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RECENT ACTION BY CONGRESS SETS UP LARGER APPROPRIATIONS CUTS IN LAME-DUCK SESSION

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Summary

As a result of action Congress took before adjourning for the elections, widespread cuts in domestic appropriated programs are likely to be made during Congress' lame-duck session (or early next year, if Congress fails to complete action on appropriations for fiscal year 2007 in November or December). Congress shifted \$5.3 billion that Senate appropriators had planned to devote to domestic programs to the defense and homeland security appropriations bills enacted in late September. This leaves \$5.3 billion less than Senate appropriators had anticipated for the remaining appropriations bills that Congress must pass when it returns. (All but \$200 million of the \$5.3 billion that was shifted was moved to the defense appropriations bill; the remainder went to the Homeland Security bill.)

The Senate Appropriations Committee has approved the nine remaining appropriations bills, although those bills have not been considered by the full Senate. The amounts the Committee included in those bills, combined with the amounts that the Senate had provided for the defense and homeland

KEY FINDINGS

- In September, Congress shifted \$5.3 billion that Senate appropriators planned to devote to domestic programs to the defense and homeland security appropriations bills. As a result, \$5.3 billion will have to be cut from other appropriations bills the Senate Appropriations Committee has approved — bills that largely fund domestic programs — when Congress reconvenes after the election.
- If the \$5.3 billion reduction is achieved through an across-the-board cut, funding levels for all of the programs funded by those other bills will need to be cut 1.1 percent below the levels that Senate appropriators had approved. Since many of these programs already are slated for cuts, the cuts would now be deeper.
- For example, if the funding levels approved by the Senate Appropriations Committee were reduced by an additional 1.1 percent, Head Start would be cut a total of \$221 million below the level needed to maintain current services (i.e., below the 2006 funding level adjusted for inflation). Education for the Disadvantaged Children (which includes Title I) would be cut a total of \$479 million, while Pell Grants would be cut a total of \$864 million and the National Institute of Health would be cut a total of \$666 million.
- These new cuts would be on top of the \$12 billion that has been cut from domestic appropriated programs over the past two years. The President has proposed to continue cutting these programs in each of the next five years.
- The action by Congress to shift \$5 billion to the defense bill in September means that the efforts made by some moderate Republican lawmakers to mitigate cuts the White House proposed in domestic programs seem likely largely to fail.

security bills *before* the \$5.3 billion was shifted to them, exactly equaled the overall amount that the President's budget requested for the appropriations bills in fiscal year 2007.

At the President's insistence, earlier this year Republican leaders in Congress passed a requirement that overall appropriations for 2007 *not exceed the President's request*. To meet this requirement, the \$5.3 billion just added to the defense and homeland security bills will have to be cut from the other appropriations bills, which largely fund domestic programs. If this happens, Republican moderates who had sought to mitigate the domestic cuts proposed by the President will come away from the lame-duck session largely empty-handed.

How might Congress make these \$5.3 billion in cuts? In each of the past four years, to keep within the overall ceiling set for the annual appropriations bills, Congress instituted an across-the-board cut in appropriated programs. If the \$5.3 billion in savings is obtained through a similar across-the-board cut in the nine remaining appropriations bills, the levels provided in those bills would be cut by 1.1 percent below what Senate appropriators had proposed.

These additional reductions would be on top of the cuts the pending domestic appropriations bills already contain. Moreover, the total cuts made this year would be in addition to the \$12 billion in reductions made in domestic appropriations bills over the past two years. (Cuts are measured here relative to the Congressional Budget Office baseline, which equals the prior year's appropriation level, adjusted for inflation.)

If such an across-the-board cut is instituted, many highly regarded programs will face sizeable reductions. For example, the Senate Appropriations Committee's bill for the Departments of Labor, Health and Human Services, and Education already cuts the Head Start program by \$146 million (relative to the program's 2006 level, adjusted for inflation). A 1.1 percent across-the-board cut would bring the total cut in Head Start to \$221 million.

Similarly, Education for the Disadvantaged (which includes Title I) already faces a cut of \$320 million under the Senate bill. A 1.1 percent across-the-board cut would bring the total cut in that program to \$479 million.

For the third straight year, reductions in domestic appropriated programs are likely to be instituted alongside further tax cuts heavily skewed to the nation's most affluent individuals. The Urban Institute-Brookings Institution Tax Policy Center estimates that the provisions of the principal 2006 tax cut bill, which was enacted in May and is estimated to cost \$70 billion over five years, will be worth an average of \$20 to households in the middle of the income spectrum but \$43,000 to households whose incomes exceed \$1 million a year.¹

¹ Joint Committee on Taxation, Estimated Revenue Effects of the Conference Agreement for the "Tax Increase Prevention and Reconciliation Act of 2005," JCX-18-06, May 9, 2006; and, Urban Institute-Brookings Institution Tax Policy Center, "Conference Agreement on the Tax Increase Prevention and Reconciliation Act of 2005, Fully-Phased in Impact of Major Provisions at 2006 Income Levels, Distribution of Federal Tax Change by Cash Income Class," Table T06-0085, May 10, 2006, and "Conference Agreement on the Tax Increase Prevention and Reconciliation Act of 2005, Fully-Phased in Impact of Major Provisions at 2006 Income Levels, Distribution of Federal Tax Change by Cash Income Percentile," Table T06-0086, May 10, 2006.

Background

Shortly before adjourning at the end of September, Congress completed action on its first two appropriations bills for fiscal year 2007, which began October 1. These two bills fund the Department of Defense and the Department of Homeland Security. The remaining nine appropriation bills are expected to be taken up when Congress reconvenes for a “lame duck” session on November 13.²

The remaining bills fund a broad range of government services, including housing, education, veterans’ health care, environmental protection, and scientific research (as well as defense funding not provided in the defense appropriations bill for military construction, military quality of life, and defense nuclear activities). Between now and November 17, the programs covered by these bills are being temporarily funded under the terms of a rather austere “continuing resolution,” which generally sets funding levels for programs at the *lower* of last year’s level or the level included in this year’s House-passed appropriation bills.³

When Congress reconvenes for a lame-duck session in November, it will face the question of how much to provide for the programs covered by the remaining appropriations bills. Ordinarily, the overall amount available for the appropriations bills is set in the congressional budget resolution. But this year, the House of Representatives and Senate failed to agree on a budget resolution.

One of the main reasons Congress failed to reach agreement on a budget resolution is that moderate Republicans in the House and Senate made clear they wanted more funding for domestic programs in 2007 than the President had requested in the budget he submitted to Congress in February, while the House and Senate Republican leaderships (at the strong urging of conservative lawmakers and the President) insisted on limiting overall appropriations to the level the President sought.

The opposition of moderate Republicans in the House to the overall level of funding for domestic programs that the President had proposed delayed House adoption of its version of the budget resolution until May 18, more than a month after the April 15 deadline that the Budget Act sets for Congress to agree on a budget resolution. House passage of its budget resolution at that late date was achieved only when House Republican leaders promised moderate House Republicans that the funding ultimately provided for domestic programs — and in particular, for programs funded in the appropriations bill that covers the Departments of Labor, Health and Human Services, and Education — would exceed the amount the President requested by \$7 billion. House Republican leaders agreed that \$4 billion of this increase would be achieved by shifting funding that the President had requested for defense to the domestic programs. (They did not specify how the other \$3 billion would be provided.)

² The Senate Appropriation Committee has reported ten other bills, but we assume that the District of Columbia bill will eventually be enacted as part of the bill that funds the Departments of Transportation, Treasury, and Housing and Urban Development, as was done last year. In the House, there is not a separate D.C. appropriations subcommittee, and D.C. appropriations are included in the Transportation bill from the beginning of the process.

³ The House has passed all of the other appropriation bills except the Labor-HHS bill. Although the Senate Appropriations Committee has reported all of the appropriation bills, the full Senate has considered only the Defense and Homeland Security bills.

The Senate adopted its version of the budget resolution on March 16, but only after amendments were approved on the Senate floor effectively increasing the total amount of appropriated funding allowed for 2007 by \$17 billion above the level the President proposed, including an additional \$14 billion for domestic programs.⁴ With the Senate on record in favor of a substantial increase in funding above the level that the President requested, with Republican moderates in the House hesitant to agree to a conference report on the budget resolution that did not specify where the full amount of the additional domestic funding they had been promised would come from, and with conservative House Republicans opposed to *any* discretionary funding above the overall level the President had proposed, House and Senate Republican leaders decided not even to attempt to reach an agreement between the two chambers on the budget resolution.

Imposing an Appropriations Cap

Unable to achieve their goal of using the normal budget process to place a ceiling on appropriations for 2007 at the level the President had proposed, the Republican Congressional leadership turned to another approach. In June, the leadership inserted what is known as a “deeming resolution” — a provision that “deems” the House and Senate to have agreed to a budget resolution that limits discretionary appropriations to the level the President proposed — into a “must-pass” bill that Democrats and Republican moderates could not vote against. (The “must-pass” bill in question was legislation that provided supplemental appropriations for U.S. forces in Iraq and Afghanistan.)

When the must-pass bill was enacted, the limit on appropriated funding inserted into that bill took effect, just as if a budget resolution capping funding at that level had been adopted. As a result, the Appropriations Committees in the House and Senate now are limited to providing non-emergency discretionary funding of no more than \$872.8 billion for fiscal year 2007, which is the Congressional Budget Office’s estimate of the amount of appropriated funding the President’s budget requests.

When Congress recessed at the end of September, the full House had passed all appropriation bills except the Labor-HHS-Education bill. (The Republican leadership declined to bring the Labor-HHS-Education appropriations bill before the full House, both because some moderate Republicans felt that the funding levels provided in the bill remained inadequate and because the bill included a provision increasing the minimum wage, which the House Republican leadership strongly opposed.)

Although the Senate Appropriation Committee approved all of the appropriation bills before the Congress adjourned, the full Senate has considered only the Defense and Homeland Security bills. The Senate set the funding level for the defense appropriation bill some \$9 billion below the level the President had requested. Even with this \$9 billion made available for domestic programs, however, many Senators considered the funding levels in the domestic appropriations bills the Senate Appropriations Committee had approved to be inadequate; the funding levels in those bills barely equaled the levels required simply to maintain the current amount of funding, adjusted for inflation. For this reason (and because of potential Democratic amendments that the Senate Republican leadership opposed but feared some Republican Senators might find difficult to vote

⁴ This \$14 billion includes the effect of an amendment proposed by Senator Arlen Specter (R-PA) and adopted by the Senate that would allow appropriators effectively to increase funding for 2007 by \$7 billion by increasing advance appropriations for 2008 by that amount.

Additional Cuts Required by the Shift of Funding Back to Defense and Homeland Security (Budget authority in billions of dollars)		
	Funding under the original Senate versions of the Defense and Homeland Security bills, plus the other appropriations bills the Senate Appropriations Committee has approved	Funding available now that the Defense and Homeland Security bills have been enacted
Defense	\$372.3	\$377.4
Homeland Security	\$31.7	\$31.9
Available for other nine bills	<u>\$468.8</u>	<u>\$463.5</u>
Total discretionary funding allowed	\$872.8	\$872.8
Funding reduction required for other nine Senate-passed bills		-\$5.3
Reduction percentage		-1.1%

against before the election) the leadership decided not to have the Senate consider *any* of the appropriations bills (other than the Defense and Homeland Security bills) before adjourning.

In September, members of the House and Senate Appropriations Committee met in conference to work out the differences between the House-passed and Senate-passed versions of the Defense and Homeland Security bills. They reportedly agreed to accept the Senate decision to provide \$9 billion less in non-emergency funding for the defense bill than the President had requested. (It was widely expected that any reduction below the levels the President proposed for the Pentagon would be made up through subsequent increases in Pentagon “emergency” funding.⁵) This action by the conferees would have allowed the overall funding levels for the other appropriations bills to remain at the levels the Senate Appropriations Committee had approved.

At the insistence of the President, however, the Congressional Republican leadership ordered the conferees in late September to shift \$5.3 billion of the \$9 billion back to defense and homeland security. This was done in the Defense appropriation conference report that Congress approved just before adjourning. That conference report has now been signed into law.

What Will Happen In the Lame-Duck Session?⁶

Unless Congress decides to jettison its limit on total discretionary funding, set at the level proposed in the President’s budget, the shift of \$5.3 billion back to defense and homeland security

⁵ For an explanation of how cuts in defense funding, relative to the funding levels the President has proposed, can be made up through higher “emergency” appropriations, see Richard Kogan and James Horney, “Why the Application of the Expected Across-the-Board Appropriations Cut to Defense is Likely to be Purely Cosmetic,” Center on Budget and Policy Priorities, January 6, 2006.

⁶ It is possible that the lame-duck session will be very brief and that Congress will simply extend the continuing resolution until next February or March, putting off final decisions on fiscal year 2007 appropriations until the new Congress convenes. The situation would still be the same in the new Congress, with the funding for the remaining nine appropriation bills proposed by the Senate Appropriations Committee (taken together with the enacted Defense and Homeland Security appropriation bills) exceeding the cap on total appropriations for 2007.

will require the remaining appropriations bills to be cut below the levels the Senate Appropriations Committee approved. As shown in the Table above, the nine other appropriation bills the Senate Appropriations Committee has approved contain a total of \$468.8 billion in discretionary funding. Taking into account the \$372.3 billion in funding provided by the *original* Senate-passed Defense bill and the \$31.7 billion provided by the *original* Senate-passed Homeland Security bill, the overall level of funding in the Senate appropriation bills exactly equaled the amount allowed under the appropriations ceiling — \$872.8 billion.

With the \$5 billion increase in defense funding over the original Senate level and the smaller increase over the original Senate level for the Homeland Security appropriations bill, the total amount provided by the Senate bills will exceed the appropriations cap by \$5.3 billion. For Congress to comply with the cap — and to satisfy the President’s demand that total funding not exceed the amount he proposed — funding for the nine remaining bills will have to be cut by \$5.3 billion below what the Senate Appropriations Committee has approved.⁷

Illustrative Cuts in Funding for Noteworthy Programs

At this time, there is no way to know how the additional \$5.3 billion in cuts will be distributed across programs. One distinct possibility, however, is a \$5.3 billion across-the-board cut. This could be achieved by cutting funding for all programs covered by the nine remaining appropriations bills by 1.1 percent below the levels the Senate Appropriations Committee voted to provide. For each of the past four years, Congress has used an across-the-board cut to fit total appropriations within the applicable appropriations ceiling.

For many programs, the result would be a total cut of significantly more than 1.1 percent, since the Senate Appropriations Committee bills already include cuts for numerous domestic programs. The resulting cuts would affect a number of significant domestic programs, as the following examples indicate.

- **Head Start would be cut by an additional \$75 million, for a total cut of \$221 million.** The Labor-HHS-Education bill that the Senate Appropriations Committee approved would provide \$6.789 billion in funding for Head Start for the 2007 program year.⁸ This is \$146 million (or 2.1 percent) below the amount needed to maintain the 2006 level of funding (excluding emergency funding related to hurricane Katrina that was provided for 2006), adjusted for inflation. In other words, the funding level for Head Start contained in the Senate bill already is \$146 billion below the CBO current services baseline. An additional 1.1 percent across-the-board cut would

⁷ Since the House assumed that the Defense bill would be funded at the higher level that ultimately was enacted — and reduced funding in the other appropriations bills accordingly — no further reductions would be required in the funding levels contained in the other appropriations bills that the House passed (or in the case of the Labor-HHS bill, in the bill that the House Appropriations Committee approved) as a consequence of the actions in late September to set the final defense and homeland security funding levels above the levels the Senate had earlier approved.

⁸ The Head Start program and a number of education programs are operated on a program-year basis that covers parts of two fiscal years. For the 2007 program year, funding is provided in the fiscal year 2007 Labor-HHS appropriation bill both in the form of an appropriation that becomes available in fiscal year 2007 and an advance appropriation that does not become available until fiscal year 2008. This analysis combines those appropriations (and excludes the advance appropriation provided for 2007 in last year’s fiscal year 2006 appropriation bill).

reduce funding for the program by another \$75 million, bringing the total reduction to \$221 million (or 3.2 percent).

- **Education for the Disadvantaged (which includes Title I) would be cut an additional \$159 million, for a total cut of \$479 million.** The Labor-HHS-Education bill passed by the Senate Appropriations Committee would provide \$14.447 billion for Education for the Disadvantaged.⁹ This level of funding is \$320 million (or 2.2 percent) below the amount needed to maintain the 2006 level of funding, adjusted for inflation. A further 1.1 percent reduction would cut funding for the program by an additional \$159 million, bringing the total reduction to \$479 million (or 3.2 percent).
- **Pell Grants would be cut by an additional \$139 million, for a total cut of \$864 million.** The Labor-HHS-Education bill approved by the Senate Appropriations Committee provides \$12.607 billion in funding for Pell Grants for 2007. That level of funding is \$725 million (5.4 percent) below the amount that would be needed to maintain the 2006 level of funding adjusted for inflation. A further 1.1 percent reduction would reduce funding for the program by an additional \$139 million, bringing the total cut below the baseline to \$864 million, or 6.5 percent.
- **The National Institutes of Health would be cut by an additional \$315 million, for a total cut of \$666 million.** The Labor-HHS-Education and Interior bills approved by the Senate Appropriations Committee provide \$28.629 billion in funding for NIH for 2007. That level of funding is \$351 million (1.2 percent) below the amount needed to maintain the 2006 level of funding adjusted for inflation. A further 1.1 percent reduction would reduce funding for the program by an additional \$315 million, bringing the total cut below the baseline to \$666 million, or 2.3 percent.

Conclusion

Because final action on the nine remaining appropriation bills for fiscal year 2007 has been put off at least until the lame-duck session, it is impossible to know what levels of funding ultimately will be provided for these bills. However, based on actions taken by the Congress before it adjourned, it now seems likely that programs funded in those bills will be cut more deeply than would have been the case under the bills that the Senate Appropriations Committee approved. In other words, domestic appropriated programs — which have been cut by \$12 billion over the last two years — stand to be cut even further this year.

⁹ Education for the disadvantaged also is funded on a program year basis. See footnote 7.