SPECIAL ANALYSES AND PRESENTATIONS

4. BUDGET PROCESS

This chapter addresses several broad categories of budget process—the budget enforcement framework and related proposals, presentation, and reforms issues. First, the chapter provides a recent history on budget enforcement and discusses related proposals. The proposals and discussions include: an explanation of the discretionary levels in the 2024 Budget; adjustments to base discretionary levels including program integrity initiatives, funding requests for disaster relief and wildfire suppression; limits on advance appropriations; the proposals and explanations supporting veterans medical care and the newly enacted Cost of Toxic Exposures Fund; a discussion of the system under the Statutory Pay-As-You-Go Act of 2010 of scoring legislation affecting receipts and mandatory spending; and an extension of the spending reductions required by Section 251A of the Balanced Budget and Emergency Deficit Reduction Act (BBEDCA).

Second, this chapter describes adjustments and proposals in budget presentation. The Budget Presentation section begins with a discussion about adjustments to the BBEDCA baseline which provide for a more accurate reflection of the Administration's 2024 policy choices. It then discusses a proposed reclassification of Contract Support Costs (CSCs) and Payments for Tribal Leases accounts in the Department of the Interior's Bureau of Indian Affairs and the Department of Health and Human Services' Indian Health Service (IHS); the Pell Grant program; a discussion of how BBEDCA Section 251A sequestration is shown in the Budget; and the budgetary treatment of the housing Government-sponsored enterprises and the United States Postal Service.

Third, this chapter describes reform proposals to improve budgeting with respect to individual programs as well as across Government. These proposals include: changes to capital budgeting for large civilian Federal capital projects; protections for the rental payments made to the Federal Buildings Fund by Federal agencies; increases in funding and changes in how funding occurs for the Indian Health Service at the Department of Health and Human Services; and changes to retiree medical care for the Department of Defense. Last the Chapter introduces a discussion related to the timing of the release of the President's Budget.

I. BUDGET ENFORCEMENT FRAMEWORK AND PROPOSALS

History of Recent Budget Enforcement

The Federal Government uses statutory budget enforcement mechanisms to control revenues, spending, and deficits. The Statutory Pay-As-You-Go Act of 2010, enacted on February 12, 2010, reestablished a statutory procedure to enforce a rule of deficit neutrality on new revenue and mandatory spending legislation. The Budget Control Act of 2011 (BCA), enacted on August 2, 2011, amended BBEDCA by reinstating limits ("caps") on the amount of discretionary budget authority that could be provided through the annual appropriations process. Similar enforcement mechanisms were established by the Budget Enforcement Act of 1990 and were extended in 1993 and 1997, but expired at the end of 2002. The BCA also created a Joint Select Committee on Deficit Reduction that was instructed to develop a bill to reduce the Federal deficit by at least $1.5 trillion over a 10-year period, and imposed automatic spending cuts to achieve $1.2 trillion of deficit reduction over nine years after the Joint Committee process failed to achieve its deficit reduction goal.

The original enforcement mechanisms established by the BCA—the caps on spending in annual appropriations and instructions to calculate reductions to achieve the $1.2 trillion deficit reduction goal—expired at the end of fiscal year 2021, although the sequestration of mandatory spending has been extended through 2031 for most programs and 2032 for Medicare. Prior to the expiration of the BCA, the discretionary caps were revised upward a number of times, with changes usually occurring in the form of two-year budget agreements: the 2014 and 2015 limits were revised by the Bipartisan Budget Act of 2013 (BBA of 2013; Public Law 113-67); the 2016 and 2017 limits were revised by the Bipartisan Budget Act of 2015 (BBA of 2015; Public Law 114-74); the 2018 and 2019 limits were revised by the Bipartisan Budget Act of 2018 (BBA of 2018; Public Law 115-123); and, most recently, the 2020 and 2021 limits were revised by the Bipartisan Budget Act of 2019 (BBA of 2019; Public Law 116-37).

The threat of sequestration if the caps were breached, and the ability to adjust the caps for certain types of spending, proved sufficient to ensure compliance with these statutorily adjusted discretionary spending limits. When caps were in place, BBEDCA required OMB to adjust the caps each year for: changes in concepts and definitions; appropriations designated by the Congress and the President as emergency requirements; and appropriations designated by the Congress and the President for Overseas Contingency Operations/Global War on Terrorism (OCO/GWOT). BBEDCA also specified cap adjustments (which are limited to fixed amounts) for: appropriations for continuing disability reviews and redeterminations by the Social Security Administration; the healthcare fraud and abuse control program at the Department of Health

and Human Services; appropriations designated by the Congress as being for disaster relief; appropriations for reemployment services and eligibility assessments; appropriations for wildfire suppression at the Department of Agriculture and the Department of the Interior; and, for 2020 only, appropriations provided for the 2020 Census at the Department of Commerce.

Discretionary Spending Levels

The 2024 Budget builds on the success of the 2023 Budget and appropriations process by requesting funding levels that are sufficient to protect veterans, provide for a robust national defense, and continue to build the Nation's human and physical capital through non-defense discretionary spending. The Administration intends to continue working with the Congress on reinvesting in research, education, public health, and other core functions of Government. The Budget retains many of the useful and historical mechanisms of the congressional budget process by defining base levels while allowing for adjustments to those levels above base activities, such as program integrity, disaster relief, and wildfire suppression. Additionally, it highlights veterans' healthcare by carving out the Department of Veterans Affairs (VA) medical care program to ensure the Nation meets its commitments to veterans while also providing the Congress with the appropriate tools for oversight, independent of other discretionary spending.

For base defense programs, the 2024 Budget proposes a level of $886.4 billion, which is 3.3 percent higher than the 2023 enacted level. The amounts in the 2024 Budget are based on the National Security and National Defense strategies and the Department of Defense Future Years Defense Program, which includes a five-year appropriations plan and estimated expenditures necessary to support the programs, projects, and activities of the Department of Defense. After 2028, the Budget reflects outyear growth rates consistent with the 2023 President's Budget.

For non-defense, the 2024 Budget requests $688 billion, a 7.3 percent increase over enacted levels. Non-defense receives current services growth in all years after 2024.

The 2024 Budget again proposes to separate out the Veterans Affairs (VA) medical care program from the rest of discretionary spending, and requests $121 billion. The VA medical care third category grows at the current services level subsequent to 2025 and is discussed in more detail below.

The discretionary policy levels are reflected in Table S–7 of the main *Budget* volume. The proposed adjustments to the base appropriations levels and the approach to VA medical care and the newly enacted Cost of War Toxic Exposures Fund and are described below.

ADJUSTMENTS TO BASE DISCRETIONARY FUNDING LEVELS

Program Integrity Funding

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, using adjustments to base discretionary funding for 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. In such cases, where return on investment using discretionary dollars is proven, adjustments to base discretionary funding are a useful budgeting tool. Formerly, when statutory spending caps on the discretionary budget were in place under the BCA, the law allowed the caps to be adjusted upward to account for additional discretionary funding that supported savings in these mandatory programs. These adjustments continue in congressional budget enforcement under the Congressional Budget Act and are called allocation adjustments. Such adjustments are needed because budget scoring rules do not allow the mandatory savings from these initiatives to be credited for budget enforcement purposes.

The Administration continues to support making discretionary investments in program integrity activities and maintains the same structure in place under the BCA and enacted in both the 2022 and the 2023 appropriations processes: allocation adjustments are available only if appropriations meet a minimum amount. The Administration funds base amounts similar to base investments in previous years, and then adjusts the base discretionary spending upward for the amounts dedicated to these allocation adjustments. The treatment of this funding in the Budget is consistent with the Congress' use of congressional allocation adjustments done through the annual budget resolution process (see Chapter 8, "Budget Concepts" for more information on this process). The allocation adjustment amounts proposed extend through 2033 at the rate of inflation assumed in the 2024 Budget for the amounts dedicated to Medicare savings. Funding for the Unemployment Insurance program adopts the outyear levels adopted in the BBA of 2018 through 2027, then allows the amounts to grow with inflation through the Budget window. For Social Security the requested funding stream in the outyears reflects a full complement of program integrity activities described below.

The Budget shows the mandatory program savings derived from 10 years of discretionary program integrity funding separately in an adjustment to the baseline projections for spending in Social Security, Unemployment Insurance, Medicare, and Medicaid. This separation allows the Administration to clearly show the effects of the savings from these proposed discretionary program integrity amounts that receive special budgetary treatment, while recognizing the savings in these mandatory programs has been a historical and consistent part of program operations.

The following sections explain the benefits and budget presentation of the proposed level of allocation adjustments to base discretionary funding for program integrity activities.

Social Security Administration (SSA) Dedicated Program Integrity Activities.—SSA takes seriously its

Table 4–1. PROGRAM INTEGRITY DISCRETIONARY ADJUSTMENTS AND MANDATORY SAVINGS

(Budget authority and outlays in millions of dollars)

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	10-year Total
Social Security Administration (SSA) Program Integrity:											
Discretionary Budget Authority (non add) [1]	*1,583*	*1,601*	*1,712*	*1,715*	*1,719*	*1,823*	*1,868*	*1,922*	*1,966*	*2,011*	*17,920*
Discretionary Outlays [1]	1,583	1,600	1,703	1,715	1,719	1,815	1,865	1,918	1,963	2,008	17,889
Mandatory Savings [2]	–94	–2,296	–3,726	–4,693	–5,955	–6,311	–7,555	–8,370	–9,270	–10,505	–58,775
Net Savings	1,489	–696	–2,023	–2,978	–4,236	–4,496	–5,690	–6,452	–7,307	–8,497	–40,886
Health Care Fraud and Abuse Control Program:											
Discretionary Budget Authority (non add) [1]	*612*	*626*	*640*	*655*	*670*	*686*	*701*	*718*	*734*	*751*	*6,793*
Discretionary Outlays [1]	442	601	620	639	658	678	698	719	741	763	6,559
Mandatory Savings [2,3]	–1,178	–1,243	–1,313	–1,383	–1,425	–1,468	–1,512	–1,557	–1,605	–1,652	–14,336
Net Savings	–736	–642	–693	–744	–767	–790	–814	–838	–864	–889	–7,777
Unemployment Insurance (UI) Program Integrity:											
Discretionary Budget Authority (non add) [1]	*433*	*533*	*608*	*633*	*648*	*662*	*678*	*693*	*709*	*726*	*6,323*
Discretionary Outlays [1]	424	528	605	631	648	661	677	692	709	725	6,300
Mandatory Savings [2]	–708	–722	–648	–621	–482	–550	–436	–616	–548	–518	–5,849
Net Savings	–284	–194	–43	10	166	111	241	76	161	207	451

[1] The discretionary costs are equal to the outlays associated with the budget authority levels proposed for adjustments to the non-defense discretionary levels in the 2024 Budget. For SSA, the costs for 2024 through 2033 reflect the costs to complete the anticipated dedicated program integrity workloads for SSA; for HCFAC the costs for each of 2024 through 2033 are equal to the outlays associated with the budget authority levels inflated from the 2024 level for HCFAC, using the 2024 Budget assumptions. The UI discretionary costs for 2024 through 2027 are equal to outlays from the budget authority amounts authorized for congressional enforcement, while the outlays from the remaining years are from the budget authority inflated off of the 2027 level.

[2] The mandatory savings from the discretionary adjustment funding are included as adjustments to baseline in the Budget and displayed as savings in the Social Security, Medicare, Medicaid, and UI programs. For the SSA, amounts are based on estimates of savings from SSA's Office of the Chief Actuarys and the Centers for Medicare and Medicaid Services' Office of the Actuary. 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.

responsibilities to ensure eligible individuals receive the benefits to which they are entitled, and to safeguard the integrity of benefit programs to better serve recipients. The Budget's proposed discretionary amount of $1,870 million ($287 million in base funding and $1,583 million in allocation adjustment funding) will allow SSA to conduct 575,000 full medical continuing disability reviews (CDRs) and approximately 2.5 million Supplemental Security Income (SSI) non-medical redeterminations of eligibility. The Social Security Act requires that SSA conduct 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. 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. Program integrity funds also support the anti-fraud cooperative disability investigation (CDI) units and special attorneys for fraud prosecutions. To support these important anti-fraud activities, the Budget provides for SSA to transfer $19.1 million to the SSA Inspector General to fund CDI unit activities.

The Budget includes a discretionary allocation adjustment for each year of the 10-year budget window. As a result of the discretionary funding requested in 2024, as well as the fully funded base and continued funding of allocation adjustment amounts in 2025 through 2033, the OASDI, SSI, Medicare and Medicaid programs would recoup approximately $79 billion in gross Federal savings, including approximately $59 billion from access to adjustments, 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 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 $41 billion in the 10-year window, and provide additional savings in the outyears. These costs and savings are reflected in Table 4-1.

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. SSA uses predictive models to prioritize the completion of redeterminations based on the likelihood of change in non-medical factors. The frequency of CDRs and redeterminations relies on the availability of funds to support these activities. The mandatory savings from the base funding in every year and the discretionary allocation adjustment funding enacted for 2023 are included in the baseline, as the baseline assumes the continued funding of program integrity activities. The Budget shows the savings that would result from the increase in CDRs and redeterminations made possible by the discretionary al-

location adjustment funding requested in 2024 through 2033 as an adjustment to the baseline. These amounts fully support the dedicated program integrity workloads. With access to the amounts proposed, SSA is on track to regain currency in its CDR workload in 2026 and prevent new backlogs from forming throughout the budget window.

Current estimates indicate that CDRs conducted in 2024 will yield a return on investment (ROI) of about $10 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 2024 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, as some reviews find that beneficiaries are no longer eligible to receive OASDI or SSI benefits.

The savings resulting from redeterminations will be different for the base funding and the allocation adjustment funding levels in 2024 through 2033 because redeterminations of eligibility can uncover both underpayment and 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 Affordable Care Act's expansion of Medicaid to additional low-income adults, as a result of which some SSI beneficiaries, who would otherwise lose Medicaid coverage due to a medical CDR or non-medical redetermination, would continue to be covered.

Health Care Fraud and Abuse Control Program (HCFAC).—The Budget proposes base and adjustment funding levels over the next 10 years growing at the rate of inflation in the Budget. The discretionary base funding of $325 million and adjustment of $612 million for HCFAC activities in 2024 includes funding to invest in additional Medicare medical review; support Medicaid program integrity data analytics, the Medicaid and CHIP Program System (MACPro), and Medicaid error rate measurement; and data analytics and improper payment measurement work in the Marketplaces. The funding is to be allocated among the Centers for Medicare & Medicaid Services (CMS), the Administration for Community Living, the Health and Human Services Office of Inspector General, and the Department of Justice.

Over 2024 through 2033, as reflected in Table 4-1, this $6.8 billion investment in HCFAC adjustment funding will generate approximately $14.3 billion in savings to Medicare and Medicaid. This results in net deficit reduction of $7.8 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 at least $2 is saved or averted for every additional $1 spent.

Reemployment Services and Eligibility Assessments (RESEA).—The Bipartisan Budget Act of 2018 (BBA) established a new adjustment to discretionary base funding for program integrity efforts targeted at Unemployment Insurance through 2027. The RESEA 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 Unemployment Insurance program integrity activities. The Budget proposes adjustment levels at the same amount enacted in the BBA. Program integrity funding in 2028 through 2033 continues to rise by the inflation estimated in the Budget. Table 4-1 shows the mandatory savings of $5.8 billion over 10 years, which includes an estimated $2.2 billion reduction in State unemployment taxes. When netted against the discretionary costs for the cap adjustment funding, the 10-year net effect for the program is $451 million.

Disaster Relief Funding

The 2024 Budget maintains the same methodology for determining the funding ceiling for disaster relief used in previous budgets and adopted in the 2022 budget resolution. For the 2024 Budget, OMB estimates the total adjustment available for disaster funding for 2024 at $20.3 billion. This ceiling estimate is based on three components: a 10-year average of disaster relief funding provided in prior years that excludes the highest and lowest years ($11.9 billion); 5 percent of Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act) amounts designated as emergency requirements since 2012 ($8.3 billion); and carryover from the previous year ($0 billion). In addition, the estimate of emergency requirements for Stafford Act activities was updated based on applicable amounts provided for 2023 in the Infrastructure Investment and Jobs Act (Division B of Public Law 117-58), the Continuing Appropriations and Ukraine Supplemental Appropriations Act, 2023 (Division A of Public Law 117-180), and the Consolidated Appropriations Act, 2023 (CAA, 2023; Division N of Public Law 117-328). For 2024, the Administration is requesting $20.1 billion in funding for the Federal Emergency Management Agency's (FEMA) Disaster Relief Program, of which nearly $1 billion will go towards Building Resilient Infrastructure Communities (BRIC), and more than $0.1 billion for the Small Business Administration's Disaster Loans Program. The request covers the costs of Presidentially-declared major disasters, including identified costs for previously declared catastrophic events and the estimated annual cost of non-catastrophic events expected to be obligated in 2024.

Consistent with past practice, the 2024 request level does not seek to pre-fund anticipated needs in other programs that may arise out of disasters that have yet to occur. After 2024, the Administration does not have adequate information about known or future requirements necessary to estimate the total amount that will be re-

quested in future years. Accordingly, the Budget does not explicitly request any disaster relief funding in any year after the budget year and includes a placeholder in each of the outyears that is equal to the 10-year average ($11.9 billion) of disaster relief currently estimated under the formula for the 2024 ceiling. 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 United States. 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. In the past, when these costs exceeded the funds appropriated, the Federal Government covered the shortfall through transfers from other land management programs. For example, in 2018, Forest Service wildfire suppression spending of $2.6 billion required transfers of $720 million from other non-fire programs. Historically, these transfers had been repaid in subsequent appropriations; however, such “fire borrowing” impedes the missions of land management agencies to reduce the risk of catastrophic fire and restore and maintain healthy functioning ecosystems.

To create funding certainty in times of wildfire disasters, the Consolidated Appropriations Act of 2018 (CAA) enacted a new cap adjustment to BBEDCA, which began in 2020. This adjustment has been used since that time, and the Administration proposes continuing this adjustment in the Budget. The adjustment is permitted so long as a base level of funding for wildfire suppression operations is funded in the underlying appropriations bill. 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 2024 Budget requests these base amounts for wildfire suppression and proposes the full $2,650 million adjustment specified in the CAA of 2018 for 2024 with $ 2,300 million included for Forest Service and $350 million included for DOI. Providing the full level 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 2024, the Administration does not have sufficient information about future wildfire suppression needs and, therefore, includes a placeholder in the 2024 Budget for wildfire suppression in each of the outyears that is equal to the current 2024 request. Actual funding levels, up to but not exceeding the authorized funding adjustments, will be decided on an annual basis as part of the normal budget process.

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. 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 education 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 approach 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 approach, which allows over-budget funding in the budget year and exerts pressure for increased funding in future years, congressional budget resolutions since 2001 have set limits on the amount of discretionary advance appropriations and the accounts which can receive them. By freezing the amount that had been advance appropriated to these accounts at the level provided in the most recent appropriations bill, additional room within discretionary spending limits cannot be created by shifting additional funds to future fiscal years.

The Budget includes $28,768 million in advance appropriations for 2025, consistent with limits established in recent congressional budget resolutions, and freezes them at this level in subsequent years. Outside of these limits, the Administration’s Budget would request 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 Department of Veterans Affairs has included detailed information in its Congressional Budget Justifications about the overall 2025 veterans medical care funding request.

For a detailed table of accounts that have received discretionary and mandatory advance appropriations since 2022 or for which the Budget requests advance appropriations for 2025 and beyond, please refer to the Advance Appropriations chapter in the *Appendix*.

Veterans Affairs Category and the Cost of War Toxic Exposures Fund

The Budget separates VA medical care as a third category within the discretionary budget based on a recognition that VA medical care has grown much more rapidly than

other discretionary spending over time, largely due to systemwide growth in healthcare costs. Additionally, recent enactment of the Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxics Act of 2022, or the Honoring our PACT Act of 2022, (Public Law 117-168; "PACT Act") created the Cost of War Toxic Exposures Fund (TEF) to ensure that there is sufficient funding available to cover costs associated with providing healthcare and benefits to veterans exposed to environmental hazards, without shortchanging other elements of veteran care and services. While the TEF requires annual appropriations, the PACT Act directs the appropriations to be considered mandatory funding, similar to the treatment of annual appropriations for Medicaid and Supplemental Nutrition Assistance Programs.

Veterans Affairs Medical Care Program, Third Category. The Administration has put forward a request for discretionary medical care services of $121 billion in 2024 and $113 billion in 2025 as a third category of discretionary spending, alongside the Defense Category and the Non-Defense Category. The Administration's proposal to create a third category of discretionary spending will allow the Congress to consider the funding needs for VA medical care holistically, taking into account both discretionary and mandatory funding streams together. Setting a separate budget allocation for VA medical care accomplishes three important goals. First, it helps ensure adequate funding for veterans' healthcare without adversely impacting other critical programs, whether inside or outside of VA. Second, it also ensures that other critical priorities--both defense and non-defense--won't adversely impact veterans medical care. And third, it prevents the use of the mandatory TEF funding as a mechanism to shift discretionary resources into the non-VA medical care categories.

Cost of War Toxic Exposures Fund. Consistent with the PACT Act, the Administration proposes mandatory medical care funding in the TEF of $17.1 billion in 2024 and $21.5 billion in 2025. The PACT Act authorized the TEF to fund the incremental costs above 2021 for healthcare associated with environmental hazards and for any expenses incident to the delivery of healthcare and benefits associated with exposure to environmental hazards, as well as medical research relating to exposure to environmental hazards. Consistent with the law, the Administration is limiting the TEF request to those increases only and excluding costs not associated with exposure to environmental hazards. It is requesting that the Congress provide all other funding needs in the traditional discretionary appropriations accounts to ensure that veterans have the care and benefits they earned. In addition to the $17.1 billion for medical care, the Administration proposes $3.2 billion of mandatory funding in the TEF for 2024 for non-medical care costs incident to the delivery of healthcare and benefits associated with exposure to environmental hazards and medical research relating to exposure to environmental hazards. Overall, the mandatory baseline reflects the estimates of TEF funding for the next 10 years, consistent with the baseline rules for mandatory funding.

VA has developed a methodology for medical care and for non-medical care incident to the delivery of veterans' healthcare and benefits that underpin the TEF request.

- Medical Care Methodology: VA used the relative share of co-payment exempt care provided to a sample of Priority Group 6[1] veterans as a proxy for the proportion of healthcare that could reasonably be associated with exposure to environmental hazards (84 percent). VA then identified the projected healthcare costs of all Vietnam, Gulf War, and Post-9/11 veterans who were assumed to have deployed to a theater of operations. VA applied the proportion of environmental hazard-associated care (84 percent) to the projected healthcare costs for these cohorts of veterans in 2021 and then further discounted for medical facility leasing costs. This approach establishes the baseline level of expenses in 2021 for providing medical care associated with exposure to environmental hazards to veterans. The PACT Act directs that all increases in these costs associated with exposure to environmental hazards above the baseline level be funded through the TEF. Consistent with that directive, VA estimated the corresponding amount projected for 2024 and 2025 and calculated the increase over 2021 baseline level to arrive at the TEF estimate. VA also estimated other non-actuarially-modeled healthcare costs that could be attributable to the TEF.
- Non-medical Care Methodology: VA identified five accounts with costs incident to the delivery of veterans' healthcare and benefits associated with exposure to environmental hazards that could be requested in the TEF. These costs include supporting the processing of new presumptive condition disability compensation claims, allocating a percentage of claims appeals workload associated with new and expanded presumptive conditions attributable to the PACT Act, and modernizing IT systems and infrastructure to support expected increased claims processing.

Statutory PAYGO

The Statutory Pay-As-You-Go Act of 2010 (PAYGO Act; Public Law 111-139) requires that new legislation changing mandatory spending or revenue must be enacted on a "pay-as-you-go" (PAYGO) basis; that is, that the cumulative effects of such legislation must not increase projected on-budget deficits. PAYGO is a permanent requirement, and it does not impose a cap on spending or a floor on revenues. Instead, PAYGO requires that legislation reducing revenues must be fully offset by cuts in mandatory programs or by revenue increases, and that any bills

[1] Priority Group 6 Veterans are enrolled in both Priority Group 6 and in either Priority Group 7 or Priority Group 8, as applicable, pursuant to 38 CFR § 17.38(d)(3)(iii). For any care that VA cannot find to have resulted from a cause other than the service, testing, or activity that resulted in the exposure to environmental hazards, VA furnishes this care without copayment liability pursuant to 38 U.S.C. § 1710(a)(2).

increasing mandatory spending must be fully offset by revenue increases or cuts in mandatory spending.

This requirement of deficit neutrality is not enforced on a bill-by-bill basis, but is based on two scorecards maintained by OMB that tally the cumulative budgetary effects of PAYGO legislation as averaged over rolling 5- and 10-year periods, starting with the budget year. Any impacts of PAYGO legislation on the current year deficit are counted as budget year impacts when placed on the scorecard. PAYGO is enforced by sequestration. Within 14 business days after a congressional session ends, OMB issues an annual PAYGO report. If either the 5- or 10-year scorecard shows net costs in the budget year column, the President is required to issue a sequestration order implementing across-the-board cuts to nonexempt mandatory programs by an amount sufficient to offset those net costs. The list of exempt programs and special sequestration rules for certain programs are contained in sections 255 and 256 of BBEDCA.

The PAYGO effects of legislation may be directed in legislation by reference to statements inserted into the *Congressional Record* by the chair of the House and Senate Budget Committees. Any such estimates are determined by the Budget Committees and are informed by, but not required to match, the cost estimates prepared by the Congressional Budget Office (CBO). If this procedure is not followed, then the PAYGO effects of the legislation are determined by OMB. Provisions of mandatory spending or receipts legislation that are designated in that legislation as an emergency requirement are not scored as PAYGO budgetary effects.

The PAYGO rules apply to the outlays resulting from outyear changes in mandatory programs made in appropriations acts and to all revenue changes made in appropriations acts. However, outyear changes to mandatory programs as part of provisions that have zero net outlay effects over the sum of the current year and the next five fiscal years are not considered under the PAYGO rules.

The PAYGO rules do not apply to increases in mandatory spending or decreases in receipts that result automatically under existing law. For example, mandatory spending for benefit programs, such as unemployment insurance, rises when the number of beneficiaries rises, and many benefit payments are automatically increased for inflation under existing laws.

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, though they may have a real effect on the deficit. 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, seven laws were enacted with such a provision.

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. For the second session of the 117th Congress, the most recently completed session, enacted legislation placed costs of $72.5 billion in each year of the 5-year scorecard and $55.7 million in each year of the 10-year scorecard. However, the budget year balance on each of the PAYGO scorecards is zero because the CAA, 2023 (Public Law 117-328) shifted the debits on both scorecards from fiscal year 2023 to fiscal year 2025. Consequently, no PAYGO sequestration was required in 2023. The CAA, 2023, also requires that, at the end of the first session of the 118th Congress, any debit for fiscal year 2024 on the 5- and 10-year scorecards be rolled forward to 2025.[2]

BBEDCA Section 251A Reductions

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 (Joint Committee sequestration). 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 2021, and forced additional sequestrations of mandatory spending in each of fiscal years 2014 through 2021.

The discretionary cap regime in place under the BCA expired at the end of fiscal year 2021. Prior to the that time, various laws changed the annual reductions required to the discretionary spending limits set in the BCA through 2021. However, sequestration of mandatory resources was extended in a series of laws for each year through 2031 for most programs and the first half of 2032 for Medicare, and the Budget proposes to continue mandatory sequestration through 2033, which generates $48.9 billion in deficit reduction. This sequestration is now called the BBEDCA 251A sequestration, after the Balanced Budget and Emergency Deficit Control Act, as amended (BBEDCA), the law where mandatory sequestration continues to be extended.

Section 251A of BBEDCA requires that the same percentage reductions for non-exempt mandatory defense and non-defense spending apply each year at the rate established in 2021 for fiscal years 2022 through 2031. Those reductions are 5.7 percent for non-defense accounts, 8.3 percent for defense accounts, and 2 percent for Medicare and community and migrant health centers.[3] These reductions to mandatory programs are triggered annually by the transmittal of the President's Budget for

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[2]OMB's annual PAYGO report is available on OMB's website at https://www.whitehouse.gov/omb/paygo/.

[3]The CARES Act (Public Law 116-136) suspended the 251A sequestration for Medicare programs between May 1, 2020, and December 31, 2020. This suspension was extended to March 31, 2021 by the Consolidated Appropriations Act, 2021 (Public Law 116-260); further extended to December 31, 2021, by Public Law 117-7; and extended again to March 31, 2022, by the Protecting Medicare and American Farmers from Sequester Cuts Act (Public Law 117-71).

each year and take effect on the first day of the fiscal year. Because the percentage reduction is known in advance, the Budget presents these reductions in the baseline at the account level.

The 2024 Budget shows the net effect of these mandatory sequestration reductions by accounting for reductions in 2024, 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 $2.5 billion in 2024. 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 $1.9 billion in 2024.

II. BUDGET PRESENTATION

Adjustments to BBEDCA Baseline

In order to provide a more realistic outlook for the deficit under current legislation and policies, the Budget proposals are presented relative to a baseline that makes 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 purposes, but rather are intended to make the baseline a more useful benchmark for assessing the deficit outlook and the impact of budget proposals. The Administration's adjusted baseline makes four adjustments, each described below.

First, the Budget removes the outyear effects of emergency spending. Because this funding varies significantly from year to year, removing emergency funding provides a more consistent discretionary baseline for policy comparison. Eliminating this spending in an adjustment to the baseline, which is consistent with the historical practice of not projecting specific emergency needs in the Budget, also avoids the unintended suggestion of large savings in policy when compared to the BBEDCA baseline. Amounts that fund ongoing Government programs but that carried an emergency designation in the CAA, 2023, continue to inflate in the adjusted baseline.

Second, the Budget removes from the baseline the double count of discretionary VA spending, largely for medical care, that is requested to be appropriated as mandatory in the TEF, consistent with the directives under the PACT Act. Under BBEDCA rules, discretionary funding provided for amounts in 2023 continues into the outyears. Yet, as described above, the PACT Act created the TEF to fund the costs above the 2021 level for healthcare associated with environmental hazards and for expenses incident to the delivery of healthcare and benefits associated with environmental hazards, as well as medical research relating to exposure to environmental hazards. The increases in healthcare expenses and some of the other expenses that are expected to be provided through the TEF have, in part, been provided in other accounts in the past. The adjusted baseline removes the extension of the cost of providing this care in those accounts so that the outlays from the TEF are not double-counted in the baseline.

Third, the Budget removes the advance appropriation for 2024 for the Indian Health Service and the outyear extension of that appropriation. Because the CAA, 2023 funded appropriations for 2023, as well as provided an advance in 2024, each inflates in in the BBEDCA baseline. This significant double count of budget authority and outlays would overstate the size of the baseline dedicated to these programs. Eliminating the advance in the adjusted baseline provides a more accurate reflection of current services in the Budget.

Last, the Budget shows the continuation of mandatory savings from discretionary program integrity allocation adjustments in the adjusted baseline. The discretionary baseline continues the spending from these initiatives under BBEDCA rules, meaning much of the savings is reasonably captured in the adjusted baseline. The savings generated from the disretionary increase between the baseline and policy is also captured in the adjusted baseline to acknowledge the historical tendency to fully fund these discretionary program integrity initiatives. Thus, the adjusted baseline captures the savings generated in these mandatory entitlement programs from continuing these initiatives over 10 years at the levels requested by the Administration in the 2024 Budget. Each of the discretionary allocation adjustments for program integrity are described above under Adjustments to Base Discretionary Levels, Program Integrity.

These adjustments to baseline are detailed in this Volume in Chapter 21, "Current Services Estimates".

Reclassification of Contract Support Costs and Payments for Tribal Leases at the Department of Health and Human Services' Indian Health Service and the Department of the Interior's Bureau of Indian Affairs

The 2024 Budget proposes to reclassify Contract Support Costs (CSCs) and Payments for Tribal Leases, programs that historically have been funded as discretionary in the Department of Health and Human Services' Indian Health Service (IHS) and the Department of the Interior's Bureau of Indian Affairs, as mandatory. Specifically, the Budget proposes that, beginning in 2024, the CSCs and Payments for Tribal Leases accounts will continue to be funded through the annual appropriations process but will be reclassified as mandatory funding. The 2024 Budget requests $1.8 billion in 2024 and the reclassification totals $26.4 billion over 10 years. This shift is shown in the discretionary funding tables in the Budget by reducing the base discretionary in the amount of the 2024 Budget request, inflated into the 10-year window. Separately,

the Administration is proposing broader changes to the funding of IHS starting in 2025, as described in the third section of this Chapter (Budget Reform proposals).

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 anyone 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 2024-2025 is $7,395, of which $6,335 was established in discretionary appropriations and the remaining $1,060 in mandatory funding is provided automatically by the College Cost Reduction and Access Act as amended (CCRAA).
- 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 but also the Health Care and Education Reconciliation Act of 2010. There is no programmatic difference 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 projected at the time of the appropriation. 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.[4]
- 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.

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

[4] 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 2024 Budget appropriations request, for instance, will support the 2024-2025 academic year beginning in July 2023 but will become available in October 2023 and can therefore help cover any shortages that may arise in funding for the 2023-2024 academic year.

Table 4–2. DISCRETIONARY PELL FUNDING NEEDS

(Budget authority in millions of dollars)

Discretionary Pell Funding Needs (Baseline)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Estimated Program Cost for $6,335 Disc. Maximum Award	28,517	28,786	29,175	29,552	30,910	31,257	31,640	32,046	32,420	32,883
Baseline Discretionary Appropriation - 2023 Enacted	22,475	22,475	22,475	22,475	22,475	22,475	22,475	22,475	22,475	22,475
Surplus/Funding Gap from Prior Year	13,438	8,566	3,425	–2,104	–8,011	–15,276	–22,887	–30,882	–39,283	–48,057
Mandatory Budget Authority Available	1,170	1,170	1,170	1,170	1,170	1,170	1,170	1,170	1,170	1,170
Baseline Discretionary Surplus/Funding Gap (–)	8,566	3,425	–2,104	–8,011	–15,276	–22,887	–30,882	–39,283	–48,057	–57,295
Effect of 2024 Budget Policies on Discretionary Pell Funding Needs	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Increase Discretionary Maximum Award to $6,835	–2,479	–2,493	–2,517	–2,538	–2,674	–2,701	–2,734	–2,769	–2,803	–2,848
Increase Mandatory Add-On to Double Grant by 2029	5	11	18	24	12	15	18	21	27	29
Mandatory Funding Shift [1]	–62	–62	–62	–66	–76	–78	–80	–82	–85	–82
Increase Discretionary Appropriation by $1.8 billion	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Annual Effect of 2024 Budget Policies	–736	–744	–761	–780	–938	–964	–996	–1,030	–1,061	–1,101
Cumulative Effect of 2024 Budget Policies	–736	–1,480	–2,241	–3,021	–3,959	–4,923	–5,919	–6,949	–8,010	–9,111
2024 Budget Discretionary Surplus/Funding Gap (–)	7,830	1,945	–4,345	–11,032	–19,235	–27,810	–36,801	–46,232	–56,067	–66,406

[1] 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 mandatory costs associated with the discretionary award increase.

counts against 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. During the COVID pandemic, however, enrollment continued its decline since the end of the Great Recession. The Budget projects the number of Pell recipients to increase by about one percent annually, on average, over the course of the ten-year budget window. Assuming no changes in current policy, the 2024 Budget baseline expects program costs to stay within available discretionary resources until 2026 (see Table 4-2). These estimates have changed from year to year, which illustrates difficulty in forecasting Pell program costs.

The 2024 Budget reflects a significant step in the President's goal of doubling the Pell Grant. The Budget would increase the maximum Pell Grant by $820 over the current level ($7,395) for the 2024-2025 school year, for a total award of $8,215. This increase is composed of a $500 increase to the discretionary maximum award and a $320 increase to the mandatory portion of the award. The increase to the grant would increase future discretionary Pell program costs by $26 billion over 10 years, shown in Table 4-2 by combining the increase in the discretionary maximum award and increase in the mandatory add-on, under the Effects of 2024 Budget Policies. The Budget provides $24.3 billion in discretionary budget authority in 2024 to support this increase, $1.8 billion more than 2023. The Budget projects that the Pell program will still have sufficient discretionary funds to meet program costs until 2026.

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) and extended by the IIJA. The Budget 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 GSEs are discussed in more detail in Chapter 7, "Credit and Insurance."

Postal Service Treatment

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. 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 reflects probable defaults in the on-budget account showing no payment for Civil Service Retirement and Disability. This treatment allows for a clearer presentation of the Postal Service's likely actions. See the discussion of the Postal Service in the 2024 Budget *Appendix* for further explanation of this presentation and updates for the recently enacted Postal Reform Act.

Under current scoring rules, savings from any proposals for reform of the Postal Service would affect the unified deficit but would not directly affect the PAYGO scorecard. Any savings to on-budget accounts through lower projected defaults in future legislation affect both the PAYGO scorecard and the unified deficit.

III. BUDGET REFORM PROPOSALS

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 kinds of expenditures must compete for limited funding within the discretionary funding levels. 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 far exceed its fair market value, with the Government paying close to 180 percent of the value of the building. 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 large 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

Chart 4-1. Scoring of $3.5 billion GSA Construction Project using the Federal Capital Revolving Fund*

(Budget authority in millions of dollars)

Federal Capital Revolving Fund	Year 1	Years 2-15
Mandatory:		
Transfer to purchasing agency		
to buy building	3,500	
Purchasing agency repayments	-233	-3,267

Purchasing Agency	Year 1	Years 2-15
Mandatory:		
Collection of transfer from Federal		
Capital Revolving Fund	-3,500	
Payment to buy building	3,500	
Discretionary:		
Repayments to Federal		
Capital Revolving Fund	233	3,267

Total Government-wide Deficit Impact	Year 1	Years 2-15	Total
Mandatory:			
Purchase building	3,500		3,500
Collections from purchasing agency	-233	-3,267	-3,500
Discretionary:			
Purchasing agency repayments	233	3,267	3,500
Total Government-wide	3,500	---	3,500

*The 2024 Budget proposes one project, the Suburban FBI Headquarters Campus, estimated project balance of $3.5 billion.

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; 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. The 2024 Budget proposes that that 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 $5 billion or the balance in the FCRF, including annual repayments.

The Budget uses the FCRF concept to fund construction of a suburban FBI Headquarters campus with an estimated project balance of $3.5 billion when taking into account available GSA balances previously appropriated for this project. A project of this size and scope, if funded through the traditional discretionary appropriations process would account for potentially all GSA capital funding for consecutive fiscal years. In accordance with the principles and design of the FCRF, the 2024 budget requests appropriations language in the General Services Administration's (GSA) Federal Buildings Fund account, designating that the project to be funded out of the FCRF, which is also housed within GSA, along with 1/15 of the full purchase price, or $233 million for the first-year repayment back to the FCRF. The FCRF account is displayed funding the FBI project with additional unspecified projects being funded in future years, along with returns to the account from the annual project repayments.

The flow of funds for the FBI project is illustrated in Chart 4–1. Current budget enforcement rules would require the entire $3.5 billion building cost to be scored as discretionary budget authority 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 4-1, under this proposal, transfers from the FCRF to agencies to fund capital projects, $3.5 billion in the case of the proposed project in 2024, and the actual execution by GSA would be scored as direct spending (shown as mandatory in Chart 4-1), while agencies would use discretionary appropriations to fund the annual repayments to the FCRF, or $233 million for the 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 provides an incentive for agencies, OMB, and the Congress to select projects with the highest mission criticality and returns. In future years, OMB would review agencies' proposed projects for inclusion in the President's Budget, as shown with the GSA 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.

Protecting Funding for the Federal Buildings Fund

Since 2011, the Congress has under-funded the General Services Administration (GSA) Federal Building Fund (FBF), the primary source of maintenance, repair, and construction for GSA's federally owned building inventory. Over the last 15 years more than $11.8 billion in agency rental payments, intended to maintain and construct GSA facilities, have remained unavailable as balances in the FBF. By enacting an FBF appropriations level below the estimated annual rent collections, Congress creates an offset that allows the Appropriations Committee to fund other priorities. When that occurs, actual collections remain in the Fund as unavailable.

At the same time, the GSA inventory of federally owned buildings is seeing an increase in deferred maintenance while experiencing cost increases year over year for unfunded projects. This year, the Budget proposes a reform to ensure that all agency rental payments can be used for construction and maintenance and repair, as intended, rather than merely sitting unavailable for use in the Fund. The Budget proposes directed scoring, to take effect in fiscal year 2025, that would not credit, or score, any savings from limiting the spending in the FBF. FBF revenues would be utilized for the intended purposes of maintaining and operating the GSA owned and leased buildings portfolio. In this way, the Congress will have every incentive to set new obligational authority (NOA) at the level of the estimated collections from across Federal agencies.

Table 4–3. FEDERAL BUILDINGS FUND 2009–2023

(In thousands of dollars)

	President's Budget Revenue Estimate	Enacted New Obligational Authority	Net Budget Authority[1, 2]
2009	8,134,239	8,427,771	350,397
2010	8,222,539	8,443,585	287,406
2011	8,870,933	7,597,540	–1,202,123
2012	9,302,761	8,017,967	–1,205,174
2013	9,777,590	8,024,967	–1,665,003
2014	9,950,560	9,370,042	–580,518
2015	9,917,667	9,238,310	–679,357
2016	9,807,722	10,196,124	388,402
2017	10,178,339	8,845,147	–1,333,192
2018	9,950,519	9,073,938	–876,581
2019	10,131,673	9,285,082	–846,591
2020	10,203,596	8,856,530	–1,347,066
2021	10,388,375	9,065,489	–1,322,886
2022	10,636,648	9,342,205	–1,294,443
2023	10,488,857	10,013,150	–475,707
Total			**–11,802,436**

[1] Net Budget Authority does not include rescission of prior year funding, transfers, supplemental, or emergency appropriations.
[2] Net BA for 2009–2013 includes payment to Federal Financing Bank for Redemption of Debt.

The FBF has hit a tipping point with a growing backlog of deferred maintenance and an increasing number of missed opportunities to consolidate from leases into more cost effective federally-owned space – particularly given the unique opportunity to re-shape the Federal footprint post-COVID. Meanwhile, Government-wide, agencies continue to pay rent to the GSA FBF, but do not receive the commercially equivalent space and services that they pay for in accordance with the GSA statute that governs rent-setting, particularly in terms of capital reinvestment. Table 4-3, Federal Buildings Fund 2009 to 2023, shows 15 years of budget estimates of GSA rental collections (President's Budget Revenue Estimate) against the NOA enacted in the final appropriations process. The chart tells the story of years of rental payments being withheld from spending, thus creating an offset that allowed a reprioritization of spending away from the original purpose of the collections. Since 2011, the negative enacted net budget authority for the FBF for all years except one shows the annual appropriations process has gained $11.8 billion at the expense of the GSA Federal building inventory.

The Budget prioritizes FBF spending of collections, and provides the GSA with additional funding above the anticipated level of rental collections to make progress on the backlog of repairs and fund critical construction priorities. The Administration looks forward to working with the Congress to assure that the rental payments made to the FBF are prioritized for investment occupied by the agencies that paid them.

Funding for the Indian Health Service in the Department of Health and Human Services

The 2024 Budget proposes increased funding for the Department of Health and Human Services' Indian Health Service (IHS). Building on the enactment of an advance appropriation, the Budget requests additional discretionary funding for 2024 for the IHS Services and Facilities accounts. Contract Support Costs and Payments for Tribal Leases are requested as mandatory beginning in 2024. Starting in 2025, the proposal moves all of IHS out of the annual appropriations process and provides dedicated funding through multi-year authorizing legislation. For 2024, the Budget requests $9.4 billion in discretionary and mandatory funding across the IHS accounts. The Administration's base discretionary request is reduced by that amount inflated into the 10-year window to account for the shift to the mandatory side of the Budget. Overall, the Budget proposes to increase amounts for IHS annually for total funding of $288 billion with a net cost of $192 billion over the 10-year window. This proposal is presented as a part of the Administration's commitment to provide stable funding for tribal healthcare needs.

Accrual Accounting for Department of Defense Retiree Healthcare Benefits

The 2024 Budget proposes to expand accrual financing to include all DOD retiree healthcare costs, paying for this on the discretionary side of the Budget, and to move current benefits out of the discretionary budget and over to the mandatory, or direct spending, side of the Budget. Currently, healthcare for Medicare eligible military retirees and their families is funded through the Medicare-Eligible Retiree Healthcare Fund (MERHCF) via an accrual mechanism, while healthcare for non-Medicare eligible retirees and their family members is financed through discretionary annual Defense Health Program appropriations. Under this proposal, medical care funding for non-Medicare eligible retirees and their family members would be funded in the same way as medical care is funded for Medicare eligible retirees, by expanding the current MERHCF.

The current MERHCF was established by the Congress in 2001 to provide an actuarially determined, mandatory fund for military Medicare-eligible retiree healthcare. It covers Medicare-eligible DOD beneficiaries, such as military retirees, retiree family members, and 100 percent disabled retirees and survivors. The MERHCF is funded through three sources:

1. A "normal cost" contribution (percentage of basic pay) for current members, paid from the discretionary Military Personnel Accounts, based on end-strength and covering the accruing costs of future benefits;
2. A Treasury payment for the original unfunded liability, covering the costs for benefits previously earned but not previously funded, and;
3. Accrual fund investment earnings.

Under the Administration's proposal, the MERHCF would be expanded to include the costs of non-Medicare eligible military retirees. The expanded fund would also include other uniformed services (Public Health Service, Coast Guard, and NOAA Corps).

This proposal changes only the funding mechanism to recognize the full, accruing costs of military retiree healthcare benefits and does not change the benefits, or the cost of them, in any way. However, the additional accrued costs (or savings) of any change in benefits would

Table 4–4. PAYGO SCORING: EXPANDING ACCRUAL ACCOUNTING FOR DOD RETIREE HEALTHCARE BENEFITS
(Outlays in millions of dollars)

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	10 -year Total
Discretionary Effects:											
DOD projected accrual contributions under proposal	....	11,163	11,638	12,168	12,726	13,336	13,975	14,644	15,346	16,081	121,077
Reduce cost of current law retiree health benefits for Non-MERHCF population	....	–12,540	–12,913	–13,317	–13,703	–14,093	–14,510	–14,969	–15,462	–16,007	–127,514
DOD Discretionary Savings/Cost[1]:	....	–1,377	–1,275	–1,150	–977	–757	–535	–324	–117	74	–6,438
Intragovernmental Effects:											
Treasury UFL[2] Contributions paid from General Fund to expanded MERHCF (mandatory)	....	13,402	13,804	14,218	14,644	15,083	15,536	16,002	16,482	16,977	136,148
Treasury UFL Contributions received in expanded MERHCF (mandatory)	....	–13,402	–13,804	–14,218	–14,644	–15,083	–15,536	–16,002	–16,482	–16,977	–136,148
Interest earnings paid to MERHCF from General Fund under proposal (net interest)	....	–723	–741	–5	798	595	787	1,933	2,302	2,716	7,662
Interest earnings received in MERCHF under proposal (net interest)	....	723	741	5	–798	–595	–787	–1,933	–2,302	–2,716	–7,662
Net Effects:											
Receipt of DOD accrual contributions into the MERHCF under proposal (mandatory)	....	–11,163	–11,638	–12,168	–12,726	–13,336	–13,975	–14,644	–15,346	–16,081	–121,077
Cost of retiree health benefits for Non-MERHCF population under proposal (mandatory)	....	12,540	12,913	13,317	13,703	14,093	14,510	14,969	15,462	16,007	127,514
Proposed PAYGO Effects:	....	1,377	1,275	1,149	977	757	535	325	116	–74	6,437

[1] Budget authority and outlays are equivalent amounts. The proposed DOD discretionary Five Year Defense Program, which is reflected in the 2024 Budget, inlcudes this proposal with budget effects starting in 2025.
[2] Unfunded liability

now be reflected in DOD's yearly discretionary contributions. Currently, DOD requests yearly appropriations for the cost of healthcare for eligible retirees. Under this proposal, DOD would request the cost of accruing future benefits, which would be paid into the expanded fund and the cost of healthcare would be funded on the mandatory side of the Budget, roughly doubling the current mandatory spending on DOD retiree medical care.

Also on the mandatory side of the Budget, the estimated $278 billion unfunded liability (UFL), which represents the funding required to pay the costs of all benefits already earned but not funded, would be amortized through payments from the Treasury into the expanded Fund over 15 to 30 years, determined annually by the DOD Board of Actuaries.

The proposal would shift the budget authority and outlays for current healthcare from the discretionary side to the mandatory side, increasing mandatory outlays by the amount of the benefits (paid to providers) less any collections of accrual payments made by DOD. The proposal would not be implemented until 2025. The benefit payments are expected to slightly exceed the accrual collections over the 10-year Budget window, so there would be a net increase in mandatory spending, which would be scored as a PAYGO savings of the legislation, shown in the Budget as $6.4 billion over 10 years, per Table 4-4.

Successive administrations have been supportive of accrual funding for long-term government liabilities. Accrual funding mechanisms are currently in place for, among other programs, Federal civilian and military retirement and military healthcare for Medicare-eligible retirees. This method provides funding transparency and requires agencies to immediately reflect any costs of benefit changes.

Submission Date of the President's Budget

According to the Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344), the President is required to submit a Budget for the following fiscal year no later than the first Monday in February. That date assumed a "regular order" budget formulation process, where annual appropriations bills are enacted before the start of the fiscal year, on October 1. In effect, the Congressional Budget Act envisioned a process in which the Executive Branch developed its budget request for the following year only after funding levels for the current year were established.

In practice, however, the Congress rarely enacts all appropriations before the start of the next fiscal year. Final appropriations action occurs most frequently at the end of calendar year, and often carries with it large authorizations and complex changes to a range of Government programs.

This makes it difficult for an administration to account for current year funding and policy in the next year's President's Budget and still meet the statutory deadline.

It is to the benefit of both policymakers and the public to better align the release of the President's Budget with the actual enactment of annual appropriations, as was intended by the Congressional Budget Act. The benefits of doing so include:

- Ensuring that the Congress and the public have the most recent information on the trajectory of Government spending;
- Giving administrations sufficient time to make well-informed decisions relative to the most recently enacted funding bills; and,
- Providing the Congress with the most useful and actionable information regarding Presidential priorities at the start of the annual budget process.

For these reasons, the Administration will continue to prioritize providing to the Congress and the public useful and actionable information that incorporates the most recent funding levels and policy decisions, whenever possible. The Administration looks forward to working with the Congress to ensure that the annual budget and appropriations processes better align to the vision laid out in the Congressional Budget Act.