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Analytical Perspectives

**FISCAL YEAR 2020
BUDGET OF THE U.S. GOVERNMENT**

Federal Capital Revolving Fund

The structure of the Federal budget and budget enforcement requirements can create hurdles to funding large-dollar capital investments that are handled differently at the State and local government levels. Expenditures for capital investment are combined with operating expenses in the Federal unified budget. Both

kinds of expenditures must compete for limited funding within the discretionary caps. Large-dollar Federal capital investments can be squeezed out in this competition, forcing agency managers to turn to operating leases to meet long-term Federal requirements. These alternatives are more expensive than ownership over the long-term because: (1) Treasury can always borrow at lower interest rates; and (2) to avoid triggering scorekeeping and recording requirements for capital leases, agencies sign shorter-term consecutive leases of the same space. For example, the cost of two consecutive 15-year leases for a building can exceed its fair market value by close to 180 percent. Alternative financing proposals typically run up against scorekeeping and recording rules that appropriately measure cost based on the full amount of the Government's obligations under the contract, which further constrains the ability of agency managers to meet capital needs.

In contrast, State and local governments separate capital investment from operating expenses. They are able to evaluate, rank, and finance proposed capital investments in separate capital budgets, which avoids direct competition between proposed capital acquisitions and

operating expenses. If capital purchases are financed by borrowing, the associated debt service is an item in the operating budget. This separation of capital spending from operating expenses works well at the State and local government levels because of conditions that do not exist at the Federal level. State and local governments are required to balance their operating budgets, and their ability to borrow to finance capital spending is subject to the discipline of private credit markets that impose higher interest rates for riskier investments. In addition, State and local governments tend to own capital that they finance. In contrast, the Federal Government does not face a balanced budget requirement, and Treasury debt has historically been considered the safest investment regardless of the condition of the Federal balance sheet. Also, the bulk of Federal funding for capital is in the form of grants to lower levels of Government or to private entities, and it is difficult to see how non-Federally-owned investment can be included in a capital budget.

To deal with the drawbacks of the current Federal approach, the Budget proposes: (1) to create a Federal Capital Revolving Fund (FCRF) to fund large-dollar, Federally-owned, civilian real property capital projects;

Chart 13-1. Scoring of \$288 Million NIST Renovation Project using the Federal Capital Revolving Fund

Federal Capital Revolving Fund			Purchasing Agency		
	Year 1	Years 2-15		Year 1	Years 2-15
Mandatory:			Mandatory:		
Transfer to purchasing agency to renovate building.....	288		Collection of transfer from Federal Capital Revolving Fund.....	-288	
Purchasing agency repayments....	-19	-269	Payment to renovate building.....	288	
Discretionary:			Discretionary:		
			Repayments to Federal Capital Revolving Fund.....	19	269

Total Government-Wide Deficit Impact			
	Year 1	Years 2-15	Total
Mandatory:			
Renovate building.....	288		288
Collections from purchasing agency.....	-19	-269	-288
Discretionary:			
Purchasing agency repayments.....	19	269	288
Total Government-wide.....	288	---	288

and (2) provide specific budget enforcement rules for the FCRF that would allow it to function, in effect, like State and local government capital budgets. This proposal incorporates principles that are central to the success of capital budgeting at the State and local level -- a limit on total funding for capital investment, annual decisions on the allocation of funding for capital projects, and spreading the acquisition cost over 15 years in the discretionary operating budgets of agencies that purchase the assets. As part of the overall 2020 Budget infrastructure initiative, the FCRF would be capitalized initially by a \$10 billion mandatory appropriation, and scored with anticipated outlays over the 10-year window for the purposes of pay-as-you-go budget enforcement rules. Balances in the FCRF would be available for transfer to purchasing agencies to fund large-dollar capital acquisitions only to the extent projects are designated in advance in appropriations Acts and the agency receives a discretionary appropriation for the first of a maximum of 15 required annual repayments. If these two conditions are met, the FCRF would transfer funds to the purchasing agency to cover the full cost to acquire the capital asset. Annual discretionary repayments by purchasing agencies would replenish the FCRF and would become available to fund additional capital projects. Total annual capital purchases would be limited to the lower of \$2.5 billion or the balance in the FCRF, including annual repayments.

The Budget uses the FCRF concept to fund the expansion and remaining renovation, estimated at \$288 million for the Department of Commerce National Institute of Standards and Technology (NIST) to do advance precision measurement tools and technologies for a variety of scientific endeavors at Building One on the Boulder Colorado campus. In accordance with the principles and design of the FCRF, the 2020 budget requests appropriations language designating the NIST expansion and renovation as a project to be funded out of the FCRF, which is housed within the General Services Administration, along with 1/15 of the full purchase price, or \$19.2 million for the first year repayment back to the FCRF. The FCRF account is displayed funding the NIST project in 2020 and a total of \$15 billion worth of federal buildings projects using the initial \$10 billion in mandatory appropriations and \$5 billion from revolving the collections from annual project repayments starting in 2025.

The flow of funds for the expansion and renovation of a NIST research building with a \$288 million cost and the proposed scoring are illustrated in Chart 10–1. Current budget enforcement rules would require the entire \$288 million to be scored as discretionary BA in the first year, which would negate the benefit of the FCRF and leave agencies and policy makers facing the same trade-off constraints. As shown in Chart 10–1, under this proposal, transfers from the FCRF to agencies to fund capital projects, \$288 million in the case of the NIST project, and the actual execution by agencies would be scored as direct spending (shown as mandatory in Chart 10–1), while agencies would use discretionary appropriations to fund the annual repayments to the FCRF, or \$19.2 million for

the NIST building construction first year repayment. The proposal allocates the costs between direct spending and discretionary spending-- the up-front cost of capital investment would already be reflected in the baseline as direct spending once the FCRF is enacted with \$10 billion in mandatory capital. This scoring approves a total capital investment upfront, keeping individual large projects from competing with annual operating expenses in the annual appropriations process. On the discretionary side of the budget the budgetary trade off would be locking into the incremental annual cost of repaying the FCRF over 15-years. Knowing that future discretionary appropriations will have to be used to repay the FCRF would provide an incentive for agencies, OMB, and the Congress to select projects with the highest mission criticality and returns. OMB would review agencies' proposed projects for inclusion in the President's Budget, as shown with the NIST request, and the Appropriations Committees would make final allocations by authorizing projects in annual appropriations Acts and providing the first year of repayment. This approach would allow for a more effective capital planning process for the Government's largest civilian real property projects, and is similar to capital budgets used by State and local governments.