Federal Budget Issues & the Next Farm Bill

A Presentation by:

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What a Farm Bill Does

1. **Authorizes Ag Committee Programs:** Provides USDA the authority to operate programs using provisions specified in the farm bill. For most programs, the authority to operate is temporary (e.g. for the 2008 farm bill, FY 2008 through FY 2012 or the 2008 through 2012 crops).

2. **Funds the Ag Committee's "Mandatory" Programs:** The Ag Committee fully pays for all of the Farm Bill's multi-year costs at the time the Farm Bill is passed based on CBO estimates.

What a Farm Bill Does

3. **Authorizes the Appropriation of Funds for Appropriation Committee Programs:** Appropriations Committee program provisions and maximum funding levels are supposed to be authorized by the Ag Committee before they are funded. The Appropriation Committee funds its "Discretionary" Programs one-year at a time so enactment of an Ag Appropriations Act (or a continuing resolution) is needed each year for USDA to operate.

4. **Temporarily suspends "permanent law"** provisions of the Agricultural Act of 1949, the permanent law for commodity programs. Outdated provisions of the 1949 Act (including acreage allotments and marketing quotas based on 1950s farm-level production and parity-based loan rates) would become effective if no new farm bill or extension were enacted

Jurisdiction is Critically Important in the Legislative and Congressional Budget Processes

Committee Jurisdiction:

- The subjects and functions assigned to a committee by rule, resolution, precedent, or practice, including legislative matters, oversight and investigations, and [in the Senate], nominations of executive officers.

Bottom Line:

- Just because it's in the farm bill doesn't mean that the Ag Committees have jurisdiction
- If you want to change a provision, it has to go through the committee with jurisdiction.
- Generally, the committee with jurisdiction on an issue controls the budget for that issue

House Ag Committee Jurisdiction

- The House Ag Committee HAS Primary Jurisdiction for the Following:
  - Commodity and Crop Insurance Programs
  - Conservation Programs
  - SNAP (Food Stamps) and selected other Nutrition programs (see below)
  - Agricultural Trade Programs (Shared)
  - Rural Development Programs (Most funds provided through Appropriations)
  - Agricultural Research (Most funds provided through Appropriations)
  - Forestry
  - Horticulture and Organic Programs
  - Selected Energy Programs
  - Commodity Futures and CFTC

House Ag Committee Jurisdiction

- The House Ag Committee DOES NOT HAVE jurisdiction for the following:
  - School lunch and other child nutrition (Senate Ag has jurisdiction)
  - Immigration
  - Taxes (including ethanol and biodiesel tax credits)
  - Trade Laws.
  - Climate Change
  - Environmental Programs

- Committees without jurisdiction can still have influence if votes of their Members are needed.

Two Types of Funding in the Federal Budget: Discretionary Funds

- Controlled by the Appropriations Committees and Subcommittees
- Generally, costs are paid for one-year at a time in annual appropriations bills.
- Programs are supposed to be authorized through an authorizing bill such as a Farm Bill. The authorization of appropriations provides a maximum level but the Appropriations Committees determine if a program is actually funded and the level of funding.
- Agriculture Examples:
  - Salaries and Expenses for USDA
  - Most USDA Research and Rural Development

Two Types of Funding in the Federal Budget: Mandatory Funds (AKA “Direct Spending”)

- Controlled by Authorizing Committees such as the House Agriculture Committee
- Multi-year costs are fully paid for at the time a bill is passed based on CBO estimates.
- If the actual costs come in higher than estimated at passage, the Ag Committees don’t need to find more funding.
- If actual costs come in lower than estimated at passage, the Ag Committees don’t get to spend the “extra money” elsewhere.
- Agriculture Examples:
  - SNAP (Food Stamps)
  - Commodity program costs
  - Crop Insurance costs

A Committee's Budget Consists of Two Related Funding Pools: Budget Authority and Outlays

- Budget Authority: Signing the contract for goods or service.
- Outlays: Writing the check for delivered goods or completed services.
- Because many contracts involve multi-year deliveries of goods or services, outlays may stretch out for a number of years.
- Outlays are used to determined compliance with PAYGO and Reconciliation and in helping determine if a program has a baseline for the next farm bill.
- For some programs (e.g., commodity programs, CRP), CBO assumes that budget authority equals outlays.

Note

All comparisons in this presentation use the Original CBO March 2010 Baseline. The CBO March 2010 Baseline (with adjustments during the year for enacted legislation, significant administrative actions, etc.), generally will be the scoring baseline for CBO's cost estimates until CBO releases its March, 2011 Baseline

Current Financial Condition of the Federal Budget

Deficits, Debt, and Surpluses

Key Budget Terms:

- Annual Deficit: During a fiscal year, federal spending is greater than federal receipts.
- Federal Debt: Cumulative funds borrowed to cover current and prior year deficits (less any debt reduction from annual surpluses).

Non-Key Budget Term :

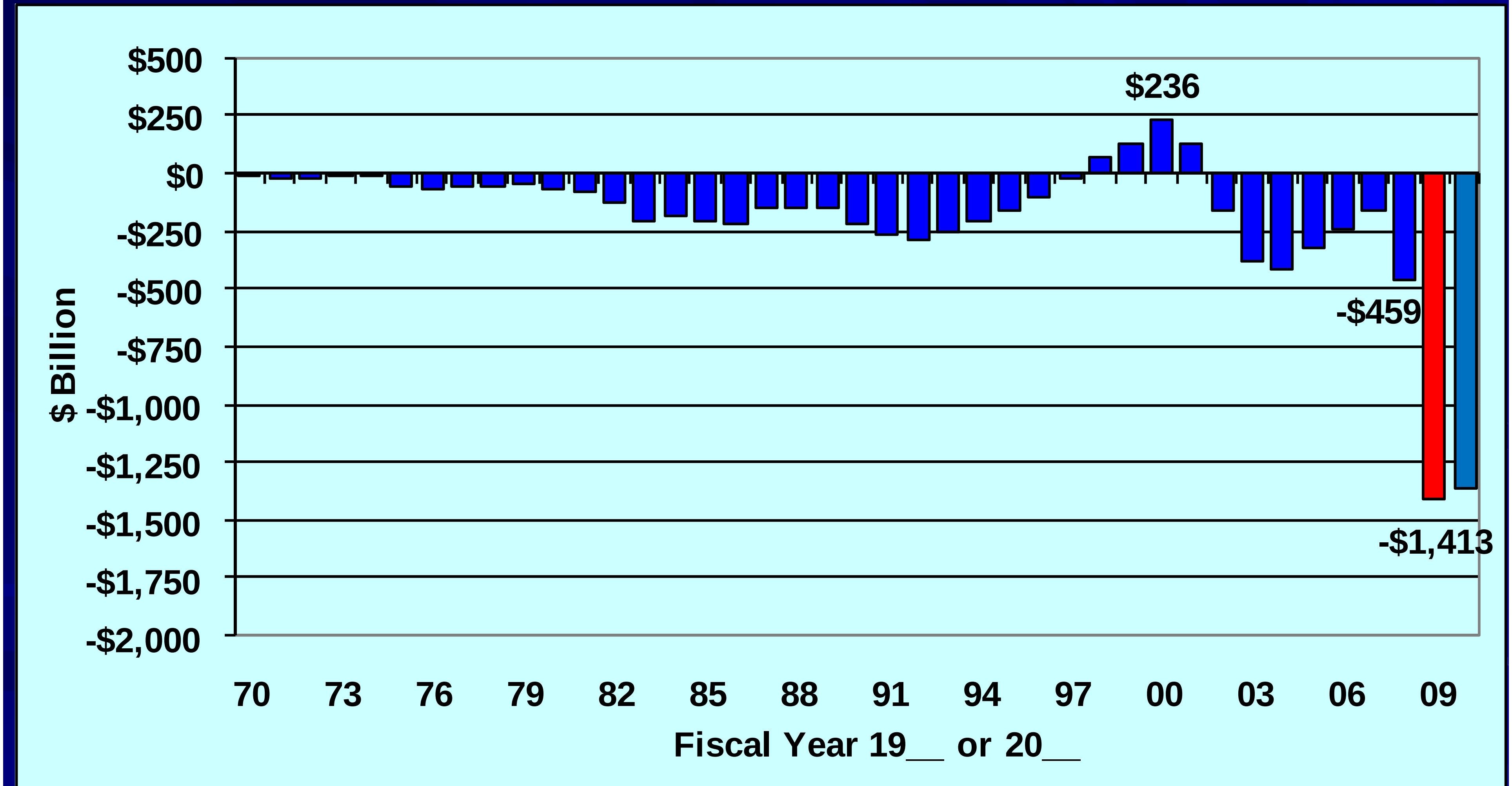
- Annual Surplus: During a fiscal year, federal receipts are greater than federal spending.

Bottom Line:

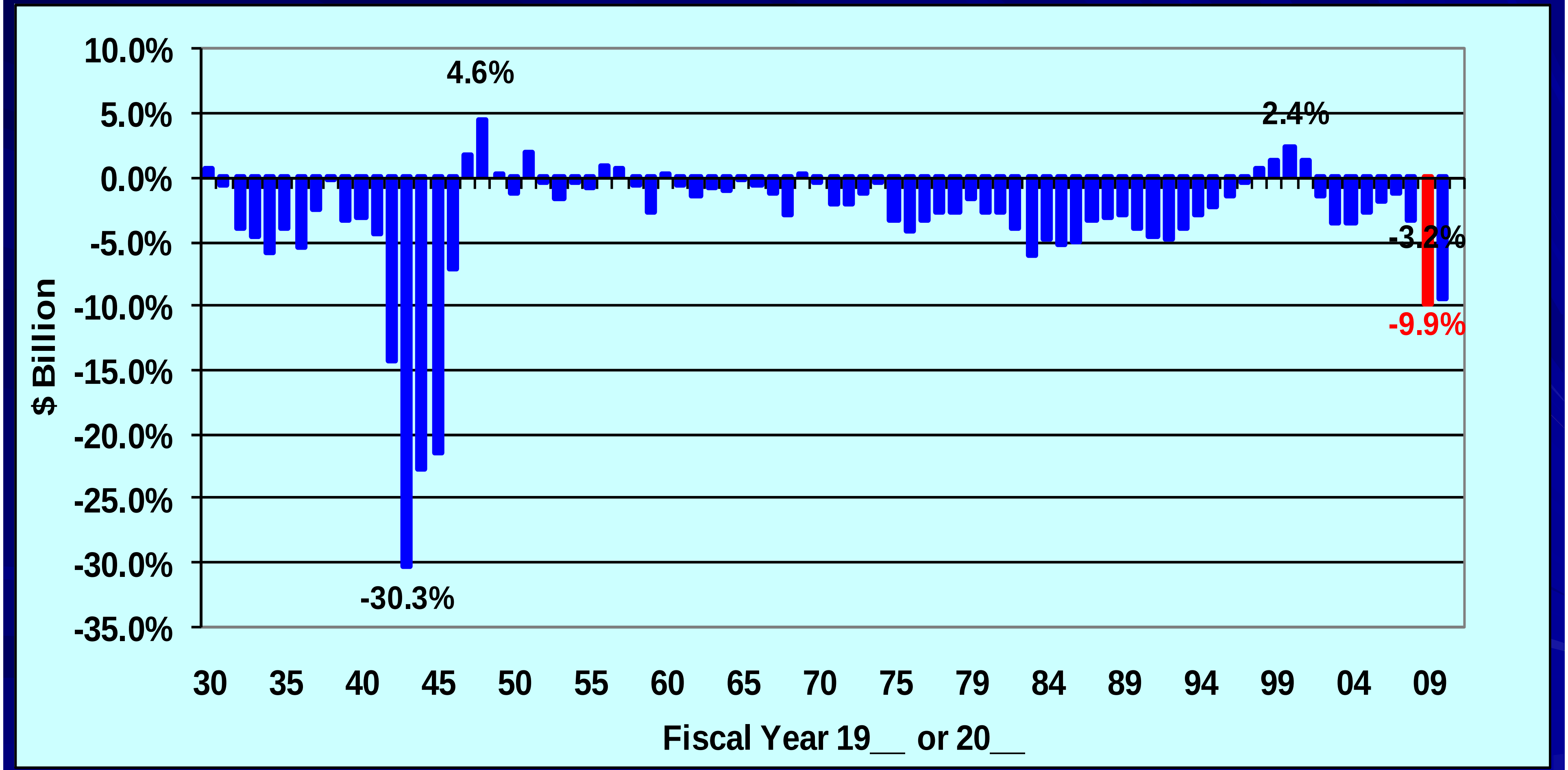
- An annual deficit increases the Federal debt while an annual surplus reduces it.

How Big a Financial Mess Are We Creating for Our Children and Grandchildren?

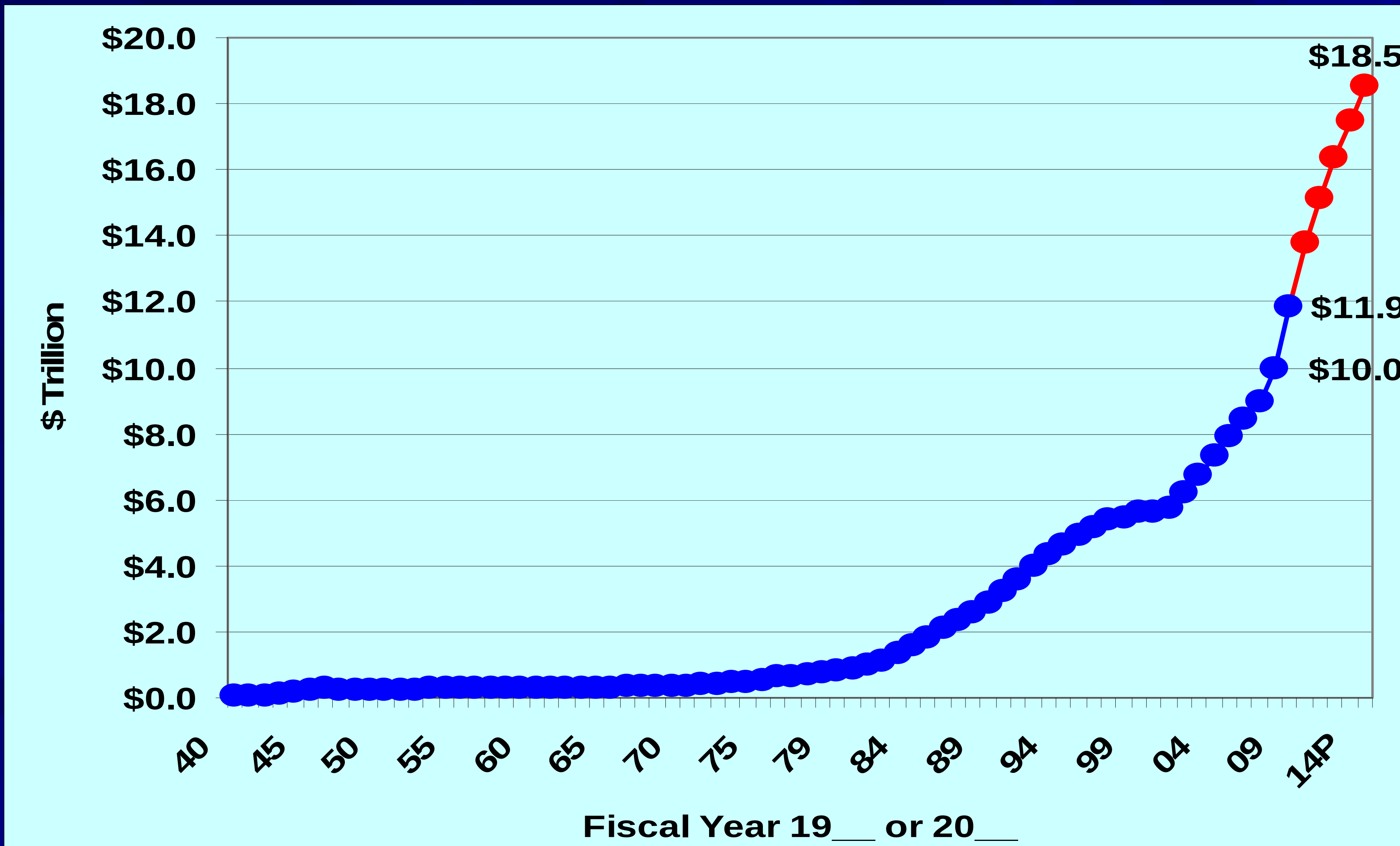
FY 2010 Deficit = $1.368 Trillion: Projected 2nd Largest Nominal-Dollar Deficit. Note: (+) = Surplus, (-) = Deficit
CBO March 2010 Baseline



FY 2010 Deficit: 9.4% of GDP. Projected 2nd Largest % of GDP Since WWII. Note: (+) = Surplus, (-) = Deficit *CBO March 2010 Baseline.*



Total Federal Debt: $ Trillion (Nominal). FY 1940-2009: Actual (blue). FY 2010-15: OMB Projections (red). FY 2011 Pres. Budget.



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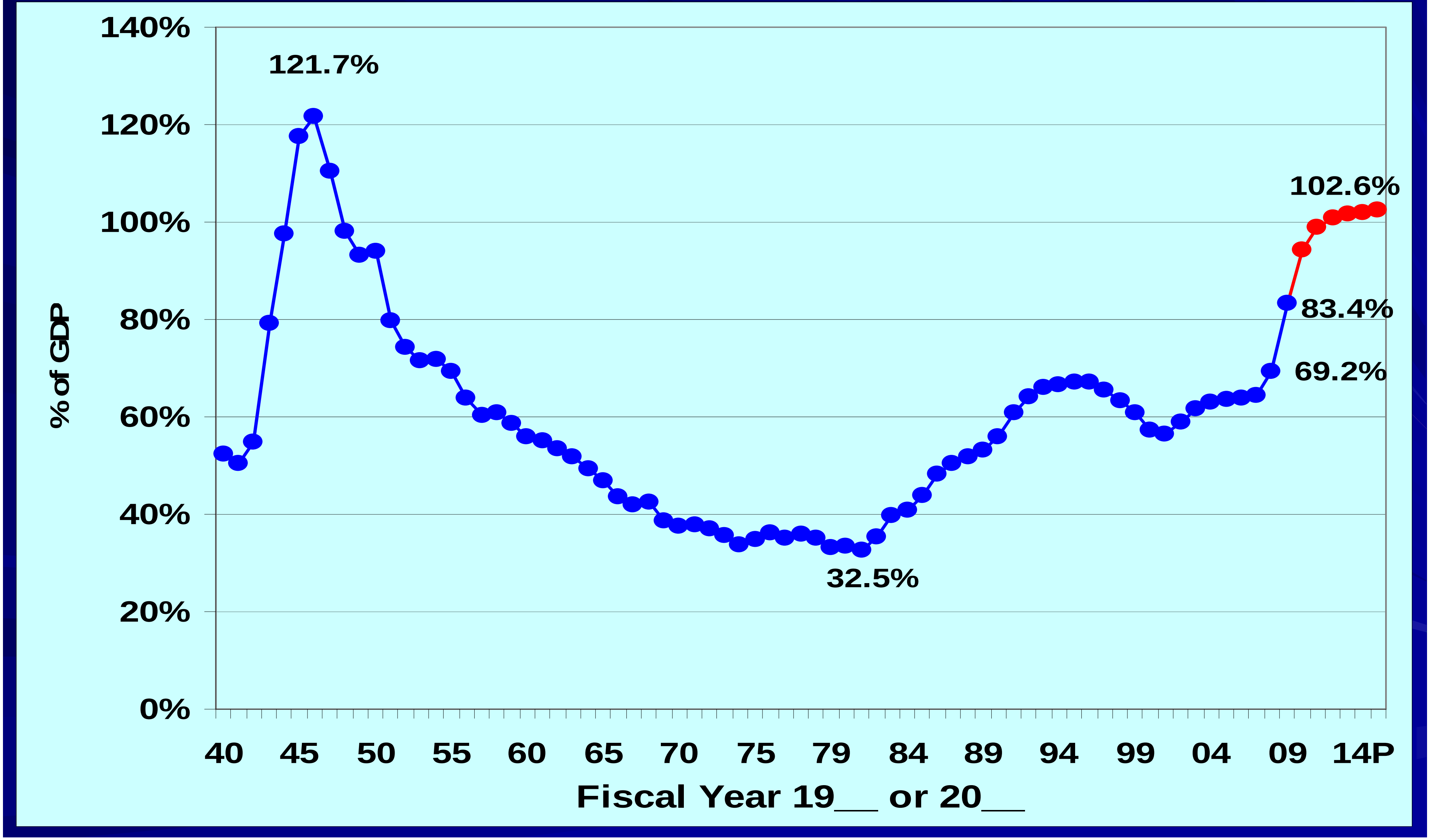


CBO's Ag Committee Baseline and Cost Estimates

CBO's Baselines and Cost Estimates Are The Only Ones That Count on the Hill.

"We don't use the Congressional Budget Office. We have our own figures."

The Congressional Budget Office (CBO)

- CBO is one of three Congressional support agencies. (The other two are the Congressional Research Service and the Government Accountability Office)
- About 70 of CBO's 220 employees are Analysts in its Budget Analysis Division (BAD).
- CBO's BAD analysts have two major responsibilities:
  - <u>Baselines</u>: Develop (3 times per year) 10-year baseline projections of the costs of government programs if current laws were to continue unchanged.
  - <u>Cost Estimates (aka "Scoring")</u>: Using the baseline as the benchmark, estimate whether proposed legislation would increase, decrease, or have no effect on the federal deficit (or surplus) over the next 10 years if the legislation were enacted.

What is the CBO Baseline?

- Think of the CBO baseline as the Ag Committee’s major source of funding for new legislation (e.g., the next farm bill).
- The CBO Baseline is a 10-year projection of future program costs under the assumption that most current laws and policies continue indefinitely regardless of when their authorization stops.
- CBO analysts use the baseline as the benchmark for “scoring”—i. e. estimating whether a proposed program or provision increases or decreases government costs.
- Generally, if a provision increases costs, a budget offset must be found. (an offset is an equivalent cost reduction in another program or an increase in revenue)
- Not only the cost but also the impact on the baseline is an important consideration for every proposed legislative provision.

Why the Baseline Matters

- If an existing program has a baseline, there is no cost (i.e., no offset is needed) to continue the program in the next farm bill (as long as its provisions and funding levels aren't changed.)
- But if an existing program doesn't have a baseline, there is a cost to continue the program and an offset is needed.
- There is also a cost (and an offset needed) to initiate a new program.
- A program's baseline may also be used to provide an offset for the costs of continuing or changing provisions of another program or initiating a new program.

Baselines Change Over Time: CBO's March 2009 Baseline Shows a 32% Increase in Ag Committee 10-Year Outlays Relative to the CBO March 2007 Farm-Bill Adjusted-Baseline . $ Billion.

	Mar 07 FB Base FY 08-17	Mar 09 Base FY 09-18	*Mar 09 less Mar 07*
Food Stamps	405	603	+*198*
Child Nutrition	167	200	+*33*
Commodities	74	74	*0*
Crop Insurance	48	70	+*22*
Disaster	4	1	*-3*
Conservation	55	61	+*6*
Other	28	20	*-8*
Total	**$781**	**$1,029**	***+$248***

More Details on the CBO Baseline

- The CBO baseline covers all federal government spending and receipts and often provides significant details for many programs.
- In constructing Ag Committee baselines, CBO analysts incorporate current and projected market conditions, economic trends, and USDA implementation decisions.
- As market conditions change, baseline levels change, too.
- Of the 3 CBO baselines for each year (January, March, September), the March Baseline is, in most cases, the “scoring baseline”—i.e., the benchmark from which changes in costs of proposed legislation are estimated

Constructing the CBO Baseline

- The $50 Million Rule. A program must have outlays greater than $50 million in the current fiscal year to "earn" a baseline for years beyond the authorization period.
- If funding for a program is stopped before the last day of a law's authorization, no baseline funds are provided.
- Baseline Trade-Offs
  - An out-year baseline provides the funding to reauthorize a program when its current authorization ends.
  - But that out-year baseline needs to be paid for at the time a program is initially authorized.

CBO Cost Estimates

- A CBO cost estimate (i.e., the “score”) shows the difference over the next ten years between:
  - Expected federal costs if a new proposal becomes law and
  - Expected federal costs if current laws are assumed to continue (i.e., “the baseline).”

- Remember: the score shows the change in spending--NOT total spending.

- CBO Cost Estimates determine the Costs of Legislative Proposals (and, thus, the Funding Tradeoffs Among Programs)

CBO Cost Estimates

- The Budget Committees can (but rarely do) override a CBO cost estimate.
- CBO will only score savings from legislated changes—not from, for example, lower than expected costs when actual market conditions are different than originally projected.
- Market conditions can impact CBO baseline projections and thus the amount of funding available for possible shifting around.
- Savings from program with multi-year contracts can only come from limiting new contracts. Terms in existing contracts cannot be altered to obtain savings.

Caveats on Offsetting Increased Costs for New Programs by Cutting Costs of Current Programs

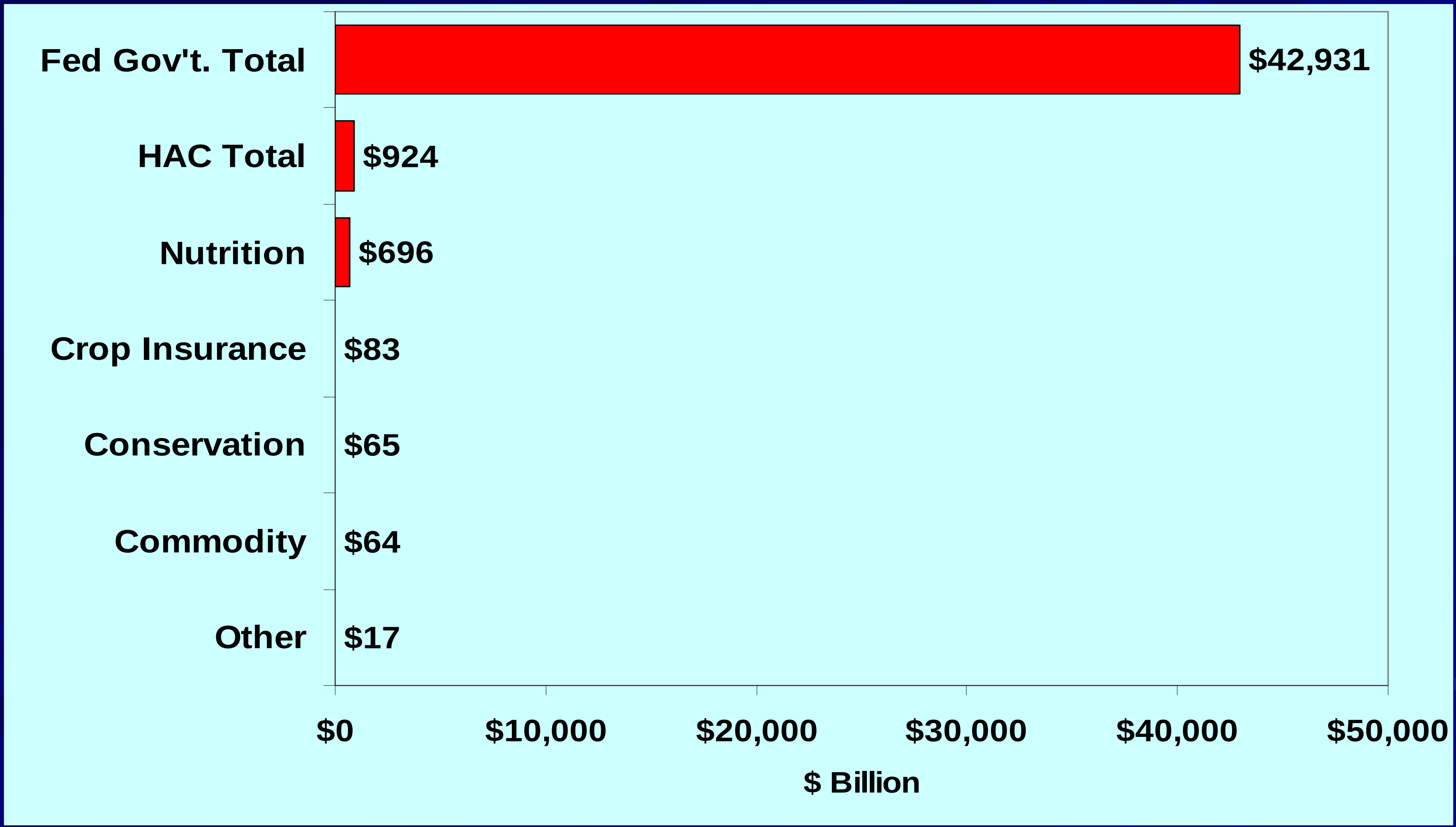
- Every program has a constituency. Proposed cuts may lead to interest group wars.
- May make policy proposals that save money more attractive than they otherwise would be.
- Can lead to "bad" policy if policies are designed to capture quirks in CBO baselines or estimating assumptions.
- Cost trade-offs and savings opportunities are heavily dependent on CBO Baselines and Scoring. Reductions in costs of price-dependent commodity programs have reduced funds that some want to tap for offsets.
- CBO's introduction for the 1996 farm bill of "probability scoring" (stochastic analysis) has reduced the number of policy proposals (and enacted policy) that rely on budget gimmicks.

Why has meeting Farm Bill Funding needs become more Difficult?

- Developing legislation has become much more difficult since the adoption of House and Senate rules in 2007 that no longer allow additional funds to be added in the budget resolution to the "scoring baseline."
- Everything is now scored from an unmodified CBO Baseline.
- Pre-2007 Examples
  - 2002 farm bill: $73.5 billion over 10 years was added to the CBO baseline for scoring purposes.
  - 2002 crop insurance reform bill: $8.2 billion over five years was added to the CBO baseline for scoring purposes.

House Ag Committee Programs are Projected to Cost $924 Billion over 10 Years.* All Federal Govt. Spending is Projected to be $42.9 Trillion During This Time.

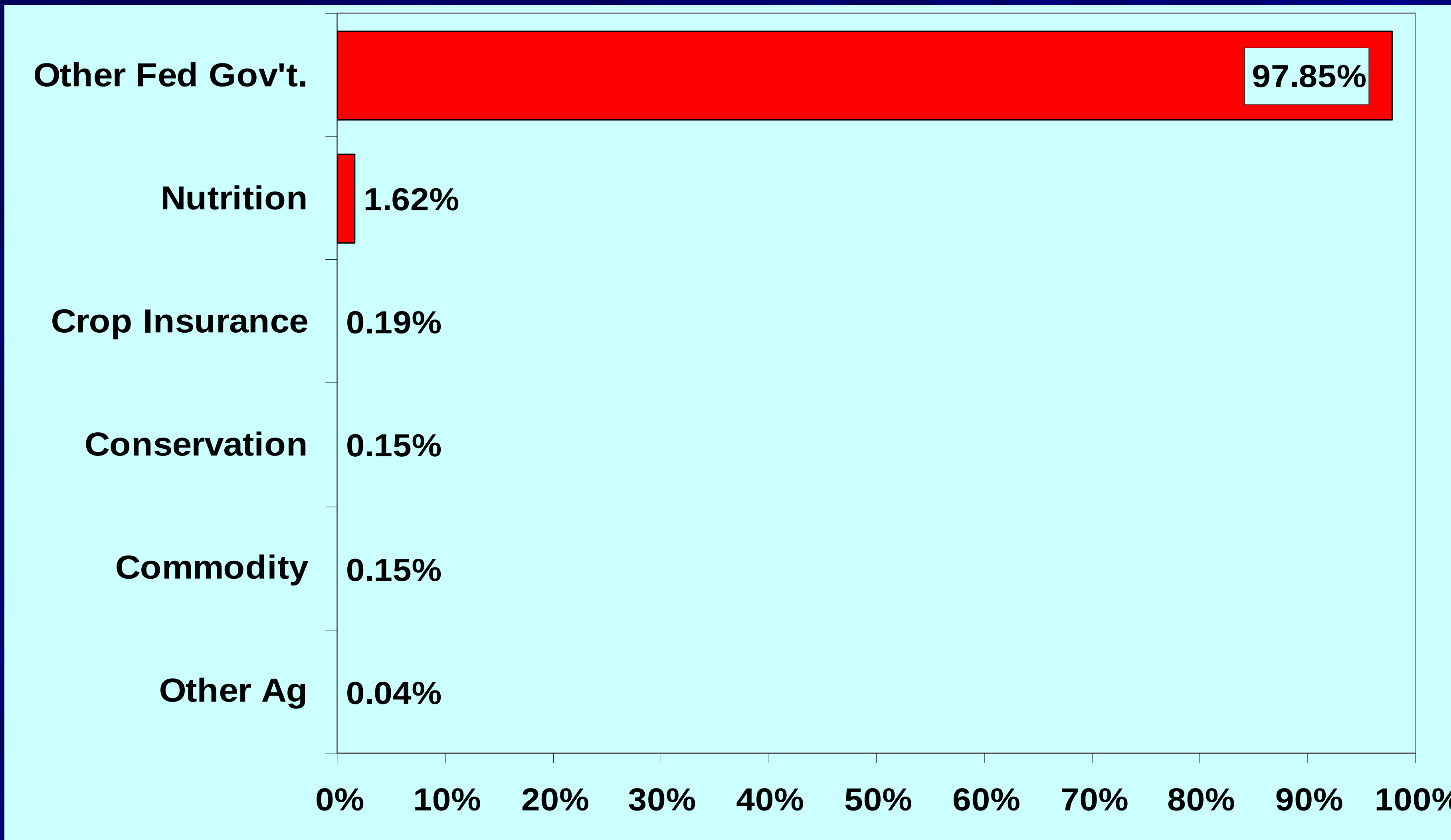
Based on CBO March 2010 Baseline: FY 2011-20 Budget Auth. $ Bil.



* Ag Committee BA is entirely Mandatory BA and is a HAC Calculation based on CBO March, 2010 Estimates. # All Federal Govt. Spending includes both Discretionary and Mandatory BA.

The Projected 10-Year Cost of All House Ag Committee Programs* is 2.15% of All Federal Government Spending

Based on CBO March 2010 Baseline: FY 2011-20 Budget Auth.



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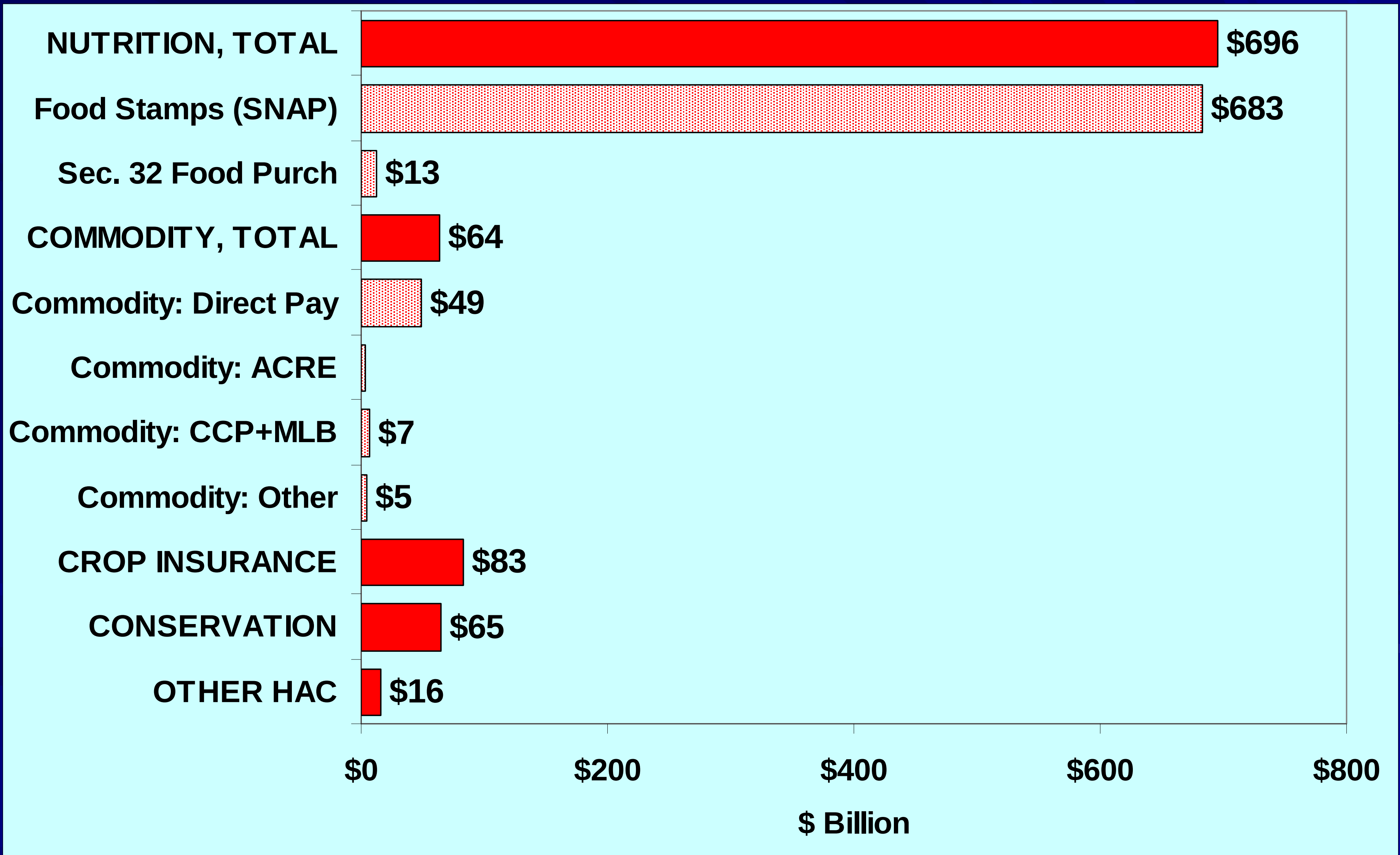
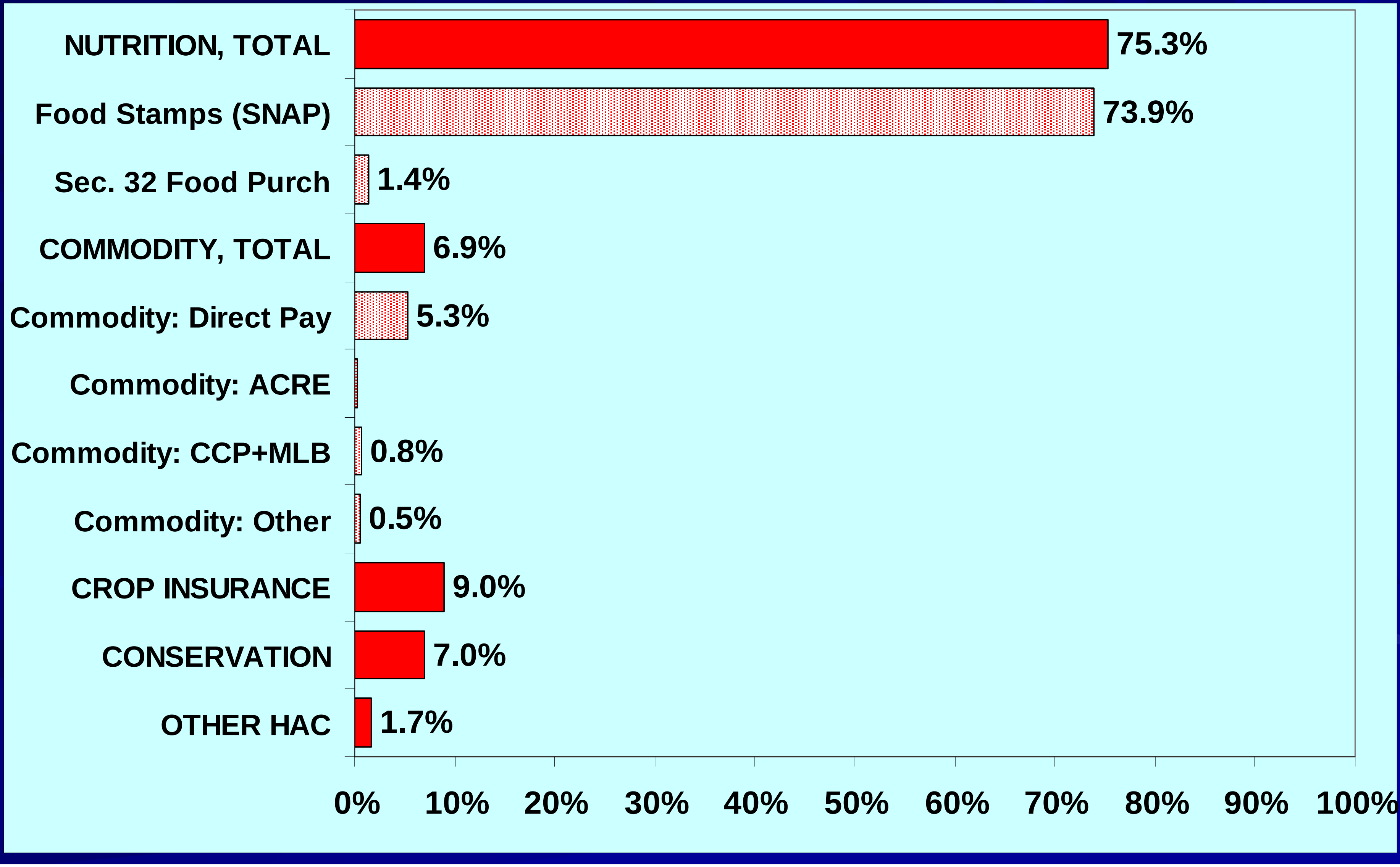
The House Ag Committee's $924 Billion Projected 10-Year Budget: $ Billion by Program.

HAC Rackup of CBO March 2010 Baseline: FY 2011-20 Budget Auth.



The House Ag Committee's $924 Billion Projected 10-Year Budget: Percent of Total by Program.

HAC Rackup of CBO March 2010 Baseline: FY 2011-20 Budget Auth.



The Senate Ag Committee Budget is Larger than the House Ag Committee Budget

- The Senate Ag Committee has jurisdiction for Child Nutrition programs while the House Ag Committee does not. (In the House, the Education and Labor Committee has jurisdiction.)
- Adding $204 billion to the House Ag Committee's Budget gives a Senate Ag Committee Projected 10-Year Budget of $1.128 Trillion.
- 80% of the Senate's projected 10-Year Budget is for nutrition programs.
- Question: Who should provide offsets for desired increases in funding when jurisdiction is different in the House and Senate?

Budget Reconciliation:
Not IF but WHEN

Budget Reconciliation Basics

- Budget Reconciliation: share the pain of reducing the federal deficit by requiring all or most authorizing committees (including agriculture) to change their mandatory spending programs to reduce federal spending.
- Reconciliation bills can also contain revenue provisions.
- Reconciliation does not apply to discretionary spending under the jurisdiction of the appropriations committees. (Although in a reconciliation year, allowed discretionary spending separately can be reduced, too)
- Budget Reconciliation is initiated by including reconciliation instructions in the annual Congressional Budget Resolution.
- Budget Reconciliation Instructions state the amount of reductions from the baseline that each authorizing committee must make for a specified period (typically five or ten years) and a deadline for reporting legislation for doing so.

Budget Reconciliation Basics (Cont.)

- Although the budget resolution may include suggested changes, each authorizing committee determines what cuts will be made.
- If an authorizing committee does not report legislation that CBO scores as meeting its reconciliation instructions by the deadline in the budget resolution, the Budget Committee may provide its own legislation.
- When all committees have reported legislation to meet their reconciliation instructions, the budget committee bundles all the legislation into one bill and sends it to the floor.

Budget Reconciliation Basics (Cont.)

- A budget reconciliation bill cannot be filibustered in the Senate. Debate is limited to 20 hours. Amendments are not limited, however.
- At the start of the 110th Congress both the House and the Senate adopted rules that prohibit a reconciliation bill from increasing the deficit.
- The Senate's Byrd Rule allows a Senator to raise a point of order against any provision that is extraneous (e.g. does not affect outlays or revenues) The point of order can be waived by an affirmative vote of 60 Senators. The Byrd Rule applies to conference reports, too.

Budget Reconciliation and Agriculture

- The most recent budget reconciliation for agriculture was for FY 2006. The final enacted reduction was $2.7 billion. $1.5 billion of the savings were from timing shifts.
- Some Prior Budget Reconciliations Affecting Agriculture:, 1995, 1993, 1990, 1989, 1987
- Average <u>Annual</u> Proposed Ag Cuts in House & Senate Reconciliation Instructions Since 1990 Have Varied from $74 Million to $6.9 Billion. <u>Annual Average = $1.9 Billion</u>
- The 1990 and 1995/1996 farm bills were done in tandem with budget reconciliation.
- What will be the interaction between reconciliation and the next farm bill.

Pay-Go Provision Could Mean No-Go for Farm Bill

-- Headline, Politico, April 2, 2008, p. 12 –

The Congress's Legislative Paygo

- The 3 Types of Legislative Paygo provide for sanctions that can be applied to a bill or series of bills that are estimated to increase the federal deficit relative to the baseline. House and Senate Paygo rules are triggered by the raising of a "budget point of order."
- In the House, a paygo violation can stop consideration of a bill unless the paygo rule is waived in advance of consideration (House)
- In the Senate, a paygo violations can stop consideration unless the paygo rule is waived during consideration by a 60 vote supermajority (Senate)
- A Statutory paygo violation caused by all bill's passed during a session of Congress can lead to sequestration—an across the board cut to nonexempt programs to offset the bills' costs.

OMB’s Administrative Paygo

- An internal Administration budget enforcement / deficit reduction system that OMB applies during the implementation process after a bill has been enacted.
- Makes USDA offset the costs of implementing a provision that USDA is allowed by law to implement but is not required by law to implement.
- Undermines the Ag Committee’s common sense practice of giving USDA significant flexibility to determine the best rules for implementing programs.
- If the Congress cannot trust the Administration to use this flexibility in the way that the Congress intended, the Agriculture Committees will need to write program provisions very specifically into law even when those provisions are best determined by regulation.

Prior Farm Bills and the Budget

	Funds added in Budget Resolution	Reconciliation Savings Required	Other Savings Required	Funds from Other Committees
1990	No	Yes	No	No
1995 /	No	Yes	No	No
1996	No	No	Yes	No
2002	Yes	No	No	No
2008	No	No	No	Yes

Eight Challenges to Doing a Baseline Bill

Eight Challenges to Doing a Baseline Bill

Definition: a "**Baseline Bill**" is one that uses only the Ag Committee baseline as a funding source. No additional funding is sought from other committees (as with the 2008 farm bill.)

1) 38 current programs/provisions have no baseline after 2012. To provide funding similar to 2008 farm bill levels through 2017 (with no baseline after 2017) might cost around $9 billion. (Note that biofuel tax credits have no baseline. Neither do Brazil Cotton payments of $147 million per year; they are currently funded through CCC temporary funds.)
2) Administrative decisions under OMB's Administrative Paygo can reduce the baseline. The new Standard Reinsurance Agreement (SRA) with crop insurance companies has reduced the Ag Committee Baseline by $6 billion over ten years (i.e., Ag's contribution to deficit reduction) because the savings are the result of administrative—not legislative—actions.

Eight Challenges to Doing a Baseline Bill (Cont.)

3. The $4.5 billion (over 10 years) in savings from timing shifts used in the 2008 farm bill cannot be repeated in the next farm bill. Two reasons:
   - Timing shifts—moving outlays outside or receipts inside the scoring window—are one-time “savers.” Timing shifts are one-time savings; all timing shifts that could be identified were used in the 2008 farm bill, 2006 budget reconciliation ($1.5 billion) and the 2002 farm bill ($2.6 billion).
   - In meeting the requirements of the recently enacted Statutory Paygo Act, timing shifts cannot be counted as savings.
   - (Note that other committees have regularly used timing shifts, too.)

Eight Challenges to Doing a Baseline Bill (Cont.)

4) Using the Ag Committee baseline to offset costs of current ”needs” reduces the baseline available for the farm bill.

5) Reconciliation (when it occurs) will force the Ag Committees to reduce their baseline by an as yet-unknown amount.

6) Demands from interest groups to further increase funding for conservation programs, specialty crops, and nutrition programs (among others) can be expected to continue.

7) Any reforms would be more attractive to some groups if additional funds were available beyond the current baseline

Eight Challenges to Doing a Baseline Bill (Cont.)

8) If the Congress reduces funds available to the Appropriation Committees, appropriators may increase annual CHIMPs.

- CHIMPS are “Changes in Mandatory Program Spending” enacted in appropriations acts. Under budget rules, the Appropriations Committees can place annual limits on spending for the Ag Committee’s mandatory programs and use the funds saved to increase or maintain spending on their discretionary programs.
- While CHIMPS do not decrease the baseline available for writing a farm bill, they after-the-fact reduce program spending below levels agreed to in the farm bill (and paid for by the Ag Committee from their budget baseline.)
- Funding reductions through CHIMPS have been especially significant for conservation and rural development programs.

Conclusions on a Baseline Bill:

- A tough but worthwhile objective.
- The 2008 Farm Bill showed that the alternative of seeking funds from other Committees is tough, too.
- People need to be aware of Farm Bill funding problems so they can (but probably won't) adjust their expectations.

Bottom Line: The Budget and the Next Farm Bill

1. The Federal Budget has significant short-run & long-run problems. This adds significant pressure for all committees to reduce spending.

2. Budget reconciliation—requiring most committees to cut program costs—is coming.

3. As budget rules have been tightened, opportunities to add extra funding beyond baseline funds have diminished.

4. A number of 2008 farm bill programs have no baseline after 2012. To re-authorize these programs, funding needs to come from other ag programs or non-ag sources.

Bottom Line: The Budget and the Next Farm Bill

5. If the Ag Committee baseline is used as offsets for current legislation, less funding will be available for the next farm bill.
6. The 2008 farm bill showed us how difficult it is to convince other committees' to give us part of their funding to increase funding for farm bill programs.
7. The Administration's "Administrative Paygo" can affect the Ag Committee baseline available to write the next farm bill and may lead to Congress giving less administrative discretion to the Administration.

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Craig Jagger

Craig Jagger has been the Chief Economist for the House Committee on Agriculture since February, 2001. Working first for Republican Chairmen Larry Combest and Bob Goodlatte, he has worked for Democratic Chairman Collin Peterson since January, 2007. While at the Ag Committee (and in previous jobs at the Congressional Budget Office and USDA's Farm Service Agency), Craig has worked on a number of bills including four farm bills, four budget reconciliation bills, and one major (and one minor) crop insurance bill, among others. He also has worked for the U.S. Government Accountability Office and USDA's Economic Research Service.

Craig was raised on the Kansas family farm that his great-grandparents homesteaded 144 years ago. "Jagger" wheat, the most widely planted wheat variety in Kansas from 1998 through 2005, is named after his late father. He started his formal education at a two-room country school (without indoor plumbing) a mile and a half from the farm. His Bachelors degree in technical theatre and Masters' degree in agricultural economics are from Kansas State University and his Ph.D. in agricultural economics is from Cornell University.

Craig has been married to Joy Harwood for 23 years. She is the Chief Economist and Director of Economic and Policy Analysis at USDA's Farm Service Agency. For eight years, they co-taught a popular evening class on commodity programs at the USDA Graduate School that was taken by over 200 students including about 50 Hill staff.

In 2001 and 2005, Joy and Craig adopted two beautiful and talented daughters from China—Margaret Joy Ling, age ten, and Caroline Shu Ni, age six.