13. BUDGET PROCESS

This chapter addresses two broad categories of budget reform. First, the chapter discusses proposals to improve budgeting and fiscal sustainability with respect to individual programs as well as across Government. These proposals include: an extension of the spending reductions required by the Joint Select Committee on Deficit Reduction and what comes after the expiration of the discretionary caps in 2021; program integrity initiatives both enacted and proposed within budget law; funding requests for disaster relief and wildfire suppression; limits on changes in mandatory programs in appropriations Acts; limits on advance appropriations; proposals for the Pell Grant program; changes to capital budgeting for large civilian Federal capital projects; and fast track spending reduction powers. Second, this chapter describes proposals for budget enforcement and budget presentation. The budget enforcement proposals include a discussion of the system under the Statutory Pay-As-You-Go Act of 2010 (PAYGO Act) of scoring legislation affecting receipts and mandatory spending; reforms to account for debt service in cost estimates; administrative PAYGO actions affecting mandatory spending; adjustments in the baseline for Highway Trust Fund spending and the extension of certain expiring tax laws; discretionary spending caps; funds that would encourage deficit reduction underneath the discretionary spending caps; improvements to how Joint Committee sequestration is shown in the Budget; the budgetary treatment of the housing Government-sponsored enterprises and the United States Postal Service; using fair value as a method of estimating the cost of credit programs; and outlay caps and sequestration. These reforms combine fiscal responsibility with measures to provide citizens with a more transparent, comprehensive, and accurate measure of the reach of the Federal budget. Together, the reforms and presentations discussed create a budget more focused on core Government functions and more accountable to the taxpayer.

I. BUDGET REFORM PROPOSALS

Joint Committee Enforcement

In August 2011, as part of the Budget Control Act of 2011 (BCA; Public Law 112-25), bipartisan majorities in both the House and Senate voted to establish the Joint Select Committee on Deficit Reduction to recommend legislation to achieve at least $1.5 trillion of deficit reduction over the period of fiscal years 2012 through 2021. The failure of the Congress to enact such comprehensive deficit reduction legislation to achieve the $1.5 trillion goal triggered a sequestration of discretionary and mandatory spending in 2013, led to reductions in the discretionary caps for 2014 through 2020, and forced additional sequestrations of mandatory spending in each of fiscal years 2014 through 2019. A further sequestration of mandatory spending is scheduled to take effect beginning on October 1, 2019 based on the order released with the 2020 Budget.

To date, various laws have changed the annual reductions required to the discretionary spending limits set in the BCA through 2019. Most recently, the Bipartisan Budget Act of 2018 (BBA) adjusted these discretionary spending limits for fiscal years 2018 and 2019. The 2019 caps remain at the levels enacted in this Act and are reflected in the Sequestration Update Report transmitted in August of 2018. The sequestration preview report issued with this Budget reduces the 2020 discretionary caps according to current law. Looking ahead, reductions to the discretionary caps for fiscal year 2021 are to be implemented in the sequestration preview report of the 2021 Budget. Future reductions to mandatory programs are to be implemented by a sequestration of non-exempt mandatory budgetary resources in each of fiscal years 2020 through 2027, which are triggered by the transmittal of the President's Budget for each year and take effect on the first day of the fiscal year. The Budget proposes to continue mandatory sequestration into 2028 and 2029 to generate an additional $51.2 billion in deficit reduction.

For discretionary programs, under current law, the 2019 caps remain at $647 billion for defense and $597 billion for non-defense while, for 2020, the Joint Committee procedures reduce the defense cap from $630 billion to $576 billion and the non-defense cap from $578 billion to $543 billion. For 2020, the Administration will enforce much needed spending discipline by budgeting to the current law caps for defense and non-defense after accounting for the Joint Committee reductions. In 2021, the caps are proposed to remain at the estimated 2021 levels after reduction for Joint Committee procedures. However, proposed levels for defense programs will be at the 2021 cap while proposed levels for non-defense programs will be reduced by 2 percent from the cap. In order to fully resource national defense requirements while staying at the current 2020 and 2021 caps, the 2020 Budget proposes increases in the Overseas Contingency Operations budget to nearly $165 billion and $156 billion in 2020 and 2021, respectively. An additional $9 billion is requested for defense in 2020 as an emergency requirement. Together, this defense funding will support the National Security Strategy goal of preserving peace through strength with a substantial investment that will protect America's vital national interests. In total, $750 billion is provided for defense programs in 2020 while

base non-defense programs are held to $543 billion. After 2021, the Administration would support new base caps for defense and non-defense programs through 2029 at the levels included in the 2020 Budget. These funding levels will enhance the country's national security while maintaining fiscal responsibility by rebalancing the non-defense mission to focus on core Government responsibilities. See Table S–7 in the main *Budget* volume for the proposed annual discretionary caps.

Discretionary Cap Adjustment Funding

Discretionary Funding for Program Integrity Cap Adjustments

All Federal programs must be run efficiently and effectively. There is compelling evidence that investments in administrative resources can significantly decrease the rate of improper payments and recoup many times their initial investment for certain programs. In such programs, the Administration continues to support using discretionary dollars to make significant investments in activities that ensure that taxpayer dollars are spent correctly. Using cap adjustment funding on program integrity activities allows for the expansion of oversight and enforcement activities in the largest benefit programs including Social Security, Unemployment Insurance, Medicare and Medicaid, where return on investment using discretionary dollars is proven. Additionally, the Administration supports increasing investments in tax compliance related to Internal Revenue Service tax enforcement.

The following sections explain the benefits and budget presentation of the enacted and proposed adjustments to the discretionary caps for program integrity activities. The Administration proposes legislative and administrative reforms that support several other program integrity efforts. Chapter 9, Payment Integrity, provides a comprehensive discussion of these proposals.

Enacted Adjustments Pursuant to BBEDCA.—The Balanced Budget and Emergency Deficit Control Act of 1985, as amended (BBEDCA), recognizes that a multi-year strategy to reduce the rate of improper payments, commensurate with the large and growing costs of the programs administered by the Social Security Administration (SSA), the Department of Health and Human Services and the Department of Labor, is a laudable goal. To support the overall goal, BBEDCA provides for adjustments to the discretionary spending limits through 2021 to allow for additional funding for specific program integrity activities to reduce improper payments in the Social Security programs, in the Medicare and Medicaid programs and more recently, in Unemployment Insurance programs. Because the additional funding is classified as discretionary and the savings as mandatory, the savings cannot be offset against the funding for budget enforcement purposes. These adjustments to the discretionary caps are made only if appropriations bills increase funding for the specified program integrity purposes above specified minimum, or base levels. This method ensures that the additional funding amounts authorized in BBEDCA do not supplant other Federal spending on these activities and that such spending is not diverted to other purposes. The Budget continues to support full funding of the authorized cap adjustments for these programs through 2021 and proposes to extend the cap adjustments through 2029 at the rate of inflation assumed in the Budget for the current services baseline. The 2020 Budget shows the baseline and policy levels at equivalent amounts. Accordingly, savings generated from such funding levels in the baseline

Table 13–1. PROGRAM INTEGRITY DISCRETIONARY CAP ADJUSTMENTS, INCLUDING MANDATORY SAVINGS
(Budget authority and outlays in millions of dollars)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	10-year Total
Social Security Administration (SSA) Program Integrity:											
Discretionary Budget Authority (non add)[1]	1,309	1,302	1,351	1,403	1,456	1,511	1,569	1,629	1,690	1,754	14,974
Discretionary Outlays[1]	1,301	1,303	1,351	1,403	1,455	1,511	1,569	1,629	1,688	1,754	14,964
Mandatory Savings[2]	–56	–2,069	–3,405	–3,982	–4,403	–5,258	–5,863	–6,468	–7,434	–7,374	–46,312
Net Savings	1,245	–766	–2,054	–2,579	–2,948	–3,747	–4,294	–4,839	–5,746	–5,620	–31,348
Health Care Fraud and Abuse Control Program:											
Discretionary Budget Authority/Outlays[1]	475	496	515	534	555	576	598	620	644	668	5,681
Mandatory Savings[2,3]	–951	–1,017	–1,080	–1,148	–1,191	–1,235	–1,281	–1,331	–1,382	–1,433	–12,049
Net Savings	–476	–521	–565	–614	–636	–659	–683	–711	–738	–765	–6,368
Unemployment Insurance (UI) Program Integrity:											
Discretionary Costs[1]	58	83	133	258	433	533	608	633	646	659	4,044
Mandatory Savings[2]	–425	–440	–488	–591	–846	–921	–880	–760	–688	–373	–6,412
Net Savings	–367	–357	–355	–333	–413	–388	–272	–127	–42	286	–2,368

[1] The discretionary costs are equal to the outlays associated with the budget authority levels authorized for cap adjustments in BBEDCA through 2021; the costs for each of 2022 through 2029 are equal to the outlays associated with the budget authority levels inflated from the 2021 level for SSA and HCFAC, using the 2020 Budget assumptions. The UI levels for 2022 through 2027 are equal to the amounts authorized for congressional enforcement, while 2028 and 2029 are inflated using of 2027. For each program the levels in the baseline are equal to the 2020 Budget policy levels.

[2] The mandatory savings from the cap adjustment funding are included in the baselines for Social Security, Medicare, Medicaid, and UI programs. For SSA, amounts are based on SSA's Office of the Chief Actuary's and CMS' Office of the Actuary's estimates of savings. For UI amounts are based on the Department of Labor's Division of Fiscal and Actuarial Services' estimates of savings.

[3] These savings are based on estimates from the HHS Office of the Actuary for return on investment (ROI) from program integrity activities.

for program integrity activities are reflected in the baselines for Social Security programs, Medicare, Medicaid, and Unemployment Insurance.

SSA Medical Continuing Disability Reviews (CDRs) and Non-Medical Redeterminations of SSI Eligibility.— For SSA, the Budget's proposed discretionary amount of $1,582 million ($273 million in base funding and $1,309 million in cap adjustment funding, pursuant to BBEDCA) will allow SSA to conduct 674,000 full medical CDRs and approximately 2.8 million Supplemental Security Income (SSI) non-medical redeterminations of eligibility. The Social Security Act requires that SSA conducts Medical CDRs, which are periodic reevaluations to determine whether disabled Old-Age, Survivors, and Disability Insurance (OASDI) or SSI beneficiaries continue to meet SSA's standards for disability. As a result of the discretionary funding requested in 2020, as well as the fully funded base and cap adjustment amounts in 2021 through 2029, the OASDI, SSI, Medicare and Medicaid programs would recoup about $46 billion in gross Federal savings with additional savings after the 10-year period, according to estimates from SSA's Office of the Chief Actuary and the Centers for Medicare and Medicaid Services' Office of the Actuary. Access to increased cap adjustment amounts and SSA's commitment to fund the fully loaded costs of performing the requested CDR and redetermination volumes would produce net deficit savings of approximately $31 billion in the 10-year window, and additional savings in the outyears. These costs and savings are reflected in Table 13-1.

SSA is required by law to conduct medical CDRs for all beneficiaries who are receiving disability benefits under the OASDI program, as well as all children under age 18 who are receiving SSI. SSI redeterminations are also required by law. However, the frequency of CDRs and redeterminations is constrained by the availability of funds to support these activities. The mandatory savings from the base funding in every year and the enacted discretionary cap adjustment funding assumed for 2019 are included in the BBEDCA baseline, consistent with the levels adopted by the Bipartisan Budget Act of 2015 (BBA), because the baseline assumes the continued funding of program integrity activities. The BBA of 2015 increased the level of such adjustments for Social Security programs by a net $484 million over the 2017-2021 period, and it expanded the uses of cap adjustment funds to include cooperative disability investigation (CDI) units, and special attorneys for fraud prosecutions. To support these important antifraud activities, the Budget continues to provide for SSA to transfer up to $10 million to the SSA Inspector General to fund CDI unit team leaders. This anti-fraud activity is an authorized use of the cap adjustment.

The Budget shows the savings that would result from the increase in CDRs and redeterminations made possible by the discretionary cap adjustment funding requested in 2020 through 2029. With access to program integrity cap adjustments, SSA is on track to remain current with program integrity workloads throughout the budget window.

Current estimates indicate that CDRs conducted in 2020 will yield a return on investment (ROI) of about $8 on average in net Federal program savings over 10 years per $1 budgeted for dedicated program integrity funding, including OASDI, SSI, Medicare and Medicaid program effects. Similarly, SSA estimates indicate that non-medical redeterminations conducted in 2020 will yield a ROI of about $3 on average of net Federal program savings over 10 years per $1 budgeted for dedicated program integrity funding, including SSI and Medicaid program effects. The Budget assumes the full cost of performing CDRs to ensure that sufficient resources are available. The savings from one year of program integrity activities are realized over multiple years because some results find that beneficiaries are no longer eligible to receive OASDI or SSI benefits.

Redeterminations are periodic reviews of non-medical eligibility factors, such as income and resources, for the means-tested SSI program and can result in a revision of the individual's benefit level. However, the schedule of savings resulting from redeterminations will be different for the base funding and the cap adjustment funding in 2020 through 2029. This is because redeterminations of eligibility can uncover underpayment errors as well as overpayment errors. SSI recipients are more likely to initiate a redetermination of eligibility if they believe there are underpayments, and these recipient-initiated redeterminations are included in the base program amounts provided annually. The estimated savings per dollar spent on CDRs and non-medical redeterminations in the baseline reflects an interaction with the state option to expand Medicaid coverage for individuals under age 65 with income less than 133 percent of poverty. As a result of this option, some SSI beneficiaries, who would otherwise lose Medicaid coverage due to a medical CDR or non-medical redetermination, would continue to be covered. In addition, some of the coverage costs for these individuals will be eligible for the enhanced Federal matching rate, resulting in higher Federal Medicaid costs in those States.

Health Care Fraud and Abuse Program (HCFAC).—The Budget proposes base and cap adjustment funding levels over the next 10 years and continues the program integrity cap adjustment through 2029. In order to maintain the same level of effort throughout the Budget window, the Budget proposes that the base amount increase annually at the rate of inflation in the current services baseline over the 10-year period. The cap adjustment is set at the levels specified under BBEDCA through 2021 and then increases annually based on inflation from 2022 through 2029. The mandatory savings from both the base and cap adjustment amounts are included in the Medicare and Medicaid baselines.

The discretionary base funding of $311 million plus an additional $6 million adjustment for inflation and cap adjustment of $475 million for HCFAC activities in 2020 are designed to reduce the Medicare improper payment rate, support the Health Care Fraud Prevention & Enforcement Action Team (HEAT) initiative and reduce Medicaid improper payment rates. The investment will also allow CMS to deploy innovative efforts that focus on improving the analysis and application of data, including state-of-the-art predictive modeling capabilities, in order

to prevent potentially wasteful, abusive, or fraudulent payments before they occur. The funding is to be allocated among CMS, the Health and Human Services Office of Inspector General, and the Department of Justice.

Over 2020 through 2029, as reflected in Table 13-1, this $5.7 billion investment in HCFAC cap adjustment funding will generate approximately $12.0 billion in savings to Medicare and Medicaid. This results in net deficit reduction of $6.4 billion over the 10-year period, reflecting prevention and recoupment of improper payments made to providers, as well as recoveries related to civil and criminal penalties. For HCFAC program integrity efforts, CMS actuaries conservatively estimate approximately $2 is saved or averted for every additional $1 spent.

Reemployment Services and Eligibility Assessments (RESEA).—The BBA of 2018 established a new adjustment to the discretionary caps for program integrity efforts targeted at Unemployment Insurance. Like the SSA and HCFAC cap adjustments, the RESEA cap adjustment is permitted up to a maximum amount specified in the law if the underlying appropriations bill first funds a base level of $117 million for these activities. While the discretionary caps are in statute through 2021, the law allows for the adjustment for Congressional budget enforcement procedures through 2027, which the Budget proposes. Program integrity funding in 2028 and 2029 continue at level that results from applying the rate of inflation in the current services baseline to the 2027 amount. In order to maintain the same level of effort throughout the Budget window, the base amount is proposed to increase annually with inflation over the 10-year period. The mandatory savings from both the base and cap adjustment are included in the Unemployment Insurance baseline. Table 13-1 shows the mandatory savings of $6.4 billion over 10 years, which includes an estimated $2.3 billion reduction in State unemployment taxes. When netted against the discretionary costs for the cap adjustment funding, the 10-year net savings for the program is $2.4 billion.

Proposed Adjustment Pursuant to BBEDCA, Internal Revenue Service (IRS) Program Integrity.—The Budget proposes to establish and fund a new adjustment to the discretionary caps for program integrity activities related to IRS program integrity operations starting in 2020, as shown in Table 13-2. The IRS base appropriation funds current tax administration activities, including all tax enforcement and compliance program activities, in the Enforcement and Operations Support accounts. The additional $362 million cap adjustment in 2020 funds new and continuing investments in expanding and improving the effectiveness and efficiency of the IRS's tax enforcement program. The activities are estimated to generate $47 billion in additional revenue over 10 years and cost approximately $15 billion resulting in an estimated net savings of almost $33 billion. Once the new enforcement staff are trained and become fully operational these initiatives are expected to generate roughly $3 in additional revenue for every $1 in IRS expenses. Notably, the ROI is likely understated because it only includes amounts received; it does not reflect the effect that enhanced enforcement has on deterring noncompliance. This indirect deterrence helps to ensure the continued payment of over $3.5 trillion in taxes paid each year without direct enforcement measures.

Disaster Relief Funding

Section 251(b)(2)(D) of BBEDCA includes a provision to adjust the discretionary caps for appropriations that the Congress designates in statute as provided for disaster relief. "Disaster relief" is defined as activities carried out pursuant to a determination under section 102(2) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5122(2)) for major disasters declared by the President. Prior to enactment of the Consolidated Appropriations Act of 2018 (Public Law 115-141; "CAA of 2018"), BBEDCA set an annual limit for the adjustment (or "funding ceiling") that was calculated by adding the average funding provided for disaster re-

Table 13–2. PROPOSED PROGRAM INTEGRITY CAP ADJUSTMENT FOR THE INTERNAL REVENUE SERVICE (IRS)

(Budget authority/outlays/receipts in millions of dollars)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	10-year Total
Proposed Adjustment Pursuant to the BBEDCA, as amended:											
Enforcement Base (budget authority)	8,515	8,603	8,691	8,781	8,871	8,962	9,055	9,148	9,242	9,337	89,205
Cap Adjustment:											
Budget Authority	362	749	1,097	1,448	1,802	1,895	1,896	1,905	1,914	1,924	14,992
Outlays	320	693	1,040	1,386	1,737	1,850	1,865	1,875	1,885	1,893	14,544
Receipt Savings from Discretionary Program Integrity Base Funding and Cap Adjustments:[1]											
Enforcement Base[2]	59,400	59,400	59,400	59,400	59,400	59,400	59,400	59,400	59,400	59,400	594,000
Cap Adjustment[3]	–160	–818	–1,895	–3,166	–4,558	–5,899	–6,880	–7,510	–7,942	–8,241	–47,069
Net Savings from Proposed IRS Cap Adjustment:[1]	160	–125	–855	–1,780	–2,821	–4,049	–5,015	–5,635	–6,057	–6,348	–32,525

[1] Savings for IRS are revenue increases rather than spending reductions. They are shown as negatives for presentation and netting against outlays.

[2] No official estimate for 2020 enforcement revenue has been produced, so this figure is an approximation and included only for illustrative purposes.

[3] The IRS cap adjustment funds increases for existing enforcement initiatives and activities and new initiatives. The IRS enforcement program helps maintain the more than $3 trillion in taxes paid each year without direct enforcement measures. The cost increases will help maintain the base revenue while generating additional revenue through targeted program investments. The activities and new initiatives funded out of the cap adjustment will yield more than $47 billion in savings over ten years. Aside from direct enforcement revenue, the deterrence impact of these activities suggests the potential for even greater savings.

lief over the previous 10 years (excluding the highest and lowest years) plus any portion of the ceiling for the previous year that was not appropriated (or "carryover"). If the carryover from one year was not used in the subsequent year, it would not carry forward for a second year. This led to precipitous decline in the funding ceiling as higher disaster funding years began to fall out of the 10-year average formula. The ceiling fell from a high of $18,430 million in 2015 to a low of $7,366 million in 2018. The "use or lose" aspect of the carryover discouraged judicious use of the cap adjustment funding and the Administration proposed to work with the Congress in its 2018 and 2019 Budgets to address the declining ceiling.

Division O of the CAA of 2018 amended BBEDCA to stabilize the disaster formula by redefining the calculation beginning in fiscal year 2019. Under the new calculation, the funding ceiling is determined by adding three pieces: 1) the same 10-year average as calculated under the previous formula; 2) a portion of discretionary amounts appropriated to address Stafford Act disasters that were designated as emergency requirements pursuant to BBEDCA; and 3) the cumulative net carryover from 2018 and all subsequent fiscal years. With respect to the portion of emergency funding, the new calculation permits an adjustment of five percent of the total appropriations (net of any rescissions) that were provided after 2011 (or in the previous 10 years, whichever is less) as emergency requirements pursuant to section 251(b)(2)(A)(i) of BBEDCA for Stafford Act emergencies. On April 23, 2018, OMB released the *OMB Report on Disaster Relief Funding to the Committees on Appropriations and the Budget of the U.S. House of Representatives and the Senate, 2018*[1] which specified the methodology and criteria OMB is using for estimating the emergency appropriations for Stafford Act disasters that will apply in the new formula. Furthermore, the final piece of this change effectively allows any unused carryover to continue to be factored into each funding ceiling until it is used.

As required by law, OMB included in its Sequestration Update Report for 2019 a preview estimate of the 2019 adjustment for disaster relief. In this report, the ceiling for the disaster relief adjustment in 2019 was calculated to be $14,965 million. This ceiling was calculated by adding together the three components under the new formula: the 10-year average ($6,814 million); 5 percent of Stafford Act emergencies since 2012 ($6,296 million); and carryover from the previous year ($1,855 million). At the time the Budget was prepared, the Government was operating under a continuing resolution set in the Continuing Appropriations Act, 2019 (the "CR"). The CR had provided for 2019 a continuing appropriation of $7,366 million for the Federal Emergency Management Agency's Disaster Relief Fund (DRF).

OMB must include in its Sequestration Update Report for 2020 a preview estimate of the ceiling on the adjustment for disaster relief funding. This estimate will contain the same components discussed above. At the time of the Budget, based on continuing appropriations, OMB estimates the total adjustment available for disaster funding for 2020 at $21,371 million. This ceiling estimate is based on these three components under the new formula: the 10-year average ($7,392 million); 5 percent of Stafford Act emergencies since 2012 ($6,380 million); and carryover from the previous year ($7,599 million). Any revisions necessary to account for final 2019 appropriations will be included in the 2020 Sequestration Update Report.

In the 2020 Budget, based on the CR level assumed at the time, the Administration is requesting $19,423 million in funding for FEMA's DRF to cover the costs of Presidentially declared major disasters, including identified costs for previously declared catastrophic events (defined by FEMA as events with expected costs that total more than $500 million) and the predictable annual cost of non-catastrophic events expected to obligate in 2020. The Administration's request addresses the significant and unprecedented recovery needs of the recent hurricanes and wildfires that have devastated our Nation. Consistent with past practice, the 2020 request level does not seek to pre-fund anticipated needs in other programs arising out of disasters that have yet to occur, nor does the Budget seek funding for potential catastrophic needs. As additional information about the need to fund prior or future disasters becomes available, additional requests, in the form of either 2019 supplemental appropriations (designated as either disaster relief or emergency requirements pursuant to BBEDCA), or amendments to the Budget, may be transmitted.

Under the principles outlined above, the Administration does not have adequate information about known or future requirements necessary to estimate the total amount that will be requested in future years as disaster relief. Accordingly, the Budget does not explicitly request to use the BBEDCA disaster designation in any year after the budget year. Instead, a placeholder for disaster relief is included in each of the outyears that is equal to the 10-year average ($7,392 million) of disaster relief currently estimated under the new formula 2020 request. This funding level does not reflect a specific request but a placeholder amount that, along with other outyear appropriations levels, will be decided on an annual basis as part of the normal budget development process.

Wildfire Suppression Operations at the Departments of Agriculture and the Interior

Wildfires naturally occur on public lands throughout the country. The cost of fighting wildfires has increased due to landscape conditions resulting from drought, pest and disease damage, overgrown forests, expanding residential and commercial development near the borders of public lands, and program management decisions. When these costs exceed the funds appropriated, the Federal Government covers the shortfall through transfers from other land management programs. For example, in 2018, Forest Service wildfire suppression spending reached a record $2.6 billion, necessitating transfers of $720 million from other non-fire programs. Historically, these transfers have been repaid in subsequent appropriations; however, "fire borrowing" impedes the missions of land manage-

[1] The report is available on the OMB website: *https://www.whitehouse.gov/omb/legislative/omb-reports/*

ment agencies to reduce the risk of catastrophic fire and restore and maintain healthy functioning ecosystems.

In order to more adequately plan for these events, the 2019 Budget proposed a new cap adjustment for wildfire suppression to create funding certainty in times of wildfire disasters. Since that time, with bipartisan support, division O of the CAA of 2018 enacted a new cap adjustment, which begins in 2020 and the Administration proposes using it in this Budget. The adjustment is permitted so long as a base level of funding for wildfire suppression operations is funded in the underlying appropriations bill under the caps. The base level is defined as being equal to average cost over 10 years for wildfire suppression operations that was requested in the President's 2015 Budget. These amounts have been determined to be $1,011 million for the Department of Agriculture's Forest Service and $384 million for the Department of the Interior (DOI). The 2020 Budget requests these base amounts for wildfire suppression and seeks the full $2,250 million adjustment authorized in BBEDCA for 2020 with $1,950 million included for Forest Service and $300 million included for DOI. Providing the full level authorized in 2020 will ensure that adequate resources are available to fight wildland fires, protect communities, and safeguard human life during the most severe wildland fire season.

For the years after 2020, the Administration does not have sufficient information about future wildfire suppression needs and, therefore, includes a placeholder in the 2020 Budget for wildfire suppression in each of the outyears that is equal to the current 2020 request. Actual funding levels, up to but not exceeding the proposed cap adjustments, will be decided on an annual basis as part of the normal budget process.

Limits on Changes in Mandatory Spending in Appropriations Acts (CHIMPs)

The discretionary spending caps in place since the enactment of the BCA in 2011 have been circumvented annually in appropriations bills through the use of changes in mandatory programs, or CHIMPs, that have no net outlay savings to offset increases in discretionary spending.

There can be programmatic reasons to make changes to mandatory programs on annual basis in the annual appropriations bills. However, many enacted CHIMPs do not result in actual spending reductions. In some cases, the budget authority reduced in one year may become available again the following year, allowing the same reduction to be taken year after year. In other cases, the reduction comes from a program that never would have spent its funding anyway. In both of these cases, under current scoring rules, reductions in budget authority from such CHIMPs can be used to offset appropriations in other programs, which results in an overall increase in Federal spending. In such cases, CHIMPs are used as a tool to work around the constraints imposed by the discretionary budget enforcement caps.

The Administration supports limiting and ultimately phasing out the use of CHIMPs with no outlay savings. In support of this, the 2020 Budget proposes reforms to certain mandatory programs which have been the target of CHIMPs in the past, including the Department of Justice's Crime Victims Fund and the Department of Agriculture's Section 32 program. One goal of these reforms is to reduce the availability of CHIMPs by setting funding levels in permanent law rather than through annual appropriations Acts. For example, the appropriations Acts will no longer be able to claim billions in discretionary offsets from temporarily blocking the same funding in the Crime Victims Fund year after year. In addition, the Budget proposes permanent reductions to the Department of Health and Human Services' Children's Health Insurance Program to ensure that these amounts cannot be used as discretionary offsets in future fiscal years.

Limit on Discretionary Advance Appropriations

An advance appropriation first becomes available for obligation one or more fiscal years beyond the year for which the appropriations act is passed. Budget authority is recorded in the year the funds become available for obligation, not in the year the appropriation is enacted.

There are legitimate policy reasons to use advance appropriations to fund programs. However, advance appropriations can also be used in situations that lack a programmatic justification, as a gimmick to make room for expanded funding within the discretionary spending limits on budget authority for a given year under BBEDCA. For example, some education grants are forward funded (available beginning July 1 of the fiscal year) to provide certainty of funding for an entire school year, since school years straddle Federal fiscal years. This funding is recorded in the budget year because the funding is first legally available in that fiscal year. However, $22.6 billion of this funding is advance appropriated (available beginning three months later, on October 1) rather than forward funded. Prior Congresses increased advance appropriations and decreased the amounts of forward funding as a gimmick to free up room in the budget year without affecting the total amount available for a coming school year. This gimmick works because the advance appropriation is not recorded in the budget year but rather the following fiscal year. However, it works only in the year in which funds switch from forward funding to advance appropriations; that is, it works only in years in which the amounts of advance appropriations for such “straddle” programs are increased.

To curtail this gimmick, which allows over-budget funding in the budget year and exerts pressure for increased funding in future years by committing upfront a portion of the total budget authority limits under the discretionary caps in BBEDCA in those years, congressional budget resolutions since 2001 have set limits on the amount of advance appropriations. When the congressional limit equals the amount that had been advance appropriated in the most recent appropriations bill, there is no additional room to switch forward funding to advance appropriations, and so no room for this particular gimmick to operate in that year's budget.

The Budget includes $28,683 million in advance appropriations for 2021 and freezes them at this level in subsequent years. In this way, the Budget does not employ this potential gimmick. Moreover, the Administration supports limiting advance appropriations to the proposed level for 2021, below the limits included in sections 4101 and 5104 for the Senate and the House, respectively, of the Concurrent Resolution on the Budget for Fiscal Year 2018 (H. Con. Res. 71). Those limits apply only to the accounts explicitly specified in the joint explanatory statement of managers accompanying H. Con. Res. 71.

Outside of these limits, the Administration would allow discretionary advance appropriations for veterans medical care, as is required by the Veterans Health Care Budget Reform and Transparency Act (Public Law 111-81). The veterans medical care accounts in the Department of Veterans Affairs (VA) currently comprise Medical Services, Medical Support and Compliance, Medical Facilities, and Medical Community Care. The level of advance appropriations funding for veterans medical care is largely determined by the VA's Enrollee Health Care Projection Model. This actuarial model projects the funding requirement for over 90 types of health care services, including primary care, specialty care, and mental health. The remaining funding requirement is estimated based on other models and assumptions for services such as readjustment counseling and special activities. VA has included detailed information in its Congressional Budget Justifications about the overall 2021 veterans medical care funding request.

For a detailed table of accounts that have received discretionary and mandatory advance appropriations since 2018 or for which the Budget requests advance appropriations for 2021 and beyond, please refer to the Advance Appropriations chapter in the *Appendix*.

Pell Grants

The Pell Grant program includes features that make it unlike other discretionary programs including that Pell Grants are awarded to all applicants who meet income and other eligibility criteria. This section provides some background on the unique nature of the Pell Grant program and explains how the Budget accommodates changes in discretionary costs.

Under current law, the Pell program has several notable features:

- The Pell Grant program acts like an entitlement program, such as the Supplemental Nutrition Assistance Program or Supplemental Security Income, in which everyone who meets specific eligibility requirements and applies for the program receives a benefit. Specifically, Pell Grant costs in a given year are determined by the maximum award set in statute, the number of eligible applicants, and the award for which those applicants are eligible based on their needs and costs of attendance. The maximum Pell award for the academic year 2019-2020 is $6,195, of which $5,135 was established in discretionary appropriations and the remaining $1,060 in mandatory funding is provided automatically by the College Cost Reduction and Access Act (CCRAA), as amended.

- The cost of each Pell Grant is funded by discretionary budget authority provided in annual appropriations acts, along with mandatory budget authority provided not only by the CCRAA, as amended, and the BCA, but also by amendments to the Higher Education Act of 1965 contained in the 2011 and 2012 appropriations acts. There is no programmatic dif-

Table 13–3. DISCRETIONARY PELL FUNDING NEEDS

(Dollars in billions)

Discretionary Pell Funding Needs (Baseline)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Estimated Program Cost for $4,860 Maximum Award	24.2	24.8	25.2	25.8	26.4	27.0	27.6	28.3	29.2	29.9
Cumulative Incoming Surplus	8.9	....	....	....	....	....	....	....	....	....
Mandatory Budget Authority Available	1.4	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Total Additional Budget Authority Needed	13.9	23.6	24.1	24.6	25.2	25.8	26.5	27.1	28.0	28.8
Fund Pell at 2019 Enacted Level	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5
Surplus/Funding Gap (–) from Prior Year		8.6	7.4	5.8	3.7	0.9	–2.4	–6.4	–11.1	–16.6
Cumulative Surplus/Discretionary Funding Gap (–)	8.6	7.4	5.8	3.7	0.9	–2.4	–6.4	–11.1	–16.6	–22.9
Effect of 2020 Budget Policies										
Expand Pell to Short-Term Programs	–0.1	–0.1	–0.2	–0.2	–0.2	–0.2	–0.2	–0.2	–0.2	–0.2
Fund Iraq-Afghanistan Service Grants through Pell [1]	–0.0	–0.0	–0.0	–0.0	–0.0	–0.0	–0.0	–0.0	–0.0	–0.0
Reduce Improper Payments	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Cancellation of Unobligated Balances	–2.0	....	....	....	....	....	....	....	....	....
Mandatory Funding Shift [2]	–0.0	–0.0	–0.0	–0.0	–0.0	–0.0	–0.1	–0.1	–0.1	–0.1
Surplus/Funding Gap (–) from Prior Year		6.5	5.3	3.6	1.3	–1.6	–5.1	–9.2	–14.0	–19.8
Cumulative Surplus/Discretionary Funding Gap (–)	6.5	5.3	3.6	1.3	–1.6	–5.1	–9.2	–14.0	–19.8	–26.2

[1] Amounts between -$50 million and zero represented with –0.0.

[2] Some budget authority, provided in previous legislation and classified as mandatory but used to meet discretionary Pell grant program funding needs, will be reallocated to support new costs associated with the mandatory add-on.

ference between the mandatory and discretionary funding.

- If valid applicants are more numerous than expected, or if these applicants are eligible for higher awards than anticipated, the Pell Grant program will cost more than the appropriations provided. If the costs during one academic year are higher than provided for in that year's appropriation, the Department of Education funds the extra costs with the subsequent year's appropriation.[2]
- To prevent deliberate underfunding of Pell costs, in 2006 the congressional and Executive Branch scorekeepers agreed to a special scorekeeping rule for Pell. Under this rule, the annual appropriations bill is charged with the full Congressional Budget Office estimated cost of the Pell Grant program for the budget year, plus or minus any cumulative shortfalls or surpluses from prior years. This scorekeeping rule was adopted by the Congress as §406(b) of the Concurrent Resolution on the Budget for Fiscal Year 2006 (H. Con. Res. 95, 109th Congress).

Given the nature of the program, it is reasonable to consider Pell Grants an individual entitlement for purposes of budget analysis and enforcement. The discretionary portion of the award funded in annual appropriations Acts counts against the discretionary spending caps pursuant to section 251 of BBEDCA and appropriations allocations established annually under §302 of the Congressional Budget Act.

The total cost of Pell Grants can fluctuate from year to year, even with no change in the maximum Pell Grant award, because of changes in enrollment, college costs, and student and family resources. In general, the demand for and costs of the program are countercyclical to the economy; more people go to school during periods of higher unemployment, but return to the workforce as the economy improves. In fact, the program experienced a spike in enrollment and costs during the most recent recession, reaching a peak of 9.4 million students in 2011. This spike required temporary mandatory or emergency appropriations to fund the program well above the level that could have been provided as a practical matter by the regular discretionary appropriation. Enrollment and costs declined continuously from 2011 to 2018, and the funding provided has lasted longer than anticipated. Recent changes to the program expanded the amount of aid available to students, including the enactment of Year-Round Pell and increases to the maximum award, and the Budget projects enrollment to increase in 2019 and 2020. As a result, total program costs increased in the 2017-18 award year for the first time since the recession. Nevertheless, assuming no changes in current policy, the 2020 Budget baseline expects program costs to stay within available resources, which include the discretionary appropriation, budget authority carried forward from the previous year, and extra mandatory funds, until 2025 (see Table 13-3). These estimates have changed significantly from year to year, which illustrates continuing uncertainty about Pell program costs, and the year in which a shortfall will reemerge.

The 2020 Budget reflects the Administration's commitment to ensuring students receive the maximum Pell Grant for which they are eligible, and to expanding options available to pursuing postsecondary education and training. First, the Budget provides sufficient resources to fully fund Pell Grants in the award years covered by the budget year, and subsequent years, including the funds needed to continue support of Year-Round Pell. The Budget provides $22.5 billion in discretionary budget authority in 2020, the same as the 2019 enacted appropriation. Level-funding Pell in 2020, combined with available budget authority from the previous year and mandatory funding provided in previous legislation, provides $8.6 billion more than is needed to fully fund the program in the 2020-21 award year.

In light of these additional resources, the Budget proposes a cancellation of $2 billion from the unobligated carryover from 2019. Then, with significant budget authority still available in the program, the Budget also proposes legislative changes to provide more postsecondary pathways by expanding Pell Grant eligibility to high-quality short-term training programs. This will help low-income or out-of-work individuals access training programs that can equip them with skills to secure well-paying jobs in high-demand fields more quickly than traditional 2-year or 4-year degree programs. The Budget also proposes moving Iraq and Afghanistan Service Grants (IASG) into the Pell program, which will exempt those awards from cuts due to sequestration and streamline the administration of the programs. The expansion of Pell Grants to short-term programs and the costs of incorporating IASG increases future discretionary Pell program costs by $1.7 billion over 10 years (see Table 13–3). Finally, the Budget includes proposals to reduce the risk of improper payments in the program (see the Payment Integrity chapter for more detail). With the proposed cancellation and these other reforms, the Pell program still is expected to have sufficient discretionary funds until 2024.

Federal Capital Revolving Fund

The structure of the Federal budget and budget enforcement requirements can create hurdles to funding large-dollar capital investments that are handled differently at the State and local government levels. Expenditures for capital investment are combined with operating expenses in the Federal unified budget. Both

[2] This ability to "borrow" from a subsequent appropriation is unique to the Pell program. It comes about for two reasons. First, like many education programs, Pell is "forward-funded"—the budget authority enacted in the fall of one year is intended for the subsequent academic year, which begins in the following July. Second, even though the amount of funding is predicated on the expected cost of Pell during one academic year, the money is made legally available for the full 24-month period covering the current fiscal year and the subsequent fiscal year. This means that, if the funding for an academic year proves inadequate, the following year's appropriation will legally be available to cover the funding shortage for the first academic year. The 2020 appropriation, for instance, will support the 2020-2021 academic year beginning in July 2020 but will become available in October 2019 and can therefore help cover any shortages that may arise in funding for the 2019-2020 academic year.

kinds of expenditures must compete for limited funding within the discretionary caps. Large-dollar Federal capital investments can be squeezed out in this competition, forcing agency managers to turn to operating leases to meet long-term Federal requirements. These alternatives are more expensive than ownership over the long-term because: (1) Treasury can always borrow at lower interest rates; and (2) to avoid triggering scorekeeping and recording requirements for capital leases, agencies sign shorter-term consecutive leases of the same space. For example, the cost of two consecutive 15-year leases for a building can exceed its fair market value by close to 180 percent. Alternative financing proposals typically run up against scorekeeping and recording rules that appropriately measure cost based on the full amount of the Government's obligations under the contract, which further constrains the ability of agency managers to meet capital needs.

In contrast, State and local governments separate capital investment from operating expenses. They are able to evaluate, rank, and finance proposed capital investments in separate capital budgets, which avoids direct competition between proposed capital acquisitions and operating expenses. If capital purchases are financed by borrowing, the associated debt service is an item in the operating budget. This separation of capital spending from operating expenses works well at the State and local government levels because of conditions that do not exist at the Federal level. State and local governments are required to balance their operating budgets, and their ability to borrow to finance capital spending is subject to the discipline of private credit markets that impose higher interest rates for riskier investments. In addition, State and local governments tend to own capital that they finance. In contrast, the Federal Government does not face a balanced budget requirement, and Treasury debt has historically been considered the safest investment regardless of the condition of the Federal balance sheet. Also, the bulk of Federal funding for capital is in the form of grants to lower levels of Government or to private entities, and it is difficult to see how non-Federally-owned investment can be included in a capital budget.

To deal with the drawbacks of the current Federal approach, the Budget proposes: (1) to create a Federal Capital Revolving Fund (FCRF) to fund large-dollar, Federally-owned, civilian real property capital projects;

Chart 13-1. Scoring of $288 Million NIST Renovation Project using the Federal Capital Revolving Fund

Federal Capital Revolving Fund	Year 1	Years 2-15
Mandatory:		
Transfer to purchasing agency to renovate building....................	288	
Purchasing agency repayments....	-19	-269

Purchasing Agency	Year 1	Years 2-15
Mandatory:		
Collection of transfer from Federal Capital Revolving Fund....................	-288	
Payment to renovate building..........	288	
Discretionary:		
Repayments to Federal Capital Revolving Fund....................	19	269

Total Government-Wide Deficit Impact	Year 1	Years 2-15	Total
Mandatory:			
Renovate building...	288		288
Collections from purchasing agency................	-19	-269	-288
Discretionary:			
Purchasing agency repayments.........................	19	269	288
Total Government-wide...	288	---	288

and (2) provide specific budget enforcement rules for the FCRF that would allow it to function, in effect, like State and local government capital budgets. This proposal incorporates principles that are central to the success of capital budgeting at the State and local level -- a limit on total funding for capital investment, annual decisions on the allocation of funding for capital projects, and spreading the acquisition cost over 15 years in the discretionary operating budgets of agencies that purchase the assets. As part of the overall 2020 Budget infrastructure initiative, the FCRF would be capitalized initially by a $10 billion mandatory appropriation, and scored with anticipated outlays over the 10-year window for the purposes of pay-as-you-go budget enforcement rules. Balances in the FCRF would be available for transfer to purchasing agencies to fund large-dollar capital acquisitions only to the extent projects are designated in advance in appropriations Acts and the agency receives a discretionary appropriation for the first of a maximum of 15 required annual repayments. If these two conditions are met, the FCRF would transfer funds to the purchasing agency to cover the full cost to acquire the capital asset. Annual discretionary repayments by purchasing agencies would replenish the FCRF and would become available to fund additional capital projects. Total annual capital purchases would be limited to the lower of $2.5 billion or the balance in the FCRF, including annual repayments.

The Budget uses the FCRF concept to fund the expansion and remaining renovation, estimated at $288 million for the Department of Commerce National Institute of Standards and Technology (NIST) to do advance precision measurement tools and technologies for a variety of scientific endeavors at Building One on the Boulder Colorado campus. In accordance with the principles and design of the FCRF, the 2020 budget requests appropriations language designating the NIST expansion and renovation as a project to be funded out of the FCRF, which is housed within the General Services Administration, along with 1/15 of the full purchase price, or $19.2 million for the first year repayment back to the FCRF. The FCRF account is displayed funding the NIST project in 2020 and a total of $15 billion worth of federal buildings projects using the initial $10 billion in mandatory appropriations and $5 billion from revolving the collections from annual project repayments starting in 2025.

The flow of funds for the expansion and renovation of a NIST research building with a $288 million cost and the proposed scoring are illustrated in Chart 10–1. Current budget enforcement rules would require the entire $288 million to be scored as discretionary BA in the first year, which would negate the benefit of the FCRF and leave agencies and policy makers facing the same trade-off constraints. As shown in Chart 10–1, under this proposal, transfers from the FCRF to agencies to fund capital projects, $288 million in the case of the NIST project, and the actual execution by agencies would be scored as direct spending (shown as mandatory in Chart 10–1), while agencies would use discretionary appropriations to fund the annual repayments to the FCRF, or $19.2 million for the NIST building construction first year repayment. The proposal allocates the costs between direct spending and discretionary spending-- the up-front cost of capital investment would already be reflected in the baseline as direct spending once the FCRF is enacted with $10 billion in mandatory capital. This scoring approves a total capital investment upfront, keeping individual large projects from competing with annual operating expenses in the annual appropriations process. On the discretionary side of the budget the budgetary trade off would be locking into the incremental annual cost of repaying the FCRF over 15-years. Knowing that future discretionary appropriations will have to be used to repay the FCRF would provide an incentive for agencies, OMB, and the Congress to select projects with the highest mission criticality and returns. OMB would review agencies' proposed projects for inclusion in the President's Budget, as shown with the NIST request, and the Appropriations Committees would make final allocations by authorizing projects in annual appropriations Acts and providing the first year of repayment. This approach would allow for a more effective capital planning process for the Government's largest civilian real property projects, and is similar to capital budgets used by State and local governments.

Fast Track Spending Reductions

The Administration is committed to ensuring the Federal Government spends precious taxpayer dollars in the most efficient, effective manner possible. Given the long-term fiscal constraints facing our Nation, we must put our fiscal house back in order. The President's Budget proposes redirecting funding away from programs where the goals have been met, or where funds are not being used efficiently to target higher priority needs. In the Budget, the President proposes cancellations, or reductions in budgetary resources. Such cancellations are not subject to the requirements of title X of the Impoundment Control Act of 1974 ("ICA"; 2 U.S.C. 601-88). Amounts proposed for cancellation may not be withheld from obligation pending enactment into law.

Alternatively, the President may propose permanent rescissions of budgetary resources pursuant to the ICA, as occurred in May of 2018, when the President proposed the largest single ICA rescissions package ever proposed by sending a request to cut approximately $15 billion of spending that was no longer needed. In such cases, the ICA requires that the President transmit a special message to the Congress at which time the funding can be withheld from obligation for up to 45 days. Also, the package receives privileged treatment where both the House and Senate can use expedited procedures for considering rescission bills

The Administration is interested in working with Congress to enhance the shared goal of reducing Government spending where it no longer serves the interest of taxpayers. For example, the Administration would support legislative proposals that ease the President's ability to reduce unnecessary spending through expedited rescission procedures.

II. BUDGET ENFORCEMENT AND BUDGET PRESENTATION

Statutory PAYGO

The Statutory Pay-As-You-Go Act of 2010 (the "PAYGO Act") requires that, subject to specific exceptions, all legislation enacted during each session of the Congress changing taxes or mandatory expenditures and collections not increase projected deficits.

The Act established 5- and 10-year scorecards to record the budgetary effects of legislation; these scorecards are maintained by OMB and are published on the OMB web site. The Act also established special scorekeeping rules that affect whether all estimated budgetary effects of PAYGO bills are entered on the scorecards. Changes to off-budget programs (Social Security and the Postal Service) do not have budgetary effects for the purposes of PAYGO and are not counted. Provisions designated by the Congress in law as emergencies appear on the scorecards, but the effects are subtracted before computing the scorecard totals.

In addition to the exemptions in the PAYGO Act itself, the Congress has enacted laws affecting revenues or direct spending with a provision directing that the budgetary effects of all or part of the law be held off of the PAYGO scorecards. In the most recently completed Congressional session, six pieces of legislation were enacted with such a provision.

The requirement of budget neutrality is enforced by an accompanying requirement of automatic across-the-board cuts in selected mandatory programs if enacted legislation, taken as a whole, does not meet that standard. If the annual report filed by OMB after the end of a Congressional session shows net costs—that is, more costs than savings—in the budget-year column of either the 5- or 10-year scorecard, OMB is required to prepare, and the President is required to issue, a sequestration order implementing across-the-board cuts to non-exempt mandatory programs in an amount sufficient to offset the net costs on the PAYGO scorecards. The list of exempt programs and special sequestration rules for certain programs are contained in sections 255 and 256 of BBEDCA.

As was the case during an earlier PAYGO enforcement regime in the 1990s, the PAYGO sequestration has not been required since the PAYGO Act reinstated the statutory PAYGO requirement. Since PAYGO was reinstated, OMB's annual PAYGO reports showed net savings in the budget year column of both the 5- and 10-year scorecards. For the second session of the 115th Congress, the most recent session, enacted legislation placed costs of $1,646 million in each year of the 5-year scorecard and $1,032 million in each year of the 10-year scorecard. However, the budget year balance on each of the PAYGO scorecards is zero because two laws, the Bipartisan Budget Act of 2018 (Public Law 115-123), and the Further Additional Continuing Appropriations Act, 2019 (Public Law 116-5), directed changes to the balances of the scorecards. Public Law 115-123 removed all balances included on the scorecards at the time of enactment, and Public Law 116-5 shifted the debits on both scorecards from fiscal year 2019 to fiscal year 2020, so no sequestration was required.[3]

There are limitations to Statutory PAYGO's usefulness as a budget enforcement tool. In the past, the scorecards have carried large surpluses from year to year, giving Congress little incentive to limit costly spending. Some costs, such as changes to the Postal Service or increases to debt service, are ignored. The frequent exemption of budgetary effects from the PAYGO scorecards by the Congress also suggests the PAYGO regime has been ineffective at controlling deficits. In the coming year the Administration looks forward to working with the Congress to rein in the deficit by exploring budget enforcement tools, including reforms to PAYGO.

Estimating the Impacts of Debt Service

New legislation that affects direct spending and revenue will also indirectly affect interest payments on the Federal debt. These effects on interest payments can cause a significant budgetary impact; however, they are not captured in cost estimates that are required under the PAYGO Act, nor are they typically included in estimates of new legislation that are produced by the Congressional Budget Office. The Administration believes that cost estimates of new legislation could be improved by incorporating information on the effects of interest payments and looks forward to working with the Congress in making reforms in this area.

Administrative PAYGO

In addition to enforcing budget discipline on enacted legislation, the Administration continues to review potential administrative actions by Executive Branch agencies affecting entitlement programs, so that agencies administering these programs have a requirement to keep costs low. This requirement was codified in a memorandum issued on May 23, 2005, by the Director of the Office of Management and Budget, "Budget Discipline for Agency Administrative Actions." This memo effectively established a PAYGO requirement for administrative actions involving mandatory spending programs. Exceptions to this requirement are only provided in extraordinary or compelling circumstances.

Adjustments to BBEDCA Baseline: Extension of Revenue Provisions and Transportation Spending

In order to provide a more realistic outlook for the deficit under current policies, the Budget presents the Administration's budget proposals relative to a baseline that makes certain adjustments to the statutory baseline defined in BBEDCA. Section 257 of BBEDCA provides the rules for constructing the baseline used by the Executive and Legislative Branches for scoring and other legal purposes. The adjustments made by the Administration are not intended to replace the BBEDCA baseline for these

[3] OMB's annual PAYGO reports and other explanatory material about the PAYGO Act are available on OMB's website at *https://www.whitehouse.gov/omb/paygo/*.

purposes, but rather are intended to make the baseline a more useful benchmark for assessing the deficit outlook and the impact of budget proposals.

Revenue Provisions Extended in Adjusted Baseline.—The Tax Cuts and Jobs Act provided comprehensive tax reform for individuals and corporations. The Administration's adjusted baseline assumes permanent extension of the individual income tax and estate and gift tax provisions enacted in that Act that are currently set to expire at the end of 2025. These expirations were included in the tax bill not because these provisions were intended to be temporary, but in order to comply with reconciliation rules in the Senate. Assuming extension of these provisions in the adjusted baseline presentation results in reductions in governmental receipts and increases in outlays for refundable tax credits of $1,057.5 billion over the 2025-2029 period relative to the BBEDCA baseline. This yields a more realistic depiction of the outlook for receipts and the deficit than a strictly current law baseline in which these significant tax cuts expire.

Highway Trust Fund (HTF) Spending in the Adjusted Baseline.—Under BBEDCA baseline rules, the Budget shows outlays supported by HTF receipts inflating at the current services level. However, that presentation masks the reality that the HTF has a structural insolvency, one that all stakeholders are aware of, and the source of which is described below. The BBEDCA baseline results in a presentation that overestimates the amount of HTF spending the Government could support. Therefore, beginning in 2022, the Budget presents an adjusted baseline to account for the mismatch between baseline rules that require assuming that spending continues at current levels and the law limiting the spending from the HTF to the level of available balances in the HTF. Under current law, DOT is unable to reimburse States and grantees when the balances in the HTF, largely reflecting the level of incoming receipts, are insufficient to meet their requests. Relative to the BBEDCA baseline levels, reducing outlays from the HTF to the level of receipts in the adjusted baseline presentation results in a reduction in HTF outlays of 145.6 billion over the 2022-2029 window. This adjustment makes the level of spending that could be supported in the HTF absent reforms more apparent.

Surface Transportation Hybrid Budgetary Treatment.— The Highway Revenue Act of 1956 (Public Law 84-627) introduced the HTF to accelerate the development of the Interstate Highway System. In the 1970s, the HTF's scope was expanded to include expenditures on mass transit. In 1982, a permanent Mass Transit Account within the HTF was created. HTF programs are treated as hybrids for budget enforcement purposes: contract authority is classified as mandatory, while outlays are controlled by obligation limitations in appropriations acts and are therefore classified as discretionary. Broadly speaking, this framework evolved as a mechanism to ensure that collections into the HTF (e.g., motor fuel taxes) were used to pay only for programs that benefit surface transportation users, and that funding for those programs would generally be commensurate with collections. Deposits to the HTF through the 1990s were historically more than sufficient to meet the surface transportation funding needs.

However, by the 2000s, deposits into the HTF began to level off as vehicle fuel efficiency continued to improve. At the same time, the investment needs continued to rise as the infrastructure, much of which was built in the 1960s and 1970s, deteriorated and required recapitalization. The cost of construction also generally increased. The Federal motor fuel tax rates have stayed constant since 1993. By 2008, balances that had been building in the HTF were spent down. The 2008-2009 recession and rising gasoline prices had led to a reduction in the consumption of fuel resulting in the HTF reaching the point of insolvency for the first time. Congress responded by providing the first in a series of General Fund transfers to the HTF to maintain solvency.

Fixing America's Surface Transportation Act (FAST Act).—The passage of the FAST Act (Public Law 114-94), shored up the HTF and maintained the hybrid budgetary treatment through 2020. The FAST Act did not significantly amend transportation-related taxes or HTF authorization provisions beyond extending the authority to collect and spend revenue. Congress retained the Federal fuel tax rate at 18.4 cents per gallon for gasoline and 24.4 cents for diesel. To maintain HTF solvency, the FAST Act transferred $70 billion from the General Fund into the HTF. Since 2008, HTF tax revenues have been supplemented by $140 billion in General Fund transfers. The last year of the FAST Act's authorization is 2020, and for 2020, in policy, the Administration is requesting obligation limitation levels for HTF programs equal to the contract authority levels provided in the FAST Act. For the outyears, those levels are frozen at the 2020 level through 2029. Beyond 2020 contract authority is frozen at the 2020 level. Outlays in policy are equal to the adjusted baseline levels, reflecting the need for a long- term solution.

Long-Term Solution Needed.—The fact that the HTF has required $140 billion in General Fund transfers to stay solvent points to the need for a comprehensive reevaluation of the surface transportation funding regime. The adjusted baseline presentation shows the level of spending that could be supported, without assuming General Fund transfers. While Congress and past Administrations have been unable to find a long-term funding solution to the HTF, many States and localities have raised new revenue sources to finance transportation expenditures. The Administration supports such actions by States and localities, as they are best equipped to know the right level and mix of infrastructure investments.

Discretionary Spending Limits

The BBEDCA baseline extends enacted or continuing appropriations at the account level assuming the rate of inflation for current services but allowances are included to bring total base discretionary funding in line with the BBEDCA caps through 2021. Current law requires reductions to those discretionary caps in accordance with Joint Committee enforcement procedures put in place by the BCA. For 2020 and 2021, the Budget supports main-

taining the base caps for discretionary programs at the Joint Committee-enforced levels for defense and non-defense. In 2021, however, the Administration would seek to begin rebalancing Federal responsibilities by instituting a two-percent (or "two-penny") reduction to non-defense programs. While no change is proposed to the current non-defense cap in 2021, the Budget assumes spending below that cap consistent with the two-penny plan. After 2021, the Administration would support new caps at the levels in the 2020 Budget that would codify a shift in resources from non-defense programs by continuing the two-penny plan through the budget window while increasing the defense category to fully resource national defense programs. The discretionary cap policy levels are reflected in Table S–7 of the main *Budget* volume.

Further adjustments to the proposed discretionary caps for Employer-Employee Share of Federal Employee Retirement

The Budget includes a proposal that starts in 2021 to reduce the contributions of Federal agencies to the retirement plans of civilian employees. The Budget proposes to reallocate the costs of Federal employee retirement by charging equal shares of employees' accruing retirement costs to employees and employers. The Budget takes the estimated reductions in the share of employee retirement paid by Federal agencies out of the proposed non-defense levels starting in 2021. Additionally, the discretionary non-defense caps proposed in the 2020 Budget for the 2022 through 2029 period (post Joint Committee enforcement) are reduced further to account for the reduction in discretionary costs. This proposal starts at a reduction of discretionary budget authority of $6.4 billion in 2021 and totals $85.1 billion in reduced discretionary spending over the 2021 to 2029 period.

Funds for Reducing Discretionary Spending

Discretionary spending caps can be an important tool to reign in Government spending, but only when they are set at levels that reflect a balanced and limited approach to Government spending in the economy. Since the discretionary spending caps were reinstated in 2013 as part of the Budget Control Act of 2011, these caps have not been exceeded, an indication that avoiding a discretionary sequester is a powerful discretionary budget enforcement tool. While spending caps are effective, in that they require the Administration and Congress to balance competing tradeoffs for limited federal funds, these caps are usually treated as a floor rather than as a ceiling. If the caps were considered a ceiling, annual discretionary choices could include spending levels below the cap, as proposed by the Administration in prior years and in this Budget for 2021. The 2020 Budget maintains the estimated 2021 post-sequester cap while also making choices that bring non-defense spending levels to an amount that is $31 billion below the expected 2021 non-defense current law cap.

The Administration is interested in proposals that help Congress consider proposals to reduce spending below the discretionary caps. For instance, the 2019 House Financial Services and General Government bill included the Fund for America's Kids and Grandkids to set aside $585 million under the Committee's 2019 congressional allocation that would be spent only if deficits were certified at zero. Using funds such as these promotes transparency about the choice between deficit reduction and additional spending. The Administration is open to using such reserve funds in the coming years.

Gross versus net reductions in Joint Committee sequestration

The net realized savings from Joint Committee mandatory sequestration are less than the intended savings amounts as a result of peculiarities in the BBEDCA sequestration procedures. The 2020 Budget shows the net effect of Joint Committee sequestration reductions by accounting for reductions in 2020, and each outyear, that remain in the sequestered account and are anticipated to become newly available for obligation in the year after sequestration, in accordance with section 256(k)(6) of BBEDCA. The budget authority and outlays from these "pop-up" resources are included in the baseline and policy estimates and amount to a cost of $2 billion in 2020. Additionally, the Budget annually accounts for lost savings that results from the sequestration of certain interfund payments, which produces no net deficit reduction. Such amount is $804 million in 2020.

Fannie Mae and Freddie Mac

The Budget continues to present Fannie Mae and Freddie Mac, the housing Government-sponsored enterprises (GSEs) currently in Federal conservatorship, as non-Federal entities. However, Treasury equity investments in the GSEs are recorded as budgetary outlays, and the dividends on those investments are recorded as offsetting receipts. In addition, the budget estimates reflect collections from the 10 basis point increase in GSE guarantee fees that was enacted under the Temporary Payroll Tax Cut Continuation Act of 2011 (Public Law. 112-78). The baseline also reflects collections from a 4.2 basis point set-aside on each dollar of unpaid principal balance of new business purchases authorized under the Housing and Economic Recovery Act of 2008 (Public Law 111-289) to be remitted to several Federal affordable housing programs; the Budget proposes to eliminate the 4.2 basis point set-aside and discontinue funding for these programs. The GSEs are discussed in more detail in Chapter 22, "Credit and Insurance."

Postal Service Reforms

The Administration proposes reform of the Postal Service, necessitated by the serious financial condition of the Postal Service Fund. The proposals are discussed in the Postal Service and General Services Administration sections of the *Appendix*.

The Postal Service is designated in statute as an off-budget independent establishment of the Executive Branch. This designation and budgetary treatment was most recently mandated in 1989, in part to reflect the policy agreement that the Postal Service should pay for its own costs through its own revenues and should oper-

ate more like an independent business entity. Statutory requirements on Postal Service expenses and restrictions that impede the Postal Service's ability to adapt to the ongoing evolution to paperless written communications have made those goals increasingly difficult to achieve. To address its current financial and structural challenges, the Administration proposes reform measures to ensure that the Postal Service funds existing commitments to current and former employees from business revenues, not taxpayer funds. To reflect the Postal Service's practice since 2012 of using defaults to on-budget accounts to continue operations, despite losses, the Administration's baseline now reflects probable defaults to on-budget accounts. This treatment allows for a clearer presentation of the Postal Service's likely actions in the absence of reform and more realistic scoring of reform proposals, with improvements in the Postal Service's finances reflected through lower defaults, and added costs for the Postal Service reflected as higher defaults. Under current scoring rules, savings from reform for the Postal Service affect the unified deficit but do not affect the PAYGO scorecard. Savings to on-budget accounts through lower projected defaults affect both the PAYGO scorecard and the unified deficit.

Fair Value for Credit Programs

Fair value is an approach to measuring the cost of Federal direct loan and loan guarantee programs that would align budget estimates with the market value of Federal assistance, typically by including risk premiums observed in the market. Under current budget rules, the cost of Federal credit programs is measured as the net present value of the estimated future cash flows resulting from a loan or loan guarantee discounted at Treasury interest rates. These rules are defined in law by the Federal Credit Reform Act of 1990 (FCRA). In recent years, some analysts have argued that fair value estimates would better capture the true costs imposed on taxpayers from Federal credit programs and would align with private sector standard practices for measuring the value of loans and loan guarantees. The CBO, for instance, has stated that fair value would be a more comprehensive measure of the cost of Federal credit programs. The Concurrent Resolution on the Budget for Fiscal Year 2018 (H. Con. Res. 71) also included language requiring CBO to produce fair value scores alongside FCRA scores upon request. The Administration supports proposals to improve the accuracy of cost estimates and is open to working with Congress to address any conceptual and implementation challenges necessary to implement fair value estimates for Federal credit programs.

Outlay Caps and Sequestration

The Budget achieves declining deficits over the next ten years, due to proposals to empower States and consumers to reform healthcare; eliminate wasteful spending in Medicare and improve drug pricing and payment policies; reform student loans, disability programs, and the welfare system; and reprioritize Government to focus on the most effective programs. While the Budget's policies help bring spending under control, additional efforts to control spending are needed, such as setting caps on mandatory outlays consistent with the historical average as a share of gross domestic product (GDP), post-World War II levels. Such caps could be enforced with sequestration across programs similar to other budget enforcement regimes. An outlay cap on mandatory spending would complement discretionary caps that have been in place since 2013, and that the Budget proposes to continue through 2029. Program reforms such as those in the Budget would be necessary to bring outlays to or below the historical average as a share of GDP, post-World War II.