

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 requested for disaster relief; limits on changes in mandatory programs in appropriations Acts; limits on advance appropriations; reforms in transportation and infrastructure spending; and proposals for the Pell Grant program. Second, the chapter describes the 2018 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; 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 2018, and forced additional sequestrations of mandatory spending in each of fiscal years 2014 through 2017. A further sequestration of mandatory spending is scheduled to take effect beginning on October 1 based on the order released with the 2018 Budget.

To date, various enacted legislation has changed the annual reductions required to the discretionary spending limits set in the BCA through 2017. The sequestration preview report issued with this budget reduced the 2018 discretionary caps according to current law. Going forward, the reductions to discretionary spending for fiscal years 2019 through 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 2019 through 2025, which is triggered by the transmittal of the President's Budget for each year and takes effect on the first day of the fiscal year.

The 2018 Budget proposes to continue mandatory sequestration into 2026 and 2027 to generate an additional \$39 billion in deficit reduction. For discretionary programs, under current law, 2018 Joint Committee pro-

cedures reduce the defense cap from \$603 billion to \$549.1 billion and the non-defense cap from \$553 billion to \$515.7 billion. The 2018 Budget restores the Joint Committee reductions made to the defense category and pays for this increase by reducing the cap for non-defense by roughly the same amount. This results in a proposed defense cap of \$603 billion for defense programs and a non-defense cap of \$462 billion for non-defense programs. After 2018, the Budget sets aside the existing Joint Committee procedures for discretionary programs by proposing new caps for defense and non-defense programs through 2027. These funding levels will enhance our 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

Critical programs such as Social Security, Unemployment Insurance, Medicare, and Medicaid should 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 activities in the largest benefit programs and increasing investments in tax compliance and enforcement activities. In addition, the Administration supports a number of legislative and administrative reforms in order to reduce improper payments. Many of these proposals will provide savings for the Government and taxpayers, and will support Government-wide efforts to improve the management and oversight of Federal resources.

The Administration supports efforts to provide Federal agencies with the necessary resources and incentives to

improve payment integrity, and to prevent, reduce, or recover improper payments. The Administration will continue to identify areas, in addition to those outlined in the Budget, where it can work with the Congress to further improve agency 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 2018 will yield net Federal program savings over the next 10 years of roughly \$8 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 Social Security Administration 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 units, and special attorneys for fraud prosecutions.

The 2018 Budget supports full funding of the authorized cap adjustments for these programs through 2021 and proposes to extend the cap adjustments through 2027 at the rate of current services inflation assumed in the Budget. The 2018 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 \$1,735 million in discretionary funding in 2018 (\$273 million in base funding and \$1,462 million in cap adjustment funding) will allow SSA to conduct 890,000 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 2018, as well as the fully funded base and cap adjustment amounts in 2019 through 2027, the OASDI, SSI, Medicare and Medicaid programs would recoup almost \$43 billion in gross Federal savings with additional savings after the 10-year period, according to estimates from SSA's Office of the Chief 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 \$28 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 2017 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 2018 through 2027. With access to program integrity cap adjustments, SSA is on track to eliminate the backlog of CDRs by the end of 2018 and remain current with program integrity workloads throughout the budget window.

As stated above, current estimates indicate that CDRs conducted in 2018 will yield a return on investment (ROI) of about \$8 on average in net Federal program savings over 10 years per \$1 budgeted for dedicated program integrity funding, including OASDI, SSI, Medicare and Medicaid program effects. Similarly, SSA estimates indicate that non-medical redeterminations conducted in 2018 will yield a ROI of about \$3 on average of net Federal program savings over 10 years per \$1 budgeted for dedicated program integrity funding, including SSI and Medicaid program effects. The Budget assumes the full cost of performing CDRs in 2017 and beyond to ensure that sufficient resources are available. The savings from one year of program integrity activities are realized over multiple years because some results find that beneficiaries are no longer eligible to receive OASDI or SSI benefits.

Redeterminations are periodic reviews of non-medical eligibility factors, such as income and resources, for the

means-tested SSI program and can result in a revision of the individual's benefit level. However, the schedule of savings resulting from redeterminations will be different for the base funding and the cap adjustment funding in 2018 through 2027. 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 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 2018 Budget proposes base and cap adjustment funding levels over the next 10 years and continues the program integrity cap adjustment through 2027. 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 2027. 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 \$6 million adjustment for inflation and cap adjustment of \$434 million for HCFAC activities in 2018 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 (DOJ).

Over 2018 through 2027, as reflected in Table 10-1, this \$5.25 billion investment in HCFAC cap adjustment funding will generate approximately \$11.7 billion in savings to Medicare and Medicaid, for new net deficit reduction of \$6.4 billion over the 10-year period, reflecting prevention and recoupment of improper payments made to providers, as well as recoveries related to civil and criminal penalties.

Mandatory Program Integrity Initiatives.—The mandatory and receipt savings from other program integrity initiatives that are included in the 2018 Budget, beyond the expansion in resources resulting from the increases in administrative funding discussed above are shown in table 10-2. These savings total almost \$149 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 \$67 million in PAYGO savings over 10 years, and would result in more than \$2.2 billion in non-PAYGO savings. These proposals include savings that would allow States to reduce their unemployment taxes by \$670 million. 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),

Table 10-1. PROGRAM INTEGRITY DISCRETIONARY CAP ADJUSTMENTS, INCLUDING MANDATORY SAVINGS
(Outlays in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018 - 2027 Total
Social Security Program Integrity:											
Discretionary Costs ¹	1,462	1,410	1,309	1,302	1,350	1,400	1,452	1,506	1,561	1,619	14,371
Mandatory Savings ²	-93	-2,084	-3,117	-3,792	-4,647	-4,942	-5,152	-5,869	-6,330	-6,772	-42,798
Net Savings	1,369	-674	-1,808	-2,490	-3,297	-3,542	-3,700	-4,363	-4,769	-5,153	-28,427
Health Care Fraud and Abuse Control Program:											
Discretionary Costs ¹	434	454	475	496	514	533	553	574	595	617	5,245
Mandatory Savings ³	-923	-980	-1,040	-1,102	-1,158	-1,202	-1,246	-1,294	-1,341	-1,391	-11,677
Net Savings	-489	-526	-565	-606	-644	-669	-693	-720	-746	-774	-6,432

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 2027 are equal to the outlays associated with the budget authority levels inflated from the 2021 level, using the 2018 Budget assumptions. The levels in baseline are equal to the 2018 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 SSA's Office of the Chief Actuary's estimates of savings.

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

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 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 REAs. 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 \$2.7 billion in PAYGO outlays 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-servicemembers (UCX), resulting in net non-PAYGO deficit reduction of \$6.7 billion. These savings consist of reductions in UI benefit payments of an estimated \$8.1 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 \$4 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 \$1.6 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 \$718 million 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 \$8 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 \$177 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 \$559 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 renegotiates at the overpaid beneficiary’s request) a partial withholding rate. This proposal would result in savings of \$848 million 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 lim-

Table 10–2. MANDATORY AND RECEIPT SAVINGS FROM OTHER PROGRAM INTEGRITY INITIATIVES

(Deficit increases (+) or decreases (–) in millions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	10-year total
Mandatory Program Integrity Initiatives:											
Department of Labor:											
Unemployment Insurance Program Integrity Package ¹	–94	–215	–251	–249	–243	–211	–253	–249	–241	–228	–2,234
PAYGO effects	–12	–17	–10	–8	–7	–4	–2	–4	–1	–2	–67
Non-PAYGO effects	–82	–198	–241	–241	–236	–207	–251	–245	–240	–226	–2,167
Reemployment Services and Eligibility Assessments ¹ .....	.....	–88	–541	–562	–522	–411	–413	–493	–499	–519	–4,048
PAYGO effects .....	.....	260	272	281	291	301	309	317	325	333	2,689
Non-PAYGO effects .....	.....	–348	–813	–843	–813	–712	–722	–810	–824	–852	–6,737
Social Security Administration:											
Hold Fraud Facilitators Liable for Overpayments (non-PAYGO) .....	.....	.....	–1	–1	–1	–1	–1	–1	–1	–1	–8
Government Wide Use of CBP Entry/Exit Data to Prevent Improper Payment .....	.....	.....	–1	–4	–9	–18	–24	–28	–36	–39	–159
Government Wide Use of CBP Entry/Exit Data to Prevent Improper Payment (non-PAYGO) .....	.....	.....	.....	–1	–2	–2	–2	–3	–4	–4	–18
Allow SSA to Use Commercial Databases to Verify Real Property Data in the SSI Program.	–12	–28	–44	–53	–60	–69	–70	–68	–76	–79	–559
Increase the Overpayment Collection Threshold for OASDI (non-PAYGO)	–8	–26	–43	–59	–77	–93	–107	–135	–144	–156	–848
Authorize SSA to Use All Collection Tools to Recover Funds in Certain Scenarios (non-PAYGO) .....	.....	–2	–2	–3	–4	–4	–5	–5	–5	–11	–41
Total, Preventing Improper Payments in Social Security	–20	–56	–91	–121	–153	–187	–209	–240	–266	–290	–1,622
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
Other Program Integrity Initiatives:											
Exclude SSA debts from discharge in bankruptcy (non-PAYGO)	–9	–18	–23	–29	–34	–36	–38	–40	–43	–45	–315
Department of the Treasury:											
Increase oversight of paid tax return preparers ¹	–14	–31	–35	–38	–42	–47	–50	–55	–61	–66	–439
Provide more flexible authority for the IRS to address correctable errors ¹ .	–30	–61	–64	–65	–67	–70	–71	–74	–76	–77	–655
Total, Mandatory and Receipt Savings	–167	–1,188	–2,487	–3,447	–5,349	–5,511	–10,686	–21,631	–39,210	–58,858	–148,534
PAYGO Savings	–68	123	118	113	106	93	92	88	75	70	810
Non-PAYGO Savings	–99	–1,311	–2,605	–3,560	–5,455	–5,604	–10,778	–21,719	–39,285	–58,928	–149,344

¹ The estimate for this proposal includes effects on receipts in addition to changes in outlays. Receipt effects by proposal can be seen in table S–6, Mandatory and Receipt Proposals, in the main Budget volume.

ited 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 \$41 million in savings over 10 years.

Reducing Improper Payments Government-Wide.— Even though the majority of government payments are made properly, any waste of taxpayer money is unacceptable. The Budget prioritizes shrinking the amount of improper cash out the door. Specifically, by 2027 the Budget proposes to curtail government-wide improper payments by half through actions to improve payment accuracy and tighten administrative controls. This proposal includes improvements in paperwork errors that contribute to the improper payment rate. Overall, the proposal will save approximately \$139 billion over 10 years that would reduce the deficit, but is not included as a PAYGO savings.

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 enables agencies to identify, prevent, capture, and recover payments at different phases of the payment life cycle using available databases. Do Not Pay analytics specialists are also available to work one-on-one with agencies to review payment data to identify and address internal control weaknesses that could result in improper payments. Furthermore, Treasury's team provides business process review services to support this work. The Do Not Pay initiative also incorporates other agency best practices and activities that further promote program integrity and benefits to the taxpayer. For example, the Bipartisan Budget Act of 2013 (BBA of 2013; Public Law 113-67) expanded the Do Not Pay initiative to include additional data collected by the Social Security Administration to prevent the improper payment of Federal funds to incarcerated individuals,

and in 2015, the Do Not Pay Business Center began facilitating the Internal Revenue Service use of these data to prevent fraud committed by prisoners. 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. As a result of the Initiative, agencies cumulatively identified and stopped over \$5.9 billion of improper payments through the Do Not Pay Initiative as of the end of FY 2016. Agencies need available data to be timely, accurate, and relevant to their programs to improve their payment accuracy, and additional authorities will enhance data sharing on death, prisoners, and employment for payment accuracy, while maintaining privacy.

Use of the Death Master File to Prevent Federal Improper Payments.—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.

The Budget proposes to improve payment accuracy further by sharing available death data across Government agencies to prevent improper payments. This proposal would amend the Social Security Act to provide the Do Not Pay system at Treasury and agencies that use the system access to the full death data at SSA to prevent, identify, or recover improper payments. This proposal would include information received from a State, or any other source, about the deceased.

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 \$315 million over the 2018 through 2027 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 \$439 million over the 2018 through 2027 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 \$655 million over the 2018 through 2027 window.

Develop Accurate Cost Estimates.—OMB works with Federal agencies and 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 FY 2017 a preview estimate of the 2017 adjustment for disaster relief. The ceiling for the disaster relief adjustment in 2017 was calculated to be \$8,566 million. However, the

Continuing Appropriations and Military Construction, Veterans Affairs, and Related Agencies Appropriations Act, 2017, and Zika Response and Preparedness Act (Public Law 114-223) provided supplemental funding of \$500 million for the Department of Housing and Urban Development's Community Development Fund (CDF) in 2016. OMB's seven-day-after report for Public Law 114-223 stated that this supplemental funding decreased the disaster ceiling for 2017 to \$8,129 million. At the time the Budget was prepared, the Government was operating under a continuing resolution set in the Continuing Appropriations Act, 2017 (division C of Public Law 114-223, as amended by division A of Public Law 114-254) (the "CR"). The CR had provided for 2017 a continuing appropriation of \$6,713 million for the Federal Emergency Management Agency's Disaster Relief Fund (DRF) and a full-year appropriation for HUD's CDF of \$1,416 million. If final 2017 appropriations affirm this allocation with a final appropriation of \$6,713 million for the DRF, such amounts would use the entire ceiling available in 2017.

OMB must include in its Sequestration Update Report for 2018 a preview estimate of the ceiling on the adjustment for disaster relief funding for 2018. This estimate will contain an average funding calculation that incorporates four years (2008 through 2011) using the definition of disaster relief from OMB's September 1, 2011 report and six years using the funding the Congress designated in 2012 through 2017 for disaster relief pursuant to BBEDCA excluding the highest and lowest years. As noted above, the entire ceiling may be used for 2017; therefore, no amount would be carried forward from 2017 into the 2018 preview estimate that will be included in OMB's August 2017 Sequestration Update Report for Fiscal Year 2018. Currently, based on enacted and continuing appropriations, OMB estimates the total adjustment available for disaster funding for 2018 at \$7,366 million. Any revisions necessary to account for final 2017 appropriations will be included in the 2018 Sequestration Update Report.

At this time, the Administration is requesting \$6,793 million in funding for FEMA's DRF in 2018 to cover the costs of Presidentially declared major disasters, including identified costs for previously declared catastrophic events (defined by FEMA as events with expected costs that total more than \$500 million) and the predictable annual cost of non-catastrophic events expected to obligate in 2018. 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 2018 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 2017 supplemental appropriations (designated as either disaster relief or emergency requirements pursuant to BBEDCA) or budget amendments to the Budget, may be transmitted.

Under the principles outlined above, since the Administration does not have the adequate information about known or estimated needs that is necessary to state the total amount that will be requested in future years to be designated by the Congress for disaster relief, 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 out years that is equal to the current 2018 request. This funding level does not reflect a specific request but a placeholder amount that, along with other out year appropriations levels, will be decided on an annual basis as part of the normal budget development process.

Declining Disaster Relief Cap Adjustment

The allowable adjustment for disaster relief funding is declining to levels that approximate average annual Federal disaster assistance budget requests (which supports previously declared catastrophic disasters, future non-catastrophic disasters, and a limited amount of above-average future disaster activity). This amount will soon likely be insufficient to support the costs of future Presidentially declared disasters. Inflation, urbanization, and other factors may contribute to increasing future response and recovery costs. The decline of the cap adjustment results from the recent trend of relatively modest annual disaster appropriations over the past five fiscal years coupled with high-cost response and recovery efforts for Hurricanes Katrina and Sandy aging out of the rolling 10-year window used in the cap adjustment formula. The Administration will continue to review potential options for addressing the declining cap adjustment and looks forward to working with the Congress on disaster funding needs.

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 by the enactment of higher discretionary spending offset by reductions in mandatory budget authority with no net outlay savings. These spending offsets come from changes in mandatory programs, or CHIMPs, in the form of Congressionally-enacted rescissions or one-year delays of spending with net zero outlay reductions over time. Congress has started to reduce the reliance on CHIMPs with no net outlay reductions by setting decreasing limits in the budget resolution of \$19.1 billion in 2016, \$17.0 billion in 2018, and \$15.0 billion in 2019. The Administration supports these efforts and limits the use of CHIMPs with no outlay savings to \$13.9 billion in the 2018 Budget.

Limit on Discretionary Advance Appropriations

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

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

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

The Budget includes \$27,870 million in advance appropriations for 2019 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 2019, below the limits included in sections 3202 and 3304 for the Senate and the House, respectively, of the Concurrent Resolution on the Budget for Fiscal Year 2016 (S. Con. Res. 11). Those limits apply only to the accounts explicitly specified in the joint explanatory statement of managers accompanying S. Con. Res. 11.

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 2019 veterans medical care funding request.

For a detailed table of accounts that have received discretionary and mandatory advance appropriations since 2016 or for which the Budget requests advance appropriations for 2019 and beyond, please refer to the Advance Appropriations chapter in the *Appendix*.

Wildland Fire Suppression Funding

The Administration continues to review potential administrative actions and legislative options to address longstanding concerns regarding how budgeting occurs for wildland fire suppression. The Administration will work with the Congress during the 2018 budget cycle to develop a responsible approach that addresses risk management, performance accountability, cost containment, and the role of State and local government partners in ensuring adequate funds are available for wildfire suppression without undue disruption to land management operations.

Budgetary Treatment of Surface Transportation Infrastructure Funding

Currently, surface transportation programs financed from the Highway Trust Fund (HTF) are treated as hybrids: contract authority is classified as mandatory, while outlays are 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.

Contract authority is a unique form of mandatory budget authority (BA) that permits authorized programs to obligate Federal funds for expenditure in advance of appropriations. Obligations of contract authority authorized for surface transportation programs are then satisfied by outlays from the HTF. Unlike discretionary budget authority provided through annual appropriations bills (which is controlled through 302(b) allocations), most Federal funding for surface transportation programs is provided by the authorizing committees within the authorization bills in the form of contract authority.

The appropriations committees limit the annual obligations that HTF programs can incur in a given year. It is the annual obligation limitation that represents the actual spending level. Although authorization language prescribes obligation limitation levels for each year, the appropriators may adjust these amounts. Hence, both authorizers and appropriators have a hand in setting transportation spending. For scoring purposes, Congress and the Administration score budget authority from contract authority to the authorizers but score outlays from obligation limitations to the appropriators.

Highway Trust Fund Solvency.—The Highway Revenue Act of 1956 introduced the HTF to accelerate the devel-

opment 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. 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 had 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.

Recent passage of the Fixing America's Surface Transportation Act, or 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.

Highway Trust Fund in the 2018 Budget.—For 2018, the Administration is requesting obligation limitation levels for HTF programs equal to the Contract Authority levels provided in the FAST Act, and those levels are frozen at the 2018 level through 2027. The Budget also reflects the FAST Act contract authority levels for the remainder of the Act, through 2020. After 2020 contract authority is frozen at the 2020 level.

Beginning in 2021, the Budget assumes HTF outlays at levels supported with existing HTF tax receipts. DOT is unable to make reimbursements to States and grantees in excess of the receipts into the HTF. Relative to baseline levels, this presentation shows a reduction in total HTF outlays by \$95 billion over the 2021-2027 window.

The fact that the HTF has required \$140 billion in General Fund transfers to stay solvent points to the need for a comprehensive reevaluation of the surface transportation funding regime. 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.

Infrastructure Initiative

The overriding goal of the Administration's infrastructure initiative is to bring about up to \$1 trillion in new investment in the Nation's physical infrastructure through long-term reforms to how infrastructure projects are regulated, funded, delivered, and maintained. This proposal will include a combination of policy, regulatory, and legislative proposals, ranging from changes to existing programs, to the creation of new programs and initiatives to reshape how the Federal government invests, permits, and collaborates on infrastructure. The 2018 Budget includes \$200 billion in mandatory outlays to support this effort, which the Administration will use to make targeted investments to incentivize State, local, private, and other partners to significantly expand their infrastructure investments.

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 \$1060 is provided automatically by the College Cost Reduction and Access Act (CCRAA), as amended.
- The cost of each Pell Grant is funded by discretionary budget authority provided in annual appropriations acts, along with mandatory budget authority provided not only by the CCRAA, as amended, and the BCA, but also by amendments to the Higher Education Act of 1965 contained in the 2011 and 2012 appropriations acts. There is no programmatic 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 scorekeepers agreed to a special scorekeeping rule for Pell. Under this rule, the annual appropriations bill is charged with the full Congressional Budget Office estimated cost of the Pell Grant program for the budget year, plus or minus any cumulative shortfalls or surpluses from prior years. This scorekeeping rule was adopted by the Congress as §406(b) of the Concurrent Resolution on the Budget for Fiscal Year 2006 (H. Con. Res. 95, 109th Congress).

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

The total cost of Pell Grants can fluctuate from year to year, even with no change in the maximum Pell Grant award, because of changes in enrollment, college costs, and 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 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. The 2018 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, throughout the 10-year budget window (see Table 10-3). These estimates have changed significantly from year to year, which illustrates continuing uncertainty about Pell program costs, and the year in which a shortfall will reemerge.

The 2018 Budget reflects the Administration's commitment to ensuring students receive the maximum Pell Grant for which they are eligible, and enhances the program by supporting year-round Pell eligibility. First, the Budget provides sufficient resources to fully fund Pell Grants in the award years covered by the budget year, and subsequent years. The Budget provides \$22.4 billion in discretionary budget authority in 2018, the same level of discretionary budget authority provided in the Furthering Continuing Appropriations Act, 2017 (P.L. 114-254). Level-funding Pell in 2018, combined with available budget authority from the previous year and mandatory funding provided in previous legislation, provides \$13.6 billion more than is needed to fully fund the program in the 2018-19 award year.

In light of these additional resources, the Budget proposes a cancellation of \$3.9 billion from the unobligated carryover from 2017. Then, with significant budget authority still available in the program, the Budget also proposes to provide more flexibility to students by sup-

Table 10-3. DISCRETIONARY PELL FUNDING NEEDS

(Dollars in Billions)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Discretionary Pell Funding Needs (Baseline)										
Estimated Program Cost for \$4,860 Maximum Award	21.7	22.2	22.5	22.9	23.2	23.6	24.1	24.5	24.8	25.1
Cumulative Incoming Surplus	11.4	.....	.....	.....	.....	.....	.....	.....	.....	.....
Mandatory Budget Authority Available	1.4	1.4	1.4	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Total Additional Budget Authority Needed	8.9	20.8	21.1	21.7	22.0	22.5	22.9	23.3	23.6	24.0
Fund Pell at 2017 Level	22.4	22.4	22.4	22.4	22.4	22.4	22.4	22.4	22.4	22.4
Surplus/Funding Gap from Prior Year .....	.....	13.6	15.2	16.6	17.3	17.7	17.6	17.2	16.3	15.1
Cumulative Surplus/(Discretionary Funding Gap)	13.6	15.2	16.6	17.3	17.7	17.6	17.2	16.3	15.1	13.5
Effect of 2018 Budget Policies										
Year-Round Pell	-1.2	-1.2	-1.2	-1.3	-1.3	-1.3	-1.3	-1.3	-1.4	-1.4
Cancellation of Unobligated Balances	-3.9	.....	.....	.....	.....	.....	.....	.....	.....	.....
Mandatory Funding Shift*	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4
Surplus/Funding Gap from Prior Year .....	.....	8.2	8.2	8.1	7.2	6.0	4.3	2.2	-0.5	-3.4
Cumulative Surplus/(Discretionary Funding Gap)	8.2	8.2	8.1	7.2	6.0	4.3	2.2	-0.5	-3.4	-6.7

* 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.

porting year-round Pell. This policy allows students the opportunity to earn a third semester of Pell Grant support during an award year, boosting Pell Grant aid disbursed by \$1.5 billion in award year 2018 to approximately 900,000 students. Year-round Pell would also help incentivize students to complete their degrees faster, which can

help them reduce their loan debt and enter the workforce sooner. Year-round Pell increases future discretionary Pell program costs by \$13 billion over 10 years (see Table 10–3). With the proposed cancellation and the increase for year-round Pell, the Pell program still is expected to have sufficient discretionary funds until 2025.

II. BUDGET ENFORCEMENT AND BUDGET PRESENTATION

Statutory PAYGO

The Statutory Pay-As-You-Go Act of 2010 (PAYGO, or “the Act”; Public Law 111-139) was enacted on February 12, 2010. Drawing upon the PAYGO provisions enacted as part of the Budget Enforcement Act, the 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. Mandatory spending encompasses any spending except that controlled by the annual appropriations process.²

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. Off-budget programs (primarily 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, one piece of legislation was 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 Congress adjourns at the end of a session with 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.

² Mandatory spending is termed direct spending in the PAYGO Act. The term mandatory encompasses entitlement programs, e.g., Medicare and Medicaid, and any funding not controlled by annual appropriations bills, such as the automatic availability of immigration examination fees to the Department of Homeland Security.

As was the case during the 1990s, the PAYGO sequestration has not been required during the seven Congressional sessions since the PAYGO Act reinstated the statutory PAYGO requirement. For each of those sessions, OMB’s annual PAYGO reports showed net savings in the budget year column of both the 5- and 10-year scorecards. For the second session of the 114th Congress, the most recent session, enacted legislation placed costs of \$478 million in each year of the 5-year scorecard and \$980 million in each year of the 10-year scorecard. The new costs in 2017 lowered the balances of savings from prior sessions of the Congress in 2017, the budget year column, and resulted in total net savings of \$4,418 million on the 5-year scorecard, and \$14,468 million on the 10-year scorecard, so no sequestration was required.³

There are limitations to Statutory PAYGO’s usefulness as a budget enforcement tool. Although the scorecard consistently shows net savings from legislation subject to the PAYGO rules, a number of laws that significantly increased deficits were enacted with provisions directing that these deficit effects be ignored for PAYGO purposes. PAYGO also suffers from the technical flaws of excluding off-budget programs, ignoring effects outside of the 11-year window, and excluding the debt service costs associated with direct changes in the deficit.

Estimating the Impacts of Debt Service

New legislation that affects direct spending and revenue will also indirectly affect interest payments on the national 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 Statutory PAYGO Act of 2010, 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

The Administration continues to review potential administrative actions by Executive Branch agencies affecting entitlement programs, as stated in a memorandum issued on May 23, 2005, by the Director of the Office of Management and Budget. This memo effectively established a PAYGO requirement for administrative actions involving mandatory spending programs, so that agen-

³ OMB’s annual PAYGO reports and other explanatory material about the PAYGO Act are available on OMB’s website.

cies administering these programs have a requirement to keep costs low. Exceptions to this requirement are only provided in extraordinary or compelling circumstances.⁴

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 2018, the Budget supports maintaining the topline for base discretionary programs at the Joint Committee-enforced level but proposes rebalancing Federal responsibilities by restoring the reductions made to the defense cap by reducing the non-defense cap by about the same amount. After 2018, the Budget proposes new caps that shift resources from non-defense programs by further reducing the non-defense cap over the 2019–2027 window by 2 percent per year (the “2-penny” plan) while increasing the defense category spending by 2.1 percent per year. The Defense base cap estimates for 2019–2027 reflect inflated 2018 levels, not a policy judgment. The Administration will determine 2019–2027 defense funding levels in the 2019 Budget, in accordance with the National Security Strategy, National Defense Strategy, and Nuclear Posture Review that are currently under development. 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 2018 Budget are reduced further to account for policy decisions 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 no reduction is included to allow for those savings to be redirected to critical national security investments within the category.

Air Traffic Control Privatization.—The Administration proposes to shift the Federal Aviation Administration’s (FAA) air traffic control function into a non-governmental entity beginning in 2021. 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 \$10.4 billion in budget authority from 2021 to 2027; 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 cap levels starting in 2019. This proposal starts at a reduction of discretionary budget authority of \$6.6 billion in 2019 and totals \$70 billion in reduced discretionary spending over the 2019 to 2027 period.

Gross versus net reductions in Joint Committee sequestration

The net realized savings from Joint Committee mandatory sequestration are less than the amounts required by the sequestration calculation as a result of requirements in BBEDCA. The 2018 Budget shows the net effect of Joint Committee sequestration reductions by accounting for reductions in 2018 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 BA and outlays from these “pop-up” resources are included in the baseline and policy estimates and amount to a cost of \$2.5 billion in 2018. Additionally, the 2018 Budget accounts for \$669 million in lost savings that results from the sequestration of certain interfund payments. Such payments produce 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, any Treasury equity investments in the GSEs would be 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 2018 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

⁴ For a review of the application of Administrative PAYGO, see *USDA’s Application of Administrative PAYGO to Its Mandatory Spending Programs*, GAO, October 31, 2011, GAO-11-921R.

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 this goal 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 Services' 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 the Treasury rate. 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 Congressional Budget Office (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 2016 (S. Con. Res. 11) also included language supporting the use of fair value. 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.

Budget Presentation of Immigration Policy and Reforms

The Administration is exploring a future change to budget presentation that would make transparent the net budgetary effects of immigration programs and policy. The goal of such changes would be to better capture the impact of immigration policy decisions on the federal Government's fiscal path. Once the net effect of immigration on the Federal budget is more clearly illustrated, the American public can be better informed about options for improving policy outcomes and savings taxpayer resource. To that end, the Budget supports reforming the U.S. immigration system to encourage a merit-based system of entry for legal immigrants, ending the entry of illegal immigrants, and a substantial reduction in refugees slotted for domestic resettlement.

