



BUDGET BULLETIN



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Judd Gregg, Chairman
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INFORMED BUDGETEER

APPROPRIATIONS

- There are a number of scenarios that could play out to conclude the appropriation process for fiscal year 2007, which commenced a month ago. Since the *Bulletin* is unable to foretell the election results, a discussion of possible outcomes is the best intelligence the *Bulletin* can provide.
- Before contemplating the future, let's consider the current status of discretionary appropriations in the Congress.
- The 2007 limit (or 302(a) allocation) in both the House and Senate for regular discretionary spending by the Appropriations Committee is \$872.8 billion (for more on how this came to be, see: <http://budget.senate.gov/republican/analysis/2006/bb05-2006.pdf>). Only two appropriation bills have been enacted: Defense and Homeland Security. The Defense bill provided \$377.4 billion in budget authority, and Homeland provided \$31.9 billion, leaving \$463.5 billion for the remaining bills. The Defense bill also carried a continuing resolution (CR) until November 17th for the remaining appropriations. (If the CR for these other bills were to last the entire year, only \$456.5 billion in budget authority would be consumed.)
- The Senate's new cap on emergency spending for 2007 is \$86.3 billion. Once this cap on emergency spending is reached, additional emergency spending, be it non-defense or defense, will count against the 302(a) allocation to the Appropriations Committee. Assuming the appropriation bills are all at their 302(b) allocations, emergency spending in excess of \$86.3 billion would trigger a 302(f) point of order. The enacted Defense and Homeland bills provide *only* \$72 billion in emergency appropriations, leaving about \$14.4 billion available under the emergency cap. (for more on this, see: <http://budget.senate.gov/republican/analysis/2006/bb05-2006.pdf>)
- The Administration has already signaled that it intends to request at least another \$50 billion for emergency supplemental war funding for 2007. Therefore it seems inevitable that the \$14 billion in emergency money remaining under the Senate's cap will be insufficient for additional spending demands in 2007. In addition, appropriation bills reported in the Senate include emergency designations: the Agriculture bill includes over \$4 billion in emergency disaster assistance, and the CJS bill has \$1 billion for NASA. The House bills do not include additional emergency appropriations, nor does the House have a limitation on emergency spending.
- When the House and Senate Appropriations Committees set their 302(b) suballocations back in June, the House shifted about \$4 billion from defense to non-defense, relative the President's request. The Senate shifted \$9 billion from defense to non-defense, but in the conference on the Defense bill, the Senate went to the House's defense/non-defense split. So for the remaining bills, the Senate appropriators are facing a \$5 billion "hole."
- In the Senate, where many argued that the non-defense bills were underfunded even with the additional \$9 billion under the Senate's 302(b) allocation, this \$5 billion hole poses quite a challenge to the Appropriations Committee. Difficult decisions will need to be made to trim the remaining bills if they are to fit within the \$872.8 billion cap.
- There are a multitude of procedural paths available to process the remaining appropriations. The following is not an exhaustive discussion of all possibilities, but merely suggests some of the more likely scenarios.
- The most challenging way to conclude the 2007 appropriation process would be to take up and pass each bill under the regular order for the consideration of an appropriation bill in the Senate, conference them, and bring bills back from conference totaling \$872.8 billion. Since the Senate has yet to consider any of the bills on the floor with the exception of the two enacted bills, this would be a lengthy process absent a broad agreement on both sides of the aisle to proceed in an expeditious manner.
- So what other options are there for completion of the process? A CR extending, say, halfway into the fiscal year could be enacted. This proven method was used to complete the appropriations in both 2003 and 2004 when omnibus appropriation bills were debated and enacted in February and January, respectively. Deferring action for another three months is only an appealing option if whichever party proves victorious on November 7 wants the first action of the 110th Congress to be cleaning up the unfinished appropriations from the 109th Congress.
- If that is not an attractive prospect, how about a year-long CR? Maybe, but this hasn't occurred in recent memory, and IF either chamber changes control on election day, would the outgoing Appropriations Committee Chairman be eager to put forward a year-long CR, thereby passing up his last chance to author the appropriation bills? (And if the Senate doesn't change, would the minority provide the votes necessary to avoid a filibuster?)
- So a long-term CR isn't going to suit everyone, but what about an omnibus appropriation bill enacted before Christmas? The first problem with an omnibus is procedural. Unlike in recent years, the Senate doesn't have an appropriation bill in conference to be the vehicle to carry the rest of the bills. With no vehicle already in conference, an omnibus won't happen until 60 Senators consent to consideration and the passage of an appropriation bill off the Senate floor.
- But can't the Appropriations Committees informally conference the omnibus, pass it in the House, and send it over to the Senate? Yes, but since that wouldn't be a conference report, the bill would be fully amendable on the Senate floor. So to send such a bill to the President would require the defeat of all amendments and 60 Senators in favor of passing such a bill.

Current Status of Appropriations (2007 budget authority, billions of \$)		
	Regular	Emergency
2007 allocation/cap	872.8	86.3
Defense conference report	377.4	70.0
Homeland Security conference report	31.9	1.8
2006 Supplemental *	-	*
<u>Bills on CR (annualized cost)</u>	<u>456.5</u>	<u>N/A</u>
Total	865.8	71.9
Remaining room	7.0	14.4

Source: SBC Majority Staff, based on CBO Estimates.

* A \$48 million emergency agriculture disaster provision in the supplemental bill enacted earlier this year was scored to FY2007.

- With so many different interests and so many tools of obstruction available, how can the 109th Congress possibly complete its work in a timely way? Unabashed overspending or gimmickry could come to the rescue. With broad consent, the 2007 appropriations could be completed quickly, but widespread support is only likely to come at a price. That price could be paid by simply overspending the discretionary cap. Or, it could be paid by any number of gimmicks (advance appropriations, emergency spending, changes in mandatory programs) that are far too familiar to seasoned budgeteers

MTS REPORTS RETURNS FOR 2006

- Last month, the Treasury Department released the September Monthly Treasury Statement (MTS, <http://www.fms.treas.gov/mts/mts0906.pdf>). After a year of estimates and revisions to those estimates from OMB and CBO, the September MTS reported the actual outlays and receipts of the federal government for the fiscal year just ended.
- As shown in the table to the right, total outlays of \$2.65 trillion and receipts of \$2.40 trillion left a deficit of \$248 billion for 2006, which was \$71 billion (22%) less than the 2005 deficit.
- Receipts grew by \$252 billion (12%) from 2005, with a \$76 billion (27%) increase in corporate income taxes and a \$117 billion (13%) increase in personal income taxes.
- Total Outlays rose by \$182 billion (7%), with spending increases (as defined by budget function category rather than, say, by agency or budget account) for net interest on the debt, defense, Medicare, and Social Security driving much of the increase. Net interest increased by 23% and accounts for the largest amount – about one fourth – of the total spending increase. A nearly 50% increase in short-term interest rates over the last year explains a lot of this change, though continued deficit spending is partially responsible.
- Hurricane relief spending also contributed to the rise in outlays. Hurricane relief is partially reflected in the \$29 billion increase (115%) in the Community and Regional Development function that includes the Federal Emergency Management Agency, which provides the spending for disaster assistance. The \$6.9 billion increase (26%) in the Natural Resources and Environment function reflects other hurricane-related spending, largely for the Corps of Engineers.
- It's worth noting that most of the big increases in spending in 2006 were attributable to emergencies, military operations, or economic cycles (hurricanes, the Global War on Terror, and rising interest rates, respectively), but higher Medicare spending -- \$31.2 billion and nearly a fifth of the increase in total spending -- is part of a trend projected to continue year after year absent any major policy changes. Separately, outlays for the Education function grew by \$18.6 billion (19%) from last year, due almost entirely to the low fixed-interest rates (i.e. subsidies) offered to borrowers who consolidated student loans and adjustments in the estimated subsidy costs of loans made before 2006.

Comparison of 2005 and 2006 Actuals				
(\$ in billions)				
	2005	2006	\$ Change	% Change
Receipts:				
Individual income taxes	927.2	1,043.9	116.7	13%
Corporation income taxes	278.3	353.9	75.6	27%
Social insurance and retirement receipts	795.1	837.8	42.7	5%
Excise taxes	73.1	74.0	0.9	1%
Estate and gift taxes	24.8	27.9	3.1	13%
Customs duties	23.4	24.8	1.4	6%
Miscellaneous receipts	<u>32.4</u>	<u>44.4</u>	<u>11.9</u>	<u>37%</u>
Total receipts	2,154.3	2,406.7	252.4	12%
Outlays by budget function:				
National defense	493.9	528.8	34.9	7%
International affairs	34.4	29.0	-5.4	-16%
General science, space, and technology	24.5	20.2	-4.3	-18%
Energy	0.6	0.8	0.1	18%
Natural resources and environment*	26.2	33.1	6.9	26%
Agriculture*	28.4	27.9	-0.5	-2%
Commerce and housing credit	7.4	6.1	-1.3	-18%
Transportation	68.1	70.8	2.7	4%
Community and regional development	25.1	53.9	28.9	115%
Education, training, employment and social services	97.9	116.5	18.6	19%
Health	250.4	252.6	2.2	1%
Medicare	298.6	329.9	31.2	10%
Income security	347.6	353.7	6.1	2%
Social security	523.3	548.6	25.2	5%
Veterans benefits and services	70.2	69.8	-0.3	0%
Administration of justice	39.7	35.5	-4.2	-11%
General government	17.7	18.9	1.2	7%
Net interest	184.1	226.6	42.5	23%
Undistributed offsetting receipts	<u>-65.2</u>	<u>-68.2</u>	<u>-3.0</u>	<u>5%</u>
Total outlays	2,472.9	2,654.4	181.5	7%
Deficit	-318.6	-247.7	70.9	-22%

Source: Department of Treasury September MTS, 2006

*The September 2006 MTS as reported by the Department of Treasury contained errors in the Agriculture and the Natural Resources and Environment functions. The function totals shown here have been corrected.