

11. BUDGET PROCESS

Since taking office, the Administration has sought to present budget figures that accurately reflect the present and future course of the Nation's finances, and to make improvements in budget process and enforcement. An honest and transparent accounting of the Nation's finances is critical to making decisions about key fiscal policies, and effective budget enforcement mechanisms are necessary to promote budget discipline.

This chapter begins with a description of three broad categories of budget reform. First, the chapter discusses proposals to improve budgeting and fiscal sustainability with respect to individual programs as well as across Government. These proposals include: legislation that exceeds the remaining savings required for the Joint Select Committee on Deficit Reduction, repeals the Joint Committee reductions, and restores amounts that would be reduced by the 2017 mandatory sequestration order; various initiatives to reduce improper payments; funding requested for disaster relief; a proposed cap adjustment for the decennial census; limits on advance appropriations; structural reforms for surface transportation programs; proposals for the Pell Grant program;

Postal Service reforms; reclassification for contract support costs; and a fast-track procedure for the Congress to consider certain rescission requests. Second, the chapter describes the system under the Statutory Pay-As-You-Go Act of 2010 (PAYGO) of scoring legislation affecting receipts and mandatory spending, and it summarizes the Administration's commitment to applying a PAYGO requirement to administrative actions affecting mandatory spending. Finally, the chapter presents proposals to revise the budget baseline and to improve budget presentation, for example, by including an allowance for the costs of potential future natural disasters. This revised baseline better captures the likely future costs of operating the Federal Government. This section also discusses the use of debt net of financial assets, instead of debt held by the public, as a better measure of the Government's demand on private credit markets.

Taken together, these reforms generate a Budget that is more transparent, comprehensive, accurate, and realistic, and is thus a better guidepost for citizens and their representatives in making decisions about the key fiscal policy issues that face the Nation.

I. BUDGET REFORM PROPOSALS

Joint Committee Enforcement

In August 2011, as part of the Budget Control Act of 2011 (BCA), bipartisan majorities in both the House and Senate voted to establish the Joint Select Committee for Deficit Reduction to recommend legislation to achieve at least \$1.2 trillion of deficit reduction over the period of fiscal years 2012 through 2021. The BCA included automatic reductions as a mechanism to encourage the Congress to enact legislation to achieve this goal. On multiple occasions, the President has presented comprehensive plans to replace these reductions with a mix of specific spending cuts and revenue proposals. The failure of the Congress to enact such comprehensive deficit reduction legislation to achieve the \$1.2 trillion goal has already triggered a sequestration of discretionary and mandatory spending in 2013, led to reductions in the discretionary caps for 2014 through 2017, and forced additional sequestrations of mandatory spending in each of fiscal years 2014 through 2016. A further sequestration of mandatory spending is scheduled to take effect beginning on October 1 based on the order released with the 2017 Budget.

To date, legislation has been enacted to partially address the annual reductions required to the discretionary spending limits set in the BCA through 2017. The American Taxpayer Relief Act of 2012 reduced the sequestration required of 2013 discretionary and mandatory spending by \$24 billion. The Bipartisan Budget Act of 2013 (BBA of 2013) (P.L. 113-67)

decreased the reductions otherwise required to the 2014 discretionary caps by \$44.8 billion and set new discretionary caps in 2015 that were approximately \$18.5 billion more than the Congressional Budget Office's (CBO) estimate of the post-reduction discretionary spending limits in that year. The Bipartisan Budget Act of 2015 (BBA of 2015) (P.L. 114-74) decreased the reductions to the 2016 discretionary caps by \$50 billion and replaced the reductions for the 2017 discretionary caps that would have been required with smaller reductions of \$61.4 billion from the original caps agreed to in the BCA. The smaller reduction for 2017 was approximately \$30 billion more than the March 2015 CBO estimate of the post-reduction discretionary spending limits. All of these revisions were paid for by enacting alternative deficit reduction.

In addition to the mandatory sequestration for 2017 noted above, damaging annual reductions of \$109 billion will continue to be required for each of fiscal years 2018 through 2021, unless the Congress enacts balanced deficit reduction legislation that replaces and repeals the Joint Committee reductions. Further, legislation enacted subsequent to the BCA has extended the sequestration of mandatory spending through 2025 at the percentage reduction required for 2021.¹ The reductions to discre-

¹ The BBA of 2015, which extended sequestration into 2025, required that the reduction in the Medicare program be 4.0 percent for the first half of the sequestration period and zero for the second half of the period.

tionary spending for fiscal years 2018 through 2021 are to be implemented in the sequestration preview report for each year by reducing the discretionary caps. The reductions to mandatory programs are to be implemented by a sequestration of non-exempt mandatory budgetary resources in each of fiscal years 2017 through 2025, which is triggered by the transmittal of the President's Budget for each year and takes effect on the first day of the fiscal year.

The budget agreements of 2013 and 2015 took important steps in moving away from manufactured crises and austerity budgeting by replacing a portion of the Joint Committee reductions with sensible long-term reforms, including a number of reforms proposed in previous President's Budgets. The 2017 Budget builds on the achievements secured for 2016 and adheres to the agreement's funding levels. However, failing to fully replace sequestration has consequences. To further the goal of building durable economic growth in the future, the Budget also includes a series of investments using mandatory funding.

The 2017 Budget also recognizes that without further Congressional action, sequestration will re-turn in full in 2018. Therefore, starting in 2018, the Budget once again proposes to support a range of investments to move the Nation forward by ending sequestration and replacing the savings by cutting inefficient spending and closing tax loopholes, while putting the Nation on a sustainable fiscal path.

Program Integrity Funding

Critical programs such as Social Security, Unemployment Insurance, Medicare, and Medicaid, should be run efficiently and effectively. Therefore, the Administration proposes to make significant investments in activities to ensure that taxpayer dollars are spent correctly, by expanding oversight activities in the largest benefit programs and increasing investments in tax compliance and enforcement activities. In addition, the Administration supports a number of legislative and administrative reforms in order to reduce improper payments and improve debt collection. Many of these proposals will provide savings for the Government and taxpayers, and will support Government-wide efforts to improve the management and oversight of Federal resources.

The Administration supports efforts to provide Federal agencies with the necessary resources and incentives to prevent, reduce, or recover improper payments. With the enactment of the Improper Payments Elimination and Recovery Act of 2010 (P.L. 111-204) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (P.L. 112-248), and the release of three Presidential directives on improper payments under this Administration, agencies are well positioned to utilize these new tools and techniques to prevent, reduce, and recover improper payments. The Administration will continue to identify areas—in addition to those outlined in the Budget—where it can work with the Congress to further improve agency efforts.

Administrative Funding for Program Integrity.—

There is compelling evidence that investments in administrative resources can significantly decrease the rate of improper payments and recoup many times their initial investment. The Social Security Administration (SSA) estimates that medical continuing disability reviews conducted in 2017 will yield net Federal program savings over the next 10 years of roughly \$8 on average per \$1 budgeted for dedicated program integrity funding, including the Old Age, Survivors, and Disability Insurance Program (OASDI), Supplemental Security Income (SSI), Medicare and Medicaid program effects. Similarly, for Health Care Fraud and Abuse Control (HCFAC) program integrity efforts, CMS actuaries conservatively estimate approximately \$2 is saved or payments averted for every additional \$1 spent. The Internal Revenue Service (IRS) enforcement activities recoup roughly \$6 for every \$1 spent.

Enacted Adjustments Pursuant to BBEDCA.—The Balanced Budget and Emergency Deficit Control Act of 1985, as amended (BBEDCA) recognized that a multi-year strategy of agencies focusing attention and resources on reducing the rate of improper payments, commensurate with the large and growing costs of the programs administered by that agency, is a laudable goal. To support that goal, BBEDCA provided for adjustments to the discretionary spending limits to allow for additional funding for specific program integrity activities to reduce improper payments in the Social Security programs and in the Medicare and Medicaid programs. These adjustments are increases in the discretionary caps on budget authority through 2021 and are made only if appropriations bills increase funding for the specified program integrity purposes above specified minimum, or base levels. Recently, recognizing the significant benefits to program integrity activities, the BBA of 2015 increased such adjustments for Social Security programs by a net \$484 million over the 2017-2021 period. The BBA of 2015 also expanded the uses of cap adjustment funds to include cooperative disability investigation units, and special attorneys for fraud prosecutions. This budget mechanism was intended to ensure that the additional funding did not supplant other Federal spending on these activities and that such spending was not diverted to other purposes.

The Consolidated Appropriations Act, 2016 (P.L. 114-113) did not provide full funding of the adjustment to the discretionary spending limit for HCFAC and SSA. Although the final levels in 2016 increased from 2015 in nominal terms for both SSA and HCFAC, the final levels for both accounts were less than the Administration's request for the full allowable cap adjustments by \$13 million and \$25 million, respectively. Both were fully funded at the levels specified in BBEDCA for 2015. Tens of billions of dollars in deficit savings over the next 10 years from curtailing improper payments will be realized if the levels of administrative expenses for program integrity envisioned by BBEDCA continue to be provided. To ensure these important program integrity investments are made, the Budget proposes to continue the full discretionary cap adjustment for SSA and for HCFAC through 2026.

These proposals will produce new net deficit savings of \$38.6 billion over 10 years.

Social Security Administration Medical Continuing Disability Reviews and Non-Medical Redeterminations of SSI Eligibility.—For the Social Security Administration, the Budget’s proposed \$1,819 million in discretionary funding in 2017 (\$273 million in base funding and \$1,546 million in cap adjustment funding) will allow SSA to conduct 1.1 million full medical CDRs and approximately 2.8 million SSI non-medical redeterminations of eligibility. Medical CDRs are periodic reevaluations to determine whether disabled OASDI or SSI beneficiaries continue to meet SSA’s standards for disability. The funding provided will enable the agency to work down a backlog of medical CDRs. As a result of the discretionary funding requested in 2017, as well as the fully funded base and cap adjustment amounts in 2018 through 2026, the OASDI, SSI, Medicare and Medicaid programs would recoup almost \$48 billion in gross Federal savings with additional savings after the 10-year period, according to estimates from SSA’s Office of the Chief Actuary. Access to increased cap adjustment amounts and SSA’s commitment to fund the fully loaded costs of performing the requested CDR and redetermination volumes would produce new net deficit savings of \$34 billion in the 10-year window, and additional savings in the out-years. These costs and savings are reflected in Table 11-1.

SSA is required by law to conduct medical CDRs for all beneficiaries who are receiving disability benefits under the OASDI program, as well as all children under age 18 who are receiving SSI. SSI redeterminations are also required by law. However, the frequency of CDRs and redeterminations is constrained by the availability of funds to support these activities. As noted above, for 2016, the base amounts, as well as an additional \$1,153 million in discretionary cap adjustment funding pursuant to section 251(b)(2)(B) of BBEDCA were enacted in the annual appropriations bill. The mandatory savings from the base funding in every year and the enacted discretionary cap adjustment funding in 2016 are included in the BBEDCA baseline, consistent with the levels amended by the BBA of 2015, because the baseline assumes the continued funding of program integrity activities. The Budget shows the savings that would result from the increase in CDRs and redeterminations made possible by the discretionary funding requested in 2017 through 2026. With enactment of the new cap adjustment amounts in the BBA of 2015 and full funding of the cap adjustment amounts through 2026, SSA should eliminate the backlog of CDRs by the end of 2019 and prevent a new backlog from developing during the budget window.

As stated above, current estimates indicate that medical CDRs conducted in 2017 will yield a return on investment (ROI) of about \$8 on average in net Federal program savings over 10 years per \$1 budgeted for dedicated program integrity funding, including OASDI, SSI, Medicare and Medicaid program effects. Similarly, SSA estimates indicate that non-medical redeterminations conducted in 2017 will yield a ROI of about \$3 on average

of net Federal program savings over 10 years per \$1 budgeted for dedicated program integrity funding, including SSI and Medicaid program effects. The Budget assumes the full cost of performing CDRs in 2017 and beyond to ensure that sufficient resources are available to account for spending on these activities. The savings from one year of program integrity activities are realized over multiple years because some results find that beneficiaries are no longer eligible to receive OASDI or SSI benefits.

Redeterminations are periodic reviews of non-medical eligibility factors, such as income and resources, for the means-tested SSI program and can result in a revision of the individual’s benefit level. However, the schedule of savings resulting from redeterminations will be different for the base funding and the cap adjustment funding in 2017 through 2026. This is because redeterminations of eligibility can uncover underpayment errors as well as overpayment errors. SSI recipients are more likely to initiate a redetermination of eligibility if they believe there are underpayments, and these recipient-initiated redeterminations are included in the base. The estimated savings per dollar spent on medical CDRs and non-medical redeterminations reflects an interaction with a provision in the Affordable Care Act (ACA) that allows States to expand Medicaid coverage beginning January 2014 for individuals under age 65 with income less than 133 percent of poverty. As a result of this provision, some SSI beneficiaries, who would otherwise lose Medicaid coverage due to a medical CDR or non-medical redetermination, would continue to be covered. In addition, some of the coverage costs for these individuals will be eligible for the Medicaid ACA enhanced Federal matching rate, resulting in higher Federal Medicaid costs in those states.

Health Care Fraud and Abuse Program.—The 2017 Budget proposes base and cap adjustment funding levels over the next 10 years and continues the program integrity cap adjustment through 2026.

The discretionary base funding of \$311 million and cap adjustment of \$414 million for HCFAC activities in 2017 are designed to reduce the Medicare improper payment rate, support the Health Care Fraud Prevention & Enforcement Action Team (HEAT) initiative, reduce Medicaid improper payment rates, and monitor and prevent fraud, waste, and abuse in the private health insurance market including the Health Insurance Marketplace. The investment will also allow CMS to deploy innovative efforts that focus on improving the analysis and application of data, including state-of-the-art predictive modeling capabilities, in order to prevent potentially wasteful, abusive, or fraudulent payments before they occur. The funding is to be allocated among CMS, the Health and Human Services Office of Inspector General, and the Department of Justice (DOJ). Over 2017 through 2026, as reflected in Table 11-1, this \$5.1 billion investment in HCFAC cap adjustment funding will generate approximately \$10.2 billion in savings to Medicare and Medicaid, for new net deficit reduction of \$5.1 billion over the 10-year period, reflecting prevention and recoupment of improper payments made to providers, as well as recoveries related to civil and criminal penalties. The

Table 11-1. ENACTED CAP ADJUSTMENTS, INCLUDING MANDATORY SAVINGS
(Outlays in millions of dollars)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2026 Total
SSA Program Integrity											
Discretionary Costs ¹	1,546	1,462	1,410	1,309	1,302	1,341	1,382	1,423	1,466	1,509	14,150
Mandatory Savings ²	-106	-2,140	-3,331	-4,100	-4,825	-5,756	-6,105	-6,350	-7,218	-7,779	-47,710
Net Savings	1,440	-678	-1,921	-2,791	-3,523	-4,415	-4,723	-4,927	-5,752	-6,270	-33,560
Health Care Fraud and Abuse Control Program											
Discretionary Costs	414	434	454	475	496	518	541	565	590	616	5,103
Mandatory Savings ³	-795	-844	-894	-947	-991	-1,036	-1,085	-1,135	-1,187	-1,241	-10,155
Net Savings	-381	-410	-440	-472	-495	-518	-544	-570	-597	-625	-5,052

¹The annual discretionary cost includes the amounts newly enacted in the Bipartisan Budget Act of 2015 for 2017 through 2021, pursuant to section 251(b)(2)(B) of BBEDCA. Amounts from 2022 through 2026 are the requested adjustment to the Administration’s proposed caps. For 2016 the base amount was enacted in the annual appropriations bill and an additional \$1,153 million was provided as a discretionary cap adjustment pursuant to section 251(b)(2)(B) of BBEDCA. The mandatory savings from the base funding in every year and the 2016 enacted discretionary cap adjustment funding continues to be included in the BBEDCA baseline.

²This is based on SSA’s Office of the Actuary estimates of savings.

³These savings are based on estimates from the HHS Office of the Actuary for return on investment (ROI) from program integrity activities.

mandatory savings from base funding, assuming that amount is to continue in future years, are included in the BBEDCA baseline, as are the savings from the 2016 enacted cap adjustment funding of \$370 million.

Proposed Adjustments to BBEDCA Discretionary Spending Limits.—The Administration also proposes to amend BBEDCA to enact adjustments to the discretionary spending limits for tax code enforcement at the IRS and Treasury’s Alcohol and Tobacco Tax and Trade Bureau (TTB) over the 2017 to 2026 period and for the Department of Labor (DOL) to reduce improper payments in the Unemployment Insurance (UI) program in 2017. Beginning in 2018, the Administration proposes to fund these activities with mandatory funding. As shown in Table 11-2, the new spending is estimated to result in more than \$64 billion in lower spending and additional tax revenue over the next 10 years, with further savings after the ten-year period. The base level of funding and the additional funding that would trigger cap adjustments, as well as mandatory funding requests for UI are also listed in Table 11-2.

Internal Revenue Service and Treasury’s Alcohol and Tobacco Tax and Trade Bureau.—For the IRS and TTB, the base funds current tax administration activities, including all tax enforcement and compliance program activities, in the Enforcement and Operations Support accounts at IRS and the Salaries and Expenses account at TTB. The additional \$514 million cap adjustment funds new and continuing investments in expanding and improving the effectiveness and efficiency of the IRS’s and TTB’s overall tax enforcement program. As a result of base tax enforcement and compliance activities, the Government will collect roughly \$54 billion in 2017 in

direct enforcement revenue. The IRS estimates that the proposed new 2017 enforcement initiatives will yield an additional \$278 million in revenue from the work done in 2017. Furthermore, once the new staff are trained and become fully operational in 2019, the additional annual revenue generated by these initiatives is expected to be \$2.6 billion, or roughly \$6 in additional revenue for every \$1 in IRS expenses. The activities through 2026 will generate \$63.6 billion in additional revenue over 10 years and will cost \$17.4 billion for an estimated net savings of \$46.2 billion. Notably, the ROI is likely understated because it only includes amounts received; it does not reflect the effect enhanced enforcement has on deterring non-compliance. This indirect deterrence helps to ensure the continued payment of over \$3 trillion in taxes paid each year without direct enforcement measures.

Unemployment Insurance.—The Budget proposes a cap adjustment in 2017, which would be a transition year to dedicated mandatory funding in 2018 and beyond for the Department of Labor’s (DOL) Unemployment Insurance (UI) State administrative grants program to reduce UI improper payments, a top management challenge identified by GAO and DOL’s Inspector General. The proposal would expand what is now a \$115 million initiative to conduct Reemployment Services and Eligibility Assessments (RESEA).

The REA initiative was begun in 2005 to finance in-person interviews at American Job Centers (also known as “One-Stop Career Centers”), to assess UI beneficiaries’ need for job finding services and their continued eligibility for benefits. Research, including a random-assignment evaluation, shows that a combination of eligibility reviews and reemployment services reduces the time on

UI, increases earnings, and reduces improper payments to claimants who are not eligible for benefits. Based on this research, the Budget proposes to expand funding for the RESEA initiative to allow States to conduct robust reemployment services along with REAs. These reemployment services, which may include the development of reemployment and work search plans, provision of skills assessments, career counseling, job matching and referrals, and referrals to training as appropriate.

The funding proposed in the Budget would allow States to provide RESEA services to focus on UI claimants identified as most likely to exhaust their UI benefits and on newly separated veterans claiming unemployment compensation for ex-service members (UCX). The proposed mandatory program would result in savings in UI benefit payments of an estimated \$5.1 billion. These benefit savings would allow States to reduce their UI taxes by \$1.5 billion, reducing the burden on employers.

Because most unemployment claims are now filed by telephone or online, in-person assessments conducted in the Centers can help determine the continued eligibility for benefits and the adequacy of work search, verify the identity of beneficiaries where there is suspicion of possible identity theft, and provide a referral to reemployment assistance for those who need additional help. The benefit savings from this initiative are short-term because the maximum UI benefit period is limited, typically 26 weeks for regular State UI programs. The proposed amount to be spent in 2017 would be \$35 million through a cap adjustment, while the out years would request total funding of \$1.7 billion on the mandatory side of the Budget through 2026. Of that amount, \$228 million is requested as new funding. Overall, the new mandatory funding would result in total deficit savings estimated at \$669 million. The 2017 cap adjustment would result in total outlay savings of \$134 million. These deficit savings from the cap adjust-

Table 11–2. PROPOSALS FOR DISCRETIONARY PROGRAM INTEGRITY BASE FUNDING AND CAP ADJUSTMENTS, INCLUDING MANDATORY AND RECEIPTS SAVINGS

(Budget authority/outlays in millions of dollars)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2026 Total
IRS Tax Enforcement											
Proposed Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as Amended:											
Enforcement Base	8,854	9,057	9,265	9,477	9,696	9,918	10,145	10,379	12,846	13,118	102,755
Cap Adjustments:											
BA	514	938	1,300	1,667	2,042	2,141	2,160	2,185	2,211	2,237	17,395
Outlays	458	890	1,255	1,622	1,996	2,124	2,153	2,180	2,206	2,231	17,115
Receipt Savings from Discretionary Program Integrity Base Funding and Cap Adjustments:¹											
Enforcement Base ²	-54,000	-54,000	-54,000	-54,000	-54,000	-54,000	-54,000	-54,000	-54,000	-54,000	-540,000
Cap Adjustment ³	-278	-1,585	-3,263	-5,008	-6,763	-8,327	-9,264	-9,590	-9,737	-9,814	-63,629
Unemployment Insurance Improper Payments											
Proposed Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as Amended/Proposed Increase in Mandatory Funding:											
Discretionary Costs (BA) ⁴	35	0	0	0	0	0	0	0	0	0	35
Mandatory Costs	0	23	24	24	25	26	25	27	26	28	228
Mandatory Savings from Program Integrity Cap Adjustment, and UI Mandatory Proposal:⁵											
Cap Adjustment	-76	-58	0	0	0	0	0	0	0	0	-134
UI Mandatory Funding Increase	0	-27	-67	-70	-75	-80	-79	-88	-87	-96	-669

¹ Savings for IRS are revenue increases rather than spending reductions. They are shown as negatives for consistency in presentation.

² No official estimate for 2017 enforcement revenue has been produced, so this figure is an approximation and included only for illustrative purposes.

³ The Internal Revenue Service (IRS) cap adjustment funds increases for existing enforcement initiatives and activities and new initiatives. The IRS enforcement program helps maintain the more than \$2 trillion in taxes paid each year without direct enforcement measures. The cost increases will help maintain the base revenue while generating additional revenue through targeted program investments. The activities and new initiatives funded out of the cap adjustment will yield more than \$46 billion in savings over ten years. Aside from direct enforcement revenue, the deterrence impact of these activities suggests the potential for even greater savings.

⁴ The cost of shifting the current UI base funding (\$151 million in 2017, adjusted annually for inflation) from discretionary to mandatory is not reflected above in 2018 through 2026 because it is offset with an annual reduction to the discretionary spending limits in section 251(c) of the Balanced Budget and Emergency Deficit Control Act of 1985. For 2017, the Budget requests base UI program integrity funding of \$151 million through discretionary appropriations, as well as \$35 million through an adjustment to the 2017 discretionary cap. The mandatory savings from the base funding every year continue to be included in the BBEDCA baseline. The mandatory cost is the increase requested above the inflation adjusted baseline.

⁵ The maximum UI benefit period is typically 26 weeks unless temporary extended benefits programs are in effect. As a result, preventing an ineligible individual from collecting UI benefits would save at most a half year of benefits in the absence of extended benefits. The savings estimates are based on regular UI benefits and spread over two years, reflecting the fact that reemployment and eligibility assessments conducted late in the year affect individuals whose benefits would have continued into the subsequent fiscal year. As a result of the benefit savings, many States will be able to reduce their unemployment taxes. The reduction in State UI taxes from the cap adjustment is \$85 million. The estimated reduction in State UI taxes from mandatory funding is \$204 million.

ment and additional mandatory spending would result in some States reducing their UI taxes, which would result in an estimated revenue loss of \$289 million. Net savings for the proposal, including the cost of the cap adjustment, the mandatory outlay savings, and the revenue declines, totals \$251 million. The cost of shifting UI base funding from discretionary to mandatory in 2018 through 2026 is not reflected in the new net deficit savings because it is being offset with an annual reduction to the discretionary spending limits in section 251(c) of BBEDCA, if the mandatory funding proposal is enacted.

Partnership Fund for Program Integrity Innovation.—Funded from 2010 through 2013, the Partnership Fund invested over \$29 million in eleven pilot projects estimated to lead to total savings of \$200 million or more annually if the pilots are taken to scale. The Partnership Fund’s focus on program integrity expanded to include increased cost-effectiveness in the delivery of federally funded services with State and local partners. As evaluations are completed and results finalized, OMB will work with Federal agencies, States and local governments, and other stakeholders to disseminate lessons learned and apply the tools and methods tested more broadly across programs and levels of government.

In the past year, the Administration for Children and Families at HHS awarded \$3.6 million to scale the successful pilot National Electronic Interstate Compact Enterprise (NEICE) System to a national level. Formerly known as Supporting Permanent Placements of Foster Care Children through Electronic Records Exchange, this effort has helped States implement a real-time, on-line data exchange to share records and other information to support permanent placements of children and youth in foster care when they are placed in homes across State lines. By increasing efficiency, NEICE helps to reduce the time that youth in foster care spend waiting for an interstate placement. The award will support efforts over the next three years by the Association of Administrators of the Interstate Compact on the Placement of Children (AAICPC), which governs the placement of children across State lines for purposes of foster care, adoption and residential placements, to improve the administrative efficiency of interstate placements.

Additionally, some pilots are close to having results. The Food and Nutrition Service (FNS) at the Department of Agriculture completed the National Accuracy Clearinghouse pilot. FNS worked with States to test an interstate database of program information to support the Supplemental Nutrition Assistance Program (SNAP) and Disaster SNAP (D-SNAP) eligibility determinations by allowing States to determine whether an applicant is already receiving benefits in a different participating State. A pilot evaluation is being finalized. The Trusted On-Line Credentials pilot, in which Commerce is working with States to develop effective and secure identity verification solutions to support convenient customer access and program integrity across different services and agencies, has completed implementation and is producing its evaluation for one of the two participating States.

In 2016, early results are expected for the Identifying State Innovations for Improving Temporary Assistance for Needy Families (TANF) Program Administration pilot. ACF is working with States to develop cost-effective approaches and best practices to maximize TANF block grants by reducing improper payments and directing cash assistance payments to eligible families not participating.

In 2017, the DOJ’s Juvenile Justice Reinvestment and Realignment Initiative (JJRRI) pilot is expected to produce preliminary results. Under JJRRI, DOJ is working with State and local youth-serving agencies as well as community service providers to develop and implement an integrated set of evidence-based and cost-measurement tools that will enable them to make informed decisions about resources and services for justice-involved youth. Pilot partners are collecting and analyzing local data on recidivism, cost, and other factors to implement a practical “ground up” solution to the challenges of local and State service quality.

Mandatory Program Integrity Initiatives.—Table 11-3 presents the mandatory and receipt savings from other program integrity initiatives that are included in the 2017 Budget, beyond the expansion in resources resulting from the increases in administrative funding discussed above. These savings total almost \$15.8 billion over 10 years. These mandatory proposals to reduce improper payments and ensure agencies recover debt owed to the Federal Government reflect the importance of these issues to the Administration. Through these and other initiatives outlined in the Budget, the Administration can improve management efforts across the Federal Government.

Cut Waste, Fraud, and Abuse in Medicare and Medicaid.—The Budget includes a robust package of Medicare and Medicaid program integrity proposals to help prevent fraud and abuse before they occur; detect fraud and abuse as early as possible; more comprehensively enforce penalties and other sanctions when fraud and abuse occur; provide greater flexibility to the Secretary of Health and Human Services to implement program integrity activities that allow for efficient use of resources and achieve high returns-on-investment; and promote integrity in Federal-State financing. For example, the Budget proposes to authorize civil monetary penalties or other intermediate sanctions for providers who do not update enrollment records, permit exclusion of individuals affiliated with entities sanctioned for fraudulent or other prohibited action from Federal health care programs, and strengthens Medicaid and the Children’s Health Insurance Program (CHIP) by providing tools to States, Territories, and the Federal Government to fight fraud, waste, and abuse. Together, the CMS program integrity authority would net approximately \$3.4 billion over 10 years PAYGO and non-PAYGO savings.

Unemployment Insurance Integrity.—The Budget includes a package aimed at improving integrity in the Unemployment Insurance program. The package would result in \$79 million in PAYGO outlay costs over 10 years, but would result in \$2 billion in non-PAYGO outlay sav-

Table 11–3. MANDATORY AND RECEIPT SAVINGS FROM OTHER PROGRAM INTEGRITY INITIATIVES

(Receipts and outlays in millions of dollars)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	10-year total
Department of Health and Human Services:											
Cut Waste, Fraud, and Abuse in Medicare and Medicaid ¹	104	79	93	88	98	123	132	152	172	192	1,233
Cut Waste, Fraud, and Abuse in Medicare and Medicaid (non-PAYGO) ¹	-111	-156	-256	-362	-482	-552	-608	-658	-703	-759	-4,647
Department of Labor:											
Unemployment Insurance Integrity Package	-12	-25	-6	22	24	27	30	36	31	39	166
Unemployment Insurance Integrity Package (non-PAYGO)	-57	-83	-134	-202	-194	-186	-182	-147	-194	-168	-1,547
Department of the Treasury:											
Authorize Treasury to locate and recover assets of the United States and to retain a portion of amounts collected to pay for the cost of recovery	-8	-8	-8	-8	-8	-9	-9	-9	-9	-9	-85
Increase delinquent Federal non-tax debt collection	-32	-32	-32	-32	-32	-32	-32	-32	-32	-32	-320
Social Security Administration:											
Windfall Elimination Provision/Government Pension Offset Enforcement Provision (non-PAYGO)	18	28	24	-433	-1002	-1350	-1421	-1318	-1246	-1142	-7,842
Hold Fraud Facilitators Liable for Overpayments ³ (non-PAYGO)			-1	-1	-1	-1	-1	-1	-1	-1	-8
Government Wide Use of CBP Entry/Exit Data to Prevent Improper Payment			-1	-4	-9	-18	-24	-28	-36	-39	-159
Government Wide Use of CBP Entry/Exit Data to Prevent Improper Payment (non-PAYGO)				-1	-2	-2	-2	-3	-3	-5	-18
Allow SSA to Use Commercial Databases to Verify Real Property Data in the SSI Program	-12	-28	-44	-53	-60	-69	-70	-68	-76	-79	-559
Increase the Minimum Monthly OASDI Overpayment Collection from \$10 a Month to 10% (non-PAYGO)	-8	-26	-43	-59	-77	-93	-107	-135	-144	-156	-848
Authorize SSA to Use All Collection Tools to Recover Funds in Certain Scenarios (non-PAYGO)		-2	-2	-3	-4	-4	-5	-5	-5	-5	-35
Move from Annual to Quarterly Wage Reporting	20	30	90	-119	-125	-136	-149	-172	-201	-253	-1,015
Move from Annual to Quarterly Wage Reporting (non-PAYGO)					-1	-12	-29	-31	-24	-17	-114
Total, Mandatory and Receipt Savings	-98	-223	-320	-1,167	-1,875	-2,314	-2,477	-2,419	-2,471	-2,434	-15,798
<i>PAYGO Savings</i>	60	16	92	-106	-112	-114	-122	-121	-151	-181	-739
<i>Non-PAYGO Savings</i>	-158	-239	-412	-1,061	-1,763	-2,200	-2,355	-2,298	-2,320	-2,253	-15,059

¹Savings estimates may not include all interactions.

ings. In addition, these proposals would allow States to reduce their unemployment taxes by \$516 million. The total package would result in \$1.4 billion in deficit reduction.

Included in this package are proposals to: allow for data disclosure to contractors for the Treasury Offset Program; expand State use of the Separation Information Data Exchange System (SIDES), which already improves program integrity by allowing States and employers to exchange information on reasons for a claimant's separation from employment and thereby helping States to determine UI eligibility; mandate the use of the National Directory of New Hires to conduct cross-matches for program integrity purposes; allow the Secretary to set corrective action measures for poor State performance; require States to cross-match claimants against the Prisoner Update Processing System (PUPS), which is currently used by some States; and allow States to retain five percent of overpayment and tax investigation recoveries to fund program integrity activities.

Improve Treasury Debt Collection.—The Budget includes two proposals that would increase collections of delinquent debt:

- **Authorize Treasury to locate and recover assets of the United States and to retain a portion of amounts collected to pay for the cost of recovery.**—States and other entities hold assets in the name of the United States or in the name of departments, agencies and other subdivisions of the Federal Government. Many agencies are not recovering these assets due to lack of expertise and funding. Under current authority, Treasury collects delinquent debts owed to the United States and retains a portion of collections, which is the sole source of funding for its debt collection operations. While unclaimed Federal assets are generally not considered to be delinquent debts, Treasury's debt collection operations personnel have the skills and training to recover these assets. The Budget proposes to authorize Treasury to use its resources to recover assets of the United States. This proposal would result in PAYGO savings of \$85 million over 10 years.
- **Increase delinquent Federal non-tax debt collections. Authorize administrative bank garnishment for non-tax debts of commercial entities.**—Allow Federal agencies to collect non-tax debt by garnishing the bank and other financial

institution accounts of delinquent commercial debtors without a court order and after providing full administrative due process. The Budget proposes to direct the Secretary of the Treasury to issue Government-wide regulations implementing the authority of bank garnishment for non-tax debts of commercial entities. Bank garnishment orders under this authority would be subject to Treasury's rule (31 CFR 212) protecting exempt benefit payments from garnishment. To reach income of commercial entities and other non-wage income and funds available to commercial debtors owing delinquent non-tax obligations to the United States, this proposal would authorize agencies to issue garnishment orders to financial institutions without a court order. Agencies would be required to provide debtors with appropriate administrative due process and other protections to ensure that debtors have had the full opportunity to contest the debts and/or enter into repayment agreements to avoid issuance of an order. The Internal Revenue Service currently has similar authority to collect Federal tax debts. The Debt Collection Improvement Act of 1996 (DCIA) authorized Federal agencies to collect delinquent non-tax debt by garnishing the wages of debtors without the need to first obtain a court order. Since July 2001, the U.S. Department of the Treasury's Bureau of the Fiscal Service has collected \$279.3 million in garnished wages (as of November 30, 2015) on behalf of Federal agencies. This proposal would result in estimated savings of \$320 million over 10 years in commercial non-tax debts.

Preventing Improper Payments in Social Security.—Overall, the Budget proposes legislation that would avert close to \$9 billion in improper payments in Social Security over 10 years. While much of this savings is considered off-budget and would be non-PAYGO, about \$2 billion from various proposals would be PAYGO savings.

- **Improve Collection of Pension Information and Transition after 10 Years to an Alternative Approach based on Years of Non-Covered Earnings.**—The Budget proposes legislation that would improve reporting for non-covered pensions by including up to \$70 million for administrative expenses, \$50 million of which would be available to the States, to develop a mechanism so that the Social Security Administration could enforce the offsets for the Windfall Elimination Provision (WEP), and Government Pension Offset (GPO). The proposal would require State and local governments to provide information on their non-covered pension payments to SSA so that the agency can apply the WEP and GPO adjustments. Under current law, the WEP and GPO adjustments are dependent on self-reported pension data and cannot be independently verified. This proposal would result in savings in the Old-Age, Survivors, and Disability Insurance program of almost \$7.9

billion over 10 years, which would be scored as non-PAYGO savings because the program is off-budget. In addition, the Budget proposes to transition after 10 years to an alternative approach, which would adjust Social Security benefits based on the extent to which workers have non-covered earnings. SSA now collects data on non-covered employment and could calculate the offset without any disclosure from the individual.

- **Hold Fraud Facilitators Liable for Overpayments.**—The Budget proposes to hold fraud facilitators liable for overpayments by allowing SSA to recover the overpayment from a third party if the third party was responsible for making fraudulent statements or providing false evidence that allowed the beneficiary to receive payments that should not have been paid. This proposal would result in an estimated \$8 million in savings over 10 years.
- **Government-wide Use of Custom and Border Patrol (CBP) Entry/Exit Data to Prevent Improper Payments.**—The Budget will provide for the use of CBP Entry/Exit data to prevent improper OASDI and Supplemental Security Insurance (SSI) payments. Generally, U.S. citizens can receive benefits regardless of residence. Non-citizens may be subject to additional residence requirements depending on the country of residence and benefit type. However, an SSI beneficiary who is outside the United States for 30 consecutive days is not eligible for benefits for that month. These data have the potential to be useful across the Government to prevent improper payments. This proposal would result in an estimated \$178 million in savings over 10 years.
- **Allow SSA to Use Commercial Databases to Verify Real Property Data in the SSI Program.**—The Budget proposes to reduce improper payments and lessen recipients' reporting burden by authorizing SSA to use private commercial databases to check for ownership of real property (i.e. land and buildings), which could affect SSI eligibility. Consent to allow SSA to access these databases would be a condition of benefit receipt for new beneficiaries and current beneficiaries who complete a determination. All other current due process and appeal rights would be preserved. This proposal would result in savings of \$559 million over 10 years.
- **Increase the Minimum Monthly OASDI Overpayment Collection from \$10 a Month to 10%.**—The Budget would change the minimum monthly withholding amount for recovery of Social Security benefit overpayments to reflect the increase in the average monthly benefit since the Agency established the current minimum of \$10 in 1960. By changing this amount from \$10 to 10% of the monthly benefit payable, SSA would

recover overpayments more quickly and better fulfill its stewardship obligations to the combined Social Security Trust Funds. The SSI program already utilizes the 10% rule. This proposal would result in savings of \$848 million over 10 years.

- **Authorize SSA to Use All Collection Tools to Recover Funds in Certain Scenarios.**—The Budget also proposes to allow SSA a broader range of collection tools when someone improperly receives a benefit after the beneficiary has died. Currently, if a spouse cashes a benefit payment (or does not return a directly deposited benefit) for an individual who has died and the spouse is also not receiving benefits on that individual's record, SSA has more limited collection tools available than would be the case if the spouse also receives benefits on the deceased individual's earning record. The Budget proposal would end this disparate treatment of similar types of improper payments and results in an estimated \$35 million in savings over 10 years.

- **Move from Annual to Quarterly Wage Reporting.**—The Budget re-proposes moving from annual to quarterly employer reporting of wages to the Social Security Administration. This would provide more accurate and timely wage data which would further program integrity efforts and facilitate tax administration. This proposal would result in savings of \$1.129 billion over 10 years.

Other Program Integrity Initiatives.—

Data Analytics to Reduce Improper Payments.—Under this Administration, the Federal Government has focused on increased use of technology to address improper payments. Pursuant to Executive Order 13520 (issued November 20, 2009), work groups were created to analyze the role that cutting-edge forensic technologies could play in identifying and preventing fraud and other improper payments, as well as efforts that could be undertaken to improve data sharing between agencies.

On June 18, 2010, a Presidential Memorandum on Enhancing Payment Accuracy Through a “Do Not Pay List” required Federal agencies to review current pre-payment and pre-award procedures and ensure that a thorough review of available databases with relevant information on eligibility occurs before the release of any Federal funds. The “Do Not Pay” list established a single portal, the Department of the Treasury’s (Treasury) Do Not Pay Business Center, through which agencies could check multiple eligibility databases before making an award or payment. The 2012 Budget requested (and the Consolidated Appropriations Act, 2012 appropriated) \$10 million to the Treasury Department to support expansion of the “Do Not Pay” list and to add forensic fraud detection capabilities to the basic Do Not Pay Business Center. Specifically, the funding helped to:

1. Expand the number of databases and infrastructure of the “Do Not Pay” list;
2. Procure the detection technology and staff an operations center to analyze fraud patterns using available public and private sector information; and
3. Refer potential improper payment issues to the relevant agency management and Inspector General.

The Improper Payments and Elimination and Recovery Improvement Act of 2012 (IPERIA; P.L. 112-248) reinforced the Administration’s “Do Not Pay” initiative, by codifying the efforts underway to improve payment accuracy. Through OMB Memorandum M-13-20, Protecting Privacy while Reducing Improper Payments with the Do Not Pay Initiative, OMB designated the Department of the Treasury to spearhead the Do Not Pay working system with the five databases specified by IPERIA, enabled Treasury to publish a System of Records Notification in accordance with the Privacy Act of 1974, and provided substantial guidance for Federal agencies to ensure that individual privacy is fully protected in the program. Given the increasing range of sensitive information available about individuals through commercial sources, this guidance was a significant step to ensure privacy protections when data is used to inform government decision-making. The Treasury Do Not Pay Business Center has established a working system that enables agencies to identify, prevent, capture, and recover payments at different phases of the payments life cycle using available databases, and Do Not Pay analytics specialists work one-on-one with agencies to review payment data to identify and address internal control weaknesses that resulted in improper payments. Treasury’s team also provides business process review services to support this work.

Treasury initiated the system in a phased approach to meet IPERIA’s requirement for agencies to begin reviewing all payments and awards with Do Not Pay by June 1, 2013. The effective use of data analytics has provided insight into methods of reducing costs and improving performance and decision-making capabilities. Collectively, agency reports indicated to OMB after the first year of reviewing payments under the Initiative resulted in over \$2 billion of stopped payments with additional operational efficiencies identified.

The Do Not Pay initiative has continued to expand and incorporate other agency best practices and activities that further promote program integrity and benefits to the taxpayer. The Bipartisan Budget Act of 2013 expanded the Do Not Pay initiative to include additional information collected by the Social Security Administration’s Prisoner Updates Processing System (PUPS) to prevent the improper payment of Federal funds to incarcerated individuals, and in 2015, the Do Not Pay Business Center began facilitating the Internal Revenue Service use of these data to prevent fraud committed by prisoners. Additional examples of agencies using data to improve payment accuracy include the Centers for Medicare & Medicaid Services’ (CMS) Fraud Prevention System (FPS), a state-of-the-

art predictive analytics technology used to identify and prevent fraud in the program; the Department of Defense Business Activity Monitoring tool; and the Department of Labor's Unemployment Insurance (UI) Integrity Center for Excellence, a Federal-State partnership which facilitates the development and implementation of integrity tools that help detect and reduce improper payments in state run programs.

Agencies need available data to be timely, accurate, and relevant to their programs to improve their payment accuracy, and additional authorities will enhance data sharing on death, prisoners, and employment for payment accuracy, while maintaining privacy.

Use of the Death Master File to Prevent Federal Improper Payments.—The Administration is continuing to pursue opportunities to improve information sharing by developing or enhancing policy guidance, ensuring privacy protection, and developing legislative proposals to leverage available information and technology in determining benefit eligibility and other opportunities to prevent improper payments.

The Budget proposes to improve payment accuracy further by sharing available death data across Government agencies to prevent improper payments. This proposal would amend the Social Security Act to provide the Do Not Pay system at Treasury and agencies that use the system access to the full death data at SSA to prevent, identify, or recover improper payments. This proposal would include information received from a State, or any other source, about the deceased.

Efficient use of Employment Data to Streamline Processes.—The Budget also proposes to allow programs that are statutorily authorized to access HHS's National Directory of New Hires data the option to do so via the Do Not Pay system at Treasury, providing them a centralized portal of information. This proposal will increase efficiency and effectiveness of data matching, while ensuring robust privacy protections are maintained.

Social Security Workers' Compensation Enforcement Provision.—The Budget proposes the improvement of data collection on the receipt of Workers' Compensation benefits. Similar to non-covered pension information (see description in the mandatory program integrity initiatives section above), this information is self-reported to SSA and is used to offset benefit amounts in the Social Security Disability Insurance and Supplemental Security Income programs. This proposal would develop a process to collect this information in a timely manner from States and private insurers to correctly offset Disability Insurance benefits and reduce SSI payments. The proposal includes \$10 million to help fund States' implementation costs and would reduce program overpayments and underpayments.

Using Rigorous Evidence to Develop Cost Estimates.—OMB works with Federal agencies and CBO to develop PAYGO estimates for mandatory programs. OMB has issued guidance to agencies for scoring legislation under the PAYGO. This guidance states that agencies must score the effects of program legislation on other programs if the programs are linked by statute.

(For example, effects on Medicaid spending that are due to statutory linkages in eligibility for Supplemental Security Income benefits must be scored.) In addition, even when programs are not linked by statute, agencies may score effects on other programs if those effects are significant and well documented. Specifically, the guidance states: "Under certain circumstances, estimates may also include effects in programs not linked by statute where such effects are significant and well documented. For example, such effects may be estimated where rigorous experimental research or past program experience has established a high probability that changes in eligibility or terms of one program will have significant effects on participation in another program."

Rigorous evidence can help policy makers identify policies that reduce Government spending overall. Because PAYGO accounts for long-term mandatory savings, it creates an incentive to invest in relatively cost-effective programs. Discretionary programs can save money too, but discretionary scoring typically does not capture these savings. For example, research shows investments in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) reduce Medicaid costs for the mother and child. Although the interventions can reduce Federal costs, the appropriations bills are scored with the discretionary costs but are not credited with the savings in mandatory spending. As discussed earlier in this chapter, one exception to this is the program integrity cap adjustments, which allow the appropriators to provide money above the discretionary caps for activities that have been shown to generate cost savings. OMB would like to work with the Congress and CBO to develop options to provide similar incentives to use rigorous evidence to reward discretionary program investments in interventions that reduce government spending in other areas. In addition to promoting better use of limited discretionary funding, such incentives would also stimulate better data collection and evaluation about the impacts of Federal spending.

Disaster Relief Funding

Section 251(b)(2)(D) of BBEDCA includes a provision to adjust the discretionary caps for appropriations that the Congress designates as being for disaster relief in statute. The law allows for the discretionary cap to be increased by no more than the average funding provided for disaster relief over the previous 10 years, excluding the highest and lowest years. The ceiling for each year's adjustment (as determined by the 10 year average) is then increased by the unused amount of the prior year's ceiling (excluding the portion of the prior year's ceiling that was itself due to any unused amount from the year before). Disaster relief is defined as activities carried out pursuant to a determination under section 102(2) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5122(2)) for major disasters declared by the President. The request amends BBEDCA to extend the discretionary cap adjustment for disaster funding through 2026.

As required by law, OMB included in its Sequestration Update Report for FY 2016 a preview estimate of the 2016

adjustment for disaster relief. The ceiling for the disaster relief adjustment in 2016 was calculated to be \$14,125 million. In the Consolidated Appropriations Act, 2016 (P.L. 114-113), the Congress provided \$6,713 million designated for disaster relief in the Federal Emergency Management Agency's Disaster Relief Fund (DRF); \$300 million in the Department of Housing and Urban Development's Community Development Fund; \$91 million in the Farm Service Agency's Emergency Conservation Program and \$2 million in its Emergency Forest Restorations Program; and \$37 million in the Natural Resources Conservation Service's Watershed and Flood Prevention Operations account, for a total of \$7,143 million.

OMB must include in its Sequestration Update Report for FY 2017 a preview estimate of the ceiling on the adjustment for disaster relief funding for 2017. This estimate will contain an average funding calculation that incorporates five years (2007 through 2011) using the definition of disaster relief from OMB's September 1, 2011 report and five years using the funding the Congress designated in 2012 through 2016 for disaster relief pursuant to BBEDCA excluding the highest and lowest years. The amounts enacted as appropriations for disaster relief in 2016 are \$6,982 million below the preview adjustment estimate of \$14,125 million. However, pursuant to section 251(b)(2)(D)(i)(II) of BBEDCA, any unused carryover from 2015 cannot carry forward into the calculation of the 2017 preview estimate. As a result, only \$1,598 million of this total underage will carry forward into the calculation of the 2017 preview adjustment in OMB's August 2016 Sequestration Update Report for Fiscal Year 2017 if no further appropriations are enacted in 2016 that are designated for disaster relief.

At this time, the Administration is requesting \$6,868 million in funding in two accounts to be designated for disaster relief by the Congress: more than \$6.7 billion in FEMA's DRF to cover the costs of Presidentially declared major disasters, including identified costs for previously declared catastrophic events (defined by FEMA as events with expected costs that total more than \$500 million) and the predictable annual cost of non-catastrophic events expected to obligate in 2017, and \$159 million in the Small Business Administration's Disaster Loans Program Account for administrative expenses. For these two programs, the Budget requests funding for both known needs based on expected costs of prior declared disasters and the typical average expenditures in these programs. This is consistent with past practice of requesting and funding these as part of regular appropriations bills. Also consistent with past practice, the 2017 request level does not seek to pre-fund anticipated needs in other programs arising out of disasters that have yet to occur, nor does the Budget seek funding for potential catastrophic needs. As additional information about the need to fund prior or future disasters becomes available, additional requests, in the form of either 2016 supplemental appropriations (designated as either disaster relief or emergency requirements pursuant to BBEDCA) or budget amendments to the Budget, may be transmitted.

Under the principles outlined above, since the Administration does not have the adequate information about known or estimated needs that is necessary to state the total amount that will be requested in future years to be designated by the Congress for disaster relief, the Budget does not explicitly request to use the BBEDCA disaster designation in any year after the budget year. Instead, a placeholder for disaster relief is included in the current year, the budget year, and each of the out-years. See the discussion of this placeholder allowance later in this chapter in Section III (Improved Definition of Baseline) under the heading titled "Adjustments for Emergency and Disaster Costs."

Proposed Adjustment to the Discretionary Spending Limits for Wildfire Suppression Operations at the Departments of Agriculture and the Interior

On December 19, 2013, Senator Ron Wyden and Senator Mike Crapo introduced the Wildfire Disaster Funding Act of 2013 (S. 1875). On February 5, 2014, Representative Mike Simpson and Representative Kurt Schrader introduced a companion bill in the House (H.R. 3992), with Representative Peter DeFazio and Representative Raul Labrador as cosponsors. This legislation would have amended section 251(b)(2) of BBEDCA to add an adjustment to the discretionary spending limits for wildfire suppression operations. The adjustment allowed for an increase in the discretionary caps for each of fiscal years 2014 through 2021 of up to \$2.7 billion if appropriations bills provide funding for wildfire suppression operations at specified base levels. The \$2.7 billion permissible adjustment is a ceiling, rather than a target. It is intended to give flexibility to respond to severe, complex, and threatening fires or a severe fire season that is not captured by the historical averages. In addition, it does not increase overall discretionary spending, since it would reduce the ceiling for the existing disaster relief cap adjustment by an equivalent amount as is provided for wildfire suppression operations.

The base levels are defined in the legislation as 70 percent of the average costs for wildfire suppression operations over the previous 10 years. These base levels ensure that the cap adjustment would only be used for the most severe fire activity, since it is 1 percent of fires that cause 30 percent of costs. Only extreme fires that require emergency response or are near urban areas or activities during abnormally active fire seasons including large fires that require emergency response, which rightly should be considered disasters, would be permitted to be funded through the adjustment to the discretionary spending limits.

Wildfire suppression operations are defined by the legislation as the emergency and unpredictable aspects of wildland firefighting including support, response, and emergency stabilization activities, other emergency management activities, and funds necessary to repay any transfers needed for those costs. This means that related activities, such as fire preparedness, must continue to be

funded from base appropriations and are not considered when determining if the cap adjustment is triggered.

As described above, the legislation does not allow for an increase in total discretionary spending. Rather, by its design, total funding for disasters is not expected to increase above currently estimated levels because the bill allocates funding for wildfire suppression operations from within the existing disaster relief funding cap adjustment described under the previous heading. Specifically, the ceiling for the disaster relief adjustment would be reduced by the amount provided for wildfire suppression operations under the cap adjustment for the preceding fiscal year.

The two introduced Wildfire Disaster Funding Acts and the two most recent Senate Appropriations committee markups of the Department of the Interior, Environment, and Related Agencies Appropriations Act, which included similar language, attempt to create a more responsible way to budget for wildfire suppression operations that allows for improved agency planning and management. The reality is that the Government has historically fully funded wildfire suppression operations and will continue to do so in the future. It is inefficient and ineffective to provide those resources on an ad hoc basis and to raid other critical land management operations to pay for suppression operation needs. The practice of doing so in prior years led to destabilizing transfers from other accounts, and ultimately to underinvesting in other areas that are critical to long-term forest health and resilience.

The Budget assumes that the cap adjustment will begin in 2017 and will remain in effect through 2026. The only significant departure from the two introduced Wildfire Disaster Funding Acts is that the Budget proposes to phase in the size of the cap adjustment, beginning with a maximum permissible adjustment of \$1.4 billion in 2017 that increases slowly to \$2.7 billion by 2023 and remains at that level thereafter. At this time, the Administration is requesting to fund only \$1.2 billion through the wildfire suppression operations cap adjustment in 2017 (\$864 million in the Department of Agriculture and \$290 million in the Department of the Interior). If the cap adjustment were to be enacted, additional requests, in the form of amendments to the Budget, might be transmitted as additional information about the severity of the fire season becomes known.

Proposed Adjustment to the Discretionary Spending Limits for Decennial Census at the Department of Commerce

The decennial census is one of the oldest, most influential programs in the history of the U.S. government. Its mission is simple while its execution is complex: to count everyone in the U.S. once, and only once, and in the right place. Its impacts are fundamental and far-reaching: drawing official local geographical boundaries, determining each state's allocation in the U.S. House of Representatives and drawing congressional districts, and providing the bedrock data that forms the framework for government and private sector decision-making. Demographic and technological changes have increased

the cost of the decennial census per household in each decade since 1980. The Administration is committed to working with the Congress toward a 2020 Census that:

- Keeps pace with significant technological advancements since the last decennial census;
- Maintains focus on the core mission to count everyone in the U.S. once, and only once; and
- Keeps costs at or below the per-household cost of the 2010 decennial census, adjusted for inflation, allowing for lifecycle cost savings of at least \$5.2 billion relative to the costs of repeating 2010 methodologies.

To meet those goals, the Budget proposes to amend BBEDCA to allow an adjustment to the discretionary spending limits for the cyclical increase in decennial census operations. An adjustment to the caps would:

- Provide the Census Bureau the funding certainty to confidently invest in cost saving technology that will lower the life cycle cost of the 2020 Census and future decennial censuses;
- Avoid either a large emergency appropriation for a predictable funding need in 2020 or unnecessary trade-offs in other discretionary programs as Census needs squeeze out other spending;
- Comply with the 2020 Census operational plan provided to Congress in October 2015 for the rest of the cycle;
- In future decades, when applicable, provide sufficient funding to implement and test innovations early enough to allow for successful implementation with lower risk of cost overrun or degradation of data accuracy; and
- Avoid inefficient and possibly wasteful spending due to a 'starvation/gluttony' cycle, which would be caused by cutting other programs in order to afford peak decennial census funding under the discretionary caps in 2020, followed by \$5.5 billion in 'surplus' funds to spread around in 2021.

The discretionary spending limits enacted in the Budget Control Act of 2011 and put into place through 2021 did not incorporate an increase for the cyclical decennial census spending that occurs in the second half of every decade. Without adequate funding in the decade's middle years, the Census Bureau is less able to test and implement cost-saving innovations; the result is an increase in any potential costs that might occur in later years from operational failures due to lack of sufficient testing. Adequate funding in the later years of the decade is imperative, where shortfalls would destroy the quality, accuracy, and efficiency of the 2020 Census. This predictable and cyclical spike in decennial census funding should not crowd out baseline levels of ongoing domestic discretionary budget priorities. Nor should the cyclical spikes be considered part of the baseline domestic discretionary spending. In 2000, when discretionary caps were last in place and decennial census funding competed with other

**Table 11-4. SIZE OF PROPOSED DISCRETIONARY
CAP ADJUSTMENT FOR 2020 CENSUS**

(In millions of dollars)

Fiscal Year	2020 Census Funding Needs	Start in 2018 (Base: 2015) ¹		
		Base Spending	Size of cap adjustment	Adjustment as % of non-def. disc. cap growth
2012	67	67	.....	.....
2013	94	94	.....	.....
2014	233	233	.....	.....
2015	345	345	.....	.....
2016	600	600	.....	.....
2017	781	781	.....	.....
2018	912	365	548	5%
2019	2,054	373	1,682	13%
2020	6,154	381	5,772	48%
2021	650	390	260	2%
Total	11,891	3,629	8,262	

¹ If this cap adjustment is employed in future applicable decades, the adjustment would begin in Year 6 rather than in Year 8, as shown above for the 2020 Census.

programs, the Congress provided emergency funding to avoid both of these problems.

A discretionary cap adjustment for the decennial census establishes a permanent and cyclical adjustment that would accommodate prudent, cost efficient spending and reduce total lifecycle costs in any decade in which caps are in law. It establishes a funding base sufficient to cover the early research years of the decade, and a cap adjustment that allows additional funding during the years of significant implementation, scale-up, and operationalization in the second half of the decade. Using this method, base spending levels for the decennial census for each year's cap adjustment will be established using the appropriation received in Year 5 (i.e., 2015) of the decade, adjusted for inflation measured by the CPI-U. The size of the cap adjustments will be determined early in Year 5 of the decade when the Census Bureau releases its initial operational plan and funding needs for each year of the next six years of the cycle as was done in 2015. The size of each year's cap adjustment, starting in Year 6, will be derived from this estimate less the base spending for that year. This structure will provide the Census Bureau an incentive to innovate and keep costs down while providing funding certainty to allow for a low risk and high quality decennial census. It allows for the execution of multi-year plans from a lifecycle rather than annual perspective, which will bring down life-cycle costs. A cyclical cap adjustment also allows Congressional appropriators funding flexibility late in the decade without having to sacrifice key priorities or a streamlined, effective, and cost efficient decennial census.

Since the opportunity has passed to enact the cap adjustment at the ideal point in 2016 when the major costs for implementing and refining technology and methods

for the decennial census begin, the proposal assumes for this decade that the cap adjustment would begin no later than 2018, as costs begin to rise to their peak levels. Enacting and utilizing the adjustment as early as Year 6 of future applicable decades would allow the Census Bureau even greater cost certainty in the critical testing and implementation years prior to the final end-to-end test of all systems and process interoperability in Year 8 of each decade. Doing so will strengthen the quality and efficiency and significantly reduce the risk of cost overruns of future decennial censuses, without burdening the rest of the domestic priorities.

This proposal is not included as an adjustment to the proposed 2017 Budget caps at this time in order to present its merits first; Table 11-4 shows how the discretionary cap adjustments would be structured using the parameters delineated above for the 2020 Census using the decennial census cost baseline submitted to the Congress in October 2015. The first cap adjustment estimate is \$548 million in 2018, in addition to \$365 million in base funding (the inflation-adjusted pre-operational funding need), to meet the anticipated total funding need of \$912 million. This shifts some cyclical funding that was funded in the base in 2016 and 2017 to the cap adjustment, as these amounts would have been funded through this mechanism in those years if it had been enacted then. The cap adjustment expands to its peak level in 2020, representing the magnitude of other core discretionary program spending enabled by this proposal, totaling \$8.2 billion. The last column of Table 11-4 shows the amount the proposed cap adjustment would take up as a percentage of annual growth in the original non-defense discretionary caps passed in the Budget Control Act of 2011, reaching 48 percent, or almost half, of the increase that would

have occurred in 2020. While total discretionary spending would rise, paired with a full regular appropriation in 2017 this more stable and predictable funding mechanism for 2018-2021 would also support the full realization of \$5.2 billion in lifecycle cost savings for the 2020 Census relative to repeating 2010 methods.

Limit on Discretionary Advance Appropriations

An advance appropriation first becomes available for obligation one or more fiscal years beyond the year for which the appropriations act is passed. Budget authority is recorded in the year the funds become available for obligation, not in the year the appropriation is enacted.

There are legitimate policy reasons to use advance appropriations to fund programs. For example, funding for the Corporation for Public Broadcasting is customarily appropriated two years in advance. This gives the beneficiaries of this funding time to plan their broadcasting budgets before the broadcast season starts.

However, advance appropriations can also be used in situations that lack a programmatic justification, as a gimmick to make room for expanded funding within the discretionary spending limits on budget authority for a given year under BBEDCA. For example, some education grants are forward funded (available beginning July 1 of the fiscal year) to provide certainty of funding for an entire school year, since school years straddle Federal fiscal years. This funding is recorded in the budget year because the funding is first legally available in that fiscal year. However, \$22.6 billion of this funding is advance appropriated (available beginning three months later, on October 1) rather than forward funded. Prior Congresses increased advance appropriations and decreased the amounts of forward funding as a gimmick to free up room in the budget year without affecting the total amount available for a coming school year. This gimmick works because the advance appropriation is not recorded in the budget year but rather the following fiscal year. But it works only in the year in which funds are switched from forward funding to advance appropriations; that is, it works only in years in which the amounts of advance appropriations for such “straddle” programs are increased.

To curtail this gimmick, which allows over-budget funding in the budget year and exerts pressure for increased funding in future years by committing upfront a portion of the total budget authority limits under the discretionary caps in BBEDCA, in those years, congressional budget resolutions since 2001 have set limits on the amount of advance appropriations. When the congressional limit equals the amount that had been advance appropriated in the most recent appropriations bill, there is no additional room to switch forward funding to advance appropriations, and so no room for this particular gimmick to operate in that year’s budget.

The Budget includes \$28,768 million in advance appropriations for 2018 and freezes them at this level in subsequent years. In this way, the Budget does not employ this potential gimmick. Moreover, the Administration supports limiting advance appropriations to the proposed level for 2018, similar to the limits included in sections

3202 and 3304 for the Senate and the House, respectively, of the Concurrent Resolution on the Budget for Fiscal Year 2016 (S. Con. Res. 11). Those limits apply only to the accounts explicitly specified in the joint explanatory statement of managers accompanying S. Con. Res. 11.

In addition, the Administration would allow advance appropriations for the Corporation for Public Broadcasting, which is typically enacted two years in advance, and for Veterans Medical Care, as is required by the Veterans Health Care Budget Reform and Transparency Act (P.L. 111-81). The veterans medical care accounts currently comprise Medical Services, Medical Support and Compliance, and Medical Facilities. Consistent with section 4003 of the Surface Transportation and Veterans Health Care Choice Improvement Act of 2015 (P.L. 114-41), the Administration is also including the new Medical Community Care account in its advance appropriations request for veterans medical care for 2018. The level of advance appropriation funding for veterans medical care is largely determined by the Enrollee Health Care Projection Model of the Department of Veterans Affairs (VA). This actuarial model projects the funding requirement for over 80 types of health care services, including primary care, specialty care, and mental health. The remaining funding requirement is estimated based on other models and assumptions for services such as readjustment counseling and special activities. VA has included detailed information in its Congressional Budget Justifications about the overall 2018 veterans medical care funding request.

The Administration also proposes to allow advance appropriations for the spending and collections of the payments in the General Services Administration (GSA) Federal Buildings Fund. This net zero proposal supports capital requirements as well as operating expenses. This would provide greater certainty to support capital projects and ensure that the funds that agencies pay to GSA are used promptly to construct, maintain, and operate GSA facilities.

For a detailed table of accounts that have received discretionary and mandatory advance appropriations since 2015 or for which the Budget requests advance appropriations for 2018 and beyond, please refer to the Advance Appropriations chapter in the *Appendix*.

Budgetary Treatment of Surface Transportation Infrastructure Funding

Overview.—Currently, surface transportation programs financed from the Highway Trust Fund (HTF) are treated as hybrids: contract authority is classified as mandatory, while outlays are classified as discretionary. Broadly speaking, this framework evolved as a mechanism to ensure that collections into the HTF (e.g., motor fuel taxes) were used to pay only for programs that benefit surface transportation users, and that funding for those programs would generally be commensurate with collections. Recent passage of the Fixing America’s Surface Transportation Act, or the FAST Act, shored up the Highway Trust Fund and maintained this hybrid funding structure through 2020. The Administration reflects this bipartisan agreement in the Budget.

Table 11–5. BUDGETARY RESOURCES AND REVENUE FOR THE 21ST CENTURY CLEAN TRANSPORTATION PLAN

(In billions of dollars)

Budgetary Resources	
Department of Transportation	303
Clean Transportation Plan Funding - Other Agencies (DOE, NASA, EPA)	16
Family Emergency Assistance Fund	65
Total, Proposed Resources, New Programs	385
Projected Trust Fund Gap, 2021–2026	110
Total, Proposed Resources	495
Revenue	
Gross Oil Fee Receipts	–436
Impact on Other Receipts	117
Total, Net Impact of Oil Fee	–319
Business Tax Reform Transition Revenue	–176
Total, Proposed Revenues	–495

The Administration’s 21st Century Clean Transportation Initiative provides resources for DOT programs over and above those included in the FAST Act. To encourage movement toward a more unified and consistent scorekeeping regime, the Budget presents those programs as exclusively mandatory rather than as hybrids. Furthermore, the Administration’s proposal would broaden the scope of programs included under the Trust Fund umbrella: the HTF is renamed the Transportation Trust Fund (TTF), and supports additional highway safety and transit programs, as well as passenger rail programs and multimodal programs administered by the Department of Transportation, all of which are focused on investing in surface transportation infrastructure and aimed at reducing emissions from the transportation sector. The initiative also includes funding for select programs outside of DOT, though not through a trust fund.

The mechanics of the 2017 Clean Transportation Initiative are described in greater detail below. Generally speaking, within DOT:

- FAST Act accounts remain at authorized levels through the Budget window.
- New TTF accounts supporting transportation-related clean infrastructure activities receive mandatory contract authority and mandatory outlays, with discretionary obligation limitations.
- \$4.4 billion of surface transportation spending from the general fund is reclassified from discretionary budget authority and outlays to mandatory contract authority and outlays, with annual obligation limitations continuing to be established by the Appropriations Committee and funded through the TTF.
- For the sake of comparability, the current law general fund accounts reclassified in the Budget are presented as reclassified to mandatory spending in 2015 and 2016. This is intended to allow policy makers to transparently calculate the difference between baseline levels and the President’s proposal.

As proposed by the Administration, this unified scoring framework for clean transportation funding does not radically alter traditional roles and jurisdictional relationships as they are conceived of under current law and scorekeeping practice.

The budget process reform associated with the Clean Transportation Initiative is only one element of the Administration’s comprehensive plan to make investments in a transportation initiative that is geared toward the Nation’s 21st Century demands. The *Budget* and *Appendix* volumes discuss the broader policy in more detail.

Account-by-Account Budgetary Treatment.—As part of the Clean Transportation Plan, the Budget proposes the enactment of mandatory contract authority for the Transportation Trust Fund for each year, 2017–2026, totaling \$303 billion over ten years.

Under the Budget, outlays flowing from contract authority for the clean transportation initiative will also be treated as mandatory. The same treatment is applied to outlays flowing from previous accounts funded from the General Fund of the Treasury, which will now be attributed to the Transportation Trust Fund; this is a departure from current law. As is the case for other mandatory programs, this aligns outlays with budget authority. By placing outlays on the mandatory side of the Budget, increases above the baseline go on the PAYGO scorecard, giving real scoring effect to funding increases for these programs. Accounts funded through the FAST Act continue the hybrid treatment of mandatory contract authority and discretionary outlays.

For all of the resources in the 21st Century Clean Transportation Initiative proposal, the Budget proposes that the reauthorization contain annual obligation limits at the same level as the contract authority, and that annual appropriations bills include obligation limits at those levels. The obligation limits enacted by the appropriators enable the Administration and the Congress to review TTF policies and resource levels on an annual basis, but under a framework that will continue to give external stakeholders a high level of certainty regarding

the multi-year resource trajectory for highways, transit, passenger rail, and multimodal activities.

The Budget modifies individual accounts to conform to the proposed budgetary treatment in all years. Specifically:

- For accounts that are presently classified as having discretionary budget authority and outlays, but that the Administration proposes to incorporate into the TTF (for example, the Federal Transit Administration's Capital Investment Grants account), the Budget includes separate schedules that:
 - Show baseline budget authority and outlays as discretionary, consistent with current classifications.
 - Reclassify baseline budget authority and outlays as mandatory in all years, including 2015 and 2016, for comparability purposes (i.e., to enable a comparison of funding levels across years in an account).
 - Show adjustments (subject to PAYGO) to the reclassified mandatory amounts so that the proposal properly accounts for requested program growth in the five new trust fund accounts.
- For the proposed new account supported by the TTF, the 21st Century Clean Transportation Plan Investment Initiative, the Budget includes a schedule that includes new mandatory contract authority and outlays requested to support those programs.

The discretionary accounts that are incorporated into the TTF construct are:

- Office of the Secretary: National Infrastructure Investments.
- Federal Railroad Administration (FRA): Operating Subsidy Grants to the National Railroad Passenger Corporation; Capital and Debt Service Grants to the National Railroad Passenger Corporation; and Northeast Corridor Improvement Program.
- National Highway Traffic Safety Administration (NHTSA): Operations and Research.
- Federal Transit Administration (FTA): Administrative Expenses; Capital Investment Grants; and Job Access and Reverse Commute Grants.

Amounts in these accounts total \$4.3 billion in discretionary budget authority for 2016. The 2017 baseline levels for these amounts are what constitute the discretionary cap adjustment noted in the *OMB Sequestration Preview Report to the President and Congress for Fiscal Year 2017*. Note that in a number of cases, activities captured in these accounts are requested under a new account supported by the TTF in the Administration's 21st Century Clean Transportation Plan proposal. For example, activities under the two existing Amtrak accounts are requested as part of the Federal Railroad Administration's new Current Passenger Rail Service

account. In those instances, the PAYGO impact of the Administration's proposal must be calculated at the aggregate level rather than the individual account level (i.e., the change between the reclassified baseline amounts in the existing general fund accounts and the proposed levels in the successor account).

Transportation Trust Fund Mechanics.—As discussed earlier, the Budget proposes a successor to the Highway Trust Fund, the Transportation Trust Fund, which continues all activities currently supported in the FAST Act. Additionally, it includes funding to support the 21st Century Clean Transportation proposal, which includes each of the accounts formerly funded through the general fund.

The goal of a broader Trust Fund is to allow policymakers to review and consider surface transportation policy and spending in a more comprehensive way.

Offsets.—The 21st Century Clean Transportation Plan ("the Plan") is fully paid for by two sources:

- A new fee of \$10.25 per barrel on oil paid by oil companies, which would be phased in over five years, and
- One-time transition revenues from business tax reform that ensure that:
 - Transportation Trust Fund solvency is not impacted as the Plan's investments ramp up and the oil fee is phased in;
 - The proposal is fully paid for over time (i.e., oil fees plus business tax reform revenue covers the total outlays from the proposal over the full life of the initiative, including outlays outside the ten-year window); and
 - The Transportation Trust Fund solvency gap in years 5-10 of the budget window is eliminated and the Plan generates a sustainable revenue level for the TTF going forward.

The Plan is envisioned as a surge in transportation investment that would not only improve infrastructure condition and performance, but catalyze a broad shift in the way Americans use the transportation system. Also, the Plan dedicates 15 percent of gross oil fee revenues over ten years to assist families with burdensome energy costs, including a focus on supporting households in the Northeast as they transition from fuel oil for heating to cleaner forms of energy. At the end of the ten-year window, Transportation Trust Fund revenue sources—current law and the proposed oil fee (which is indexed to inflation)—are estimated to raise just over \$100 billion per year. Current law receipts account for around 40 percent of that total. The Plan is therefore designed to support surface transportation spending over the long-term at levels well above current law spending.

Table 11-5 illustrates the financing structure of the initiative in broad terms. All DOT budgetary resources run through the Transportation Trust Fund; spending outside DOT runs through separate special funds.

**Table 11-6. 10-YEAR PAYGO ANALYSIS
21ST CENTURY CLEAN TRANSPORTATION PLAN**
(In billions of dollars)

Outlays	
Department of Transportation	231
Family Emergency Assistance Fund	65
Other Agencies (DOE, NASA, EPA)	16
Total, New Program Outlays	312
New General Fund Transfers to Offset Current Law Trust Fund Revenue Gap	59
Total New Outlays, 21st Century Clean Transportation Plan	371
Revenue	
Net Oil Receipts	-319
Business Tax Reform Transition Revenue	-176
Total, Proposed Revenues	-495
Net PAYGO Cost/Savings (+/-)	-124

Table 11-5 does not depict the proposal’s PAYGO impact, however. The differences are:

- The PAYGO scorecard only counts new outlays and receipts inside the 10-year window.
- PAYGO scorekeeping must accommodate the initial shift of general fund accounts from discretionary budget authority and outlays to the mandatory side of the Budget. The activities that the Administration proposes to incorporate in the TTF as mandatory outlays would generate discretionary outlays under current law totaling an estimated \$41 billion over 10 years. If those amounts are reclassified, they should not be added to the PAYGO cost of any legislation by virtue of the fact that they are new to the mandatory side of the Budget. Rather, the mandatory baseline should be adjusted to include those outlays that would occur under current law—as the 2017 Budget does—and calculate any changes from that baseline. Without this initial accommodation, scorekeeping rules would overstate the cost of legislation. An adjustment to the discretionary caps is shown in the preview report to comply with section 251(b) of BBEDCA that requires an adjustment for these types of shifts in the baseline.
- Under the proposal, revenue raised from oil fees and business tax reform is sufficient to cover both the new outlays associated with the proposal and the gap between current law spending and current law receipts. Under current law, that gap is estimated to begin in 2021 and total \$110 billion over the remainder of the ten-year window. Because of the timing associated with the new spending and revenues under the 21st Century Transportation Plan, within the 10-year window, \$59 billion is transferred from the general fund to TTF, rather than the full \$110 billion.

Table 11-6 reflects those adjustments and depicts the PAYGO cost of the proposal.

Pell Grants

The Pell Grant program includes features that make it unlike other discretionary programs including that Pell Grants are awarded to all applicants who meet income and other eligibility criteria. From the start of the Great Recession through 2011, when many Americans returned to school to improve their skills while their own job prospects were not strong, the number of students receiving Pell Grants increased by 3.8 million. This increase in participation, coupled with greater average financial need, resulted in a significant rise in Pell program costs. Since this peak, the economy improved significantly, the number of Pell recipients has slowly decreased, and program costs that were once growing have declined. This section provides some background on the unique nature of the Pell Grant program and explains how the Budget accommodates these changes in discretionary costs.

Under current law, the Pell program has several notable features:

- The Pell Grant program acts like an entitlement program, such as the Supplemental Nutrition Assistance Program or Supplemental Security Income, in which everyone who meets specific eligibility requirements and applies for the program receives a benefit. Specifically, Pell Grant costs in a given year are determined by the maximum award set in statute, the number of eligible applicants, and the award for which those applicants are eligible based on their needs and costs of attendance. The maximum Pell award for the academic year 2016-2017 is \$5,815, of which \$4,860 was established in the annual appropriations act and the remaining \$955 is provided automatically by the College Cost Reduction and Access Act (CCRAA), as amended. Under the CCRAA as amended, the amount needed to index the Pell Grant for inflation is provided through the mandatory funds through the 2017-18 award year.
- The cost of each Pell Grant is funded by discretionary budget authority provided in annual appropriations acts, along with mandatory budget authority

provided not only by the CCRAA, as amended, and the BCA, but also by amendments to the Higher Education Act of 1965 contained in the 2011 and 2012 appropriations acts. There is no programmatic difference between the mandatory and discretionary funding.

- If valid applicants are more numerous than expected, or if these applicants are eligible for higher awards than anticipated, the Pell Grant program will cost more than the appropriations provided. If the costs during one academic year are higher than provided for in that year's appropriation, the Department of Education funds the extra costs with the subsequent year's appropriation.²
- To prevent deliberate underfunding of Pell costs, in 2006 the congressional and Executive Branch scorekeepers agreed to a special scorekeeping rule for Pell. Under this rule, the annual appropriations bill is charged with the full Congressional Budget Office estimated cost of the Pell Grant program for the budget year, plus or minus any cumulative shortfalls or surpluses from prior years. This scorekeeping rule was adopted by the Congress as §406(b) of the Concurrent Resolution on the Budget for Fiscal Year 2006 (H. Con. Res. 95, 109th Congress).

Given the nature of the program, it is reasonable to consider Pell Grants an individual entitlement for purposes of budget analysis and enforcement, and in the 2010 and 2011 Budgets, the Administration requested that Pell Grants be converted into a mandatory program. The Congress has chosen to continue treating the portion funded in annual appropriations acts as discretionary, counting that budget authority for Pell Grants against the discretionary spending caps pursuant to section 251 of BBEDCA and appropriations allocations established annually under §302 of the Congressional Budget Act. The 2017 Budget maintains this discretionary treatment.

The total cost of Pell Grants can fluctuate from year to year, even with no change in the maximum Pell Grant award, because of changes in enrollment, college costs, and family resources. In addition, since 2009 the program has relied on temporary mandatory or emergency appropriations to fund the program well above the level that could have been provided as a practical matter by the regular discretionary appropriation. The 2017 Budget expects program costs to stay within available resources,

² This ability to "borrow" from a subsequent appropriation is unique to the Pell program. It comes about for two reasons. First, like many education programs, Pell is "forward-funded"—the budget authority enacted in the fall of one year is intended for the subsequent academic year, which begins in the following July. Second, even though the amount of funding is predicated on the expected cost of Pell during one academic year, the money is made legally available for the full 24-month period covering the current fiscal year and the subsequent fiscal year. This means that, if the funding for an academic year proves inadequate, the following year's appropriation will legally be available to cover the funding shortage for the first academic year. The 2017 appropriation, for instance, will support the 2017-2018 academic year beginning in July 2017 but will become available in October 2016 and can therefore help cover any shortages that may arise in funding for the 2016-2017 academic year.

which include the discretionary level, carried forward budget authority, and extra mandatory funds, until 2025. While the 2016 Budget expected these resources to run out before 2018, Pell program costs and student enrollment have continued to decline since a 2010 peak, and the funding has lasted longer than anticipated. Under current law, the Budget now projects a ten year funding shortfall of \$4.1 billion, \$25.6 billion less than the 10-year forecast from the 2016 Budget (see Table 11-7). These estimates have changed significantly from year to year, which illustrates continuing uncertainty about the amount of the Pell shortfall, and the year in which the shortfall will reemerge.

Administration policy is to ensure that students have access to the maximum Pell award, and that the Pell Grant keeps up with inflation. As in prior years, the Budget provides sufficient resources to fully fund Pell Grants in the award years covered by the budget year, and subsequent years. The Budget provides \$22.5 billion in discretionary budget authority in 2017, the same level of discretionary budget authority provided in 2016. Level-funding Pell in 2017, combined with carried forward budget authority and mandatory funding provided in previous legislation, provides \$8.5 billion more than is needed to fully fund the program in the 2017-18 award year. Ensuring that carried forward budget authority remains available in the Pell Grant program will help guarantee that sufficient resources are available to support the program in future years. Cutting the budget authority in Pell to only the level needed to fund the program in 2017 would have a doubly detrimental impact on the future cliff; it would reduce the budget authority carried forward from 2017, while simultaneously reducing the discretionary base funding level in the program.

Since 2013, the Pell maximum award has increased annually to account for inflation. Under current law, these adjustments are set to expire in 2017, and students will no longer benefit from annual aid increases designed to offset rises in student costs. The Budget proposes to provide mandatory funding to continue indexing Pell for inflation beyond 2017. It also proposes to expand and reform the Perkins loan program and to make legislative changes to the Pay As You Earn plan for student loan borrowers that would complement administrative actions announced last year that extend Pay As You Earn to all borrowers.

With significant budget authority expected to be carried forward into 2017, the Budget proposes several new student aid policies to help make college more affordable for students. In addition, the Budget continues to propose student aid reforms proposed in the 2016 Budget that impact Pell Grant program costs:

- First, the Budget proposes to support "Pell for Accelerated Completion," allowing students to earn a third semester of Pell Grants in an academic year so they can take courses continuously throughout the year, accumulate credits, and graduate more quickly. Students will now be eligible for a third semester of Pell during a year if they have already completed 24 credits; this policy is an effort to ensure that the third semester eligibility is assisting students who

Table 11-7. EFFECT OF STUDENT AID PROPOSALS ON DISCRETIONARY PELL FUNDING NEEDS
(In billions of dollars)

Discretionary Pell Funding Needs (Baseline)											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Full Funding, Discretionary Pell		15.6	23.4	24.0	24.3	24.7	25.0	25.5	26.0	26.5	26.7
Previously Provided Mandatory Funding		(1.6)	(1.4)	(1.4)	(1.4)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Discretionary Need	22.5	14.0	22.0	22.5	22.8	23.5	23.9	24.4	24.9	25.4	25.6
Fund Pell at 2017 Full Funding Estimate	22.5	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
Surplus/Funding Gap from Prior Year				(8.0)	(16.5)	(25.3)	(34.9)	(44.8)	(55.1)	(66.0)	(77.3)
Cumulative Surplus/Discretionary Funding Gap			(8.0)	(16.5)	(25.3)	(34.9)	(44.8)	(55.1)	(66.0)	(77.3)	(88.9)
Fund Pell at 2016 Enacted Level		8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Surplus/Funding Gap from Prior Year			8.5	9.0	8.9	8.6	7.5	6.1	4.2	1.8	(1.0)
Cumulative Surplus/Discretionary Funding Gap		8.5	9.0	8.9	8.6	7.5	6.1	4.2	1.8	(1.0)	(4.1)
Effect of 2017 Student Aid Proposals											
Enact 2017 Student Aid Proposals		(1.7)	(1.7)	(1.7)	(1.8)	(1.8)	(2.0)	(2.0)	(2.1)	(2.1)	(2.2)
Mandatory Funding Shift*		(0.3)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)
Surplus/Funding Gap from Prior Year			6.6	5.1	3.1	0.7	(2.5)	(6.1)	(10.4)	(15.1)	(20.5)
Cumulative Surplus/Discretionary Funding Gap		6.6	5.1	3.1	0.7	(2.5)	(6.1)	(10.4)	(15.1)	(20.5)	(26.1)

* Some budget authority, provided in previous legislation and classified as mandatory, but used to meet discretionary Pell Grant program funding needs, will be shifted to instead fund new outlays for the mandatory add-on.

are utilizing the additional semester to help ensure on-time completion.

- Second, to further incentivize students to enroll in enough credits to complete degree programs on time, the Budget proposes to increase the Pell Grant by \$300 for students taking at least 15 credit hours per semester in an academic year, the number of credits typically required for on-time completion. This feature will be treated as discretionary and funded through annual appropriations and carry-over funding.
- Third, the Budget will lift the restriction on providing Pell Grants to individuals incarcerated in Federal or State penal institutions.
- Fourth, the Budget will strengthen academic progress requirements in the Pell Grant program to encourage students to complete their studies on time.
- Fifth, the Budget will limit the receipt of additional Pell disbursements by recipients who are not advancing academically.
- Sixth, the Budget proposes to reduce the share of a college's or university's revenue that can come from Federal student aid programs from 90 percent to 85 percent and to include Federal student aid programs outside of the Department of Education, such as the Department of Defense Tuition Assistance and GI Bill Benefits, in the 85 percent portion of the 85/15 calculation.
- Seventh, the Budget would move Iraq Afghanistan Service Grants to the Pell Grant program to ensure our veterans' children receive a full, non-sequestered Pell award.

- Eighth, the Administration also supports the simplification of the Free Application for Federal Student Aid (FAFSA). The Budget proposes eliminating questions related to assets, non-IRS untaxed income, non-IRS income exclusions, and other income adjustments, which have been shown to confuse students. To prevent resulting decreases in Pell Grant awards, the Budget also proposes slight adjustments to Expected Family Contributions.

Together, these student aid reforms increase future discretionary Pell program costs by \$22 billion over 10 years (see Table 11-7). However, even with these increases, the shortfall will not be expected to arrive until 2021.

Postal Service Reforms

The Administration proposes reform of the Postal Service, necessitated by the serious financial condition of the Postal Service Fund. The policy proposals are discussed in the Postal Service and Office of Personnel Management sections of the *Appendix*.

As a matter of law, the Postal Service is designated as an off-budget independent establishment of the Executive Branch. This designation and budgetary treatment was most recently mandated in 1989, in part to reflect the policy agreement that the Postal Service should pay for its own costs through its own revenues and should operate more like an independent business entity. Statutory requirements on Postal Service expenses and restrictions that impede the Postal Service's ability to adapt to the ongoing evolution to paperless written communications have made this goal increasingly difficult to achieve. To address its current financial and structural challenges, the Administration proposes specific financial relief and reform measures to ensure that the Postal Service can continue to operate in the short term and work toward

viability in the long run. The Administration also proposes PAYGO scoring of Postal legislation on a unified budget basis to better reflect how and when such legislation will affect overall deficits and debt. That is, for the purposes of entering amounts on the statutory PAYGO scorecards, the applicable estimates should include both the off-budget and the on-budget costs and savings produced by the legislation. This scorekeeping change would be accomplished by a provision contained within Postal reform legislation.

In addition to scoring Postal reform on a unified basis, the Administration's baseline now reflects probable defaults to on-budget accounts at the Office of Personnel Management. This treatment allows for a clearer presentation of the Postal Service's likely actions in the absence of reform and more realistic scoring of reform proposals with improvements in the Postal Service's finances reflected through lower defaults and added costs for the Postal Service reflected as higher defaults.

Contract Support Costs Reclassification

The Budget proposes a reclassification of the Bureau of Indian Affairs' (BIA) and Indian Health Service's (IHS) Contract Support Costs from a discretionary to a mandatory appropriation beginning in 2018. The Contract Support Costs proposal would reduce the discretionary

spending limits in section 251(c) of BBEDCA beginning in 2018, to offset the cost of shifting the base funding from discretionary to mandatory. In addition, the mandatory appropriation includes a three-year program expansion to fully fund Contract Support Costs as well as a new investment to ensure program integrity. Through a reauthorization process for 2021 and beyond, updated Contract Support Costs estimates will be provided to set funding levels every three years.

Expedited Rescission

The Administration continues to support enactment of the President's proposal for expedited rescission, transmitted May 24, 2010. That legislation would create an important tool for reducing unneeded funding. In short, the bill would provide the President with additional authority to propose a package of rescissions that would then receive expedited consideration in the Congress and a guaranteed up-or-down vote. The proposal is crafted in a way that preserves the constitutional balance of power between the President and the Congress while providing the President with important, but limited, powers that would allow the President and the Congress to work together more effectively to eliminate unnecessary funding that could be deployed more effectively in other areas.

II. STATUTORY PAYGO

The Statutory Pay-As-You-Go Act of 2010 (PAYGO, or "the Act") was enacted on February 12, 2010. The Act strengthens the rules of budget discipline, which is a key priority for the Administration.

Drawing upon the PAYGO provisions enacted as part of the Budget Enforcement Act, the Act requires that, subject to specific exceptions, all legislation enacted during each session of the Congress changing taxes or mandatory expenditures and collections not increase projected deficits. Mandatory spending encompasses any spending except that controlled by the annual appropriations process.³

The Act established 5- and 10-year scorecards to record the budgetary effects of legislation; these scorecards are maintained by OMB and are published on the OMB web site (http://www.whitehouse.gov/omb/paygo_default). The Act also established special scorekeeping rules that affect whether all estimated budgetary effects of PAYGO bills are entered on the scorecards. Off-budget programs do not have budgetary effects for the purposes of PAYGO and are not counted. Provisions designated by the Congress in law as emergencies appear on the scorecards, but the effects are subtracted before computing the scorecard totals.

In addition to the exemptions in the PAYGO Act itself, the Congress has enacted laws affecting revenues or direct spending with a provision directing that the budgetary

effects of all or part of the law be held off of the PAYGO scorecards. In the most recently completed Congressional session, four pieces of legislation were enacted with such provisions. For more information, see the 2015 Annual PAYGO Report on the OMB web site (http://www.whitehouse.gov/omb/paygo_default).

The requirement of budget neutrality is enforced by an accompanying requirement of automatic across-the-board cuts in selected mandatory programs if enacted legislation, taken as a whole, does not meet that standard. If the Congress adjourns at the end of a session with net costs—that is, more costs than savings—in the budget-year column of either the 5- or 10-year scorecard, OMB is required to prepare, and the President is required to issue, a sequestration order implementing across-the-board cuts to non-exempt mandatory programs in an amount sufficient to offset the net costs on the PAYGO scorecards.

Exemptions from a PAYGO sequestration order generally include Social Security; most unemployment benefits; veterans' benefits; interest on the debt; Federal retirement; and the low-income entitlements such as Medicaid, the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps), and SSI.⁴ The major remaining mandatory programs, which are subject to sequestration, include most Medicare payments (limited to a maximum sequestration of 4 percent), farm price supports, vocational rehabilitation basic State grants, mineral leasing payments to States, the Social Services

³ Mandatory spending is termed direct spending in the PAYGO Act. The term mandatory encompasses entitlement programs, e.g., Medicare and Medicaid, and any funding not controlled by annual appropriations bills, such as the automatic availability of immigration examination fees to the Department of Homeland Security.

⁴ Although many programs are exempt from sequestration, those programs are rarely exempt from PAYGO. For example, a bill to increase veterans' disability benefits or Medicaid benefits must be offset, even though a sequestration, if it is required, will not reduce those benefits.

Block Grant, and many smaller programs. The list of exempt programs and the special sequestration rules for certain programs are contained in sections 255 and 256 of BBEDCA, and the exemptions and special rules generally apply to the following sequestrations: the sequestration pursuant to the PAYGO Act, the sequestration to eliminate excess spending above discretionary caps specified in section 251 of BBEDCA, and the mandatory sequestration currently required by the BCA as a result of the failure of the Joint Committee process.

Even though sequestration is calculated to fully offset any net costs on the PAYGO scorecard, it historically has acted as a successful deterrent to enacting legislation with net costs, and so, has not been implemented. During the 1990s, under the first statutory PAYGO law, the sequestration rules and exemptions were almost identical to those in the current Act. The Congress complied with PAYGO throughout that decade. As a result, no PAYGO sequestration ever occurred.

As was the case during the 1990s, the PAYGO sequestration has not been required during the six Congressional sessions since the PAYGO Act reinstated the statutory PAYGO requirement. For each of those sessions, OMB's annual PAYGO reports showed net savings in the budget year column of both the 5- and 10-year scorecards. For

the first session of the 114th Congress, the most recent session, enacted legislation added net savings of \$3,456 million in each year of the 5-year scorecard and \$5,718 million in each year of the 10-year scorecard. Including net savings and costs from prior sessions of the Congress, balances in 2016, the budget year column, showed total net savings of \$3,016 million on the 5-year scorecard and \$15,448 million on the 10-year scorecard, so no sequestration was required.⁵

Administrative PAYGO

The Administration continues to review potential administrative actions by Executive Branch agencies affecting entitlement programs, as stated in a memorandum issued on May 23, 2005, by the Director of the Office of Management and Budget. This effectively establishes a PAYGO requirement for administrative actions involving mandatory spending programs. Exceptions to this requirement are only provided in extraordinary or compelling circumstances.⁶

⁵ OMB's annual PAYGO reports and other explanatory material about the PAYGO Act are available at www.whitehouse.gov/omb/paygo_default.

⁶ For a review of the application of Administrative PAYGO, see *USA's Application of Administrative PAYGO to Its Mandatory Spending Programs*, GAO, October 31, 2011, GAO-11-921R.

III. IMPROVED BASELINE AND BUDGET PRESENTATION

Improved Definition of Baseline

In each of its Budgets, this Administration has depicted its budget proposals relative to a baseline that is designed to reflect the budget outlook under current policy and to serve as a realistic basis for evaluating the effects of policy changes. The Administration recommends that the Congress, the Congressional Budget Office, and the public use such a baseline in their own analyses as well.

Section 257 of BBEDCA provides rules for constructing a baseline that were used by the Congress for many years. In recent years, however, these rules have become less useful because they do not provide guidance to address major changes in policy, including the reestablishment of the discretionary spending limits and the enactment of Joint Committee enforcement procedures. The rules also fall short in their approach to one-time emergency appropriations, which are extended permanently in the BBEDCA baseline along with regular agency appropriations.

This section describes the Administration's adjustments to the BBEDCA baseline to make it more useful. The deficit impacts of these adjustments are summarized in Summary Table S-8 of the *Budget*. Further detail about the adjusted baseline is provided in Chapter 25, "Current Services Estimates," in this volume.

While the adjusted baseline provides a more realistic basis for analyzing budgets, it is not intended to replace the BBEDCA baseline with respect to mandatory programs and revenues, either for legal purposes or to alter the application of the Statutory PAYGO Act of 2010. Specifically, the costs or savings from legislation affecting mandatory spending or revenues are measured relative

to the BBEDCA baseline for purpose of entries on the PAYGO scorecards, discussed earlier in the chapter.

Adjustments for Emergency and Disaster Costs.— Because the BBEDCA baseline extends all appropriations already enacted for the year in progress, it can be subject to huge swings as a result of funding enacted as an emergency requirement or as disaster relief funding pursuant to the cap adjustments for these items permitted by section 251(b)(2) of BBEDCA. At times, the BBEDCA baseline could extend large one-time emergency or disaster appropriations for the next 10 years; at other times it might extend very little. The Administration's baseline includes adjustments to account for these swings. Specifically, for the 2017 Budget, the Administration's adjusted baseline removes the extension of \$7.6 billion in enacted 2016 appropriations that were designated as emergency requirements or as disaster relief funding. In addition, the adjusted baseline substitutes an allowance for disaster costs in the current year, the budget year, and future fiscal years. This allowance reflects the fact that major natural or man-made disasters may occur in the near future and are highly likely to occur at some point in subsequent years. Obviously, both the timing and amounts are unknowable in advance. In addition to the inclusion of this entry in the baseline, the Administration includes the same allowance in its Budget.

The baseline and Budget figures are not a "reserve fund," nor are they a request for discretionary budget authority or congressional legislation of any kind. Instead, they are placeholders that represent a meaningful down payment on potential future disaster relief requirements

that are not for known needs in the budget year. For more information, see the discussion of disaster relief funding earlier in this chapter in Section I (Budget Reform Proposals) under the heading titled “Disaster Relief Funding.” Including a meaningful down payment for the future costs of potential disaster relief funding makes the budget totals more honest and realistic.

Discretionary spending limits and Joint Committee enforcement.—The BBEDCA baseline extends enacted appropriations without regard to the discretionary spending limits imposed by BBEDCA. The adjusted baseline includes an allowance to reduce the discretionary spending levels in the baseline to comply with the limits for the defense and non-defense categories. These adjustments assume that the limits remain in place after their statutory expiration in 2021, growing with inflation in each subsequent year through the end of the budget window. In addition, appropriations for program integrity activities of the Social Security Administration and the Health Care Fraud and Abuse Control account are adjusted to the levels of cap adjustments permitted under BBEDCA. No adjustment is made for appropriations designated as Overseas Contingency Operations because this category of appropriations is not subject to spending limits.

The adjusted baseline also reflects the future operation of Joint Committee enforcement procedures, under which the discretionary spending limits would be further reduced for 2018 through 2021, and mandatory spending sequestered for 2018 through 2025, according to the procedures of BBEDCA.

Reclassification of surface transportation spending.—The adjusted baseline includes a reclassification of certain surface transportation accounts from discretionary to mandatory. This reclassification allows the Administration’s surface transportation proposal to be portrayed more clearly, as discussed in more detail earlier in this chapter.

Former current policy extensions of Medicare physician payment relief and Recovery Act tax credits.—In the 2016 Budget, the adjusted baseline assumed extension of the policies in place to provide relief from the large cuts in Medicare physician payments required under the Sustainable Growth Rate (SGR) mechanism. In April 2015, the Medicare Access and CHIP Reauthorization Act replaced the SGR system with a new system of physician payments that does not include the large, unrealistic reductions embedded in prior law. As a result, the Budget no longer includes policy extensions to maintain Medicare physician payment levels in the adjusted baseline. Likewise, the adjusted baseline assumed extension of certain tax credits for individuals and families enacted in the American Recovery and Reinvestment Act of 2009, and subsequently extended through tax year 2017. In December 2015, the Protecting Americans from Tax Hikes Act made these tax credits permanent, so an adjustment is no longer necessary to continue current policy for these provisions.

Fannie Mae and Freddie Mac

The Budget continues to present Fannie Mae and Freddie Mac, the housing Government-sponsored enterprises (GSEs) currently in Federal conservatorship, as non-Federal entities. However, Treasury equity investments in the GSEs are recorded as budgetary outlays, and the dividends on those investments are recorded as offsetting receipts. In addition, the budget estimates reflect collections from the 10 basis point increase in GSE guarantee fees that was enacted under the Temporary Payroll Tax Cut Continuation Act of 2011 (P.L. 112-78), and collections from the 4.2 basis point set-aside on each dollar of unpaid principal balance of new business purchases authorized under the Housing and Economic Recovery Act of 2008 (P.L. 111-289) to be remitted to several Federal affordable housing funds. The GSEs are discussed in more detail in Chapter 20, “Credit and Insurance.”

Fair Value for Credit Programs

In recent years, some analysts have argued that Federal direct loan and loan guarantee programs impose costs on taxpayers that are not reflected under the current budgeting rules, such as the risk that assets may not perform as expected, and propose to require that the Budget use “fair value” estimates for these credit programs. Under fair value, comparable market interest rates would be used to discount expected cash flows, instead of the Federal Government’s cost of borrowing. While fair value may offer some useful insights and inform decision-making in some cases, using fair value for budgetary cost estimates of credit programs raises serious conceptual and implementation problems. Most importantly, it would compromise the central objective of current budgeting rules for credit, which are designed to put credit program estimates on a comparable basis to other forms of Federal spending and improve the allocation of resources. In addition, many of the factors reflected in fair value pricing are irrelevant or less relevant to taxpayers than to private investors; including these factors in budgetary cost estimates would overstate the cost of credit assistance and introduce a bias relative to other forms of Federal assistance. On top of these and other conceptual issues, implementing fair value may require significant increases in the costs of administering credit programs and introduce inconsistencies in how credit subsidy costs are estimated across programs, reducing the consistency and transparency of the Budget. For a detailed discussion of the conceptual and implementation issues raised by fair value estimates, see the “Credit and Insurance” chapter of the *Analytical Perspectives* volume of the 2015 Budget.

Debt Net of Financial Assets

In the Summary Tables included in the main *Budget* volume, Tables S-1 and S-13 display both debt held by the public and debt held by the public net of financial assets. Borrowing from the public is normally a good approximation of the Federal demand on credit markets. However, it provides an incomplete picture of the financial condition of the Government and under some circumstances may

misrepresent the net effect of Federal activity on credit markets. Some transactions that increase the Federal debt also increase the financial assets held by the Government. For example, when the Government lends money to a private firm or individual, the Government acquires a financial asset that provides a stream of future payments of principal and interest, net of the Government's expected losses on the loan. At the time the loan is made, debt held by the public reflects only Treasury's borrowing to finance the loan, failing to reflect the value of the loan asset acquired by the Government. Similarly, the estimate of debt held by the public does not reflect estimated liabilities on loan guarantees. In contrast, debt held by

the public net of financial assets provides a more accurate measure of the Government's net financial position by including the value of loans and other financial assets held by the Government. While Federal borrowing reduces the amount of private saving that is available through financial markets for private-sector investment, Federal acquisition of financial assets has the opposite effect—it injects cash into financial markets. Thus, the change in debt net of financial assets can also better indicate the effect of the Federal Government on the financial markets. For further discussion of debt net of financial assets, see Chapter 4, “Federal Borrowing and Debt.”

