INFORMED BUDGETEER:

FY 2003 Appropriations
Proposed Budget Authority Allocations
($ in Millions)

Subcommittee	CBO re-est. of President[/a]	Approps House	Committee Senate[/b]	Dif Senate less House
Agriculture	17,051	17,601	17,980	379
CJS	40,729	40,303	43,475	3,172
Defense	356,595	354,447	355,139	692
DC	379	517	517	0
Energy-Water	25,149	26,027	26,300	273
Foreign Ops	16,100	16,350	16,350	0
Interior[/c]	18,953	19,730	19,326	-404
Labor-HHS[/c]	130,900	129,902	134,288	4,386
Leg. Branch	3,412	3,413	3,413	0
Mil-Con	9,541	10,083	10,622	539
Transportation[/d]	19,851	20,856	21,100	244
Treasury Postal	17,960	18,501	18,501	0
VA-HUD[/c]	92,518	91,811	92,934	1,123
Subtotal	749,138	749,541	759,945	10,404
Unallocated[/e]	10,000	11,000	10,344	-656
Total	759,138	760,541	770,289	9,748
Emergencies[/c]	—	—	*2,200*	*2,200*

Source: Senate Budget Committee Republican Staff
/a President's Budget reflects amendments submitted by President on March 14 and July 3.
/b In addition to the figures shown here, Sen. Byrd's proposed Senate allocation also includes $25.4 billion in advance appropriations, $2.244 billion more than the advances from the FY 2002 appropriaitons bills.
/c Emergencies are included in each subcommittee's allocation total.
/d Includes mass transit budget authority of $1.445 billion in 2003 for President, House, and Senate.
/e The House includes a $1 billion special education reserve fund; if released, it would be allocated to the Labor-HHS subcommittee.

ORDER IN THE ABSENCE OF A BUDGET RESOLUTION?...

- For the last 11 years, the *Bulletin* has informed budgeteers on the status of annual appropriation bills relative to the subcommittee 302(b) allocations used for congressional enforcement.

- While the table above may strike regular readers as mundane in its familiarity, this year (FY 2003) the meaning of the table is different in a perhaps obvious way that is still worth highlighting: because the Senate has not yet considered a budget resolution, the Congress remains precluded from adopting one (and is not likely to at this point). Also, there is no statutory cap on general purpose discretionary spending and no sequester enforcement.

- Therefore, in the Senate (the House has "deemed" that it has a 2003 budget resolution with enforceable allocations in place), there is no way to enforce the subcommittee "allocations" – or perhaps "targets" is a better word – that the membership of the Senate Appropriations Committee has agreed to.

- As usual, the numerical comparisons are enlightening. The House plans to spend $1.4 billion more than the President has requested (the House's total BA, therefore, is <u>not</u> the same as the President, as it does not plan to count BA for mass transit against its official allocation of $759.096 billion, while the President and the Senate do). The Senate plans to spend $9.7 billion more than the House, with more than three-fourths of that difference in two bills: Labor-HHS and Commerce, Justice, State.

- Aside from these differences (which amount to less than 1 ½ percent of the total amount being argued about) it is encouraging to see that while lacking the accustomed 60-vote points of order for making it stick, the Senate appropriators are proceeding with a "business-as-usual" attitude of holding to a set level of discretionary appropriations.

- Chairman Byrd and ranking member Stevens have even demanded that amendments to add spending to each of the 13 bills include offsets to keep each bill at its target, and they have suggested they will oppose all that don't. This reflects a certain institutionalization of the budget process and offers hope that the next Congress may be amenable to addressing extension and reform of the congressional budget processes in a meaningful way.

- The *Bulletin* salutes the Committee for its efforts to retain order and a semblance of fiscal responsibility in what is likely to be a tumultuous appropriations season. Perhaps the habitual use of familiar features of the budget process, such as emergencies and advances, represents a "placeholder" approach in hopes that the usual enforcement tools can still be extended to apply for 2003. But enacting caps for 2003 does not appear likely, so budgeteers may want to "think through" the implications of some of these features under the altered reality of 2003.

...BUT HOW DO YOU ADJUST OR AVOID SOMETHING THAT'S NOT THERE?

- In the absence of any statutory caps, the continued use of emergencies and advance appropriations suggests an interesting wrinkle. For example, the Senate spending targets indicate at the outset the expected amounts in three subcommittees that will have an emergency label. (Under the past enforcement regime, allocations were not adjusted for emergency items until a bill was reported out of conference.) Further, the bills are expected to continue using actual emergency designations. For example, the Interior appropriations bill as reported by the Committee contains two emergency designations pursuant to section 251 of the Balanced Budget and Emergency Deficit Control Act of 1985.

- If there is a statutory spending cap, the section 251 designation would permit the cap to be increased by the amount of emergency spending to avoid sequestration. Since there are not likely to be any caps to adjust, what will be accomplished by invoking the designation? Perhaps it's simply a matter of continuing past practice of putting contingent emergency appropriations for FEMA, LIHEAP, and fire fighting in regular appropriations bills.

- The absence of statutory caps and congressional allocations also begs another question. Why do the President, House, and Senate continue (and the Senate increase by $2.244 billion) the use of advance appropriations? Some claim that certain (and supposedly limited) educational programs required this type of funding because local school systems' fiscal years do not align with the federal government's. But the level of advances has increased aggressively. If Congress and the President were to eventually agree to a statutory limit for 2003, it could be set at a level which would move the funding back into the appropriate year, as the President proposed doing in the 2002 budget request. A future *Bulletin* will further address this issue of advances.

- Now seems like an appropriate time for budgeteers to rededicate themselves to making sure that everything adds up in a transparent and honest way designed to be clear, not to confuse or misdirect. The Senate Appropriations Committee's effort to retain budget discipline can be built upon. The *Bulletin* hopes that the managers of the individual appropriations bills will be successful in keeping their bills within these allocations.

AMTRAK WRECK NARROWLY AVERTED -- FOR NOW

- On June 28th, Secretary of Transportation Mineta announced an agreement with Amtrak on a financial assistance package to prop up the railroad through September. Only three weeks before, Amtrak announced it would have to shut down at the end of the month if it could not secure $200 million (Amtrak is now seeking $270 million) to cover its losses for the remainder of the fiscal year. Such a shutdown would have affected not only Amtrak trains, but also commuter rail lines operated by Amtrak and freight and commuter trains that operate on Amtrak-owned tracks in the northeast corridor.

- Amtrak's financial trouble has been an enduring constant since it was created in 1970 by Congress as a for-profit corporation granted a monopoly to provide intercity passenger service, with federal subsidies intended only for the first few years. But after about $20 billion in federal subsidies, the Congress in 1997 provided another $2.2 billion in assistance and set a mandate that Amtrak should reach operation self-sufficiency by December 2002. Since then, Amtrak has received another $2.1 billion and abandoned the mandate of reaching operation self-sufficiency.

- Amtrak lost about $1 billion in 2001 and initiated aggressive cost-cutting measures earlier this year. Though Amtrak's financial problems were worsening, it had access to a $270 million line of credit from its banks–sufficient to cover its cash shortfall for the remainder of the year. But Amtrak's seemingly typical financial woes became a crisis when its bankers revoked its line of credit because Amtrak had not yet submitted a 2001 audited report and because of the disagreement in the federal government over Amtrak's future funding.

- The railroad initially sought a loan from the private sector to carry it through the end of the fiscal year, but after those efforts failed, it turned to the federal government. The Administration had little time to put together an assistance package. It became increasingly apparent that the 2002 emergency supplemental would not be enacted in time to provide the necessary funds to avert a shutdown. This left the Railroad Rehabilitation and Improvement Financing (RRIF) program as the only viable option.

- Enacted in 1998, the RRIF program was intended to provide up to $3.5 billion in direct loans and loan guarantees for capital projects or to refinance existing debt. Until now, no RRIF loans or loan guarantees have ever been disbursed.

- Even though Amtrak's immediate problem is to cover short-term operating costs (not long-term capital needs), the Administration agreed to provide Amtrak a $100 million direct loan through RRIF–enough to carry the railroad for several weeks. The remainder of the needed funds will have to come later, most likely in the supplemental. The agreement included a number of conditions, such as Amtrak improving its financial controls and accounting transparency, identifying $100 million in cost reductions, and providing certain information to DOT.

- The $100 million loan was disbursed on July 5th and must be repaid on November 15, 2002 at an interest rate of 1.81 percent. Under procedures established by the Federal Credit Reform Act of 1990, the subsidy cost of any federal credit instrument is the estimated net cost to the government over the life of the loan, calculated on a present value basis. The Administration estimated a zero subsidy cost for this loan due to its short term and the $180 million worth of assets Amtrak offered as collateral.

- Because Amtrak loses money on most of its routes and has a sizable capital backlog, the railroad relies on federal subsidies to keep it rolling. **Therefore, the loan will essentially be repaid by next year's subsidy payment from the federal government, and Amtrak will need $100 million more in federal aid to provide the same level of services. So, the federal government is both lending the money and then repaying it with a higher appropriation next year.**

PCESE HAS IDEAS ON *IDEA*

- Last October, President Bush established a Presidential Commission on Excellence in Special Education (PCESE) to study special education programs and recommend policies for improving the performance of the 6.5 million children with disabilities who benefit from the Individuals with Disabilities Education Act (IDEA). With IDEA up for reauthorization, PCESE's recently released report provides the Commission's findings and recommendations in time for the upcoming debate.

- Of primary interest to the budgeteer is the issue of mandatory vs. discretionary funding for IDEA. The Commission came to the conclusion that IDEA funding, like other critical government programs such as defense, should remain discretionary to ensure that the Congress and the President have the opportunity to consider appropriate funding levels annually rather than put IDEA funding on autopilot.

- Aside from how IDEA funding is provided, the report discusses levels and uses of funding. For example, the Commission suggests that the Part B Grants to States funding should continue its upward trend of recent years. The Commission also recommends increased flexibility in the use of federal funds – for example, pooling Part B Grants to States, Part C Infants and Toddlers Grants, and Section 619 Preschool Grants, as well as creating safety nets and risk management pools to fund the needs of the most expensive children.

- While the Commission joins the consensus sentiment that the federal government is underfunding special education, it also questions whether 40 percent of average per pupil expenditures (APPE) is really "full funding." In 1975, the Act authorized up to 40 percent of APPE as the maximum funding level and this continues to be the case, but the federal government has never appropriated funding up to the authorized level.

- The $8.7 billion in the 2002 budget represents the highest percentage of APPE to date (17 percent), and the President's 2003 budget requests a $1 billion increase, which would bring total IDEA funding to $9.7 billion. This would still only represent 18 percent of APPE, yet 40 percent continues to be the target for which IDEA advocates aim.

- Regarding the 40 percent "full funding," the Commission points out that "There is no scientific or particular public policy basis for defining full funding...at 40 percent of average per pupil expenditure." The Commission recommends that all levels of government focus instead on determining the true additional costs required to teach special education children, after which the appropriate level of federal support can be reexamined.

- The findings and recommendations of the Commission echo many of the same themes present in the No Child Left Behind Act: accountability, focusing on results, flexibility, local solutions, scientifically based research, and sufficient options for parents.