



APPROPRIATIONS ANALYSIS

BY THE COMMITTEE ON THE BUDGET, REPUBLICAN CAUCUS

B-71 Cannon House Office Building
Washington, DC 20515
Representative Paul D. Ryan, *Ranking Republican*

Phone: (202)-226-7270
http://www.house.gov/budget_republicans/
Augustine T. Smythe, *Republican Staff Director*

THE BUDGET IMPACT OF THE SECOND CONTINUING RESOLUTION

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SUMMARY

The second continuing resolution [CR] for fiscal year 2011 is far more than a straight-forward, stop-gap spending bill. It is a sprawling, 423-page measure – with four “divisions” and 10 titles – that includes major policy changes, such as food safety legislation, well beyond the presumed intent to simply keep government agencies funded and running. Thus, the legislation – made necessary because not one of the regular appropriations bills for fiscal year 2011 has been enacted – is just another example of an agenda of higher spending and bigger government.

According to the Congressional Budget Office [CBO], the overall cost of base discretionary spending in the bill (H.R. 3082) is \$1,090 billion. The measure also adds \$159 billion to continue war-fighting efforts in Iraq and Afghanistan, bringing the total cost to \$1,296 billion. But the war-fighting amounts are designated as “emergency” spending. Hence the Majority claims the bill holds base spending at approximately the same level as fiscal year 2010 – roughly \$1,091 billion.

But this claim ignores the significant spending increases of the past several years. Since fiscal year 2008, base discretionary spending has increased by 17 percent, from \$933 billion to \$1.09 trillion (see Table 1). The larger increases were in non-defense discretionary spending, which rose 23 percent, and the CR essentially remains at this elevated level.

Table 1: Base Discretionary Appropriations from 2008-2011

(Billions of \$BA)

	2008 Enacted	2009 Enacted	2010 Enacted	2011 CR	% Increase from 2008
Defense	499	534	554	555	11%
Non-Defense	434	478	537	535	23%
Base Discretionary Funding	933	1,013	1,091	1,090	17%
Memorandum					
Non-Security Spending*	378	404	464	462	22%

*Base discretionary excluding: Department of Defense, Veterans Affairs and Department of Homeland Security funding.

The CR then increases spending further by assuming the 2010 spending levels for the decennial census and the Base Realignment and Closure [BRAC] process. Both activities are expiring, but the CR takes this one-time 2010 spending, totaling \$11.1 billion, and spends it to increase other programs above 2010 levels.

But while the CR fails to book such potential savings, it employs \$8.4 billion in one-time changes in mandatory programs [CHIMPS] to make room for even more discretionary spending increases in fiscal year 2011. These changes, however, are expected to cost \$6 billion in fiscal year 2012, according to CBO, so the savings actually total just \$2.4 billion over 2 years.

Table 2 below shows that the true cost of the CR – accounting for the census and BRAC gimmicks – is \$1,099 billion, about \$8 billion more than fiscal year 2010. The cost of the CR broken out by Appropriations Subcommittees is shown in Table 3.

Table 2: The True Cost of the FY 2011 Continuing Resolution

(Billions of \$BA)

CBO Estimate of Base Discretionary Spending	1,090.0
Foregone Savings from Ending Census and BRAC Spending	11.3
Adjusted Total Cost	1,101.3

Table 3 - Spending by Appropriations Subcommittee

(Millions of \$BA, non-emergency)

Appropriations Subcommittee	2010 Enacted	2011 CR	2011 CR vs. 2010 Enacted
Agriculture	23,254	22,580	-674
Commerce, Justice & Science	64,416	55,687	-8,729
Defense	506,306	513,027	6,721
Energy & Water	33,465	34,308	843
Financial Services	24,186	23,258	-928
Homeland Security	42,665	42,535	-130
Interior	32,240	32,272	32
Labor-HHS	164,825	170,272	5,447
Legislative Branch	4,656	4,654	-2
Military Const.-Veterans Affairs	78,005	75,168	-2,837
State & Foreign Operations	48,764	50,999	2,235
Transportation-HUD	67,875	64,882	-2,993
Total (excluding war funding)	1,090,657	1,089,642	-1,015
Total War and Other Emergencies	163,385	159,236	-4,149
Total (including war funding)	1,254,042	1,248,878	-5,164
Memorandum:			
Changes to Mandatory Programs	-7,628	-8,406	-778

The House failed to pass a budget resolution this year – an event unprecedented since the 1974 Budget Act became law. In July, the House passed a “deeming” resolution (H. Res. 1493), which provided \$1,211 billion in budget authority. The CR technically complies with this substitute mechanism for a budget resolution.

SPENDING ANOMALIES

Although portrayed as simply an extension of fiscal year 2010 spending levels, the CR contains numerous spending increases described as “anomalies.” They are itemized in Appendix 1 of this document. Many of the items are extensions of what were to be one-time spending programs in the “stimulus” bill. Thus the CR takes steps toward transforming these “temporary” measures into permanent expansions of government.

As noted previously, where anomalies called for higher spending, the CR provides the increases. But where spending reductions were possible – as with the wind-down of the decennial census and BRAC – the potential savings were instead spent elsewhere.

ADVANCE APPROPRIATIONS

The CR provides an additional \$79.5 billion in “advance appropriations” for fiscal years 2012 and 2013. Advance appropriations are budget authority provided for 1 or more years subsequent to the year for which an appropriations bill is enacted. Congress has used them in the past to get around spending limits, and so the advances eventually were capped. The fiscal year 2010 budget resolution increased the limits to \$28.9 billion, but exempted certain accounts within the Department of Veterans Affairs (see Table 4 below).

Table 4: Advance Appropriations Provided in the FY2011 Continuing Resolution

(Billions of \$BA)

Financial Services	0.1
Labor/HHS	24.4
Transportation/THUD	4.4
Veterans Health Care	50.6
Total	79.5

CHANGES IN MANDATORY PROGRAMS

The continuing resolution makes changes to mandatory programs [CHIMPS] to produce \$8.4 billion of savings in fiscal year 2011, and \$6 billion in additional cost in fiscal year 2012. Most of the savings are due to a one-time rescission of \$4.9 billion of the Crime Victims Fund in fiscal year 2011. But because the fund is fully replenished in fiscal year 2012, the net savings from the provision is zero.

OVERSEAS CONTINGENCY OPERATIONS

The \$159 billion provided to continue war-fighting efforts in Iraq and Afghanistan meets the President’s request. It is approximately \$4 billion below the fiscal year 2010 level of \$163 billion.

FOOD SAFETY

Division D of the legislation includes the Senate food safety legislation from S. 510. While scoring zero on the pay-as-you-go [pay-go] scorecard, this is one of the largest expansions of

food regulation in history. The Food and Drug Administration will gain regulatory powers over 2.2 million farms. Small and local farms will be hit hardest, because they usually lack the resources to comply with the added regulatory burdens. The legislation also authorizes \$1.46 billion in new spending.

TRANSPORTATION

The CR contains authorization legislation that extends all of the Highway Trust Fund programs through the end of fiscal year 2011 at the same levels provided in the first quarter of fiscal year 2010. If passed, this language would make it a total of 2 years that these programs will operate under a series of short-term extensions since the expiration of the Safe Accountable Flexible Efficient Transportation Equity Act: A Legacy for Users [SAFETEA-LU] law in 2009.

DISCREPANCIES BETWEEN FHA AND FANNIE MAE/FREDDIE MAC SCORING

CBO's score of the CR estimates that expansion by the Federal Housing Administration [FHA] of Mutual Mortgage Insurance to cover new loans would reduce budget authority by \$1.9 billion. Because of the "credit reform" scoring method used to estimate the budget impact of FHA-insured loans, however, the cost to taxpayers is understated compared to CBO's scoring of Fannie Mae- and Freddie Mac-backed loans, which reflects the full financial risk incurred by the taxpayer by backing these loans. FHA-insured loans carry a negative subsidy rate under credit reform, which means that when government increases the volume of FHA loan guarantees, it shows spending savings that can offset other spending programs.

Fannie Mae and Freddie Mac guarantees are budgeted in a different way. CBO scores Fannie and Freddie using "fair value" accounting, which incorporates a measure of market risk to discount the loans' expected future cash flows to government. Credit reform scoring for FHA does not incorporate market risk in its discount rate, instead using Treasury rates that are considered risk-free.

As an example, the September 2010 CR extended higher conforming loan limits through fiscal year 2011 for both FHA and Fannie Mae and Freddie Mac. These identical policies had disparate budget results. FHA loan guarantees were estimated to produce spending savings of \$35 million, while Fannie and Freddie loan guarantees were estimated to increase spending by \$155 million. Put another way, if credit reform scoring used by FHA were applied to Fannie Mae and Freddie Mac, it would show a savings to the Federal Government – when in reality the Treasury Department has provided more than \$145 billion to date to cover their past losses.

APPENDIX 1 SPENDING ANOMALIES

Defense. The \$6.7-billion increase in the base (non-war-related) defense budget, to \$513.0 billion, is a 1-percentage-point increase from the 2010 level of \$506.3 billion. Driving the increase in funding are: 1) a 1.4-percent increase in military pay, and additional funding for housing and subsistence allowances totaling \$2.77 billion; and 2) a \$1.56-billion increase in the cost of the Defense Health Program.

Energy and Water Development, and Related Agencies. The \$34.3 billion in budget authority includes a \$624-million increase for the National Nuclear Security Administration, contingent on the Senate ratifying New Strategic Arms Reduction Treaty [START] submitted by the Obama administration.

Military Construction, Veterans Affairs, and Related Agencies. The CR provides \$75.2 billion. This includes a cut of \$5.1 billion that reflects reduced costs associated with the Base Realignment and Closure [BRAC]. Increases for veterans' health care shrink the total spending reduction to \$2.8 billion relative to fiscal year 2010.

State, Foreign Operations, and Related Programs. The \$51 billion in budget authority provided in the CR is \$2.2 billion above the 2010 level. This includes increases of \$745 million for Diplomatic and Consular Programs; \$1.3 billion for the Foreign Military Financing Program; and \$700 million for the Pakistan Counter-Terrorism and Counter-Insurgency Fund.

Student Aid Administration. When debating the Student Aid and Fiscal Responsibility Act [SAFRA] that passed as part of the Health Care Reconciliation Act, Democrats were adamant that the Department of Education had the capacity to take over the student loan industry without any service degradation to students. Nevertheless, the CR adds nearly \$1 billion to maintain current services to students under SAFRA.

Pell Grants. The "stimulus" bill contained a "one-time" \$15.6 billion increase to boost the maximum Pell Grant award. Republicans warned at the time that this would create a funding cliff because it would cause students in school to receive a lower grant than the year before once the "stimulus" money ran out. As predicted, Congress has had to provide additional funding for Pell to maintain the "stimulus" level. The Health Care Reconciliation Act appropriated an additional \$13.5 billion towards Pell Grants, and now the CR provides another \$5.7 billion. These additional funds will be assumed in the baseline, so that any lower funding will look like a program cut.

Race to the Top. This program, created in the "stimulus" bill, was to be a one-time, \$4.35-billion competitive grant. This CR dedicates another \$550 million as a step toward making it permanent, even though the second phase of the Race to the Top grants were awarded at the end of the summer; and the effectiveness of these grants remains unclear.

Additional Funding for the National Telecommunications and Information Administration [NTIA]. This is yet another example of a purported one-time expense generated in the "stimulus" bill that is requiring ongoing costs to the taxpayers. The "stimulus" appropriated \$4 billion to the NTIA for broadband infrastructure grants, but failed to provide for the necessary administrative costs to operate the program. Because the spending in this program will occur over 5 years, the

NTIA needs an additional \$20 million a year to continue to operate this program, for a total of \$100 million in additional costs.

Corporation for Public Broadcasting. The CR provides an additional \$36 million for the Corporation for Public Broadcasting. The President's Fiscal Commission recommended this program be cut significantly.

High-Speed Rail. The "stimulus" provided \$8 billion to jump-start high-speed rail project, and an addition \$1 billion was promised in each of the next 3 years. In fiscal year 2010, Congress appropriated \$2.5 billion, \$1 billion above the President's request. The CR funds the program at the President's requested level and credits itself with a spending "reduction" of \$1.5 billion.

Increased FCC Spending. The CR authorizes the Federal Communications Commission [FCC], which is trying to regulate the Internet, to spend \$350.6 million. This is an increase of 4.3 percent from the fiscal year 2010 level of \$336 million.

Dodd-Frank Salary Increase. The CR contains a \$155-million increase at the Securities and Exchange Commission, and a \$92-million increase at the Commodity Futures Trading Commission, for salaries and expenses. Much of the increase is driven by the Dodd-Frank financial regulation bill.