BUDGET PROCESS 02.

This chapter addresses several broad categories of budget process—the budget enforcement framework, presentation issues, and reform proposals. First, the chapter provides a recent history of budget enforcement, which includes an explanation of the discretionary levels in the 2027 Budget; adjustments to base discretionary levels, including program integrity initiatives, funding requests for disaster relief, and wildfire suppression; limits on advance appropriations; a discussion of the system under the Statutory Pay-As-You-Go Act of 2010 (PAYGO; Public Law 111-139) of scoring legislation affecting receipts and mandatory spending; a discussion of how the spending reductions required by Section 251A of the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA; Public Law 99-177) are shown in the Budget; and a proposal to exempt mandatory defense resources from sequestration. Second, this chapter highlights certain budget presentation issues. These include a discussion of proposals to expand the Pell Grant program; a discussion of the proposal to extend the United States' participation in the International Monetary Fund, the budgetary treatment of the housing Government-sponsored enterprises; and the United States Postal Service. Finally, this chapter discusses reform proposals to improve budgeting regarding Federal capital projects. Reform proposals include changes to capital budgeting for large civilian Federal capital projects and protections for the rental payments made to the Federal Buildings Fund by Federal agencies.

Budget Enforcement Framework

History of Recent Budget Enforcement

The Federal Government uses statutory budget enforcement mechanisms to control revenues, spending, and deficits. The PAYGO Act, enacted on February 12, 2010, reestablished a statutory procedure to enforce a rule of deficit neutrality on new revenue and mandatory spending legislation. The Budget Control Act of 2011 (BCA; Public Law 112-25), enacted on August 2, 2011, created a Joint Select Committee on Deficit Reduction that was instructed to develop a bill to reduce the Federal deficit by at least $1.5 trillion over a 10-year period, and imposed automatic spending cuts ("sequestration") to achieve $1.2 trillion of deficit reduction over nine years if the Joint Committee process failed to achieve its deficit reduction goal. The BCA also established limits ("caps") on the amount of discretionary budget authority that could be provided through the annual appropriations process.

While the original enforcement mechanisms established by the BCA—the caps on spending in annual appropriations and instructions to calculate reductions to achieve the $1.2 trillion deficit reduction goal—expired at the end of fiscal year 2021, sequestration of mandatory spending has been extended through 2032 for most programs and into 2033 for Medicare. Prior to the expiration of the BCA, the discretionary limits were revised upward a number of times, with changes usually occurring in the form of two-year budget agreements: the 2014 and 2015 limits were revised by the Bipartisan Budget Act of 2013 (BBA of 2013; Public Law 113-67); the 2016 and 2017 limits were revised by the Bipartisan Budget Act of 2015 (BBA of 2015; Public Law 114-74); the 2018 and 2019 limits were revised by the Bipartisan Budget Act of 2018 (BBA of 2018; Public Law 115-123); the 2020 and 2021 limits were revised by the Bipartisan Budget Act of 2019 (BBA of 2019; Public Law 116-37); and most recently, limits were reinstated for 2024 and 2025 by the Fiscal Responsibility Act of 2023 (FRA; Public Law 118-5), which amended BBEDCA. Similar enforcement mechanisms were established by the Budget Enforcement Act of 1990 (Public Law 101-508) and were extended in 1993 and 1997, but expired at the end of 2002.

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

the Congress as being for disaster relief; appropriations for reemployment services and eligibility assessments; appropriations for wildfire suppression at the Department of Agriculture and the Department of the Interior; and, for 2020 only, appropriations provided for the 2020 Census at the Department of Commerce. When statutory caps are not in place, these cap adjustments are still maintained as allocation adjustments in the congressional budget process. As a result, several of these adjustments are presented separately from base discretionary totals in the 2027 Budget.

Separate from the above adjustments, the FRA specified that certain previously-enacted discretionary funding that continues under current law would not be counted for purposes of budget enforcement under the discretionary limits, budgetary treatment that has been continued in subsequent laws (e.g., the Commerce, Justice, Science; Energy and Water Development; and Interior and Environment Appropriations Act, 2026, Public Law 119-74). This includes emergency-designated funding enacted in the Bipartisan Safer Communities Act (Public Law 117-159), the Infrastructure Investment and Jobs Act (Public Law 117-58), and section 443(b) of division G of the Consolidated Appropriations Act, 2023 (Public Law 117-328). Because this funding was enacted during a period of time when statutory limits were not in place, the FRA addressed spending on these programs by directing it be treated as not being within the BBEDCA limits, including those established for 2024 and 2025 by the FRA, or as any adjustments allowed under BBEDCA. This funding is reflected in the 2027 Budget at the enacted levels, but is not counted under the statutory limits for 2025 or for the purposes of congressional enforcement in 2026.

In addition, section 101 of the Water Resources Development Act of 2020 (division AA of Public Law 116-260) exempts from budget enforcement appropriations from the Harbor Maintenance Trust Fund and appropriations designated in statute for carrying out section 2106(c) of Public Law 113-121, which includes amounts for environmental remediation at ports. Finally, the 21st Century Cures Act (Public Law 114-255) directed that funds appropriated for certain activities cannot be counted for purposes of budget enforcement so long as the appropriations were specifically provided for the authorized purposes. As a result of these statutory exemptions, each of these amounts are displayed outside of the discretionary totals in Budget tables and OMB reports.

Discretionary Spending Levels

The 2027 Budget requests $1.45 trillion for the Department of War (DOW) in 2027, a 44 percent increase over 2026. When combined with other national defense funding, this brings the full request for defense function 050 programs to just over $1.5 trillion. This would be achieved through $1.15 trillion in base defense discretionary programs and an additional $350 billion in mandatory funds. The amounts in the 2027 Budget are in line with the National Security and National Defense strategies and the DOW Future Years Defense Program, which includes a five-year appropriations plan and estimated expenditures necessary to support the programs, projects, and activities of the Department of War.

For non-defense, the 2027 Budget requests appropriations at $660 billion, which is 10 percent below the 2026 non-defense levels. Non-defense spending is proposed to be reduced by two percent in all years after 2027, which reflects the Administration's commitment to maintain fiscal responsibility by rebalancing the non-defense mission to core Government responsibilities.

The discretionary policy levels are reflected in Table S–2 of the main *Budget* volume. The proposed adjustments to the base appropriations levels are described below.

Rescissions Act of 2025

Section 1012(a) of the Congressional Budget and Impoundment Control Act of 1974 (ICA, Public Law 93–344) established a process for the President to transmit a "special message" to the Congress to inform Members of proposed rescissions of budget authority. Once a special message is transmitted, any Member of Congress may introduce a rescission bill containing some or all of the rescissions proposed in the special message, and the ICA sets expedited procedures for consideration of rescissions bills in both Houses.

On June 3, 2025, the Administration sent a special message to the Congress proposing to rescind $9.4 billion from 22 accounts including programs of the Department of State, the Corporation for Public Broadcasting, the United States Agency for International Development (USAID), the United States Institute of Peace, and other international assistance programs. On June 6, H.R. 4, the "Rescissions Act of 2025," was introduced in the House, containing all $9.4 billion in rescissions proposed in the special message. The bill passed the House on June 12, passed the Senate on July 17, and was signed into law by the President on July 24.

As noted above, this was the first enactment of a standalone rescissions bill since 1992. While Presidents have used the procedures of the ICA to submit special messages to the Congress in the intervening years, those proposed rescissions, if enacted, have been included in regular or supplemental appropriations acts, and not passed using the procedures of the ICA.

Additionally, on August 28, 2025, the Administration sent a second special message to the Congress totaling $4.9 billion in rescissions, affecting accounts in the Department of State, USAID, and other international assistance programs.

Adjustments to Base Discretionary Funding Levels

Program Integrity Funding

There is compelling evidence that investments in administrative resources can significantly decrease the rate of improper payments and recoup many times their initial investment for certain programs. Using adjustments to base discretionary funding for program integrity activities allows for the expansion of oversight and enforcement activities in the largest benefit programs including Social Security, Unemployment Insurance, Medicare, and Medicaid, and are a useful budgeting tool.

Formerly, when statutory spending limits on the discretionary budget were in place, the law allowed the limits to be adjusted upward to account for additional discretionary funding that supported savings in these mandatory programs. When statutory limits are not in place, program integrity funding has been proposed and enacted as an adjustment pursuant to congressional procedure. Such adjustments are needed because budget scoring rules do not allow the mandatory savings from these initiatives to be credited for congressional or statutory budget enforcement purposes.

The Administration continues to support making discretionary investments in program integrity activities and keeps the existing structure in place by supporting base levels sufficient to receive an allocation adjustment under the terms of the congressional budget resolution. The Budget assumes base and adjustment funding are available through 2036. The Budget shows the mandatory program savings derived from 10 years of discretionary program integrity funding in the baseline projections for spending in Social Security, Unemployment Insurance, Medicare, and Medicaid. Given the history of consistent enactment of these adjustments, this presentation provides a more accurate representation of expected mandatory outlays for these programs.

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

Social Security Administration (SSA) Dedicated Program Integrity Activities

SSA takes seriously its responsibilities to ensure eligible individuals receive the benefits to which they are entitled, and to safeguard the integrity of benefit programs to better serve recipients. The Budget's proposed discretionary amount of $2,397 million ($273 million in base funding and $2,124 million in allocation adjustment funding) will allow SSA to conduct 600,000 full medical continuing disability reviews (CDRs) and approximately 2.6 million Supplemental Security Income (SSI) non-medical redeterminations of eligibility. SSA conducts medical CDRs, which are periodic reevaluations to determine whether disabled Old-Age, Survivors, and Disability Insurance (OASDI) or SSI beneficiaries continue to meet SSA's standards for disability. Redeterminations are periodic reviews of non-medical eligibility factors, such as income and resources, for the means-tested SSI program and can result in a revision of the individual's benefit level. Program integrity funds also support the anti-fraud co-operative disability investigation (CDI) units and special attorneys for fraud prosecutions. To support these important anti-fraud activities, the Budget provides for SSA to transfer $25.1 million to the SSA Office of Inspector General to fund CDI unit activities.

The Budget includes a discretionary allocation adjustment for each year of the 10-year budget window. As a result of the discretionary funding requested in 2027, as well as the fully-funded base and continued funding of adjustment amounts in 2028 through 2036, the OASDI, SSI, Medicare and Medicaid programs would recoup approximately $96 billion in gross Federal savings, including approximately $69 billion from access to adjustments, with additional savings after the 10-year period, according to estimates from SSA's Office of the Chief Actuary and the Centers for Medicare and Medicaid Services' Office of the Actuary. Access to increased adjustment amounts and SSA's commitment to fund the fully-loaded costs of performing the requested CDR and redetermination volumes would produce net deficit savings of approximately $48 billion in the 10-year window, and provide additional savings in the outyears.

SSA is required by law to conduct medical CDRs for all beneficiaries who are receiving disability benefits under the OASDI program, as well as all children under age 18 who are receiving SSI. Per the agency's regulations to create uniformity across programs, SSA conducts medical CDRS for disabled adult SSI recipients. SSI redeterminations are also required by law. SSA uses predictive models to prioritize the completion of redeterminations based on the likelihood of change in non-medical factors. The frequency of CDRs and redeterminations relies on the availability of funds to support these activities. The proposed amounts fully support the dedicated program integrity workloads. With access to the proposed funding, SSA is on track to regain currency in its CDR workload no later than FY 2028 and prevent new backlogs from forming throughout the budget window.

Current estimates indicate that CDRs conducted in 2027 will yield a return on investment (ROI) of about $9 on average in net Federal program savings over 10 years per $1 budgeted for dedicated program integrity funding, including OASDI, SSI, Medicare, and Medicaid program effects. Similarly, SSA estimates indicate that non-medical redeterminations conducted in 2025 will yield a ROI of about $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. The savings from one year of program integrity activities are realized over multiple years, as some reviews find that beneficiaries are no longer eligible to receive OASDI or SSI benefits.

The savings resulting from redeterminations will be different for the base funding and the allocation adjustment funding levels in 2027 through 2036 because redeterminations of eligibility can uncover both underpayment and overpayment errors. SSI recipients are more likely to initiate a redetermination of eligibility if they believe there are underpayments, and these recipient-initiated redeterminations are included in the base program amounts provided annually. The estimated savings per dollar budgeted for CDRs and non-medical redeterminations in the baseline reflects an interaction with the Patient Protection and Affordable Care Act's (Public Law 111-148) expansion of Medicaid to additional low-income adults, as a result of which some SSI recipients, who would otherwise lose Medicaid coverage due to a medical CDR or non-medical redetermination, would continue to be covered.

Health Care Fraud and Abuse Control Program (HCFAC)

The Budget proposes base funding of $318 million and adjustment funding of $658 million for discretionary HCFAC activities in 2027, which includes funding to invest in additional Medicare medical review; strengthen program integrity in Medicare Part C and Part D; support Medicaid systems; and measure improper payments in the Health Insurance Marketplaces. The funding is to be allocated among the Centers for Medicare & Medicaid Services (CMS), the HHS Office of Inspector General, and the Department of Justice. The HCFAC discretionary request will more than pay for itself based on years of documented recoveries to the Medicare Trust Funds and the U.S. Department of the Treasury. The FY 2027 HCFAC discretionary investment is estimated to yield $1.2 billion in gross savings.

Reemployment Services and Eligibility Assessments (RESEA)

The BBA of 2018 established a new adjustment to discretionary base funding for program integrity efforts targeted at Unemployment Insurance through 2027. The RESEA adjustment is permitted up to a maximum amount specified in the law if the underlying appropriations bill first funds a base level of $117 million for Unemployment Insurance program integrity activities. The Budget proposes allocation adjustment levels at $400 million in 2027 with increases for inflation for each year thereafter. These investments are estimated to produce mandatory savings of $5.2 billion over 10 years, which includes an estimated $193 million reduction in State unemployment taxes. When netted against the discretionary costs for the allocation adjustment funding, the 10-year net savings for the program is $832 million.

Disaster Relief Funding

The 2027 Budget maintains the same methodology for determining the funding ceiling for disaster relief used in previous budgets. For the 2027 Budget, OMB estimates the total adjustment available for disaster funding for 2027 at $28.5 billion. This ceiling estimate is based on three components: a 10-year average of disaster relief funding provided in prior years that excludes the highest and lowest years ($17.2); 5 percent of Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act) amounts designated as emergency requirements since 2012 ($11.4 billion); and carryover from the previous year ($0). For the 10-year average, an enacted level of $26.6 billion is assumed for 2026, which is higher than the current CY estimate in the Budget as OMB assumes a 2026 ceiling of $26.6 billion will reached once a final Homeland Security appropriations bill is enacted. For 2027, the Administration is requesting $28.4 billion in funding for the Federal Emergency Management Agency's (FEMA) Disaster Relief Program. The request covers the costs of Presidentially-declared major disasters, including identified costs for previously declared catastrophic events and the estimated annual cost of non-catastrophic events expected to be obligated in 2027.

Consistent with past practice, the 2027 request level does not seek to pre-fund anticipated needs in other programs that may arise out of disasters that have yet to occur. After 2027, the Administration does not have adequate information about known or future requirements necessary to estimate the total amount that will be requested in future years. Accordingly, the Budget does not explicitly request any disaster relief funding in any year after the budget year and includes a placeholder in each of the outyears that is equal to the 10-year average ($17.2 billion) of disaster relief currently estimated under the formula for the 2027 ceiling. This funding level does not reflect a specific request but a placeholder amount that, along with other outyear appropriations levels, will be decided on an annual basis as part of the normal budget development process.

Wildfire Suppression Operations at the Departments of Agriculture and the Interior

Wildfires naturally occur on public lands throughout the United States. The cost of fighting wildfires has increased due to landscape conditions resulting from drought, pest and disease damage, overgrown forests, expanding residential and commercial development near the borders of public lands, and program management decisions. In the past, when these costs exceeded the funds appropriated, the Federal Government covered the shortfall through transfers from other land management programs. For example, in 2018, Forest Service wildfire suppression spending of $2.6 billion required transfers of $720 million from other non-fire programs. Historically, these transfers had been repaid in subsequent appropriations; however, such "fire borrowing" impedes the missions of land management agencies to reduce the risk of catastrophic fire and restore and maintain healthy functioning ecosystems.

To create funding certainty in times of wildfire disasters, the Consolidated Appropriations Act of 2018 enacted

a new cap adjustment to BBEDCA, authorized for 2020 through 2027. The adjustment is permitted so long as a base level of funding for wildfire suppression operations is funded in the underlying appropriations bill. The base level is defined as being equal to average cost over 10 years for wildfire suppression operations that was requested in the President's 2015 Budget. Historically, these amounts have been determined to be $1,011 million for the Department of Agriculture's Forest Service and $384 million for the Department of the Interior (DOI). The 2027 Budget proposes to reform Federal wildland fire management by unifying the wildland fire programs currently at the Department of Agriculture's Forest Service and DOI into a U.S. Wildland Fire Service (USWFS) at DOI. The 2027 Budget requests base amounts for wildfire suppression and proposes the full $2,950 million adjustment specified in BBEDCA, as amended, as an allocation adjustment for 2027, both for USWFS at DOI. Providing the full level will ensure that adequate resources are available to fight wildland fires, protect communities, and safeguard human life during the most severe wildland fire seasons.

For the years after 2027, the Administration does not have sufficient information about future wildfire suppression needs and, therefore, includes a placeholder in the 2027 Budget for wildfire suppression in each of the outyears that is equal to the current 2027 request. Actual funding levels will be decided on an annual basis as part of the normal budget process.

Limit on Discretionary Advance Appropriations

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

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

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

The 2027 Budget requests $28,768 million in advance appropriations for 2027, consistent with limits established in recent congressional budget resolutions, and freezes them at this level in subsequent years. Outside of these limits, the Administration's Budget would request discretionary advance appropriations for veterans' medical care, as is required by the Veterans Health Care Budget Reform and Transparency Act (Public Law 111-81); as well as for the Indian Health Service in the Department of Health and Human Services (HHS). The Department of Veterans Affairs and HHS have included detailed information in its Congressional Budget Justifications about the overall 2028 funding requests.

For a detailed table of accounts that have received discretionary and mandatory advance appropriations since 2025 or for which the Budget requests advance appropriations for 2028 and beyond, please refer to the Advance Appropriations chapter in the *Appendix*.

Statutory PAYGO

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

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

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

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

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

Changes to off-budget programs (Social Security and the Postal Service) do not have budgetary effects for the purposes of PAYGO and are not counted, though they may have a real effect on the deficit. Provisions designated by the Congress in law as emergencies appear on the scorecards, but the effects are subtracted before computing the scorecard totals.

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

As was the case during an earlier PAYGO enforcement regime in the 1990s, PAYGO sequestration has not been required since the PAYGO Act reinstated the statutory PAYGO requirement. For the first session of the 119th Congress, the most recently completed session, enacted legislation placed costs of $529.120 billion in each year of the 5-year scorecard and $444.023 billion in each year of the 10-year scorecard. However, the budget year balance on each of the PAYGO scorecards was set to zero for all years by the Continuing Appropriations, Agriculture, Legislative Branch, Military Construction and Veterans Affairs, and Extensions Act, 2026 (Public Law 119-37). Consequently, no PAYGO sequestration was required in 2025.[1]

BBEDCA Section 251A Reductions

In August 2011, as part of the BCA, bipartisan majorities in both the House and Senate voted to establish the Joint Select Committee on Deficit Reduction to recommend legislation to achieve at least $1.5 trillion of deficit reduction over the period of fiscal years 2012 through 2021. The failure of the Congress to enact such comprehensive deficit reduction legislation to achieve the $1.5 trillion goal triggered a sequestration of discretionary and mandatory spending in 2013, led to reductions in the discretionary caps for 2014 through 2021, and forced additional sequestrations of mandatory spending in each of fiscal years 2014 through 2021.

Although the original provisions of the BCA ended in 2021, sequestration of mandatory resources has been extended in a series of laws for each year through 2032 for most programs and into 2033 for Medicare. This sequestration is now called the BBEDCA 251A sequestration, after the Balanced Budget and Emergency Deficit Control Act, as amended (BBEDCA), which is the law where mandatory sequestration continues to be extended.

Section 251A of BBEDCA requires that non-exempt mandatory defense spending be reduced by 8.3 percent each year through 2031 and mandatory non-defense spending be reduced by 5.7 percent each year through 2031 (and by 2 percent for Medicare and a small subset of other health programs). For 2032, the percentages for defense mandatory resources and non-defense mandatory resources are 4.0 percent and 2.8 percent, respectively, except that the percentage for Medicare is 2.0 percent through the beginning of 2033. These reductions to mandatory programs are triggered annually with the transmittal of the President's Budget for each year and take effect on the first day of the fiscal year. Because the percentage reduction is known in advance, the Budget presents these reductions in the baseline at the account level.

The 2027 Budget shows the net effect of these mandatory sequestration reductions by accounting for reductions in 2027, and each outyear, that remain in the sequestered account and are anticipated to become newly available for obligation in the year after sequestration, in accordance with section 256(k)(6) of BBEDCA. The budget authority and outlays from these "pop-up" resources are included in the baseline estimates and amount to a cost of $2.7 billion in 2027. Additionally, the Budget annually accounts for lost savings that results from the sequestration of certain interfund payments, which produces no net deficit reduction. Such amount is $2.9 billion in 2027.

The 2027 Budget proposes to eliminate the sequestration of mandatory defense funding, including of unobligated balances of mandatory defense funding. Sequestering this funding reduces critical defense resources.

[1] OMB's annual PAYGO report is available on OMB's website at *https://www.whitehouse.gov/omb/information-resources/legislative/paygo-reports/*

Budget Presentation

Pell Grants

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

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

- The Pell Grant program acts like an entitlement program, such as the Supplemental Nutrition Assistance Program or Supplemental Security Income, in which anyone who meets specific eligibility requirements and applies for the program receives a benefit. 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 2026-2027 is $7,395, of which $6,335 was established in discretionary appropriations and the remaining $1,060 in mandatory funding is provided automatically by the College Cost Reduction and Access Act as amended (CCRAA).
- The cost of each Pell Grant is funded by discretionary budget authority provided in annual appropriations acts, along with mandatory budget authority provided not only by the CCRAA but also the Health Care and Education Reconciliation Act of 2010. There is no programmatic difference between the mandatory and discretionary funding.
- If valid applicants are more numerous than expected, or if these applicants are eligible for higher awards than anticipated, the Pell Grant program will cost more than projected at the time of the appropriation. If the costs during one academic year are higher than provided for in that year's appropriation, the Department of Education funds the extra costs with the subsequent year's appropriation.[2]

To prevent deliberate underfunding of Pell costs, in 2006 the congressional and Executive Branch scorekeepers agreed to a special scorekeeping rule for Pell. Under this rule, the annual appropriations bill is charged with the full Congressional Budget Office estimated cost of the Pell Grant program for the budget year, plus or minus any cumulative shortfalls or surpluses from prior years.

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

The total cost of Pell Grants can fluctuate from year to year, even with no change in the maximum Pell Grant award, because of changes in enrollment, college costs, and student and family resources. The Budget includes historical trends in applications for the Free Application for Federal Student Aid (FAFSA) to project Pell-eligible applicants. Current enrollment levels of Pell-receiving students help determine the likelihood that eligible applicants become future recipients, which the Budget projects to increase by about one percent annually, on average, over the course of the ten-year budget window. In general, the demand for and costs of the program are countercyclical to the economy; more people go to school during periods of higher unemployment, but return to the workforce as the economy improves.

College enrollment has continued to rebound from the COVID-19 pandemic. In particular, undergraduate enrollment has increased more at community colleges than four-year colleges. Due to the increases in undergraduate enrollment as well as the eligibility changes included in the FAFSA Simplification Act first implemented in the 2024-2025 award year, there are nearly 300,000 more Pell recipients in 2025-2026 than 2024-2025. In addition, the discretionary maximum award has increased by $900 since fiscal year 2021. As a result of all of the above, annual discretionary costs of the Pell program have increased by about $10 billion since fiscal year 2021. Assuming no changes in current policy, the 2027 Budget baseline projects a shortfall of nearly $10.6 billion in fiscal year 2027 (see Table 2-1). These estimates have changed from year to year, which illustrates difficulty in forecasting Pell program costs.

The 2027 Budget provides a maximum award of $7,395, level with 2026 Enacted. As a result of the increasing costs of the Pell Grant program, the Budget provides over $33 billion in discretionary funding, $10.6 billion more than 2026 Enacted. This significant increase in funding for the Pell Grant program will ensure that low- and moderate-income students continue to have access to

[2] This ability to "borrow" from a subsequent appropriation is unique to the Pell program. It comes about for two reasons. First, like many education programs, Pell is "forward-funded"—the budget authority enacted in one year is intended for the subsequent academic year, which begins in the following July. Second, even though the amount of funding is predicated on the expected cost of Pell during one academic year, the money is made legally available for the full 24-month period covering the current fiscal year and the subsequent fiscal year. This means that, if the funding for an academic year proves inadequate, the following year's appropriation will legally be available to cover the funding shortage for the first academic year. The 2027 Budget appropriations request, for instance, will support the 2027-2028 academic year beginning in July 2027 but will become available in October 2026 and can therefore help cover any shortages that may arise in funding for the 2026-2027 academic year.

Table 02—1. Discretionary Pell Funding Needs
Budget Authority in Millions of Dollars

	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Discretionary Pell Funding Needs (Baseline)										
Estimated Program Cost for $6,335 Discretionary Maximum Award	33,279	33,609	33,931	34,231	34,527	34,766	35,071	35,382	35,673	36,149
Baseline Discretionary Appropriation - 2026 Enacted	22,475	22,475	22,475	22,475	22,475	22,475	22,475	22,475	22,475	22,475
Surplus/Funding Gap from Prior Year	–980	–10,548	–20,446	–30,665	–41,185	–52,001	–63,055	–74,415	–86,086	–98,047
Mandatory Budget Authority Available	1,236	1,236	1,236	1,236	1,236	1,236	1,236	1,236	1,236	1,236
Baseline Discretionary Surplus/Funding Gap (–)	–10,548	–20,446	–30,665	–41,185	–52,001	–63,055	–74,415	–86,086	–98,047	–110,485
Effect of 2027 Budget Policies on Discretionary Pell Funding Needs										
Increase Discretionary Appropriation by $10.6 billion	10,548	---	---	---	---	---	---	---	---	---
Annual Effect of 2027 Budget Policies	10,548	---	---	---	---	---	---	---	---	---
Cumulative Effect of 2027 Budget Policies	10,548	10,548	10,548	10,548	10,548	10,548	10,548	10,548	10,548	10,548
2027 Budget Discretionary Surplus/Funding Gap (–)	0	–9,898	–20,117	–30,637	–41,453	–52,507	–63,867	–75,538	–87,499	–99,937

postsecondary education. In addition, these funds will support Workforce Pell Grants. Authorized by the Working Families Tax Cut Act (WFTC; Public Law 119-21), Workforce Pell Grants will provide students with access to high-quality, short-term programs aligned to in-demand, high-skill or high-wage industry, allowing students to enter the workforce quickly and at lower costs than traditional four-year programs.

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

As part of a broader set of reforms at the IMF, the Administration supports a proposal to increase the U.S. Quota Subscription to the IMF, rollback a portion of the U.S. commitment to the New Arrangements to Borrow (NAB), and extend U.S. participation in the NAB. Because U.S. participation in the Quota constitutes an exchange of monetary assets, the Administration does not score it as budget authority or outlays, and it is not included in the total funding requested by the Administration. Budget authority is the authority to enter into obligations that are liquidated by outlays. U.S. transactions with the IMF do not result in outlays. The Administration's position follows the recommendation made by the 1967 President's Commission on Budget Concepts that "Subscriptions, drawings, and other transactions reflecting net changes in the U.S. position with the International Monetary Fund should be excluded from budget receipts and expenditures." There is little basis for treating IMF quota subscriptions or NAB increases differently from other financial asset exchanges, such as deposits of cash in Treasury's accounts at the Federal Reserve Bank or purchases of gold, which are not recorded as either budget authority or outlays.

Fannie Mae and Freddie Mac

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

Postal Service Treatment

The Postal Service is designated in statute as an off-budget independent establishment of the Executive Branch. This designation and budgetary treatment was most recently mandated in 1989. To reflect the Postal Service's practice since 2012 of using defaults to on-budget accounts to continue operations, despite losses, the Administration's baseline reflects probable defaults in the on-budget account showing no payment for Civil Service Retirement and Disability. This treatment allows for a clearer presentation of the Postal Service's likely actions.

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

Budget Reform Proposals

Federal Capital Revolving Fund

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

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

To deal with the drawbacks of the current Federal approach, the Budget proposes: (1) to create a Federal Capital Revolving Fund (FCRF) to fund large-dollar, 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

Chart 02—1. Scoring of $375 Million GSA Project Using the Federal Capital Revolving Fund

Budget Authority in Millions of Dollars

Federal Capital Revolving Fund

	Year 1	Years 2-15
Mandatory:		
Transfer to purchasing agency to cons/disp building ...	375	
Purchasing agency repayments ...	–25	–350

Purchasing Agency

	Year 1	Years 2-15
Mandatory:		
Collection of transfer from Federal Capital Revolving Fund ...	–375	
Payment to cons/disp building ...	375	
Discretionary:		
Repayments to Federal Capital Revolving Fund ...	25	350

Total Government-wide Budget Impact

	Year 1	Years 2-15	Total
Mandatory:			
Consolidate/dispose building ...	375		375
Collections from purchasing agency ...	–25	–350	–375
Discretionary:			
Purchasing agency repayments ...	25	350	375
Total Government-wide ...	375	---	375

Note: The 2027 Budget proposes one project, the Whitten Yates Consolidation and South Disposal, estimated project balance of $375 million.

government capital budgets. This proposal incorporates principles that are central to the success of capital budgeting at the State and local level—a limit on total funding for capital investment, annual decisions on the allocation of funding for capital projects, and spreading the acquisition cost over 15 years in the discretionary operating budgets of agencies that purchase the assets. The 2025 Budget proposes that that FCRF would be capitalized initially by a $10 billion mandatory appropriation, and scored with anticipated outlays over the 10-year window for the purposes of pay-as-you-go budget enforcement rules. Balances in the FCRF would be available for transfer to purchasing agencies to fund large-dollar capital acquisitions only to the extent projects are designated in advance in appropriations Acts and the agency receives a discretionary appropriation for the first of a maximum of 15 required annual repayments. If these two conditions are met, the FCRF would transfer funds to the purchasing agency to cover the full cost to acquire the capital asset. Annual discretionary repayments by purchasing agencies would replenish the FCRF and would become available to fund additional capital projects. Total annual capital purchases would be limited to the lower of $5 billion or the balance in the FCRF, including annual repayments.

The Budget uses the FCRF concept to fund the Jamie L. Whitten Federal Building and Sidney R. Yates Federal Building consolidation and Agriculture South Federal Building disposal project with an estimated total project budget of $375 million. The buildings are within the General Services Administration's (GSA) inventory and currently house the Department of Agriculture. A project of this size and scope, if funded through the traditional discretionary appropriations process, would account for potentially one-fourth of GSA's capital funding in a given fiscal year. In accordance with the principles and design of the FCRF, the 2027 budget requests appropriations language in the GSA Federal Buildings Fund account, designating that the project to be funded out of the FCRF, which is also housed within GSA, along with 1⁄15 of the full purchase price, or $25 million for the first-year repayment back to the FCRF. The FCRF account is displayed funding the joint Whitten-Yates consolidation and South disposal project with additional unspecified projects being funded in future years, along with returns to the account from the annual project repayments.

The flow of funds for the joint Whitten-Yates consolidation and South disposal project is illustrated in Chart 2–1. Current budget enforcement rules would require the entire $375 million project cost to be scored as discretionary budget authority in the first year, which would negate the benefit of the FCRF and leave agencies and policy makers facing the same trade-off constraints. As shown in Chart 2-1, under this proposal, transfers from the FCRF to agencies to fund capital projects, $375 million in the case of the proposed project in 2027, and the actual execution by GSA would be scored as direct spending (shown as mandatory in Chart 2-1), while agencies would use discretionary appropriations to fund the annual repayments to the FCRF, or $25 million for the first-year repayment. The proposal allocates the costs between direct spending and discretionary spending—the up-front cost of capital investment would already be reflected in the baseline as direct spending once the FCRF is enacted with $10 billion in mandatory capital. This scoring approves a total capital investment upfront, keeping individual large projects from competing with annual operating expenses in the annual appropriations process. On the discretionary side of the budget, the budgetary trade-off would be locking into the incremental annual cost of repaying the FCRF over 15 years. Knowing that future discretionary appropriations will have to be used to repay the FCRF provides an incentive for agencies, OMB, and the Congress to select projects with the highest mission criticality and returns. In future years, OMB would review agencies' proposed projects for inclusion in the President's Budget, as shown with the GSA request, and allocations by authorizing projects in annual appropriations Acts and providing the first year of repayment. This approach would allow for a more effective capital planning process for the Government's largest civilian real property projects, and is similar to capital budgets used by State and local governments.

Protecting Funding for the Federal Buildings Fund

Since 2011, the Congress has under-funded the GSA Federal Building Fund (FBF), the primary source of maintenance, repair, and construction for GSA's federally owned building inventory. Over the last 16 years, $15.6 billion in agency rental payments, intended to maintain and construct GSA facilities, were not appropriated. By enacting an FBF appropriations level below the estimated annual rent collections, the Congress creates an offset that allows the Appropriations Committee to fund other priorities. When that occurs, actual collections remain in the Fund as unavailable.

At the same time, the GSA inventory of federally owned buildings is seeing an increase in deferred maintenance while experiencing cost increases year over year for unfunded projects. This year, the Budget again proposes a reform to ensure that all agency rental payments can be used for construction and maintenance and repair, as intended, rather than merely sitting unavailable for use in the Fund. The Budget proposes directed scoring, to take effect starting in fiscal year 2028, that would not credit, or score, any savings from limiting the spending in the FBF. FBF revenues would be utilized for the intended purposes of maintaining and operating the GSA owned and leased buildings portfolio. In this way, the Congress will have every incentive to set new obligational authority (NOA) at the level of the estimated collections from across Federal agencies.

The FBF has hit a tipping point with a growing backlog of deferred maintenance and an increasing number of missed opportunities to consolidate into more cost-effective space – particularly given the unique opportunity to re-shape the Federal footprint and optimize utilization.

Table 02—2. Federal Buildings Fund 2011—2026
In Thousands of Dollars

	President's Budget Revenue Estimate	Enacted New Obligational Authority	Net Budget Authority [1]
2011	8,870,933	7,597,540	–1,202,123
2012	9,302,761	8,017,967	–1,205,174
2013	9,777,590	8,024,967	–1,665,003
2014	9,950,560	9,370,042	–580,518
2015	9,917,667	9,238,310	–679,357
2016	9,807,722	10,196,124	388,402
2017	10,178,339	8,845,147	–1,333,192
2018	9,950,519	9,073,938	–876,581
2019	10,131,673	9,285,082	–846,591
2020	10,203,596	8,856,530	–1,347,066
2021	10,388,375	9,065,489	–1,322,886
2022	10,636,648	9,342,205	–1,294,443
2023	10,488,857	10,013,150	–475,707
2024	10,728,410	9,470,022	–1,258,388
2025	10,496,084	9,308,000	–1,188,084
2026	10,464,262	9,710,373	–753,889
16 Year Total Underfunding			**–15,640,600**

[1] Net Budget Authority includes redemption of debt and does not include rescission of prior year funding, transfers, supplemental, or emergency appropriations.

Meanwhile, Government-wide, agencies continue to pay rent to the GSA FBF, but do not receive the commercially equivalent space and services that they pay for in accordance with the GSA statute that governs rent-setting, particularly in terms of capital reinvestment. Table 2-2, Federal Buildings Fund 2011 to 2026, shows 15 years of budget estimates of GSA rental collections (President's Budget Revenue Estimate) against the NOA enacted in the final appropriations process. The chart tells the story of years of rental payments being withheld from spending, thus creating an offset that allowed a reprioritization of spending away from the original purpose of the collections. Since 2011, the negative enacted net budget authority for the FBF for all years except one shows the annual appropriations process has gained $15.6 billion at the expense of the GSA Federal building inventory.

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