

BUDGET AND PROGRAM

NEWSLETTER

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Dept of Homeland Security...was poised to begin a partial government shutdown coming into the weekend.

Attempts to advance the full-year House-passed bill in the Senate...fell short on a 52-47 procedural vote, 60 were needed to move ahead.

Immediately thereafter...a GOP motion was brought up for a two-week CR under unanimous consent but failed. At that point, lawmakers left for recess and are not scheduled to return this coming week.

Roughly 23,000 DHS employees will be furloughed.

At the same time...about 92% of all staff will go to work as their jobs are deemed essential or are funded outside the normal appropriations process.

But not everyone will be paid - such as TSA airport employees who won't be made whole until the shutdown ends. At the same time, air-traffic controllers will be as they are funded thru Dept of Transportation.

ICE and CBP workers...are considered essential.

FEMA - still has roughly \$8 billion in its Disaster Relief Fund - but its broader programs and administrative support will see its workers furloughed.

Coast Guard...is the only military branch not funded by DOD but instead, thru this bill. Its active-duty personnel will stay on but without pay. However, administrative service staff will be furloughed.

In the overall...throughout DHS - most HQ, policy offices and oversight employees will be sent home.

In fact...several DHS officials note that their agencies are still feeling the effects of the 43-day gov't shutdown last fall.

Bipartisan negotiations...are expected to continue over the recess.

A new executive order...sets forth an America First Arms Transfer Strategy.

Its purpose - is to "intentionally" use arms transfers as a foreign policy tool - "to expand strategically relevant industrial production capacity for weapons and platforms the Secretary of War determines to be the most operationally relevant for executing the National Security Strategy."

Key to this novel framework...will be using foreign purchases/capital to support reindustrialization and improve U.S. critical supply chain resilience while involving partners that have an important role in U.S. security plans.

Many deadlines involved - including State and Commerce input also.

Within 30 days...creation of a military sales task force; 60 days to develop an "industry engagement plan"; 90 days to create an end-use monitoring group; 90 days to develop an advanced notice to allies of upcoming contracting actions; 120 days to identify foreign military sales to support this directive; 120 days to submit a sales catalog of prioritized platforms that the U.S. will encourage our allies to acquire - other deadlines.

It is E.O. #14383.

The Labor-HHS-Education appropriation bill...is broken out on the next page.

Truly on a different scale...it weighs in at \$1.7 trillion, with \$195 billion in discretionary budget authority, the remainder is mandatory funding.

The 2nd hierarchy priority in the conference report - involves responsiveness to committee requested reports. Within 30 days and quarterly thereafter...a summary of each one is to be submitted along with actions taken. This also includes prior reports that are still outstanding.

Number four on the list...involves providing answers to questions submitted for the record. The window is 45 days - a statutory requirement expected to be met.

In tandem with the President's FY 2027 budget submission...each department in this bill is directed to provide in electronic format - a table that corresponds with every program line found in the CSBA (comparative statement of budget authority) breakdown that appears at the end of House report 119-271. In addition, all congressional justifications and budget summary documents are expected no later than the day of the President's Budget Appendix publication online.

Dept of Labor...to \$15.4B (+5%) and far above the request of \$10.97B.

The majority of the bill - involves the Employment and Training Administration at \$10.4B (+\$150M), with the White House estimate at just \$6.7B.

Bureau of Labor Statistics...bumps 1% higher to \$709B. It faced a request that sought a 90% reduction to \$68M. Conferees "encourage" BLM to understand/ evaluate the impact of artificial intelligence on the economy - including job loss and creation.

HHS...jumps to \$1.55 trillion (+19%) as the Centers for Medicare and Medicaid Services soars to \$1.43T.

Within it...CDC moves to \$7.8B in discretionary funds - not including the additional \$1.4B in transfers from the mandatory Prevention & Public Health Fund (est, 2010).

NIH...ticks 1% higher to \$47.1B.

Note the numerous zeros in the request column. In all, only \$28.8B was sought by the White House in tandem with a major reorganization effort - referred to in the House committee report as an "innovative proposal" to "eliminate disease-specific silos" to make components more responsive and that such "periodic consideration" is merited. Further, that they look forward to working with authorizers to evaluate these ideas.

Within 120 days...all departments in this bill must submit a report on all grants terminated in 2025 - along with the justification for doing so. Moreover - "to include a timely appeals process for such actions and provide a decision on any appeals within 30 days."

In addition - within 45 days, provide a briefing on the strategic plan goals for FY 2025-2026, and actions taken to meet those targets including any workforce and organizational changes.

Specific to NIH...conferees direct monthly briefings "on grant announcements, applications, awards, continuations, terminations or cancellations." To include written reports on any grant awards that fund more than the current year.

House report language - highlights that "numerous discrepancies" within grant programs have been identified.

Also...in filling current ICs (institutes & centers) director vacancies, quarterly briefings are directed regarding the anticipated timeline for filling them and steps to maintain oversight during transitional gaps.

Tied to this...within 60 days, NIH is to provide a "comprehensive report" on the approval process for IC director hires - "as well as internal guidance documents that address the appointment, reappointment, assessment and termination of IC directors." This is to include the approving authority by agency, department and office for the current IC director vacancies - as well as previous IC director searches that took place between FY 2022-2026."

Departments of Labor, Health and Human Services, Education & Related Agencies
FY 2026, (in \$ millions):

	Enacted <u>FY 2025</u>	Request <u>FY 2026</u>	Approved <u>FY 2026</u>
<u>Grand total</u>	<u>1,456,830</u>	<u>1,677,687</u>	<u>1,711,366</u>
Title I - Department of Labor.....	<u>14,663</u>	<u>10,972</u>	<u>15,384</u>
Title II - Dept of Health and Human Services.....	<u>1,300,550</u>	<u>1,521,533</u>	<u>1,553,262</u>
Health Resources and Services Administration	8,268	6,372	9,220
Ctrs for Disease Control & Prevention, discretionary	7,993	5,095	7,762
National Institutes of Health.....	<u>46,762</u>	<u>28,819</u>	<u>47,062</u>
National Cancer Institute	7,224	4,531	7,352
National Heart, Lung & Blood Institute	3,982	0	3,990
Nat'l Institute on Body Systems Research	0	4,152	0
Nat'l Insti of Dental & Craniofacial Research	520	0	525
Nat'l Insti of Diabetes & Digestive Diseases	2,311	0	2,327
Nat'l Insti of Neurological Disorders & Stroke	2,604	0	2,805
Nat'l Insti on Neuroscience & Brain Research	0	2,347	0
Nat'l Institute Allergy & Infectious Diseases	6,562	4,175	6,585
Nat'l Institute of General Medical Sciences	1,832	3,427	1,842
Evaluation tap funding	(1,412)	(250)	(1,427)
Institutional Development Awards program	(431)	(270)	(451)
Nat'l Insti of Child Health & Human Development	1,759	0	1,769
Nat'l Institute for Child & Women's Health	0	1,414	0
National Eye Institute	897	0	897
Nat'l Insti of Environmental Health Sciences	914	594	914
National Institute on Aging	4,508	2,687	4,518
Nat'l Insti of Arthritis & Musculoskeletal Diseases	685	0	685
National Institute on Deafness	534	0	534
National Institute of Nursing Research	198	0	198
Nat'l Institute on Alcohol Abuse & Alcoholism	595	0	595
National Institute on Drug Abuse	1,663	0	1,663
National Institute of Behavioral Health	0	2,687	0
National Institute of Mental Health	2,187	0	2,190
National Human Genome Research Institute	663	0	663
Nat'l Insti for Biomedical Imaging & Bioengineering	441	0	441
Nat'l Center for Complementary & Alternative Medicine	170	0	170
Nat'l Insti on Minority Health & Health Disparities	534	0	538
John E. Fogarty Internat'l Center	95	0	95
National Library of Medicine	498	0	498
Nat'l Center for Advancing Translation Sciences	928	0	942
Office of the Director	2,606	1,650	2,476
Buildings and facilities	350	210	350
NIH Innovation Account, CURES Act	[127]	[226]	[226]
Advance Research Projects Agency for Health (ARPA-H)	1,500	945	1,500
Substance Abuse/Mental Health Svcs Administration	7,374	5,563	7,294
Agency/Health Care Research & Quality.....	369	0	345
Centers for Medicare and Medicaid Services.....	<u>1,171,041</u>	<u>1,422,886</u>	<u>1,423,091</u>
Administration for Children and Families.....	51,897	45,469	51,736
Administration for Community Living.....	2,519	2,443	2,537
Office of the Secretary.....	1,998	2,288	1,919
Agency for Strategic Preparedness.....	3,635	2,826	-
Genera Provisions.....	-1,016	-750	-1,369
Title III - Department of Education.....	<u>83,127</u>	<u>71,207</u>	<u>83,298</u>
Title IV - Related Agencies			
Corp for National & Community Service	1,028	-92	1,254
Corp for Public Broadcasting	595	30	0
Federal Mediation and Conciliation Service	54	7	49
Institute of Museum & Library Services	295	6	292
Nat'l Labor Relations Board	299	285	294
Railroad Retirement Board	147	145	146
Social Security Administration	78,171	83,250	83,300
Other commissions and services	88	88	88
Changes in mandatory programs	-23,217	-9,208	-26,000

Four months into FY 2026...red ink stands at \$696 billion.

That's a 17% improvement...year over year - and in fact, when adjusting for timing shifts it actually improves to 20%.

Here are the key figures, [in \$ billions]:

	<u>FY 2025</u>	<u>October-January</u> <u>FY 2026</u>	<u>Difference</u>
Receipts.....	1,596	1,785	189
Outlays.....	<u>2,436</u>	<u>2,481</u>	<u>45</u>
Deficit.....	-840	-696	143

Note the surge in receipts, up 12%. Most of which "stems from increases in individual income and payroll taxes," (+9%). Moreover - customs duties, including tariff revenues, has jumped 321% higher (+\$90B).

On the flip side...outlays are only running 2% higher.

How can this be the case...in the face of Medicare, Medicaid, Social Security and net debt interest - all rising 8-9%?

For one...EPA outlays have fallen 77% as the 2022 Reconciliation Act has played out. Amazingly, that \$20B offset is more than all major entitlement dollar increases year/year.

As for the \$25B increase in debt payments - Agriculture spending is down \$15B due to the shutdown last fall disrupting farm loan programs and DHS/FEMA outlays fell \$11B in year/year comparisons.

But the above...is only a snapshot in time.

CBO's just-released 10-year budget/economic outlook...paints the long-term.

In the 2027-2036 period...the federal gov't is projected to spend no less than \$94 trillion while collecting revenues of \$70 trillion.

That massive imbalance - leaves an estimated \$24.4 trillion in red ink over the decade.

But perhaps the most jarring table from the 172-page CBO report - is that "primary deficits" (not incl debt interest) never rise above \$1 trillion, inching forward from \$814B today, to just \$971B in a decade.

In all...amounting to \$8.2T over the span.

However - total deficit spending is a completely different animal, equating to nearly triple the cost of only primary deficits, meaning that interest alone equates to a mind-bending \$16.2T over the decade.

The two combined...are projected to reach \$24.4T. Put another way, Congress can legislate 1/3rd of it - but has no power over the other 2/3rds.

CBO gives a closer look at the rising carnage...as annual debt interest payments double from the current \$1.04T to 2.1T in 2036.

In some ways...it's the untold story of the CBO update - and ironically one that Congress has no real power over. Buried in one of the numerous baseline projection tables requiring more than a glance - the categorization of primary deficits separate from interest monies elsewhere in that same table - is easy to miss but of enormous consequence.

Reflecting the immensity of what's faced - if you took the highly draconian step of freezing discretionary spending at 2026 levels for a decade, savings would be roughly \$2.5T (\$2.2T in primary deficits, \$300B in debt interest service), shaving off just 10% of the total \$24.4T mentioned above.

Looking ahead - CBO projects that discretionary spending will shrink from 6.2% of GDP today to 4.8% by 2036.

Meanwhile...debt interest rises from 3.2% today to 4.6% at that time, nearly equaling discretionary spending.

As much is made of squeezing your budgets for savings...that's that backdrop you face when Congress or OMB come calling for program dollar reductions.