

PUBLICATION

Trump Administration Releases Fiscal Year 2019 Budget Proposal

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February 13, 2018

On February 12, 2018, the White House released the President's Fiscal Year 2019 (FY19) budget, outlining a \$4.4 trillion federal budget proposal that prioritizes substantially higher spending on the military and on border security, and allocates additional resources towards an infrastructure proposal, improving veterans programs, and combating the opioid abuse problem. The budget proposal also calls for a \$3.6 trillion reduction in spending over the ten-year budget window, primarily from entitlements and domestic programs – including significant reductions to Medicare. Incorporating the newly enacted tax cuts, the budget estimates that the 2019 deficit would nearly double from projections issued last year, increasing from \$526 billion to \$984 billion. Overall, the budget estimates \$7.1 trillion in new debt over the next decade, with the national debt increasing to nearly \$30 trillion. Notably, the federal budget would not balance within the ten-year budget window, a longstanding goal of Republicans. These projections assume that Congress enacts all of President Trump's proposals and that economic growth continues at approximately 3 percent per year throughout the next decade.

The President's FY19 budget proposal serves to outline the Trump Administration's key funding priorities for the coming year. Congress will certainly consider the President's budget proposal, but is unlikely to enact it as proposed. Given the upcoming midterm elections, the prospects for major legislation (e.g., entitlement reform) to advance in Congress remain unlikely. In addition, Congress passed its own bipartisan two-year budget deal last week, the Bipartisan Budget Act of 2018 (BBA), which increases the federal budget caps by approximately \$300 billion across defense and domestic spending. The President's FY19 budget proposal and projections were prepared in line with the previous spending caps for FY19 and do not take into account the latest budget deal. The White House has issued a separate 26-page addendum to account for the new spending caps and to offer recommendations to Congress for the additional defense and non-defense discretionary spending under the BBA.

Moving forward, Congress must first complete the appropriations process for the rest of FY18 under the newly passed BBA before turning to FY19. The President's FY19 budget proposal, titled "Efficient, Effective, Accountable: An American Budget," will likely serve as a framework for the upcoming debates in Congress and may have an impact in the 2018 elections.

Background and Analysis

Major policy areas within the President's FY19 budget proposal are outlined below. The funding amounts listed incorporate the updated numbers provided in the addendum to the budget.

- **Defense:** The FY19 Budget requests \$716 billion for national defense, including \$686 billion for the Department of Defense (DOD) and \$30 billion for the Department of Energy's nuclear programs. The \$686 billion total for the DOD represents an \$80 billion, or 13 percent, increase from the FY17 enacted level, and includes \$617 billion in base Pentagon spending and \$69 billion for overseas contingency/war accounts. The Pentagon intends to use increased military funding to acquire more planes, ships, missiles, and high-tech capabilities. The budget also looks to boost personnel levels.

- **Note:** The \$716 billion DOD request aligns exactly with the BBA enacted last week. The two-year budget deal raised defense spending caps by \$80 billion in FY18 and \$85 billion in FY19, which means that total discretionary spending for the Pentagon will increase to \$700 billion this year and \$716 billion next year.
- **Health Care:** The FY19 budget request for the Department of Health and Human Services includes \$95.4 billion in discretionary funding and \$1.12 trillion in mandatory funding. The budget's request for \$95.4 billion in discretionary spending represents an \$8.7 billion increase from the FY17 enacted level, directed primarily towards the Administration's efforts to combat the opioid abuse problem. Other areas such as HIV/AIDS, cancer research, and emergency preparedness have funding reductions proposed.
 - The budget assumes Congress will repeal the Affordable Care Act and replace the Medicaid expansion funding and insurance exchange subsidies with market-based block grants to the states (citing the Graham-Cassidy-Johnson-Heller proposal), generating \$675 billion in net savings over the ten-year budget window.
 - In addition, the budget calls for major reforms and cuts in the growth of Medicare, producing \$554 billion in savings over ten years. The budget proposes reductions in reimbursements to post-acute care providers, graduate medical education programs, hospitals providing uncompensated care, and hospital-owned physician practices. The budget also proposes significant savings through efforts to lower Medicare payments for prescription drugs.
- **Immigration:** The FY19 budget requests \$23 billion for border security and immigration enforcement. Specifically, the Administration seeks \$18 billion across FY18 and FY19 to build a U.S.-Mexico border wall, a request tied to ongoing congressional negotiations on immigration. The remaining requested funding would go towards hiring new Customs and Border Protection officers and Immigration and Customs Enforcement agents and increasing the Administration's capacity to detain up to 52,000 immigrants each day.
- **Homeland Security:** The FY19 budget requests \$46 billion for the Department of Homeland Security, an 8.5 percent increase from the FY17 enacted level, to expand immigration enforcement (outlined above). The Administration also requests \$6.7 billion in disaster relief funding, which maintains the FY17 enacted level, and \$1.9 billion for the Federal Emergency Management Agency in FY19 to help those affected by last year's hurricanes.
- **Energy, Interior, and Environmental Protection Agency:** The FY19 budget requests \$30.6 billion for the Department of Energy (DOE), compared to \$30.2 billion in the FY17 enacted level, but shifts funding significantly from research to spending more on nuclear weapons maintenance and modernization. The FY19 request allocates \$15.1 billion for nuclear weapons, a \$2.3 billion increase from the FY17 enacted level. Other DOE activities would get \$14.5 billion, a \$2.7 billion decrease from the FY17 enacted level.
 - The FY19 budget requests \$11.5 billion in discretionary funding for the Department of the Interior, a reduction of 15 percent from the FY17 enacted level. The budget calls for prioritizing rebuilding the National Park System and promoting U.S. energy independence.
 - The budget proposes a \$6.1 billion budget for the Environmental Protection Agency, a 26 percent reduction from the \$8.2 billion in the FY17 enacted level, and proposes reducing its workforce by 21 percent.

- **Transportation:** The FY19 budget requests \$15.6 billion for the Department of Transportation's discretionary budget, down roughly 19 percent from \$19.3 billion in the FY17 enacted level. The budget includes \$60.9 billion of mandatory spending for highways, bridges, transit, and other initiatives.
 - As part of the FY19 budget proposal, the Trump Administration calls for \$200 billion in direct federal spending for a new infrastructure plan, which aims to leverage \$1.5 trillion in total spending with the rest coming from private investors and state and local governments.
 - The budget also includes a proposal to privatize air traffic control, similar to last year's budget.

We will follow with a more detailed overview of major policies within the President's FY19 budget proposal and provide further reports on budget updates as more information becomes available.