

## INFORMED BUDGETEER:

### THE EDUCATION BUDGET: “A” IS FOR “ADVANCE APPROPRIATIONS”

- The *Bulletin* would like to clear away some confusion over the increases for the Department of Education in the President’s budget. The confusion arises from a large increase in the use of advanced funding for fiscal year 2001 in the 2000 appropriation bill (see *Bulletin* no.32, Nov. 8, 1999).
- Simply going by the figures for discretionary budget authority for the Department of Education, we get a 35.9 percent increase: \$29.5 billion for 2000 compared to the President’s request of \$40.1 billion for 2001.
- But by focusing on the appropriations for the *academic year*, the period in which schools receive and use federal funds, we get a different picture. The fiscal year runs from October 1 to September 30; the academic year runs from July 1 to June 30.
- Discretionary funding provided for education for the 2000-2001 academic year was \$35.7 billion. The President’s request for the 2001-2002 academic year is \$40.1 billion, a 12.3 percent increase, far less than the increase noted above. How did this happen?
- The reason is that \$12.4 billion was advanced from 2000 into 2001. This advance was double the amount advanced from 1999 into 2000. If we adjust the spending figures by counting funds by the year in which they are appropriated, rather than the fiscal year in which they are scored, we get the academic year figures (see table below).

<b>Education Appropriations for Academic Years</b> (\$ in Billions)	
<b>1999 Enacted</b>	
Discretionary BA for FY 1999	28.8
Minus Advances from 1998 into 1999	-1.4
Plus Advances from 1999 to 2000	+6.2
Total Appropriation for Academic Year 1999-2000	33.6
<b>2000 Enacted</b>	
Discretionary BA for FY 2000	29.5
Minus Advances from 1999 into 2000	6.2
Plus Advances from 2000 to 2001	12.4
Total Appropriation for Academic Year 2000-2001	35.7
<b>2001 President’s Request</b>	
Discretionary BA for FY 2001	40.1
Minus Advances from 2000 into 2001	12.4
Plus Advances from 2001 to 2002*	12.4
Total Appropriation for Academic Year 2001-2002	40.1

\*Since the Administration’s figures for 2001 show no difference between BA and the total appropriation, their budget request assumes that advanced funding will continue at the 2000 level of \$12.4 billion. Following this large increase, the President also assumes no real growth in discretionary spending through 2005.

- The important point is that whether focusing on the academic year or the fiscal year, *the President is requesting the largest funding increase in the Department’s history*. By academic year appropriations, the increase is 12.3 percent, and by fiscal year budget authority it is 35.9 percent. This year’s education budget debate is likely to center around the 12.3 percent figure, since this reflects the difference in *new spending*.

### “B” IS FOR “BASELINES” AND ADVANCE APPROPRIATIONS

- There are a million ways to do a baseline. Thinking about the appropriate baseline concept to use for discretionary spending is even more complicated this year because of extensive use of Advance Appropriations (AAs) in the 2000 bills.
- Why Advance Appropriations? Used to be, there were hardly any. One might want to provide money for a program in a year after the

budget year to, say, allow the recipient to plan other activities in light of a specific dollar appropriation known years in advance (e.g. Corp. for Public Broadcasting).

- The explosive use of AAs, however, has nothing to do with planning. The 1997 BBA set BA caps that were effectively frozen from 1998-2001. The political requirement of passing approps bills that the President wouldn’t veto demanded increased funding even when caps did not increase.
- One evolving and expanding response of the appropriators was to pick programs (such as Education) that used to receive programmatic funding on an annual basis, even if much of the funding was not needed until a subsequent fiscal year. They then shifted some of the funding for that program out of the budget year into the subsequent year. The beneficiaries didn’t care because they don’t use the money until that subsequent year anyway (that’s why outlays are unaffected), and the AA gives them the guarantee that the money is there in current law.
- Then the appropriators take the BA saved by shifting funds out a year, and they allocate it to new or increased programs that use the money right away. **Make no mistake:** AAs are a ‘gimmick’ in the sense that they allow an expansion of commitments even when an expansion would appear impossible under frozen caps. By increasing the base, they destabilize the frozen caps in subsequent years even more, necessitating more AAs.
- What do AAs have to do with the freeze baseline? First, remember: why do we find baselines useful? They help us compare what we want to do in the future with what we are currently doing.
- Is a freeze baseline a conceptual construct, or a copying exercise where we write down the same numerals that exist in a column for one year into a column for the next year, proving we know how to faithfully replicate symbols?
- The freeze baseline concept acknowledges a congressional commitment of resources to a set of programs in the base year, and assumes that the same set of programs can be maintained in the next year at the same nominal level of resources (assuming the costs of inflation can be somehow absorbed through some economies).
- For better or worse, in the 2000 appropriation bills, the Congress committed a level of resources to a set of programs, even if some of the resources, which under previous practice would have been available in 2000, are now not available until 2001. That is why a freeze takes the amount actually provided in 2000 into 2001, and then adds the advances on top of it.
- The freeze, as constructed by CBO, represents the total level of commitments made in 2000. **If the freeze were less, it would not be a freeze—it would be a cut:** a reduction in the congressional commitment made to a set of programs. A cut may be what is desired for 2001, but that is a policy decision, not a function of simply implementing an incorrect view of freeze baseline.

### SOURCES OF DISCRETIONARY SPENDING INCREASES

- Attention has been focused on growth in discretionary spending resulting from increases in emergency designations over the past several years. However, it is important to note that two recent budget process changes have also substantially increased discretionary spending – faster than the historic trend.
- In 1998, Congress enacted the Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21). TEA-21 created two new discretionary caps for highway and transit spending, effectively establishing a budgetary “firewall” between each of those programs and all other domestic discretionary programs. Further, it provided significant increases in highway and transit spending by guaranteeing a minimum of \$198 billion over a six year period.

- Budget authority for highway and mass transit programs increased from \$30 billion in 1998 to nearly \$38 billion in 2000, for an increase of almost \$8 billion, or 25% over the period. Outlays totaled nearly \$25 billion in 1998 and are estimated to increase to almost \$30 billion in 2000, representing growth of almost \$5 billion or 20% .
- In 1994, Congress established the Violent Crime Reduction Trust Fund (VCRTF) which authorized a total of just over \$30 billion over a six year period beginning in 1995. Funds to support the VCRTF's various programs were made possible by CBO estimates of the savings from fully implementing the reductions in federal employment promised in the National Performance Review. As with TEA-21, the VCRTF established a budgetary "firewall" between the VCRTF programs and other domestic discretionary spending.
- For the VCRTF programs, \$18 billion was authorized and almost \$16 billion was appropriated during the period FY 1998 to FY 2000. CBO reports outlays of nearly \$4 billion in FY 1998, \$5 billion in FY 1999, and also estimates outlays of just over \$6 billion for FY 2000 for VCRTF programs. Outlays from FY 1998 to FY 2000 increased 54%.

**SPRUCE GOOSE FINALLY FLIES**

- Late last week, an agreement between Senate and House negotiators was reached on the FAA reauthorization conference. Details of the agreement on budgetary issues are as follows:
- The total authorized funding for federal aviation programs will be \$40 billion over the next three years, of which \$33 billion will be guaranteed from the trust fund and \$6.4 billion is available to be appropriated from the general fund.
- Annual appropriations from the Airport and Airway Trust Fund will equal the annual receipts to the Trust Fund plus interest, as estimated in the President's budget. Based on current CBO projections, a total of \$10.6 billion will be directly appropriated from the trust fund in 2001. For 2001 through 2003, more than \$33 billion will be guaranteed from the trust fund for aviation programs.
- The agreement provides a strong and enforceable guarantee to ensure that FAA appropriations will be no less than the amounts paid annually into the Trust Fund.
- It will allow appropriations from the general fund up to the total amounts authorized. A total of nearly \$12.7 billion in budget resources would be available in 2001, an increase of \$2.7 billion over enacted 2000 levels.

<b>2000 Actual Budget Resources and Authorized Levels Agreed to by FAA Conference (\$ in billions)</b>					
<u>Budget Resources</u> by Program	2000 Actual	2001	2002	2003	Total
Airport Improvement Prog.	1.90	3.20	3.30	3.40	9.90
Facilities & Equipment	2.05	2.66	2.91	2.98	8.55
Operations	5.90	6.59	6.89	7.36	20.84
Research	0.16	0.24	0.25	0.00	0.49
<b>Total</b>	<b>10.0</b>	<b>12.69</b>	<b>13.35</b>	<b>13.74</b>	<b>39.77</b>

**CONGRESS GEARS UP FOR SUPP!**

- The House Appropriations Committee is tentatively scheduled to mark up the FY 2000 Supplemental Appropriations bill next week (possibly March 8<sup>th</sup> or 9<sup>th</sup>).
- The President currently has pending approximately \$5.3 billion in

- supplemental requests, including another \$800+ million sent to Congress on February 25.
- This latest supplemental request includes \$600 million in contingent emergency appropriations for the Low Income Home Energy Assistance Program (LIHEAP) to address rising fuel oil and propane costs.
- The President requests \$123.5 million for USDA for emergency agricultural and rural housing programs, including \$81 million in loan forgiveness to producer-owned marketing associations that suffered losses due to hurricanes. This item passed the Senate last year, but failed to be considered by the House before adjournment.
- A total of \$40 million is in the latest request for assistance through the Department of Commerce to Vieques, Puerto Rico, relating to training at the Navy range on this island.
- Additional funding is also requested for disaster assistance through the Department of Commerce and for the National Transportation Safety Board for airline accident investigations. Supplemental funding is also proposed for weatherization assistance through the Department of Energy, for SBA business loans, and for housing assistance for disaster victims.

<b>Proposed FY 2000 Supplementals (\$ in Millions)</b>	
BA- FY 2000	
<b><u>Emergencies</u></b>	
Kosovo/East Timor	2,748
Plan Colombia	955
Low Income Home Energy Assistance	600
Natural Disasters (Floyd, fisheries, etc.)	328 <sup>A</sup>
Other Emergencies	132
<b>TOTAL Emergencies</b>	<b>4,763</b>
<b><u>Non-Emergencies</u></b>	
BA	503
Offsets	-283
<b>TOTAL (excluding offsets)</b>	<b>5,626<sup>B</sup></b>
<b>Mandatory</b>	<b>35</b>

<sup>A</sup>Does not include \$77.4 million earmarked for FEMA to be used for home buy-outs and relocation assistance. <sup>B</sup>Of the \$5.3 billion total, \$837 million is requested in the 2/25 package. SOURCE: OMB

**ECONOMICS**

**REVENUES KEEP COMING IN**

- Five months into FY2000, revenues are continuing to come in strong – YTD growth continues to top 8 percent. This is a notable pick-up from last year, where at the same point in the fiscal year, revenues were growing at "only" a 5.7 percent pace.
- Strength this year has been led by withheld individual income taxes, a reflection of the robust jobs markets and real wage growth.
- Of course, the real wildcard is still ahead – final payments for 1999 tax liability. Since early filers are most often seeking refunds, we are just starting to see evidence in the individual refunds data. February 2000 refunds were up over the same period last year, however, it is too early to say whether this is a true trend or just a timing quirk.
- The main event comes in the second half of April, when we get the bulk of final payments. While reported strength in bonus payments and strong equity markets performance bode well for

collections, it's hard to say whether there will be another April surprise or not. Stay tuned!