

BUDGET AND PROGRAM

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Who are the 12 members...of the Joint Select Committee on Deficit Reduction?

They are part...of what is being referred to as a "super-committee," arguably the most powerful temporary panel ever assembled on Capitol Hill.

One vital difference...between them and the legions of blue-ribbon panels prior to this - is their unique authority to write & report out legislation. They have authority to propose at least \$1.2-\$1.5 trillion in deficit reduction thru 2021.

And whatever proposals emerge...will be put to a simple up or down vote in both chambers. That means: no congressional hearings, no floor debate, no amendments, no filibusters.

Looming over failure...are potentially breathtaking across-the-board cuts, almost entirely directed at your discretionary spending levels.

Here is a partial line-up:

Democratic Senate members:

1) Patty Murray (D-Wash), co-chair. She is chairwoman of the Transportation-HUD appropriations subcommittee & VA authorizing committee. Viewed as methodical & focused, she has attained the #4 spot in the Democratic leadership hierarchy & been described as the "glue" that holds them together when things get off-track. She proposed an additional \$25B for transportation projects in the 2009 stimulus bill. As VA chair, she watches "like a hawk," any attempts by Republicans to cut VA funding.

2) Max Baucus (D-Montana), chairman of the powerful Finance Committee. He resisted efforts to fast-track the President's health care legislation & eventually left out the "public option" which angered many in his party. In the end...the final bill was largely borne from his legislative handiwork. Ten years ago, he broke with his party to support the Bush tax cuts. Republicans consider him a centrist. He will hold great influence over any attempts to change the tax code - from tinkering around the edges to much larger reforms.

3) John Kerry (D-Mass), chairman of the Foreign Affairs Committee. The former Presidential candidate & party elder brings a certain gravitas to the panel. Although not viewed as a budget wonk - he is seen as a key member on foreign policy, basically serving as U.S. emissary during some of the most delicate moments in Afghanistan & Pakistan. Could be viewed as a potential dealmaker - as he supported earlier efforts this year to cut \$3T-\$4T over a decade, including entitlement changes.

4) Jon Kyl (R-Ariz), Senate minority whip who brings an understanding of what is legislatively possible. He was on the Biden-led debt discussion panel, and is likely to be an anchor for Republicans as they focus on entitlement changes. A strong advocate of defense - he will resist cuts. Set to retire in 2012, he is not worried about re-election posture.

5) Pat Toomey (R-Pa). He views the reach of gov't as a detriment to economic growth. Wants taxes cut and regulatory burdens eased - and will approach his task with that in mind.

6) Rob Portman (R-Ohio), former OMB director. He brings a deeper knowledge of the budget than any other member on the panel. Highly critical of the FY 2012 budget request, he stated that the President "rejected the dire warnings & recommendations of his own fiscal commission." He has taken positions counter to his party - one would allow states with higher unemployment to access extended unemployment benefits without congressional action. At the same time, he opposes tax increases & may be the GOP point-man to articulate economic growth issues.

Next week...we will take a look at the House participants.

Let's take a look... at the FY 2012 budget request, for State-Foreign Operations & related programs.

For the first time... the bill has been divided into two parts.

The first part... reflects the "core" request - the "enduring" needs of internat'l affairs spending.

The second part... involves the Overseas Contingency Operations (OCO), viewed by CBO as "extraordinary" & "temporary."

The backdrop... is that a lot has happened since the President's request was forwarded last Feb. Congressional Research Svc (CRS) notes that "events in the Middle East & widespread support for significant budget cuts have raised new questions about foreign assistance priorities."

Indeed... not mentioned in the CRS report, is the new classified framework put in place by the President since bin Laden's death in May. It reflects the breakdown in counter-terror cooperation with Pakistan since then. Analogous to a pay-for-performance system - it includes classified scorecards tied to future payouts of security-aid, based on progress in a handful of specific areas. Although the new approach isn't viewed as ironclad - \$800M in aid has already been frozen.

On another front... is the erosion of security in the Sinai Peninsula, as relations have frayed between Egypt's post-revolutionary leadership & Israel. Recently, a terror attack near the Egypt-Israel border was the worst since their historic 1979 peace treaty. It points to new realities on the Arab-Israeli frontier,

A new fiscal wrinkle... is also in the mix. Budget Control Act of 2011 requires specific spending cuts in security & non-security spending thru 2013 - putting this appropriation "in direct funding competition" with DOD, Homeland Security, VA, NNSA & the intelligence community.

Note the bill's explosive growth... over the past decade, (in \$ billions):

	2002	2004	2006	2008	2009	2010	Est 2011	Request 2012
<u>State & related</u>								
agencies.....	7.7	9.3	11.1	13.6	16.1	17.6	16.0	19.5
<u>Foreign Opers...</u>	<u>16.5</u>	<u>39.1</u>	<u>23.1</u>	<u>26.9</u>	<u>32.9</u>	<u>37.5</u>	<u>33.0</u>	<u>40.1</u>
<u>Total.....</u>	<u>24.2</u>	<u>48.4</u>	<u>34.2</u>	<u>40.5</u>	<u>49.0</u>	<u>55.1</u>	<u>49.0</u>	<u>59.6</u>

For FY 2012... House subcommittee mark-up has recommended \$47.2B - which would put it under FY 2009 levels. Here is the status of some key components within the bill, (in \$ billions):

	FY 2010 incl supp	FY 2011 enacted	FY 2012 request	FY 2012 mark-up
Diplomatic & Consular Program.....	9,553	8,772	11,894	9,988
Embassy Security, Construction & Maint.....	1,803	1,617	1,802	1,426
Contributions to Internat'l Organs..	1,683	1,579	1,619	1,343
Contri to Internat'l Peacekeeping...	2,222	1,884	1,920	1,691
USAID Operating Expenses.....	1,389	1,347	1,503	985
Civilian Stabilization Initiative...	30	5	0	0
Global Health & Child Survival.....	7,824	7,829	8,716	7,114
Complex Crisis Fund.....	50	40	75	0
Economic Support Fund.....	8,834	5,946	7,185	5,285
Internat'l Narcotics Control & Law Enforcement.....	2,779	1,594	2,512	2,477
Foreign Military Financing.....	4,295	5,374	6,551	6,374
Internat'l Clean Tech Fund.....	300	185	400	0

Within the budget constraints... it reflects new priorities - contributions to internat'l organizations (-15% from FY 2011); USAID operating expenses (-26%); bilateral economic aid (-20%); multilateral developmental aid (-32%).

At the same time... military/security aid leaps 23% higher.

Within the \$10B, "diplomatic & consular program" account...the President requested \$3.2B in OCO funds for Iraq, tied to transition costs from military to civilian operations.

The subpanel mark...is nearly identical to the dollar request.

The dramatic shift in Iraq...is currently scheduled to occur on Dec 31, with the State Dept:

"Planning to take over the helm of U.S. engagement with a diplomatic presence - including an embassy, two consulates & two temporary branch offices - that is unmatched in terms of its security considerations, size, and complexity. Some members of Congress remain skeptical of the State Dept's capacity to take over more than 300 activities that that U.S. military had been performing, from environmental cleanup to medical support, while pursuing a wide-ranging policy agenda."

At the same time, an important policy divide has existed. The Secy of State & Secy of Defense have stressed the need for stronger civilian operational capacity in war zones for several years - but Congress has resisted the transition.

For example, State's FY 2011 budget requested funds for three foreign operations accounts - Complex Crisis Fund (CCF), Pakistan Counterinsurgency Capability Fund (PCCF) & the Internat'l Narcotics Control & Law Enforcement (INCLE) account. These had all been previously funded thru DOD. But instead of additional funding, Congress cut CCF & INCLE accounts sharply & zeroed out money for the PCCF - while providing \$800M thru DOD's appropriation.

"FY 2012 appropriations will be a strong indicator of Congress's position on this issue. For FY 2012, the Administration has requested \$75M for the CCF, \$1.1B for the PCCF & \$2.78B for INCLE programs. The Administration has also requested, for the first time, \$50M for a Global Contingency Security Fund (with an additional \$450M requested through the DOD appropriation), to support a pilot program focused on a joint civilian-military response to unforeseen events."

It's CRS report R41905..."State, Foreign Operations and Related Programs: FY 2012 Budget and Appropriations." Runs 30 pages.

The crash of a Russian Soyuz rocket...while attempting to deliver nearly three tons of supplies (food, water, oxygen, equipment) to the Internat'l Space Station has triggered a chain of events. NASA & Russian officials are mulling over contingency plans that include the unprecedented step of temporarily abandoning the \$100B station - leaving it entirely on automated systems.

One risk...is that if there are equipment breakdowns which can't be solved from ground stations, no one is there to fix it. Current occupants are scheduled to leave by mid-Nov at the latest.

With any hiatus of the aging Soyuz rockets...there is no way to ferry astronauts to the ISS. This occurs, just weeks after the final Shuttle mission.

What's the latest...on early retirement & buyouts?

Agencies that are offering them include: Agriculture; Commerce; Educ; HUD; Justice; Air Force; FTC; GAO; GPO; NRC; Smithsonian Insti. ATF&E and HHS are considering it. Currently, these incentives are offered to certain offices & employees - not generally agency-wide.

Unless a waiver is granted, you can not return to work for the federal gov't for five years (incl contracting) without repaying the entire amount.

Per diem rates...for FY 2012.

About 2,200 counties...are covered by the standard rate which is \$123/day ...\$77 for lodging, \$46 for meals & incidental expenses.

The roughly 400 "non-standard areas" have higher expenses and are listed by GSA. Many have seasonal rates, sometimes up to five different ones in places you may least expect them - such as York, Maine.

The new rates...become effective on Oct 1. Go to gsa.gov/perdiem.

What does your upcoming schedule look like?

Here are some key dates:

- Sept 6....House & Senate return from summer recess. They arrive back in session with six appropriations having passed the House - one having passed the Senate. House leaders have announced they will not move any more FY 2012 bills prior to Oct 1. The Senate is pushing ahead with full committee mark-ups planned for Energy-Water, Homeland Security & Agriculture early this coming week. Also this week, Senate plans to approve their 302(b)s, dividing \$1.043T in budget authority among its 12 subcommittees.

- Sept 12....FY 2013 budget submissions are due at OMB.

- Month of Sept...can be a difficult time:

- a) End of FY 2011. Accounts to be closed out, obligations up to snuff, outlays within limits.
- b) Reacting with Congress...on FY 2012.
- c) Dealing with OMB on FY 2013. Not easy to keep things sorted out.

- Oct 1....FY 2012 begins. It is highly likely you will be operating under a CR. Hopefully, short-term disagreements can be ironed out by then so no shutdown threat re-emerges. MilCon-Va is a potential vehicle to move it.

- Oct 8....FACTS II closes for 4th qtr, FY 2011. This computer program allows agencies to reconcile & electronically report budget execution information to Treasury in a single file instead of submitting three separate documents: 1) SF 133, report on budget execution; 2) FMS 2108, year-end closing statement; 3) program & financing schedule. Be aware that a "separation of duties" standard applies - so no single person has sufficient access to defraud gov't assets. At the least, there should be a "Preparer" who inputs the data and a "Certifier" who verifies its accuracy.

- Oct-Nov...OMB conducts its Fall review. Their staff will crawl all over your numbers in light of Presidential priorities & budget constraints.

- Nov 1....MAX database opens up - consisting of 17 different schedules used to collect & process most of the information needed for preparing the budget. Involves entries from agencies concerning budget authority; outlays; obligations; personnel; credit data; balance sheets; others. Remember...your data must be consistent across schedules.

- Nov 1....FACTS II revision window opens. The main purpose of this is to make FACTS II consistent with amounts in the prior-year column of the budget. This window is to be used to correct errors.

- Nov 15.....Agency Performance & Accountability Reports (PARs) are due.

- Nov 18.....Agency PY lock & FACTS II revision window closes.

- Nov 23.....Recommendations from the 12-member super-committee are to be forwarded. Will give you a glimpse of where you fit in to whatever may be coming.

- Late Nov.....OMB recommends a complete set of budget proposals to the President after they have reviewed all agency requests.

- End of Nov....Passback - in order to meet the next deadline, you must begin providing the required information based on passback decisions. If you dispute anything, do not wait until you have resolved the appeal with OMB. Remember, you are dealing with a tight schedule.

- Dec 12.....Agency baseline lock (discretionary & mandatory).

- Dec 23.....Congress votes up or down on the super-committee proposals.

With so much at stake, the normal legislative process is completely usurped.

- Jan 11.....Final agency "lock-out" of the OMB database so as to meet the GPO printing deadline.

- Jan 15.....By this date, if enactment of legislation originating from the super-committee does not achieve an estimated \$1.2T in savings (-\$216M in interest savings), it would kick in across-the-board cuts spread evenly between 2013-2021, (half from defense & half from non-defense). Could range from \$0 to \$1,000,000,000,000, almost all direct spending is exempt. This sword hangs over everything.

- Early Feb.....Revised agency strategic plans aligned with requirements from the GPRA Modernization Act of 2010 - are to be published concurrent with the federal budget release.

- Feb 6...President's FY 2013 budget is unveiled to Congress and the world.