

Capitol Hill Update: Is the FY 18 Defense Budget Wrapping Up?

Despite few defense budget legislative initiatives complete, Congress is slowly making progress on several fronts and there are positive signs that this may be a smoother budget cycle than in previous years.

Setting the Stage

To date, the House has completed all its major defense-related legislation for FY 18. The National Defense Authorization Act (NDAA) is in Conference Committee with the Senate and the Defense Appropriations Act, along with all other FY 18 spending bills, has passed the House and awaits Senate consideration. In July, the House passed H.R. 3219, a “mini-bus” appropriations bill that included FY 18 defense spending, which was combined with H.R. 3354 to create a 12-bill omnibus appropriations measure.

In early September, the Congress passed a short-term Continuing Resolution (CR) to keep the government operating into FY 18 until December 8. The CR provided “breathing room” for legislators to reach agreement or at least negotiate on several policy fronts necessary to finally agree on annual defense spending. Then, last week, the House agreed to the Senate-revised Budget Resolution, H. Con. Res. 71, which establishes the congressional framework for the FY 18 budget and sets spending levels for FY 2019-2027. The Budget Resolution does not have the force of law and does not need to be signed by the President. It is an agreement between the House and Senate that recommends spending and revenue levels and debt limits, which is necessary for current tax reform initiatives.

Adjusting the Caps

Behind the scenes, congressional leaders are making progress in negotiating an increase to the Budget Control Act (BCA) caps. The adjacent chart shows the budget cap levels from FY 2016-FY 2021, taking into account the 2015 Bipartisan Budget Act (BBA) that adjusted cap levels for FY 2016 and FY 2017. It is important to note that the BBA doesn't affect FY 2018, which means spending cap levels revert to the 2012 BCA

levels. This also means that even a full-year CR for FY 2018, which maintains spending at prior year levels, requires an adjustment simply to abide by the FY 2018 cap of \$549 billion.

BCA Cap Comparison (in billions)

Year	BCA 2012	BCA Amended (2015)
FY 2016	\$523.1	\$548.1
FY 2017	\$536.1	\$551.1
FY 2018	\$549	\$549
FY 2019	\$562	\$562
FY 2020	\$576	\$576
FY 2021	\$590	\$590

Therefore with one month left in the legislative calendar before the CR expires, Congress is in a pretty good place to reach agreement on new spending caps for what will likely be a two year window (FY 18-19), which will get

Congress passed next year’s mid-term elections. Congress already has a budget resolution in place and appropriations bills have reached a point where quick conferencing on spending can take place in the coming weeks. The wildcard will be how Congress addresses tax reform - will this go before or after any spending agreement? That is the political tightrope to watch in the coming weeks. It very well may trigger another short-term CR, thereby delaying agreement on all the moving pieces until early next year, but there appears to be a good chance that most agreements will be in place by the end of December.

Outlook

So where might Congress land on defense spending? There is very little insight on new cap numbers as these negotiations are taking place in private at the highest levels of congressional leadership. However, there are a few clues as to the “sweet spot” for new spending caps. First, the budget resolution as passed by both the House and Senate - the version amended by the Senate - assumes that Congress stays with the FY 2018 spending caps for discretionary spending, which is \$549 billion for defense and \$516 billion for non-defense. However, the budget resolution allows defense spending to increase to \$640 billion in FY 2018 and for Congress to make any adjustments to long range deficit projections. These figures represent the floor and ceiling, respectively, for FY 2018 spending. Two other budget resolution considerations come into play: (1) Fiscal conservatives swallowed a bitter pill by passing the resolution; they will not want spending to increase the deficit any more than stipulated in the resolution; and (2) Democrats will want a 1:1 increase in discretionary spending between defense and non-defense. A third consideration from the 2015 BBA also comes into play - the BBA provided a \$25 billion increase in FY 2016 and a \$15 billion increase in FY 2017. These figures will likely be a starting point.

The adjacent chart shows how each spending-related bill addressed the defense budget. The Budget Resolution starts at \$549 billion but allows an adjustment of \$91 billion for defense. While the budget resolution does not provide for any adjustment in discretionary non-defense spending, we can assume that Congress can adjust the resolution for any agreement within the \$91 billion space. Assuming a 1:1 increase in discretionary spending

Proposed FY 18 Defense Spending (in billions)

Legislation	House	Senate
FY 2017 Defense Budget	\$551	\$551
FY 2018 Budget Control Act	\$549	\$549
FY 2018 President’s Budget Request	\$574.6	\$574.6
Budget Resolution	\$621.5	\$549
Budget Resolution (Democrat Substitute/failed)	\$605.2	\$605.2
FY 2018 Defense Appropriations	\$584.2	\$551
FY 2018 NDAA	\$592.8	\$610

(defense and non-defense), that means a potential increase in defense spending of roughly \$45 billion, or a new total of \$594 billion for defense. Based on the adjacent chart, this level would appear to be acceptable on a bipartisan basis. However, will fiscal conservatives support (or be unable to stop) a commensurate increase of \$45 billion in discretionary non-defense spending?

The final consideration for overall defense spending is how much could Congress pour into Overseas Contingency Operations (OCO) accounts, which are not subject to the BCA caps, but limited to \$76.6 billion per the Budget Resolution. Similar to the House version of the NDAA, it is possible that Congress will agree to slip \$10-\$15 billion of base defense spending into the OCO account. This will come at a political cost, but it may influence the final budget numbers.

At this point, it is impossible to know where Congress will settle on defense spending for FY 2018; therefore this discussion should not be viewed with certainty that there will be an increase. It is still possible that, due to other political considerations, Congress will simply pass a year-long CR. This may be a worst-case scenario, but still a possibility. However, based on available data, it is reasonable to predict an increase between \$25 billion (plus additional OCO for base defense) and \$45 billion in FY 2018 with a smaller increase in FY 2019. The AOC will keep you posted on developments as they occur, but in the meantime, please do not hesitate to contact, Ken Miller, the AOC Director for Advocacy and Outreach, for any questions or discussion.

Defense Budget Important Dates

Date	Explanation
May 5	President signs HR 244, the 17 Consolidated Appropriations Act
May 22	President releases FY 18 Budget Request
June 28	HASC reports HR 2810, the FY 18 NDAA
June 29	House Appropriations Committee (HAC) reports HR 3219, the FY 18 Defense Appropriations Act
July 10	SASC reports S 1519, the FY 18 NDAA (Senate Version)
July 14	House passes HR 2810, by vote: 344-81
July 27	House passes HR 3219, by vote: 235-192 (minibus appropriations bill that includes defense, military construction, legislative, and energy and water appropriations bills).
Sept 7	Congress passes CR through December 8
Sept 14	House passes HR 3354, an 8-bill omnibus appropriations bill, by vote: 211-198 (HR 3354 combined with HR 3219 to produce 12-bill omnibus appropriations measure).

Defense Budget Important Dates

Date	Explanation
Sept 18	Senate passes S 1519, by vote: 89-8 (incorporated as an amendment to HR 2810).
Sept 29	Anticipated debt limit reached (suspended until Dec 8 through CR).
Sept 30	End of Fiscal Year 2017
Oct 5	House passes H. Con. Res. 71, by vote: 219-206
Oct 12	House names NDAA Conferees
Oct 17	Senate names NDAA Conferees
Oct 19	Senate amends and passes H. Con. Res. 71, by vote: 51-49
Oct 23	House passes H. Con. Res. 71, as amended by the Senate, by vote: 216-212
Dec 8	CR and suspension of debt limit expire