emergency $480 million provided for TSA in the Summer 2002 Supplemental.

- The current CR provides nearly all agencies with the same new budget authority they received in 2002. Even though TSA had available $4.715 billion in total budgetary resources for 2002, only $3.685 billion of that was considered new budget authority for TSA (the rest of the amount, $1.03 billion, came from 2001 budget authority). Applying the same terms, conditions, and levels of 2002 appropriations action for TSA to a 2003 CR means: TSA would receive the fees it expects to collect in 2003 ($2.222 billion according to the Administration) as well as a $3.465 billion direct appropriation from the Treasury (sum of lines 1 and 4), for a total of $5.687 billion (sum of lines 1, 2, and 4).

- But of this $5.7 billion total, TSA would have to transfer another $1.03 billion to FEMA–again, under the same terms and conditions that applied in 2002 appropriations law. The remaining $4.7 billion must then be reduced by the agency's roughly $1 billion in unobligated funds–arriving at the $3.657 billion in total budgetary resources that TSA would have under a 2003 CR.

- The resulting funding gap could seriously hamper TSA's ability to meet its security mandates. The problem could be significantly improved if the next CR were to "turn off" the automatic transfer of $1.03 billion from FEMA to TSA. After all, there is no need for TSA to pay back FEMA twice.

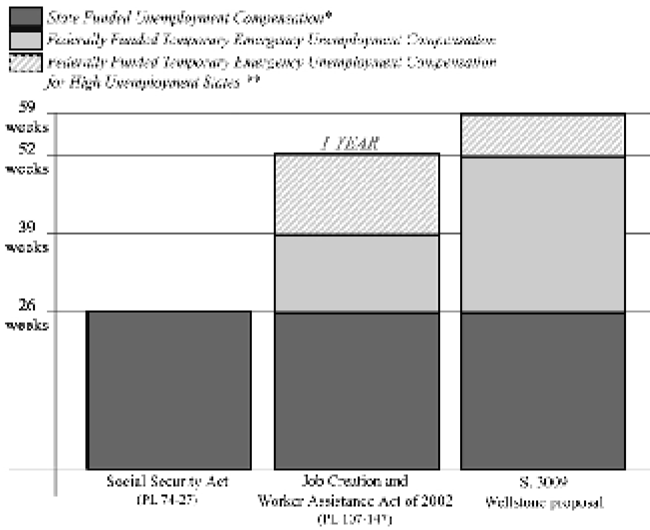
TRUST FUNDS DO NOT MEAN "FREE" – THE COST OF EXPANDING UNEMPLOYMENT INSURANCE

- The economic stimulus bill enacted last March (Public Law 107-147, The Job Creation and Worker Assistance Act of 2002) created the Temporary Emergency Unemployment Compensation (TEUC) program to provide up to 13 weeks of 100% federally-funded unemployment benefits to workers in all states who had exhausted their state-funded benefits. (Further, TEUC allows unemployed workers in states with high unemployment, currently only

Washington and Oregon, to receive an additional 13 weeks of benefits.) This program supercedes the Extended Benefit program in permanent law which pays for only 50% of extended benefits under very limited circumstances.

- TEUC expires on January 1, 2003 and currently serves 1.1 million people per week with a cumulative cost of $6.8 billion through the end of August. Based on information from the Department of Labor, a projected 2.2 million workers are expected to exhaust their TEUC benefits by the time the program expires.

- Sen. Wellstone and 29 Senate cosponsors have introduced S. 3009 to extend the TEUC program through July 1, 2003. As shown on the chart, S. 3009 also would expand the TEUC program to allow workers



to collect 26 weeks of federally-funded unemployment benefits in all states and a total of 33 weeks of federally-funded benefits in high unemployment states, which would be defined more broadly than in PL 107-147. These benefits would be in addition to state-funded unemployment benefits.

- **According to an estimate by CBO, S. 3009 would increase direct spending by $17.1 billion in FY 2003.** In contrast, some have suggested that this bill doesn't really cost anything because unemployment compensation (UC) is already funded by trust funds. A review of the funds demonstrates this is not true.

- The federal government collects a 0.8% tax on the first $7,000 of wages paid each year to an UC-covered employee. This tax flows into three federal trust funds that have an aggregate balance of $28 billion. Of the three trust funds, the one directly related to benefits is the Extended Unemployment Compensation Account (EUCA – current balance $13 billion), which funds the Extended Benefit program available to states under certain conditions, such as having an insured unemployment rate of at least 5% (the "insured unemployment rate" is currently 2.9% nationwide).

- Because so few states ever qualify for the Extended Benefit program in permanent law (the last time more than four states qualified simultaneously was 1983), Congress often temporarily expands unemployment benefits out of EUCA during a recession, most recently by creating the TEUC program. S. 3009 seeks to "tap" EUCA further. Doing so, however, increases direct spending and worsens the government's net financial position. This is because the EUCA, like all government trust funds, does not consist of tangible assets, but of IOU's from the federal government. In order to pay for the extended unemployment benefits contemplated by S. 3009, the government will need to borrow from the public (or cut spending or increase taxes) to honor the IOU's.

- Extending unemployment benefits may be the right public policy, but it is not free or "paid for" as some have suggested. If enacted, would increase federal outlays and the federal deficit by $17.1 billion in FY 2003.

DEBT MATURITY SHRINKS

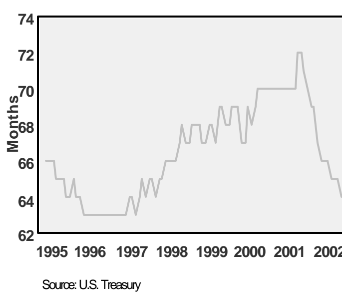
- Last December the Federal Reserve cut short-term interest rates to 1.75%, the lowest level in 40 years. Now the yield on 10-year Treasury notes has fallen as low as 3.60%, also a 40-plus year low.

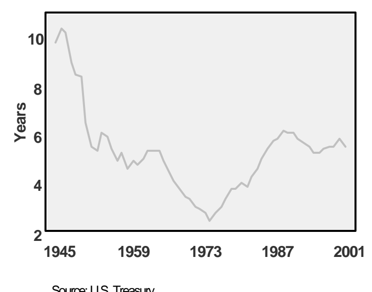
- Meanwhile, there has been a dramatic change in the maturity distribution of the privately-held portion of the federal debt (debt held outside government accounts and the Federal Reserve). In June 2001, the average maturity of the debt was 72 months. This June the average maturity was only 64 months. A drop of eight months in the average length of the debt over a year's time is very unusual. Should we be concerned about such a rapid change?

- In general, short-term rates tend to be lower than long term rates, so financing the debt by using more short-term securities reduces interest costs. However, short- term debt has to be rolled over more often and therefore increases the risk that the Treasury may have to refinance more debt at a time when interest rates (short-term *and* long-term) are not as low as they are today.

- For example, the rate on 3-month T-bills is now about 1.6 percent. The 10-year rate is about 3.7 percent. If the Treasury raises funds by issuing more 3-month T-bills instead of more 10-year Notes, it reduces interest costs for the first three months. But if short-term rates average more than 3.7 percent over the next 10 years, a policy of continuously reissuing 3-month T-bills every three months for 10 years will end up costing more than issuing a 10-year Note.

- But just because the average maturity is down does not mean the Treasury has decided to engage in some sort of financial gamble. The key reason for the shortening of the debt structure is the demise of the 30-year Treasury bond, which was last auctioned in October 2001. Treasury announced last fall that it would no longer issue that security. One of the results has been a shorter debt structure.





- The average length of the debt is about the same as it was back in 1995-97. And given that the gap between long-term and short-term rates is much larger now, there seems to be more of a justification for having a shorter debt structure at present. Also, from an historical perspective, the length of the debt is no where near as low as it got back in the mid-1970s. Back then, the average maturity was only 29 months. In 1946, it was as high as 10 years.