10. BUDGET PROCESS

This chapter addresses several broad categories of budget process—the budget enforcement framework and related proposals, presentation, and reforms issues. First, the chapter discusses proposals related to budget enforcement. These proposals include: an explanation of the discretionary levels in the 2023 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) of scoring legislation affecting receipts and mandatory spending; and an extension of the spending reductions required by Section 251A of the Balanced Budget and Emergency Deficit Reduction Act (BBEDCA).

Second, this chapter describes proposals in budget presentation. The proposals include a discussion about adjustments to the BBEDCA baseline for spending enacted in the historic Infrastructure Investment and Jobs Act (IIJA, Public Law 117-58); a proposed reclassification of Contract Support Costs (CSCs) and Payments for Tribal Leases accounts in the Department of the Department of the Interior's Bureau of Indian Affairs; the Pell Grant program; improvements to how Joint Committee sequestration is shown in the Budget; and the budgetary treatment of the housing Government-sponsored enterprises and the United States Postal Service.

Third, this chapter describes reform proposals to improve budgeting with respect to individual programs as well as across Government. These proposals include: changes to capital budgeting for large civilian Federal capital projects; increases in funding and changes in how funding occurs for the Indian Health Services program at the Department of Health and Human Services; and changes to retiree medical care for the Department of Defense.

I. BUDGET ENFORCEMENT FRAMEWORK AND PROPOSALS

Discretionary Spending Levels

The 2023 Budget builds on the success in the 2022 congressional budget and appropriations processes by requesting funding levels that are appropriate for a budget resolution for 2023 rather than new caps on discretionary funding. The multi-year discretionary caps enacted in the BCA led to a decade of underinvestment in critical non-defense discretionary programs. The Administration intends to continue working with the Congress on reinvesting in research, education, public health, and other core functions of Government. The Congress followed the path the Administration put forward in its 2022 Budget by passing the Concurrent Resolution on the Budget for Fiscal Year 2022 (S.Con.Res. 14; 2022 budget resolution). Because the 2022 budget resolution retained many of the useful mechanisms of the statutory caps by defining base levels while allowing for adjustments to those levels above-base activities such as program integrity, disaster relief, and wildfire suppression, the 2023 Budget continues this approach.

For base defense programs, the 2023 Budget proposes a level of $813 billion, which is about 10 percent higher than the 2021 actual level. The amounts in the 2023 Budget are based on the forthcoming National Security and National Defense strategies and the Department of Defense Future Years Defense Program, which includes a five-year appropriations plan and estimated expenditures necessary to support the programs, projects, and activities of the Department of Defense. After 2027, the Budget mechanically extrapolates the growth rate from the final year of the five-year appropriations plan.

For non-defense, the 2023 Budget proposes to separate out the Veterans Affairs (VA) medical care program, requested at $119 billion, from the rest of non-defense discretionary spending, requested at $650 billion. The non-defense non-VA medical care base discretionary request of $650 billion is a 19-percent increase over the 2021 actual level and a 9.5 percent increase when compared to preliminary estimates of enacted 2022 non-defense appropriations, as estimated by the Congressional Budget Office after adjusting for VA medical care.

The Budget separates VA medical care as a third category within the discretionary budget based on a recognition that VA medical care has grown much more rapidly than other discretionary spending over time, largely due to systemwide growth in health care costs. Setting a separate budget allocation for VA medical care could help ensure adequate funding for veterans' health care without shortchanging other critical programs. After 2023, VA medical care receives an increase for its 2024 advance appropriation followed by current services growth in the remaining years while non-defense receives current services growth in all years after 2023. The discretionary policy levels are reflected in Table S–7 of the main *Budget* volume and proposed adjustments to the base appropriations levels are described below.

ADJUSTMENTS TO BASE DISCRETIONARY FUNDING LEVELS

Program Integrity Funding

There is compelling evidence that investments in administrative resources can significantly decrease the rate of improper payments and recoup many times their initial investment for certain programs. In such programs, using adjustments to base discretionary funding for program integrity activities allows for the expansion of oversight and enforcement activities in the largest benefit programs including Social Security, Unemployment Insurance, Medicare and Medicaid. In such cases, where return on investment using discretionary dollars is proven, adjustments to base discretionary funding are a useful budgeting tool. When the BCA was in place, BBEDCA allowed the discretionary caps to be adjusted to account for the discretionary funding that supported savings in these mandatory programs because budget scoring rules do not allow the mandatory savings to be credited for budget enforcement purposes.

The Administration continues to support making these discretionary investments, maintaining the same structure under the BCA, where adjustments were available only if appropriations meet a minimum amount. The Administration funds base amounts similar to previous years funding, and adjusts base discretionary spending upward for these dedicated amounts. The treatment of this funding in the Budget is consistent with Congress' use of congressional allocation adjustments done through the annual budget resolution process (see Chapter 8 the Budget Concepts for more information on this process). The adjustment amounts proposed extend through 2032 at the rate of inflation assumed in the 2023 Budget, except for funding for the Unemployment Insurance program, where the Budget adopts the outyear levels adopted by Congress through 2027, then allows the amounts to grow with inflation through the Budget window, and for Social Security, where the requested funding stream reflects a full complement of program integrity initiatives described below. The Budget shows the mandatory program savings from 10 years of discretionary program integrity funding separate from the baseline projections for spending in Social Security, Unemployment Insurance, Medicare and Medicaid. This separation allows the Administration to clearly show the effects of the savings from these proposed discretionary program integrity amounts that receive special budgetary treatment.

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

Social Security Administration (SSA) Dedicated Program Integrity Activities.—SSA takes seriously its responsibilities to ensure eligible individuals receive the benefits to which they are entitled, and to safeguard the integrity of benefit programs to better serve recipients. The Budget's proposed discretionary amount of $1,799 million ($288 million in base funding and $1,511 million in adjustment funding) will allow SSA to conduct 700,000 full medical continuing disability reviews (CDRs) and approximately 2.2 million Supplemental Security

Table 10–1. PROGRAM INTEGRITY DISCRETIONARY ADJUSTMENTS AND MANDATORY SAVINGS
(Budget authority and outlays in millions of dollars)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	10-year Total
Social Security Administration (SSA) Program Integrity:											
Discretionary Budget Authority (non add)[1]	1,511	1,583	1,393	1,509	1,582	1,629	1,686	1,771	1,803	1,836	16,303
Discretionary Outlays[1]	1,516	1,579	1,405	1,502	1,577	1,626	1,683	1,765	1,801	1,834	16,288
Mandatory Savings[2]	–112	–1,776	–3,142	–3,992	–4,885	–6,021	–6,289	–7,440	–8,242	–8,981	–50,880
Net Savings	1,404	–197	–1,737	–2,490	–3,308	–4,395	–4,606	–5,675	–6,441	–7,147	–34,592
Health Care Fraud and Abuse Control Program:											
Discretionary Budget Authority/Outlays[1]	576	593	611	629	648	667	687	708	729	751	6,599
Mandatory Savings[2, 3]	–1,119	–1,181	–1,246	–1,315	–1,354	–1,393	–1,435	–1,479	–1,523	–1,569	–13,614
Net Savings	–543	–588	–635	–686	–706	–726	–748	–771	–794	–818	–7,015
Unemployment Insurance (UI) Program Integrity:											
Discretionary Costs[1]	258	433	533	608	633	648	662	678	693	709	5,855
Mandatory Savings[2]	–474	–683	–700	–630	–618	–599	–585	–578	–861	–924	–6,652
Net Savings	–216	–250	–167	–22	15	49	77	100	–168	–215	–797

[1] The discretionary costs are equal to the outlays associated with the budget authority levels proposed for adjustments to the non-defense discretionary levels in the 2023 Budget.For SSA, the costs for 2023 through 2032 reflect the costs to complete the anticipated dedicated program integrity workloads for SSA; for HCFAC the costs for each of 2023 through 2032 are equal to the outlays associated with the budget authority levels inflated from the 2023 level for HCFAC, using the 2023 Budget assumptions. The UI levels for 2022 through 2027 are equal to the amounts authorized for congressional enforcement, while the remaining years are inflated from the 2027 level.

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

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

Income (SSI) non-medical redeterminations of eligibility. The Social Security Act requires that SSA conducts medical CDRs, which are periodic reevaluations to determine whether disabled Old-Age, Survivors, and Disability Insurance (OASDI) or SSI beneficiaries continue to meet SSA's standards for disability. Redeterminations are periodic reviews of non-medical eligibility factors, such as income and resources, for the means-tested SSI program and can result in a revision of the individual's benefit level. Program integrity funds also support the anti-fraud cooperative disability investigation (CDI) units and special attorneys for fraud prosecutions. To support these important anti-fraud activities, the Budget provides for SSA to transfer up to $15.1 million to the SSA Inspector General to fund CDI unit activities.

The Budget includes a discretionary adjustment for each year of the 10-year budget window. Because the discretionary caps expired in 2021, the Budget reflects this adjustment for use in the Congressional budget process, pursuant to the Congressional Budget Act. As a result of the discretionary funding requested in 2023, as well as the fully funded base and continued funding of adjustment amounts in 2024 through 2032, the OASDI, SSI, Medicare and Medicaid programs would recoup about $75 billion in gross Federal savings, including approximately $51 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 $35 billion in the 10-year window, and provide 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. SSA uses predictive models to prioritize the completion of redeterminations based on the likelihood of change in non-medical factors. The frequency of CDRs and redeterminations relies on the availability of funds to support these activities. The mandatory savings from the base funding in every year and the discretionary adjustment funding assumed for 2022 are included in the baseline, as the baseline assumes the continued funding of program integrity activities. The Budget shows the savings that would result from the increase in CDRs and redeterminations made possible by the discretionary adjustment funding requested in 2023 through 2032. These amounts fully support the dedicated program integrity workloads. With access to the amounts proposed, SSA is on track to regain currency in its CDR workload in 2023 and prevent new backlogs from forming throughout the budget window.

Current estimates indicate that CDRs conducted in 2023 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 2023 will yield a ROI of about $3 on average of net Federal program savings over 10 years per $1 budgeted for dedicated program integrity funding, including SSI and Medicaid program effects. The Budget assumes the full cost of performing CDRs to ensure that sufficient resources are available. The savings from one year of program integrity activities are realized over multiple years, as some reviews find that beneficiaries are no longer eligible to receive OASDI or SSI benefits.

The savings resulting from redeterminations will be different for the base funding and the adjustment funding levels in 2023 through 2032 because redeterminations of eligibility can uncover both underpayment and overpayment errors. SSI recipients are more likely to initiate a redetermination of eligibility if they believe there are underpayments, and these recipient-initiated redeterminations are included in the base program amounts provided annually. The estimated savings per dollar spent on CDRs and non-medical redeterminations in the baseline reflects an interaction with the Affordable Care Act's expansion of Medicaid to additional low-income adults, as a result of which some SSI beneficiaries, who would otherwise lose Medicaid coverage due to a medical CDR or non-medical redetermination, would continue to be covered.

Health Care Fraud and Abuse Control Program (HCFAC).—The Budget proposes base and adjustment funding levels over the next 10 years growing at the rate of inflation in the Budget. The discretionary base funding of $323 million and adjustment of $576 million for HCFAC activities in 2023 includes funding to invest in additional Medicare medical review; support Medicaid program integrity data analytics, the Medicaid and CHIP Program System (MACPro), and Medicaid error rate measurement; and data analytics and improper payment measurement work in the Marketplaces. The funding is to be allocated among the Centers for Medicare & Medicaid Services (CMS), the Health and Human Services Office of Inspector General, and the Department of Justice.

Over 2023 through 2032, as reflected in Table 10-1, this $6.6 billion investment in HCFAC adjustment funding will generate approximately $13.6 billion in savings to Medicare and Medicaid. This results in net deficit reduction of $7.0 billion over the 10-year period, reflecting prevention and recoupment of improper payments made to providers, as well as recoveries related to civil and criminal penalties. For HCFAC program integrity efforts, CMS actuaries conservatively estimate approximately $2 is saved or averted for every additional $1 spent.

Reemployment Services and Eligibility Assessments (RESEA).—The Bipartisan Budget Act of 2018 (BBA) established a new adjustment to discretionary base funding for program integrity efforts targeted at Unemployment Insurance through 2027. The RESEA adjustment is permitted up to a maximum amount specified in the law if the underlying appropriations bill first funds

a base level of $117 million for Unemployment Insurance program integrity activities. The Budget proposes adjustment levels at the same amount enacted in the BBA. Program integrity funding in 2028 through 2032 continues to rise by the inflation estimated in the Budget. Table 10-1 shows the mandatory savings of $6.7 billion over 10 years, which includes an estimated $967 million reduction in State unemployment taxes. When netted against the discretionary costs for the cap adjustment funding, the 10-year net savings for the program is $797 million.

Disaster Relief Funding

The 2023 Budget maintains the same methodology for determining the funding ceiling for disaster relief used in previous budgets and adopted in the 2022 budget resolution. At the time the 2023 Budget was prepared, OMB estimated the total adjustment available for disaster funding for 2023 at $20.1 billion. This ceiling estimate is based on three components: a 10-year average of disaster relief funding provided in prior years that excludes the highest and lowest years ($11.0 billion); 5 percent of Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act) amounts designated as emergency requirements since 2012 ($9.1 billion); and carryover from the previous year ($0 billion). Because 2022 appropriations were not completed in time to be reflected in the 2023 Budget, these estimates all assume enactment of the Administration's 2022 request for disaster funding. In addition, the estimate of emergency requirements for Stafford Act activities was updated based on applicable amounts provided in the Disaster Relief Supplemental Appropriations Act, 2022 (division B of Public Law 117-43) and the Infrastructure Investment and Jobs Act (division J of Public Law 117-58). For 2023, the Administration is requesting $19.7 billion in funding for the Federal Emergency Management Agency's (FEMA) Disaster Relief Program, of which nearly $9 billion will address the significant and ongoing recovery needs from the COVID-19 pandemic, $1 billion will go towards Building Resilient Infrastructure Communities (BRIC), and more than $0.1 billion for the Small Business Administration's Disaster Loans Program. The request covers the costs of Presidentially-declared major disasters, including identified costs for previously declared catastrophic events and the estimated annual cost of non-catastrophic events expected to be obligated in 2023.

Consistent with past practice, the 2023 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 2023, 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 ($11.0 billion) of disaster relief currently estimated under the formula for the 2023 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 country. The cost of fighting wildfires has increased due to landscape conditions resulting from drought, pest and disease damage, overgrown forests, expanding residential and commercial development near the borders of public lands, and program management decisions. 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 reached a record $2.6 billion, necessitating transfers of $720 million from other non-fire programs. Historically, these transfers have been repaid in subsequent appropriations; however, "fire borrowing" impedes the missions of land management agencies to reduce the risk of catastrophic fire and restore and maintain healthy functioning ecosystems.

To create funding certainty in times of wildfire disasters, the Consolidated Appropriations Act of 2018 (CAA) enacted a new cap adjustment to BBEDCA, which began in 2020. This adjustment was adopted in the 2022 budget resolution and the Administration proposes continuing this framework in the Budget. The adjustment is permitted so long as a base level of funding for wildfire suppression operations is funded in the underlying appropriations bill. The base level is defined as being equal to average cost over 10 years for wildfire suppression operations that was requested in the President's 2015 Budget. These amounts have been determined to be $1,011 million for the Department of Agriculture's Forest Service and $384 million for the Department of the Interior (DOI). The 2023 Budget requests these base amounts for wildfire suppression and seeks the full $2,550 million adjustment specified in the CAA of 2018 for 2023 with $2,210 million included for Forest Service and $340 million included for DOI. Providing the full level will ensure that adequate resources are available to fight wildland fires, protect communities, and safeguard human life during the most severe wildland fire season.

For the years after 2023, the Administration does not have sufficient information about future wildfire suppression needs and, therefore, includes a placeholder in the 2023 Budget for wildfire suppression in each of the outyears that is equal to the current 2023 request. Actual funding levels, up to but not exceeding the authorized funding adjustments, will be decided on an annual basis as part of the normal budget process.

Limit on Discretionary Advance Appropriations

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

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

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

The Budget includes $28,768 million in advance appropriations for 2024, 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 allow discretionary advance appropriations for veterans medical care, as is required by the Veterans Health Care Budget Reform and Transparency Act (Public Law 111-81). The 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 healthcare 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 2024 veterans medical care funding request.

For a detailed table of accounts that have received discretionary and mandatory advance appropriations since 2021 or for which the Budget requests advance appropriations for 2024 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, subject to specific exceptions, all legislation enacted during each session of the Congress changing taxes or mandatory expenditures and collections not increase projected deficits.

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

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

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

As was the case during an earlier PAYGO enforcement regime in the 1990s, the PAYGO sequestration has not been required since the PAYGO Act reinstated the statutory PAYGO requirement. For the first session of the 117th Congress, the most recently completed session, enacted legislation placed costs of $370.6 billion in each year of the 5-year scorecard and $187 million in each year of the 10-year scorecard. However, the budget year balance on each of the PAYGO scorecards is zero because the Protecting Medicare and American Farmers from Sequester Cuts Act (Public Law 117-71) shifted the debits on both scorecards from fiscal year 2022 to fiscal year 2023. Consequently, no PAYGO sequestration was required in 2022. [1]

BBEDCA Section 251A Reductions

In August 2011, as part of the Budget Control Act of 2011 (BCA; Public Law 112-25), bipartisan majorities in both the House and Senate voted to establish the Joint Select Committee on Deficit Reduction to recommend leg-

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

islation to achieve at least $1.5 trillion of deficit reduction over the period of fiscal years 2012 through 2021 (Joint Committee sequestration). The failure of the Congress to enact such comprehensive deficit reduction legislation to achieve the $1.5 trillion goal triggered a sequestration of discretionary and mandatory spending in 2013, led to reductions in the discretionary caps for 2014 through 2021, and forced additional sequestrations of mandatory spending in each of fiscal years 2014 through 2021. Sequestration of mandatory resources was continued in a series of laws for each year through 2031; as required a sequestration order for fiscal year 2023 will be released with the 2023 Budget. That sequestration is now called the BBEDCA 251A sequestration, after the Balanced Budget and Emergency Deficit Control Act, as amended (BBEDCA), the law where mandatory sequestration continues to be extended.

The discretionary cap regime in place under the BCA expired at the end of fiscal year 2021. Prior to the that time, various laws changed the annual reductions required to the discretionary spending limits set in the BCA through 2021. The Bipartisan Budget Act of 2019 (BBA of 2019; Public Law 116-37) adjusted these discretionary spending limits for fiscal years 2020 and 2021, the last years of the BCA caps. The future reductions to mandatory programs are to be implemented by a sequestration of non-exempt mandatory budgetary resources in each of fiscal years 2023 through 2031, and are triggered annually by the transmittal of the President's Budget for each year and take effect on the first day of the fiscal year. The Budget proposes to continue mandatory sequestration into 2032 and smooth the impact on Medicare by reducing the Medicare percentage to 2 percent in 2030 and 2031 while extending it through 2032. This proposal generates $12.4 billion in deficit reduction.

II. BUDGET PRESENTATION

Adjustments to BBEDCA Baseline for the Infrastructure Investment and Jobs Act (IIJA)

In order to provide a more realistic outlook for the deficit under current legislation and policies, the Budget proposals are presented relative to a baseline that makes adjustments to the statutory baseline defined in BBEDCA. Section 257 of BBEDCA provides the rules for constructing the baseline used by the Executive and Legislative Branches for scoring and other legal purposes. The adjustments made by the Administration are not intended to replace the BBEDCA baseline for these purposes, but rather are intended to make the baseline a more useful benchmark for assessing the deficit outlook and the impact of budget proposals. They also present a more realistic picture of the spending enacted in the historic infrastructure bill (Public Law 117-58, IIJA).

That historic infrastructure bill provided $457.6 billion in discretionary funding over ten years, some of it designated as both discretionary and emergency under BBEDCA. The law provided funding in 2022 only for some programs, and discretionary multi-year advances for other programs (usually 2022-2026). The Administration's adjusted baseline does not extend and inflate emergency funding provided for only 2022 in the baseline, since there is no expectation these funds will be provided in 2023. The multi-year advance appropriations are extended and inflated in the baseline beginning the year after the last year of funding provided under current law, generally 2026. However, the 2023 Budget request eliminates the continuation of the multi-year advance appropriation past the last year of funding provided.

IIJA also reauthorized surface transportation programs and provided higher contract authority (CA) for 2022-2026. However, under BBEDCA rules, spending would not increase in the baseline until future appropriations set the obligations limitations (oblims) to reflect that higher CA amount. The Administration's baseline adjusts surface transportation spending up to the higher levels enacted in IIJA for 2022. By increasing the oblim in 2022 to the level of IIJA contract authority in 2022 and extending and inflating that level through the 10-year budget window, spending is closely aligned to the levels provided for in IIJA. The 2023 Budget request shows the 2023 oblims, and thus spending, at the level of contract authority provided in IIJA, inflated into the outyears. Measuring this policy against a baseline that does not account for the 2022 spending enacted in IIJA would artificially distort the true cost of the policy choices made for 2023.

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

The 2023 Budget proposes to reclassify Contract Support Costs (CSCs) and Payments for Tribal Leases, programs that historically have been funded as discretionary in Department of the Interior's Bureau of Indian Affairs, as mandatory. Specifically, the Budget proposes that, beginning in 2023, the CSCs and Payments for Tribal Leases accounts will continue to be funded through the annual appropriations process but will be reclassified as mandatory funding. The 2023 Budget requests $464 million in 2023 and the reclassification totals $5.1 billion over 10 years. This shift is shown in the discretionary funding tables in the Budget by reducing the base discretionary in the amount of the 2023 Budget request, inflated into the 10-year window. Separately, the Administration is proposing broader changes to fund the programs in the Department of Health and Human Services' Indian Health Service, as described in the third section of this Chapter (Budget Reform proposals).

Pell Grants

The Pell Grant program includes features that make it unlike other discretionary programs, including that Pell Grants are awarded to all applicants who meet income and other eligibility criteria. This section provides

some background on the unique nature of the Pell Grant program and explains how the Budget accommodates changes in discretionary costs.

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

- The Pell Grant program acts like an entitlement program, such as the Supplemental Nutrition Assistance Program or Supplemental Security Income, in which anyone who meets specific eligibility requirements and applies for the program receives a benefit. Specifically, Pell Grant costs in a given year are determined by the maximum award set in statute, the number of eligible applicants, and the award for which those applicants are eligible based on their needs and costs of attendance. The maximum Pell award for the academic year 2021-2022 is $6,495, of which $5,435 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.

[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 the fall of one year is intended for the subsequent academic year, which begins in the following July. Second, even though the amount of funding is predicated on the expected cost of Pell during one academic year, the money is made legally available for the full 24-month period covering the current fiscal year and the subsequent fiscal year. This means that, if the funding for an academic year proves inadequate, the following year's appropriation will legally be available to cover the funding shortage for the first academic year. The 2023 Budget appropriations request, for instance, will support the 2023-2024 academic year beginning in July 2022 but will become available in October 2022 and can therefore help cover any shortages that may arise in funding for the 2022-2023 academic year.

Table 10–2. DISCRETIONARY PELL FUNDING NEEDS
Amounts in millions ($)

Discretionary Pell Funding Needs (Baseline)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Estimated Program Cost for $5,435 Disc. Maximum Award	22,414	25,543	25,980	26,419	26,875	28,152	28,593	29,059	29,546	29,901
Baseline Discretionary Appropriation - 2021 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	15,929	17,161	15,263	12,928	10,155	6,925	2,418	–2,529	–7,943	–13,844
Mandatory Budget Authority Available	1,170	1,170	1,170	1,170	1,170	1,170	1,170	1,170	1,170	1,170
Baseline Discretionary Surplus/Funding Gap (–)	17,161	15,263	12,928	10,155	6,925	2,418	–2,529	–7,943	–13,844	–20,099

Effect of 2023 Budget Policies on Discretionary Pell Funding Needs

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Increase Discretionary Maximum Award to $6,335	–4,374	–4,619	–4,674	–4,733	–4,799	–5,062	–5,139	–5,226	–5,317	–5,404
Increase Mandatory Add-On to Double Grant by 2029	....	25	33	40	50	25	30	34	39	45
Mandatory Funding Shift[1]	–141	–125	–125	–126	–125	–148	–148	–149	–150	–151
Increase Discretionary Appropriation by $1.8 billion	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Annual Effect of 2023 Budget Policies	–2,715	–2,919	–2,966	–3,019	–3,074	–3,385	–3,457	–3,541	–3,628	–3,710
Cumulative Effect of 2023 Budget Policies	–2,715	–5,634	–8,600	–11,619	–14,693	–18,078	–21,535	–25,076	–28,704	–32,414
2023 Budget Discretionary Surplus/ Funding Gap (–)	14,446	9,629	4,328	–1,464	–7,768	–15,660	–24,064	–33,019	–42,548	–52,513

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

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. In general, the demand for and costs of the program are countercyclical to the economy; more people go to school during periods of higher unemployment, but return to the workforce as the economy improves. During the COVID pandemic, however, enrollment continued its decline since the end of the Great Recession. The Budget projects the number of Pell recipients to increase by about three percent annually, on average, over the course of the ten-year budget window. Assuming no changes in current policy, the 2023 Budget baseline expects program costs to stay within available discretionary resources until 2029 (see Table 10-2). These estimates have changed from year to year, which illustrates difficulty in forecasting Pell program costs.

The 2023 Budget reflects a significant step in the President's goal of doubling the Pell Grant. The Budget would increase the maximum Pell Grant by $2,175 over the current level for the 2021-2022 school year, for a total award of $8,670. This increase is composed of a $900 increase to the discretionary maximum award and a $1,275 increase to the mandatory portion of the award. This historic increase to the grant would increase future discretionary Pell program costs by $49 billion over 10 years (see Table 10-2). The Budget provides $24.3 billion in discretionary budget authority in 2023 to support this increase, $1.8 billion more than 2022. The Budget projects that the Pell program will still have sufficient discretionary funds to meet program costs until 2026.

Gross Versus Net Reductions in Joint Committee Sequestration

The net realized savings from Joint Committee mandatory sequestration are less than the intended savings amounts as a result of peculiarities in the BBEDCA sequestration procedures. The 2023 Budget shows the net effect of Joint Committee sequestration reductions by accounting for reductions in 2023, and each outyear, that remain in the sequestered account and are anticipated to become newly available for obligation in the year after sequestration, in accordance with section 256(k)(6) of BBEDCA. The budget authority and outlays from these "pop-up" resources are included in the baseline and policy estimates and amount to a cost of $1.506 billion in 2023. 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 $986 million in 2023.

Fannie Mae and Freddie Mac

The Budget continues to present Fannie Mae and Freddie Mac, the housing Government-sponsored enterprises (GSEs) currently in Federal conservatorship, as non-Federal entities. However, Treasury equity investments in the GSEs are recorded as budgetary outlays, and the dividends on those investments are recorded as offsetting receipts. In addition, the budget estimates reflect collections from the 10-basis point increase in GSE guarantee fees that was enacted under the Temporary Payroll Tax Cut Continuation Act of 2011 (Public Law. 112-78) and extended by the IIJA. The Budget also reflects collections from a 4.2 basis point set-aside on each dollar of unpaid principal balance of new business purchases authorized under the Housing and Economic Recovery Act of 2008 (Public Law 111-289) to be remitted to several Federal affordable housing programs. The GSEs are discussed in more detail in Chapter 19, "Credit and Insurance."

Postal Service Reforms

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 now reflects probable defaults to on-budget accounts. 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 on-budget accounts through lower projected defaults affect both the PAYGO scorecard and the unified deficit.

III. BUDGET REFORM PROPOSALS

Federal Capital Revolving Fund

The structure of the Federal budget and budget enforcement requirements can create hurdles to funding large-dollar capital investments that are handled differently at the State and local government levels. Expenditures for capital investment are combined with operating expenses in the Federal unified budget. Both kinds of expenditures must compete for limited funding within the discretionary funding levels. Large-dollar Federal capital investments can be squeezed out in this competition, forcing agency managers to turn to operating leases to meet long-term Federal requirements. These alternatives are more expensive than ownership over the long-term because: (1) Treasury can always borrow at lower interest rates; and (2) to avoid triggering scorekeeping and recording requirements for capital leases,

Chart 10-1. Scoring of $1,035 million in GSA Construction Projects using the Federal Capital Revolving Fund*

Federal Capital Revolving Fund	Year 1	Years 2-15
Mandatory:		
Transfer to purchasing agency to buy building	1,035	
Purchasing agency repayments	-69	-966

Purchasing Agency	Year 1	Years 2-15
Mandatory:		
Collection of transfer from Federal Capital Revolving Fund	-1,035	
Payment to buy building	1,035	
Discretionary:		
Repayments to Federal Capital Revolving Fund	69	966

Total Government-wide Deficit Impact	Year 1	Years 2-15	Total
Mandatory:			
Purchase building	1,035		1,035
Collections from purchasing agency	-69	-966	-1,035
Discretionary:			
Purchasing agency repayments	69	966	1,035
Total Government-wide	1,035	---	1,035

*The 2023 Budget proposes two projects, the Jacob K. Javits Federal Building estimated to cost $735 million and the Public Buildings Service Kefauver Complex estimated to cost $300 milion.

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 capital needs.

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

To deal with the drawbacks of the current Federal approach, the Budget proposes: (1) to create a Federal Capital Revolving Fund (FCRF) to fund large-dollar, federally owned, civilian real property capital projects; and (2) provide specific budget enforcement rules for the FCRF that would allow it to function, in effect, like State and local government capital budgets. This proposal incorporates principles that are central to the success of capital budgeting at the State and local level—a limit on total funding for capital investment, annual decisions on the allocation of funding for capital projects, and spreading the acquisition cost over 15 years in the discretionary operating budgets of agencies that purchase the assets. The 2023 Budget proposes that that FCRF would be capitalized initially by a $5 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 $2.5 billion or the balance in the FCRF, including annual repayments.

The Budget uses the FCRF concept to fund the Jacob K. Javits Federal Building estimated to cost $735 million and the Public Buildings Service Kefauver Complex estimated to cost $300 million. In accordance with the principles and design of the FCRF, the 2023 budget requests appropria-

tions language in the General Services Administration's (GSA) Federal Buildings Fund account, designating that the projects to be funded out of the FCRF, which is also housed within GSA, along with 1/15 of the full purchase price, or $69 million for the first-year repayment back to the FCRF. The FCRF account is displayed funding the two GSA projects in 2023 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 two modernization projects are illustrated in Chart 10–1. Current budget enforcement rules would require the entire $1.035 billion building cost to be scored as discretionary budget authority in the first year, which would negate the benefit of the FCRF and leave agencies and policy makers facing the same trade-off constraints. As shown in Chart 10–1, under this proposal, transfers from the FCRF to agencies to fund capital projects, $1.035 billion in the case of the two proposed projects in 2023, and the actual execution by agencies would be scored as direct spending (shown as mandatory in Chart 10–1), while agencies would use discretionary appropriations to fund the annual repayments to the FCRF, or $69 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 $5 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 would provide an incentive for agencies, OMB, and the Congress to select projects with the highest mission criticality and returns. OMB would review agencies' proposed projects for inclusion in the President's Budget, as shown with the NIST request, and the Appropriations Committees would make final allocations by authorizing projects in annual appropriations Acts and providing the first year of repayment. This approach would allow for a more effective capital planning process for the Government's largest civilian real property projects, and is similar to capital budgets used by State and local governments.

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

The 2023 Budget proposes increased funding for the Department of Health and Human Services' Indian Health Service (IHS). The proposal moves IHS out of the annual appropriations process and provides dedicated funding through multi-year authorizing legislation. For 2023, the Budget requests $9.1 billion in funding across the IHS accounts, and the Administration's base discretionary request is reduced by that amount to account for the shift to the mandatory side of the Budget. Overall, the Budget proposes to increase amounts for IHS annually for total funding of $248.1 billion with a net cost of $146.9 billion over the 10-year window. This proposal is presented as a part of the Administration's commitment to provide stable funding for tribal healthcare needs. Concurrently, the 2023 Budget proposes to reclassify as mandatory the contract support and tribal leasing costs in the Department of the Interior's Bureau of Indian Affairs, as described above in the Budget Presentation section.

Accrual Accounting for Department of Defense Retiree Healthcare Benefits

The 2023 Budget proposes to expand accrual financing to include all DOD retiree healthcare costs, paying for this on the discretionary side of the Budget, and to move current benefits out of the discretionary budget and over to the mandatory, or direct spending, side of the Budget. Currently, healthcare for Medicare eligible military retirees and their families is funded through the Medicare-Eligible Retiree Healthcare Fund (MERHCF) via an accrual mechanism, while healthcare for non-Medicare eligible retirees and their family members is financed through discretionary annual Defense Health Program appropriations. Under this proposal, medical care funding for non-Medicare eligible retirees and their family members would be funded in the same way as medical care is funded for Medicare eligible retirees, by expanding the current MERHCF.

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

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

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

This proposal changes only the funding mechanism to recognize the full, accruing costs of military retiree healthcare benefits and does not change the benefits, or the cost of them, in any way. However, the additional accrued costs (or savings) of any change in benefits would now be reflected in DOD's yearly discretionary contributions. Currently, DOD requests yearly appropriations for the cost of healthcare for eligible retirees. Under this proposal, DOD would request the cost of accruing future benefits, which would be paid into the expanded fund and the cost of healthcare would be funded on the mandatory side of the Budget, roughly doubling the current mandatory spending on DOD retiree medical care.

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

The proposal would shift the budget authority and outlays for current healthcare from the discretionary side to the mandatory side, increasing mandatory outlays by the amount of the benefits (paid to providers) less any collections of accrual payments made by DOD. The proposal would not be implemented until 2024. The benefit payments are expected to slightly exceed the accrual collections over the 10-year Budget window, so there would be a net increase in mandatory spending, which would be scored as a PAYGO cost of the legislation, shown in the Budget as $1.255 billion over 10 years, per Table 10-3.

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

Table 10–3. PAYGO SCORING: EXPANDING ACCRUAL ACCOUNTING FOR DOD RETIREE HEALTHCARE BENEFITS

(Outlays in millions of dollars)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	10 -year Total
Discretionary Effects:											
DOD projected accrual contributions under proposal	....	11,850	12,342	12,863	13,415	14,057	14,730	15,433	16,172	16,945	127,807
Reduce cost of current law retiree health benefits for Non-MERHCF population	....	–12,314	–12,804	–13,269	–13,766	–14,266	–14,782	–15,334	–15,937	–16,590	–129,062
DOD Discretionary Savings/Cost[1]:	....	–464	–462	–406	–351	–209	–52	99	235	355	–1,255
Intragovernmental Effects:											
Treasury UFL[2] Contributions paid from General Fund to expanded MERHCF (mandatory)	....	13,528	13,934	14,352	14,783	15,226	15,683	16,154	16,638	17,137	137,435
Treasury UFL Contributions received in expanded MERHCF (mandatory)	....	–13,528	–13,934	–14,352	–14,783	–15,226	–15,683	–16,154	–16,638	–17,137	–137,435
Interest earnings paid to MERHCF from General Fund under proposal (net interest)	....	–1,237	–3,724	1,288	–639	–1,048	–108	329	654	655	–3,829
Interest earnings received in MERCHF under proposal (net interest)	....	1,237	3,724	–1,288	639	1,048	108	–329	–654	–655	3,829
Net Effects:											
Receipt of DOD accrual contributions into the MERHCF under proposal (mandatory)	....	–11,850	–12,342	–12,863	–13,415	–14,057	–14,730	–15,433	–16,172	–16,945	–127,807
Cost of retiree health benefits for Non-MERHCF population under proposal (mandatory)	....	12,314	12,804	13,269	13,766	14,266	14,782	15,334	15,937	16,590	129,062
Proposed PAYGO Effects:	....	464	462	406	351	209	52	–99	–235	–355	1,255

[1] Budget authority and outlays are equivalent amounts. The proposed DOD discretionary Five Year Defense Program, which is reflected in the 2023 Budget, inlcudes this proposal with budget effects starting in 2024.

[2] Unfunded liability