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Trump Administration Releases Fiscal Year 2018 Budget Proposal

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On Tuesday, May 23, the White House released the President's fiscal year 2018 (FY18) budget, launching a contentious and consequential debate that is expected to last through the end of the fiscal year and possibly beyond. The detailed budget proposal expands on the March release of the President's so-called "skinny budget" which outlined the proposals without going into significant detail. Tuesday's proposal, which leaked out in pieces over the preceding days, was met with bipartisan opposition on Capitol Hill. Senator John Cornyn (R-TX), the second ranking Senate Republican called the proposal "dead on arrival" and Senate Budget Committee Chair Senator Mike Enzi (R-WY) said "the President's Budget is a suggestion…but Congress is mandated by the Constitution with key spending responsibilities and will ultimately decide what the nation's fiscal priorities will be." While the proposal, titled "A New Foundation for American Greatness," will likely be rejected, it will set the framework for the upcoming debate in Congress, though congressional Democrats and Republicans largely ignored the Administration's requests when coming to an agreement over the FY17 appropriations legislation adopted earlier this month.

The President's the budget proposal lays out a plan to balance the federal budget within ten years and lower the national debt from its current level of 104 percent of GDP to 60 percent of GDP. The plan accomplishes this by relying on a mix of growth projections that most economists say are overly optimistic and an assumption that an as-of-yet undetermined tax reform plan will manage to significantly lessen tax rates while remaining revenue-neutral. The Trump Administration proposal assumes economic growth of three percent per year, which would result in increased tax revenue. However, the Congressional Budget Office estimates future growth at about 1.9 percent per year while the Federal Reserve projects the economy will expand at only 1.8 percent per year.

Congressional committees have begun the budget and appropriations process for FY18 and are currently developing budget resolutions for the House and Senate. This year, budget resolutions will not only serve their traditional function of providing budget allocations to the Appropriations Committee, but will also serve as the vehicle for "budget reconciliation," an expedited legislative process that congressional Republicans are expected to utilize to advance tax reform in the coming year. Given this, the budget resolutions this year will take on particular importance as they will define the debate in Congress on a key issue moving forward.

Department of Health and Human Services

The Trump Administration's FY18 budget request for the Department of Health and Human Services (HHS) reflects the Administration's priorities regarding the ongoing congressional debate over the Affordable Care Act (ACA) and significantly reduces spending on domestic programs. On the campaign trail, President Trump promised to avoid direct cuts to Social Security, Medicare and Medicaid. Following this promise, the budget does not include proposed direct cuts to Medicare. However, the budget does include a proposed restructuring of Medicaid from an open-ended federal and state entitlement program to a per capita cap or block grant system beginning in FY20. This change is projected to save $610 billion between 2018 – 2027. In response to press questions, Mick Mulvaney, director of the Office of Management and Budget, stated that President Trump's promise not to cut Medicaid had been overridden by the promise to repeal and replace the ACA.

While the budget does not cut Social Security retirement benefits (what the proposal calls "core" Social Security), it does cut Social Security Disability Insurance, which provides benefits for roughly 8.8 million disabled Americans at a cost of $142.7 billion per year. Under the Trump Administration budget proposal, the program's funding would be cut by $72 billion between 2018 and 2027 through an undefined reform process. When asked about the cuts, Director Mulvaney responded by saying, "Do you really think that Social Security Disability Insurance is part of what people think of when they think of Social Security? I don't think so."

More broadly, the budget proposes $69 billion in discretionary budget authority for FY18, a $15.1 billion or 17.9 percent decrease from FY17 funding levels. The budget proposes $1.046 trillion in mandatory funding for FY18 and $665 billion in mandatory savings between 2018 – 2027. These savings are primarily achieved through proposed Medicaid financing reforms. The budget also includes $250 billion in net deficit savings over ten years associated with repealing and replacing the ACA. These proposed budgetary changes for HHS are in addition to the modifications that would be made under the House-passed American Health Care Act (AHCA), if it is enacted into law.

Medicare

The proposed budget includes $704.6 billion in gross spending for FY18 for Medicare, including $202.8 billion for Part A, $201.9 billion for Part B, $203.0 billion for Part C and $96.8 billion for Part D. In accordance with President Trump's campaign promise, the budget does not include any direct Medicare cuts. The budget proposes to repeal the Independent Payment Advisory Board (IPAB), rescinding all remaining unobligated administrative funds and saving an estimated $7.6 billion between 2018 – 2027. The budget also provides $1.3 billion between 2018 – 2027 in mandatory funding to reform the Medicare appeals system and invest in addressing the backlog of pending appeals. Finally, the budget includes a set of proposals for medical liability reform estimated to save $31.4 billion between 2018 – 2027.

Medicaid and CHIP

The proposed budget includes $407.6 billion in gross spending under current law for FY18 for Medicaid. The budget includes legislative proposals to significantly restructure Medicaid and the Children's Health Insurance Program (CHIP). Starting in FY20, the budget provides additional flexibility to states and reforms Medicaid funding, allowing states to choose between a per capita cap system or block grant system, estimated to save $610 billion between 2018 – 2027. These proposals represent the Trump Administration's embrace of the House-passed AHCA, which enacts similar major reductions and reforms to Medicaid financing. The Senate, however, is expected to propose more moderate Medicaid spending.

Federal funding for CHIP expires at the end of the fiscal year on September 30, 2017, pending congressional reauthorization. The budget proposes extending CHIP funding for two years, through FY19, while enacting additional reforms to the program to end the 23-percentage point increased enhanced federal match rate after FY17, as well as capping the level that states could receive the CHIP enhanced federal matching rate at 250 percent of the Federal Poverty Level. In total, these proposals are expected to cut $5.8 billion from current CHIP funding levels between 2018 – 2027. In contrast with the Trump Administration's proposed reforms, states have pushed strongly for a clean extension of CHIP funding. On May 11, the National Governors' Association sent a letter to the Senate Finance and House Energy and Commerce Committees requesting a clean five-year extension of funding for CHIP at the current enhanced federal match rate.

Food and Drug Administration

The proposed budget provides $5.1 billion for the Food and Drug Administration (FDA) in FY18, an increase of $456 million or ten percent above FY17 levels. Most notably, the budget proposes to increase industry fees to fund 100 percent of costs for premarket review and approval activities in the animal drug, animal generic, prescription and generic drug, biosimilar, and medical device programs. As a result of this policy shift, the budget projects user fees in FY18 will raise to $3.2 billion, a $1.3 billion increase from FY17, while reducing

FDA-related budget authority by $854 million. This proposal represents a significant departure from the Obama Administration User Fee agreements with industry.

Note that the Senate Health, Education, Labor and Pensions (HELP) Committee and the House Energy and Commerce Committee have already advanced a user fee reauthorization package that closely follows agreements reached last year between the Obama Administration FDA and the drug and device industries. Congress is unlikely to renegotiate the five-year user fee agreements this year, which must be enacted by October 1, 2017. Senate HELP Committee Chairman Senator Lamar Alexander (R-TN) said that the Trump Administration's request "can be considered the next time the FDA negotiates the user fee agreements with the manufacturers of drugs and devices, but it is way too late to have an impact on this year's agreements."

National Institutes of Health

The proposed budget provides $26.9 billion for the National Institutes of Health (NIH) in FY18, a reduction of approximately $5.8 billion from FY17 levels. The budget also proposes a major reorganization of the NIH, including the elimination of the Fogarty International Center; consolidation of the Agency for Healthcare Research and Quality within NIH, preserving select activities within a new National Institute for Research on Safety and Quality; and reducing or eliminating other programs and administrative costs.

Overall, these proposed NIH changes represent a significant break from previous funding levels under the Obama Administration and from Congress. In fact, Congress recently increased NIH funding by $2 billion in the FY17 continuing resolution and by $4.8 billion over ten years in the 21st Century Cures Act, which suggests that congressional approval of a significant reduction in NIH funding is unlikely.

Health Resources and Services Administration

The Trump Administration budget proposes $9.94 billion for the Health Resources and Services Administration (HRSA) in FY18, a decrease of $460 million from FY17. Proposed HRSA funding remains similar to Obama Administration levels. Most notably, the budget provides $771 million in mandatory and discretionary resources for the HRSA health workforce for FY18, a $377 million decrease from FY17. A significant portion of this reduction comes from nursing workforce development, where the budget proposes $83 million for FY18, a decrease of $146 million from FY17.

Centers for Disease Control and Prevention

The budget proposal for the Centers for Disease Control and Prevention and the Agency for Toxic Substances and Disease Registry for FY18 is $11.1 billion, a decrease of $1 billion from FY17 levels. The budget also establishes a new $500 million "America's Health Block Grant" to provide flexibility in FY18 for each state to implement specific interventions that address their population's unique public health issues, including interventions to spur improvements in physical activity and the nutrition of children and adolescents.

Department of Defense

President Trump's FY18 budget proposal includes $639 billion for the Department of Defense, a $52 billion increase from the final enacted FY17 appropriation. This increase is only a down payment on a proposed $469 billion increase in defense spending over the next decade. The 2018 spending increase would be facilitated by lowering the Budget Control Act cap on non-defense discretionary spending by $54 billion (to $462 billion) and increasing the cap on defense discretionary spending by an equivalent amount (to $603 billion). In addition to the so-called "base defense budget," which accounts for $574 billion of the $639 billion total, the Trump Administration increased Overseas Contingency Operations funding to $77 billion with $65 billion designated for defense and $12 billion for non-defense spending.

A significant proportion of the increase in defense funding is designated to be spent on new personnel and equipment. Among the proposed Defense Department expenses in 2018 are $10.8 billion to buy 70 more F-35 jets, $5.5 billion for two new Virginia-class submarines, $4.6 billion to put toward the Navy's next aircraft carrier (the future USS Gerald R. Ford), $4 billion for two new destroyers and $3.1 billion for 15 new KC-46 tanker planes. The budget also provides for 56,400 more soldiers, sailors, airmen and marines than planned by the Obama Administration. However, congressional defense hawks assailed the proposal, stating the proposed increases were not enough to make up for recent spending restrictions and years of war. Senator John McCain (R-AZ), chair of the Senate Armed Services Committee, said, "After years of budget cuts amid growing threats around the world, this budget request fails to provide the necessary resources to restore military readiness, rebuild military capacity and renew our military advantage with investments in modern capabilities."

The budget also calls for a new round of the Base Realignment and Closure Commission (BRAC) to begin in 2021. The Commission would be tasked with saving $2 billion in defense spending per year by 2027. If the BRAC proposal becomes part of a final congressionally approved budget as expected, it would begin a new period of frantic lobbying by military base communities angling for the Commission to maintain or expand the local military footprint.

Department of Homeland Security

The FY18 budget proposal includes $44.1 billion for the Department of Homeland Security (DHS) for FY18, a $1.9 billion increase from FY17 enacted levels, with the increased funding primarily focused on supporting the President's key policy initiatives, including border security, immigration enforcement and construction of a wall on the U.S.-Mexico border. The proposal includes $2.6 billion for border security technology, including $1.6 billion for physical construction of a border wall and $1 billion for aircraft, communications equipment, weapons and new technology. Independent estimates have recently found that building a wall as envisioned by President Trump during the campaign would cost roughly $20 to $22 billion.

The proposed DHS budget designates $11.6 billion for the Customs and Border Protection for FY18, a $950 million increase over FY17 enacted levels. This includes $300 million for 500 new Border Patrol Agents and 1,000 new Immigrations and Customs Enforcement personnel. This is in addition to a $1.5 billion increase for DHS immigration-related expenses, including detention, transportation and removal of undocumented immigrants.

One other area where the proposed DHS budget is generous is cybersecurity, where the request seeks increases in cybersecurity personnel across several departments and nearly $1.5 billion in funding for the National Protection and Programs Directorate, a DHS unit in charge of safeguarding the country's cyber infrastructure. The proposal also suggests increases in law enforcement and cyber personnel at the DHS and the FBI with the aim of protecting federal networks and combating cyber crime.

The proposal also calls for the elimination or rollback of a number of programs, including the elimination of BrandUSA and the flood hazard mapping program, Risk Mapping, Assessment and Planning. The budget also proposes reducing the Federal Emergency Management Agency State and Local Grants funding by roughly one-third to $1.2 billion.

Department of Education

As part of the FY18 budget proposal, the Department of Education is in line for a $9.2 billion, or 13.5 percent, spending cut. The cuts would apply to both K-12 education, as well as student aid for higher education. Under the proposal, the federal government would stop subsidizing interest on student loans, saving the federal government $1 billion per year, and would phase out the Public Service Loan Forgiveness program, which erases student loans after ten years of employment with the government or a qualifying nonprofit.

The proposal boosts funding for so-called "school choice" programs, increasing Title I "portability" funding by $1 billion, creating a new $250 million private school choice program, and directing $168 million to existing charter schools. The budget proposal also eliminates a number of programs including the Supporting Effective Instruction State Grants, a $2.3 billion program that supports teacher training; the 21st Century Community Leaning Center program, a $1.2 billion fund for afterschool programs; and the Striving Readers/Comprehensive Literacy Development Grants, a $190 million literacy program aimed at struggling adolescent readers.

Department of Agriculture

The Trump Administration budget proposes an almost 21 percent cut to the Department of Agriculture (USDA), cutting funding for the crop insurance program by 36 percent and ending a number of other USDA programs, including the Farm Safety program and the Natural Resources Conservation Service's watershed protection projects, among others. The cuts to the crop insurance program are achieved by placing a cap on insurance premium subsidies, limiting federal support for farmers to $40,000 per year in premium subsidies. This change would save the federal government $16.2 billion over a decade. The proposal also eliminates the Harvest Price Option from the crop insurance program, an option that allows farmers to guarantee revenue based on harvest prices, instead of those projected before planting, saving $11.9 billion over ten years. The proposal also calls for limiting eligibility for crop insurance and commodity support programs to farmers making less than $500,000 in adjusted gross income along with efforts to "streamline conservation programs" and "eliminate small programs."

The Budget also takes aim at the Supplemental Nutrition Assistance Program (SNAP), also known as food stamps, cutting $194 billion from the program over the next decade. The vast majority of these cuts would come from making states match 20 percent of the federal spending. The proposal also implements stricter work requirements for adults who do not have children and are not disabled.

Department of Energy, Department of the Interior and the Environmental Protection Agency

Unlike the Defense and Homeland Security Departments, the Trump Administration's proposed FY18 budget dramatically cuts funding for the Department of Energy, Department of the Interior and the Environmental Protection Agency (EPA). The proposal sets funding for the Department of Energy at $28 billion, a $1.7 billion (5.4 percent) cut from enacted FY17 levels. However, the cuts are not evenly spread across the Department and include an increase of 11.4 percent for the National Nuclear Security Administration that oversees military nuclear science (from $12.5 billion to $13.9 billion) coupled with an 18 percent cut across the rest of the Department's budget (from $17.2 billion to $14.1 billion), including programs like energy research and development, national laboratories and radioactive waste removal. In particular, the proposal would eliminate the Advanced Technology Vehicle Manufacturing Loan Program and Title 17 Innovative Technology Loan Guarantee Programs, as well as terminate construction of the Mixed Oxide Fuel Fabrication Facility in South Carolina. It would also repeal the borrowing authority for the Western Area Power Administration and eliminate the Advanced Research Projects Agency-Energy.

Under the proposed budget, the Department of the Interior would also be cut by 10.9 percent from $13.2 billion to $11.7 billion. As part of the proposed Interior Department budget, the Trump Administration also includes two significant policy changes, calling for energy drilling in the Arctic National Wildlife Refuge (ANWR) by 2022 and the sale of half of the oil in the nation's Strategic Petroleum Reserve (SPR) by 2027. Drilling in ANWR, a proposal long opposed by Democrats and environmentalists, if enacted, would raise $1.8 billion in fees by 2027. Meanwhile, sale of half the oil in the SPR would – according to budget documents – raise $16.5 billion over ten years, but lawmakers of both parties have resisted such a plan, arguing it threatens national security.

Finally, as expected, the EPA fared the worst with more than a 31 percent budget cut from roughly $8.2 billion in FY17 to $5.65 billion in the FY18 proposal. The plan would reduce the EPA's staff by roughly 3,800 positions and would eliminate several major regional programs including ones aimed at restoring the Great Lakes, Chesapeake Bay and Puget Sound, as well as EPA's lead risk-reduction program. The White House also proposes nearly halving categorical grants, which support state and local efforts to address everything from pesticide exposure to air and water quality, to $597 million. It would also reduce funding for the Superfund cleanup program, which helps restore some of the nation's most polluted sites, by 25 percent.

We will continue to monitor and report on budget updates as more information is made available.