EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

May 23, 2017

The Honorable John Yarmuth
Ranking Member
Committee on the Budget
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Yarmuth:

Enclosed please find a detailed description of significant changes in the presentation and technical aspects of the fiscal year 2018 Budget. I hope this information will be useful in the review of the President's budget proposals.

Sincerely,

Mick Mulvaney
Director

Enclosure

Identical Letter Sent to:

The Honorable Diane Black
The Honorable John Yarmuth
The Honorable Rodney P. Frelinghuysen
The Honorable Nita M. Lowey
The Honorable Mike Enzi
The Honorable Bernie Sanders
The Honorable Thad Cochran
The Honorable Patrick Leahy
The Honorable Gene L. Dodaro
Mr. Keith Hall

Enclosure

SIGNIFICANT PRESENTATION AND TECHNICAL CHANGES IN THE BUDGET OF THE UNITED STATES GOVERNMENT FISCAL YEAR 2018

Table of Contents

FORMAT AND STRUCTURE

Budget Documents

The document entitled *The Budget of the United States Government, Fiscal Year 2018*[1] consists of three volumes:

- The main *Budget* volume contains the Budget Message of the President; information on the President's budget and management priorities: and summary tables.

- The *Appendix* volume provides detailed budget estimates through 2018 by agency and account and other materials, including proposed appropriations language.

- The *Analytical Perspectives* volume contains analyses that highlight specified subject areas or provide other significant presentations of budget data that place the budget in perspective. This volume includes economic and accounting analyses; information on Federal receipts and collections; analyses of Federal spending; information on Federal borrowing and debt; baseline or current services estimates; and other technical presentations. This volume also has supplemental materials that are available on the internet at www.budget.gov/budget/Analytical_Perspectives and on the Budget CD-ROM. These supplemental materials include tables showing the budget by agency and account and by function, subfunction, and program.

Supporting Documents

Five other documents provide specialized information and are available on the OMB website:

- The *Major Savings and Reforms* volume highlights major discretionary eliminations and reductions and mandatory savings proposals.

- The *Historical Tables* provide a wide range of data on Federal finances and employment. These tables provide data for prior years, generally from 1940 or earlier and estimates through 2018 or 2022. In some cases, they provide data for earlier periods.

- The *Balances of Budget Authority* report presents information on unexpended balances of budget authority.

- The *Object Class Analysis* presents the Federal Government's obligations in terms of the nature of the service or article for which obligations are incurred (for example, supplies and materials), regardless of the purpose or the program served.

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[1] All years referred to are fiscal years, unless otherwise noted.

- The *Federal Credit Supplement* provides data, including subsidy cost estimates, on Federal direct loan and loan guarantee programs.

Basis for Appropriations Language

The Budget *Appendix* includes proposed language for appropriations and general provisions for 2018. Because only one of the full-year appropriations bills for 2017 was enacted at the time the Budget was prepared, the programs and activities normally provided for in the full-year appropriations bills were operating under a continuing resolution (CR) (division C of Public Law 114-223, as amended by division A of Public Law 114-254 and further amended by Public Law 115-30). The continuing resolution was based on the text of the Consolidated Appropriations Act, 2017 (Public Law 114-113), enacted in December 2015. For these accounts, the appropriations language and general provisions reflect proposed 2018 language in italic type, and a standardized note appears at the bottom of each account's appropriations language indicating that the account was operating under the continuing resolution.

For accounts funded in the Military Construction, Veterans Affairs, and Related Agencies Appropriations Act, 2017 (division A of Public Law 114-223), and the Security Assistance Appropriations Act, 2017 (division B of Public Law 114-254), these enacted bills serve as the base and are printed in roman type. Brackets enclose material that is proposed for deletion; italic type indicates proposed new language. The citation to the specific appropriations Act from which the base text of the 2017 language is taken appears at the end of the final language paragraph, printed in italic type within parentheses.

If an appropriation is being proposed for the first time for an account assumed to be covered by these bills in 2018, all of the language is printed in italics.

BUDGET CONCEPTS, CLASSIFICATIONS, AND TREATMENT

2018 Discretionary Spending Limits

The Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) was amended by the Budget Control Act of 2011 (BCA) (Public Law 112-25) to reinstate caps on discretionary budget authority. Section 251A of BBEDCA requires an adjustment to the budget year (2018) caps in this report based on the calculations included in the *OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2018*, which is discussed in the next section. Based on the estimates in that report, the defense cap is reduced by $53,943 million and the non-defense cap is reduced by $37,251 million under current law. These adjustments revise the cap for defense in 2018 from $603,000 million to $549,057 million and revise the cap for non-defense from $553,000 million to $515,749 million.

As part of its commitment to fiscal restraint, this Administration supports maintaining the overall level in 2018 for base discretionary funding after the Joint Committee reductions are taken into account. However, the Administration believes that resources need to be rebalanced to ensure our national security needs are met. Therefore, as outlined in the *Budget Blueprint* released on March 16[t], 2017, the Budget proposes to remove the Joint Committee reductions for the defense cap and pay for the increase by reducing the cap for non-defense programs by a comparable amount. This shift in policy will provide critical investments for rebuilding our military while making the difficult choices necessary to scale back the non-defense mission in a way that puts America first by focusing on the core Government responsibilities of protecting our border, caring for our veterans, and enhancing law enforcement.

BBEDCA requires the Office of Management and Budget (OMB) to issue a Sequestration Preview Report with the President's Budget submission, showing the status of the discretionary limits for the current year and each year thereafter through 2021. OMB's Sequestration Preview Report for 2018, which is issued as a separate report available on OMB's website, further describes the Administration's proposals for the discretionary caps for 2018 and to effectively take discretionary programs out of the Joint Committee process by proposing new caps through 2027. The preview report also provides a status on the 2017 caps that takes into account adjustments included in OMB's Final Sequestration Report for 2017.

2018 Joint Committee Sequestration

The BCA established a Joint Select Committee on Deficit Reduction to recommend legislation to significantly improve the short-term and long-term fiscal imbalance. Since the Joint Committee process under title IV of the BCA did not result in the enactment of legislation reducing the deficit by at least $1.2 trillion, annual reductions in spending of approximately $109 billion are required to be made through 2021. The Bipartisan Budget Act of 2013 (Public Law 113-67) extended the 2021 percentage reduction of mandatory spending into 2022 and 2023 as partial payment for decreasing the reductions otherwise required to the 2014 and 2015 discretionary caps. The Military Retired Pay Restoration Act (Public Law 113-82) extended the same percentage reduction of mandatory spending into 2024. The Bipartisan Budget Act of 2015 (Public Law 114-74) extended the reduction of mandatory spending into 2025 as partial payment for decreasing the reductions otherwise required to the 2016 and 2017 discretionary caps.

BBEDCA requires OMB to issue a report on the reductions each year with the President's Budget. The *OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2018* has been prepared consistent with the requirements of BBEDCA. This report provides OMB's calculations of the amount and percentages by which direct spending is required to be reduced and a listing of the reductions required for each non-exempt budget account with direct spending.

The sequestration reductions are triggered by the failure of the Joint Select Committee on Deficit Reduction to propose, and the Congress to enact, comprehensive and responsible deficit reduction legislation to achieve the savings targets enacted as part of the BCA. The Administration has no discretion in the calculation and allocation of the reductions. In 2018, the law requires a reduction in the defense function discretionary spending cap of almost $54 billion, for an adjusted defense cap of $549 billion, and a reduction in the non-defense function cap of $37 billion, for an adjusted non-defense cap of $516 billion. Additionally, in 2018, the law requires the sequestration of over $18 billion in defense and non-defense direct spending.

Specifically, OMB calculates that the sequestration of non-exempt direct spending requires reductions in 2018 of 2.0 percent to non-exempt Medicare spending, 6.6 percent to other non-exempt non-defense mandatory programs, and 8.9 percent to non-exempt defense mandatory programs.

As noted later, the 2018 mandatory sequestration is generally reflected in allowance accounts due to the timing of calculating the amounts of the 2018 sequestration. For accounts that include 2018 Budget proposals for discretionary changes in a mandatory program (CHIMPs) that are affected by Joint Committee sequestration, the Budget Appendix reflects the 2018 sequestration amount in the affected account to provide a better estimate of the available resources that can be used in the CHIMP proposal.

Budget Process

The 2018 Budget proposes changes to the Federal budget process designed to improve budget decisions and outcomes. The Budget materials and the "Budget Process" chapter of the *Analytical Perspectives* volume discuss these proposals in greater detail. Taken together, these reforms generate a more transparent and comprehensive measure of the reach of the Federal budget. In addition to the discussion of the Joint Committee reductions above, material discussed in the Budget volumes includes the following:

Budget Reform Proposals

- Extending the Joint Committee reductions to mandatory spending in 2025 and 2026;
- Continuing to fully fund the program integrity cap adjustments, authorized by BBEDCA, for Social Security Administration and Health Care Fraud and Abuse Control program integrity funding, and extending the cap adjustment through 2027;
- Proposing other program integrity initiatives, including initiatives that result in mandatory and receipts savings;
- Implementing the enacted disaster funding cap adjustment in 2018;
- Limiting the use of changes in mandatory programs in appropriations acts; and
- Limiting the use of advance appropriations for discretionary programs.

Budget Enforcement and Budget Presentation

- Implementing the Statutory Pay-As-You-Go (PAYGO) Act;
- Reforms to include the effects of interest payments in cost estimates;
- Conducting PAYGO reviews of potential administrative actions by Executive Branch agencies affecting entitlement programs;
- Continuing to present Fannie Mae and Freddie Mac as non-Federal entities; and
- A discussion on Postal Service reform and fair value accounting for credit programs.

Outyear Discretionary Estimates

The 2018 Budget sets forth discretionary funding levels in the outyears at the separate defense and non-defense category levels proposed by the Administration. Under current law, BBEDCA caps remain in place through 2021, and they are subject to reductions determined by the Joint Committee process. After 2018, the Budget proposes new caps through 2027 that would effectively remove discretionary programs from the Joint Committee equation but maintain a fiscally responsible path. The defense cap is increased by 2.1 percent a year, but this reflects inflated 2018 levels and not a policy judgment. The Administration will determine 2019 through 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. For non-defense, the cap is reduced by 2 percent per year (the "2-penny plan"). Meeting these levels will require discipline and fiscal prudence. The 2018 Budget has made a down payment on these policies and has demonstrated how transformational changes in Government funding can be made responsibly.

The proposed non-defense caps are adjusted downward to further reflect the Administration's proposals to privatize air traffic control programs and to change 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 cap reduction is included to allow those savings to be redirected to critical national security investments within the category. The reduction for air traffic control privatization is not scheduled to begin until 2021, while the Federal employee cost share reduction would begin in 2019.

The discretionary outyear estimates are at the account level and are held flat to reflect the 2018 Budget request level. Detailed decisions on outyear levels will be made in future years and will be influenced by the President's charge to reorganize agencies and reduce the size of the Federal workforce to create a leaner, more accountable, less intrusive, and more effective Government. Separate function 050 and 920 allowances are included to represent amounts to be allocated in future budgets among the respective agencies to reach the proposed defense and non-defense levels for 2018 and beyond. A placeholder estimate is also provided for Overseas Contingency Operations (OCO). This placeholder also does not represent a policy determination, as described below, in the section on Allowances in the Budget.

Functional Classification

This year's annual consultations with the Congress regarding reclassification of accounts or activities as to their function or subfunction resulted in the reclassification of four items.

- As part of the realignment of the Transportation Security Administration's accounts to the Common Appropriations Structure for the Department of Homeland Security, a small amount of funding in subfunction 401 (Ground transportation) was combined into accounts that were inadvertently classified as entirely subfunction 402 (Air transportation). These accounts have been reclassified to reflect the proper split between subfunctions 401 and 402.

Allowance for Overseas Contingency Operations (OCO)

As mentioned above, this allowance is meant to stand for future funding for OCO in 2019 through 2027 for both defense and non-defense programs. The outyear amounts for OCO reflect notional placeholders consistent with a potential transition of certain OCO costs into the base budget, while continuing to fund contingency operations. The placeholder amounts do not reflect specific decisions or assumptions about OCO funding in any particular year.

Allowances for Reductions for Joint Committee Enforcement (Defense and Non-Defense)

As stated previously, the failure of the Joint Committee process triggered sequestration of non-exempt mandatory spending in 2018, discretionary cap reductions in 2018, and further reductions in the discretionary caps and mandatory sequestration in future years. The sequestration of non-exempt mandatory spending for 2018 through 2025 is reflected as an allowance in the baseline, as are the cap reductions for 2018 and beyond. OMB does not yet have sufficient information to determine the exact distribution of the reductions between discretionary and mandatory spending in 2018 onward and the precise distribution of the mandatory sequestration by account. Therefore, OMB has calculated preliminary estimates for these reductions and included them as allowance amounts.

Allowance for Adjustment for Certain Accounts

The 2018 Budget includes in 2018 a negative allowance of $1,065 million that is not attributed to any specific agency budget. The allowance is a recommendation to the Congress that it consider holding 2018 budgets for the Legislative and Judicial Branches to a freeze at the 2017 CR level, consistent with the restraint in non-defense discretionary spending proposed for the Executive Branch. The Budget also transmits the 2018 requests for both the Judicial and the Legislative Branches without revision, as required by statute (31 U.S.C. 1105(b)).

Allowances for the Administration's March 16 Budget Request for 2017

As mentioned earlier, at the time the 2018 Budget was prepared, 2017 appropriations remained incomplete. Therefore, the 2017 column of the Budget reflects at the account level enacted full-year and continuing appropriations provided under the Continuing Appropriations Act, 2017 (division C of Public Law 114-223, as amended by division A of Public Law 114-254 and amended further by Public Law 115-30) that expired on May 5, 2017. The Budget also includes allowance accounts to reflect, illustratively, the current law caps for 2017 and the Administration's March 16, 2017, request for additional appropriations for defense and border security. Agency-specific allowances are included within the Departments of Defense and Homeland Security to reflect these amounts. A Government-wide allowance is also included to reflect the reductions to non-defense programs proposed by the Administration in that March 16 request.

Allowances for Adjustment for Budget Control Act Caps (Defense and Non-Defense)

The 2018 Budget includes several allowances—in both policy and baseline—to reflect the discretionary caps. In the baseline, these allowances bring the baseline estimates in line with the current law cap levels. Separate defense and non-defense allowances are included in the budget policy to reflect the Administration's proposed discretionary caps through 2027. These policy allowances are similar to function 920 allowances used in budget resolutions and are meant to reflect a mix of offsets and program changes that will be decided in future budgets to reach the overall discretionary levels that the Administration has proposed.

Allowances for repeal and replacement of Obamacare

The 2018 Budget includes two allowances – for outlays and governmental receipts – associated with health care reform as part of the President's commitment to rescue Americans from the failures of Obamacare and expand choice, increase access, and lower premiums.

Allowances for infrastructure investment

The Budget includes an allowance of $200 billion to represent the Federal outlays toward the President's campaign promise of creating $1 trillion in national infrastructure investment.

Allowances for testing new approaches and reforming disability programs

The Budget includes an allowance of $49 billion to represent savings derived from expanding demonstration authority to test new program rules for disability programs and require mandatory participation by program applicants and beneficiaries, along with other potential changes to disability programs.

Allowances for reforming financial regulation and preventing taxpayer-funded bailouts

The Budget includes a notional $35 billion in anticipated savings to be realized through reforms to the financial regulation system that prevent bailouts, foster vibrant financial markets, and reverse burdensome regulations that hinder financial innovation and reduce access to credit for American families. The Department of the Treasury's review, as directed by Executive Order, is likely to result in legal, regulatory, and policy changes to reverse regulatory excesses mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law 111-203).

Allowances to reduce improper payments Government-wide

The Budget proposes to curtail Government-wide improper payments by half through actions to improve payment accuracy and tighten administrative controls.

Allowances to Federal employer share cost reduction

The Budget proposes to reduce Federal agency costs through changes to current civilian employee retirement plans.

Allowance for Spectrum Relocation Fund

The Spectrum Pipeline Act of 2015 ("Act"), part of the Bipartisan Budget Act of 2015, authorized the transfer to agencies of up to $500 million of Spectrum Relocation Fund balances to fund planning and research projects facilitating future spectrum auctions. The 2018 Budget includes an allowance for those amounts. Amounts through Fiscal Year 2020 represent the remaining un-allocated funding under the Act. Based on ongoing research authorized through the Act, the Administration anticipates spectrum relocation costs associated with future spectrum auctions will begin in fiscal year 2024.