BUDGET AND PROGRAM

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Who will be specifically impacted...by the executive order formally converting thousands of federal employees to the new Schedule Policy/Career category?

Number one...the previous estimate of roughly 50,000 has been scaled way back - to about 8,000 senior-level employees.

The directive...now reclassifies them as at-will employees who serve at the pleasure of the President, just as political appointees do.

That translates...to being unable to challenge adverse actions against them - or having appeals rights.

As written...they can now be dismissed if the agency identifies "unacceptable performance or misconduct" in a written notice.

And if fired...for performance or misconduct - severance pay can be withheld.

Moreover...whistleblower complaints filed by such employees - would now be investigated within their own agency rather than the Office of the Special Counsel.

Why the greatly reduced number for those affected?

OPM...says that the President decided to only focus on "the most senior level career policy officials."

And the overwhelming majority of them...are either GS-15s or senior leaders - who can earn up to almost $200,000/year.

Here is the scope - of who is being targeted:

C-suite positions...which are senior leadership roles who guide agency strategy/operations/policy - such as Chief Financial Officers; Chief Information Officers; Chief Human Capital Officers; Chief Diversity Officers; Chief Operating Officers, etc. These slots are considered crucial for driving any Administration's reforms and improving efficiency. They shape the direction of federal policy at the various agencies.

Division directors. How extensive is this position? It varies but typically includes strategic oversight of a division's goals/performance; budget management; policy implementation; operational leadership of programs; and representation of the division regarding various congressional matters.

Program managers, branch chiefs, office directors.

Regional officers/deputies.

Chiefs of Staff.

SES members.

Regulatory writers - which is essentially a function, not a single job title. It can be accomplished by policy analysts, compliance officers, others. Largest rulemaking staffs are at EPA, OSHA and FDA.

Attorneys involved with writing agency/internal policies.

Senior HR officials in employee relations and labor relations.

Grantmaking officials.

For their part...federal employee unions have filed multiple lawsuits.

For the first time...a war powers resolution to halt the conflict, passed the House (215-208) as four Republicans joined all Democrats in support of it.

It directs - the President to remove U.S. armed forces from hostilities against Iran unless explicitly authorized by Congress, other than to defend a U.S. ally or partner from "imminent attack."

After bogging down to a fragile ceasefire - no conclusion appears on the immediate horizon regarding the Strait of Hormuz and future of its nuclear program.

Latest Iranian demand - is release of $24B in frozen assets to them - and that any potential peace deal hinges on it. Framing it as a test of trust and warning that if the battle conflict resumes, Iran will "drag the war" beyond the Persian Gulf.

Regarding the war resolution vote...the Act itself can't take effect without Senate approval, and if that were to occur - President Trump could veto it. At that point, it would need 2/3rds of both chambers to override him.

Although primarily symbolic...House Speaker Mike Johnson (R-La) frames the vote as one that "weakens us, our position and our leverage in negotiations."

How familiar...are you with the world of capital budgeting, specifically OMB's latest 3.0 version of its Capital Programing Guide?

Numerous annual budget submission requirements...are tied to it.

In a nutshell - boiled down to one sentence. Capital assets are land (including parklands); structures; equipment (incl motor & aircraft fleets) and intellectual property (including software) - which have an "estimated useful life of two years or more."

As for costs. They are to be measured in full-life cycle terms...incl all direct/indirect expenses for planning, procurement, O&M and disposal.

Major acquisitions...are capital assets that require "special management attention" - because of their importance to your agency mission or are high-risk, among other reasons. And these are to be separately identified in your agency's budget.

If such current assets...can't "bridge the gap" between planned and actual performance...then that gap should be defined in terms of how to narrow it.

Here...OMB cautions on an "acute danger" during this phase - "specification creep," where requirements grow "uncontrolled" to meet future potential needs or to incorporate emerging technology that would be "nice to have."

In this world...you are expected to answer "Three Critical Questions" before planning to acquire major capital assets.

Let's look at the first one.

1) Does the investment support a core/priority mission - that needs to be performed by the federal gov't?

If not - "end consideration of it" via elimination or by privatizing it.

If yes - give a "clear explanation" of why. How does it contribute to a strategic goal? Expected improvements? Are performance measures included?

Are the functions inherently governmental?

Value management...is part of this whole planning & budgeting construct to identify essential functions.

One question to be analyzed - surrounds the need for the function itself - what is to be accomplished by having it? "What does it do?"

OMB clarifies - "The use of free imagination, tempered with experience will develop the best ideas. In initial brainstorming sessions - all ideas - even the wildest, should be duly recorded and encouraged." Many times, breakthroughs will come from "beyond the edge of current function paradigms in the areas being studied." This tries to provide answers to - "What are the different ways this function can be performed?" Sounds like guidance from a private sector startup, you just don't see this in federal instruction. Definitely, a new approach.

Artificial Intelligence...all hands-on deck.

A new executive order...emphasizes that the Administration “refuses to stifle this innovation with overly burdensome recommendation.” But instead - “accelerate responsible AI adoption across government and industry.”

In tandem...new nat’l security considerations are being laid out across federal departments.

A central tenet - reflecting a notably greater concern for AI moving forward regarding its “offensive capabilities” not just its defensive ones...in collaboration with “frontier intelligence” (AI) models.

The backdrop...some of the most recent private sector models - can pinpoint/ exploit software vulnerabilities at speeds never seen before.

The first part of the order...concerns upgrading cybersecurity systems for AI -enabled capabilities.

And it is being pushed forward on an accelerated schedule:

- Within 30 days...DOD to take quick actions to prioritize this order.

- Within 30 days...DHS (thru CISA) is to expedite cyber defense of federal gov’t IT and create/expand federal cybersecurity information-sharing programs to facilitate access - when appropriate - to frontier AI models - that will also benefit state/local & critical infrastructure operators.

- Within 30 days...Treasury is to create an AI “cybersecurity clearinghouse” - structured around companies’ voluntary cooperation to “identify and remediate” software weaknesses in AI models not yet released. This matter is a key component of the order.

- Within 30 days...OMB to determine whether any existing federal grant programs have “available and relevant” funding that can be directed toward applicants developing advanced AI vulnerability detection.

- Within 60 days...OPM is to expand the United States Tech Force Information Cybersecurity Specialist hiring/placement path. These are technology professionals recruited to modernize federal IT systems and advance AI capabilities.

- Within 60 days...Treasury, Defense (NSA), Homeland Security (CISA) and Commerce (NIST) - are to develop a benchmarking process to evaluate advanced cyber capabilities of AI models and determine which should be designated a “covered frontier model.”

What is that?

It’s a highly advanced AI system - at the cutting edge - deemed powerful enough for the gov’t to seek a voluntary review before public release, pre-release access to such models for a period of up to 30 days.

This would presumably allow for the creation of a “cybersecurity window” for the gov’t to evaluate & harden defenses before frontier models are widely available.

Of note...this is a scaled back version of the May draft that proposed a 90-day review window but was pushed back by industry that it would give China a leg up on innovation speed.

One aspect of these systems...is their potential for dual-use applications, meaning they could be utilized for dangerous purposes such as cyberattacks.

In short...such models are being recognized as potentially high-risk due to their advanced capabilities.

At the same time...being designated as one does not currently impose mandatory licensing or preclearance requirements which are viewed by the Administration as slowing down its potential adoption and moreover, the opt out option reduces legal risk for major AI developers.

It is...executive order #14409. Into this mix, agencies balance risk w/speed.

Senate...has passed the $70B reconciliation package funding Immigration & Customs Enforcement and Customs & Border Protection for the next three years. Also includes additional monies for general Homeland Security operations.

Vote on the long-delayed DHS-related bill, was (52-47)...taking place after 18 hours of amendments and intraparty negotiations, that ended just before 5 a.m. on Friday.

Along the way...Republicans narrowly defeated multiple amendments that would have permanently banned the President's $1.8 billion "anti-weaponization" fund.

The House is expected to take up the package...this coming week. According to the clerk schedule - it could be brought up as early as this Monday. If passed as is - would head to the President's desk. Any changes would drag it back to the upper chamber.

If it becomes law...it would significantly expand monies for border enforcement agencies. Vast majority would go to:

- ICE, ($38.2B) primarily for hiring/equipping personnel, detention/removal, facility improvements and bolstering 287(g) agreements with local law enforcement.
- CBP, ($26B), essentially for hiring/equipping personnel, modernizing surveillance/inspection technology and supporting border enforcement.

Of note...this in addition to the $170B already provided to DHS last year. If this one is signed by the President as expected, it will culminate into a major financial sustainment/expansion of the Trump-era border policies.

Implications...of the recent decision to pause a $14B arms sale to Taiwan?

This occurred...only a week after the President's summit in China.

Reason given - by acting Navy Secy, Hung Cao at a Senate hearing - "to make sure we have munitions we need for Epic Fury (campaign in Iran)."

The math? It's estimated that rebuilding key munition levels that have been used there will take anywhere from 1-4 years...missiles that would be vital in any Western Pacific conflict. Even before the war, amounts were seen by some as lacking in regards to a peer adversary conflict.

One analysis (May 18) - by the Foreign Policy Research Institute...highlighted that the U.S. defense industry produces roughly 600 Patriot missiles/year - meaning it would take three years to replace the number used in just a little over a month during the Iranian campaign.

Put another way...it's a structural crisis. DOD using emergency authorities to accelerate the numbers reflects the lack of alignment in manufacturing.

At the same time...military sales to Taiwan are seen thru the lens of a U.S. security commitment which is now a more complex tradeoff - due to the steady draining of high-level weaponry in the Middle East.

For their part...immediately after the summit, China deployed over 100 ships along its first island chain which extends from Japan-Taiwan-the Philippines.

With this pause...Beijing gains a little higher ground, regardless of reason.

Here is the status of your FY 2027 appropriation bills:

In the House:

Passed - Agriculture (213-210), MilCon-VA (400-15).

Thru subcommittee mark-up...Homeland Security, Labor-HHS-Educ.

Completed full committee mark-up...Commerce-Justice-Science; Energy-Water; Financial Services; Interior-Environment; Legislative Branch; Nat'l Security-State; Transportation-HUD.

No panel action...Defense

In the Senate: no mark-ups yet.