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## SPECIAL ANALYSES AND PRESENTATIONS

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## 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 2025 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 Cost of War Toxic Exposures Fund; a discussion of the system under the Statutory Pay-As-You-Go Act of 2010 (PAYGO) 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 2025 policy choices. It then discusses two proposed reclassifications--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' (HHS's) Indian Health Service (IHS), and the Survey and Certification program at the Centers for Medicare and Medicaid Services at HHS, both beginning in 2026; the Pell Grant program; a discussion of the budgetary presentation of the proposal to extend the United States' participation in the International Monetary Fund, 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; reclassifying funding for the Indian Health Service at HHS; and 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. Most recently, the Fiscal Responsibility Act of 2023 (FRA; Public Law 118-5), enacted on June 3, 2023, amended BBEDCA by reinstating limits ("caps") on the amount of discretionary budget authority that could be provided through the annual appropriations process for fiscal years 2024 and 2025. Prior to the FRA, the Budget Control Act of 2011 (BCA; Public Law 112-25), enacted on August 2, 2011, included caps for the years 2012 through 2021. 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 the first month of 2033 for Medicare. Prior to the expiration of the BCA, the discretionary limits 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); the 2020 and 2021 limits were revised by the Bipartisan Budget Act of 2019 (BBA of 2019; Public Law 116-37); and most recently, limits were reinstated for 2024 and 2025 by the FRA.

The threat of sequestration if the limits were breached, and the ability to adjust the limits for certain types of spending, proved sufficient to ensure compliance with these statutorily adjusted discretionary spending caps. When limits are in place, BBEDCA has required OMB to adjust them 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 specifies cap adjustments (which are limited to fixed amounts) for: appropriations for continuing disability reviews and re-determinations by the Social Security Administration and specified program integrity and anti-fraud activities; the healthcare fraud and abuse control program at HHS; 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.

Separate from the above adjustments, the FRA specified that certain previously-enacted discretionary funding that continues under current law would not be counted for purposes of budget enforcement under the discretionary limits. This includes emergency-designated funding enacted in the Bipartisan Safer Communities Act (Public Law 117-159), the Infrastructure Investment and Jobs Act (Public Law 117-58), and section 443(b) of division G of the Consolidated Appropriations Act, 2023 (Public Law 117-328). Because this funding was enacted during a period of time when statutory limits were not in place, the FRA addressed spending on these programs by directing it be treated as not being within the BBEDCA limits, including those established for 2024 and 2025 by the FRA, or as any adjustments allowed under BBEDCA. This funding is reflected in the 2025 Budget at the enacted levels, but is not counted under the statutory limits. In addition, section 101 of the Water Resources Development Act of 2020 (division AA of Public Law 116-260) exempts from budget enforcement appropriations from the Harbor Maintenance Trust Fund and appropriations designated in statute for carrying out section 2106(c) of Public Law 113-121, which includes amounts for environmental remediation at ports. Finally, the 21st Century Cures Act (Public Law 114-255) directed that funds appropriated for certain activities cannot be counted for purposes of budget enforcement so long as the appropriations were specifically provided for the authorized purposes. As a result of these statutory exemptions, each of these amounts are displayed outside of the discretionary totals in Budget tables and OMB reports.

The FRA also created alternative interim discretionary spending limits which are applicable if any discretionary appropriation account is under a short-term continuing-resolution (CR) as of January 1, 2024, for fiscal year 2024, and January 1, 2025, for fiscal year 2025. In both cases, the defense and non-defense spending levels adjust to the interim limits, which are only in place until passage of all full-year appropriations bills. Budget enforcement, through the sequestration of the amounts exceeding the interim limits, if any, would go into effect on April 30 of the respective year if passage of all full-year appropriations bills has not occurred. These interim limits are meant to encourage passage of all full-year appropriations bills in a timely manner.

## Discretionary Spending Levels

The 2025 Budget builds on the success of the Administration's previous Budgets 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 reflects discretionary funding levels that adhere to the discretionary spending limits enacted in the FRA for 2025 while allowing for adjustments to those levels above base activities, for activities including program integrity, disaster relief, and wildfire suppression and emergency requirements. In addition, the Budget highlights veterans' healthcare by carving out the Department of Veterans Affairs (VA) medical care program starting in 2026 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 2025 Budget proposes a level of \$895.2 billion, in line with the discretionary spending limit enacted in the FRA. The amounts in the 2025 Budget are in line with 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 2029, the Budget reflects outyear growth rates consistent with prior President's Budgets.

For non-defense, the 2025 Budget requests appropriations at \$710.7 billion, consistent with the discretionary spending limit enacted in the FRA. The Budget also includes \$23.2 billion in funding for base activities that is designated as emergency requirements. This "shifted base" funding concept was included in 2023 appropriations and was also part of a broader FRA agreement to provide additional resources for non-defense activities above the FRA cap. Non-defense receives current services growth in all years after 2025, with limited exceptions as described below.

The 2025 Budget requests \$112.6 billion for the Veterans Affairs (VA) medical care programs in 2025, and again proposes, beginning in 2026, for this program to be budgeted as its own category of spending separate from the rest of discretionary spending. The VA medical care program is budgeted for \$131.4 billion in 2026 and grows at the current services level subsequently. The program and approach are 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 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 limits on the discretionary budget were in place under the BCA, the law allowed the limits to be adjusted upward to account for additional discretionary funding that supported savings in these mandatory programs. The FRA continues these adjustments for 2024 and 2025. 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 keeps the same structure in place in the FRA by supporting base levels sufficient to receive an adjustment under the new limits. The outyears continue to assume the base and adjustment funding amounts extend through 2034 at the rate of inflation assumed in the 2025 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 adjustments to base discretionary funding for program integrity activities.

***Social Security Administration (SSA) Dedicated Program Integrity Activities.***—SSA takes seriously its 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 \$1,903 million (\$273 million in base funding and \$1,630 million

in cap adjustment funding) is consistent with the adjustment amount specified in BBEDCA, as amended by the FRA. This level 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. 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. 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 \$19.6 million to the SSA Office of Inspector General to fund CDI unit activities.

The Budget includes a discretionary cap adjustment for 2025 at the FRA level, and assumes continued funding of these activities through the remainder of the budget window. As a result of the discretionary funding requested in 2025, as well as the fully-funded base and continued funding of adjustment amounts in 2026 through 2034, the OASDI, SSI, Medicare and Medicaid programs would recoup approximately \$82 billion in gross Federal savings, including approximately \$60 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. Per the agency's regulations to create uniformity across programs, SSA conducts medical CDRs for disabled adult SSI recipients. 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 2024 discretionary cap adjustment funding authorized in the FRA 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 cap adjustment funding requested in 2025, and continued through 2034 as an adjustment to the baseline. These amounts fully support the dedicated program integrity workloads. With access to the proposed funding, SSA is on track to regain curren-



**Table 4-1. PROGRAM INTEGRITY DISCRETIONARY ADJUSTMENTS AND MANDATORY SAVINGS**

(Budget authority and outlays in millions of dollars)

	2025	2026	2027	2029	2029	2030	2031	2032	2033	2034	10-year Total
<b>Social Security Administration (SSA) Program Integrity:</b>											
Discretionary Budget Authority (non add) <sup>1</sup> .....	1,630	1,749	1,777	1,747	1,851	1,930	1,956	1,993	2,052	2,104	18,789
Discretionary Outlays <sup>1</sup> .....	1,630	1,746	1,776	1,748	1,848	1,928	1,955	1,992	2,051	2,102	18,776
Mandatory Savings <sup>2</sup> .....	-15	-2,216	-3,678	-5,023	-5,450	-6,734	-7,711	-8,635	-9,964	-10,375	-59,801
Net Savings .....	1,615	-470	-1,902	-3,275	-3,602	-4,806	-5,756	-6,643	-7,913	-8,273	-41,025
<b>Health Care Fraud and Abuse Control Program:</b>											
Discretionary Budget Authority (non add) <sup>1</sup> .....	630	649	668	688	709	730	752	775	798	822	7,221
Discretionary Outlays <sup>1</sup> .....	442	602	622	640	659	679	700	721	742	765	6,572
Mandatory Savings <sup>2,3</sup> .....	-1,215	-1,287	-1,362	-1,441	-1,485	-1,529	-1,575	-1,623	-1,671	-1,722	-14,910
Net Savings .....	-773	-685	-740	-801	-826	-850	-875	-902	-929	-957	-8,338
<b>Unemployment Insurance (UI) Program Integrity:</b>											
Discretionary Budget Authority (non add) <sup>1</sup> .....	271	608	633	648	662	678	693	709	726	742	6,370
Discretionary Outlays <sup>1</sup> .....	270	592	631	648	661	677	692	709	725	741	6,346
Mandatory Savings <sup>2</sup> .....	-388	-741	-768	-779	-789	-810	-826	-845	-861	-883	-7,690
Net Savings .....	-118	-149	-137	-131	-128	-133	-134	-136	-136	-142	-1,344

<sup>1</sup> 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 2025 Budget. For SSA, the costs for 2025 through 2034 reflect the costs to complete the anticipated dedicated program integrity workloads for SSA; for HCFAC the costs for each of 2025 through 2034 are equal to the outlays associated with the budget authority levels inflated from the 2025 level for HCFAC, using the 2025 Budget assumptions. The UI discretionary costs for 2025 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.

<sup>2</sup> The mandatory savings from the discretionary adjustment funding are included as proposals in the Budget and displayed as savings in the Social Security, Medicare, Medicaid, and UI programs. For SSA, adjustment savings amounts are based on SSA's Office of the Chief Actuary's and the Centers for Medicare and Medicaid Services' 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.

<sup>3</sup> These savings are based on estimates from the HHS Office of the Actuary for return on investment (ROI) from program integrity activities.

cy in its CDR workload in 2026 and prevent new backlogs from forming throughout the budget window.

Current estimates indicate that CDRs conducted in 2025 will yield a return on investment (ROI) of about \$9 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 2025 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 2025 through 2034 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 budgeted for 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 recipients, 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 \$311 million and adjustment of \$630 million for HCFAC activities in 2025 includes funding to invest in additional Medicare medical review; strengthen program integrity in Medicare Part C and Part D; support Medicaid systems; and measure improper payments in the Health Insurance Marketplaces. The funding is to be allocated among the Centers for Medicare & Medicaid Services (CMS), the HHS Office of Inspector General, and the Department of Justice.

Over 2025 through 2034, as reflected in Table 4-1, this \$7.2 billion investment in HCFAC adjustment funding will generate approximately \$14.9 billion in savings to Medicare and Medicaid. This results in net deficit reduction of \$8.3 billion over the 10-year period, reflect-

ing prevention and recoupment of improper payments made to providers, as well as recoveries related to civil and criminal penalties. For HCFA 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 BBA of 2018 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 cap adjustment levels at the same amount enacted in the FRA with outyears at the levels enacted in the BBA, as amended. Program integrity funding in 2028 through 2034 continues to rise by the rate of inflation estimated in the Budget. Table 4-1 shows the mandatory savings of \$7.7 billion over 10 years, which includes an estimated \$165 million 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 \$1.3 billion.

**Internal Revenue Service, Significant Returns on Investment from Extending Inflation Reduction Act Funding.**—The 2025 Budget continues the Administration's commitment to ensuring that IRS tax administration is fair, equitable, and remains focused on the core function of collecting taxes in a democracy by maintaining base discretionary funding while also proposing to maintain and extend the mandatory funding provided by the Inflation Reduction Act of 2022 (IRA, Public Law 117-169). The IRA supplemented base IRS funding by providing significant increases that are allowing the IRS to dramatically improve customer service, modernize decades-old computer systems, and improve enforcement with respect to complex partnerships, large corporations, and high-income individuals.

The estimates of enforcement revenue generated by IRA funding, which are included in the revenue estimates in the 2025 Budget, are based on traditional modeling of revenues directly resulting from increased enforcement staffing. This approach ignores many activities that will influence revenue, including enhancing services to improve voluntary compliance, modernizing technology, and adopting analytic advances that can dramatically improve productivity. The current approach also ignores the deterrence effect of compliance activities on taxpayers' behavior. The Budget reflects \$498 billion in enforcement revenue associated with IRA-funded initiatives, assuming enactment of proposed mandatory funding to continue those initiatives through 2034.

A comprehensive analytical approach that emphasizes efficiency gains, information technology and analytical advancements, service, and compliance through deterrence as key revenue drivers would more fully capture the revenue impact of IRS activities. This approach would potentially yield an additional \$353 billion in revenue from existing and proposed funding over the 10-year budget window, as documented by the IRS in its recent white

paper: Return on Investment: Re-Examining Revenue Estimates for IRS Funding ([www.irs.gov/pub/irs-pdf/p5901.pdf](http://www.irs.gov/pub/irs-pdf/p5901.pdf)). The scorekeeping guidelines and concepts governing the budget process that are used by the Executive and Legislative Branch require that such effects be direct and well-documented in order to be recorded as part of the Administration's baseline estimates of tax revenues. The estimation methodology for enforcement revenue will evolve over time as additional data are collected and studied.

### Disaster Relief Funding

The 2025 Budget maintains the same methodology for determining the funding ceiling for disaster relief used in previous budgets and adopted in the FRA. For the 2025 Budget, OMB estimates the total adjustment available for disaster funding for 2025 at \$23.2 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 (\$13.6); 5 percent of Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act) amounts designated as emergency requirements since 2012 (\$9.3 billion); and carryover from the previous year (\$0.3 billion). For the 10-year average, an enacted level of \$20.1 billion is assumed for 2024, which is the level provided in the Continuing Appropriations Act, 2024 (division A of Public Law 118-15; the "2024 CR"). Although the final enacted level may be \$0.3 billion higher in compliance with the disaster ceiling for 2024 when 2024 is completed, the formula must assume the current-law level at this time. In addition, the estimate of emergency requirements for Stafford Act activities is updated based on applicable amounts provided for 2024 in the 2024 CR. For 2025, the Administration is requesting \$22.7 billion in funding for the Federal Emergency Management Agency's (FEMA) Disaster Relief Program, of which approximately \$1 billion will go towards Building Resilient Infrastructure and Communities (BRIC), and nearly \$0.5 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 2025.

Consistent with past practice, the 2025 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 2025, 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. 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 (\$13.6 billion) of disaster relief currently estimated under the formula for the 2025 ceiling. This funding level does not reflect a specific request but a placeholder amount that, along with other outyear appropriations levels, will be de-

cided 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 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 2025 Budget requests these base amounts for wildfire suppression and proposes the full \$2,750 million adjustment specified in BBEDCA, as amended, for 2025, with \$2,390 million included for Forest Service and \$360 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 seasons.

For the years after 2025, the Administration does not have sufficient information about future wildfire suppression needs and, therefore, includes a placeholder in the 2025 Budget for wildfire suppression in each of the out-years that is equal to the current 2025 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 ed-

ucation 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 2025 Budget requests \$28,768 million in advance appropriations for 2026, 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 2026 veterans medical care funding request.

For a detailed table of accounts that have received discretionary and mandatory advance appropriations since 2023 or for which the Budget requests advance appropriations for 2026 and beyond, please refer to the Advance Appropriations chapter in the *Appendix*.

### **Veterans Affairs (VA) Category and the Cost of War Toxic Exposures Fund**

Starting in 2026, 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, the 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.

**Veterans Affairs Medical Care Program, Third Category.** The 2025 Budget adheres to the discretionary limits enacted in the FRA for 2025, which include \$112.6 billion in advance appropriations provided for discretionary medical care services in the 2024 Budget. Starting in 2026, the Budget provides \$131.4 billion for discretionary medical care services and proposes such spending be treated 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 veterans' healthcare holistically, taking into account both discretionary and mandatory funding streams. Setting a separate budget allocation for VA medical care accomplishes two 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--will not adversely impact veterans' healthcare.

**Cost of War Toxic Exposures Fund.** 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 limited the TEF request to those increases only and excluded costs not associated with exposure to environmental hazards.<sup>1</sup> The PACT Act directs the TEF appropriations to be mandatory funding requiring an annual appropriation, similar to the Medicaid and Supplemental Nutrition Assistance programs. The FRA appropriated funding for the TEF in 2024, along with \$24.5 billion in 2025. Since the TEF will require annual appropriations starting in 2026, the 2025 Budget includes an advance appropriation for TEF of \$22.8 billion in 2026 for medical care to align with the advance discretionary request for 2026 medical care. Overall, the mandatory baseline reflects the estimates of TEF funding for the next 10 years, consistent with the baseline rules for mandatory funding.

### 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 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 made in appropriations acts 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

<sup>1</sup> VA developed methodologies for its programs with costs incident to the delivery of veterans' healthcare and benefits that underpins the TEF allocations. Current methodologies are available here: <https://department.va.gov/financial-policy-documents/financial-document/chapter-12-toxic-exposures-fund/?redirect=1>

scorecards. In the most recently completed congressional session, two laws were enacted with such a provision.

As was the case during an earlier PAYGO enforcement regime in the 1990s, PAYGO sequestration has not been required since the PAYGO Act reinstated the statutory PAYGO requirement. For the first session of the 118th Congress, the most recently completed session, enacted legislation placed savings of \$1.2 billion in each year of the 5-year scorecard and \$0.9 billion in each year of the 10-year scorecard. These savings combined with the balances on the scorecards from previous sessions of Congress to total costs of \$442 billion on the 5-year scorecard and \$242 billion on the 10-year scorecard. However, the budget year balance on each of the PAYGO scorecards was set to zero in 2024 because the Consolidated Appropriations Act, 2023 (Public Law 117-328) shifted the debits on both scorecards from fiscal year 2024 to fiscal year 2025. Consequently, no PAYGO sequestration was required in 2024.<sup>2</sup>

### **BBEDCA Section 251A Reductions**

In August 2011, as part of the BCA, 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 2021, and forced additional sequestrations of mandatory spending in each of fiscal years 2014 through 2021.

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

Although the original provisions of the BCA ended in 2021, sequestration of mandatory resources has been extended in a series of laws for each year through 2031 for most programs and the first month of 2033 for Medicare. This sequestration is now called the BBEDCA 251A sequestration, after the Balanced Budget and Emergency Deficit Control Act, as amended (BBEDCA), which is the law where mandatory sequestration continues to be extended. The Budget proposes to continue mandatory sequestration through 2034, which generates \$90 billion in deficit reduction.

Section 251A of BBEDCA requires that non-exempt mandatory defense spending be reduced by 8.3 percent each year through 2031, mandatory non-defense spending be reduced by 5.7 percent each year through 2031 (and by 2 percent for a small subset of programs), and Medicare spending be reduced by 2 percent each year through the first month of 2033. These reductions to mandatory programs are triggered annually by the transmittal of the President's Budget for 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 2025 Budget shows the net effect of these mandatory sequestration reductions by accounting for reductions in 2025, 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 2025. 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 \$2 billion in 2025.

## **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 three adjustments, each described below.

First, the Budget inserts spending adjustments to bring the 2024 discretionary spending amounts in line with the topline appropriations agreement announced by Congressional leadership in January. These adjustments assume that appropriations will be enacted in line with

the original FRA spending caps in 2024 and 2025, certain savings will be included to achieve those caps, and cap adjustments will be enacted at authorized levels in BBEDCA. In addition, these adjustments also assumed that "shifted base" funding will continue to be used as a concept in final 2024 and 2025 appropriations bills.

Second, the Budget removes the outyear effects of emergency spending, excluding the aforementioned "shifted base" amounts. Because emergency funding varies significantly from year to year, removing this 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 savings in policy when compared to the BBEDCA baseline.

The last adjustment relates to the mandatory savings associated with discretionary program integrity amounts. 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 2025 Budget. This presentation acknowledges the historical tendency to fully-fund these discretionary program integrity initiatives and therefore provides a more accurate representation of expected mandatory outlays for these programs. Each of the dedicated discretionary funding 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 22, “Current Services Estimates.”

### **Reclassification of Contract Support Costs and Payments for Tribal Leases at HHS’s Indian Health Service and the Department of the Interior’s Bureau of Indian Affairs**

The 2025 Budget proposes to reclassify as mandatory, beginning in FY 2026, Contract Support Costs (CSCs) and Payments for Tribal Leases, programs that historically have been funded as discretionary in HHS’s Indian Health Service (IHS) and the Department of the Interior’s Bureau of Indian Affairs. Specifically, the Budget proposes that 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 beginning in 2026. For CSCs and Payments for Tribal Leases, the Budget requests \$1.9 billion in discretionary resources for 2025 for both BIA and IHS and the reclassification totals \$17.8 billion from 2026 to 2034. This shift is shown in the discretionary funding tables in the Budget by reducing the base discretionary in the amount of the projected 2026 Budget need, inflated into the 10-year window. Separately, the Administration is proposing broader changes to the funding of IHS starting in 2026 as described in the third section of this Chapter (Budget Reform proposals).

### **Reclassification of Nursing Home Related Survey and Certification Program at the Centers for Medicare and Medicaid Services at HHS**

The Budget also proposes, beginning in 2026, to shift funding for nursing home surveys from discretionary to mandatory. The Budget requests \$435 million in mandatory resources in 2026 to cover 100 percent of statutorily-mandated nursing home surveys, adjusted annually for inflation. The increase in mandatory funding is partially offset by reductions in discretionary spending equal to the projected 2026 need inflated into the 10-year window. This reclassification provides stable resources to the program, which will guard against negligent care and ensure that Americans receive high quality, safe services within these facilities.

### **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 (based on the fiscal year 2024 annualized CR) 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.<sup>3</sup>
- 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

<sup>3</sup> 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 2025 Budget appropriations request, for instance, will support the 2025-2026 academic year beginning in July 2024 but will become available in October 2024 and can therefore help cover any shortages that may arise in funding for the 2024-2025 academic year.



**Table 4-2. DISCRETIONARY PELL FUNDING NEEDS**  
(Budget authority in millions of dollars)

<i>Discretionary Pell Funding Needs (Baseline)</i>										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Estimated Program Cost for \$6,335 Disc. Maximum Award ..	30,075	30,136	30,553	31,816	32,150	32,484	32,841	33,116	33,483	33,674
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 .....	5,130	-1,299	-7,790	-14,698	-22,868	-31,373	-40,211	-49,407	-58,877	-68,715
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 (-) .....	-1,299	-7,790	-14,698	-22,868	-31,373	-40,211	-49,407	-58,877	-68,715	-78,744
<i>Effect of 2025 Budget Policies on Discretionary Pell Funding Needs</i>										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Increase Discretionary Maximum Award by \$100 to \$6,435 ..	-521	-525	-529	-557	-561	-570	-578	-584	-594	-604
Increase Mandatory Add-On to Double Grant by 2029 .....	19	37	53	34	43	48	53	58	62	67
Mandatory Funding Shift <sup>1</sup> .....	-15	-14	-14	-16	-18	-17	-16	-18	-18	-17
Increase Discretionary Appropriation by \$2.1 billion .....	2,101	2,101	2,101	2,101	2,101	2,101	2,101	2,101	2,101	2,101
Annual Effect of 2025 Budget Policies .....	1,584	1,599	1,611	1,562	1,565	1,562	1,560	1,557	1,551	1,547
Cumulative Effect of 2025 Budget Policies .....	1,584	3,183	4,794	6,356	7,921	9,483	11,043	12,600	14,151	15,698
2025 Budget Discretionary Surplus/Funding Gap (-) .....	285	-4,607	-9,904	-16,512	-23,452	-30,728	-38,364	-46,277	-54,564	-63,046

<sup>1</sup> 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.

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 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. The Budget includes historical trends in applications for the Free Application for Federal Student Aid (FAFSA) to project Pell-eligible applicants. Current enrollment levels of Pell-receiving students help determine the likelihood that eligible applicants become future recipients, which the Budget projects to increase by about one percent annually, on average, over the course of the ten-year budget window. 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. In the 2023-2024 school year, however, enrollment in undergraduate education grew for first time since the beginning of pandemic, up 2% over the prior school year. Community college experienced even more growth with an increase of 4% over 2022-2023. In addition, growth of Pell-eligible students is greater than that of the overall undergraduate enrollment leading to nearly half a million more Pell recipients in 2023-2024 than in 2022-2023. Given the increases in enrollment, higher discretionary maximum awards over the past few years, and eligibility changes due to implementation of the FAFSA Simplification Act, costs of the

Pell program have increased by nearly 15% over the past year. Assuming no changes in current policy, the 2025 Budget baseline projects a shortfall of nearly \$1.3 billion in 2025 (see Table 4-2). These estimates have changed from year to year, which illustrates difficulty in forecasting Pell program costs.

The 2025 Budget, coupled with the past two years of Pell award increases, reflects a significant step toward the President's goal of doubling the Pell Grant. The Budget would increase the discretionary maximum award by \$100 for a total discretionary award of \$6,435. The Budget would also increase the mandatory add-on by \$650 for students at public and non-profit institutions, for a total maximum award of \$8,145. The total maximum award for students at proprietary institutions would be \$7,495. The increase to the grant would increase future discretionary Pell program costs by \$5.1 billion over 10 years, shown in Table 4-2 by combining the 10-years of increases in the discretionary maximum award and 10-years of increases in the mandatory add-on, under the Effects of 2025 Budget Policies. The Budget provides \$24.6 billion in discretionary budget authority in 2025 to support this increase, \$2.1 billion more than 2023. The Budget projects that the Pell program will have sufficient discretionary funds to meet program costs in 2025.

#### **International Monetary Fund (IMF), Quota Subscription Increase and the New Arrangements to Borrow**

As part of a broader set of reforms at the IMF, the Administration supports a proposal to increase the U.S. Quota Subscription to the IMF, rollback a portion of the U.S. commitment to the New Arrangements to Borrow (NAB), and extend U.S. participation in the NAB. Because U.S. participation in the Quota constitutes an exchange of monetary assets, the Administration does not score it as



budget authority or outlays, and it is not included in the total funding requested by the Administration. Budget authority is the authority to enter into obligations that are liquidated by outlays. U.S. transactions with the IMF do not result in outlays. The Administration's position follows the recommendation made by the 1967 President's Commission on Budget Concepts that "Subscriptions, drawings, and other transactions reflecting net changes in the U.S. position with the International Monetary Fund should be excluded from budget receipts and expenditures." There is little basis for treating IMF quota subscriptions or NAB increases differently from other financial asset exchanges, such as deposits of cash in Treasury's accounts at the Federal Reserve Bank or purchases of gold, which are not recorded as either budget authority or outlays.

### **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 2025 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 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,

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

  

Total Government-wide Budget 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 2025 Budget proposes one project, the FBI Headquarters Campus in Greenbelt, MD, estimated project balance of \$3.5 billion.

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 2025 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 2025 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 2025, 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 \$12.9 billion in agency rental payments, intended to maintain and construct GSA facilities, were not appropriated. By enacting an FBF appropriations level below the estimated annual rent collections, the 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 again 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 starting in fiscal year 2026, 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.

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 and optimize building utilization. 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 2010 to 2024, 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 \$12.9 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

**Table 4-3. FEDERAL BUILDINGS FUND 2010–2024**  
(In thousands of dollars)

	President's Budget Revenue Estimate	Enacted New Obligational Authority	Net Budget Authority <sup>1</sup>
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
2024 <sup>2</sup> .....	10,728,410	10,013,150	-715,260
<b>Total .....</b>			<b>-12,868,093</b>

<sup>1</sup> Net Budget Authority includes redemption of debt and does not include rescission of prior year funding, transfers, supplemental, or emergency appropriations.

<sup>2</sup> Annualized CR amount.

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 HHS

Building on the enactment of an advance appropriation for 2024 received in the Consolidated Appropriations Act, 2023 (Public Law 117-328), the 2025 Budget requests \$8.0 billion in discretionary funding for 2025 for HHS's Indian Health Service (IHS). This includes increases for clinical services, preventative health, facilities construction, contract support costs, and leases. Starting in 2026, the Budget moves all of IHS out of the annual appropriations process and reclassifies funds as mandatory. Overall, the Budget proposes to increase amounts for IHS annually for total funding of \$288.9 billion with a net cost of \$208.5 billion from 2026 to 2034. This proposal is presented as a part of the Administration's commitment to provide stable funding for tribal healthcare needs.

### 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. In fact, the Congress regularly enacts short-term Continuing Resolutions (CRs) for most or all appropriations bills to bridge the gap prior to the final passage of the annual bills, and fiscal year 2024 is no exception. At the time of preparing the Budget, the Congress had not completed action on any of the fiscal year 2024 appropriations bills. The 2025 Budget can no longer await final passage, and therefore does not reflect final 2024 appropriations.

Late congressional action on appropriations bills makes it difficult for an administration to account for current year funding and policy in the next year's President's Budget. As a result, administrations are frequently faced with a choice between preparing a Budget using assumptions as a placeholder for the prior fiscal year, knowing that level would not align with final appropriations action, or delaying the release of the Budget in order to reflect enacted appropriations and new program authorizations. Even without completion of the 2024 appropriations, the 2025 Budget provides a robust agenda of the President's programs and policies for the American people.

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 Administration priorities as the annual budget process begins.

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, balancing the enormous benefits to the public and the Congress of providing the President's agenda in a timely manner. 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.