

BUDGET AND PROGRAM

NEWSLETTER
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You are operating under a two-week continuing resolution.

It runs through December 22... three days before Christmas.

And while this hurdle was cleared in the immediate... no real progress was made on the overarching issue of a new budget agreement.

That impasse... still stands.

It means a follow-up stopgap... will almost certainly be required into some portion of January.

The top four congressional leaders... met at the White House, a meeting which never materialized the week before. Democrats issued a joint statement on what was accomplished - "Nothing specific has been agreed to but discussions continue."

Those talks... centered on a two-year pact, with Republicans seeking \$54 billion more in defense funding for FY 2018. Democrats want parity for non-defense... as was the case in the previous two-year budget extensions in 2013 and 2015.

Beyond differences over funding aggregates... immigration policy also remains a crucial sticking point.

Democrats are insisting that DACA (Deferred Action on Childhood Arrivals), be included in any year-end accord. But Republicans say this issue must be resolved as part of a broader immigration deal that is kept separate from any potential budget agreement.

In the overall... both Democrats and Republicans are trying to best position themselves to squeeze legislative victories out of the turbulence in the last few weeks of the year.

As discussions inch forward... Department of Defense has voiced its need to receive full-year funding by the end of December.

The longer matters drag on - the greater the difficulty, as flexibility to reprioritize funds is limited because Congress does not generally permit reprogramming of money under CRs... though unused prior-year funds can be tapped.

Providing context... former Pentagon comptroller - Robert Hale - says that DOD "knows how to hold its breath for a quarter."

But as the CR extends into the second quarter - the negative impacts start to pick up. Includes difficulty executing contracts... acquisition programs that can't begin or increase production rates as scheduled - Army alone had planned to start 18 new programs in the first quarter which have been put on hold. Out further - in months 4-12... Army plans to launch an additional 24 programs and increase production in seven others.

Other problems include - deferring maintenance or construction, delaying military unit training or exercises, etc.

And, of course... it disrupts budget planning, which is true at all federal departments but on a vaster scale at DOD.

The list... is a long one.

Next high-stakes deadline... December 22.

Largest withdrawal of U.S. federally protected lands... has been ordered by President Trump.

Utah's Bears Ears and Grand Staircase-Escalante national monuments - are to be significantly scaled back.

The former - managed by Interior's Bureau of Land Management (BLM) and Agriculture's Forest Service... was created just last year by President Obama. It will shrink to roughly 1/7th of its size or 201,876 acres... "confined to the smallest area compatible with the proper care and management of the objects [of historic interest] to be protected."

In 60 days... previously excluded activities such as mining, geothermal leasing, cattle grazing, vehicle motoring - will be allowed on prior designated monument areas.

Grand Staircase-Escalante - overseen by BLM, was established by President Clinton in 1996, and will be cut nearly in half to just over one million acres. In 60 days... the same designations apply as with Bears Ears.

The Presidential orders... are likely to face legal challenges.

The actions... are the result of a review by Secretary of Interior, Ryan Zinke. During the process... 150 monuments were examined with 27 undergoing a more extensive review.

Beyond the two... five other nat'l monuments will be recommended by him for downsizing or restrictions as will three others in the Atlantic & Pacific oceans.

Over this past weekend... federal debt was reset to its statutory limit.

It reflects... the cumulative borrowing that occurred since the suspension of the debt ceiling with passage of the initial continuing resolution in late September.

In issuing the suspension of the limit over that time frame... the highly-charged fight over how much to raise it never took place - never was tied to the necessary passage of your 1st or 2nd CR to keep the gov't operating.

It was simply reset on Saturday morning - from the previous ceiling of \$19.8 trillion to \$20.5 trillion... \$14.9T of it public debt, \$5.6T of it is held by gov't accounts.

What exactly is the latter - which concerns intragovernmental debt or what the gov't owes to itself?

It is dominated by the two Social Security Funds in the form of Gov't Account Series (GAS) securities. When a trust fund receives cash that is not immediately needed to pay benefits or cover expenses, the Treasury credits the trust fund with that income by issuing GAS securities "then uses the cash to finance the government's ongoing activities."

As of Dec 9... "extraordinary" measures were begun to allow borrowing. CBO estimates that sufficient cash is on hand until late March, early April.

Testimony before the Interior-Environment subcommittee in the House uncorked a jarring new estimate. It is now projected that 67% of the Forest Service budget will be needed for fire suppression efforts by 2021 - fully four years earlier than previous estimates.

This past year... such costs amounted to 55%.

Looking forward... this threatens to further increase pressure on Forest Service budgets as less money is available for other programs such as forest management. Also in the mix... "fire borrowing" - which also erodes immediate funds for other activities.

Bi-partisan Legislation (HR 2862) has been introduced to treat major fires as natural disasters, thus tapping FEMA. If enacted... it would help allow more normal budget and planning at Forest Service.

With 88 co-sponsors... it has been referred to the House subcommittee level. The backdrop is that 2017 has been the worst fire season California ever recorded.

Two months into FY 2018... red ink stands at \$198 billion vs \$183 billion a year ago - according to preliminary CBO estimates. Here are the year-over-year comparisons, (in \$ billions):

	<u>October-November</u>		
	<u>FY 2017</u>	<u>FY 2018</u>	<u>Di fference</u>
Recei pts.	422	445	23
Outl ays.	604	643	39
Defi ci t.	-182	-198	-15

Recei pts. .. are runni ng well above FY 2017, (+6%) - as indi vi dual & social insurance payroll taxes rose by 6.8%.

Outl ays are up 6.3%, with net interest on the debt higher by 21% or \$10B. Also rising - Dept of Defense is 7% higher - due mainly to O&M expenses. Dept of Homel and Securi ty is runni ng \$8B higher (+105%), mainly due to di saster rel ief.

Department of Homel and Securi ty. .. has released its Customs and Border Protection report for FY 2017. A couple of the findi ngs:

- Il l e g a l border enforcement activity was lowest "on record"... 310, 531 apprehensi ons - 24% redukti on from FY 2016.
 - Sei zed. .. 66, 617 lbs of methamphetamine; 1, 485 lbs of fentanyl (conti nui ng its spi ke from a mere two lbs in 2013); 5, 760 lbs of heroin; 2, 302 fi rearms; others.
- Unl i ke many agenci es. .. CBP is hi ri ng. In FY 2017 it surged 14%.

How much do you make?

A lot depends on where you work within the federal gov't. You may be surpris ed at the di fferences, whi ch can be pronounced. Here is a look across the spectrum (most recent avail able data, as of Sept, 2016):

	<u>Average salary</u>	<u>Upper 25% percenti le</u>
Securi ties and Exchange Commi ssi on.	\$177, 418	\$207, 671
Federal Deposi t Insurance Corporati on. ...	142, 616	184, 265
Nucl ear Regul atory Commi ssi on.	125, 941	149, 432
NASA.	120, 049	145, 162
EPA.	113, 557	132, 178
Department of Energy.	112, 481	135, 881
Department of Transportati on.	111, 426	137, 769
Department of Educati on.	110, 415	132, 366
Department of Commerce.	106, 457	131, 536
HUD.	106, 226	123, 406
GSA.	99, 912	116, 722
Department of State.	98, 888	119, 794
HHS.	97, 435	119, 794
Department of Labor.	93, 883	110, 941
Department of Justi ce.	87, 759	109, 915
Department of Treasury.	85, 078	110, 241
OPM.	83, 566	100, 736
Department of Defense.	82, 367	101, 367
Department of the Navy.	81, 072	101, 321
Department of the Interi or.	79, 526	97, 434
Department of Homel and Securi ty.	79, 077	97, 137
Smi thsoni an Insti tuti on.	78, 179	98, 289
Soci al Securi ty Admi ni strati on.	76, 723	90, 869
Department of the Army.	76, 168	93, 607
Department of Veterans Affai rs.	75, 356	89, 089
Department of Agri cul ture.	74, 307	92, 145
Department of the Ai r Force.	73, 923	88, 189
All other agenci es.	107, 262	137, 926

In the overall. .. the average federal salary is \$88, 809 - far higher than the average in the private sector... \$59, 458.

In additi on. .. the Bureau of Economi c Anal ysi s pri ces the worth of federal benefi ts at \$38, 450 vs \$11, 306 in private sector.

In total. .. \$127, 259 vs \$70, 764. Your career choice - was a good one.

Let's take a look at how each chamber... handled the Dept of Justice within the Commerce-Justice-Science appropriation bill for FY 2018.

House has passed its version... while the Senate has completed full committee mark-up.

In the overall... the lower chamber is a bit more generous, providing Dept of Justice with \$29.3B vs \$29.1B in the upper chamber - amounts to \$257M more.

Let's take a look at some of the dollar comparisons, (in \$ millions):

	FY 2017 <u>Enacted</u>	FY 2018 <u>House-passed</u>	FY 2018 <u>Senate committee</u>
Gen'l Administration, sal & exp...	\$114	\$89	\$114
U. S. Attorneys, sal & expenses...	2,035	2,057	2,057
U. S. Marshals Service.....	2,713	2,801	2,821
FBI.....	9,006	8,867	8,987
Drug Enforcement Admin, sal & exp	2,486	2,584	2,535
Federal Prison System.....	7,142	7,168	7,143
State & Local Law enforcement....	2,068	2,266	1,955

Most of the components - are quite close, although the FBI does a little better in the upper chamber by \$120M. For their part, the lower chamber feels the general administration of DOJ can be operated on a much smaller budget - over 20% less than the Senate recommends. The differences will have to be ironed out at some point.

Of note... the upper chamber committee write-up on DOJ is significantly longer page-wise, about 50%. It is more detailed, more instructive than its House counterpart.

But both start out with the same top concern - the "heroin & opioid epidemic" in the United States. It is the first priority discussed in both versions.

From there - the hierarchy quickly diverges. In the case of the Senate, it shifts to human trafficking. In the case of the House...detailed requirements of DOJ future budget submissions.

Dollar-wise... one of the largest schisms concerns the FBI construction budget which was \$420M in FY 2017. It is tied to the White House decision to cancel the new FBI HQ that was to house employees dispersed in 13 leased offices in the nat'l capital region. Citing financial concerns, the request is slashed to a mere \$52M. House agreed with this, approving \$52M - with the entire discussion of the FBI construction budget boiled down to a single sentence in their committee report.

For their part... the Senate recommends tripling that amount (\$156M) - and clarified that the Administration "abandoned a 10-year planning process, and now the FBI is left with no plan for a new procurement and no path forward on how to make its currently deteriorating HQ facility structural sustainable."

Senate panel... directs that within 30 days of bill enactment, FBI is to submit a justification explaining the project's cancellation. The committee continues to support "the eventual transition to a new HQ."

Overcrowding at federal prisons..."remains high" at 25%. Senate supports activating additional prisons, expects BOP to "adhere to the activation schedule" included in its budget submission. This includes accepting high-security inmates at the U.S. penitentiary in Thomson, Illinois - overcrowding estimates drop to 19% "with the full opening" of that facility.

An eventual budget pact... could raise the dollar figures somewhat.

But that won't materially change the text, the requirements, the instructions, the deadlines - that the Appropriation committees have laid out in their respective reports (House 115-231) and (Senate 115-139).

Always remember... language from both versions is to be adhered to unless specifically changed in conference. It's up to you, to know if that has occurred.