10. BUDGET PROCESS

This chapter addresses two broad categories of budget reform. First, the chapter discusses proposals to improve budgeting and fiscal sustainability with respect to individual programs as well as across Government. These proposals include: an extension of the spending reductions required by the Joint Select Committee on Deficit Reduction; various initiatives to reduce improper payments; funding requests for disaster relief and wildfire suppression; limits on changes in mandatory programs in appropriations Acts; limits on advance appropriations; proposals for the Pell Grant program; changes to capital budgeting for large Federal capital projects; and fast track spending reduction powers. Second, the chapter describes the 2019 Budget proposals for budget enforcement and budget presentation. The budget enforcement proposals include a discussion of the system under the Statutory Pay-As-You-Go Act of 2010 (PAYGO) of scoring legislation affecting receipts and mandatory spending; reforms to account for debt service in cost estimates; administrative PAYGO actions affecting mandatory spending; adjustments in the baseline for Highway Trust Fund spending and the extension of certain expiring tax laws; discretionary spending caps; improvements to how Joint Committee sequestration is shown in the Budget; the budgetary treatment of the housing Government-sponsored enterprises and the United States Postal Service; and using fair value as a method of scoring credit programs. These reforms combine fiscal responsibility with measures to provide citizens a more transparent, comprehensive, and accurate measure of the reach of the Federal budget. Together, the reforms and presentations discussed create a budget more focused on core Government functions and more accountable to the taxpayer.

I. BUDGET REFORM PROPOSALS

Joint Committee Enforcement

In August 2011, as part of the Budget Control Act of 2011 (BCA; Public Law 112-25), bipartisan majorities in both the House and Senate voted to establish the Joint Select Committee on Deficit Reduction to recommend legislation to achieve at least $1.5 trillion of deficit reduction over the period of fiscal years 2012 through 2021. The failure of the Congress to enact such comprehensive deficit reduction legislation to achieve the $1.5 trillion goal triggered a sequestration of discretionary and mandatory spending in 2013, led to reductions in the discretionary caps for 2014 through 2019, and forced additional sequestrations of mandatory spending in each of fiscal years 2014 through 2018. A further sequestration of mandatory spending is scheduled to take effect beginning on October 1 based on the order released with the 2019 Budget.

To date, various enacted legislation has changed the annual reductions required to the discretionary spending limits set in the BCA through 2017. The 2018 caps remain at the levels set in the sequestration preview report that was transmitted with the President's 2018 Budget while the sequestration preview report issued with this Budget reduces the 2019 discretionary caps according to current law. Going forward, the reductions to discretionary spending for fiscal years 2020 and 2021 are to be implemented in the sequestration preview report for each year by reducing the discretionary caps. Future reductions to mandatory programs are to be implemented by a sequestration of non-exempt mandatory budgetary resources in each of fiscal years 2020 through 2025, which is triggered by the transmittal of the President's Budget for each year and take effect on the first day of the fiscal year. The 2019 Budget proposes to continue mandatory sequestration into 2026, 2027, and 2028 to generate an additional $73 billion in deficit reduction.

For discretionary programs, under current law, the 2018 caps remain at $549.1 billion for defense and $515.7 billion for non-defense while, for 2019, the Joint Committee procedures reduce the defense cap from $616 billion to $562.1 billion and the non-defense cap from $566 billion to $530.3 billion. The 2019 Budget continues to illustratively assume its proposed caps for 2018 of $603 billion for defense and $462 billion for non-defense. For 2019, the Budget cancels the Joint Committee reductions made to the defense category and proposes a new defense cap that will support the National Security Strategy goal of preserving peace through strength with a substantial investment that will protect America's vital national interests. This increase is paid for by reducing the cap for non-defense by roughly the same amount. This results in a proposed defense cap of $627 billion for defense programs and a non-defense cap of $465 billion for non-defense programs. After 2019, the Budget sets aside the existing Joint Committee procedures for discretionary programs by proposing new caps for defense and non-defense programs through 2028. These funding levels will enhance the country's national security while maintaining fiscal responsibility by rebalancing the non-defense mission to focus on core Government responsibilities. See Table S–7 in the main *Budget* volume for the proposed annual discretionary caps.

Program Integrity Funding

All Federal programs must be run efficiently and effectively. Therefore, the Administration proposes to make significant investments in activities to ensure that taxpayer dollars are spent correctly by expanding oversight and enforcement activities in the largest benefit programs such as Social Security, Unemployment Insurance, Medicare and Medicaid, and increasing investments in tax compliance related to Internal Revenue Service tax enforcement. In addition, the Administration supports a number of legislative and administrative reforms in order to reduce improper payments. Many of these proposals will yield savings to the Government and taxpayers, and will support Government-wide efforts to improve the management and oversight of Federal resources.

In addition to efforts outlined in the Budget, the Administration will continue to identify areas where it can work with the Congress to further prevent, reduce, and recover improper payments and promote program integrity efforts.

Administrative Funding for Program Integrity.— There is compelling evidence that investments in administrative resources can significantly decrease the rate of improper payments and recoup many times their initial investment. The Social Security Administration (SSA) estimates that continuing disability reviews conducted in 2019 will yield net Federal program savings over the next 10 years of roughly $9 on average per $1 budgeted for dedicated program integrity funding, including the Old Age, Survivors, and Disability Insurance Program (OASDI), Supplemental Security Income (SSI), Medicare and Medicaid program effects. Similarly, for Health Care Fraud and Abuse Control (HCFAC) program integrity efforts, CMS actuaries conservatively estimate approximately $2 is saved or averted for every additional $1 spent.

Enacted Adjustments Pursuant to BBEDCA.— The Balanced Budget and Emergency Deficit Control Act of 1985, as amended (BBEDCA), recognized that a multi-year strategy to reduce the rate of improper payments, commensurate with the large and growing costs of the programs administered by the SSA and the Department of Health and Human Services, is a laudable goal. To support the overall goal, BBEDCA provided for adjustments to the discretionary spending limits through 2021 to allow for additional funding for specific program integrity activities to reduce improper payments in the Social Security programs and in the Medicare and Medicaid programs. Because the additional funding is classified as discretionary and the savings as mandatory, the savings cannot be offset against the funding for budget enforcement purposes. These adjustments to the discretionary caps are made only if appropriations bills increase funding for the specified program integrity purposes above specified minimum, or base levels. This method ensures that the additional funding provided in BBEDCA does not supplant other Federal spending on these activities and that such spending is not diverted to other purposes. The Bipartisan Budget Act of 2015 (BBA) increased the level of such adjustments for Social Security programs by a net $484 million over the 2017-2021 period, and it expanded the uses of cap adjustment funds to include cooperative disability investigation (CDI) units, and special attorneys for fraud prosecutions. To continue support to these important anti-fraud activities, the Budget request provides for SSA to transfer up to $10 million to the SSA Inspector General to fund CDI unit team leaders. This anti-fraud activity is an authorized use of the cap adjustment.

The 2019 Budget supports full funding of the authorized cap adjustments for these programs through 2021 and proposes to extend the cap adjustments through 2028 at the rate of current services inflation assumed in the Budget. The 2019 Budget shows the baseline and policy levels at equivalent amounts. Accordingly, savings generated from such funding levels in the baseline for program integrity activities are reflected in the baselines for Social Security programs, Medicare, and Medicaid.

Social Security Administration Medical Continuing Disability Reviews and Non-Medical Redeterminations of SSI Eligibility.—For the Social Security Administration, the Budget's proposed $1,683 million, the amount authorized in BBEDCA for discretionary funding in 2019 ($273 million in base funding and $1,410 million in cap adjustment funding) will allow SSA to conduct 703,000 full medical CDRs and approximately 2.8 million SSI non-medical redeterminations of eligibility. Medical CDRs are periodic reevaluations to determine whether disabled OASDI or SSI beneficiaries continue to meet SSA's standards for disability. As a result of the discretionary funding requested in 2019, as well as the fully funded base and cap adjustment amounts in 2020 through 2028, the OASDI, SSI, Medicare and Medicaid programs would recoup about $44 billion in gross Federal savings with additional savings after the 10-year period, according to estimates from SSA's Office of the Chief Actuary and the Centers for Medicare and Medicaid Services' Office of the Actuary. Access to increased cap adjustment amounts and SSA's commitment to fund the fully loaded costs of performing the requested CDR and redetermination volumes would produce net deficit savings of approximately $30 billion in the 10-year window, and additional savings in the outyears. These costs and savings are reflected in Table 10-1.

SSA is required by law to conduct medical CDRs for all beneficiaries who are receiving disability benefits under the OASDI program, as well as all children under age 18 who are receiving SSI. SSI redeterminations are also required by law. However, the frequency of CDRs and redeterminations is constrained by the availability of funds to support these activities. The mandatory savings from the base funding in every year and the enacted discretionary cap adjustment funding assumed for 2018 are included in the BBEDCA baseline, consistent with the levels amended by the BBA of 2015, because 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 2019 through 2028. With access to program integrity cap adjustments, SSA is on track to remain current with program integrity workloads throughout the budget window.

As stated above, current estimates indicate that CDRs conducted in 2019 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 2019 will yield a ROI of about $4 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. Additionally, the Budget assumes that SSA will expand how it charges for medical CDRs beginning in 2019 to encompass workloads related to the medical CDR process, as reflected in the annual CDR report to Congress. The savings from one year of program integrity activities are realized over multiple years because some results find that beneficiaries are no longer eligible to receive OASDI or SSI benefits.

Redeterminations are periodic reviews of non-medical eligibility factors, such as income and resources, for the means-tested SSI program and can result in a revision of the individual's benefit level. However, the schedule of savings resulting from redeterminations will be different for the base funding and the cap adjustment funding in 2019 through 2028. This is because redeterminations of eligibility can uncover underpayment errors as well as overpayment errors. SSI recipients are more likely to initiate a redetermination of eligibility if they believe there are underpayments, and these recipient-initiated redeterminations are included in the base. The estimated savings per dollar spent on CDRs and non-medical redeterminations in the baseline reflects an interaction with the state option to expand Medicaid coverage for individuals under age 65 with income less than 133 percent of poverty. As a result of this option, some SSI beneficiaries, who would otherwise lose Medicaid coverage due to a medical CDR or non-medical redetermination, would continue to be covered. In addition, some of the coverage costs for these individuals will be eligible for the enhanced Federal matching rate, resulting in higher Federal Medicaid costs in those states.

Health Care Fraud and Abuse Program.—The 2019 Budget proposes base and cap adjustment funding levels over the next 10 years and continues the program integrity cap adjustment through 2028. In order to maintain level of effort, the base amount increases annually over the 10-year period. The cap adjustment is set at the levels specified under BBEDCA through 2021 and then increases annually based on inflation from 2022 through 2028. The mandatory savings from both the base and cap adjustment are included in the Medicare and Medicaid baselines.

The discretionary base funding of $311 million plus an additional $5 million adjustment for inflation and cap adjustment of $454 million for HCFAC activities in 2019 are designed to reduce the Medicare improper payment rate, support the Health Care Fraud Prevention & Enforcement Action Team (HEAT) initiative and reduce Medicaid improper payment rates. The investment will also allow CMS to deploy innovative efforts that focus on improving the analysis and application of data, including state-of-the-art predictive modeling capabilities, in order to prevent potentially wasteful, abusive, or fraudulent payments before they occur. The funding is to be allocated among CMS, the Health and Human Services Office of Inspector General, and the Department of Justice.

Over 2019 through 2028, as reflected in Table 10-1, this $5.47 billion investment in HCFAC cap adjustment funding will generate approximately $11.6 billion in savings to Medicare and Medicaid, for new net deficit reduction of $6.1 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.

Table 10–1. PROGRAM INTEGRITY DISCRETIONARY CAP ADJUSTMENTS, INCLUDING MANDATORY SAVINGS

(Budget authority and outlays in millions of dollars)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	10-year total
Social Security Program Integrity:											
Discretionary Budget Authority (non add)[1]	*1,410*	*1,309*	*1,302*	*1,351*	*1,403*	*1,456*	*1,511*	*1,569*	*1,629*	*1,690*	*14,630*
Discretionary Costs[1]	1,019	1,339	1,303	1,335	1,389	1,441	1,496	1,553	1,612	1,672	14,159
Mandatory Savings[2]	–105	–2,044	–3,092	–4,017	–4,452	–4,751	–5,534	–6,054	–6,580	–7,422	–44,051
Net Savings	914	–705	–1,789	–2,682	–3,063	–3,310	–4,038	–4,501	–4,968	–5,750	–29,892
Health Care Fraud and Abuse Control Program:											
Discretionary Costs[1]	454	475	496	515	534	555	576	598	620	644	5,467
Mandatory Savings[3]	–910	–975	–1,041	–1,106	–1,146	–1,191	–1,236	–1,284	–1,331	–1,382	–11,602
Net Savings	–456	–500	–545	–591	–612	–636	–660	–686	–711	–738	–6,135

[1] The discretionary costs are equal to the outlays associated with the budget authority levels authorized in BBEDCA through 2021; the costs for each of 2022 through 2028 are equal to the outlays associated with the budget authority levels inflated from the 2021 level, using the 2019 Budget assumptions. The levels in baseline are equal to the 2019 Budget policy. The mandatory savings from the cap adjustment funding are included in the baselines for Social Security, Medicare, and Medicaid programs.

[2] This is based on estimates of savings from the Office of the Chief Actuary at SSA and the Office of the Actuary at Centers for Medicare and Medicaid Services.

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

Table 10–2. PROPOSED PROGRAM INTEGRITY CAP ADJUSTMENT FOR THE INTERNAL REVENUE SERVICE (IRS)
(Budget authority/outlays/receipts in millions of dollars)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	10-year total
Proposed Adjustment Pursuant to the BBEDCA, as amended:											
Enforcement Base (budget authority)	8,784	8,874	8,966	9,058	9,151	9,246	9,341	9,437	9,534	9,632	92,023
Cap Adjustment:											
Budget Authority	362	749	1,098	1,450	1,806	1,893	1,895	1,904	1,912	1,921	14,990
Outlays	320	693	1,040	1,386	1,737	1,850	1,865	1,875	1,885	1,893	14,544
Receipt Increases from Discretionary Program Integrity Base Funding and Cap Adjustments: [1]											
Enforcement Base [2]	–57,000	–57,000	–57,000	–57,000	–57,000	–57,000	–57,000	–57,000	–57,000	–57,000	–570,000
Cap Adjustment [3]	–152	–787	–1,825	–3,033	–4,330	–5,554	–6,416	–6,931	–7,270	–7,505	–43,803
Net Savings from Proposed IRS Cap Adjustment: [1]	168	–94	–785	–1,647	–2,593	–3,704	–4,551	–5,056	–5,385	–5,612	–29,259

[1] Savings for IRS are revenue increases rather than spending reductions. They are shown as negatives for presentation and netting against outlays.
[2] No official estimate for FY 2019 enforcement revenue has been produced, so this figure is an approximation and included only for illustrative purposes.
[3] The IRS cap adjustment funds increases for existing enforcement initiatives and activities and new initiatives. The IRS enforcement program helps maintain the more than $3 trillion in taxes paid each year without direct enforcement measures. The cost increases will help maintain the base revenue while generating additional revenue through targeted program investments. The activities and new initiatives funded out of the cap adjustment will yield more than $43.8 billion in savings over ten years. Aside from direct enforcement revenue, the deterrence impact of these activities suggests the potential for even greater savings.

Proposed Adjustment Pursuant to BBEDCA, Internal Revenue Service (IRS) Program Integrity.—The Budget proposes to establish and fund a new adjustment to the discretionary caps for program integrity activities related to IRS program integrity operations starting in 2019, as shown in Table 10-2. The IRS base appropriation funds current tax administration activities, including all tax enforcement and compliance program activities, in the Enforcement and Operations Support accounts. The additional $362 million cap adjustment in 2019 funds new and continuing investments in expanding and improving the effectiveness and efficiency of the IRS's tax enforcement program. The activities are estimated to generate $44 billion in additional revenue over 10 years and cost approximately $15 billion resulting in an estimated net savings of $29 billion. Once the new enforcement staff are trained and become fully operational these initiatives are expected to generate roughly $4 in additional revenue for every $1 in IRS expenses. Notably, the ROI is likely understated because it only includes amounts received; it does not reflect the effect enhanced enforcement has on deterring noncompliance. This indirect deterrence helps to ensure the continued payment of over $3 trillion in taxes paid each year without direct enforcement measures.

Mandatory Program Integrity Initiatives.—The mandatory and receipt savings from other program integrity initiatives that are included in the 2019 Budget, beyond the expansion in resources resulting from the increases in administrative funding discussed above are shown in table 10-3. These savings total almost $158.4 billion over 10 years. These mandatory proposals to reduce improper payments reflect the importance of these issues to the Administration. Through these and other initiatives outlined in the Budget, the Administration can improve management efforts across the Federal Government.

Unemployment Insurance Program Integrity Package.—The Budget includes proposals aimed at improving integrity in the Unemployment Insurance (UI) program. The proposals would result in $49 million in PAYGO savings over 10 years, and would result in more than $1.8 billion in non-PAYGO savings, including an estimated $709 million reduction in State unemployment taxes, which would reduce revenues from State accounts within the Unemployment Insurance Fund. Included in this package are proposals to: allow for data disclosure to contractors for the Treasury Offset Program; expand State use of the Separation Information Data Exchange System (SIDES), which already improves program integrity by allowing States and employers to exchange information on reasons for a claimant's separation from employment and thereby helping States to determine UI eligibility; mandate the use of the National Directory of New Hires to conduct cross-matches for program integrity purposes; allow the Secretary to set corrective action measures for poor State performance; require States to cross-match claimants against the Prisoner Update Processing System (PUPS), which is currently used by some States; and allow States to retain five percent of overpayment and tax investigation recoveries to fund program integrity activities.

Reemployment Services and Eligibility Assessments (RESEA).—The Budget also includes a mandatory proposal to fund RESEA for one-half of all UI claimants profiled as most likely to exhaust benefits. The related Reemployment and Eligibility Assessment initiative was begun in 2005 to finance in-person interviews at American Job Centers (also known as "One-Stop Career Centers"), to assess UI beneficiaries' need for job finding services and their continued eligibility for benefits. Research, including a random-assignment evaluation, shows that a combination of eligibility reviews and reemployment services reduces the time on UI, increases earnings, and reduces improper payments to claimants

Table 10–3. MANDATORY AND RECEIPT SAVINGS FROM OTHER PROGRAM INTEGRITY INITIATIVES
(Deficit increases (+) or decreases (-) in millions of dollars)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	10-year total
Department of Health and Human Services:											
Cut Waste, Fraud, and Abuse in Medicare, Medicaid, and the Children's Health Insurance Program	–42	–62	–79	–79	–99	–89	–100	–110	–120	–135	–915
Department of Labor:											
Unemployment Insurance Program Integrity Package [1]	–83	–188	–211	–211	–174	–195	–181	–229	–194	–216	–1,882
PAYGO effects	*–11*	*–14*	*–6*	*–6*	*–3*	*–3*	*–2*	*–3*	*–4*	*3*	*–49*
Non-PAYGO effects	*–72*	*–174*	*–205*	*–205*	*–171*	*–192*	*–179*	*–226*	*–190*	*–219*	*–1,833*
Reemployment Services and Eligibility Assessments [1]	....	–73	–465	–440	–417	–445	–413	–346	–413	–277	–3,289
PAYGO effects	....	*232*	*241*	*251*	*260*	*270*	*280*	*289*	*299*	*310*	*2,432*
Non-PAYGO effects	....	*–305*	*–706*	*–691*	*–677*	*–715*	*–693*	*–635*	*–712*	*–587*	*–5,721*
Department of the Treasury:											
Increase oversight of paid tax return preparers [1]	–22	–31	–36	–39	–43	–47	–52	–57	–63	–67	–457
Provide more flexible authority for the IRS to address correctable errors [1]	–42	–63	–65	–66	–69	–70	–73	–75	–76	–79	–678
Social Security Administration (SSA):											
Preventing Improper Payments:											
Hold Fraud Facilitators Liable for Overpayments (non-PAYGO)	....	....	....	–1	–1	–1	–1	–1	....	–1	–6
Government Wide Use of CBP Entry/Exit Data to Prevent Improper Payment	....	....	–1	–4	–11	–17	–22	–31	–35	–42	–163
Government Wide Use of CBP Entry/Exit Data to Prevent Improper Payment (non-PAYGO)	....	....	....	–1	–2	–2	–3	–3	–4	–5	–20
Allow SSA to Use Commercial Databases to Verify Real Property Data in the Supplemental Security Income (SSI) Program	–26	–40	–50	–61	–62	–62	–70	–73	–77	–83	–604
Increase the Overpayment Collection Threshold for OASDI (non-PAYGO)	–11	–72	–91	–102	–124	–148	–167	–219	–233	–231	–1,398
Authorize SSA to Use All Collection Tools to Recover Funds in Certain Scenarios (non-PAYGO)	–1	–2	–2	–4	–4	–5	–6	–7	–7	–7	–45
Simplify the SSI	....	–347	–86	–68	–50	–29	–18	–6	6	19	–579
Improve Collection of Pension Information from States and Localities (non-PAYGO)	18	28	24	–441	–1,058	–1,505	–1,618	–1,534	–1,442	–1,332	–8,860
Additional Debt Collection Authority for Civil and Monetary Penalties and Assessments	....	....	....	....	....	....	....	....	....	....	....
Total SSA, Preventing Improper Payment Effects (PAYGO plus non-PAYGO)	*–20*	*–433*	*–206*	*–682*	*–1,312*	*–1,769*	*–1,905*	*–1,874*	*–1,792*	*–1,682*	*–11,675*
Subtotal, PAYGO effects	*–26*	*–387*	*–137*	*–133*	*–123*	*–108*	*–110*	*–110*	*–106*	*–106*	*–1,346*
Subtotal, Non-PAYGO effects	*6*	*–46*	*–69*	*–549*	*–1,189*	*–1,661*	*–1,795*	*–1,764*	*–1,686*	*–1,576*	*–10,329*
Exclude SSA debts from discharge in bankruptcy	–7	–15	–21	–25	–30	–32	–34	–35	–37	–39	–275
PAYGO effects	....	*–1*	*–2*	*–2*	*–3*	*–3*	*–3*	*–3*	*–4*	*–3*	*–24*
Non-PAYGO effects	*–7*	*–14*	*–19*	*–23*	*–27*	*–29*	*–31*	*–32*	*–33*	*–36*	*–251*
Government-wide:											
Reduce Improper Payments Government-wide (non-PAYGO)	....	–719	–1,482	–2,383	–4,288	–4,549	–9,652	–20,480	–38,024	–57,633	–139,210
Total, Mandatory and Receipt Savings	**–216**	**–1,584**	**–2,565**	**–3,925**	**–6,432**	**–7,196**	**–12,410**	**–23,206**	**–40,719**	**–60,128**	**–158,381**
PAYGO Savings	*–143*	*–326*	*–84*	*–74*	*–80*	*–50*	*–60*	*–69*	*–74*	*–77*	*–458*
Non-PAYGO Savings	*–73*	*–1,258*	*–2,481*	*–3,851*	*–6,352*	*–7,146*	*–12,350*	*–23,137*	*–40,645*	*–60,051*	*–157,344*

[1] The estimate for this proposal includes effects on receipts in addition to changes in outlays; the net effect shown is a decrease in the deficit. Receipt effects by proposal can be seen in table S-6, Mandatory and Receipt Proposals, in the main 2019 Budget volume.

who are not eligible for benefits. Based on this research, the Budget proposes to expand funding for the RESEA initiative to allow States to conduct robust reemployment services along with RESEAs. These reemployment services may include the development of reemployment and work search plans, provision of skills assessments, career counseling, job matching and referrals, and referrals to training as appropriate.

The Budget proposal includes $2.4 billion in PAYGO spending for States to provide RESEA services to focus on UI claimants identified as most likely to exhaust their UI benefits and on newly separated veterans claiming unemployment compensation for ex-service members (UCX), resulting in net non-PAYGO deficit reduction of $5.7 billion. These savings consist of reductions in UI benefit payments of an estimated $7.3 billion, as well as a net reduction in business taxes of $1.4 billion. In total, this proposal is estimated to reduce the deficit by $3.3 billion over 10 years.

Because most unemployment claims are now filed by telephone or online, in-person assessments conducted in the Centers can help determine the continued eligibility for benefits and the adequacy of work search, verify the identity of beneficiaries where there is suspicion of possible identity theft, and provide a referral to reemployment assistance for those who need additional help. The benefit savings from this initiative are short-term because the maximum UI benefit period is limited, typically 26 weeks for regular State UI programs.

Preventing Improper Payments in Social Security.—Overall, the Budget proposes legislation that would avert close to $11.68 billion in improper payments in Social Security over 10 years. While much of this savings is considered off-budget and would be non-PAYGO, about $1.35 billion from various proposals would be PAYGO savings**.**

- ***Hold Fraud Facilitators Liable for Overpayments.*** The Budget proposes to hold fraud facilitators liable for overpayments by allowing SSA to recover the overpayment from a third party if the third party was responsible for making fraudulent statements or providing false evidence that allowed the beneficiary to receive payments that should not have been paid. This proposal would result in an estimated $6 million in savings over 10 years.

- ***Government-wide Use of Custom and Border Protection (CBP) Entry/Exit Data to Prevent Improper Payments.*** The Budget proposes the use of CBP Entry/Exit data to prevent improper OASDI and Supplemental Security Insurance (SSI) payments. Generally, U.S. citizens can receive benefits regardless of residence. Non-citizens may be subject to additional residence requirements depending on the country of residence and benefit type. However, an SSI beneficiary who is outside the United States for 30 consecutive days is not eligible for benefits for that month. These data have the potential to be useful across the Government to prevent improper payments. This proposal would result in an estimated $183 million in savings over 10 years.

- ***Allow SSA to Use Commercial Databases to Verify Real Property Data in the SSI Program.*** The Budget proposes to reduce improper payments and lessen recipients' reporting burden by authorizing SSA to use private commercial databases to check for ownership of real property (i.e. land and buildings), which could affect SSI eligibility. Consent to allow SSA to access these databases would be a condition of benefit receipt for new beneficiaries and current beneficiaries who complete a determination. All other current due process and appeal rights would be preserved. This proposal would result in savings of $604 million over 10 years.

- ***Increase the Overpayment Collection Threshold for OASDI.*** The Budget would change the minimum monthly withholding amount for recovery of Social Security benefit overpayments to reflect the increase in the average monthly benefit since the Agency established the current minimum of $10 in 1960. By changing this amount from $10 to 10% of the monthly benefit payable, SSA would recover overpayments more quickly and better fulfill its stewardship obligations to the combined Social Security Trust Funds. The SSI program already utilizes the 10% rule. Debtors could still pay less if the negotiated amount would allow for repayment of the debt in 36 months. If the beneficiary cannot afford to have his or her full benefit payment withheld because he or she cannot meet ordinary and necessary living expenses, the beneficiary may request partial withholding. To determine a proper partial withholding amount, SSA negotiates (as well as re-negotiates at the overpaid beneficiary's request) a partial withholding rate. This proposal would result in savings of almost $1.4 billion over 10 years.

- ***Authorize SSA to Use All Collection Tools to Recover Funds in Certain Scenarios.*** The Budget also proposes to allow SSA a broader range of collection tools when someone improperly receives a benefit after the beneficiary has died. Currently, if a spouse cashes a benefit payment (or does not return a directly deposited benefit) for an individual who has died and the spouse is also not receiving benefits on that individual's record, SSA has more limited collection tools available than would be the case if the spouse also receives benefits on the deceased individual's earning record. The Budget proposal would end this disparate treatment of similar types of improper payments and results in an estimated $45 million in savings over 10 years.

- ***SSI Simplification***. The Budget proposes changes to simplify the SSI program by incentivizing support from recipients' family and friends, reducing SSA's administrative burden, and streamlining requirements for applicants. SSI benefits are reduced by the amount of food and shelter, or in-kind support and maintenance, a beneficiary receives. The policy is burdensome to administer and is a leading source of SSI improper payments. The Budget proposes to replace the complex calculation of in-kind support and maintenance with a flat rate reduction for adults living with other adults to capture economies of scale. The Budget also proposes to eliminate dedicated accounts for past due benefits and to eliminate the administratively burdensome consideration whether a couple is holding themselves out as married. The proposal saves $579 million over 10 years.

- ***Improve Collection of Pension Information from States and Localities***. The Budget proposes a data collection approach designed to provide seed money to the States for them to develop systems that will enable them to report pension payment information to SSA. The proposal would improve reporting for non-covered pensions by including up to $70 million for administrative expenses, $50 million of which would be available to the States, to develop a mechanism so that the Social Security Administration can enforce the current law offsets for the Windfall Elimination Provision and Government Pension Offset, which are a major source of improper payments. The proposal will save $8.86 billion over 10 years.

- ***Additional Debt Collection Authority for SSA Civil Monetary Penalties and Assessments***. This proposal would assist SSA with ensuring the integrity of its programs and increase SSA recoveries by establishing statutory authority for the SSA to use the same debt collection tools available for recovery of delinquent overpayments toward recovery of delinquent CMP and assessments.

Cut Waste, Fraud, and Abuse in Medicare, Medicaid, and the Children's Health Insurance Program.—The Budget includes a robust package of Medicare and Medicaid program integrity proposals to help prevent fraud and abuse before they occur; detect fraud and abuse as early as possible; provide greater flexibility to the Secretary of Health and Human Services to implement program integrity activities that allow for efficient use of resources and achieve high return-on-investment; and promote integrity in Federal-State financing. For example, the Budget proposes to strengthen tools available to States and Territories that ensure providers who intend to engage in fraudulent or abusive activities do not enroll in Medicare, Medicaid, or the Children's Health Insurance Program. The Budget also includes several proposals aimed at strengthening the authorities and tools that CMS has to ensure that the Medicare program only pays those providers and suppliers who are eligible and who furnish items and services that are medically necessary to the care of beneficiaries. The package of program integrity proposals will help prevent inappropriate payments, eliminate wasteful Federal and State spending, protect beneficiaries, and reduce time-consuming and expensive "pay and chase" activities. Together, the CMS program integrity authority would net approximately $915 million in savings over 10 years. Additional information on the Medicare and Medicaid program integrity proposals are found in the Major Savings and Reforms volume.

Improving the Prevention of Improper Payments.—The Budget prioritizes focusing on improper payments that result in a monetary loss to the government. Specifically, by 2028 the Budget proposes to increase the prevention of improper payments through a series of actions to improve payment accuracy and financial performance over the budget horizon. Overall, savings are estimated to be approximately $139 billion over 10 years.

Other Program Integrity Initiatives.

Data Analytics to Improve Payment Accuracy.—At the core of Government-wide data analytics to improve payment accuracy is the Treasury Do Not Pay Business Center which includes a system that provides agencies a single-point of entry to access data and matching services to help detect, prevent, and recover improper payments during the award or payment lifecycle. Additional examples of agencies using data to improve payment accuracy include the Centers for Medicare & Medicaid Services' (CMS) Fraud Prevention System (FPS), a state-of-the-art predictive analytics technology used to identify and prevent fraud in the program; the Department of Defense Business Activity Monitoring tool; and the Department of Labor's Unemployment Insurance (UI) Integrity Center for Excellence, a Federal-State partnership which facilitates the development and implementation of integrity tools that help detect and reduce improper payments in state run programs.

The effective use of data analytics has provided insight into methods of reducing costs and improving performance and decision-making capabilities. The Treasury Do Not Pay Business Center has 56 agencies performing matches against several databases (e.g., Death Master File, System for Award Management, Treasury Debt Check). In 2017, agencies screened over $1.3 trillion payments through the Do Not Pay Business Center using their payment integration function. While the vast majority of these payments were determined to be proper, the Office of Personnel Management alone, for example, stopped over $25 million in improper payments using the system. In addition to the Treasury Do Not Pay Business Center, the agency-specific integrity centers have demonstrated solid returns. Currently, SSA has 23 computer matching agreements that generate over $7 billion in annual savings. During 2016, the Department of Health and Human Services took administrative action against 1,044 providers and suppliers as a result of the CMS FPS, resulting in an estimated $527 million in identified savings. In 2017, DOD's BAM tool prevented $1.4 billion in improper payments in the Department commercial payment systems.

The Administration is continuing to pursue opportunities to improve information sharing by developing or enhancing policy guidance, ensuring privacy protection, and developing legislative proposals to leverage available information and technology in determining benefit eligibility and other opportunities to prevent improper payments.

Amend the Computer Matching Privacy Protection Act for the Department of the Treasury.—Agencies can experience significant bureaucratic challenges when working to implement certain components of the Computer Matching Act. For example, the process of signing an interagency computer matching agreement can take as long as 14 months as multiple levels of leadership sign the agreement. These issues are costly both in terms of improper payments that go undetected as well as the staff time that is needed to resolve them. The Budget proposes legislative changes to exempt the Do Not Pay Business Center at the Department of Treasury from components of the Computer Matching Act for activities designed to help agencies identify, prevent, and reduce improper payments. This proposal will protect citizen privacy while also saving administrative costs and help agencies to more readily leverage data-centric internal controls.

Exclude SSA Debts from Discharge in Bankruptcy.—Debts due to an overpayment of Social Security benefits are generally dischargeable in bankruptcy. The Budget includes a proposal to exclude such debts from discharge in bankruptcy, except when it would result in an undue hardship. This proposal would help ensure program integrity by increasing the amount of overpayments SSA recovers and would save $275 million over the 2019 through 2028 window.

Increase Oversight of Paid Tax Preparers.—This proposal would give the IRS the statutory authority to increase its oversight of paid tax return preparers. As more taxpayers use paid preparers, the quality of the preparers has a dramatic impact on whether taxpayers follow tax laws. Increasing the quality of paid preparers lessens the need for after-the-fact enforcement of tax laws and increases the amount of revenue that the IRS can collect. This proposal saves $457 million over the 2019 through 2028 period.

Provide the IRS with Greater Flexibility to Address Correctable Errors.—The Budget proposes to give the IRS expanded authority to correct errors on taxpayer returns. Current law only allows the IRS to correct errors on returns in certain limited instances, such as basic math errors or the failure to include the appropriate Social Security Number or Taxpayer Identification Number. This proposal would expand the instances in which the IRS could correct a taxpayer's return. For example, with this new authority, the IRS could deny a tax credit that a taxpayer had claimed on a tax return if the taxpayer did not include the required paperwork, or where government databases showed that the taxpayer-provided information was incorrect. This proposal would save $678 million over the 2019 through 2028 window.

Develop Accurate Cost Estimates.—OMB works with Federal agencies and the Congressional Budget Office (CBO) to develop PAYGO estimates for mandatory programs. OMB has issued guidance to agencies for scoring legislation under the statutory PAYGO Act of 2010. This guidance states that agencies must score the effects of program legislation on other programs if the programs are linked by statute. (For example, effects on Medicaid spending that are due to statutory linkages in eligibility for Supplemental Security Income benefits must be scored.) In addition, even when programs are not linked by statute, agencies may score effects on other programs if those effects are significant and well documented. Specifically, the guidance states: "Under certain circumstances, estimates may also include effects in programs not linked by statute where such effects are significant and well documented. For example, such effects may be estimated where rigorous experimental research or past program experience has established a high probability that changes in eligibility or terms of one program will have significant effects on participation in another program."

Disaster Relief Funding

Section 251(b)(2)(D) of BBEDCA includes a provision to adjust the discretionary caps for appropriations that the Congress designates in statute as provided for disaster relief. The law allows for a fiscal year's discretionary cap to be increased by no more than the average funding provided for disaster relief over the previous 10 years, excluding the highest and lowest years. The ceiling for each year's adjustment (as determined by the 10-year average) is then increased by the unused amount of the prior year's ceiling (excluding the portion of the prior year's ceiling that was itself due to any unused amount from the year before). Disaster relief is defined as activities carried out pursuant to a determination under section 102(2) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5122(2)) for major disasters declared by the President.

As required by law, OMB included in its Sequestration Update Report for 2018 a preview estimate of the 2018 adjustment for disaster relief. The ceiling for the disaster relief adjustment in 2018 was calculated to be $7,366 million. At the time the Budget was prepared, the Government was operating under a continuing resolution set in the Continuing Appropriations Act, 2018 (division D of Public Law 115-56, as amended by division A of Public Laws 115-90 and 115-96) (the "CR"). The CR had provided for 2018 a continuing appropriation of $6,713 million for the Federal Emergency Management Agency's Disaster Relief Fund (DRF). If final 2018 appropriations affirm this allocation with a final appropriation of $6,713 million for the DRF, this would fall $653 million below the ceiling available in 2018. Table 10-4 shows the statutory cap and the actual appropriations provided from 2012 through the current budget year, 2018.

OMB must include in its Sequestration Update Report for 2019 a preview estimate of the ceiling on the adjustment for disaster relief funding for 2019. This estimate will contain an average funding calculation that incorporates three years (2009 through 2011) using the definition of disaster relief from OMB's September 1, 2011 report and seven years using the funding the Congress designated in 2012 through 2018 for disaster relief pursuant to BBEDCA excluding the highest and lowest years. As noted above, the 2018 appropriation may be $653 million below the ceiling for 2018; therefore, this amount would be carried forward from 2018 into the 2019 preview estimate that will be included in OMB's August 2018 Sequestration Update Report for Fiscal Year 2019. Currently, based on continuing appropriations, OMB estimates the total adjustment available for disaster funding for 2019 at $7,386 million. Any revisions necessary to account for final 2018 appropriations will be included in the 2019 Sequestration Update Report.

At this time, the Administration is requesting $6,652 million in funding for FEMA's DRF in 2019 to cover the costs of Presidentially declared major disasters, including identified costs for previously declared catastrophic events (defined by FEMA as events with expected costs that total more than $500 million) and the predictable an-

Table 10–4. DISASTER RELIEF CAP ADJUSTMENT - HISTORICAL DATA AND CURRENT LAW
(Budget authority in millions of dollars)

	2012	2013	2014	2015	2016	2017	2018
Total Possible Cap Adjustment (statutory cap)	11,252	11,779	12,143	18,430	14,125	8,129	7,366
Annual Appropriations*	10,453	11,779	5,626	6,529	7,643	8,129	6,713
Difference	**799**	....	**6,517**	**11,901**	**6,482**	....	**653**

*2018 amount under a Continuing Resolution

nual cost of non-catastrophic events expected to obligate in 2019. For this program, the Budget requests funding for both known needs based on expected costs of prior declared disasters and the typical average expenditures in these programs. This is consistent with past practice of requesting and funding these as part of regular appropriations bills. Also consistent with past practice, the 2019 request level does not seek to pre-fund anticipated needs in other programs arising out of disasters that have yet to occur, nor does the Budget seek funding for potential catastrophic needs. As additional information about the need to fund prior or future disasters becomes available, additional requests, in the form of either 2018 supplemental appropriations (designated as either disaster relief or emergency requirements pursuant to BBEDCA), or amendments to the Budget, may be transmitted.

Under the principles outlined above, the Administration does not have adequate information about known or future requirements necessary to estimate the total amount that will be requested in future years as disaster relief. Accordingly, the Budget does not explicitly request to use the BBEDCA disaster designation in any year after the budget year. Instead, a placeholder for disaster relief is included in each of the outyears that is equal to the current 2019 request. This funding level does not reflect a specific request but a placeholder amount that, along with other outyear appropriations levels, will be decided on an annual basis as part of the normal budget development process. However, as is discussed below, notwithstanding this placeholder, the Administration does propose to address the declining cap under which disaster relief funds are requested.

Declining Disaster Relief Cap Adjustment

As is discussed under the Disaster Relief Funding section above, the Budget Control Act of 2011 established the formula for calculating an annual allowance up to which the discretionary spending limits could be adjusted for disaster-related appropriations, commonly discussed as the disaster cap adjustment. Since then, each Budget has requested Congress provide resources adequate to fund the budget year's: (1) anticipated Federal obligations for previously declared major disasters, (2) estimated obligations for non-catastrophic disasters, and (3) a limited contingency amount in recognition of the risk of an above-average year of disaster activity. During the same period, the allowable adjustment for disaster relief appropriations has declined to levels that approximate the Federal disaster assistance budget request. The annual disaster cap adjustment will soon be insufficient to cover the projected costs of future major disasters. The decline in the cap adjustment results from relatively modest annual disaster appropriations since 2011 coupled with high-cost response and recovery efforts such as Hurricane Katrina aging out of the rolling 10-year look-back window used in the cap adjustment formula. The extraordinary levels of funding provided for the catastrophic Atlantic hurricanes in 2017 for example, do not contribute to an increase in the cap adjustment under the formula. Inflation, urbanization, and other factors are expected to contribute to increasing future response and recovery costs.

The Administration recommends amending the disaster cap adjustment formula to improve the annual allowance by pegging disaster spending at levels that better reflect the unpredictable nature of disaster response and recovery costs. These steps will ensure that the Federal Government can mount a quick and sustained response to catastrophic disasters while more extensive deliberations over long-term recovery needs take place, an effort that would be frustrated if the allowance falls below projected costs as expected. Two changes will improve the allowance formula in future years: (1) adding all unspent “carryover” balances currently excluded by the formula to future annual cap adjustments until expended, and (2) adding to future annual cap adjustments five percent of emergency appropriations provided for Stafford Act-declared disasters since the creation of the disaster cap formula.

Maintaining unused “carryover” balances would ensure that the annual allowance accurately reflects the unpredictable nature of disasters. Since the pattern of disaster activity is erratic, several years of disaster relief appropriations that were below the calculated allowance have resulted in a drop in future years' projected cap adjustments, even without a reduction in the average magnitude of expected disaster costs. As a result, the funding that will likely be required for future catastrophic disasters will exceed the amounts permitted as a cap adjustment under the current law calculation.

Incorporating five percent of the total spending from emergency supplemental appropriations provided above the disaster cap would further improve the accuracy of the formula by providing a countercyclical stabilizer for the annual disaster cap adjustment. Emergency supplemental appropriations are provided for Stafford Act-declared disasters when the disaster cap adjustment is not sufficient to address the response and recovery needs of a catastrophic disaster. Even though these emergency supplemental appropriations are necessary to address disaster response and recovery needs, under current law they are excluded from the current disaster cap adjustment formula. By adjusting the disaster cap formula to include five percent of emergency supplemental appropriations, the result would better reflect the likely requirements for future disaster response and recovery.

Proposed Adjustments to the Discretionary Spending Limits for Wildfire Suppression Operations at the Departments of Agriculture and the Interior

Wildfires naturally occur on public lands throughout the country. The cost of fighting wildfires has increased due to landscape conditions resulting from drought, pest and disease damage, overgrown forests, expanding residential and commercial development near the borders of public lands, and program management decisions. When these costs exceed the funds appropriated, the Federal Government covers the shortfall through transfers from other land management programs. For example, in 2017, Forest Service wildfire suppression spending reached a record $2.4 billion, necessitating transfers of $527 million from other non-fire programs. Historically, these transfers have been repaid in subsequent appropriations; however, “fire borrowing” impedes the missions of land management agencies to reduce the risk of catastrophic fire and restore and maintain healthy functioning ecosystems.

To resolve concerns about the sufficiency of funding wildfire suppression, the Budget provides funding of $1,553 million under the 2019 discretionary cap to responsibly fund 100 percent of the rolling 10-year average cost for these wildfire suppression activities in the Departments of Agriculture and the Interior within the discretionary budget caps. Similar to how unanticipated funding needs for other natural disasters are addressed, the Budget also proposes to amend BBEDCA and to establish a separate annual cap adjustment for wildfire suppression operations. The Budget requests $1,519 million in additional appropriations from this cap adjustment in 2019 - the full amount that would be authorized under the Administration’s proposal - to ensure that adequate resources are available to fight wildland fires, protect communities, and safeguard human life during the most severe wildland fire season. Table 10-5 shows the Administrations proposed statutory cap adjustment of $2,068 million, phased in over nine years. For the years after 2019, the Administration does not have sufficient information about future wildfire suppression needs and, therefore, includes a placeholder for wildfire suppression in each of the outyears that is equal to the current 2019 request. Actual funding levels, up to but not exceeding the proposed cap adjustments, will be decided on an annual basis as part of the normal budget process.

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

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

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

The Administration supports limiting and ultimately phasing out the use of CHIMPs with no outlay savings. Congress has started to reduce the reliance on such CHIMPs by setting decreasing limits in the budget resolution of $17.0 billion in 2018, $15.0 billion in 2019, and $15.0 billion in 2020. The Budget supports these efforts and limits the use of CHIMPs with no outlay savings to $13.3 billion in 2019.

Limit on Discretionary Advance Appropriations

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

There are legitimate policy reasons to use advance appropriations to fund programs. However, advance appropriations can also be used in situations that lack a programmatic justification, as a gimmick to make room for expanded funding within the discretionary spending limits on budget authority for a given year under BBEDCA. For example, some education grants are for-

Table 10–5. PROPOSED WILDFIRE SUPPRESSION OPERATIONS FUND UNITED STATES DEPARTMENTS OF AGRICULTURE AND THE INTERIOR

(Budget authority in millions of dollars)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	10-year total
Proposed Adjustment Pursuant to the BBEDCA, as amended:											
Authorized level, proposed	1,519	1,603	1,683	1,759	1,831	1,898	1,960	2,017	2,068	2,068	18,406

ward funded (available beginning July 1 of the fiscal year) to provide certainty of funding for an entire school year, since school years straddle Federal fiscal years. This funding is recorded in the budget year because the funding is first legally available in that fiscal year. However, $22.6 billion of this funding is advance appropriated (available beginning three months later, on October 1) rather than forward funded. Prior Congresses increased advance appropriations and decreased the amounts of forward funding as a gimmick to free up room in the budget year without affecting the total amount available for a coming school year. This gimmick works because the advance appropriation is not recorded in the budget year but rather the following fiscal year. However, it works only in the year in which funds switch from forward funding to advance appropriations; that is, it works only in years in which the amounts of advance appropriations for such "straddle" programs are increased.

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

The Budget includes $27,870 million in advance appropriations for 2020 and freezes them at this level in subsequent years. In this way, the Budget does not employ this potential gimmick. Moreover, the Administration supports limiting advance appropriations to the proposed level for 2020, below the limits included in sections 4101 and 5104 for the Senate and the House, respectively, of the Concurrent Resolution on the Budget for Fiscal Year 2018 (H. Con. Res. 71). Those limits apply only to the accounts explicitly specified in the joint explanatory statement of managers accompanying H. Con. Res. 71.

In addition, the Administration would allow discretionary advance appropriations for veterans medical care, as is required by the Veterans Health Care Budget Reform and Transparency Act (P.L. 111-81). The veterans medical care accounts in the Department of Veterans Affairs (VA) currently comprise Medical Services, Medical Support and Compliance, Medical Facilities, and Medical Community Care. The level of advance appropriations funding for veterans medical care is largely determined by the VA's Enrollee Health Care Projection Model. This actuarial model projects the funding requirement for over 90 types of health care services, including primary care, specialty care, and mental health. The remaining funding requirement is estimated based on other models and assumptions for services such as readjustment counseling and special activities. VA has included detailed information in its Congressional Budget Justifications about the overall 2020 veterans medical care funding request.

For a detailed table of accounts that have received discretionary and mandatory advance appropriations since 2017 or for which the Budget requests advance appropriations for 2020 and beyond, please refer to the Advance Appropriations chapter in the *Appendix*.

Pell Grants

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

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

- The Pell Grant program acts like an entitlement program, such as the Supplemental Nutrition Assistance Program or Supplemental Security Income, in which everyone who meets specific eligibility requirements and applies for the program receives a benefit. Specifically, Pell Grant costs in a given year are determined by the maximum award set in statute, the number of eligible applicants, and the award for which those applicants are eligible based on their needs and costs of attendance. The maximum Pell award for the academic year 2017-2018 is $5,920, of which $4,860 was established in discretionary appropriations and the remaining $1,060 in mandatory funding is provided automatically by the College Cost Reduction and Access Act (CCRAA), as amended. The maximum award for 2018-2019 will be finalized when Congress enacts full year appropriations for 2018.

- The cost of each Pell Grant is funded by discretionary budget authority provided in annual appropriations acts, along with mandatory budget authority provided not only by the CCRAA, as amended, and the BCA, but also by amendments to the Higher Education Act of 1965 contained in the 2011 and 2012 appropriations acts. There is no programmatic 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 the appropriations provided. If the costs during one academic year are higher than provided for in that year's appropriation, the Department of Education funds the extra costs with the subsequent year's appropriation.[1]

- To prevent deliberate underfunding of Pell costs, in 2006 the congressional and Executive Branch score-

[1] 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

keepers agreed to a special scorekeeping rule for Pell. Under this rule, the annual appropriations bill is charged with the full Congressional Budget Office estimated cost of the Pell Grant program for the budget year, plus or minus any cumulative shortfalls or surpluses from prior years. This scorekeeping rule was adopted by the Congress as §406(b) of the Concurrent Resolution on the Budget for Fiscal Year 2006 (H. Con. Res. 95, 109th Congress).

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

The total cost of Pell Grants can fluctuate from year to year, even with no change in the maximum Pell Grant award, because of changes in enrollment, college costs, and student and family resources. In general, the demand for and costs of the program are countercyclical to the economy; more people go to school during periods of higher unemployment, but return to the workforce as the economy improves. In fact, the program experienced a spike in enrollment and costs during the most recent recession, reaching a peak of 9.4 million students in 2011. This spike required temporary mandatory or emergency appropriations to fund the program well above the level that could have been provided as a practical matter by the regular discretionary appropriation. Since 2011, enrollment and costs have continued to decline, and the funding provided has lasted longer than anticipated. In 2018, the Budget proposed and Congress enacted Year-Round Pell, which provides a third semester of Pell Grant support to recipients who have exhausted their eligibility for the award year and wish to enroll in additional coursework. The 2018 Budget projected that this provision would increase program costs by $1.5 billion in 2018. Assuming no changes in current policy, the 2019 Budget baseline expects program costs to stay within available resources, which include the discretionary appropriation, budget authority carried forward from the previous year, and extra mandatory funds, until 2025 (see Table 10-6). These estimates have changed significantly from year to year, which illustrates continuing uncertainty about Pell program costs, and the year in which a shortfall will reemerge.

The 2019 Budget reflects the Administration's commitment to ensuring students receive the maximum Pell Grant for which they are eligible, and to expanding options available to pursuing postsecondary education and training. First, the Budget provides sufficient resources to fully fund Pell Grants in the award years covered by the budget year, and subsequent years, including the funds needed to continue support of year-round Pell grants. The Budget provides $22.5 billion in discretionary budget authority in 2019, the same as the 2017 enacted appropriation. Level-funding Pell in 2019, combined with available budget authority from the previous year and mandatory funding provided in previous legislation, provides $8.1 billion more than is needed to fully fund the program in the 2019-20 award year.

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 2019 appropriation, for instance, will support the 2019-2020 academic year beginning in July 2019 but will become available in October 2018 and can therefore help cover any shortages that may arise in funding for the 2018-2019 academic year.

Table 10–6. DISCRETIONARY PELL FUNDING NEEDS

(Dollars in billions)

Discretionary Pell Funding Needs (Baseline)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Estimated Program Cost for $4,860 Maximum Award	24.0	24.3	24.6	25.0	25.4	25.7	26.2	26.6	27.0	27.4
Cumulative Incoming Surplus [1]	8.2	....	....	....	....	....	....	....	....	....
Mandatory Budget Authority Available	1.4	1.4	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Total Additional Budget Authority Needed	14.4	22.8	23.4	23.8	24.2	24.6	25.0	25.5	25.9	26.3
Fund Pell at 2017 Enacted Level	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5
Surplus/(Funding Gap) from Prior Year		8.1	7.8	6.8	5.5	3.7	1.6	–0.9	–3.9	–7.3
Cumulative Surplus/Discretionary Funding Gap (–)	8.1	7.8	6.8	5.5	3.7	1.6	–0.9	–3.9	–7.3	–11.2
Effect of 2019 Budget Policies										
Expand Pell to Short-Term Programs	–0.1	–0.1	–0.1	–0.2	–0.2	–0.2	–0.2	–0.2	–0.2	–0.2
Fund Iraq and Afghanistan Service Grants through Pell	....	....	–*	–*	–*	–*	–*	–*	–*	–*
Cancellation of Unobligated Balances	–1.6	....	....	....	....	....	....	....	....	....
Mandatory Funding Shift [2]	–*	–*	–*	–*	–*	–*	–*	–0.1	–0.1	–0.1
Surplus/Funding Gap from Prior Year		6.4	5.9	4.7	3.2	1.2	–1.2	–3.9	–7.2	–10.8
Cumulative Surplus/(Discretionary Funding Gap)	6.4	5.9	4.7	3.2	1.2	–1.2	–3.9	–7.2	–10.8	–14.9

* Less than $50 million.

[1] The 2019 incoming surplus assumes an annualized 2018 appropriation of $22.3 billion, as provided under the Continuing Appropriations Act of 2018.

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

In light of these additional resources, the Budget proposes a cancellation of $1.6 billion from the unobligated carryover from 2018. Then, with significant budget authority still available in the program, the Budget also proposes legislative changes to provide more postsecondary pathways by expanding Pell Grant eligibility to high-quality short-term training programs. This will help low-income or out-of-work individuals access training programs that can equip them with skills to secure well-paying jobs in high-demand fields more quickly than traditional 2-year or 4-year degree programs. The Budget also proposes moving Iraq and Afghanistan Service Grants (IASG) into the Pell program, which will exempt those awards from cuts due to sequestration and also streamline the administration of the programs. The expansion of Pell Grants to short-term programs and the costs of incorporating IASG increases future discretionary Pell program costs by $1.7 billion over 10 years (see Table 10–6). With the proposed cancellation and this increase, the Pell program still is expected to have sufficient discretionary funds until 2024; a cancellation of unobligated balances such as that proposed in the 2018 Budget could bring this date forward by one to two years.

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

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

To deal with the drawbacks of the current Federal approach, the Budget proposes: (1) to create a Federal Capital Revolving Fund (FCRF) to fund large-dollar, Federally-owned, civilian real property capital projects; and (2) provide specific budget enforcement rules for the FCRF that would allow it to function, in effect, like State and local government capital budgets. This proposal incorporates principles that are central to the success of capital budgeting at the State and local level -- a limit on total funding for capital investment, annual decisions on the allocation of funding for capital projects, and spreading the acquisition cost over 15 years in the discretionary operating budgets of agencies that purchase the assets. As part of the overall 2019 Budget infrastructure initiative, the FCRF would be capitalized initially by a $10 billion mandatory appropriation, and scored with anticipated outlays over the 10-year window for the purposes of pay-as-you-go budget enforcement rules. Balances in the FCRF would be available for transfer to purchasing agencies to fund large-dollar capital acquisitions to the extent projects are designated in advance in appropriations Acts and the agency receives a discretionary appropriation for the first of a maximum of 15 required annual repayments. If these two conditions are met, the FCRF would transfer funds to the purchasing agency to cover the full cost to acquire the capital asset. Annual discretionary repayments by purchasing agencies would replenish the FCRF and would become available to fund additional capital projects. Total annual capital purchases would be limited to the lower of $2 billion or the balance in the FCRF.

The flow of funds for the purchase of an office building costing $2.0 billion and the proposed scoring are illustrated in Chart 10–1. Current budget enforcement rules would require the entire $2.0 billion to be scored as discretionary BA in the first year, which would negate the benefit of the FCRF and leave agencies and policy makers facing the same trade-off constraints. As shown in Chart 10–1, under this proposal, transfers from the FCRF to agencies to fund purchases and the actual purchases by agencies would be scored as direct spending (shown as mandatory in Chart 10–1), while agencies would use discretionary appropriations to fund the annual repayments to the FCRF. This proposed allocation of cost between direct spending and discretionary spending would mean that the up-front cost of capital investment would already be reflected in the Budget as direct spending, and would not have to compete with operating expenses in the an-

Chart 10-1. Illustrative Scoring of $2 Billion Purchase using the Federal Capital Revolving Fund

Federal Capital Revolving Fund

	Year 1	Years 2-15
Mandatory:		
Transfer to purchasing agency to buy building…………..……..	2,000	
Purchasing agency repayments…	-133	-1,867

Purchasing Agency

	Year 1	Years 2-15
Mandatory:		
Collection of transfer from Federal Capital Revolving Fund……..…….	-2,000	
Payment to buy building……….…..	2,000	
Discretionary:		
Repayments to Federal Capital Revolving Fund……..…….	133	1,867

Total Government-Wide Deficit Impact

	Year 1	Years 2-15	Total
Mandatory:			
Purchase building……………………..……..	2,000		2,000
Collections from purchasing agency……..…..	-133	-1,867	-2,000
Discretionary:			
Purchasing agency repayments……..…..…….	133	1,867	2,000
Total Government-wide…………..…..………….	2,000	---	2,000

nual appropriations process. Instead, the trade off on the discretionary side of the budget would be the incremental annual cost of repaying the FCRF over 15-years. Knowing that future discretionary appropriations will have to be used to repay the FCRF would provide an incentive for agencies, OMB, and the Congress to select projects with the highest mission criticality and returns. OMB would review agencies' proposed projects for inclusion in the President's Budget, 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 projects, that is similar to capital budgets used by private companies and State and local governments.

Fast Track Spending Reductions

The Executive Branch has a responsibility to review Federal spending and make recommendations when it is not in the best interest of taxpayers. The President's Budget proposes redirecting funding away from programs where the goals have been met, or where funds are not being used efficiently to target higher priority needs. In the Budget, the President proposes cancellations, or reductions in budgetary resources. Such cancellations are not subject to the requirements of title X of the Impoundment Control Act of 1974 ("ICA"; 2 U.S.C. 601-88). Amounts proposed for cancellation may not be withheld from obligation pending enactment into law.

Alternatively, the President may propose permanent rescissions of budgetary resources pursuant to the ICA. In such cases, the ICA requires that the President transmit a special message to the Congress. Congress is not required to act on rescissions proposed under the ICA, however. The Administration is interested in working with Congress to enhance the shared goal of reducing Government spending where it no longer serves the interest of taxpayers. For example, the Administration would consider legislative proposals that ease the President's ability to reduce unnecessary spending through expedited rescission procedures.

II. BUDGET ENFORCEMENT AND BUDGET PRESENTATION

Statutory PAYGO

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

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

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

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

As was the case during an earlier PAYGO enforcement regime in the 1990s, the PAYGO sequestration has not been required since the PAYGO Act reinstated the statutory PAYGO requirement. Since PAYGO was reinstated, OMB's annual PAYGO reports showed net savings in the budget year column of both the 5- and 10-year scorecards. For the first session of the 115th Congress, the most recent session, enacted legislation placed costs of $1,089 million in each year of the 5-year scorecard and $653 million in each year of the 10-year scorecard. The new costs lowered the balances of savings from prior sessions of the Congress in the budget year column, and resulted in total net savings of $2,490 million in the 2018 column on the 5-year scorecard, and $13,815 million in the 2018 column on the 10-year scorecard, so no sequestration was required.[2]

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

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

Estimating the Impacts of Debt Service

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

Administrative PAYGO

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

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

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

Revenue Provisions Extended in Adjusted Baseline.—The Tax Cuts and Jobs Act provided comprehensive tax reform for individuals and corporations. The Administration's adjusted baseline assumes permanent extension of the individual income tax and estate and gift tax provisions enacted in that Act that are currently set to expire at the end of 2025. These expirations were included in the tax bill not because these provisions were intended to be temporary, but in order to comply with reconciliation rules in the Senate. Assuming extension of these provisions in the adjusted baseline presentation results in reductions in governmental receipts and increases in outlays for refundable tax credits of $568.9 billion over the 2026-2028 period relative to the BBEDCA baseline. This yields a more realistic depiction of the outlook for receipts and the deficit than a strictly current law baseline in which these significant tax cuts expire.

Highway Trust Fund (HTF) Spending in the Adjusted Baseline.—Under BBEDCA baseline rules, the Budget shows outlays supported by HTF receipts inflating at the current services level. However, that presentation masks the reality that the HTF has a structural insolvency, one that all stakeholders are aware of, and the source of which is described below. The BBEDCA baseline results in a presentation that overestimates the amount of HTF spending the Government could support. Therefore, beginning in 2022, the Budget presents an adjusted baseline to account for the mismatch between baseline rules that require assuming that spending continues at current levels and the law limiting the spending from the HTF to the level of available balances in the HTF. Under current law, DOT is unable to reimburse States and grantees when the balances in the HTF, largely reflecting the level of incoming receipts, are insufficient to meet their requests. Relative to the BBEDCA baseline levels, reducing outlays from the HTF to the level of receipts in the adjusted baseline presentation results in a reduction in HTF outlays of $122.4 billion over the 2022-2028 window. This adjustment makes the level of spending that could be supported in the HTF absent reforms more apparent.

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

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

Fixing America's Surface Transportation Act (FAST Act).—The passage of the FAST Act (Public Law 114-94), shored up the Highway Trust Fund and maintained the hybrid budgetary treatment through 2020. The FAST Act did not significantly amend transportation-related taxes or HTF authorization provisions beyond extending the authority to collect and spend revenue. Congress retained the Federal fuel tax rate at 18.4 cents per gallon for gasoline and 24.4 cents for diesel. To maintain HTF solvency, the FAST Act transferred $70 billion from the General Fund into the HTF. Since 2008, HTF tax revenues have been supplemented by $140 billion in General Fund transfers. For 2019, in policy, the Administration is requesting obligation limitation levels for HTF programs equal to the contract authority levels provided in the FAST Act. For the outyears, those levels are frozen at the 2019 level through 2028. The Budget also reflects the FAST Act contract authority levels for the remainder of the Act, through 2020. Beyond 2020 contract authority is frozen at the 2020 level. Outlays in policy are equal to the adjusted baseline levels, reflecting the need for a long-term solution.

Long-Term Solution Needed.—The fact that the HTF has required $140 billion in General Fund transfers to stay solvent points to the need for a comprehensive re-evaluation of the surface transportation funding regime. The adjusted baseline presentation shows the level of spending expected under current law, without assuming General Fund transfers. While Congress and past Administrations have been unable to find a long-term funding solution to the HTF, many States and localities have raised new revenue sources to finance transportation expenditures. The Administration believes that the Federal Government should incentivize more States and localities to finance their own transportation needs, as they are best equipped to know the right level and mix of infrastructure investments.

Discretionary Spending Limits

The BBEDCA baseline extends enacted or continuing appropriations at the account level assuming current services inflation but allowances are included to bring total base discretionary funding in line with the BBEDCA caps through 2021. Current law requires reductions to those discretionary caps in accordance with Joint Committee enforcement procedures put in place by the BCA. For 2019, the Budget supports maintaining the topline for base discretionary programs at the Joint Committee-enforced level but proposes rebalancing Federal responsibilities by increasing the defense cap under current law by $65 billion while reducing the non-defense cap by about the same amount. After 2019, the Budget proposes new caps that shift resources from non-defense programs by further reducing the non-defense cap over the 2020–2028 window by two percent per year (the "two-penny" plan) while increasing the defense category by an average of three percent per year through 2023 to resource the National Security and National Defense Strategies followed in 2024 through 2028 with inflationary growth of about 2.1 percent per year. The discretionary cap policy levels are reflected in Table S–7 of the main *Budget* volume.

Further adjustments to the proposed discretionary caps

The discretionary non-defense caps proposed in the 2019 Budget are reduced further to account for proposals to remove the air traffic control programs from discretionary spending because of privatization and to reduce the contributions of Federal agencies to the retirement plans of civilian employees. These cap reductions would prevent the savings achieved by these reforms from being redirected to augment existing non-defense programs. Reforms to the retirement plans of Federal civilian employees would also yield savings in the defense category, but the defense caps are not reduced accordingly, in order to allow for those savings to be redirected to critical national security investments within the category.

Air Traffic Control Reform.—The Administration proposes to shift the Federal Aviation Administration's (FAA) air traffic control function into a non-governmental entity beginning in 2022. This proposal reduces the need for discretionary spending in the following FAA accounts: Facilities and Equipment; Research, Engineering, and Development; and Trust Fund Share accounts. The Budget reflects an annual reduction of $10.2 billion in budget authority from 2022 to 2028; this level was determined by measuring the amount allocated as a placeholder in the policy outyears to air traffic control activities under the proposed non-defense category.

Employer-Employee Share of Federal Employee Retirement.—The Budget proposes to reallocate the costs of Federal employee retirement by charging equal shares of employees' accruing retirement costs to employees and employers. The Budget takes the estimated reductions in the share of employee retirement paid by Federal agencies out of the nondefense cap levels starting in 2020. This proposal starts at a reduction of discretionary budget authority of $6.5 billion in 2019 and totals $72.2 billion in reduced discretionary spending over the 2019 to 2028 period.

Gross versus net reductions in Joint Committee sequestration

The net realized savings from Joint Committee mandatory sequestration are less than the intended savings amounts as a result of peculiarities in the BBEDCA sequestration procedures. The 2019 Budget shows the net effect of Joint Committee sequestration reductions by accounting for reductions in 2019 that remain in the sequestered account and 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 $2.3 billion in 2019. Additionally, the 2019 Budget accounts for $752 million in lost savings that results from the sequestration of certain interfund payments, which produces no net deficit reduction.

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 (P.L. 112-78). The baseline also reflects collections from a 4.2 basis point set-aside on each dollar of unpaid principal balance of new business purchases authorized under the Housing and Economic Recovery Act of 2008 (P.L. 111-289) to be remitted to several Federal affordable housing programs; the Budget proposes to eliminate the 4.2 basis point set-aside and discontinue funding for these programs. The GSEs are discussed in more detail in Chapter 20, "Credit and Insurance."

Postal Service Reforms

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

The Postal Service is designated in statute as an off-budget independent establishment of the Executive Branch. This designation and budgetary treatment was most recently mandated in 1989, in part to reflect the policy agreement that the Postal Service should pay for its own costs through its own revenues and should operate more like an independent business entity. Statutory requirements on Postal Service expenses and restrictions that impede the Postal Service's ability to adapt to the ongoing evolution to paperless written communications have made those goals increasingly difficult to achieve. To address its current financial and structural challenges, the Administration proposes reform measures to ensure that the Postal Service funds existing commitments to current and former employees from business revenues, not taxpayer funds. To reflect the Postal Service's practice since 2012 of using defaults to on-budget accounts to continue operations, despite losses, the Administration's baseline now reflects probable defaults to on-budget accounts at the Office of Personnel Management (OPM). This treatment allows for a clearer presentation of the Postal Service's likely actions in the absence of reform and more realistic scoring of reform proposals, with improvements in the Postal Service's finances reflected through lower defaults, and added costs for the Postal Service reflected as higher defaults. Under current scoring rules, savings from reform for the Postal Service affect the unified deficit but do not affect the PAYGO scorecard. Savings to OPM through lower projected defaults affect both the PAYGO scorecard and the unified deficit.

Fair Value for Credit Programs

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