

## 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 \$1.2 trillion savings target for the Joint Select Committee on Deficit Reduction, repeals the Joint Committee reductions, and restores amounts that were reduced by the 2015 order; various initiatives to reduce improper payments; funding requested for disaster relief; reforms to reduce the Federal Government's real property inventory; limits on advance appropriations; structural reforms for surface transportation programs; maximum Pell Grant award funding; Postal Service reforms; and changes to the budgetary treatment of the International Monetary Fund quota. Second, the chapter describes the system of scoring under the Statutory Pay-As-You-Go Act

of 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 and by projecting the costs of certain major tax and spending policies currently in effect, even though those policies are scheduled to expire within the budget window. 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.<sup>1</sup>

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<sup>1</sup> This chapter typically contains a report which fulfills the requirement under section 254 of the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended, for OMB to issue a sequestration preview report for each fiscal year. The OMB Sequestration Preview Report for FY 2015 will be made available on the OMB website.

### I. BUDGET REFORM PROPOSALS

#### **Joint Committee Enforcement**

In August 2011, as part of the Budget Control Act (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 compel 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, reductions to the discretionary caps and a mandatory sequestration in 2014, and a mandatory sequestration in 2015 which is scheduled to take effect as of October 1 based on the order released with the 2015 Budget.

To date, legislation has been enacted to partially address the reductions required in each of these years. The American Taxpayer Relief Act of 2012 reduced the sequestration required of 2013 discretionary and manda-

tory spending by \$24 billion. In addition, the Bipartisan Budget Act of 2013 (BBA) decreased the reductions otherwise required to the 2014 discretionary caps by \$44.8 billion and set new discretionary caps in 2015 that are approximately \$18.5 billion more than CBO's estimate of the post-reduction discretionary spending limits in that year. The BBA also further specified that the discretionary spending limits would not be reduced in the sequestration preview report for fiscal year 2015. All of these revisions were paid for by enacting alternative deficit reduction.

In addition to the mandatory sequestration for 2015 noted above, damaging annual reductions of \$109 billion will continue to be required for each of fiscal years 2016 through 2021, unless the Congress enacts balanced deficit reduction legislation that replaces and repeals the Joint Committee reductions. Also, since the BBA extended the sequestration of mandatory spending into 2022 and 2023 at the percentage reduction that would apply for 2021, additional cuts will be required in those years. The reductions to discretionary spending for fiscal years 2016 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 for fiscal years 2015 through 2023, which is triggered by the transmittal of the President's Budget and takes effect on the first day of the fiscal year.<sup>2</sup>

The President has emphasized that these reductions will be harmful to national security, domestic investments, and core Government functions. He has been clear that he is willing to make tough choices to reach an agreement to replace these reductions. The BBA took an important first step 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 2015 Budget builds upon that progress by including a separate, fully paid-for Opportunity, Growth, and Security Initiative, split evenly between defense and non-defense, to make additional discretionary investments in economic growth and security. The President will work with the Congress to enact deficit reduction sufficient to replace and repeal the Joint Committee reductions.

### Program Integrity Funding

Critical programs such as Social Security, Medicare, and Medicaid, should be run efficiently and effectively. Still, the Government made an estimated \$106 billion in improper payments last year. Although this amount reflects an improvement in both the improper payment amount and the improper payment rate (which was 3.53 percent in 2013), this level of error is unaffordable and unacceptable. 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 admin-

istrative resources can significantly decrease the rate of improper payments and recoup many times their initial investment. For every \$1 spent by the Social Security Administration (SSA) on a disability review, \$9 is saved in avoided benefit payments. Similarly, for every additional \$1 spent on Health Care Fraud and Abuse Control (HCFAC) program integrity efforts, CMS actuaries conservatively estimate approximately \$1.50 is saved or averted, and the Internal Revenue Service (IRS) enforcement activities recoup roughly \$6 for every \$1 spent.

**Enacted Adjustments Pursuant to BBEDCA Converted to Mandatory Funding.**—BBEDCA, as amended, 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, as amended, provided for adjustments to the discretionary spending limits for additional funding for specific program integrity activities at SSA to reduce improper payments in the Social Security program 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 base levels. 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.

Despite enactment of these multi-year discretionary cap adjustments, annual appropriations bills have not always provided the full amount of program integrity funding authorized in BBEDCA, as amended. The Consolidated Appropriations Act, 2014 (P.L. 113-76) fully funded the adjustment to the discretionary spending limit for SSA for the first time since the cap adjustment was available in 2012, but the adjustment for HCFAC for the Medicare and Medicaid programs has never been appropriated. Tens of billions of dollars in deficit savings over the next ten years from curtailing improper payments will not be realized if the administrative expenses for program integrity envisioned by BBEDCA, as amended, are not provided in each year. To ensure these important program integrity investments are made, the Budget is proposing to repeal the discretionary cap adjustments beginning in 2016 for SSA and 2015 for HCFAC and instead provide a dedicated, dependable source of mandatory funding that will ensure SSA, the Department of Health and Human Services (HHS) and the Department of Justice (DOJ) have the resources that they need to conduct necessary program integrity activities and make certain that the right people receive the right payment for the right reason at the right time. Providing mandatory funding to SSA and HCFAC will also avoid delays in annual appropriations that make it difficult for the agencies to execute their budget plans and achieve targeted results in each year.

Because the SSA adjustment was fully funded for 2014 and therefore may again be funded in 2015, both the base SSA program integrity funding (\$273 million)

<sup>2</sup> Public Law 113-82, commonly referred to as the Military Retired Pay Restoration Act and signed into law on February 15, 2014, extended the sequestration of mandatory spending into 2024. The estimates in the 2015 Budget do not reflect the effects of this Act due to the late date of enactment.

and the SSA cap adjustment (\$1,123 million) are proposed to be funded through discretionary appropriations in 2015. However, once that transition year has passed, to maximize the potential savings, the Budget proposes only mandatory funding for SSA program integrity starting in 2016. For HCFAC for 2015, the Budget proposes to provide the base funding that was provided in 2014 (\$294 million for HHS and DOJ) through discretionary appropriations, plus an additional \$25 million for the Centers for Medicare & Medicaid Services (CMS) to monitor and prevent fraud, waste, and abuse in the Health Insurance Marketplace. After 2015, no discretionary funding is being proposed for this purpose for HCFAC. In addition, the Budget proposes an annual reduction to the discretionary spending limits in section 251(c) of BBEDCA, as amended, beginning in 2016 to offset the cost of shifting the base funding from discretionary to mandatory. This proposal, including the more stable mandatory program integrity funding, will produce new net deficit savings of almost \$37.4 billion over 10 years.

**Social Security Administration Continuing Disability Reviews and Redeterminations of Eligibility.**—For the Social Security Administration, the Budget's proposed \$1,396 million in discretionary funding in 2015 will allow SSA to conduct at least 888,000 Continuing Disability Reviews (CDRs) and at least 2.6 million Supplemental Security Income (SSI) redeterminations of eligibility. CDRs determine whether an individual continues to qualify for Disability Insurance (DI) or SSI. The mandatory funding provided for the SSA will enable the agency to work down a backlog of CDRs. As a result of the discretionary funding requested in 2015 and the increased mandatory funding requested in 2016 through 2024, SSA would recoup almost \$48.2 billion in gross savings in the DI and SSI programs, with additional savings after the 10-year period, according to estimates of SSA's Office of the Actuary. Taking into account the \$12.1 billion cost of the increased funding, this would produce new net deficit savings of \$34.9 billion in the 10-year window, and additional savings in the out-years. These costs and savings are reflected in Table 11-1. The cost of shifting the current SSA base funding of \$273 million from discretionary to mandatory in 2016 through 2024 is not reflected in the new net deficit savings because, as noted above, it is being offset with an annual reduction to the discretionary spending limits in section 251(c) of BBEDCA, as amended if the mandatory funding proposal is enacted.

SSA is required by law to conduct CDRs for all beneficiaries who are receiving DI benefits, 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 2014, the base amounts, as well as an additional \$924 million discretionary cap adjustment pursuant to section 251(b)(2)(B) of BBEDCA, as amended, were enacted in the annual appropriations bill. The mandatory savings from the base funding in every year and any enacted discretionary cap adjustment funding in 2014 are

included in the BBEDCA baseline because the baseline assumes the likely frequency of program integrity activities, given the current likely funding levels. The Budget shows the savings that would result from the increase in CDRs and redeterminations made possible by the discretionary funding requested in 2015 and the increased mandatory funding requested in 2016 through 2024.

As stated above, the return on investment (ROI) for CDRs is approximately 9 to 1 in lifetime program savings. The ROI for redeterminations is approximately 4 to 1. As in prior years, the ROI for CDRs is calculated based on the direct marginal costs of processing additional CDRs. In 2014, the ROI for CDRs is temporarily lower because the funding provided through the appropriations act was directed at covering additional overhead costs as well as the direct CDR activities. The Budget proposes to return to funding only the direct marginal costs of CDRs in 2015 and beyond. The savings from one year of program integrity activities are realized over multiple years because some CDRs find that beneficiaries have medically improved and are capable of working, which may mean that they are no longer eligible to receive DI or SSI benefits. Redeterminations focus on an individual's eligibility for the means-tested SSI program and generally 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 2015 or increased mandatory funding in 2016 through 2024. 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 lifetime savings per dollar spent on CDRs and 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, many SSI beneficiaries, who would otherwise lose Medicaid coverage due to a CDR or redetermination, would continue to be covered. In addition, some of these individuals will be eligible for the Medicaid ACA enhanced Federal matching rate, resulting in higher Federal Medicaid costs.

**Health Care Fraud and Abuse Program.**—The proposed additional mandatory funding of \$378 million (in addition to the discretionary base funding of \$294 million and \$25 million for program integrity activities in the Health Insurance Marketplace) for HCFAC activities in 2015 is designed to reduce the Medicare improper payment rate, support the Health Care Fraud Prevention & Enforcement Action Team (HEAT) initiative, and to reduce Medicaid improper payment rates. The increased mandatory funding 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

**Table 11-1. PROPOSAL TO SHIFT TO MANDATORY FUNDING FOR ENACTED CAP ADJUSTMENTS, INCLUDING MANDATORY SAVINGS**  
(Outlays in millions of dollars)

|  | 2015  | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024   | 2015-2024 Total |
|--|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-----------------|
| <b>SSA Program Integrity</b>                       |       |        |        |        |        |        |        |        |        |        |                 |
| Discretionary Costs <sup>1</sup> .....             | 1,123 |        |        |        |        |        |        |        |        |        | 1,123           |
| Mandatory Costs <sup>1</sup> .....                 |       | 1,477  | 1,527  | 1,437  | 1,352  | 1,270  | 1,270  | 1,270  | 1,270  | 1,270  | 12,143          |
| Mandatory Savings <sup>2</sup> .....               | -214  | -2,164 | -3,436 | -4,079 | -4,939 | -5,569 | -6,159 | -6,977 | -7,221 | -7,393 | -48,151         |
| Net Savings .....                                  | 909   | -687   | -1,909 | -2,642 | -3,587 | -4,299 | -4,889 | -5,707 | -5,951 | -6,123 | -34,885         |
| <b>Health Care Fraud and Abuse Control Program</b> |       |        |        |        |        |        |        |        |        |        |                 |
| Mandatory Costs <sup>1</sup> .....                 | 378   | 412    | 431    | 451    | 471    | 492    | 513    | 535    | 558    | 582    | 4,827           |
| Mandatory Savings <sup>3</sup> .....               | -552  | -610   | -646   | -684   | -725   | -758   | -791   | -825   | -861   | -899   | -7,351          |
| Net Savings .....                                  | -174  | -198   | -215   | -233   | -254   | -266   | -278   | -290   | -303   | -317   | -2,524          |

<sup>1</sup> The cost of shifting the current SSA and HCFAC base funding (\$273 million and \$294 million, respectively) from discretionary to mandatory is not reflected above in 2016 through 2024 because it is being 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 (BBEDCA), as amended. For 2014, for both SSA and HCFAC, the base amounts were enacted in the annual appropriations bill and, for SSA, an additional \$924 million was provided as a discretionary cap adjustment pursuant to section 251(b)(2)(B) of BBEDCA. For 2015, the Budget continues to request the SSA and HCFAC base funding through discretionary appropriations. In addition, the Budget also requests that a \$1,123 million discretionary cap adjustment for SSA is funded through discretionary appropriations in 2015. The mandatory savings from the base funding in every year and any enacted discretionary cap adjustment funding continues to be included in the BBEDCA baseline.

<sup>2</sup> This is based on SSA's Office of the Actuary estimates of savings. In the first year, there is no net savings. This is due to the fact that redeterminations of eligibility can uncover underpayment errors as well as overpayment errors and corrections for underpayments are realized more quickly than corrections for overpayments. The 10-year savings from the 2015 cap adjustment costs that will continue to be funded as discretionary are estimated to be \$8.6 billion.

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

Human Services Office of Inspector General, and DOJ. Over 2015 through 2024, as reflected in Table 11-1, this \$4,827 million increase in net HCFAC mandatory funding will generate approximately \$7,351 million in savings to Medicare and Medicaid, for new net deficit reduction of \$2,524 million over the 10-year period, reflecting prevention and recougment of improper payments made to providers, as well as recoveries related to civil and criminal penalties. The cost of shifting the current HCFAC base funding of \$294 million from discretionary to mandatory in 2016 through 2024 is not reflected in the new net deficit savings because, as noted above, it is being offset with an annual reduction to the discretionary spending limits in section 251(c) of BBEDCA, as amended. A portion of the base amounts for 2014 was enacted in the annual appropriations bill. The mandatory savings from that partial base funding, assuming that amount is to continue in future years, are included in the BBEDCA baseline. Since the 2014 appropriations bill did not fully fund the base or the cap adjustment for 2014 for HCFAC, \$450 million in deficit savings that was assumed to result from the enactment of the cap adjustments in BBEDCA will not materialize.

**Proposed Adjustments to BBEDCA Discretionary Spending Limits.**—The Administration also proposes to amend BBEDCA to enact adjustments to the discretionary spending limits at the IRS and Treasury's Alcohol and Tobacco Tax and Trade Bureau (TTB) for tax code enforcement and the Department of Labor (DOL) to reduce improper payments in the Unemployment Insurance (UI) program. As shown in Table 11-2, the proposed adjustments are estimated to result in more than \$53.1 billion in lower spending and additional tax revenue over the next 10 years, with further savings after the 10-year period. Both the base level of funding and the additional

funding that would trigger cap adjustments are also listed in Table 1-2.

**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 \$480 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 \$55 billion in 2015 in direct enforcement revenue. The IRS estimates that the proposed new 2015 enforcement initiatives will yield an additional \$370 million in revenue from the work done in 2015. Further, once the new staff are trained and become fully operational in 2017, the extra revenue brought in by the work done in each year will rise to more than \$2.1 billion, or roughly \$6 in additional revenue for every \$1 in IRS expenses. New investments are also proposed beyond 2015, with cap adjustments in fiscal years 2016 through 2019 that include about \$350 million in new revenue-producing enforcement initiatives each year. The activities and new initiatives funded out of the cap adjustments through 2024 will generate \$52 billion in additional revenue over 10 years and will cost \$17.1 billion for an estimated net savings of \$34.9 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 well over \$2 trillion in taxes paid each year without direct enforcement measures.

**Unemployment Insurance.**—The Budget proposes a series of cap adjustments 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 an \$80 million Reemployment and Eligibility Assessment (REA) initiative, 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 the REA initiative to include 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 focus will be on providing this assistance to the top quarter of UI claimants identified as most likely to exhaust their UI benefits as well as all newly separated veterans claiming unemployment compensation for ex-servicemembers. The proposed expansion to the base effort to \$133 million, if continued through 2024, would result in savings in UI benefit payments of an estimated \$3,738 million. These benefit savings would allow States to reduce their UI taxes by \$981 million (net of the income tax offset), 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

**Table 11-2. PROPOSALS FOR DISCRETIONARY PROGRAM INTEGRITY BASE FUNDING AND CAP ADJUSTMENTS, INCLUDING MANDATORY AND RECEIPTS SAVINGS**  
(Budget authority in millions of dollars)

|  | 2015<br>Proposed | 2016<br>Proposed | 2017<br>Proposed | 2018<br>Proposed | 2019<br>Proposed | 2020<br>Proposed | 2021<br>Proposed | 2022<br>Proposed | 2023<br>Proposed | 2024<br>Proposed | 2015–<br>2024<br>Total |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------------|
| <b>IRS Tax Enforcement</b>   |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                        |
| <b>Proposed Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as Amended:</b> |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                        |
| Enforcement Base. ....   | 9,445            | 9,745            | 10,038           | 10,341           | 10,652           | 10,972           | 11,303           | 11,641           | 11,992           | 12,353           |                        |
| <b>Cap Adjustments:</b>  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                        |
| BA .....   | 480              | 857              | 1,222            | 1,604            | 1,997            | 2,066            | 2,116            | 2,179            | 2,243            | 2,310            | 17,074                 |
| Outlays .....  | 451              | 834              | 1,200            | 1,581            | 1,973            | 2,062            | 2,113            | 2,175            | 2,239            | 2,306            | 16,935                 |
| <b>Receipt Savings from Discretionary Program Integrity Base Funding and Cap Adjustments:<sup>1</sup></b>          |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                        |
| Enforcement Base <sup>2</sup> .....  | -55,000          | -55,000          | -55,000          | -55,000          | -55,000          | -55,000          | -55,000          | -55,000          | -55,000          | -55,000          | -550,000               |
| Cap Adjustment <sup>3</sup> .....  | -370             | -1,265           | -2,584           | -3,978           | -5,426           | -6,620           | -7,431           | -7,850           | -8,137           | -8,343           | -52,004                |
| <b>Unemployment Insurance Improper Payments</b>  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                        |
| <b>Proposed Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, as Amended:</b> |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                        |
| Enforcement Base. ....   | 133              | 133              | 133              | 133              | 133              | 133              | 133              | 133              | 133              | 133              |                        |
| <b>Cap Adjustments:</b>  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                        |
| BA .....   | 25               | 30               | 35               | 40               | 45               | 50               | 55               | 60               | 65               | 70               | 475                    |
| Outlays .....  | 25               | 30               | 35               | 40               | 45               | 50               | 55               | 60               | 65               | 70               | 475                    |
| <b>Mandatory Savings from Discretionary Program Integrity Base Funding and Cap Adjustments:<sup>4</sup></b>        |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                        |
| Enforcement Base .....   | -146             | -353             | -363             | -374             | -385             | -395             | -411             | -427             | -437             | -447             | -3,738                 |
| Cap Adjustment .....   | -27              | -80              | -96              | -113             | -130             | -149             | -170             | -192             | -213             | -236             | -1,406                 |

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

<sup>2</sup> No official estimate for FY 2015 enforcement revenue has been produced, so this figure is an approximation and included only for illustrative purposes.

<sup>3</sup> The Internal Revenue Service (IRS) cap adjustment funds cost 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 \$52 billion in savings over ten years. Aside from direct enforcement revenue, the deterrence impact of these activities suggests the potential for even greater savings.

<sup>4</sup> 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 estimated revenue loss from the cap adjustment is \$320 million, net of the offset.

State UI programs, although durations are currently longer in response to the elevated unemployment rate. The proposed cap adjustments would begin at \$25 million in 2015 and total \$475 million through 2024, providing total gross outlay savings estimated at \$1.406 billion. These outlay savings from the cap adjustments would result in some States reducing their UI taxes, which would result in an estimated revenue loss of \$320 million (net of the income tax offset). Net savings for the proposal, including the cost of the cap adjustments, the mandatory outlay savings, and the revenue declines, totals \$611 million.

**Partnership Fund for Program Integrity Innovation.**—Funded from fiscal year 2010 through 2013, the Partnership Fund invested over \$29 million in eleven pilot projects, which are estimated to lead to total savings of up to \$200 million or more annually if the pilots are taken to scale. 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.

Early pilots results include:

- The Department of Labor conducted a pilot simulation with three States to test how access to data from financial institutions could help to detect overpayments in the Unemployment Insurance program. For the 15-month period, the pilot analysis found approximately \$65 million in potential overpayments due to 27,562 potential instances of unreported earnings that the State may not have found otherwise using currently available data. DOL is now partnering with additional States to test the pilot approach in actual practice;
- CMS and States worked to better identify provider fraud and share fraud information through automated risk assessment tools using integrated data from State Medicaid programs and the Federal Medicare program, finding that collaborative data analysis could help to identify potential fraud. While this approach holds promise, the pilot has not yet been able to quantify potential savings; and
- CMS, working with States, issued a series of challenges to produce a prototype shared services solution for States to verify Medicaid provider eligibility. The prototype solution is now being tested in a live environment by one State. CMS estimated the cost to procure the crowd-sourced solution as approximately one-fifth the cost of traditional procurement methods, exclusive of ongoing support costs.

**Mandatory Program Integrity Initiatives.**—Table 11-3 lays out the mandatory and receipt savings from other program integrity initiatives that are included in the 2015 Budget, beyond the expansion in resources resulting from the increases in administrative funding discussed above. These savings total almost \$8.4 billion over ten years. Almost 30 percent of these savings would be scored as PAYGO offsets because the legislation would authorize

agencies to use new methods to reduce overpayments and combat fraud. 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 save approximately \$1.1 billion over 10 years.

**Unemployment Insurance Integrity.**—The Budget includes two proposals that would implement improved integrity in the Unemployment Insurance program and would result in \$232 million in PAYGO savings over ten years and allow States to reduce their unemployment taxes by \$58 million:

- **Electronic Transmission of Unemployment Compensation Information.**—The Budget proposes to require all State agencies to use a system designated by the Secretary of Labor to obtain information from employers relating to UI claims, which could be the existing State Information Data Exchange System (SIDES) or else a successor system. The Department of Labor's SIDES system is designed to help employers more quickly provide to States the information necessary to determine a claimant's eligibility by providing a secure electronic data exchange between States and employers or their third party administrators. SIDES is currently used by about 35 States. The improvements in speed and accuracy resulting from use of such a system will help avoid overpayments or underpayments, and provide for more efficient and effective administration of the UI program.
- **Cross-Match Prisoner Data to Reduce Improper Payments.**—The Budget proposes to expand State Unemployment Insurance agency use of the Social Security Administration's (SSA's) Prisoner Update Processing System (PUPS), which contains Federal,

State, and local prisoner data. Recent legislation has expanded the information the prisons are required to report to SSA to include release dates, making the system more valuable to users. The PUPS data will help prevent prisoners from illegally receiving unemployment compensation.

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

- **Increase levy authority for payments to Medicare providers with delinquent tax debt.**—The Budget proposes a change to the Department of the Treasury's debt collection procedures that will increase the amount of delinquent taxes collected from Medicare providers. Through the Federal Payment Levy Program, Treasury deducts (levies) a portion of a Government payment to an individual or business in order to collect unpaid taxes. Pursuant to the Medicare Improvements for Patients and Providers Act of 2008, Medicare provider and supplier payments are included in the Federal Payment Levy Program, whereby Treasury is authorized to continuously levy up to 15 percent of a payment to a Medicare provider in order to collect delinquent tax debt. The Budget proposal will allow Treasury to levy up to 100 percent of a payment to a Medicare provider to collect unpaid taxes. This proposal would result in PAYGO savings of \$743 million over ten years.
- **Provide authority to contact delinquent debtors via their cell phones.**—The Budget proposes to clarify that the use of automatic dialing systems and prerecorded voice messages is allowed when contacting wireless phones in the collection of debt owed to or granted by the United States. In this time of fiscal constraint, the Administration believes that the Federal Government should ensure that all debt owed to the United States is collected as quickly and efficiently as possible and this provision could result in millions of defaulted debt being collected. While protections against abuse and harassment are appropriate, changing technology should not absolve these citizens from paying back the debt they owe their fellow citizens. The proposal would also allow the Federal Communications Commission to implement rules to protect consumers from being harassed and contacted unreasonably. This proposal would result in PAYGO savings of \$120 million over 10 years.
- **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 \$30 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 \$131.6 million in garnished wages (as of April 30, 2013) on behalf of Federal agencies. This proposal would result in estimated savings of \$320 million over 10 years in commercial debts.

**Improve Collection of Pension Information from States and Localities.**—The Budget re-propsoses 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 non-covered employment, Windfall Elimination Provision (WEP), and Government Pension Offset (GPO). The proposal would require State and local governments to provide information on their noncovered pension payments to SSA so that the agency can apply the WEP and GPO adjustments. Under current law, the WEP and GPO adjustments are

**Table 11-3. MANDATORY AND RECEIPT SAVINGS FROM OTHER PROGRAM INTEGRITY INITIATIVES**  
(Receipts and outlays in millions of dollars)

|   | 2015       | 2016        | 2017        | 2018        | 2019        | 2020          | 2021          | 2022          | 2023          | 2024          | 10-year total |
|---|------------|-------------|-------------|-------------|-------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Department of Health and Human Services:</b>   |            |             |             |             |             |               |               |               |               |               |               |
| Cut Waste, Fraud, and Abuse in Medicare and Medicaid <sup>1</sup> .....   | 6          | -43         | -63         | -72         | -92         | -91           | -91           | -100          | -99           | -99           | -744          |
| Cut Waste, Fraud, and Abuse in Medicare and Medicaid (non-PAYGO) <sup>1</sup> .....   | -6         | -15         | -23         | -34         | -43         | -43           | -44           | -45           | -47           | -48           | -348          |
| <b>Department of Labor:</b>   |            |             |             |             |             |               |               |               |               |               |               |
| Implement Unemployment Insurance Integrity .....  | -5         | -9          | -14         | -15         | -15         | -16           | -16           | -17           | -18           | -18           | -143          |
| Implement Unemployment Insurance Integrity (non-PAYGO receipt effect) .....   | .....      | .....       | .....       | 2           | 3           | 5             | 5             | 7             | 7             | 8             | 37            |
| Cross-Match Prisoner Data for Improper Payments .....   | -4         | -8          | -9          | -9          | -9          | -9            | -10           | -10           | -10           | -11           | -89           |
| Cross-Match Prisoner Data for Improper Payments (non-PAYGO receipt effect) .....  | .....      | .....       | .....       | 1           | 2           | 2             | 3             | 4             | 4             | 5             | 21            |
| <b>Department of the Treasury:</b>  |            |             |             |             |             |               |               |               |               |               |               |
| Increase levy authority for payments to Medicare providers with delinquent tax debt (receipt effect) .....  | -50        | -71         | -74         | -76         | -76         | -77           | -78           | -80           | -80           | -81           | -743          |
| Provide authority to contact delinquent debtors via their cell phones. ....   | -12        | -12         | -12         | -12         | -12         | -12           | -12           | -12           | -12           | -12           | -120          |
| 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 ..... | -3         | -3          | -3          | -3          | -3          | -3            | -3            | -3            | -3            | -3            | -30           |
| Increase delinquent Federal non-tax debt collection .....   | -32        | -32         | -32         | -32         | -32         | -32           | -32           | -32           | -32           | -32           | -320          |
| <b>Social Security Administration:</b>  |            |             |             |             |             |               |               |               |               |               |               |
| Improve Collection of Pension Information from States and Localities .....  | 70         | .....       | .....       | .....       | .....       | .....         | .....         | .....         | .....         | .....         | 70            |
| Improve Collection of Pension Information from States and Localities (non-PAYGO) .....  | -52        | 28          | 24          | -307        | -675        | -907          | -986          | -935          | -924          | -905          | -5,639        |
| Reconcile OPM/SSA retroactive disability payments .....   | 6          | .....       | .....       | .....       | .....       | .....         | .....         | .....         | .....         | .....         | 6             |
| <b>Office of Personnel Management:</b>  |            |             |             |             |             |               |               |               |               |               |               |
| Reconcile OPM/SSA retroactive disability payments .....   | .....      | .....       | -38         | -41         | -41         | -41           | -41           | -41           | -41           | -41           | -325          |
| <b>Total, Mandatory and Receipt Savings</b> .....   | <b>-82</b> | <b>-165</b> | <b>-244</b> | <b>-598</b> | <b>-993</b> | <b>-1,224</b> | <b>-1,305</b> | <b>-1,264</b> | <b>-1,255</b> | <b>-1,237</b> | <b>-8,367</b> |
| <b>PAYGO Savings</b> .....  | <b>-24</b> | <b>-178</b> | <b>-245</b> | <b>-260</b> | <b>-280</b> | <b>-281</b>   | <b>-283</b>   | <b>-295</b>   | <b>-295</b>   | <b>-297</b>   | <b>-2,438</b> |
| <b>Non-PAYGO Savings</b> .....  | <b>-58</b> | <b>13</b>   | <b>1</b>    | <b>-338</b> | <b>-713</b> | <b>-943</b>   | <b>-1,022</b> | <b>-969</b>   | <b>-960</b>   | <b>-940</b>   | <b>-5,929</b> |

<sup>1</sup> Savings estimates may not include all interactions.

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 more than \$5.6 billion over 10 years, which would be scored as non-PAYGO savings because the program is off-budget.

**Coordination of Disability Benefit Payments between the Office of Personnel Management (OPM) and SSA through Automation.**—The Budget proposes legislation to provide SSA with authority to automate coordination of disability benefit payments with OPM, which would substantially reduce OPM overpayments. This proposal would result in PAYGO savings of \$325 million over 10 years. In addition, SSA is provided \$6 million in 2015 to administer the coordination effort.

#### Other Program Integrity Initiatives

**Leveraging Technology to Reduce Improper Payments.**—Under this Administration, the Federal Government has focused on increased use of technology to address improper payments. First, under EO 13520, 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. Second, the 2012 Budget re-

quested, and the Consolidated Appropriations Act, 2012 appropriated \$10 million to support expansion of the “Do Not Pay” list—created by a Presidential memorandum issued June 18, 2010—and to add forensic fraud detection capabilities to the basic “Do Not Pay” portal. Specifically, the funding helped to expand the number of databases and infrastructure of the “Do Not Pay” list, to procure the detection technology and hire staff to support an operations center to analyze fraud patterns utilizing public and private-sector information, and to refer potential issues to agency management and the relevant agency Inspector General. Third, to enhance data sharing, the President issued a memorandum that directed that a single portal be established through which agencies could check multiple eligibility databases before making an award or payment, and in November 2010, OMB released a memorandum that encouraged agencies to share high-value data that can be used to support important Administration initiatives, including preventing improper payments.

When the President signed into law the Improper Payments and Elimination and Recovery Improvement Act of 2012 (IPERIA; P.L. 112-248), he reinforced the Administration’s “Do Not Pay Initiative” already underway. Spearheaded by the Department of the Treasury, the Do Not Pay system contains an online portal that enables Federal Government officials to access information from

multiple data sources. In addition, the enactment of the Bipartisan Budget Act of 2013 (P.L. 113-67) expanded the Do Not Pay initiative to include the information provided to the Prisoner Updates Processing System (PUPS) to prevent improper payment of Federal funds to incarcerated individuals. Do Not Pay will also incorporate other agency initiatives and activities that best promote program integrity based on program authorities, needs, and benefits to the taxpayer. As of June 1, 2013, agencies have been checking all payments and awards through a Do Not Pay working system as appropriate.

***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. In particular, on August 16, 2013, OMB issued Memorandum M-13-20, Protecting Privacy while Reducing Improper Payments with the Do Not Pay Initiative, which updated guidance for Federal agencies, and enabled Treasury to publish a System of Records Notification, in accordance with the Privacy Act of 1974, as amended, for the Do Not Pay system.

The Budget proposes to further reduce improper payments by improved sharing and use of death data by government agencies. The proposal provides the Treasury Do Not Pay system access to the Social Security Administration full Death Master File database, which includes any information received from a State or any other source on reports of the deceased to prevent, identify, or recover all improper payments.

***Social Security Workers' Compensation Enforcement Provision.***—The Budget reproposes a proposal from the 2012 and 2013 Budgets to improve the collection of data on the receipt of Workers' Compensation benefits. Similar to WEP/GPO (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.

***Apply the Treasury Offset Program (TOP) to Retroactive Social Security Disability Insurance (DI) Payments.***—The Budget includes an administrative proposal to apply TOP to retroactive DI payments, consistent with existing offset rules. This action will provide increased debt collections while still providing beneficiaries with a base level of income support, generating savings assumed in the baseline of \$900 million over 10 years. Currently TOP is applied to ongoing DI monthly benefits but not to retroactive DI payments.

***Reduce Costs for States Collecting Delinquent Income Tax Obligations.***—Under current law, the

Bureau of the Fiscal Service may offset Federal tax refunds to collect delinquent State income tax obligations only after the State sends the delinquent debtor a notice by certified mail. The statutory notice requirements for Federal tax refund offset for all other types of debts, including Federal non-tax, child support, and State unemployment insurance compensation debts, are silent as to the notice delivery method. Federal tax refund offset regulations for all debts other than state income tax obligations require Federal and State creditor agencies to send notices by regular first class mail. Similarly, notice requirements for other debt collection actions, including administrative wage garnishment, do not require delivery by certified mail. This proposal would allow the Fiscal Service to amend its regulations to permit States to send notices for State income tax obligations by first class mail, saving States certified mail costs and standardizing notice procedures across debt types. While no Federal savings would be realized from this proposal, States would save an estimated \$143 million over 10 years.

***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 Statutory Pay-As-You-Go Act of 2010. 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, as amended, 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 ten years, excluding the highest and lowest years. The ceiling for each year's adjustment (as determined by the ten 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 2024.

As required by law, OMB included in its Sequestration Update Report for FY 2014 a preview estimate of the 2014 adjustment for disaster relief. The ceiling for the disaster relief adjustment in 2014 was calculated to be \$12,143 million. Exactly \$5,626 million was included for 2014 for the Federal Emergency Management Agency's (FEMA's) Disaster Relief Fund (DRF) in the Consolidated Appropriations Act, 2014 (P.L. 113-76). OMB must include in its Sequestration Update Report for FY 2015 a preview estimate of the ceiling on the adjustment for disaster relief funding for fiscal year 2015. This estimate will contain an average funding calculation that incorporates seven years (2005 through 2011) using the definition of disaster relief from OMB's September 1, 2011 report and three years using the funding the Congress designated in 2012 through 2014 for disaster relief pursuant to BBEDCA, as amended, excluding the highest and lowest years. The amounts enacted as appropriations for disaster relief in 2014 are \$6,517 million below the preview adjustment estimate of \$12,143 million. If no further appropriations are enacted in 2014 that are designated as disaster relief, OMB will add the \$6,517 million underage to OMB's preview estimate of the 2015 adjustment in its August 2014 Sequestration Update Report for FY 2015.

At this time, the Administration is requesting \$6,593 million in funding in two accounts to be designated for disaster relief by the Congress: more than \$6.4 billion in FEMA's DRF to cover the costs of Presidential-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 2015, and \$155 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 2015 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 2014 supplemental appropriations (designated as either disaster relief or emergency requirements pursuant to BBEDCA, as amended) 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 both the budget year, to capture unanticipated disasters, and in each of the outyears. 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 amends section 251(b)(2) of BBEDCA to add an adjustment to the discretionary spending limits for wildfire suppression operations. The adjustment allows 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 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 - and will in the future - fully fund wildfire suppression operations. 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. That is why the Administration is including a wildfire suppression operations cap adjustment as a proposal in this Budget.

The Budget assumes that the cap adjustment will begin in 2015 and will remain in effect through 2024. 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 2015 that increases slowly to \$2.7 billion by 2021 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 2015 (\$954 million in the Department of Agriculture and \$240 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.

## Civilian Property Realignment

The Federal Government owns and leases over 1.1 million individual properties. Within this large inventory are significant opportunities to be more efficient, reduce holdings, and save money. There are hundreds of underperforming properties that could be consolidated or sold, thereby eliminating ongoing Federal maintenance costs and reducing substantial energy consumption. However, progress is often blocked for different reasons: the variety of stakeholders; the numerous government processes that extend the timeline for disposing a property; and the financial disincentives for agencies to dispose of property, where they have no ability to recoup the significant up-front cost of preparing properties for sale.

This proposal would create an independent Civilian Property Realignment Board of private and public sector leaders to overcome the obstacles to reducing the Federal real estate inventory through sales and consolidations. The Board would forward to the Congress bundled recommendations of properties or actions to better align the Federal Government's real property inventory with our core missions and programs. The Board would have to submit bundled recommendations to the Congress to sell unneeded high-value assets and consolidate other assets in the real estate inventory. Unless the Congress disapproves the package as a whole, the Board's recommendations would become effective.

Under the proposal, agencies would use streamlined authorities to dispose of property. The Board would utilize a revolving fund, supported by a portion of real estate sales, to assist agencies in implementing further consolidations and sales to further reduce operating costs. In creating its recommendations, the Board would have to balance a variety of factors, including economic development opportunities, community interests, and homelessness assistance, to direct properties toward their highest and best use. The Board's actions would result in reduced operating costs and at least \$2 billion in net proceeds directed to the Treasury General Fund for deficit reduction.

## 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, as amended. 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, more than \$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 up-front a portion of the total budget authority limits under the discretionary caps in BBEDCA, as amended, in those years, congressional budget resolutions since the 2001 resolution 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 \$28,839 million in advance appropriations for 2016 and freezes them at this level in subsequent years. (One exception is the elimination of 2017 through 2024 advances for the Department of Labor’s dislocated worker program, because the Budget proposes a New Career Pathways program that would replace it.) In this way, the Budget does not employ this potential gimmick. Moreover, the Administration supports limiting advance appropriations to the proposed level for 2015, similar to the limits enacted as sections 112 and 115(c) of the Bipartisan Budget Act of 2013 (P.L. 113-67) for the Senate and the House, respectively. Those limits apply only to the accounts explicitly specified in a statement submitted to the Congressional Record by the Chairman of the Committee on the Budget in each House.

In order to account for the Administration’s Elementary and Secondary Education Act reauthorization proposal, the Budget eliminates the \$1,681 million advance appropriation that was previously in the School Improvement account (renamed the Education Improvement account) and replaces it with corresponding increases to advance appropriations in the accounts for Education for the Disadvantaged (\$841 million, renamed Accelerating Achievement and Ensuring Equity) and Special Education (\$841 million). Total advance appropriations for 2014 in the Department of Education remain unchanged at \$22,596 million.

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 advance appropriations funding level for the veterans medical care accounts (comprising Medical Services, Medical Support and Compliance, and Medical Facilities) is largely determined by the Enrollee Health Care Projection Model of the Department of Veterans Affairs. This model covers more than 90 percent of the total medical care funding requirement. The remaining funding requirement is estimated based on other models and assumptions for services such as readjustment counseling and initiatives. The Department of Veterans Affairs has included detailed information in its Congressional Budget Justifications about the overall 2016 VA medical care funding requirement.

For a detailed table of accounts that have received discretionary and mandatory advance appropriations since 2013 or for which the Budget requests advance appropriations for 2016 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. However, HTF collections are no longer adequate to support current law spending levels.

The National Commission on Fiscal Responsibility and Reform (the “Fiscal Commission”) recommended changing the scorekeeping treatment of surface transportation programs to close loopholes in the present system.

This hybrid treatment results in less accountability and discipline for transportation spending and allows for budget gimmicks to circumvent budget limits to increase spending. The Commission plan reclassifies spending from the Transportation Trust Fund to make both contract authority and outlays mandatory.

Specifically, rather than skirting the two mechanisms intended to control spending, caps on discretionary budget authority and PAYGO, the Fiscal Commission’s recommendation would establish surface transportation programs as subject to PAYGO.

The 2015 Budget includes structural reforms to surface transportation programs that mirror the recommendation of the Fiscal Commission. These reforms help ensure that when crafting a surface transportation plan, the President and the Congress will work together to ensure that funding increases do not increase the deficit.

The Budget uses transition revenue from pro-growth business tax reform to offset the cost of President’s four-year surface transportation proposal beyond what the current funding mechanism can cover. Beyond the reauthorization window (2015-2018), the Budget assumes that spending returns to baseline levels based on what

was enacted in 2014, and a return to the structural deficit between baseline trust fund spending and baseline trust fund receipts. This reflects the assumption that while the Administration has identified a revenue source that will sustain baseline spending levels and programmatic increases proposed in the pending reauthorization, the offset does not offer a permanent solution. The proposal fills the gap between baseline receipts and baseline spending for the four-year period of the reauthorization, while also funding outlays associated with programmatic increases during the four-year reauthorization. Policy-makers will need to work together to develop other fiscally responsible solutions beyond the four-year reauthorization period.

The Budget also includes a surface transportation reauthorization proposal that 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. The mechanics of the 2015 proposal are described in greater detail below. Generally speaking:

- Hybrid treatment is ended; all TTF accounts have mandatory contract authority and mandatory outlays.
- For the sake of comparability, the Budget reclassifies current law spending for all TTF activities as mandatory. This is intended to allow policy makers to: 1) transparently calculate the difference between baseline levels and the President's proposal, and 2) account for that difference under a unified, existing scorekeeping regime, PAYGO.
- Rescissions of contract authority in appropriations acts would be scored as CHIMPs (discretionary changes that would be rebased as mandatory subsequent to enactment, following long-standing scorekeeping conventions).

As proposed by the Administration, this unified scoring framework does not radically alter traditional roles and jurisdictional relationships as they are conceived of under current law and scorekeeping practice. Authorizing committees would be scored with the full cost of contract authority and outlays associated with their proposal; discretionary outlays would no longer be a central feature of the scorekeeping system. However, under the proposal, the Appropriations Committees would continue to set obligation limitations that are legally binding. In addition, the Appropriations Committees would liquidate contract authority. As under current law, multi-year authorizing bills would set initial expectations for spending. The new scorekeeping regime would fully reflect the cost of that legislation in terms of both budget authority and outlays.

While the Administration envisions both types of committees playing important roles, the central innovation of the proposed scorekeeping regime is that it would require all stakeholders to identify offsets for new spending during the authorization process. A scorekeeping regime that closes loopholes in current practice and forecloses options

that are not fiscally responsible is necessary for budget discipline and to drive policy makers towards consensus.

The proposal for surface transportation and the corresponding structural changes differ from the proposal presented in the 2014 Budget in several substantive ways. First, whereas the 2014 Budget proposed budget year spending levels for highway, transit, and highway safety programs in line with the most recently enacted authorizing legislation (MAP-21), the 2015 Budget presents the Administration's proposal for a four-year \$302 billion reauthorization of transportation programs that would substantially increase average annual spending over the four years compared to MAP-21. The Budget separately requests a multi-sector infrastructure bank that is not incorporated into the surface transportation framework. Finally, as discussed above, the Administration proposes to pay for the reauthorization proposal by using transition revenue from pro-growth business tax reform.

As a matter of policy, the Administration believes that the proceeds from existing Highway Trust Fund excise taxes should be dedicated solely to the highway and transit accounts; no existing excise taxes would be diverted to rail or other activities. Rather, under the Administration's proposal, transition revenue from business tax reform would offset the General Fund transfers that have been used in recent years to compensate for the projected shortfall in the Highway and Mass Transit accounts, cover increased funding for highways and mass transit, and finance passenger rail and multimodal activities.

This budget process reform is only one element of the Administration's comprehensive plan to rebuild the Nation's transportation infrastructure. The *Budget* and *Appendix* volumes discuss the broader policy in more detail.

**Account-by-Account Budgetary Treatment.**—The Budget proposes the enactment of contract authority for the Transportation Trust Fund for each year, 2015-2018, totaling \$302 billion over four years. The contract authority is to be enacted by the reauthorization bill and, as under current law, will be classified as mandatory.

Under the budget, outlays flowing from that contract authority will also be treated as mandatory. The same treatment is applied to outlays flowing from prior obligations of the Highway Trust Fund, which will now be attributed to the Transportation Trust Fund; this is a departure from current law. As is the case for all other programs, this aligns outlays with budget authority. By placing outlays on the PAYGO scorecard, it gives real scoring effect to funding increases for surface transportation programs.

For all of the resources in the surface transportation reauthorization proposal, the Budget proposes that the reauthorization contain annual obligation limits at the same level as the contract authority, and also that annual appropriations bills include obligation limits at those levels. The obligation limits enacted by the appropriators enable the Administration and 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 2013 and 2014, 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 new trust fund accounts.
- For accounts that are presently funded from the HTF and that the Administration proposes to incorporate into the TTF (for example, Federal-Aid Highways), the Budget includes separate schedules that:
  - Show baseline levels of mandatory contract authority and discretionary outlays resulting from obligation limitations contained in appropriations acts. Since under current law MAP-21 will expire September 30, 2014, the contract authority is frozen in all years subsequent to that date, consistent with current scorekeeping conventions.
  - Reclassify discretionary outlays from obligation limitations as mandatory outlays from mandatory contract authority for the 2014 estimate and create a new baseline of contract authority that is equal to the previous inflated discretionary baseline for obligation limitations.
  - Reclassify 2013 enacted budget authority and outlays as mandatory for comparability purposes (i.e., to enable a comparison of funding levels across years in an account).
  - Show proposed mandatory spending above or below the baseline as PAYGO costs or savings.
- For proposed new accounts supported by the TTF (for example, the Federal Railroad Administration's Rail Service Improvement Program account), 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; Capital Assistance for High-Speed Rail Corridors.
- National Highway Traffic Safety Administration (NHTSA): Operations and Research.
- Federal Transit Administration (FTA): Administrative Expenses; Capital Investment Grants; Transit Research and Training; Public Transportation Emergency Relief.

Amounts in these accounts total \$4.1 billion in discretionary budget authority for 2014. The 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 2015. Note that in a number of cases, activities captured in these accounts are requested under a new account in the Administration's reauthorization 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 reauthorization 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).

**Outyear Assumptions.**—Beyond the reauthorization proposal, the Budget assumes that contract authority will return to baseline levels, as calculated from 2014, for 2019 and thereafter. This reflects that while the Administration has identified savings to offset the presently-pending reauthorization, policy-makers will need to develop alternative fiscally responsible solutions for 2019 and beyond.

**Transportation Trust Fund Mechanics.**—As discussed earlier, the Budget proposes a successor to the Highway Trust Fund, the Transportation Trust Fund, containing four accounts:

- The Highway Account subsumes the highway and highway safety activities currently in the Highway Trust Fund plus the NHTSA Operations and Research account, currently a General Fund account.
- The Mass Transit Account subsumes the transit activities currently in the Highway Trust Fund plus four FTA accounts currently financed by the General Fund: Capital Investment Grants; Transit Research

and Training; Public Transportation Emergency Relief; and Administrative Expenses.

- The Rail Account focuses on developing high-performance rail and also subsumes activities currently financed from the General Fund: Capital Assistance for High-Speed Rail Corridors; Capital and Debt service grants to AMTRAK; and Operating Grants to AMTRAK.
- The Multimodal Account includes a multimodal, competitive program that the Department currently operates: National Infrastructure Investments (TIGER) grants.

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

**Offsets.**—The 2015 Budget fully pays for the 2015-2018 reauthorization proposal by applying transition revenue from pro-growth business tax reform to cover outlays associated with: 1) new spending associated with the Administration's four-year surface transportation reauthorization proposal; and 2) shortfalls between revenue and spending that exist under current law for the same time period. As discussed above, the Budget proposes to make surface transportation spending subject to PAYGO rules, and specific savings are identified to cover the PAYGO costs.

Because the Budget retains the Trust Fund concept, fully-offset transfers from the General Fund to the TTF are reflected to maintain TTF solvency through the reauthorization period and to cover outlays generated from the four-year proposal but projected to occur beyond the reauthorization period. Offsets from business tax reform are only used to cover the structural deficit for four years and all new outlays associated with the reauthorization pro-

posal for the 10-year window. Since the Administration's proposed offset is finite, after the reauthorization period spending levels drop back to baseline levels calculated from 2014 and spending again outstrips revenue.

**Explanation of the Administration's Proposal and PAYGO Treatment.**—Table 11-4 details the Administration's surface transportation reauthorization proposal.

- Line one illustrates the proposed contract authority levels for accounts under the TTF, including accounts presently reflected as General Fund budget authority, HTF-funded accounts (hybrid treatment), and new activities. Line two illustrates outlay estimates associated with that contract authority, as well as prior-year outlays from the HTF.
- Line three illustrates the baseline level of budgetary resources for all activities proposed under the TTF (including enacted appropriations and programs authorized under MAP-21). For comparability, those budgetary resources that were previously classified as discretionary are displayed here as mandatory. Line four illustrates the outlay estimates associated with those budgetary resources, including prior year outlays from the HTF.
- Lines five and six calculate the mandatory budget authority and outlay changes—the increases over the baseline levels. As previously noted and indicated in this line, after this reauthorization period, spending falls back to baseline levels. Line six is the amount that would be subject to PAYGO.
- Line seven indicates the assumed deposits to the Transportation Trust Fund necessary to liquidate outlays. That figure is made up of two components: estimates associated with current law receipts (line eight)

**Table 11-4. FUNDING, SPENDING, REVENUES, AND DEPOSITS ASSOCIATED WITH THE TRANSPORTATION TRUST FUND**  
(Dollars in billions)

|   | 2015 | 2016 | 2017 | 2018 | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  | 4-year | 10-year |
|---|------|------|------|------|-------|-------|-------|-------|-------|-------|--------|---------|
| 1. Funding for the Transportation Trust Fund (Contract Authority) ... | 74   | 75   | 76   | 78   | 61    | 62    | 63    | 64    | 65    | 67    | 302    | 684     |
| 2. Estimated outlays .....  | 59   | 66   | 70   | 73   | 72    | 68    | 67    | 66    | 66    | 66    | 268    | 674     |
| 3. Baseline funding (Contract Authority and Budget Authority) .....   | 56   | 57   | 58   | 59   | 61    | 62    | 63    | 64    | 65    | 67    | 231    | 612     |
| 4. Estimated baseline outlays* .....                                  | 55   | 57   | 58   | 59   | 60    | 61    | 62    | 63    | 64    | 65    | 229    | 603     |
| 5. Proposed funding increase .....                                    | 18   | 18   | 18   | 18   | 0     | 0     | 0     | 0     | 0     | 0     | 72     | 72      |
| 6. Estimated outlay increase .....                                    | 4    | 9    | 12   | 14   | 12    | 7     | 5     | 3     | 2     | 1     | 39     | 70      |
| 7. Deposits into the Transportation Trust Fund .....                  | 76   | 76   | 77   | 77   | 40    | 41    | 41    | 41    | 41    | 41    | 306    | 551     |
| 8. Highway Trust Fund revenues (at current rates) .....               | 38   | 39   | 39   | 40   | 40    | 41    | 41    | 41    | 41    | 41    | 156    | 401     |
| 9. Corporate Tax Proposal Savings .....                               | 38   | 38   | 38   | 38   | ..... | ..... | ..... | ..... | ..... | ..... | 150    | 150     |
| 10. Transportation Trust Fund annual cash flow (net) .....            | 17   | 10   | 6    | 4    | (32)  | (28)  | (26)  | (25)  | (25)  | (25)  | 37     | (123)   |
| 11. Transportation Trust Fund end-of-year balances .....              | 17   | 27   | 33   | 37   | 5     | (22)  | (48)  | (73)  | (98)  | (123) | 114    | (246)   |

\*Note that the FY15 proposal would incorporate into the Transportation Trust Fund all new spending from accounts that would previously have been considered discretionary (e.g. the Federal Transit Administration's Capital Investment Grants account), and future outlays from these accounts will now be paid from the Transportation Trust Fund.

to the Highway Trust Fund and offset transfers needed to maintain Trust Fund solvency during the four-year reauthorization and cover outlays from this reauthorization that are expected to occur after 2018 (line nine).

- Line ten illustrates the net cash flow to the TTF assumed in each year (revenues minus outlays).
- Line eleven illustrates the notional cash balances of the TTF over the ten-year period. As mentioned above, offsets from transition revenue from business tax reform only cover the structural deficit for four years and new outlays associated with the reauthorization proposal; since the Administration's proposed offset is finite, after the reauthorization period spending levels drop back to baseline levels calculated from 2014 and structural deficits return.

In order to ensure the successful transition of these programs to a fiscally responsible framework, the Administration's proposal—or any proposal to make surface transportation programs subject to PAYGO—must consider two initial adjustments.

First, congressional scorekeeping must accommodate the initial shift from discretionary to mandatory outlays. As illustrated by line four, the activities that the administration proposes to incorporate in the TTF as mandatory outlays would generate discretionary outlays under current law totaling an estimated \$229 billion over four years. If those outlays 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 2015 Budget does—and calculate any changes from that baseline. Without this initial accommodation, scorekeeping rules would overstate the cost of legislation intended to reform the hybrid system.

Second, to reflect the true cost of fully funding the surface transportation program for the four-year reauthorization period, any offset should be required to cover: 1) the difference between current law revenues and baseline HTF outlays (\$63 billion, including a \$5 billion cash management cushion for the reauthorization period) to restore solvency to the existing HTF, 2) any reclassification of baseline activities currently financed by the General Fund (\$16 billion in the Administration's proposal, of which \$12 billion outlays over the first four years), and 3) all program increases relative to the baseline (\$72 billion). While PAYGO rules only require an offset to spending above the BBEDCA baseline, the Administration believes that for both scoring purposes and Trust Fund solvency the offset should cover both proposed spending increases and the gap between baseline spending and current law revenue. As discussed earlier, the outyears beyond the reauthorization, 2019-2024, reflect lower surface transportation spending at baseline levels calculated from 2014 to illustrate that after the current reauthorization, the structural deficit returns and the Transportation Trust Fund faces insolvency. As a matter of policy, the Administration believes that the spending levels under its

reauthorization proposal should be the starting point for subsequent authorizations, but policy makers will again have to confront the gap between spending and revenue.

### Pell Grants

The Pell Grant program includes features that make it unlike other discretionary programs. In recent years, the program's costs have risen significantly, though demand has slowed since 2010. This section provides some background on the unique nature of the Pell Grant program and explains how the Budget accommodates these rising discretionary costs. A later section of this chapter discusses the treatment of Pell in the adjusted baseline.

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

- The Pell program acts like an entitlement program, such as the Supplemental Nutrition Assistance Program or Supplemental Security Income, where the size of the individual award and the number of eligible applicants together determine the cost in any given year. Specifically, Pell Grant costs depend on 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 2014-2015 is \$5,730, of which \$4,860 will be established in the annual appropriations act and the remaining \$870 is provided automatically by the College Cost Reduction and Access Act (CCRAA), as amended.
- 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, the Pell Grant program will cost more than the appropriations provided, and vice versa. If the costs during one academic year are higher than expected, the Department of Education funds the extra costs with the subsequent year's appropriation.<sup>3</sup>
- To prevent deliberate underfunding of Pell costs, in 2006 the congressional and Executive Branch score-

<sup>3</sup> 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 2015 appropriation, for instance, will support the 2015-2016 academic year beginning in July 2015 but will become available in October 2014 and can therefore help cover any shortages that may arise in funding for the 2014-2015 academic year.

**Table 11-5. EFFECT OF STUDENT AID PROPOSALS ON DISCRETIONARY PELL FUNDING NEEDS**  
(Dollars in Billions)

|   | 2014 | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  | 2015-2024 |
|---|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----------|
| Full Funding, Discretionary Pell .....                |      | 21.3  | 27.8  | 27.9  | 28.2  | 28.7  | 29.0  | 29.3  | 29.6  | 29.9  | 30.2  |           |
| Mandatory Funding Previously Provided .....           |      | ..... | (1.6) | (1.4) | (1.4) | (1.4) | (1.4) | (1.1) | (1.1) | (1.1) | (1.1) |           |
| Discretionary Need .....                              | 22.8 | 21.3  | 27.8  | 26.3  | 26.8  | 27.2  | 27.5  | 28.2  | 28.4  | 28.8  | 29.0  |           |
| Fund Pell at 2015 Full Funding Estimate .....         | 22.8 | 21.3  | 21.3  | 21.3  | 21.3  | 21.3  | 21.3  | 21.3  | 21.3  | 21.3  | 21.3  |           |
| Discretionary Funding Gap .....                       |      | ..... | (6.4) | (5.0) | (5.5) | (5.9) | (6.2) | (6.8) | (7.1) | (7.4) | (7.7) | (58.1)    |
| Fund Pell at 2014 Enacted Level .....                 |      | 1.4   | 1.4   | 1.4   | 1.4   | 1.4   | 1.4   | 1.4   | 1.4   | 1.4   | 1.4   |           |
| Remaining Funding Gap .....                           |      | 1.4   | (5.0) | (3.6) | (4.0) | (4.5) | (4.7) | (5.4) | (5.6) | (6.0) | (6.3) | (43.6)    |
| Carry Forward 2015 BA Request to Help Fund 2016 ..... |      | (1.4) | 1.4   | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |           |
| Remaining Funding Gap .....                           |      | ..... | (3.5) | (3.6) | (4.0) | (4.5) | (4.7) | (5.4) | (5.6) | (6.0) | (6.3) | (43.6)    |
| Enact Changes to Reduce Pell Program Costs .....      |      | (0.0) | 0.1   | 0.1   | 0.1   | 0.1   | 0.1   | 0.1   | 0.1   | 0.1   | 0.1   |           |
| Remaining Funding Gap .....                           |      | (0.0) | (3.4) | (3.4) | (3.9) | (4.4) | (4.6) | (5.3) | (5.5) | (5.9) | (6.2) | (42.6)    |
| Proposed Mandatory Funding in the Budget .....        |      |       | 3.4   | 0.4   | ..... | ..... | 0.6   | 0.6   | 0.6   | 0.7   | 0.7   |           |
| Remaining Funding Gap .....                           |      | (0.0) | 0.0   | (3.0) | (3.9) | (4.4) | (4.0) | (4.7) | (4.9) | (5.2) | (5.5) | (35.5)    |

keepers agreed to a special scorekeeping rule for Pell. Under this rule, the annual appropriations bill is charged with the full 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, as amended, and appropriations allocations established annually under §302 of the Congressional Budget Act. The 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. 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 by the regular discretionary appropriation. In 2016, those extra mandatory funds in large part run out, and the program faces a significant funding gap (see Table 11-4).

Administration policy is to fully fund the maximum award. The Budget provides sufficient resources to fully fund the 2015-2016 and 2016-2017 award years. The Budget provides \$22.8 billion in discretionary budget authority in 2015, the same level of discretionary budget

authority provided in 2014. Level-funding Pell in 2015 provides \$1.4 billion more than is needed to fully fund the program in the 2015-16 award year, thanks to mandatory funding provided in prior legislation. This surplus budget authority serves as the first step in addressing the funding cliff in 2016. Cutting the budget authority in Pell to only the level needed to fund the program in 2015 would have a doubly detrimental impact on the 2016 cliff; it would reduce the budget authority carried forward from 2015, while simultaneously reducing the discretionary base funding level in the program.

In addition, this Budget makes a down payment toward addressing the long term Pell gap, financed by expanding and reforming the Perkins loan program, and by changes to Pell program rules to strengthen academic progress requirements to encourage students to complete their studies on time. The Pell program cost changes reduce future discretionary program costs by \$0.9 billion over 10 years. Combined, the total mandatory budget authority and outlay savings from these reforms amount to a \$6.6 billion, 10-year reduction. This savings allows \$7.1 billion in budget authority to be appropriated as part of proposed authorizing legislation, with outlays of \$6.6 billion during the budget window, toward paying for the discretionary portion of Pell. This is analogous to SAFRA's one-time \$13.5 billion appropriation for discretionary Pell enacted in March 2010, which was financed by mandatory savings in student loan programs. With minimal adjustments to budget authority, the proposed Pell package could also be enacted as part of an appropriations act within Congressional scorekeeping rules, as was done in 2011 and 2012.

These important student aid reforms will provide full funding of Pell through the 2016-2017 award year. The Administration continues to believe that, in order to avoid the risk of deep and unnecessary cuts in the Pell Grant program in future years, the Congress should act sooner

rather than later to address the Pell funding gap (currently estimated at \$3.5 billion in 2016 if Pell is funded in 2015 at the same level of discretionary budget authority provided in 2014). While recent reductions in program costs have allowed mandatory budget authority provided in prior years to stretch further than expected, that extra budget authority will run out, and the program will face a permanent, structural shortfall in the near future. If the Congress does not act in fiscal year 2015 and instead waits until fiscal year 2016 to confront a 2016-2017 Pell Grant funding gap, and if the Congress again concludes – as it did in the 2012 appropriations process – that savings from the subsequent fiscal year cannot be used to cover a current-year problem, then reductions in Pell Grants may be required in 2016. The Administration is therefore committed to working with the Congress to achieve two goals: first, enacting in fiscal year 2015 the changes needed to fully fund Pell through the 2016-2017 award year; and second, in the near term, taking further steps to ensure the long term stability of this vital program.

### 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 USPS 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.

### Budgetary Treatment of IMF Quota

To implement the terms of a 2010 agreement reached by G-20 Leaders and the International Monetary Fund (IMF) membership, the Budget proposes an increase to the U.S. quota and an equivalent rollback in U.S. participation in the New Arrangements to Borrow (NAB), with no net change in overall U.S. financial participation in the IMF. As explained below, the budgetary treatment of the

U.S. participation in the IMF has changed over time to address jurisdictional and other political exigencies, most recently in 2009. The Administration would prefer to return to the pre-2009 budgetary treatment. However, recognizing the desire to show a financial cost for the IMF, as explained below, the Budget proposes to begin estimating the transactions on a present value basis.

**History of Budgetary Treatment.**—The United States participates in the IMF through a quota subscription, denominated in Special Drawing Rights (SDRs). Quotas are the main metric used by the Fund to assign voting shares, and to determine the amount of countries' international reserves counted towards the IMF's general resources and access to IMF financing. The United States also participates in the NAB, which is a standing arrangement among certain IMF members to supplement IMF quota resources if necessary to forestall or cope with an impairment of the international monetary system or to deal with an exceptional situation that poses a threat to the stability of the system.

Beginning with the establishment of the IMF through 1980, IMF quota increases were treated as an exchange of monetary assets, similar to purchases of gold and to U.S. deposits in commercial bank accounts. When the United States transfers dollars or other reserve assets to the IMF under the U.S. quota subscription, the United States receives an equal, offsetting, and interest-bearing claim on the IMF, which is reflected as an increase in U.S. international monetary reserves. Because such transactions neither increase nor decrease the Government's assets or obligations, they were not recorded as budget authority or outlays in the Federal budget, a treatment that was affirmed by the President's Commission on Budget Concepts.<sup>4</sup>

As a result of a compromise reached in 1980 between the Administration and the Appropriations Committees in order to allow Appropriators to have jurisdiction over IMF quota increases, appropriations for IMF increases were recorded as budget authority, reflecting the appropriations language, but no outlays were recorded, reflecting the principle that these transactions are exchanges of equivalent monetary assets.<sup>5</sup> The same scoring was applied to the NAB when it was established in 1998. To accommodate the relatively large and infrequent appropriations for these purposes, the budget process allowed for adjustments to the limits on discretionary spending equal to these appropriations. For example, OMB's final sequestration report for 1993 included a \$12.3 billion adjustment to the budget authority limit on discretionary international spending, which was a 57 percent increase to the \$21.5 billion limit.<sup>6</sup> An amount this large clearly

<sup>4</sup> Report of the President's Commission on Budget Concepts, October 1967, p. 31. The Report notes that the IMF "is more like a bank in which funds are deposited and from which funds in the form of needed foreign currencies can be withdrawn."

<sup>5</sup> However, the budget records actual interest earnings received from the IMF and changes in the exchange rate of the dollar relative to Special Drawing Rights (in which the U.S. quota is denominated) as receipts or outlays.

<sup>6</sup> OMB Final Sequestration Report to the President and Congress for Fiscal Year 1993, Office of Management and Budget, October 23, 1992, p.3.

could not be accommodated within a limit on appropriations for annually-recurring expenses.

This scoring agreement remained in place until 2009, when the President's Budget proposed to return to the pre-1980 practice of recording IMF quota increases solely as a means of financing, with no impact on budget authority or outlays. The Congress did not accept the proposed scoring change. Instead, the Supplemental Appropriations Act of 2009 (Public Law 111-32), the Act directed that the 2009 appropriation to increase the U.S. participation in the IMF be scored in accordance with the Federal Credit Reform Act of 1990 (FCRA), including an additional adjustment to the discount rate for market risk.<sup>7</sup>

Given that the 2015 proposal rolls back part of the 2009 appropriation, it is understandable that the scoring might entail estimating subsidy costs. However, the application of FCRA with a market risk adjustment to the quota appropriation is not the best method for measuring cost. The U.S. reserve position in the IMF holds U.S. international monetary reserves that are readily available to meet a U.S. balance-of-payments financing need. Since its inception nearly seventy years ago, the IMF has never defaulted on any U.S. reserve claims on the IMF, even after the worst financial crisis since the Great Depression. The IMF is also recognized by its entire membership as the preferred creditor, with the unique ability to set conditions to assure repayment. U.S. reserve claims on the IMF are backed by the IMF's sound financial management and exceptionally strong balance sheet with reserves of \$17 billion and 90 million ounces of gold worth more than \$115 billion at market prices (as of February 10, 2014). In addition, the United States earns interest on its reserve position in the IMF.<sup>8</sup>

For all of these reasons, the risk of loss—and consequently the FCRA cost to Government—is negligible. Treating the U.S. quota or participation in the NAB as a loan is not likely to lead to better decisions by the President and Congress about the U.S. participation in the IMF or by program officials who manage the U.S. participation. Instead, FCRA imposes a number of operational requirements that are appropriate for managing a

<sup>7</sup> The fair value adjustment to the discount rate for market risks is intended to capture private sector pricing for comparable instruments.

<sup>8</sup> When a quota increase occurs, 75 percent is held in a Department of Treasury letter of credit (LOC) and the remaining 25 percent is deposited with the IMF in any combination of yen, euros, British pounds, U.S. dollars, or SDRs. The IMF credits the U.S. reserve tranche with an equivalent amount of SDRs. Funds held in the reserve tranche, which are part of the U.S. international reserves, earn interest paid to Treasury. The amount held in the reserve tranche relative to the LOC changes over time, rising as the IMF draws upon the U.S. quota temporarily for loans to other IMF members and falling as the IMF returns the funds.

loan portfolio but have little relevance to the IMF quota, such as treating each cash deposit into the IMF as a separate risk category that must be estimated and tracked in perpetuity as long as the U.S. maintains its membership in the IMF.

Under FCRA, the cost of a credit program equals the present value cost to Government—setting loans and loan guarantees on a comparable basis to each other and other forms of spending, and thereby improving the allocation of resources. In contrast, fair value cost estimates reflect market pricing and include costs that are not relevant to taxpayers—overstating the cost to Government and introducing a bias relative to other forms of Federal spending. Beyond conceptual concerns, there are practical ones that call into question the treatment's usefulness in decision making. Estimating the adjustment to the interest rate requires making assumptions about how the market might price different characteristics. The fair value estimate is particularly distorting for IMF transactions, as there is no private market equivalent to inform or validate such adjustments—introducing more noise than valuable information to inform allocation decisions.

**Proposed Budgetary Treatment.**—The 2014 Budget proposed to return to the pre-2009 scoring arrangement, with budget authority reflecting the dollar amount of the change in the size of the U.S. quota to the IMF authorized by the Congress and zero outlays, which recognized that the transaction is an exchange of equivalent monetary assets. Recognizing the connection between the 2010 agreement and the FY 2009 Supplemental Appropriations Act and the desire to show budget authority and outlay costs relative to the scoring of that Act, the 2015 Budget proposes to estimate costs on a present value basis, using Treasury rates to discount the cash flows. This will result in the restatement of the transactions from the FY 2009 supplemental on this basis. The methods for estimating present value would be similar to the methods used under FCRA, but FCRA requirements for program and financing accounts, cohort-accounting, and reestimates would not apply. Under this proposal, the Budget would record budget authority and outlays equal to the estimated present value in the year that the U.S. contribution is enacted. Cash deposits into the IMF account at the Federal Reserve Bank of New York would be treated as a means of financing, similar to the treatment of other monetary assets. Interest earnings and realized gains and losses due to currency fluctuations would continue to be recorded in the budget on a cash basis, as they are for quota increases authorized prior to 2009. Revisions to the U.S. position at the NAB would receive the same treatment.

## 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 version of the law enacted as part of the 1990 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.<sup>9</sup>

PAYGO 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](http://www.whitehouse.gov/omb/paygo_default)). PAYGO also established special scorekeeping rules that affect whether all estimated budgetary effects of PAYGO bills are entered on the scorecards. Off-budget programs and provisions designated by the Congress in law as emergencies are not included. As originally in force, PAYGO also provided exemptions for the costs of extending certain policies that were already in place but that were scheduled to expire, such as the costs of extending tax cuts enacted in 2001 and 2003 and the costs of extending relief from scheduled reductions in Medicare physician payments. The authority for these exemptions, known as “current policy adjustments,” expired as of December 31, 2011.

In addition to the exemptions in the PAYGO Act itself, in the last three sessions of Congress six laws affecting mandatory revenues or receipts have included provisions that directed that those laws be held off of the PAYGO scorecard. In the most recent Congressional session, for example, two pieces of legislation were enacted with such provisions: the Bipartisan Student Loan Certainty Act of 2013 (Public Law 113-28), and the Bipartisan Budget Act of 2013 and Pathway for SGR Reform Act of 2013 (Public Law 113-67).

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 Supplemental Security

Income (SSI).<sup>10</sup> 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 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, as amended, 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, as amended, and the 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 1990s PAYGO, sequestration has not been required during the four Congressional sessions since the PAYGO Act reinstated the statutory PAYGO requirement. In each of those sessions, OMB’s end-of-session PAYGO reports showed net savings in the budget year column of both the 5- and 10-year scorecards. In the most recent session, enacted legislation added net costs of \$25 million in each year of the 5-year scorecard and \$7 million in each year of the 10-year scorecard. However, balances of net savings from prior sessions of Congress were more than sufficient to offset these costs in the budget year column (2014) of each scorecard, so no sequestration was required. As of the end of the most recent session, both scorecards showed net savings in the 2015 column but the 5-year scorecard showed net costs of \$1.0 billion in the 2016 column. Absent legislation to address these net costs, a PAYGO sequestration order would be required after the end of the 2015 Congressional session.<sup>11</sup>

### 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.<sup>12</sup>

<sup>9</sup> 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.

<sup>10</sup> 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.

<sup>11</sup> OMB’s annual PAYGO reports and other explanatory material about the PAYGO Act are available at [www.whitehouse.gov/omb/paygo\\_default](http://www.whitehouse.gov/omb/paygo_default).

<sup>12</sup> For a review of the application of Administrative PAYGO, see USDA’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

The Administration suggests changes to the concepts used in formulating baseline projections to make the resulting product more useful to the public and to policy-makers: extending certain major expiring tax and mandatory provisions, using a more meaningful method for reflecting future disaster costs, and reflecting the cost of fully funding the Pell Grant program. In addition, as explained above, the proposal to provide mandatory funding for a surface transportation and rail authorization proposal involves adjusting presentations, including baselines, so that corresponding funding and spending levels will be displayed on a comparable basis. The Administration also makes modifications to the baseline to reflect the discretionary caps on budget authority enacted in BBEDCA, as amended, including the cap adjustments permitted by the Act for Overseas Contingency Operations (OCO) inflated at the inflation rates in the baseline, and to reflect the Joint Committee enforcement procedures.

For years, the baseline used by the Congress has followed the definition contained in section 257 of BBEDCA, as amended. However, the BBEDCA baseline does not accurately reflect a continuation of current policy. In each of its Budgets, this Administration has built its budget proposals starting from a baseline that adjusts the BBEDCA baseline to better represent the thrust of current policy in certain major cases, and recommends that the Congress, the Congressional Budget Office, and the public use such a baseline in their own analyses as well. The deficit impacts of the adjustments to the BBEDCA baseline are summarized in Summary Table S-8 of the Budget. The adjustments are described below. 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.<sup>13</sup>

**Adjustments to Reflect Certain Expiring Provisions Affecting Middle Class Tax Credits.**—In recent years, the Congress has repeatedly extended provisions of the tax code that have a large deficit impact or signaled its intention that a provision be extended when it enacted the provision for a limited number of years. The Administration’s adjusted baseline assumes permanent extension of the following tax credits provided to individuals and families under the American Recovery and Reinvestment Act of 2009 (ARRA), which were extended

through 2017 by the American Taxpayer Relief Act of 2012 (ATRA): increased refundability of the child tax credit, expansions in the earned income tax credit (EITC) for larger families and married taxpayers filing a joint return, and the American opportunity tax credit (AOTC).

**Adjustments to Reflect Medicare Physician Payment Relief.**—As with the tax provisions noted in the previous paragraph, in recent years, the Congress has repeatedly extended relief from scheduled reductions in Medicare physician payment rates that would otherwise take place under the Sustainable Growth Rate (SGR) formula. The Administration’s adjusted baseline assumes permanent extension of current Medicare physician payment rates, as opposed to the large reductions in physician payment rates that would take place under current law. This adjustment is similar, although not identical, to a current policy adjustment previously provided under the PAYGO Act for SGR relief through 2014.

**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, as amended. 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, the Administration’s adjusted baseline removes the extension of enacted appropriations that were designated by the Congress in 2014 as disaster relief funding.

In addition, the Administration’s adjusted baseline substitutes an allowance for disaster costs in the budget year and future fiscal years. This allowance reflects the fact that the disaster relief cap adjustment has already allowed funding for more than \$5.6 billion in the BBEDCA-designated disasters in 2014, the Budget is specifically requesting almost \$6.6 billion in 2015 for major disasters, and major natural or man-made disasters may occur in the near future and are 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.

<sup>13</sup> The PAYGO Act originally provided for “current policy adjustments” that exempted the extension of certain tax and mandatory policies from being counted on the PAYGO scorecard. These adjustments applied only for legislation enacted through December 31, 2011, and are no longer in force.

### ***Adjustments to Reflect the Full Cost of Existing Pell Grants.***

As explained earlier in this chapter, the discretionary portion of the Pell Grant program has attributes that make it unique among programs classified as discretionary: it annually receives both mandatory and discretionary funding but the two types are indistinguishable in purpose or effect; the amount of discretionary funding has little or no effect on the size or cost of the program; and in recognition of this fact, congressional and Executive Branch scorekeepers agreed in 2006 to a special scorekeeping rule under which appropriations acts would be scored as providing the amount of discretionary budget authority estimated to fully fund the cost of Pell Grants in the budget year (which includes covering any shortfalls from prior years), even if the appropriations bill in question provides a lower amount.

Under these circumstances, the Administration believes that the BBEDCA baseline, which projects discretionary programs by adjusting current-year budget authority for inflation, is inconsistent with both the reality and the existing budgetary scorekeeping for Pell Grants. Since the special scorekeeping rule charges the Appropriations Committees with the full cost of providing Pell Grants to all eligible applicants plus covering any shortfalls from prior years, the baseline should do the same. This is especially the case because adhering to the BBEDCA baseline level of budget authority for Pell makes no difference to the actual size and cost of the program in the budget year; funding “cuts” or “increases” from such a baseline do not represent actual reductions or increases in costs, at least in the budget year. Therefore, the Administration adjusts the BBEDCA baseline to follow the existing scorekeeping rule, reflecting the full cost of funding the discretionary portion of Pell while covering any prior shortfalls.

As described earlier, an estimate of the full cost of Pell in any year depends in part on the size of the maximum award for that year. The current maximum award for the discretionary portion of Pell is \$4,860 per student per year. The adjusted baseline assumes that award level will remain constant in nominal terms over the next ten years. The baseline projection of the discretionary portion of Pell therefore changes from year to year primarily because of estimated changes in the number of valid applicants. Changes in student income and level of tuition can also make a difference in the size of an individual student’s award and therefore the cost of the program.

The Administration believes that baselines prepared by the Congressional Budget Office and others would likewise be more realistic and better reflect the congressional scorekeeping rule if they projected the discretionary portion of Pell Grants in this way. This adjustment does not produce a net increase in the amount of discretionary budget authority in the baseline, because total discretionary budget authority remains limited by the BBEDCA caps.

***Adjustment to Reflect the Anticipated Postal Service Default on 2014 Retiree Health Benefit Prefunding.***—Under the Postal Accountability and Enhancement Act of 2006 (P.L. 109-435), the United States Postal Service (USPS) is required to make specified annual

payments through 2016 to the Postal Service Retiree Health Benefits (RHB) Fund in the Office of Personnel Management. These payments are designed to prefund unfunded liabilities for health costs for future Postal retirees. Starting in 2017, the USPS’s remaining unfunded liability is amortized over a 40-year period. Because of its current financial challenges, the USPS defaulted on two statutory RHB payments due in 2012, totaling \$11.1 billion, and defaulted on its \$5.6 billion payment due September 30, 2013. While the BBEDCA baseline shows USPS making the payments due in 2014, 2015, and 2016 as required, the adjusted baseline only reflects a portion of these payment being made, given the likelihood of additional default. While defaulted payments remain as outstanding statutory liabilities, any default is factored into the 40-year amortization schedule mentioned above.

### ***Nuclear Waste Fund***

The Nuclear Waste Policy Act of 1982 (NWPA) established a broad policy framework for the permanent disposal of used nuclear fuel and high-level radioactive waste derived from nuclear power generation. The NWPA authorized the Government to enter into contracts with reactor operators—the generators and current owners of used nuclear fuel—providing that, in exchange for the payment of fees, the Government would assume responsibility for permanent disposal. The fees were to ensure that the reactor owners and power generators pay the full cost of the disposal of their used nuclear fuel and high-level radioactive waste.

***Nuclear Waste Fund Settlements and the Judgment Fund Baseline.***—The Federal Government did not meet its contractual obligation to begin accepting used nuclear fuel by 1998. As a result of litigation by contract holders, the Government was found in partial breach of contract, and is now liable for damages to some utilities to cover the costs of on-site, at-reactor storage.

The cost of the Government’s growing liability for partial breach of contracts with nuclear utilities is paid from the Judgment Fund of the U.S. Government. While payments are extensively reviewed by Department of Energy, and must be authorized by the Attorney General prior to disbursement by the Department of the Treasury, as mandatory spending they are not subject to Office of Management and Budget or Congressional approval. Past payments are included in full in the Budget, but until fiscal year 2014 the Budget has included only a partial estimate of the potential future cost of continued insufficient action. To improve budget projections, the baseline for the Judgment Fund now reflects a more complete estimate of potential future cost of these liabilities. By reflecting a more complete estimate of the liability payments in the baseline, costs over the life of the nuclear waste management and disposal program would eventually be offset by reductions in liabilities as the Government begins to pick up sufficient waste from commercial sites.

***Nuclear Waste Fee Collections.***—To satisfy a U.S. Court of Appeals mandate in *National Association of Regulatory Utility Commissioners v. United States Department of Energy*, the Secretary of Energy submit-

ted a proposal to the Congress in January 2014 to adjust the Nuclear Waste Fund fee to zero, which if implemented would result in a loss of approximately \$750 million in annual receipts. The court-ordered proposal submitted by the Department of Energy was not the result of and was not consistent with the determination the Secretary is required to make pursuant to the Nuclear Waste Policy Act (NWPA), as amended, 42 U.S.C. 10101 et seq, regarding the adequacy of the fee. The Secretary of Energy has not determined that the fees being collected are in excess of those required to offset the costs of the nuclear waste management and disposal program, nor has the Secretary determined that collecting no fee will “insure full cost recovery.” The Department of Justice is seeking a rehearing en banc in *National Association of Regulatory Utility Commissioners v. United States Department of Energy*. Consequently, both the BBEDCA and adjusted baselines currently assume that the fee will continue to be collected.

### **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). The Administration’s February 2011 white paper outlined a commitment to wind down the GSEs, facilitate the return of private capital to the housing market, and work with the Congress to reform the larger housing finance system. The Budget continues the Administration’s commitment to reduce the size of the GSEs’ investment portfolios by at least 15 percent a year. The GSEs are discussed in more detail in Chapter 20, “Credit and Insurance”.

### **Fair Value for Credit Programs**

The Federal Credit Reform Act of 1990 (FCRA) changed the budget measure of cost for Federal direct loans and loan guarantees provided to individuals and non-Federal entities. Prior to the enactment of FCRA, the Government’s credit programs were reflected in the budget on a cash basis, which was a poor measure of cost for these programs. The costs of direct loans were overstated, as the budget reflected outlays for the initial cash disbursement to make the loan, but did not properly account for the expected future income from repayments, interest, and fees, net of losses. For loan guarantees, costs were understated because outlays were only recorded when the Government disbursed cash to make good on the guarantees—generally years after the borrower receives the loan, which is long after the Government incurs

the cost. FCRA significantly improved the budget measure of cost for Federal credit programs by recording the estimated lifetime cost up front on a present value basis. Under FCRA, the costs of loans and guarantees take into account all of the cash flows associated with the credit instrument, and the Government’s cost of financing these cashflows by discounting using the Treasury rate.

In recent years, some analysts have argued that credit programs impose costs on taxpayers that are not reflected under FCRA, such as the risk that assets may perform worse than expected, and would propose to amend FCRA to require that the budget use fair value estimates for credit programs. Under fair value, comparable market rates would be used to discount expected cash flows, instead of Treasury rates. 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 raise serious conceptual and implementation issues that would exceed the potential benefits from such estimates. Chapter 20, “Credit and Insurance,” discusses some of these issues.

### **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.”

