

BUDGET AND PROGRAM

NEWSLETTER

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Where is the President's FY 2027 budget?

The statutory deadline...is the first Monday in February.

More precisely...the Budget and Accounting Act of 1921 stated - "On or after the first Monday in January but not later than the first Monday in February of each year, the President shall submit a budget of the United States Government for the following fiscal year."

The Congressional Budget Act of 1974...reaffirmed that.

This recent miss...is hardly unusual and it occurred seemingly without much notice. That speaks to the status quo of annual U.S. gov't budget submissions.

In fact...the last time the deadline was met was in 2015.

But its chronic absence...has consequences on the congressional budget process. The whole chain of upcoming Hill review - is stunted, idling while awaiting the policy & numbers, such as:

- Hearings on proposed appropriation levels - when agency officials explain/justify the request to Congress - the traditional starting point of a long cycle.
- Agencies also submit written justification of their own specific requests to the Appropriation Committees and subcommittees of the various jurisdictions.
- CBO re-estimates the President's budget based on their economic and technical assumptions and inform Hill committees. To be done in February, and can set up a kind-of-showdown with OMB.
- Authorizing panels - the policy making centers on Capitol Hill- review the proposals...in relation to their own priorities, perhaps finding some common ground. Traditionally, short-term authorizations put pressure on appropriators to fund programs at the authorizer's recommended levels. Such objectives inform their "views and estimates" sent to the budget committees, to occur by mid-March.

The House and Senate budget committees...draft the congressional budget resolution which is at the heart of the whole set-up. It's the fiscal blueprint that creates the overall Hill budget framework and clarifies congressional priorities. The timeworn schedule...calls for it to be completed by April 15.

After the budget resolution is agreed to - which creates the overall spending limits - the Appropriation Committees can divide the aggregate 302(a) dollar ceiling among the 12 subcommittees, called the 302(b) allocations. This is the pipeline to your funding bills.

There are more elements/deadlines involved...while at the same time, there is the executive cycle shadowing it. Consider that FY 2026 began on Oct 1, but agency budget planning for it began 18 months earlier in the spring of 2024. In this mix, as soon as the President's budget is submitted to Congress, OMB and executive agency budget formulation begins for the next fiscal year.

Each delay within the whole construct - creates cascading effects.

In this go-round...questions surrounding a possible \$500B increase in defense spending is part of the delay - not only in what to emphasize weapon-wise, but overall costs in the baseline, with OMB director internally citing deficit concerns.

Is a wider war...coming to Europe?

According to German military intelligence estimates - by 2029 or before - Russia will be ready and willing to do so and have the means to carry it out, while a smaller attack could come at any time.

The backdrop...is a continent subject to near-daily incidents of spying; cyberattacks, escalating sabotage of railway & communication cables, drone intrusions over sovereign borders and other threats that have steadily risen.

And it is Germany - the EU's largest economy - being seen as vital to its defense. Also in the mix, just 37% of its citizens believe America is a reliable ally vs 65% in 2024 - mirroring growing European doubts in general about the U.S. commitment to NATO.

Enter Gen. Carsten Breuer...who is the tip of the spear in bringing the country, which is also the most populous in the EU - into a greater awareness/capability to assume that role - via a sweeping remake of its military.

From his vantage point...he sees the continual Russian harassment as one where - "We are being tested. They are looking for ways we are vulnerable."

Put another way...a kind of limbo exists, not yet at war but no longer at peace.

In an unheard move - Germany plans to station its 5,000-strong 45th Panzer Brigade, in Lithuania - the first time they will permanently locate troops and tanks in another country since World War II.

In his view...the Russian economy is on war footing - hoarding artillery shells and tanks - while seeking to increase its military to 1.5 million soldiers.

He is the top military official in Germany - seen by many as measured and deliberate - and has been nominated to serve as the next chairman of NATO's military committee. Last year, frustrated with the slow pace of innovation and influenced by Ukraine's resilience...he started giving money directly to brigade commanders to buy off-the-shelf commercial drones so they could experiment with them.

His assessment - in the future "every rifleman will need to be a drone pilot."

What is he working with?

An army of 184,000 men - half the level at the peak of the Cold War, with much of its arsenal in need of repair by the 2010s.

At that time - an officer's mission was essentially to make due with less - "downsizing and making things more efficient but not more effective."

Beyond rewriting that doctrine...his intention is to add 20,000 soldiers this year and another 60,000 within a decade, to be bolstered by 200,000 reservists.

This undertaking...is also tied to the implementation of Operation Plan Germany - a classified 1,200-page document that was put together over the last three years in reaction to the Ukraine invasion - as Europe suddenly faced an instability it hadn't experienced in decades.

The blueprint...deals with the critical infrastructure of getting troops, supplies, equipment, across to the front lines thru Germany in a hurry. It maps the railways, rivers, ports and roads required to do so.

The backdrop...is that dual-use infrastructure was the norm during the Cold War - the above were all designed to serve as military assets if needed. But after that...tunnels, roads and bridges were built which were often too narrow or weak to allow for military convoys.

Chokepoints on the military's mobility map...are now closely guarded secrets.

Some of the biggest obstacles facing planners...is the unwieldy procurement rules & regulations written in a peaceful era.

Germany's deputy defense minister - "We must relearn what we unlearned. We have to drag people back from retirement to tell us how we did it back then."

In their view...the biggest planning uncertainty is how much time they have.

Let's take a look...at Dept of Transportation funding for FY 2026.

Office of Secretary...slides 11% to \$1B due to a single subcomponent - nat'l infrastructure investments (TIGER/BUILD), whose purpose is to invest in a "variety of transportation modes." Among them...highways; bridges; transit projects; port infrastructure; rail; bicycle projects; others. It sinks to \$145M (-58%) and a long fall from FY 2023 when this program dominated Ofc of Secretary funding at \$800M, which in fact, was far below the \$1.5B request.

DOT's funding structure is unusual.

Discretionary budget authority comes to \$25.1B (-\$110M)...which is drawn from the general fund of the Treasury.

The remainder (\$83B) - is mandatory BA known as "contract authority" - the level of which is set in authorization acts and drawn from trust funds...while contract authority is controlled in appropriation acts thru a mechanism known as "limitations on obligations."

FAA provided \$18.2B (+\$1.2B). Its operations budget moves \$227M higher to \$13.7B of which nearly all is to be derived from the Airport/Airway Trust Fund.

Committee notes - that over 2,000 FAA employees accepted the 2025 deferred resignation program - a list of those vacated positions is to be submitted by March 5. At the same time - the hiring of 2,500 controllers is supported, w/quarterly staffing updates expected.

Moreover...FAA is directed to establish high-speed testing corridors for development of hypersonic aircraft in coordination with NASA. To be completed within one year.

FY 2026 Dept of Transportation funding levels, (\$ millions):

	<u>Enacted</u> <u>FY 2025</u>	<u>Request</u> <u>FY 2025</u>	<u>Enacted</u> <u>FY 2026</u>
Office of the Secretary.....	1,168	507	1,041
Salaries and expenses	191	200	187
Research and technology	49	49	74
Nat'l infrastructure investments	345	0	145
Surface transportation/innovation finance bureau	10	10	9
Rural & tribal infrastructure advancement	25	0	10
Cyber security initiatives	49	75	60
Office of Civil Rights	18	0	12
Transportation planning, R&D	21	25	32
Working capital fund	(522)	(0)	(765)
Payments to the air carriers (Airport & Airway Trust)	450	142	514
Electric air service fleet (overflight fees)	(162)	(174)	(174)
Other	10	6	-2
Federal Aviation Administration.....	16,989	18,007	18,209
Operations	<u>13,483</u>	<u>13,842</u>	<u>13,710</u>
Aviation safety	1,832	1,876	1,842
Air traffic organization	10,106	10,378	10,341
Commercial space transportation	42	42	42
Finance & management	948	985	963
NextGen	68	68	66
Security & hazardous materials safety	162	164	155
Staff offices	325	329	301
Facilities & equipment (Airport/Airway Trust Fund)	3,176	4,000	4,000
R&D, (Airport & Airway Trust)	280	165	290
Grants-in-aid for airports (General Fund)	50	0	209
Federal Highway administration - General Fund	340	0	927
Highway Trust Fund - limitations on obligations	(61,314)	(62,657)	(62,657)
Highway Trust Fund - exempt contract authority	(739)	(739)	(739)
Nat'l Highway Traffic Safety Administration	223	223	71
Limitation on obligations	(1,037)	(1,059)	(1,059)
Federal Railroad Administration	2,925	3,239	1,814
Federal Transit Administration	2,408	2,355	1,881
Limitation on obligations	(14,279)	(14,642)	(14,642)
Maritime Administration	900	1,388	917
Pipeline & Hazardous Materials Safety Admin	324	324	310
Office of Inspector General, salaries & expenses	116	116	113

Recent executive orders:

1) The directive...stresses that the U.S. electric grid “upon which military installations, operations and defense-industrial production depend” - remain resilient and reliable.

This translates...to “continuous, on-demand baseline power.” As such, “it is imperative that the Department of War prioritize the preservation and strategic utilization of coal-based energy assets.”

In that light, the Secy of War and Energy are to approve long-term power purchase agreements with coal-fired energy production to serve DOD installations with priority given to projects that enhance grid reliability, blackout prevention, on-site fuel security and mission assurance. It is E.O. 14386.

2) Critical minerals.

Phosphorus is “pervasive” in defense supply chains - “and is therefore crucial to military readiness and national defense.” This includes incendiary devices and the manufacturing of semiconductors central to defense technologies such as radar, solar cells, sensors and optoelectronics.

It is also a critical precursor element for the production of glyphosate-based herbicides in maintaining U.S. agriculture.

American production capacity...is “extremely limited” in both instances.

Therefore, to ensure adequate supply - federal contracts related to them are to promote nat’l security over performance of other contracts - to allocate these materials as deemed necessary to promote the nat’l defense. It is E.O. 14387.

3) Monte Carlo - comes to Washington, DC via the Freedom 250 Grand Prix.

In the immediate...Interior & Transportation are to designate a route thru Wash, DC “that is suitable to conduct an INDYCAR street race” that will showcase the capital city on our 250th anniversary.

Moreover, the above are to take steps to ensure “that all permits and other authorizations” - are granted as expeditiously as possible. Also, to work with FAA to take steps so unmanned aircraft may be used to capture the action for the public.

It is E.O. 14381.

The military buildup in the Middle East...continues unabated.

U.S. air power alone...has now reached levels not seen in the region for nearly a quarter-century. including a large influx of high-end F-35s and F-22s.

Two aircraft carriers...along with support ships have been deployed.

The immense show of force...is a means to compel Tehran to bend to U.S. demands for cessation of its nuclear enrichment program.

Options on how to proceed - are being considered while Iran fortifies its nuclear sites, stations its forces and disperses decision-making authorities.

A limited strike - if occurs...could be followed by larger ones if Tehran refuses to make a deal. Among the options:

One - potentially taking out the regime, killing its military & political leaders...but the question of who would then lead is a puzzle. Possibly in the running - Mohammad-Bagher Ghalibaf, a former Revolutionary Guard Corps commander, currently the speaker of the Iranian parliament and considered an even more hard liner than the current regime.

Two - air attacks focused on hitting key targets including nuclear and ballistic-missile facilities. As it stands, beyond the heavily damaged Isfahan site struck in June - Iran is significantly hardening a deep underground tunnel known as Pickaxe Mountain - has been for years - and it is here that possible enrichment is now occurring.

Is the gap between U.S. demands and what Tehran will sign - unbridgeable?

High stakes - with Iran capable of lashing out with 2,000 midrange ballistic missiles that can hit U.S. bases in the Gulf and ships in the Strait of Hormuz.

President Trump says his timeline for a deal is two weeks maximum.