PUTTING THE NATION ON A SUSTAINABLE FISCAL PATH

To compete in the global marketplace and have the long-term economic growth to support a growing middle class, we must take responsibility for our fiscal future. We need to invest in the engines of competitiveness and job creation: education, innovation, and infrastructure. But compete with the growing economies of the world, we also must free ourselves from the burden of historic deficits and growing debt. We need to change how Washington does business, and restore responsibility for what we spend and accountability for how we spend it. For too long, Washington has spent money without identifying a way to pay for it. Indeed, the cost of the 2001 and 2003 tax cuts as well as the Medicare prescription drug benefit passed in the last administration contributed significantly to turning the surpluses of the 1990s into the record deficits of the following decade. The financial crisis and recession exacerbated our fiscal situation as revenue decreased and automatic Government outlays increased to counter the recession and cushion its impact. The result was that upon taking office, the President faced an annual deficit of $1.3 trillion, or 9.2 percent of GDP, and a 10-year deficit of more than $8 trillion. Moreover, the need to jump-start our economy through the Recovery Act and save it from sliding into a Depression added approximately $1 trillion to our 10-year deficit projections.

In addition, for far too long, we have allowed programs to continue or to grow even when objectives are no longer clear and when they lack rigorous assessment of whether they were achieving the desired goals. The result has been the profusion of programs that are duplicative, ineffective, or outdated—at a significant cost to taxpayers.

Since taking office the President has worked to restore accountability and fiscal responsibility. In his first Budget, the President confronted directly the fiscal situation he inherited, eliminating trillions of dollars in budget gimmicks. He made a commitment to restoring fiscal responsibility, while recognizing that increasing the deficit in the short term was necessary to arrest the economic freefall. The President pledged to cut the deficit he inherited in half as a share of the economy by the end of his first term, a commitment this Budget keeps. He signed into law pay-as-you-go (PAYGO) legislation that returned the tough budget rules of the 1990s to Washington. The principle behind PAYGO is simple: all new, non-emergency entitlement spending and revenue losses must be offset by savings or revenue increases, with no exception for new tax cuts. And, recognizing the role that rising health care costs play in our long-term fiscal future, the President advocated for and signed into law fiscally responsible health reform that will reduce our deficit by more than $200 billion over the next 10 years and more than $1 trillion over the second 10 years, as well as fully pay for all new coverage. That is the most deficit reduction enacted in over a decade. Finally, the President convened the bipartisan National Commission on Fiscal Responsibility and Reform (the Fiscal Commission). Its work has reset the debate about further deficit reduction, and a number of its proposals are incorporated in this Budget.

Upon taking office, the President also demanded that the Government spend every taxpayer dollar with as much care as taxpayers spend their own dollars. The Administration went line-by-line through the Budget and identified more than 120 terminations, reductions, and savings for both 2010 and 2011, totaling approximately $20 billion in each year. These terminations ranged from a radio navigation system for ships made obsolete by GPS to new F-22 fighter jets. While recent administrations have seen between 15 and 20 percent of their proposed cuts approved by the Congress, we saw 60 percent of its proposed discretionary cuts become law for 2010. To help cut such unnecessary spending in the future, the President also introduced legislation to create an expedited rescission authority so that unnecessary spending can be struck swiftly and constitutionally. Finally, through the President's Accountable Government Initiative (AGI), the Administration has launched a host of initiatives to streamline what works, cut what does not, and eliminate wasteful spending. These include: focusing agencies on identifying and delivering on their top priorities, a comprehensive strategy to reform Government contracting that will save $40 billion by the end of 2011, an initiative to reduce the amount of improper payments made by the Government by $50 billion by the end of 2012, a review and reform of information technology use and procurement, an initiative to reduce administrative overhead by billions and improve performance, and an effort to dispose of billions of dollars of unneeded and under-utilized real property assets.

Recognizing that the pace of the economic recovery is not fast enough, the President has taken a series of steps—including signing into a law a bipartisan tax bill that prevented a tax increase and created incentives for business investment—to help the recovery take hold and broaden. Yet, looking beyond the short term, our long-term economic sustainability depends on setting the Nation on a fiscally responsible path. That is why the President has put forward a Budget that builds on what he has already accomplished by further restraining spending and tackling our long-term fiscal challenges, while continuing to expand investments in areas that are critical to long-term economic growth. Specifically, the Budget puts the Nation on the right course: toward a sustainable level of deficits of 3 percent of GDP by the middle of this decade. What is significant about this accomplishment is not just reaching primary (non-interest) balance, but that we do so while putting the Nation on a course that leads to further reductions in subsequent years. Redirecting our fiscal path in this positive direction is a significant accomplishment, one which will take tough choices and shared sacrifice—and is essential for the long-term competitiveness of the American economy.

Making Tough Choices to Restore Fiscal Discipline

To be competitive in the 21st Century, the United States cannot be weighed down by crippling budget deficits, ineffective programs that waste tax dollars, and a Government that is not accountable to the American people. As we move forward with the tough choices necessary to rein in our deficits and put the country on a sustainable fiscal path, we must balance those efforts with the investments and actions required to keep the economy growing and competing with other nations. We must look for cuts while protecting our core values. The Budget makes critical investments in areas important to growth and competitiveness while broadly sharing sacrifices to reduce the deficit. The Administration proposes to:

Freeze Non-Security Discretionary Spending for Five Years. It would be short-sighted to cut spending across the board and thus deprive critical areas for growth and competitiveness—such as education, innovation, and infrastructure—or carelessly slash programs that protect the most vulnerable. In his 2011 Budget request, the President proposed a three-year, non-security discretionary freeze. As the economic recovery takes hold, the President believes that it is important to go further and is now proposing a five-year, non-security discretionary freeze. This freeze is an extension of the one proposed last year, and thus, is based on 2010 enacted levels. This freeze is not a haphazard, across-the-board cut, but an approach in which areas critical for growth and job creation are protected or increased while other programs are cut back. This freeze would be the most aggressive effort to restrain discretionary spending to take effect in 30 years and, by 2015, would lower non-security discretionary funding as a share of the economy to the lowest level since Dwight D. Eisenhower was president. Over a decade, the five-year freeze saves more than $400 billion and puts the discretionary budget on a sustainable trajectory.

Freeze Federal Civilian Worker Pay for Two Years. Putting the Nation back on a sustainable fiscal path will take some tough choices and sacrifices. The men and women who serve their fellow Americans as civilian Federal workers are patriots who work for the Nation often at great personal sacrifice; they deserve our respect and gratitude. But just as families and businesses across the country are tightening their belts, so too must the Federal Government. On his first day in office, the President froze salaries for all senior political appointees at the White House. In his Budget last year, the President proposed extending that freeze to other political appointees, and he eliminated bonuses for all political appointees across the Administration. Starting in 2011, the President has proposed and the Congress enacted a two-year pay freeze for all civilian Federal workers. This will save $2 billion over the remainder of 2011, $28 billion over the next five years, and more than $60 billion over the next 10 years. The freeze will apply to all civilian Federal employees, including those working at the Department of Defense—but not military personnel. This freeze does not reflect on the performance of Federal workers; rather, it reflects the shared sacrifices we must make.

Cut or Consolidate Programs. Allocating budgetary resources always involves a trade-off between what one wants to do and what one can afford to do. This is exacerbated when the imperative is to limit spending in order to reduce the drag of deficits and debt on our economic growth and competitiveness. In each of his first two budgets, the President put forward more than 120 terminations, reductions, and savings totaling approximately $20 billion in each year. The Budget proposes more than 200 terminations, reductions, and savings, totaling approximately $30 billion in savings in 2012. To achieve these savings, we went through the Budget carefully to identify programs that were either ineffective, duplicative, or outdated and thus needed to be cut or consolidated. Others are programs whose mission the Administration cares deeply about, but meeting our fiscal targets is something that will take shared sacrifice by us all. Some of the proposed cuts and consolidations include:

- Suspending the extremely costly new year-round Pell Grant and eliminating the poorly targeted in-school interest subsidy for loans to graduate students to fully increase the maximum Pell award.

- Terminating the Marine Corps' Expeditionary Fighting Vehicle, the alternate engine for the Joint Strike Fighter, and the Surface Launched Advanced Medium Range Air-to-Air Missile program.

- Reducing funding for the Senior Community Service Employment Program and moving its function to the Administration on Aging to consolidate senior services and provide them more effectively.

- Cutting funding for the Teacher Quality Block Grant by close to $500 million and the Career and Technical Education (CTE) program by more than $280 million, shifting resources to initiatives more focused on results.

- Eliminating 13 discretionary Department of Education programs and consolidating 38 K-12 programs into 11 new programs that emphasize using competition to allocate funds, giving communities more choices around activities, and using rigorous evidence to fund what works.

- Reducing funding for the Community Development Block Grant by 7.5 percent or $300 million.

- Cutting the Community Services Block Grant program (CSBG) in half and transforming it from a formula-based program to a competitive grant program for Community Action Agencies. CSBG is a flexible anti-poverty program that has had weak oversight and accountability, and grant recipients have been virtually guaranteed funding for nearly 30 years.

- Reducing the Low Income Home Energy Assistance Program by $2.5 billion. This reduction returns the program to its 2008 level, which was before a spike in energy prices.

- Eliminating 12 tax breaks for oil, gas, and coal companies, closing loopholes to raise nearly $46 billion over the next decade.

- Reducing grants to large airports by $1.1 billion, targeting funds to small- and medium-sized airports, and giving large airports more flexibility to generate revenue on their own.

- Consolidating several Centers for Disease Control public health grant programs into one competitive one. This new approach will improve overall health outcomes while also strengthening accountability of Federal resources.

- Reducing the Department of Agriculture's single family housing direct loan program by 81 percent to $211 million and focusing efforts on the more effective single family housing loan guarantee program.

- Eliminating the Children's Hospital Graduate Medical Education Payment Program.

- Reducing funding for the Environmental Protection Agency's water infrastructure State Revolving Funds by $950 million and adjusting future year requests through 2016 with the goal of providing, on average, approximately 5 percent of total annual water infrastructure spending.

- Providing zero funding for new courthouse construction this fiscal year based on other priorities for the GSA capital budget.

Instill New Discipline in Defense Spending. Although the country is waging a war in Afghanistan and there is not a freeze on security spending, all parts of Government must share in the sacrifices needed to put the country on a sustainable fiscal path. Over the past decade, the Department of Defense (DOD) has seen an average increase to its base budget of 7.4 percent a year. Moving forward, DOD is pursuing a variety of strategies to approach zero real growth in defense spending, and saving $78 billion in its base budget (including $13 billion in 2012) relative to 2011's request for the next five years. Secretary Gates will oversee a package of terminations, consolidations, and efficiencies in operations to slow this growth, and if these savings materialize, the savings will be used to fund programs and efforts critical to the armed forces and the security of the Nation. Reflecting the winding down of military operations in Iraq, the Overseas Contingency Operations (OCO) budget for DOD in 2012 will be about 26 percent lower than levels in the President's 2011 request. As a result, the overall defense budget, including OCO, will be down by 5.2 percent from last year's request. In addition, the rate of growth in critical Department of State and other international programs also will be constrained, and these departments will be pursuing a range of efficiency initiatives.

Provide a Better Return to Taxpayers from Mineral Development. The public received about $9 billion in 2010 from fees, royalties, and other payments related to oil, gas, coal, and other mineral development on Federal lands and waters. A number of recent studies by the Government Accountability Office and the Department of the Interior's Inspector General have found that taxpayers could earn a better return through more rigorous oversight and policy changes, such as charging appropriate fees and reforming how royalties are set. The Budget proposes a number of actions to receive a fair return from the continued development of these vital U.S. mineral resources: charging a royalty on select hardrock minerals (such as silver, gold, and copper); terminating payments to coal-producing States and Tribes that no longer need funds to clean up abandoned coal mines; extending net receipt sharing, where States with mineral revenue payments help defray the costs of managing the mineral leases that generate the revenue; charging user fees to oil companies for processing oil and gas drilling permits and inspecting operations on Federal lands and waters, which complement new and rigorous safety and environmental standards to make sure that these activities are done responsibly; establishing fees for new non-producing oil and gas leases (both onshore and offshore) to encourage more timely production; and making administrative changes to Federal oil and gas royalties, such as adjusting royalty rates and terminating the royalty-in-kind program. Together, these changes are expected to generate approximately $3 billion in savings to the Treasury over 10 years.

Eliminate Earmarks. Since fiscal year 2009, earmarks have decreased in dollar amount by over $3 billion, but while there have been improvements in earmark transparency, we must go further. Simply, in this tight budget environment, we cannot afford earmarks. Earmarks are still inserted into spending bills without adequate review, and are often not used for the highest priority programs. If a bill is sent to the President with earmarks in it, he will veto it.

Require the Financial Services Industry to Pay Back Taxpayers. The Administration is calling for a Financial Crisis Responsibility Fee on the largest financial institutions to fully compensate taxpayers for the extraordinary support they provided to the financial sector through the Troubled Asset Relief Program (TARP) and other Government actions. The assistance given to the largest financial firms represented an extraordinary step that no one wanted to take, but one that was necessary in order to stem a deeper financial crisis and set the economy on a path to recovery. The cost associated with the excessive risk-taking by the largest financial institutions continues to ripple through the economy. Furthermore, although many of the largest financial firms have repaid the Treasury for their TARP assistance, they continue to implicitly benefit from the TARP funds that bolstered their balance sheets during a period of great economic upheaval. While the expected deficit cost of the TARP program has fallen by $66 billion since the 2011 Mid-Session Review to approximately $48 billion, shared responsibility requires that the largest financial firms pay back the taxpayer for the extraordinary support they received. The fee will be restricted to financial firms with assets over $50 billion and will be imposed until all TARP costs have been recouped. The Administration's Financial Crisis Responsibility Fee aligns with the congressional intent of the TARP legislation that requires the President to propose a way for the financial sector to pay back taxpayers so that not one penny of the Government's TARP-related debt is passed on to the next generation. It would extend beyond 2021 as necessary to achieve these ends. The structure of this fee would be consistent with principles agreed to by the G-20 Leaders and similar to fees proposed by other countries. This fee will generate $30 billion over 10 years.

Taking on the Long-Term Challenges to Our Fiscal Health

Cutting funding for discretionary programs and using those dollars more effectively and efficiently are important to begin to rein in our deficits. But non-security, discretionary spending represents approximately 12 percent of all spending. The solution to our long-term fiscal problems cannot rest on this alone. Taking on many of these long-term funding issues will take months, if not years, of discussion and deliberation. The Fiscal Commission's report opened a debate on many of these topics, such as tax reform and Social Security. The President hopes to build on the work they did to create space to discuss these issues, and begin a process of reform that results in putting the Nation on sound fiscal footing, creating the conditions for long-term economic growth, and doing both in a way that remains true to our most deeply-held values. The Administration will:

Take Steps Now to Reduce Future Liabilities. Too often, worthy programs or services are put in place, but allowed to run far too long on "autopilot" even when the evidence demonstrates that changes are needed to keep them affordable and effective. In the Budget, we take steps to restore responsibility to areas where there are looming debts and unfunded liabilities we currently will not be able to pay.

- *Pension Benefit Guaranty Corporation (PBGC).* The PBGC acts as a backstop to protect pension payments for workers whose companies have failed. When underfunded plans terminate, PBGC assumes responsibility for paying insured benefits; more than 1.5 million workers and retirees already look to PBGC for their benefits. However, the PBGC's pension insurance system is itself uderfunded, and the PBGC's liabilities exceed its assets. The PBGC receives no taxpayer funds and its premiums are currently far lower than what a private financial institution would charge. PBGC is unable to adjust its premiums to reflect a company's behavior and the risks to its pensions. The Budget proposes to give the PBGC Board the authority to adjust premiums and directs PBGC to take into account the risks that different sponsors pose to their retirees and to PBGC. This will both encourage companies to fully fund their pension benefits and ensure the continued financial soundness of PBGC. In order to ensure that these reforms are undertaken responsibily during challenging economic times the Budget would require two years of study and public comment before any implementation and gradual phasing in of any increases. This proposal is one component of the Administration's ongoing strategy to make the PBGC more accountable and efficient while strengtening the defined benefit pension system for the millions of American workers who rely on it for retirement security. This proposal is estimated to save $16 billion over the next decade.

- *Unemployment Insurance (UI).* The economic downturn has severely tested the adequacy of States' UI systems, forcing States to levy additional taxes on employers, which undermines much-needed job creation. To provide short-term relief in these States, the 2012 Budget provides a two-year suspension of State interest payments on their debt and automatic increases in Federal unemployment insurance taxes. At the same time, to encourage States to put their UI systems on firmer financial footing so they can better respond to future economic conditions, beginning in 2014 the Budget increases the maximum wages subject to unemployment taxes to $15,000, a level then indexed to average wages. The taxable wage base then will be nearly the same in real terms as it was in 1983, when President Reagan signed into law the last legislation increasing the wage base.

- *Fannie Mae and Freddie Mac.* When the President took office, the mortgage giants Fannie Mae and Freddie Mac had been put into Federal conservatorship as a result of their near collapse due to excessive risk taking. Thus far, Fannie Mae and Freddie Mac have received $131 billion of financial support from Treasury, net of dividends paid. Treasury estimates—which are consistent with "stress tests" by the independent Federal regulator that governs the government-sponsored enterprises (GSE's) in conservatorship—suggest that assistance to the GSE's in their current form could result in a total net cost to the taxpayer through 2021 of $73 billion (net of expected dividends), 45 percent lower than the net costs to date. The Budget proposes to gradually reduce the investment portfolios and size and amount of loans guaranteed by Fannie Mae and Freddie Mac and ending the conservatorship of these companies. Over time, the Administration will reduce the government's role in the mortgage market in a way that allows private capital to return without undermining the housing market recovery. At the same time, we will continue to ensure that the GSEs have sufficient capital to honor any guarantees issued now or in the future and the ability to meet any of their debt obligations during the period they are under conservatorship. In addition, the Administration is transmitting to the Congress a framework of principles for making the transition to a new housing finance system that will end the model of private gains and Federal taxpayer losses, repair the broken housing finance market, and minimize taxpayer exposure to financial risks. We will also seek to facilitate a market that provides stable and widely available mortgage credit, affordable housing options for low and middle-income homeowners and renters, and that has stronger protections for consumers and better disclosures as mandated by the financial regulatory reform that passed last year. The Administration will work with the Congress to pursue reform of the system that best fulfills these principles while engaging a wide range of stakeholders.

Continue Efforts to Restrain the Growth of Health Costs. Health care comprises one-quarter of non-interest Federal spending, and it is the major driver of future deficit growth. That is why the President signed into law the Affordable Care Act (ACA) which, according to the Congressional Budget Office's latest analysis, will save more than $200 billion over the next 10 years and reduce the deficit by more than $1 trillion over the second decade. Realizing this deficit reduction and efficiencies in the health care system that will reduce cost and improve quality will require effective implementation of the ACA, the President is resolutely committed to implementing ACA fairly, efficiently, and swiftly. Repealing or failing to implement health reform would return the Nation to the path of rapidly increasing health care costs, and add trillions to the budget deficit over the long run. To do more to restrain health care costs, the President is:

- Paying to offset necessary increases in the Sustainable Growth Rate (SGR) formula in Medicare. In December, the Administration worked with the Congress to offset legislation preventing an imminent decrease in physician payments. In the Budget, we go further and propose to continue this level of payment, and offset the increase above current law for the next two years with specific health savings. Looking beyond that, we are determined to work together to put in place a long-term plan to reform physician payment rates in a fiscally responsible way, and to craft a reformed reimbursement system that gives physicians incentives to improve quality and efficiency while providing them with predictable payments for the care they furnish to Medicare beneficiaries.

- Implementing cost-saving components of the ACA that target spending to maximize efficiency and quality per dollar spent, especially in Medicare and Medicaid. These reforms include reimbursing doctors and hospitals as Accountable Care Organizations, and adjusting payments to hospitals with high readmissions or hospital-acquired conditions—measures that will reward providers for efficient care, rather than fee-for-service payment that encourage excess costs through payment based on volume.

- Calling for a more aggressive effort to reform our medical malpractice system to reduce defensive medicine, promote patient safety, and improve patient outcomes. The President encourages Republicans to work constructively with him on medical malpractice as part of an overall effort to restrain health costs.

Make a Down Payment on Tax Reform. Over the nearly three decades since the last comprehensive reform effort, the tax system has been loaded up with revenue-side spending such as special deductions, credits, and other tax expenditures that help well-connected special interests, but do little for middle-class families or our Nation's economic growth. Now more than ever, when we want to compete and win in the world economy, we cannot afford a tax code burdened with special interest tax breaks. Successful comprehensive tax reform is a long process, often taking several years, but even though it is a daunting task, we cannot afford to shirk from the work. The President has called on the Congress to begin this process—building on the important work of the Fiscal Commission. To that end, the Budget calls for:

- *Beginning the Process of Corporate Tax Reform.* The United States has the highest corporate tax rate in the world. Part of the reason for this is the proliferation of tax breaks and loopholes written to benefit a particular company or industry. The result is a tax code that makes our businesses and our economy less competitive as a whole. The President is calling on the Congress to work with the Administration on corporate tax reform that would simplify the system, eliminate these special interest loopholes, level the playing field, and use the savings to lower the corporate tax rate for the first time in 25 years—and do so without adding a dime to our deficit.

- *Allowing the 2001 and 2003 High-Income and Estate Tax Cuts to Expire.* The tax cuts for those with household income above $250,000 a year passed in the Bush Administration were unfair and unaffordable at the time they were enacted and remain so today. Congressional Republicans insisted on extending them through 2012, along with a tax cut for the very largest estates, and threatened to allow taxes to increase on middle-class families if the Administration did not agree. Not extending the middle-class tax cuts would have hurt our nascent economic recovery, and imposed an enormous burden on working families. The Administration remains opposed to the permanent extension of these high-income tax cuts past 2012, as now scheduled, and supports the return of estate tax to 2009 rates and exemption levels.

- *Fully Paying for the Alternative Minimum Tax (AMT) Patch for Three Years.* This is the longest paid-for extension ever proposed, and is offset by an across-the-board 30 percent reduction in itemized deductions for high-income taxpayers. This would bring these rates back to where they were during the last year of the Reagan presidency, and if enacted, this provision would be the largest single reduction in revenue-spending since the 1986 tax reform. Continuing to pay for AMT relief after 2014 will reduce the deficit by more than 1 percent of GDP by the end of the decade.

Secure Social Security. On January 1 of this year, the very first Baby Boomers turned 65. As this large generation ages and retires, it will put stress on the Social Security system. Although Social Security does not face an immediate crisis and is not driving our short-term deficits or long-term debt, it does face a long-term financing shortfall. Failing to strengthen Social Security will result in substantial benefit cuts for future retirees and will undermine the basic notion that a lifetime of hard work should be rewarded with dignity in retirement. If we address these long-term challenges early, we can help ensure that Social Security's compact remains strong and progressive for future generations.

The President believes that we should come together now, in bipartisan fashion, to strengthen Social Security for the future. He calls on the Congress to follow the example of great party leaders in the past— such as Speaker Thomas P. O'Neill, Jr. and President Ronald Reagan—and work in a bipartisan fashion to strengthen Social Security for years to come. Guiding the Administration in these talks will be the President's six principles for reform:

- Any reform should strengthen Social Security for future generations and restore long-term solvency.

- The Administration will oppose any measures that privatize or weaken the Social Security system.

- While all measures to strengthen solvency should be on the table, the Administration will not accept an approach that slashes benefits for future generations.

- No current beneficiaries should see their basic benefits reduced.

- Reform should strengthen retirement security for the most vulnerable, including low-income seniors.

- Reform should maintain robust disability and survivors' benefits.

Creating a Government That is Effective and Efficient

Whether the Budget is in surplus or deficit, tolerating the waste of taxpayer dollars on programs that are outdated, ineffective, or duplicative is wrong. However, especially when we need to be tightening our belts, this inefficient and ineffective use of taxpayer dollars cannot be tolerated. Instead of accepting the status quo, the President has worked from day one to change how business is done in Washington. As part of its Accountable Government Initiative, the Administration has moved to cut wasteful spending and programs that do not work, strengthen and streamline what does work, modernize how Government operates to save money and improve performance, and make Government more open and responsive to the needs of the American people. To continue these efforts, the Administration proposes to:

Cut Improper Payments by $50 Billion. Each year, the Federal Government wastes billions of American taxpayers' dollars on improper payments to individuals, organizations, and contractors. These are payments made in the wrong amount, to the wrong person, or for the wrong reason. In the summer of 2010, the President set a goal of reducing improper payments by $50 billion between 2010 and 2012. The Administration has made meaningful progress toward achieving this goal. In 2010, the Government-wide improper payment rate declined to 5.49 percent, a decrease from the 5.65 percent reported in 2009. Agencies also reported that they recaptured $687 million in improper payments in 2010. This was the highest recapture amount reported in the seven years that agencies have reported payment recapture audit results, and puts the Administration on track to achieve its goal of recapturing at least $2 billion between 2010 and 2012. To continue efforts toward meeting the President's goal of reducing improper payments by $50 billion, the Administration will provide: $10 million for cutting-edge, anti-fraud technology in support of the Federal "Do Not Pay" list; $20 million to OMB's Partnership Fund for Program Integrity Innovation to support additional pilots for innovative Federal and State cooperation to improve the integrity, efficiency, and delivery, of assistance programs; and $16 billion in program integrity funding over five years to implement new activities to reduce payment error and enhance civil and criminal enforcement for Medicare, Medicaid, IRS, SSA, the Children's Health Insurance Program, and UI.

Dispose of Excess or Under-utilized Federal Property. Federal agencies operate and maintain more real property assets than are needed. This includes 14,000 buildings and structures currently designated as excess and 55,000 identified as under- or not-utilized. In June 2010, the President directed agencies to accelerate efforts to remove excess and surplus property for a savings of $8 billion by the end of 2012. To date, Federal agencies have identified $1.7 billion of the $3 billion in non-defense savings opportunities that the President has requested. The Department of Defense is also on track to achieve $5 billion in real property cost savings through the Base Realignment and Closure process in the same time period. Yet, there are significant barriers to disposing of these properties quickly and efficiently. Over the past 20 years, the Government has used a process to dispose of military real estate holdings, and the Administration will pursue a similar one to more quickly dispose of civilian properties and realize savings.

Reorganize Government. We live and do business in the information age, but the organization of our Government has not kept pace. Organizations have grown out of inertia, straying from their core mission. Duplicative efforts have sprung up that inhibit the efficacy of our efforts; for instance, there are 12 different agencies that deal with exports. Winning in the world economy will take a private sector that has at its disposal all it needs to compete with firms and workers from around the world. The President is committed to reorganizing the Federal Government so that it is better able to facilitate the needs of American companies, entrepreneurs, and innovators. In the coming months, the Administration will develop a proposal to merge, consolidate, and reorganize the Federal Government in a way that best serves the goal of a more competitive America.

Reduce Administrative Overhead. In its very first meeting, the President asked his Cabinet to find at least $100 million in collective cuts to their administrative budgets, separate and apart from those identified in the Budget. They responded by identifying 77 cost-saving measures, amounting to $243 million in savings through 2010. Building on that effort, the Budget includes agency-specific, targeted cuts to administrative expenses such as travel, printing, supplies, and advisory contract services. The total savings is estimated to be over $2 billion.

Move to Competitive Grant Programs Based on the Successful Race to the Top. Widely viewed as leveraging more change than any other competitive grant program in history, the Race to the Top (RTT) initiative spurred States across the Nation to bring together teachers, school leaders, and policymakers to achieve difficult yet fundamental improvements to our education system. By setting out clear standards that needed to be met to receive funds, RTT instigated change in States all across the Nation, including even those that ultimately did not receive RTT funds. Moreover, it got better results for taxpayer dollars. Using this is as a model, the RTT approach is being expanded to transform and improve lifelong learning from early childhood education through college and beyond; to allocate grants for transportation; to bring innovation to workforce training; and to encourage both commercial building efficiency and electric vehicle deployment.

Save Billions of Dollars in Contracting. After over a decade of dramatic contract growth, this Administration has turned the tide and reduced contract spending. In March 2009, the President charged Federal departments and agencies with saving $40 billion annually by 2011 through terminating unnecessary contracts, strengthening acquisition management, ending the over-reliance on contractors, and reducing the use of high-risk contracts. Just one year after the President directed his Administration to cut contract costs, agencies spent $80 billion less in 2010 than they would have spent had spending continued to grow at the same rate it did from 2000 to 2008. In fact, for the first time since 1997, overall contract spending declined. In 2012, the Administration will continue to work with agencies on furthering their contracting reform efforts, with a particular focus on service contracting, and continue to explore ways to gain additional savings. In addition, the Administration will require agencies to continue their efforts to reduce high-risk contracting for new contract awards. Finally, the Federal Government will continue to improve the integrity and transparency of the procurement system by giving the public access to the Federal Awardee Performance and Integrity Information System, a one-stop source for data on a contractor's track record and business ethics. For the first time, taxpayers will be able to see the information that contracting officers use to protect the public's resources from the waste and abuse of contractors who are proven bad actors.

Continue Efforts to Rigorously Evaluate Program Performance. In order to understand what works and what does not in the Federal Government and thus better use taxpayer dollars, rigorous evaluations of results are critical. Continuing its emphasis on rigorous program evaluations initiated in the 2011 Budget, the Administration is proposing new funding for 2012 for 19 evaluations that have the potential for strong study designs and that address important actionable questions or strengthen agency capacity to support such strong evaluations. These evaluations will assess, for example, the effectiveness of different strategies for improving college enrollment, persistence, and completion; capacity-building for the U.S. Agency for International Development to help make rigorous evaluation a more routine aspect of their international development assistance efforts; and an analysis of ways to make the Federal workforce more efficient. In addition, an inter-agency working group is promoting stronger evaluation across the Federal Government, and OMB is working with agencies to make information readily available online about all Federal evaluations that are planned or already underway.

Reform How Information Technology is Procured and Used. The Federal Government spends tens of billions of dollars on information technology (IT) each year, yet lags behind the private sector's gains in productivity and improvements in service. A number of structural barriers have prevented the public sector from achieving these gains and closing this technology gap. Through TechStat sessions (intensive reviews of IT projects) and an IT dashboard, which provides a clear window into Federal IT projects bolstering transparency and accountability, OMB has taken an intensive review of IT programs, eliminated ineffective projects, reconfigured others, and has begun targeting IT expenditures more carefully. Over the last 18 months this has reduced future budgeted costs by $3.1 billion. Looking ahead, the Administration will implement a detailed plan to reform Federal IT that focuses on turning around poorly performing IT projects, accelerating agency adoption of commodity IT to save billions in duplicative spending and underperforming projects, working with agencies to reduce the time and effort required to acquire IT, and holding providers of IT goods and services accountable for their performance. As part of this reform, the Administration is reducing the number of data centers by 40 percent by 2015 and moving to a "cloud first" policy of adopting light technologies and shared solutions. By consolidating data centers and leveraging cloud computing the Federal Government will reduce the Nation's data center footprint, strengthen security, and yield savings in the form of real estate, energy, equipment, and maintenance costs that can then be redirected toward the projects with the greatest benefit to the American taxpayer.

Continue to Drive Progress on Priority Goals. Government works better when leaders identify a limited number of clear, measurable, and ambitious goals and regularly review progress toward them. Building on lessons of the past, Federal agency leaders have identified a small number of ambitious, outcome-focused, near-term High Priority Performance Goals (Priority Goals) that did not require additional resources or legislative action to achieve within 24-months, but rather are hinged on strong execution. Each agency designated a senior accountable official, a "Goal Leader," responsible for driving progress on each goal and is working toward meeting them.

OMB, working with the Performance Improvement Council (PIC), has begun monitoring review processes at the 24 agencies with Priority Goals to identify best practices worth sharing and in the coming year agencies will conduct quarterly constructive data-driven reviews. In the coming year, OMB and the PIC will launch a community-of-practice to strengthen agency capacity to prepare for and run effective internal results reviews and help Federal agencies strengthen their analytic skills to extract insights and actionable lessons from the data they gather and integrate root cause analyses and hypothesis testing into program operations. Programs will be encouraged to search for research about effective interventions relevant to their work, and expected to find organizations with which to benchmark processes and outcomes. And OMB will begin immediate implementation of the newly enacted GPRA Modernization Act of 2010, a law that builds on the strengths of the Government Performance and Results Act of 1993 (GPRA) and addresses its weaknesses.