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Congress and the White House Remain Divided over Fiscal Year 2018 Appropriations

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With the October 1 start of fiscal year 2018 coming closer, the White House, Senate and House remain far apart on the 12 regular appropriations bills that collectively fund the federal government. At this time, all parties appear to agree on the need for a temporary government funding measure to keep the government operating at existing FY17 levels for a period of time – likely three months – to give President Trump and Congress time to negotiate a deal to facilitate passage of the final FY18 appropriations package.

The elephant in the room holding up the process are the strict spending caps under the Budget Control Act (BCA), which limit overall federal discretionary (non-mandatory) spending in FY18 to \$1.064 trillion, with defense spending capped at \$549 billion and non-defense spending at \$515.6 billion. Final FY18 appropriations legislation must adhere to the BCA caps or risk an across-the-board cut in federal spending (sequestration) equal to the level by which the caps have been violated. The White House and key members of both parties in Congress are open to negotiating a budget deal that would replace the BCA's spending caps in FY18 (and possibly beyond). However, no consensus has emerged on the best way to do so. The White House and congressional Republicans want to significantly increase the defense spending cap, while Democrats and some Republicans believe any increase in the defense cap must be matched by a comparable increase in the non-defense cap. FY18 appropriations legislation currently being considered in the House and Senate violates both the BCA cap for total federal discretionary spending and the specific caps on defense and non-defense.

Although the House is on pace to pass all 12 of its FY18 bills this month, the Senate Appropriations Committee has only approved six of 12 bills with none expected to come to the floor before October 1. Hence, a temporary stop-gap government funding measure, known as a continuing resolution (CR), will be needed to keep the government operating past September 30 and allow time for all parties to have the opportunity to negotiate a BCA relief budget deal.

President Trump remains a potential obstacle in the debate over funding the federal government. At a recent campaign event in Phoenix, President Trump threatened to shut down the government if Congress fails to include funding for construction of a wall on the southern border of the United States and Mexico as part of the appropriations package. White House aides later reached out to Congress to let them know the veto threat applies only to a full appropriations package, not a CR. Democrats are adamantly opposed to funding the construction of a border security wall. Congressional Republican leaders have pushed back against the President's statement, insisting that funding the government is a top priority. Look for negotiation on some sort of a compromise that would allow the President to declare victory, but would pass muster with enough Senate Democrats to ensure passage.

Takeaway: Given the limited time available in September to negotiate a budget deal to ease passage of the FY18 spending bills by October 1, most analysts expect Congress will pass a CR, ensuring that the federal government remains operational past the end of the month. The CR will likely extend spending through December and may be included in a larger legislative package to increase the debt limit and appropriate funds

for Hurricane Harvey relief. While it is possible that there will be some sort of bipartisan compromise over FY18 spending levels reached during that time, it remains a possibility that we will face another federal funding cliff right before Congress leaves Washington for Christmas.