

BUDGET AND PROGRAM

NEWSLETTER
Box 6269
Washington, DC 20015
(202) 628-3860
www.budgetandprogram.com

VOL. XLIV NO. 1

Washington, January 5, 2018

Calendar 2018 is a congressional election year... and every action will be taken with that in mind. Expect lots of disputes between the political parties and within them.

Let's take a look at the schedule you face in the months ahead:

January 3. Second session of the 115th Congress convened. Republicans control both chambers and the executive branch - one party government. Major policy legislation is possible, as demonstrated by the recent historic tax overhaul passage. At the same time, there is a lot of unfinished business that has spilled over from the first session.

Foremost... is the long shadow of the Budget Control Act of 2011. After months of mostly behind the scenes negotiations, no revised budget pact has appeared - the major sticking point surrounds some form of parity between defense and non-defense dollar increases. GOP is resisting and cites OMB estimates that defense is being cut 8.9% in FY 2018 relative to pre-sequestration levels while the corresponding non-defense cut is 6.7%. Result - you are still operating under a CR.

January 8. 1.4% base pay raise plus varying locality increases takes effect. For Wash, DC and vicinity (2.29%), Laredo, Texas (2.03%), for L.A. (2.12%). But not quite as generous to others... Buffalo, N.Y (1.84%), Columbus, Ohio (1.81%), Indianapolis, Indiana (1.73%) and those residing outside designated localities, "Rest of the U.S." (1.67%).

Meanwhile... SES will see their cap rise to \$189,600 (+\$2,600). However, politically appointed members of the SES making over \$164,200 (Level -IV) have their pay level frozen until at least Jan 19 and perhaps beyond. Military personnel up 2.4%.

January 12. Agencies are to submit the following to OMB for final clearance:
1) FY 2017 Annual Performance Report which is to provide information on the agency's progress toward the aspirations laid out in its Strategic Plan; 2) FY 2018-2019 priority goal statements and 3) FY 2019 Annual Performance Plan - which must cover each program activity that appears in the agency budget.

January 19. Current continuing resolution expires. Unfortunately, another is likely to take its place. This will occur even if a budget deal is reached prior to then - as the Appropriation committees have to divide up the dollar allocations for different spending bills and decisions on many policy riders have to be ironed out.

This past week... little headway was made when top leaders met with the President. Also in the mix - House Minority Leader, Nancy Pelosi (D-Cal) issued a letter vowing to “insist on parity” between defense and non-defense in any new agreement. In addition, Democrats are intensifying efforts to reach an immigration agreement as part of the budget talks.

Of all departments... DOD is most impacted by a lack of new budget authority. Although the latest CR contained an extra \$4B for new missile defense elements in Alaska - the increased delay causes more difficulty. A CR may prohibit a federal agency from initiating or resuming any project where funds were not available in the previous year. But Congress has - in practice - inserted a specific entry (usually section 102) in CRs to expressly prohibit DOD from initiating new programs and from increasing production quantities beyond the prior year's rate. Lawmakers might also restrict certain contractual actions such as multiyear procurement contracts. Congressional Research Service states... “Such prohibitions are typically only applied to the Department of Defense.”

In addition... DOD may struggle with *color of money* issues under a CR, “meaning money is available but in the wrong appropriations account.” Example - a weapons program transitioning from development to production could be allocated RDT&E funding under a CR (based on the prior year's appropriation). The result... no funding (without an anomaly which OMB normally resists) for the program under the continuing resolution. In fact... the recent 96-pg Navy “Strategic Readiness Review” speaks of this - as DOD being a “highly capitalized” department that is hobbled by CRs as they “frequently” result in funding being allocated to the wrong appropriation account. The upshot... is an unintended “normalization-of-deviation.”

This is against a backdrop of changing needs including emerging threats to the U.S. Regardless, DOD has operated under a CR every year since FY 2010 - amounting to over 36 months.

January 30. President will deliver his first formal State-of-the-Union Address before Congress. It will lay out his program in general terms. Sets the stage for his budget submission.

Month of January... Capitol Hill to consider its third hurricane/fire disaster supplemental, on top the \$52 billion already enacted. Late last month, the House passed an \$81 billion measure but it was not acted on by the Senate, who will partially rewrite it. Influencing the pace... CBO estimates that only \$11B of the latest measure would be spent in 2018 and \$12B is still sitting unused in the FEMA disaster relief fund from the earlier \$52B. This reflects that relief efforts are shifting from immediate emergency aid to long-term rebuilding.

Agencies prepare and OMB reviews congressional budget justifications. These materials are needed to explain budget requests to the responsible congressional subcommittees.

End of January. Congressional Budget Office provides its outyear baseline projections as part of its “Budget and Economic Outlook: FY 2018-2028.” Will include updates on all economic indicators against a backdrop of an economy that has strengthened.

February 5. President forwards his FY 2019 budget to Congress. In the overall... this is the culmination of a year's work, as the numbers move their way up from your office to the top. Few people in gov't are able to avoid this process completely. The annual action is complicated by the fact that no FY 2018 budget agreement has been reached - creating uncertainty as to how the numbers will be handled, both this fiscal year and next. Unfortunately...you execute and plan within this limbo.

Mid-February. Congressional Budget Office issues its analysis of the President's estimates for use by budget committees. Words and numbers will flow back and forth between OMB & CBO. Keep in mind...CBO doesn't issue program recommendations. It sticks to options, economic projections, baselines, pricing. These are important, Hill committees generally follow CBO.

February 16. Agencies to submit final draft implementation action plans to OMB regarding their FY 2018-2019 cross-agency priority goals.

End of February. Congressional Budget Office issues its "Analysis of the President's Budgetary Proposals" - a repricing of the OMB estimates.

February-March. Your appropriation hearings get underway. Means you could be heavily involved in preparation of statements and back-up materials, testifying, reviewing transcripts - as well as answering queries.

March 1. Agency annual FISMA (Federal Information Security Modernization Act) reports are due at Congress, OMB and Department of Homeland Security. Quarterly reports are also tied to this - Jan 15, 2018 is one of them.

Mid-March. Appropriations and authorizing committees send their dollar requirements to the budget panels. Key step in preparing the FY 2019 congressional budget resolution. It's a very difficult deadline for Congress to meet.

March-April. Federal departments are to begin internal reviews on every strategic objective in their FY 2018-2022 Strategic Plan. The evaluation should consider performance and other indicators the agency tracks for each goal...as well as the risks and external factors that may affect their outcomes.

Gov't is scheduled to run out of money. In the past, a new limit would be required for the debt. But on Feb 4, 2013 - for the first time - that politically torturous exercise ceased as the ceiling was "suspended" and has been periodically ever since. During suspension periods... borrowing is authorized and debt is simply reset at time intervals. The epic battles of raising it in the midst of a perilous deadline - have seemingly been vanquished. Has lessened the disruptive nature of the beast but also obscured the occasional reminder of massively expanding debt to legislators.

April 15. Congress is supposed to complete action on the budget resolution. But it's a deadline rarely met - won't be this time either. Last year... the House took until mid-July to report out its version, which violated the \$549B baseline statutory cap for defense spending by \$62B. Its main purpose was to provide reconciliation instructions for the eventual tax bill. Far behind - the Senate reported out its resolution version in October.

This year... any attempt to use the FY 2019 budget resolution to tackle entitlement reform - is likely to go nowhere.

May 11..... Agencies must provide a “Summary of Findings” regarding progress on their strategic objectives. Two areas are of special interest to OMB - those “demonstrating noteworthy progress” and those “needing improvement.” In addition - a discussion of the agency’s enterprise risk management (ERM) “capability” is to be included.

April -June..... OMB guidance being developed.. for agencies to use in preparing their FY 2020 estimates. Be alert to the possibilities for identifying effective programs - allowing you the opportunity to propose additional investments in them. This can be framed in the larger context of improving organizational results. Was a major theme in last year’s guidance.

During this time.. many agencies are working on their 2020 budgets, getting submissions from the field, holding hearings. And you are defending your FY 2019 estimates on the Hill.

You also can’t forget FY 2018.. budget execution is important. With inspector general reports floating around Washington, you never know when your program will hit the headlines.

April -June..... Depending on passage of your FY 2018 appropriation bills - this time frame correlates to many of the deadline reporting dates laid out in the committee texts of both chambers. Frequently - they occur 30, 60, and 90 days out from bill enactment. If an omnibus measure appears later this month or in February or March - those submission deadlines activate.

There you have it.. getting more complicated all the time. Maybe someday the process will be simplified, but it definitely hasn’t happened yet.

Dow Jones Industrial Average.. has now crossed 25,000. The latest 1,000 point move was the fastest ever - 23 trading days.

Here is a look at how your thrift investments performed over the course of calendar year 2017, (January-December). The C (stock) fund did better than in 2016 (+12.01%), 2015 (+1.46%), 2014 (13.78%) but not 2013 (32.45%).

C (stock) fund... up 21.82%
 S (small-cap) fund... up 18.22%
 I (internat’l) fund... up 25.42%
 F (bond) fund... up 3.82%
 G (gov’t) fund... up 2.33%
 L (2030) fund... up 14.54%
 L (2050) fund... up 18.81%

The TSP.. has over \$500 billion in assets.

Most popular.. is the G (gov’t) fund which has 34% of TSP investor assets. Close behind is the C (stock) fund at 28%. These are followed by the L (Lifecycle) funds at 19% which have been growing in popularity - rising from 14% in 2013 when the G (fund) at that time was 41%.

Next up.. S (small-cap) at 10%, I (internat’l) at 5% and F (bond) at 4%.

On Feb 2, 2017.. OMB directed that “unless prohibited by law” - whenever an agency publicly proposes for notice & comment or otherwise “promulgates” a new regulation - “it shall identify at least two existing regulations to be repealed.”

Fast forward to Dec 31, 2017.. rule-related language within the Federal Register came in at under 62,000 pages, an enormous drop from roughly 96,500 the year before.

Of note.. it was also less than 20 years ago in 1997 - by over 6,000 pages.

Starting January 1.. your mileage reimbursement for using your vehicle on official business (if authorized) is 54.5 cents/mile - was 53.5 cents in 2017.