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Supplemental Appropriations: Trends and Budgetary Impacts Since 1981

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Supplemental Appropriations: Trends and Budgetary Impacts Since 1981

Summary

Hurricane Katrina, which struck Louisiana, Mississippi, and Alabama, caused widespread flooding, significant property damage, and lost lives. In response, Congress passed two supplemental appropriations measures providing a combined $62.3 billion for relief and recovery needs. Many knowledgeable observers think that the costs will likely rise much higher. Some have called for offsets in the federal budget to pay for Katrina (and, to a lesser extent, Hurricane Rita) relief and recovery efforts. Recently, many in Congress have expressed renewed concern about the impact of supplemental appropriations on the federal budget deficit and federal debt.

Supplemental appropriations provide additional funding to an agency during the course of a fiscal year for programs and activities that are considered too urgent to wait until next year's budget. The major purposes of supplemental appropriations have changed over the past 25 years. In the 1980s, almost half of supplemental appropriations were for mandatory programs such as unemployment compensation, and the rest were for discretionary spending. After 1990, over 90% of supplemental appropriations have been for discretionary spending, as the major purpose has shifted toward funding natural disaster relief.

The amount of new budget authority contained in supplemental appropriations bills fell after 1981 from over 3% of total budget authority to only about 0.1% by 1988. Except for a sharp spike in 1991 to fund the first Gulf war, supplemental appropriations remained at less than 1% of total budget authority throughout most of the 1990s. Supplemental appropriations began to rise after 1998, and by 2005 reached about 6% of budget authority. In addition to hurricane relief, FY2005 supplemental appropriations provided funding for the wars in Iraq and Afghanistan, tsunami relief, and the global war on terror.

Since FY1981, an average of 36% of the supplemental appropriations were offset by rescissions. After FY2002, however, less than 0.5% of the supplemental appropriations were offset through rescissions. It has been argued, however, that the offsetting rescissions were merely write-offs of budget authority that would never be used. For example, CBO estimated that in the 1980s, nearly half of the rescinded funds were unlikely to ever have been spent.

Supplemental appropriations net of rescissions have usually increased the budget deficit, and federal debt held by the public is larger than it would have been had the supplemental appropriations been fully offset. Had supplemental appropriations been fully offset since 1981, federal debt held by the public could have been reduced by about 18% or $830 billion. This could have reduced interest payments to the public by $35 billion per year. On the other hand, if 25% of the supplemental appropriations in FY2003 through FY2005 had been offset (the average offset for previous years), federal debt held by the public would have been reduced by over 1% or almost $65 billion. Presently, reducing federal debt by $65 billion could save about $2 billion annually in interest payments to the public. This report may be updated if events warrant.

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Hurricane Katrina, which struck Louisiana, Mississippi, and Alabama, caused widespread flooding, significant property damage, and lost lives. In response, Congress passed two supplemental appropriation measures providing a combined $62.3 billion for relief and recovery needs. It is thought by many knowledgeable observers that the costs will likely rise much higher. Some have called for offsets in the federal budget to pay for the Katrina (and Hurricane Rita) relief and recovery efforts. Including the supplementals for Hurricane Katrina, total supplemental appropriations of FY2005 were $160.4 billion which is about 6% of the total budget authority for FY2005.[1] Supplemental appropriations often receive less scrutiny than the budget for the upcoming fiscal year as is reflected by the fact that the time from introduction to enactment is typically quite short. For the five FY2005 supplemental appropriations acts, the time from introduction to enactment varied from less than one day to three months.[2]

A supplemental appropriation is a device to provide additional funds for a fiscal year already underway, and has been used since the second session of the first Congress. However, concern has been expressed over the volume of appropriations made through supplementals. Although supplemental appropriations are usually used to fund emergency spending, Congress has nevertheless attempted to control supplementals. Besides efforts to limit supplemental appropriations to "dire" emergencies, Congress has tried to mitigate the effects of supplementals with offsetting rescissions. Since 2003, however, less than 1% of supplemental appropriations have been offset.

Recently, many in Congress have expressed renewed concern about the impact of these supplemental appropriations on the federal budget deficit and federal debt. In 2001, the federal budget ran a surplus equal to 1.3% of gross domestic product (GDP). Three years later, the federal budget was in deficit as outlays increased somewhat and receipts fell. The budget deficit was equal to 3.6% of GDP in 2004 and 2005 budget deficit was about 2.6% of GDP ($319 billion). Furthermore, federal

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[1] See Congressional Budget Office, CBO data on Supplemental Budget Authority for the 2000s, at [http://www.cbo.gov/ftpdocs/66xx/doc6630/SuppApprop.pdf], visited Sept. 19, 2005.

[2] The Emergency Supplemental Appropriations Act to Meet Immediate Needs Arising from the Consequences of Hurricane Katrina, 2005 (P.L. 109-61) was introduced and enacted on Sept. 2, 2005. The Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act, 2005 (P.L. 108-324) was introduced on July 15, 2004, and enacted on Oct. 13, 2004.

debt as a percentage of GDP increased from 33% to over 37% between 2001 and 2005.

This report examines supplemental appropriations since 1981. The trends in, and the budget rules and laws applicable to supplemental appropriations are briefly reviewed. In addition, the impact of supplemental appropriations on budget deficits and federal debt is estimated. The report does not focus on the reasons why supplemental appropriations have followed a particular trend (although some reasons are offered), but rather focuses on the budgetary impacts of supplemental appropriations.

Budget Rules and Supplemental Appropriations

Supplemental appropriations provide additional funding to an agency during the course of a fiscal year for programs and activities that are considered too urgent to wait until next year's budget. They often include spending for items authorized after the annual regular appropriations process. Over the past 25 years, Congress and the President have enacted one to eight supplemental appropriations or rescissions each year.

The major purposes of supplemental appropriations have changed over the past 25 years. In the 1980s, almost half of supplemental appropriations were for mandatory programs such as unemployment compensation, and the rest was for discretionary spending. One large discretionary item in supplemental appropriation during this time was civilian pay raises. The purposes of supplemental appropriations shifted dramatically in the 1990s toward funding natural disaster relief as agencies were required to absorb the full amounts of pay raises.[3] After 1990, over 90% of supplemental appropriations were for discretionary spending.

The President is authorized to "submit to Congress proposed deficiency and supplemental appropriations the President decides are necessary because of laws enacted after submission of the budget or that are in the public interest."[4] Supplemental appropriations, however, are generally discouraged. For example, the Office of Management and Budget (OMB) directs agencies to "make every effort to postpone actions that require supplemental appropriations."[5] OMB further states that it "will only consider requests for supplementals and amendments when:

- Existing law requires payments within the fiscal year (e.g., pensions and entitlements);
- An unforeseen emergency situation occurs (e.g., natural disaster requiring expenditures for the preservation of life or property);
- New legislation enacted after the submission of the annual budget requires additional funds within the fiscal year;
- Increased workload is uncontrollable except by statutory change; or

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[3] Congressional Budget Office, *Supplemental Appropriations in the 1990s*, Mar. 2001.

[4] 31 U.S.C. §1107.

[5] Office of Management and Budget, Circular A-11 (June 2005), p. 1 of section 110.

- Liability accrues under the law and it is in the Government's interest to liquidate the liability as soon as possible (e.g., claims on which interest is payable."[6]

Supplemental appropriation bills often contain funding requests for several purposes with varying levels of urgency. For example, the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005 (P.L. 109-13) provided $76.2 billion for additional defense spending, $5.8 billion for additional non-defense spending and $1.5 billion in rescissions which permanently cancel budget authority. Included in the bill were emergency supplemental appropriations for the National Oceanic and Atmospheric Administration, the Public Health and Social Services Emergency fund, and the Office of Federal Housing Enterprise Oversight, among others.

Supplemental and regular appropriations have been subject to a variety of budgetary rules over the years.[7] Prior to 2003, the Budget Enforcement Act of 1990 (BEA) set discretionary spending caps and a pay-as-you-go (PAYGO) requirement for mandatory spending. The BEA was revised and extended throughout the 1990s and the limits expired at the end of FY2002. Before 1990, the Balanced Budget and Emergency Deficit Control Act of 1985 set a deficit target and established a sequestration process to enforce the targets.[8] In addition, the 1987 and 1989 budget summits focused on reducing the deficit by limiting the amounts Congress could appropriate.

Spending determined to be for an emergency by both the President and Congress has been effectively exempt from the deficit targets, budget caps, and PAYGO requirements. However, at one point in the negotiations during the 1989 budget summit, negotiators discussed limiting supplemental appropriations by requiring all additional discretionary spending be offset. Unable to reach agreement on new language, the final agreement left intact the exemption for supplemental appropriations in the case of emergencies from the 1987 Budget Summit.[9] Many times the emergency designation has proven controversial, and some lawmakers have been concerned that the emergency spending exemption has been used mainly to evade BEA's constraints rather than respond to unanticipated needs.[10]

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[6] Circular A-11 (June 2005), p. 1 of section 110.

[7] See CRS Report 98-721, *Introduction to the Federal Budget Process*, by Robert Keith and Allen Schick; and CRS Report RS21035, *Emergency Spending: Statutory and Congressional Rules*, by James V. Saturno.

[8] Sequestrations are automatic, largely across-the-board spending reductions to bring projected budget levels in line with statutory targets. See CRS Report RS20398, *Budget Sequesters: A Brief Review*, by Robert Keith.

[9] William G. Dauster, "Budget Emergencies," *Journal of Legislation*, vol. 18, no. 2, (1992), pp. 249-315.

[10] Congressional Budget Office, *Emergency Spending under the Budget Enforcement Act*, Dec. 1998.

General Trend in Supplemental Appropriations

Since 1981, supplemental appropriations have varied from $1.3 billion to $161.9 billion which corresponds to 0.1% to over 6% of total budget authority (see the solid line in **Figure 1**).[11] The amount of new budget authority contained in supplemental appropriations bills fell after 1981 from over 3% of total budget authority to 0.1% in 1988. The early 1980s were characterized by high inflation and then a severe recession. The double digit inflation of 1980 and 1981 led the Federal Reserve Board to adopt a tight monetary policy to reduce inflation. This policy action contributed to the severe 1981-1982 recession. Both the high inflation and the recession led to greater than expected outlays as the price increases made programs more expensive to administer and the recession increased outlays for unemployment compensation and means-tested transfers to the unemployed. Some of the unexpected spending was funded through supplemental appropriations. As the economy recovered after 1982, the need to meet unanticipated outlays was removed, and supplemental appropriations fell. CBO argued that provisions in the Congressional Budget Act of 1974 also contributed to the reduction in supplemental appropriations in the late 1970s and early 1980s.[12]

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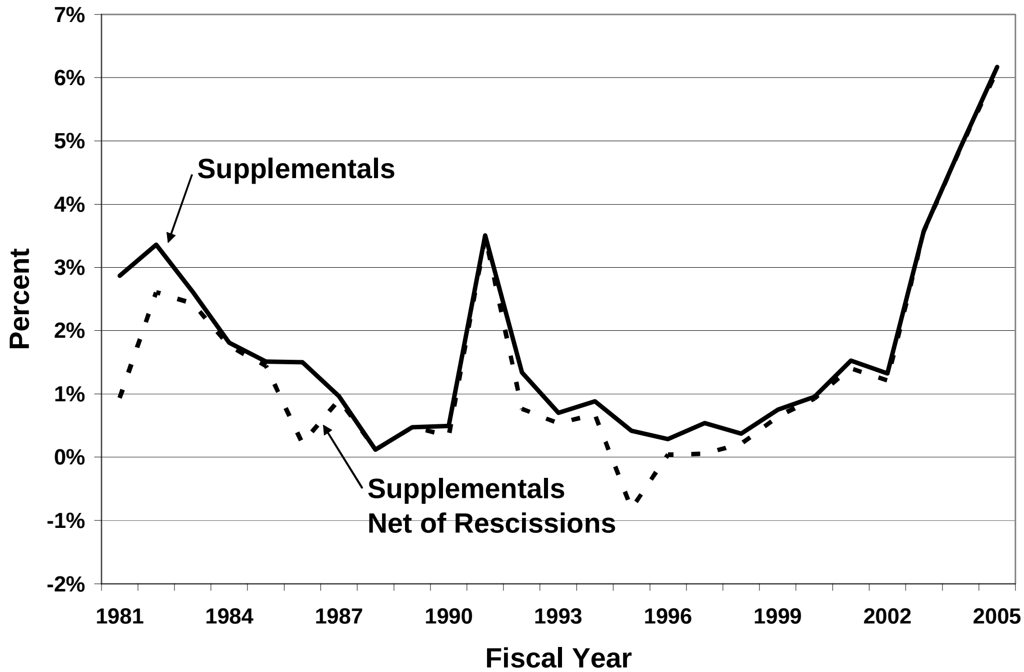
[11] Budget authority provides the federal government authority to enter into obligations. Outlays or the spending of the money occurs when obligations are liquidated. New budget authority in one year may not result in outlays in the same year. For example, of the $2,568 billion that the administration proposed for FY2006 outlays, $2,053 billion would result from recommended new budget authority and $514 billion would results from budget authority enacted in prior years. See *Budget of the United States Government, Fiscal Year 2006, Analytical Perspectives*, Feb. 7, 2005, chart 26-1, p. 418.

[12] Congressional Budget Office, *Supplemental Appropriations in the 1980s,* Feb. 1990.

Figure 1. Supplemental Appropriations as a Percentage of Budget Authority



The brief decline in 1988 may have been due to the 1987 budget summit between Congress and the President where it was agreed that supplemental appropriations would not be considered except for dire emergencies. Except for a sharp spike in 1991 to fund the first Gulf war, supplemental appropriations remained at less than 1% of total budget authority throughout most of the 1990s. Much of the incremental cost for the first Gulf War operations was eventually offset over the 1990s by burden-sharing contributions from allied nations.

After 1998, supplemental appropriations began to rise as the federal budget began running surpluses. After 2002, much of the supplemental appropriations was for funding the wars in Iraq and Afghanistan, and the war on terrorism. By 2005, supplemental appropriations reached about 6% of budget authority.

Budget Controls and Rescissions

The enactment of rescissions, to some extent, reduced the budgetary effect of supplemental appropriations. The dashed line in **Figure 1** shows the supplemental appropriations net of rescissions as a percentage of budget authority. The level of rescissions in supplemental appropriations has varied from year to year, with particularly large rescissions in FY1981, FY1986, and FY1995. In FY1995, enacted rescissions totaled $18.9 billion, while supplemental appropriations amounted to $6.4 billion. Since FY1981, an average of 36% of the supplemental appropriations were offset by rescissions. If the three years with large rescissions are omitted, then about 25% of the supplemental appropriations have been offset, on average.

Deficit reduction has been of great concern since the early 1980s. The large deficits of the early 1980s prompted Congress to enact deficit target legislation in 1985. In 1990, the focus shifted from budget deficits, per se, to establishing discretionary spending limits and mandatory spending PAYGO requirements. These limits expired at the end of FY2002. **Table 1** reports supplemental appropriations and rescissions for the following four periods:

- FY1981-FY1985, the period before the enactment of the deficit targets, but covered by provisions of the Congressional Budget Act of 1974 which required the President's budget submission to include allowances for emergencies;
- FY1986-FY1990, the period covered by the deficit targets under the Balanced Budget and Emergency Deficit Control Act of 1985, and the 1987 and 1989 budget summit agreements;
- FY1991-FY2002, the period covered by BEA's discretionary limits and PAYGO requirements; and
- FY2003-FY2005, the period after the BEA limits expired.

Table 1. Supplemental Appropriations and Rescissions
(billions of dollars)

Fiscal Years	Total Supplemental Appropriations	Total Rescissions	Percent of Supplemental Appropriation Rescinded (nominal)	Percent of Supplemental Appropriation Rescinded (present value)
1981-1985	$103.3	$23.2	22.4%	25.5%
1986-1990	$38.6	$15.7	40.7%	43.5%
1991-2002	$206.6	$55.2	26.7%	27.0%
2003-2005	$360.8	$1.6	0.4%	0.4%

Source: CRS calculations based on CBO and OMB data.

For each of the four periods, **Table 1** shows the total amount of supplemental appropriations and rescissions. For the FY1981-FY1985 period, 22% (25% in present value terms) of supplemental appropriations were offset through rescissions.[13] Over the period covered by the deficit targets (FY1986-1990), over 40% of the supplemental appropriations were offset. During the FY1991-FY2002 period, about

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[13] The level of supplemental appropriations and rescissions varies from year to year. The present value calculation takes into account inflation and the time value of money using the interest rate on five-year U.S. government bonds.

one quarter of the supplemental appropriations were offset. After FY2002, however, less than five tenths of 1% of the supplemental appropriations were offset through rescissions. It has been argued that the offsetting rescissions were merely write-offs of budget authority that would never be used. For example, CBO estimates that in the 1980s, nearly half of the rescinded funds were unlikely to ever have been spent.[14]

Budgetary Impacts of Supplemental Appropriations

Table 2 reports the estimated percentage increase in the budget deficit as a result of not offsetting the full amount of supplemental appropriations.[15] Over the entire FY1981-FY2005 period, the annual budget deficits were about 8% larger than would have been the case if the entire supplemental appropriation were offset by budget reductions or revenue increases. Over the FY1981-FY1985 period, supplemental appropriations net of rescissions increased the budget deficit by about 8% per year. Over the FY1986-FY1990 period, the supplementals increased the annual budget deficits by less than 4%. After the expiration of the discretionary limits and PAYGO requirements at the end of FY2002, supplemental appropriations net of rescissions increased the budget deficit by almost 25% per year.

Table 2. Effect of Supplemental Appropriations Net of Rescissions on Budget Deficit

Fiscal Years	Estimated Average annual increase in budget deficit or decrease in budget surplus
1981-1985	7.6%
1986-1990	3.5%
1991-2002	5.3%
2003-2005	23.8%
1981-2005	7.6%

Source: CRS calculations based on CBO and OMB data.

[14] Congressional Budget Office, *Supplemental Appropriations in the 1980s*, Feb. 1990.

[15] Supplemental appropriations may not necessarily result in outlays in the same fiscal year in which they are enacted. Based on CBO data for the 1990s, it is estimated that about 30.5% of supplemental appropriations resulted in outlays in the same fiscal year, 56.1% in the next fiscal year, and the remaining 13.4% in subsequent fiscal years. These percentages are used for estimating the impact of the outlays associated with supplemental appropriations on the budget deficit. To the extent that the rescissions just cancelled budget authority that never would have been spent, the estimates could understate the actual impact on budget deficits.

Supplemental appropriations have been fully offset in only one year since FY1980. In FY1995, supplemental appropriations amounted to $6.4 billion while the new Congress rescinded about $18 billion in budget authority. Consequently, supplemental appropriations net of rescissions have usually increased the budget deficit and federal debt held by the public is larger than it would have been had the supplemental appropriations been fully offset. Had supplemental appropriations been fully offset since 1981, federal debt held by the public could have been reduced by about 18% or $830 billion. This could have reduced interest payments to the public by $35 billion per year. On the other hand, if 25% of the supplemental appropriations in FY2003 through FY2005 had been offset (the average offset for previous years), federal debt held by the public would have been reduced by over 1% or almost $65 billion. Presently, reducing federal debt by $65 billion could save about $2 billion annually in interest payments to the public.

Conclusions

Reacting to disasters and other emergencies often requires high levels of funding. The required funding cannot be anticipated and the length of the funding commitment is difficult to determine in advance. In adopting budget rules and laws to control supplemental appropriations, Congress and the President have in the past provided a "safety valve" for emergencies. Spending that is deemed an emergency was effectively exempt from discretionary limits and PAYGO requirements. However, what constitutes an emergency has not been without controversy.[16]

Funding for most emergencies has come through supplemental appropriations. While most of the funds from a supplemental appropriation are directed toward addressing the stated emergency, funding for other purposes with varying levels of urgency are often included. Prior to 2003, varying amounts of supplemental appropriations were offset by reductions in other spending or increases in revenues. Between 1981 and 2002, about a quarter of supplemental appropriations were offset through rescissions. However, since the expiration at the end of FY2002 of the discretionary limits and PAYGO requirements, less than five tenths of 1% of supplemental appropriations have been offset.

Even with the rescissions, supplemental appropriations have generally increased the budget deficit and federal debt held by the public. Had all supplemental appropriations since 1981 been offset, publicly held federal debt would have been about 10% lower at the end of FY2005. Furthermore, if just 25% of supplemental appropriations in FY2003-FY2005 had been offset, federal debt held by the public would have been 1% lower.

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[16] See CRS Report RL31478, *Federal Budget Process Reform: Analysis of Five Reform Issues*, by James V. Saturno and Bill Heniff, and Congressional Budget Office, *Emergency Spending under the Budget Enforcement Act*, Dec. 1998 for a discussion on budgeting for emergencies and a review of reform options.