S. HRG. 116–153

CONCURRENT RESOLUTION ON THE BUDGET FISCAL YEAR 2020

HEARINGS

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

ONE HUNDRED SIXTEENTH CONGRESS

FIRST SESSION

JANUARY 29, 2019—CBO'S BUDGET AND ECONOMIC OUTLOOK: FISCAL YEARS 2019–2029

FEBRUARY 27, 2019—THE BUDGET CONTROL ACT: A REVIEW OF CAP-ADJUSTED SPENDING

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CONTENTS

HEARINGS

STATEMENTS BY COMMITTEE MEMBERS

WITNESSES

CBO'S BUDGET AND ECONOMIC OUTLOOK: FISCAL YEARS 2019–2029

TUESDAY, JANUARY 29, 2019

UNITED STATES SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committee met, pursuant to notice, at 2:31 p.m., in Room SD–608, Dirksen Senate Office Building, Hon. Michael B. Enzi, Chairman of the Committee, presiding.

Present: Senators Enzi, Grassley, Crapo, Toomey, Johnson, Perdue, Braun, Kennedy, Cramer, Whitehouse, and Kaine.

Staff Present: Elizabeth McDonnell, Republican Staff Director; and Joshua Smith, Minority Budget Policy Director.

OPENING STATEMENT OF CHAIRMAN ENZI

Chairman ENZI. The hour of 2:30 has arrived, so good afternoon and welcome to the first hearing of the Senate Budget Committee in the 116th Congress. We have some new faces joining the Committee for the first time this afternoon, and while they are not all here yet because of other Committee meetings, I would like to formally welcome to the Senate Budget Committee the newest members: Senator Braun of Indiana, also Senator Rick Scott of Florida, and Senator Kevin Cramer of North Dakota. I look forward to their contributions as we tackle our Nation's pressing fiscal challenges in the years ahead.

We begin our work this year by examining the Congressional Budget Office's annual update of the budget and economic outlook. Our witness today, of course, is Dr. Keith Hall, who is the Director of the CBO and has probably appeared before this Committee more than any other Director. I would like to welcome him and the members of his team accompanying him. We look forward to your testimony.

In my review of this report, what strikes me most is how few surprises there really are. As has been the case since 2002, the Federal Government spends more than it collects. In fiscal year 2018, the Federal Government collected more than $3.3 trillion in revenue, but it spent more than $4.1 trillion, which means the Government overspent by $779 billion.

Beginning in 2022, the Federal Government is projected to begin running deficits of more than $1 trillion each year. Total overspending for the next 10 years will reach more than $11.6 trillion under this forecast, which assumes no other changes to tax or spending laws currently on the books. And that is the way that it has to be done. It is an unlikely outcome, but one that CBO is required to project.

As CBO's report shows, spending over the next 10 years will grow from $4.4 trillion in 2019 to $7 trillion in 2029. What is causing the spike in spending? CBO tells us that three-quarters of that $2.6 trillion growth is attributed to Social Security, Medicare, and interest payments. Just those three things: Social Security, Medicare, and interest payments. While interest costs are tied to debt accumulation and rising rates, cost growth in Social Security and Medicare is a matter of demographics and ever growing per beneficiary health care costs. The number of people 65 years or older is double what it was 50 years ago and is forecast to increase by a third in the next 10 years. For years, we have known this was coming, and I welcome CBO's additional emphasis on this issue in this year's report.

According to CBO, between 2019 and 2029, revenues will grow by about 5 percent per year. This revenue growth will result in receipts to the Government that hover around the 50-year average and then spike upwards following expiration of certain provisions of the 2017 tax law. While revenue growth will be strong, it will be outpaced by non-interest mandatory spending, which will grow 5.5 percent per year, and interest payments will grow 9 percent per year on average. In just a few short years beyond the current forecast, there is no doubt that 100 percent of revenue—that is every penny the Government collects—will go towards mandatory spending and interest payments.

Funding for national security, border security, education, and health research will be fully financed by the Nation's credit card. We are becoming a Nation of credit cards. Year after year, CBO's data show that our mandatory spending programs that operate on autopilot continue to grow faster than the revenue that pays for them can support. For example, over the next 10 years, the Medicare program will spend nearly $5.6 trillion more than the program collects in payroll taxes and beneficiary premiums. Trillion dollar deficits are within sight. They are real. It is time for us all to have an honest conversation as to how we are going to address them. I believe that most of us agree that when you have $22 trillion in debt, which is forecast to grow to nearly $34 trillion in 10 years' time, Congress needs to start putting solutions on the table.

The fact that interest rates are rising only makes the need to act soon more pressing. Something has to change. Lurching from deal to deal under the threat of a Government shutdown only leads to more spending, more deficits, and ultimately more debt.

Congress must implement foundational and structural policy changes if we are to ever achieve fiscal sustainability. While this Committee will be focused on leading the way to a better fiscal path, I also intend to press ahead on the Committee's ongoing spending process reform and oversight work. As the Nation and its leaders continue to grapple with the effects of the longest Government shutdown in American history, it is clear that we need to work together to improve the process by which our country budgets and spends money.

Last year, some members of this Committee, along with members of the House of Representatives, worked to develop solutions to

America's broken spending process. I salute their efforts and intend to build on their work and the previous work of this Committee. I think we will do a hearing on that. Additionally, I intend to have this Committee provide continued oversight of Federal spending, ensuring programs deliver the results they were promised. There must be accountability for the expenditure of all taxpayers' dollars. Whether it be the Department of Defense or the Department of Health and Human Services, all spending should be reviewed. As we kick off a new Congress, I welcome and I long for the constructive input of my fellow Committee members regarding areas ripe for oversight. There is no more appropriate topic for this Committee's first hearing than receiving an update on the Nation's budget and economic outlook.

Dr. Hall, thank you for joining us today. I look forward to hearing from you today and working with my colleagues on this Committee to strengthen our economy, to reduce overspending, and to put our Nation on a more sustainable fiscal path.

At this point we would usually hear from somebody on the Ranking Member's side. If they show up and wish to make a statement, we will interrupt for that.

Our witness this afternoon, as I mentioned, is Dr. Keith Hall, who is the Director of the Congressional Budget Office. We appreciate your work and look forward to receiving your testimony.

For the information of colleagues, Dr. Hall will take up to 7 minutes for his opening statement, followed by questions. And we have a specific order for the questions, which I will go over as soon as he finishes.

Dr. Hall.

STATEMENT OF THE HONORABLE KEITH HALL, PH.D., DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. HALL. Thank you. Chairman Enzi, Ranking Member Sanders, and members of the Committee, thank you for inviting me to testify about the Congressional Budget Office's most recent analysis of the outlook for the budget and the economy, which we released yesterday.

I would like to draw your attention to important information in that report about the amount of debt that the Federal Government will incur if we continue on the current budgetary path. I am going to focus on four questions.

First, how large does CBO project that debt will become?

Second, why is debt projected to become so large?

Third, what would happen if the economy grew more quickly?

Fourth, what are the consequences of high and rising debt?

The first question: What does CBO project? Federal debt is already large, and budget deficits over the next decade and beyond are projected to keep pushing it up in relation to the size of the economy. Eventually, debt as a share of economic output would reach its highest level in our Nation's history. Let me highlight a few key numbers.

At the end of last year, the amount of debt held by the public was equal to 78 percent of gross domestic product. In CBO's projections, debt equals 93 percent of GDP by 2029 and about 150 percent of GDP by 30 years from now. Even at its highest point ever, just after World War II, debt was far less than that, at 106 percent of GDP.

Second question: Why does debt become so large in CBO's projections? Now, we provided you a summary of the report, a visual summary, if you have it handy. You can see the answer in the summary of the report which we just provided you. We have summarized things in a new way to sort of help make things a little easier to digest.

If you look at the chart on the first page at the bottom, you will see that the page indicates why debt grows. Federal spending and revenues both grow through 2029, yet the gap between them persists.

On the spending side, growth is driven by benefits for older people and by interest costs. Outlays for Social Security and Medicare increase significantly in CBO's baseline projections. As members of the Baby Boom generation age, the number of people at least 65 years old—who are the main beneficiaries of that spending—is expected to grow by about one-third, and their health care costs will continue to rise. Interest costs are also projected to rise, primarily because of increases in Federal borrowing and higher interest rates.

As for revenues, they too are projected to increase through 2029, partly because of the scheduled expiration of some tax cuts at the end of 2025. However, that growth in revenues is not enough to keep deficits from becoming significantly larger than they have been over the past 50 years.

In CBO's projections, the average deficit over the next 10 years equals 4.4 percent of GDP. That is shown on the front of your handout if you look at the very first graph. That average deficit is not only large but also unusual for times of low unemployment—in contrast to times of high unemployment, when the Government sometimes implements policies aiming to stabilize the economy, causing deficits to be larger.

Third question: What would happen if the economy grew more quickly? If GDP grew more quickly than it does in CBO's projections, revenues would increase more than spending would, and deficits would be smaller than projected. If economic growth was fast enough, deficits would actually shrink, and debt would stabilize or even fall as a percentage of GDP rather than continuing to grow.

But such an outcome is unlikely. In 2018, the real growth rate of the economy—that is, the growth with the effects of inflation removed—was 3.1 percent, the highest rate since 2005. Nevertheless, the deficit equaled 3.8 percent of GDP, and debt increased as a percentage of GDP.

Furthermore, this year the boost that the recent tax legislation gave to business investment wanes in CBO's projections. Also, Federal purchases drop sharply under current law, starting in the fourth quarter of this year. As a result, economic growth is projected to slow in 2019. And over the long term, output growth is projected to be lower than its long-term historical average because the working-age population is expected to grow more slowly than it did in the past. Real GDP grows only by an average of 1.8 percent per year in CBO's 10-year projections. In short, the economy is not likely to grow quickly enough to shrink the budget deficit.

We have posted an interactive workbook on our website that lets you specify different economic scenarios and see the results. For example, if productivity growth turned out to be half a percentage point higher in every year than CBO currently projects, real GDP would grow by 2.4 percent per year instead of 1.8 percent. Deficits would still average 3.7 percent of GDP instead of 4.4 percent of GDP. And debt would stabilize at roughly 80 percent of GDP by 2029. Such economic growth is possible, but it is not likely under current law.

CBO aims for its projections to be in the middle of potential outcomes, so there is about the same chance that productivity growth would turn out to be half a percentage point lower than CBO projects. If that happened, real GDP growth would average 1.1 percent over the next decade, average deficits would be 5.2 percent of GDP, and debt would swell even more than it does in our projections.

Fourth question: What are the consequences of high and rising debt? If debt rose to the amounts that CBO projects, there would be troubling consequences.

First, as interest rates continued to rise towards levels more typical than today's, Federal spending on interest payments would increase—surpassing the entire amount of defense spending by 2025 in our baseline projections, for example.

Second, because Federal borrowing reduces national saving over time, the Nation's capital stock would ultimately be smaller, and as a result, productivity and total wages would be lower than would be the case if debt were smaller.

Third, lawmakers would have less flexibility than otherwise to use tax and spending policies to respond to unexpected challenges.

And, fourth, the likelihood of a fiscal crisis in the United States would increase.

In closing, I will emphasize that debt is on an unsustainable course in CBO's projections. To put it on a sustainable one, lawmakers will have to make significant changes to tax and spending policies—making revenues larger than they would be under current law, making spending for large benefit programs smaller than it would be under current law, or adopting some combination of these approaches.

I am happy to answer your questions.

[The prepared statement of Mr. Hall follows:]

Congressional Budget Office

Testimony

The Budget and Economic Outlook: 2019 to 2029

Keith Hall
Director

Before the
Committee on the Budget
United States Senate

January 29, 2019

This document is embargoed until it is delivered at 2:30 p.m. (EST) on Tuesday, January 29, 2019. The contents may not be published, transmitted, or otherwise communicated by any print, broadcast, or electronic media before that time.

Chairman Enzi, Ranking Member Sanders, and Members of the Committee, thank you for inviting me to testify about the Congressional Budget Office's most recent analysis of the outlook for the budget and the economy, which we released yesterday. This testimony includes information about that report and answers to some related questions.

Information About the Report

Today I'd like to draw your attention to important information in our report about the amount of debt that the federal government will incur if we continue on the current budgetary path. I'm going to focus on four questions.

What Does CBO Project?

Federal debt is already large, and budget deficits over the next decade and beyond are projected to keep pushing it up in relation to the size of the economy. Eventually, debt as a share of economic output would reach its highest level in our nation's history. Let me highlight a few key numbers:

- At the end of 2018, the amount of debt held by the public was equal to 78 percent of gross domestic product (GDP).
- In CBO's projections, debt equals 93 percent of GDP by 2029 and about 150 percent of GDP by 2049.
- Even at its highest point ever, just after World War II, debt was far less than that: 106 percent of GDP.

Why Does Debt Become So Large in CBO's Projections?

You can see the answer in the summary of the report. This year we've summarized our findings in a new way, using the charts in the report to illustrate some key messages. The figure on the bottom of the first page of the handout in front of you indicates why debt grows: Federal spending and revenues both grow through 2029, yet the gap between them persists.

On the spending side, growth is driven by benefits for older people and by interest costs.

- Outlays for Social Security and Medicare increase significantly in CBO's baseline projections. As members of the baby-boom generation age, the number of people at least 65 years old—who are the main beneficiaries of that spending—is expected to grow by about one-third, and their health care costs will continue to rise.
- Interest costs are also projected to rise, primarily because of increases in federal borrowing and higher interest rates.

As for revenues, they too are projected to increase through 2029, partly because of the scheduled expiration of some tax cuts at the end of 2025. However, that growth in revenues is not enough to keep deficits from being significantly larger than they have been over the past 50 years.

In CBO's projections, the average deficit over the next 10 years equals 4.4 percent of GDP. That average deficit is not only large but also unusual for times of low unemployment—in contrast to times of high unemployment, when the government sometimes implements policies aiming to stabilize the economy, causing deficits to be larger.

What Would Happen If the Economy Grew More Quickly?

If GDP grew more quickly than it does in CBO's projections, revenues would increase more than spending would, and deficits would be smaller than projected. If economic growth was fast enough, deficits could actually shrink, and debt could stabilize or even fall as a percentage of GDP rather than continuing to grow.

But such an outcome is unlikely. In 2018, the real growth rate of the economy—that is, growth with the effects of inflation removed—was 3.1 percent, the highest rate since 2005. Nevertheless, the deficit equaled 3.8 percent of GDP, and debt increased as a percentage of GDP.

Furthermore, this year the boost that recent tax legislation gave to business investment wanes in CBO's projections. Also, federal purchases drop sharply under current law, starting in the fourth quarter of the year. As a result, economic growth is projected to slow in 2019. Over the longer term, output growth is projected to be lower than its long-term historical average because the working-age population is expected to grow more slowly than it did in the past. Real GDP grows by an average of 1.8 percent per year in CBO's 10-year projections. In short, the economy isn't likely to grow quickly enough to shrink the budget deficit.

We have posted an interactive workbook on our website that lets you specify different economic scenarios and see the results. For example, if productivity growth turned out to be half a percentage point higher in every year than CBO projects, real GDP would grow by 2.4 percent per year over the coming decade instead of by 1.8 percent. Deficits would average 3.7 percent of GDP instead of 4.4 percent. And debt would stabilize at roughly 80 percent of GDP by 2029. Such economic growth is possible, but it is not likely under current law, in CBO's assessment.

CBO aims for its projections to be in the middle of potential outcomes. So there is about the same chance that productivity growth could turn out to be half a percentage point lower than CBO projects. If that happened, real GDP growth would average 1.1 percent over the next decade, average deficits would be 5.2 percent of GDP, and debt would swell even more than it does in CBO's projections.

What Are the Consequences of High and Rising Debt?

If debt rose to the amounts that CBO projects, there would be troubling consequences.

- First, as interest rates continued to rise toward levels more typical than today's, federal spending on interest payments would increase—surpassing the entire amount of defense spending by 2025 in CBO's baseline projections, for example.
- Second, because federal borrowing reduces national saving over time, the nation's capital stock ultimately would be smaller, and productivity and total wages would be lower, than would be the case if debt was smaller.
- Third, lawmakers would have less flexibility than otherwise to use tax and spending policies to respond to unexpected challenges.
- Fourth, the likelihood of a fiscal crisis in the United States would increase.

In closing, I will emphasize that debt is on an unsustainable course in CBO's projections. To put it on a sustainable one, lawmakers will have to make significant changes to tax and spending policies—making revenues larger than they would be under current law, making spending for large benefit programs smaller than it would be under current law, or adopting some combination of those approaches.

What Are the Effects of the Partial Government Shutdown?

CBO has estimated the effects of the five-week partial shutdown of the government that started on December 22, 2018, and ended on January 25, 2019.[1] CBO's findings include the following:

- CBO estimates that the five-week shutdown delayed approximately $18 billion in federal discretionary spending for compensation and purchases of goods and services and suspended some federal services.
- As a result of reduced economic activity, CBO estimates, real GDP in the fourth quarter of 2018 was reduced by $3 billion (in 2019 dollars) in relation to what it would have been otherwise. (Such references are in calendar years or quarters.) In the first quarter of 2019, the level of real GDP is estimated to be $8 billion lower than it would have been—an effect reflecting both the five-week partial shutdown and the resumption in economic activity once funding resumed.
- As a share of quarterly real GDP, the level of real GDP in the fourth quarter of 2018 was reduced by 0.1 percent, CBO estimates. And the level of real GDP in the first quarter of 2019 is expected to be reduced by 0.2 percent.[2] (The effect on the *annualized* quarterly growth rate in those quarters will be larger.)[3]
- In subsequent quarters, GDP will be temporarily higher than it would have been in the absence of a shutdown. Although most of the real GDP lost during the fourth quarter of 2018 and the first

1. Congressional Budget Office, *The Effects of the Partial Shutdown Ending in January 2019* (January 2019), www.cbo.gov/publication/54937.
2. The economic forecast that CBO released in *The Budget and Economic Outlook: 2019 to 2029* was completed before the partial shutdown of the federal government began. Therefore, that forecast does not incorporate any of the shutdown's economic effects. See Congressional Budget Office, *The Budget and Economic Outlook: 2019 to 2029* (January 2019), www.cbo.gov/publication/54918.
3. To annualize an amount is to adjust it so that it applies to an entire year.

quarter of 2019 will eventually be recovered, CBO estimates that about $3 billion will not be. That amount equals 0.02 percent of projected annual GDP in 2019. In other words, the level of GDP for the full calendar year is expected to be 0.02 percent smaller than it would have been otherwise.

- Underlying those effects on the overall economy are much more significant effects on individual businesses and workers. Among those who experienced the largest and most direct negative effects are federal workers who faced delayed compensation and private-sector entities that lost business. Some of those private-sector entities will never recoup that lost income.

- All of the estimated effects and their timing are subject to considerable uncertainty. In particular, CBO is uncertain about how much discretionary spending was affected by the partial shutdown, how affected federal employees and contractors adjusted their spending in response to delayed compensation, and how agencies will adjust their spending on goods and services now that funding has resumed.

In CBO's estimation, the shutdown dampened economic activity mainly because of the loss of furloughed federal workers' contribution to GDP, the delay in federal spending on goods and services, and the reduction in aggregate demand (which thereby dampened private-sector activity).[4]

CBO's estimates do not incorporate other, more indirect negative effects of the shutdown, which are more difficult to quantify but were probably becoming more significant as it continued. For example, some businesses could not obtain federal permits and certifications, and others faced reduced access to loans provided by the federal government. Such factors were probably beginning to lead firms to postpone investment and hiring decisions. In addition, risks to the economy were becoming increasingly significant as the shutdown continued. Although their precise effects on economic output are uncertain, the negative effects of such factors would have become increasingly important if the partial shutdown had extended beyond five weeks.

4. In CBO's estimates, workers who were required to continue to work at agencies that did not have funding contributed to real GDP during the shutdown, while furloughed workers did not—an approach that accords with the methods typically used by the Bureau of Economic Analysis to measure real GDP.

What Are the Effects of Recent Changes in Trade Policy?

In 2018, the United States imposed new tariffs on 12 percent of imported goods. Some of those tariffs were on goods and commodities, such as solar panels and steel, imported from most countries, and others were only on various products imported from China. The new tariffs range from 10 percent to 30 percent of the imports' assessed customs values. In response, U.S. trading partners imposed tariffs on 9 percent of all goods exported by the United States.

CBO's baseline projections incorporate the assumption that all newly *implemented* changes to trade policy, both domestic and foreign, are permanent and that *scheduled* changes to trade policy do not take effect. The Administration possesses broad authority to adjust tariff policy without legislative action, but CBO did not attempt to predict those adjustments.

On net, CBO estimates that the new tariffs on both imports and exports will reduce U.S. real GDP by about 0.1 percent, on average, through 2029. The changes in trade policy also increase uncertainty among investors, which may further reduce U.S. output. CBO's estimates of the economic effects of the new tariffs are subject to considerable uncertainty, particularly over the longer run.

In addition to their broad effects on the economy, the new tariffs are projected to boost customs duties. Such duties have equaled 0.2 percent of GDP in recent years, amounting to $41 billion in 2018. In CBO's baseline projections, they increase to 0.3 percent of GDP in 2019 and remain between 0.3 percent and 0.4 percent of GDP through the next decade. (For additional details, see Box 2-1 in yesterday's report.)

How Does CBO Make Projections of Immigration and Its Effects?

Underlying CBO's baseline projections are estimates of many demographic factors, including immigration. CBO estimates the annual net flows of three kinds of immigrants: legal permanent residents, legal temporary residents, and foreign-born individuals without legal status. The agency's estimates are informed by analyses of recent trends and current immigration policy. CBO's baseline projections incorporate the following estimates:

- Annual net flows of legal permanent residents grow at an average rate of about 0.4 percent per year over the next 10 years, averaging approximately 860,000 per year.

- Annual net flows of legal temporary residents remain steady at approximately 80,000 per year over the next decade.

- Annual net flows of foreign-born individuals without legal status increase over the next five years, from zero in 2019 (meaning that immigration is offset by emigration) to about 170,000 in 2024. After that, annual net flows remain about the same through 2029.

All told, in CBO's projections, net immigration to the United States—a measure that accounts for all people who either enter or leave the country in any year—grows by an average of 2.0 percent per year over the next decade.

In estimating the budgetary effects of proposed legislation related to immigration, CBO and the staff of the Joint Committee on Taxation start with the baseline projections and then examine many aspects of the legislation, including the immigration status of affected people, where they currently live, and factors related to their employment and their use of federal benefits. Such factors include the ways in which the legislation would change people's eligibility for federal benefits and ability to work, which are defined in current law. They also include the ways in which the legislation would affect people's behavior.

The Budget and Economic Outlook: 2019 to 2029 is one in a series of reports on the state of the budget and the economy that CBO issues each year. The report satisfies the requirement of section 202(e) of the Congressional Budget Act of 1974 for CBO to submit to the Committees on the Budget periodic reports about fiscal policy and to provide baseline projections of the federal budget. This testimony highlights key issues related to that report.

In accordance with CBO's mandate to provide objective, impartial analysis, neither that report nor this testimony makes any recommendations. Both publications are available on CBO's website, at www.cbo.gov/publication/54918 and www.cbo.gov/publication/54945, respectively.

Keith Hall
Director

Chairman ENZI. Thank you, Director. And I also want to thank you for the product that your staff put out on some possible spending changes that we can make, and they are designed on a sliding scale, and I have everybody looking through those, I hope.

Now we will turn to questions, and normally I would ask questions first, but I am going to be here for the whole hearing, and we have a vote scheduled. But I will explain the process to Committee members before we start. Each member will have 5 minutes for questions, usually beginning with me and with the Ranking Member. Following the two of us, we would alternate questions between Republicans and the minority. All members who were in attendance when the hearing started, at the sound of the gavel, will be recognized in order of seniority. For those who arrived after the hearing began, you are on the list in order of arrival. If it is your turn to be on the list to be recognized and you are not available, then you move to the bottom of the list and we turn to the next Senator on that side of the aisle to ask questions.

Okay. With that, I will turn to Senator Johnson, who was here at the sound of the gavel.

Senator JOHNSON. Thank you, Mr. Chairman. Dr. Hall, by the way, I did appreciate your summary. It is the charts and graphs that I was picking out of your larger product, so I appreciate that.

I want to focus on page 4 of the main report. What you said in your testimony, you talked about the increasing number of retired individuals. You state it a little bit differently in your report. You say, "We are going to experience slower growth primarily because the labor force is expected to grow more slowly than it has in the past." The same type of thing.

One of the things we are debating is immigration. How many people should we grant permanent legal residency per year? I have been in manufacturing for 30 years. It has been difficult to hire people in manufacturing for at least 20 of those years. As long as I have been a Senator, there is not one manufacturing plant in Wisconsin that can hire enough people. The same way in terms of dairy farms.

So can you expand a little bit more? You know, from my standpoint, economic growth requires human capital plus financial capital. Just talk about the demographics that we are facing in terms of lower birth rates. You know, Senator Perdue and I earlier talked about what should be the number of people we allow into this country in terms of legal immigration and how should we structure that as opposed to just family unification versus targeted toward employment.

Mr. HALL. Sure. Well, let me start with stating clearly what I think the challenge is. When we talk about long-term potential growth being only something like 1.8 percent, there is a really simple recipe. If you look at productivity growth, if we assume something like 1.3 or 1.4 percent productivity growth, that is something in the range that we normally have. We have had bigger at time.

Senator JOHNSON. And, again, that is the financial capital aspect.

Mr. HALL. Exactly. That depends on the capital stock. That is the sort of thing that, for example, the tax bill addressed.

The other part is the labor force. We only see the labor force growing about half a percent a year. So if you take 1.3, add it to 0.5, you get the 1.8, and it is almost that simple.

So those are sort of the two ingredients for getting long-term growth. That 1.5 percent is a real challenge because of our aging population. We are getting more people who are over 65. The number of people who are over 65 are getting older, and the labor force participation rates of younger folks just are not actually keeping up with the Baby Boomers. So we are going to see a drop in labor force participation. That is a big part of why this labor force growth is slowing.

Senator JOHNSON. So, again, the numbers are pretty simple. I think our labor force is approximately 150 million people. Is that——

Mr. HALL. Right. That is right.

Senator JOHNSON. Okay. So if we want to grow faster than that—right now you are saying it is going to grow by half a percent.

Mr. HALL. Yes.

Senator JOHNSON. That is about 750,000 people per year, correct?

Mr. HALL. That sounds about right.

Senator JOHNSON. So if we want to grow another half percent, we need to increase our labor force by another 750,000. If we want to grow by 2 percent, we would have to really grow our labor force by about 3 million people per year. That is just off the top of my head. But, I mean, those are the types of numbers we are talking about. We grant legal permanent residency to about a million people.

Mr. HALL. Right.

Senator JOHNSON. What are you——

Senator PERDUE. But.

Senator JOHNSON. Yeah, but it is primarily about family unification as opposed to putting them to work. What are you seeing in your demographics in terms of just natural birth rate and our own population growth? And what shortfall do we have there? So fill in the blanks on the 500,000 you are basically talking about.

Mr. HALL. Right, well, let me mention one thing about immigration really quickly. Specific proposals on immigration policy would have different effects. It in part depends upon who you are allowing in on immigration. The level of education and skills do make a difference. So if you are getting people with high education levels, there actually is evidence that those people, not only do they add to your labor force; they actually add to productivity. If you add folks who are less skilled and more basic, they do not add to productivity like that, and there is some issue of whether or not they suppress wages for low-income folks as well. So the mix matters.

Senator JOHNSON. Sure.

Mr. HALL. But the basic formula is if you just allow immigration, you increase your labor force and you increase growth. Historically, we have had pretty high labor force growth rates in part because we have had fairly high immigration. One of the things that you see is recent immigrants actually typically have higher birth rates than others do. So actually we get an extra—we have gotten an extra little kick in the past and adding to the labor force with that.

Senator JOHNSON. But, again, just base numbers, you are looking at a labor force increase of about 750,000 people per year.

Mr. HALL. Right, right.

Senator JOHNSON. Your projections.

Mr. HALL. Right. Now, let me just say, when we were really going gangbusters in economic growth in the late 1990s, it was more than immigration. It was also that women's labor force participation was rising to historical levels. And so women closed that gap, so we actually had this extra boost in the labor force. And from what we have seen since then, that gap is now closed, and it is now pretty constant. So we do not really expect that to close any more in the future, so you do not have that additional growth in the labor force.

Senator JOHNSON. Okay. Thank you very much. Very helpful.

Chairman ENZI. Thank you.

Senator Perdue.

Senator PERDUE. Well, thank you. I did not know we would have an unilateral debate going today in the Committee, but, first of all, Dr. Hall, I really appreciate your focus on the debt. This has been a consistent message that you have delivered each year that you have come here, and I want to thank you personally for that. I personally believe it is the number one crisis we have in America.

But I want to level-set this a bit. You talk about the public debt being 78 percent. If we were to include in the nomenclature the debt that we hold in the Social Security and Medicare trust funds, it is actually over 100 percent of current GDP if that were all included. Correct? So it is a matter of really how you level-set that.

Mr. HALL. Right, right.

Senator PERDUE. I want to come to another question, though, particularly the growth of this. To go from $22 trillion projected at the end of 2019, from $21 trillion today to $32 trillion next year, the largest growth in that is Social Security, Medicare, and interest on the debt. But we have also got pension benefits for Federal employees, Medicaid, and this interest I want to talk about.

Right now, it is projected that in the next 10 years it will go—from 2019 net interest outlays, from $383 to $928 billion by 2029 of this. So can you elaborate a little bit on the impact of the growth of interest? And we are still assuming a low relative interest rate compared to historical interest rates of about 5.5 percent.

Mr. HALL. That is right. In fact, we do have interest rates going up, and that is a big part of this. And the trouble, of course, with interest rates going up is we already have a big debt. So when we start to add to the debt, in large part the things you mentioned are all typically related to the aging population.

Senator PERDUE. Right.

Mr. HALL. When you add that to it, you get this sort of double hit with interest rates and high debt combining on things. But you are right; we have debt—we have interest rates going up to what is a more normal range. We are still at the low end of the normal range, and that makes a big difference. If interest rates were just a percentage point higher than we forecast, then we are talking about an extra $2 trillion in debt over the next 10 years.

Senator PERDUE. Yes, you projected in an earlier report that by 2023 we would be spending more on interest on the debt than we are on our military.

Mr. HALL. Right, and that is——

Senator PERDUE. All defense spending.

Mr. HALL. And that is still in our projection. At the end of 10 years, the spending on net interest is greater than all defense spending.

Senator PERDUE. So let me move to the two things that are going up the fastest because of the aging population: Medicare and Social Security.

Mr. HALL. Right.

Senator PERDUE. You know, total spending is at an all-time high as a percentage of GDP. But when we look at Social Security, the trust fund of Social Security actually—disability goes to zero as projected, you project, by 2027. And I think the retirement part goes by 2032.

Mr. HALL. Right.

Senator PERDUE. I do not think the public fully appreciates the weight of that observation, so what really happens when they go—and, by the way, we are subsidizing this year Social Security by about $100 billion and I think Medicare by about $380 billion right out of the current account. So if those two trust funds actually were allowed to go to zero, then the only way to continue paying benefits at 100 percent is to take that deficit or that shortfall out of the current Federal income tax, which is something that we really never, ever projected to do.

So, in your mind, what is the impact of this? And, frankly, if we do not address that, no matter how the economy grows, how you cut expenses, or what you do with the budget process or what you do with health care, you really cannot bring the debt curve back down to some reasonable percentage over any length of time without addressing those pieces of it. Would you agree?

Mr. HALL. Well, yeah, the part I agree about is not to recommend particular things, but you need to find big changes. You need to find big sources of big cuts in spending or big increases in taxes or both. You cannot look at the small things and get there.

Senator PERDUE. Agree. But when you are spending $1.3 trillion in discretionary and over $3 trillion in mandatory, wouldn't you agree that the only way really to bend this curve is to attack all the costs? You cannot do it—you cannot get to solving a $1 trillion deficit by going after $1.3 trillion of expenses on discretionary spending. That just is not going to work. You cannot really raise revenue fast enough to do that. You really cannot cut enough spending out of discretionary spending. So the only way to go is to save Social Security and save Medicare. By "save," I mean avoid either trust fund going to zero.

Mr. HALL. That is reasonable logic. I think the discretionary spending is not a big bucket, but it by itself would not solve the problem.

Senator PERDUE. Right. Thank you. Again, thank you so much for the executive summary. This is so helpful. And I encourage you to continue to do that. It is very, very helpful.

Mr. HALL. Thank you.

Senator PERDUE. Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Senator Braun.

Senator BRAUN. Thank you, Chairman Enzi. And, Dr. Hall, we had a get-together in my office, and I had a few questions for you then, and you got me good answers.

Most people would not look forward to being on a Budget Committee when I have learned how we have worked so hard, you know, to try to tell the truth. I know in the State of Indiana, you know, we passed a balanced budget amendment. That certainly makes it easier. You know, we have done it out of practice. Being on a school board 10 years, being the CEO of my own business, it would be laughable if in any of those gigs that you would run the operation like that.

I am going to take a little different tack here, and great presentation in terms of the facts and figures. The other side many times indicates that we can raise income to offset our troubles here in the budget. And I asked you a few particular questions, and I was amazed at the answer that came back, and I am going to start with this one. To eliminate a deficit, you came back with the answer: "Taxes would have to go up across the board 33 percent." I want to make sure that that was correct because that is a huge number, and that is just a great example of how far we are out of kilter. You said one-third.

Mr. HALL. Well, you know, you go up by one-third, if you raise the tax rate, the tax rate would have to go up by 10 percent across the board.

Senator BRAUN. Okay. So that is good to clarify that. That is a huge tax increase. And then I think you also, when I was looking at the higher income brackets, the highest single bracket is $510,000, and the one just taxed at two percentage points lower is $204,000. And then the married equivalents would be 408 and 612. And let me understand this correctly. Did you say if you taxed fully through those brackets, meaning at 100 percent, it would not generate enough revenue?

Mr. HALL. That is right.

Senator BRAUN. Okay. If you taxed all income over $204,000 and $408,000 for married couples, you could not raise enough revenue to pay for our deficit. That to me is appalling. I am going to try to couch terms in ways that people will understand it, and we have just got to do a better job than that. That would be—and I was disappointed when I got here and heard that several times we have tried to address spending bills and cannot get those ever to catch stride. But it looks like it would nearly be impossible if you did what many claim out there in terms of very top rates, you just could not generate enough income for us to balance our budget.

So I think you do not need much more than an eighth grade education to understand the arithmetic here. Politically, some think that you could tax your way out of it. We have got to me what appears to be a spending problem that has been accumulating over many years. Revenues are currently rising faster than the growth of the economy. Is that true?

Mr. HALL. That is right.

Senator BRAUN. Okay. So you could not tax incomes at 100 percent and still cover the deficit. We are generating more income faster than the rate of the growth of the economy. It looks to me that the answer is simple, and it is more about backbone and fortitude, and we are going to have to start addressing the mandatory spending and doing things that are kind of across the board if we are ever going to cut into this issue that has not snuck up on us.

Mr. HALL. I will pass on agreeing because we do not comment on policy, but——

Senator BRAUN. I understand, and I will yield the rest of my time.

Chairman ENZI. Thank you.

Senator Kennedy.

Senator KENNEDY. Thank you, Mr. Chairman. Doctor, thanks for being here today.

What would be the impact on our GNP if America adopted a so-called merit immigration policy like Canada or Australia?

Mr. HALL. We would have to look at that. I am not sure exactly how that is different. We would have to—I would not want to try to guess. We would have to look at it carefully and analyze it carefully.

Senator KENNEDY. Well, would it cause it to go down?

Mr. HALL. I am afraid I am just not that familiar with the Canadian system.

Senator KENNEDY. Well, the Canadian and Australian systems basically admit folks to their country based on their potential economic contribution as opposed to our system; we basically admit people who have family.

Mr. HALL. Right.

Senator KENNEDY. Would you look at that for me?

Mr. HALL. Sure, sure. I can say, which is a relevant statistic, I think, the evidence is that people with higher levels of education as immigrants do contribute to productivity growth as well as their work. So that has sort of a different effect than others who are less skilled.

Senator KENNEDY. What role, briefly, does the labor force participation rate play in GDP?

Mr. HALL. It is a very important role. It is a really key part of getting GDP growth.

Senator KENNEDY. And what is our labor force participation rate, about 0.62, something like that?

Mr. HALL. Yeah, it is a little under 63 percent right now, and we see it going down, unfortunately, as the Baby Boomers age and start to retire. So right now it has been—actually, the rate has actually been holding for a little bit, but we expect it to start to decline, and that is starting to be a burden on growth going forward.

Senator KENNEDY. If Government social programs paid more than one could earn through an entry-level minimum wage job, would that have an impact on GDP?

Mr. HALL. Well, let me just say in general we look at the marginal tax on labor. You know, when things happen, for example, even the income tax, there is a marginal tax on labor. So when the marginal tax on labor goes up, we think labor supply goes down.

Senator KENNEDY. Well, let me put it another way. If you add up all of our welfare programs—TANF, Medicaid, food stamps, et cetera—they pay someone more than the minimum wage in 35 States. Does that sound right?

Mr. HALL. Yeah, that sounds right, but I do not——

Senator KENNEDY. They pay more than $15 an hour in 13 States. In my State, one parent and two children would make $27,000 tax-free. You cannot do that in a minimum wage job. That discourages people from joining the workforce, does it not?

Mr. HALL. Again, that sort of thing contributes to a high tax rate on working in our marginal tax——

Senator KENNEDY. That discourages people from joining the labor force, does it not?

Mr. HALL. It could have an impact. I hesitate to say because we have not done the analysis, and we try to be really careful about when we talk about things that we have actually looked at specifics.

Senator KENNEDY. All right. I want to ask you about the shutdown. Nobody wanted the shutdown. Nobody is for a shutdown, and I do not want you to construe my remarks as implying otherwise. Can we agree that the American economy, our gross national product, is about $20 trillion a year?

Mr. HALL. That is right, yes.

Senator KENNEDY. That is like 12 zeroes, right?

Mr. HALL. Yes.

Senator KENNEDY. Okay. And I understand—maybe they are your numbers—that the shutdown cost $11 billion. Is that right?

Mr. HALL. That was our estimate, yes.

Senator KENNEDY. But we are going to recover $8 billion, right?

Mr. HALL. That is right.

Senator KENNEDY. That leaves $3 billion that we are out, right?

Mr. HALL. Yes.

Senator KENNEDY. Do you happen to know what—did you look at what percentage $3 billion of $20 trillion is?

Mr. HALL. It is not a big percentage.

Senator KENNEDY. It is about 0.02 percent of 1 percent.

Mr. HALL. That sounds about right.

Senator KENNEDY. Okay. So how come so many economists are saying the world is going to spin off its axis? We are talking about—I am not defending the shutdown. I am just trying to understand basic math. You are talking about 0.02 percent of 1 percent.

Mr. HALL. Right.

Senator KENNEDY. Am I right?

Mr. HALL. That is right, and I do not want to defend somebody else's analysis. But we did produce these numbers that you are quoting.

Senator KENNEDY. All right. I am out of time. Thank you for coming, Dr. Hall.

Chairman ENZI. Thank you.

Senator Cramer.

Senator CRAMER. Thank you, Mr. Chairman, and I am honored to be on the Committee. And I want to follow up with what Senator

Kennedy is talking about because maybe there is more to it than simply a linear number, and I suspect there is.

But let us go to the next step. Let us say that we were able to reform our process so that we could institutionalize a prohibition, if you will, basically on any future Government shutdowns. Would there be a way to score that, the value of that, of never having to worry about one again? And, you know, it would not just be Federal workers who would be guaranteed a paycheck but, you know, the economy that requires and depends on those Government services to keep going along. Would there be some way to add a value to that?

Mr. HALL. That would be a challenging estimate. We would struggle with that.

Senator CRAMER. I will bet it would be, because it seems to me, as we talk about all these pieces of this formula, economic growth is the one that we have had some—that we have been fairly good at. It also seems to me that as the economy grows, there should be less need for Government, not more need, except for maybe infrastructure or things like that.

I want to go back to the earlier discussion, though, about immigration because we have such a generous immigration policy, and the workforce shortage is real, and it does stifle economic growth. I believe all of that. Is there any way, sort of tagging on again to maybe what Senator Kennedy was talking about, is there any way to score say 100 percent of the million legal immigrants per year if they were all merit-based, in other words, all of them had a skill set, whether it is an H–2A, you know, seasonal farm skill set, or an H–1B software engineering skill set, is there any way to determine how—the contribution that would make to the economy, thus to revenue and less demand for Government service?

Mr. HALL. I think that is something that, if we spent a little time, we could get a handle on.

Senator CRAMER. I think it would be valuable to do that as we are having these discussions, particularly the immigration discussion, apart from border security, but immigration policy. It seems to me comprehensive immigration reform has become the hardest thing in this town to do, and yet when I look at all the pieces of it, while each one of them has its own complexities, there is plenty of reason for us to do it. And we get caught up in numbers; we get caught up in caps; we get caught up in, you know, per country caps. We get caught up in all of these things, and yet I do not know anybody that could not be convinced of a benefit if we had a good economic score on what—in fact, let me even back up further. I would even submit to you that the number of immigrants that we allow per year is not even relevant if we allow the right type of people with the right skill sets and education that would fit the economic demands and workforce demands of our economy. And I would love to see CBO, or anybody else for that matter, do a real thorough analysis of what that might be, because I can think of some of my skeptical friends that might be convinced of, you know, a different argument.

Mr. HALL. Yeah, one of the things we could do in—I do not know if anybody else has done some research like that. We can look at it a little bit, and if you would like to follow up, we would like to sort of tell you what we have found in terms of current evidence.

Senator CRAMER. I would be interested in that. I think it would be—it would be helpful to me, I know, and I think it could be fascinating otherwise.

I think, Mr. Chairman, with that I will just yield back, and thank you.

Chairman ENZI. Thank you, and thanks for being here, and thanks for choosing this Committee. I appreciate it.

Senator CRAMER. It chose me. [Laughter.]

Chairman ENZI. Dr. Hall, when you exclude intergovernmental transfers, which is just the Federal Government moving money from its right pocket to its left pocket, spending on Social Security and Medicare will exceed their dedicated revenues by $8.3 trillion between 2020 and 2029. Are these programs fiscally sustainable?

Mr. HALL. The trust funds are going to be exhausted.

Chairman ENZI. Without legislative action, what year do you project that the Social Security Disability Insurance Trust Fund and Medicare's Hospital Insurance Trust Fund will be exhausted? And what happens when they are exhausted?

Mr. HALL. Well, the Disability we think will be exhausted in 2027, and under current law that would mean then that the benefits paid out would be constrained by the amount of money in the trust fund. So right away that would lower the benefits by about 10 percent right after that was exhausted. The Hospital Trust Fund, that ends in 2026, and there is a similar effect. Under current law the outlays would have to decline to match the incoming money for the trust fund, and that would decline like 14 percent the first year.

Chairman ENZI. Thank you. I am also deeply troubled, as a number have already mentioned, by the national debt.

Some have suggested, however, that the economic costs of debt are small or even that the debt does not matter at all. Can you elaborate on the potential consequences of our high and rising Federal debt? What about the claim that we do not need to worry about debt because the Federal Government can always print more money?

Mr. HALL. Well, let me mention what we think the potential consequences are.

First, as interest rates rise to more typical levels, Federal spending and interest payments will take more and more of the Federal budget. And that is why I like to point out that Federal spending on interest payments in 10 years is going to be about 3 percent of GDP. That is going to be higher than all defense spending. It is also going to be higher—or it is also higher than all discretionary nondefense spending. So interest rate payments are going to be a bigger and bigger part of the budget.

Second, Federal borrowing reduces the capital stock over time, so we get slower productivity, lower productivity, which means lower economic growth and lower wages for folks.

Third is lawmakers have limited flexibility in bad times. If you look at that visual summary that we gave out, there is a nice graph, the very first graph on it, that has the debt. It has circled deficits level year by year. And you can just see recessions here. In

1980, you see the deficits go up, in 1990, 2001, 2008. They all start from a relatively low-ish level and get significantly higher.

Right now we have a really high deficit at 4.4 percent. If we run into another business cycle, it is really going to go up from that, and it is going to limit policymakers' ability to deal with another recession. And, of course, the likelihood of a financial crisis would increase, and by that really we mean interest rates spiking over where they are now over our projection. We have got a really nice rule of thumb. If they increase by, say, a percentage point, we are talking about $2 trillion in debt over 10 years. So it is a really significant thing.

Now, those that claim that we should not worry about debt, we disagree with that. We think that continued borrowing—and this is based on past experience—continued borrowing, interest rates are going to go up. They are going to go up to normal levels. They will not stay down. And we believe that printing more money to accommodate that will lead to higher inflation and higher interest rates.

So we do not think that will work; although it is an interesting theory, we will try to follow that. But the fact is that our view of past experience is that that will not work going forward.

Chairman ENZI. Thank you.

Senator Kaine, did you vote? It is not your turn yet, but——

Senator KAINE. Yes, I voted.

Chairman ENZI. Okay. 2018 was a good year for the U.S. economy. CBO estimates that the economy grew 3.1 percent last year, the fastest annual growth since 2005. And while CBO predicts growth may not be as high going forward, the new report makes it clear that the 2017 Tax Cuts and Jobs Act will continue to have a positive effect on the economy over the next decade.

Director Hall, can you expand on how the new Tax Code is expected to improve incentives to work, save, and invest over the next several years?

Mr. HALL. The important impacts on growth from the tax bill are, one, there was a reduction in the effective marginal tax rates on labor income. This is primarily the lower individual income taxes. We think that will stimulate workers entering the labor force. We think the labor force will be bigger. We think the labor force will average about 600,000 more on average over the next 10 years because of the Tax Act, and we think that workers will work more hours. And the hours will be the equivalent of about another 800,000 workers, so that will not be trivial. That will be higher GDP growth and, importantly, higher potential GDP growth.

The second effect was higher effective marginal tax rates on capital income, and that is primarily from lower tax rates and business income. That means higher capital, higher productivity. And the bottom line in both these things, we think real GDP over the next decade will be about seven-tenths of a percent higher than it would have been without the Tax Act.

So the effects we think are measurable, and our earlier estimate, about a year ago, we are still comfortable with. We still think this will be the impact of the Tax Act going forward.

Chairman ENZI. Thank you.

Senator Kaine.

Senator KAINE. Thank you.

Dr. Hall, let me just ask, while we are on the tax bill, before the Chairman's question to you about the growth effect, you were talking about negative aspects of a debt and deficit effect.

Mr. HALL. Right.

Senator KAINE. Have you netted out your thoughts about the tax bill's impact on growth with the negative effects of its impact on the debt and deficit?

Mr. HALL. Yeah, that is a tough judgment to make. In fact, that is sort of above our pay grade. But I can tell you that we did not estimate that the Tax Act would generate so much growth that it would pay for itself. We do think the growth will result in higher revenue, but the higher revenue is maybe about 30 percent of the cost of the tax bill. So, you know, you have heard the line, "Will the tax bill pay for itself?" By our estimate, it will be able to pay for about 30 percent of itself through the higher growth.

Senator KAINE. And then depending upon these other economic factors and then how big a burden our debt turns out to be, if we enter a down cycle and because of debt we are not able to use some of the tools we have used in the past to deal with the down cycle, then you would start to see more of the real impact of the debt number that is occasioned by the tax bill.

Mr. HALL. Right, we certainly think the high debt level and rising debt level does create some risk for the economy.

Senator KAINE. Let me ask you this: So I have been seeing reports recently about a dramatic slowdown in the housing market, you know, 19 to 18, and some real significant concerns there. Did you deal with that at all in the economic outlook that you put into this report?

Mr. HALL. Yes, actually, we do forecast the housing market as part of our forecast, and so we do adjust that every year. We sort of look at the recent data and see where we think that is heading.

Senator KAINE. And do you share the—I mean, I have been reading in sort of common trade publications, Business Insider, Wall Street Journal, housing trade publications, slowing housing market. Do you also in your predictions see a slowing housing market as sort of a likely reality in the next year or two?

Mr. HALL. I think that is right. I would have to double-check with our housing analysts, but I think that is right. I do not think we are being surprised by anything at this point.

Senator KAINE. And do you have thoughts about the causes of that? Is it rising interest rates? Is it overbuilding, overcapacity? You know, is there a tax bill effect on SALT deductibility or home mortgage interest deductibility? You make a projection. Do you attribute it to factors?

Mr. HALL. Yeah, I mean, the mortgage deductibility part we do think is going to have an effect, and that is in our forecast. A lot of the general slowdown, though, we think is—the stimulus from the tax bill is still in place, but it is waning over time, and that is a big part of what the slowdown is, we think. In fact, you know, this is where we get into beyond this year we think it will actually slow down to below potential for a little while as we readjust to that lack of stimulus at some point.

Senator KAINE. One thing that I do not think you put into your projection, because hopefully we would not need to put it into our projection, deals with the upcoming decision that Congress might have to make about the debt ceiling. I am assuming in your factoring in you do not include some chance of, you know, Congress running up against some default on the debt ceiling or precipitous action on the debt ceiling of the type that led to a downgrading of U.S. credit in 2011. Am I correct that you are not making an assumption that we would do something stupid about the debt ceiling?

Mr. HALL. That is correct.

Senator KAINE. And so your advice to us, although I know you are giving us analysis rather than advice, is do not do something stupid about the debt ceiling.

Mr. HALL. Well, I will try not to give advice, but the stupid—if I were going to give advice, I would say something like that.

Senator KAINE. Because doing something stupid about the debt ceiling could have a significant negative impact on the economy, correct?

Mr. HALL. Well, you know, we would have to think it through. I do not want to project something like that. You know, actually I think there are some who differ a little bit as to how much impact that would have, so I do not want to——

Senator KAINE. Explain that. You know, as a former Governor and a Senator, to me anything that, you know, suggests that you are close to default or, you know, we are not good for the promises that we have made, those would have been—my financial advisers when I was Governor, for example, said that would be cataclysmic to do something like that, do not do that; or when I was mayor, you know, you are getting the bond rating, it would be really stupid for your costs of borrowing for you to suggest any unreliability over matters of being good on your debt.

What would the argument be that maybe flirting with the debt ceiling may not be so difficult?

Mr. HALL. Well, in a lot of ways, there still remains a great deal of trust in the Federal Government as a borrower. As long as people trust that the Government is a safe place to loan money to, then the U.S. Government is not going to have a premium on when they borrow. So it is probably likely that we are pretty far from having really concerns about whether there is a loss of faith in the Federal Government's ability to pay back its debts.

Senator KAINE. But anything that would contribute to any decline in confidence could have some negative impact, and it might be significant, depending upon how catastrophic or how irrational the actions of Congress or the administration would be.

Mr. HALL. Yeah, and that is sort of why we talk—when we talk about an extreme, we talk about a financial crisis, we are really talking about a severe drop in the faith of the Federal Government's ability to pay things back. And as we have talked about, having the U.S. Government have to pay a premium on its borrowing is not a good thing, not only for the budget but also probably for economic growth.

Senator KAINE. Right, and your point——

Chairman ENZI. Senator Whitehouse.

Senator KAINE. Okay. Thank you. Thank you.

Senator WHITEHOUSE. Thank you, Chairman. Welcome, Dr. Hall. I appreciate you being here. I wanted to ask you about two things. The first is health care spending.

I keep showing you this graph that is one of my most interesting puzzles, which indicates that in the 2019 to 2029 period, compared to extension of your projection for this period based on the same terms that we project here, you end up with a net savings in that 10-year period of $4.7 trillion in total Federal health care spending. About this much is actual, and then on it goes to projection. But, clearly, something has happened in there. I believe there have been estimates that about $400 billion of this $4.7 trillion has to do with the changes in the individual mandate. But that still leaves $4.3 trillion.

So I would ask you again to please work with us to try to understand what on Earth is going on. It could be that all your boffins with their algorithms do not actually know, but I would like to get a better understanding of it, because if you can lower in a 10-year period our health care spend by $4.3 trillion without really hurting anybody, whatever happened, we want to do more of it. So will you pledge to work with us and try to understand that better?

Mr. HALL. Yeah, and one thing, you know, we have limited ability to do our own research, so we rely on outside research much more than we do on our own research. We do what we can. So a lot of what we are lacking is just somebody's research.

Senator WHITEHOUSE. Well, if you could task—figure out who it is that you could task in that outside research to explain this, it would be helpful. And we will follow up separately.

Mr. HALL. Okay.

Senator WHITEHOUSE. The second thing I wanted to ask you about goes back to your answer to a question for the record by Ranking Member Sanders on April 6, 2017, a very simple statement that climate change may affect the Nation's economic output.

Now, since that date, we have seen two pretty serious warnings emerge, economic warnings, related to climate change. The first is probably best exemplified by Freddie Mac saying that they expect a coastal property values crash or at least a coastal property values crash is possible, which in its economic impact and scale would match the economic impact and scale of the 2008 mortgage meltdown, which we lived through and do not want to have to go through again. So that is out there, and a lot of people have written and talked about it. But Freddie Mac is probably the biggest and most non-environmentally specific organization with a lot of expertise that has made that warning. So that is one.

The second one is that the Bank of England is warning about a carbon asset bubble crash, and they use the term to define the impact of that crash "systemic risk." Do you know what the Bank of England means when it says "systemic risk"?

Mr. HALL. Well, I know what the term generally means, but I am not familiar with this—their view on that.

Senator WHITEHOUSE. Well, generally, I describe it as the blandest term that is the most terrifying two words economically one can think of. It basically means global economic collapse or significant slippage. Correct?

Mr. HALL. Right.

Senator WHITEHOUSE. It means that the problem goes beyond the carbon companies and out into the general economy, the same way that the 2008 crash went beyond the mortgage companies and out into the generally economy. Correct?

Mr. HALL. Yes.

Senator WHITEHOUSE. So those two things are now out there as warnings. Have you looked at either of those warnings, either on the merits or to see, were they to come true, what would that mean for your projections?

Mr. HALL. Sure. One of the things that we have done, and I think it is worthwhile mentioning, we do have a report from a couple years ago looking at the effect of increased hurricane frequency and intensity.

Senator WHITEHOUSE. Yeah, on the Flood Insurance Program, emergency spending, all that.

Mr. HALL. Exactly. And that is certainly relevant to the property part from Freddie Mac.

Senator WHITEHOUSE. Although just to be clear, this is actually quite different, because it is not an evaluation of the immediate impact of sea level rise or offshore storms or whatever. It is an evaluation of what happens to confidence in coastal property values when banks will not give you a mortgage because they do not know that the property is going to be there 30 years from now and you cannot get insurance because you do not know what the tail-end risk is if you are the insurer, which makes it really hard to sell coastal property, which creates the meltdown long ahead of and independent of any particular storm.

My time has run out, so let me follow up with questions for the record to make sure that we are on record.

Mr. HALL. Okay.

Senator WHITEHOUSE. And I would love to follow up and get answers from you in those three areas.

Mr. HALL. Sure.

Senator WHITEHOUSE. Thank you.

Chairman ENZI. I want to thank Dr. Hall for his testimony today. Your full statement will be entered in the record.

Information to all Senators: Questions for the record are due by noon tomorrow with a signed hard copy delivered to the Committee clerk at Dirksen 624. Under our rules, our witness will have 7 days from receipt of the questions to respond with answers.

With no further business before the Committee, this hearing is adjourned.

[Whereupon, at 3:28 p.m., the Committee was adjourned.]

ADDITIONAL COMMITTEE QUESTIONS

[The following submitted questions were not asked at the hearing but were answered by the witness subsequent to the hearing:]

Congressional Budget Office

MARCH 29, 2019

Answers to Questions for the Record Following a Hearing on *The Budget and Economic Outlook: 2019 to 2029* Conducted by the Senate Committee on the Budget

On January 29, 2019, the Senate Committee on the Budget convened a hearing at which Keith Hall, Director of the Congressional Budget Office, testified about The Budget and Economic Outlook: 2019 to 2029.[1] *After the hearing, Ranking Member Sanders and other members of the Committee submitted questions for the record. This document provides CBO's answers. It is available at* www.cbo.gov/publication/54991.

Senator Sanders

Question. I read with interest your recent report, "Options for Reducing the Deficit: 2019 to 2028." While I very much appreciate the work you and your team put into this volume, I was disturbed by the following statement made on page 292 during the report's discussion of a potential carbon tax:

> Many estimates suggest that the effect of climate change on the nation's economic output, and hence on federal tax revenues, will probably be small over the next 30 years and larger, but still modest, in the following few decades.

Simply put, the claim that climate change will have only "small" or "modest" effects on our nation's economy and budget is not supported by the facts.

In November, 13 federal government agencies collectively produced a new National Climate Assessment, which concluded: "With continued growth in emissions at historic rates, annual losses in some economic sectors are projected to reach hundreds of billions of dollars by the end of the century—more than the current gross domestic product (GDP) of many U.S. states."

Please provide me a list of the studies that have led you to conclude that the projected economic and budgetary harms from climate change are merely "small" or "modest."

Answer. It is important to note the time frames addressed by CBO's statement because climate change is expected to impose costs that will accumulate over time. Initially, the economic effects of climate change will probably be small relative to the size of the

1. See testimony of Keith Hall, Director, Congressional Budget Office, before the Senate Committee on the Budget, *The Budget and Economic Outlook: 2019 to 2029* (January 29, 2019), www.cbo.gov/publication/54945.

U.S. economy, but the relative cost is expected to increase throughout the 21st century. As CBO noted in its latest volume of *Options for Reducing the Deficit,* "Uncertainty about the effects of climate change—and the potential for unlimited emissions to cause significant damage—grows substantially in the more distant future."[2] That is because the potential magnitude of damage—and the range of possible outcomes—becomes increasingly large as the average global temperature rises. Hence, even if the economic costs are modest 50 or 60 years from now, they may no longer be modest 80 or 90 years from now. CBO has not assessed the magnitude of those costs at the end of the century, as some studies have done.[3]

One important consideration for understanding the future economic impact of climate change is the expected increase in the size of the economy. Dollar losses that occur in a given year are most appropriately compared with GDP in that same year. The summary finding reported in the *Fourth National Climate Assessment* compared the magnitude of annual losses at the end of the century (estimated to be hundreds of billions of dollars) with the current GDP of several states.[4] That comparison does not account for the substantial growth in GDP that is likely to occur between now and then. Although forecasting GDP decades in advance is very speculative, if the economy continues to grow as it has in recent decades for the rest of this century, as CBO expects it will, the nation's output (measured on an inflation-adjusted basis) would be several times the size it is today.

However, the effects of climate change will not be evenly distributed throughout the United States. Although losses may be small relative to GDP over the next few decades, damage is likely to be concentrated in certain areas and to have a larger impact on some sectors of the economy than others. For example, damage from rising sea levels and increases in the intensity of hurricanes would be borne by coastal communities. In 2016, CBO examined how climate change and development in coastal areas might affect the costs of damage from hurricanes. The agency concluded that, at present, less than 0.4 percent of the U.S. population, or about 1.2 million people, live in counties where per capita, hurricane damage is expected to be greater than 5 percent of the average income.[5] By 2075, however, that share would, in CBO's estimation, rise to 2.1 percent of the population, or about 10 million people.

Finally, experts believe that there is a small possibility that even relatively modest warming could, with little warning, trigger unprecedented changes during the 21st century that could have significant negative effects on the U.S. economy. For example, shifts in ocean currents could change weather patterns and affect agriculture over large areas, or the rapid

2. Congressional Budget Office, *Options for Reducing the Deficit: 2019 to 2028* (December 2018), p. 292, www.cbo.gov/publication/54667.

3. For a range of estimates of the effects associated with different levels of emissions over the 21st century, see Riccardo Colacito, Bridget Hoffmann, and Toan Phan, *Temperature and Growth: A Panel Analysis of the United States*, Working Paper 18-09 (Federal Reserve Bank of Richmond, March 2018), https://tinyurl.com/yxvnssq9; Solomon Hsiang and others, "Estimating Economic Damage From Climate Change in the United States," *Science*, vol. 356, no. 6345 (June 2017), pp. 1362–1369, https://doi.org/10.1126/science.aal4369; Tatyana Deryugina and Solomon M. Hsiang, *Does the Environment Still Matter? Daily Temperature and Income in the United States*, Working Paper 20750 (National Bureau of Economic Research, December 2014), www.nber.org/papers/w20750; and Kate Larsen and others, *American Climate Prospectus: Economic Risks in the United States* (Rhodium Group, October 2014), https://tinyurl.com/y6yrp4ms.

4. U.S. Global Change Research Program, *Fourth National Climate Assessment*, vol. 2, *Impacts, Risks, and Adaptation in the United States* (2018), p. 26, https://go.usa.gov/xEGxy (PDF, 118 KB).

5. Congressional Budget Office, *Potential Increases in Hurricane Damage in the United States: Implications for the Federal Budget* (June 2016), www.cbo.gov/publication/51518.

disintegration of ice sheets could dramatically raise sea levels. The sources and nature of such abrupt changes, their likelihood, and their potential impacts remain very poorly understood.[6]

Question. Between December 2017 and April 2018 the static score of the Trump tax cuts increased by $436 billion. Why did the score increase?

Answer. The estimate of the budgetary effects of the 2017 tax act that CBO published on December 15, 2017, largely relied on the staff of the Joint Committee of Taxation's (JCT's) estimates of the impact of that legislation.[7] Those estimates were measured in relation to the baseline budget projections that CBO published in January 2017.[8] As reported in a recent blog post, in April 2018 CBO made significant changes to its baseline projections to reflect new information that became available during 2017.[9] On net, those changes resulted in higher projections of GDP and of revenues from both individual and corporate taxes.

When CBO produced a new estimate of the effects of the 2017 tax act in relation to the higher baseline projections of revenues published in April 2018, the estimated impact on the deficit was larger.[10] The most notable difference between the two sets of estimates was the magnitude of the decrease in revenues projected to result from the tax act's reduction of tax rates. The decrease was estimated to be larger primarily because the tax base was larger in CBO's 2018 economic forecast than it was in the agency's 2017 forecast.

Senator Cramer

Question. Director Hall, I wanted to follow up on the discussion that we had during the January 29, 2019 hearing regarding the economic impact of a merit-based immigration system. As we discussed, the size and skillset of our labor force has a tremendous impact on the strength of our economy. Does your office have any analysis on the budgetary and economic impacts of changing our immigration system to a merit-based system? If not, please provide.

Answer. CBO has not analyzed the budgetary or economic effects of adopting a merit-based immigration system. However, in a cost estimate for H.R. 2131, the Supplying Knowledge-based Immigrants and Lifting Levels of STEM Visas Act of 2013, CBO and JCT estimated that, on net, the bill would reduce budget deficits by $110 billion over the 2014–2024 period.[11] H.R. 2131 would have made many changes to immigration law, but two in

6. Congressional Budget Office, *Potential Impacts of Climate Change in the United States* (May 2009), www.cbo.gov/publication/41180.
7. Congressional Budget Office, letter to the Honorable Kevin Brady providing a cost estimate for the conference agreement on H.R. 1, a bill to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018 (December 15, 2017), www.cbo.gov/publication/53415.
8. See Congressional Budget Office, *The Budget and Economic Outlook: 2017 to 2027* (January 2017), www.cbo.gov/publication/52370.
9. Congressional Budget Office, "How the 2017 Tax Act Has Affected CBO's GDP and Budget Projections Since January 2017," *CBO Blog* (February 28, 2019), www.cbo.gov/publication/54994.
10. See Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028* (April 2018), www.cbo.gov/publication/53651.
11. Congressional Budget Office, cost estimate for H.R. 2131, the Supplying Knowledge-based Immigrants and Lifting Levels of STEM Visas Act (SKILLS Visa Act) (March 12, 2014), www.cbo.gov/publication/45179.

particular would have moved U.S. immigration toward a merit-based system by shifting the relative skill level of noncitizens who were permitted to live and work in the United States:

- First, the law would have significantly increased the number of workers and their dependents who could receive lawful permanent resident (LPR) status (commonly referred to as a green card) or H-1B nonimmigrant (that is, temporary) status on the basis of employment. (Dependents of workers with H-1B nonimmigrant status are granted H-4 nonimmigrant status.) CBO estimated that the number of foreign-born people who qualified for permanent or temporary immigration status through those channels and their native-born children would have increased by more than 1 million during the first decade after the law was enacted.
- Second, the law would have eliminated the diversity visa lottery, which allows 50,000 noncitizens each year to receive LPR status if they or their relative are chosen through a random-selection process. To be eligible for the lottery, a noncitizen needs only a high school education or two years of experience in an occupation that requires two years of training. CBO estimated that eliminating the lottery would have decreased the number of foreign-born people who qualified for LPR status and their native-born children by 400,000 during the first decade after the law was enacted.

In addition, in 2013, CBO analyzed the effect that an increase in immigration would have on productivity.[12] The agency estimated that the increase in immigration—particularly of highly skilled immigrants—resulting from enacting S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act, would raise productivity slightly.

CBO has not completed any similar analyses recently, and the estimated effects of a change in immigration policy today would differ from those for H.R. 2131 or S. 744.[13] Legislative and administrative changes in immigration, benefit, and tax laws made since those estimates were published would affect CBO's estimates of merit-based immigration proposals or other proposals. Additionally, the behavior of U.S. employers and foreign-born employees and students changes over time, and those changes could affect how CBO estimates the effects of immigration proposals on the population. Finally, CBO and JCT continually update their baseline projections and estimates to incorporate new research and information. CBO has discussed those and related issues in several publications.[14]

Question. Does your office have any analysis of the budgetary and economic impacts of eliminating the per country percentage caps on employment-based immigrants in the H1B visa program? If not, please provide.

12. See Congressional Budget Office, *The Economic Impact of S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act* (June 2013), www.cbo.gov/publication/44346.

13. CBO projected the effects of a proposal similar to S. 744 in the President's 2017 budget, but that analysis was based on the agency's 2013 estimate. After adjusting that cost estimate to reflect changes in the baseline budget projections that had been made since 2013, and after taking into account other changes to the tax code proposed by the President, CBO and JCT projected that the proposal's effects on revenues and direct spending would reduce deficits by $101 billion over the 2017–2026 period. (The deficit reduction was projected to be $158 billion over the 2014–2023 period in the original cost estimate.) See Congressional Budget Office, *An Analysis of the President's 2017 Budget* (March 2016), p. 6, www.cbo.gov/publication/51383.

14. See, for example, Congressional Budget Office, *How Changes in Immigration Policy Might Affect the Federal Budget* (January 2015), www.cbo.gov/publication/49868, cost estimate for S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act (July 3, 2013), www.cbo.gov/publication/52481, and *The Economic Impact of S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act* (June 2013), www.cbo.gov/publication/44346.

Answer. Although the total number of foreign-born workers in specialty occupations who are eligible for nonimmigrant status through the H-1B program is subject to annual limits, the program does not have any country-based quotas. However, such limits (established in 8 U.S.C. 1152) apply to noncitizens who seek lawful permanent resident status through employment-based preferences (8 U.S.C. 1153(b)) or family-sponsored preferences (8 U.S.C. 1153(a)).

CBO analyzed the budgetary effects of removing the country-based limits on who can obtain LPR status through employment-based preferences in September 2018, when the House Committee on Appropriations reported H.R. 6776, a bill making appropriations for the Department of Homeland Security for fiscal year 2019. (As is the case for most cost estimates, CBO did not examine the economic effects of enacting the legislation.) Section 540 of that bill would have removed the current restriction that no more than 7 percent of all noncitizens who receive LPR status on the basis of employment in a given year can be from any single country. (Under current law, that limit can be lifted in a given year if enforcing it would prevent the United States from granting employment-based LPR status to 140,000 noncitizens.) According to CBO's estimate, enacting section 540 would increase direct spending by $22 million and decrease revenues by $11 million (stemming mostly from a reduction in receipts from visa fees) over the 2019–2028 period, thereby increasing budget deficits by $33 million over that period.

Primarily on the basis of data from the Department of Homeland Security, CBO estimated that, on net, section 540 would reduce the U.S. population below what it would be under current law. That reduction in population would occur because, with the removal of the 7 percent cap, more of the noncitizens who received employment-based LPR status would already be in the United States in another status (typically H-1B nonimmigrant status), and fewer would be arriving from abroad. In particular, noncitizens from India and China, who make up a large portion of H-1B nonimmigrants, are the most likely to be affected by the 7 percent cap. If section 540 was enacted, some of them would become LPRs—and eventually U.S. citizens—more quickly than they would under current law.[15] Thus, although the number of noncitizens who were granted employment-based LPR status would remain the same, the number of noncitizens in the United States in nonimmigrant status would decline because they would spend fewer years in that status while waiting for it to be adjusted to LPR status.

That more rapid adjustment to LPR status would have another effect. Naturalized citizens from India and China sponsor their parents for LPR status as immediate relatives of U.S. citizens at higher rates than do naturalized citizens from other countries. Thus, the number of noncitizens in the United States who received LPR status as immediate relatives of U.S. citizens would increase as well.

Unlike noncitizens who have employment-based LPR status, immediate relatives of U.S. citizens are not subject to employment or educational requirements. CBO estimates that they would have lower income than those who apply on the basis of employment and thus would be eligible for more federal benefits—most notably, subsidies under the Affordable Care Act. (Some of those subsidies reduce income tax liabilities and thus decrease revenues.)

Because there would be fewer noncitizens in nonimmigrant status, there would also be a reduction in direct spending, mostly for subsidies under the Affordable Care Act. That

15. H-1B nonimmigrants whose employers have sponsored them for employment-based LPR status can continually renew their H-1B status while waiting for their adjustment to LPR status. Such renewals do not count against any numerical limitations in the H-1B program.

reduction would be relatively small because nonimmigrants are specifically ineligible for many federal benefits and because those who would be affected by section 540 must work in specialty occupations, hold advanced degrees, or meet both of those requirements. Consequently, CBO expects that they (and their spouses and minor children) would most likely have income that was too high to qualify for various federal benefits. Thus, CBO expects that over the 10-year projection period, the increases in direct spending for those additional immediate relatives of U.S. citizens who obtained LPR status would outweigh the decreases in direct spending stemming from the decline in the number of nonimmigrants.

In addition, because fewer noncitizens would be applying for LPR status from abroad, the Department of State would collect fewer fees for immigrant visas. A portion of those fees is deposited in the Treasury and recorded in the budget as revenues. By contrast, fees paid to the Department of Homeland Security to adjust status within the United States are recorded as offsetting receipts, which reduce direct spending. Those receipts are available to be spent without future appropriation; thus, the net budgetary effect from collecting those fees is negligible.

Senator Grassley

Question. Dr. Hall, your outlook looks at recent changes in trade policy, where you consider effects of U.S.-imposed tariffs and the retaliatory tariffs other countries have imposed in response. And it looks like CBO's analysis confirms that tariffs are not good for the economy.

Your report also says that around 21 percent of goods in the Food, Feed, and Beverages group are affected by tariffs, and I presume that includes agricultural goods that are affected.

I wonder whether your analysis has factored in possible supply-chain effects of tariffs with, for example, long-term damage to U.S. agricultural exports when other countries find new places to buy agricultural goods.

Answer. In CBO's baseline projections, retaliatory tariffs imposed by the United States' trading partners reduce demand for U.S. agricultural exports and other goods because they increase the price of those exports relative to the prices of similar goods from other countries. Those trading partners are expected to replace most of their purchases of U.S. agricultural exports subject to the new tariffs with goods from other countries. However, much of that reduction in purchases is projected to be offset by increased U.S. exports to countries that did not impose new tariffs. If that offset was smaller than anticipated, or if the reduction in U.S. exports from countries' imposing retaliatory tariffs was larger than expected, the negative effect on the U.S. agricultural industry would be greater than projected. Because CBO's projections incorporated the assumption that tariffs in effect when the baseline was published would be permanent, the reduction in exports to countries that imposed retaliatory tariffs is long-lasting; however, CBO projects that over time, the United States would divert more exports to other trading partners.

Question. Dr. Hall, part of the fiscal challenges ahead of us are growing interest costs on the debt. Under the Obama administration, there were four consecutive years of deficits well above one trillion dollars. Also, public debt held by the public ballooned over the full Obama presidency by more than eight trillion dollars.

Is it safe to say that a significant amount of that debt that was run up by the previous administration is now adding to our fiscal challenges?

Answer. Since 2008, debt and deficits have increased significantly, primarily as a result of the severe 2007–2009 recession and enacted legislation. Federal debt held by the public is now roughly twice what it was before the recession, and it continues to grow. The high and rising level of debt poses significant risks to both the economy and the federal budget. The government's interest costs are rising. The nation's capital stock will ultimately be smaller, and productivity and total wages lower, than they would have been otherwise. Lawmakers will have less flexibility to respond to unexpected challenges. And the likelihood of a fiscal crisis in the United States grows ever greater.

Much of the increase in the past decade occurred from 2009 through 2012, when deficits totaled $5.1 trillion. The large deficits stemmed in part from the reductions in revenues and increases in mandatory spending that automatically occur during and after economic downturns. Newly enacted legislation—including the American Recovery and Reinvestment Act of 2009 (Public Law 111-5) and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312)—also contributed significantly.

The deficit shrank to $0.4 trillion in 2015 but has been larger since then. Although the effects of the 2007–2009 recession have waned in recent years, deficits have nevertheless remained larger than they were before it occurred. In CBO's most recent baseline projections, which reflect the assumption that current laws governing revenues and spending generally remain unchanged, federal debt held by the public rises by another $13 trillion from 2018 to 2029, reaching 93 percent of GDP by the end of that period.

Question. Dr. Hall, CBO's baseline projection has total revenues as a percent of GDP rising steadily to 17.4 percent, which is the long-run historic average, by 2025. That means that with all of the recent tax reform fully in place, revenues as a share of GDP will hit the historic average. Then revenues relative to GDP rise even further as some of the temporary features of the tax code phase out.

I have two questions about that.

First, is it correct to say that revenues as a share of GDP will return to the long-run historic average by 2025, before any of the recently enacted tax reform phases out?

And, second, what is the range of uncertainty about those estimates? For example, what is the chance that the revenue-to-GDP ratio that you project could hit the historic average even well before 2025?

Answer. Yes, CBO projects that in 2025, before the expiration of most of the temporary provisions of the 2017 tax act, revenues will amount to 17.4 percent of GDP—the same as the average over the past 50 years. In CBO's baseline, they rise to an average of 18.3 percent of GDP from 2027 through 2029.

As part of its recent *Budget and Economic Outlook*, CBO projected revenues under alternative assumptions about fiscal policy, including the assumption that certain expiring provisions of the 2017 tax act remained fully in place over a longer period of time.[16] If full expensing and certain other temporary provisions of the tax act were extended, total revenues would, CBO projects, range from 17.3 percent to 17.4 percent of GDP for the years 2025 through 2029, very close to the average over the past 50 years.

16. See Congressional Budget Office, *The Budget and Economic Outlook: 2019 to 2029* (January 2019), Chapter 5, www.cbo.gov/publication/54918.

However, projections of revenues and GDP are inherently uncertain. Unexpected developments can cause revenues as a percentage of GDP to differ from projected values. Such developments might include a combination of changes in the following factors: the composition of GDP and national income, the relationship between national income and the associated tax bases, the relative growth rates of asset prices and GDP, the distribution of income among taxpayers, and the effects of recently implemented policies.

A recent analysis of CBO's revenue forecasting record showed that the mean absolute error—that is, the average of the projection errors without regard to whether they were positive or negative—was 5.0 percent for the agency's budget-year projections and 10.1 percent for its sixth-year projections.[17] In CBO's current baseline projections, errors of those magnitudes would amount to 0.8 percent of GDP in 2020 and 1.8 percent of GDP in 2024. On the basis of that analysis of forecast errors, CBO estimates that there is a roughly 25 percent chance that revenues as a percentage of GDP would be equal to or greater than the historical average of 17.4 percent in 2020—though there is a similar probability that they would be 16.0 percent of GDP or less. (In CBO's baseline, revenues are projected to total 16.7 percent of GDP in 2020.)

Question. Dr. Hall, in a recent analysis of CBO's economic forecasting record, it is identified that: "Forecasters have consistently overestimated interest rates since the early 2000s." And I believe that CBO has also overestimated interest rates in the past.

I understand that forecasting is a difficult business, but since interest costs of federal debt seem to be a growing cause of concern, and since forecasters have been consistently overestimating interest rates, what might that mean for projected interest costs on the federal debt. For example, if you are consistently overestimating longer-term interest rates by, say, a percentage point, by how much may you have overestimated interest costs over a 10-year budget window?

Answer. The trajectory of interest rates is a significant source of uncertainty in CBO's projections. If interest rates turned out to be 1 percentage point lower each year than CBO currently projects and all other economic variables were unchanged, net outlays for interest would, in CBO's assessment, be roughly $1.8 trillion less between 2020 and 2029.

To show how variations in interest rates might affect the federal budget, CBO developed an interactive workbook in which users can create their own alternative scenarios for interest rates to see how revenues, outlays, and deficits might differ from CBO's baseline budget projections.[18] Those alternative scenarios illustrate the sensitivity of the budget to changes in interest rates—including both the rate on 3-month Treasury bills and the rate on 10-year Treasury notes—when all other economic variables are left unchanged. The estimates shown in the workbook are simplified approximations of the results that CBO might produce using its broad set of economic and budget models.

Question. Dr. Hall, spending as a share of GDP is projected to average 22.0 percent over the 2020–2029 period, well above the historic average. And, your recent outlook points to two major drivers of increased spending; namely, increases in spending for Social Security and

17. Congressional Budget Office, *CBO's Revenue Forecasting Record* (November 2015), www.cbo.gov/publication/50831.

18. Congressional Budget Office, "How Changes in Economic Conditions Might Affect the Federal Budget" (interactive tool, January 2019), www.cbo.gov/publication/54934.

Medicare, as well as net interest costs. So, mandatory spending on entitlements is one big driver of the unsustainable growth in federal spending.

Discretionary spending, in contrast, looks like it will fall relative to GDP.

I wonder, Dr. Hall, if you can tell me how long CBO has been giving Congress the message that mandatory spending has been growing faster than GDP; has it just been in the past couple of years, or have we known this for quite some time?

Answer. Since 1970, mandatory spending has more than doubled as a share of GDP, and CBO has long provided information about both actual and projected growth in such spending. The agency identified the challenge posed by growth in mandatory spending as far back as 1980. That year, CBO Director Alice Rivlin declared, "The major force that has driven budgetary growth in the past two decades, and promises to drive it in the next decade, is the growth in entitlements and other types of spending that are difficult to modify in the short run."[19] More than two decades ago, the agency started alerting lawmakers about the budgetary pressures that would arise beginning in 2008, when the first of the baby boomers would turn 62 and become eligible to receive Social Security benefits. In May 1996, CBO noted, "In the decades after 2010 . . . the demographic shift will push up the deficit rapidly if no changes are made in entitlement benefits for the elderly or in taxes on the working population."[20]

Senator Kaine

Question. In 2013, CBO released a report titled, "The Distribution of Major Tax Expenditures in the Individual Income Tax System." This is an informative report that we rely on for information when evaluating the tax code and changes to it. Since the report was released, significant changes have occurred to the U.S. tax code, including the 2017 tax bill, which would change the substance of the 2013 report.

- Does CBO have plans to update this report?
- If not, will you commit to updating this report as soon as feasibly possible?
- When would be a reasonable timeframe for these updates?

Answer. Each year, in *The Budget and Economic Outlook*, CBO reports the overall amount of tax expenditures and identifies which tax expenditures are the largest. CBO currently has no plans for a more expansive report on tax expenditures or their distribution. However, the agency would be happy to work with the Senate Budget Committee to assess the priority of producing a report on the distribution of tax expenditures. The priority of that project relative to others would significantly affect the time frame needed to complete it. CBO anticipates that the data collection, analysis, and modeling needed to complete such a project would take at least nine months from start to finish.

19. Testimony of Alice M. Rivlin, Director, Congressional Budget Office, before the Task Force on Federal Expenditure Limits of the House Rules Committee, *Limiting the Growth of Federal Expenditures* (February 6, 1980), p. 13, www.cbo.gov/publication/21131.

20. Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1997–2006* (May 1996), p. xxii, www.cbo.gov/publication/14949.

Senator Scott

Question. The CBO estimates that net interest payments will be $383 billion in 2019 and will increase to nearly $930 billion by 2029. Rising interest payments limit lawmakers' flexibility to set spending priorities as more and more money goes to servicing the debt. As Governor, I worked hard to get Florida's fiscal house in order. As a result, the State of Florida now holds top credit ratings with each of the major rating agencies, which has lowered interest costs and created real savings for the taxpayers of Florida.

In 2011, Standard and Poor's (S&P) rating agency downgraded the general obligation credit rating of the United States Government for the first time in modern history. What effect has this had on net interest spending and what would be the budgetary and economic effects of a credit rating upgrade in your outlook? What pathways exist to improve the federal government's creditworthiness within the outlook's timeframe?

Answer. In CBO's assessment, Standard & Poor's downgrade of the federal government's credit rating in 2011 probably had a negligible effect on interest rates and net interest payments. First, it is not clear that investors in U.S. Treasuries rely on credit ratings to assess the creditworthiness of the United States in the same way that they might use credit ratings to assess borrowing by state or local governments, including Florida's state government. Second, even if investors did use credit agencies' ratings to assess the creditworthiness of the United States, the other two leading credit agencies—Moody's Investors Service and Fitch Ratings—retained their highest credit ratings for the federal government, so on its own, Standard & Poor's downgrade would have had a limited impact on market interest rates. Third, the downgrade did not seem to affect the interest rate charged on U.S. Treasuries, which in fact dropped in the days following the downgrade. Accordingly, in CBO's view, a credit rating upgrade would be unlikely to have a significant effect on U.S. Treasury rates.

Standard & Poor's reported that its downgrade in 2011 was prompted by concerns about rising federal debt and that, from the rating agency's perspective, "the effectiveness, stability, and predictability of American policymaking and political institutions have weakened," suggesting that the creditworthiness of the federal government might improve if lawmakers addressed those issues.[21] To put the federal budget on a sustainable long-term path, lawmakers would need to make significant policy changes—allowing revenues to rise more than they would under current law, reducing spending for large benefit programs to amounts less than those currently projected, or adopting some combination of those approaches.[22] In CBO's view, lowering the debt below the current-law projections would reduce interest rates and increase private investment, regardless of the federal government's credit rating.

Senator Toomey

Question. CBO's latest report makes it clear that excessive federal spending, not lack of revenue, is driving our deficits over the duration of the budget window. Revenue as a percentage of gross domestic product (GDP) exceeds the 50-year historical average over the 10-year budget window, and spending as a percentage of GDP is 1.7 percent greater than the historical average over the 10-year budget window. CBO projects that revenue will increase

21. S&P Global Ratings, "Research Update: United States of America Long-Term Rating Lowered to 'AA+' on Political Risks and Rising Debt Burden; Outlook Negative" (August 5, 2011), https://tinyurl.com/y4xh553f.

22. CBO outlined 121 possibilities for policy changes that would reduce the deficit in Congressional Budget Office, *Options for Reducing the Deficit: 2019 to 2028* (December 2018), www.cbo.gov/publication/54667.

from $3.5 trillion in 2019 to $5.7 trillion in 2029, a 61 percent increase. Meanwhile, mandatory spending is on pace to increase from $2.7 trillion in 2019 to $4.6 trillion in 2029—a 70 percent increase. Mandatory spending and net interest on the debt is projected to make up 78% of all federal outlays by 2029.

Dr. Hall, do you acknowledge that our fiscal situation cannot be adequately addressed without curbing the growth of some of these mandatory spending programs?

Answer. CBO has long maintained, as it most recently stated in the January 2019 *Budget and Economic Outlook,* that "to put debt on a sustainable path, lawmakers will have to make significant changes to tax and spending policies—increasing revenues more than they would under current law, reducing spending for large benefit programs below the projected amounts, or adopting some combination of those approaches."[23]

Question. CBO's latest report highlights several positive economic benefits from the 2017 tax act. This is a result of the structural changes that will have long-term benefits on economic growth. The competitive business rate and full expensing lead businesses to invest in capital equipment, making workers more productive and in turn increasing their earnings and quality of life. According to CBO, wage growth accelerated notably in 2018. Annual growth of the employment cost index for wages and salaries was 3.3 percent in 2018 and is expected to average 3.5 percent between 2019 and 2023. This is in contrast to the 2.0 percent average from 2009 to 2017.

Dr. Hall, the CBO report says that "growing demand for labor and competition for workers are expected to boost the growth of wages and salaries over the next few years." How does the tax bill contribute to this increase in wages?

Answer. CBO expects the effect of the 2017 tax act on short-term wage growth to be positive. In particular, the agency expects the growth in the employment cost index (ECI) for wages and salaries in the private sector to be slightly higher through 2023 than it would have been if the law had not been enacted. As a result, the level of the ECI is projected to be about 0.2 percent higher in 2023 than it would have been otherwise. The effect is somewhat larger in the longer term.

CBO expects the 2017 tax act's effect on wage growth to be modest in the next few years mainly because the tax act is expected to add only a small amount of inflationary pressure to the economy in general and to the labor market in particular. Although the law boosts the demand for labor in the near term, which helps push up wages, it also boosts the supply of labor by increasing the incentives to work, which mitigates that pressure on wage growth.

Over the longer term, the effect of the tax act on wages is expected to be larger because of increases in labor productivity. Productivity increases as investment gradually translates into productive capital, which boosts the return to labor.

In the near term, the tax act is projected to have more significant positive effects on the labor force participation rate, employment, and total hours worked; consequently, the effect on total (economywide) wages and salaries is also greater. The act is projected to increase total wages and salaries by 1.1 percent in 2023 (boosting labor's share of income as well) and by less in later years.

23. Congressional Budget Office, *The Budget and Economic Outlook: 2019 to 2029* (January 2019), p. 20, www.cbo.gov/publication/54918.

Question. Tit-for-tat tariff escalation hurts American consumers and threatens U.S. jobs. CBO's latest report notes that the U.S. has imposed new tariffs on 12 percent of imports, which has resulted in retaliatory tariffs on nine percent of American exports. CBO estimates that these new trade barriers will reduce real consumption by 0.1 percent, private investment by 0.3 percent, and real U.S. exports by 0.5 percent by 2022.

These projections show that there are no winners in a trade war. You may be aware that legislation has recently been introduced that would allow the U.S. to "reciprocally" increase our tariff rates to match higher tariffs imposed by foreign nations on the same product.

Dr. Hall, given the projections in CBO's latest report, do you think that raising U.S. tariffs to meet the tariff rates of our trading partners would help or hinder U.S. economic growth?

Answer. CBO has not analyzed the economic effects of increasing U.S. tariff rates to the rates of the United States' trading partners. However, in the long run, higher tariffs on imports tend to reduce domestic competition and productivity and, in turn, real (that is, inflation-adjusted) GDP. In CBO's view, they could also reduce the long-term rate of economic growth.

Senator Van Hollen

Question. CBO estimates that the shutdown cost the economy $11 billion overall, including $3 billion that will never be recovered even with the government reopened. But CBO makes clear that these estimated effects, "do not incorporate a number of indirect negative effects, which are more difficult to quantify but were probably becoming more important as the shutdown continued."

During the shutdown, I heard from small businesses throughout Maryland suffering from these types of negative effects. A catering company told me that reductions in FDA inspections increased consumer concerns about food safety, and hindered their ability to get needed certifications. A venture capital firm told me the shutdown hurt their investments in companies that bring discoveries at universities to market, because the companies lost valuable time that they need to secure bridge funding from the Small Business Innovation Research program. A hair salon was not able to get an SBA loan to expand their business and create new jobs because of the shutdown, which may cause them to lose a deposit that they put down for their new space.

If CBO was somehow able to quantify the economic damage from these types of negative effects from the shutdown, and add this to the effects that you did measure, would that increase CBO's estimate for the economic damage from the shutdown? Is there a way CBO can provide a rough estimate of those additional costs?

Answer. CBO's estimates did not incorporate indirect effects of the shutdown, such as those resulting from interrupted access to federal subsidies and loans, lags in issuing federal permits and certifications, and delayed funding for agencies that help minimize various risks. In CBO's view, those factors probably exacerbated the shutdown's effects on economic output and would have done so to an increasing extent as the shutdown continued.

However, a good deal of uncertainty surrounds the magnitude and timing of those indirect effects—particularly the effects on various federal programs and services that the private sector relies on. It is also highly uncertain how private businesses adjusted their investment and hiring decisions in response to disrupted government activities. CBO does not have enough information to quantify those effects at this time. The agency is closely monitoring new evidence and data, which may allow it to estimate those effects in the future.

Question. In April 2018, CBO estimated that the 2017 tax act would increase deficits by $1.843 trillion over 10 years. While macroeconomic feedback, excluding interest costs, reduced the cost of the bill by $571 billion in CBO's estimate, the total feedback related to interest costs increased the cost of the bill by $582 billion. So these effects are essentially a wash, and CBO estimated that the tax bill increased deficits by $1.854 trillion over 10 years after taking both of these factors into account.

Since April 2018, has CBO significantly changed its projections for the economic and budgetary effects of the 2017 tax act?

Answer. CBO has not revised its estimate of how the 2017 tax act would affect the budget or economic growth since *The Budget and Economic Outlook: 2018 to 2028* was published in April 2018. Over the past year, the economy has performed much as CBO anticipated at that time. Uncertainty about the timing of the tax act's budgetary effects makes it difficult to infer from recent tax collections whether the act's eventual cost will be larger or smaller than CBO projected. Corporate tax revenues in fiscal year 2018 were weaker than expected, but the extent to which that weakness was a continuation of a multiyear trend or a consequence of effects of the 2017 tax act that differed from prior estimates—or some combination of those two factors—is unclear.

Question. Advocates of the 2017 tax act claimed that the law would increase the rate of economic growth, as measured by real gross domestic product, to 3% in the long-term.

Is there even one private sector forecast among the roughly 50 included in the Blue Chip survey that shows 3% economic growth in 2020?

Answer. None of the roughly 50 respondents who contributed to the January 10, 2019, *Blue Chip* survey projected that real GDP growth would reach 3.0 percent in 2020. In those forecasts, estimated growth for 2020 ranged from a low of 0.4 percent to a high of 2.7 percent. Estimates in the middle two-thirds of that range extended from 1.5 percent to 2.3 percent.

Senator Warner

Question. Throughout the course of the record-breaking 35 day government shutdown, it is estimated that the US economy suffered a GDP reduction of $11 billion. While these projections indicate that much of that loss will be regained, it is also projected that $3 billion, or .02% of the projected annual GDP, may never be fully recovered—that value is gone forever.

In addition, the shutdown exposed with stark clarity the number of people in this country unable to miss a paycheck without painful negative economic consequences. And while federal workers are beginning to receive back pay, there are still more than one million federal contractors who will never receive compensation for the income they lost.

Director Hall, based on your analysis what are some things the government can do to avoid this kind of cost to the economy in the future?

Answer. In CBO's estimation, the partial shutdown that ended on January 25, 2019, dampened economic activity mainly because of the loss of furloughed federal workers' contribution to GDP, the delay in federal spending on goods and services, and the reduction in the overall demand for goods and services in the economy (which dampened private-sector activity). Avoiding a lapse in discretionary funding for federal agencies would prevent such consequences in the future.

CBO's estimate of the effects of the five-week partial shutdown does not incorporate a number of indirect negative effects, which are more difficult to quantify but were probably becoming more significant as the shutdown continued. For example, during the shutdown, some businesses could not obtain federal permits and certifications, and some faced interrupted access to subsidies and loans provided by the federal government. Those types of disruptions were probably beginning to reduce economic output. Avoiding an extended shutdown would prevent those sorts of negative indirect effects from reemerging.

Question. According to the Congressional Budget Office's 2019–2029 report on The Budget and Economic Outlook, the federal budget deficit is about $900 billion in 2019 and will exceed $1 trillion each year starting in 2022. The deficits in the next ten years are well above the average over the past 50 years, fluctuating between 4.1 and 4.7 percent of GDP. 2019 has the largest single deficit increase of any year—an increase of over $280 billion in the deficit under the Republican tax bill for 2019, according to JCT. While the tax cuts carried out may have created a "sugar-high", it is clear that the economic growth experienced is not sustainable.

Given this unsustainable deficit-spending, how could we maintain the short-term economic boost produced by the tax cuts once the "sugar-high" expires?

Answer. CBO projects that from 2019 through 2021, economic output will exceed its potential—that is, its maximum sustainable amount—in part because of stimulus provided by the 2017 tax act and by increases in spending enacted in 2018. Over the longer term, real GDP tends to grow at the same rate as potential GDP, which is determined by factors such as the size of the labor force, the average number of labor hours per worker, capital investment, and productivity. New policies that increased incentives to work and invest and that raised productivity would drive potential and actual GDP growth up above CBO's current-law projections of such growth in the longer term.

Senator Whitehouse

Question. As you can see in the attached chart, CBO projects federal health spending over the next decade will be $4.7 billion lower than its 2010 estimates extrapolated out to this budget window. While a portion of this difference relates to the repeal of the individual mandate and other policy changes, much of it appears to result from a sustained slowdown in health spending growth in recent years. As CBO noted in the current budget outlook, "The reasons for that slowdown are not clear."

I think the slowdown is evidence that structural changes in the delivery of care—many of which were ushered in by the Affordable Care Act—have taken hold and we are seeing lower federal spending as a result. For example, Coastal Medical in Rhode Island, a Medicare Accountable Care Organization, has saved $30 million over five years, and has done so while increasing services and improving the quality of care their patients receive.

As I've raised with you before, I think it's important for CBO to tease out what is responsible for this significant, sustained slowdown in federal health spending growth. What is CBO doing to better understand the causes of the sustained slowdown in federal health care spending? Would you agree that comparing the current CBO baseline with the 2010 baseline extrapolated out to the current window is a logical way to estimate changes in health projections?

Answer. Because the reasons for the slowdown in health care spending growth are not well understood, it has been challenging for CBO to project whether the slowdown would persist or growth in health care spending would return to historical levels.[24] To better understand the causes of the slowdown, CBO will solicit input on the topic from the agency's Panel of Health Advisers—which comprises widely recognized experts in health policy and the health care sector—when that panel meets next in the fall. CBO also continues to monitor the latest research on the causes of the slowdown.

That research sheds some light on whether certain changes in how care is paid for and delivered have affected federal health care spending. One important change has been the growth of accountable care organizations (ACOs), which are groups of doctors, hospitals, and other health care providers that assume collective responsibility for the costs and quality of care furnished to their patients. ACOs are intended to give providers incentives to improve the quality and coordination of care and eliminate unnecessary spending. However, the available evidence indicates that ACOs have had little or no net effect on Medicare spending.[25] To date, nearly all ACOs that have operated in the Medicare system have employed a "one-sided" risk model. Under that model, ACOs receive bonus payments from Medicare if the total Medicare payments for their patients are below a benchmark amount, but they do not face a penalty if the total payments for their patients are above the benchmark. The evaluations of Medicare ACOs have found that, on average, they reduced spending on Medicare benefits by a modest amount, but those savings have been largely offset by bonus payments.

CBO analyzes changes in its baseline projections by comparing projections for particular years published at different points in time. Differences between those projections are classified into three types of changes: legislative changes, which result from the enactment of new laws; economic changes, which stem from updates to the agency's economic forecast; and technical changes, which reflect all other updates to the agency's projections. In CBO's baseline projections from August 2010—the first projections published after the enactment of the Affordable Care Act—two years, 2019 and 2020, overlap with CBO's current baseline projections, making a comparison of the two baselines possible for those years.

In its August 2010 projections, CBO estimated that mandatory spending for the two broad budget categories covering the major health care programs would be $1,489 billion, or 6.7 percent of GDP, in 2020. In CBO's January 2019 baseline projections, the agency

24. In 2013, CBO released an analysis of the slowdown in growth of spending on Medicare. That analysis resulted in the following findings: Spending per beneficiary in Medicare Part A (Hospital Insurance) and Part B (Medical Insurance) grew at a much slower rate from 2007 through 2012 than the average rate of growth in earlier years, only a small part of the slowdown could be accounted for by observable factors that would be expected to influence beneficiaries' demand for health care, and much of the slowdown was due to unidentified factors that changed beneficiaries' demand for care or providers' behavior. See Michael Levine and Melinda Buntin, *Why Has Growth in Spending for Fee-for-Service Medicare Slowed?* Working Paper 2013-06 (Congressional Budget Office, August 2013), www.cbo.gov/publication/44513.

25. See J. Michael McWilliams, "Changes in Medicare Shared Savings Program Savings From 2013 to 2014," *Journal of the American Medical Association*, vol. 316, no. 16 (October 2016), pp. 1711–1713, http://dx.doi.org/10.1001/jama.2016.12049; and J. Michael McWilliams and others, "Early Performance of Accountable Care Organizations in Medicare," *The New England Journal of Medicine*, vol. 374, no. 24 (June 2016), pp. 2357–2366, http://dx.doi.org/10.1056/NEJMsa1600142.

estimated that such spending would total $1,202 billion, or 5.4 percent of GDP, in 2020. Of the $287 billion difference between those projections for 2020, $18 billion is attributable to legislative changes and $269 billion to economic and technical changes. The slowdown in health care spending growth was the largest technical revision that CBO incorporated into its baseline projections of federal health spending; however, there were many other technical revisions. For example, CBO reduced its projections of subsidies through the marketplaces because the actual number of people receiving subsidies was lower than anticipated.

Table 1 compares CBO's August 2010 projections of mandatory spending for the two broad budget functions covering major health programs (after an adjustment to incorporate the estimated effects of legislation enacted since the projections were prepared) with the actual amounts of such spending. That adjustment is necessary because although CBO does not attempt to predict future legislative changes or their effects on spending when preparing its baseline budget projections, actual spending is nevertheless affected by those changes. Adjusting its projections to incorporate the effects of subsequently enacted legislation before comparing them allows CBO to focus on the economic and technical factors responsible for changes to the agency's projections.

Extrapolating the August 2010 projections beyond 2020 to increase the number of years of overlap is challenging. Ideally, the growth rates used for that extrapolation would reflect the growth rates (adjusted to incorporate the effects of subsequently enacted legislation) underlying CBO's 2010 *Long-Term Budget Outlook*, which extends to 2035. However, the growth rates embedded in those long-term projections do not reflect enacted legislation that has changed projected growth in spending for major health care programs. CBO has not separately estimated the longer-term effects of such legislation in a way that would allow the agency to subtract those effects from the growth rates underlying the long-term projections. The agency's health analysts would be happy to meet with you to discuss further the challenges in extrapolating the 2010 projections.

Question. President Obama worked with Congress to reduce the annual deficit from $1.4 trillion in 2009 to $665 billion in 2017. In your testimony you project that deficits will again rise above $1 trillion by 2022 and the deficit in out years could be even higher if provisions such as the individual tax cuts are made permanent or extended. What effect does the Tax Cuts and Jobs Act have on our nation's deficit and debt outlook? Would making the temporary provisions of the law permanent lower or raise our national debt?

Answer. In April 2018, CBO estimated that the 2017 tax act would increase deficits by about $1.9 trillion between 2018 and 2028. Extending certain provisions of the tax act and maintaining bonus depreciation—a provision that allows businesses to deduct a portion of the costs of equipment from their taxable income—at 100 percent would increase deficits by about $300 billion in 2029 and by about $1.1 trillion in total over the next decade. Added debt-service costs would further increase deficits and debt. CBO included estimates of the budgetary effects of those extensions in its projections of budgetary outcomes under alternative fiscal policies published in its recent *Budget and Economic Outlook*.[26]

Question. CBO's outlook projects Real GDP growth to slow down in 2019 to 2.3% from 3.1% in 2018, and drop further to an average of 1.7% through 2023. What effect does the Tax Cuts and Jobs Act have on your economic growth projections over the next decade?

26. Congressional Budget Office, *The Budget and Economic Outlook: 2019 to 2029* (January 2019), Chapter 5, www.cbo.gov/publication/54918.

Table 1.

Comparison of CBO's August 2010 Projections and Actual Amounts of Mandatory Spending for Budget Functions 550 (Health) and 570 (Medicare), by Fiscal Year

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
					In Billions of Dollars						
CBO's August 2010 Projections, Adjusted to Incorporate the Effects of Subsequently Enacted Legislation	751	810	798	851	940	1,034	1,162	1,238	1,296	1,396	1,471
Actual and Projected Amounts as of January 2019[a]	750	790	752	793	859	966	1,043	1,064	1,071	1,149	1,202
Difference	1	20	46	58	81	68	119	173	225	247	269
Memorandum:											
CBO's August 2010 Projections	751	798	778	831	930	1,026	1,148	1,224	1,287	1,395	1,489
					As a Percentage of Gross Domestic Product						
CBO's August 2010 Projections, Adjusted to Incorporate the Effects of Subsequently Enacted Legislation	5.1	5.3	5.0	5.1	5.4	5.7	6.3	6.4	6.4	6.6	6.6
Actual and Projected Amounts as of January 2019[a]	5.1	5.1	4.7	4.8	5.0	5.3	5.6	5.5	5.3	5.4	5.4
Difference	*	0.1	0.3	0.3	0.5	0.4	0.6	0.9	1.1	1.2	1.2
Memorandum:											
Gross Domestic Product (Billions of dollars)[a]	14,839	15,404	16,056	16,604	17,333	18,090	18,551	19,272	20,236	21,252	22,120

Source: Congressional Budget Office.

* = between zero and 0.05 percent.

a. Actual amounts are reported through 2018; the values for 2019 and 2020 reflect CBO's current projections as published in *The Budget and Economic Outlook: 2019 to 2029* (January 2019), www.cbo.gov/publication/54918.

Answer. CBO published a detailed description of its estimates of the effects of the 2017 tax act on its economic and budget projections in April 2018.[27] The agency projected that the tax act would raise real GDP above what it would have otherwise been by an average of 0.7 percent each year over the 2018–2028 period. The additional GDP attributable to the tax act would be largest in 2022—amounting to 1.0 percent of GDP—and decline in subsequent years.

That pattern reflects CBO's projections that the 2017 tax act would have positive effects on real GDP growth over the first five years of the projection period and negative effects over the remaining six years. Specifically, in the agency's projections, the legislation boosts annual real GDP growth by 0.3 percentage points in both 2018 and 2019, by about 0.2 percentage points in 2020, and by 0.1 percentage point in both 2021 and 2022. Over the 2023–2028 period, however, the tax act slows real GDP growth by an average of about 0.1 percentage point per year. The actual data reported thus far have generally been consistent with those estimates.

Question. Numerous experts are warning of the significant economic risks of climate change. The first of these risks relates to rising seas and the likelihood that hundreds of billions of

27. See Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028* (April 2018), Appendix B, www.cbo.gov/publication/53651.

dollars' worth of coastal real estate becomes uninhabitable. Freddie Mac has this to say on the subject:

> "[R]ising sea levels and spreading flood plains nonetheless appear likely to destroy billions of dollars in property and to displace millions of people. The economic losses and social disruption may happen gradually, but they are likely to be greater in total than those experienced in the housing crisis and Great Recession."

Has CBO considered the economic and budgetary risks posed by such a coastal real estate crash?

We're already seeing the early warning signs of this up and down the East Coast. The First Street Foundation looked at the effect of rising seas and increased coastal flooding on Rhode Island property values and found that since 2005, Rhode Island coastal real estate has already lost $45 million in expected value. Total losses along the East Coast already exceed $15 billion. Is CBO studying how falling coastal property values may affect economic growth and federal revenues?

Answer. CBO has not estimated the potential loss in property values due to rising sea levels or investigated how such losses might affect the economy. In 2016, however, the agency published a report that examined the effects of climate change and coastal development on the total cost of hurricane damage in the United States, including projections of such costs in 2025, 2050, and 2075.[28] In addition, CBO has examined the financial soundness and affordability of the National Flood Insurance Program, a topic that is often discussed in conjunction with coastal real estate values.[29] Currently, CBO is researching the economic and budgetary costs imposed by hurricane-related winds, storm surges, and heavy precipitation. (The effects of heavy precipitation were not included in the 2016 report.) Finally, the agency has been exploring available data that would allow it to estimate the economic costs associated with effects of rising sea levels on high-tide flooding.

Question. The second climate-related risk of which experts are warning is the so-called "carbon bubble." This refers to an over-investment in fossil fuel assets that then dramatically decline in value as the world economy is forced to wean itself off of fossil fuel in order to combat climate change. The Bank of England warns:

> "As the world increasingly limits carbon emissions, and moves to alternative energy sources, investments in fossil fuels and related technologies [...] may take a huge hit."

Economists have modeled what a bursting of the carbon bubble might look like, and they warn that it might result in a loss comparable to the 2008 financial crisis. In your budget and economic outlook, do you consider the economic and budgetary risks posed by such a carbon bubble?

28. See Congressional Budget Office, *Potential Increases in Hurricane Damage in the United States: Implications for the Federal Budget* (June 2016), www.cbo.gov/publication/51518.

29. See Congressional Budget Office, *The National Flood Insurance Program: Financial Soundness and Affordability* (September 2017), www.cbo.gov/publication/53028.

Answer. For a carbon bubble to burst and cause an economic disruption comparable to the financial crisis in 2008, policy changes both in the United States and overseas would probably have to be implemented quickly, leaving owners of and investors in fossil fuel assets, such as coal mines, oil wells, and fossil-fuel power plants, with minimal time to adjust. CBO's *Budget and Economic Outlook* incorporates the assumption that current federal laws will generally remain unchanged, so it does not account for possible changes in federal law related to fossil fuels that might precipitate such a crisis.

That said, policies that limit emissions of carbon dioxide could result in the early retirement of fossil-fuel power plants and decrease the market value of fossil fuels, causing producers to abandon such facilities or to deplete energy reserves sooner than they might have otherwise. The energy market has experienced such a decline in the value of assets—often referred to as "stranded costs"—in the past. For example, in 1998, CBO examined the implications of compensating electric power utilities for stranded costs resulting from the deregulation of the retail market for electricity.[30]

The potential magnitude of stranded costs is uncertain. Such costs would depend on how lawmakers designed future policies to reduce emissions—specifically, on the stringency of such policies—as well as investors' expectations about how those policies might affect the returns from investing in fossil fuels. The budgetary effects of stranded costs would depend on lawmakers' decisions about whether to provide federal compensation for such costs.

30. See Congressional Budget Office, *Electric Utilities: Deregulation and Stranded Costs* (October 1998), www.cbo.gov/publication/11252.

THE BUDGET CONTROL ACT: A REVIEW OF CAP-ADJUSTED SPENDING

WEDNESDAY, FEBRUARY 27, 2019

UNITED STATES SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committee met, pursuant to notice, at 2:30 p.m., in Room SD–608, Dirksen Senate Office Building, Hon. Michael B. Enzi, Chairman of the Committee, presiding.

Present: Senators Enzi, Grassley, Toomey, Braun, Kennedy, Sanders, Kaine, and Van Hollen.

Staff Present: Elizabeth McDonnell, Republican Staff Director; and Warren Gunnels, Minority Staff Director.

OPENING STATEMENT OF CHAIRMAN ENZI

Chairman ENZI. I will call to order this meeting of the Senate Budget Committee for a hearing on the Budget Control Act's spending caps and adjustments, something everybody understands in detail, I am sure.

Welcome to today's hearing on the cap-adjusted spending under the Budget Control Act of 2011, known as the BCA. It is my hope that this hearing will help to focus members of this Committee and Congress on a category of Federal spending that often lacks sufficient scrutiny and for which Congress has appropriated nearly $1 trillion since 2012. This includes discretionary spending that is not constrained by the BCA's base spending caps, such as spending on overseas contingency operations, on emergencies, on disasters, and certain program integrity initiatives.

It does not include increases to defense and nondefense spending limits that have been legislated through a series of 2-year budget agreements.

Our witness today is Teri Gullo, who is the Assistant Director for Budget Analysis at the Congressional Budget Office. I would like to welcome her to the Committee, as well as her colleague, Dave Mosher, the Assistant Director of CBO's National Security Division, who is here to answer questions members may have related to defense spending.

Ms. Gullo, we look forward to your testimony and appreciate your being here to shed light on this issue.

As my colleagues know, the Budget Control Act was enacted in 2011 as a compromise to raise the Nation's debt limit in exchange for significant reductions in Federal spending. The law placed caps on discretionary spending through fiscal year 2021 that are intended to reduce spending by more than $900 billion. It also created a Joint Select Committee that was charged with coming up with additional deficit reduction and provided enforcement procedures to reduce spending levels automatically if the Select Committee failed to meet its target. These procedures were meant to be the stick to ensure the Committee's success.

As we know, the Select Committee failed, setting in motion a series of automatic reductions to both mandatory and discretionary spending, including lower discretionary spending limits for fiscal years 2014 through 2021. While the primary objective of the BCA was deficit reduction, the law also allows for several cap adjustments to increase spending for specified purposes without triggering a breach of statutory spending limits. It is these adjustments which have grown in number in successive spending deals that we are focused on today.

The largest cap adjustment utilized since the enactment of the BCA is known as OCO, which stands for overseas contingency operations. Congress provides tens of billions of dollars annually through OCO, which is not constrained by the BCA's spending caps. Since fiscal year 2012, $650 billion in OCO defense spending has been appropriated. The existence of this unlimited cap adjustment has created an incentive to shift budgetary resources for the Departments of Defense and State from their base into OCO, contrary to the BCA's intention.

Nonetheless, year after year this practice has been utilized to evade the discretionary spending caps and make room for spending on other defense and nondefense priorities.

Another heavily utilized cap adjustment is the emergency designation, which has been used to provide nearly $180 billion since 2012. Like OCO, this designation is uncapped, meaning as long as Congress and the President can agree, there is no limit on the amounts that can be appropriated. The vast majority of spending is provided for real emergencies and often in response to natural disasters. I am interested in hearing from our witness this afternoon whether there may be better ways to plan and budget for inevitable emergencies.

Other cap adjustments in the BCA are limited either by formula or as otherwise dictated in statute. These adjustments include disaster relief and program integrity adjustments. Program integrity includes continuing disability reviews and determinations, health care fraud and abuse control, and re-employment services and eligibility assessments.

Since 2012, about $70 billion has been provided for disaster relief and $11 billion for various program integrity efforts. Cap adjustments are often necessary, but I also believe Congress must be diligent in providing oversight of their use. Without a doubt, some of these adjustments have been abused in the past. I truly believe that if Congress put as much effort into trying to abide by the caps as they do trying to evade and mitigate them, our Nation's fiscal outlook would be less severe.

I recognize this review of cap-adjusted spending under the BCA will inevitably draw attention to the discretionary spending limits to 2020 and 2021, which is what we are working on. Congress has acted three times to increase the base discretionary caps by a total of $439 billion, including a $300 billion increase that was enacted just last year. That is in addition to the $1 trillion in cap adjusted spending we are focused on today.

Before Congress rushes to add billions more to the taxpayers' tab, we must carefully consider our fiscal outlook. According to CBO, mandatory spending is the primary driver of our debt. In 2018, the Federal Government spent $2.5 trillion on mandatory programs like Medicare, Medicaid, and Social Security. That accounted for 12.5 percent of gross domestic product. Without further congressional action, CBO projects we will spend $4.6 trillion on these programs in 2029. That will be nearly 15 percent of GDP.

CBO also projects that as spending increases over the next decade, interest payments on the national debt will also grow, from 1.6 percent of GDP in 2018 to 3 percent in 2029. We must get a handle on this. To do so, Congress should thoroughly review all Federal spending, mandatory and discretionary. This hearing today is one small step in reviewing the more than $4 trillion the Federal Government spends every year.

I want to again thank Ms. Gullo for joining us this afternoon and Mr. Mosher for joining us, and before turning it over to her for her testimony, I would recognize Senator Sanders for his opening remarks.

OPENING STATEMENT OF SENATOR SANDERS

Senator SANDERS. Thank you, Mr. Chairman. Welcome, Ms. Gullo and Mr. Mosher.

You just mentioned the need to review our budget, and I absolutely agree with you. I think from top to bottom we need a review of what our national priorities should be as a Nation.

As you know, if we do not lift the caps, nondefense programs will be cut by $55 billion in fiscal year 2020 compared to this year—$55 billion. And if you look at the enormous needs facing working people in this country—a child care system which is dysfunctional, hundreds of thousands of our young people are unable to afford to go to college, many leaving college deeply in debt, an infrastructure which is crumbling, 34 million people without any health insurance, half of older Americans having nothing in savings as they approach retirement, not to mention the need to transform our energy system away from fossil fuels—we have enormous needs out there. And I think the time is right to be looking at issues like income and wealth inequality, whether we think it is appropriate that three people in this country own more wealth than the bottom half; that we have major corporation after major corporation—Amazon and General Motors being just two recently—make billions in profit, do not pay a nickel in Federal taxes. Not a nickel in Federal taxes.

So I do think we need to take a hard look at what our priorities are, and one of the concerns that I have is that as a Nation we are now spending some $700 billion a year on the military—$700 billion. We now as a Nation—and, by the way, you held a hearing on this issue. We have a huge military budget, and yet as I understand it—correct me if I am wrong—the Defense Department is the only department of Government not to have passed a clean audit. So we are spending money hand over fist with the Defense Department.

We are seeing huge profits in the military-industrial complex. And you have veterans sleeping out on the street and children in America going hungry.

In terms of the Defense Department, we are now spending as much on our national defense as the next 11 countries in the world combined. Okay? So we have kids who cannot afford to go to college. We have a crumbling infrastructure. We are not addressing climate change. But we are spending as much money on defense as the next 11 countries in the world combined, and that includes Russia and China as well as many of our top allies like United Kingdom, Japan, and France.

Despite this fact, in 2018 Congress passed, over my strong objection, a $165 billion increase in the Pentagon's budget over 2 years, including an $85 billion increase this year.

Now, you will hear people, my Republican colleagues, talking about the need to cut Social Security, the need to cut Medicare, the need to cut Medicaid. But when it comes to the budget, there is not a lot of worry about massive spending on the military.

Let me just go over some interesting facts.

The $85 billion increase in defense spending could have made every public college, university, and trade school in America tuition-free and substantially reduced student debt in America. So, Mr. Chairman, when you talk about, you know, the need for a top-to-bottom review, I agree.

My own guess is that the American people would prefer to make public colleges and universities tuition-free rather than spend another $85 billion on the military.

We have got to also understand what is, I think, very interesting in that we are throwing so much money at the Pentagon that they literally do not know what to do with it.

Kids go hungry in America. Veterans sleep out on the street. Kids cannot afford to go to college. But the Pentagon does not know what to do, given the enormous amount of money we are throwing at it.

According to the Government Accountability Office, since 2013 the Department of Defense returned over $80 billion in appropriated funding back to the Treasury, including more than $16 billion in 2018 alone.

So it seems to me, Mr. Chairman—and I think your point is well taken—we need a thorough review. We need to argue about what are the priorities. Do we give the Defense Department more money than they can spend after we are spending more than the next 11 countries combined? Or do we, in fact, address the massive social needs facing working families in this country? And I think the majority of the people in this country will demand that we get our priorities right, protect the needs of working families, not just the 1 percent and not just the Pentagon.

Mr. Chairman, I am going to have to apologize because I have to get to another meeting, but thank you very much for calling this meeting.

Chairman ENZI. Thank you for your comments.

Next we will have some comments from our witness, and then that will be followed by questions. Ms. Gullo.

STATEMENT OF THERESA GULLO, ASSISTANT DIRECTOR FOR BUDGET ANALYSIS, CONGRESSIONAL BUDGET OFFICE; ACCOMPANIED BY DAVID MOSHER, ASSISTANT DIRECTOR, NATIONAL SECURITY DIVISION, CONGRESSIONAL BUDGET OFFICE

Ms. GULLO. Thank you. Chairman Enzi, members of the Committee, thank you for inviting me to testify today about discretionary appropriations under the Budget Control Act of 2011. There are four main points I hope you take away today.

First, although discretionary spending increased in real terms—that is, adjusted for inflation—from 1999 to 2018, trends differed dramatically during the first and second halves of that period, rising in real terms over the first half of that period, but since the BCA took effect, falling by almost 17 percent. Much of that decline resulted from other factors.

Second, despite those spending declines, discretionary appropriations have been consistently greater than the annual cap amounts specified in the BCA for two reasons: because the Congress has provided substantial funding for activities mostly related to defense and emergency requirements that automatically result in cap adjustments; and because cap levels have been increased statutorily.

Third, because no changes have been enacted to the caps for fiscal years 2020 and 2021, funding constrained by the caps is scheduled to drop significantly after 2019.

Fourth, in deciding what to do for fiscal year 2020, the Congress will face several issues, including overall cap levels, their relation to total discretionary spending amounts, and how any net changes in spending might change the outlook for deficits and the debt.

Let me take each of these points in turn.

First, on real declines in spending, from 1999 to 2018, discretionary spending more than doubled in nominal terms, by 121 percent. Defense discretionary spending increased by 126 percent and nondefense by 116. In real inflation adjusted terms, all categories of discretionary spending rose, but they did so by roughly half the nominal rates.

Trends during the two halves of that period, however, differed dramatically. From 1999 to 2010, spending rose in real terms, peaking in 2010, shortly after the end of the Great Recession. Since the BCA took effect, however, such spending has fallen substantially by 17 percent—defense by 21 percent and nondefense by 12. Much of that decline was caused by a sharp drop in war funding as the U.S. withdrew forces from military operations in Iraq and by the fading effects of spending attributable to the American Recovery and Reinvestment Act of 2009.

Second, exceeding the BCA limits. Despite that decline in discretionary spending, discretionary appropriations, or funding, have consistently been greater than the annual statutory caps, and all discretionary funding over the 2012–2019 period has been larger than the BCA's lower or post sequester cap levels by a total of $1.4 trillion, about 17 percent. Most of that amount, 70 percent, or $984 billion, has been the result of adjustments to the caps triggered by certain types of appropriations.

BCA and provisions in the 2018 appropriations will allow cap adjustments to accommodate appropriations for four types of activities, namely, overseas contingency operations, or OCO; emergency requirements; disaster relief, including beginning in 2020 wildfire suppression; and program integrity activities. But two of those adjustments for OCO and emergency requirements are unlimited and have accounted for 92 percent of the adjustments since 2012. Some of that OCO funding was for routine activities of the Defense Department rather than for war-related activities.

The remaining 30 percent, $427 billion, stems from legislative changes made to the caps themselves. Most of the legislative increase, about $300 billion, result from the Bipartisan Budget Act of 2018, which altered the limits for fiscal years 2018 and 2019.

Third, on the caps for fiscal years 2020 and 2021, no changes have been enacted to the caps for those 2 years, the last covered by the BCA. Without legislation to increase them, CBO estimates that funding constrained by the caps in fiscal year 2020 is set to drop by $126 billion, or 10 percent.

Fourth, what issues lawmakers will face in the future. The Congress will confront a number of issues related to the caps and to the statutory adjustments that could be made to them, including whether to raise the caps next year and, if so, whether Congress, as it has in the past, will maintain some kind of parity between defense and nondefense programs. There will also be the question of whether to offset any increases with deficit-reducing measures as all previous legislative increases have done, at least in part, by reducing mandatory spending, including extensions of the mandatory sequester or by increasing revenues.

Another important issue will be how so-called spending outside the caps or those adjustments we are talking about should be managed, specifically how cap adjustments, especially for the unlimited categories, OCO and emergencies, should be made and for what purposes.

Finally, in making choices about discretionary funding, the Congress will have to consider how such changes might alter the outlook for deficits and the debt. Deficits in CBO's baseline average 4.4 percent of GDP over the 2020–2029 period. That is high by historical standards. Over the past 50 years, annual deficits have averaged 2.9 percent of GDP. And, importantly, deficits in periods of low unemployment have been even smaller.

Large deficits over the next decade could cause debt held by the public to rise steadily. CBO's baseline projects debt at 78 percent of GDP in 2018, growing to 93 percent by 2029. At that point, Federal debt would be higher as a percent of GDP than at any point since just after World War II.

In closing, I want to emphasize that CBO aims to provide you with whatever information it can to assist you as you confront these and other issues. My colleague Dave and I would be happy to answer any questions you have.

[The prepared statement of Ms. Gullo follows:]

Congressional Budget Office

Testimony

Discretionary Appropriations Under the Budget Control Act

Theresa Gullo
Assistant Director for Budget Analysis

Before the
Committee on the Budget
United States Senate

February 27, 2019

This document is embargoed until it is delivered at 2:30 p.m. (EST) on Wednesday, February 27, 2019. The contents may not be published, transmitted, or otherwise communicated by any print, broadcast, or electronic media before that time.

Notes

Unless otherwise indicated, all years referred to are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end.

Numbers in the text and table may not add up to totals because of rounding.

Data underlying the figures are available along with this testimony on CBO's website (www.cbo.gov/publication/54965).

Chairman Enzi, Ranking Member Sanders, and Members of the Committee, thank you for inviting me to testify about the history of discretionary funding since enactment of the Budget Control Act of 2011 (BCA, Public Law 112-25).

These are the main points I hope you take away this afternoon:

- From 1999 to 2018, discretionary spending increased by 53 percent in real terms (that is, adjusted to remove the effects of inflation)—from $843 billion (in 2019 dollars) to $1,290 billion. Defense outlays rose by 56 percent, while nondefense outlays grew by 50 percent.

- Discretionary spending differed dramatically during the first and second halves of that period. It rose in real terms over the first half, peaking in 2010. Since the BCA took effect in 2011, however, such spending has fallen. From 2011 to 2018, total real discretionary spending fell by almost 17 percent; defense outlays fell by 21 percent, and nondefense outlays, by 12 percent. Much of that decline was caused by a sharp reduction in war funding and by the fading effects of spending attributable to the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).

- Despite those overall declines in spending, discretionary appropriations have been greater than the annual cap amounts specified in the BCA (including the automatic reduction in the caps that law later required) since the law took effect. Excluding the amounts sequestered in 2013, discretionary appropriations over the 2012–2019 period have to date been larger than those annual cap amounts by a total of $1.4 trillion (or about 17 percent).

- About 30 percent of that amount, $427 billion, stemmed from legislative changes made to the caps themselves. After two small reductions were made to the caps in 2013, three laws each increased discretionary caps for two years at a time. Most of that increase, $296 billion, was the result of the 2018 legislation, which altered the limits for 2018 and 2019.

- The remaining 70 percent, $984 billion, was the result of adjustments to the caps that were permitted by the BCA and triggered by appropriations for specified purposes. Those adjustments generally apply to funding for four types of activities, but two of them—war-related activities (referred to as overseas contingency operations, or OCO) and activities designated as emergency requirements—have accounted for most of the adjustments and for the largest amounts ($723 billion and $180 billion, respectively, since 2012).

- No changes have been enacted to the caps for 2020 and 2021, the last two years covered by the BCA. Without legislation to increase the caps, funding constrained by the caps in 2020 is set to drop by $126 billion (or 10 percent), the Congressional Budget Office estimates.[1]

- In deciding whether to implement those scheduled sharp reductions or raise the caps, the Congress will face a number of issues, including whether to offset any of the spending increases that would result from raising the caps and how it might do so, whether any changes in defense and nondefense caps should be equal, and how any resulting additional spending might change the picture for debt and deficits.

The remainder of my testimony covers those points in more detail.

What Is Discretionary Spending?

Discretionary spending, which accounts for about 30 percent of total federal spending, results from funding controlled through annual appropriations that fund a broad array of government activities, including defense, law enforcement, education, veterans' health programs, the national park system, disaster relief, and foreign aid. That spending is split about evenly between national defense and nondefense programs and activities.

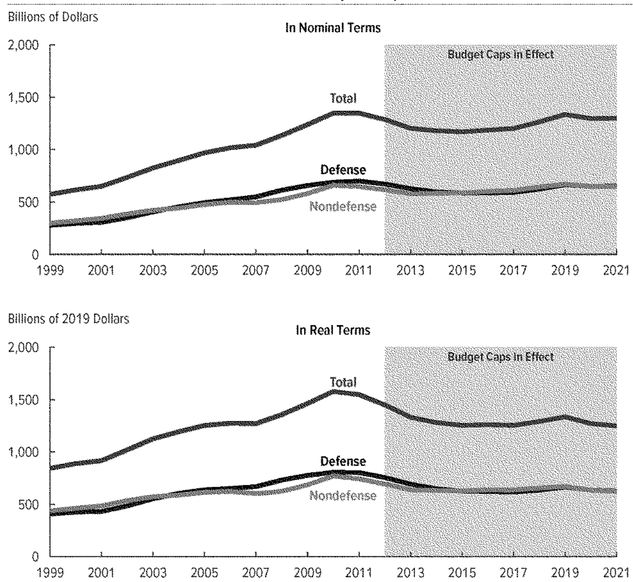
How Has Discretionary Spending Changed in Recent Years?

In nominal terms, total, defense, and nondefense discretionary outlays all roughly doubled from 1999 to 2018. Total discretionary spending increased by 121 percent; defense discretionary spending, by 126 percent; and nondefense discretionary spending, by 116 percent. In real terms, too, all categories of discretionary spending rose, but they did so by roughly half as much (see Figure 1).

1. See Congressional Budget Office, *Final Sequestration Report for Fiscal Year 2019* (February 2019), www.cbo.gov/publication/54983.

Figure 1.

Total, Defense, and Nondefense Discretionary Outlays in Nominal and Real Terms, 1999 to 2021



In nominal terms, discretionary spending would, under current law, roughly double over the 1999–2021 period. Such spending would also increase in real terms (that is, adjusted to remove the effects of inflation), but by about half as much.

Spending trends in the two halves of the period differed significantly. During the first half, discretionary spending rose in real terms, peaking in 2010, just after the 2007–2009 recession. Since the caps on discretionary funding specified in the Budget Control Act of 2011 took effect, such spending has fallen substantially.

Source: Congressional Budget Office.

Spending during the two halves of the period differed dramatically. From 1999 to 2010, discretionary spending rose in real terms, peaking in that last year, shortly after the 2007–2009 recession. Since the BCA took effect, however, such spending has fallen substantially. From 2011 to 2018, total discretionary outlays declined in real terms by 17 percent (defense, by 21 percent, and non-defense, by 12 percent). Much of the decline was caused by a sharp drop in war funding as the United States withdrew almost all of its forces from military operations in Iraq that began after 9/11 and by the fading effects of spending attributable to the American Recovery and Reinvestment Act of 2009.

Measuring the change in real terms using constant dollars offers a more meaningful comparison of government spending over time because it removes the effect of growth in prices. That is, it measures the change in the purchasing power of spending in terms of goods and services of comparable quality. For example, if a federal program received $50 million in budget authority one year and $52 million the next, the increase in nominal terms would be 4 percent. But if prices for the program's purchases rose by 2 percent, the program would be able to purchase only 2 percent more goods and services.

What Caps Currently Exist to Limit the Amount of Discretionary Funding Provided Annually?

Most discretionary funding is controlled by statutory caps that were first imposed by the Budget Enforcement Act of 1990 (BEA, P.L. 101-508) and reestablished by the BCA. The BEA caps limited budget authority (that is, the authority provided by law to federal agencies to incur financial obligations) for three categories of spending: defense, international, and domestic. If the

Table 1.

Changes Made to the Caps on Total Discretionary Funding That Were Originally Imposed by the Budget Control Act of 2011

Billions of Dollars

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total, 2012–2021
Original Caps Imposed by the Budget Control Act of 2011	1,043	1,047	1,066	1,086	1,107	1,131	1,156	1,182	1,208	1,234	11,260
Changes Made to Caps After the JSC's 2012 Deadline Passed[a]	0	0	-91	-91	-90	-91	-91	-91	-90	-89	-724
Changes Made to Caps by the American Taxpayer Relief Act of 2012	0	-4	-8	0	0	0	0	0	0	0	-12
Statutory Caps in Effect Before Adjustments and Enactment of the Bipartisan Budget Acts	1,043	1,043	967	995	1,017	1,040	1,065	1,091	1,118	1,145	10,524
Changes Made to Caps by the Bipartisan Budget Acts											
Bipartisan Budget Act of 2013	-	-	45	18	-	-	-	-	-	-	63
Bipartisan Budget Act of 2015	-	-	-	-	50	30	-	-	-	-	80
Bipartisan Budget Act of 2018	-	-	-	-	-	-	143	153	-	-	296
Total	0	0	45	18	50	30	143	153	0	0	439
Statutory Caps Before Adjustments	1,043	1,043	1,012	1,014	1,067	1,070	1,208	1,244	1,118	1,145	10,963
Total Changes Made to Statutory Caps Since the Budget Control Act of 2011 Was Enacted	0	-4[b]	-54	-72	-40	-61	52	62	-90	-89	-297

Source: Congressional Budget Office.

JSC = Joint Select Committee on Deficit Reduction.

a. The Budget Control Act of 2011 (BCA) established the JSC to develop a proposal that would reduce deficits over the 2012–2021 period by $1.5 trillion. The committee was unable to reach an agreement, and legislation to reduce deficits over the period by the minimum amount required by the BCA—$1.2 trillion—was not enacted before the 2012 deadline, so the caps on discretionary funding were automatically lowered.

b. In March 2013, the Office of Management and Budget issued a sequestration order that cancelled $85 billion in budgetary resources for 2013, including $68 billion from discretionary accounts. Because that order did not affect the statutory funding caps for 2013, that amount is not reflected in the total change to the cap shown here.

limits on any of those categories were exceeded, the BEA provided an enforcement mechanism called sequestration that would automatically impose across-the-board cuts in budgetary resources to bring total funding back under the caps. Although the BEA caps were initially set to expire in 1995, they were extended and redefined in 1993 and 1997 before expiring in 2002.

The BCA reestablished statutory caps on discretionary budget authority for fiscal years 2012 through 2021 and created procedures that would automatically lower those caps and make other cuts if specified deficit-reducing targets were not met.[2]

2. For a detailed analysis of the methods that CBO uses to calculate automatic reductions, see Congressional Budget Office, *Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act* (September 2011), www.cbo.gov/publication/42754.

How Have Those Limits Changed Since They Were First Imposed?

Although the BCA established initial limits on overall discretionary funding, it contained provisions that called for reductions in those initial caps if certain criteria were not met. In addition, lawmakers have enacted several pieces of legislation that have increased the funding limits in effect for certain years (see Table 1).

Initial Caps Specified in the BCA

The BCA contained procedures for reducing deficits by a minimum of $2.1 trillion over the 2012–2021 period, including setting annual caps on discretionary funding. The legislation once again authorized sequestration as an enforcement mechanism that would take effect if the caps were breached. In 2011, CBO estimated that complying with those initial caps would reduce federal outlays over the 2012–2021 period by $935 billion relative to the agency's baseline projections at that time.[3]

Reductions Made After the 2012 Deadline for a New Agreement Passed

Another provision of the BCA created the Joint Select Committee on Deficit Reduction (JSC) to develop a proposal that would reduce deficits over the 2012–2021 period by at least $1.5 trillion. The law also established an automatic process to reduce spending that would take effect in 2013 if, by January 15, 2012, the JSC did not report—and the Congress and the President did not enact—legislation that would reduce deficits over the period by at least $1.2 trillion. The automatic process would require not only annual downward adjustments of the discretionary funding limits but also sequestration of budget authority for nonexempt mandatory programs. When no such legislation was enacted, the automatic process outlined in the BCA took effect, lowering the statutory limits on defense and nondefense discretionary funding for every year from 2014 through 2021.[4] Those reductions amount to an estimated $724 billion over the 2014–2021 period (see Table 1).[5] In addition, lawmakers enacted the American Taxpayer Relief Act of 2012 (ATRA, P.L. 112-240), which reduced the statutory caps by a total of $12 billion in 2013 and 2014.[6]

3. See Congressional Budget Office, letter to the Honorable John Boehner and the Honorable Harry Reid providing an estimate of the Budget Control Act of 2011 as posted to the House Committee on Rules on August 1, 2011 (August 1, 2011), www.cbo.gov/publication/41626.

4. The failure to enact legislation that would meet the goal of $1.2 trillion in deficit reduction also resulted in annual sequestration of nonexempt mandatory spending programs. That sequestration was originally scheduled to apply to each year through 2021, but it has since been extended several times and now continues through 2027.

5. That amount does not include the effects of the March 2013 sequestration ordered by the President, which canceled $68 billion in discretionary budgetary resources—$43 billion (or 63 percent) from defense programs and $26 billion (or 37 percent) from nondefense programs. See Office of Management and Budget, *OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013* (March 2013), https://go.usa.gov/xEydH.

6. The 2013 cap was lowered by $4 billion, and the 2014 cap, by $8 billion. Another provision in ATRA more than offset that $12 billion reduction to the caps, however, by reducing the amount of the March 2013 sequestration by $24 billion. That reduction applied to the total sequestration (including mandatory accounts).

Subsequent Increases in the BCA Caps

Facing the prospect of cutting discretionary funding to meet the new lower caps, the Congress has, since 2013, enacted a series of laws to increase the limits in certain years and thus to eliminate the effects of the automatic procedures that would have reduced funding limits. Specifically, lawmakers have raised the caps three times since the BCA was enacted—in 2013, 2015, and 2018. Those three amendments increased the caps for the years 2014 to 2019 by a total of $439 billion (see Figure 2). About 54 percent of those increases were for defense. Individually, the three acts had the following effects:

- The Bipartisan Budget Act of 2013 (P.L. 113-67) increased the combined limit for 2014 by $45 billion and the limit for 2015 by $18 billion. Those increases were evenly divided between the defense and nondefense caps.[7]
- The Bipartisan Budget Act of 2015 (P.L. 114-74) increased the combined limit for 2016 by $50 billion and the limit for 2017 by $30 billion. Again, those amounts were evenly divided between the defense and nondefense caps.[8]
- The Bipartisan Budget Act of 2018 (P.L. 115-123) increased the combined limit for 2018 by $143 billion and the limit for 2019 by $153 billion. More of those increases (56 percent in both years) were for defense funding than for nondefense funding.[9]

What Adjustments to the Caps Are Allowed, and How Have They Been Used?

The BCA includes other mechanisms that allow lawmakers to adjust the caps to accommodate funding for certain activities. Specifically, the caps can be adjusted upward to provide funding for five types of activities:

- Overseas contingency operations (most notably since 2011, military operations in Iraq and Afghanistan);

7. See Congressional Budget Office, cost estimate for the Bipartisan Budget Act of 2013 (December 11, 2013), www.cbo.gov/publication/44964.

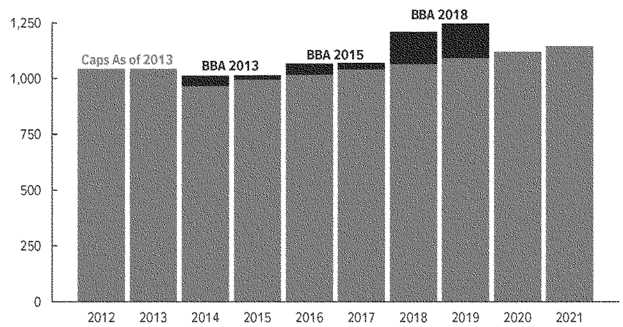
8. See Congressional Budget Office, cost estimate for H.R. 1314, the Bipartisan Budget Act of 2015 (October 28, 2015), www.cbo.gov/publication/50938.

9. See Congressional Budget Office, cost estimate for the Bipartisan Budget Act of 2018 (February 8, 2018), www.cbo.gov/publication/53556.

Figure 2.

Caps on Total Discretionary Funding and the Changes Made to Them by Recent Bipartisan Budget Acts

Billions of Dollars



Since the mechanism that automatically lowered the caps on discretionary funding originally specified in the Budget Control Act of 2011 took effect in 2013, lawmakers have on three occasions enacted legislation to increase those caps.

Source: Congressional Budget Office.

The lighter portions of the bars represent the caps on discretionary funding as of 2013, including the automatic reductions required for 2014 through 2021 after the Joint Select Committee on Deficit Reduction created by the Budget Control Act of 2011 was unable to reach an agreement to reduce deficits as well the amendments to the caps made by the American Taxpayer Relief Act of 2012. The darker portions of the bars represent the increases in those caps enacted in the Bipartisan Budget Acts of 2013, 2015, and 2018.

BBA = Bipartisan Budget Act.

- Emergency requirements;
- Certain activities related to disaster relief (particularly those connected to major disasters as defined by the Robert T. Stafford Disaster Relief and Emergency Assistance Act—the Stafford Act);
- Certain program integrity initiatives, including continually reviewing and reassessing Social Security beneficiaries' disability status and controlling health care fraud and abuse in the Medicare system; and
- Beginning in 2020, wildfire suppression activities.

Adjustments for those activities have allowed discretionary funding to exceed the original caps by a total of almost $984 billion since 2012. Most of that funding has been for OCO and emergency requirements (see Figure 3).

The extent to which the caps can be adjusted to accommodate those activities differs. The BCA allows for three types of adjustments: one has no ceiling, one is based on a formula, and one requires the Congress to provide a specified amount in regular appropriations for an activity before the additional amount is available. For a select group of activities, funding does not count against the caps at all.

Adjustments With No Ceiling

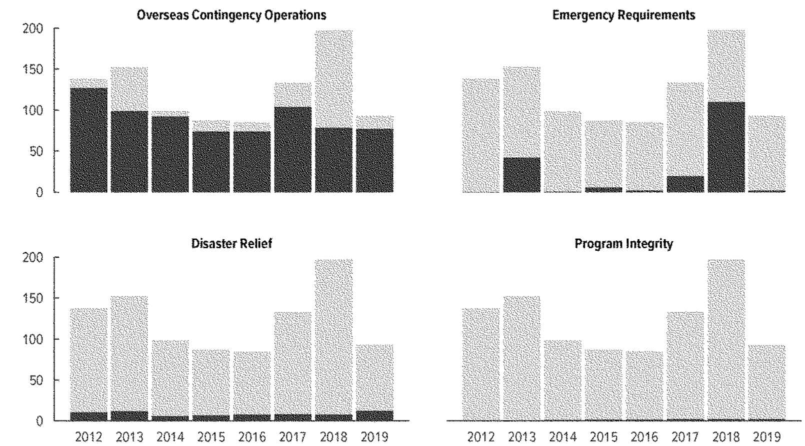
For some categories of spending, unlimited adjustments to the caps are allowed to accommodate whatever funding the Congress and the President agree to designate for those purposes. That is, there is no ceiling on the size of cap adjustments for spending for those purposes.

Overseas Contingency Operations. Funding limits can be adjusted upward, on an unlimited basis, to accommodate certain defense funding, namely appropriations designated for overseas contingency operations and international affairs. The BCA does not strictly define what activities constitute OCO; rather, it requires the Congress and the President to specifically designate, on an account-by-account basis, funding as being for

Figure 3.

Adjustments Made to Caps on Discretionary Funding to Accommodate Funding for Certain Activities Specified in the Budget Control Act of 2011

Billions of Dollars



Source: Congressional Budget Office.

The light gray background of each panel shows the sum of all adjustments made to the caps to accommodate funding for activities for which the Budget Control Act of 2011 allows adjustments. In other words, the bar in the background for a given year is the sum of the darker bars in all four panels for that year.

OCO. Since 2012, the Congress has provided a total of $723 billion in funding for OCO, which accounts for 73 percent of all cap adjustments allowed by the BCA over the 2012–2019 period.

OCO funding has increased defense and nondefense funding in different ways. For defense, OCO funding has added 14 percent to the Department of Defense's (DoD's) total funding since 2012 to cover a variety of activities outside of DoD's base budget. (The base budget includes funding for the department's planned or regularly occurring activities.) Although OCO funding has paid for the temporary costs of DoD's overseas contingency operations, CBO estimates that since 2012 such funding has also included an average of about $50 billion (in 2019 dollars) each year to cover the costs of enduring activities—including funding explicitly identified for base-budget activities—that could have been incorporated into the department's base budget but were not.[10] Those enduring activities have accounted for almost 60 percent of OCO spending since the BCA was enacted.

By contrast, OCO funding for activities of the State Department and other agencies related to international affairs has not, for the most part, increased overall funding for those activities since 2012. Rather, it has displaced base-budget funding for those activities, leaving

10. See Congressional Budget Office, *Funding for Overseas Contingency Operations and Its Impact on Defense Spending* (October 2018), www.cbo.gov/publication/54219.

total funding for them flat but creating room under the caps for spending on other nondefense activities unrelated to international affairs.[11]

Funding enduring activities in the OCO budget rather than in the base budget tends to understate the actual costs of implementing U.S. national security strategy and foreign policy. For example, if DoD's regular base budget had incorporated the enduring activities funded through OCO, it would have been about 9 percent higher per year, on average, since 2012. Furthermore, the practice of funding overseas conflicts outside of the base budget departs from historical norms. For example, during the Korean and Vietnam Wars, DoD's base budget rose rapidly each year to incorporate almost all of the funding for those conflicts.

Emergency Requirements. Like budgetary resources for OCO, any funding designated as an emergency requirement results in an adjustment to the caps for whatever amounts are appropriated. As with OCO, both the Congress and the President must agree on the emergency designation. Over the 2012–2019 period, a total of $180 billion has been provided for purposes designated as emergency requirements. Most of that amount (61 percent) was provided in 2018 in response to Hurricanes Harvey, Irma, and Maria and to wildfires in California.

The BCA codified the definition of *emergency spending* first developed by the Office of Management and Budget (OMB) in 1991—that is, that such spending must be necessary, sudden, urgent, unforeseen, and not permanent. The law also distinguished disaster relief from other forms of emergency spending and allowed a separate adjustment for disaster relief spending (discussed below) so that limited appropriations for disaster costs could be provided in regular annual appropriation bills and would not require emergency designations and supplemental appropriations.

Adjustments That Are Based on a Formula

The adjustments to the caps for disaster relief allow for funding to pay for the costs of major disasters as designated under the Stafford Act. The size of the adjustment is based on a 10-year rolling average of appropriations for disaster relief, excluding the highest and lowest annual amounts over the applicable period. If the full allowable amount is not used in a year, the unused amount can be rolled forward. Since 2012, almost $70 billion has been provided for disaster relief through this cap adjustment.

The Consolidated Appropriations Act of 2018 (P.L. 115-141) made some changes to the formula for calculating the disaster relief adjustment. It allowed unused carryovers to remain available indefinitely (through 2018, that rollover amount was available for only one year), and it added an additional amount to the formula. Specifically, 5 percent of disaster relief provided since 2011 as part of amounts designated as an emergency requirement is now added to the calculation for this adjustment.

The adjustment for disaster relief has been used in different ways. In some years it has been used only to provide funding to the Disaster Relief Fund managed by the Federal Emergency Management Administration as part of the regular appropriation process. But it has also been used to provide funding to other agencies as they responded to major disasters.

The allowable adjustment for disaster relief does not, however, limit federal appropriations for disaster assistance. When the Congress provides more funding for disaster relief than can be covered by the adjustment for such relief in a given fiscal year—as it did for Hurricane Sandy in 2013 and for severe hurricanes and wildfires in 2018—it has supplemented such appropriations with funds made available through the emergency cap adjustment.

Adjustments With Base Funding Requirements

For a third category, additional funding is contingent on meeting base funding requirements.

Program Integrity. The caps can be adjusted to accommodate additional funding for three types of program integrity activities—initiatives that aim to reduce improper benefits payments in certain programs—as long as the Congress provides a base level of funding for those activities. Before any adjustment can be made to accommodate additional funding, base appropriations for continuing disability reviews and redeterminations for Social Security's Disability Insurance program must total $273 million, base funding for health care fraud and abuse control in the Medicare system must equal at least $311 million, and base appropriations to support

11. See Congressional Budget Office, *Funding for International Affairs Activities, Within and Outside Agencies' Base Budgets* (December 2018), www.cbo.gov/publication/54848.

the establishment of reemployment services and to reduce improper unemployment compensation payments must amount to at least $117 million. Since 2012, the Congress has provided $11 billion in program integrity funding through this adjustment after it first provided base appropriations for those activities totaling $5 billion.

Wildfire Suppression. Beginning in 2020, the caps can be adjusted upward to accommodate additional funding for wildfire suppression activities once the base appropriation equals $1.395 billion—the 10-year average of the cost for such activities as reported by OMB in the President's budget for 2015.

Funding That Does Not Count Against the Caps

Finally, funding for some activities specified by statute is not counted for the purposes of enforcing the caps. Under the 21st Century Cures Act (P.L. 114-255), funding for certain activities of the Food and Drug Administration that was authorized by that act would not be counted (up to specified levels) for the purposes of enforcing the caps. Amounts not counted against the caps because of that exemption totaled about $1,056 million in 2018 and $781 million in 2019. The maximum allowable amount of such funding will decrease to $567 million in 2020 and to $474 million in 2021.

What Is Scheduled to Happen to the Discretionary Caps Over the Next Two Years?

Lawmakers have not enacted any changes to the caps for 2020 and 2021, the last two years subject to the limits established by the BCA. Without additional legislation to amend those limits, CBO estimates, total funding constrained by the caps is set to drop by 10 percent, or $126 billion, in 2020 before increasing by 2 percent, or $27 billion, in 2021 (see Figure 2 on page 5).

What Issues Will Lawmakers Face in the Future?

The Congress faces a number of issues related to the caps and to the statutory adjustments that can be made to them. Those issues include whether to change the caps for 2020 and 2021, whether to ensure that any such changes are equal across spending categories, whether to offset those increases with deficit-reducing measures, and how any net changes in spending would change the outlook for debt and deficits.

Adjusting the Caps for 2020 and 2021

If no new legislation is enacted, the discretionary caps for 2020 and 2021 will return to the significantly lower levels set after the JSC failed to meet the 2012 deadline established by the BCA. When faced with similar situations in the past, the Congress has chosen to increase cap levels for two years at a time.

Parity in Future Cap Adjustments

There is no requirement that changes made to the caps on defense and nondefense budget authority be the same size, but the Congress has made equal changes since the BCA was enacted in one form or another. How that principle has been applied, however, has changed over time.

The budgetary effects of the automatic changes to the caps specified in the BCA were the same for defense and nondefense spending (including both discretionary and mandatory spending). At the time, CBO estimated that the automatic procedures would lead to funding reductions totaling $984 billion over the 2014–2021 period. Half of that amount, $492 billion, was attributable to reductions in defense funding, nearly all of which affected discretionary accounts. The other half stemmed from reductions in nondefense funding, but those reductions were split between discretionary accounts ($322 billion) and mandatory accounts ($171 billion).[12]

The Bipartisan Budget Acts of 2013 and 2015 made equal changes in the caps for the two categories of discretionary spending. However, they also included deficit reduction measures that mostly affected mandatory spending for nondefense activities. In both cases, the net increase in funding was larger for defense programs because cuts in mandatory spending offset a larger portion of the increase to nondefense discretionary funding.

The Bipartisan Budget Act of 2018 increased the defense and nondefense caps for 2018 and 2019 by about the same amount measured in relation to the initial BCA caps. But relative to the lower caps that took effect after the 2012 deadline for a new agreement passed, the 2018 act's increases to the defense caps were larger than those to the nondefense caps.

If the Congress considers making parity between defense and nondefense spending a priority, it will have to decide how to define that concept. Considerations include the following: Should parity be limited to the levels of

12. See Congressional Budget Office, *Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act* (September 2011), www.cbo.gov/publication/42754.

defense and nondefense discretionary caps themselves? Should comparisons include changes in mandatory spending? How does the historical shifting of base funding outside the constraints of the caps—using the OCO cap adjustment to fund the enduring activities of DoD and the State Department, for example—or the adjustment for wildfire suppression funding that will soon be permitted factor into considerations of what the caps should be?

Offsets to Future Cap Increases

The Congress will also have to consider whether to offset any changes it might make to the caps. Previous legislative increases in the caps were offset, at least in part, with some reductions in mandatory spending, increases in revenues, and extensions of the mandatory sequester.

The Bipartisan Budget Acts of 2013 and 2015 raised the caps for 2014 through 2017. Both of those acts included provisions to offset the increased spending that would eventually stem from the higher caps. When the 2013 act was being considered, CBO estimated that it would reduce deficits over the 2014–2023 period by $85 billion, more than offsetting the $63 billion cumulative increase to the 2014 and 2015 discretionary caps. Similarly, CBO estimated that the 2015 act would reduce deficits by about $80 billion, offsetting the $80 billion cumulative increase to the caps.

The Bipartisan Budget Act of 2018 increased the discretionary caps for 2018 and 2019 by a total of $296 billion. Whereas the previous two acts fully offset the increased spending that would result from their adjustments to the caps, the 2018 act only partially offset those increases by cutting mandatory spending and increasing revenues. CBO estimated that the mandatory spending and revenue provisions would reduce deficits by $38 billion over the 2018–2027 period—$258 billion less than the increase in discretionary spending that would result from raising the caps.[13]

Effects on the Deficit and Debt

Finally, in making choices about changes in the caps and possible offsets, the Congress also will have to consider how such changes might alter the picture for debt and deficits. As CBO's Director recently testified, federal deficits in the agency's baseline projections average 4.4 percent of gross domestic product (GDP) over the 2020–2029 period. Aside from the period immediately following World War II, the only time the average deficit has been so large over so many years was after the 2007–2009 recession. Over the past 50 years, annual deficits have averaged 2.9 percent of GDP.

Large deficits over the next 10 years would cause debt held by the public to rise steadily. In CBO's baseline projections, that debt is projected to increase from 78 percent of GDP in 2018 to 93 percent at the end of 2029. At that point, federal debt would be higher as a percentage of GDP than at any point since just after World War II—and heading still higher.

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13. Other provisions of the Bipartisan Budget Act of 2018 included supplemental appropriations for fiscal year 2018. CBO estimated that those provisions would increase the deficit by $68 billion over the 2018–2027 period. See Congressional Budget Office, cost estimate for the Bipartisan Budget Act of 2018 (February 8, 2018), www.cbo.gov/publication/53556.

Chairman ENZI. Thank you for your testimony.

Let me explain to the Committee members before we start that each member will have 5 minutes for questions, beginning with myself and the Ranking Member, if he is here. Following the two of us, we will alternate questions between Republicans and the minority. All members who were in attendance when the hearing started will be recognized in the order of seniority of those who are here. And for those who arrive after the hearing began, they will be on the list in their order of arrival. If a person's turn comes up to be recognized and they are not available, then they move to the bottom of the list, and the next Senator will get to ask questions.

So that brings me to my questions. Ms. Gullo, according to your testimony, Congress has appropriated hundreds of billions of dollars for emergencies and natural disasters. Are there ways we can better anticipate or better budget for these expenses? Are there any lessons we can learn from the States, particularly those with balanced budget requirements?

Ms. GULLO. There are some other approaches—oh, sorry. I apologize. You could just make emergency funds compete with all other funding needs, or you could require spending for emergencies to be offset. You could retain the designations but require a super majority vote. In other words, there are lots of different ways to consider how emergency spending fits within the overall budget.

Another option—and this is similar to something that the States do—is you could establish a reserve fund for emergencies. But it is important to understand that a reserve fund is not a panacea. Basically, States face the same uncertainties that the Federal Government faces in the face of a disaster. And even though most States have reserve funds or disaster funds, those funds are primarily used to provide a fairly standard small amount of money up front for them to get going in addressing emergencies. But just like the Federal Government, when there is a catastrophic unexpected emergency, they either have to make a decision to provide supplemental funding, or if they request and the President declares an emergency, then they turn to the Federal Government, and the Federal Government provides them with money.

So there is some indication that stabilization funds and emergency reserve funds have helped States provide some money to get started with emergencies. When you are talking about unexpected large emergencies, they basically face the same problems the Federal Government faces.

Chairman ENZI. Thank you.

We talked a little bit about the cap adjustment for disaster relief because it is based on a formula based in statute. The Consolidated Appropriations Act of 2018 changed the calculation, significantly increasing the amount of the adjustment. Can you talk about those changes and their impact?

Ms. GULLO. Sure. The basic change made by the Consolidated Appropriations Act increased the amount of money that would be provided specifically under the disaster relief adjustment itself. But, truthfully, I do not know that it will make much difference in total because when Congress has chosen to provide money for disaster relief, even if they have hit the cap for disaster relief, that additional money ends up getting funded through the emergency requirements, which does not have a limit.

So with that in mind, the current formula for calculating the disaster makes a couple of changes. It allows all unused carryover from previous years to be available indefinitely for future spending. It also adds amounts to the formula that had been previously provided through the emergency designation, so it is trying to move a little bit of money that historically has been provided through the emergency designation into the disaster so that you have a little bit more certainty on more money provided through that one designation.

But I think it is important to explicitly recognize the interaction between those two cap adjustments—the disaster and the emergencies.

Chairman ENZI. Thank you. I will try one more here.

In CBO's December 2018 report on OCO funding for international affairs activities, it states that, "On average, non-base appropriations accounted for a larger share of activities' total funding in the years after the BCA was enacted than they did during the period of large scale operations in Iraq and Afghanistan." CBO's report also showed significant variation in amounts of non-base funding provided as a share of the total international affairs appropriations.

Can you explain that variation in the BCA's effect on non-base funding for the international affairs?

Mr. MOSHER. Certainly, Senator. You are correct. There has been a fair amount of variation, and I want to step back for a minute just to make the point that OCO funding in the Department of Defense versus OCO funding for international affairs has had very different effects on those two activities. And what has largely happened, particularly since the BCA has been passed, in the international affairs account is that the top line for international affairs, OCO plus base, has changed very little over that time. What has happened is the OCO amount has gone up, and that largely has served as a substitute for what often would have been base budget activities.

So, for example, there have been wide variations in some accounts that were never funded with OCO and in 2014 or 2015 all of a sudden got 50 percent or more of their funding through the OCO mechanism.

As to the ratios, what happened to the budget, over the first decade after 9/11, if you will, spending was about 15 percent of the top line for international affairs came from the OCO accounts. And after the BCA, it has gone up to about 24 percent.

Chairman ENZI. Thank you. My time has expired.

Senator Kaine.

Senator KAINE. Thank you, Mr. Chair.

Ms. Gullo, I want to make sure I heard the last bit of your testimony correctly. The debt-to-GDP ratio calculations that you suggested, I think it is 78 percent in 2019, and the projections you testified to, 93 percent in 2029. Is that correct? I want to make sure I understand the assumptions on that.

So for purposes of preparing those debt-to-GDP ratios, I am assuming that since we have not done a deal to lift the BCA caps in

2020 and 2021, your debt-to-GDP assumes that those caps are in place?

Ms. GULLO. So we assume the caps stay in place through 2021, and then for discretionary spending, we inflate off that 2021.

Senator KAINE. So that is important.

Ms. GULLO. That is right.

Senator KAINE. So for 2020 and 2021, if we do not do legislation to increase the caps, funding constraints is set to drop by $126 billion.

Ms. GULLO. For 2020, correct.

Senator KAINE. For 2020, and then there would be an additional drop in——

Ms. GULLO. Well, then it would actually increase by 2 percent.

Senator KAINE. Oh, that is right. That is right.

Ms. GULLO. Right.

Senator KAINE. That would be—okay. It would increase by 2 percent. But then, because the BCA caps expire at the end of 2021, the way you do the debt-to-GDP calculation from 2021 through 2029 is you are assuming that the budget is growing by an inflation adjuster.

Ms. GULLO. Correct, which is what the Budget Control Act requires CBO to assume in doing the discretionary projections.

Senator KAINE. So, obviously, two decisions we are going to have to make. We are going to have to make Decision A about whether we do a deal and adjust the caps in 2020 and 2021. And then we will have to decide as Congress do we just want to let the entire BCA cap architecture go away, or do we want to do something different or similar? So we have some big decisions to make with respect to that.

Ms. GULLO. Correct.

Senator KAINE. I want to ask you about OCO, Mr. Mosher, because I think the testimony is pretty interesting on this. I am a member of the Armed Services Committee, and we get into it.

"Since 2012"—I am looking at page 6 of the written testimony—"Congress has provided a total of $723 billion in funding for OCO, which accounts for 73 percent of all cap adjustments allowed by the BCA over the 2012–2019 period." And your testimony about the State side of this sort of hinted at a topic I want to get at, and that is the way that we often use OCO to just fund base activities, both in the defense side but also in the nondefense. "OCO funding has increased defense and nondefense funding in different ways. For defense, OCO funding has added 14 percent to the [DOD's] total funding since 2012 to cover a variety of activities outside of DOD's base budget."

Jumping to the end of the paragraph, "Although OCO funding has paid for the temporary costs of DOD's overseas contingency operations, CBO estimates that since 2012 such funding has also included an average of about $50 billion . . . each year to cover the costs of enduring activities—including funding explicitly identified for base-budget activities. . . . Those enduring activities have accounted for almost 60 percent of OCO spending since the BCA was enacted." So that would suggest that once the BCA was enacted, we have really shifted to use OCO as a means of funding enduring activities, 60 percent enduring activities, 40 percent what we would truly consider contingencies.

And then further, on page 7, "Funding enduring activities in the OCO budget rather than in the base budget tends to understate the actual costs of implementing U.S. national security strategy and foreign policy. For example, if DOD's regular base budget had incorporated the enduring activities funded through OCO, it would have been about 9 percent higher per year, on average. . . . Furthermore, the practice of funding overseas conflicts outside of the base budget departs from historical norms. For example, during the Korean and Vietnam Wars, DOD's base budget rose rapidly each year to incorporate almost all of the funding for those conflicts."

What this suggests to me is that we are basically overusing OCO and sort of using OCO contrary to historic norms probably just as a way of getting around the BCA budget caps. Would you think that that is a fair interpretation?

Mr. MOSHER. I cannot comment about the appropriate or inappropriate use of OCO, but I will say that what we are doing since 9/11 was a significant departure from historical norms, that in the Korean War, for example, OCO accounted for more than half of the base budget in that first year, and in the second year basically the base budget rose to that level and even higher.

Senator KAINE. Let me ask you this. It is not a question about propriety but just kind of a budget theory. As a general matter, would it be better to fund enduring activities in the base budget than in an OCO account that suggests it is about contingencies? Would you agree with me there?

Mr. MOSHER. Well, we point out in our report—we did the report in October from which that piece of the testimony is drawn—that there are some—you create some problems when you fund enduring activities in some sort of non-base budget. Part of it is you get distortions within the base budget in planning and programming, the sort of process the DOD does every year to develop their 5-year plan. Certain activities that are high priority might get bumped into the OCO accounts, and so lower priority, maybe expensive or non optimal solutions or programs, might be included that would not otherwise have been. Or even if you kept the top line, you know, you raise the top line to include the enduring amount, that would at least bring all those resources into the normal planning and programming process. That would be the biggest advantage of bringing it in the top line.

Senator KAINE. That is helpful. Thank you.

Thanks, Mr. Chair.

Chairman ENZI. Senator Braun.

Senator BRAUN. Thank you, Mr. Chair.

When I wrap up here, I am going to refer back to what struck me as most compelling when we had Director Hall in here.

Stop me if I am incorrect in terms of getting a few things out here that are simple for the public, I think, to understand. We just hit $22 trillion in debt, and we are roughly running trillion dollar deficits annually. I believe that from 2011 to 2018 discretionary spending has actually dropped by 17 percent and would have dropped more had the caps not been bypassed in 2013, 2015, and 2018. Is that true?

Ms. GULLO. So the only thing I would say is that the debt held by the public, which is what we use when we calculate debt-to-GDP ratios, is about $16 trillion.

Senator BRAUN. It is 22 when you are referring to——

Ms. GULLO. Is the total debt, that is right.

Senator BRAUN [continuing]. Intragovernment debt.

Ms. GULLO. That is right. But all the spending numbers seemed okay.

Senator BRAUN. Okay, good. And the fastest-growing part of our budget would be in mandatory spending, and with the rate of inflation that we have had—and I think I read here, and I cannot recall if you mentioned it—is going up roughly 6 percent a year?

Ms. GULLO. Right.

Senator BRAUN. I mean, that is astounding. Most people would not know that, and that is something that is on autopilot.

And then interest on our debt, of course, now that interest rates have risen, will about equal defense spending down the road soon, and that in a way is kind of mandatory spending because unless you are going to default, you have got to pay it.

Ms. GULLO. Right.

Senator BRAUN. Okay.

Ms. GULLO. We do not consider that discretionary.

That is right.

Senator BRAUN. Okay. And the Ranking Member, before he left, cited that we need to do a whole lot more through Government, and for the Ranking Member and others that think that that needs to be the case, I would say if you are interested in doing that down the road, you better look for a healthier institution to maybe conduct what spending you want to do. And this idea of trying to pile more and more responsibility onto the Federal Government that is $22 trillion in debt or 16, depending on how you look at it, running annual trillion dollar deficits, do you think that is prescription for anything working out well when it comes to Government finances?

Ms. GULLO. No, I mean, I think CBO has said multiple times in the past that we think that the debt is on an unsustainable path and that Congress is going to have to confront some hard choices about some combination of increases in revenues or decreases in spending. Given how high the debt is getting, it is hard to imagine easily doing that on any one side of the budget.

Senator BRAUN. Very well put from an expert, and I would agree 100 percent.

I do not think any of this conversation can be had in the vacuum of not talking about revenues, and implicit in everything I hear on the other side is that there is a ton of capacity to increase revenues. And I think in places where it might be fairer to do it, you look and you talk about it. But I asked Director Hall in the last hearing, if you taxed 100 percent of income in the top two brackets, you could not close the gap on our current deficits. I do not know you have looked at that, but, you know, he did say that that would not do the trick.

In looking at revenue enhancement, it is difficult for me to find any model where there is not avoidance, there is less enterprise to where you even get close to 20 percent of the current deficit. Have you looked at that yourself? And would you care to issue an opinion on that?

Ms. GULLO. No, that is not my area of expertise.

Senator BRAUN. Okay.

Ms. GULLO. But I am happy, if you want, we can get some of our tax experts——

Senator BRAUN. I have asked my staff, and I would love for you to do the same thing, because until this is going to really sink in, and what dire straits we are in, I think you have got to point out that you cannot solve it through revenue. We are in an intransigent, stubborn deficit that we have not felt the pain of yet. That will start happening when the interest rates tick up another percent or two and you add another $200 to $300 billion to what we currently pay in interest. So I am going to bring to the Committee here and I would ask you to do some work on the counter argument of what could happen with revenue so you can clearly make the case that this is a spending issue, we bypass caps, and until we get it in line, you know, we are going to pay huge consequences down the road.

Thank you.

Chairman ENZI. Thank you.

Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. I thank both of you for your service and testimony.

I want to pick up on the OCO issue, which has kind of become Washington-speak for a big slush fund that is used by the administration and some previous administrations as well to shift base defense spending into the overseas contingency account, which, as the name suggests, is supposed to be used for overseas contingencies.

Mr. Chairman, I hope this will be a bipartisan issue. It was in the House. I would just like to read into the record what the former Chairman of the House Budget Committee said at a time I was Ranking Member of the House Budget Committee. This is Paul Ryan in fiscal year 2015, and this was in the report from the House Budget Committee: "Abuse of the OCO cap adjustment is a backdoor loophole that undermines the integrity of the budget process. The Budget Committee will exercise its oversight responsibilities with respect to the use of the OCO designation in the fiscal year 2015 budget process and will oppose increases above the levels the administration and our military commanders say are needed to carry out operations unless it can be clearly demonstrated that such amounts are war-related."

That was 2015. My colleague in the House, now the Acting Chief of Staff in the Trump administration, Mick Mulvaney, and I offered amendments in the House that passed the House to address this abuse of OCO. And, in fact, just last year, when I asked the DOD Comptroller David Norquist about this issue, March of 2018, he said, and I quote, "Consistent with your previous discussions with Director Mulvaney"—he is now referring to Mick Mulvaney as Director of OMB—"you will not be surprised to know that in outyears he would like to shift those categories so even fewer of them will count as OCO and more of it as base. And only the most incremental of the costs show up, which would dramatically reduce the size of the OCO."

For our witnesses, have you seen the speculation that the Trump administration plans to submit a budget which will fund all of their DOD request above the cap through OCO?

Mr. MOSHER. Yes, we have certainly seen the reports and the budget.

Senator VAN HOLLEN. And that would be a dramatic departure even by previous years' levels from what we have done before, would it not?

Mr. MOSHER. Well, certainly even this administration in last year's budget proposal did sort of exactly what Director Mulvaney, I guess at the time, was proposing where much of the spending that is what we would title "enduring," and I guess he would agree, would be folded back into the base budget, that the caps—well, it was not about caps, but that the DOD base budget would rise by about $45 billion a year and keep about $20 billion a year in OCO or whatever it needed for the marginal cost, if you will, of conflicts.

That was the plan last year to do that. They did a little in 2019. They would do it in 2020 through 2023. If the reporting of what the administration may propose when the budget comes out would reverse that, then obviously it is a change in their policy on that.

Senator VAN HOLLEN. And I would just, Chairman, quote from the administration's budget request from last year on this topic where they said, "In fiscal year 2020 and the out-years, the administration proposes returning to OCO's original purpose by shifting certain costs funded in OCO to the base budget where they belong."

That was the administration's budget language last year. It appears from reports that not only are they not heading in this direction, but they made a major U-turn in the other direction. And, you know, I think as the Chairman knows, the purpose of this, of course, is to try to avoid the kind of negotiations that we have had in the past over the balance between our investment in defense as well as nondefense areas like education and other really important national priorities. And I hope that this Committee will stick to what had been a bipartisan consensus in the past, which is that OCO funds should be used for truly overseas contingencies and not used to simply backfill into the base budget. And if we can start with agreement on that, we will still have tough budget negotiations, but at least we will be on the same page that we have been for the most part in the past. And I thank you because, again, we do not know if the reports are true, but as you indicated, if they are true, this is a major reversal in the administration's own position.

Thank you.

Chairman ENZI. Thank you.

Senator Kennedy.

Senator KENNEDY. Thank you, Mr. Chairman. Let me apologize to our witnesses. I am sorry, I was in another Committee, so I missed the pleasure of hearing your opening statements, but I will read them later.

There has been some discussion lately about budget deficits, of which, of course, budget caps are related, and some of my colleagues have suggested that budget deficits do not matter as long as people will loan us money. Do you agree with that?

Ms. GULLO. I think it is risky to continue to run large deficits that add to a debt that could at some point put the United States Government in the position of not being able to respond quickly to emergencies or problems because so much of the money that the Federal Government spends goes to interest and paying for that debt. So I think it is risky. I do not know that I would ascribe to the idea that deficits do not matter. I think we—CBO believes we are on an unsustainable path in terms of the continued increase in the debt, and that has mostly to do with the ability of the Federal Government to respond when it needs to.

Senator KENNEDY. Yes, Mr. Mosher?

Mr. MOSHER. This is not my area at all, so I defer to the experts.

Senator KENNEDY. So you do not have an opinion one way or the other about whether deficits matter?

Mr. MOSHER. Well, I mean, I run the National Security Division at CBO, so I focus more on defense issues. I can just restate what Teri says, that the institution has a position that current projected debt levels will be unsustainable long term.

Senator KENNEDY. Well, the budget caps are, of course, symptomatic of the larger problem that we talk a lot about, spending and how we need to live within our means and do better. I have only been here 2 years, but my experience is that everybody is for fiscal restraint and fiscal responsibility. But when you get around to doing something, it is kind of like everybody wants to go to heaven but nobody is ready to make the trip.

You do not have to answer this if you do not want to, but now is your chance. If you were king or queen for a day and wanted to have the most immediate impact on our budget deficits as well as our longer-term debt, what would you do?

Forget the politics.

Ms. GULLO. Well, the first thing I would do if I was queen for a day is have Bryce Harper sign with the Nationals again. [Laughter.]

Senator KENNEDY. Fair enough.

Ms. GULLO. But in terms of the debt and deficit, I think the largest and growing problem that we face is with mandatory spending, and so I think that the solution—part of the solution to addressing the deficit problems I think has got to come from taking a look at mandatory programs. They are the largest and the fastest-growing part of the budget.

Senator KENNEDY. Yeah, I think I read—tell me if I have this wrong. I read an analysis that you did. CBO is predicting that over the next 10 years, discretionary spending is going to increase about 3 percent a year, mandatory spending with interest about 9 percent. Does that sound right?

Ms. GULLO. That sounds like the basic ball park, yes.

Senator KENNEDY. Okay. So it will double, basically, over the next 10 years. I am working my way through—I think CBO did the analysis of ways to save money.

Ms. GULLO. Yes.

Senator KENNEDY. The Chairman gave me a copy.

Ms. GULLO. Budget options, yes.

Senator KENNEDY. It is very interesting. Do you have an opinion on that?

Mr. MOSHER. It is a great volume. Thank you.

Senator KENNEDY. I am sorry?

Mr. MOSHER. It is a great book. We all work on it very hard at our agency.

Senator KENNEDY. All right. Can you give me in my last 10 seconds a suggestion in terms of discretionary spending, the most flagrant abuses, the obvious waste?

Ms. GULLO. So I do not think many people would disagree that there is waste, and improper payments and fraud, I think most IGs or many IGs have pointed that out at agencies. GAO has pointed that out.

Our analysis in looking at legislation to deal with things like improper payments indicates that those types of things are not a very large portion of most budgets, and that while you might be able to get to a point of having fewer improper payments, for example, that could come at a very steep price, and in many cases things like improper payments have to do with the paperwork was not filled out correctly, somebody did not sign something. So even if you solve those problems, it is not clear that you are going to reduce the deficit or save very much money.

Senator KENNEDY. May I, Mr. Chairman?

Improper payments are about $144 billion a year, so if you cut that in half—I take your point—it is a very good one—about filling out paper wrong. But sending checks to dead people, pretty blatant, and even scarier is they are being cashed.

Ms. GULLO. Absolutely, and I do not mean to suggest that those sorts of things should not be addressed or that dealing with some of those things would result in fewer outlays.

Senator KENNEDY. Or the IRS signing hundreds of millions of dollars of consulting contracts with people who owe taxes, not just allegedly but there is a final judgment against.

Ms. GULLO. That one I do not know much about, but——

Senator KENNEDY. I have gone way over. I am sorry.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you. I have some additional questions, so you can have some additional ones as well if you wish.

During the 1990s, Congress rescinded just under $52 billion to help offset supplemental appropriations. Was there a requirement that such funding be offset? Can you discuss the trends in offsetting both supplemental appropriations and legislation to increase the BCA's discretionary spending caps?

Ms. GULLO. Sure. You are correct that some of the supplemental appropriations that were provided in the 1990s were offset. Those were predominantly non-emergency funds that were provided in supplementals, and the requirement to offset those was for the purposes of not exceeding the caps that were in effect in those days. Emergency funding was not required to be offset, even in the 1990s. So it kind of depended on what sort of spending you were talking about.

In the 2000s and the 2010s, you have virtually none of the supplemental money being offset—very, very small amounts of money, so the trend has been toward fewer and fewer offsets in supplemental appropriations bills.

Chairman ENZI. Some of those offsets went far into the future, I think.

Ms. GULLO. Right. That is right, and sometimes those offsets will be with—will offset budget authority, but they do not necessarily result in many outlay savings.

Chairman ENZI. Right, especially not in the immediate future.

Ms. GULLO. Not early, that is right.

Chairman ENZI. In the distant future, trying to—a way to spend money from the tenth year of the budget in the first year.

Ms. GULLO. Right.

Chairman ENZI. That is something we will have to guard against as well. Something we may have left out of the discussion is what happens if the caps are exceeded. The general public probably does not understand that. We have been through it once.

Ms. GULLO. Yeah. So there is a sequestration process.

If the caps are exceeded, the sequestration effectively works to bring overall discretionary spending back to the cap levels, and it does that through across-the-board cuts in those accounts.

Chairman ENZI. There is an added complication——

Ms. GULLO. Including OCO, actually. Dave makes a good point. Even though OCO is not counted for the caps when it—do you want to explain that?

Mr. MOSHER. Even though OCO is not—there is an adjustment of the cap for OCO, once the sequestration process starts, then let us say there is a 3-percent cut across the board, the OCO accounts would be cut by the 3 percent as well.

Chairman ENZI. Well, there is another complication, though, that we noted with the one time that the sequestration was put into effect, because we had continuing resolutions through most of the year, which meant that everybody got to spend their previous year's amount to that point. And so it got down to the last quarter, and if it is a 1-percent cut in the last quarter, it is only one-fourth of the funds.

Ms. GULLO. Right.

Chairman ENZI. So it becomes like a 4-percent cut, which is a lot more difficult. I do not think that when the budget caps were put in place that the anticipation was that any of the sequestration would take place in the first month, and succeeding months, not at the end of the year when it could for a small appropriation maybe use up everything that was left.

Ms. GULLO. Yeah, it would be really big.

Chairman ENZI. I think that was left out.

I think my colleagues would be surprised to learn that nearly $1 trillion in spending has been provided through cap adjustments since 2012. That does not include the discretionary cap increases that have been made through three Bipartisan Budget Acts for an additional $439 billion.

Can CBO speak to any other efforts that have been utilized to effectively circumvent the discretionary spending caps?

Have we attempted to quantify those efforts?

Ms. GULLO. So one thing that is used pretty consistently year after year are Changes in Mandatory Programs, or CHIMPS. In the appropriations process, sometimes the appropriators can make changes to a mandatory program that will save money, and when that gets credited to the appropriations bill, that actually creates additional room under the caps. And I think—Adam, if I am—correct me if I am wrong, Adam—about $17 billion a year on average has been—CHIMPS have been used to create that amount of extra room under the caps. So off the top of my head, that is the one thing I can think of that is another way that spending can occur that is not controlled by the caps.

Chairman ENZI. We also do some interesting things with the Crime Victims Fund.

Ms. GULLO. That is one of the major examples. I think that accounts for at least half of that CHIMPS savings.

Chairman ENZI. My time has expired again. Senator Braun, did you have more questions?

Senator BRAUN. One quick comment and a comment from you on it. We did not get to the numbers awhile ago, but on mandatory spending, we discussed interest is kind of like mandatory spending. If you do not pay it, you default.

Currently it is a little over 70 percent of our total spending. Is that roughly correct?

Ms. GULLO. Discretionary——

Senator BRAUN. Mandatory, which is kind of on autopilot. Looking at what it will be in 2026, it looks like it is going to be over 80 percent. So the trajectory in terms of how all this looks in the short span of 7 to 8 years gets to where we are spending more and more, and mandatory spending again is made up of Social Security, Medicare, and Medicaid, and then depending how you classify interest, which to me that is somewhat mandatory, it is getting to where discretionary spending is becoming such a small part of what we do that obviously it has very little impact on changing the trajectory.

So where would you—and I think just for the sake of the public again hearing what the main variables would be when it comes to mandatory spending, could you talk a little bit about what they are—because it seems like no one here wants to—and lay out kind of the arithmetic and, you know, what the options would be? And avoid getting political with it, but just stick with the arithmetic.

Ms. GULLO. So you are correct, 60 percent of current spending is mandatory, and most of that is Social Security and Medicare. But you also have Medicaid, you have nutrition assistance programs, you have farm programs. So there is a host of different programs that are mandatory spending, meaning they do not require annual appropriations. They operate automatically based on the provisions of underlying law. But by far the largest two programs that account for mandatory spending are Social Security and Medicare.

Senator BRAUN. And then, really to be honest, until we tackle that, we are not really affecting the trajectory of actually lowering deficits. So that is the hard discussion that we need to have here.

Ms. GULLO. I think it is going to be hard to solve the problem without looking at mandatory spending. It is such a big part of the picture.

Senator BRAUN. Very good, and I think that it is all of our responsibility here on this Committee to have the backbone and fortitude to start doing that because, otherwise, you know, I think we are deceiving the American public. That does not get talked about often enough, and we need to roll up our sleeves and at least be honest about what the options are.

Thank you.

Chairman ENZI. And at the same time, we avoid those mandatory ones except in new bills that come out. And there are several that have been put in this year, you know, dropped in, reported out, but not out of Committee yet, that make more money mandatory instead of the ability to take a look at it or even being forced to take a look at it.

Senator Kennedy. Microphone.

Senator KENNEDY. The Senator is absolutely right about mandatory in terms of bending the curve. But it seems to me we can also save money on the discretionary side. I just find it extraordinary that Social Security has a Death Master File and they do not share it with anybody. I just find that extraordinary. And I find it extraordinary that agencies that are responsible for sending out checks do not bother to inquire whether the recipient is dead. And I have a hard time explaining that to my constituents. And I understand it takes time, and I understand the rights of privacy. But I also understand the way that the taxpayer who is putting up all this money looks at that. That is pretty basic. Do not pay dead people money. That is about as basic as you can get.

You know, the bonus payments, the year that we had so much trouble with our Veterans Administration—not to suggest that things are well now, but I think they are better. But the year we had so much come to light about the inefficiencies in the delivery of health care to our veterans, we paid $100 million bonuses over there. The year that people at the IRS were caught obviously making decisions on the basis of somebody's political beliefs, A, nothing happened to them—nobody ever gets fired around here—and, number two, they got $100 million on bonuses.

Now, that is all discretionary, and, yeah, the mandatory matters, but so does the discretionary. Maybe if we could warm up and just try on the discretionary side, the other would get easier. I do not know. But that has been—and I think part of it is that those who want to reduce the spending are often told, "Well, it cannot pass, so why try? We have to put together something that will pass"—which inevitably means spending more money.

That is not a question. That is just an observation. But it is very frustrating, and it is very frustrating to explain to constituents who, even after a cursory look at some of the decisions we make, you know, they think we all parachuted in from another planet. And I cannot much blame them.

But I do want to thank you for the work you do. It is very helpful. I am about halfway through your book in terms of suggested savings, and I did not know something like that existed. So I thank you for your work.

I read another study CBO did, and I am not denigrating our Federal employees, but a study I think you did for us from 2011 to 2015. You took all the public sector jobs in the Federal Government and compared them to the same jobs in the private sector. It really was an apples-to-apples comparison. And we pay salary, benefits, everything, about 17 percent more on average in the public sector. I am not saying people do not deserve it, but the numbers are the numbers. You say, well, 17 percent, that is not bad. That is $34, $35 billion a year.

Ms. GULLO. Yeah, and I think that is overall. I think it varies depending on the job categories.

Senator KENNEDY. That is true.

Ms. GULLO. Right.

Senator KENNEDY. We actually underpay for professionals.

Ms. GULLO. Correct. That is right.

Senator KENNEDY. But we overpay for people with a B.A. or less compared to the private sector. Anyway, thank you, Mr. Chairman.

Chairman ENZI. Thank you.

I have a couple more questions. Congress appropriates billions of dollars for emergencies or disaster relief, for immediate relief and recovery from natural disasters. In some cases, these funds take many years to spend. It is my understanding that we are still spending funds on expenses from previous hurricanes such as Katrina. Can you elaborate on why that is? Does Congress ever rescind the appropriated dollars of unspent during a given period?

Ms. GULLO. So it is true that oftentimes when funding is provided after a disaster, it can take years to spend. But there is a real difference between—depending on what the money is provided for, so some funding that is provided for rescue operations, emergency shelters, that type of thing, those spend pretty quickly. But a fair amount of the money that is provided through emergencies after a catastrophe like Hurricane Katrina are for longer-term things like infrastructure reinvestment, and those can take a long time. And I think you are correct, there is still some unspent Katrina money. I do not know off the top of my head how much, but there is some money that has not spent. So emergency money, generally speaking, has a very long tail. There is some money that takes a long time to get either obligated or spent.

There is some money that has been provided that people have suggested that gets rescinded mostly for the purposes of offsetting costs in some other proposal. The challenge that you face is that because that money was provided as an emergency and, therefore, did not count when it went into the budget, the question is should it count as an offset when you try to rescind it? That is a decision that is an enforcement decision, not a decision we make. We can give you the numbers of how much, but when you get out that far, quite frankly, and you have got unspent money, the odds are it is not ever going to spend, so rescinding it may not give you any real outlay effects.

Chairman ENZI. And something I will follow up on other places is to find out how we bank that excess money since we really do not have any bank accounts out there. I am not sure that we do not spend it now and then assume—put bonds in a drawer just like we do for Social Security.

Ms. GULLO. Right, yeah. That is a good—I do not know the answer to that.

Chairman ENZI. I do not either, but it is one that I will pursue.

Another question. Rural communities across the Nation depend on healthy national forests for recreational activities, reliable jobs, a lot of things in their local economy. As your testimony mentions, a cap adjustment for wildfire suppression activities will come into effect in fiscal year 2020. Can you talk about how this new adjustment will help end the fire borrowing and the effect it will have on wildfire funding in general?

Ms. GULLO. Sure. I am happy to explain the way this new cap is going to work. I think it may very well contribute to helping prevent the need to borrow. I do not know that it will eliminate it, but I think it could help.

So the way the new cap works is a 10-year average based on what the 10-year average was in 2015, which was $1.4 billion, will continue to be funded through the regular disaster cap. And once that is provided, then levels above that amount will be funded through this new fire suppression cap adjustment. And I think those amounts range from $2 billion to $3 billion, beginning in 2020, and it goes through 2027. And the affected agencies are primarily the Forest Service and the Department of Interior.

Chairman ENZI. Thank you. Thank you for the wealth of information that both of you have shared and the daily work that you do. Unless Senator Kennedy has more questions, that will conclude the hearing. Adjourned.

[Whereupon, at 3:40 p.m., the Committee was adjourned.]

ADDITIONAL COMMITTEE QUESTIONS

[The following submitted questions were not asked at the hearing but were answered by the witness subsequent to the hearing:]

Congressional Budget Office

MAY 29, 2019

Answers to Questions for the Record Following a Hearing on Discretionary Appropriations Under the Budget Control Act Conducted by the Senate Committee on the Budget

On February 27, 2019, the Senate Committee on the Budget convened a hearing at which Theresa Gullo, the Congressional Budget Office's Assistant Director for Budget Analysis, testified.[1] *After the hearing, Ranking Member Sanders and other members of the Committee submitted questions for the record. This document provides CBO's answers to those questions. It is available at* www.cbo.gov/publication/55280.

Ranking Member Sanders

Question. Even with all the spending we do beyond the budget caps is it true that the long-term trend has been that non-defense discretionary spending has been falling relative to the size of the economy since the 1970s? Is it also true that if we do not raise the budget caps that non-defense discretionary spending will be at its lowest point on record next year, and will keep declining from then on?

Answer. Nondefense discretionary spending has fallen relative to the size of the economy over the past 50 years. In 1969, such spending totaled 3.5 percent of gross domestic product (GDP). CBO projects that in 2019 the total will amount to 3.1 percent of GDP and will equal its lowest level as a share of the economy over that period. In 2020, under CBO's baseline assumptions (in which the nondefense discretionary cap for 2020 is not increased), such spending would equal 2.9 percent of GDP. In CBO's baseline projections, which incorporate the assumption that discretionary appropriations grow with inflation when not capped, nondefense discretionary spending continues to decline—to 2.5 percent of GDP in 2029.

Question. Since the BCA came into effect, what share of spending due to cap adjustments has been for defense and what share has been for non-defense? Since the BCA came into effect, what share of non-defense cap adjustments has been to respond to emergencies and disasters, such as Hurricanes Harvey, Irma, and Maria in 2018?

Answer. CBO estimates that since the enactment of the Budget Control Act of 2011 (BCA), which established caps on discretionary spending through 2021, $683 billion (or 69 percent) of the total adjustments to those caps has been provided for defense activities: $652 billion for overseas contingency operations, $13 billion for emergency requirements, and $18 billion for disaster relief.

1. See the testimony of Theresa Gullo, Assistant Director for Budget Analysis, Congressional Budget Office, before the Senate Committee on the Budget, *Discretionary Appropriations Under the Budget Control Act* (February 27, 2019), www.cbo.gov/publication/54988.

The other roughly $300 billion in cap adjustments (30 percent of the total adjustments), was provided for nondefense purposes: $167 billion for activities determined to be emergency requirements, $72 billion for overseas contingency operations, $51 billion for disaster relief, and $11 billion for program integrity efforts.

Question. If we had not adjusted the BCA spending caps in 2018 when we appropriated the nearly $110 billion in emergency and disaster spending to respond to Hurricanes Harvey, Irma, and Maria, and wildfires in California, what would have happened to other non-defense discretionary programs—programs like Head Start, child nutrition, rental assistance, heating assistance, and medical research?

Answer. In 2018, the cap adjustments for disaster emergency and disaster spending totaled $117 billion. If that amount had been accommodated under the $579 billion nondefense discretionary cap for that year, the Congress would have faced a choice. On the one hand, it could have reduced funding for other discretionary accounts by that amount to keep total spending at the cap level. Because caps constrain total funding, not funding for individual accounts, the Congress would have had to decide which accounts to reduce and by how much. On the other hand, the Congress could have imposed an across-the-board cancellation of budgetary resources, totaling 20 percent, for all nondefense discretionary accounts to keep total spending at the cap level.

Senator Grassley

Question. Based on CBO data, mandatory outlays were around 5.5 percent of the size of the overall economy in 1969, and are projected to rise to more than 15.0 percent by 2029. Meanwhile, discretionary outlays were close to 12.0 percent of GDP in 1969, and are projected to fall to below 5.0 percent by 2029. While this hearing is focused on budget caps and discretionary spending, could you give me a sense of the relative importance of discretionary spending and mandatory spending over time in terms of overall spending?

Answer. Discretionary spending, which includes most spending on national defense, elementary and secondary education, housing assistance, international affairs, and the administration of justice, as well as spending for highways and other infrastructure programs, will total $1.3 trillion in 2019, or 6.3 percent of GDP, and will account for 30 percent of total outlays, CBO estimates. Under the assumptions governing CBO's baseline projections, such spending is projected to fall to 4.9 percent of GDP by 2029, more than 1 percentage point less than CBO's estimate of such outlays in 2019 and lower than at any point in the past 50 years.

Mandatory spending, which consists primarily of payments for benefit programs, such as Social Security, Medicare, and Medicaid, will account for 60 percent of total federal spending in 2019 and will amount to $2.7 trillion, or 12.7 percent of GDP. Mandatory outlays are projected to increase by 1.9 percentage points—to 14.6 percent of GDP—by 2029. That growth is primarily the result of the aging of the population and rising costs per beneficiary in the major health care programs. The only other time since 1962 that mandatory outlays exceeded 14 percent of GDP was during the recession in 2009, when they totaled 14.5 percent.

All told, in 2019 mandatory spending (excluding interest) will be about twice discretionary spending. By 2029, in CBO's baseline projections, mandatory spending is about three times discretionary spending.

Question. CBO has been warning Congress for decades, at least, that outsized and unsustainable entitlement spending have dominated the adverse long-run budget outlook. My question is: even if we froze discretionary spending over the next few decades, would our overall spending remain sustainable?

Answer. In *The 2018 Long-Term Budget Outlook*, CBO projected discretionary spending under the assumption that it would account for the same share of GDP (about 5.4 percent) from 2028 through 2048.[2] In CBO's extended baseline projections, such spending constitutes about a third of all noninterest spending in 2019 and declines to less than a quarter by 2048. (The extended baseline projections generally reflect current law, following CBO's 10-year baseline budget projections through 2028 and then extending most of the concepts underlying those projections for the rest of the 30-year projection period.)

If discretionary spending instead was frozen at 2019 nominal amounts, it would shrink from 6.4 percent of GDP in 2019 to 2.1 percent of GDP in 2048—declining from about a third of all noninterest spending to 11 percent by 2048.

Nevertheless, including the positive economic effects of deficit reduction, debt as a percentage of GDP under that latter scenario would continue to increase throughout the projection period and would peak at about 95 percent of GDP in the mid-2030s before declining to about 90 percent of GDP in 2048—still higher than the current 78 percent. By contrast, in CBO's extended baseline projections, debt rises steadily to 152 percent of GDP in 2048.

Question. Congress has altered the budget caps originally envisioned in the 2011 Budget Control Act. When the budget caps were adjusted, allowing for more spending, can you tell me whether there were any offsets to the increased spending?

Answer. The Bipartisan Budget Act of 2013 and the Bipartisan Budget Act of 2015 raised the caps for 2014, 2015, 2016, and 2017. At the time that the 2013 law was under consideration, CBO estimated that other provisions in the act would reduce deficits over the 2014–2023 period by $85 billion—more than offsetting the $63 billion cumulative increase in the 2014 and 2015 discretionary caps. Similarly, CBO estimated that provisions in the 2015 act would reduce deficits by about $80 billion—fully offsetting the $80 billion cumulative increase in the caps that the 2015 act made for 2016 and 2017.

By contrast, the Bipartisan Budget Act of 2018 only partially offset the cap increases it authorized for 2018 and 2019. CBO estimated that the mandatory spending and revenue provisions would reduce deficits by $38 billion over the 2018–2027 period—$258 billion less than the increase in discretionary spending that would result from raising the caps.

Question. According to a 2012 analysis by researchers at the Federal Reserve Bank of New York, the share of costs of disaster relief paid by the federal government was around 25 percent before Hurricane Katrina, but has increased substantially to nearly 70 percent after. They go on to say that with the expansion of federal disaster assistance, payments from private insurance companies and the federal government exceeded the total economic cost of events since Katrina by about 25 percent. That is total, of course, and does not deny that some individuals or businesses may not have been fully reimbursed for their losses.

2. Congressional Budget Office, *The 2018 Long-Term Budget Outlook* (June 2018), www.cbo.gov/publication/53919.

With this as a backdrop, could you give me information about growth in federal disaster assistance spending over the past couple of decades?

Answer. Focusing on the country's single largest source of federal disaster assistance, the Disaster Relief Fund (DRF, which is administered by FEMA, the Federal Emergency Management Agency), CBO observes that in constant dollars, federal disaster spending has increased significantly over the past three decades, particularly since Hurricane Katrina in 2005. Total federal spending from the DRF totaled about $27 billion in the 1990s and increased dramatically in the past two decades (to $135 billion and $108 billion, respectively).

In 2016, CBO examined information about major hurricanes over the 2000–2015 period and estimated that federal spending as a percentage of total economic damage varied widely from storm to storm, ranging from an average of 17 percent before Katrina to 62 percent for Katrina and ensuing hurricanes.[3] That ratio has grown larger since 2005, particularly for two storms—Katrina and Sandy. (Although federal assistance also is provided for drought, earthquakes, flooding, and other catastrophes, hurricanes consistently prove most costly and have accounted for the largest share of emergency disaster spending.)

In April, CBO reported that expected annual economic losses total $54 billion for most damage caused by storm surges, heavy precipitation, or high winds from hurricanes or tropical storms.[4] That amount consists of about $34 billion in expected annual residential losses, $9 billion in expected annual commercial losses, and $12 billion in expected annual losses to the public sector. (Expected losses represent average annual losses over the long run based on current conditions for climate, sea levels, and property development in places at risk for such storms.) On the basis of the pattern exhibited for federal spending and the losses incurred for 58 storms between 2005 and 2016, CBO estimated that expected annual federal spending totals $17 billion, or 31 percent of the $54 billion in expected annual losses.

Question. Please tell me the difference between emergency spending and disaster spending, from a budget perspective.

Answer. The BCA codified the definition of *emergency spending* in 1991. According to that act, emergency spending must be necessary, sudden, urgent, unforeseen, and not permanent. The act allows the caps to be adjusted to accommodate any amounts provided for activities identified as being for emergency requirements—often related to hurricanes or wildfires, but also, for example, to prevent or respond to a disease outbreak.

The BCA generally considers spending identified for disaster relief to be the amounts needed to pay for major disasters designated under the Robert T. Stafford Disaster Relief and Emergency Assistance Act. Disaster relief funding provided under the BCA has been used in various ways. In some years it has been used to provide funding only to FEMA's DRF as part of the regular appropriation process. In other years, it also has been used to provide funding to other agencies that respond to major disasters.

Question. Can you tell me whether supplemental and emergency spending has changed over the past couple of decades?

3. See Congressional Budget Office, *Potential Increases in Hurricane Damage in the United States: Implications for the Federal Budget* (June 2016), www.cbo.gov/publication/51518.

4. See Congressional Budget Office, *Expected Costs of Damage from Hurricane Winds and Storm-Related Flooding* (April 2019), www.cbo.gov/publication/55019.

Answer. Funding provided through supplemental appropriation bills (which historically have accounted for the bulk of emergency funding) has fluctuated substantially over the past three decades, ranging from a low of $0.2 billion in 2014 to a high of $191 billion in 2009. Total supplemental funding, however, was by far the largest in the decade spanning 2000–2009 as the Congress responded to the terrorist attacks of September 11, 2001, and to hurricanes, including Katrina and Rita.

From 1990 to 1999, the Congress and the President provided a total of about $138 billion in supplemental appropriations, mostly for Operations Desert Shield and Desert Storm during the Persian Gulf War; for a peacekeeping mission in Bosnia; for military operations in Kosovo; and for a wide range of disasters, including natural occurrences, such as earthquakes and hurricanes, and for other types of disasters, such as the Los Angeles riots and the Oklahoma City bombing.

From 2000 to 2009, over two dozen laws provided emergency supplemental appropriations totaling $992 billion. Almost 70 percent of the supplemental funding over that decade ($708 billion) was provided for defense-related activities, but significant funding also was provided to repair damage caused by large storms (particularly Hurricane Sandy), for tsunami relief, and for responses to the influenza pandemic of 2009.

From 2010 through the end of May 2019, the Congress and the President enacted 12 supplemental appropriation bills, totaling $260 billion. Most of the funding (about 80 percent) was provided for nondefense purposes (primarily hurricanes, wildfires, and flooding).

Senator Toomey

Question. During the committee hearing, you mentioned that CHIMPs are used "pretty consistently" to increase discretionary spending above the caps, averaging about $17 billion annually. Does CBO publicly identify CHIMPs included in appropriations legislation? How can the utilization of CHIMPs and their budgetary effects be made more transparent?

Answer. As directed by section 308 of the Congressional Budget Act of 1974, CBO provides detailed data and other information to the Appropriations Committees and to the Congress as a whole as they consider legislation. Those reports tabulate account-by-account estimates of the discretionary budget authority provided in each bill and the resulting outlays; they are distributed to all interested parties in the Congress.

The reports also provide estimates of the budgetary effects of provisions that would make changes in mandatory programs (known as CHIMPs) in a separate tabulation that covers the budgetary effects in each year of the next decade. Those tabulations also are provided to all interested parties in the Congress. CBO includes account-level information on CHIMPs in its annual budget projections and is currently working on a report that would be available to the public cataloging the CHIMPs included in annual appropriation legislation.

THE PRESIDENT'S FISCAL YEAR 2020 BUDGET PROPOSAL

WEDNESDAY, MARCH 13, 2019

UNITED STATES SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committee met, pursuant to notice, at 2:30 p.m., in Room SD–608, Dirksen Senate Office Building, Hon. Michael B. Enzi, Chairman of the Committee, presiding.

Present: Senators Enzi, Grassley, Crapo, Toomey, Perdue, Braun, Scott, Kennedy, Cramer, Sanders, Wyden, Stabenow, Whitehouse, Kaine, and Van Hollen.

Staff Present: Elizabeth McDonnell, Republican Staff Director; and Warren Gunnels, Minority Staff Director.

OPENING STATEMENT OF CHAIRMAN ENZI

Chairman ENZI. I call to order the Senate Budget Committee hearing on the President's fiscal year 2020 budget request. I note that Senator Braun is here and Senator Grassley is here and Senator Cramer. Senator Perdue was here early studying. But I know that Senator Braun and Senator Grassley have to go to a meeting at the White House now, so they will be back for questions later.

Good morning, and welcome to the hearing on the President's budget request for fiscal year 2020. I want to thank Russell Vought, the Acting Director of the Office of Management and Budget, for being here to discuss the White House's budget request.

While we would normally receive the budget submission in early February, the Government shutdown delayed this process. I have been an outspoken advocate for reforming the Federal budget process and will continue to seek improvements, but this afternoon, we will focus on the President's plan for putting our country on a more sustainable fiscal path.

The President's annual budget proposal is the first step in the Federal budget process. This submission provides the administration an opportunity to cast a vision for the future and provide important programmatic information to Congress and the American people. I call it a "list of pretty good suggestions," or at least "suggestions."

Budgets reflect spending and revenue priorities. Our hearing this morning will allow us to consider how the President's budget's priorities align with the priorities of Congress. In nearly every hearing held by this Committee, I shine a spotlight on our country's fiscal challenges.

It is no secret the Federal Government spends more than it takes in and will soon produce annual deficits exceeding $1 trillion. That is the equivalent of $1,000 billion—a figure that is too large to truly comprehend.

Rising deficits add up to rising debt, and debt as a percentage of the economy is expected to surge in the coming years. According to the Congressional Budget Office, debt held by the public is expected to reach $16.6 trillion later this year, or 78 percent of the gross domestic product. By 2029, this debt is projected to grow to $27.8 trillion, or 93 percent of GDP. Considering the 50-year average is 42 percent of GDP, we are clearly headed in an ominous direction.

This problem did not arise overnight. For decades we have known of the budget pressures we face as the baby-boom generation aged. Autopilot spending—that is, mandatory spending—now represents more than two-thirds of what the Federal Government spends each year and grows with programs that are not even reauthorized. And there are always more efforts to make more items mandatory. In my opinion, nothing should be mandatory unless it has its own source of revenue sufficient for the years.

The growth in mandatory spending means that a smaller share of Federal expenditures goes to so-called discretionary spending that is funded through the annual appropriations process and is made up of defense and nondefense programs that both sides of the aisle care about.

Yes, 70 percent is mandatory and growing; discretionary is borrowed money. We are in a credit card Congress. More and more I have been hearing people claim that debt and deficits do not matter. This unconventional view is not only misguided; it is dangerous.

Jerome Powell, Chairman of the Federal Reserve, recently testified that the U.S. debt is growing at an unsustainable pace and that it would be a huge mistake to let that continue. Mr. Powell noted, “The idea that deficits do not matter is just wrong.” That is a quote.

Larry Summers, the Treasury Secretary under President Clinton and Economic Adviser under President Obama, noted that the theory behind the idea that deficits do not matter is being oversimplified and exaggerated by fringe economists who hold these ideas out as offering the proverbial free lunch—the ability of the Government to spend more without imposing any burden on anyone. We also heard CBO disagree with this view in our last two hearings.

Make no mistake. Both sides share in the blame of the rising deficits and debt, and both sides must work together to address these issues. Just as these problems did not arise overnight, they are not likely to be solved overnight. That is why in the coming weeks I am hoping to put forward a budget resolution with a reasonable, achievable deficit reduction target as a first step in turning the tide of red ink. Ignoring the problem is not an option. I would ask that as colleagues review the President’s budget and as we work together to craft a fiscal year 2020 budget resolution done by Congress, we are clear-headed about the challenges we face.

Again, I thank our witness for being here, and I look forward to his testimony and to working with the administration and my colleagues to put our Nation on a more sustainable path.

Senator Sanders.

OPENING STATEMENT OF SENATOR SANDERS

Senator SANDERS. Mr. Chairman, thank you very much for holding this hearing. Mr. Vought, thank you very much for being with us today.

Let me be as clear as I can be. This budget is an absolute disaster. It is an insult to the working families of this country, and I have to say it really does expose Donald Trump for the fraud that he is.

Over and over again, Candidate Donald Trump, when he was looking for votes, promised the American people that he would be a different type of Republican—I think we all remember that rhetoric—that he would be a champion of the working class, that he would not cut Medicare or Medicaid or Social Security. I remember those speeches like it was yesterday.

On May 7, 2015, Mr. Trump tweeted—this was during the campaign: "I was the first and only potential GOP candidate to state there will be no cuts to Social Security, Medicare, and Medicaid."

August 10, 2015, another tweet from Mr. Trump: "I will save Medicare, Medicaid, and Social Security without cuts. We have to do it. People have been paying in for years, and now many of these candidates want to cut it." Donald Trump.

That is what Mr. Trump said during the campaign, but now that he is President, the tune he is singing is very, very different.

On page 32 of the briefing book of his budget, Donald Trump proposes cutting $1.5 trillion from Medicaid, $845 billion from Medicare, and $25 billion from Social Security. And, Mr. Chairman, I ask unanimous consent to insert this page into the record.

Chairman ENZI. Without objection.

Senator SANDERS. Thank you.

[The information follows:]

2020 Budget Policy Less BBEDCA Baseline by Category

(In billions of dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Totals 2020-2024	Totals 2020-2029
Outlays:														
Discretionary programs:														
Defense	—	—	55	76	83	79	74	51	37	25	17	13	367	510
Non-defense	—	—	31	-4	-53	-86	-115	-144	-174	-202	-229	-256	-227	-1,232
Subtotal, discretionary programs	—	—	86	72	30	-7	-41	-93	-137	-177	-212	-243	140	-722
Mandatory programs:														
Social Security	—	—	-*	-1	-1	-2	-3	-3	-4	-4	-4	-4	-6	-25
Medicare	—	—	-23	-51	-61	-70	-80	-89	-96	-93	-133	-149	-285	-845
Medicaid and Market-Based Health Care Grant	—	—	-8	46	13	3	-12	-28	-43	-61	-80	-101	41	-271
Exchange subsidies (including Basic Health Program)	—	—	—	-41	-52	-53	-55	-57	-58	-61	-63	-66	-201	-506
Other mandatory programs	—	-6	-20	-28	-28	-36	-39	-44	-54	-37	-53	-64	-152	-403
Allowance for infrastructure initiative	—	—	5	26	40	50	40	19	10	5	5	*	160	199
Subtotal, mandatory programs	—	-6	-46	-50	-89	-109	-149	-201	-245	-251	-328	-383	-442	-1,851
Net interest	—	-*	-3	-1	-2	-3	-9	-17	-26	-34	-43	-54	-18	-191
Total outlays	—	-6	36	22	-61	-120	-199	-312	-408	-461	-583	-680	-321	-2,765
Receipts:														
Individual income taxes	—	—	2	*	-*	1	3	-13	-148	-224	-244	-257	6	-879
Corporation income taxes	—	—	-*	-*	1	1	1	*	-4	-6	-6	-6	1	-21
Social insurance and retirement receipts:														
Social Security payroll taxes	—	—	*	-*	-1	-1	-1	-1	-1	-1	-1	-1	-3	-8
Medicare payroll taxes	—	—	-*	-*	-*	-*	-*	-*	-*	-*	-*	-*	-1	-2
Unemployment insurance	—	—	—	-*	1	2	2	3	4	2	2	3	5	18
Other retirement	—	—	-*	2	4	7	9	10	11	12	12	12	21	78
Excise taxes	—	—	1	1	1	1	1	1	1	1	1	1	3	7
Estate and gift taxes	—	—	—	—	—	—	—	—	—	-16	-16	-17	—	-49
Customs duties	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Deposits of earnings, Federal Reserve System	—	*	*	1	*	1	1	1	1	1	1	1	2	6
Other miscellaneous receipts	—	—	1	*	*	*	*	*	*	*	*	*	1	2
Allowance for empowering States and consumers to reform healthcare	—	—	-1	*	-3	-4	-4	-4	-4	-3	-4	-4	-13	-32
Total receipts	—	*	2	3	3	7	10	-3	-141	-235	-256	-269	25	-880
Deficit	—	-6	34	19	-63	-127	-209	-308	-267	-226	-327	-411	-345	-1,885
Net interest	—	-*	-3	-1	-2	-3	-9	-17	-26	-34	-43	-54	-18	-191
Primary deficit/surplus (-)	*	-6	38	20	-61	-123	-200	-291	-241	-192	-284	-357	-327	-1,693
On-budget deficit	—	-6	36	21	-60	-124	-206	-304	-262	-220	-320	-404	-333	-1,843
Off-budget deficit/surplus (-)	-*	-*	-1	-2	-3	-3	-3	-4	-5	-6	-7	-7	-13	-42
Memorandum, budget authority for discretionary programs:														
Defense	*	—	103	84	81	83	72	22	20	18	15	12	423	510
Non-defense	1	*	-5	-42	-68	-93	-120	-146	-172	-198	-224	-250	-328	-1,318
Total, discretionary budget authority	1	*	99	41	13	-11	-48	-124	-152	-181	-209	-237	95	-808
Memorandum, empowering States and consumers to reform healthcare--Medicaid and other outlays for healthcare coverage:														
Medicaid	—	—	-8	-77	-112	-126	-144	-162	-180	-201	-224	-248	-467	-1,483
Exchange Subsidies (including Basic Health Program)	—	—	—	-41	-52	-53	-55	-57	-58	-61	-63	-66	-201	-506
Market-Based Health Care Grant	—	—	—	123	126	128	131	134	138	141	144	147	508	1,212
Total, outlays	—	—	-8	4	-39	-50	-67	-84	-101	-121	-143	-167	-160	-777

Senator SANDERS. Mr. Chairman, let us just very briefly take a look at what these cuts do to the working families of this country at a time when millions and millions of families are struggling economically today.

As I think most of us know, Medicaid pays for more than two-thirds of all of the nursing home care in our country in addition, of course, to providing health care for millions of lower-income families. The question is: What happens to senior citizens in this country who are struggling with Alzheimer's and other serious illnesses who have their nursing home coverage paid for by Medicaid if that program is cut by $1.5 trillion? If you are a working-class family and your Mom is in a nursing home dealing with Alzheimer's, massive cuts to Medicaid, what happens to your Mom? Or what happens to the ability of your family to take care of their basic needs now that you are going to have to pay an arm and a leg for nursing home care?

But it is not just seniors. Today Medicaid covers millions of children with special needs. We are the only major country on Earth, embarrassingly, not to guarantee health care to all people as a right. But this budget makes a bad situation worse and would throw millions of children with special needs off of the health insurance they have.

We have an opioid epidemic from one end of this country to the other, but when you slash Medicaid by $1.5 trillion, you make it infinitely harder for communities and States to deal with this terrible crisis.

But it is not just Medicaid. In terms of Medicare, the Federation of American Hospitals tells us, and I quote—this is not me. This is the Federation of American Hospitals: "The new White House budget imposes arbitrary and blunt Medicare cuts to hospitals who will care for the Nation's most vulnerable. The impact on care for seniors would be devastating."

During the campaign President Trump told the American people that he was going to provide, and I quote, "health insurance for everybody with much lower deductibles." That is what he said during the campaign. Let us talk about what he is doing now that he is President.

President Trump's budget would end the Affordable Care Act and throw an estimated 32 million people off the health insurance they have right now. Now, how in God's name can you talk about being a friend of working people and then propose to throw tens of millions of people off the health insurance they have? And at the same time, this budget would substantially raise premiums for older Americans and allow States to eliminate or substantially weaken protections for preexisting conditions like cancer, diabetes, or asthma.

This is a budget which will make it harder for our children to get a decent education, harder for working families to get the health care they need, harder to protect the air that we breathe and the water that we drink, and harder for the elderly to live out their retirement years with dignity and respect.

This is not a budget, as Candidate Donald Trump talked about, that takes on the political establishment. That was his rhetoric during the campaign. This is a budget of the political establishment, of the 1 percent, of corporate America, of the wealthiest people in this country. This is a budget which practices the Robin Hood principle in reverse. It takes from the poor and working families and gives to the very wealthy.

As a candidate, Donald Trump said he understood the pain that working families across the country were feeling.

This is not a budget that Candidate Donald Trump talked about that takes on the political establishment. This is a budget that does very much the opposite.

Mr. President, you do not help working families when your budget would eliminate financial aid to more than 1.5 million low-income college students. It is really quite incredible to me that people could prepare a budget when hundreds of thousands of kids in this country cannot afford to go to college, when millions of people are struggling with student debt, and this budget makes it harder for young people to go to college.

Mr. President, and I would say also that it is unacceptable to me coming from a cold-weather State—and I see some of my other colleagues here coming from cold weather States—that it would eliminate the LIHEAP program.

Seniors in Vermont stay warm because of LIHEAP. This budget eliminates that.

But I should say that at a time when we are now spending more on the military than the next ten countries combined, this budget would expand military spending by $861 billion.

Now, for the working families of this country, for the middle class, this is a disastrous budget. But I must confess there are some good things in it for the wealthiest people in this country. After passing a nearly $2 trillion tax break that mainly benefitted the top 1 percent and large profitable corporations a little over a year ago, the Trump budget would provide another $1 trillion tax break that would, you guessed it, primarily benefit the wealthiest people in this country. Think about it. Cuts to education, throwing millions of people off the health care that they have, cuts to programs that keep seniors warm in the wintertime—again, more tax breaks for the wealthiest people in this country.

Mr. Chairman, last year, Amazon, Netflix, General Motors, and IBM—all very profitable corporations—not only paid nothing in Federal income taxes; they actually received a tax refund from the IRS. They do not need another tax break when families in this country are struggling to keep their heads above water economically.

Mr. President, this is a budget that should be discarded immediately, and a serious budget should be put together that protects working families and not just the 1 percent.

Thank you.

Chairman ENZI. Thank you, Senator Sanders, for your remarks.

Our witness this afternoon is Acting OMB Director Russell Vought. Director Vought was confirmed to his position as OMB Deputy Director by the Senate in February of last year, and he oversaw the final development of the President's fiscal year 2020 budget submission this year.

We appreciate your work, and we look forward to receiving your testimony on the President's vision for the Nation.

For the information of colleagues, Director Vought will take up to 7 minutes for his opening statement, followed by questions.

Welcome, Director Vought. Please begin.

STATEMENT OF THE HONORABLE RUSSELL T. VOUGHT, ACTING DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. VOUGHT. Thank you, Mr. Chairman.

Chairman Enzi, Ranking Member Sanders, members of the Committee, thank you for this opportunity to testify on President Trump's fiscal year 2020 budget.

On Monday, I submitted my full statement for the record; however, in my oral testimony today, I just want to hit a few key points.

Over the past 2 years, President Trump has unleashed the American economy through his pro-growth agenda, resulting in a return to prosperity for the American people.

Working alongside many of you on this Committee, President Trump signed historic tax reform into law, marking the first time in 30 years that our Nation's Tax Code was updated and improved. It provided much needed relief to all Americans, especially the middle class.

Throughout his administration President Trump has implemented a robust regulatory reform agenda, resulting in small businesses and the American economy saving more than $33 billion in burdensome regulatory costs.

However, these great achievements will be challenging to maintain if we do not get our fiscal house in order.

Annual deficits are continuing to rise and will exceed $1 trillion a year, and interest payments on the national debt are projected to double. Interest payments on the national debt are projected to exceed military spending by 2024. The national debt nearly doubled under the prior administration and is now more than $22 trillion. This level of debt is unsustainable and threatens the prosperity and economic freedom of future generations.

The President's commitment to fiscal responsibility has been outlined in his previous budgets, and again today he is requesting more reductions to both discretionary and mandatory spending than any other President in history.

Yet each time this President has called for fiscal restraint and spending reform, he has been blatantly ignored. Instead, those opposed to decreasing Washington spending have called for massive tax increases as a means to reduce the deficit. However, not only would this punish taxpayers, destroy jobs, and slow America's economic engine, but it also would ignore the reality of our current fiscal situation. Contrary to fearful predictions before the passage of tax reform, revenues are increasing and are in line with 50-year historic averages. The problem is not that Americans are taxed too little; it is that Washington spends too much.

This budget is yet another fiscally responsible and common-sense spending plan from President Trump. I look forward to working with members of this Committee and Congress and remain hopeful we can prove to the American people that their Government is capable of passing budgets and balancing the budget by prioritizing efficient and effective spending.

Thank you for your time. I look forward to hearing your questions.

[The prepared statement of Mr. Vought follows:]

TESTIMONY OF
RUSSELL VOUGHT
ACTING DIRECTOR
OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE SENATE COMMITTEE ON THE BUDGET

March 13, 2019

Chairman Enzi, Ranking Member Sanders, Members of the Committee:

Thank you for this opportunity to testify on President Trump's Fiscal Year (FY) 2020 Budget.

Over the past two years, President Trump has unleashed the American economy through his pro-growth agenda, which we've coined MAGAnomics, resulting in a return to prosperity for the American people.

Working alongside many of you on this committee, President Trump signed historic tax reform into law, marking the first time in more than 30 years that our nation's tax code was updated and improved. It provided much needed relief to all Americans, especially the middle class.

Throughout his Administration, President Trump has implemented a robust regulatory reform agenda, resulting in small businesses and the American economy saving more than $33 billion in burdensome, regulatory costs.

Simply put, hardworking Americans are benefitting from President Trump's taxpayer first, pro-growth policies.

The unemployment rate remains near historic lows, and over 5.3 million jobs have been created since the election. For the first time in history, we have more vacant jobs than people to fill them. Nearly 5 million Americans have been lifted off food stamps.

Under President Trump, African American and Hispanic communities are experiencing their highest employment levels in recorded history.

Total unemployment stands at 4 percent. Before tax reform was enacted, most forecasters, including CBO, predicted higher rates.

President Trump's policies have achieved economic growth that critics continually denied ever being possible.

As the President said at his State of the Union this year, our nation's economy is STRONG.

However, these great achievements will be challenging to maintain if we do not get our fiscal house in order. Annual deficits are continuing to rise and will exceed $1 trillion a year, and interest payments on the national debt are projected to exceed military spending by 2024. The national debt nearly doubled under the prior Administration and is now more than $22 trillion. This level of debt is unsustainable and threatens the prosperity and economic freedom of future generations.

The President came to our nation's capital with a commitment to help get our fiscal house back in order and end the wasteful spending in Washington. He's using every tool at his disposal to put taxpayers first and drain the swamp.

The President's commitment to fiscal responsibility has been outlined in his previous budgets, and again today he is requesting more cuts to both discretionary and mandatory spending than any other president in history.

Yet each time the President has called for fiscal restraint and spending reforms, he has been blatantly ignored. The President even persisted in these efforts to save taxpayer dollars with a push for a $15 billion rescissions package in 2018, but again Congress rejected it. The simplest proposed restraints on spending have fallen on deaf ears here.

In the last six years, Congress has three times enacted deals to raise discretionary spending caps. The last caps deal, in 2018, increased discretionary spending levels for fiscal years 2018 and 2019 by nearly $300 billion, pouring money into wasteful non-defense discretionary programs that we know don't work and increase the deficit.

This January, CBO warned, "high and rising federal debt would reduce national saving and income, boost the government's interest payments, limit lawmakers' ability to respond to unforeseen events, and increase the likelihood of a fiscal crisis."

Even when presented with these astonishing statistics, many in Congress have already called for the spending caps to once again be raised.

Those opposed to decreasing Washington spending have called for massive tax increases as a means to reduce deficits. However, not only would this punish taxpayers, destroy jobs, and slow America's economic engine, but it also would ignore the reality of our current fiscal situation. Contrary to fearful predictions before passage of historic tax reform, revenues are increasing and are in line with 50 year historic averages. CBO, which previously was not hopeful about the impact of tax reform, now forecasts $6.8 trillion in higher cumulative GDP over the next decade, due largely to tax reform.

The problem is not that Americans are taxed too little, it is that Washington spends too much.

Washington has a spending problem and it is undoubtedly one of the largest threats to our national security and the future economic success of our nation for generations to come. It is time for this irresponsible spending to end.

The President's Budget does exactly that, decreasing our yearly deficits and achieving a balanced budget within 15 years, a goal many in this committee have championed.

Similar to President Trump's previous budgets, the FY2020 Budget was written with the everyday American in mind. All across the country, hardworking taxpayers have to balance their household budgets, finding ways to do more with less and save for the future. Our federal agencies and departments should be held to the same level of responsibility, and with accountability.

This year, President Trump directed most agencies to meet a target of 5 percent reduction to non-defense discretionary spending. I am proud to report to you today that we have achieved his 5 percent goal.

Americans work hard for their paychecks, and their tax dollars should be spent wisely or not spent at all. This Budget ends wasteful spending like the $60 million being spent every year to organize unions in other countries. It cuts $13 billion in foreign aid, including $336 million for education and cultural exchanges. Academic exchanges funded by the U.S. Government represent only 1 percent of the 1 million international students that came to the US in the 2017-2018 academic year. It stops millions going to the Senior Community Service Employment Program, which the Department of Labor Inspector General found rife with fraud and abuse, including $4.2 million in unreasonable executive compensation, personal travel, and even Netflix subscriptions.

We save hundreds of millions of dollars by rightsizing and reforming the under-performing Job Corps program, a residential youth training program that has made headlines in recent years for security incidents, and which evaluations and government oversight reviews have repeatedly found ineffective and poorly managed. In a New York Times report last year, a former teacher from Texas quit in protest, saying "Job Corps doesn't work. The adults are making money, the politicians are getting photo ops. But we are all failing the students." Our Budget reforms the program and closes poorly performing centers. While there are competing philosophies on how best to balance the budget, we hope we can find bipartisan agreement that programs and activities with decades-long history of failure and fraud should come to an end.

These are just a few examples.

By refocusing the Budget to spend taxpayer dollars more efficiently, effectively, and accountably, agencies can continue to provide necessary services to the American people and we can confidently say that investments for key national priorities will be met.

The FY2020 President's Budget outlines a number of key priorities the Administration plans to continue or pursue:

- **Securing Our Southern Border and Protecting American values**
  A nation without borders is not a nation at all. The Federal Government has no greater duty than protecting the American people, securing our borders, and preserving our values. The President's 2020 Budget includes increased funding for border security, immigration enforcement, cybersecurity, and law enforcement capabilities. The 2020 Budget investments include $8.6 billion for construction of the border wall, and $506

million to hire over 2,800 additional law enforcement officers and critical support personnel at U.S. Customs and Border Protection (CBP) and U.S. Immigration and Customs Enforcement (ICE).

- **Taking Care of Our Veterans**
  Few deserve more of our nation's resources and care than our veterans who have served our country with honor, dedication, and distinction. That is why the President's Budget invests in world-class health care for our Nation's veterans by proposing $80.2 billion in discretionary appropriations to fully fund VA medical care requirements in 2020 – a $7.0 billion or nearly 10 percent increase over the 2019 enacted level. This amount fully funds the VA MISSION Act to ensure veterans can choose the best care for themselves and provides essential resources for VA's suicide prevention programs, a crisis that has plagued the veteran community for far too long and must come to an end.

- **Educating for the Future**
  The President's Budget achieves two equally important goals: fiscal discipline in discretionary spending and support for priorities that would improve the Nation's schools and make the United States stronger by preparing the workforce for the jobs of the 21st Century. The Budget reduces the Federal role in education and prioritizes targeted investments in school safety, teacher quality, school choice, and workforce development. By modernizing U.S. education and training programs, the Budget would increase competition and transparency, reduce student debt, and ensure that what students are learning matches the needs of emerging industries. By increasing accountability for institutions of higher education and helping students complete postsecondary education more quickly, the Budget would help make higher education more affordable and protects both students and taxpayers.

- **Combatting the Opioid Epidemic**
  America's opioid crisis is a serious public health challenge for our country. In addition to progress already being made by the Administration, the Budget makes significant investments to combat the drug abuse and opioid epidemic, which claimed more than 70,000 lives in 2017. In the last year, the President released a new Initiative to Stop Opioid Abuse and Reduce Drug Supply and Demand, secured $6 billion in new resources in 2018 and 2019 to combat the epidemic, and signed the SUPPORT for Patients and Communities Act, which enhances the Federal response to the opioid crisis. The number of opioid prescriptions dispensed monthly has fallen by more than 20 percent since the beginning of 2017, and preliminary data from the Centers for Disease Control and Prevention (CDC) suggests that the number of drug overdose deaths are finally starting to level off or even decline. President Trump is determined to end this crisis and care for the people deeply harmed by the scourge of opioids.

- **Maintaining America's Military Pre-eminence**
  The Government's fundamental responsibility is to protect the American people, the homeland, and the American way of life. While America possesses enduring national strengths, we face an era of increased strategic competition, global challenges, and

erosion of the U.S. comparative military advantage. In order to preserve peace through strength, we must continue to invest in the combat credible military capabilities needed to compete, deter, and if necessary, fight and win wars to protect the security of the United States. In FY 2020 the budget procures 110 advanced fighter aircraft, 12 battle force ships, and modernizes 165 Abrams main battle tanks, nearly two armored brigades worth. It also requests more than $100 billion in research, development, testing and evaluation to maintain the military's technological superiority and conventional overmatch against priority challenges, and supports the President's commitment to expand and improve state-of-the-art missile defense systems as articulated in the recently released Missile Defense Review.

- **Managing the Federal Workforce of Tomorrow**
  The last broad Federal civil service reform occurred over 40 years ago, when the Civil Service Reform Act of 1978 established the Office of Personnel Management (OPM). Today, both OPM and the Federal employment system it oversees are widely-viewed as archaic and ill-equipped to manage the 2.1 million member civilian workforce. The Legislative Branch recognizes this as well: The Government Accountability Office has kept "Federal human capital" on its high-risk list since 2001, and Congress is continually moved to exempt agencies, offices and occupations from the central personnel system that OPM oversees. These carve-outs have further reduced OPM's capacity to manage the workforce in an enterprise-wide manner. The Budget therefore proposes a restructuring of OPM that would enable the Executive Branch to fill the critical gap in strategic federal workforce management.

- **Reorganizing the Government to be More Efficient and Effective**
  The Government-wide Reorganization recommendations released last summer speak to a situation in which Government has operated for too long with outdated technology, archaic organizational constructs, and antiquated management processes. This frustrates citizens who interact with the Government, and the Federal workers who operate within it. Indeed, the structural management of the workforce itself requires an overhaul. OPM today lacks jurisdiction over much of the federal workforce. And the vast majority of its existing budget and personnel are not even dedicated to workforce management, but to transactional, fee-for-service activities, including the conduct of background investigations. A key reorganization proposal incorporated into the Budget involves the transfer of OPM's background investigations portfolio to the Department of Defense, the shifting of its other transactional activities to the General Services Administration, and the creation of a central office -- with a Government-wide purview -- dedicated to strategic workforce management.

- **Drug pricing**
  The Administration's comprehensive drug pricing strategy addresses the problem of high drug prices, provides greater access to lifesaving medical products, and ensures that the United States remains the leader in biomedical innovation. Consistent with the Presidents American Patient's First Blueprint, the Budget proposes strategies targeted at increasing

competition, encouraging better negotiation, incentivizing lower list prices, and lowering out-of-pocket costs for beneficiaries.

This Budget is yet another fiscally responsible and common sense spending plan from President Trump. I look forward to working with members of this committee and congress and remain hopeful we can prove to the American people that their government is capable of balancing a budget by prioritizing efficient and effective spending.

These principles will help define the course of our freedom and prosperity for decades to come.

Thank you for your time.

I look forward to hearing your questions.

Chairman ENZI. Thank you.

Now we will turn to questions. Let me take a moment to explain the process for all the Committee members before we start. Each member will have 5 minutes for questions, beginning with myself and then—somebody. Following that, we will alternate questions between the Republicans and the minority. All members who were in attendance when the hearing started will be recognized in order of seniority.

For those who arrived after the hearing began, you are on a list in order of arrival. If it is your turn on the list to be recognized but you are not available, we will move to the bottom of the list and turn to the next Senator on the list to ask questions. With that, I have a few questions.

Director Vought, the President's budget requests a large increase in overseas contingency operations funding to provide a total of $750 billion in defense spending in fiscal year 2020. Can you walk us through the thought process on this approach and what seems to be a change in the administration's position on use of the overseas contingency operation designation to the fund base requirements?

Mr. VOUGHT. Thank you for the question, Mr. Chairman.

We, as you mentioned, do propose $165 billion into the OCO account. This is the money that we believe is necessary to continue the rebuild of the military in excess of what the current cap level for defense of $576 billion would be to arrive at a number of $750 billion when you also factor in $9 billion in military construction funding.

Our view is that we need to move away from the types of 2-year caps deals that are largely unpaid for in which we increase spending for nondefense discretionary spending, and the current paradigm is to have $1 of nondefense spending increase for every $1 of defense spending increase. We believe that paradigm needs to go in a different direction.

We believe that it is important that we actually make choices. We are now in a time of $22 trillion in national debt, trillion-dollar deficits. We need to be able to say to the American people we can afford to continue to spend money on the military and rebuild it to what the Commander in-Chief believes is necessary to secure the country, and we are going to identify dollars to nondefense spending programs that we can no longer afford.

We have gone through a process to identify programs that we believe can receive less money and still perform the functions that they were either set up or can be reformed.

But it is vital from our standpoint that we move away from these 2-year caps deals that really do not allow us to set choices.

And I just would make one last point, and I know you have other questions. As it pertains to the mandatory reforms that people often talk about that are attached to these 2-year deals, we have seen less and less mandatory reforms with each of these cap agreements since 2011. And when you look at the fine print, they are often not mandatory reforms that will lead to fundamental change of our fiscal situation. They are often extending user fees or extending laws that are currently set to expire. But they rarely have the types of reforms that actually lead to the lowering of the cost curves that we talk about as it pertains to mandatory spending.

Chairman ENZI. Thank you. The President's budget proposal supports the currently authorized level of spending for the Highway Trust Fund through fiscal year 2020. When the Fixing America's Surface Transportation Act, the FAST Act, expires, OMB's baseline appears to reduce Highway Trust Fund spending to match revenue levels beginning in 2021.

Is this a realistic assumption on the future spending for the Highway Trust Fund? Does the administration support any policy options maintaining transportation spending at FAST Act levels after its expiration?

Mr. VOUGHT. Well, let me first start by saying what a priority infrastructure spending is for this President. It is one of the reasons why we included a $200 billion investment into infrastructure that is not meant to just be surface transportation, and that is one of the reasons why it is considered outside of the trust fund. So this President is very committed to that.

In terms of the question that you asked, we reflect current law with this, and so we think it is a more accurate baseline. That said, we do recognize that there is about a $150 billion shortfall in the trust fund that needs to be addressed, and we are willing to work with Congress along those same lines.

Another point I would like to make on infrastructure is we do have less detail on our infrastructure plan this year as it pertains to the first two budgets. That is intentional. It is because we recognize that Congress had concerns with our first two proposals, and we want to pass a law—or we want to enact a law that you all are able to send us. And so we are trying to work with you all, and we are in wait-and-see to be able to identify ways that we can work with you all to be able to put a bill on the President's desk.

Chairman ENZI. Thank you, and my time has almost expired, so I will move on to Senator Stabenow.

Senator STABENOW. Thank you very much, Mr. Chairman. And welcome, Mr. Vought.

First of all, we have a maternal and infant health crisis in this country. Mr. Vought, can you explain to me why the administration eliminates funding—eliminates funding—for more than half of the maternal and child health programs at the Health Resources and Services Administration?

Mr. VOUGHT. We believe that we have put forward a top line at Health and Human Services that will be able to fund the programs that we think work, that we can with a good faith effort say are putting resources where they can do the most good——

Senator STABENOW. Okay. Let me, just in the interest of time, so we have seven programs zeroed out. Could you name those?

Mr. VOUGHT. I do not know which programs you are specifically referring to, but I would be happy to comment.

Senator STABENOW. Sickle cell demonstration program, autism and other developmental disorders, heritable disorders, universal newborn hearing screening, emergency medical services for children, pediatric mental health care access grants, screenings and treatment for maternal depression. This category, seven programs, has a subtotal of $144 million. And I am wondering, do you know where the U.S. stands in infant mortality rates among the top 35 wealthiest countries?

Mr. VOUGHT. I do not have that fact in front of me.

Senator STABENOW. 32. 32. Only Mexico, Turkey, and Chile are worse than the United States of America, and you are proposing to cut more than half of the maternal and child health programs when we have a crisis for moms and babies.

We are also one of only 13 countries in the world where the rate of maternal mortality is worse than it was 25 years ago. Is that acceptable?

Mr. VOUGHT. One of the things that we find unacceptable, Senator, is the fact that with a $1 trillion deficit and $22 trillion in debt, that when it comes to identifying programs that we believe we can look and move away from——

Senator STABENOW. You are not seriously saying that money is more important than the lives of babies and moms? Is that what I am telling—that is what you are telling me, that——

Mr. VOUGHT. Absolutely no, Senator——

Senator STABENOW [continuing]. Screening and treatment for maternal—that pediatric mental health care, autism, that these things are less important in your eyes than, frankly, the Republican tax cut that passed last year that really created the deficit?

Mr. VOUGHT. I am saying that when we look at budgets and when we try to identify which programs work and we eliminate programs, it is done because we do not think that they are effective.

Senator STABENOW. So you believe these programs are not effective? I would like a follow-up from you, an analysis on each of these seven programs and what is not effective.

Mr. VOUGHT. I am happy to work——

Senator STABENOW. Let me go on, because it is even worse when you look at the President's Medicaid cuts, $1.2 trillion—$1.2 trillion, that is a lot of zeroes. And I am wondering if you are aware that Medicaid covers nearly half of all the births in our country.

Mr. VOUGHT. I am aware of that.

Senator STABENOW. Okay. These cuts would be catastrophic, and to top it off, the budget doubles down on harmful policies to expand junk insurance plans and take away coverage for preexisting conditions by eliminating the Affordable Care Act. And I just want to note that, prior to the Affordable Care Act, three out of four health plans in the non-group insurance plans did not cover delivery and inpatient maternity care. I fought very hard and got that included as a member of the Finance Committee, and so now it is covered, until recently, with the new junk plans, where none of them cover maternity care. So talk about a double whammy on moms and babies—moms and babies—at a time when we are 32nd among the wealthiest countries in the world, and we have this outrageous budget in front of us.

So the administration may claim to care about women and children's health. There is no way, obviously, that that is true.

So let me just say also that, with the time left, Mr. Chairman, I am not even sure where to go with Medicare cuts, Medicaid cuts, what you are doing to our Great Lakes, which is 90 percent of the country's fresh water, eliminating 90 percent of the support for that.

When I look at agriculture, when we just passed a farm bill with the largest bipartisan vote in the history of the country, it was a great bipartisan effort, and your budget cuts 31 percent of the agriculture programs, the rural development for small towns, and food programs in addition to 15 percent of the USDA budget to implement programs. I do not even know where—I do not even know where to begin with all of this. I would suggest that we throw it out the window, Mr. Chairman.

Thank you very much.

Chairman ENZI. Would you like a chance to respond?

Mr. VOUGHT. Yeah, just briefly. I just want to say that we do not cut Medicaid in this budget. We do not cut Medicare in this budget.

Senator STABENOW. Please.

Mr. VOUGHT. I am happy to walk you through the numbers, Senator.

Senator STABENOW. You are happy to walk——

Mr. VOUGHT. There is one point—I know that you think there is $1.4 trillion in Medicaid reductions. We then provide money in the form of State health block grants consistent with the Graham-Cassidy approach to repealing and replacing Medicare.

Senator STABENOW. Right.

Mr. VOUGHT. That leads to only 271 savings in Medicaid in the State health care block grant. Those two line items will continue to increase each and every year, and as a result, we do not—we are not cutting Medicaid or those programs. We think that we are actually reforming it to be able to address the populations that Medicaid was founded——

Senator STABENOW. You are putting block grants in place that are——

Chairman ENZI. Senator Perdue.

Senator STABENOW [continuing]. Not required to even be used on health care——

Senator PERDUE. Thank you, Mr. Chairman——

Senator STABENOW [continuing]. So we have a bigger debate.

Thank you, Mr. Chairman.

Chairman ENZI. Senator Perdue.

Senator PERDUE. You know, I find this really interesting. You know, in 2000—let's just talk about the realities here, instead of the emotion. In 2000, this Government had $6 trillion of debt. At the end of President Bush's 8 years, we had $10 trillion of debt. At the end of 2016—we know what doesn't work because we had 8 years of the lowest economic output in U.S. history. We had added more debt as a Government than all prior Presidents before. We doubled the debt in 8 years. And now we want to hide behind the tax bill that made our corporations more competitive with the rest of the world, created 5 million jobs over the last 2 years, eliminated this outrageous—the only country in the world that still had a repatriation tax to free up some $2 or $3 trillion to get back and invest in American manufacturing again, and the CBO said if you grew the economy less than half a percent—I think it was 0.4 percent—it more than paid for it. Well, we are doing more than that. It has grown over 3.1 percent in the latest quarter.

If you look at the last year, we have got the highest median income in U.S. history, lowest unemployment in about 50 years. There is no question we know what didn't work for 8 years and what is beginning to work now.

Here is the problem: Right now we have a $1.1 trillion deficit. That did not start this year or last year. The problem is we spend—discretionary is $1.4 trillion. If I understand this right, in 2020, mandatory is about two point—and here comes the punchline. Because of the $22 trillion of debt, interest goes up over $100 billion just in 2 short years. By 2023 or 2024, you are saying we will spend more on interest than we do on the military at current interest rates.

The problem is right now we have about—we subsidize—this is the crisis that we are facing here. Nobody wants to talk about it. We are losing the right to do the right thing. Everybody wants to do everything that everybody wants to do. The problem is—and I have a question coming here real quick, but I want to set this ground. Social Security right now is bankrupt. That trust fund was never supposed to go to zero. It goes to zero in 12 years by CBO's estimate, not my estimate. Medicare goes to zero in 8 short years. These things have to be saved. Medicare right now—Medicaid, we are paying that out right now at the level of $400 billion a year. So right now we have got a $1 trillion issue right there that can be solved. Both sides have solutions on it. I think there are compromises that we can do.

My question here is: Given the reality that discretionary spending is lower now than it was in 2009, and it is actually where it was back in the 1960s, and that discretionary spending as a percentage of GDP has been declining for the last 50 years except for a few blips. We know the problem over the next 20 years is all in mandatory. Is this budget that we are looking at a first step toward a long-term plan of dealing with something that neither side has wanted to deal with here for the last 20 years? And that is the explosive crisis and the fact that Social Security and Medicare will—those trust funds are going to go to zero. At that point I would like to see people on both sides of the aisle talk about how they are going to explain to their constituents they can't pay out the benefits that we have been promising them for the last 100 years.

Would you address the long-term implications of how this budget addresses that long-term issue?

Mr. VOUGHT. Sure. As it pertains to mandatory spending, which is the money, the spending that is on autopilot each year, this budget proposes more mandatory spending savings reductions than any President's budget in history other than the first two President's budgets of this administration. So we believe that for those, including this administration, that recognize the problems with the escalating costs on the mandatory side, we believe this budget is a very good-faith effort, quite frankly, a historic effort, to address those concerns.

Our Medicare reforms push out the trust fund expiration date by 8 years. Again, there is no——

Senator PERDUE. Can you say that again?

Mr. VOUGHT. Our Medicare reforms in here that provide savings to lower seniors' drug pricing costs and attempts to make other program integrity reforms, they push out the expiration data of the Medicare trust fund by 8 years.

Senator PERDUE. That means the trust fund—well, you have extended by 8 years the crisis that I just mentioned.

Mr. VOUGHT. Correct.

Senator PERDUE. To your knowledge, did any budget presented by President Obama attempt to do that?

Mr. VOUGHT. I do not recall what his——

Senator PERDUE. I can't find it——

Mr. VOUGHT [continuing]. Expiration dates were. He did include many of the same mandatory reforms as it pertains to Medicare that is causing concern on this side of the aisle.

Senator PERDUE. Yes. Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Senator WYDEN.

Senator WYDEN. Thank you, Mr. Chairman.

Mr. Vought, I will tell you, when I look at your budget, it offers up almost an inexhaustible supply of bad ideas for working families, for seniors, for the vulnerable. And as the ranking Democrat on the tax-writing Finance Committee, I know that many of these ideas are paid for, certainly in part, through borrowed dollars that were generated by a tax bill stacked in favor of the 1 percent.

And just so we are clear on this point, Mr. Vought, Graham-Cassidy, which you touted, tanked in the Senate Finance Committee because Republicans saw that it hurt so many vulnerable people, they could not even bring it up. So you are recycling a proposal that was already exposed as a mess for the vulnerable, as evidenced by the fact that Republicans in the Senate Finance Committee, where I and Senator Whitehouse and, in fact, Senator Enzi, we all serve, Republicans could not even bring it up.

Here is my question. One of your particularly ill advised ideas that affects my part of the world is to once again try to sell off the Bonneville Power Administration. Now, this is a plan that basically steals from Oregonians, from our businesses, from our families. It was unacceptable when George Bush tried to do it. It has been unacceptable year after year after year. And yet you still seem to be hunting and pecking for a way to advance this idea that would be so harmful to the American people. And the people it is going to hurt are the folks who are on an economic tightrope. They balance their food against their fuel and their fuel against their medical care.

Could you just explain to me—because I am going to have town hall meetings Friday. I am going to basically be flying most of the night to get home to small communities in rural Oregon where Bonneville Power is enormously important. Can you tell me how the administration's proposal to sell off Bonneville Power will be in the best interests of families in rural Oregon where I am going to be in less than 48 hours?

Mr. VOUGHT. Sure. As you noted, we do propose to sell the transmission lines and the many electrical assets of the Bonneville Power Administration. Most of the electricity generation, transmission lines across this country are owned currently by the private sector. We believe that that can work in this situation as well and that from the standpoint of Federal taxpayers, including the people of Oregon, that they can benefit from $5.7 billion that is reducing the deficit and allowing us to save some money so that we do not have to make reductions elsewhere.

So from the standpoint of your constituents, we do not think that there is going to be adverse impact, and we want to move away from the fact that when the private sector is not in charge of being able to make capital investments without the Federal Government being backing behind that, it is not the most efficient allocation of resources. And that is what we are trying to move away from in this budget.

Senator WYDEN. Well, you finally exposed the heart of this ideological agenda. We have not actually had somebody do that as far as I can remember. You used the word "privatize." What your agenda now—and I will make sure that folks in rural Oregon know about that this weekend. Your agenda is to privatize Bonneville. I have not even heard other conservatives say that. They have talked about market-oriented reforms. But you have said you wanted to privatize it.

I will tell you, this is a loser. It is a loser for the families I represent. Senator Murray, my seat mate from Washington State, very much shares the view. And I will just wrap up by giving you extra points for candor, because you are going somewhere where the far right has not really gone, and that is to, in effect, say you are for thorough privatization of Bonneville Power. And I guarantee you that is going to hurt a lot of people in our part of the world, and I hope you will rethink it.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Senator Scott.

Senator SCOTT. First off, Mr. Vought, thank you for your hard work. I started 8 years ago as Governor with a $4 billion budget deficit and a prior administration that had raised taxes, increased debt, and made it very difficult. We lost jobs and our economy was down. And so I know how difficult it is to allocate dollars and try to get a return on all the dollars that Government spends. I went through a lot of this. I think in Florida we had about 4,000 lines to our budget, and we were trying to get a return on each item.

One of the things that is important to me in your budget that surprised me, though, was the dike at Lake Okeechobee, a Federal project. I had to put up State money even though it was a Federal project to try to push it along to get it done. It was causing harmful algae blooms in local waterways. And we worked with Congress and President Trump to get the funding last year to finish the dike by 2022.

Congress has been spending over $200 million on Everglades restoration, and Senator Rubio and I requested $200 million this year. The Federal Government, going back 25 or 30 years ago, committed to be a partner with us in Everglades restoration. They have not been. They are about $2 billion behind us. But rather than $200 million, you funded the South Florida Ecosystem Restoration at $63 million. Can you explain why and the thought process behind this? Have you looked at this and do you think your position is going to change?

Mr. VOUGHT. Thank you for the question, Senator. As it pertains to the Army Corps and the Everglades restoration, it is certainly a priority of this administration. If you look at our budget, the amount that we provide for that important work is the most that we provide for any ecosystem project in the country. We think it reflects well on what we think about that project.

Also, we are also cognizant that Florida has received $1.6 billion when you add up all the disaster money that is in the circulation as well. We set a top line for Army Corps that caused us to make tradeoffs. We have some overall concerns with the pace of work at Army Corps, and we want to be able to ensure that they work on the stuff that is already in—the projects that are already in the pipeline. But we are certainly willing to work with you on an ongoing basis, and we do recognize that Congress provided more money than we would have liked in the Army Corps budget during the appropriations process, and that as a result last year the Everglades project went higher than what we proposed in the budget and ended up at $100 million.

So we will certainly work with you if Congress appropriates more than our budget and working through that important work. And I know that you have had many conversations with the President about the important work of restoring the Everglades, and you know that we have stood by the commitments we have made with regard to those projects.

Senator SCOTT. And the dike money that was appropriated last year, there is no interest in trying to redirect any of that. Is that right?

Mr. VOUGHT. I am not aware of that idea, but I am happy to work with you and talk with about it further.

Senator SCOTT. Okay. It is significant, because, you know, if we have any significant rainfall, the Corps has said they have to discharge water to make sure they do not have a break in the dike, and so I just want to make sure. We have put a lot of effort in 8 years to try to get the dike funded, and I do not want it to change. I am still disappointed that there is not more money for Everglades restoration.

Mr. VOUGHT. Understood.

Senator SCOTT. But thanks for your hard work, and I know having to do something similar for 8 years, it is very difficult to allocate the dollars.

Mr. VOUGHT. Thank you.

Chairman ENZI. Senator Kaine.

Senator KAINE. Thank you, Mr. Chair, and thanks to the witness.

The claim that the President is interested in fiscal responsibility is sort of undercut by the fact that this budget does not reach balance until year 15. We have been in a track record here where Presidents of both parties have been submitting budgets that try to hit balance within 10 years, whether or not we get there or not. So the President saying, "Well, we will hit balance within year 15," completely undercuts the pretense to fiscal responsibility.

I want to ask you about funding on education. Page 135 in the budget blueprint suggests that the congressional appropriation in fiscal year 2019 was $70.5 billion in the education accounts, and in 2020 the President's request is $62 billion, a reduction of $8.5 billion, a 12-percent cut. Are we just spending too much money on education?

Mr. VOUGHT. We believe that it is important to identify programs that work and programs that do not work.

Senator KAINE. Which do not work?

Mr. VOUGHT. Well, for instance, we look at the 21st century community center program. It is about a billion and a half, $1.2 billion program. We look at the evidence, and we find that students only stay for about 30 days in the program, and the majority of them do not improve at all in reading or math.

Senator KAINE. So you propose to eliminate that?

Mr. VOUGHT. We do.

Senator KAINE. And what other programs do you think we should not spend money on?

Mr. VOUGHT. We propose to eliminate large block grants as it pertains to teacher development because the amount of money is so diffuse that it does not lead to results. We propose to eliminate the Title IV block grant because, again, it ends up being a transfer to schools and localities in which we—the amount, the dollars, ends up being $30,000 per school district, and it does not lead to achievable results for students.

But that said, our vision of education spending, Senator, also is reflected in the fact that we have $50 billion——

Senator KAINE. Yeah, let me come to that. I want to ask about that now. I think it is interesting. The overall cut to education is $8.5 billion. It is a 12-percent cut. Some of the programs you mentioned you do not think they are valuable. Your Secretary, who is not a champion of public education, does not think they are valuable, but public educators actually do think they are valuable.

But you do something very interesting. You have an Education Freedom Scholarship, so you are cutting $8.5 billion a year out of public education money, and you are promoting $5 billion a year as a tax credit for individuals or corporations that want to give money for private school vouchers. I want to talk about that one for a minute, the tax credit, and I believe it is a dollar-for-dollar tax credit.

Right now, if I want to write a charitable contribution to one of the schools, a good private school, so they can help kids afford to go there, I get a tax deduction. I have to be generous. But then I get a benefit from the Tax Code by being generous—not a dollar-for-dollar benefit, but a benefit. And I get that benefit if I write a contribution to a public school, to my Jesuit Catholic high school, to a private school that would be interested in vouchers.

We have an across-the-board policy as long as it is an educational institution that is a 501(c)(3) if I contribute—I do have to put a little skin in the game. I have to show that I am generous. But then the Federal Government will give me a tax deduction.

I am not aware of other big programs of this kind where you do not get the tax deduction but you get a dollar-for dollar tax credit. If you get a tax credit, it means I do not have to be generous at all. I contribute a dollar, and then I get to reduce my tax liability by a dollar, so I do not have to be generous at all. You have completely removed generosity from the equation. And I think it is interesting that the proposal would suggest that we would prefer contributions to private school voucher programs and put those in a preferred place to any other educational contribution. Giving to my local K–12 school does not get a tax credit. Giving to a public or private college or community college does not get a tax credit. Giving to a parish, a parochial school does not get a tax credit. You only get a tax credit if you are supporting vouchers.

What evidence, since you are interested in evidence, what evidence makes you conclude that private school vouchers should be educationally preferred from a tax standpoint over any other form of education that is offered in this country?

Mr. VOUGHT. Well, first of all, the tax credits would be able to be used for public school choice and private school choice. They would be designed at the State level. They would be able to not just go to private schools.

That said, we think that parents and families have a say in which are the effective schools in their communities. We think that they vote with their feet, or we would like them to be able to vote with their feet and be able to have the resources that are necessary to have scholarships available and to be able to make those decisions for themselves. That is a vision difference that we believe is reflected in this budget in that we want parents and families and local communities to have more of a say in how their children are educated than the Federal Government doing that.

Senator KAINE. I think that is a significant philosophical difference to elevate one form of education with a tax credit that eliminates the need to be generous. If you get a tax credit dollar for dollar, you do not have to put any skin in the game. And to say that private schools that offer voucher programs are such that they should be preferred in that way when you do not get that tax credit for contributing to your local public school or your university strikes me as exactly the wrong way to go.

Thank you, Mr. Chair.

Chairman ENZI. Thank you.

Senator Kennedy.

Senator KENNEDY. Thank you, Mr. Chairman. Thank you for being here, Mr. Vought.

I assume in your job, Mr. Vought, you receive a salary?

Mr. VOUGHT. I do.

Senator KENNEDY. And your family has a fixed amount of income every year?

Mr. VOUGHT. We do.

Senator KENNEDY. How long would your family last financially if every month you just charged more and more to your credit cards and paid the minimum?

Mr. VOUGHT. We would face ruin financially because at some point people would start to collect on what we would owe them, and we would not be able to pay those bills, and they would come asking for our house.

Senator KENNEDY. Well, I mean, at some point the amount of interest that you would be paying on the credit card would take up most of your disposable income, would it not?

Mr. VOUGHT. It would.

Senator KENNEDY. The Federal Government is kind of in that shape right now, aren't we?

Mr. VOUGHT. We are.

Senator KENNEDY. I saw a statistic the other day that we borrow $1 million a minute, $1.4 billion a day. Since we have been talking, we just borrowed $2 million to run this place. I want to thank you for trying to save taxpayer money.

We have a legislative auditor in Louisiana who goes in and does an audit of all of the State programs. Our auditor did an audit of our Medicaid program. I will read you the incomes of some of the people on Medicaid in Louisiana that he found: Recipient No. 1 on Medicaid makes $155,840. Recipient No. 3 makes $311,069.

Here is an oldie but a goodie: Recipient 13 makes $390,968. Recipient No. 8 makes $124,227.

You know what happened to those people? Nothing.

Mr. VOUGHT. Nothing.

Senator KENNEDY. Nothing. And you are a mean old man for trying to save taxpayer money.

Do you believe that there is a single, solitary, fair minded person in America who did not just parachute in from another planet who does not believe there is waste in the Federal budget?

Mr. VOUGHT. I have yet to meet one of the average-day Americans.

Senator KENNEDY. And it is their money. I mean, you can laugh if you want, but it is inappropriate.

I want to ask you about an article I read. Are you familiar with the expression "Use-it or lose-it spending"?

Mr. VOUGHT. I am.

Senator KENNEDY. What does that mean?

Mr. VOUGHT. It is, some would say, a practice in which if you are at the end of the fiscal year and your spending is going to lapse, there is an incentive to spend that money so that you do not have it sitting as an unobligated balance that would then cause us when we write budgets to say you do not need additional money the next year.

Senator KENNEDY. Are you aware that at the end of last fiscal year the Department of Defense at the last minute spent $4.6 million on lobster tail and crab?

Mr. VOUGHT. I am aware of that report, and we are looking into it.

Senator KENNEDY. Somebody else bought a Wexford leather club chair for $9,241. Another agency spent $53,004 on china tableware; $673,471 on golf carts. That is a disgrace. That is just a disgrace.

Do you know how much Americans spend of their hard earned money in America every year trying to help people less fortunate than they are?

Mr. VOUGHT. Pardon? What is your question, sir?

Senator KENNEDY. Do you know how much—sorry. I am not being clear. Do you know how much Americans spend of their hard-earned money every year, tax dollars, to help people less fortunate than they are?

Mr. VOUGHT. They are very generous. I do not have a specific figure.

Senator KENNEDY. Try $1 trillion. That is 12 zeroes. So I just think people are mistaken when they suggest that if you are trying to save money, that somehow makes you a cold, heartless person. And I wanted to thank you for your efforts to try to help us save taxpayer dollars.

Mr. VOUGHT. Thank you, Senator.

Chairman ENZI. Senator Whitehouse.

Senator WHITEHOUSE. I guess it would kind of depend on what money you are trying to save before you could make that moral judgment. If you are trying to prevent a family from getting health insurance and at the same time trying to make sure that a big corporation does not pay any taxes at all, then I come down a little bit on the other side of Senator Kennedy, as much as I appreciate and share the concern about lobster tails and fancy china and golf carts. But I do not think we are here about lobster tails and fancy china and golf carts.

Do you anticipate, Mr. Vought, any knock-on economic effects from cutting 31 percent of the Army Corps budget either generally or in the localities where projects would be ended or not funded?

Mr. VOUGHT. We have not done an assessment specifically as it pertains to the Army Corps. That said, we do think that——

Senator WHITEHOUSE. How about highways——

Mr. VOUGHT [continuing]. Infrastructure——

Senator WHITEHOUSE [continuing]. A proposed 22-percent cut to the highway discretionary budget? Have you done any estimates of what knock-on economic effect that would either have nationally or in the localities where major projects would be delayed, closed, or unfunded?

Mr. VOUGHT. We believe that our economic growth numbers, which project 3 percent growth in the years ahead, they do reflect the administration's policies, including infrastructure investment. So when we talk about a $200 billion investment in infrastructure——

Senator WHITEHOUSE. Yeah, I get that. That is like you are saying that is the—we put it all in there, and we spit out this number at the end. What I am asking you is there are a number attributable to the 31-percent cut in Army Corps spending or the 22-percent cut in highway spending that you propose.

Mr. VOUGHT. Again, I think the last figure that you talked about with regard to the year-over-year with the Department of Transportation needs some context. We had a very large——

Senator WHITEHOUSE. I am just asking a really simple question. Have you done any analysis to show what the knock-on economic effects are of cuts of that magnitude in those construction and infrastructure programs? And I do not know why that is such a difficult question to answer. Could you please give it another try?

Mr. VOUGHT. From a line-item perspective, we have not done a specific analysis as it pertains to the various reductions that you are referring to. That said, in totality of this budget and the infrastructure spending that it calls for, we do think that we are investing in infrastructure, and we do think it will lead to economic growth.

Senator WHITEHOUSE. I would love to have you and Candidate Trump debate this infrastructure number, because I think Candidate Trump would tear you to pieces over your infrastructure investment considering the promises that he made on the campaign. This was one of many that have evaporated since then.

Let me ask you about something else. Let me ask you about climate change. What do you anticipate the effects are of climate change with respect to Department of Defense bases, particularly bases located near sea level rise coastal bases—Norfolk Naval Station and others like that I mention with Senator Kaine here—and operating costs?

Mr. VOUGHT. We do not have any assumptions along those lines.

Senator WHITEHOUSE. What do you propose in your budget regarding climate change with respect to domestic ports and infrastructure and needs through the Army Corps or other infrastructure development protecting our coastal ports and infrastructure?

Mr. VOUGHT. We have analyzed our investments in ports along the seaboard as something that is based on the need in those areas. We have not done it on the basis of climate change.

Senator WHITEHOUSE. How about the Federal Flood Insurance Program? Have you baked in any estimates to your Flood Insurance Program liability numbers that relate to climate change and sea level rise?

Mr. VOUGHT. We have not.

Senator WHITEHOUSE. And with respect to FEMA disaster dollars, have you baked into your—I know that it tends to come in off budget because it comes in as emergency spending. I do not know if you have incorporated that in your numbers. Let me ask you that question first.

Mr. VOUGHT. We have not.

Senator WHITEHOUSE. So it is not in there at all, emergency spending is not in there at all?

Mr. VOUGHT. No. There is emergency spending that is reflected in this budget. We continue to make the request for what is necessary——

Senator WHITEHOUSE. So even though it is so-called off-budget here in Congress, you have emergency spending in the President's proposed budget?

Mr. VOUGHT. We do. From a standpoint——

Senator WHITEHOUSE. And it incorporates nothing with respect to sea level rise and climate change?

Mr. VOUGHT. Correct. Our emergency spending from our perspective——

Senator WHITEHOUSE. Thank you. My time is up.

Mr. VOUGHT [continuing]. Is not off-budget.

Chairman ENZI. Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. Welcome, Mr. Vought.

Wasteful spending would be a bad thing, regardless of what Federal agency it was in, right?

Mr. VOUGHT. Yes.

Senator VAN HOLLEN. Okay. And isn't it true that the Defense Department has been the major Federal Department that for years could not pass an audit or even complete an audit? Isn't that true?

Mr. VOUGHT. Not until this administration.

Senator VAN HOLLEN. No, but in past years. Isn't that true?

Mr. VOUGHT. They have not done the audit as required by Congress.

Senator VAN HOLLEN. That is right. And this year, they did an audit, but they did not pass the audit, right?

Mr. VOUGHT. They completed the audit——

Senator VAN HOLLEN. They completed the audit. They did not pass the audit, right? They realized they had a lot of work to do to figure out——

Mr. VOUGHT. They did realize they have a lot of work to do.

Senator VAN HOLLEN. And that did not stop you from putting more money into defense, did it?

Mr. VOUGHT. It did not.

Senator Van HOLLEN. Right. So, obviously, we want to root out wasteful spending wherever it is, no matter what agency, but just because there is an increase in a budget does not mean that everything else in that budget is somehow wasteful.

I also was interested in your response to Senator Stabenow. You said that the reasons for cuts to programs was they were "not effective." Is that right?

Mr. VOUGHT. With regard to which one?

Senator VAN HOLLEN. Because they were "not effective." I thought you said that——

Mr. VOUGHT. I did say that. I was trying to remember what you were referencing.

Senator VAN HOLLEN. Not effective. NIH investment, is that an effective investment for the taxpayer?

Mr. VOUGHT. We do think that NIH is an effective investment, and as a person, as a father of a child that has cystic fibrosis, many of the life-saving drugs that she benefits from have been developed based on research at NIH.

I will also tell you that the levels that we are providing NIH resources at are above the fiscal year 2017 levels and that——

Senator VAN HOLLEN. That is true, Mr. Vought, and that was a decision made by Congress. We actually increased the Trump administration's proposal. You have cut it. I just hope—you have got to get your stories straight with the agency heads because I serve on the Appropriations Committee, and when we asked them about why programs were cut, they usually do not say it is because they were ineffective. They usually say that, "OMB told us we had to make tradeoffs." That is the reason they give us. And I am going to follow up on Senator Stabenow's question. All these programs that are cut because you say they are ineffective, I would like the backup as well where there is a finding of ineffectiveness.

Now, I have a question on the Department of Transportation. I see that you cut the Department of Transportation budget by about $5 billion for 2020. That includes cuts to the capital investment grants—those are a primary source of Federal assistance to transit programs—cutting other capital projects within the Department of Transportation. It is $5 billion this year. Since we do not have the tables yet for the out-years and since you are reducing the caps in the out-years for nondefense domestic spending, can you tell us, is it going to be a more than $5 billion a year cut for the Department of Transportation in those out-years?

Mr. VOUGHT. Again, I think it is important to provide context for the Department of Transportation's funding level. As you know, our first two budgets had very different levels in terms of what we proposed. We proposed as a result of Congress saying we are going to spend more, we are going to have a higher nondefense cap level, we wanted a significant amount of that to go towards infrastructure to reflect our shared priorities on that front. We asked for a huge investment to be put forward as it pertains to infrastructure in the discretionary side.

Senator VAN HOLLEN. Okay, yes.

Mr. VOUGHT. That is why we do not go all the way—when we show a reduction, we are saying we are still above the fiscal year——

Senator VAN HOLLEN. But you are not—you are—okay. I appreciate the commentary, but you are cutting by $5 billion Department of Transportation. I asked you if that cut went right through the 10 years of your budget. I suspect it does. We do not have them yet. Usually when we have a budget hearing, we actually get the full budget. So that would be $50 billion minimum. And to pick up on what Senator Enzi pointed out, when you look at what you did with respect to the Highway Trust Fund, you essentially cut it by $146 billion. Now you say you are just following current law, right?

Mr. VOUGHT. Right.

Senator VAN HOLLEN. Now, you did not follow current law in your baseline when it comes to extending the tax cuts for wealthy people, did you?

Mr. VOUGHT. No. We had a proposal.

Senator VAN HOLLEN. You had a proposal there. You had a policy proposal there, and you could have done the same exact thing when it came to transportation funding. So the reality is, when you look at your policy proposals, you are cutting $146 billion under the Highway Trust Fund; you are cutting about $50 billion at least in the Department of Transportation. And then you come up and say you have got a $200 billion infrastructure plan because the President says it is a priority.

I net this out. It looks like you are underwater. It looks like it is net under 200. At best, you are even in terms of your infrastructure investments. When you add in the cuts to water infrastructure and your rural infrastructure programs, you are not even close.

So how can you say this is a priority for the President, then come out with a budget that, on net, cuts infrastructure?

Mr. VOUGHT. Senator, we think that we have put forward a budget that includes significant investments. We are——

Senator VAN HOLLEN. You put it in one pocket, and then with the other hand, you take it away. So it is a great shell game, but the reality is, on net, your budget is cutting infrastructure.

Mr. Chairman, could I have one question on Federal employees?

Chairman ENZI. You have run over your time.

Senator VAN HOLLEN. All right. Are we going to have a second round for those of us who are sticking around?

Chairman ENZI. Go ahead and ask your question.

Senator VAN HOLLEN. I appreciate it. So on Federal employees, a quick question, because it is not clear here. Your budget, as I see it, projects a 2.3-percent increase in the CPI. Is that right?

Mr. VOUGHT. Yes.

Senator VAN HOLLEN. Okay. Do you include a cost-of living pay increase for civilian Federal employees?

Mr. VOUGHT. We do not, but we have a proposal in the budget to ensure that performance is rewarded at Federal agencies so that high performance can get raises, can be retained. We think it is an important aspect of this budget, because when we look at the Federal employee surveys that come in, only about 25 percent of workers think that their pay is any way based on performance. And then we also look at the fact that, overall, Federal employees receive more compensation than their private sector counterparts——

Senator VAN HOLLEN. As you know, Mr. Vought, that is true for some sectors of Federal employees. That is not true for lower-wage Federal employees, is it? Do you know what the starting wage for a TSA employee is?

Mr. VOUGHT. Off the top of my head, no.

Senator VAN HOLLEN. It is $32,000. Do you think that sounds—does that sound way out of whack to you?

Mr. VOUGHT. There is certainly a universe of individuals where they are underpaid and those who are overpaid.

Senator VAN HOLLEN. And I appreciate that. But for those that are underpaid, you are not giving them even a cost-of-living increase. In fact, you are cutting—this is my last question. You are effectively cutting their pay, and here is why. You have a proposal in here to increase the contribution that every Federal employee has to give to their pension without increasing their pension by one penny. Isn't that true?

Mr. VOUGHT. We do have a proposal to balance what——

Senator VAN HOLLEN. No, you——

Mr. VOUGHT [continuing]. The employee pays along with what the agency pays to be able to save money.

Senator VAN HOLLEN. You are asking the employees, all of them, to put in more, right?

Mr. VOUGHT. They will have to put in more.

Senator VAN HOLLEN. And they are not getting a penny more in pension, right? Isn't that right?

Mr. VOUGHT. Not necessarily, Senator, because they could be eligible for——

Senator VAN HOLLEN. No. For the money they put in, they are not getting any additional——

Mr. VOUGHT. True, but in terms of——

Senator VAN HOLLEN. So when you are taking money out of a current paycheck and not providing any increased retirement benefit, that is a pay cut, pure and simple.

Mr. VOUGHT. If they are high performers, they can be eligible for bonuses and incentive payments.

Senator VAN HOLLEN. But if you are a $32,000-a-year starting TSA employee, you are getting a pay cut.

Thank you, Mr. Chairman.

Chairman ENZI. Yes, you used up a second turn as well.

Senator Sanders.

Senator SANDERS. Thank you, Mr. Chairman.

Mr. Vought, when your budget or the President's budget proposes $1.5 trillion in cuts to Medicaid and $845 billion cuts to Medicare, when you propose that, you obviously studied how many people would die as a result of lack of access to health care. What conclusion did you reach? How many thousands of people do you think will die because of massive cuts to Medicare and Medicaid?

Mr. VOUGHT. Senator, those numbers that you cited are not accurate. We do not cut Medicare by $850 billion. What that does not account for is the fact that we take things outside of Medicare such as uncompensated care to non-Medicare beneficiaries. We move that outside of Medicare. We are going to still spend money on uncompensated care for non-Medicare beneficiaries. But when you adjust for the things where we put it back in other parts of the budget, there is, A, no cut at all because Medicare is going up each and every year, and also there is 517 in savings instead of the number that you cited. And there is a similar story——

Senator SANDERS. Well, it is going up every year in nominal dollars. I understand that. But you will concede that health care inflation is higher than general inflation. So if you are not even keeping up with health care inflation, it, in fact, is a real health care cut. I mentioned earlier the very alarming concern that hospitals have about the devastation these cuts will do for senior citizens. And when you cut a trillion and a half—you are also not including in your calculations the fact that there are more people who will be in the Medicare program. I suspect Medicaid, despite the administration's effort, will continue to expand.

But you did not answer my question. There are studies out there that would suggest that many thousands of Americans die every single year because they do not get to a doctor when they should. Did you in your calculations about massive cuts to Medicare and Medicaid come up with any numbers as to how many Americans will die or maybe get sicker because they do not have the health care that they need?

Mr. VOUGHT. We do not think any of those scenarios will result. In fact, we look at the current situation, and we look at a tragic scenario where a young boy in 2007, 2008, Deamonte Driver, died because of the fact that he had a toothache because of the wait lines——

Senator SANDERS. That is right.

Mr. VOUGHT [continuing]. Within Medicaid, and we say that is a fundamentally broken system. We want a different system. We want States to have more control over——

Senator SANDERS. With less money. You want to throw—look, you know, this President tried to throw millions of people off of Medicaid. Giving a block grant to a State with less money means massive cuts in Medicaid. Let us be honest about what you are doing.

Let me ask you this question: President Trump campaigned about not cutting Medicare, not cutting Medicaid, and he is making massive cuts to Medicare and Medicaid. What should the American people think about that?

Mr. VOUGHT. This budget's title is "Promises Kept, Taxpayers First," and it is for a specific reason. The President kept his promises to the American people in this budget. We do not cut Medicare, we do not cut Social Security, and we do not cut Medicaid.

Senator SANDERS. All right. I would respectfully suggest that is a dishonest answer. I think that is absolutely inaccurate. It is unfactual. And you will have to explain to somebody, not to me, why the hospitals in this country are scared to death about the impact that your budget and President Trump's budget will have on them.

Please tell me why it is a good idea to extend tax breaks for the wealthiest people in this country who are already doing phenomenally well and then cut back on the ability of kids to get a college education or senior citizens in this country to stay warm in the wintertime. What is your logic about that one?

Mr. VOUGHT. We think it is important that families be able to keep more of what is their own money, that the philosophical difference——

Senator SANDERS. What percentage—the tax breaks that you guys passed last year, 83 percent of those benefits went to the top 1 percent. In fact, millions of Americans paid more in taxes. So what you are doing here is giving tax breaks to the wealthiest people who are doing phenomenally well. Then you are cutting back on education, making it harder for kids to get a college education. You are cutting back on nutrition programs. Do you really not have a conscience? Do you know that people all over this country, children, seniors——

Mr. VOUGHT. We are not cutting back on nutrition programs.

Senator SANDERS. Oh, you are not cutting back on the SNAP program?

Mr. VOUGHT. We have reforms in the SNAP——

Senator SANDERS. Oh, reforms.

Mr. VOUGHT. Work requirement, a harvest box. We are not——

Senator SANDERS. How much are you cutting back on these programs?

Mr. VOUGHT. We have about $200 billion in savings from——

Senator SANDERS. Oh, savings. I see. To listen to these hearings, fellow Americans, you need to get a dictionary. "Savings'" means "cuts." "Reform" means "massive cuts."

Let us be clear what this budget is. This is a budget that benefits wealthy campaign contributors. This is a budget that goes to war against the working families of this country. This really is, in fact, a disgraceful budget, and I am happy to say that there are going to be very few people, even Republicans, who will vote for this terrible budget.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you. And I want to thank the witness for being here to testify.

Again, I would mention that you have to go through this even though we just consider a President's budget to be suggestions. We hold the purse strings. We have to make the decisions. And your input has been helpful, and I thank you for coming.

Mr. VOUGHT. Thank you, Mr. Chairman.

Chairman ENZI. There is an opportunity for those Senators that were at other places to submit questions that I hope you will answer promptly. They have to have them in by tomorrow night at 5:00 p.m., and so any additional questions can be submitted.

Thank you. Adjourned.

[Whereupon, at 3:44 p.m., the Committee was adjourned.]

ADDITIONAL COMMITTEE QUESTIONS

[The following submitted questions were not asked at the hearing but were answered by the witness subsequent to the hearing:]

Questions for the Record

Table of Contents

Sen. Cramer

Sen. Enzi

Sen. Grassley

Sen. Merkley

Sen. Murray

Sen. Sanders

Sen. Whitehouse

Sen. Cramer

The President's Budget proposes a 31% cut to the U.S. Army Corps of Engineers and states, "current approaches to funding, constructing, and maintaining projects often do not deliver benefits in either a timely or cost-effective manner." I have written multiple letters to DHS asserting the Corps' has grossly mismanaged construction of the wall on the southern border. Do you think it is fiscally responsible to trust the Corps with a project as large as the construction of a barrier on our southern border?

While OMB issues acquisition guidance to federal agencies, Congress provided DHS with authorities and funding to construct physical barriers along the U.S. Southern border. Therefore, DHS is responsible for ensuring that it uses its authorities and funding appropriately. This includes use of the Economy Act as well as other contracting authorities. Given the priority of the border barrier to the Administration, we will work with the impacted agencies to ensure funds are executed in a timely and cost effective way.

The Budget provides $4.8 billion for the Army civil works program, a $2.2 billion or 31 percent decrease from the 2019 enacted level. The Budget focuses federal investment in water resources development where it is most warranted and proposes reforms to accelerate the construction of water resources projects.

Construction of Southern border barriers are not civil works projects. Rather, they are DHS projects.

Sen. Cramer

I have urged the Secretary of DHS to not use the Corps for further construction of the border wall, but to contract with a private company. In a phone call with Secretary Nielson on this matter, the Secretary mentioned there were statutory and bureaucratic limitations that required DHS to use the Corps. Are you aware of any limitations that would require DHS to contract with the Corps? Has OMB issued guidance on this matter?

DHS does not "contract with" the U.S. Army Corps of Engineers (USACE) on border barrier projects. Rather, DHS relies on the USACE to provide acquisition, construction oversight, and real estate services on a reimbursable basis.

OMB is not aware of any statutory limitations that would require DHS to work with USACE on border barrier construction projects.

Sen. Cramer

In the 2018 Farm Bill, Congress protected crop insurance and made several key improvements, including new insurance products for forage producers and improvements to whole farm revenue coverage for specialty crop producers. However, the President's Budget has proposed to reduce crop insurance premium subsidies from 62 percent to 48 percent. Farmers in North Dakota and across the country rely on this vital safety net to produce the safest and most affordable food in the nation. How does this proposed cut to crop insurance align with the pro-agriculture and pro-rural America efforts of the Administration?

The premium subsidy proposal would reduce the average subsidy from 62 to 48 percent. This is reasonable because the deep premium subsidies currently offered are not needed to maintain high levels of participation in the crop insurance program, and premiums are supposed to be set with the aim of matching expected losses associated with the policies (actuarially sound). In addition, high premium subsidies can distort the market by artificially increasing land values, which create barriers to entry and expansion making it especially difficult for small and beginning farmers. The proposal also sets a participant income limit within the crop insurance program designed to be consistent with other USDA safety net programs to curtail government subsidies to high income producers.

Collectively the Budget proposes to reduce premium subsidies, cap underwriting gains, eliminate reimbursements for product development, and set a participant income limit within the crop insurance program. Taken together, these proposals are designed to optimize the current crop insurance program so that it will continue to provide a quality safety net at a lower cost, as well as introduce a measure of means testing to the beneficiaries of the crop insurance subsidies.

In addition, USDA has made major strides to create rural economic opportunities and improve the quality of life for rural Americans. Last December, Rural Development announced $600 million in grants and loans to support broadband service in eligible rural areas. These investments will be targeted to support Precision Agriculture, driving data-driven decision making and increasing operating efficiencies and yields. In 2018, USDA worked with Federal partners to deliver new and improved trade deals like the United States-Mexico-Canada Agreement and a re-negotiated United States-Korea Free Trade Agreement and provided up to $12 billion in assistance to farmers due to unjustified trade retaliation. Efforts to break down barriers and pursue export opportunities resulted in new or expanded market access for numerous U.S. farm products in 2018. Due to the Tax Cuts and Jobs Act (TCJA), farms and ranches of all sizes now face lower effective income tax rates and the bill virtually eliminated the estate tax for family farms, helping to ensure that farms can be passed to the next generation. USDA's Regulatory Reform Task Force is identifying reforms to ease the regulatory burden on the American people and improving service delivery to farmers and rural America. The Environmental Protection Agency (EPA) and Army Corps of Engineers are fulfilling President Trump's pledge to repeal and replace the Waters of the United States rule. This action from the EPA and Army Corps will help bring clarity to Clean Water Act regulations and help farmers know where federal jurisdiction begins and ends.

Sen. Cramer

The Livestock Forage Program provides stability and certainty to livestock producers who have suffered grazing losses due to a qualifying drought condition. North Dakota has experienced severe drought conditions, putting our producers and America's food supply in jeopardy. It is programs like the Livestock Forage Program that alleviate some of that hardship. The President's Budget proposes elimination of the Livestock Forage Program, which I completely disagree with. Given our recent bipartisan and budget-neutral Farm Bill included this program, can you provide the administration's reasoning for elimination of this program?

While the Administration agrees that assistance to livestock producers during periods of significant drought can help provide stability and certainty to the producers, the Livestock Forage Program is one of three USDA programs that provide such assistance. The President's Budget seeks to eliminate duplicative programs. The Livestock Forage Program (LFP) benefits are duplicative of the benefits producers can receive from subsidized crop insurance and from the Noninsured Assistance Program (NAP), and that many producers that participate in LFP have coverage for their pastures through a crop insurance policy or NAP. The Administration believes that purchasing subsidized crop insurance for your pasture, range or forage, or enrolling in NAP is preferable to LFP, because the insurance products require producers to proactively manage their production risk.

Sen. Enzi

In 2018, the economy grew at its fastest annual pace since 2005 thanks to pro-growth changes in tax and regulatory policy. The Administration forecasts that growth will generally continue at a similar pace while CBO and some other forecasters expect growth to wind down.

What accounts for the difference in projections?

What other policies does the budget propose to help sustain the robust economic growth we saw last year?

We anticipate that the revenue loss will be offset by revenue gains resulting from the Administration's economic agenda, including TCJA's positive and sustained impact on economic growth.

The most significant difference between the Administration and CBO forecasts is that CBO assumes current law, while the Administration forecast assumes that all Administration policies will be enacted. This means that future growth enhancing policies such as labor market reform, infrastructure investment and intelligent regulation will become law, and stimulate the US economy to continue the recent pattern of high growth.

The Administration believes, based on a review of the research literature, that investment will be more responsive to changes in the incentive structure than the CBO does. We postulate that the amount of investment seen in the first year of the Tax Cut supports this assumption, as nonresidential fixed investment increased by an average of 7.2 percent the four quarters ending 2018:Q4, 5.4 percentage points higher than in 2016. This large increase in investment will increase growth in the years to come.

Sen. Enzi

It is my understanding that the budget request includes about $20 billion worth of changes in mandatory programs, known as CHIMPs, to reach the nondefense discretionary spending target for fiscal year 2020. When Director Mulvaney was before our committee last year, he criticized the use of CHIMPs to justify additional spending. Can you explain the Administration's rationale for including these CHIMP proposals in its budget?

The Administration supports limiting and ultimately phasing out the use of CHIMPs with no outlay savings. In support of this, the 2020 Budget proposes reforms to certain mandatory programs which have been the target of CHIMPs in the past, including the Department of Justice's Crime Victims Fund and the Department of Agriculture's Section 32 program. One goal of these reforms is to reduce the availability of CHIMPs by setting funding levels in permanent law rather than through annual appropriations Acts. For example, the appropriations Acts will no longer be able to claim billions in discretionary offsets from temporarily blocking the same funding in the Crime Victims Fund year after year. In addition, the Budget proposes permanent reductions to the Department of Health and Human Services' Children's Health Insurance Program to ensure that these amounts cannot be used as discretionary offsets in future fiscal years.

Sen. Enzi

Western states, like Wyoming, that have a large share of federal lands depend on the federal government to be good neighbors and stewards of the land. My state has benefited from the Trump administration's focus on regulatory reform in the energy sector and commitment to opening up public lands for hunting, fishing, and other recreational activities.

How does the President's FY2020 budget request build on these successes and address the priorities of Western states?

The Department of the Interior (DOI) estimated in 2018 that the economic output of DOI lands and resources is about $292 billion, including nearly $13 billion from Wyoming. The President's FY 2020 budget continues activities that support this economic contribution. Within the FY 2020 request for land management operations, about $971 million supports recreation and public access programs to increase the public's enjoyment of hunting, fishing and other recreational activities. Specifically, the Budget includes $10 million in new resources for the National Park Service and $9 million in new funding for the Fish and Wildlife Service to expand outdoor recreation opportunities by supporting programs that encourage hunting and fishing, improve trails, increase awareness through updated web sites and recreation maps, and support improvements to recreational infrastructure. The Budget maintains support for the Bureau of Land Management's (BLM) recreation management and maintenance of big-game habitat and migration corridors, and continues to invest strongly in domestic onshore energy production, including $5 million in additional funding for BLM renewable energy permitting and $5 million for western Federal coal management. Finally, the Budget makes meaningful investments in active fuels management to help mitigate the sharp growth in catastrophic wildfire incidence across Western public lands.

Sen. Enzi

We have heard a lot recently about how deficits don't matter, and how we shouldn't worry about our $22 trillion federal debt. In fact, we are hearing that a lot in conjunction with plans to increase federal spending by tens of trillions of dollars over the next few years.

Why is it so important to get our fiscal house in order and start reducing debt and deficits? What are the consequences of doing nothing?

It is vital that we rein in excessive spending now. While there have been few adverse effects of the deficit on the broader economy thus far, an unforeseen negative shock could raise interest rates rapidly and the cost of borrowing would increase to unsustainable levels.

Deficit spending brings future economic growth into the present. When it comes time to pay off the debt, economic growth will be reduced as a result.

While the deficit has not been a major problem up to this point in the economic expansion, the increases in the interest rate in the President's Budget and the forecasts of other institutions indicates that running this level of deficit will become more and more costly.

As deficits increase, the United States government must borrow from entities both foreign and domestic. The United States debt is seen as extremely low risk. Over the past decade after the financial crisis, many investors have been very risk averse, increasing demand for American debt. This has kept interest rates low and made the large amount of borrowing relatively painless.

Debt crises are a vicious cycle, as belief that the United States will struggle to pay its bills can become a self-fulfilling prophecy.

Sen. Grassley

Director Vought, I appreciate that the President's Budget is an initial step in the budget process that gives us ideas and proposals that the administration wants Congress to seriously consider. I've seen many budgets from presidents of both parties. I usually like some of the ideas in the budgets, and there are some that I may not like. That's part of the process.

This year's budget from the administration contains proposals that would reduce mandatory outlays, on net, in agriculture by about $61 billion. This includes a proposal related to Crop Insurance premiums. I wonder if you could give me the administration's overall thinking regarding the proposals related to agriculture.

We understand that this is a challenging time for farmers because of low prices, the current trade situation, and natural disasters, but last year's omnibus as well as the farm bill significantly increased benefits to farmers. Without targeted reforms, as proposed in the budget, the spending trend is forecast to continue to increase. The 2020 Budget proposals are designed to address this by reforming the current programs, yet still provide a quality safety net at a lower cost. The Budget proposes to eliminating subsidies to higher income farmers; reduce overly generous crop insurance subsidies to producers and companies; and eliminate some programs that have no Federal purpose or are duplicative of activities in other Federal agencies. Our budget also includes a proposal to modernize Section 32 funding that guarantees that USDA will have future funding available to fully meet the needs of the school lunch program, surplus commodity purchase activities, and Department of Commerce fishery activities by proposing to fund these programs directly from the Treasury instead of relying on a portion of U.S. customs receipts. We also include some fees, such as a Food Safety and Inspection Service Fee, for services that USDA provides to industries. These fee proposals will help cover the cost of benefits various industries receive from the services that USDA provides.

Sen. Grassley

Director Vought, the President's Budget identifies that recent policies, including tax reform, have "unleashed the American economy." I agree. The tax reform has clearly benefited small businesses, our international competitiveness, and the middle class. During the Trump administration, and especially since tax reform was enacted, economic growth has topped three percent, business investment has been strong, job creation has been robust, real wage growth has accelerated, incomes have grown, and unemployment has been very low. My state of Iowa currently has a record low 2.4% unemployment rate, the lowest in the country.

Despite the facts, I have heard politicians saying that the middle class was left out of tax reform. Of course, this is nonsense. The evidence shows this is not the case.

Director Vought, as you look at the recent performance of the economy, and especially the performance following enactment of tax reform, do you agree with me that there have been widespread benefits to Americans from a strengthened economy?

Yes, the Administration agrees with this statement. The TCJA has benefitted a wide variety of Americans, both directly and indirectly. The CEA estimates that households will get an average $4,000 wage increase from corporate tax reform alone through increased investment and employment. The TCJA also directly lowered rates for individuals and doubled the standard deduction.

As a partial result of the TCJA, the economy of the United States is thriving. Unemployment has reached its lowest level in half a century. Inflation remains on target. Real wages have seen sustained growth. Investment has increased.

- Real Gross Domestic Product (GDP) experienced 3.1 percent growth during the four quarters of 2018. This compares to an average of 2.1 per-cent between 2010 and 2016.
- Nonfarm business sector output per hour increased 1.8 percent in 2018. This is elevated from an annual average of 0.7 percent growth between 2010 and 2016.
- The civilian unemployment rate declined, falling from 4.7 percent at the end of 2016 to a nadir of 3.7 percent in 2018, the lowest rate since November 1969 (at that time over three million individuals were serving in the military), and well below the post-war average of 5.8 percent.
- There were 7.3 million job openings in December 2018, exceeding the number of unemployed.
- During the 12 months of 2018, the labor force participation rate averaged 62.9 percent, edging up slightly from 62.7 percent in 2015.
- Nonresidential fixed investment increased by an average of 7.2 percent the four quarters ending 2018:Q4, 5.4 percentage points higher than in 2016.

Sen. Grassley

Director Vought, over the course of the Obama administration, debt held by the public more than doubled, increasing by more than $8 trillion. Deficits totaled more than nearly $8 trillion in current dollars, with four straight years of deficits greater than $1 trillion. Spending relative to the size of the economy shot up to well above the historic norm. Moreover, taxes were increased by, all told, well over a trillion dollars when Obamacare taxes and the fiscal cliff resolution are taken into account.

If we look ahead, under current law revenue relative to GDP will get back to the long-run average, even before temporary provisions of tax reform are scheduled to phase out. But spending relative to GDP is scheduled to continue to rise well above the long-term average, driven by unsustainable entitlement spending.

As I have held for quite some time, we have a spending problem. And CBO has been telling us for a long time now, federal spending on entitlements outstrips growth in the economy. That situation is simply unsustainable.

Director Vought, can you tell me whether federal spending on health care, if we stick with current law, would federal health spending continue to grow unsustainably faster than growth in the economy?

Consistent with the Medicare trustees report and Medicaid actuarial report, OMB's current law long-range projections of Federal spending assume that healthcare costs will grow 1 percentage point above the rate of GDP per-capita growth through the 25-year window. I agree that our nation has a spending problem, and the unsustainable growth of healthcare costs contribute significantly to that problem.

Sen. Grassley

Director Vought, even if you taxed all income of the top ten percent of earners in America, you wouldn't be able to finance the tens-of-trillions of dollar of costs of a Green New Deal, or Medicare for All. This means that middle-class Americans would have to pay higher taxes. They'd also risk losing their employer provided health care plans as well.

Outside of pie-in-the-sky, unaffordable, proposals to massively expand government control of the economy that I have seen recently, some of us are pursing efforts to lower health-care costs for Americans, including lowering drug prices. And those efforts are geared toward policies that can work, and policies that stand a chance of getting enacted.

Director Vought, can you tell me if the President's Budget contains proposals to help lower the costs of prescription drug prices?

The Administration is moving aggressively to address high drug prices, provide greater access to lifesaving medical products, and ensure the United States remains the leader in biomedical innovation. The Budget proposes strategies to rationalize the current incentive structure, foster greater competition, and leverage leadership in innovation.

To address the misaligned incentives in Part D, the Budget modernizes the Part D drug benefit to improve plans' ability to deliver affordable drug coverage for seniors and reduce their out of pocket costs. This 3-part proposal gives plan sponsors more incentives to manage benefits, provides beneficiaries with better protection against catastrophic costs, and encourages use of lower-cost drug alternatives. It also addresses the unintended consequences of the current plan design that result in plans shifting substantial drug costs to Medicare and beneficiaries.

The Budget modifies payment for Medicare Part B drugs to discourage manufacturers from increasing prices faster than inflation and improve payment accuracy. In addition, the Budget proposes to reduce Part B drug payment when a manufacturer participates in anti-competitive behavior to block market competition. The Budget also modifies hospitals' payment for drugs acquired through the 340B drug discount program to ensure hospitals that benefit from the 340B drug program provide at least a minimum level of charity care.

For FDA, the Budget includes a number of proposals to speed development of generics and eliminate loopholes that have allowed drug companies to use the regulatory framework to hinder competition. For example, the Budget includes reforming the current 180-day exclusivity provisions for first generics so that first generics do not block subsequent generics from FDA approval, enhancing FDA's authority to address abuse of the petition process; clarifying FDA's approach in determining whether a new drug is a new chemical entity to ensure that only truly innovative new drugs receive an additional 5 years exclusivity.

Sen. Merkley

President Trump and the Republican Party claimed that when the Tax Cuts and Jobs Act passed in 2017, its benefits would reach all Americans, and pay for itself. Instead, the plan has resulted in tax hikes on working families, and cuts for corporations and the wealthiest Americans.

The State of Oregon ranks near the top for the use of the state and local tax (SALT) deductions and use it to reduce their taxable income by an average of $12,600, according to the Oregon Center for Public Policy. Yet, the $10,000 cap in the new tax law will force many Oregonians to have tax obligations over $2,000.

Each tax season, Americans rely on their tax refund to help cover outstanding costs related to their home, kids, or medical costs. However, this year is different. I have heard from many Oregonians who have found their tax refund to be much smaller. Our policies should be lifting up working families in Oregon and across the country, not forcing them to pay for tax giveaways to the millionaires and billionaires.

The same goes for budgets. However, the Trump Administration continues to advocate policies that benefit the wealthy over working Americans in the President's FY20 Budget. Why is the Trump Administration insisting on more funding cuts to programs that help working Americans while at the same time increasing their taxes?

The Tax Cuts and Jobs Act (TCJA) -- the largest overhaul of the tax code in a generation -- unleashed the American economy, allowing businesses to thrive and taxpayers to keep more of their hard-earned money. Refunds are smaller because people withheld less in taxes from their paychecks than they owed. This does not mean that they owe more taxes; according to the Treasury Department, 80 percent of taxpayers owe less in taxes because of the TCJA. Smaller refunds mean taxpayers are taking home more of their income when they earn it instead of waiting for their refund check and giving the Government an interest-free loan.

We have a spending problem, not a revenue problem. This Budget reduces deficits over 10 years, and makes the hard choices needed to bring deficits and debt under control. The Budget reaches balance in 2034, relieving future generations from carrying the burden of today's bloated Government spending.

Sen. Merkley

Two days ago, I was in Homestead, Florida visiting a child detention center. What I saw was heartbreaking; children belong in homes, playgrounds, and schools - not in prison camps or cages.

We should be doing everything we can to ensure that these children are placed with their family so they can await their asylum hearings in an appropriate setting. But instead, the Trump Administration's FY20 Budget is trying to expand the capacity of holding children at Homestead and other facilities.

In fact, on page 116 of the President's budget Table S-6 proposes $738 million in funding to "Establish an Unaccompanied Alien Children Contingency Fund." This is a clear indication that the Trump administration has no intention of stopping this cruel practice.

Please list all authorized activities, programs, and purposes of this fund. How much money from the Alien Children Contingency Fund or any other fund not specified in your budget pays for lawyers so immigrant toddlers as young as 3 years old are not ordered to appear in court alone?

This Administration is committed to placing UAC in sponsors' homes as quickly as possible, in accordance with the Homeland Security Act, the Trafficking Victims Protection Reauthorization Act, and the 1997 Flores Settlement Agreement. A critical element to this process is ensuring HHS has enough shelter capacity and resources to accept UAC referrals from the Department of Homeland Security in a timely manner, and provide appropriate shelter and services (including medical, mental health, and educational) to each UAC while potential sponsors are located and appropriately vetted.

We are currently seeing UAC arrivals that exceed historical averages, and we need to prudently plan in case this trend continues into 2020. The proposed mandatory UAC Contingency Fund is a fiscally responsible way to address the inherent uncertainty in this program and ensure that HHS is always able to meet all of its legal and programmatic requirements related to the care of UACs, including during periods of high UAC referrals.

The proposed $2 billion mandatory UAC Contingency Fund* accompanies a discretionary appropriation request of $1.3 billion and additional funding that may be transferred to the program pursuant to the Secretary's requested 20 percent transfer authority. Before accessing the Fund, HHS would be required to notify Congress of its intent to exercise its full transfer authority and that HHS projects to obligate the full base authority and full transferred funding before the end of the fiscal year. Further, HHS would be prohibited from accessing funds in Contingency Fund before the beginning of the third quarter. Finally, HHS would need to submit a retrospective report to Congress identifying conditions that led to the need for funds and how funds were used. The authorized uses for the contingency funds would be the same as the discretionary funds for the underlying UAC program, which include legal services.

* The Budget includes a probabilistic score of $738 million for the UAC Contingency Fund, based on modeling that projected the costs associated with various UAC program trends and attributing a probability of each occurring.

Sen. Merkley

Recently, several Senate Republican have spoken about innovation as the way to solve the climate crisis. Would you agree that we need to address the very real and pressing threat of climate change, and that American innovation in clean energy technologies can play an important role?

The Administration is committed to investing in the foundations for a cleaner energy future, while replacing overreaching regulations that would burden our economy. Innovations that increase the efficiency and resiliency of all energy sources can play a role in reducing greenhouse gas emissions, and the DOE Budget allocates funding for innovative, early-stage energy technology research that will advance nuclear and renewable energy, further develop carbon capture and storage, and reduce the carbon output from fossil fuels through greater efficiency in both generation and consumption. At the same time, we are taking measures that will set sensible regulations on air pollution in a manner that is consistent with authorizing statutes. Initiating a regulatory process to repeal and replace the Obama-era Clean Power Plan, for instance, helps EPA fulfil the Agency's role in addressing carbon dioxide emissions from our nation's power plants in a manner that is consistent with the Clean Air Act.

Sen. Merkley

For clean energy sources, defined as non-fossil fuel based energy, please show the overall change in funding levels for programs that would drive innovation, including research, development, deployment, and market incentives for clean energy technologies from FY19 enacted levels to your proposed 2020 budget.

The Budget allocates funding for innovative, early-stage energy technology research that will advance nuclear and renewable energy, further develop carbon capture and storage, and reduce the carbon output from fossil fuels through greater efficiency in both generation and consumption. Some examples of Department of Energy programs that drive innovation in non-fossil fuel based energy technologies include the Office of Nuclear Energy (FY19 Enacted: $1,326M, FY20 Budget: $824M), the Office of Energy Efficiency and Renewable Energy's Renewable Power portfolio (FY19 Enacted: $527.5M, FY20 Budget: $163.7M), and the Office of Electricity (FY19 Enacted: $156M, FY20 Budget: 182.5M).

Sen. Merkley

Please explain why you sought to eliminate the Advanced Research Projects Agency-Energy (ARPA-E) program, an incubator for cutting-edge energy research and development for the third year, despite the importance of innovation in the energy economy and strong bipartisan support for the program?

The Department of Energy (DOE) has four major offices and manages several national laboratories dedicated to applied research to advance new and innovative energy technologies. ARPA-E was first funded in 2009 through the American Reinvestment and Recovery Act as a new, separate office within DOE to support additional research, development, and commercialization of energy technologies, despite DOE's existing applied research programs and laboratories already receiving billions of dollars in funding every year.

It makes little strategic sense that ARPA-E still exists independent of DOE's main applied research programs, especially when the research they fund is similar. This proposed elimination promotes more effective and efficient use of taxpayer funds, reduces duplication within DOE, and positions DOE to incorporate elements of ARPA-E into the existing Applied Energy Offices to support a more integrated energy research and development (R&D) strategy. The elimination enables a streamlining of Federal activities, ensures more focus on early-stage R&D, where the federal role is strongest, and reflects the private sector's role in commercializing technologies. The proposal also aligns with the Budget's strategic emphasis on intradepartmental collaborations with DOE.

Sen. Merkley

If reducing carbon emissions is a goal of the Trump administration as claimed to justify the Office of Fossil Energy Research and Development budget by 12 percent, please explain why you sought to cut the Department of Energy's Office of Energy Efficiency and Renewable Energy (EERE) by 70 percent.

The United States has among the most abundant and diverse energy resources in the world, including oil, gas, coal, nuclear, and renewables. The ability of entrepreneurs and businesses to commercialize technologies that take full advantage of those resources is paramount to promoting U.S. economic growth, security, and competitiveness. That is why the Budget provides a programmatic funding level of $2.3 billion across the applied energy programs at the Department of Energy (DOE), to support early-stage R&D that will enable the private sector to deploy the next generation of technologies and energy services that usher in a more secure, resilient, and integrated energy system. Innovations that increase the efficiency and resiliency of all energy sources can play a role in reducing greenhouse gas emissions, and the DOE Budget allocates funding for innovative, early-stage energy technology research that will advance nuclear and renewable energy, further develop carbon capture and storage, and reduce the carbon output from fossil fuels through greater efficiency in both generation and consumption.

To promote the best use of taxpayer dollars, the Budget emphasizes investments in R&D infrastructure and two new intra-departmental initiatives that coordinate and build upon existing capabilities and expertise and seek to replicate successful program models to achieve results more effectively. Specifically:

-To help facilitate and accelerate private sector innovation, the FY 2020 Budget for the Department of Energy prioritizes support for federal R&D infrastructure and testbeds. For example, the Request provides $100 million for the Versatile Advanced Test Reactor, a key element of the Civil Nuclear Review. This puts the facility on the path to construction and demonstrates the Administration's commitment to build this facility. In addition, the Request provides funding to accelerate the conversion of the National Wind Technology Center into an experimental microgrid capable of testing grid integration at the megawatt scale. The Request also includes funding to establish the new Grid Storage Launchpad, which will create a new, dedicated testing bed space for the development of new technologies aimed at the strength and resilience of the US electrical grid.

-The Budget also requests $158 million for the Advanced Energy Storage Initiative, a coordinated effort jointly led by the Office of Electricity and the Office of Energy Efficiency and Renewable Energy (EERE) to advance energy storage R&D as a key to increasing energy security, reliability, and resilience. The initiative takes a broad, holistic view of energy storage as a set of capabilities that enable the conversion of energy resources to useful energy services. Assuring grid security and resilience will require greater grid flexibility and the deployment of grid assets, like energy storage, that can efficiently buffer increased variable supply and demand.

-In addition, the Budget requests $59 million for the Harsh Environment Materials Initiative, a coordinated effort led by DOE's Office of Nuclear Energy and the Office of Fossil Energy, in coordination with the Advanced Manufacturing Office within EERE, to exploit synergies in materials and component manufacturing R&D for advanced thermoelectric power plants. This initiative leverages activities related to advanced reactor technologies and high efficiency low emissions modular coal plants to align the R&D of novel materials, integrated sensors, and manufacturing processes relevant for advanced thermoelectric power plants.

Sen. Merkley

Did you receive guidance (orally, in writing, explicitly, or implied) from the President or officials at the White House to cut programs related to climate change?

Reductions proposed in the Budget are consistent with overall lower levels of non-defense spending and reflect the appropriate federal role in the development of clean energy technologies and the protection of our environment. The Budget was developed in accordance with the President's guidance to make the United States of America stronger, safer, and more prosperous for every American family and neighborhood.

Sen. Merkley

The 4th National Climate Assessment was prepared by 13 federal agencies and released by your administration. Please explain how your budget reflects the findings of that report, including any specific program requests influenced by the assessment.

The Budget was informed by a number of studies and assessments, including assessments of the economic realities we face today. These economic realities underpin the Budget's approach to energy and climate. For example, the Budget funds innovative, early-stage energy technology research that will advance nuclear and renewable energy, further develop carbon capture and storage, and reduce the carbon output from fossil fuels through greater efficiency in both generation and consumption. It also funds drought early warning systems that inform resource managers, farmers, and others. We are laying the foundation to innovate our way towards a cleaner energy and data-driven future, while replacing burdensome, overreaching regulations.

Sen. Murray

I appreciate the President's Management Agenda highlighting and incorporating the Foundations for Evidence-Based Policymaking Act of 2018 (Foundations), a bill that I co-wrote with former Speaker Paul Ryan and which the President signed into law in January (P.L. 115-435). I have a series of questions regarding the implementation of Foundations. In addition to receiving answers to the below questions, I request that staff at OMB meet with my staff to discuss the implementation of Foundations.

One of the challenges in successfully implementing Foundations across the government will be ensuring agencies have adequate resources. The Budget, however, does not appear to allocate or realign resources to support effective implementation. How will OMB work with agencies to ensure they have sufficient resources and adequate capacity to support implementation? Going forward, how does OMB and the Administration plan to ensure agencies have the necessary resources and flexibilities to meet the new law's goals and objectives?

OMB is prioritizing an integrated implementation approach that recognizes the importance of many offices and functions within an agency working together to achieve the Evidence Act's desired goals. The Act presents a unique opportunity for agencies to synergize their evidence activities by examining their existing resources, more strategically investing in areas related to evidence-building and evidence use, and assessing capacity to better inform where gaps may exist.

OMB appreciates that agencies should be given flexibility to utilize resources for implementation in ways that are most appropriate for their particular contexts and needs. There are existing appropriations and funding flexibilities that agencies can currently leverage to support implementation, including accounts such as IT modernization, shared services, statistical activities, program funds with set-asides in appropriations for evidence-building activities, and evaluation-specific appropriations. The existence and use of these flexibilities varies by agency and program, and the resources that can be utilized for Evidence Act implementation will be decentralized in most cases (as opposed to a single line item inclusive of an agency's capacity to support implementation). Further, as a part of Evidence Act implementation, OMB will examine cross-government capacity-building needs and highlight opportunities for agencies to leverage tools, training, and interagency peer learning opportunities.

Sen. Murray

Can you provide details on the specific steps the Administration is taking and timeline it will be following toward "improving secure access to data and modernizing privacy protections," as highlighted in the "Modernizing Government" chapter of the President's budget? The Commission on Evidence-Based Policymaking prioritized the modernization of privacy protections as the first and key step toward improving the secure access to data. How does OMB envision the two goals working together in implementing both Foundations and the Administration's Federal Data Strategy?

The Administration will address these requirements through the guidance OMB must issue under Titles II and III of the Evidence Act over the next year. These include ensuring that the "open by default" and inventory guidance takes into account privacy, confidentiality and security. In addition, OMB will issue regulations to govern expansion of statistical agencies' access to Federal data assets in a way that appropriately protects privacy and to govern statistical agencies' provision of different levels of data access depending on data sensitivity.

In addition, the Administration is addressing these requirements through the Federal Data Strategy (FDS), which ensures confidentiality and emphasizes the importance of protecting individual privacy through the integration of the Fair Information Practice Principles. The year one Action Plan will work hand in hand with the Evidence Act to provide resources and a repository of tools, best practices and standards that addresses data protection and re-identification risk.

Sen. Murray

The Foundations Act requires a number of coordinated responsibilities across OMB to support evidence-based policymaking. The Administration is in the midst of creating a comprehensive Federal Data Strategy, described in the Budget as a plan that will support activities for "managing and using Federal data."

To what extent does the Administration view the Federal Data Strategy as an implementation vehicle for Foundations? How does OMB intend to organize to support effective implementation of the strategy's Year 1 Action Plan, and how will OMB ensure collaboration across organizational siloes to enable fulfillment of Foundation's goals and objectives? Can you commit to providing Congress an update on implementation of the Action Plan after 6 months?

The Federal Data Strategy (FDS) offers a consistent framework of principles and best practices through which agencies can implement data innovations in support of their mission, service and needs of stakeholders. The FDS is complementary to existing law and policies, including the Evidence Act, and is designed to be enduring and to evolve as new statutory and other requirements develop. The Evidence Act provides notable new requirements related to data governance, access, and protection. The FDS, in concert with additional implementation guidance from OMB, will help agencies meet the requirements of the Act.

For example, the FDS will offer implementation tools for agency use that align with each of the priority actions identified in the year one Action Plan, on which the team will seek agency and public comment in the near future. The tools will reflect the expertise, outreach and analysis of several dozen FDS team members from across 18 agencies over the past year, a significantly larger resource base than OMB alone. OMB would be happy to provide an update on the Action Plan.

Since the FDS is being developed as part of the President's Management Agenda, OMB and the Executive Branch will use the existing structure and process for monitoring and reporting on agency progress. In addition, OMB plans to use existing OMB engagement with agencies throughout the year, such as through the budget process, to discuss progress.

In addition, the three new data leader positions will be critical partners to implementation within agencies. OMB will work with those leaders to share information across agencies and to help inform additional guidance and OMB engagement.

Sen. Murray

Title II of Foundations is the Open Government Data Act, which would improve the public information about the data the government holds, by requiring agencies to develop data inventories that provide metadata and other underlying details about the data in a manner that is easily accessible to the public. Title II is important not only to researchers and program evaluators, but also individuals and families who want to know what information the government collects and under what authorities and restrictions.

Please explain the process OMB will follow in implementing Title II, including the process and timeline for broadening its application to and processes government-wide? How will OMB work with agencies to ensure that qualified individuals are appointed in a timely manner by agencies to the new position of Chief Data Officer?

OMB is prioritizing initial implementation guidance for agencies on the Evidence Act that will provide direction to agencies on the qualifications and functions of the CDO that build directly from the statutory language. OMB will then work with those leaders to share information across agencies and to help inform additional guidance and OMB engagement. Further, subsequent OMB guidance will build on a framework established in prior OMB information policy, e.g., M-13-13: Open Data Policy--Managing Information as an Asset, including data inventories, metadata and a federal data catalogue. This guidance in concert with repository resources, and the Year one Action Plan, will collectively expand application government-wide.

Sen. Murray

The Budget proposes a US Data Service at the Department of Commerce. To what extent does this proposal align with the Commission on Evidence-Based Policymaking's National Secure Data Service proposal from 2017? What do you see as the next steps in developing that idea?

What is the plan for seeking input from and keeping Congress up to date on the design and implementation of the proposed Service? What is the plan for seeking public and stakeholder input on the proposed Service?

Under the direction of the Commerce Department's Under Secretary for Economic Affairs (USEA), the Bureau of Economic Analysis (BEA) and the Census Bureau will continue to support government-wide efforts to modernize data collection, analysis, and dissemination. Consistent with the recommendations of the Commission on Evidence-Based Policymaking and the authorities granted in the Foundations for Evidence-Based Policymaking Act of 2018 (P.L. 115-435), BEA and Census will partner in FY 2020 to support development of a framework for a U.S. Federal Data Service to promote government-wide data access and sharing, improve cross-agency data discovery and utilization, and enhance privacy and confidentiality practices. This initiative will support the newly-required Advisory Committee on Data for Evidence Building (Committee), which is tasked with making recommendations to the Office of OMB on how to promote the use of Federal data for evidence building, including through the provision of shared services. The USEA effort will comprise an interdisciplinary team focused on supporting the Committee and its recommendations to OMB by implementing pilot projects designed to: 1) improve access and use of data; 2) inform the acquisition of non-survey-based source data; 3) integrate those data with survey and administrative data, and; 4) pilot applications of new technologies and methods for the protection of privacy and confidentiality. This initiative is complemented by a $2 million request in BEA's FY 2020 Budget and a $5 million in Census's FY 2020 Budget.

Sen. Murray

The Budget indicates the Administration will prioritize the development of multi-year learning agendas, as required by the Foundations for Evidence-Based Policymaking Act of 2018. How does the Administration intend to engage the American public and Congress in developing these agendas? How will OMB work with agencies to ensure that qualified individuals are appointed in a timely manner by agencies to the new position of Evaluation Officer?

The Administration views learning agendas as critically important to successful implementation of the Evidence Act. The Act specifically requires that agencies consult with a range of stakeholders as they develop their multi-year learning agendas. This stakeholder engagement ensures that the learning agenda addresses questions that are relevant, salient, and meaningful to those with direct interests in the agency's functions, and that the learning that results connects and resonates with stakeholders. In its implementation guidance for agencies, OMB will note the requirement for engagement, the important role that this engagement plays in the process, and offer ideas for how agencies can undertake it.

The Evidence Act likewise documents the qualifications of the new position of Evaluation Officer, and importantly, the functions that these newly-designated individuals are expected to perform. As above, initial implementation guidance for agencies on the Evidence Act will provide direction to agencies on the qualifications and functions of this position that build directly from the statutory language. Beyond official guidance, OMB plans to engage directly with agencies to provide technical assistance and support on implementing these and other requirements of the Evidence Act.

Sen. Murray

Title I of Foundations establishes an Advisory Committee on Data for Evidence Building and directs the Director of OMB, or their appointee, to review, analyze, and make recommendations on how to promote the use of Federal data for evidence building. A key part of the Director's role is appointing 22 members from a range of backgrounds and positions to the Advisory Committee. The Advisory Committee is to terminate two years after its first meeting. What is the timeline for making these appointments, what will be the process you follow in making them, and how will you seek comment from Congress and the public in making them, particularly the 10 appointments from individuals outside of the federal government?

OMB is prioritizing implementing immediate Evidence Act requirements and working to align them with existing infrastructure and processes, such as the Federal Data Strategy (FDS). It has been developing a plan for the Advisory Committee and will shift soon to establishing it.

We expect to solicit nominations publicly in order to ensure broad representation of interested experts that meet the law's requirements. We welcome your suggestions through that process as well.

Sen. Murray

Foundations codifies aspects of OMB Statistical Policy Directive #1, namely that agencies take actions to protect public trust in government data and statistics. What actions does OMB plan to immediately undertake to codify these important requirements?

OMB agrees that taking actions to protect public trust in government data and statistics is critical. Recognized statistical agencies and units continue to be bound by Statistical Policy Directive No. 1: Fundamental Responsibilities of Federal Statistical Agencies and Recognized Statistical Units (SPD1) during this period, and as OMB indicated in M-15-03, their parent agencies continue to be obligated to support them in meeting these fundamental responsibilities.

OMB is prioritizing implementing immediate Evidence Act requirements and working to align them with existing infrastructure and processes. OMB will shift soon to working on the regulations for implementing the requirement to codify SPD1. Since SPD1 is relatively new, we will revisit the implementation information gathered from statistical agency heads in 2016 to learn which aspects of it remain useful and which need to be revised.

Sen. Sanders

Mr. Vought, the President's Budget proposes $98 billion in cuts to the Postal Service, but does not detail how you get to that figure.

a) What policy is being proposed to get to the $98 billion?

b) Is your proposal to weaken service standards or reduce the number of delivery days?

c) Does your proposal involve privatization of the Postal Service in whole or in part?

d) If so, what are you proposing to privatize?

The Budget proposes to reform the United States Postal Service (USPS) to allow the Agency to meet its financial and service obligations with business revenue, as intended, rather than a taxpayer-financed bailout. The Budget proposes reforms based on the recommendations of the President's Task Force on the United States Postal System. Operational reforms include changes to how rates are set for products that are deemed outside the universal service obligation; changes to delivery processing, mode, and frequency; increased use of private sector partners; more closely aligning Postal Service employee wages with those of other Federal employees; licensing access to the mailbox; and providing additional Government services at retail locations. In addition to Government-wide changes to health and pension programs that will reduce USPS operating costs, the Budget also proposes to re-amortize the payments to the Retiree Health Benefits Fund, including those payments missed in previous years, based on the Postal employee population at or near the retirement age.

The Postal Service needs to have the flexibility to set rates, processing standards, and delivery mode and frequency based on a determination of what will yield a sustainable operating model without interference from Congress.

While some international peers have successfully privatized their postal systems, it would be challenging to privatize the United States Postal Service in its current money-losing form. As the Administration's reform and reorganization report of last summer notes, implementation of significant reforms are needed first. The Budget proposal does support increased use of private sector partners to reduce USPS's operating costs where there is a solid business case for doing so.

Sen. Sanders

In 2017, Secretary of Agriculture Sonny Perdue testified to Congress that the Supplemental Nutrition Assistance Program (SNAP) has been "a very important, effective program ... As far as I'm concerned we have no proposed changes ... You don't try to fix things that aren't broken."

a) Why, then, is the President proposing a $220 billion cut to SNAP?

b) How does the President plan to address the increased hunger that would be caused by this cut to SNAP?

c) Have any of the individuals who developed this proposal ever personally received SNAP benefits?

SNAP provides important benefits to help families get through tough times, but despite a strong economy, too many participants are stuck on the sidelines and missing the opportunity to become self-sufficient. The Budget proposes commonsense work requirement and bold benefit alternatives that maintain our commitment to helping families in need while providing significant savings for taxpayers. First, we think it is reasonable to expect able-bodied adults participating in SNAP between 18 and 65 to engage in at least 20 hours of employment, training, or community service in order to receive benefits. Additionally, the America's Harvest Box proposal would combine the retail-based SNAP benefit with a USDA food package provided directly to households. States will have substantial flexibility in designing the delivery systems and expanded opportunities for public/private partnerships to help prevent and reduce hunger. We also think SNAP can do a better job at targeting benefits to the neediest households and that States can operate the program more efficiently and effectively.

Sen. Sanders

Eight out of ten local Meals on Wheels programs receive federal funding. One out of four Meals on Wheels programs relies on funding provided by the Community Development Block Grant (CDBG) funding. The President's Budget eliminates CDBG

One out of ten Meals on Wheels programs relies on funding provided by the Community Services Block Grant (CSBG). The President's Budget eliminates the CSBG.

One out of ten Meals on Wheels programs relies on funding provided by the Social Services Block Grant (SSBG). The President's Budget eliminates the SSBG.

Why is the President proposing a funding cut for Meals on Wheels programs?

The vast majority of Federal funding for senior nutrition programs, including home delivered meal services such as Meals on Wheels, comes from HHS's Administration for Community Living (ACL). The Budget maintains funding for Older Americans Act (OAA) senior nutrition programs at the 2019 Enacted level. It should also be noted that the majority of funding for Meals on Wheels comes from non-Federal sources.

Both the Community Services Block Grant (CSBG) and the Social Services Block Grant (SSBG) are broad-based grants that States and local agencies can use for a wide variety of purposes, of which home delivered meals for seniors is one. However, neither program is significantly dedicated to these services. In FY 2016, the most recent year for which data are available, less than 1% of all SSBG expenditures were for home-delivered meals. While 7% of CSBG funding in FY 2015 was used for nutrition services, this category includes many other services besides home-delivered meals for seniors.

Like CSBG and SSBG, the Community Development Block Grant (CDBG) provides formula funds to State and local grantees, but CDBG can support an even wider range of community and economic development activities. Only a very small amount of CDBG funding is used for Meals on Wheels – 0.01% to 0.02% based on HUD reporting. The overwhelming proportion of CDBG funds are used for housing rehabilitation, infrastructure and public improvement.

The Budget proposes to eliminate SSBG because it lacks accountability and performance measures and funds services that are funded by other Federal, State, and local programs. Similarly, the Budget proposes to eliminate CSBG because it funds services that are often duplicative of other funding sources and is allocated in a manner that does not incentivize performance. In addition, for grantees that receive CSBG funding, CSBG makes up only 5% of their total funding on average and grantees receive funding from a variety of other Federal, State, local, and private sources. The Budget proposes to eliminate CDBG because funds are not well-targeted to the neediest populations and the program has not demonstrated a measurable impact on improving communities. In a constrained budgetary environment, the Budget makes difficult choices and prioritizes funding for programs that are proven to be effective and accountable, and these programs are unable to adequately demonstrate their effectiveness.

Sen. Sanders

The President's Budget proposes significant cuts to child nutrition programs. What does the President have against feeding hungry children?

The Budget does not propose any changes to any individual child's eligibility for free or reduced price school meal benefits. Instead, the Budget proposes to fix two policies that allow ineligible children from higher income households to receive free meal benefits. First, the Budget would allow local districts to take a closer look at more household applications for free or reduced price meals, and verify the information provided by the household, which can help prevent and reduce improper payments in the school meal programs. Children will continue to receive the benefits they are eligible for as the information on their household application is correct and properly verified.

Additionally, the Budget closes a loophole in Community Eligibility (CEP) that allows districts to group high-income schools with high-poverty schools and serve free meals to all students, including children from high-income households. Children attending schools excluded from CEP would still be able to receive free or reduced price meals if their household is determined eligible for these benefits through the traditional direct certification or application procedures. This proposal prevents ineligible children from receiving free meals simply because there is a low-income school in the same district.

Sen. Sanders

21st Century Community Learning Centers (21st CCLCs) provide academic enrichment opportunities during non-school hours, particularly for students from high-poverty and low-performing schools. In the 2016-2017 school year, 21st CCLCs provided funding for 9,592 centers and served over 2 million students and participants.

In addition to more than 100,000 employees, the program is run with the help of approximately 36,000 unpaid volunteers (community members and college students) nationwide to support students, many of whom also have special needs.

In the 2016-2017 school year, states reported that 68.1 percent of elementary school 21st CCLC students and 66.3 percent of middle and high school students showed improvement in homework completion and class participation, and 61.2 percent of elementary school students and 58.8 percent of middle and high school students showed improved behavior. Moreover, 25 of the 54 states and territories reported an improvement in the math grades of students who participated in 21st CCLC.

a) Explain in detail how eliminating programs like 21st CCLCs will not further disadvantage students and communities across the country that are already underserved and that rely on these programs to help students meet state and local standards in core academic subjects?

b) Explain in detail where current participants of the 21st CCLCs will be able to access alternative high-quality, successful academic support for low-income, hard-to-serve students within their communities, and where over 100,000 employees will find new employment if the 21st CCLC program is eliminated?

The President's fiscal year 2020 Budget promotes fiscal discipline by eliminating programs at the Department of Education without a proven track record of improving student outcomes. Afterschool programs supported by 21st Century Community Learning Centers (21st CCLC) funding are not, on the whole, helping students meet challenging academic standards. For example, in 2017, the most recent year in which data is available, only 25 and 19 percent of program participants improved from not proficient to proficient or above on State assessments in reading and mathematics respectively. Additionally, student improvement in academic grades was limited, with States reporting higher math and English grades for less than half of regular program participants. Furthermore, in the 2016-2017 academic year, nearly half of participating students attended a center for fewer than 30 days.

Given the program's lack of data demonstrating improved student outcomes and low student attendance rate, the Administration does not believe 21st CCLC is generating the benefits commensurate with an annual investment of more than $1.2 billion in Federal education funds. However, states and districts may continue to provide students with before- and after-school enrichment activities with other Federal, State, local or private funds including the $16 billion Title I Grants to Local Educational Agencies program or the Child Care and Development Fund.

Sen. Sanders

Mr. Vought, in your written testimony, you attacked the Job Corps program as "ineffective," "poorly managed," and a "failure."

a) Around 20 percent of Job Corps student slots are currently not being utilized. Not serving as many students as possible increases the cost per student and is at odds with Congressional intent and the mission of Job Corps.

• Please share the two most recently completed Geographic Assignment Plans required by Sec. 145(c) of P.L. 113-128 as well as detailed information on any new efforts being made to increase enrollment in the program.

b) Recent Job Corps recruitment contracts make 40 percent of recruitment budgets contingent on 100 percent of enrolled students remaining in the program for 90 days. Yet, the Department's own internal goal per Sec. 159(c)(2) of P.L. 113-128 is that 85 percent of students be retained for 90 days and last year only 72 percent of students remained in the program for at least 90 days. This suggests the 100 percent goal is unrealistic.

• Why do Job Corps recruitment contracts set this seemingly unrealistic goal? • Why do these contracts utilize a structure that could, by design, lead to cascading failure with respect to recruiting and enrolling sufficient Job Corps students to maintain full capacity?

c) According to the Department of Labor Inspector General, the Department of Labor has allowed appropriated Job Corps funding to expire and/or has violated the bona fide needs rule and Antideficiency Act during multiple program/fiscal years.

• Please provide a full accounting for Job Corps' FY/PY 2018 funds as of March 31, including any funding that has not yet been disbursed and how this funding will be spent.

The Office of Management and Budget would defer these specific program questions concerning contract structure and student enrollment and recruitment to the Department of Labor. We do agree that under-enrollment in funded centers and student dropout rates are among the many problems this program is facing.

With respect to your question about funding, of Job Corps funds available for PY 2018, the Department has incurred $1.285 billion in obligations as of March 20, 2018. OMB defers to the Department of Labor to answer more specific questions regarding Job Corps' spending plans for the remainder of PY 2018.

Sen. Whitehouse

Last April, CBO estimated the ten-year cost of the Trump Tax cuts at about $2 trillion. Despite the President's request for over $2 trillion of cuts to Medicare and Medicaid, his budget maintains trillion dollar surpluses over the next few years, and fails to balance within the budget window.

a. Would you acknowledge the tax bill has increased the deficit and made it more difficult to balance the budget?

b. Revenues under the President's budget would average 17% of GDP over the next decade, well below the 20% of GDP in 2000, when there was a budget surplus prior to the Bush tax cuts. Meanwhile, your 17% estimate is predicated on 3% growth projections, well below the 1.7% that CBO predicts. If actual growth is closer to CBO's estimate, revenues would fall even farther. Why are your growth projections so different from CBO? What affect would lower GDP growth have on revenues and annual deficits?

We anticipate that the revenue loss will be offset by revenue gains resulting from the Administration's economic agenda, including TCJA's positive and sustained impact on economic growth.

The most significant difference between the Administration and CBO forecasts is that CBO assumes current law, while the Administration forecast assumes the enactment of the policies included in the President's Budget. This means that future growth enhancing policies such as labor market reform, infrastructure investment and intelligent regulation will become law, and stimulate the US economy to continue the recent pattern of high growth.

A second difference between the Administration and CBO forecasts is the estimated effect of the recent tax legislation, especially as it pertains to investment. The TCJA contained many provisions that will encourage businesses to provide paid family and medical leave; increase business assets to make their employees more productive; and bring home money kept abroad, allowing it to be used to reward employees, investors, and useful enterprise. The Administration believes, based on a review of the research literature, that businesses will invest more in response to the changes than the CBO predicts. The amount of investment seen in the first year of TCJA supports this assumption, as nonresidential fixed investment increased by an average of 7.2 percent in the four quarters ending 2018:Q4, 5.4 percentage points higher than in 2016. This large increase in investment will increase growth in the years to come.

The President's Budget includes an analysis of how changes to a given subset of macroeconomic variables affect annual deficits. The results of these analyses can be seen in Table 2-4 of the *Economic Assumptions and Overview* chapter of the *Analytical Perspectives* volume of the 2020 Budget.

In this analysis, we find that 1 percent lower GDP growth that is sustained through 2029 will reduce budget revenues and increase outlays. High economic growth, which we have seen under the Administration, is crucial to our fiscal health. This is why Congress should enact the policies and proposals included in the President's Budget.

Sen. Whitehouse

The President's budget seeks to reduce health care expenditures by repealing the Affordable Care Act and cutting $1.5 trillion in Medicaid funding over 10 years, proposals that would hurt millions of Americans. This approach actually hurts Americans twice: by drastically cutting programs on which they depend and leaving in place an inefficient health care delivery system that wastes hundreds of billions of dollars a year.

CBO projects federal health spending over the next decade will be $4.7 billion lower than its 2010 estimates extrapolated out to this budget window. While a portion of this difference relates to the repeal of the individual mandate and other policy changes, much of it appears to result from a sustained slowdown in health spending growth in recent years. As CBO noted in its recent budget outlook, "The reasons for that slowdown are not clear."

I think the slowdown is evidence that structural changes in the delivery of care - many of which were ushered in by the Affordable Care Act - have taken hold and we are seeing lower federal spending as a result. For example, Coastal Medical in Rhode Island, a Medicare Accountable Care Organization, has saved Medicare over $30 million over five years, and has done so while increasing services and improving the quality of care their patients receive.

a. Do you agree that ACOs and other alternative care models have the potential to reduce federal health expenditures?

b. Why does the President's budget drastically cut Medicaid and repeal the Affordable Care Act as its first response to addressing health care spending instead of taking the more responsible approach of lowering spending through delivery system reforms?

c. What is the administration doing to better understand the causes of the sustained slowdown in federal health care spending?

a. Through the statutory Medicare Shared Savings Program and Center for Medicare and Medicaid Innovation (CMMI) demonstration authority, the Administration continues to develop and implement alternative payment and care delivery models with the goal of improving care quality and reducing government costs. CMMI produces public evaluation reports on each model, which are available on their website: https://innovation.cms.gov/.

b. The ACA took control away from the states by creating a one-size-fits-all federal program that provides more than what individuals may need or want. Additionally, the ACA's Medicaid expansion has cost significantly more than expected. For example, in 2015, Actuaries from the Centers for Medicare and Medicaid Services increased their estimates of federal spending for the average Medicaid expansion enrollee in that year by 50 percent. Overall, the cost per newly insured individual is far more than was expected. The Administration is committed to empowering States and consumers to reform healthcare and believes that states are best suited to address the unique needs in their communities. We propose market-based health care grant funding to States, acknowledging that States know best how to design delivery systems that work for their citizens, while also protecting people with pre-existing conditions. In addition, the Budget empowers States to design State-based solutions that prioritize Medicaid dollars for the most vulnerable and support innovation.

c. The administration is actively working to address the healthcare costs and needs of the country through expanded choice and competition. This administration has provided additional options for healthcare coverage, and strongly supports the expansion of Health Savings Accounts. These accounts can help individuals take charge of, and be more aware of, their healthcare spending.

Sen. Whitehouse

A recent report by insurers suggests that should we fail to limit our carbon emissions, losses from extreme weather events and sea level rise will more than double over the next 30 years. In 2017, the federal government spent over $140 billion in disaster relief due to hurricanes and wildfires.

a. Do you believe it is economically sustainable to have to spend hundreds of billions of dollars per year on disaster relief?

Freddie Mac and many others are warning of a coastal property crash due to rising sea levels. The Bank of England and many economists are warning of a carbon bubble resulting from stranded fossil fuel assets as the global economy transitions to renewable energy. Both of these economic risks could result in total losses equal to or greater than the 2008 financial crisis, which of course had a devastating impact on the economy, on individual Americans who lost their jobs and homes, and on the federal budget.

b. Please explain how this administration's efforts to undo rules limiting carbon pollution make any economic sense given the serious economic risks of climate change.

a. Ensuring that communities are prepared for disasters is a high priority for this Administration. It is increasingly apparent that communities need to be better prepared and must better manage the risks that they face. The Budget places a high priority on mitigation and preparedness efforts for communities. For example, the Budget proposes to redirect funding from poorly measured formula grants to a competitive National Priorities Grant program that will prioritize Federal efforts to increase the resilience of high-risk communities. The Budget also continues to support FEMA's Flood Mapping effort to update our risk assessments of Floodplains and inform communities of the risks they face from flooding. Once these maps are updated, FEMA will be able to allocate funding from Flood Mitigation Grants more effectively to maximize the risk that we buy down. FEMA also uses Hazard Mitigation Grants to rebuild communities in a way that increases their preparedness for and mitigates the damages from future disasters. Finally, the Pre-Disaster Mitigation program is available for FEMA to proactively buy down risk in vulnerable communities. The Budget also funds early-stage clean energy research and development, laying the foundation for a strong economy with cleaner energy. The Budget continues to fund climate-related scientific research through the US Global Change Research Program, which is coordinated across 13 federal agencies. These investments will help keep America sustainably safe and competitive.

b. In order to set appropriate standards to mitigate greenhouse gas emissions, we are moving forward with regulatory actions such as the Affordable Clean Energy (ACE) proposal and the Corporate Average Fuel Economy (CAFE) Safer Affordable Fuel-Efficient (SAFE) Vehicles proposal, which we intend to both finalize this calendar year. EPA's ACE proposal would return the authority to states to develop plans to address greenhouse gas emissions and is estimated to reduce CO2 emissions in 2025 by between 13 to 30 million tons from projected levels upon repealing the 2015 Clean Power Plan. In addition, the proposed SAFE rule's preferred alternative was estimated to provide between $7-10 billion annually in net benefits to society and save up to 1,000 lives.

Mike Braun

Statement for the Record
From Senator Mike Braun
The President's Fiscal Year 2020 Budget Proposal
March 13, 2019
Senate Budget Committee

Today, the Committee is examining the President's newly released Fiscal Year 2020 Budget. The fiscal challenges facing the country are unsustainable. Debt held by the public is currently 78 percent of our Gross Domestic Product (or 4.2 percent). The country is headed toward trillion dollar deficits each year with no end in sight. Interest payments on our debt are projected to exceed military spending by 2024. What's more, if interest rates tick up just one percent above projections, interest costs would increase by $2.5 trillion over a decade. If Congress fails to do something about it, the debt could jeopardize our credit rating, investor confidence, and our status as the world reserve currency.

Overall, I applaud the President's goal of reducing debt relative to our Gross Domestic Product. I also applaud the President for offering a reasonable timeframe to balance our budget, promising initiatives to slow the cost of healthcare growth, and taking real steps to reform several spending programs. The President's budget proposal is a good first step in these negotiations, but falls short of where I believe we must be to put the country on solid financial footing. We are never going to fix our spending problem if elected officials in Washington prioritize the protection of their own pet projects. Any honest conversation must start with across the board cuts that are administered in a responsible way.

To emphasize—Washington doesn't have a revenue problem, it has a spending problem. The Congressional Budget Office has demonstrated that it would require us to raise taxes by 33 percent on all Americans to plug the deficit gap. CBO also stated that if we taxed the top two tax brackets at 100 percent, we still wouldn't eliminate the deficit.

Further, a study but the Government Accountability Office found that by 2015, 86 percent of the federal government spending was on autopilot. That is, 86 percent of government funding was entitlement funding that did not require annual approval from Congress through its annual appropriations process. Entitlement spending is increasing seven percent year-on-year with no end in sight. This trend toward a reliance on entitlement spending shirks our responsibility as elected officials to make the hard but necessary decisions on spending.

We must remove programs from mandatory spending that need to be reviewed on an annual basis. In addition, we need to add commonsense business practices to rein in healthcare spending. We must curb waste, fraud and abuse. We must look for inefficiencies and duplication of services to make sure Americans are getting real value out of their tax dollars they've entrusted us to spend.

Lastly, Congress must adhere to the same budgeting principles as the families we represent. Since 1974, Congress has created several processes to pass a budget on time and spending that stays within our means, but somehow each year Congress has managed to do everything it can to work around that framework and nothing to address these looming fiscal calamities. Congress has raised the spending caps three times since the Budget Control Act of 2011 was put in place, with 2018 serving as the biggest belly-busting budget of them all.

I look forward to discussing the President's budget with colleagues on the Senate Budget Committee, and to search for meaningful ways to create better taxpayer value in entitlement spending, healthcare and addressing America's dire infrastructure needs.

Patty Murray

Budget Committee Hearing—President's Fiscal Year 2020 Budget Request
OMB Acting Director Russell Vought
Statement for the Record
Senator Patty Murray
Wednesday, March 13, 2019

Thank you Chairman Enzi.

As a former Chairman of this committee, I believe budgets matter – as both a statement of our values and priorities and as a blueprint for how we plan to govern and complete the work we were sent here to do by our constituents.

I am deeply disappointed but not surprised that the budget before us from President Trump fails miserably on both counts.

Its values and priorities are broken and misguided – massive tax breaks for the wealthiest Americans and biggest corporations that it finances with massive cuts to education, health care, worker security, environmental protections, and infrastructure that help middle class families.

And it would inject more chaos and disruption into the health care system by again proposing to jam Trumpcare through Congress and rip protections away from hundreds of millions of people with pre-existing conditions. I hope my Republican colleagues on this committee listen to their constituents and reject that flawed and harmful proposal.

As a governing document, it is an absolute nonstarter. President Trump, Congress isn't going to fund a border wall – and, despite what you promised on the campaign trail, the government of Mexico isn't going to pay for that wall either. Unfortunately, everyone but you, Mr. President, seems to understand that reality, as your budget proposal inexplicably doubles-down on your 35-day failure from earlier this year by demanding more money again for the wasteful wall.

Mr. Chairman, a fundamental role of the budget process in helping govern our work is to reach consensus on a number for the Appropriations Committee each year. Yet again, the President's budget falls miserably short on this front.

When I was Chairman in 2013, Democrats passed a budget to end sequestration, increase investments equally in defense and nondefense priorities, and accomplish all of this without gimmicks and in a responsible manner. That took leadership. It was not easy – I remember passing that budget on the Senate floor at 5 am on a Saturday and then having to walk down to the floor 22 times before Senate Republicans would agree to allow us to go to conference with the House.

So, I know this is hard – but I also know it can be done.

Mr. Chairman, I have read your comments in the press about putting together "a realistic budget, not a gimmick budget." I support that sentiment and hope it proves true. But I want to be clear that a budget – like the one proposed by President Trump – that completely ignores the principles that went into the three bipartisan budget agreements passed by Congress is, in my view, neither realistic nor credible – and not worth the time of this committee.

It is not realistic to propose abandoning parity and ignore the needs of middle-class families, and think you will reach an agreement on a budget deal. And it is also not realistic to rely on a device that Mick Mulvaney himself has said is a "gimmick" to circumvent the process to fund defense. That won't work – and we have the experience of three budget deals to prove it.

But, then this is an administration that has never shown any capacity for understanding how Congress works or how the budget process works. Frankly, I think it says a lot about this administration that Mr. Mulvaney, who rose to prominence as a member of the Tea Party, shrugs his shoulders now and says "nobody cares" about the deficit and would prefer to spend his time working in any position other than the one he was confirmed for.

Mr. Chairman, we can and must do better.

Finally, I will be submitting separately some questions for the record on the Foundations for Evidence-Based Policymaking Act, a bill I coauthored with former Speaker Paul Ryan that was signed into law in January. OMB has a very important role in implementing Foundations – and I appreciate the Budget highlighting the importance of Foundations as part of the President's Management Agenda. I look forward to reviewing Mr. Vought's answers to my questions regarding OMB and the administration's implementation of this new law.

THE DEPARTMENT OF DEFENSE FISCAL YEAR 2020 BUDGET REQUEST

TUESDAY, APRIL 9, 2019

UNITED STATES SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committee met, pursuant to notice, at 3:00 p.m., in Room SD–608, Dirksen Senate Office Building, Hon. Michael B. Enzi, Chairman of the Committee, presiding.

Present: Senators Enzi, Grassley, Perdue, Braun, Scott, Kennedy, Wyden, and Van Hollen.

Staff Present: Elizabeth McDonnell, Republican Staff Director; and Ethan Rosenkranz, Minority Senior Budget Analyst for National Defense.

OPENING STATEMENT OF CHAIRMAN ENZI

Chairman ENZI. Good afternoon, and welcome to the Senate Budget Committee's hearing on the Department of Defense budget request for fiscal year 2020.

We are joined by David Norquist, who is the Comptroller and Chief Financial Officer of the Department of Defense. Today he is also performing the duties of the Deputy Secretary of Defense.

Before we hear from our witness, let me first emphasize that there is no greater duty than defending our Nation from the threats that face us abroad. But one of the gravest threats to our country is our growing fiscal imbalance, which, if left unaddressed, could have long-term implications for our ability to provide adequately for our national defense.

Our national debt stands at more than $22 trillion. The Congressional Budget Office projects that if current laws remain unchanged, deficits in excess of $1 trillion will return by 2022, establishing a new norm, much of it caused by mandatory spending. Lawmakers have known this day was coming for a long time as an aging population and rising health care and interest costs have put more pressure on the Federal budget. Getting a handle on our fiscal situation means that all aspects of the Federal budget must be carefully scrutinized, including defense spending.

This Committee recently heard from the Acting Director of the Office of Management and Budget on the President's fiscal year 2020 budget request. As part of the request for $750 billion in defense spending, the administration proposes a large increase in overseas contingency operations funding, which, as my colleagues know, is not constrained by statutory budget caps. I look forward to learning more from our witness about this request and how the

Department determined the total level of resources necessary for national defense activities.

Recently, the Senate Budget Committee reported out its fiscal year 2020 budget resolution, which adheres to the Budget Control Act caps for fiscal year 2020 and 2021, as required by law, and includes $67 billion in funding for overseas contingency operations in fiscal year 2020. Our budget acknowledges the looming funding cliff between the fiscal year 2019 spending levels and the fiscal year 2020 statutory cap levels. Given the likelihood that Congress will act to raise the statutory caps, as it has three times previously, our budget does include provisions to accommodate a fiscally responsible cap agreement to provide additional defense resources up to $750 billion, the spending total requested by the President.

As I have mentioned before, any such deal must include permanent mandatory spending reforms as offsets. I also believe cap negotiations should base funding decisions on actual needs, not on an arbitrary insistence on parity between defense and nondefense spending. I understand the budget request before us today aims to ensure the readiness of our armed forces, support technological innovation to help reach and maintain a military advantage, invest in cyber and space capabilities, and instill greater business performance and accountability enterprisewide. I welcome discussion on these priorities.

As a Senator representing Wyoming and the F.E. Warren Air Force Base, one of only three strategic missile bases located inside the United States, I remain concerned about the state and future of our nuclear triad and strategic missile deterrent. I look forward to discussing the status and future of these issues this afternoon.

Last year, this Committee heard from our witness about the status and outlook for the Pentagon's departmentwide consolidated audit. While not resulting in a clean opinion, I am pleased the Department completed its first ever departmentwide audit in fiscal year 2018. Our Committee would like an update on the status and timeline for when Congress can expect a clean audit. I will also ask for an update on the efforts to fix issues discovered during the audit related to security modernization and interoperability issues with the Department's financial tracking information technology programs.

It is my hope that the lessons that are learned from the audit will translate into improved business operations and financial management, better fiscal decisionmaking, and more effective and efficient operations.

Congress has a duty to our brave servicemen and -women as well as hardworking taxpayers to ensure that the hundreds of billions of dollars appropriated annually to provide for our defense is well spent.

I thank our witness for joining us today and look forward to continuing our discussion.

Senator Sanders will not be able to be here. Since there is no one else from that side present, we will go ahead and go to the testimony of the witness.

As I mentioned, our witness this afternoon is David Norquist, who is the Comptroller and Chief Financial Officer for the Department of Defense, and today he is performing the duties of the Deputy Secretary of Defense. Mr. Norquist was sworn in as the Under Secretary of Defense (Comptroller) and Chief Financial Officer on June 2, 2017, and serves as the principal adviser to the Secretary of Defense on all budgetary and financial matters, including the development and execution of the Department's annual budget of more than $680 billion. We appreciate your work and look forward to receiving your testimony on the Department's budget request for fiscal year 2020.

For the information of colleagues, Mr. Norquist will take up to 7 minutes for his opening statement, and that will be followed by questions under the usual procedure.

Mr. Norquist.

STATEMENT OF THE HONORABLE DAVID L. NORQUIST, PERFORMING THE DUTIES OF THE DEPUTY SECRETARY OF DEFENSE, UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF DEFENSE

Mr. NORQUIST. Thank you, Mr. Chairman.

Chairman Enzi, distinguished members of the Committee, I appreciate the opportunity to testify in support of the President's fiscal year 2020 budget request for the Department of Defense.

I would like to note that this is not my first time in front of this Committee. Last year I testified on the DOD's first departmentwide full-scope financial statement audit, and I would be more than happy to answer any questions you might have. We have since completed that audit and have already initiated our second.

I would like to also thank the members of this Committee for your support for the Department of Defense. I look forward to working with you to ensure the men and women of the Armed Forces have the resources they need to execute their mission.

The fiscal year 2020 defense budget is a strategy-driven budget. As described by the National Defense Strategy, the erosion of our competitive edge against China and Russia continues to be DOD's "central problem," and to preserve peace we must be prepared for the high-end fight against near-peer competitors. While counterterrorism will continue as a core challenge, in the future, conventional conflicts with other nations will likely be radically different than the short conventional wars we have fought since the collapse of the Soviet Union.

The world has changed dramatically since then. After the first Gulf War, the United States reduced defense investments and restructured its military to fight violent extremist organizations, while China and Russia studied the capabilities that gave the United States overmatch in Desert Storm and built militaries to counter them, dramatically reducing our advantage.

In recent years, China has fielded its first aircraft carrier; demonstrated the ability to shoot down satellites; continued to field short-, medium-, and long-range missiles; successfully tested hypersonic glide vehicles; and modernized and expanded its nuclear capabilities.

As these developments indicate, wars of the future will be waged not just on the land, in the air, and at sea, but also in space and cyberspace. For example, we must anticipate multidimensional attacks not just against our military forces, but on critical infrastructure at home.

In order to deter these future conflicts, we need a military capable of winning them. The National Defense Strategy is our road map to get there.

At the beginning of 2017, the Department had suffered from unstable budgets and devastating sequestration cuts that had eroded readiness and exacerbated our challenges. Over the past 2 years, this administration, with Congress' support, has made investments to undo this damage, and we are already seeing significant benefits to readiness across the military services. As we move forward, we must work together to protect these gains while building a military to meet the challenges of the future.

The President's 2020 budget request, $750 billion for national security, with $718 billion for the Department of Defense, executes the NDS by increasing our investment in four areas: first, sustaining our force and building on our readiness gains; second, modernizing capabilities in the air, maritime, and land domains, including $14 billion to modernize and recapitalize all three legs of our nuclear triad, and $13.6 billion for missile defense; third, developing our emerging space and cyber warfighting domains to include increasing our investment in space by 15 percent and in cyber by 10 percent; and, fourth, accelerating innovation and technology such as artificial intelligence, hypersonics, autonomy, and directed energy.

It is the largest RDT&E request in 70 years, the largest shipbuilding request in 20 years. It includes a 3.1-percent military pay raise, the largest in a decade, and it increases our total end-strength by roughly 7,700 servicemembers—all this with defense spending remaining near a record low of 3.1 percent of GDP, down from 4.5 percent in 2010, and at 15 percent of the Federal budget, down from 21 percent in 2007.

The stakes are clear. If we want peace, our adversaries need to know there is no path to victory through fighting us. Military superiority is not a birthright. Each generation must actively sustain it. I appreciate your support, and I look forward to answering your questions.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Norquist follows:]

Senate Budget Committee
Written Statement for the Record
David Norquist
Performing the Duties of the Deputy Secretary of Defense
9 April 2019

Chairman Enzi, Ranking Member Sanders, distinguished members of the Committee, I appreciate the opportunity to testify in support of the President's FY2020 budget request for the Department of Defense.

I'd like to note that this isn't my first time in front of this Committee—last year I testified on the DoD's first Department-wide full scope financial statement audit—and I'd be more than happy to answer any questions you might have. We have since completed that audit and initiated our second.

I would also like to thank the Members of this Committee for your support for the Department of Defense. I look forward to working with you to ensure the men and women of the Armed Forces have the resources they need to execute the mission.

The FY2020 defense budget is a strategy driven budget. As described by the National Defense Strategy (NDS), the erosion of our competitive edge against China and Russia continues to be DoD's "central problem" and to preserve peace we must be prepared for the high-end fight against near-peer competitors. While counter-terrorism will continue as a core challenge, in the future, conventional conflicts with other nations will likely be radically different than the short conventional wars we've fought since the collapse of the Soviet Union. Since the 1990s, conventional opponents have typically lacked a Navy or meaningful Air Force, much less space or cyber capabilities. As a result, these conventional conflicts were short and lopsided. For example, Desert Storm took less than 45 days.

To assume future conventional wars will be like those wars would be a tragic mistake. Desert Storm occurred at the pinnacle of our military advantage, and the world has changed dramatically since then. After the Gulf War, the United States reduced defense investments and restructured its military to fight violent extremist organizations, wars that consumed the readiness of a smaller force and diverted resources to current operations instead of modernization. The Department of Defense cut force structure by 30 to 50 percent and reduced research and development in cutting-edge capabilities.

In contrast, China and Russia have spent the last thirty years studying the capabilities that gave the United States overmatch in Desert Storm and building militaries to counter them, dramatically reducing our advantage. In recent years, China has fielded its first aircraft carrier; demonstrated the ability to shoot down satellites; continued to field short, medium, and long range missiles; successfully tested hypersonic glide vehicles; and modernized and expanded its nuclear capabilities, to name just a few examples. Meanwhile, Russia is modernizing its nuclear triad; fielding ground-based directed energy laser weapons; pursuing six new strategic weapons systems including hypersonic systems; and developing counterspace capabilities.

As these developments indicate, wars of the future will be waged not just in the air, on land, and at sea, but also in space and cyberspace. For example, we must anticipate multi-dimensional attacks not just against our military forces, but on critical infrastructure at home alongside space-based attacks designed to take down satellites and disrupt our communication systems and the Global Positioning System (GPS) we rely on for everything from navigating our ships and guiding our munitions to setting time globally.

In order to deter these future conflicts, we need a military capable of winning them. The National Defense Strategy is our roadmap to get there. It has three lines of effort: build a more lethal force, strengthen alliances and attract new partners, and reform the Department to include the first Department-wide full scope financial statement audit.

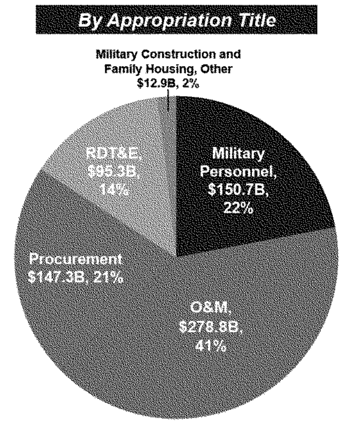
At the beginning of 2017, the Department had suffered from unstable budgets and devastating sequestration cuts that had eroded readiness and exacerbated our challenges. Over the past two years, this Administration, with Congress's support, has made investments to undo this damage—and are already seeing significant benefits to readiness across military services. As we move forward, we must work together to protect these gains while building a military to meet the challenges of the future.

The President's budget request for Fiscal Year 2020 is $750 billion for national security, with $718 billion for the Department of Defense. To put this in context, this Committee has oversight over a $4.7 trillion budget of which Department of Defense budget authority represents just 15%.

Department of Defense Budget

$ in billions	FY 2017 Actuals	FY 2018 Actuals	FY 2019 Enacted	FY 2020 Request
Base	523.5	599.6	616.1	544.5
Overseas Contingency Operations	82.5	65.2	68.8	66.7
OCO for Base	--	--	--	97.9
Emergency	--	5.8	--	9.2
Total	**606.0**	**670.6**	**685.0**	**718.3**

Of the $718 billion, $545 billion would go towards base funding and of the Overseas Contingency Operations funds, $67 billion would go to direct war and enduring requirements—similar to the amount we spent last year—while $98 billion would fund base requirements. $9.2 billion would fund emergency construction, which includes: an estimated $2 billion to rebuild facilities damaged by Hurricanes Florence and Michael; up to $3.6 billion to replenish funding for any military construction projects should the Acting Secretary decide to use such funds to undertake border barrier projects under the emergency declaration this year; and $3.6 billion in case additional emergency construction is needed to support use of the Armed Forces under the emergency declaration.



The budget is also broken down into five categories based on use—military personnel, operations and maintenance, procurement, research and development, and military construction.

With respect to military personnel, this budget increases end-strength by roughly 7,700 service members over FY2019 projected levels and includes a 3.1 percent military pay raise, the largest in a decade.

With respect to operations and maintenance, it funds readiness to executable levels across the Military Services, including an additional $1.7 billion for Armored Brigade Combat Teams critical training and infrastructure improvements and $1.2 billion in core Air Force readiness programs such as depot maintenance, contractors logistics support, and flying hours.

With respect to procurement, the FY2020 budget includes the largest ship-building request in 20 years and a $57.7 billion investment in modernizing our air capabilities which includes 4th and 5th generation aircraft and extended range missiles.

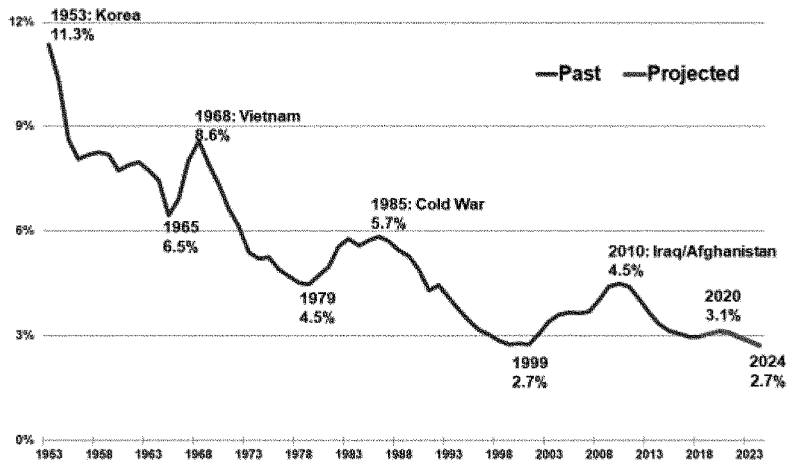
$95 billion for research and development is the largest RDT&E request in 70 years, and includes $3.7 billion for unmanned/autonomous systems, $927 million for artificial intelligence, and $2.6 billion for hypersonics.

Finally, within military construction, we are investing in critical infrastructure and key facilities to include $6.1 billion for readiness improvements and $200 million for military and family housing construction associated with critical life, safety, and health repairs.

Other key initiatives include $14 billion to modernize and recapitalize all three legs of our nuclear capabilities, $13.6 billion for missile defense modernization, and the establishment of the United States Space Force.

Although defense spending is sizeable, it is at near record lows as a percentage of the economy and federal spending. Defense spending is now at 3.1% of GDP, down from 11.3% in 1953 and 4.5% in 2010—and at 15% of the federal budget, down from 52% in 1957 and 21% in 2007.

Defense Spending as a % of Gross Domestic Product (GDP)



Source: National Defense Budget Estimates for FY 2019 (Table 6-13); historical and projected GDP from both the FY 2019 and FY 2020 Budget of the U.S. Government.

DoD funding is near a record low as a percent of our economy

The FY2020 budget is about laying the foundation for transformational change—and it executes the NDS by reprioritizing resources through reform and increasing investments in four key areas. First, it invests in the contested space and cyber warfighting domains, increasing our allocations in space by 15% and in cyber by 10%. Second, it modernizes capabilities in the traditional air, maritime, and land domains. Third, it accelerates innovation in emerging technologies such as artificial intelligence, hypersonics, autonomy, and directed energy. Finally, it sustains our forces and builds on our readiness gains. As a result of these investments, we will field a Joint Force that is flexible, adaptable, and capable of operating in an environment that is increasingly complex and contested.

The stakes are clear. If we want peace, our adversaries need to know there is no path to victory through fighting us. Military superiority is not a birthright. Each generation must actively sustain it. I appreciate your support and look forward to answering your questions.

Thank you.

Chairman ENZI. Thank you. We appreciate you being here, and now we will turn to questions, and we will do that in the usual format of those who were here at the sound of the gavel, but alternating between the two sides. And I will defer my questions until later because I will be here for the whole hearing.

Senator Perdue.

Senator PERDUE. Well, thank you, Mr. Chairman, and I guess Mr. Secretary today. Thank you for being here again.

First of all, I want to call out that under your—some of your predecessors had told this Committee over the last few years that an audit was virtually impossible because they did not have the system, it was too large, it was too complex, and, therefore, that was why over 30 years we have not had a DOD audit. And I want to applaud you guys and your teams that in November of last year, you gave us the first ever audit in the history of the United States, so thank you for that. And in the findings—and I have two questions related to that—it is evident from that 2018 audit that there are some deficiencies, identified, you know, in various parts of the defense organization, but some of these include failure to monitor sensitive user activities, access rights not being restricted based on work responsibilities, user access not being terminated in a timely fashion after employees left the organization, and lack of controls to identify unintentional unauthorized changes to application or database.

Some of these are not necessarily financially related, but they are security related, which is also included in the audit.

What efforts are you and your Department and the new CMO undertaking to address these deficiencies?

Mr. NORQUIST. So as you rightly point out, one of the advantages of the audit is that while it is focused on the financial, it extends well into our financial systems and our other business supporting system, logistics and others, and it was our single most common finding which related to IT systems. And of particular concern to us were those IT security ones that you have just described.

So what we are doing is working very closely with the CIO. We have regular meetings with each of the service CIOs as well as their financial management folks to go through the issues, the Notice of Findings and Recommendations, the NFRs, issued by the auditor to ensure that they have developed Corrective Action Plans and have come with tools to remediate them.

Now, not all systems are the same, so I look to the CIO and others to prioritize what of those vulnerabilities are the most serious and what require the most urgent action. But we are going to carefully track the closure of those and work with them to address those issues.

Senator PERDUE. Good. In that light, you have noticed in the report are a lot of short-fallings, and part of that is an outline of Corrective Action Plans, and they are developed to address the Notifications of Recommendations and Findings, NRFs and CAPs. The army right now has a ratio of one CAP for, I think, every 3.5, 3.3 NRFs, and the Navy has one Corrective Action Plan for every notification—or 1.7 Notification of Recommendations and Findings.

You know, as a business guy, I know it takes coordination, and this is a very complex organization. Give us an update on how that coordination is going between the services and your fight to eliminate the redundancies not only in expenditures but also in these corrective actions.

Mr. NORQUIST. So what we have done is we first set up a database in advance of the very first audit. One of the lessons learned I brought from being CFO at Homeland Security was it is going to be very hard to know progress if you do not track this. And so we set up a database at the very beginning where all of those findings, as you mentioned, are loaded into the database, provided to us by the auditor. So this is not our evaluation. It is their description of our challenge.

We got all the services to agree that we would record it there, and the services have begun recording their Correction Action Plans in that database.

Now, in some cases, you have one Corrective Action Plan for findings; in some cases, all the same findings need the same solution, so you have a combination.

What we have done in order to increase the efficiency in the Department is we will have a set of meetings just on the IT findings with all the services and their CIOs to look for what are the common issues, and segregation of duties, the ability to access is one of those cost-cutting challenges about user identification.

We have a second one just on facilities and inventory, the logistics aspect, and our Under Secretary's office for that comes and attends those meetings.

And we have a third on the pure financial, and each one of those is designed to get the right set of people in the room, identify common issues. The IG attends every one. They are always welcome to our meetings. What we are trying to do is find efficient solutions to these common cost-cutting challenges.

Senator PERDUE. Right. Thank you. I am almost out of time, but I would be remiss if I did not allow you to respond to this question. I think I know how you will respond. Continuing resolutions are the bane of the military. Over the last 45 years, we have had 187 continuing resolutions. The last 2 years we have not, and in the middle of recap and building our readiness, those 2 years have gone a long way in the DOD to help rebuild their readiness, which they were at all-time lows 2 years ago.

Can you help us understand in the Committee here—I know it does not have that much to do directly with the budget, but it does, because inherently built in here are additional costs that are incurred because traditionally we have had so many continuing resolutions. Can you speak to that and help us understand how damaging those are, continuing resolutions?

Mr. NORQUIST. Absolutely. One of the challenges you have with the continuing resolution is, first, you cannot do new starts and you cannot increase production quantities. So even when Congress has directed us, "Increase your investment in hypersonics, increase your production of this asset," we cannot.

One of the challenges—it used to be a lot of activity, a lot of those initiatives were started in the fall. So many CRs have occurred that a lot of those naturally move to the spring.

Senator PERDUE. Which is the beginning of the new fiscal year.

Mr. NORQUIST. Right, and so they have moved them 6 months, so effectively we have built in a 6-month delay. So even when we want to move out on a new technology, the system is now so used to waiting that it builds the 6-month delay in, and that is—telling the bureaucracy to go slow is not one of the messages we want to be signaling.

So when Congress enacts it on time, the stability that provides to military families to be able to understand and project, the stability it provides to a depot or facility that works on providing services where they get paid for that, all of those things have a benefit through the cost and efficiency of the Department, as well as the disruption it creates politically with Congress and everything else. But it really is a huge improvement, and it has been a major factor in our readiness.

Senator PERDUE. Yes, sir. Thank you.

Mr. NORQUIST. Thank you, Senator.

Chairman ENZI. Senator Wyden.

Senator WYDEN. Thank you very much, Mr. Chairman.

Mr. Chairman, thank you for holding this hearing. This is an important subject.

Mr. Norquist—I am just going to call you "Mr. Norquist" because I gather you have multiple titles now and Acting this and DOD Comptroller. Look, you have certainly exceeded your predecessors with respect to this audit situation. The Department under your management went under audit for the first time in its history. Good thing. As you know, I have been calling for this a long, long time. And, obviously, there is a long way to go here.

I asked you last year when Oregonians ought to expect clean opinions, and you said, "At least 10 years." Is that still your opinion?

Mr. NORQUIST. So I would clarify that by saying if you are looking—the Department's audit is broken into 24 pieces. Several of those already have clean opinions. I would expect others, Army working capital fund or others, to start to get clean opinions in the next 3 to 5 years.

The Department as a whole will not until every single organization does, so it may be faster than 10, but we are going to end up getting it at the rate of the slowest of those 24 audits, and that makes me cautious about predicting when the entire Department gets a clean opinion.

Senator WYDEN. So it would be fair to say you think a fair amount of the audit work will be completed in 3 to 5 years, but you are not going to go beyond that because of the fact that some parts of the Government are going to take longer?

Mr. NORQUIST. Correct.

Senator WYDEN. Okay. Why shouldn't the Congress withhold funding from parts of the military that fail to get clean audits more expeditiously?

Mr. NORQUIST. So I think the important thing is that the funding the Department receives should be based on the requirements, the size of the force that Congress thinks is appropriate for the mission we perform and the salaries to pay it. We believe that if the mission is increased, the funding should be increased. If the mission goes down, you do it accordingly.

The audit is a part of our responsibility to be good stewards, and we need to do that whether or not the budget is going up or down based on the military requirements.

Senator WYDEN. Now, you have had a year of audit data under your belt. In your view, what part of the Defense Department as of today has the furthest to go in terms of passing a clean audit?

Mr. NORQUIST. The furthest to go would be the three large services, and that is partly their size and their scope. And they have made progress, but they are the ones that are the furthest. The ones who made it over the line the soonest, for example, the Corps of Engineers already has a clean opinion, so if you see them, give them kudos. But the three services will probably take the longest.

Senator WYDEN. Boy, that is a pretty expansive territory. Can we narrow it a little bit to——

Mr. NORQUIST. Sure.

Senator WYDEN [continuing]. Get a sense of something—in other words, if I stood up at a town hall meeting this weekend where people ask me these kinds of questions, and I said I asked Mr. Norquist, and he has been constructive and positive, and he is working on this, which part of DOD has the furthest to go, and I said the three services, people would say, you know, what the heck does that mean, Ron? Can you give us a little bit more of a——

Mr. NORQUIST. So each of the services actually is broken into two audits, so the Army has a general fund and a working capital fund. The working capital fund functions like a business. It takes in revenue and expenses. The general fund is the side that is funded with appropriated. Within each of the services, I think, for example, if I have it right, the Army working capital fund may get to a clean opinion before the Army general fund. So even within the services, there will be a piece of them that gets to a clean opinion sooner. But what we do is we send a ranking report to Congress—and I will provide you a copy—where we rank them based on how far along we think they are. And so, Senator, I can provide you a copy of that report.

Senator WYDEN. Could you in something resembling English tell me, say, within, you know, 10 days which parts of the Defense Department have the furthest to go in terms of passing a clean audit? Because if I stand up and say it is the capital account, this account and that account, people, you know, they think in terms of personnel and they think in terms of weapons systems, this kind of thing. Okay? Ten days?

Mr. NORQUIST. Sure. Absolutely, Senator.

Senator WYDEN. Great.

One last question. So if you really thought this through, it would seem to me there is still a fair number of people at DOD who think auditing the Pentagon is a low priority, not a big deal.

You, to your credit, you do not think that. But the fact is, you know, people come and go, the Chairman, myself, all of us here. What are you doing to lock in specific changes so that future officials cannot go back to the days before you decided you were going to break with your predecessors and get serious about this?

Mr. NORQUIST. So I think there are two things that will be the most helpful. The first is we have already contracted for the audits, and they will continue every year. It would take a significant amount of work for a future team to come in and try and turn those audits off, and I suspect the Congress and others would have a very strong reaction to them trying to cancel those contracts. So they will constantly be getting reports.

If they choose not to spend time on it, they will get reports that show the exact same problems they had the year before versus progress.

We have also set up a database from which we will produce reports to you that show who has made progress and who has not. So you will be able to see which of the services, which of the agencies has done the most and which are the ones that after a year or 2 years or 3 years have not shown meaningful progress. That will allow you to focus your feedback on those groups. But both of those make it harder for someone else to walk away from this process.

Senator WYDEN. My time is up, and I thank the Chair for the extra minute. The point is what you are saying is that if you are hands-on from here on in, you should not lose sight of the fact that we are now getting serious about these audits.

Mr. NORQUIST. Correct.

Senator WYDEN. You have got to be hands-on. You have got to be back at people regularly, look at the progress that has been made, and come back again and again so that there is some real accountability.

Mr. NORQUIST. Absolutely.

Senator WYDEN. Okay. Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Senator Braun.

Senator BRAUN. Thank you, Mr. Chair.

I want to echo what the Chairman did say earlier, that, in my opinion, the bigger picture is that, regardless of what the Defense Department wants and regardless of what many want on the domestic side, I do not think we have been in a more perilous point as a country financially when you are doing all of this, regardless of the arguments that you are making or the arguments the other side is making, when it is in the context of running $850 billion deficits. The thing I fear the most and I think what would make more of an academic discussion on either point of view is the fact that we are reaching, to me, a perilous tipping point that we have got to be careful about the big picture. And anything that we do here I think cannot dismiss—as far out as you can see, we do not have anything really addressing in a serious way. Our budget process has devolved to where it is, continuing resolutions, and I think the reason we have not yet addressed it is due to the fact that we have not been accountable for it and felt the pain of it.

I want to focus on something you said earlier, aircraft carriers. You mentioned that the Chinese have just invested in building their first aircraft carrier. Is that true?

Mr. NORQUIST. Correct.

Senator BRAUN. And then how many aircraft carriers do we have, roughly? Because I do not expect you to maybe know exactly. Maybe you do.

Mr. NORQUIST. About a dozen.

Senator BRAUN. About a dozen, okay. How many aircraft carriers does Russia have?

Mr. NORQUIST. It depends on the size. I will have to get you that number for the record.

Senator BRAUN. Would it be closer to two or three? A half dozen?

Mr. NORQUIST. Not on the same scale as we do.

Senator BRAUN. Okay. And then how many aircraft carriers would there be among the entirety of the EU, including Great Britain?

Mr. NORQUIST. Typical countries have either one or two, if they have one at all.

Senator BRAUN. Okay. So that is maybe, of course, not going to be representative of forces being ready and so forth, but I am also looking at the trend of spending on defense, and now that we have drawn down from the Gulf Wars, you know, basically if you take the hump out that was there during the peak of them, you know, it has been somewhere around 3 to 3.5 percent, maybe 4. I would argue that that is probably the baseline we need to look at, and wanting your opinion on what you see the EU doing in terms of their share, which I love the President bringing that up as a topic. Do you think they should do more? And for those of us that do not know the particulars, what are they doing?

Mr. NORQUIST. So those are a couple of good points you brought up, Senator. Let me address them.

The first one is you talked about GDP somewhere between 3 and 3.5 percent. Currently, we are at about 3.1. If you look at the numbers we are projecting in the out-years, that will actually start to drop a little bit before 3 percent. Part of that is this administration understands and shares your concern that security and solvency are tied together and that you need to have both. And so if we want to have a strong defense, we need to recognize that that is tied to the strength of the economy. And as the economy grows, that is even better. Defense takes a smaller share of GDP, go down to a smaller share of the Federal budget. As long as we can perform our mission, that is good in terms of trying to help with the other issues you have talked about.

With regard to NATO and our European allies, there is about $41 billion that they have increased on their spending as a result of the actions taken over the last several years. We expect that to go up to about $100 billion. So we have seen them respond to the request for——

Senator BRAUN. In terms of additional expenditures?

Mr. NORQUIST. Additional. Additional.

Senator BRAUN. And what is that on? How much in total currently? It raised $41 billion, and it is intending to go up $100 billion. What is their baseline?

Mr. NORQUIST. I will have to get you their baseline.

Senator BRAUN. That would be interesting to know because I think collectively it is a large economy than ours when you throw all of theirs together.

Mr. NORQUIST. It is, and the other thing they provide in terms of it is basing and access and the real estate that goes with it. But we are willing to work with our allies. We are willing to work through and support them. But this is not a charity. It is not a business. We are in there to work with them and to make sure everyone plays as part of the team. The cost for everyone goes down if we all chip in.

Senator BRAUN. I think that would be good to, push that proposition. I know when I was running, there was a continuing resolution that did reenergize the defense sector, I think taking it from—where was it?—in the high, like $590 billion and added almost $100 billion to the expenditures. And I now see here we are wanting to go. And I also remember the President saying that was the last time he would agree to something like that. It looks to me like we are back into the same old rut of, you know, we push what might be important on our side to accommodate what the other side wants to do on domestic spending. Is that just a recent memory that has been lost? Or does the administration still intend to stick with what it said, that that would be the last time they would join in kind of a "kumbaya" with the other side just to get defense spending across the finish line?

Mr. NORQUIST. So I will leave it to the White House and OMB to work in terms of how to settle on the nondefense piece of this. We just work in terms of building up the requirements so everyone has visibility.

Senator BRAUN. I am over my time. If we do another round of questioning, I would have one or two. Thank you.

Chairman ENZI. Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. Thank you, Mr. Norquist.

So as we discussed I think the last time you were here, I have had long-time concerns over the use of OCO money, overseas contingency operations money, use as a slush fund to avoid putting things in the base defense budget. That concern was shared when I served in the House with Mick Mulvaney, who was the OMB Director, now Acting Chief of Staff. In fact, we passed legislation back in the day to try to guard against that.

When you were here in March of last year, I asked you about it. Here is what you said: "Consistent with your previous discussions"—referring to my discussions—"with Director Mulvaney, you will not be surprised to know that in the out-years, he"—Mulvaney—"would like us to shift those categories so even fewer of them count as OCO and more of it is in base, and only the most incremental of the costs would show up, which would dramatically reduce the size of OCO."

So I have a simple question. Look at your budget. You have gone the total opposite direction. You have gone all out, putting lots of normal base budget functions into OCO. What happened? Why did you flip-flop from the direction you told us you were going to go last year?

Mr. NORQUIST. So what we have is that we are still operating within the realm of the BCA, and so when we put forward our requirements, the direction we received and how to present them, as you talked about, had this large OCO for base.

When you look in the out-years and the point of our budget where we are past the BCA, you will see we go to what we have talked about in the past, which is reducing the size of the OCO to just the most incremental direct war costs. But as long as we have——

Senator VAN HOLLEN. Well, I understand that, but you could have just proposed lifting the defense cap and not used OCO, right?

Mr. NORQUIST. That is not something we do in the Department of Defense. That is the guidance we get and how we build it according to the directions from——

Senator VAN HOLLEN. But that would be the sort of honest budgeting way to do it, right?

Mr. NORQUIST. That would be one way of presenting it, yes, Senator.

Senator VAN HOLLEN. WELL, I do appreciate the Chairman's budget, which does not make use of this OCO slush fund. I understand Senator Perdue asked you about the costs and the downside of going to a continuing resolution. I share those concerns about continuing resolutions. Of course, as long as we are under the BCA, it is not just the continuing resolution that we might get to, but it would be subject to a sequester, correct?

Mr. NORQUIST. Correct.

Senator VAN HOLLEN. All right. And if we do not lift that sequester cap, which we have to affirmatively do, what would be the impact on defense?

Mr. NORQUIST. So you would have two things. You drop $71 billion below what was last year's enacted, and if you just walk through the different segments of the defense budget, the first part is pay it to the force. And so the only way to be able to reduce costs there is you start reducing bringing people in and you start to hollow out the force. The second is you start delaying acquisition of replacement equipment. We have a number of programs that are aging and they need their replacement, and then you affect most immediately, because it is the first to touch, the readiness and the training. That dramatically offsets the investments that Congress has made over the last 2 years to restore readiness. So the destruction would be quite severe.

Senator VAN HOLLEN. Right. And I think it would have severe negative consequences.

Mr. NORQUIST. Absolutely, Senator.

Senator VAN HOLLEN. So let me ask you a couple questions about the nuclear program budget. I think you referenced that earlier, because just last January, this past January, CBO released its biennial projection of the 10-year costs of the nuclear modernization program. The last estimate projected that the United States would spend half a trillion dollars over the next 10 years a 23-percent increase from the 10-year forecast conducted just 2 years ago in 2017. That is a big price tag and a big increase.

So have you looked at the CBO estimate? And do you agree with their conclusion?

Mr. NORQUIST. So we used the estimates produced by CAPE, which is our independent cost-estimating group, and we require the services to comply with that. I think your point you made is quite accurate, which is this is an expensive initiative, but nuclear deterrence has been a bedrock of our security for 70 years, and the triad has been reaffirmed by every President since Truman. So it currently costs about 3 percent of our budget. It will cost us at a peak about 6.5 percent of the budget when it is fully fielding. But it is a necessary investment.

Senator VAN HOLLEN. Well, with respect—and I support the modernization of the triad, but there are lots of new additions you are making beyond simply modernizing the force, as you know. So if you could get back to me and let me know how much of the increase is a result of moving forward with the low-yield warhead on submarine-launched ballistic missiles, how much relates to the nuclear arms sea launch cruise missile, and how much relates to the pit production infrastructure, I would be interested in you breaking that out, if you could do that for us.

Mr. NORQUIST. Absolutely, Senator.

Senator VAN HOLLEN. Thank you.

Mr. NORQUIST. I would be happy to do that.

Senator VAN HOLLEN. Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Senator Kennedy.

Senator KENNEDY. Thank you, Mr. Chairman. Thank you for your service, Mr. Secretary.

Let me preface my question with—I listened to your comments and your opening statement, and I agree with you. How many years have you worked in Federal financial management?

Mr. NORQUIST. About 30 years, Senator.

Senator KENNEDY. Okay. Within the subject area of defense and the Department of Defense, give me just a quick list of your titles.

Mr. NORQUIST. So inside the Department of Defense, I have been—I have performed the duties of the Deputy Secretary. I have been the Chief Financial Officer. I have been a Deputy Under Secretary of Defense in the CFO's office. And earlier on, I was a budget analyst, program budget analyst for Army Intelligence, including being a director at a field site.

Senator KENNEDY. So you understand the budget.

Mr. NORQUIST. Yes, Senator.

Senator KENNEDY. Our budget right now is roughly, what, $700 billion?

Mr. NORQUIST. It is currently about $700 billion; 718 is the request.

Senator KENNEDY. Okay. Is there any waste in that budget?

Mr. NORQUIST. There are inefficient processes that create those types of challenges, yes.

Senator KENNEDY. Well, let me put it another way. I mean, we can wait for an audit. I do not know if you and I will still be here. And that assumes that, of course, anybody will act on an audit. It may just be a big yawn-a thon. You know the Department of Defense budget probably as well as anybody else, and we both agree that weakness invites the wolves.

Mr. NORQUIST. Correct.

Senator KENNEDY. We will remain free so long as we remain strong. But let us suppose the President called you in tomorrow, Mr. Secretary, and he said, "David, look, we have got to do something about this deficit." I am not looking for an audit. We do not have time. I am not looking for, you know, a committee meeting. I am not looking for politically correct statements. You know this budget. I want you to—before I add money to this budget, I want you to go into the Department of Defense budget and find me $35 billion that is being wasted. You can do that, can't you?

Mr. NORQUIST. I could find the types of programs and we are finding the types of programs that, if you changed the way we run them, we will save billions of dollars over time, yes.

Senator KENNEDY. And could you do that at the Department of Homeland Security where you also worked?

Mr. NORQUIST. We could do that at the Department of Homeland Security. It was a little harder because the agency had just been stood up at the time.

Senator KENNEDY. I understand. So why don't we do that?

Mr. NORQUIST. So we are doing that. One of the challenges, as you go to implement these, is some of those reforms take time. Some of those reforms upset somebody who has an interest or a function in an area. But there are changes underway, and I will talk just to give an example. Some of it depends on the better data that we get through the audit. When we buy things, for example, just pick—in some of these, the challenge is they are micro examples, but they add up.

Senator KENNEDY. Yeah, but before we get to specifics, Mr. Secretary, I want to stay on process for a second, because this is something we really do not talk about around here very much. We certainly do not do anything about it. CBO says that—I know everybody says, well, the problem is mandatory spending. But CBO says that discretionary spending is going to grow 3 percent a year for each of the next 10 years. I mean, that is not as much as mandatory spending, but that is not chopped liver.

And I suspect there are people like you—and you could probably name another 20 people you have met through your career—who know where the waste is. You can call it "inefficiencies," and you are more comfortable doing that. I call it "waste." And why can't we go in and identify those and write them in plain English so we can defend them and go in and try to save some money?

Mr. NORQUIST. So there are individuals who do exactly this, and they identify areas for reform, and they put together plans that will do them. And the challenge is it takes time and it takes support. I mean, just think about how many years the Congress was pushing on the audit to get it to go forward, but you needed that process underway.

I will just give an example. There are places where we have changed the process, and usually what you find is it is a process where we have layered it down with oversight and controls that are well outside the cost of the function itself. So we used to do contracting, and even the smallest transaction went through a full contracting process. When we switched to having a certain set done through the equipment credit card——

Senator KENNEDY. Let me stop you, Mr. Secretary——

Mr. NORQUIST [continuing]. It freed up tons of money.

Senator KENNEDY [continuing]. Because I am going to go over here.

I do not understand why, though—I will be quick, Mr. Chairman. This is not directed at you, but you cannot use bureaucrat-speak. I do not know why the President—you and your colleagues cannot go to the President and say, "Mr. President, here are ten Government programs"—that you can explain in English in one paragraph—"that we can live without. We are better off saving the money and spending it over here." As opposed to the study and the reform and a committee meeting—well, you get my point.

You know, every major corporation knows how to modernize and downsize, or they die. And we need to try it.

Mr. NORQUIST. So, for example, the Army this year did what it called "Night Court" where they brought in each program, and the eliminated $2.5 billion worth of programs and reinvested that in higher-priority areas. So they are going on. They often do not get the attention, but it is the process of identifying lower-priority projects and stopping them, or in some cases fixing the process and reinvesting in the higher-priority activities.

Senator KENNEDY. Thank you. I am sorry I went over, Mr. Chairman.

Chairman ENZI. The 2020 budget request proposes to increase defense discretionary spending by just under 5 percent. Can you explain how the administration arrived at its top-line request level and what the primary threats are that it seeks to address through the increased funding?

Mr. NORQUIST. Absolutely, Mr. Chairman. So, first of all, it is a strategy-based budget, and it was based off the recognition that the world had been changing, that whereas we had been spending a great deal of time in counterterrorism, counterinsurgency operations, the long term strategic threat to the United States came from the rise our near-peer adversaries such as Russia and China, folks capable of fielding modern aircraft, long-range missiles, the types of high-end fights for which we needed to change the way we prepared to face.

And so we went through the budget. We looked at the size of the force, and we added some small increases there, about 7,700 to fill out the units. We then looked at readiness and with the Congress' help in the past and then continuing we have ensured that we have got that.

But we particularly looked at the research and development. In this budget request, that is where the significant increase is, in hypersonics, artificial intelligence, directed energy, cyberspace. These are the new domains that other countries have invested in, that if we do not, will put the United States at a significant disadvantage in a future conflict, akin to being the country without an air force in a land battle if you lose control of the skies or the cyber.

So those are the things we built on. We built the dollar—the requirement bottoms up to get to the 750. The Congress did a bipartisan National Defense Strategy Commission. That produced a recommendation of 3 to 5 percent real growth. We are close to—we are a little under their recommendation, but it gave us a point of comparison. But it was a strategy-based budget based on the change to the high-end threat.

Chairman ENZI. Thanks. Something that I have always wondered about is, you know, how long does it take to build a ship? Is it all allocated in one year? You mentioned the capital funds that you have. Can you explain briefly to me how that works?

Mr. NORQUIST. Sure. So most of our ship programs, the cost of the ship, for instance, a destroyer, is put into a single year, and that is the year we count as the year we purchased the ship. In some cases, there is a year before where we do a small amount of advanced procurement, and those are for long lead items that you want to have ready for when you produce the ship.

Some assets are sufficiently large, like a carrier, that you cannot put all the money in one year without horribly distorting the budget, and those are spread over 5, sometimes a few more years, as a way of incrementally funding the larger asset because of its disruptive effect.

The only other exception is the first year for research and development. Often the first ship is not bought at a single time. It takes several years to build ships. The larger the ship, the longer the timeline.

Chairman ENZI. I have been pushing for capital budgeting for a long time. I found out that we do not even know what we own, let alone how old it is and when it needs to be replaced and what the cost of the replacement would be versus the cost of repair. And I think that is the case with the armed services as well, isn't it?

Mr. NORQUIST. It is, though with the audit we are getting valuations on our plant, property, and equipment. We are at $2.6 trillion, and the auditors are testing that for accuracy and completeness. And so each year you are going to get closer and closer to being able to make those types of choices if Congress wanted to do that, Chairman.

Chairman ENZI. I would like for all of the Federal Government to do it, not just the Department of Defense. But you make the best example because an aircraft carrier cannot be built in one year; some of the submarines cannot be built in one year. I suspect that many of the ships cannot be built in one year.

Mr. NORQUIST. That is correct, Mr. Chairman.

Chairman ENZI. And I have always wondered what happens to the money that—when you are building a ship and it cannot be done in one year, what happens with the extra money?

Mr. NORQUIST. So what happens, Mr. Chairman, say you have a ship that costs $1.6 billion. Congress will authorize and appropriate that $1.6 billion, but it will give us 5 years to put it under contract and another 5 years to make payments to the vendor. So that gives us time to negotiate the contract, monitor the progress, and make payments.

The money stays at Treasury the whole time, so until it goes out the door as a valid payment to a vendor, it stays in the Treasury.

Chairman ENZI. I wish. [Laughter.]

I am still trying to figure out what to do with the trust funds of the United States so that there is actual money there, which will affect retirements at some point in time.

My time is almost up. I have some more questions, but I will let Senator Braun ask some more first.

Senator BRAUN. Thank you.

So I think we have heard today that we are discussing all of this in the context of a dire budget trajectory that I really believe is the most important thing that we need to get a grip on here because I think everything else kind of comes from it.

I think we do need to ask our allies to carry their fair share. I like the administration at least talking about it where others have not, and I think Senator Kennedy is right on that especially across Government and maybe even more so within military, find efficiencies.

One point I think that is also true and it is hard to quantify what is looming, you know, the Chinese economy I think is maybe 60, 65 percent our size. They are building their first aircraft carrier. I think they are really out there leading on stuff that we have not been maybe focusing on in the technological realm.

My question is going to be: Where do you think they are going? What is your best assessment of what their long term strategy is? They would scare me more than any other variable out there that is much and unknown, because they may have the ability soon to be the size of our economy, decades down the road where they would dwarf ours. And I think we need to get that understanding of what their intentions are and capabilities out there and maybe quantify it in some fashion. So as much as you know about them, in a few minutes give me your best assessment of what they are up to.

Mr. NORQUIST. Absolutely. So as you pointed out, China has a very large population and a growing economy. These things are fine. We are happy to engage in friendly, free market type of competition. The challenge is that the Chinese have done two things.

One is it is an authoritarian regime that does not provide the freedom to its population that other countries do. The Vice President has spoken passionately about the challenges that creates.

The other is they are not competing in the way that the rest of the international community does. Their actions in the South China Sea, occupying islands without recognizing the freedom of the seas or without working through that with the dispute over control of those, those types of actions raise a concern that rather than simply just being another country with a sizable economy, you have a country whose attempt is to disrupt the free trade, the free markets, and the systems, and to not play by the same rules as everyone else. That is very disruptive. That can be very destructive.

Our goal in the long run is to not have a conflict. We want competition, but we do need countries to participate and comply with the international free trade and other rules to be able to have that type without impinging on the rights of other countries.

Senator BRAUN. One final question. Do you feel through our intelligence that we will have plenty of heads up on the things that they are doing to where none of this would sneak up on us, you know, in a fashion that we would not be prepared? What is your confidence level there?

Mr. NORQUIST. So I have great confidence in the intelligence community, but I think even the intelligence community would say that if you are counting on not being surprised, you are making a mistake, that we always have to allow for the fact that there are things we do not realize and we have to be prepared for those types of surprise challenges. We have known enough of those in the course of our history that you want to make some allowance in your planning to not be taken by surprise.

Senator BRAUN. I think that is a good point of view. Thank you.

Mr. NORQUIST. Thank you, Senator.

Chairman ENZI. Thank you.

We have talked a lot about the audit and some of the difficulties with it, the timeline for it, but I want to ask maybe a more basic question than that. How has the financial audit improved the processes of the Department and helped identify waste, fraud, and abuse through the enterprise? Judging from the results, would you say the Department spends money wisely and judiciously? And what have you learned from it?

Mr. NORQUIST. So we have had a number of improvements already as a result even of the first-year audit. One of the areas that we made a priority was inventory, and the services have been going out and doing 100 percent inventory, what we call "book to floor, floor to book." Is what is in the system what I have in the warehouse? Is what is in the warehouse in the system?

The Navy has recovered $80 million worth of equipment that it had that was not recorded in its inventory, and so it has moved it back in. That makes it available for them to use so they do not have to go and buy it, so that saved them $80 million.

The Air Force at Hill Air Force Base had uninstalled missile motors that were incorrectly labeled as "unserviceable." As part of the audit, they check the condition of the equipment, and this condition was, in fact, serviceable. That was $53 million worth of engines that were available to the Air Force.

Now, I bring this up. What we also discovered was there are some places, for example, Osan and Kadena Air Base, 14,000 munitions worth $2.2 billion. No exceptions. Auditors went through. And we have got other bases with that type of result as well.

So there are places and facilities that have done this well, and there are others where we are seeing millions of dollars worth of recovery by bringing them up to the same types of standards.

So I am very pleased with the type of progress that generates. I think it demonstrates that the emphasis that this Committee and others have made in the audit is well founded.

To answer your other question, I think that individuals and organizations are definitely committed to making the best use of the funds that they have and trying to make sure they are put against the highest priorities. But many are functioning in inefficient processes, and being able to fix those so that we do not waste money in that direction is absolutely essential to our stewardship.

Chairman ENZI. I appreciate that. The things that you mentioned, a lot of those are just one-time discoveries, aren't they?

Mr. NORQUIST. Some of those are, but, for example, when we eliminate unneeded items and close out a warehouse, that is a savings in perpetuity. When we take an interface that is manual where people have to hand-enter and we discover that is generating errors, so we build an automated link between the two, you never have to rebuild that. That savings then generates year after year.

So there are a number of these where the savings is continual, and that is part of the value.

Chairman ENZI. You also mentioned some kind of a dollar figure on munitions?

Mr. NORQUIST. Oh, so the munitions I was talking about is when each of the bases, they go and—we have stewards of munitions. They do just a count, and they check what is there, and the accuracy of those counts at Osan and Kadena and other bases has been 100 percent. So I gave you the 2.2 just to show the sheer volume of the value of the munitions that they were storing, but we recognize the role leadership plays in the accuracy of the inventory at each base, and that has been part of driving the change.

Chairman ENZI. Good. I appreciate that.

Of course, I am from Wyoming, and we have F.E. Warren Air Force Base, so I am interested in the nuclear triad and its credibility, particularly the ground-based leg. How important is it to pursue a strategy to modernize all three legs with a corresponding updated command and control structure?

Mr. NORQUIST. It is absolutely essential. The triad has been an important part of our strategic deterrent. The fact that we have three different ways of delivering nuclear weapons greatly complicates an adversary's planning. Each one is their strength. Ballistic submarines are the most survivable. The bombers are the most visible. But the ICBMs are the most responsive and have the most robust capabilities. And to talk about those for a minute, we are replacing the aging Minuteman III ICBMs that were fielded in the 1970s, and so the importance for us of knowing that we can rely on the deterrent, you cannot allow it to get to the age to the point where they are questionable. You need to replace it. We have a program to do that, and I think it is valuable to fund all three legs for the same reason it has been the right answer for the last several decades.

Chairman ENZI. Thanks. I recently got to watch part of an Iron Dome exercise, and it is incredible, these young people that are monitoring the missiles that could be incoming and able to calculate or—well, with their equipment are able to figure out at what point it should be shot down so that the debris does not fall on anything.

But then I heard about the Russians having hypersonic missiles. I hope that we are developing that, too, and I know that you could not discuss it if you did know.

Mr. NORQUIST. Well, we can discuss it at the highest level, and the answer is yes, we are investing in that technology in this budget, precisely because of the differences it gives you in capability. And we will make sure that there is not a disadvantage there.

Chairman ENZI. Good. That gets into my final question: How does the 2020 defense budget request align with the National Defense Strategy that prioritizes this competition between the near-peer adversaries like Russia and China and calls for this technological modernization? How does the budget request fit with that?

Mr. NORQUIST. So I think you will see it in a couple of ways. First and foremost is the emphasis on research and development. This is the largest RDT&E request by the administration, and it reflects the fact that we are concerned about our ability to keep pace and protect our leads in certain areas. You will see the investment in space and cyber because what we have recognized is you have moved from three warfighting domains to five. And so much of our enormous economy is based on access to space, the very activities we routinely do, from banking to using your cell phone to guidance directions in your car, that loss of access to those satellites or disruptions of those through a cyber attack, you do not have to have a fleet off the coast of the United States to do that. You can do that from anywhere in the world. And we need to be able to deter in that domain and compete in that domain to protect America's interest.

This budget invests in that with the idea of being able to deter that type of high-end challenge from both the Chinese and the Russians, and we have adjusted our Navy program for the types of challenges and fights we expect to have potentially in the Pacific in order to meet those types of risks and challenges.

Chairman ENZI. I thank you for your knowledgeable and concise answers and all the progress that has been made, which I know is a lot under your direction. And I think part of the reason that we had—there are a lot of conflicts always for Senators to show up, but I think part of it is the confidence in what you are doing with both the planning and meeting the audit requirements. So I thank you for being here to testify.

If anybody has written questions that they want to turn in, they will have to have those in by tomorrow night. And we will send those on to you and hope for speedy answers on those, too.

Mr. NORQUIST. Thank you, Mr. Chairman.

Chairman ENZI. Thank you very much. Adjourned.

[Whereupon, at 4:01 p.m., the Committee was adjourned.]

ADDITIONAL COMMITTEE QUESTIONS

[The following submitted questions were not asked at the hearing but were answered by the witness subsequent to the hearing:]

QFR Title: Budget Cap Deal
Requestors: Sen Kevin Cramer
Witness: Norquist, David L
Question Number: 1

Question: In your testimony you stated, "At the beginning of 2017, the Department had suffered from unstable budgets and devastating sequestration cuts that had eroded readiness and exacerbated our challenges. Over the past two years, this Administration, with Congress' support, has made investments to undo this damage --- and are already seeing significant benefits to readiness across military services. As we move forward, we must work together to protect these gains while building a military to meet the challenges of the future." Please explain the importance of Congress reaching a budget cap deal to avoid further sequestration cuts. Is a budget deal a national security imperative? If we do not reach a deal, how will it affect our military posture and readiness?

Answer: The Fiscal Year 2020 Budget builds off the foundation of the President's previous budgets to rebuild readiness and increase lethality. The Department supports efforts to avoid sequestration level cuts which will only reverse the progress made in military modernization efforts or in continuing to build on critical readiness recovery. A budget deal that avoids sequestration level cuts is a national security imperative, but the deal must include a national defense funding level that drives further progress along the National Defense Strategy's three lines of effort, and brings military modernization efforts to life at the speed of relevance.

QFR Title: Audit Fixes and Frequency
Requestors: Sen Chuck Grassley
Witness: Norquist, David L
Question Number: 2

Question: Mr. Norquist, do you think that it is worth spending about $1 billion next fiscal year to complete an audit that you expect to fail, or would that money be better spend directly on fixing deficiencies found in the audit completed last year -- fixes that could take a year or more to complete? And, would auditing on a biannual basis constitute a better use of taxpayer dollars?

Answer: The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576), as amended, requires that the financial statements of 24 CFO Act federal agencies, including the Department of Defense, be audited on an annual basis. The Department has been transparent and conservative by including all audit and remediation costs in its $1 billion estimate. Actual fees paid to auditors are approximately $200 million, comparable to auditor fees in the private sector. The majority of the $1 billion in costs relates to remediating audit findings; problems the Department needs to fix to improve business operations regardless of the audit. Part of the value of the audit is that it is the most effective way to determine if the money spent on remediation is successfully closing the findings. A biannual audit would not be consistent with accounting standards and would result in a one-year delay in learning if reform efforts were successful.

QFR Title: Investing in New Financial Management Systems
Requestors: Sen Chuck Grassley
Witness: Norquist, David L
Question Number: 3

Question: Mr. Norquist, an ongoing reason that the Department can't get a clean audit opinion is the use of hundreds of outdated accounting systems that don't give reliable, auditable data. The majority of funding appropriated for these systems is used on maintaining and trying to patch-up the old systems, rather than invest in new, modern, and integrated systems. Within your budget request, how much do you intend to invest in new financial management and other accounting systems, and how long will it take you to update your systems to the point of being able to pass an audit?

Answer: The Department of Defense (DoD) is using the audit results to inform system transition plans to achieve an unmodified audit opinion.

Please reference the June 2019 DoD Financial Improvement and Audit Remediation Report (posted at https://comptroller.defense.gov/ODCFO/FIARPlanStatusReport.aspx), which includes a list of legacy systems planned for retirement from fiscal years 2019 through 2023. Over the next 3 to 5 years the Department will streamline and rationalize the listed systems to maximize integration and will reduce the number of enterprise financial feeder systems to only those absolutely necessary and will ensure standard processes are followed. We cannot quantify at this time how much we are investing in this effort, as the funding being used to streamline or replace systems is embedded in several budget line items and is not consistently delineated in our budgets as these investments become routine information technology system expenses.

QFR Title: Plan for Financial Management Fixes
Requestors: Sen Chuck Grassley
Witness: Norquist, David L
Question Number: 4

Question: Mr. Norquist, your department spent more than $400 million to conduct the fiscal-year 2018 audit, and probably more than $550 million on audit remediation and financial system fixes. So, it is costing around $1 billion, and probably more down the road, just to clean up your books, systems, and inventories. It isn't clear to me how long it will take to clean things up. Do you have a plan that you can give me that shows what you are going to do to respond to the auditors findings and recommendations and the timetable for when you are going to make the necessary changes?

Answer: The Department has developed a notice of finding and recommendation (NFR) database tool that provides leadership with the ability to track the more than 2,300 NFRs issued by the independent public accounting firms during the FY 2018 audit. The NFR database provides enterprise-wide visibility to leadership and enables the Department to relate NFRs to specific material weaknesses and organizations. Using this tool, the Department is able to measure progress and hold responsible parties accountable for remediating problems identified by our auditors.

Since the completion of the FY 2018 audit, I have prioritized NFRs that have an operational impact, followed by those that limit the ability to attain an unmodified audit opinion. In accordance with statutory requirements, the Department will submit a report to Congress annually that provides the status of corrective actions resulting from the annual audits and the Department's strategy for monitoring progress. The Department is happy to brief our progress upon request. It took the Department of Homeland Security (DHS) approximately 10 years to implement the changes necessary to achieve an unmodified opinion. The Department of Defense (DoD) is a more complex organization with total assets that are more than eighteen times the size of DHS. Despite this, for several years six DoD Components have achieved clean audit opinions on their stand-alone financial statements. While it may be some time before the DoD can achieve a clean opinion for its consolidated financial statements, I anticipate that a majority of DoD Components will begin to receive clean opinions on all or some portion of their financial statements within the next five to seven years.

QFR Title: Savings and Efficiencies
Requestors: Sen Chuck Grassley
Witness: Norquist, David L
Question Number: 5

Question: Mr. Norquist, your budget materials say that the Department of Defense is looking at reforms for better performance and efficiencies. For example, you say that Defense found an estimated $7. 7 billion in savings from reforms "to achieve greater performance and affordability." Please explain where you think you can find savings, and where we should be looking for greater efficiencies to generate even more that $7 billion or so in savings.

Answer: The Department has identified $7.7 billion within five areas of business operations to include: contract management, healthcare management, acquisition, information technology and business systems, and logistics and supply chain management. Reform efforts within the Department's five areas of business operations are focused on delivering optimized enterprise business operations to assure the success of the National Defense Strategy (NDS). Reform results (savings and investments) have been aligned to six reform levers and discretely accounted for within the budget. These levers are: better alignment of resources, business process improvements, business system improvements, divestments, policy reforms, and weapons system acquisition. The attached table is a summary of the $7.7 billion savings accounted for in Fiscal Year 2020, by reform lever.

The Department's Chief Management Officer (CMO) continues to lead, integrate, and examine the business operations of the Department to identify, evaluate, and validate reform activities. The CMO has leveraged enterprise-wide reform teams as innovation agents to execute reform within the Office of the Secretary of Defense and the Fourth Estate. These reform opportunities are then vetted through a deliberative process which assesses the underlying improvement/process change and manages the progress of each initiative to achieve documentation, acceptance, implementation, and benefits. This standard and repeatable process is an ongoing endeavor that is expected to produce reform savings which cumulate in each of the successive President's budget submissions.

The Department was able to reinvest $7.7 billion of reform generated offsets into the FY 2020 budget that enabled us to budget for readiness and technology enhancements. A good example of this is the Army's "bottom up review" which enabled them to cut or reduce nearly 200 weapons projects that were reinvested in higher-priority projects/next generation capabilities. This better alignment of resources with the NDS enables the Army to invest in capabilities that will allow it to penetrate near-peer advisories' defenses. The Department expects to extend its efforts in identifying and accounting for additional savings in the areas of contract management, logistics and supply chain management, and acquisition that will produce additional savings as the initiatives continue to mature.

QFR Title: Audit
Requestors: Sen Bernard Sanders
Witness: Norquist, David L
Question Number: 6

Question: Mr. Norquist, President Trump has requested $750 billion in defense spending next year, $34 billion more than we are spending this year and an increase of almost $200 billion over the past three years. We now spend more on defense than the next 10 nations combined. A few years ago, the Washington Post reported that the Pentagon tried to bury evidence of $125 billion in bureaucratic waste. The Pentagon is the only agency of the federal government that cannot pass an independent audit. How can you justify a $750 billion defense budget when the Pentagon cannot even pass an audit? How long will it take before the Department of Defense can pass an audit? One year? Five years? Ten years?

Answer: The $750 billion requested for national defense is the amount needed to execute the National Defense Strategy by re-prioritizing resources and increasing investments in the following four areas. First, it invests in the emerging space and cyber war-fighting domains. Second, it invests in modernizing capabilities in the air, maritime and land domains. Third, it accelerates innovation in technologies such as artificial intelligence, hypersonics, autonomy and directed energy. And, finally, it sustains the force and builds on readiness gains. The $750 billion request enables critical shifts to compete, deter, and win in any high-end fight of the future, while preserving capabilities to support current operations. With this level of funding, we ensure America maintains an asymmetric military advantage with a more lethal, agile, and innovative Joint Force.

The Department is committed to getting a clean audit opinion. It took the Department of Homeland Security 10 years to get a clean opinion. The Department of Defense (DoD) is a much larger, complex organization. The Department is working very hard across the organization to achieve a clean audit opinion as quickly as possible. For several years, six DoD Components have achieved clean audit opinions on their stand-alone financial statements. While it may take several years to achieve a clean opinion on the Department-wide financial statements, I anticipate that the majority of the DoD components will begin to receive a clean opinion on all or some portion of their financial statements within the next five to seven years.

QFR Title: Contract Accountability
Requestors: Sen Bernard Sanders
Witness: Norquist, David L
Question Number: 7

Question: Mr. Norquist, about half of the Pentagon's annual budget goes directly into the hands of private contractors, not our troops. Over the past two decades, virtually every major defense contractor in the United States has paid billions of dollars in fines and settlements for misconduct and fraud - all while making huge profits on those government contracts. Since 1995, Lockheed Martin has paid over $767 million in fines or related settlements for 86 instances of fraud or misconduct, and since the year 2000, Lockheed Martin has taken in more than $550 billion in federal contracts. Some of the fraud and misconduct Lockheed Martin has engaged in over the past two decades includes unfair business practices, kickbacks, defective pricing, emissions and ground water cleanup violations, nuclear safety violations, federal election law violations, and procurement fraud. In your view, does DoD take the issue of contractor fraud seriously? Are you making effort to root out fraud and abuse by contractors? What else can be done to hold contractors accountable for repeat violations?

Answer: The Department of Defense (DoD) takes procurement fraud very seriously and continuously makes every effort to mitigate the threat and identify fraud, waste, and abuse by contractors. Consistent with policy, DoD monitors all significant investigations involving fraud focusing attention on two potential courses of action.

The first course of action involves applying contractual and administrative remedies. Even before allegations of fraud are fully investigated and prosecuted, DoD Components have a limited ability (subject to the concurrence of law enforcement and prosecutors) to apply appropriate contractual remedies, such as, but not limited to, termination for default; non-award of a contract based upon the contracting officer's finding of non-responsibility; rescission of the contract; revocation of acceptance; use of contract warranties, possible withholding or offset of payments; refusal to accept non-conforming goods; denial of contractor claims, etc. Administratively, the Department can use suspension and debarment action prior to conviction to help ensure the Government is protected in any future dealings with the contractor.

The second course of action involves holding contractors accountable civilly and criminally for fraud; this authority falls solely under the purview of the Department of Justice (DoJ) (e.g., Contract Disputes Act of 1978; Executive Order 6166, dated June 10, 1933). As such, DoD Components generally refer all fraud matters to the DoJ. While the Government needs protection from contractors determined not presently responsible during the period of their suspension or debarment, it should be noted that after those periods expire, contractors return to eligibility and are, generally, considered responsible like any other contractor. This is, of course, subject to the contracting officer's separate, and independent determination of responsibility under the Federal Acquisition Regulation, wherein any previous misconduct may still remain a factor.

QFR Title: Cost Growth
Requestors: Sen Bernard Sanders
Witness: Norquist, David L
Question Number: 8

Question: The Government Accountability Office has documented enormous cost overruns in the Defense Department's acquisition budget. According to GAO, the Pentagon's $1.66 trillion acquisition portfolio currently suffers from more than $537 billion in cost overruns with much of the cost growth taking place after production. In March of 2019, GAO reported that "many DoD programs continue to fall short of cost, schedule, and performance goals. Consequently, DoD often pays more than anticipated, buys less than expected, and, in some cases, delivers fewer capabilities to the warfighter." So can you tell me, does the Pentagon think massive cost growth on major weapons programs is a problem? And how are you addressing this?

Answer: The Department remains focused on improving efficiency and controlling cost growth of major weapon system acquisition programs. The most recent GAO annual assessment of weapon system programs, published in May 2019, found cost growth cost growth of only 0.5% in the $1.7 trillion dollar portfolio of 82 major defense acquisition programs. Also, the Department tracks the number of cost threshold breaches as defined in the Nunn-McCurdy statute as a key measure of performance in efforts to control costs in the portfolio of acquisition programs. For the five-year period from 2014 to 2018, the Department achieved the best five-year performance of this measure since the law was first enacted in the 1980s, with only two critical and five significant Nunn-McCurdy breaches declared in this period. Finally, GAO noted that some of the cost growth observed in the report may result from the fact that the Department is now introducing many new military capabilities through additions to existing programs rather than by starting new programs. This finding is entirely consistent with the mechanisms the Department is now using to achieve rapid fielding of more advanced military capabilities that are needed to implement the new National Defense Strategy.

QFR Title: Nuclear Costs
Requestors: Sen Chris Van Hollen
Witness: Norquist, David L
Question Number: 9

Question: In its most recent biennial report on the projected costs of U.S. nuclear forces, released in January 2019, the Congressional Budget Office (CBO) estimated that costs associated with fielding, operating, maintaining, and modernizing U.S. nuclear forces will total $494 billion over the 2019-2028 period, representing a $94 billion increase from CBO's 2017 estimate of the 10-year costs of nuclear forces. In its report, CBO attributed approximately $17 billion of the $94 billion increase to three new modernization programs that the 2018 Nuclear Posture Review calls for.
A. What is the long-term cost and schedule estimate for the deployment and maintenance of the W76-2 warhead for the Trident II D5?
B. What is the long-term cost and schedule estimate for the research and development, production, deployment, and maintenance for the proposed nuclear-armed sea-launched cruise missile?
C. What is the long-term cost and schedule estimate for expanding pit production capacity?

Answer:
A. The operational plans and weapon system deployment concept for a W76-2 warhead on a Trident II D5 missile has not been finalized by the Navy and U.S. Strategic Command. Therefore, cost or schedule estimates for the implementation cost would be premature at this time. The W76-2 is a derivative of the existing deployed W76-1 weapon system on the existing Mk4 reentry vehicle. The facilities, infrastructure, training regime, and logistics footprint is not likely to change or cause a significant increase in operational or sustainment costs.

B. The Department is assessing options for a nuclear-armed sea-launched cruise missile. Since the Analysis of Alternatives to determine potential materiel solutions is in the early stages, long-term costs are unknown at this time.

C. The Department of Energy, National Nuclear Security Administration (NNSA) is responsible for plutonium pit production. DoD defers to NNSA as to long-term costs and schedule for their pit production efforts.

Opening Statement
From Senator Bernard Sanders
For
"The Department of Defense Fiscal Year 2020 Budget Request"
April 9, 2019
Senate Budget Committee

Thank you very much, Mr. Chairman and I want to thank our guest, Mr. (David) Norquist (the acting Deputy Secretary of Defense), for being with us again.

Mr. Norquist, last month, the president sent us a budget requesting $750 billion for the Defense Department next year, up from the $716 billion we are currently spending on the military.

Moreover, at a time when the U.S. already spends more on the military than the next 10 countries combined, President Trump is proposing an $861 billion increase in base defense spending over the next decade. And he proposes to pay for it by cutting over $1 trillion from education, affordable housing, nutrition assistance and the needs of working families. That, in my view, is totally unacceptable.

Mr. Chairman, over and over again, I have heard my Republican colleagues and some of my Democratic colleagues complain about the $22 trillion national debt.

Over and over again, my Republican friends tell us that we cannot possibly afford to join the rest of the industrialized world and guarantee health care as a right to every man, woman and child through a Medicare for All program.

Over and over again, we have been told that we cannot afford to make public colleges and universities tuition free or to make sure that everyone in America has access to affordable housing, childcare, or a good job that pays a living wage with good benefits.

Even though about half of older Americans have no retirement savings we have been told we need to cut Social Security.

But, Mr. Chairman, when it comes to spending $750 billion on the military – more than the next ten countries combined – all of a sudden there is a deafening silence from my Republican colleagues about the deficit.

In my view, that is unacceptable.

The time is long overdue for us to take a hard look at the enormous amount of waste, at the cost overruns, at the fraud, and at the financial mismanagement that has plagued the Department of Defense for decades.

Mr. Chairman, according to a Gallup Poll last year, 65 percent of the American people oppose spending more money on the Department of Defense.

But instead of listening to the American people and substantially reducing the waste, fraud and abuse at the Pentagon, Congress passed, against my strong opposition, a $165 billion increase in defense spending over the next two years. And now the president wants another $34 billion more this year.

As a point of comparison, the increase in military spending that we recently approved is larger than the entire military budget of Russia, which spends about $63 billion on defense each year.

Mr. Chairman, I believe in a strong national defense, but we cannot continue to give the Pentagon and defense contractors like Lockheed Martin a blank check, while we ignore the basic needs of working families. It's about time we got our national priorities right.

Mr. Chairman, let's be clear: About half of the Pentagon's $716 billion budget goes directly into the hands of private contractors, not our troops.

Over the past two decades, virtually every major defense contractor in the United States has paid millions of dollars in fines and settlements for misconduct and fraud – all while making huge profits on those government contracts.

Since 1995, Boeing, Lockheed Martin and United Technologies have paid nearly $3 billion in fines or related settlements for fraud or misconduct. Yet, those three companies alone received about $800 billion in defense contracts over the past 18 years.

Further, Mr. Chairman, I find it interesting that the very same defense contractors that have been found guilty or reached settlements for fraud are also paying their CEOs and executives excessive and obscene compensation packages.

Last year, the CEO of Lockheed Martin, Marilyn Hewson, was paid over $20 million and the CEO of Raytheon received over $15 million in total compensation. These top two defense contractors receive more than 90 percent of their revenue from defense spending.

I think the American people would like to know why a defense contractor can pay its CEO about 100 times more than the Secretary of Defense whose salary is capped at about $210,000. To my mind, that makes no sense.

Moreover, Mr. Chairman, as the GAO has told us, there are massive cost overruns in the Defense Department's acquisition budget that we have got to address.

According to GAO, the Pentagon's $1.66 trillion acquisition portfolio currently suffers from more than $537 billion in cost overruns with much of the cost growth taking place after production.

GAO tells us that "many DoD programs fall short of cost, schedule, and performance expectations, meaning DoD pays more than anticipated, can buy less than expected, and, in some cases, delivers less capability to the warfighter."

In my view, that has got to change.

Mr. Chairman, the major reason why there is so much waste, fraud and abuse at the Pentagon is the fact that the Defense Department remains the only federal agency in America that hasn't been able to pass an independent audit - 29 years after Congress required it to do so.

On September 10, 2001, former Secretary of Defense Donald Rumsfeld said, "Our financial systems are decades old. According to some estimates, we cannot track $2.3 trillion in transactions. We cannot share information from floor to floor in this building because it's stored on dozens of technological systems that are inaccessible or incompatible."

And yet, 18 years after Mr. Rumsfeld's statement, DoD has still not passed a clean audit despite the fact that the Pentagon controls assets in excess of $2.2 trillion, or roughly 70 percent of what the entire federal government owns.

Mr. Chairman, the Commission on Wartime Contracting in Iraq and Afghanistan concluded in 2011 that over $31 billion spent in Iraq and Afghanistan had been lost to fraud and waste.

Separately, in 2015, the Special Inspector General for Afghanistan Reconstruction reported that the Pentagon could not account for $45 billion in funding for reconstruction projects.

Three years ago, the Washington Post reported that the Pentagon buried evidence of $125 billion in waste.

And more recently, an audit conducted by Ernst & Young for the Defense Logistics Agency found that it could not properly account for some $800 million in construction projects.

Mr. Chairman, let me conclude by saying this. I think everybody in the Congress believes and understands that we need a strong defense -- no debate about that -- but we do not need a defense budget that is bloated, that is wasteful, and that has in it many areas of fraud.

Mr. Chairman, in my view, it is time to hold the Defense Department to the same level of accountability as the rest of the government. It is time to cut, not increase, the defense budget each and every year that it fails to pass an audit.

I hope all of my colleagues remember what former President Dwight Eisenhower, a good Republican, said as he left office in 1961: "In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military industrial complex. The potential for the disastrous rise of misplaced power exists and will persist."

And in an earlier speech, Eisenhower said: "Every gun that is made, every warship launched, every rocket signifies, in the final sense, a theft from those who hunger and are not fed, those who are cold and are not clothed. This world in arms is not spending money alone. It is spending the sweat of its laborers, the genius of its scientists, the hopes of its children. . . . This is not a way of life at all, in any true sense. Under the cloud of threatening war, it is humanity hanging from a cross of iron."

I would ask all of my colleagues to remember what Eisenhower said.

FIXING A BROKEN BUDGET AND SPENDING PROCESS: PERSPECTIVES OF TWO FORMER CHAIRMEN

TUESDAY, MAY 14, 2019

UNITED STATES SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committee met, pursuant to notice, at 2:42 p.m., in Room SD–608, Dirksen Senate Office Building, Hon. Michael B. Enzi, Chairman of the Committee, presiding.

Present: Senators Enzi, Johnson, Perdue, Braun, Scott, Cramer, Kaine, and Van Hollen.

Staff Present: Elizabeth McDonnell, Republican Staff Director; and Warren Gunnels, Minority Staff Director.

OPENING STATEMENT OF CHAIRMAN ENZI

Chairman ENZI. I will go ahead and call to order this hearing of the Senate Budget Committee. The title of it is, "Fixing a Broken Budget and Spending Process: Perspectives of Two Former Chairmen."

Good afternoon, and welcome to today's hearing. Over the course of the next several weeks, the Senate Budget Committee will hear from a variety of experts on ideas to reform and improve this process. My hope is that these hearings will inform the Committee's work as we look to advance bipartisan solutions to the problem.

Today I am especially pleased to welcome two former Senate Budget Committee Chairmen, Senators Judd Gregg and Kent Conrad, to share their perspectives. We had them here 4 years ago to talk about a very similar thing. This time they are hoping we will actually take action. So, Senators Conrad and Gregg, welcome back to the Committee.

Every day American families and small businesses make tough decisions regarding how to balance their budgets. They work hard. They manage their money responsibly. And if they fail to live within their means, they face real world consequences. They hope that Congress is conscientious with the taxpayers dollars they send to Washington, but as we all know, too often that is not the case.

Since the Federal budget framework was established in 1974, there have only been 4 years in which Congress passed all of the annual appropriations bills on time. The last time this happened was in 1997, more than 20 years ago, and in the 40 years that we have been operating under the current budget framework, our Government has had 20 funding gaps of varying durations. This figure does not include the 21 times Congress has passed funding measures to renew budget authority 1 day after it had expired.

The dysfunction surrounding Congress' inability to pass annual spending bills on time gets a great deal of attention, but the problems are actually much worse and more damaging in the long term. On the mandatory side of the ledger, autopilot spending continues to grow almost entirely unchecked. Fifty years ago, such spending comprised 36 percent of the total spending. Today the figure is approaching 70 percent and, according to the Congressional Budget Office, will reach nearly 80 percent in 10 years' time.

Despite increasingly dire warnings that our country is on an unsustainable fiscal course, there is little congressional scrutiny or effective controls over spending. In fact, we think that emergencies do not count, but that money gets added to the debt, where it counts towards the creditability of our country.

Clearly, we have a problem. Congress cannot keep avoiding its basic duties or ignoring the real impacts of our debt. Among the first steps toward action must be framing the scope of the problem and highlighting where we agree.

First, I think most would agree that the current budget and spending framework is not working as intended. There is little buy-in from members for a system that was created in the 1970s. The world has changed a lot since then, so it is fitting for us to rethink how we approach budgeting and spending.

Second, I think we can agree the process is incredibly complex. Nobody understands it. Talking to somebody about the differences between budget authority and outlays causes eyes to glaze over. Telling someone that they can use one offset because it is a receipt but not use another offset because it is a revenue only causes inquisitive looks. I do not even want to start talking about deficit-neutral reserve funds or CHIMPs. If we are going to be successful in our reform effort, we must have a process everyone can understand and follow.

Third, lots of us find it concerning that there are no immediate repercussions to Congress' inability to keep our fiscal house in order. Congress time and again does not meet its deadlines to pass spending bills, putting off the tough decisions voters expect us to make. When budget agreements are made, they are ignored within weeks with barely the bat of an eye. I am hoping that today's hearing will help us to focus on meaningful solutions to address these problems, and we are fortunate to hear from two of our distinguished colleagues who were intimately familiar with this process and the challenges we face. They are thoughtful, seasoned leaders who come from different political parties. I am hopeful the ideas presented will set us on a bipartisan path toward real and lasting solutions. I think this could be the most important and the best witnesses that we may have all year.

With that, I very much look forward to hearing what Chairman Gregg and Chairman Conrad have to say today. I know their insight will prove to be invaluable as we think about reform efforts and the best way to go about enacting them.

Senator Van Hollen.

OPENING STATEMENT OF SENATOR VAN HOLLEN

Senator VAN HOLLEN. Thank you, Mr. Chairman. Thank you for holding this hearing. It is great to see Senators Conrad and Gregg. I thank both of you for your service in this body, and thank you for your many contributions to the debate over how we can most effectively approach our budget challenges. I look forward to hearing your testimony. And I am always open and interested in ideas for how we can better design the budget process.

In my experience, at the end of the day we can try to build a better budget mousetrap, but it really does come down to the political will. You need Senators who have as their priority fiscal discipline. That means looking at the spending side of the equation, and it requires looking at the revenue side of the equation. And this is a little bit like, as Yogi Berra said, deja-vu all over again. But maybe, Mr. Chairman, we will be able to come up with at least some recommendations that at least slightly improve the process. But, again, there is no substitute for political will. I have seen lots of budget rules that are waived routinely when they become inconvenient.

I will just end on some sad news I just heard, which is Alice Rivlin apparently just passed away, and all of us who had the honor of working with Alice know that she was always someone who walked the walk when it came to budget issues and was bipartisan or nonpartisan in her approach, both as the head of CBO, the head of OMB, and a member of the Board of Governors of the Federal Reserve. So I think we are all going to miss her, but maybe we can carry on and make some progress in her spirit.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Our witnesses this afternoon are Senators Judd Gregg of New Hampshire and Kent Conrad of North Dakota. We appreciate both of them being here, and we look forward to their testimony.

First, I would like to take a minute to introduce Senator Gregg. Senator Gregg has spent a lifetime in public service—well, not quite yet. [Laughter.]

Senator Gregg received his bachelor's degree from Columbia University and his law degree from Boston University. He was elected to Congress in 1980 and served in the House of Representatives until he was elected Governor of New Hampshire. In 1992, he was elected to the United States Senate and served three terms. Importantly for our purposes today, Senator Gregg chaired this Committee during the 109th Congress. Also, Senator Gregg sponsored the Deficit Reduction Act of 2005 and served on the Simpson-Bowles Commission and passed out of this Committee a comprehensive budget and spending process reform bill. Thank you for being here, Senator Gregg.

Before I turn to Senator Cramer to introduce Senator Conrad, I ask unanimous consent to submit two summaries of Senator Gregg's bill into the record. Without objection, so ordered.

[The summaries follow:]

Calendar No. 520

109TH CONGRESS REPORT
2nd Session

REPORT
109–283

SENATE

THE STOP OVER SPENDING ACT OF 2006

JULY 14, 2006.—Ordered to be printed

Mr. GREGG, from the Committee on Budget,
submitted the following

REPORT

[To accompany S. 3521]

The Committee on the Budget, to which was referred the bill (S. 3521) to establish a new budget process to create a comprehensive plan to rein in spending, reduce the deficit, and regain control of the Federal budget process, having considered the same, reports favorably thereon, with an amendment in the nature of a substitute and recommends that the bill (as amended) do pass.

CONTENTS

I. INTRODUCTION

S. 3521, the Stop Over Spending (SOS) Act of 2006, represents the first significant effort to reform the federal and congressional budget process since the 1990 Budget Enforcement Act. This legislation provides a comprehensive approach to controlling federal spending through solutions that keep discretionary spending within legislated limits and control the rate of growth in entitlement spending. S. 3521 recognizes that American citizens are not under-taxed by their government, rather the government spends too much. It recognizes that firm action is needed to ensure that the unsustainable growth of federal obligations do not threaten the financial security of our children, grandchildren, and nation.

II. PURPOSE AND SUMMARY

The purpose of S. 3521 is to establish meaningful, strong measures to address short-term and long-term spending trends that are driving the federal deficit and threaten to dramatically increase the debt, if unaddressed. The Committee has recommended a number of reforms and improvements to re-establish discipline in the congressional and federal budget process. The recommendations ensure that the Executive Branch, the House of Representatives and the Senate will be held to specific, quantifiable discretionary spending limits and that out-of-control entitlement spending will be reined in.

The major reforms contained in S. 3521 are as follows:

Legislative Line Item Veto. S. 3521 allows the President to propose and requires the Congress to consider and act upon specific, questionable spending proposals contained in appropriations bills, new entitlement legislation, and tax benefits that are targeted to a very limited number of beneficiaries.

Regular and Emergency Discretionary Spending Limits (Caps). Discretionary caps were originally established in the Budget Enforcement Act (BEA) of 1990, and continued until their expiration in 2002. S. 3521 re-establishes caps on discretionary spending and establishes new spending limits on emergency spending – spending which has been used as a loophole to skirt appropriation limits. The bill provides enforcement of these caps through an across-the-board sequester if these limits are exceeded.

Deficit Reduction Mechanism. S. 3521 establishes a glide path to effectively balance the budget by 2012. Under this mechanism, deficit targets are defined as percentage of Gross Domestic Product (GDP). If deficit projections exceed those targets in any given year, Congress would be required to embark on a mandatory reconciliation process and consider changes to entitlement programs in order to reduce spending growth. Should Congressional action fail to make necessary changes through reconciliation, this mechanism would be backed up by an automatic across the board sequestration of direct/entitlement spending (exempting Social Security).

Biennial Budget. S. 3521 shifts the federal budget and appropriations process to a biennial (two-year) basis allowing the Executive Branch and Congress to focus on the budget and appropriations in the first year and program review and oversight of the actual use of funding in the second year of each biennium.

Commission on Entitlement Solvency. S. 3521 creates a bipartisan 15 member Commission on Entitlement Solvency. The sole purpose of the Commission is to recommend improvements in Medicaid, Medicare, and Social Security to put these programs on a firm financial footing. Congress would debate and vote on such recommendations under an expedited process.

Commission on Congressional Budgetary Accountability and Review of Federal Agencies (CARFA). S. 3521 creates a bipartisan 15 member Commission, which over a four-year period will review federal programs and identify redundancy, waste and opportunities for reform. Congress would debate and vote on such recommendations under an expedited process.

Budget Resolution and Reconciliation Reforms. S. 3521 streamlines and improves a number of facets to budget processes to allow the annual budget resolution and the budget reconciliation process to work more efficiently to manage and reduce spending.

III. NEED FOR LEGISLATION

No budget process can ensure that Senators, Representatives, OMB Directors or Presidents of the United States will operate within and comply with budgetary constraints. But, the history of the budget process has shown that strong, enforceable limits, backed by enforcement mechanisms in statute can help influence leadership and make it more likely that Congress and the Executive will be willing to make tough choices among programs.

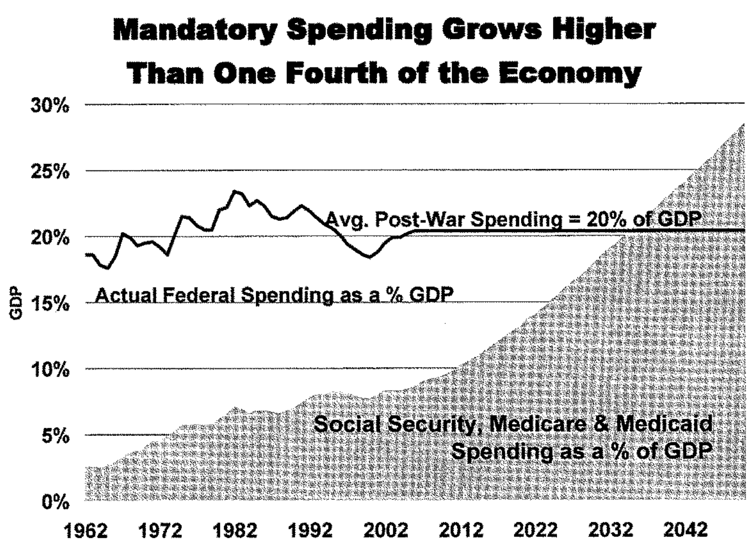
With the enactment of the Congressional Budget and Impoundment Control Act of 1974, Congress and the President agreed that the Legislative Branch should adopt an overall Federal Budget plan. Since then, the Congressional Budget process has been reformed a handful of times. Often such reform follows external events or failure of the budget process to reduce deficit spending. Landmark reforms include the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings) and the BEA of 1990. The last significant reform occurred in 1997 with the extension of the BEA. Regrettably, the Act expired in 2002, and its enforcement mechanisms have been extended only in spirit through the congressional budget resolutions, which lack the force of law, and largely control only the legislative branch.

S. 3521 represents the next step in budget reform and enforcement legislation. While there are several notable and important differences between the SOS Act and the aforementioned budget efforts, one of the most meaningful is the fact that S. 3521 rightly focuses on and addresses the unsustainable growth in entitlement spending whereas Gramm-Rudman-Hollings (GRH) and the BEA of 1990 and the 1997 extension focused more on restraining discretionary spending.

The significance of S. 3521's focus on addressing entitlement spending cannot be overstated. Entitlement programs are largely on automatic pilot and growing, and without controls or limits they will grow much faster than the Nation's ability to pay for them. The first baby-boomer will retire in 2008. As more and more people retire, the burden on the taxpayer will continue to grow.

These demographic realities are putting entitlement programs on a trajectory that cannot be maintained. The following facts help put our future financial crisis in perspective.

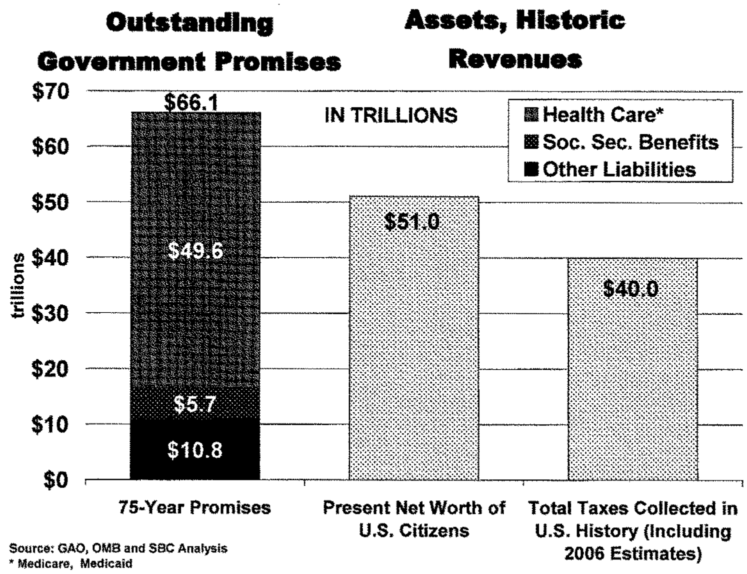
The federal government has equaled each year approximately 20 percent of the Gross Domestic Product (GDP) of the nation since 1960. In short, all U.S. Government programs have needed one-fifth of the nation's annual economic output to maintain grants, facilities, programs and workforce. This includes all federal programs and agencies from the Departments of Defense, Education, Health and Human Services to the Federal Aviation Administration and Veterans Administration. Three large entitlement programs currently consume about eight percent of the U.S. GDP – Medicare, Medicaid, and Social Security. Based on the projected rate of growth of these three entitlements and projected growth of the U.S. economy, these three programs alone will account for 20 percent of the United States' GDP by about 2035.



Source: CBO, SBC Majority Staff

The U.S. Comptroller General and others have expressed this entitlement bow wave facing the nation in terms of outstanding promises, or unfunded liabilities. Direct/ entitlement programs, driven by health care programs, will have an unfunded liability or promises of $65 trillion over the next 75 years, of which Social Security, Medicare, Medicaid would comprise $56 trillion. By comparison the present net worth of all U.S. citizens, all bank accounts, stocks, real estate, etc, totals $51 trillion.

This $65 trillion problem is not one you tax your way out of either. Total tax collections by the Federal Government since the founding of the republic total $40 trillion. Even if taxes were raised to unprecedented levels, the deficit would grow to quarter of the economy from 2.3% of GDP to 24% of GDP.



These data are sobering. They show that the U.S. Congress must face up to some tough choices to secure our children's financial future. The SOS Act contains a number of provisions to encourage and assist Congress in making those decisions. Notably, S. 3521 includes a deficit reduction mechanism that forces Congress to make changes to entitlement programs if deficit targets linked to balancing the budget by 2012 are not met. It also stipulates that if Congress fails to make changes to the entitlement programs (changes that can be offered by Republicans and Democrats alike), then an across the board reduction, of an amount sufficient to meet the deficit target, would apply to entitlement programs. It creates a new point of order to restrain new entitlement spending, if a measure projecting Medicare insolvency in the near future is met. Finally, S. 3521 establishes a bipartisan Commission to provide a report to Congress that includes legislative recommendations to protect the short and long term solvency of Social

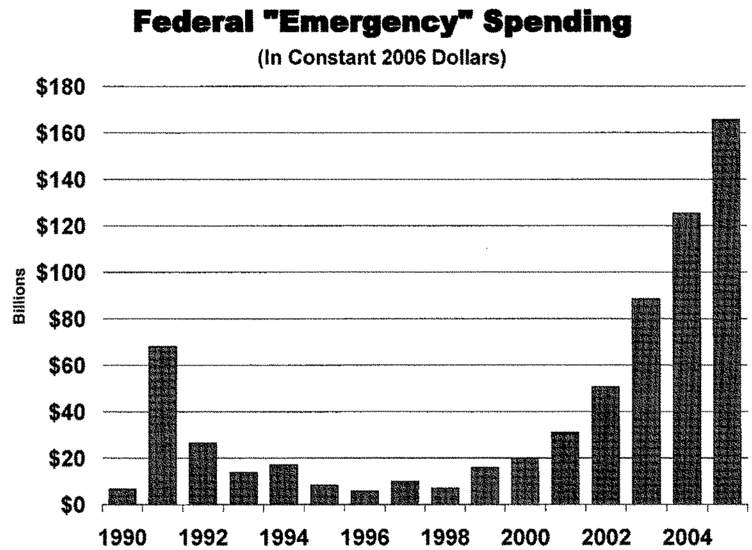
Security, Medicare and Medicaid. Congress could amend those recommendations, but is required to vote to either pass or defeat the legislation – thereby assuring no more free-pass for Congress to merely debate but avoid taking action to secure solvency and address the financial stability of the programs.

While entitlement spending represents the greatest threat to our long-term fiscal future, the existing annual budget process is broken and must also be fixed. A sound budget process forces decision makers to deal with the scarcity of resources and be prudent stewards of taxpayer monies so that programs exist at levels the Nation's citizens can afford rather levels financed by deficit spending that drive up the debt.

The current budget process and does not meet this test and is in urgent need of repair. Upper spending limits are adopted on an annual basis and are all too often altered when new spending proposals push up against the limits/caps. All too often "gimmicks" or "loopholes" are used to provide for extra spending. For example, so called "advance appropriations" have been used to provide forward funding without adjusting limits. Pay date shifts and illusory, annual changes like the cap on the Crime Victims Fund are used to supplement resources.

The greatest loophole, so called "emergency spending" has been used to provide up to an additional 20 percent in excess of the approved discretionary budget. Much of this funding is neither unforeseen nor an emergency – but by so declaring, billions in resources are simply added to the "on budget" discretionary totals without commensurate offsets. It has become customary for annual submissions of the Budget of the United States to exclude resources that are known will be requested to supplement the budget and add to the deficit. Financial requirements within the "on budget" accounts are under priced and ongoing programs are being shifted to the "emergency" ledger. The continued use of such supplemental "emergency" spending – undercuts the basic foundation of the federal budget by keeping two sets of books.

The following chart demonstrates that the "emergency" spending is being used with increased frequency. From 1990 through 2004, as measured in constant dollars, emergency supplemental spending above the discretionary caps averaged about $30 billion. In the past few years this category of unrestricted spending is averaging well over $120 billion a year.



The SOS Act addresses concerns that emergency spending has gotten out of hand by establishing caps on emergency spending and bringing those caps to the historical average by 2009. Congress may spend above those caps but doing so would likely result in across the board reductions to other discretionary funding commensurate with the amount necessary to comply with discretionary and emergency caps. In other words, S. 3521 places the same financial discipline on Congress that most American households operate under every day – an unexpected expenditure increase often necessitates a decrease in another area in order to live within a budget.

Not only is it important for Congress to operate under spending limits, but it is also important for Congress and the President to exercise prudent decision making in establishing priorities for how American taxpayer dollars should be spent. The wide reporting of wasteful spending on government programs and projects necessitates both a thorough review of the federal government programs but also the ability for the President and Congress to target wasteful spending for elimination. In response to public outcry over wasteful spending, S. 3521 includes legislative line item veto (expedited rescission) authority and a commission to review and evaluate all federal programs for waste and abuse.

In summary, the confluence of the looming financial crisis (as a result of unrestrained entitlement growth), the explosion in and misuse of emergency spending, and the increased concern over wasteful spending are indicative that the current federal budget process is in need of reform and retooling. The time has arrived for S. 3521's comprehensive approach to restore the federal budget process and our future children and grandchildren's fiscal security.

Summary of S. 3521 (Stop Over Spending Act) with amendments by the CRS

Stop Over Spending Act of 2006 - **Title I: Legislative Line Item Veto Act of 2006** - (Sec. 102) Amends the Congressional Budget and Impoundment Control Act of 1974 (CBICA) to authorize the President to transmit annually to Congress a maximum of four special messages that propose to rescind dollar amounts of discretionary budget authority, items of direct spending, and targeted tax benefits.

Prohibits the President from resubmitting any proposed rescission that Congress rejects. Does allow the President to resubmit, in one subsequent special message, some or all of the dollar amounts of such rescissions if Congress adjourns sine die without completing legislative action on them.

Requires an analysis: (1) by the Congressional Budget Office (CBO) of estimated savings in budget authority or outlays resulting from such rescission; and (2) by the Joint Committee on Taxation of estimated savings resulting from repeal of targeted tax benefits.

Requires any rescinded budget authority, items of direct spending, or targeted tax benefit to be dedicated only to deficit reduction, and not to be used as an offset for other spending increases or revenue reductions.

Requires the chairs of the Senate and House Budget Committees to revise spending and revenue levels under the Congressional Budget Act of 1974 (CBA) and adjust CBA committee allocations and any other appropriate adjustments to reflect the rescission.

Requires revised allocations and aggregates to be considered to have been made under an agreed-to budget resolution and to be enforced under CBA procedures. Requires the President, after enactment of a rescission bill, to revise applicable limits under this Act, as appropriate.

Sets forth procedures for expedited congressional consideration of a proposed rescission.

Authorizes the President, up to 45 days after receipt by Congress of his special message, to: (1) withhold from obligation any discretionary budget authority; and (2) suspend the execution of any item of direct spending or targeted tax benefit.

Requires the Joint Committee on Taxation to: (1) review any revenue or reconciliation bill or joint resolution amending the Internal Revenue Code being prepared for filing by a conference committee; (2) identify whether such legislation contains any targeted tax benefits; and (3) provide the conference committee with a statement identifying such targeted benefits or declaring that such measure does not contain targeted tax benefits.

Terminates this Act on December 31, 2010.

Title II: Deficit Reduction - Subtitle A: Definitions, Administration, and Sequestration - (Sec. 202) Establishes a timetable for administration, reconciliation, and the effect of sequestration under this Act.

Requires the President to issue an order fully implementing without change all sequestrations required by the Office of Management and Budget (OMB) in its Final Sequestration Report.

(Sec. 203) Requires the Government Accountability Office (GAO) to report to Congress and the President on the order's compliance with this Act.

Subtitle B: Discretionary Spending Limits - (Sec. 211) Prescribes requirements for discretionary sequestration reports by OMB and GAO for the current year through 2009.

(Sec. 212) Establishes discretionary spending limits for FY2007-FY2009. Limits adjustments for emergency requirements designated by the President and enacted by Congress for such fiscal years.

Allows an adjustment if an appropriation measure is enacted for FY2007, FY2008, or FY2009 that includes $6.824 billion plus an additional amount for the enhanced tax enforcement initiative of the Internal Revenue Service (IRS).

Prescribes requirements for executive and legislative branch sequestration procedures to eliminate a budget-year breach if enacted discretionary appropriations exceed the discretionary spending limits.

Subtitle C: Maximum Deficit Amount Limitation - (Sec. 221) Sets the maximum deficit amounts for FY2007-FY2012.

(Sec. 222) Requires OMB and CBO, with respect to each fiscal year, to estimate: (1) the deficit; (2) the maximum deficit amount; and (3) any excess deficit amount for the budget year.

Sets forth OMB and CBO reporting requirements regarding the maximum deficit amount, revised estimates, and maximum deficit amount reconciliation.

(Sec. 223) Sets forth requirements for congressional response to OMB and CBO reconciliation reports.

(Sec. 224) Prescribes requirements for OMB and CBO revised estimates and final maximum deficit amount sequestration reports.

(Sec. 225) Requires the President, based on such report and the timetable specified in this Act, to issue an order to reduce the maximum deficit amount.

(Sec. 226) Prescribes special congressional procedures for response to low economic growth.

(Sec. 227) Exempts from sequestration orders any benefits payable under the old-age, survivors, and disability insurance program (OASDI) of Part II of the Social Security Act and Tier I railroad retirement benefits under the Railroad Retirement Act of 1974.

(Sec. 228) Prohibits the President's budget from exceeding the maximum deficit amount for any fiscal year.

Title III: Biennial Budget and Appropriations - (Sec. 301) Amends CBA to revise the timetable for the congressional budget process (beginning with the 110th Congress) to require biennial (currently, annual) budgets.

Defines the budget biennium as the period of two consecutive fiscal years beginning on October 1 of any odd-numbered year.

(Sec. 303) Requires biennial budget resolutions, appropriations Acts, and government strategic and performance plans.

(Sec. 307) Makes it out of order in the House of Representatives or the Senate in odd-numbered years to consider any regular bill providing new budget authority, or a limitation on obligations under the jurisdiction of any of the subcommittees of the Committees on Appropriations, for only the first fiscal year of a biennium, unless the program, project, or activity for which such authority or limitation is provided: (1) will require no additional authority beyond one year; and (2) will be completed or terminated after the amount has been expended.

(Sec. 308) Requires OMB to report to the House and Senate Committees on the Budget any changes in law to CBA and the provisions of this Act required to conform with a biennial budget process.

Title IV: Commissions - Subtitle A: National Commission on Entitlement Solvency - (Sec. 402) Establishes the National Commission on Entitlement Solvency to review and report to the President, Congress, the Commissioner of Social Security, and the Administrator of the Centers for Medicare & Medicaid Services on the Social Security, Medicare, and Medicaid programs, identifying problems that may threaten their long-term (at least 75-year) solvency.

(Sec. 403) Requires expedited congressional consideration of the Commission's legislative action recommendation.

Subtitle B: Commission on Congressional Budgetary Accountability and Review of Federal Agencies - (Sec. 412) Establishes the Commission on Congressional Budgetary Accountability and Review of Federal Agencies to: (1) evaluate all agencies and programs identified in the President's systematic assessment of agency programs to determine whether any are duplicative, wasteful, or outdated; (2) submit a plan to Congress for the elimination or the realignment of any agency or program that has completed its intended purpose, become irrelevant, or has failed to meet its objectives; and (3) propose legislation to meet such a plan.

(Sec. 416) Requires expedited congressional consideration of the Commission's recommendations for agency reform proposals.

(Sec. 418) Authorizes appropriations for FY2007-FY2011.

Title V: Budget Process Reforms - (Sec. 501) Amends CBICA to set forth new definitions to conform with this Act.

(Sec. 502) Amends CBA to revise budget resolution requirements. Allows appropriate congressional committees to submit recommendations for deficit reductions to the House or Senate Budget Committees. Modifies the contents of the Committee's hearing reports.

(Sec. 503) Repeals provisions requiring further division of amounts allocated to the Senate Committee on Appropriations.

(Sec. 504) Modifies: (1) requirements for adoption of the budget resolution before consideration of budget-related legislation; (2) procedures for congressional consideration of such resolution; (3) contents of the five-year budget projection; (4) reconciliation directives to be included in the resolution and congressional consideration of such directives; (5) enforcement mechanisms of budget aggregates; (6) mechanisms used by the House and Senate Budget Committees for determining levels of new budget authority, outlays, direct spending, new entitlement authority, and revenues for a fiscal year.

Repeals provisions relating to points of order in the Senate on discretionary spending and the maximum deficit amount.

(Sec. 510) Revises the prohibition against the inclusion of extraneous matter in reconciliation legislation. Provides that, except regarding consideration of conference reports, a provision shall not be considered extraneous if it produces an increase in outlays or decrease in governmental receipts that does not exceed 20% of the total change required in a committee's reconciliation instruction. Exempts technical and conforming provisions.

(Sec. 511) Repeals certain requirements for adjustments of: (1) discretionary spending limits, if any, set forth in the appropriate budget resolution; (2) certain committee allocations made pursuant to such resolution; and (3) budgetary aggregates set forth in it.

(Sec. 512) Authorizes the chairman of the Committee on the Budget to notify the Senate of a Medicare funding warning if the chairman projects that within seven years Treasury general fund contributions to Medicare funding, expressed as a percentage of total Medicare outlays, will exceed 45%.

Makes it out of order to consider any legislation that would cause any increase in direct spending, net of proposals to change direct spending receipts, or revenues contained in the measure, if the Senate has received a Medicare funding warning for two consecutive calendar years.

Permits waiver or suspension of such provisions only by an affirmative vote of three-fifths (60) of the Senate. Requires an affirmative vote of three-fifths also for appeals in the Senate of rulings of the Chair.

Declares that any notification of a Medicare funding warning is withdrawn if legislation is enacted to reduce the general fund contribution below 45%, as determined by the chairman.

(Sec. 513) Requires any submission to Congress, upon the request of either chamber, by a federal executive branch or D.C. government officer or employee of an appropriations estimate or request, a request for an increase in that estimate or request, or a recommendation on meeting the financial needs of the government to be submitted to both Congress and a congressional committee at the same time. (Currently such a submission may be to either the Congress or a congressional committee.)

Chairman ENZI. Now I recognize Senator Cramer to introduce our second witness, Senator Conrad.

Senator CRAMER. Thank you, Mr. Chairman, and I thank both of you for being here. You are both way too young to read in an obituary, so I am grateful that you retired at a young enough age to continue serving in new capacities. It is great to have both of you here, and it is a special honor to introduce Senator Conrad.

I was telling him as we came in, the last time I introduced him, I was the tourism director. He was a Senator, and I introduced him to be the keynote speaker at the grand opening of a tourism information center in Washburn, North Dakota, the Lewis and Clark Center. So it has been a long time. Lucy was very concerned then, too, Senator. But it is great to have you here, and we really could not hear from two better people.

Senator Conrad is from Bismarck, where my wife and I live now. After graduating, he went to Stanford where he received his bachelor's degree and then received an MBA at George Washington University, and then went back home with a heart of service and went to work in the tax commissioner's office where Commissioner Byron Dorgan saw potential, evidently, and he worked for Commissioner Dorgan, who eventually became his colleague in the United States Senate.

Senator Conrad does have a distinction in that he—both Senator Hoeven and I are in the lineage of the Conrad seat. He held both U.S. Senate seats from North Dakota—not at the same time, of course, but I consider it an honor. During his 20 years, Kent was well known for being concerned about the budget and lived it out every day in this place, lived it out at home, always with North Dakota at the forefront of his concern and consideration, but was the real budget hawk that a lot of people turned to from both parties. And we are grateful for that legacy, Senator, and it is why, of course, you are here.

So, with that, I am not going to go through all the incredible things he has done. He is going to give some great testimony I have already read. Thank you for that. And thanks for being here and for your service to our State for all those years.

Thank you.

Chairman ENZI. With that, we will begin the testimony. We will start with Senator Gregg.

STATEMENT OF THE HONORABLE JUDD GREGG, FORMER UNITED STATES SENATOR, SENATE BUDGET COMMITTEE CHAIRMAN

Senator GREGG. Thank you, Mr. Chairman, and it is a great honor and privilege to be here and to be sitting on this side of the table. It is a unique experience and I suspect will be very enjoyable.

I want to thank the Chairman for inviting me and also inviting Senator Conrad, obviously, and I want to thank the members of the Democratic Party who are here and the members of the Republican Party who have taken the time to participate in this hearing.

I want to congratulate Senator Enzi on the budget that he brought forward. I thought it was a very responsible budget, by the way.

Also, it is a great pleasure to be here with Senator Conrad. He and I were Chairman/Ranking or Ranking/Chairman for many years, and we had some contests. We had some disagreements. But we viewed our role as partnerships. We were both directed in the same way. In fact, it was Senator Conrad who coined the phrase "The debt is the threat." And that was basically the theme that guided both of our approaches.

And so we did have some disagreements, and I suffered through too many charts over the years to even mention them. But we always were on the same path of trying to get the budget process to work right and, by working right, that means it manages our budget so that it is affordable for the American people.

We are obviously in the throes of a very significant problem. The debt is now at $22 trillion. The debt-to-GDP is over 70 percent. We are looking at over trillion-dollar deficits as far as the eye can see right now, which is just inconceivable. We will probably hit 100 percent of debt-to GDP before the end of the next decade, which puts us in the same room with Greece and Ireland and Iceland and other nations which have gone bankrupt.

We have, obviously, the advantage of being the currency of the world and the place where people think we can get things done and solve problems, and so the people give us great running room. But Senator Conrad and I served on the Simpson-Bowles Commission together, and one of Erskine Bowles' comments that I always remember was, when asked why our debt was not as big a problem as it had been for other nations which had the same debt situation, he said, "Well, we are the best horse in the glue factory." And that is the simple fact. We are in the glue factory as a nation.

So the first step to getting this under control is to get the budget process to work, and the budget process obviously is not working. And as Senator Van Hollen said, in the end it is about people and the willingness to take leadership and make the tough decisions. But there does need to be a framework which allows the Senate and the Congress to accomplish that.

The problems with the budget process have to be addressed in order to fix the budget process, and the problems are a few.

The first is that it is a hyperpartisan piece of legislation. The budget historically, in fact, has always passed on a pure party line vote, and it is partisanship in the extreme. The minority opposes it, the majority supports it, and there is very little constructive effort across the aisle, even with Senator Conrad and I, who basically worked very hard to make it a working process but still recognize that it was a highly partisan process. So there is always significant systemic opposition to the budget from the minority party, whichever it is.

The second problem as I see it is—or this may not be as much of a problem today as it was when Senator Conrad and I were active—is that the Budget Committee is considered to be a threat by at least two of the major committees in the Senate: the Finance Committee and the Appropriations Committee. And they think that the budget is interfering with their turf, and there is really not a whole lot of enthusiasm on either of those committees, certainly from the staff but also from the leadership, to be a constructive player in the budget process at the level that you need it if you are going to get things done effectively.

The third issue is that it does not address the budget. I mean, the budget is 27 percent of spending of the Federal Government; 73 percent of the Federal Government spending is not even addressed in the budget. It is incredible that we would have such an appropriations-centric budget when the appropriations process is so limited in its size and basically locked into its size. I mean, you are not going to be able to change defense by more than a percentage point or two, and you are not going to be able to change discretionary spending.

So we need to address that, and we need to figure out a way to bring into play the rest of the items in the budget and have a comprehensive system.

My view is that there are a lot of ways you can tinker around the edges and so substantive work around the edges. And Senator Conrad has proposed a whole series of those, but I am going to try to take a little different tack. I am suggesting a complete revamp of the budget process. I know it is not going to happen, but I want to throw it out just to get the discussion going.

First off, we need to reconstitute the Budget Committee. It should be made up of the senior members of the Finance Committee, the Appropriations Committee, and the membership generally—one-third Finance, one-third Appropriations, one-third general membership, with the Chairman of the Committee being picked by the majority party.

It should also be a bipartisan Committee—I mean a purely bipartisan Committee. It should be a 50–50 membership so that everybody has to buy into the final product. All the fingerprints are going to be on the final product. And if you do that, then both sides are going to have to take responsibility for not having a budget, and both sides are going to be able to take responsibility for getting a budget.

Now, you are going to say to yourself, “Well, how can we possibly do that because there is such a partisan difference?” Well, I think you put in an enforcement mechanism that makes it virtually impossible and extremely punitive not to pass a budget. And the enforcement mechanism I have thrown out would effectively not allow an appropriations bill to come to the floor, including an omnibus bill, until there is a budget. And if there is not a budget and there is not an omnibus appropriations bill, then you have to reduce spending by 5 percent on the discretionary accounts and 5 percent on the major entitlement accounts, and you have to increase the tax liability on FICA and the HI tax by 5 percent. As soon as those things kick in, you will get a budget because people will not tolerate that type of a draconian event.

Now, you can think of other draconian events, but I think that one is a pretty good one to force action on the Committee’s part.

There also needs to be an approach which looks at the three largest Federal entitlements. At least two of these cut across a lot of jurisdictional lines because they involve health care, and there ought to be a restructuring of how we approach those entitlements. And reconciliation is a club, but it is a very ineffective club, in my opinion, in the sense that it is not really structured to be targeted and be able to be flexible. And so you need to restructure how you address those three major entitlement programs in order to accomplish the goals.

Lastly, there needs to be a capital budget. It should be a 2-year budgeting process. And the point-of-order structure should be graded so that the threshold for crossing a point—for rejecting a point of order brought by the Chairman of the Budget Committee goes up as the number goes up that it might affect to a 67-percent point of order when you have got a really big number coming at you.

These are very significant approaches in the sense that they are different and they are changes that are fundamental, but I actually think if we put in place a new budget process like that, we would actually get a budget.

Thank you.

[The prepared statement of Senator Gregg follows:]

Fixing a Broken Budget and Spending Process: Perspectives of Two Former Chairmen"
May 14, 2019
Senate Budget Committee

Testimony of Former Senator Judd Gregg

Fixing the Budget

The primary reason that the congressional budget process is not functioning is that it requires difficult decision. This is something the Congress is not good at doing.

The budget exercise is also structured to guarantee significant partisanship and turf confrontations.

The rules which govern the process and are already in place would lead to an effective budget procedure and product if the factors mentioned above were not in play, but they are, so the whole thing does not work.

Thus, the country often does not have a federal budget and even when it has had some semblance of a budget in place over the last decade or so, it has had little practical impact on disciplining federal spending or tax policy.

To fix this problem, and actually have the Congress produce budgets that are meaningful and effective, there needs to be fundamental change.

Adjustments must address the causes of the breakdown in the present budget process. These causes are:

1. The hyper-partisan nature of the manner in which the budget is developed. The budget is the only major legislation that is structured to be a product produced purely along partisan lines. The majority party has to write and pass a budget with only its members' supporting it. This guarantees significant opposition to any budget by the minority.

2. Other committees, especially Finance and Appropriations in the Senate, see the Budget Committee's product, i.e. the budget, as a threat to their jurisdictions and areas of responsibility. Thus, the budget inevitably runs into and is often undermined by the need and desire of other committees to protect their "turf".

3. The actual form that the budget takes does not relate to or give visibility to the core problems that a budget should address. It is too appropriation centric. It does not tie into the issues of the size of the debt in a formal way. It rarely effectively addresses two thirds of the spending of the government which involves entitlements or revenues. It is not set up to separate out capital spending, federal personnel policies or unused funds. It has no comprehensive way to address major federal spending areas like healthcare that cuts across multiple committees and involves both discretionary and entitlement spending. It is simply dysfunctional in its structure.

In order to address these issues there needs to be a major re-thinking of the approach to developing the Federal Budget.

The Budget Committee itself should be re-constituted.

It should be made up in large part of the senior members of the committees most affected by the product. This would create a greater likelihood of buy in from these powerful committees and reduce the forces that are naturally at odds with the effort. One third of the Budget Committee should be from Appropriations, one third from Finance and one third from the general membership. The respective party leaders should choose the chairperson and ranking member from the general membership.

The Budget Committee should be a bi-partisan committee. It should have its membership divided fifty-fifty between the parties with the chairperson being from the majority party. This would mean that both parties would have take responsibility for producing a budget or blame for the failure to do so. It would also reduce the partisanship of the execution of the actual budget and would increase significantly the forces that would drive toward reaching consensus on complex issues that require consensus to make progress like healthcare reform and tax reform.

The budget goals should be set in terms of the debt to GDP ratio and if possible the same type of ratio should be used to set limits on spending and tax policy.

No appropriation bills should be allowed to move to the floor without a budget, including an omnibus bill. Spending on discretionary accounts and on major entitlements should be reduced by five percent from the prior year and revenues from the FICA and HI taxes should be increased by five percent if no budget is passed. This would put extreme pressure on the bi-partisan committee and the Congress to produce and pass the budget.

The three largest areas of Federal entitlement spending should be broken out as a separate items. Congress should have the authority to direct its review to reach certain goals relative to spending in context of the debt to GDP ratio with a structure that crosses committee lines of jurisdiction and engages all the affected committee in a single process of review.

A capital budget process should be added that coordinates all the committees of jurisdiction.

Points of order for violating budgeted amounts should vary in the degree of difficulty to override using an up to a 67-vote threshold depending on the size of the excess spending or tax reduction.

The actually budget should be drawn up based on a two year structure with five- and ten-year instructions and estimates.

A budget organized along these concepts would dramatically increase the likelihood that the largest government in the world, a government that is spending over four trillion dollars a year, would actually have a functioning budget.

It would create a disciplined approached to spending and tax policy and would increase significantly the American people's confidence in their government and the Congress.

Such an approach would border on revolutionary. It would also be a nice way to govern.

Chairman ENZI. Thank you.
Senator Conrad.

STATEMENT OF THE HONORABLE KENT CONRAD, FORMER UNITED STATES SENATOR, SENATE BUDGET COMMITTEE CHAIRMAN

Senator CONRAD. Thank you, Chairman Enzi and all those on the ranking side—Senator Van Hollen serving as the Ranking Member today.

I would first like to take a moment to observe that Chairman Enzi will be missed in this body when he retires. My wife and I had a chance to travel to Africa with Senator Enzi and Diana to visit AIDS orphanages and AIDS clinics. I remember before we left, I told my wife, "Do I really have to go?" I thought it was going to be the most depressing thing I had ever experienced, but I can tell you it was really inspiring. And I learned a lot about Senator Enzi on that trip, and I learned that he is a person of rare character and decency, and we need more of that in this country. So he will be sorely missed in this body.

I appear before you today as a former Chairman and Ranking Member. Senator Cramer, thank you for that kind introduction. When I was first here, I was in your position. I was at the end of the line. I was the 100th in the chamber in seniority, and I was at the bottom in seniority on this Committee. And at the end I was sitting where Senator Enzi is, the Chairman of the Committee. And I served as Ranking Member with Senator Gregg, and we developed not only a respect but a real friendship, which endures to this day.

It was a very, very different place at that time. The budget process was taken very seriously when I came here. Markup could last as long as 2 weeks, and I will tell you, it was a serious business. I remember spending hours and hours preparing for markup, preparing amendments, preparing debate with amendments that were being offered. And always when a budget resolution passed the Committee—and it always did—it went to the floor for amendment and debate and a vote. Now that rarely happens.

Let me share a story that illustrates how very much things have changed. Once when I was Chairman, I had a budget on the floor, and a senior Republican had an amendment pending that, if voted on, would have passed and, when passed, would have killed my budget. It was an amendment that would have sharply reduced farm program payments to large farmers that especially affected cotton and rice. And so I knew if that amendment passed, my budget was dead because no Democrat from the South could then vote for a budget with that amendment included.

My best friend in the Senate, my colleague Senator Dorgan, happened to be the cosponsor of that amendment. I called him, I said, "Byron, you are about to kill my budget." He said, "Well, what do you want me to do?" I said, "I want you to go to the Republican sponsor and ask if he will withdraw the amendment. Explain the situation." He said, "Boy, that is going to be a tough sell. This is something he has worked years on. He knows when we offer it, it is going to pass. He is going to accomplish something he has been trying to get done for a long time. But I will do it."

He called me back an hour later. He said, "Our Republican colleague will withdraw his amendment," even though he knows he was going to kill my budget if he offered it, even though he knew he was going to win.

Think about that. Could that happen today? But it happened. And this was a tough Republican partisan. You all know him. I am not going to call him out because what he did was really quite extraordinary. So things have really changed here.

Let me tell one other story, and that is about Senator Gregg and I, we were on a trip to Central and South America. Our wives and we were seated together during that entire trip. And Judd is quite right. We have different views about how to solve the problem. But one place we were truly joined at the hip was we believed the debt facing this country was a serious and is a serious threat. And we believed we needed to take action.

And so during this trip, we came up with the idea of a grand compromise. We came up with the idea of a special commission that became Simpson-Bowles. And we talked about the need to, yes, cut spending and raise revenue and reform entitlements to get America back on track.

My greatest regret is that Simpson-Bowles never passed. We got 60 percent of the members of the Commission to support it, but it took a super-super majority to get a vote on the floor of the Senate. We never had that opportunity.

We then had a group of six, some of whom are still here. We worked on it for several years trying to get it in a shape to present to our colleagues, but that never passed. I truly believe we could have made major strides of getting the country back on track had we passed Simpson-Bowles or something close to it.

It is critical that America has a budget. Our gross debt, as Senator Gregg indicated, is $22 trillion. Our gross debt is already more than 100 percent of our gross domestic product. Social Security faces insolvency by 2034 Medicare by 2028, and that is according to the Trustees of the programs. When interest rates rise, the pressure on all other Federal spending and income will be intense.

So Congress and the administration need to act, and it starts here. We need a functioning budget process. But we all know what has happened. The Federal budget process is little more than a charade.

The leaders know that if the Budget Committee takes action, even if the budget never goes to the floor, it blocks any other member from offering a resolution that would require consideration by the whole membership.

So because leaders of both parties want to shield their members from tough votes, they do not permit a budget resolution to be considered by the full Senate. And America is denied the opportunity to have a budget for the country.

Meanwhile, we will be running trillion-dollar deficits when economic times are good, unemployment is low, inflation is low, economic growth is reasonably strong. And we are running trillion-dollar deficits? Really? What possible sense does this make? We can do better.

I know it is now fashionable to believe for some on both sides that deficits and debt do not matter. I would say to them: Ask the people of Greece. I have been there. I met with their Finance Minister, their Prime Minister, under a crushing debt load. I tell you, it affects everyday people every day of their lives. Ask the people of Venezuela, ask the people of Chile, and, yes, ask the people of Germany before World War II whose currency so inflated they had to have carts and wheelbarrows full of money to go buy a pair of shoes.

Deficits and debt matter when you reach a tipping point. No one knows for sure where that tipping point is, but it is clear we are racing towards it.

So the first thing I would do is say if the Budget Committee's concurrent resolution does not come to the floor for a vote within 10 legislative days of passage in the Committee, any member could offer a budget resolution and it will be treated in the same way as a resolution from the Committee itself.

That would put enormous pressure on any leader to bring a Budget Committee resolution to the floor for consideration. But that will not be enough. Let me quickly outline some other ideas that might make a difference.

Reform "vote-a-rama" by establishing a filing deadline and a limit on the number of amendments.

Make the budget process more efficient by adjusting the Federal fiscal year to match the calendar year.

Amend the debt ceiling to lessen the likelihood of default and couple it to revenue and spending levels in the budget resolution.

Prevent or reduce the likelihood of Government shutdowns by implementing automatic CRs.

Prohibit lawmakers from using reconciliation to increase the deficit within the 10-year budget window.

Curtail gimmicks by requiring all budget resolutions to use the CBO baseline and require all mandatory spending and revenue changes to be shown.

Compel lawmakers to take a distinct floor vote to waive any Budget Act or PAYGO point of order.

Include tax expenditures and mandatory spending within the normal budget process, something Senator Gregg referenced.

Create a requirement that Presidential and congressional budgets include estimates of budgetary impacts for 20 years.

For all estimates of legislation by CBO, require interest to be included in the cost.

And implement multi-year debt-to-GDP benchmarks to shrink debt relative to GDP.

Once again, thank you, Chairman Enzi and Ranking Member Van Hollen and all the members of this Committee. It is an honor to be here. Let me say I have confidence in the ability of this chamber to lead to get us to higher ground.

I thank the Chair.

[The prepared statement of Senator Conrad follows:]

Committee for a Responsible Federal Budget

Testimony of The Honorable Kent Conrad
Hearing before the Senate Budget Committee:

Fixing a Broken Budget and Spending Process: Perspectives of Two Former Chairmen
May 14, 2019

Introduction

Thank you, Chairman Enzi and Ranking Member Sanders for inviting me here today. And thank you members for being here to listen. First, I would like to take a moment to observe that Chairman Enzi will be missed in this body when he retires. Lucy and I traveled with Mike and Diana to Africa to visit AIDS clinics and orphanages to see how American funds were being spent. I learned a great deal about Chairman Enzi on that trip. He is a person of rare character and decency, and we need more of that in this country. When I announced my retirement, one of the most moving letters I received was from Chairman Enzi.

And Senator Sanders, I have long admired your unswerving attention to the income inequality that challenges our country. When 40% of our fellow Americans say in a Federal Reserve study that they would have a hard time coming up with $400 for an emergency car repair, we have a problem that is undeniable.

I appear before you as a Director of the Board of the Committee for a Responsible Federal Budget. I also appear before you as a former Chairman and Ranking Member of this Committee, on which I proudly served for 26 years. When I first came to the Senate, I was the most junior member in the body and on this committee. I ultimately served as Chairman several times and as Ranking Member several times. It was very different then. This committee was taken very seriously. The budget process was taken seriously. Mark-up of a budget resolution could go on for several weeks. The budget resolution always went to the floor for debate, amendment, and a final vote. Now we know that rarely happens.

Let me share a story that illustrates how things have changed. Once I had a budget resolution on the floor, and a senior Republican had an amendment pending that, if voted on, would have passed and killed any chance for my budget to pass. It was an amendment that sharply limited farm program payments to large farmers but that would especially affect cotton and rice producers. We all knew it would pass by a wide margin if voted on and that it would kill any chance to pass my budget because southern Democrats could not support a budget with that amendment attached. My best friend in the Senate, a Democrat, was the cosponsor.

When I told him he was about to kill my budget, he asked me what he could do, and I told him the only answer was to ask our Republican colleague to withdraw the amendment.

He called me later to say the Republican Senator had agreed to withdraw his amendment even knowing he could have killed my budget and even knowing he was going to win something he had been working years to accomplish. And mind you, he was a tough, partisan Republican. However, he respected the process and believed we needed a budget.

One other quick story. Judd Gregg and I were on a trip to Central and South America. Our wives and we were seated together on the plane for the entire trip. We were both deeply concerned about our burgeoning gross debt headed for over 100% of GDP – unprecedented since WWII – and the pending insolvency of Social Security and Medicare.

We came up with the idea of a Grand Compromise to cut spending, raise revenue, and reform entitlements to get our fiscal house in order and our nation back on track. It became the Simpson-Bowles Plan. While we did get more than 60% of the Commission to support the plan, we could not get the super-super majority required to bring it to the floor for a vote. My greatest regret is that it did not pass. In my judgment, it would have strengthened our country and put us on a more secure path for the future.

It is critical that America has a budget. Our gross debt is now over $22 trillion, or above 100% of GDP, Social Security faces insolvency by 2034 (Old-Age and Survivors Insurance trust fund), and Medicare by 2026 according to the Trustees of those programs. When interest rates rise, the pressure on all other federal spending and revenue will be intense.

So Congress and the Administration need to act, and it starts here. We need a functioning budget process. But we all know what has happened. The federal budget process is little more than a charade.

The leaders know if the Budget Committee takes action, even if the budget never goes to the floor for a vote, it blocks any member from offering a resolution that would require consideration of the whole membership.

So because leaders of both parties want to shield their members from tough votes, they don't permit a budget resolution to be considered by the full Senate. And America is denied the opportunity to have a budget for the country.

Meanwhile, we will be running trillion-dollar deficits when economic times are relatively good with low unemployment, low inflation, and reasonably strong economic growth.

I know that it is now fashionable to believe for many on both sides that deficits and debt do not matter. I would say to them: ask the people of Greece, the people of Venezuela, the people of Chile, and, yes, the people of Germany before WWII, if debt matters.

Deficits and debt matter when you reach a tipping point. No one knows for sure where that is, but we are racing towards it.

So the first thing I would do is say if the Budget Committee's concurrent resolution does not come to the floor for a vote within ten legislative days of passage in the committee, any member could offer a budget resolution and it will be treated in the same way as a resolution from the committee itself.

That would put enormous pressure on any leader to bring a Budget Committee resolution to the floor for consideration. But that will not be enough. Let me quickly outline some other ideas that might make a difference.

Other Recommendations to Reform the Budget Process

Reform "vote-a-rama" by establishing a filing deadline and a limit on the number of amendments. "Vote-a-rama" is a series of floor votes on amendments, some with almost no time for Senators to review, to a Senate budget resolution. It is often hours-long, lasting late into the night, and it presents a significant hurdle to passing a budget because leadership wants to shield members from politically tough amendment votes. I agree with a proposal that Chairman Enzi has made previously to limit the total number of amendments, with an even split between majority and minority, and institute a filing deadline so Senators have proper time to review amendments before voting.

Make the budget process more efficient by adjusting the federal fiscal year to match the calendar year, moving to biennial budget resolutions, and examine the tradeoffs from biennial appropriations. It is worth considering creating a process to lock in 302(a)s in law after House and Senate elections.

Amend the debt ceiling to lessen the likelihood of default and couple it to revenue and spending levels in the budget resolution. Reducing the risk of default would contribute to curtailing the crisis atmosphere that overshadows the budget process. Yet, it would be imprudent to eliminate one of the remaining fiscal constraints in the process. Instead, lawmakers should have to vote for a debt ceiling increase at the time they vote for the spending or tax legislation that would increase the debt. This reform would lead to greater accountability. A failsafe option would be to give the President the ability to lift the debt ceiling if Congress does not act. This change can be partnered with a requirement that the President submit a plan to set and meet fiscal benchmarks to reduce projected debt.

Prevent or reduce the likelihood of government shutdowns by implementing automatic Continuing Resolutions (CRs) or a fast track process for limited duration CRs. Such CRs should provide funding at the level of the previous year without anomalies. This change could be paired with incentives for lawmakers to complete appropriations on time.

Prohibit lawmakers from using reconciliation to increase the deficit within the ten-year budget window. When I was Chairman of the Senate Budget Committee, we enacted a Senate rule with this prohibition. Policymakers should take it one step further by passing this requirement in law.

Curtail gimmicks by requiring all budget resolutions to use the CBO baseline and require all mandatory spending and revenue changes to be shown. If we're going to measure the fiscal impact of potential legislation, it's imperative that we all use the same measuring stick.

Compel lawmakers to take a distinct floor vote to waive any Budget Act or PAYGO point of order. Simply put, lawmakers should be accountable to their constituents if they are going to suspend budget rules, and constituents ought to know when and how often their elected representatives willfully ignore their own rules intended to instill fiscal responsibility.

Include tax expenditures and mandatory spending within the normal budget process, creating more parity with discretionary spending. Mandatory spending programs and tax expenditures ought to be reviewed on a regular basis. Ideally, policymakers would create multi-year budgets or limits for both. Budgeting is an exercise in tradeoffs, and all budgetary resources should be on the table.

Create a requirement that presidential and congressional budgets include estimates of budgetary impacts for twenty years. Lawmakers and the public should have information about how revenue and spending changes would affect the budget beyond the current ten-year budget window because our budget challenges are not limited to ten years. Estimates for second-decade impacts need not be as detailed as the year-by-year figures provided for the first decade but should give a sense of the direction and magnitude of the change.

For all estimates of legislation by CBO, require interest to be included in the cost. Unless it's offset, every piece of legislation has an interest component to its cost. Choosing not to include that component in a cost estimate means choosing not to understand its full cost. This shift will guarantee the full fiscal impact of legislation is quantified for lawmakers and will better emphasize the benefit of paying for new legislation. Senator Daines (R-MT) has introduced legislation in the Senate to do this. At the very least, interest cost should be a memorandum line.

Implement multi-year debt-to-GDP benchmarks to shrink debt relative to GDP. Through the Budget Committees, use expedited procedures that encourage meeting the debt targets with budgetary triggers if Congress fails to do so. This recommendation is based on the Peterson-Pew Commission on Budget Reform's Getting Back in the Black report.

Conclusion

A well-functioning budget process is necessary for a robust and efficient federal government. It provides the opportunity for our leaders to decide in an open forum the priorities we set as a nation. Budgeting requires hard work, negotiation, compromise, and a determination to stay the course. Reforming the budget process alone will not force lawmakers to agree or act responsibly, but more thoughtful and practical rules will help foster the environment for that through greater transparency and accountability.

With trillion-dollar deficits on course to become the norm and interest payments the fastest growing part of the budget, now is the time to set the committee on the right track with reforms that will not only help the committee itself but the nation as a whole.

Once again, thank you, Chairman Enzi, Ranking Member Sanders, and all the members of this committee. It's an honor to come back here and provide advice to you all today as you embark on this important task.

While I believe much is needed to make this committee and the budget process fully functional again, I am confident in the ability of lawmakers to work together to improve the budget process. The time is now to reform our broken budget process.

Chairman ENZI. I thank you and Senator Gregg. I want to thank you for having worked hard together to try and push a bipartisan commission to tackle the debt. And at one point you had enough cosponsors to make that possible, and then we lost a few. I was one of the cosponsors. I was one of the ones that stayed and voted for it. But I know that you spent some trips going to the White House to convince the President then to do what we were not able to do legislatively. And that happened, and it was called the "Simpson-Bowles Commission," and you were both on it. And it had a debt reduction plan that was based on a model of bipartisan compromise. I look back and think what would have happened had that passed. We would be in pretty good shape right now.

Looking back, what do each of you think worked and what did not about the Commission's efforts? How could we translate some of the Commission's approach into the Committee's future operations? Senator Gregg?

Senator GREGG. Well, the Commission, as Senator Conrad mentioned, was an idea that we worked on together, and the theme of it was that the regular order simply was not working in the Congress. And so what we wanted was a group of people to come together who were basically players in the Congress and the President to have his say in it by putting his membership on it, have it be equally divided between Republicans and Democrats and between the House and the Senate. And I think the key leverage point of the Commission was that if the Commission reached an agreement, it had to be voted up or down without amendment, much like the BRAC situation is with the base closure bills, so that people could not hide behind amendments that they offered and lose. That is what happens. People will offer an amendment. They know they are going to lose it. They lose it and then they say they cannot vote for the final product. So it was an up-or-down vote on the Commission.

And the positive of it was that it had extraordinary leadership in Alan Simpson and Erskine Bowles, and they decided very early that they were going to go big and that they were going to try to bring everything into play.

We also structured the understanding—we reached an understanding where three-fourths of the deficit reduction would come from spending and one-fourth would come from revenues. We did this, and we also tied the decisions to GDP so that we were aiming at debt-to-GDP targets, which I think is very important, which is the way I think the basic budget should be structured. And when we did the tax side, all the Republicans in the Senate voted for it, and they were some of the most conservative—myself, Mike Crapo, who is still here, and Tom Coburn—because we recognized that it was a legitimate approach. We basically eliminated all the deductions and expenses in the tax law, which gave us $1.1 trillion, took $1 trillion and reduced the tax rates, and we took $100 billion each year and reduced the debt.

The overall package produced a $4 trillion savings over 10 years, and if that had been put in place, the debt-to-GDP ratio would have stabilized at about 70 percent, and would still be there, I think, actually.

It was a good approach, but once again, as Senator Van Hollen said, it came down to leadership. And the leadership did not want to push the package across the floor because they got flak from the left over the Social Security reform. We made that solvent for 75 years. And they got flak from the right over the tax bill, the tax part of the package, and the President also did not want to do it in the end, I think, although Senator Conrad can speak to that better than I can.

Chairman ENZI. Senator Conrad.

Senator CONRAD. So I largely agree with Senator Gregg's description. The greatest regret I had serving here 26 years, I think people on the left did not fully appreciate how good it was in terms of the revenue it raised. I think people on the right did not like it because it raised revenue. We gored a lot of oxes. As I told my staff, I will never forget meeting with them before I voted and asked them for their advice, and many of them told me vote no. And I told them the only thing worse than being for this is being against it, so I am going to vote yes.

And I said this is our opportunity to get this thing back on track. I think if people really examined the revenue, taking in mind the difference between various baselines, if they really examined the spending savings, they would see we would have largely accomplished what needed to be done to get the country back on a sound footing.

You know, I do not know if that time will come again. I think it will, because here we are. We are headed for a circumstance in which Social Security is going to be insolvent by 2034. What does that mean? That means everybody is going to take a 23-percent cut. And, by the way, it is not going to be 2034. I am here to predict today it will be quite a bit earlier than 2034. I have seen other modeling that says by 2029 we are going to be in this circumstance in Social Security, Medicare even earlier. So we are playing with fire.

The one thing we know for certain is that if we act sooner, the changes will have to be less draconian. The sooner we act, the better. It is a mathematical certainty the longer we wait, the tougher the solution is going to have to be.

Senator GREGG. May I follow up on that? Let me explain the tax side of this because it is important that those of us on our side of the aisle understand what the tax approach was.

We essentially took the Reagan approach on tax. The 1986 Tax Act, we essentially took that. And we took all the revenue—all the deductions and exemptions out, and then we took the top individual rate down to 25 percent. So it was a hugely positive event in the sense of creating economic growth. And we took $100 billion every year and moved it to revenue deductions—moved it to deficit reduction.

Then on Social Security, which certainly had a lot of people upset but certainly I think from the other side of the aisle it was a major concern, the adjustments we made in Social Security made it solvent over 75 years, but we did not affect anybody who was on the system. And, in fact, we benefitted people who were on the system who were single parents, single women, widows mostly. The age, we scaled the age up, but we took 60 years to scale it up so people had plenty of time to plan for it. But it was attacked as being an immediate effect—having an immediate effect on Social Security, as things often are.

So that framework I actually think, if you are going to get something done in a reasonably prompt period of time, is still a very viable framework.

Chairman ENZI. Thank you.

Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. And I thank both of you for your testimony and a lot of the ideas you brought to the table. I think this is an important discussion.

I remember after the Simpson-Bowles framework never went forward and got a vote, we, of course, had something called "the Biden group," headed up by Vice President Biden. I served on that. It was a bipartisan group. What came out of that was the effort to build a budget mousetrap structure to force action. It became known as the "Super Committee." I served on what is now known as the "not so Super Committee."

I will say there were lots of good ideas, and, you know, people, members from both sides, discussed these issues in good faith, and the lever there was going to be the sequester, right? The Super Committee was incentivized to come up with a plan to address mandatory spending and deal with revenues, and if we did not come up with a plan, you would hit the sequester. Well, we are now 8 years into the sequester, and Congress, of course, year by year, you know, tries to take off the rough edges of that.

So that was my experience with trying to set up a system, and it did create some pressure. At the end of the day it did not achieve, obviously, most of its goals. And I wish I was as optimistic as you, Senator Conrad. I think, again, people do come together in good faith, but it is just the incentives—I hope we can find a way to make it work.

But let me ask you this: the Conrad rule. We used to have a rule called the "Conrad rule." It was in place from 2007 to 2013. Can you just remind us what the Conrad rule was? It was pretty straightforward with respect to reconciliation.

Senator CONRAD. Yeah, you could not use it to increase the debt. You know, reconciliation, as I read it, was designed for only one purpose, and I tell you, knowing Senator Byrd as I did, I have had this conversation with him. Reconciliation was designed for deficit reduction—not to increase deficits, to reduce them. That is the only reason—and I can assure you Senator Byrd made very clear to me the only reason he accepted reconciliation as a process, which, as you know, takes away the ability to filibuster, which is a critically important power of any Senator. It is taken away under reconciliation, and the only reason he accepted that was the whole premise was that it would be used for deficit reduction. That has been stood on its head, and now reconciliation is used to increase deficits. So it is——

Senator VAN HOLLEN. Right, that was in place, and you can love or hate the Affordable Care Act or something in between, but when you passed the Affordable Care Act, you did it under the Conrad rule, right?

Senator CONRAD. We did. Now, one of the things, I was Budget Committee Chairman, I insisted that it be paid for.

Senator VAN HOLLEN. Yes.

Senator CONRAD. And I will tell you, it made me very, very popular.

Senator VAN HOLLEN. No, no. Exactly. But that rule that was in place, it did force some of the decisions. The Affordable Care Act was paid for. The Conrad rule was eliminated in 2015, and so we just had a tax cut bill. And, again, I am not going to get into the merits of the tax cut bill, but as you said, the purpose of reconciliation as originally envisioned was to reduce the deficit. And, in fact, as we know, it dramatically increased the deficit, according to the Congressional Budget Office—not in the last 10 years where you are still supposed to have deficit neutrality, but in the first 10 years.

And then we had a backup plan, too, right? What was the backup plan? The backup plan was statutory PAYGO. So under the tax bill, we increased the deficit $1.5 trillion, but there was a law in place, statutory PAYGO, which, Mr. Chairman, would have had an across-the-board cut to mandatory spending, the kind of spending you just talked about.

What happened to the mandatory PAYGO after the 2017 tax cut bill was passed? It was put into a must-pass—the elimination of the waiver of statutory PAYGO. It would have been across-the-board mandatory spending, the kind of spending that we are here about.

So, again, I am sorry for my frustration. I appreciate the hearing. I hope somebody can come up with an idea that will better incentivize efforts to reduce the deficit. But the Conrad rule was in place to do that. So if you wanted to have a tax cut, fine, but you had to pay for it. But the Conrad rule was eliminated.

So I am sorry for my little bit of skepticism here, Mr. Chairman, not about these two gentlemen. I think some of the discrete items that you mentioned, some of them, you know, are at the margins improvement. I look for a big mechanism, too, Senator Gregg, if we can—if people can get together. As you pointed out, the challenge with something like that is getting the negotiation in the first place. I mean, the Biden Commission, instead of sequester, there was a proposal to have on the one hand cuts, on the other hand automatic revenues. You proposed increases in Medicare taxes and other things. We could not get that as part of the mechanism. So it is almost as difficult to structure the mechanism. So it is almost as difficult to structure the mechanism as it is to get the result.

Thank you, Mr. Chairman, and I appreciate your being here.

Senator CONRAD. Can I just say in response that I share your skepticism? It is really what led me to leave this chamber because after years of almost constant budget negotiations with Bowles-Simpson and then the Group of Six and on and on, I actually reached the conclusion nothing is going to change until there is a crisis. And I hope very much I am wrong, but that is the conclusion I came to. And at the end I just could not really want to be a part of it.

But I tell you, a grand compromise is going to happen because it has got to happen, and I think the thing that is going to drive it is when you approach Social Security, cutting everybody 23 percent—that is what is going to happen; that is the law. Can you imagine you are going to cut everybody 23 percent? When Medicare is insolvent—it is coming very soon, less than a decade, years according to the Trustees. So a crisis is coming.

Senator VAN HOLLEN. Just for the record, some of us have put forward proposals on Social Security. People may not like them, but others should put theirs on the table as well.

Thank you.

Chairman ENZI. Did Senator Gregg want a last comment, too?

Senator GREGG. Well, I agree with Senator Conrad that this Government functions very well in crisis, having been through the 2008 banking meltdown. And I suspect we will have a crisis. I am not so sure it is going to be driven by Social Security. I think it will be a dollar crisis where our currency comes under attack because people who have been lending us money will suddenly realize they cannot get their money back, all that they lent us. And when the world takes that position and loses confidence in the American currency, then you will have a real significant fiscal crisis. You can avoid that by putting in place mechanisms like—I hate to go back to Simpson-Bowles because it is so old and so distant to most people today. But if that mechanism had been put in place where you had a set plan for how you were going to—a glidepath for how you were going to get the deficits under control, you were not going to eliminate them, but you were going to get them under control, and that would be manageable, but then you will not have a currency crisis because the world will look at the currency and say the country has done what needed to be done.

Chairman ENZI. Thank you.

Senator Perdue.

Senator PERDUE. Well, thank you both for being here. This is not your first time on that side of the table. I remember in a very informal setting 2 years ago, 3 years ago maybe, you guys were here, and it was very helpful. It actually initiated a conversation that led to a Joint Select Committee last year where we had eight guys on our side, eight guys from the other, House and Senate, bicameral, we agreed on four or five things. We just could not pass a comprehensive bill. I am not going to spend any of my 5 minutes telling the record about how bad this crisis is, but I will say this: The debt crisis is why I ran for the Senate. I had no purpose to be here at all. The debt crisis is as real as you are describing it. I agree with you, Americans always deal well in a crisis. We are always one of the slowest to recognize we are in one. Well, we have been in one for the last 15 years, in my opinion.

In 2000, we had $6 trillion of debt. The ratio to our GDP was very workable. Even by 2010, it was still somewhat workable. And we could debate how we got to $20 trillion, but now we are at 22. Here is the problem: We cannot cut our way out, we cannot tax our way out, we cannot grow our way out. It has got to be a combination of all of the above.

We have been working for 4 years in a bipartisan way. Senator Kaine, Senator King, Senator Whitehouse on that side in this Committee have been part of—and we have 12 Republicans in a very informal way in the last 3 or 4 years. It is uncanny that it is easy to attract ex-Governors into that debate, right? And that mention right there, two ex-Governors on their side kind of get it, because by law Senator Kaine had to provide a balanced budget and had to live with it.

You know, 44 States have that law, by the way. And, oh, by the way, I want to go to the question of—my first question is this—we could argue about the semantics and all this, but I agree, both of you have said this, we do not produce—the budget is not a law. Therefore, the majority crams it down the throat of the minority. It becomes a totally political thing. And all that we talk about, reconciliation, the Conrad rule, the Byrd rule, all this, are Band-Aids on top of a 1974 budget law that is the worst piece of writing I have ever seen in my life. It was never going to work. It is a disaster. And how it has taken 45 years for us to be here to try to get this fixed, we need your help. You are not running for office. You can tell us what you would do. We need to act on that. It was never a law. It was only dealing with discretionary, 25 percent of what we spend, and there were no consequences.

In State governments, 44 States, if you do not pass the budget, you do not go home. It is as simple as that. And guess what? Until 2000—or until 1913, that was kind of the story in the United States Congress. It was the primary purpose that we were here. Now we go through these machinations, and we have a release valve called the "CR." This, as we are learning now, is so devastating.

Since the Budget Control Act, we have cut discretionary spending. Discretionary spending is not the problem. It is the mandatory side, and it goes back in history all the way back to 1965, even in the 1930s when some of these things were built. This thing was never supposed to be bankrupt. It was supposed to be sustainable, the Social Security Trust Fund and the Medicare Trust Fund.

My question for you is: Aside from the semantics—and I agree, I think, Senator Gregg, you said this, and, Senator Conrad, you have echoed some of it. Tax expenditures need to be discussed. It is an expense item. It is like anything else, including entitlements. We do not do a capital budget. I mean, how in the world can we build aircraft carriers and not have a capital budget?

My question for you, very simply, both of you, is: How do we build—what type of consequences—besides sequestration, even the 5 percent, with due respect, we have proven that that draconian thing of 10 percent should never have happened, but it did. It took 25 percent out of our military spending over a decade and caused a readiness crisis honestly, so that is not the answer in my opinion. The answer is the lack of performance on our side. I agree so much with Senator Van Hollen. It does come down to human performance, but we have proven over 45 years we cannot rely on that. Only four times in 45 years did that work.

So my question to you is: How and what consequences and how would you implement it on the back of some of the systemic changes that you are both recommending? And you can throw a blanket over both of yours. I would take any combination of that. It would be better than what we have now. But both will fail unless we have some type of consequences on the body, including OMB and the White House, who are charged with coming up with an approval spending plan that keeps us out of this kind of disaster?

And, by the way, it is not just a trillion dollars a year. A trillion dollars a year goes to $2 trillion really in the very short period of time we are looking at here. And so the economy is growing at a rate now where we could argue that it has lowered—not only did it not increase 16 expenses. It actually even lowered the debt curve by about $3 trillion, according to the OMB, who said that it pays for itself if you only grow 0.04 of 1 percent. And we are doing more than that now. Again, the question is: How would you build a consequence that would be meaningful, that would assure that the recommendations that you are proposing here would get us to a budget that would include mandatory and discretionary spending? Senator Conrad, do you want to start?

Senator CONRAD. I do not know.

Senator PERDUE. It is a question of our time.

Senator CONRAD. Honestly, I have spent so many hours contemplating this. I do not have an answer for you, Senator Perdue, on what leads people—I will tell you what I believe after being here 26 years. If people are not seriously committed to making it work, any system you construct will fail. And what is happening now is a perfect example. I mean, we have had a budget—as defective as it is, we have had it work in the past.

Senator PERDUE. But only four times, with due respect, only four times in 45 years.

Senator CONRAD. Well, four times. Four times is not nothing. So it has worked. But I do not know of any system that you construct that people will not figure out a way to waive, amend, defer, delay. So, you know, somehow it has got to be leadership. It has got to be people really committed to making it happen. Yes, we need these process reforms. You know, the one I raised I really feel strongly about, because, you know, the way it works, every leader knows that if a budget does not come out of the Budget Committee, any member can go to the floor and put forward a budget resolution, and it is treated as though it came from the Committee.

Senator PERDUE. Right.

Senator CONRAD. So the problem is, what has happened?

We are passing them in the Budget Committee on both sides. Both sides do this. They pass it in the Budget Committee, so that locks out any member from going to the floor and putting out a resolution. I say take that protection away. I would love to see what would happen if an individual member could put forward a budget resolution because the budget resolution did not come to the floor because the leader held it up. Boy, I will tell you, we would be back to having budget resolutions, I think.

Senator PERDUE. Chairman, I am over my time, but could Senator Gregg respond to that? Sorry.

Senator GREGG. Well, I think the essence of what Senator Conrad said I agree with, which is that there is not a clear path. If there were, somebody would have probably put it in place. I have suggested a mechanism in here that I think is reasonably draconian, extremely draconian, more draconian than the sequester exercise that would force hopefully action on the budget. But I honestly think that if you are going to really do it, you have got to go back to thinking outside the box, and you have got to recognize that regular order does not work any longer in the Congress, and you have got to have a structure like Simpson-Bowles. I hate to beat a dead horse, but I do not think it is dead. I think if you put together a Simpson-Bowles Commission again and you put on it the right players from both sides, both parties, and it had no amendment language and it had a charge to get to a certain percent of GDP, debt-to-GDP ratio, you would get a pretty good package that would come out of that group. It works with base closure. I guess you are going to do another base closure bill? Did I see that somewhere? It worked. Base closure went through, what? Five times we went through base closure?

Senator CONRAD. Yeah.

Senator GREGG. You guys in Virginia certainly remember that. We in New Hampshire do, too. But you have got to go outside the box, because regular order simply is not going to work, and set up a structure that allows action to occur and then requires the Congress to either vote the action up or down.

Senator PERDUE. Thank you.

Thank you, Mr. Chair.

Chairman ENZI. Thank you.

Senator Kaine.

Senator KAINE. Thank you, Mr. Chair, and thanks to the witnesses. There are so many questions I would like to ask you, but I think I will just ask you one because I would like to kind of get into details with you, and that is debt-to-GDP ratios.

As a former mayor and Governor, I conclude that it was less the balanced budget requirement than it was consensus around debt ratios that enabled us to manage our finances. And it was interesting, especially as Governor, very partisan environment. I am a Democratic Governor. I have two Republican Houses for 2 years and I have one each my second 2 years. But we had an agreement, largely driven by going to the bonding houses and trying to keep our AAA bond rating, but we had an agreement about the debt-to-State-GDP and debt service as a percentage of budget outlays. And it was interesting. We had targets, and Democrats and Republicans, we accepted the targets, and we fought like heck about how to reach the targets. We need to cut more expenses. No, we need more revenue. Okay, we need to do a little bit of both.

So when you have those targets, it does not take away partisan fighting that can actually even be productive as you are trying to find the right path. But we had targets that we stuck to. That was what surprised me coming to the United States Senate, that we had no targets. Not only do we have no targets, but it is a little bit hard to get people to even venture an opinion about targets. We have had the Fed Chair here before, and I said, “What debt-to-GDP ratio do you guys use?” We had a hearing once that the Chair called, I think it was, “America’s Dangerous Debt.” And so I asked the witnesses the question: What level of debt is dangerous? Talk to me about ratios, debt-to-GDP, debt service payment as a percentage of budgetary outlay. And no one would give me what they thought right targets would be, maybe because they were sitting in positions where, at the Fed or something like that, if they said here is the target and they are already over it, something might happen.

You guys are experts. You have been on this Committee, and you are not going to make the stock market go crazy one way or the other by venturing an opinion. So I would be curious if we were trying to set debt-to-GDP or debt service payments and budgetary outlay targets, what would you suggest to us? Or how would you suggest we approach questions like that?

Senator GREGG. Well, I absolutely think this is the gravamen of a responsible approach to the budget, if you switch from numbers to debt-to-GDP ratios on both spending and revenues, and I think you pick the number by going to the historical band. The historical band is that spending is between 20 and 21.5 percent of GDP.

Senator KAINE. And are you talking historical band since 1965 when we added Medicaid and Medicare in, or would you——

Senator GREGG. Yes.

Senator KAINE. Okay.

Senator GREGG. And the historical band on the revenue side is between 18 and 19.5 percent GDP. So that you have a historical deficit that is very manageable of under 2 percent. And those are very defensible. The only issue and the reason Simpson-Bowles went to 22 percent of GDP, I believe is where we ended up, is because we acknowledged the fact that the Baby Boom generation was retiring and we were going from 35 to 70 million retired people.

Senator KAINE. Living longer.

Senator GREGG. And they live longer. The largest, fastest-growing demographic group in America is people who are over 100 on a percentage basis. But also there are just so many more, and the biggest entitlement programs benefit those folks. So you are probably going to have to have a higher number than historically we had there. But that is a very manageable number, 22 percent, even if you went to that number, or something in-would do a band versus a specific.

Senator KAINE. Senator Conrad.

Senator CONRAD. I entirely agree with Senator Gregg. I mean, we spent a lot of time, the two of us, talking about this as a predicate to Simpson-Bowles. I think it is absolutely essential that there be targets, that it should be based on percentage of GDP. And it is entirely doable. What he described is exactly right. In Bowles-Simpson, we concluded 22 percent. We had a lot of debate, a lot of discussion around that number, and it is entirely manageable.

Senator KAINE. And was the Bowles-Simpson 22 percent all spending, including Social Security spending that was separately sort of financed or Social Security Trust Fund, you just took all spending and said it should be at this percentage of GDP?

Senator GREGG. That is correct.

Senator KAINE. And the same thing on the revenue side?

Senator CONRAD. Yes.

Senator GREGG. That is correct. And just for the record, I want to point out everybody is talking—I think Senator Conrad is right—that Social Security will go insolvent before 2034. But it goes cash negative next year. And when it goes cash negative, that is going to hit our debt very aggressively because it is going to all have to come out of their operating accounts. Cash flow negative.

Senator KAINE. Great. I appreciate it.

Thanks, Mr. Chair.

Chairman ENZI. Thank you.

Senator Braun.

Senator BRAUN. Thank you, Mr. Chair.

I am new to the Committee, and Senator Scott and I do have a no-budget, no-pay bill. But in the short time I have been here, I have been amazed at how resourceful the body is of, when we do a budget—or how we outwit whatever is in place. And I heard Senator Van Hollen talk about political will. I have not seen much of that here like I would in the great State government I came from in Indiana or being the CFO and CEO of my company for 38 years. It just astounds me how you can come here, the biggest business in the world, and it gets run like this.

I think when I look at how do you come to the table, I think there is implicit on the other side that there is revenue capacity. All I can say is that as a Main Street entrepreneur, I have never seen a hotter economy where we may be at the sweet spot of revenue generation. I have got my staff looking keenly at how would we ever raise revenue. I personally think there is some room for high liquid incomes, but I cannot see how you move revenue in any way that even makes up a small percentage of what the deficit is.

So I think as long as there is a belief on one side that there is revenue capacity—and if there is, I think it is so small to be insignificant—we are going to do—and I hope we are lucky it is a series of smaller calamities and not a huge crisis. And my background in economics and understanding what the mention was earlier about if somebody else would ever become a reserve currency, it would cascade into a dilemma then. You know, that almost happened with the euro until they cropped up not being healthy; China would ever liberalize their economy, people might start parking funds there. Then it would start cascading.

I think I would like your opinion, do you think that there is any room on the revenue side to bridge the gap in any fashion that would not jeopardize what in my opinion we have kind of found the sweet spot? Because when we look at what has happened since tax reform went in, I think it is going to be closer to revenue neutral, and, clearly, I believe it is what is behind 3 to 3.2 percent growth, payroll taxes being at an all-time high.

Comment on that, and then if there is anything else other than a crisis, how we can set guardrails without then outmaneuvering them in some fashion like we do perennially.

Senator CONRAD. I would just say my final speech on the floor of the Senate was directed at both sides. To my side, I said those who say we cannot have savings—and I talked about 2 percent of GDP. People say we cannot do that. Sure we can. We can do that. And on the other side, those who say we cannot have 2 percent more GDP on the revenue side, to say we cannot, yeah, we can. We have done it in the past. We can do it again.

It is fascinating. If you go back to the Clinton years, we balanced the budget. We balanced the budget. We increased revenue, we cut spending. We were actually on a course to pay off the national debt. Remember that? I had the Chairman of the Federal Reserve come and see me and say that would be a bad thing. I said, “Hold up.” I said, “Let us get a little closer to actually doing it before we become worried about the dangerous of paying off the debt." And, of course, we never did pay off the debt because, you know, the siren song was we have got to have money that is being borrowed for the Federal Reserve to be stable.

So I just disagree with you completely that there is not revenue capacity. I disagree completely with my side that says you cannot cut any spending. I think you can do both. We have in the past. It worked. I think it would work again. And I do not think you are going to have any choice because if there is going to be an agreement, you are going to have to get both sides in on it. It is not going to happen on one side of the aisle. I spent 26 years here, and one thing I am absolutely certain of, it will not happen if it is just going to be one side.

Senator BRAUN. And on the revenue side, do you think we can do that, which would be $300 to $400 billion, I think, in a rough calculation, around 2 percent, without impacting the economy and then hurting revenues due to the fact that you are not growing as fast as we are? Because we definitely got out of the zone of mediocrity and sluggish growth with the dynamic that was in place where taxes were before, LLCs and sub-S's being taxed nearly 40 percent, C corps probably did not need to go as low, but I do not think we can maintain 3 to 3.2 percent growth if you start doing much on the revenue side, especially not $300 to $400 billion.

Senator CONRAD. Look, on either the revenue side or the spending side, if you cut spending, you affect growth. If you raise revenue, you affect growth. The problem is if you do not have some balance between the two, your debt explodes, which is what is happening and which has, unfortunately, already occurred, and we are just adding to it.

To me, we are racing towards a reckoning, and it will be a reckoning, a debt reckoning. Senator Gregg may be entirely correct. I would not be shocked either if it becomes a question of a value of the currency. And I will tell you, then we will see people sober up real fast.

Senator BRAUN. Senator Gregg.

Senator GREGG. Well, it is a good question, especially from our side of the aisle.

Senator BRAUN. Yeah.

Senator GREGG. I think you have to understand or take a position on how seriously you wish to address the debt and whether you think that the debt requires a balanced approach to address it. And by "balanced," I would use the agreement, again, we reach in Simpson-Bowles, which is three-fourths of the debt is being caused by spending and one-fourth by lack of revenue.

So I happen to believe that you can put in place a balanced approach, and you can do it with a revenue structure built off of the Reagan model, which essentially takes rates down to the mid-20s for income tax, and that will create a huge generation of economic activity, by eliminating deductions and expenses and expenditure and exemptions, which in my opinion should be eliminated because they pervert the marketplace. Money flows to the deduction, money flows to the exemption instead of money flowing to a person's pocketbook which they can then make an investment, which is a much more efficient use of dollars.

So I think if you create a more efficient tax law, you can generate a lot more revenue, and in the process help reduce the deficit. And it will be—you know, one of the reasons Simpson-Bowles did not go forward was because Grover Norquist's group came out and said it was a tax increase. Another reason it did not go forward was because the AARP said it was an attack on Social Security. Well, in both cases they could make that case if you looked at it in static terms. But if you looked at it in terms of how you got the deficit under control, how you created a significant economic event by getting the deficit under control, and you are going to generate a much more efficient tax law by having a tax law that has much lower rates so the people can invest more efficiently, and you made Social Security solvent for 75 years, I think the tradeoff is worth it. You just have to be able to make those tough calls.

I agree 100 percent with Senator Conrad. You are not going to do this on one side of the aisle. This has to be a bipartisan exercise. And if it is going to be bipartisan, by definition both sides are going to have to give some, and both sides are going to have to step on the toes of the people who do the most shouting in their parties.

Senator BRAUN. Thank you very much.

Chairman ENZI. Thank you.

I still have some questions, so I am not going to pass up the chance when I have this kind of a brain trust here.

Each of us as Chairmen have had the opportunity to look at a President's budget and say that is dead on arrival. When we are thinking of possible ways to reform the budget, what role do you think the executive branch ought to play in it? Senator Gregg?

Senator GREGG. That is a good question. Should it be made a law and should the President have to sign or veto the bill is the issue. I think it is probably worth having him engaged at that level, or her, on the theory that the entire Government is engaged in spending the money and raising the taxes. So the executive branch is a big player in it, and, therefore, they should have skin in the game. And so I do think it should probably be a law subject to the signature of the President or his veto or her veto.

Senator CONRAD. So I am in the other camp. I think the power of the purse resides with the Congress. Certainly the President has a role because he has got to approve appropriations bills that flow as a result of whatever budget is agreed on. But I would like to see it remain as is, not a law, a resolution. And the product goes to the President where he has the ability to veto or not. That gives him enormous influence in the process, obviously. I never was in a situation in which I did not get signals from the White House about what they would want to see in a budget, and that is appropriate. But I do think should retain the power of the purse string.

I am increasingly concerned about power flowing to the administrative branch. I think this is a place that has happened under both sides. Power has just flowed inexorably from the legislative branch to the administrative branch, and I think that is a dangerous thing for this country.

Chairman ENZI. Well, one of the things I have discovered as Budget Chairman is that the President's budget is not the same format as the Budget Committee's format, which is not the same format as the appropriators' format, which is not the same as the way Treasury handles outlays.

I have also come to the conclusion that that this construct is intentional. Nobody can follow the money. One of the ideas that I had, related to "sequesters", which is a really ruined term even though it could have some outstanding benefits, is not feasible but not when we do continuing resolutions. That is the difficulty we ran into in the one instance when we actually had to do it. We did continuing resolutions through three-quarters of the spending year, and then we had to put a sequester in place where they had to take all of that money out of their last quarter's budget. Nobody could do that. The military made a bigger deal out of it than anybody else and were probably more affected than anybody else. But we have got to find some way to make sure that we do things earlier.

One of the ideas that I have had is a biennial budget, but to make it simpler so we do not have to cover all of those dollars in one year is to split it up so that we do the six tough bills right after an election, and the six easy ones just before an election. We were actually able to pass five last year, and we were close on about two or three more that should have made it through the process. And that convinced me even more that maybe staggered biennial budgeting would help agencies know 2 years in advance what they were going to get to spend. There are some difficulties in transitioning that, but if you have an opinion on that, I would be interested in it.

Senator CONRAD. I strongly support it. I think your idea is a good one. I think it would help enormously. I think it would also help oversight because then there would be some time in the off year to do oversight. So I think you are right on target.

Senator GREGG. I think it is a good idea also, but I would put one corollary on it, which is that you would create some sort of a fiscal Committee which in the off year would have the ability to adjust the budget if something—during certain specific events that would require adjustment so you would not have to restart the process again to get an update if there was something that occurred, like the banking breakdown, banking system breaking down or there being a major event of some sort.

Chairman ENZI. Yeah, I am sure that would have to be a part of it, too. Of course, I think that we have our committees names wrong. We are called the "Budget Committee," but we really do not do the budgeting. The appropriators do the budgeting. And so I would like to change their name to be the Appropriation and Budget Committee. I am trying to think of a new name for this Committee, which in light of the ratios that we were talking about might be the "Debt Control Committee," and do some revenue estimating on what different changes could be made. But it also occurred to me during that process that—and during the sequester, that it is really the authorizers that could really influence all of this. I would move everything to the discretionary side that does not have a sufficient revenue flow at the present time to cover it forever. That is a better way than saying that even Social Security ought to be included because there is nothing that we have that the revenue covers the outflow of it. So we are having to steal from different places, and that makes PAYGO really tough because where are you going to get the revenue? But the people that can probably solve this might be the authorizers. But they have a different format than the Budget Committee, and Senator Perdue drew a map once showed all of the interconnections, and it looks more like a puzzle than it does a line chart of any kind.

I also think this is the right time to do budget reform, because right now nobody knows who is going to be the President after the next election, nobody knows for sure who the majority is going to be after the next election. We worked on that before the last Presidential election and made some real progress in this Committee. We had 13 hearings. You were part of that. And we came up with a list of several things that we thought we could pass in a bipartisan way by unanimous consent. But that process got bogged down with some of the returning Presidential candidates. So I hope we can try that again.

I really appreciate the lists that you both gave with suggestions, and I will see that those get circulated to everybody on the Committee. As we go through the process, I would appreciate it if you would chime in on any viewpoints that you have on whether it will work, whether it will not work, what we need to do to tweak it. Nothing is ever perfect right out of the box, and you are two of the best people that have worked this problem, and so I would appreciate the help on that.

Senator GREGG. Mr. Chairman?

Chairman ENZI. Yes?

Senator GREGG. I am intrigued by this idea of renaming the Committee to the "Debt Management Committee," whatever title you want that includes the issue of debt in it. I think that is a very intriguing idea if you at the same time restructure how this Committee can influence the entitlement exercises, which is the authorizing committee. I think your proposal on the Appropriations Committee probably is doable. But if you did the same thing on the authorizing side and this Committee had the capacity to somehow manage that within the context of debt, that is an intriguing idea and worth, I think, following to a logical conclusion, which would be a much strong Committee and a much more aggressive effort to get at the deficit and debt issue.

Chairman ENZI. Thank you. I think we could get pretty good revenue estimates, and then from the authorizing committees we could get maybe an indication of what they thought they could do oversight on and maybe make some corrections on it. So, yeah, weigh in anytime you have an idea for us. I appreciate so much you coming today to present and your testimony. You know, everybody has that, but I am going to emphasize some parts of that testimony, too. And I do have to express some surprise. Where were the charts, Kent? [Laughter.]

I do not think I ever——

Senator CONRAD. They took my chart machine away, Mr. Chairman.

Chairman ENZI. Oh. I think at one of your last sessions, Senator Gregg brought more charts than you did just to make a point out of that.

Thank you both for your testimony, and that concludes this hearing. If anybody wants to submit questions, they have until 5 o'clock tomorrow to turn them in. We are adjourned.

[Whereupon, at 3:59 p.m., the Committee was adjourned.]

FIXING A BROKEN BUDGET AND SPENDING PROCESS: LESSONS FROM STATES

WEDNESDAY, JUNE 19, 2019

UNITED STATES SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committee met, pursuant to notice, at 2:31 p.m., in Room SD–608, Dirksen Senate Office Building, Hon. Mike Enzi, Chairman of the Committee, presiding.

Present: Senators Enzi, Crapo, Johnson, Braun, Scott, Kennedy, Stabenow, Whitehouse, Kaine, and Van Hollen.

Staff Present: Elizabeth McDonnell, Republican Staff Director; and Joshua Smith, Minority Budget Policy Director.

OPENING STATEMENT OF CHAIRMAN ENZI

Chairman ENZI. I call to order this hearing on "Fixing a Broken Budget Process: Lessons from States."

Good afternoon. Today we continue our series of hearings on how to fix our broken budget and spending process, and this time, we are going to look at State budget innovations. States are often referred to as "laboratories of democracy," and today we will examine how their budget processes work and whether some State practices could be successfully applied to the Federal level.

I want to thank our panel of witnesses for being here today. I am especially pleased to welcome Senator Eli Bebout, the Chairman of the Wyoming Senate Appropriations Committee, who I will introduce later. The way Wyoming budgets and spends could provide important lessons for Congress on fiscal responsibility. I look forward to hearing from Senator Bebout today, including about Wyoming's experience with appropriating for 2-year periods.

Forty percent of the States appropriate on a biennial cycle, which is a concept, I believe, should be applied at the Federal level. Moving to a 2-year funding cycle would give Congress more time to spend to attend to executive branch oversight and policy development, and reduce the potential for Government shutdowns. It would also create some needed predictability for Federal agencies and the Americans who rely on those services.

Another important lesson to be learned from the States is fiscal responsibility. Our Nation is now $22 trillion in debt. Carrying over even a small deficit from year to year is rare at the State level. Forty-six States have constitutional or statutory requirements to balance the budget, and four States, without such a requirement, functionally balance their budget every year.

Even more impressive, they finish these spending bills on time, something Congress has not done in more than 20 years. States are also innovators when it comes to planning for economic downturns or emergencies. My home State of Wyoming has one of the largest rainy day funds in the Nation and, according to Pew Charitable Trusts, could sustain solely off of these reserve funds for an entire calendar year. Congress should take a lesson from this approach, starting with planning and paying for natural disasters and other emergency spending.

I hope that today's hearing will help shed new light to guide us as we construct a better budget and spending process, one that focuses on the long-term fiscal health of the Nation, is smarter about when and how we make budget decisions, plans and pays for natural disasters and other emergencies, and holds decision-makers more accountable.

An effective budget and spending process will ensure that fiscal priorities are established and member are held to them by the public. It will also give Americans a better understanding of what their Government actually does while providing them with the confidence that their tax dollars are being wisely spent.

Working together, this Committee will produce bipartisan solutions this year. I want to thank all the witnesses for being here, and I look forward to your testimony.

And now I want to recognize the Acting Ranking Member, Senator Kaine.

OPENING STATEMENT OF SENATOR KAINE

Senator KAINE. Well, thank you, Mr. Chairman, and thanks to the witnesses for coming. I applaud Chairman Enzi for having a set of hearings about budget process reforms, and it is certainly my hope that we will be able to make reforms that will improve the Federal budgeting process and do it in a bipartisan way.

I think there is some solid common ground for agreement already, and we will discover more as we have this discussion today.

I was a mayor and governor before I came to the Senate, and so local and State budgeting is something I am very familiar with. And I certainly believe that there are lessons from local and State budgeting that we could incorporate here.

I was amazed to get to the Senate and find that there was no Federal debt management policy. We have a debt ceiling limitation, which is a raw number, but no town, city, or State would use a raw number. We use ratios of debt service to total budgetary outlay or total debt to GDP, and we use that with some sophistication to draw a line between what is an acceptable level of debt and what is not. We do not have a debt management policy of that kind at the Federal level, which is a little bit shocking.

At the local and State level, I am familiar with a budgeting process that begins with consensus revenue forecasting. When I was governor, I had a revenue advisory board that included members of both parties in both houses of the legislature and leaders in key industry sectors around Virginia, and we began the budgeting process with a revenue forecast that we would all agree to live with. And then that set the framework for the discussions within the legislature about how to allocate that revenue, how to deal with the expenditure side, but at least we started with a common starting point on the revenue forecast. And that was a longstanding tradition.

States use 2-year budgets. States tend to have capital budgets that are separate from operating budgets, so there is a whole series of things.

Now, there are differences as well. It has long been accepted that the Federal Government will use debt countercyclically to deal with economic cycles in a way that States do not, and that is an important thing to do at the Federal level. But there are certain strong lessons, I believe, from local and State government that we should be able to absorb, and the one that is the most important to me—and the Chair has heard me say this over and over and over again—is certainty.

I think what we owe to the public, what we owe to our own government agencies and planners, what we owe to the private sector is certainty. Budgets that provide certainty, you might like or not like a line item, but you can adjust around that line item, even if you do not like it.

Too often at the Federal level, we have used things like continuing resolutions or shutdowns or furloughs or budget caps or things that create uncertainty, where the line item is not written in, in pen, and you can count on it. But, instead, it is put in with a question mark, and you cannot count on it, or we use gimmicks like OCO funding to bulk up a defense budget instead of honestly discussing what the base Federal budget should be. If we can come up with some bipartisan reforms that will increase our ability to, on time, produce a budget with some certainty that everybody can then adjust around, we will have done good work.

And I applaud the Chair for bringing in folks representing the State budgets and giving us the opportunity to ask questions and learn from you today.

Thanks, Mr. Chair.

Chairman ENZI. Thank you.

I would mention that some of the members are at an Iran confidential briefing, which seems to be making headlines these days, so I thank those of you who are here.

Our first witness this afternoon is Senator Eli Bebout. As I mentioned in my opening remarks, Senator Bebout is the current Chairman of the Wyoming Senate Committee on Appropriations. He has previously served as both the President of the Wyoming Senate and the Speaker of the Wyoming House. He has more than 25 years of service in the Wyoming State legislature. I served some of those with him. It is truly a pleasure to have him here today, and I know how many hours of being on planes and airports it takes, so thank you very much for coming.

Joining Senator Bebout is John Hicks, the Executive Director of the National Association of State Budget Officers, or NASBO. Mr. Hicks and his organization track the development of State budgets and assess State budget procedures and processes, and he has served on the State level as well.

I would now like to recognize my colleague, Senator Van Hollen, who will introduce the third witness.

Senator VAN HOLLEN. Thank you, Mr. Chairman, and thank you for inviting three distinguished witnesses to the Budget Committee today, one from your State of Wyoming and another from the State of Maryland.

And I would like to introduce to the committee, Benjamin Orr, who is the founder and Executive Director of the Maryland Center on Economic Policy. That is a nonprofit, nonpartisan organization that works in Maryland to advance innovative ideas to foster broad-based prosperity and help make Maryland a standard bearer for responsible public policy, and I would point out the State of Maryland has had a AAA bond rating for as long as I can remember.

From 2011 to 2013, Mr. Orr was the interim director and policy analyst for the Maryland Budget and Tax Policy Institute, a very well-respected organization, and he also worked at the Brookings Institution under the tutelage of Alice Rivlin, who was somebody who contributed a great deal to our country in terms of thought on economics and on budget issues.

So we welcome you here, Mr. Orr.

Chairman ENZI. Thank you for doing that introduction, and we will get right into this because there is going to be a vote this afternoon, and we do not want that to impinge on getting the information that we need.

So welcome, Senator Bebout. Please begin.

STATEMENT OF HONORABLE ELI BEBOUT, WYOMING STATE SENATOR; AND CHAIRMAN, WYOMING SENATE APPROPRIATIONS COMMITTEE

Mr. BEBOUT. Thank you, Mr. Chairman and members of the committee. It is a real pleasure to be here and have an opportunity to share with you some of the ideas and things we do at the State of Wyoming.

As I am sitting here, it is a lot different being on this side of the table versus where you all are up there, and I like the idea where you are elevated a little bit, looking, and maybe we need to incorporate that in the State of Wyoming when I am conducting my budget hearings.

But, anyway, before I begin, one of the things about Wyoming—and a lot of you are probably familiar. Many of your States are the same. But we are truly a citizen legislature, which I think is very important for the State level to do that, and we all have our families. We all have our businesses. We conduct our lives, and we do that. We serve at the pleasure of our electorate when we go to Cheyenne.

Part of that, as you know, is what we have in terms of our credibility, and we have the Code of the West. Senator Enzi is very familiar with that and something we live by, and there is a lot of parts of that. I will not get into it.

But what I would like to do is talk to you a little bit about the history of Wyoming and then get into some of the specifics about our budgeting process.

Clearly, Wyoming has always had a biennial budget. For 85 years, we only met once every 2 years. So, obviously, you are going to have a biennial budget, unless you have a special session; which we do not like and we do not have.

Then in about the mid-1970s, we changed the constitution and said we should meet every 2 years, which we do now, but no more than 40 days in any one session. We divided it up into two sessions, one being the budget session and one being a general session, which has a lot of benefits.

In the budget session, we deal with the budget, and in the general session, we deal with all of the other bills we have to deal with plus a supplemental budget, if it might occur. With this process the earlier bills received more favorable treatment for funding than the later bills. The last budget bill received their proper allocation of money and so we decided to go with mirrored bills. We would start two bills out the same. Both bills are the same, work one in the Senate, work one in the House, and go through the process, and it is a process that has really worked.

I would like to talk a little bit about some of the reasons that I really support a biennial budget, and it is really important. And I think the process is working.

Senator Kaine, I am very familiar with Virginia, which you talked about, and you mentioned certainty. Certainty is one of the things we deal with. We start with the governor's budget. Constitutionally, he has to have it balanced, and he presents that to the members of the Joint Appropriations Committee, which I co-chair. We go through that process for about a month. Then we take it to the full legislature. We work both bills on both sides of the body, and by doing it that way, we really have a sense of what is going on in both bodies.

The thing that really drives our budget is not what we want to spend but the revenues that are available to us. We have a Consensus Revenue Estimating Group as well, and that group provides us with updates throughout the year. It is comprised of members of the executive branch, the legislative branch, and other people that come in from the industry to tell us what their current revenue projections are.

Wyoming is very volatile with our reliance on mineral productions. We start with the CREG estimate for our revenue streams. From there, we work our budgets. We look at it and develop it as we go through the entire budgeting process.

Some of the things that are really important is we concentrate on the budget. We are not getting involved in a lot of other issues, and you all have all kinds of issues. We concentrate on the budget. That again provides certainty. I think it provides staff from not only the executive branch, from the legislative branch, to be able to work on those issues and come up with ways to develop our budget.

The next thing we talk about is it is a long-term planning method for us. It is 2 years, and we really believe in a 2-year budget. We have a supplemental budget for emergencies. It really should be for emergencies. If it does not pass that litmus test, we do not deal with it.

It also allows people to have a perspective in terms of what we are doing with the revenue and the volatility of it. With us being so dependent on minerals, we need to have an idea of what goes on, and the bottom line is it just allows us in the general session to deal with other issues. There are four very important reasons to deal with a budget in a biennial process.

As I was thinking about coming here and testifying in front of you and talking about our Federal Government—and I have got my own opinions, and I can certainly say those today, and I will say that I think that there is a lot of work that needs to be done to the Federal budgeting process.

First, I cannot imagine what it is like to have an authorization and then you cap it, and then you have got to come back and appropriate. We appropriate. That is what we do, and to me, that is the way it should be without an authorized level.

Second, I think if you could incorporate some of those ideas and you could limit it and start with what revenues are available, it might really be beneficial.

Third, performance is a good part of what we try to do. We have ways of determining performance. We ask people and agencies to be held accountable, and if they are not, we do not allow them to have the money.

Fourth, the last thing is how do we deal with emergencies. That is in the biennial. We have vehicles set up to allow the governor to be able to take care of—like we have forest fires, whatever it might be. We have available funding sources within the budget to be able to handle unknown contingencies and emergencies.

It really works. It is a great process. We work together, and we work with the minority party, with the majority party, the House and the Senate. At the end of the day, we just cannot have a continuing resolution. We do our work, we finish, we go home. We declare victory, and it really works.

I would love to see you all try to get a little bit more like Wyoming and other States do, and it is a pleasure to be here.

Mr. Chairman and members of the committee, I will be glad to answer any questions.

[The prepared statement of Mr. Bebout follows:]

Senator Eli Bebout
Chairman, Senate Appropriations Committee, Wyoming Legislature
Testimony before the U.S. Senate Committee on the Budget
June 19, 2019

Introduction. Good morning Mr. Chairman and members of the Committee, I am Eli Bebout, State Senator from Fremont County, Wyoming. It is a pleasure to appear before the U.S. Senate Committee on the Budget and relay advantageous characteristics of Wyoming's biennial legislative budgeting process. Wyoming's legislative budget process exemplifies unique qualities of efficiency, effectiveness and is grounded in a common sense fiscal approach. Wyoming is blessed with many natural resources. Our revenue raising mechanisms are dependent upon those abundant natural resources like oil, natural gas, coal, trona, and uranium. As a result, Wyoming has among the most volatile year-over-year revenue collections in the nation. Perhaps in part because of that revenue volatility, Wyoming also boasts the largest rainy day fund balance as a percentage of general fund expenditures according to both Forbes and The Pew Charitable Trusts.[1,2] Despite Wyoming's revenue volatility and limited available economies of scale to deliver state government services to 577,737 citizens across nearly 98,000 square miles, the Mercatus Center and George Mason University ranks Wyoming #6 by Fiscal Condition.[3]

Before relaying the benefits of biennial budgeting, let me introduce myself and offer a brief summary of Wyoming's legislative budgeting process. I have served in the Wyoming

[1] Chuck DeVore, *State Fiscal Health: 10 States Facing Tough Times and 10 States Looking Strong*, Forbes, February 5, 2019. [https://www.forbes.com/sites/chuckdevore/2019/02/05/state-fiscal-health-10-states-facing-tough-times-and-10-states-looking-strong/#359e032a4f57; accessed April 20, 2019]
[2] Barb Rosewicz, Justin Theal, and Daniel Newman, *Budget Surpluses Are Helping Many States Boost Their Savings*, The Pew Charitable Trusts, March 11, 2019. [https://www.pewtrusts.org/en/research-and-analysis/articles/2019/03/11/budget-surpluses-are-helping-many-states-boost-their-savings; accessed April 20, 2019]
[3] Eileen Norcross, *State Fiscal Rankings*, Mercatus Center, George Mason University, October 9, 2018. [https://www.mercatus.org/statefiscalrankings/Wyoming; accessed April 20,2019]

Legislature for 25 years, including service as the House Minority Whip, Speaker of the House, and most recently, President of the Senate. It was my honor and professional privilege to serve with Chairman Enzi during some of Wyoming's most challenging budget periods - the late 1980s and early 1990s. Currently, I appear before you as the Chairman of Wyoming's Senate Appropriations Committee, where I am serving my second stint as Chairman.

Senator Enzi and I share the honored experience of serving in a truly citizen legislature that literally rolls up our sleeves and wrestles with the policy issues of the day all without the benefit of personal staff. We have both spent many late nights, weekends, and hours of committee time ensuring Wyoming's place among those with the lowest individual tax burden while simultaneously sustaining a high level of government service and, importantly, upholding a long-term balanced budget.

Complementing our shared involvement in public service, a more significant set of shared experiences may be those we cultivated as small businessmen. The private sector background has been integral to safeguarding efficient, effective budgeting and ensuring government expenditure controls. Senator Enzi's training is in accounting, while I earned a degree in engineering. Senator Enzi managed inventories and customer service in a successful retail enterprise, while my business career has been in energy development. We both have signed the back and the front of monthly paychecks and created job opportunities in our communities. I have had the pleasure of hiring and working with dozens of committed employees as well as the unfortunate experience of letting staff go under the weight of stifling government regulations or when energy markets abruptly shift. Perhaps most importantly, I have modified my companies' business plans, engaged in new lines of contracting and services, and shifted focus as my business has matured. The private sector should not have a monopoly on flexible responses and prudent budgeting. Governments must restrain spending and respond in an effective manner to new needs and an emerging global economy. Our hands-on, private sector experience is integral to successful public budgeting. Conditions change. Expected public services change. Revenues swell and recede. Interwoven in Wyoming's formal biennial budgeting process is the ethic of a citizen legislature and the experiences of businessmen and women dating back to the state's founders. In other words, the framework of a sound, proven budgeting system is necessary, though it is not sufficient. In that light I would recount a few excerpts from Wyoming's Code of the West that directly relate to Wyoming's budgeting ethic

- Always finish what you start.
- Be tough, but fair, and
- Know where to draw the line.

History of Biennial Budgeting and Budget Process in Wyoming. Wyoming's State Legislature met every two years until 1974. For nearly the first 85 years of existence, annual budgeting was not an option in Wyoming. After 1973, the Legislature was guided by a change to our constitution that provided for a Budget Session in even-numbered years and a General and Budget Session (General Session) in odd-numbered years.[4] Annual budgeting is not prohibited by Wyoming's Constitution, although there is a strong history and tradition of biennial budgeting that has not been abandoned. Even in more recent years, the Legislature has researched and considered annual budgeting, though it is an idea that has not garnered broad support.

[4] Wyoming Constitution Article 3, Section 6.

Wyoming's Constitution limits the number of legislative working days to just sixty per each two-year cycle, except when called into Special Session.[5] The same section of Wyoming's Constitution limits meeting days to 40 in any one calendar year.[6] Wyoming's policymakers have traditionally elected to hold a Budget Session of roughly 20 to 22 days and a General Session of approximately 37 to 40 days.

Leading up to 1994, Wyoming, much like Congress, divided its budgets into several different appropriations bills reflecting the various functions of government. In 1994, Wyoming shifted to a single, mirror budget bill for most appropriations. In more recent years, in addition to the mirror budget bill which covers appropriations for all of the general operations of state government, Wyoming has considered approximately three (3) other appropriations bills: (i) state capital construction appropriations; (ii) direct appropriations for support for local governments; and (iii) school capital construction. It is also important to note that Wyoming does not impose budget caps for each functional area, unlike Congress. In other words, there is no equivalent of a Budget Resolution in Wyoming's process. As a result, under the process of adopting multiple different budgets for various functions of government, timing mattered – more resources were available to the earlier bills in the process.

Finally, two (2) additional critical ingredients in Wyoming's biennial budget process are noteworthy for comparison purposes. First, the Wyoming Legislature gives considerable weight to the Governor's proposed budget recommendations, unlike the Chief Executive's budget at the federal level. There may be hundreds of successful modifications to the Chief Executive's recommendations in Wyoming, but the Governor's recommendations form the basis for the

[5] Ibid.
[6] Ibid.

discussion and further modification to the budget. Second, Wyoming's Legislature, like Congress, delegates the authority for developing the appropriations bill, or bills, to a committee. In our case, the Joint Appropriations Committee drafts the budget. It is comprised of seven (7) members of the House of Representatives and five (5) members of the Senate. This Committee meets for at least four (4) weeks to hear testimony from every unit within Wyoming's state government and mark-up the bill for subsequent consideration by our legislative colleagues. These four (4) weeks include full, or nearly full, attendance by all committee members for eight (8), ten (10), twelve (12) hours, or longer each day. The Committee takes limited breaks, regularly eats at the dais, listens and actively questions the testimony, thoroughly reviews, and ultimately modifies each agencies' budget. Unlike many state legislatures, Wyoming's Appropriations Committee considers the smallest of expenditure details including replacement of computers, increases in professional contracts, purchases of vehicles, agency travel, new employee hires, changes to benefit packages, and expansion or reduction of services. It is not a rubber stamp process, nor is it a part -time endeavor. Again, Wyoming's legislators have no personal staff. Committee members work informally, and collectively, with agency staff and a small number of non-partisan legislative staff on weekends diving into detailed issues. Finally, all our meetings are broadcast with live audio over the internet and more recently, nearly all the documents available to the committee are also available to the public in real time with the goal of providing open and transparent government to Wyoming citizens.

State Budgeting Comparisons. The National Conference of State Legislatures (NCSL) prepared a study in 2011 (2011 NCSL study) that considered state uses of biennial and annual budgeting.[7] The study noted that 19 states use the biennial budgeting approach, compared to 44 states in 1940. Among the states with biennial budgeting, Wyoming is one of just two, at the time of the study, along with North Dakota that practices consolidated biennial budgeted, which is the enactment of a two-year budget rather than the enactment of two, single-year budgets. That study cites several anecdotal conclusions in favor and against biennial budgeting. It did conclude that biennial budgeting "may reduce executive branch costs (in terms of staff time and salaries) of preparing budgets, since the process is more consolidated than annual budgeting."[8] The study noted that "Annual budgets create greater pressures on all budget staff and policymakers than biennial budgets, since closing the previous year's budget, administering the new year's budget and beginning to plan the following year's budget occur almost simultaneously."[9] As a practitioner of the process, I concur. Our experience is that biennial budgeting saves time of both the executive, and in my opinion, the legislative branches. Admittedly, the study indicated that, "In terms of the time a legislature spends on budgeting, nonetheless, the evidence is inconclusive."[10] Again, from Wyoming's experience, the biennial budget process is more efficient for both the executive and legislative branches. This is not just my opinion, our head, non-partisan staff shares this viewpoint. By the simplest measure, Wyoming's Joint Appropriations Committee spends measurably more time in agency budget hearings and preparing the biennial budget as compared to the "off-year" or supplemental budget. The "off-years" also provide additional time to focus on programmatic oversight, and non-budget related bills.

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[7] Ronald K. Snell, *State Experiences with Annual and Biennial Budgeting*, National Conference of State Legislatures, April 2011.
[8] Ibid.
[9] Ibid.
[10] Ibid.

Benefits of Biennial Budgeting. In addition to the time and resource savings of biennial budgeting, there are at least four (4) distinct benefits of biennial budgeting for Wyoming which merit attention. First is a dedicated legislative period in which to focus primarily, though not exclusively, on the budget. As indication of this priority task, Wyoming's Constitution requires all bills except the budget bill garner a two-thirds vote prior to being considered during a Budget Session.[11] While the Budget Session in Wyoming has addressed a wide variety of bills, there is an emphasis in terms of time and priority given to the development of a budget. While there are numerous powers and authorities given to legislative branches in our democracy, including advice and consent, etc., the two fundamental powers are (i) the power of the purse, or the power to budget and appropriate and (ii) the power to pass legislation.
Biennial budgeting allows for each of the primary duties to be a focus for an identified period.

Second, while I take some issue with some of the conclusions of the previously cited 2011 NCSL study, a biennial budget allows for longer-term planning of important initiatives, programs, and government services. This longer-range approach can assist when ramping up or reducing programs. Emergencies and unforeseen items can, and are, addressed in off-budget years, in a much narrower appropriations bill, referred to as the "Supplemental Budget." In 2019, the General Fund appropriations contained in the Supplemental Budget, or "off-year" budget was just four percent (4.0%) of the biennial budget, illustrating the opportunity to make necessary adjustments but the strong tradition to limit debate to unanticipated and emergency items.

A third benefit is the smoothing effect on volatile revenues, both increases and decreases, biennial budgeting can offer. Rarely do economic recessions exactly mirror the biennial budget

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[11] Wyoming Constitution Article 3, Section 6.

period or does uncertainty last for twenty-four (24) months. Even during the national recession of 2008 and 2009, the impacts in Wyoming were spread over two biennia and bookended by strong energy market prices in calendar year (CY) 2008 and the beginning of recovery in CY 2010. Wyoming's biennial budget provides certainty, which is an ingredient essential to incentivize business growth as well as offer stability in our state governmental operations.

Finally, a fourth and significant benefit is unrelated to fiscal issues. In the "off budget years" or during a General Session, legislators can focus more exclusively on legislation other than the budget. Not only does this provide devoted time for such endeavors, it can lead to resolution of issues that are not mired in passions about fiscal policy.

Total Budget Control, or Top Line Budget Limits. As previously noted, Wyoming does not have a two-stage appropriations process wherein overall caps on appropriations or appropriations for specific subject areas are established. Nonetheless, Wyoming has a strong tradition and history of not spending beyond its means. For example, Wyoming has not even accessed bond financing for most state capital facilities, including recent major renovations to the state Capitol, state hospital, and numerous academic facilities at the University of Wyoming or Wyoming community colleges. Wyoming has no state general obligation bonds outstanding and less than $20 million in revenue bonds outstanding, which mature in 2020 and 2024.[12]

Assisting in the process to maintain a well-understood level of revenue available for appropriation, Wyoming employs a Consensus Revenue Estimating Group (CREG). It is analogous to a combined Office of Management and Budget (OMB) and Congressional Budget

[12] 2018 Wyoming State Treasurer Annual Report, page 43. [https://statetreasurer.wyo.gov/assets/reports/annualreport2018.pdf; accessed April 20, 2019]

Office (CBO), including staff from both branches, economists, geologists, and other revenue forecasters. Put differently, Wyoming has taken disputes of revenue forecasts between the executive and legislative branches off the table. Rather than competing revenue forecasts, both the legislative and executive branches (and members of both political parties) use and respect the revenue forecasts of the Consensus Revenue Estimating Group. Policymakers have historically adhered to groups expectations and forecasts of available revenues. Wyoming also biennially sets aside approximately five percent (5%) reserve amount in the General Fund, not a separate reserve account, which is available to address revenue estimate shortfalls in our General Fund.

During severe economic downturns, such as that Wyoming experienced in CY 2016 resulting from broad declines in several energy markets, the Legislature appropriated from its rainy-day fund for the first time in more than a decade. The Legislature did so only in conjunction with across-the-board and surgical budget reductions. Since then, the Legislature has continued to appropriate from the state's primary rainy-day account, though I am pleased to report that this biennium, it is projected that Wyoming will grow our rainy-day fund by approximately $26 million.

Metrics in Budgeting. The Wyoming legislative budget process follows a traditional budgeting process, as opposed to a zero-based or performance-based budgeting structure, though we have certainly experimented by incorporating features of both zero-based and performance-based budgeting for either specified agencies, e.g., Enterprise Technology Services, or some categories of expenditures, e.g., equipment, travel, maintenance agreements, and professional contracts. The Legislature has also budgeted incentive funding tied to metrics such as higher education enrollment.

More regularly, Wyoming legislative oversight is incorporated into the existing system of budgetary requests. Examples include

- requiring a written and subsequently verbal explanation of all exception budget requests from the agency director and recommendation from the Governor;
- directly citing agency program statute for each budget request;
- providing a detailed, not overview, of each requested budget expenditure category from the purchase of a vehicle, number of employees, compensation and benefits, and supplies and equipment;
- communicating with legislators assigned to the standing committees with substantive oversight of the agency; and
- assigning each agency to one senator and one representative, without regard to political affiliation, to each agency. The assigned legislator takes the lead on becoming knowledgeable in that agency's budget and activities.

When assessing the effectiveness of appropriation levels, agency performance reviews can be the subject of one of three committees: (i) the Joint Appropriations Committee comprised of House and Senate members who meet outside of the formal Session a few times per year; (ii) the joint standing committees with subject matter oversight during the interim; or (iii) a statutorily-created Management Audit Committee that directs more lengthy, e.g., nine (9) month performance evaluations of specific government programs or entire agencies somewhat akin to the Government Accountability Office (GAO) at the federal level. The Wyoming Legislature also employs a small, non-partisan staff to provide Joint Appropriations Committee members an objective assessment and analysis of agency budget requests.

Finally, ultimate evaluation of programs and budget requests is driven through constituent contact. As a citizen legislature, Wyoming legislators are very approachable and accessible to the public. We do not have personal staff, and as a result, we respond directly to constituent phone calls, emails, letters, and in-person conversations. Above all else, the direct feedback we receive regarding the quality, scope, effectiveness, and timeliness of state government services, shapes the consideration of levels of appropriations in the two-year budget cycle. This results in an environment of continual reassessment. For example, during the most recent budget reductions in 2017, the Legislature eliminated the majority statewide livestock enforcement officers. It was a difficult decision and resulted in both anticipated and unanticipated consequences. For example, the Legislature received feedback that the lack of training and time spent on new enforcement actions was taking a toll on Wyoming's county sheriffs with the shift in enforcement responsibilities. In 2019, the Legislature did not re-instate these state costs and personnel. However, we established a fund to provide training for affected sheriffs' offices and reimburse certain enforcement expenditures.[13] The point is Wyoming's biennial budget process is subject to continual review and evaluation by our constituents. Even though the primary budget is adopted every two years, it does not prohibit timely responses to changing conditions. When we appropriate too much money, it becomes evident in the pace and type of expenditures. When the Legislature restrains spending too onerously, it can be equally notable what functions cannot meet their mission without unintended or unpalatable consequences.

Thank the Committee for the opportunity to share the benefits of biennial budgeting from my first-hand experience , and I look forward to any questions you may have.

[13] See 2019 Wyoming Session Laws, Chapter 182. [https://www.wyoleg.gov/2019/Enroll/SF0066.pdf; accessed April 20, 2019]

Chairman ENZI. Thank you. We will have questions later.
Mr. Hicks.

STATEMENT OF JOHN HICKS, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF STATE BUDGET OFFICERS

Mr. HICKS. Chairman Enzi, Acting Rank Member Kaine and Governor, and distinguished members of the Senate Budget Committee, thank you for inviting me to discuss State budget processes.

My association's membership consists of the State and territories' executive branch budget offices. I want to walk through some of the primary differences between State and Federal Government budget processes.

Number one is the balanced budget requirements, as the Chairman mentioned.

Secondly, States use revenue estimates. Half of the States use a consensus revenue forecast to determine the top-line spending limits and budget totals, and they work within that unless there are policy changes in the tax bills.

Thirdly is the governor's line item veto. Forty-four States require a super-majority legislative vote in order to override, so that brings the executive into the back end of the process.

Capital budgets. All States adopt a capital budget as well as an operating budget.

Debt limits and debt management. States have legal and policy implications on the amount of the bonds they include in their budgets, and those are subject to the metrics that Senator Kaine mentioned.

Biennial budgeting, which I will address further in a few minutes, almost all spending in State governments are subject to legislative appropriation. Tax policy changes and program authorizations are usually done contemporaneously with appropriation decisions, and typically, authorization bills do not include dollar values.

All 50 States have established reserve funds, or rainy day funds, to assist with economic downturns and to fund emergencies.

A few remarks about biennial budgeting. There have been many instances where Federal budget process reform proposals have advocated the Federal Government change into biennial budgets.

Today I want to give you several attributes that the 20 biennial budget States consider to be most compelling. Embedding a longer-term planning horizon into public policymaking decisions by providing the ability to plan for the phase-in and ramp-up of changes and spending and tax policy and to provide better understanding of out-year budget impacts.

It provides greater budget certainty, stability, and predictability, which benefits agencies, programs, and their beneficiaries, smoothing the highs and lows of annual budgets; an ability for the legislative body to use the off budget year to focus on non-budget legislation and oversight responsibilities which holds greater emphasis for part-time legislatures and those with shorter legislative sessions.

Performance evaluation cycles between biennial budgets provide more time and information to that effort, and biennial budget periods are often synchronized with legislative election cycles.

One governor recently stated, “Biennial budgeting is needed to remove the incremental cost increases that creep into base budgets simply due to the fact that the budget is created annually.”

Like the Federal Government, States have to reach agreement between the legislative chambers and often the governor to complete the budget process. Over the last 8 years, States have adopted on-time budgets 93 percent of the time, and almost half of the late budgets have occurred in unified governments in those 8 years.

Circumstances common with late budgets in States are non-budget-related disagreements, marginal small-dollar issues, and tight fiscal times. Getting to agreement is required compromise to ensure a budget was adopted before fiscal year begins.

States use several budgetary means for emergencies and natural disasters. The majority of States have separate funds or accounts, including the rainy day funds, and make appropriations to those accounts for those purposes.

Some States provide non-sum-specific appropriation of fund-shifting authority to the governor in the interim, and States may also pass supplemental appropriations.

One longstanding but greatly accelerating trend in States is the use of performance information, data, and evidence in their budget and program evaluation processes. In the budget, it is primarily being used to target funding within departments, institutions, and programs. Its use in the operations of government programs will continue to be more prominent than in the resource allocation decisions.

So, in summation, State budget processes are effective institutions. They can and do work. They have shown to be durable among differing political environments. Beginning of fiscal year or a biennium with an on-time enacted budget is a State budgeting norm.

States have constructed a set of budgetary rules and practices that achieve these ends, adherence to a revenue estimates; compliance with debt and spending limits; concurrent actions on tax changes, authorization legislation, and their appropriations, subjecting all spending to appropriations within a unified budget and setting up reserve funds with definitive rules on their usage.

Thank you.

[The prepared statement of Mr. Hicks follows:]

Testimony Of

John Hicks

Executive Director, National Association of State Budget Officers (NASBO)

Before the Budget Committee

United States Senate

On

"Fixing a Broken Process: Lessons from States"

June 19, 2019

Chairman Enzi, Ranking Member Sanders, and distinguished members of the Senate Budget Committee, thank you for inviting me to discuss state budget processes and some lessons that states have learned that may guide some of your deliberations. My name is John Hicks, and I am the Executive Director of the National Association of State Budget Officers (NASBO). For more than 70 years, NASBO has been the professional membership organization for state budget and finance officers. As chief financial advisors to our nation's governors, NASBO members are influential decision makers in state government. They guide their states in analysis of budget options and formation of sound public policy.

As this Committee considers a review of the federal budget process, there are lessons that states have learned and fundamental differences between the states and the federal government that can be instructive for your review.

I have been asked to address several areas, including fundamental differences between state and federal budget processes, state biennial budget processes, how states set budget totals, how states reach budget agreement in a divided government, how states budget for emergencies, and state budget process trends with performance information.

State governments differ significantly from the federal government as to their nature and mission. The U.S. federal government must contend with nationwide responsibilities, notably the national economy and national defense. States, especially through their constitutions, have primary responsibility for elementary and secondary education, criminal justice, transportation, and public higher education, and carry out many elements of direct service provision to their citizens.

Fundamental Budgetary Differences between the States and the Federal Government

The primary budget process and environment differences between the states and the federal government include:

Balanced Budget Requirements

States have balanced budget requirements that may apply to recommendation by the governor, legislative adoption, governors' approval of appropriations bill, and completing the year without a deficit. Most state balanced budget requirements are governed by constitutional provisions. States adhere to balanced budget requirements closely. This represents one of the most fundamental budget process difference between states and the federal government. Most states, like the federal government, have a unified budget that incorporates all appropriated funds. State balanced budget requirements are usually applicable to all funds, not just the state general fund, the fund from which most state tax revenues are collected and spent.

Revenue Estimates as a Spending Limit

The revenue estimating process is both the primary means of framing the balanced budget requirement and the initial basis for setting states' topline resource figures - the appropriation totals or caps for state budgets. Over half of the states engage in an executive-legislative consensus revenue forecasting process that reduces the policy and political tension around this key budgeting element. In other states, state law directs a single actor to set the revenue estimate that binds both the governor and the legislature. A minority of states have a separate and competing revenue estimating process between the executive and the legislative branches. State budget processes include resource estimates for federal funds and other state special funds. For the last completed fiscal year, fiscal 2018, federal funds made up 31 percent of all state spending.

Line-Item Veto

Governors in 45 states have a line-item budget veto power. This budget power provides another role for the executive in state budgetary processes that does not exist at the federal level. Thirty-eight states require a legislative supermajority to override a governor's line-item veto. Because of the supermajority override requirement, the governor plays a role in the final legislative stages of getting to budget agreement.

Capital Budgets

All states have some form of a capital budget that is separate from their operating budget. State legislatures usually adopt the operating and capital budgets concurrently. Balanced budget requirements recognize that a portion of state capital projects funded through the issuance of bonds is accounted for through the appropriation of debt service payments within the operating budget. Appropriations within the federal budget process do not distinguish between operating and capital spending. Many federal budget process reform reviews have considered the efficacy of having a federal capital budget.

Debt Limits

Forty-three states have some form of specified limit on state debt or the amount of debt service payments, many through a constitutional limit. The limit constrains the cumulative amount of borrowing a state can undertake. The use of state debt is primarily considered when making appropriations in the capital budgeting process.

Biennial Budgeting

Twenty states have a biennial budget process where appropriations are made for either two individual fiscal years, in 17 states, or for a 24-month fiscal period, in three states. A more extensive discussion of biennial budgets is addressed later in this written testimony.

Appropriation vs. Authorization

States typically do not incorporate sum-specific or target funding amounts in their program authorizing legislation, which is a common practice with the federal government. Like the federal government, the primary legal basis for funding state programs is their existence in state law. The appropriations process, not the authorizing statute, governs the amount of funding approved, not the authorizing statute. States do have the ability to temporarily modify requirements from authorizing legislation and a few can amend permanently statutory law within appropriations bills.

Joint Legislative Committee Budgetary Starting Points

There are more than ten states where the legislative process, like the federal congressional budget resolution process, establishes a budgetary starting point in addition to the governor's recommendation, that is then considered by each of the two legislative chambers. This often includes the topline budget totals and specific appropriation recommendations.

Mandatory or Fixed Spending

States do not have "mandatory spending" in the manner that it is treated in the federal budget process, where some spending is not subject to legislative appropriations. Almost all state spending is subject to appropriations. Even fixed obligations like debt service payments for voter-approved general obligation debt are included within the appropriations bills. Constitutional provisions hold primacy over other state government obligations though constitutional provisions do not prescribe funding amounts; they are left to the appropriations process to be determined. Constitutional and statutorily authorized programs, in combination with federal program participation, comprise the basis for what appropriations fund. To that extent, much of the state budget is determined by past legislative decisions. Even then, the specific appropriation amounts are still the subject of deliberation throughout the steps of the budget process. Outside entities, like the bond rating agencies, have developed categories to equate certain state government spending (debt service, pension contributions, the Medicaid program) as "fixed costs", a method to communicate to the bond market their view of the ability of a state to pay back debt and a type of measure of a state's fiscal flexibility. Governors and legislatures recognize the practical realities of limits on their discretion in making budget decisions. Even then, some of the more difficult budget actions taken during the Great Recession, where nominal state tax revenues declined by an average of 11 percent over two years, revealed that the highest priority categories of states spending were not immune from spending cuts. Those occurred even with the use of reserves, the federal fiscal assistance, and some state revenue raising actions.

Tax Policy Changes and the Budget Process

In most cases, tax policy changes in states are done contemporaneously with the appropriations process, as both the spending and revenue sides of the balance sheet must be aligned to meet balanced budget requirements. Voter-approved constitutional changes, ballot initiatives and referenda often precede the budget process and alter a future stream of revenue to which a subsequent budget process must adapt.

Mid-year Appropriations Changes

States have established various authorities to ensure a fiscal year does not end in a deficit, particularly the authority to reduce appropriations. The authority for the governor to execute the enacted budget often includes the power to reduce appropriations under specific circumstances, the equivalent of authorized impoundment. The legislature imposes restrictions on the governor's use of this authority but addresses the practical need for timely action by the executive, especially for states where the legislature can not exercise their appropriation power upon adjournment. There are states where a joint legislative committee, or a joint legislative-executive committee has final approval of appropriation change actions.

Having reviewed the fundamental differences between state and federal budgeting practices, this testimony will now more deeply explore several state budgeting areas and potential lessons that can be gleaned from experiences in the states.

Reserve Funds

All 50 states now have statutory or constitutional reserve funds. Reserve funds are a tool that states rely on during revenue shortfalls and to address emergency situations, including natural disasters. States build up their reserve balances during better budgetary times and utilize reserves as one source of solving unexpected fiscal downturns.

Biennial Budgeting in States

There have been many instances where federal budget process reform proposals have advocated changing to biennial budgets. The following discussion reflects the attributes that biennial budget states associate with their biennial budget process. There are equally compelling attributes about state annual budget processes. My remarks will be limited to discussing the state biennial budget process.

Twenty states use some form of biennial budgeting. That number has been steady for over a decade. In 1933, only five state legislatures convened on an annual basis, while the rest did so once every two years. Biennial budgets were a necessity in most states. By the early 1960s, 19 state legislatures met annually. By 1974, that number rose to 42 states. Today, 46 state legislatures meet yearly. Only Montana, Nevada, North Dakota and Texas have legislatures that meet every other year. With that change, the number of states that switched from biennial budgets to annual budgets occurred in line with the change to annual legislative convenings. Currently, 16 states have annual legislative sessions while having a biennial budget process. The last five states that have moved to annual legislative session have chosen to retain their biennial budget process.

Of the twenty states that have a biennial budget process, 17 adopt appropriations for two individual fiscal years and three states enact 24-month appropriations. There are some hybrid nuances among them: adopting a capital or bond funded project budget in alternating years, or budgeting for the major state agencies and programs in one legislative session and smaller agency budgets in the other.

The benefits ascribed to a biennial budget process include:

- embedding a longer term planning horizon into public-policy making decisions by providing the ability to plan for the phase-in and ramp-up of new spending and tax policy initiatives or changes which fits more practically with a longer time horizon. Many states use multi-year forecasts for new initiatives or changes that extend beyond the immediate budget period, providing decision-makers with the fiscal impacts of new and expanded programs and revenue changes. The second year of a biennium serves as a better basis for the long-term fiscal effects, supporting structural budget balance and providing the information needed to understand a fuller fiscal implication for their decision-making;
- providing greater budget certainty and predictability which benefits agencies, programs and service provision and their beneficiaries;
- an ability for the legislative body to use the off-budget year to focus on non-budget legislation and oversight responsibilities, which holds greater emphasis for part-time legislatures and those states with shorter legislative session;
- performance evaluation cycles between biennial budgets can be assisted by a biennial budget process by allowing more time for performance review and support a greater emphasis on program outcomes than on budget control;
- a greater degree of flexibility is possible with a biennial budget to align resources and spending with two fiscal years at issue which provides a wider berth for decision-makers compared to budgeting for a single year;
- provides certainty of funding for capital projects that require multiple years to carry out;
- legislative and executive budget staff also have the opportunity to deepen their program and policy knowledge when they are freed from a near-perpetual budget-making cycle;
- one governor recently stated, "…biennial budgeting is needed to remove the incremental cost increases that creep into base budgets simply due to the fact that the budget is created annually.

> Biennial budgeting will also provide additional funding stability to those entities dependent on state resources and will help smooth the highs and lows that can occur with annual budgeting."

Many biennial budget states still take some level of appropriation actions in the off-year session to contend with fast-moving issues, unexpected or exigent circumstances. The level of adjustments varies widely and is often related to the disposition of surplus funds due to higher actual revenues than estimated. Some legislatures, like in Wyoming and Kentucky, have set up supermajority voting rules for the introduction or passage of appropriation or revenue changes in the off-year session. The level of error in revenue forecasting has been found by some studies to be higher in the second year of a biennium. Alternately, recent experience in the last twelve years has revealed that revenue shortfalls have occurred at a greater rate in annual budget states.

Setting Budget Totals

States set their total fiscal year appropriations based on their revenue estimates, as adjusted by the amount of new tax or revenue measures. In addition, a number of states have constitutional spending limits. Commonly the revenue estimates are prepared centrally and estimates of federal funds and special revenue sources are prepared by the responsible state agencies and adjusted and approved in the governor's budget recommendation and by legislatively approved appropriations bills. A few states have a legal limitation or a practice of not appropriating 100 percent of their revenue estimates. This cautious approach is another element of setting a state budget total. About half of the states update their revenue estimates during the legislative session and after the governor has proposed the budget.

Adherence to revenue estimates by both the governor and the legislature is done to comply with legal requirements or has been adopted as a norm in a state's budget process. Adjustments are made based only with the adoption of tax policy and other revenue changes.

Reaching Agreement on the Budget

All states except Nebraska have a two-chamber legislature. Both chambers consider and decide on appropriation amounts that are ultimately harmonized through a conference or joint committee or accept amendments to one chamber's version. Only a few states require a supermajority to pass appropriations bills. Differences between the two legislative chambers' budget versions are common whether their party majorities are the same or different. In the last 30 years, the number of states with a divided party legislature has dropped from a high of 16 in 1992 to an average of five states over the last decade. Unified majorities have become more the trend among state legislatures. In the current year, 2019, only one state, Minnesota, has a majority from different parties in the house and the senate.

How state legislatures come to a timely budget agreement between the two chambers and with the governor is a more qualitative than quantitative question. Difficult fiscal and economic environments can contribute to not reaching timely budget agreement. Despite the number of divided governments, the number of partial government shutdowns has been very low. Many states with late budgets have avoided shutdowns by either default mechanisms in state law that continue the operation of government or a temporary budget is put in place. In 2017, ten state legislatures entered the beginning of fiscal year 2018 with no adopted budget, the highest number in many years. Four of them had partial shutdowns, the longest lasting four months. Only three of the ten states had a divided legislature. But in the following year, there were just two states that began fiscal year 2019 without an adopted budget, and only one where there was a political issue as the primary reason. Circumstances most common with either late budgets or no budget include non-budget related disagreements between leadership and marginal small dollar issues. Tight fiscal times with tough budget decisions are often a function of low growing or declining tax revenues. Getting to agreement in a divided party legislature has required meaningful negotiations among legislators and the governor, with all compromising to ensure a budget was adopted before a fiscal year begins. It is common to see agreements result from closed-door negotiations, several iterations of proposals vetted with party caucuses, the ramifications of no budget passage, and sometimes small dollar adjustments.

Budgeting for Emergencies and Natural Disasters

The majority of states have separate funds or accounts that contain appropriated amounts set aside to respond to natural disasters and emergencies. Other states provide non-sum-specific appropriation authority to expend funds for disaster and emergency response and relief. About half of the states also have authority to transfer funds from other accounts if necessary. These funds range in size and are reserved for a limited set of purposes. States may also pass supplemental appropriations. These sources and authorities are also combined with federal funds in response to a federally declared disaster.

Trends in States Using Performance in the Budget Process

In NASBO's most recent *Budget Process in the States* publication, 39 states reported that performance measures are used to inform executive budget recommendations, while 22 states reported that they are used to inform legislative actions on appropriations. It also found that legislatures are more likely to use performance information if they have input over performance measure selection. The use of performance information in state government budget processes has been gradually increasing. Its use in the operations of government programs will continue to be more prominent than in the resource allocation process. An effective performance budgeting system that leads to reliable, actionable data requires the buy-in of both the executive and legislative branches, and state agency staff. This buy-in necessitates a perception that the performance data collected and reported will be used in making budget decisions.

Summation

Beginning a fiscal year or a fiscal biennium with an enacted budget that is on-time is a state budgeting norm. The certainty that provides to the programs and services for both citizens and businesses is expected and fosters long-term fiscal stability. In addition to balanced budget requirements, states have constructed a set of budgetary rules and practices that are commonly used to guide the composition and execution of budgets: adherence to a revenue estimate that caps the amount of spending, compliance with debt and spending limits, concurrent actions on tax changes and spending, subjecting all spending to appropriations within a unified budget, adopting both an operating budget and a capital budget, setting up reserve funds with definitive rules on their usage, aligning the authorization of programs with their appropriations, and reaching agreement among the two legislative chambers and the governor, whether in a divided or unified government.

Chairman ENZI. Thank you.
Mr. Orr.

STATEMENT OF BENJAMIN ORR, EXECUTIVE DIRECTOR, MARYLAND CENTER ON ECONOMIC POLICY

Mr. ORR. Chairman Enzi, Acting Ranking Member Kaine, my own Senator Van Hollen, Honorable members of the committee, thank you for inviting me to speak today about Maryland's budget process.

As Senator Van Hollen said, the Maryland Center on Economic Policy is a nonprofit, nonpartisan think tank that believes all Marylanders should be able to achieve their full potential in a healthy economy that offers a widely shared and rising standard of living.

My remarks today are based on the work we do to inform Maryland's budget and tax policy. They are also informed by the work of my colleagues and independent sister organizations in 43 States, jointly called the State Priorities Partnership, including many of the States represented on this committee.

I would like to begin by offering you a brief overview of Maryland's budget process. As Senator Van Hollen, who ably served in Annapolis for a number of years, knows, Maryland has perhaps the strongest executive-driven budget process in the Nation. Maryland's constitution stipulated that only the governor may propose increased spending in the State budget.

So the budget for our next fiscal year, which starts July 1st, is about $46.6 billion, including $13.2 billion in Federal funds.

Similar to Wyoming and other States, we have a board of revenue estimates, which is a mix of elected and appointed officials, led by professional staff, which analyzes trends and provides revenue estimates in September, December, and March.

In late fall, a joint legislative committee sets non-binding targets for the next budget, and in early January, the governor introduces their operating budget.

Per our State constitution, this proposal must be balanced, though that may include drawing down or transferring funds.

In Maryland, as in every other State, this balanced budget requirement only applies to the operating budget. We have a separate capital budget to fund infrastructure that relies on borrowing through the bond market.

The legislature, of course, reviews testimony and analysis from the nonpartisan Department of Legislative Services, our version of the CBO, and State agencies and advocates, and again the legislature is only allowed to make cuts to the governor's proposed budget. They can mandate funding levels for future budget years, such as through the State's education funding formula, but cannot increase spending in the budget under consideration.

Our State constitution requires that the legislature pass a balanced budget, operating budget by early April. If the two chambers cannot come into an agreement, then they go into special session or extended session, and once passed, the budget becomes law without the governor's signature. And the governor does not have veto powers. However, the governor may go to the three-member

Board of Public Works, which they chair, and ask for line item modifications of up to 25 percent.

In addition to the requirement to balance the operating budget, Maryland's finances operate under two additional constraints. Our debt service must not exceed 8 percent of State revenues, and our rainy day fund must hold the equivalent of at least 5 percent of general fund revenues.

While this process is messy, Maryland policymakers have made it work for more than nine decades. We may wish for some reforms to increase budget flexibility around shared priorities, but the fact of the matter is that we have made it work. The proof is in our economic data. As Senator Van Hollen alluded to, Maryland is one of the wealthiest States in the Union per capita and maintains a AAA bond rating for as long as any of us can remember.

Reflecting on Maryland's fiscal realities, I would like to briefly make three points relevant to this hearing. The first is that given the near universal requirement that States balance their budgets annually, it is vital, as Senator Kaine said, that Congress retain its flexibility to respond quickly to economic shifts. States rely heavily on the Federal Government's ability to ramp up spending during economic downturns when States must cut spending or increase revenues to account for budget shortfalls and increasing needs.

This also means that a federal balanced budget amendment is a very bad idea. It would unnecessarily worsen recessions and cause dramatic increases in economic pain at the State and household level, even during economic expansions.

Federal and State budgets are simply different. State balanced budget rules only apply to operating budgets. States have separate capital budgets, and States have rainy day reserves.

The second point that I would like to make is that credible, nonpartisan data, research and analysis is vitally important to the budgeting process. Whether it is the Maryland Department of Legislative Services, the Congressional Budget Office, the Census Bureau, independent sources of information are crucial to understanding the challenges and opportunities we face. While we may disagree about what course of action to take, we must be able to clearly see what the situation is.

Finally, and perhaps most importantly, something we at the Maryland Center on Economic Policy emphasize is an explicit focus on how budget decisions affect people in communities. Budgets are moral documents. What are our values as a State or as a Nation, and are we living up to those values?

Increasingly, policymakers from places like Washington State and Iowa and all the way to Maryland are using a racial, ethnic, and gender equity lens as one way to better understand the tradeoffs involved in policymaking. We have found that the public better understands budgets when we focus more on our values and the effectives of our choices than on the specific dollars involved. Have we reduced hunger? Are our communities safer? Are our children prepared to enter the 21st century economy and lead? Regardless of process, how we answer those questions will determine the course of our Nation in the coming decades.

Thank you.

[The prepared statement of Mr. Orr follows:]

MDCEP
MARYLAND CENTER ON ECONOMIC POLICY

Senate Budget Committee testimony

June 19, 2019

Benjamin Orr

Executive Director, Maryland Center on Economic Policy

Chairman Enzi, Senator Sanders, my own Senator Van Hollen, Honorable members of the Committee;

Thank you for inviting me to speak to you today about Maryland's budget process and what, if anything, the federal government can learn from it.

For the record, my name is Benjamin Orr, and I am the founder and Executive Director of the Maryland Center on Economic Policy. We are a nonprofit, nonpartisan think tank that believes all Marylanders should be able to achieve their full potential in a healthy economy that offers a widely shared, rising standard of living.

My remarks today are based on the work we do to inform Maryland's decisions about budget and tax policy. They are also informed by the work of my colleagues across the country. We are part of the State Priorities Partnership, a national network of independent organizations focused on state fiscal policy, with sister organizations in 43 states, including all but four of the states represented on this committee.

I would like to begin by offering you a brief overview of Maryland's budget process. While this will come as no surprise to Senator Van Hollen, who ably served on the budget committees in Annapolis for a number of years, it may surprise many of you to hear that Maryland has perhaps the strongest executive-driven budget process in the nation. Maryland's constitution stipulates that only the governor may propose increased spending in the state budget.

So our operating budget process is as follows:

- The state's fiscal year runs from July 1 through June 30. Our FY 2020 operating budget is $46.6 billion, of which about $13.2 billion is federal funds.
- Over the summer and into the fall, the executive agencies draft their budgets and submit them to the governor for review.
- The Board of Revenue Estimates, a mix of elected and appointed officials led by professional staff, analyzes revenue trends and provides revenue estimates in September.
- In late fall the legislature, through the joint Spending Affordability Committee, sets non-binding targets for the next budget. Sometimes this is a dollar amount; sometimes it is a growth target. At other times, the committee has focused on deficit reduction targets. Often this committee also sets some sort of state employment target.
- The Board of Revenue Estimates provides updated revenue estimates in December, which drives the governor's budget choices.
- In early January the governor introduces their operating budget. Per our state constitution (and as in all but six states) this proposal must be balanced, though that may include drawing down or transferring funds.
- In Maryland, as in every other state, this balanced budget requirement only applies to the operating budget. We have a separate capital budget to fund infrastructure that relies on borrowing through the bond market. Maryland is able to borrow at a discount, due to its strong fiscal management and longstanding Triple A bond rating.
- In contrast to the federal government, all states also have a rainy day fund, which they can draw down to balance their budgets in difficult times.
- Taking turns in alternate years, the two chambers review testimony and analysis from the nonpartisan Department of Legislative Services, then discuss and debate the governor's proposal.
- The Board of Revenue Estimates gives a final update in March, on which the legislature bases its decisions.
- Again, the legislature is only allowed to make cuts to the governor's proposed budget. They can mandate funding levels for future budget years (such as the state's education funding formula), but cannot increase

spending in the budget under consideration. The use of legislative mandates does mean that you will occasionally see increases over what the governor proposes when the legislature declines to reduce a mandate as the governor requests.

- Sometimes the legislature can convince the governor to introduce a supplemental budget that includes a spending increase both branches agree to. This happens more often when the same party controls the Executive and Legislative branches.
- Our state constitution requires that the legislature pass a balanced operating budget by early April. If the two chambers do not come to an agreement, they must stay in an extended session until they are able to pass a balanced budget. During the extended session the budget is the only bill legislators are allowed to work on.
- Once passed, the budget goes into effect without needing the governor's signature, and the governor does not have veto powers. However, they may go to the Board of Public Works at any time and ask for budget line item modifications up to 25%. This can be an important tool during times of economic crisis or natural disaster, but is not the most democratic process. The governor sits on the three-member Board of Public Works, and therefore only needs either the Comptroller or the Treasurer to agree in order to prevail.
- In addition to the requirement to balance the operating budget, Maryland's finances also operate under a handful of additional constraints
    - Debt service must not exceed 8 percent of state revenues
    - Our Rainy Day fund must hold at least 5 percent of general fund revenues

While this process may seem messy, or unnecessarily restrictive for the legislature, Maryland policymakers have made it work for more than nine decades. We may wish for some reforms to increase budget flexibility around shared priorities, but the fact of the matter is that we've made it work. The proof is in our economic data: Maryland is one of the wealthiest states in the union, with one of the highest rates of millionaires per capita and a higher median income than almost any other state. We have for many years retained a Triple A bond rating.

Reflecting on Maryland's fiscal realities, I would like to briefly make three points.

First, given the near universal requirement that states balance their budgets annually, it is vital that Congress retain the flexibility it currently has to respond quickly to economic shifts. Specifically, states rely heavily on the federal government's ability to ramp up spending during economic downturns when states must cut spending or increase revenues to account for budget shortfalls at the same time they are facing increasing need.

States also rely on federal spending to move the needle on big policy challenges. For example, thanks to the expansion of Medicaid and the federal dollars provided, about 290,000 more Marylanders have health coverage through Medicaid, and our uninsured rate dropped from 10.1% in 2012 to 6.1% today. Although there are multiple factors at play, Medicaid expansion and federal subsidies for private insurance represent the largest chunk of that expansion.

It would have been very difficult for Maryland to make such extensive progress without the support of federal funds. Eliminating federal funds for Medicaid expansion would increase costs by more than $1.3 billion, rising to $1.5 billion by FY 2022.

Maryland has also seen declines in the rate of uncompensated care costs for people who were treated at hospitals, did not have insurance, and could not afford to pay. Maryland's Department of Legislative Services estimates that from fiscal 2013 to 2015, hospital UCC costs declined by 2.55 percentage points, equivalent to approximately $311 million.

This also means that a federal balanced budget amendment is a very bad idea. It would unnecessarily worsen recessions, and cause dramatic increases in economic pain at the state and household level even during economic expansions. States simply aren't equipped to scale up in the same way that the federal government is.

Furthermore, the fact that most states are required to balance their budgets is not an argument for a federal balanced budget requirement. Federal and state budgets are simply different. State balanced budget rules only apply to operating budgets, states have separate capital budgets, and states have rainy day reserves.

Second, credible, nonpartisan data, research, and analysis is vitally important to the budgeting process. Whether it's the Maryland Department of Legislative Services or the Congressional Budget Office, an independent source of information about revenues and expenses for policymakers is crucial to understanding the challenges and opportunities we face. While we may disagree about what course of action to take, we must be able to clearly see what the situation is. That is also why it is so vitally important that data agencies as diverse as the Census Bureau, Internal Revenue Service statistics of income division, and the Labor Department remain nonpartisan and well-funded. The information they and similar entities produce is vital to understanding demographic, economic, and other trends that influence the demand for federal investments in our nation's future.

Finally, and perhaps most importantly, something we at MDCEP emphasize at the state level is an explicit focus on how budget decisions affect people and communities. Budgets are moral documents. What are our values as a nation, and are we living up to those values? Are we protecting democracy, feeding the hungry, providing opportunity for everyone? Or are we picking winners and losers among the American public based on arbitrary or less-than-helpful factors?

Incorporating a racial, ethnic, and gender equity lens into policymaking is one way to better understand the tradeoffs involved in policymaking and to make the intentions of policy proposals clear to the American public. We have found that the public better understands budgets when we focus more on our values and the effects of our choices than the dollars involved. Have we reduced hunger, are our communities safer, are our children prepared to enter and lead the 21st century economy?

Regardless of process, how we answer those questions will determine the course of the coming decades.

Chairman ENZI. Thank you.

We will now begin a round of questions, 5-minute questions, beginning with myself and then Senator Kaine and alternating back and forth in order of arrival. So I will begin.

Both Senator Bebout and Mr. Hicks, what are some of the mechanisms that the State uses to enforce spending limits and keep members of the legislature accountable?

Mr. BEBOUT. Thank you, Mr. Chairman, members of the committee.

We do not have any specific items that we do legislatively. Our constitution certainly requires that we have a balanced budget, and the governor is required as well that when he submits a budget to us that it is to be balanced. And that is obviously a limitation.

But what we do in the reality of it at the Joint Appropriations Committee and consistently with the years I have been in the legislature is we look at spending in terms of how we develop our budget. So if our CREG estimates show us we have X amount of money, then that is the goal we use to work for.

We have a rainy day fund—we call it LSRA, Legislative Stabilization Reserve Account—that we ensure money is there.

We also have spending policy amounts we have with our funds. Wyoming is blessed to have around $22 billion in our reserve accounts from mineral production as well as our school lands, and we monitor that very well and very carefully. In that, we have spending caps on the amount of money we can take from that. Those funds are inviolate, but yet we can utilize a certain percentage of those. And we shift that policy, depending on what we think the revenue stream would be. It might be 2.5 percent of the revenues would go in terms of our gross receipts that we would utilize for that or different amounts, depending on what we see.

So it is all the process that we work within that we have the ability to set these goals internally with our committees. Leadership does it, and we work from there. And it works. It really does work.

The fact that we also have side boards on our rainy funds, so if we do get in a bind—and Wyoming is struggling right now, no question about it with what is going on with commodity prices—we have these side boards that said, "Okay. We are going to use our rainy day funds but only to a certain extent." Discipline, discipline, discipline, and provide certainty.

Chairman ENZI. Thank you.

Mr. Hicks.

Mr. HICKS. Mr. Chairman, in terms of enforcement of spending limits, all of the States enact appropriation bill or bills, and within those bills are the line items, are the actual both amounts and language that must be adhered to by the executive branch and the judiciary as well as the legislative branch. And so there is a set of budget control mechanisms that is basically enforced by our members, the Executive Branch Budget Office, assuring that State agencies, executive branch primarily, adhere to the requirements of the appropriations bills.

Even further, the management of the budget that is done by the executive on a 12-month-a-year basis also goes deeper than the budget appropriations act does in some cases to assure an appropriation utilization of management strategies, and the timing of spending is also controlled, so that a midyear revenue shortfall does not result in having spent 80 percent of the budget by that time.

But very importantly, the legislative branch plays a critical area. There are times in which budget adjustments need to be made within the authority granted, but in most cases, that it is either overseen by the legislative body or in some cases acted on by the legislative body, particularly full-time legislatures. There are a number of States that have something like a budget board, which is comprised of both legislative members and the governor or executive branch members, and they jointly act on some of these budget adjustment measures.

So the enforcement mechanisms are very rigid, controlled, and transparent.

Chairman ENZI. Thank you.

Mr. Orr, what kind of controls does the State have to make sure that the appropriation bills get done on time?

Mr. ORR. There are several deadlines set out. The actual deadline for the legislature to pass the budget is about a week before the general session, the legislative session ends, so there is some warning as they are getting close.

Then, as I said, if they—sorry. I did not turn my mic on. So they have this week where they kind of have a sense of whether or not they are going to—if they have missed that initial deadline, but they still have a week before the end of session. And then they are forced to go into extended session if they do not pass it.

During that extended session, the budget bill is the only thing they can work on. They are not allowed to work on anything else.

We had one example a couple years ago where we were making a number of adjustments to spending and revenue, and the legislature passed a budget bill that essentially has two budgets in it. Because there was a separate bill that would have changed some of the mandates and requirements, we have a Budget Reconciliation Act that includes the legal changes that are included. That is separate from the budget bill, and if that did not get passed, then the sort of disaster budget would have been in play, whereas they did eventually pass that. And so the budget they actually wanted to pass was the one that was enacted on July 1st.

Chairman ENZI. Thank you. My time has expired, but I will mention that I hope all of you would be willing to answer any written questions that anybody that is here or that cannot make it here can submit to you later.

Mr. ORR. Absolutely.

Chairman ENZI. Appreciate that.

Senator Kaine.

Senator KAINE. Thank you.

I want to ask about two State-level practices that are common and have you talk about whether you think they could be applicable here. The one that I am not going to get into is biennial budgeting. I think we could definitely make that work here, and it would be salutary. Every once in a while, we have reached 2-year deals on appropriations that have provided a level of certainty that people like. That one, we can do.

I want to ask you about debt management policies and revenue estimating. Maybe I will ask them in the reverse order.

So revenue estimating, in my State, the governor would sit down with economists and develop some basic format but then present to a board—elected, industry leaders, bipartisan, bicameral, mayors, et cetera—some options on revenue estimate. Once we would fix upon an option, that would then be the source of the governor's introduced budget. And we would have all the arguments about it, but we would come up with a consensus that would then not be challenged that would serve the basis. So you would not have a different top line coming out of a House or the Senate or the administration. We are all on the same page.

Here is an interesting quirk of the Virginia budget on revenue estimates. What if you make more money than you estimated? A governor could not spend a penny without getting permission of the legislature. What if you made less money than you estimated? The legislature was perfectly happy for the governor to make those cuts without a legislative imprimatur, thinking that when we came back next year, if we really hated him, we could obviously change.

Could we use a revenue process like that? Would that be helpful at the Federal level? And then I will just extend it on the debt management.

We have debt management policies, again, two basic ratios, debt service to budgetary outlay, total debt to, say, GDP. We would manage by those ratios.

Now, in both the revenue estimate and in the debt management policy, plenty of room for a lot of partisan argument on the revenue estimate. How do we spend the money? Democrats would feel differently than Republicans about it. So we would have plenty of argument, but the top line was set.

Similarly, on the debt management policy, how do we get to the ratios? Is it increasing revenue? Is it decrease in spending? We would have a great partisan argument about how to do it, but we would not argue about the ratios themselves.

It seems like having that target really helped us exercise some discipline at the State level in both those areas.

As you look at State budgets that you deal with, can you see how debt management policies and better revenue estimation that would reach us—that would get us to a consensus point could be implemented at the Federal level?

Mr. BEBOUT. Well, I will take a shot at that, Mr. Chairman and Senator Kaine.

The Consensus Revenue Estimating Group is, to me, where you start. That is the most important part of it, and the way we do it in Wyoming, it is comprised of, I believe, nine people, and then it is both the executive, the legislative branch, as well as industry people. And we have a very sophisticated system analyzing our revenues. Of course, in Wyoming, our revenues come from primarily sales tax. We have no corporate or personal income tax. So it is sales tax. It is the income we get off our permanent funds and our property tax, derived mostly of minerals.

So we have a sophisticated process. Like I mentioned, we put these amounts together. So we have a good idea, and we developed a history to be able to determine that amount of money. And what we do is we have that profile. We do it twice a year officially, where they come out with what we call the "CREG estimates." We do it in October, so the governor has an idea when he does his budget, what the revenue streams are, and we update it in January before we go into the session.

We have a very good idea of what exactly the money is available. We know what our LSRA account, our rainy day account is. We know all of that information. So we base everything based on that level, and we really stick to it. The governor presents a budget. That is a top line, as we work through our budgeting process and do the JAC work, Joint Appropriations Committee. We continue to monitor that and keep it at that level. It really works, and that is how we do it.

Like I mentioned, the side boards on our rainy day accounts, we can sometimes go in there. The governor can do that, but at the end of the day, it is balanced. And we live within those revenue streams.

As far as debt service and those things, Wyoming is very blessed. We have no debt. So we do not have anything in place that talks about we are going to have only debt limitations. We have it constitutionally, we can have no more debt than 1 percent of the previous sales tax revenues. That is in our constitution, but in terms of anything we do in statutes, we just have no debt.

I think there is one bond that we might have for $20 million, and there is a reason we are ranked very high with the rest of our States in terms of our fiscal responsibility, because of the concerted nature we take when we put our budgets together based on not how much we want to spend, but the level of revenues we do have.

Senator KAINE. I will say Virginia has been AAA in all bonding agencies since they started ranking, and we have a lot of debt. But we just have a strategy for managing it. So there is different ways to be AAA. Not having debt would be one, but you can manage debt well too.

How about other ideas, Mr. Orr, Mr. Hicks, on these questions, mindful that I am almost out of time?

Mr. HICKS. Particularly around debt management, most States not only have debt limitations, some of the metrics that you mentioned, but they have debt affordability policies, which means periodically, annually or biennially, they produce a whole set of information about what has been—the debt that has already been issued, the debt that has not been issued, economic forces that are happening because it affects the revenue side, but a whole suite of not only what the debt has been approved by the legislature, but what debt has been executed and the timing and interest rate cost and the changes that have occurred since the appropriations process. And so it is very highly managed.

The timing of debt issuance is a real important issue in States. When you need the money is the most important thing in terms of—because we issue debt for capital projects, these multiyear projects that have a construction period of multiple years, and so it is very important that you time your debt in a certain way.

States have adopted debt policies, which is essentially debt service divided by revenue availability or, as you said, total debt to

State economic indicators, whether it is personal income or gross State product.

Not all are in statute, but most are. And those that are not in statute have been policies that have been adhered to by both the executive and legislatures.

Senator KAINE. Could I ask Mr. Orr—is that okay,

Chairman ENZI—if you would want to address it quickly?

Mr. ORR. I will try to be brief. Thank you.

So I mentioned that we have a board of revenue estimates. Just to flesh that out slightly, the professional staff makes recommendations looking at revenue collection trends, looking at economic trends. The committee is actually made up of the comptroller, the treasurer, and the secretary of the budget. So the executive, the legislature, and the people all have a representative there because the comptroller is elected directly.

I mentioned our spending affordability process, which set nonbinding goals for the next year's budget. We have a similar debt affordability process, which is led by the governor, and he sets some goals. And those goals often are below what is actually mandated in our constitution, those two limitations that I mentioned in my testimony.

So like Virginia, with our AAA bond rating, we have about a billion dollars roughly in annual debt that we approve each year, and because we have the AAA bond rating, we get discounts for that. But it is a similar process to what has been described.

Senator KAINE. Great. Thank you very much.

Chairman ENZI. Thank you.

Senator Braun, followed by Senator Kennedy and Senator Johnson.

Senator BRAUN. Thank you, Mr. Chairman.

In the time I have been here, I have noticed what we have been most resourceful at and creative is how we have come up with gimmicks and artifices to actually escape any of the things we have just talked about that we do at the State level.

I was part of an Indiana State legislature for 3 years on Ways and Means and also Roads and Transportation, and back in '17, of course, we passed a constitutional amendment to balance our budget. Statutorily, we did it, and we did it naturally as a State that I think believes in the general rules of accountability.

Being a CEO of a company where you had to earn your revenues along with controlling your expenses, it takes a whole idea of budgets even to a new level, and I can tell you that the accountability portion is harsh and merciless. If you would perform in any fashion like we do here, you would be out of business quickly.

Senator Kaine mentioned responsibly managing debt, and we in Indiana have some debt. We have a AAA bond rating too. We would be up there with that of Maryland. But I think that all works because we have got guardrails and things that keep us within guidelines, so that it really never becomes a problem.

There are some States more spendthrift than others and seem to have issues more similar to the Federal Government than what the typical State would have.

What do you think about the idea—can that—can we ever manage debt here without—Mr. Orr referred to it does not make sense, balanced budget amendments when you are trying to use economic policy in a countercyclical way.

And I am going to start with Mr. Orr. Would you be willing to promote a balanced budget here in years of good economic activity? Let us just do half the equation. Do you think that would be sensible? Because I do not know that we ever get to a better place here unless we have some restrictions on how we operate. What about that idea?

Mr. ORR. So I do not know that I would make a policy recommendation one way or another.

I certainly remember when we did something similar in the late '90s.

The larger point that I would make, though, is that the Federal Government budget is very different from State and local budgets, and also that corporations and households and States take on debt, just like the Federal Government. So you very much have to think about operating and capital together, and it is not ever as clearcut as a balanced budget amendment would make it out.

Senator BRAUN. I would like you to go into a little more detail because we typically talk about that back in Indiana, and it gets laughed at here, that there is a big difference. There is a day of reconciliation if you keep doing what we are doing.

I remember the conversation the Chairman and I had the last time we got together as to what would be the trigger point, whether it is the depletion of the Medicare trust fund or whether it is the fact that when interest rates fully hold us accountable, being such a debtor nation in the sense of how we run our business here, will it be interest rates and the inability to sell our debt and place it. Why would you not, knowing that it is different and that we are the ultimate source of being able to borrow money—and we do have the ability, figuratively, to print it—why would not we want to use it as an example of how it should work here, other than the fact that we do not have to? And we find all the ways to get around it.

I never could understand why we would not be out there with that as a model of a way to run a place like this. If you care to elaborate further?

Mr. ORR. I think that it depends on how you—the problem is that the framing of the question, I have an issue with the framing of the question, as it exists in the larger world, not necessarily the way you framed it.

But that the idea that we are in trouble because of increased spending and, therefore, need to make spending cuts ignores the fact that deficits at the Federal level have grown significantly, primarily because of revenue, lack of growth and revenue, and not so much in growth of expenses. So that would be the point that I would make in response to that question.

Senator BRAUN. I am out of time, and I am hoping we have another round of questions because I will have several.

I would like to cite that we here at the Federal level are generating record revenues—record revenues—and that the Tax Cuts and Jobs Act of 2017, as a mainstream entrepreneur, has got the sweet spot of revenue generation for this place, and that we are almost closer to revenue neutral than what the CBO forecasts. So I think that is a classic flaw that would be used here in the analysis of how we make things work.

Thank you very much.

Chairman ENZI. Thank you.

Senator Kennedy.

Senator KENNEDY. Thank you, Mr. Chairman, and thanks to you gentlemen for being here today.

Senator, does our Chairman really know how to catch fish, or is it just putting us on? [Laughter.]

Senator KENNEDY. He has these fish in his office. Did he really catch them, do you think?

Mr. BEBOUT. Well, Mr. Chairman, I expected a lot of questions. That was not one of them.

Senator KENNEDY. You do not have to answer.

Mr. BEBOUT. Yes, he is a very good fisherman. There are some great places in Wyoming.

Senator KENNEDY. I know that.

Mr. BEBOUT. If you have not been there, we would sure love to have you.

Senator KENNEDY. I am still trying to get over that Wyoming has no debt. I am still trying to get my mind around that.

I want to use my time to ask each of you. You have observed the circumstances we find ourselves in at the Federal level. If you were each King for a Day—forget the politics and the personalities—what suggestions, what changes would you make to try to help us get control of our spending and our debt? Mr. Chairman and then we will go to each of the directors.

Mr. BEBOUT. Well, thank you, Mr. Chairman and Senator Kennedy.

I think we ought to have a balanced budget amendment.

I suppose that, and even in Wyoming where we do have it constitutionally, I wonder if we did not have it if we would have the political will to not do what happens at our level here at Congress and the United States. So I support that.

I think that is a—to me, as a businessman, as a member that has to—I sign the check on the front and the back in my business, and I have revenues. And when I am having difficulty in my business, I simply cannot raise my rates. I have to make it work.

So I support a balanced budget amendment. There are some quirks in it and some things that have to happen, and I get that.

In Wyoming, one of the things that drives our budget more than anything is the courts dictating and mandating to us how we spend money on education, and if there is one area in Wyoming where it is automatic and “escalators,” if you want to call them that, that drives our funding, it is in education. That is one of the most difficult things to try to bring responsible spending to that level. Education is so important, but to try to be able to control it with those escalators, it is difficult. And yet we have a balanced budget.

But what you see happening is all of the other programs in State government that are so important have their own constituency. The money shifts to education, and so to me, if we did not have that balanced budget in our constitution, it would be very, very interesting to see how we would operate, even in Wyoming, that we might not looking at spending more than really our revenue streams would generate.

Last session, we spent almost a billion more dollars than we had in ongoing revenues. One of the situations that happened is we have one-time money, and one-time money is like capital gains. And we do not recognize capital gains until they are realized. People want to realize unrealized capital gains and spend the money before we get it, similar to what may happen here. We do not do that, nor will we do that.

Senator KENNEDY. That is a good point. That is a very good point.

Mr. BEBOUT. And we are not going to spend money we do not have. So I like the fact that we have to—by constitution, have to have a balanced budget.

Senator KENNEDY. Mr. Director.

Mr. HICKS. Senator, I as an individual had the opportunity to be a part of a Federal budget examination project that was hosted by Convergence. It was called Building a Better Budget Process, and some of those recommendations came out about aligning better the Federal budget process with electoral cycles; for example, to have a national 4-year plan that might be coincident with the presidential election cycle, and then a 2-year budget plan that coincides with at least congressional election cycles, and that has some of the benefits of the biennial budgeting that the Chairman and the Ranking Member have mentioned. Those are two items.

And continuing to strengthen the institutions, like Mr. Orr said, such as the CBO, so that facts are not in dispute among the members, and that there are existing situations that are clearly understood. And then it is discretion and choices and tradeoffs there.

One other thing that I think—and it has been mentioned in past Federal budget reform is—the notion—and the Senator from Indiana was asking about debt. One of the things that States—States issue debt primarily for capital assets. Assets is going to live for a long period of time, and if we start borrowing for operating, the rating agencies smack us. So there is an enforcement mechanism kind of through the market for that.

One of the things that the Federal Government does not do as well is separate operating expenses from capital expenses. Even if that did not change the budget process, it would be more knowledge and information available to use decision-makers to the citizenry about understanding how much debt are we having because we are building something versus how much debt would we have because——

Senator KENNEDY. Excellent point.

Mr. HICKS [continuing]. Other reasons for spending. So those are a couple of ideas.

Senator KENNEDY. Mr. Director.

Is that okay, Mr. Chairman, that we hear the other director.

Chairman ENZI. Yes, sure.

Mr. ORR. So, briefly, I agree with Mr. Hicks.

But I think that the process—I think the legislators can make whatever process work. We need good inputs. We need good information.

But Maryland's process is really kind of funky and quirky and odd, and yet we still make it work. So I would say process is sometimes overemphasized. It is important, but it does not solve the problem if you cannot come to a consensus, so thank you.

Senator KENNEDY. Thank you, gentlemen. Thanks for being here.

Chairman ENZI. Senator Johnson.

Senator JOHNSON. Thank you, Mr. Chairman. Thanks for holding this hearing.

I do not think we look to the States enough to learn their practical solutions to some of these problems.

One of the big problems we have in the Federal Government is mandatory spending. It exceeds the extent of our budget, whether it is the dedicated revenue stream is not adequate to pay out all the benefits.

So let me just ask: Do any of you know the breakdown on average with all 50 States in terms of what you maybe consider mandatory spending versus discretionary spending in the States or at least in your own State?

I will start with you, Mr. Orr.

Mr. ORR. So I do know about my State. I do not know about other States.

Maryland, because we have this quirky situation where only the governor can add, the legislature relies more on mandates than other legislators, I believe. So we have about 87 percent of our general fund is mandated, but that is because that is the only tool the legislature really has. And through the Budget Reconciliation Act every year, they do make adjustments to those formulas. So it is not that those are locked in stone. There is adjustment. So it is a little bit different than mandated——

Senator JOHNSON. Yeah. Your mandatory expense is actually on budget; ours is not.

Mr. ORR. Yeah. So that is the difference between the Federal—and I think most States that have mandate spending, they are more like Maryland in that respect. They may not have quite as high a percentage, but——

Senator JOHNSON. So it is mandatory, but it is not on automatic pilot like the Federal Government.

Mr. ORR. Correct. That is a big difference.

Senator JOHNSON. Mr. Hicks.

Mr. HICKS. I would add that very point. There is a whole lot of mandatory spending. K–12 education in every State is a mandatory expenditure. It is just how much is not a mandatory thing. So States do not have a dollar value that is required. They have mission and purposes that are required.

Senator JOHNSON. I would not call that mandatory spending in the same way. Anything close to what we have here, which is just mandatory, automatic pilot, you spend it, no matter what? And if somebody qualifies for it, they get it?

Mr. HICKS. And States do not have that, and the reason is that most States, all spending is subject to the appropriations by the legislature, even if it is—debt service, for example, we are not going to repudiate our debt at States. We are going to pay our debt service, but it still has to be appropriated.

In some cases, we have general obligation bonds in which the voters have approved. In that sense, there is a mandate, but still, it is subject to appropriations.

Senator JOHNSON. Senator, do you want to add to that quick?

Mr. BEBOUT. I would be glad to. Mr. Chairman and Senator Johnson, the thing that we do in Wyoming and the only thing that I would consider escalators occur primarily in education, where through the Supreme Court and the courts being involved in telling us what to do, which by the way I do not think is the way to do it, but anyway, that is what we have to live with. So there are escalators in that.

Our retirement funds, they are built in things. We try to be actuarially sound, around 80 to 85 percent. We struggle with that.

The last thing is the real thing that really determines our budget and one of the critical unknowns is Medicaid and how much and what level the Federal Government allows us to have to spend in our department of health, which is 40 percent of our State budget. And of that, the driver in that is Medicaid, and that is a volatile thing. That is one of the things we have to deal with.

Senator JOHNSON. And, of course, that is Federal Government.

Let us switch to just the one component, appropriation. We just passed out of my other committee, the government affairs portion of our committee, an End Government Shutdown Act. There have been all kinds of ideas to provide some discipline to the appropriation process.

What we decided on is if you do not pass appropriation bills, you have basically an automatic funding mechanism at the current level. There is no increase in spending, no decrease in spending, and Members of Congress basically cannot go home on taxpayer or campaign dime. You kind of discipline that process. You have to move right to the appropriation process, basically what it sounds like a number of States are doing.

Again, I described that very quickly. I think you understand the process because I think you have something similar in the States. My question is do you see any downside to that, or can you see any improvements in terms of what you would recommend the Federal Government do, similar to what the States—to discipline that appropriation process? So at least we end the dysfunction. We never have Government shutdowns anymore.

We will start with you again, Mr. Orr.

Mr. ORR. Certainly. I do appreciate the discipline that requiring legislators to stay in Annapolis and stay on topic provides.

I worry a little bit when we talk about just continuing on as before when the Federal Government—when Congress does not pass a budget because, depending on how long that process goes, it quite easily could lead to automatic cuts and services if there is not some sort of inflation adjustment or health care costs are rising faster than——

Senator JOHNSON. But it beats a shutdown.

Mr. ORR. Well, I do not know that that is necessarily true of the long term.

Certainly, Maryland is uniquely exposed to shutdowns in ways that—Virginia and Maryland are uniquely exposed to shutdowns in ways that some other States are not, but even with that being true, I still am concerned about the long term impact.

I worry that it would replace, that that automatic extension would replace the regular order in a way that I am sure you do not intend.

Senator JOHNSON. Okay. As long as the Chair is not paying any attention, Mr. Hicks. [Laughter.]

Mr. HICKS. I think the downsides to the idea are mostly political in that regard or institutional in the sense that the Congress is not adjudicating the claims that a budget does in which you are making choices and tradeoffs. So, in that extent, that might be the downside.

There are a number of States—I think your State is one of them—that in the event that they did not pass a budget on time, there is already an existing statute that does, as you just said, the existing level of appropriation continues until a new budget is.

California, for example, by June 15th if the legislature did not kind of finish their budget, they were not paid any longer. Well, they finished their budget by June 15th——

Senator JOHNSON. We include that as well.

Mr. HICKS [continuing]. The other day.

And then there are other issues such as think of the State of Illinois who went 2 years without a budget, and by court decisions and other requirements, a whole lot of spending continued. And there was a minimal amount but an important amount that did not. So, in some cases, the implications really were not fully felt.

Senator JOHNSON. Thank you.

It is up to the Chairman if you want to let the Senator answer that.

Chairman ENZI. Certainly.

Senator JOHNSON. Okay. I figured you might. [Laughter.]

Senator JOHNSON. Senator.

Mr. BEBOUT. Thank you, Mr. Chairman and Senator Johnson.

A couple of things that really drive us—and the question is would we do it if it was not, but it is our constitution. We can only meet 60 days. So we go into a session understanding, and we set up a schedule moving into it, what we are going to do on certain days and how we work the bills, what we do, which agencies we hear, and it is all planned out. We do meet that deadline. If we did not have that deadline, I am not so sure we would not continue to do that.

As far as continuing resolutions to extend and we do not have money if something happens, we build in those emergency funds so the governor has latitude, and we set up for us, which has a small budget, about 40- to $60 million in case something happens.

We also allow agencies to transfer money internally. Like within the department of health, if there is a Medicaid thing that comes out and there is a $10 million hiccup we did not realize, they have the latitude to transfer that. It is called a "B–11 process." The governor authorizes it, but they do that.

Then we can do 5 percent from agency to agency, like department of health to department of ag. So we have got a pretty good process that covers this when we are out of town.

Senator JOHNSON. Thank you.

Thanks, Chairman.

Chairman ENZI. Thank you.

Senator Whitehouse.

Senator WHITEHOUSE. Thank you, Chairman. Much appreciate this hearing.

Mr. Bebout, welcome. Delighted that you are here. Do we call you "Mr. President"?

Mr. BEBOUT. Well, Mr. Chairman, I have been called a lot worse, but "Senator" is fine, Senator.

Senator WHITEHOUSE. We just made the change in the Rhode Island State Senate also. So the leader of the Senate is now called the "president of the Senate," whereas before it was the majority leader, like here in Rhode Island. So I have gotten used to it a little bit.

But welcome, and thank you for sending Mike Enzi and John Barrasso here. They have been great to work with on a whole variety of issues, and one of the reasons we are here is that the Chairman is trying to lead reform of our budget process, which I think has failed for a variety of reasons, not the least of which is that when it was designed, we usually passed our appropriations measures with a simple majority. In fact, all sorts of even very contentious bills passed in the Senate with a simple majority. That was just the standard operating practice.

Dianne Feinstein describes how her guns bill was allowed to pass by a simple majority. I think they got 57 votes, and that was clearly a contentious issue. So it was a different time, and in that era, if you did not meet the budget committee's levels, you could not pass your appropriations with a regular 50-vote majority. You had to kick up and acquire a 60-vote super majority, and what has happened since then in the Senate is that we basically have agreed we are not going to do anything except with a 60-vote threshold.

So the fence line that the budget committee had around its proposed budget is basically a floor-level fence, and a floor-level fence is no fence at all. So the appropriators who have understood for some time that they are going to have to do 60 votes, our budget could not be less significant to them. There is zero consequence for the appropriators varying from the budget that we put together.

But, as you can appreciate, it makes it kind of awkward to enforce anything we do here.

Do you have a capital budget in Wyoming?

Mr. BEBOUT. Mr. Chairman, yes, sir, we do. That is a separate part of our budgeting process. When I talk about what the Joint Appropriations Committee works on in terms of budgeting, that is the operating budget for the State, just like these two gentlemen talked about in other States. Then we have a separate capital budget. We break that down into two distinct areas. We have State capital construction budget relative to building whatever deals with the State, and then we have our school, K through 12, capital construction budget. Those are separate items that we deal with.

Senator WHITEHOUSE. So it is pretty clear to everybody what belongs in the capital budget, and there is not a lot of gamesmanship about stuffing things into the capital budget that ought ordinarily be in the appropriating budget.

Mr. BEBOUT. Yes, sir, Mr. Chairman. It is very clear, and those budgets are separate. They work through the process separately, and that is by design.

Senator WHITEHOUSE. You have to meet a constitutional requirement that your budget balances, correct?

Mr. BEBOUT. Mr. Chairman, yes, sir, we do.

Senator WHITEHOUSE. And that does not count the capital budget other than the debt service and so forth on that? That is to the side? The budget that has to balance is your appropriations and whatever is required to service the loans on the capital budget?

Mr. BEBOUT. Mr. Chairman, no. Our budget is constitutionally to be a balanced budget and that includes our capital expenditures. It is all one package based on our revenues. We have to provide that balanced budget, which includes capital construction and capital spending.

Senator WHITEHOUSE. So the year-to-year spending on a particular building is right in the constitutional budget?

Mr. BEBOUT. Yes, sir, Mr. Chairman, and what we do, if we are going to build a building in Wyoming—we just completed a $300 million renovation of our capital—is we use previously accrued funds. We started about 10 years ago setting aside money so we would have the funds. The capital project set aside, and typically what we try to do is when we decide we are going to build something, we have the cash in the bank, so to speak, to do it. Therefore we do not get into a negative balance scenario. Then when we work out budgets, we already have the money set aside for capital construction. It is there as part of it. It is balanced, and then we work from the operating budget.

Senator WHITEHOUSE. And how often is there bipartisan agreement on budgets?

Mr. BEBOUT. Mr. Chairman, we have a bipartisan process, although Wyoming is overwhelmingly Republican. You have probably seen that. We are one of the most Republican States in the Country.

I was in the minority party before, at one time, and it has always worked that we work together. It really is a bipartisan effort, especially on the capital construction project side of it. There are differences on our spending, especially the entitlements, given the nature of politics, and we have that. But, all in all, we work well together.

Senator WHITEHOUSE. I appreciate that sentiment because Chairman Enzi has been trying to lead us towards a more bipartisan process here at least that there should be some bipartisan avenue for progress, and Senator Braun, who is here, has been one of the best advocates for that and is a cosponsor of the legislation that would create a bipartisan bypass, if you will, around what is otherwise here often a very partisan and loggerheaded process.

So it is good to hear from you that bipartisanship works because we are trying to make it work here as well, and I appreciate you being here.

And I thank the Chairman for this hearing.

Mr. BEBOUT. Yes. And, Mr. Chairman, just to take off on that topic—and I appreciate those comments. As former president of the Senate, I wanted to work in a bipartisan way because we all want the same outcome at the end of the day, the best that we can provide for our citizens, and we work together.

Senator WHITEHOUSE. Some person in business once told me something that has completely stuck in my mind, which is in business, debt does not matter until it matters, and then it is the only thing that matters. And I think we do not want to get to the situation where it is the only thing that matters.

Thank you. Thank you, Mr. Chairman.

Senator WHITEHOUSE. Thank you.

Chairman ENZI. Did you have a quick question here?

Senator BRAUN. Yes, I do. Thank you, Mr. Chairman.

Mr. Orr, what is the average annual increase in revenues for the State of Maryland roughly over the last 5 years?

Mr. ORR. I do not have the numbers off the top of my head, but it is in the neighborhood of about 3 or 4 percent.

Senator BRAUN. Okay. That is a good increase that many other States might not have the advantage of it. So I was just curious to see how your revenue stream was moving, which would enable you to maybe have a little leg up on other States.

Mr. ORR. As I said, we are one of the wealthier States per capita.

Senator BRAUN. Yep.

Mr. ORR. At the same time, our expenses are rising faster than our revenues. We do have a structural deficit issue about 5 years out where we have got like a—I think the last number I saw was a $1.2 billion shortfall between revenues and expenses 5 years out based on projections about our population growth and the aging of our population and education funding formulas, those sorts of things.

And the legislature is constantly grappling with that. That story has been true in the decade I have been working on Maryland budgets, and every year, we still manage to pass a balanced budget.

Senator BRAUN. That is good, admirable.

Mr. ORR. Whether it is through revenue increases or cuts to expenditures, we pass a balanced budget.

Senator BRAUN. And finally for all three witnesses, top two recommendations for the Federal Government if you would have them, so I can write them down and see what your thoughts might be.

Mr. ORR. I would just reemphasize the importance of good data and also emphasizing the values that are in our budget. I think that is really how people understand budgets is when we express them in human terms, and so that would be my recommendation.

Senator BRAUN. Thank you.

Mr. Hicks.

Mr. HICKS. That is a tough question. I would say the ideas that I had mentioned earlier about the prospect of a longer time horizon in terms of both planning and in budgeting, I think, is something that would serve the Federal Government well.

I think a greater understanding of the distinction between operating and capital expenses is a transparency question. The citizens need to know better what is in the Federal Government, what are our tax dollars getting, and that is a helpful way, I know at the State level, that describes the things that are one time and the things that are ongoing.

Senator BRAUN. Thank you.

Mr. BEBOUT. Yes. Mr. Chairman and Senator Braun, what I would suggest is that you spend within your means and try to figure out what your revenue streams are on the front end, and that way, you know what you have rather than having the spending side of it drive it.

You talked about all of the different things that are mandated. I would take a hard look at that. I think that is very important.

Then the last thing that I would recommend is I think a balanced budget amendment really does make a lot of sense to talk about and move in that direction, and the transparency part of it will always help in those kind of situations.

But the other thing I would leave you with is try a biennial budget. It really is the right thing to do, and I think it would help you.

Senator BRAUN. Thank you very much. Great testimony, and Senator Van Hollen, who left earlier, I will never forget said the thing we lack most is political will, and I would agree with that.

Thank you so much.

Chairman ENZI. Thank you, Senator Braun.

I want to thank everybody that was here today. It is a much bigger turnout than we normally have, but we usually do not have such great practitioners, people that actually have kind of gotten their hands dirty on the issues that we are working on. You are all three truly a brain trust on budget, and this has been very helpful. I have taken pages of notes here, and as I mentioned, we will allow people to submit questions until five o'clock tomorrow. And we will get those to you. If you would be willing to answer any of those, we would appreciate that.

I think what you have already said has made a difference, and I think it is a bipartisan difference.

Of course, anything that you want to add, feel free to give us any suggestions in writing anytime, but it would be helpful if it came with any answers that you submitted to us. We can make a difference. We need to make a difference, and you are the start of it. Thank you.

Adjourned.

[Whereupon, at 3:42 p.m., the Committee was adjourned.]

ADDITIONAL COMMITTEE QUESTIONS

[The following submitted questions were not asked at the hearing but were answered by the witness subsequent to the hearing:]

Responses from John Hicks, Executive Director, National Association of State Budget Directors (NASBO), to questions for the record from Senator Grassley

September 4, 2019

Thank you for the questions. Below are NASBO's responses.

1. Question: The Financial Oversight and Management Board for Puerto Rico has recently announced an agreement on a framework to restructure certain liabilities of the Commonwealth of Puerto Rico (see, for example, https :// oversightboard.pr.gov/ oversight-board-reaches-agreement-on-a-framework-to-restructure-35-billion-of-liabilities/, and references therein). The framework considers settlement with holders of General Obligation (G.O.) debt issued by the government of Puerto Rico, which would involve" ... a 36% haircut for holders of valid Puerto Rico general obligation bonds." Under Puerto Rico's constitution, "valid" GO bonds have a priority for payment. The recently announced agreement can be taken as an invalidation of that priority, and may signal to holders of G.O. bonds in the municipal bond market generally that they now must view such bonds generally as being subject to greater questions of "validity" and possible haircuts in the event of a municipal bankruptcy. Do you believe that states and State Budget Officers are concerned about potential broad adverse effects in municipal bond markets in terms of lower municipal bond pricing deriving from higher required yield for investors who now may have greater default-risk fear stemming from developments associated with debt resolution in Puerto Rico?

   Response: The situation with Puerto Rico differs significantly from any of the 50 states. Congress acted under the Article IV, Section 3, Clause 2 of the U.S. Constitution. This provision addresses Congress' authority "to dispose of and make all needful Rules and Regulations respecting the Territory or other property of the United States…" The 50 states understand that the Puerto Rico Oversight, Management, and Economic Stability Act or PROMESA provides for a bankruptcy-type restructuring that is limited by the legislation to Puerto Rico and authorized under the U.S Government's constitutional authority over the territories. States have made it clear on many occasions that they do not want Congress to permit them to use bankruptcy. Both the National Governors Association and the National Conference of State Legislatures have clearly expressed their opposition to Congress including states in the bankruptcy code. It was last done in 2011 after states went through the deepest two-year declines in state revenues.

   The answer to your question is, no, State Budget Officers are not concerned because the Puerto Rico situation is not generalizable to the 50 states. Bond rating agencies, bond counsel and municipal analysts all understand the significant difference between the Puerto Rico situation and the states. Recent municipal market activity, both demand and pricing, has been in favor of issuers during a time when Puerto Rico's agreement framework has been highlighted with market participants. Any expectation that states may be considered by Congress to be included in the list of entities eligible for bankruptcy would provide market participants a reason to demand higher yields due to potential adverse effects. States do not want that.

2. Question: An April 2, 2019 Issue Brief from the National Association of State Budget Officers, titled "Governors' Budgets for FY 2020: Transportation and Infrastructure," identifies that "Over

the past six years, more than half the states have taken actions to raise their fuel tax revenues." It goes on to say that "In addition to raising fuel taxes, other proposals include new bond sales, added tolling, new electric and hybrid vehicle fees, increasing motor vehicle sales taxes, and increasing vehicle registration fees." So, it appears that many states have increased various taxes, tolls, and fees to help fund infrastructure spending. Does the Association have any information, for states that have levied electric and hybrid vehicle fees, how much has been raised by the fees, and on what base the fees have applied (i.e., number of vehicles)? It would also be interesting to know, if you have available information, whether the fees apply to all forms of electric and hybrid vehicles, and not just "cars."

Response: Twenty-seven states have now passed legislation that imposes an annual or biennial fee on electric and/or hybrid vehicles. In general, states' legislation addresses "any" motor vehicle, not just cars. States have been conservative in their projections of additional revenues. The typical revenue forecast has been based on information about the number of each type of vehicles in the state, with some estimate of future growth in numbers. NASBO does not yet have any data on this level of detail within revenue forecasts. For states, these fees are continuing the "benefit use principle" of funding transportation to create an equitable finance mechanism equivalent to paying gas taxes.

3. Question: Is there general concern within membership of the National Association of State Budget Officers about state pension shortfalls? If so, does the Association have ideas about how to address the shortfalls? And, does the Association have any concerns about accounting used to express expected future obligations and inflows for state pension, including assumptions about discount rates?

   Response: On pension liabilities, each state has its own concern. Almost every state has made multiple changes to limit the accumulation of new pension liabilities and have also focused on funding plans to resolve the legacy unfunded liabilities. States have acknowledged a series of actuarial assumptions that require changes. The most notable is the estimated rate of return on investments. According to the National Association of State Retirement Administrators, of the largest 129 public pension plans, more than 90 percent have reduced their assumed rate of return since fiscal year 2010 and more than 30 percent have reduced their assumed rate of return since February 2018. In many cases, states have little ability to modify existing benefits and those that can have acted on them. One notable state budget item in the past ten years has been the increasing amounts of funding devoted to paying down the pension liabilities. Outside of legally permitted changes to benefits, the only way to resolve an unfunded pension liability is to fund it, and states are doing that. One recent phenomenon is that more states are carrying out investment return sensitivity analyses to better communicate the possible impacts of various scenarios.

   NASBO does not have any current concerns about the accounting standards used to express future obligations. As mentioned above, states have been very active in adjusting their discount rates, more so than in the past.

FIXING A BROKEN BUDGET AND SPENDING PROCESS: SECURING THE NATION'S FISCAL FUTURE

WEDNESDAY, JUNE 26, 2019

UNITED STATES SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committee met, pursuant to notice, at 3:27 p.m., in Room SD–608, Dirksen Senate Office Building, Hon. Mike Enzi, Chairman of the Committee, presiding.

Present: Senators Enzi, Grassley, Johnson, Braun, Scott, Whitehouse, Kaine, and Van Hollen.

Staff Present: Elizabeth McDonnell, Republican Staff Director; and Joshua Smith, Minority Budget Policy Director.

OPENING STATEMENT OF CHAIRMAN ENZI

Chairman ENZI. I will go ahead and call to order this meeting of the Senate Committee on the Budget. There will be more Senators arriving. We were finishing a vote, and there was some doubt as to whether the fifth one would be voted on. They decided it would be delayed somewhat. I do not know what "somewhat" means, but I know it means that we can go ahead and start on our hearing.

Today we continue a series of hearings on how to fix our broken budget and spending process with a focus on securing our Country's fiscal future.

I am pleased to welcome back to the committee, Gene Dodaro, the Comptroller General of the United States and the head of the U.S. Government Accountability Office. He has made many appearances here before. He has given us a lot of great advice.

I particularly appreciate the somewhat lengthy testimony you provided for today. I looked at it, underlined it. Good stuff. I am going to be encouraging all of the committee to read that, and then, of course, you had an appendix too that covers a number of things that could be done, not necessarily by this committee, but that show the problems that this committee needs to solve with housing, transportation, Pension Benefit Guaranty Corporation, overlap and duplication everywhere, improper payments, Medicare payments, Medicaid supplemental waivers and oversight, unpaid taxes, which is called the "tax gap" in here, and tax expenditures and defense-related resources. Very thorough, very helpful, and hopefully, we can do something really meaningful with it.

In April of this year, GAO issued its third annual update on the Nation's fiscal health. The report concluded that the Federal Government is on an unsustainable fiscal path with the debt-to-GDP ratio on track to surpass its historical high of 106 percent within the next 13 to 20 years.

Just yesterday, the Congressional Budget Office released its long-term budget outlook, which provided a similarly bleak outlook. CBO projects that if current laws do not change over the next 30 years, debt as a percentage of GDP will soar from 78 percent of GDP to 144 percent and continue growing thereafter.

CBO warns that failing to confront our rising debt will mean a future of slower economic growth, higher interest rates, and a greater risk of a fiscal crisis. I think that is pretty much guaranteed.

Of course, none of this should be news to lawmakers. Our Nation faces a fiscal storm driven largely by demographics. For decades, nonpartisan authorities like the Government Accountability Office and the CBO have warned that as members of the baby-boomer generation age and retire, mandatory spending will rise sharply and drive deficits and debt to unsustainable levels. We know that the longer we wait to address this situation, the more drastic the changes will be, and yet too often in Washington, we govern by crisis, waiting until the last minute to make the thorny decisions that everyone knows needs to be made. This will be the thorniest ever.

We will not solve all of our fiscal problems through budget process reform, as some reform is not a substitute for political will. I am hopeful, however, that this committee will be able to produce bipartisan proposals that would allow us to confront these issues in a more reasoned and responsible and timely way than we do now.

One area that I have been particularly interested in is the creation of enforceable long-term fiscal targets or fiscal rules. Many on this committee have suggested establishing long-term debt-to-GDP targets.

At our hearing last week, there was talk about a revenue estimating committee, and we do not even address how much revenue we are going to have to work with.

Credible fiscal targets could guide fiscal decision making and improve the way Congress budgets and spends. Most important, such targets could encourage Congress to focus less on near-term spending battles and more on long term fiscal health of our Country.

Another area I have been concerned with is how we budget for disasters. I note that according to the witness testimony, since 2005, Federal funding for disaster assistance has totaled at least $450 billion. And while we regularly appropriate funding for FEMA's Disaster Relief Fund as part of the annual appropriations process, according to the Congressional Research Service, more than 85 percent of net appropriations for disaster relief are provided through supplemental appropriations on an ad hoc basis. Clearly, we can do better.

I look forward to hearing more from the Comptroller General regarding how other countries have utilized fiscal rules to manage their debt and deficits as well as other steps we can help secure our Country's fiscal future by doing.

I hope that members today will pay attention to the urgent message from Congress' nonpartisan watchdog. Our current Federal fiscal situation is unsustainable, and we must act before it is too late.

I want to thank Comptroller Dodaro for being here. I look forward to your testimony.

Senator Kaine, I think, will be standing in for Ranking Member Sanders. When he gets here at a convenient point, if he has a statement to make, we will do that.

But the main purpose of the hearing, of course, is to build a record of what we can do and how we can do it, and we can go ahead and get started on building that record. There will be questions by any Senators that come and then the right to ask questions other than that.

I apologize to Comptroller General for the votes being scheduled. This committee does not have anything to do with that, or we would have done it quite differently. We would have impinged on a different committee, as there are committees meeting all day.

In fact, we had a markup that both Senator Braun and I were at with Health, Education, Labor, and Pensions earlier today, where we put out a bipartisan health care bill that could help to bring down costs.

So, with that, I will go ahead and introduce our witness. No stranger to this committee, our witness this morning is Gene Dodaro, the head of the Government Accountability Office and the Comptroller General of the United States.

Mr. Dodaro testifies frequently before Congress, and I am pleased to have him back to this committee. He is the eighth Comptroller General of the United States. He was confirmed in December of 2010 after serving as Acting Comptroller General since March 2008.

Mr. Dodaro has been with the GAO for more than 40 years. He served for 9 years as Chief Operating Officer, the number two leadership position at the agency. Prior to that, he headed GAO's Accounting and Information Management Division, which specialized in financial management, computer technology, and budget issues.

Comptroller General, please begin.

STATEMENT OF HONORABLE GENE L. DODARO, COMPTROLLER GENERAL OF THE UNITED STATES AND HEAD OF THE GOVERNMENT ACCOUNTABILITY OFFICE, ACCOMPANIED BY CRISTINA CHAPLAIN, CONTRACTING AND NATIONAL SECURITY ACQUISITIONS, GOVERNMENT ACCOUNTABILITY OFFICE, AND SUSAN IRVING, SENIOR ADVISOR TO THE COMPTROLLER GENERAL AND CHIEF OPERATING OFFICER, GOVERNMENT ACCOUNTABILITY OFFICE

Mr. DODARO. Thank you very much, Mr. Chairman. It is a pleasure to be here this afternoon. Senator Braun, Senator Johnson, good afternoon to both of you.

I am very pleased, Mr. Chairman, that you asked me to appear at this hearing. I am very concerned about the fiscal future of our Nation.

The debt-to-GDP ratio right now is the highest it has been since World War II. We are heavily leveraged in debt by historic norms.

Currently, the debt-to-GDP ratio is 78 percent compared to 46 percent on average from 1946, and we are heavily leveraged going into a period of time when we will have to confront a number of major challenges, including the demographic trends that you outlined earlier.

We are on track to add approximately $10 trillion to an already existing $22 trillion debt over the next 10 years. As a result, the debt-to-GDP ratio will continue to escalate, and as you pointed out, both Treasury Department and CBO, and GAO, all our projections show that it will exceed the historic high of 106 percent of debt-to-GDP ratio within the next 13 to 20 years.

Even more worrisome is that it will continue to escalate beyond that to up to two to five times the amount of GDP if left unchecked during this 75-year period of time, unless there are changes in fiscal policy. This is very concerning.

Now, the main drivers of the debt are health care costs and net interest. Health care costs are rising due to increased enrollment, as our society ages, and it is not just the baby boomers in the long term because of increased life expectancy and a low fertility rate. The percent of people in our country over 65 will be almost 22 percent on 2048, and this will cause the normal financing arrangements we have set for our retirement and health care systems in a different perspective than it has been up to this point in time.

Net interest is on track to be the largest single expenditure by the Federal Government. This is a situation that I think has dangerous consequences.

Also, over the next 10 years, many fiscal pressures are going to come to bear against this backdrop of already escalating debt.

Number one is by 2025, the multi-employer pension plan of the Pension Benefit Guaranty Corporation is expected to be insolvent.

By 2026, the Medicare Hospital Trust Fund will only have 91 cents to pay on the dollar, and at that time, Medicare will hit $1 trillion a year in expenditures. The Social Security system will hit $1 trillion this year in 2019. Net interest on the debt is on track to hit $1 trillion a year by 2030, and then shortly after that, by 2034, the Social Security system is projected for the Old Age and Survivors' Insurance Trust Fund to only have 77 cents on a dollar to make payments.

These are significant issues that will confront the Congress, and those are known issues at this point.

There are also a lot of unknown issues that could occur that are not budgeted for at all, and Congress would have more limited flexibility to deal with events, including economic downturns, natural disasters, and any major policy changes in the international scene that would require additional funding for national defense as well.

I recognize that the Congress and the administration need to make sure that there is sustained economic growth and that national priorities are addressed in the short term, but this needs to be accompanied by a long-term plan.

If left unchecked—and right now there are really no checks and balances in our budgeting process that would prevent this from occurring. The debt-to-GDP ratio will continue, in my opinion, to spiral out of control, leaving Congress and the Country in a very difficult situation down the road unless it is dealt with.

This fiscal plan, I believe, could include the fiscal rules and targets that you talked about, Mr. Chairman. We are studying this issue right now at your request. Other countries, more than 70 countries around the world, according to the International Monetary Fund, set rules and have more than one fiscal target and fiscal rules to help constrain growth in those areas.

The other major element of the plan, in my opinion, is we need to change how we deal with the debt limit. Right now, the current approach does nothing to control the debt. It raises interest costs if there are concerns about the limit being raised on time, and it has distorted the secondary market for Treasuries, affecting liquidity. And I believe that we have come dangerously close to not raising it on time and therefore could affect the full faith and credit of the Federal Government.

I think this would have disastrous consequences, and I urge the Congress to consider the recommendations GAO has made about options for how to deal with the debt limit so that decisions about debt are made spending and appropriation decisions are made and revenue estimates are made to deal with the debt limit that way. That is one option that we have given. There are other options for dealing with it.

But I think with the current approach, we are on a perilous path, and I am concerned about that very much.

So again, I appreciate the opportunity to discuss these very important issues to our Country. I pledge GAO's support to helping the Congress deal with these issues in the days and years ahead.

So thank you very much, Mr. Chairman. I would be happy to answer any questions.

[The prepared statement of Mr. Dodaro follows:]

United States Government Accountability Office

Testimony
Before the Committee on the Budget
U.S. Senate

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THE NATION'S FISCAL HEALTH

Actions Needed to Achieve Long-Term Fiscal Sustainability

Statement of Gene L. Dodaro
Comptroller General of the United States

June 26, 2019

GAO Highlights

Highlights of GAO-19-611T

The Federal Government Is on an Unsustainable Long-Term Fiscal Path

Congress and the administration face serious economic, security, and social challenges that require difficult policy choices in the near term in setting national priorities and helping promote economic growth. This will influence the level of federal spending and how the government obtains needed resources.

At the same time, the federal government is highly leveraged in debt by historical norms. For example, debt held by the public as a share of GDP at the end of fiscal year 2018 was 78 percent, compared to an average of 46 percent since 1946.

Over the long term, the imbalance between spending and revenue that is built into current law and policy is projected to lead to continued growth of the federal deficit and debt held by the public as a share of GDP.

View GAO-19-611T. For more information, contact Tranchau (Kris) T. Nguyen, (202) 512-6806 or nguyentt@gao.gov, or J. Christopher Mihm, (202) 512-6806 or mihmj@gao.gov.

A testimony before the Committee on the Budget, U.S. Senate

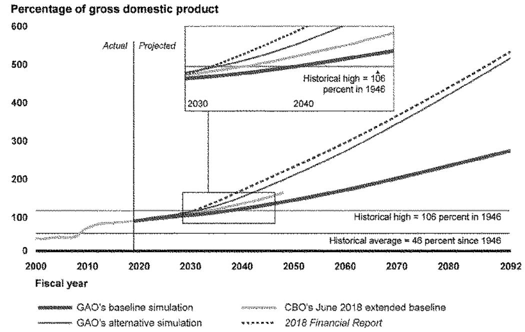
The Nation's Fiscal Health

Actions Needed to Achieve Long-Term Fiscal Sustainability

Debt held by the public was $15.8 trillion—or 78 percent of gross domestic product (GDP)—at the end of fiscal year 2018. It is projected to surpass its historical high of 106 percent within 13 to 20 years, and climb between about 250 to 500 percent by 2092, according to projections by GAO and others (see figure). Absent policy changes, the current federal fiscal path is unsustainable.

Debt Held by the Public under Projections from GAO, the Congressional Budget Office (CBO), and the *Fiscal Year 2018 Financial Report of the United States Government (2018 Financial Report)*

Percentage of gross domestic product



Source: GAO, Congressional Budget Office, and *2018 Financial Report*. | GAO-19-611T

Note: GAO's simulations incorporate CBO's January 2019 baseline, which assumes lower emergency spending than CBO's June 2018 extended baseline, consistent with amounts appropriated at the time of that report.

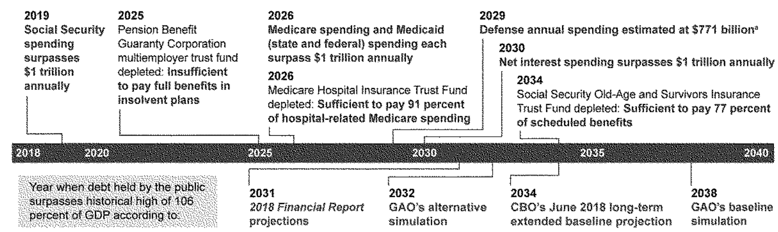
In the long-term, the key drivers of growing federal spending are health care programs (due to the aging population and per beneficiary spending) and net interest. Net interest is projected to eventually become the largest category of federal spending, surpassing:

- Nondefense discretionary spending in 2024,
- Defense discretionary spending in 2025,
- Medicare spending in 2042, and
- Social Security spending in 2046.

In 2092, according to GAO's alternative simulation, net interest is projected to account for about 40 percent of federal spending, compared to 8 percent in fiscal year 2018.

Impending Fiscal Pressures Add to Need for Timely Action

The federal budget is further strained by fiscal pressures, including known financial challenges for key programs (as shown below), and risks like natural disasters that could lead to unknown amounts of future spending. The longer action is delayed, the more drastic the changes will have to be.



Source: Trustees for Social Security and Medicare, Congressional Budget Office (CBO), Centers for Medicare & Medicaid Services, GAO, and *2018 Financial Report*. | GAO-19-611T

[a]CBO did not report defense spending projections separately from total discretionary spending in its long-term projections after 2029.

In addition, GAO has identified numerous opportunities for Congress and executive branch agencies to take steps in the near term that could improve the federal government's fiscal condition. These opportunities include addressing billions of dollars in improper payments and the over $400 billion annual tax gap, evaluating the significant amount of revenue forgone through tax expenditures, as well as implementing GAO recommendations for defense operations. These actions would improve stewardship over federal resources in the near term. However, these actions alone cannot put the federal government on a sustainable fiscal path.

A Long-Term Plan Is Needed to Achieve Fiscal Sustainability

To address the growing federal debt and put the government on a more sustainable fiscal path, policymakers will need to consider a long-term plan that addresses the entire range of federal activities including both revenue and spending.

A long-term fiscal plan could include fiscal rules and targets that promote fiscal sustainability by imposing numerical guidelines on the budget (known as targets). Types of fiscal rules include:

- **Budget balance rules** that constrain deficit levels,
- **Debt rules** that limit public debt as a percentage of GDP,
- **Revenue rules** that set ceilings or floors on revenues, and
- **Expenditure rules** that limit spending.

Fiscal rules have been used by the United States and other countries to help promote fiscal sustainability. According to the International Monetary Fund, as of 2015 more than 70 countries had combined two or more fiscal rules. For example, the European Union's stability and growth pact combines an expenditure rule, budget balance rule, and a debt rule (e.g., debt-to-GDP), which are designed to ensure that countries in the European Union pursue sound public finances and coordinate their fiscal policies.

Rules can be designed to balance flexibility and enforceability. For example:

- Fiscal rules can include clauses allowing for flexibility to help respond to fiscal risks or unexpected events like recessions or natural disasters.
- Institutions like independent fiscal councils can help formulate and implement sound fiscal policy.
- Correction mechanisms can be designed to trigger automatically to respond to past deviations from the rule.

It will be important that any future U.S. fiscal rules target the right factors, enforce budget agreements, and limit exemptions. A fiscal target that sets a common goal to control the debt, and well-designed rules that form a path to achieve that target, could form part of a long-term plan for fiscal sustainability.

Unlike fiscal rules, the current approach used to set the U.S. government debt limit is not a control on debt but rather an after-the-fact measure that restricts authority to borrow. It does not restrict Congress and the President's ability to enact spending and revenue legislation that affects the level of debt. Failure to increase or suspend the debt limit in a timely manner disrupts the market for Treasury securities and can increase borrowing costs. Congress should consider alternative approaches to the debt limit as part of a long-term fiscal plan. GAO has recommended possible alternatives such as linking action on the debt limit to the budget resolution.

Chairman Enzi, Ranking Member Sanders, and Members of the Committee:

Thank you for the opportunity to be here today to discuss our nation's fiscal health and the actions needed to chart a more sustainable long-term fiscal path. Congress and the administration face serious economic, security, and social challenges that require difficult policy choices in the near term in setting national priorities and helping promote economic growth. These choices will influence the level and composition of federal spending and how the government obtains needed resources. Policymakers also face a federal government highly leveraged in debt by historical norms and on an unsustainable long-term fiscal path caused by an imbalance between revenue and spending that is built into current law and policy.

Decisions in the near term to support economic growth and address national priorities need to be accompanied by a broader fiscal plan to put the federal government on a sustainable long-term path. Such a plan is essential to ensure that the United States remains in a strong economic position to meet its security and social needs, as well as to preserve flexibility to address unforeseen events, such as natural disasters, economic downturns, wars, and cyberattacks.

Today, I will discuss the nation's fiscal health, specifically focusing on issues such as the federal government's unsustainable fiscal outlook, growing fiscal pressures that could further strain the federal budget, and the need for actions to address the growing debt. I will also discuss opportunities for Congress and the executive branch to take steps in the near term that would help improve the government's fiscal condition.

In April 2019, we issued our third annual report on the nation's fiscal health.[1] The report illuminated the need for a long-term fiscal plan by outlining the fiscal condition of the U.S. government and its future path based on current fiscal policy. My statement is based upon our 2019 annual report on the nation's fiscal health; our work on natural disasters and climate change; GAO's 2019 High-Risk List; the 2019 fragmentation,

[1]GAO, *The Nation's Fiscal Health: Action Is Needed to Address the Federal Government's Fiscal Future,* GAO-19-314SP (Washington, D.C.: Apr. 10, 2019).

overlap, and duplication annual report; and other related work.[2] We also reviewed relevant fiscal laws and used our long-term fiscal outlook model to simulate potential fiscal changes to achieve certain debt targets.

These efforts are based upon work conducted in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions. More details on the scope and methodology for our reports can be found in the full reports cited throughout this statement.

The Federal Government Is on an Unsustainable Long-Term Fiscal Path

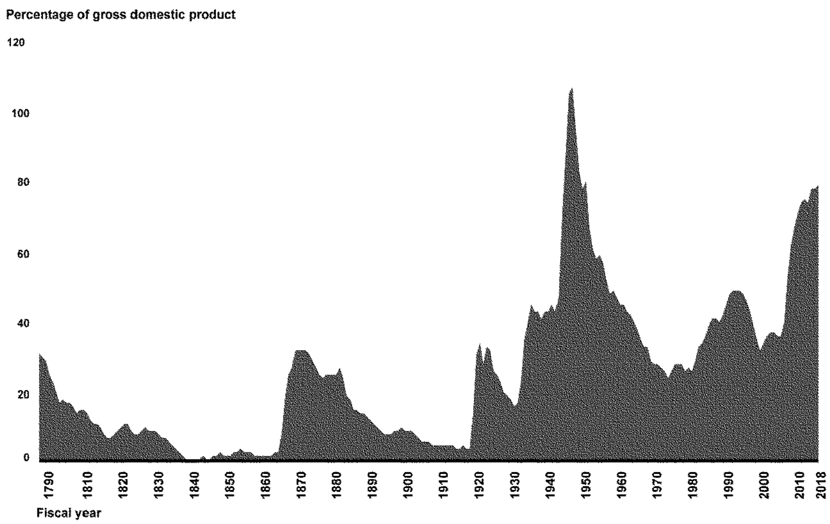
Over the long term, the imbalance between spending and revenue that is built into current law and policy is projected to lead to continued growth of the deficit and debt held by the public as a share of gross domestic product (GDP). This situation—in which debt grows faster than GDP—means the current federal fiscal path is unsustainable.

Growing Debt-to-GDP Ratio

For most of the nation's history, the debt-to-GDP ratio tended to increase during wartime and decline during peacetime. Historically, recessions have contributed to increases in this ratio, but the ratio has declined with economic recovery. This pattern is visible in figure 1. Publicly held debt as a share of GDP peaked at 106 percent just after World War II (in 1946) and has averaged 46 percent since then. However, debt has risen in more recent years, reaching 78 percent of GDP at the end of fiscal year 2018.

[2]For example, GAO, *2019 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Billions in Financial Benefits*, GAO-19-285SP (Washington, D.C.: May 21, 2019) and *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, GAO-19-157SP (Washington, D.C.: Mar. 6, 2019). A list of our related products is included at the end of this statement.

Figure 1: Federal Debt Held by the Public



Source: GAO analysis of Congressional Budget Office data. | GAO-19-611T

Total debt is comprised of debt held by the public (the value of all federal securities sold to investors outside of the federal government) and intragovernmental debt (debt held by government accounts). As of the end of May 2019, the total federal debt was about $22 trillion, consisting of about $16.2 trillion in debt held by the public and about $5.8 trillion in intragovernmental debt.

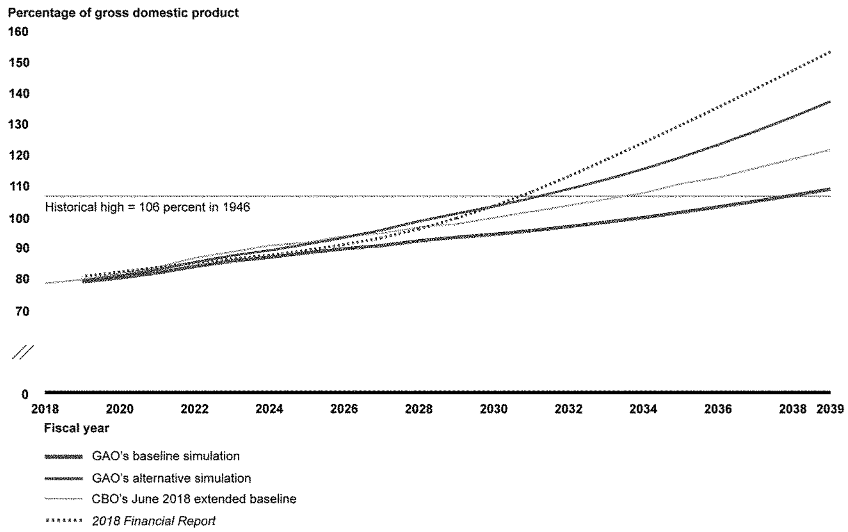
Long-term fiscal projections by GAO, the Congressional Budget Office (CBO), and the *Fiscal Year 2018 Financial Report of the United States*

Government (2018 Financial Report)[3] all show that debt held by the public as a share of GDP will grow substantially in the coming years.[4] All of these projections show that, absent a change in policy, debt held by the public would grow to be greater than the size of the U.S. economy and it would surpass its historical high of 106 percent of GDP within the next 13 to 20 years (see figure 2.)

[3]See GAO, *Financial Audit: Fiscal Years 2018 and 2017 Consolidated Financial Statements of the U.S. Government*, GAO-19-294R (Washington, D.C.: Mar. 28, 2019). The Financial Report of the United States Government is prepared by the Secretary of the Treasury in coordination with the Director of the Office of Management and Budget.

[4]The timing and pace of debt-to-GDP growth depend on the underlying data and assumptions made in the projections. All projections involve some degree of uncertainty. For more information on these long-term fiscal projections and their assumptions, see GAO-19-314SP.

Figure 2: Debt Held by the Public as Share of Gross Domestic Product, 2018-2039

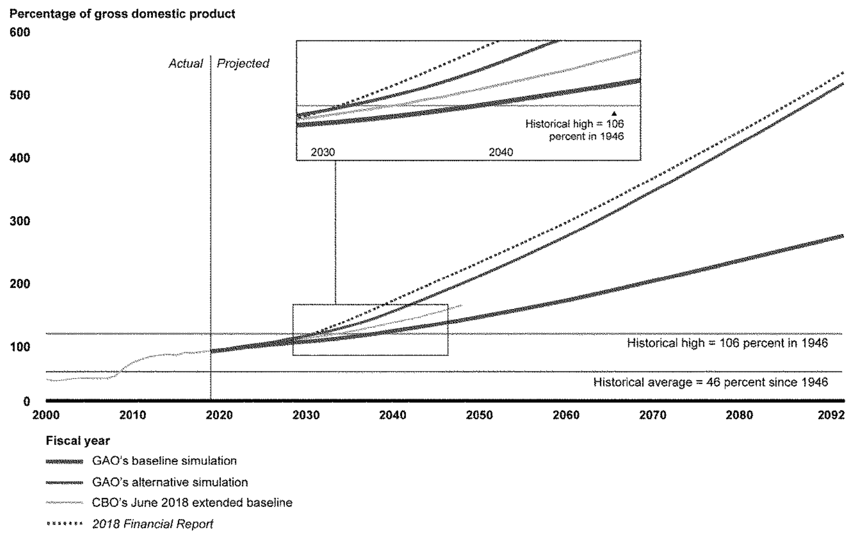


Source: GAO, Congressional Budget Office, and *2018 Financial Report*. | GAO-19-611T

Note: GAO's baseline simulation generally assumes current laws continue into the future (e.g., that tax provisions expire as scheduled), while GAO's alternative simulation changes some of the assumptions to reflect historical trends, rather than current law (e.g., that tax provisions that are scheduled to expire are extended). GAO's simulations incorporate CBO's January 2019 baseline, which assumes lower emergency spending than CBO's June 2018 extended baseline, consistent with amounts appropriated at the time of that report. For more information on GAO's, CBO's, and the *2018 Financial Report's* long-term fiscal projections and their assumptions, see GAO-19-314SP.

Further, all the projections show that debt held by the public as a share of GDP will continue to grow to unsustainable levels over the long term. Figure 3 shows that debt held by the public as a share of GDP grows substantially in all the projections we discuss in this statement. In 2092, debt held by the public is expected to be more than 250 percent of GDP under GAO's baseline simulation, and more than 500 percent of GDP under GAO's alternative simulation and the *2018 Financial Report* projections.[5]

Figure 3: Debt Held by the Public as Share of Gross Domestic Product, 2000-2092



Source: GAO, Congressional Budget Office, and *2018 Financial Report*. | GAO-19-611T

Note: GAO's baseline simulation generally assumes current laws continue into the future (e.g., that tax provisions expire as scheduled), while GAO's alternative simulation changes some of the assumptions to reflect historical trends, rather than current law (e.g., that tax provisions that are scheduled to expire are extended). GAO's simulations incorporate CBO's January 2019 baseline, which assumes lower emergency spending than CBO's June 2018 extended baseline, consistent with amounts appropriated at the time of that report. For more information on GAO's, CBO's, and the *2018 Financial Report's* long-term fiscal projections and their assumptions, see GAO-19-314SP.

[5]CBO projects that debt held by the public will surpass 150 percent of GDP in 2048, the latest year included in its June 2018 extended baseline.

Both the current fiscal condition and the long-term projections of fiscal sustainability are driven by the economy and by laws enacted by Congress and the President. In fiscal year 2018, for example, the tax reform law, commonly known as the Tax Cuts and Jobs Act, the Bipartisan Budget Act of 2018, and the Consolidated Appropriations Act, 2018, increased the projected debt-to-GDP ratio in all of the projections discussed earlier. CBO estimated that legislation enacted from June 2017 to April 2018—primarily these three laws—would increase deficits by $2.7 trillion between 2018 and 2027.[6] According to CBO, annual federal deficits are projected to reach $1 trillion in 2022, compared to $779 billion in fiscal year 2018.

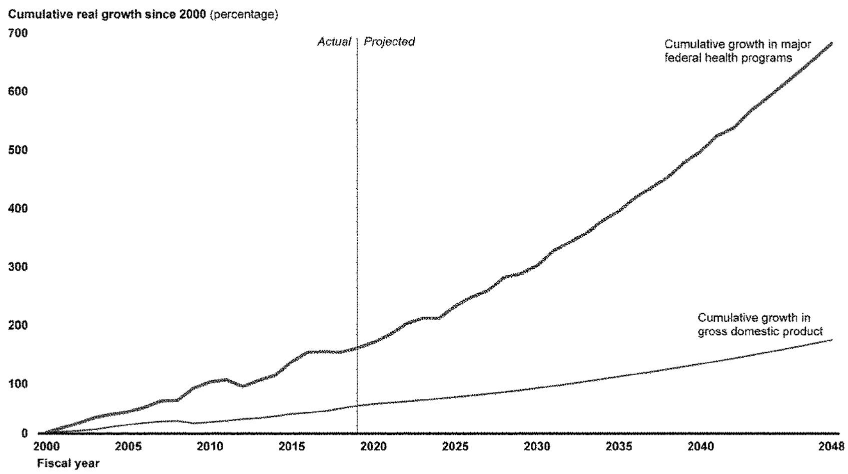
Future policy decisions about levels of federal spending, revenues, the federal role in the delivery of health care, and other areas could also change the projections. In addition, changes in projected health care costs, interest rates, spending levels, revenues, or economic growth would likely affect the debt-to-GDP ratio. For example, a recession or other economic crisis would likely increase the debt-to-GDP ratio beyond its projected levels because of a decline in GDP growth, and an increase in spending on federal social safety net programs.

Heath Care Spending and Net Interest Remain Key Drivers of Long-Term Federal Spending

Although growth in health care spending has slowed recently, total health care spending (public and private) in the United States continues to grow faster than the economy. Federal spending for major health care programs—Medicare, Medicaid, the Children's Health Insurance Program, and federal subsidies for health insurance purchased through the marketplaces established by the Patient Protection and Affordable Care Act and related spending—makes up about a quarter of the federal budget. Federal health care spending also accounts for more than a quarter of total public and private health care spending. As figure 4 shows, this spending has historically exceeded the growth of GDP and is projected to continue to do so.

[6] CBO's April 2018 projections also estimated an additional $1 trillion in reductions to projected deficits because of changes to its economic forecast. This reduction is almost entirely because of increased projections of revenues, about half of which is attributable to the macroeconomic feedback related to the Tax Cuts and Jobs Act.

Figure 4: Federal Spending on Major Health Care Programs Grows Faster Than Gross Domestic Product



Source: GAO analysis of Congressional Budget Office and Bureau of Economic Analysis data. | GAO-19-611T

Note: Cumulative growth in both gross domestic product (GDP) and federal spending on major health care programs has been adjusted for inflation. GDP is the value of all goods and services produced in a country in a given year. Major federal health care programs consist of Medicare, Medicaid, the Children's Health Insurance Program, and federal subsidies for health insurance purchased through the marketplaces established by the Patient Protection and Affordable Care Act and related spending.

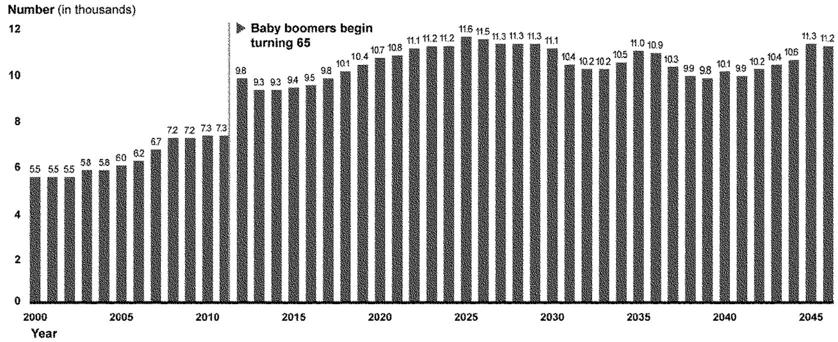
In the long term, growth in federal spending on health care is driven by increasing enrollment in health care programs—particularly in Medicare, stemming primarily from the aging population—and by the increase in health care spending per beneficiary.[7]

- **Aging population.** In its 2018 long-term budget outlook report, CBO projected that, by 2048, 22 percent of the population will be age 65 or

[7]See appendix II for our recommendations to help control the costs of Medicare and Medicaid.

older, compared to 16 percent in 2018. This demographic trend is largely driven by lower fertility rates and increases in life expectancy. The trend has been accelerated by the relatively large baby boom generation, which began turning 65 in 2011 (see figure 5). As the number of people older than 65 increases, Medicare and Medicaid enrollment is expected to increase.[8]

Figure 5: Daily Average Number of People Turning 65



Source: GAO analysis of U.S. Census Bureau information. | GAO-19-611T

Note: Census data estimates of population are as of July 1 in each year.

- **Per beneficiary spending.** The amount of money spent on health care per person has historically risen faster than per capita economic output and is projected to do so in the future. In its 2018 long-term budget outlook report, CBO projected that the growth in health care spending per person will account for about two-thirds of the increase in spending for the major health care programs as a share of GDP between 2018 and 2048.

[8]For more information on Medicare and Medicaid, see GAO, Medicare and Medicaid – High Risk, accessed June 5, 2019, https://www.gao.gov/key_issues/medicare_payment_management_integrity/issue_summary and https://www.gao.gov/key_issues/medicaid_financing_access_integrity/issue_summary.

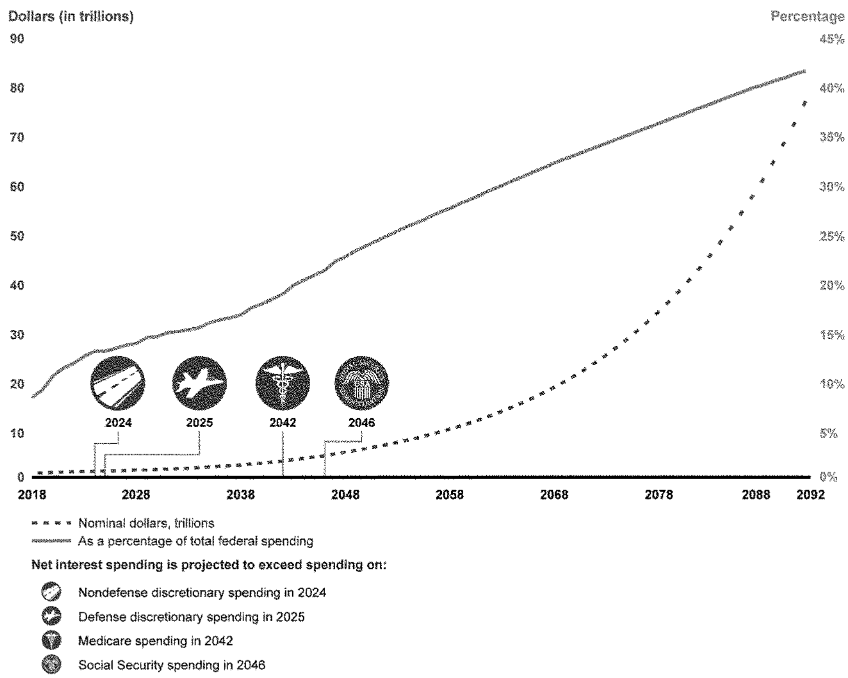
Both the *2018 Financial Report's* long-term fiscal projections and GAO's simulations show spending on net interest growing such that over the long term it becomes the largest category of spending.[9] According to CBO, spending on net interest totaled $325 billion in 2018 (8 percent of total federal spending), which is already larger than some other categories of spending, such as agriculture, transportation, veterans' benefits, and veterans' services combined. As shown in figure 6, spending on net interest is projected to continue to grow, surpassing:

- Nondefense discretionay spending in 2024,
- Defense discretionary spending in 2025,
- Medicare spending in 2042, and
- Social security spending in 2046.

In 2092, net interest is projected to account for about 40 percent of federal spending, according to GAO's alternative simulation.

[9]CBO's projections in its June 2018 long-term outlook report also show net interest growing as a percentage of total spending. However, since CBO's June 2018 extended baseline projections only go out to 2048, spending on net interest does not quite overtake Social Security spending in the projection period.

Figure 6: Net Interest Spending in Dollars and as a Percentage of Total Federal Spending



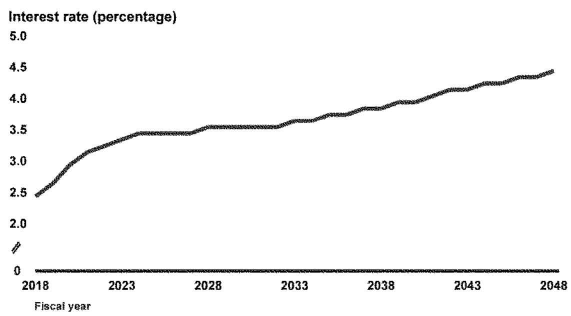
Source: GAO and GAO analysis of Congressional Budget Office data. | GAO-19-611T

Note: Projected spending on net interest, Medicare, and Social Security is based on GAO's 2019 alternative simulation. Projected nondefense discretionary and defense discretionary spending is based on the Congressional Budget Office's January 2019 baseline budget projections.

Interest spending grows for two main reasons:

- **Growing debt.** At any given interest rate (above zero percent), interest payments increase as the debt grows. Debt held by the public will continue to increase as the federal government borrows money to finance the annual deficit (including interest costs) and for other cash needs (including government lending for student loans). The federal government is paying the interest on the debt held by the public and not paying down the total principal outstanding.
- **Increases in interest rates.** Increases in interest rates have a compounding effect on debt. For any given level of debt, a change in interest rates changes interest costs. In recent years, interest rates on Department of the Treasury (Treasury) securities have remained low, so interest costs have been low. However, CBO projects that the average interest rate on all debt held by the public will rise to 4.4 percent in 2048, compared to 2.4 percent in 2018 (see figure 7). In its June 2018 long-term budget outlook report, CBO also noted that since the trend of increasing interest rates reflects long-term economic trends, it would be likely to continue even at the current debt level.[10]

Figure 7: Congressional Budget Office (CBO) Projections of the Average Interest Rate on All Federal Debt Held by the Public, Fiscal Years 2018-2048



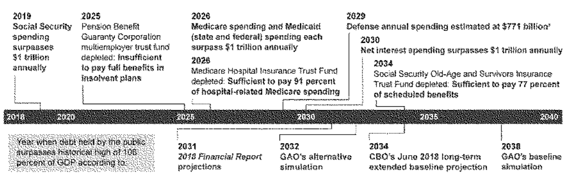
Source: GAO analysis of CBO data. | GAO-19-611T

[10]CBO regularly updates its economic projections, including its projections of interest rates, as part of its reports on the 10-year budget and economic outlook.

Impending Fiscal Pressures Add to Need for Timely Action

Growing pressures further strain the federal budget and are contributing to the growing debt. These pressures include known impending financial challenges for major programs, as well as fiscal risks (such as spending on natural disasters) that could lead to unknown amounts of future spending. As shown in figure 8, annual spending for some major programs, such as Social Security and Medicare, is expected to each surpass $1 trillion. Several key program trust fund balances are projected to be depleted in coming years if no changes are made. The longer action to address these issues is delayed, the more drastic the changes will have to be.

Figure 8: Key Dates for Major Programs and Future Debt



Source: Trustees for Social Security and Medicare, Congressional Budget Office (CBO), Centers for Medicare & Medicaid Services, GAO, and *2018 Financial Report*. | GAO-19-611T

[a]CBO did not report defense spending projections separately from total discretionary spending in its long-term projections after 2029.

Failure to act will lead to an increasingly constrained federal budget, limiting the federal government's flexibility to respond quickly and adequately to emerging issues and unforeseen events. Economic downturns, natural disasters, wars, cyberattacks, and health pandemics are among the events that pose fiscal risks.[11] Better understanding fiscal risks can help policymakers anticipate changes in future spending and can enhance oversight of federal resources. We have recommended ways for Congress and executive branch agencies to address several fiscal risks (see text box). For more information on these risks and our recommendations to address them, see appendix I. These risks are not

[11]Fiscal risks or fiscal exposures are responsibilities, programs, and activities that may legally commit the federal government to future spending, or create expectations for future spending based on current policy, past practices, or other factors. See our infographic on federal fiscal risks at https://www.gao.gov/assets/670/668649.pdf.

fully budgeted for and could affect the government's future fiscal condition.

Examples of Federal Fiscal Risks

- **Housing finance.** The federal government continues to provide significant support to the housing finance market, even though the market has largely recovered since the 2007 to 2009 financial crisis. Congress should consider establishing objectives for the future federal role in housing finance, and housing and regulatory agencies should take actions to help manage mortgage-related risk, among other things.
- **Surface transportation.** Repairing and upgrading our nation's surface transportation system will cost hundreds of billions of dollars, according to estimates. Congress needs to pass a long-term, sustainable solution for funding surface transportation.
- **The Pension Benefit Guaranty Corporation (PBGC).** PBGC's liabilities exceeded its assets by about $51 billion as of the end of fiscal year 2018. The financial stability of PBGC's single- and multiemployer programs faces many structural challenges that require congressional action.

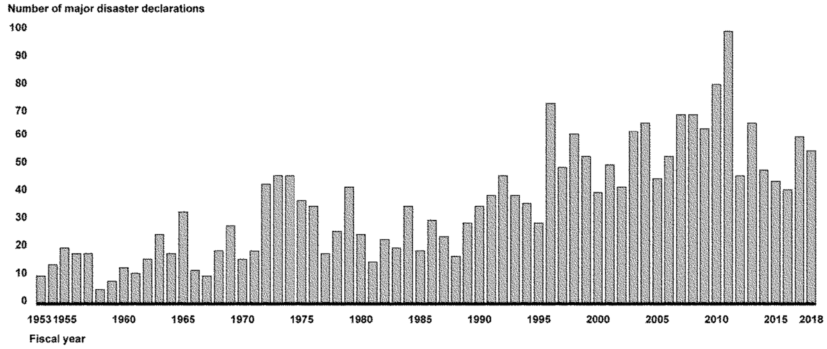
Source: GAO. | GAO-19-611T

Natural Disasters and Climate Change Create Fiscal Exposures

An example of a fiscal exposure facing the nation is the rising number of natural disasters and increasing state, local, and tribal reliance on federal disaster assistance. Such assistance can come from federal responsibilities, programs, and activities, such as national flood insurance, that may legally commit or create the expectation for future spending. Federal agencies can become involved in responding to a disaster when effective response and recovery are beyond the capabilities of the state and affected local governments. In such cases, the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act), permits the President to declare a major disaster in response to a request by the governor of a state or territory or by the chief executive of a tribal government.[12] Overall, the number of disaster declarations has fluctuated over the years, reaching a high of 98 disasters in fiscal year 2011 (see figure 9). There were 55 disasters declared in fiscal year 2018.

[12]42 U.S.C. § 5170.

Figure 9: Number of Major Disaster Declarations, Fiscal Years 1953–2018



Source: GAO analysis of Federal Emergency Management Agency data. | GAO-19-611T

In addition, associated requests for disaster assistance could increase the federal government's fiscal exposure. From 2008 through 2016, the Federal Emergency Management Agency (FEMA) received 294 Individual Assistance declaration requests from states, U.S. territories, and tribes to help individuals meet their immediate needs after a disaster.[13] Of these requests, the President declared 168 and denied 126 requests.

[13]We have previously reported that requests to the federal government for Individual Assistance are often granted. See GAO, *Federal Disaster Assistance: Individual Assistance Requests Often Granted, but FEMA Could Better Document Factors Considered*, GAO-18-366 (Washington, D.C.: May 31, 2018).

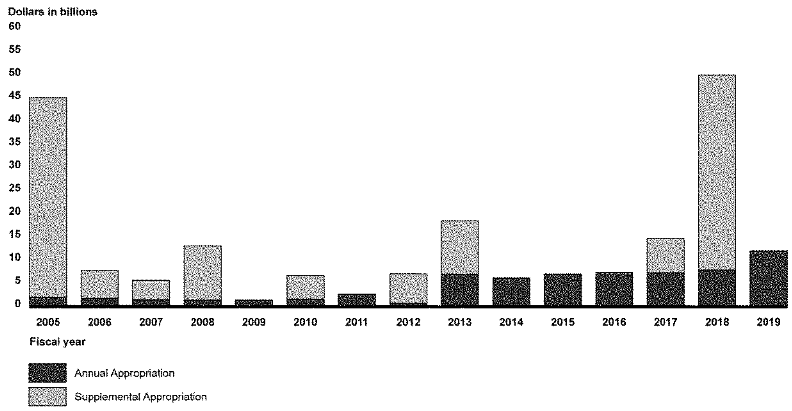
Since 2005, federal funding for disaster assistance has totaled at least $450 billion,[14] most recently for catastrophic hurricanes, flooding, wildfires, and other losses in 2017 and 2018. The Disaster Relief Fund is the primary source of federal disaster assistance for state, local, territorial, and tribal governments when a major disaster or emergency is declared. Although the Disaster Relief Fund receives funding through the annual appropriations process the federal government does not budget fully for the costs of disaster assistance (see figure 10). According to the Congressional Research Service, more than 85 percent of net appropriations for disaster relief are provided through supplemental appropriations on an ad hoc basis.[15] These disaster relief supplemental appropriations generally do not count toward existing discretionary budget limits.[16]

[14]This total includes, for fiscal years 2005 through 2014, $278 billion that GAO found that the federal government had obligated for disaster assistance. See GAO, *Federal Disaster Assistance: Federal Departments and Agencies Obligated at Least $277.6 Billion during Fiscal Years 2005 through 2014*, GAO-16-797 (Washington, D.C.: Sept. 22, 2016). It also includes, for fiscal years 2015 through 2018, $124 billion in select supplemental appropriations to federal agencies for disaster assistance and approximately $7 billion in annual appropriations to the Disaster Relief Fund (a total of $28 billion for the 4-year period). For fiscal years 2015 through 2018, it does not include other annual appropriations to federal agencies for disaster assistance. Lastly, on June 6, 2019, the Additional Supplemental Appropriations for Disaster Relief Act of 2019 was signed into law, which provides approximately $19.1 billion for disaster assistance. Pub. L. No. 116-20, 133 Stat. 871 (2019).

[15]Congressional Research Service, *The Disaster Relief Fund: Overview and Issues*, R45484 (Washington, D.C.: Feb. 1, 2019).

[16]The Budget Control Act of 2011 allows spending limits to be adjusted upward to accommodate appropriations for emergencies when Congress and the president designate specified accounts as emergency funding or for Overseas Contingency Operations in statute. Pub. L. No. 112-25, tit. I, § 101, 125 Stat. 240, 243 (2011).

Figure 10: Appropriations to the Disaster Relief Fund, Fiscal Years 2005–2019



Source: GAO analysis of appropriation laws. | GAO-19-611T

Note: The 2005 supplemental appropriation includes a rescission of $23.4 billion included in Pub. L. No. 109-148 on December 30, 2005. Without the rescission, the total supplemental appropriation to the Disaster Relief Fund in fiscal year 2005 was $66.5 billion. No other rescissions are included in the figure.

Further, future federal disaster costs are projected to increase as certain extreme weather events become more frequent and intense because of climate change risks—as observed and projected by the U.S. Global Change Research Program and the National Academies of Sciences, Engineering, and Medicine.[17] According to the Office of Management and Budget (OMB), since 1993 budget authority for activities related to climate change has totaled about $154 billion—primarily for technologies to reduce emissions and for scientific research on climate change impacts.

[17]GAO, *Climate Change: Information on Potential Economic Effects Could Help Guide Federal Efforts to Reduce Fiscal Exposure*, GAO-17-720 (Washington, D.C.: Sept. 28, 2017). See also U.S. Global Change Research Program, *Impacts, Risks, and Adaptation in the United States: Fourth National Climate Assessment, Volume II* (Washington, D.C.: 2018).

However, we found that this amount does not include information on relevant federal fiscal exposures including costs for disaster assistance programs.

Managing fiscal exposure due to climate change has been on GAO's High-Risk List since 2013, in part, because of concerns about the increasing costs of disaster response and recovery efforts.[18] For instance, the National Flood Insurance Program has not collected sufficient premiums and does not have sufficient dedicated resources to cover expected costs without borrowing from Treasury.[19] As of September 2018, FEMA, which administers the National Flood Insurance Program, owed $20.5 billion to Treasury for money borrowed to pay claims and other expenses.[20] We have reported that FEMA is unlikely to collect enough in premiums in the future to repay this debt.[21] Due to its financial challenges, the National Flood Insurance Program has been on GAO's High-Risk List since 2006.[22]

In 2008, we recommended that FEMA take steps to ensure that its rate-setting methods, as a starting point for setting premium rates, accurately reflect the risk of losses from flooding. These steps should include, for example, verifying the accuracy of flood probabilities, damage estimates, and flood maps; ensuring that the effects of long-term planned and ongoing development, as well as climate change, are reflected in the flood probabilities used; and reevaluating the practice of aggregating risks across zones.[23]

Further, we have an open matter for Congress to consider from our April 2017 report that examined actions Congress and FEMA could take to

[18]See GAO-19-157SP, 110.

[19]For more information on federal insurance programs and the budget, see GAO, *Fiscal Exposures: Federal Insurance and Other Activities that Transfer Risk or Losses to the Government*, GAO-19-353 (Washington, D.C.: Mar. 27, 2019).

[20]The amount owed is net of $16 billion of debt that was canceled in October 2017. Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2017, Pub. L. No. 115-72, § 308, 131 Stat. 1224, 1228-29 (Oct. 26, 2017).

[21]GAO, *Flood Insurance: Comprehensive Reform Could Improve Solvency and Enhance Resilience*, GAO-17-425 (Washington, D.C.: Apr. 27, 2017).

[22]See GAO-19-157SP, 272.

[23]GAO, *Flood Insurance: FEMA's Rate-Setting Process Warrants Attention*, GAO-09-12, (Washington, D.C.: Oct. 31, 2008).

reduce federal fiscal exposure and improve resilience to floods. We stated that Congress should consider comprehensive reform, which could include actions in six areas: (1) addressing the current debt, (2) removing existing legislative barriers to FEMA's ability to revise premium rates to reflect the full risk of loss, (3) addressing affordability, (4) increasing consumer participation, (5) removing barriers to private-sector involvement, and (6) protecting National Flood Insurance Program flood resilience efforts.[24]

More complete information on programs for which costs are likely to increase due to climate change, such as disaster assistance, could help policymakers better understand the long-term effects of decisions and the trade-offs between spending with long-term benefits, such as resilience investments, and short-term benefits, such as post-disaster repairs. This information could also help the federal government develop a government-wide strategy for addressing climate change that focuses on reducing federal fiscal exposure.

We have identified a number of ways to reduce the federal fiscal risk related to natural disasters. For example:

- **Updating the methodology for major disaster declarations.** In 2012, we recommended that FEMA develop and implement an updated methodology that provides a more comprehensive assessment of a jurisdiction's capacity to respond to and recover from a disaster without federal assistance.[25] Our analysis showed that FEMA primarily relied on a single criterion, the per capita damage indicator, to determine whether to recommend to the President that a jurisdiction receive Public Assistance funding.[26] However, FEMA's per capita indicator, set at $1 in 1986, has not been adjusted for the rise in (1) per capita personal income since it was created in 1986 or (2) inflation from 1986 to 1999 (though the indicator has been adjusted for inflation each year from 2000 through the present).

[24]GAO-17-425.

[25]GAO, *Federal Disaster Assistance: Improved Criteria Needed to Assess a Jurisdiction's Capability to Respond and Recover on Its Own*, GAO-12-838 (Washington, D.C.: Sept. 12, 2012).

[26]The Public Assistance program provides for debris removal; emergency protective measures; and the repair, replacement, or restoration of disaster-damaged, publicly owned facilities and the facilities of certain private nonprofit organizations that provide services otherwise performed by a government agency.

The per capita indicator as of 2019 is \$1.50. However, based on our past analysis, the indicator would have been \$2.07 in 2012 had it been adjusted for inflation from 1986 to 1999, illustrating that the indicator is artificially low. Further, we found that, had FEMA updated its methodology based on per capita personal income, as many as 44 percent of federal disaster declarations from fiscal years 2004 through 2011 (totaling \$3.59 billion) would not have met the eligibility criteria that FEMA primarily used to determine whether federal assistance should be provided, which would have likely resulted in fewer disaster declarations.

FEMA has not implemented our recommendation, but the Disaster Recovery Reform Act of 2018 (DRRA) requires FEMA to initiate rulemaking to (1) update the factors considered when evaluating requests for major disaster declarations, including reviewing how FEMA estimates the cost of major disaster assistance, and (2) consider other impacts on the capacity of a jurisdiction to respond to disasters, by October 2020.[27] Until FEMA implements a new methodology, the agency will not have an accurate assessment of a jurisdiction's capabilities and runs the risk of recommending that the President award Public Assistance to jurisdictions that have the capacity to respond and recover on their own.

- **Strengthening resilience efforts.** In July 2015, we recommended that FEMA and its partners establish a comprehensive investment strategy to identify, prioritize, and implement federal disaster resilience investments.[28] FEMA and its partners have developed a draft National Mitigation Investment Strategy that may address this recommendation, but it is too early to assess its responsiveness because it has not been finalized. FEMA plans to issue the strategy publicly in July 2019. Further, as we have reported, enhancing resilience can reduce fiscal exposure by reducing or eliminating long-term risk to people and property from natural hazards. For example, a 2018 interim report by the National Institute of Building Sciences estimated approximate benefits to society in excess of costs for several types of resilience projects. While precise benefits are uncertain, the report estimated that for every dollar invested in

[27] Pub. L. No. 115-254, § 1239, 132 Stat. 3186, 3466 (2018).

[28] GAO, *Hurricane Sandy: An Investment Strategy Could Help the Federal Government Enhance National Resilience for Future Disasters*, GAO-15-515 (Washington, D.C.: July 30, 2015).

designing new buildings to particular design standards, society could accrue benefits amounting to about $11 on average.[29]

- **Pre-disaster hazard mitigation.** We also found that the bulk of federal disaster resilience funding provided to states and localities comes after they have experienced a disaster, particularly a large or catastrophic disaster.[30] The DRRA allows the President to set aside, with respect to each major disaster, a percentage of certain grants to use for pre-disaster hazard mitigation.[31] In May 2019, FEMA announced that it is seeking public comments on the new program. FEMA anticipates issuing the first Notice of Funding Opportunity for this new program before the end of 2020. This new grant program will provide additional funding to make resilience investments before disaster strikes and could potentially help to reduce future risk.

Additional Opportunities to Contribute Toward Fiscal Health

In addition, we have identified numerous opportunities for Congress and executive branch agencies to take steps in the near term that could improve the federal government's fiscal condition. These opportunities include addressing billions of dollars in improper payments and the over $400 billion annual tax gap, and evaluating the significant amount of revenue forgone through tax expenditures. There are also opportunities for the Department of Defense, which has the largest share of discretionary spending, to exercise careful stewardship over its resources in light of its high risk challenges. Collectively, these actions would improve stewardship over federal resources in the near term. However, these actions alone cannot put the federal government on a sustainable fiscal path and do not eliminate the need for a long-term fiscal plan. More information on the actions needed in these areas is included in appendix II.

A Long-Term Plan Is Needed to Achieve Fiscal Sustainability

A long-term fiscal plan is needed to address the growing federal debt and put the federal government on a more sustainable long-term fiscal path. To formulate such a plan, policymakers will need to consider policy changes to the entire range of federal activities and address both revenue and spending.

[29]GAO, *Climate Change: Opportunities to Reduce Federal Fiscal Exposure*, GAO-19-625T (Washington, D.C.: June 11, 2019).

[30]GAO-15-515.

[31]Pub. L. No. 115-254, § 1234, 132 Stat. at 3461.

Fiscal Rules Can Guide Fiscal Policy Decisions to Control Debt

Other Countries Have Used Fiscal Rules to Control Debt

As part of a long-term plan, fiscal rules can support efforts to achieve fiscal sustainability by imposing numerical limits on the budget (known as targets) to guide fiscal policy. They have been used at both the national government level in the United States and other countries, as well as at the supranational level, such as the European Union (EU), to help promote fiscal responsibility and sustainability.

According to experts at the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD), several types or combinations of fiscal rules have the potential to contribute to fiscal sustainability:

- **Budget balance rules,** which constrain deficit levels and specify that the debt-to-GDP ratio converges to a defined finite level;
- **Debt rules,** which set an explicit limit or target for public debt as a percentage of GDP;
- **Revenue rules,** which set ceilings or floors on revenues and aim to increase revenue collection or prevent excessive tax burdens; and
- **Expenditure rules,** which limit spending, typically in absolute terms or growth rates and occasionally as a percent of GDP.

As part of our ongoing work on fiscal rules requested by the Chairman, we are examining in the design, implementation, and enforcement of these types of rules in other countries.

Governments can use a combination of different fiscal rules to address shortcomings of any one individual rule. According to the IMF, as of 2015, more than 70 countries had combined two or more fiscal rules, and most countries that use fiscal rules today have more than one in place. For example, at the supranational level, the EU's stability and growth pact combines an expenditure rule, budget balance rule, and a debt rule (e.g., debt-to-GDP), which are designed to ensure that countries in the EU pursue sound public finances and coordinate their fiscal policies. The pact permits sanctions against member states that fail to comply with these fiscal rules. In recent years, however, several EU nations have struggled to meet the targets set forth in the agreement.

Economic literature notes that governments can design mechanisms to help fiscal rules strike a balance between flexibility and enforceability. For example:

- Many fiscal rules include clauses which allow for a level of flexibility in responding to fiscal risks or unexpected events like recessions or natural disasters.
- Other fiscal rules include features such as independent fiscal councils, which are institutions that can help formulate and implement sound fiscal policy, and constitutional mandates, which enshrine the rule in a country's constitution with the intent of making it more difficult to reverse or abandon.
- Some countries choose to use automatic correction mechanisms, which are designed to trigger automatically to respond to past deviations from a rule.

International economic organizations, such as the IMF and OECD, have found that fiscal rules are associated with successful efforts to stabilize debt. However, empirical evidence suggests that while fiscal rules may improve balance sheets, the correlation is weaker between fiscal rules and reductions in the debt-to-GDP ratio. In general, observers and budget experts have noted that success depends on effective enforcement of fiscal rules and sustained commitment by both policymakers and the public. Some experts believe that if governments try to subvert fiscal rules through creative accounting it could undermine credibility or transparency.

The Federal Government Has Previously Enacted Fiscal Rules

The U.S. federal government has previously enacted fiscal rules in the form of laws that constrain and enforce fiscal policy decisions (see table 1). These experiences illustrate the challenge in designing rules that are both achievable and effective in addressing the key drivers of the nation's growing debt.

Table 1: Previously-Enacted Federal Fiscal Rules

Law	Fiscal years in effect	Requirements	Limitations
Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) Pub. L. No. 99-177, 99 Stat. 1037 (1985).	1986–1993[a]	Created deficit limits to establish a balanced budget.	Some factors that affected the deficit were not within Congress's control, such as economic or demographic changes.
Budget Enforcement Act of 1990 (BEA) Pub. L. No. 101-508, 104 Stat 1388-1 (1990).	1991–2002	• Limited annual discretionary spending. • Implemented a pay-as-you-go (PAYGO) rule for new direct spending and revenue legislation,[b] under which the net effect of new laws could not increase the deficit in any given year.	Controls on discretionary spending and new legislation did not control the growth in spending that results from previously-enacted laws, such as Medicare.
Statutory Pay-As-You-Go Act of 2010 (Statutory PAYGO Act) Pub. L. No. 111-139, 124 Stat. 8 (2010).	2010–present (no expiration date)	Requires that the net effect of new direct spending and revenue laws cannot increase the deficit.	Like the BEA, the Statutory PAYGO Act does not control the growth in spending that results from previously enacted laws. The act also does not control discretionary spending.
Budget Control Act of 2011 (BCA) Pub. L. No. 112-25, 125 Stat. 240 (2011).	2012–2021 for discretionary spending 2012–2027 for direct (or mandatory) spending	• Limits annual discretionary spending. • Required Congress and the President to reach agreement on further deficit reduction. Absent such an agreement, discretionary spending was further reduced and reductions in direct spending took effect.[c]	• Spending for emergencies and overseas contingency operations do not count towards discretionary spending limits.[d] • Subsequent laws changed the discretionary spending limits or enforcement procedures, which increased annual deficits.[e] • The law did not specify reductions to direct spending; rather, it provided for automatic, across-the-board reductions in direct spending if Congress and the President did not reach a deficit reduction agreement. • Congress and the President did not reach agreement on further deficit reduction as required.

Source: GAO analysis of applicable laws. | GAO-19-611T

[a]As enacted, BBEDCA contained a provision requiring the Comptroller General to report to the President whether revenues and outlays for the coming fiscal year would result in a deficit exceeding the maximum amount allowed under BBEDCA for that fiscal year and the budget reductions necessary to reach the prescribed deficit level. Pub. L. No. 99-177, § 251(b), 99 Stat. 1037, 1068-1069 (1985). The President was then required to order reductions in spending consistent with the Comptroller General's report. Pub. L. No. 99-177, § 252(a)(3). In 1986 the Supreme Court held this provision unconstitutional because it assigned executive powers to the Comptroller General in violation of the doctrine of separation of powers. Bowsher v. Synar, 478 U.S. 714 (1986). Subsequently, BBEDCA was amended by the Balanced Budget Emergency Deficit Control

Reaffirmation Act of 1987. Pub. L. No. 100-119, 101 Stat. 754 (1987). Among other things, the 1987 law extended the time frame for balancing the budget to fiscal year 1993.

[b]Direct spending, often referred to as mandatory spending, consists of budgetary resources provided by entitlement authority and laws other than appropriations acts.

[c]The BCA established the Joint Select Committee on Deficit Reduction (Joint Committee), which was tasked with proposing legislation to reduce the deficit by $1.2 trillion or more through fiscal year 2021. The Joint Committee was to report its proposal by December 2, 2011, and Congress and the President were to enact legislation by January 15, 2012. The Joint Committee did not report a proposal and such legislation was not enacted. This failure triggered (1) sequestration of discretionary spending in fiscal year 2013, (2) reductions to annual discretionary spending limits through fiscal year 2021, and (3) automatic, across-the-board reductions to direct spending.

[d]The BCA allows its spending limits to be adjusted for certain categories such as emergency appropriations and appropriations for overseas contingency operations.

[e]These include the American Taxpayer Relief Act of 2012 (Pub. L. No. 112-240), the Bipartisan Budget Act of 2013 (Pub. L. No. 113-67), the Bipartisan Budget Act of 2015 (Pub. L. No. 114-74), and the Bipartisan Budget Act of 2018 (Pub. L. No. 115-123).

Generally, if spending exceeds a target specified by these laws, the President is required to issue an automatic, across-the-board cancellation of budgetary resources, known as sequestration. This order would reduce budget authority by a uniform percentage in the amount necessary to reach the target. Sequestration procedures were established under BBEDCA and continue under subsequent fiscal laws. [32]

Certain programs are exempt from sequestration, while special rules apply to others. For example, Social Security, Medicaid, and veterans' compensation are exempt, while Medicare reductions are limited to 2 percent. As a result, programs without special status bear a greater reduction than they would if cuts were applied evenly to all programs. In addition, the sequestration process does not distinguish between programs that have already been reduced through legislation and those that have not.

The federal government's experience with these fiscal rules provides insights that can inform fiscal policy deliberations:

- **Targeting the right factors.** To effectively reduce the deficit and debt, policymakers will need to examine the factors that have the greatest impact on the government's fiscal condition and structure any fiscal rules and targets to reflect these factors. For example, in the

[32]For more information on sequestration see GAO, *2014 Sequestration: Opportunities Exist to Improve Transparency of Progress Toward Deficit Reduction Goals,* GAO-16-263 (Washington, D.C.: Apr. 14, 2016) and *2013 Sequestration: Agencies Reduced Some Services and Investments, While Taking Certain Actions to Mitigate Effects,* GAO-14-244 (Washington, D.C.: Mar. 6, 2014).

long-term, federal spending is being driven by federal health care programs and interest on debt held by the public, which results from previously-enacted laws. It is important for future fiscal rules to target all spending (entitlement programs, other mandatory spending, and discretionary spending) as well as revenues.

- **Enforcing budget agreements.** As we have previously reported, enforcing a budgetary agreement is more successful than forcing an agreement where none exists.[33] The experience of the BCA, for example, underscores this principle as the threat of sequestration did not lead to a deficit reduction agreement.
- **Limiting exemptions.** Since the BCA has been in effect, hundreds of billions of dollars in discretionary budget authority has been provided in areas that do not count towards its spending limits. Specifically, the BCA allows its spending limits to be adjusted for certain categories such as emergency appropriations and appropriations for overseas contingency operations.[34] While the government needs flexibility to address unforeseen events, it is important to design fiscal rules that can be adhered to absent a genuine crisis.

No process can force choices that the President and Congress are unwilling to make. However, having an agreed-upon goal can justify and frame the choices that must be made. With that in mind, a fiscal target that establishes a common goal for controlling the size of the federal debt relative to the economy, as well as well-designed rules that put the federal government on a path to achieve that target, could form part of a long-term plan to put the government on a sustainable fiscal path. In our ongoing work, we are examining key considerations for designing and implementing fiscal rules and targets for the U.S. government.

Achieving a Debt-to-GDP Target Would Require Spending and Revenue Changes

One way to quantify the magnitude of policy changes needed to achieve fiscal sustainability is by calculating the fiscal gap. The fiscal gap represents the difference between revenue and program spending (i.e., spending other than interest payments) that would need to be closed immediately and permanently to hold debt as a share of GDP at the end of a given period to the same level as the beginning of the period. To close the gap, policymakers would need to reduce program spending,

[33]See GAO, *Budget Process: Enforcing Fiscal Choices,* GAO-11-626T (Washington, D.C.: May 4, 2011).

[34]For more information on overseas contingency operations spending, see GAO, *Overseas Contingency Operations: Alternatives Identified to the Approach to Fund War-Related Activities,* GAO-19-211 (Washington, D.C.: Jan. 28, 2019).

increase revenue, or, more likely, do both. The longer action is delayed, the greater and more drastic the changes will have to be, placing an additional burden on future generations.

To illustrate this point, table 2 shows the immediate changes that would be needed for the federal government to reach various debt targets at the end of a 75-year projection period. These targets represent a range of illustrative examples; we do not endorse any particular target. Adopting a fiscal target is a matter for policymakers to consider as they weigh the consequences of spending and revenue decisions and their effect on the federal debt.

Table 2: Illustrative Examples of Spending or Revenue Changes Needed to Achieve Debt Targets

The table shows the magnitude of actions needed to achieve certain levels of debt held by the public as a percentage of gross domestic product over a 75-year period by reducing spending alone or increasing revenue alone. More likely, both spending and revenue changes will be needed to achieve fiscal sustainability.

Debt target, percent of gross domestic product (end of 75 years)	Immediate and permanent reduction in the annual projected primary deficit required to achieve debt target (percent of gross domestic product)[a]	Immediate and permanent reduction in annual projected program spending alone to achieve debt target	Immediate and permanent increase in annual projected revenue alone to achieve debt target
Percent	Percent	Percent	Percent
100	6	25	35
78 (actual level as of fiscal year 2018)	6	27	37
60 (European Union target)	7	28	38
0 (pay off the debt)	8	31	43

Source: GAO's 2019 alternative simulation. | GAO-19-611T

Note: This analysis was produced using GAO's 2019 long-term fiscal outlook model, the alternative simulation. GAO most recently updated the data used in this model for its 2019 report on the nation's fiscal health (GAO-19-314SP). The model does not account for potential macroeconomic effects of fiscal policy changes over time.

[a]These figures represent reductions in the primary deficit, which is the difference between revenues and program spending. Interest payments are excluded.

Debt Limit Is Not a Control on Debt: Alternative Approach Is Needed

Treasury is taking extraordinary actions to continue funding federal government activities. Treasury began taking these actions shortly after the debt limit suspension period ended on March 1, 2019.[35] Treasury will continue taking these actions until the debt limit is raised or suspended. With these extraordinary actions in place, CBO estimates that Treasury will have sufficient cash to make its usual payments until late into fiscal year 2019.

One cannot overstate the importance of preserving investors' confidence that debt backed by the full faith and credit of the U.S. government will be honored. Failure to increase (or suspend) the debt limit in a timely manner (before the extraordinary actions run out) could have serious negative consequences for the Treasury market and borrowing costs.

Our work has shown that uncertainty in the past around whether the debt limit would be raised or suspended has distorted the secondary market and led to increases in borrowing costs for Treasury.[36] During the 2013 debt limit impasse, investors reported that they took the unprecedented action of systematically avoiding certain Treasury securities—those that matured around the dates when Treasury projected it would exhaust the extraordinary actions. For these securities, interest rates increased dramatically and liquidity declined in the secondary market, where securities are traded among investors.

Rates in the secondary market ultimately affect Treasury's borrowing costs, as investors generally demand similar rates at auction to those in the secondary market. The significant increases in interest rates on these Treasury securities reflected a new level of investor uncertainty about Treasury's ability to pay its bills and avoid a delayed payment or a default. We estimated that total borrowing costs incurred through September 30, 2014, on Treasury securities issued during the 2013 debt limit impasse increased by roughly $38 million to more than $70 million, depending on the specifications used.

[35]Extraordinary actions are actions that Treasury takes as it nears the debt limit to avoid exceeding the limit. The Bipartisan Budget Act of 2018 temporarily suspended the debt limit from February 9, 2018, through March 1, 2019. Bipartisan Budget Act of 2018, Pub. L. No. 115-123, div. C, tit. III, § 30301, 132 Stat. 64, 132 (2018).

[36]GAO, *Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches,* GAO-15-476 (Washington, D.C.: July 9, 2015).

As part of a long-term fiscal plan, Congress should consider alternative approaches to the debt limit. As currently structured, the debt limit—a legal limit on the total amount of federal debt that can be outstanding at one time[37]—does not restrict Congress and the President's ability to enact spending and revenue legislation that affects the level of debt; nor does it otherwise constrain fiscal policy.[38] The debt limit is an after-the-fact measure; the spending and tax laws that result in debt have already been enacted. It restricts Treasury's authority to borrow to finance decisions already made. If the level of publicly held debt or its share of GDP is to be used as a fiscal management tool to change the long-term fiscal path, it needs to be considered as part of overall budget decisions at the time those decisions are being made.

In 2015, we held a forum with experts and identified three options for Congress to delegate its borrowing authority, while maintaining control and oversight, and better align decisions about the level of debt with decisions on spending and revenue, and minimize disruption to the market.

- Option 1: Link action on the debt limit to the budget resolution.
- Option 2: Provide the administration with the authority to propose a change in the debt limit that would take effect absent enactment of a joint resolution of disapproval within a specified time frame.
- Option 3: Delegate broad authority to the administration to borrow as necessary to fund enacted laws.[39]

The government must act soon to change the long-term fiscal path or risk significant disruption to individuals and the economy. Congress will need to discuss the entire range of federal activities and spending—entitlement programs, other mandatory spending, discretionary spending, and

[37]The debt limit is codified at 31 U.S.C. § 3101(b), as amended, and applies to federal debt issued pursuant to the authority of 31 U.S.C. chapter 31. A very small amount of total federal debt is not subject to the debt limit. This amount primarily comprises unamortized discounts on Treasury bills and Zero Coupon Treasury bonds; debt securities issued by agencies other than Treasury, such as the Tennessee Valley Authority; and debt securities issued by the Federal Financing Bank.

[38]GAO, *Debt Limit: Delays Create Debt Management Challenges and Increase Uncertainty in the Treasury Market*, GAO-11-203 (Washington, D.C.: Feb. 22, 2011).

[39]More detail about these options and a discussion of the advantages and challenges to each can be found in GAO-15-476.

revenue. Moving forward, the federal government will need to make tough choices in setting priorities and ensuring that spending leads to positive results. Having a long-term fiscal plan that includes fiscal rules and targets, and decisions about how to better manage borrowing authority, would help with these tough decisions.

Thank you, Chairman Enzi, Ranking Member Sanders, and Members of the Committee, this concludes my prepared statement. I would be pleased to answer any questions.

GAO Contacts

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Appendix I: Opportunities to Address Federal Fiscal Risks

In addition to the fiscal risks related to natural disasters and climate change as discussed in the body of this statement, better understanding fiscal risks like housing finance, surface transportation, and the Pension Benefit Guaranty Corporation, can help policymakers anticipate changes in future spending and can enhance oversight of federal resources. We have recommended ways for Congress and executive branch agencies to address these fiscal risks.

Housing Finance Reform

The federal government continues to provide significant support to the housing finance market, even though the market has largely recovered since the 2007 to 2009 financial crisis. In 2008, the federal government placed the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) under conservatorship and entered into preferred stock purchase agreements with these government-sponsored enterprises (GSE) to help ensure their financial stability. At the end of fiscal year 2018, the federal government reported about $113 billion of investments in the GSEs, which is net of about $91 billion in valuation losses.

The ultimate role of the GSEs could affect the financial condition of other federal entities, including the Federal Housing Administration (FHA), which in the past expanded its lending role in distressed housing and mortgage markets. At the end of fiscal year 2018, FHA's portfolio of federally-insured mortgages exceeded $1.2 trillion. The Government National Mortgage Association (Ginnie Mae) guarantees the performance of almost $2 trillion in securities backed by federally insured mortgages—the majority insured by FHA. We have reported on the need for Congress to consider legislation for making changes to the future federal role in housing finance that addresses the structure of the GSEs; establishes clear, specific, and prioritized goals; and considers all relevant federal entities, such as FHA and Ginnie Mae.[1]

In addition, the share of nonbank mortgage originators and servicers grew since the 2007-2009 financial crisis. According to data from Inside Mortgage Finance, nonbanks originated roughly half of all mortgages sold to the GSEs in 2017 and the first three quarters of 2018. Nonbank servicers of loans backing mortgage-backed securities issued by the

[1] GAO, *Housing Finance: Prolonged Conservatorships of Fannie Mae and Freddie Mac Prompt Need for Reform*, GAO-19-239 (Washington, D.C.: Jan. 18, 2019). For more information on resolving the federal role in housing finance, see GAO-19-157SP, 95.

GSEs have grown from 25 percent in 2014 to 38 percent as of the third quarter of 2018. For FHA-insured mortgages, nonbank originations represented 74 percent in 2003, declined to 56 percent in 2010, and then increased to 86 percent in fiscal year 2017. While Federal Housing Finance Agency (FHFA) and Department of Housing and Urban Development officials told us nonbanks have helped provide access to mortgage credit, several stakeholders and experts identified the increased presence of nonbank lenders can present additional liquidity risk in the housing finance system. We recommended that Congress consider granting FHFA the authority to examine third parties like nonbank lenders that do business with Fannie Mae and Freddie Mac, in order to identify and address deficiencies that could affect them.[2]

The Nation's Surface Transportation System

The nation's surface transportation system—including highways, transit, maritime ports, and rail systems—is critical to the economy and affects the daily lives of most Americans. However, according to estimates, it will cost hundreds of billions of dollars to repair and upgrade it to meet current and future demands. Meanwhile, traditional funding sources are eroding and the federal government lacks a long-term sustainable strategy for funding it. The major source of federal funding, the Highway Trust Fund, is increasingly unable to maintain current spending levels for highway and transit programs.[3] Spending is projected to exceed revenues after 2021. In its January 2019 budget outlook, CBO estimated that $159 billion in additional funding would be required to maintain current spending levels plus inflation from 2022 through 2029.[4] Congress needs to pass a long-term, sustainable solution for funding surface transportation. Such a solution would balance revenues to and spending from the Highway Trust Fund.

[2]GAO, *Nonbank Mortgage Servicers: Existing Regulatory Oversight Could Be Strengthened [Reissued on April 14, 2016]*, GAO-16-278 (Washington, D.C.: Mar. 10, 2016).

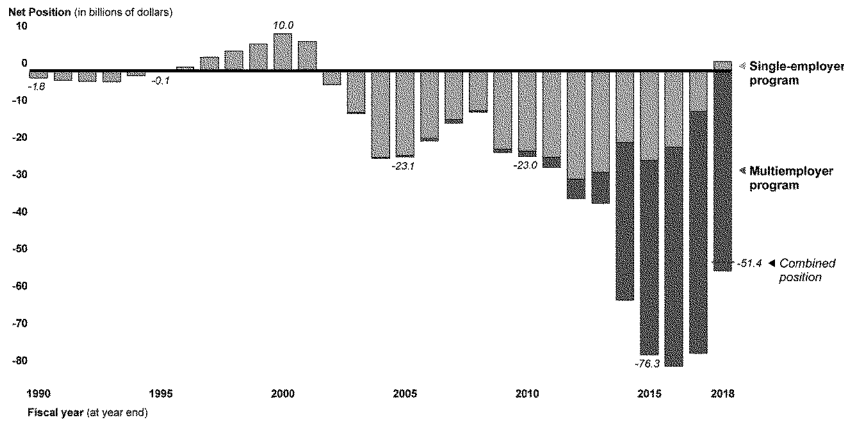
[3]For more information on funding the nation's surface transportation system, see GAO-19-157SP, 86.

[4]As part of its baseline projection, CBO assumes that this payment will be made after the Highway Trust Fund is exhausted in 2021.

The Pension Benefit Guaranty Corporation

The Pension Benefit Guaranty Corporation's (PBGC) financial future is uncertain because of long-term challenges related to its funding and governance structure. PBGC's liabilities exceeded its assets by about $51 billion as of the end of fiscal year 2018—an increase of about $16 billion from the end of fiscal year 2013 (see figure 11).[5]

Figure 11: Pension Benefit Guaranty Corporation's Net Financial Position of the Single-Employer and Multiemployer Programs Combined, Fiscal Years 1990-2018



Source: Pension Benefit Guaranty Corporation (PBGC). | GAO-19-611T

PBGC estimated that its exposure to potential additional future losses for underfunded plans in both the single and multiemployer programs was nearly $185 billion; the single-employer program accounts for $175 billion of this amount. PBGC projected that there is more than a 90 percent likelihood that the multiemployer program will be insolvent by the year 2025 and a 99 percent likelihood by 2026. Although the single-employer program is currently in surplus, past experience shows that large claims can cause its condition to change quickly.

[5]For more information on PBGC insurance programs, see GAO-19-157SP, 267.

We have suggested a number of matters for congressional consideration to strengthen PBGC, including (1) authorizing a redesign of PBGC's single employer program premium structure to better align premium rates with risk, (2) adopting additional changes to PBGC's governance structure, (3) strengthening funding requirements for plan sponsors as appropriate given national economic conditions, (4) working with PBGC to develop a strategy for funding PBGC claims over the long term as the defined benefit pension system continues to decline, and (5) enacting additional structural reforms to reinforce and stabilize the multiemployer system, and balance the needs and potential sacrifices of contributing employers, participants, and the federal government.

Appendix II: Near-Term Opportunities to Contribute Toward Fiscal Health

Changes in spending and revenue to ensure long-term fiscal sustainability will require legislative actions to alter fiscal policies. Meanwhile, Congress and executive branch agencies have opportunities in the near term to improve the government's fiscal condition and act as stewards of federal resources. Although these opportunities alone cannot put the federal government on a sustainable fiscal path, they would improve both the fiscal situation and the federal government's operations.

Continue to Address Fragmentation, Overlap, and Duplication

Since 2011, we have reported annually on federal programs, agencies, offices, and initiatives that have duplicative goals or activities as well as opportunities to achieve greater efficiency and effectiveness that result in cost savings or enhanced revenue collection. Congress and executive branch agencies have partially or fully addressed 621 of the 805 actions (77 percent) we identified from 2011 to 2018, resulting in about $262 billion in financial benefits. In our May 2019 report, we presented 98 new actions for Congress or executive branch agencies.[1] We estimate tens of billions more dollars could be saved by fully implementing our open actions.[2] See table 3 for examples of areas with open actions with potential financial benefits of $1 billion or more.

[1]GAO-19-285SP. See GAO's Duplication and Cost Savings webpage for links to the 2011 to 2019 annual reports: http://www.gao.gov/duplication/overview.

[2]In calculating our total estimated realized and potential financial benefits, we relied on individual estimates from a variety of sources, which considered different time periods and utilized different data sources, assumptions, and methodologies. These totals represent a rough estimate of financial benefits. Realized benefits have been rounded down to the nearest $1 billion. Estimated potential benefits are subject to increased uncertainty, depending on whether, how, and when they are addressed, and are presented using a notional statement of magnitude.

Table 3: Examples of Areas with Open Actions with Potential Financial Benefits of $1 Billion or More

Area name and description	Mission	Potential financial benefits[a] (source)
***DOE's Treatment of Hanford's Low-Activity Waste:** The Department of Energy (DOE) may be able to reduce certain risks by adopting alternative approaches to treating a portion of its low-activity radioactive waste. (GAO-17-306)	Energy	**Tens of billions** (GAO)
Defense Headquarters: The Department of Defense could review and identify further opportunities for consolidating or reducing the size of headquarters organizations. (GAO-12-345, GAO-13-293, GAO-14-439, GAO-15-10)	Defense	**$9.4 billion** (National Defense Authorization Act)
***Advanced Technology Vehicles Manufacturing Loan Program:** Unless DOE can demonstrate demand for new Advanced Technology Vehicles Manufacturing loans and viable applications, Congress may wish to consider rescinding all or part of the remaining credit subsidy appropriations. (GAO-14-343SP)	Energy	**Up to $4.3 billion** (DOE)
***Disability and Unemployment Benefits:** Congress should consider passing legislation to prevent individuals from collecting both full Disability Insurance benefits and Unemployment Insurance benefits that cover the same period. (GAO-12-764)	Income security	**$2.5 billion over 10 years** (Office of Management and Budget)
***Social Security Offsets:** The Social Security Administration (SSA) needs data on pensions from noncovered earnings to better enforce offsets and ensure benefit fairness, which could result in cost savings if enforced both retrospectively and prospectively, according to the Congressional Budget Office (CBO) and SSA. Congress could consider giving the Internal Revenue Service the authority to collect the necessary information. Estimated savings would be less if SSA only enforced the offsets prospectively as it would not reduce benefits already received. (GAO-05-786T)	Income security	**$2.4 to $7.9 billion over 10 years** (CBO and SSA)
***Crop Insurance:** Congress could consider limiting the subsidy for premiums that an individual farmer can receive each year from the Federal Crop Insurance program, reducing the subsidy, or some combination of limiting and reducing these subsidies and making changes to the program to reduce its delivery costs. (GAO-17-501, GAO-12-256)	Agriculture	**Up to $1.4 billion annually** (GAO)
Medicare Clinical Laboratory Payments: The Centers for Medicare & Medicaid Services should take steps to avoid paying more than necessary for clinical laboratory tests. (GAO-19-67)	Health	**Over $1 billion, or billions** (GAO)
Department of Energy Environmental Liability: DOE could develop a program-wide strategy to improve decision-making on cleaning up radioactive and hazardous waste. (GAO-19-28)	Energy	**Billions** (GAO)

Area name and description	Mission	Potential financial benefits[a] (source)
*Identity Theft Refund Fraud: The Internal Revenue Service and Congress could improve the agency's efforts to prevent refund fraud associated with identity theft. (GAO-18-418, GAO-16-508)	General government	Billions (GAO)

Legend: * = Legislation is likely to be necessary to fully address all actions in this area.

Source: GAO. | GAO-19-611T

Note: All estimates of potential financial benefits are dependent on various factors, such as whether action is taken and how it is taken. Actual benefits may be less, depending on costs associated with implementing the action, unintended consequences, and the impact of other factors that could and should be controlled for. The individual estimates in this table should be compared with caution, as they come from a variety of sources, which consider different time periods and utilize different data sources, assumptions, and methodologies.

[a]We developed the notional estimates, which are intended to provide a sense of potential magnitude of financial benefits. Notional estimates have been developed using broad assumptions about potential benefits which are rooted in previously identified losses, the overall size of the program, previous experience with similar reforms, and similar rough indicators of potential benefits. We generally determine the notional label ("millions" vs. "tens of millions" vs. "hundreds of millions") using a risk-based approach that takes into account such factors as the possible minimum and maximum values of the financial benefits estimate (where available), the quality of the data underlying those values, the certainty of those values, and/or the rigor of the estimation method used.

Actions Needed to Address Improper and Other Payments

Improper payments—payments that should not have been made or that were made in an incorrect amount—have consistently been a government-wide issue and if addressed could yield significant savings.[3] For fiscal year 2018, agencies reported total improper payment estimates of about $151 billion. Since fiscal year 2003, cumulative improper payment estimates government-wide have totaled about $1.5 trillion.[4]

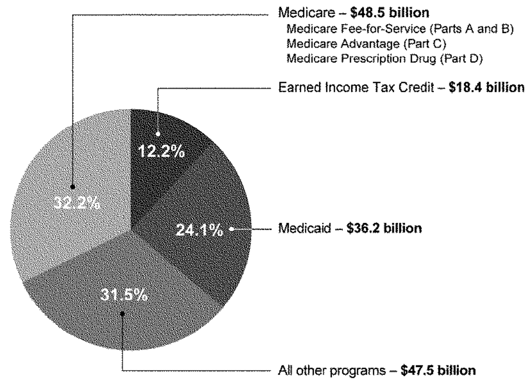
Medicare programs, Medicaid, and the Earned Income Tax Credit account for about 69 percent of the total improper payment estimates

[3]Improper Payments Information Act of 2002, Pub. L. No. 107-300, 116 Stat. 2350 (2002), *codified as amended at* 31 U.S.C. § 3321 note. An improper payment is statutorily defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. OMB guidance also provides that when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

[4]Prior-year improper payment estimates have not been adjusted for inflation.

reported by agencies for fiscal year 2018 (see figure 12).[5] Because health care is one of the major drivers of the long-term fiscal outlook, it is especially critical to take appropriate measures to reduce improper payments in Medicare and Medicaid.[6]

Figure 12: Improper Payment Estimates Were Concentrated in Three Areas in Fiscal Year 2018



Source: GAO analysis of agencies' fiscal year 2018 data. | GAO-19-611T

It is important for agencies to identify the root causes of improper payments and then implement internal controls aimed at both prevention and detection. However, the government's ability to understand the full extent to which improper payments occur is hindered by (1) incomplete, unreliable, or understated estimates; (2) risk assessments that may not accurately assess the risk of improper payment; and (3) noncompliance with criteria listed in federal law.

[5]Certain federal programs and activities determined to be at risk for improper payments did not report estimates of improper payments for fiscal year 2018, including the Premium Tax Credit and Temporary Assistance for Needy Families, among others.

[6]For more information on our work on Medicare and Medicaid including improper payments for these programs, see GAO-19-157SP, 241 and 250.

Our work has identified a number of strategies and specific actions agencies can take to reduce improper payments, which could yield significant savings and help ensure that taxpayer funds are adequately safeguarded. For example,

- **Improvements to agency estimates.** In May 2018 we recommended OMB develop guidance to help ensure agencies' estimating processes for identifying improper payments reflect key risks, for example whether a payee is ineligible for a payment.[7] As of April 2019, OMB has not implemented this recommendation.
- **Amendments to the Social Security Act.** We have suggested that Congress consider amending the Social Security Act to explicitly allow the Social Security Administration to share its full death data with Treasury's Do Not Pay working system for data matching.[8] As of June 2019, no relevant legislation has been enacted.

Actions Needed to Address Medicare and Medicaid Payments and Control Health Care Spending

Spending for the Medicare and Medicaid programs—both projected to exceed $1 trillion annually in fiscal year 2026—is a key driver of long-term federal spending. We have identified a number of actions for Congress and agencies to implement related to Medicare and Medicaid payments that could result in billions of dollars in savings, including the following:

- **Medicare—Payments by place of service.** In 2015, we recommended that Congress consider directing the Department of Health and Human Services (HHS) to equalize Medicare payment rates between settings for evaluation and management office visits and other services, and return associated savings to the Medicare

[7]GAO, *Improper Payments: Actions and Guidance Could Help Address Issues and Inconsistencies in Estimation Processes*, GAO-18-377 (Washington, D.C.: May 31, 2018).

[8]GAO, *Improper Payments: Strategy and Additional Actions Needed to Help Ensure Agencies Use the Do Not Pay Working System as Intended*, GAO-17-15 (Washington, D.C.: Oct. 14, 2016).

program.[9] Several organizations have estimated that equalizing payment rates would save Medicare billions of dollars, with some estimates predicting savings of nearly $1 billion to $2 billion a year. Both Congress and the Centers for Medicare and Medicaid Services (CMS) have taken some actions to address this issue; however, these actions do not fully address the issue.

- **Medicare—Prior authorization.** CMS has used prior authorization, which generally requires health care providers and suppliers to demonstrate compliance with Medicare coverage and payment rules before certain items or services are provided to patients. In April 2018, we found that estimated savings from CMS's prior authorization demonstrations could be about $1.1 to $1.9 billion, but, at the time of our review, the demonstrations were paused, ended, or scheduled to end.[10] We recommended that CMS take steps to continue prior authorization, which could save an additional tens of millions of dollars.

  CMS has taken steps to resume a paused demonstration, extend the end date of a demonstration, and add items to the permanent program. We will continue to monitor agency guidance on the resumed and extended demonstrations and the results of independent evaluations of ended demonstrations. We also will evaluate additional steps CMS takes to continue prior authorization in Medicare, such as identifying new opportunities for prior authorization.

- **Medicare—Payments to cancer hospitals.** In 2015 we estimated that certain cancer hospitals received, on average, about 42 percent more in Medicare inpatient payments per discharge than what Medicare would have paid a local teaching hospital under the prospective payment system (PPS) to treat cancer beneficiaries with

[9]GAO, *Medicare: Increasing Hospital-Physician Consolidation Highlights Need for Payment Reform*, GAO-16-189 (Washington, D.C.: Dec. 18, 2015). Medicare often pays providers at a higher rate when the same service is performed in a hospital outpatient department rather than in a physician office. On November 21, 2018, CMS issued a final rule that reduced payment rates for certain services furnished by the off-campus hospital outpatient departments—those that are not located on a hospital campus— that existed or were under construction in 2015. On December 4, 2018, the American Hospital Association and 4 other plaintiffs filed suit in the U.S. District Court for the District of Columbia arguing that CMS lacks the authority to change the payment rate for these hospital outpatient departments. *American Hospital Association v. Azar,* No. 18-cv-02841 (D.D.C. filed Dec. 4, 2018.

[10]GAO, *Medicare: CMS Should Take Actions to Continue Prior Authorization Efforts to Reduce Spending*, GAO-18-341 (Washington, D.C.: Apr. 20, 2018).

the same level of complexity.[11] We recommended that Congress consider requiring Medicare to pay these cancer hospitals as it pays these teaching hospitals, or provide HHS with the authority to otherwise modify how Medicare pays cancer hospitals. These actions could save hundreds of millions of dollars each year.

- **Medicare—Medicare Advantage.** CMS pays plans in Medicare Advantage—private health plans that offer health care coverage to Medicare beneficiaries—a predetermined amount per beneficiary adjusted for health status based on a risk score. In 2013 we found that CMS's adjustment to risk scores for 2010 through 2012 to account for diagnostic coding differences was too low, resulting in estimated excess payments of at least $3.2 billion to Medicare Advantage plans.[12]

  Congress has taken steps to increase the minimum adjustment made for differences in diagnostic coding patterns between these two groups, which are expected to result in savings of approximately $2.5 billion from fiscal years 2013 through 2022. CMS could still take steps to better account for beneficiary characteristics such as sex and residential location, and use more current and refined data in determining Medicare Advantage payments. CMS could achieve billions of dollars in additional savings by better adjusting for differences between Medicare Advantage plans and traditional Medicare providers in the reporting of beneficiary diagnoses.

- **Medicaid—Supplemental payments.** Supplemental payments—those made to providers in addition to regular claims-based payments—totaled more than $48 billion in fiscal year 2016. Based on problems we identified with the supplemental payments in multiple reports, we recommended that Congress consider requiring CMS to (1) improve state reporting of certain supplemental payments, including requiring annual reporting of payments made to individual facilities and other information that the agency determines is

[11]GAO, *Medicare: Payment Methods for Certain Cancer Hospitals Should Be Revised to Promote Efficiency*, GAO-15-199 (Washington, D.C.: Feb. 20, 2015). To control costs and reward efficiency, Medicare pays the majority of hospitals under the prospective payment system which is based on the clinical classification of each service; however, certain cancer hospitals are largely paid on the basis of reported costs.

[12]GAO, *Medicare Advantage: Substantial Excess Payments Underscore Need for CMS to Improve Accuracy of Risk Score Adjustments*, GAO-13-206 (Washington, D.C.: Jan. 31, 2013).

necessary, and (2) clarify permissible methods of calculating these payments.[13]

We have also made several recommendations to CMS to improve the agency's oversight of these payments. In November 2018, CMS announced that it was planning a proposed rule that may improve oversight of Medicaid supplemental payments, which, if effectively implemented, could save hundreds of millions or billions of dollars.

- **Medicaid—Demonstration waivers.** In 2013 we found that HHS did not adequately ensure that four states' Medicaid demonstration projects would be budget neutral to the federal government before approving them, as required by HHS policy.[14] We recommended that Congress could consider requiring HHS to improve the Medicaid demonstration review process. In recent years HHS issued guidance changing the methods it uses to determine whether demonstrations are budget neutral. As of July 2018, CMS estimated that the federal share for the 10 demonstrations that have been renewed under one new method has been reduced by more than $121 billion over a 7-year period. Continuing to apply this guidance to other demonstrations, along with taking additional actions to ensure budget neutrality, could further reduce demonstration spending limits by billions of dollars.
- **Medicaid—Spending oversight.** In multiple reports in 2018, we found that CMS was not sufficiently identifying and targeting risk in its Medicaid spending oversight activities, which can result in potential overpayments and unallowable expenditures.[15] For example, we found that CMS devotes similar levels of staff resources to review expenditures despite differing levels of risk across states. Specifically, the number of staff reviewing California's expenditures—which represent 15 percent of federal Medicaid spending—was similar to the

[13]GAO, *Medicaid: CMS Oversight of Provider Payments Is Hampered by Limited Data and Unclear Policy*, GAO-15-322 (Washington, D.C.: April 10, 2015) and *Medicaid: More Transparency of and Accountability for Supplemental Payments Are Needed*, GAO-13-48 (Washington, D.C.: Nov. 26, 2012).

[14]GAO, *Medicaid Demonstration Waivers: Approval Process Raises Cost Concerns and Lacks Transparency*, GAO-13-384 (Washington, D.C.: Jun. 25, 2013).

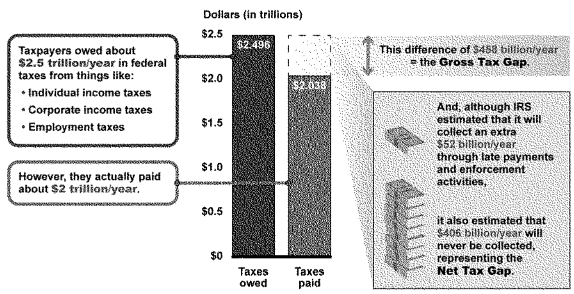
[15]GAO, *Medicaid: CMS Needs to Better Target Risks to Improve Oversight of Expenditures*, GAO-18-564 (Washington, D.C.: Aug. 6, 2018); *Medicaid Managed Care: Improvements Needed to Better Oversee Payment Risks*, GAO-18-528 (Washington, D.C.: Jul. 26, 2018); and *Medicaid: CMS Should Take Steps to Mitigate Program Risks in Managed Care*, GAO-18-291 (Washington, D.C.: May 7, 2018).

number reviewing Arkansas' expenditures, which represents 1 percent of federal Medicaid spending. We made five recommendations to the agency to improve how it identifies and targets risk areas in its oversight of expenditures, which, if implemented, could save hundreds of millions of dollars. CMS agreed with the recommendations, but has not provided a timeframe for implementation.

Multiple Strategies Needed to Address Persistent Tax Gap

The tax gap is the difference between tax amounts that taxpayers should pay and what they actually pay voluntarily and on time. The average annual net tax gap was $406 billion for tax years 2008 through 2010, according to Internal Revenue Service (IRS) estimates (see figure 13).[16] Given the size of the tax gap, even modest reductions would yield significant financial benefits and help improve the government's fiscal condition. Since any long-term fiscal plan will require consideration of revenue increases, it is important to collect more of what is already owed.

Figure 13: IRS's Annual Average Tax Gap Estimate for Tax Years 2008–2010



Source: Internal Revenue Service (IRS). | GAO-19-611T

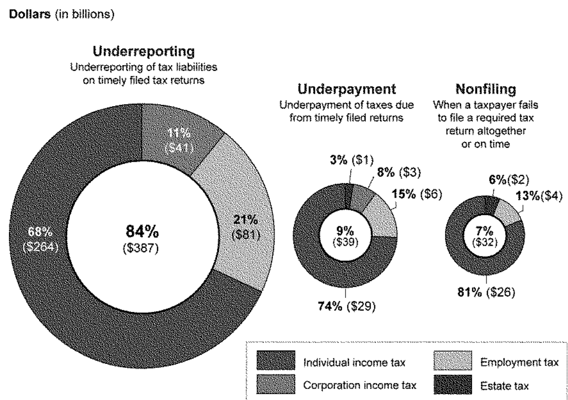
Note: IRS released its most recent tax gap estimate in April 2016 for tax years 2008 to 2010.

The tax gap arises when taxpayers, whether intentionally or inadvertently, fail to (1) accurately report tax liabilities on tax returns (underreporting),

[16]The average annual net tax gap equals the average annual gross tax gap ($458 billion) minus the amount IRS expects to recover through enforcement actions and late payments ($52 billion).

(2) pay taxes due from filed returns (underpayment), or (3) file a required tax return altogether or on time (nonfiling). Underreporting accounted for 84 percent of the tax gap estimate across tax years 2008 to 2010, as shown in figure 14.

Figure 14: Estimated Average Annual Gross Tax Gap by Type of Noncompliance and Tax, Tax Years 2008-2010



Source: GAO analysis of Internal Revenue Service (IRS) information. | GAO-19-611T

Note: Data may not sum to totals because of rounding. Individual income tax includes individual business income tax. Estate tax underreporting noncompliance is not shown in this graphic because it represents less than 0.5 percent of total underreporting noncompliance. Excise tax is not shown in this graphic because the IRS does not have excise tax underreporting noncompliance or nonfiling noncompliance estimates, and its estimate for excise tax underpayment noncompliance represents less than 0.5 percent of total underpayment noncompliance. In addition, IRS does not have a corporation income tax estimate for nonfiling noncompliance.

Reducing the tax gap will be a challenging task requiring action on multiple fronts.[17] Our work has identified a number of strategies and specific actions IRS and Congress can take to reduce the tax gap.

[17]For more information on the tax gap, see GAO, *Tax Gap: Multiple Strategies Are Needed to Reduce Noncompliance,* GAO-19-558T (Washington, D.C.: May 9, 2019).

- **Enhanced electronic filing.** Requiring additional taxpayers, such as corporations, to electronically file tax and information returns could help IRS improve compliance in a resource-efficient way.[18]
- **Additional third-party information reporting.** Expanding the information reported to IRS by third parties could increase voluntary tax compliance. For example, reporting could be required for certain payments that rental real estate owners make to service providers, such as contractors who perform repairs on their rental properties.[19]
- **Math error authority.** Providing IRS with authority—with appropriate safeguards—to correct math errors and to correct errors in cases where information provided by a taxpayer does not match information in government databases, among other things, could help IRS correct errors and avoid burdensome audits and taxpayer penalties.[20]
- **Paid preparer regulation.** Providing IRS with the authority to regulate paid tax return preparers could improve the accuracy of the tax returns they prepare.[21]
- **Leveraging the Return Review Program.** Evaluating the costs and benefits of expanding IRS's Return Review Program—a tool to detect potentially fraudulent returns—could streamline the detection and treatment of other types of noncompliance.[22]
- **Compliance research strategy.** IRS should develop and document a strategy that outlines how IRS will use National Research Program data to update compliance efforts. Such a strategy would help IRS determine resource trade-offs in its compliance research, while

[18]GAO, *Partnerships and S Corporations: IRS Needs to Improve Information to Address Tax Noncompliance*, GAO-14-453 (Washington, D.C.: May 14, 2014).

[19]GAO, *Tax Gap: IRS Could Do More to Promote Compliance by Third Parties with Miscellaneous Income Reporting Requirements*, GAO-09-238 (Washington, D.C.: Jan. 28, 2009) and *Tax Gap: Actions That Could Improve Rental Real Estate Reporting Compliance*, GAO-08-956 (Washington, D.C.: Aug. 28, 2008).

[20]GAO, *Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed*, GAO-10-349 (Washington, D.C.: Feb. 10, 2010)

[21]GAO, *Paid Tax Return Preparers: In a Limited Study, Preparers Made Significant Errors*, GAO-14-467T (Washington, D.C.: April 8, 2014). A previous study found similar results: see *Paid Tax Return Preparers: In a Limited Study, Chain Preparers Made Serious Errors*, GAO-06-563T (Washington, D.C.: Apr. 4, 2006).

[22]GAO, *Tax Fraud and Noncompliance: IRS Could Further Leverage the Return Review Program to Strengthen Tax Enforcement*, GAO-18-544 (Washington, D.C.: Jul. 24, 2018).

providing Congress with a better understanding of the merits of the research.[23]

- **Improving IRS strategic workforce planning.** Addressing IRS's fragmented human capital activities—through fully implementing its workforce planning initiative—would help the agency better meet challenges to achieving its mission.[24]

Increased Attention to the Results from Tax Expenditures

Evaluating the significant amount of revenue forgone through tax expenditures could help aid fiscal decision-making. In fiscal year 2018, tax expenditures reduced income tax revenues by approximately $1.38 trillion based on Treasury estimates.[25] Tax expenditures (e.g., tax credits, exemptions) are provisions of the tax code that reduce taxpayers' tax liability and therefore the amount of tax revenue paid to the government. They are sometimes used to provide economic relief to selected groups of taxpayers, to encourage certain behavior, or to accomplish other goals.

Although they are routinely used as a policy tool, tax expenditures are not regularly reviewed and their outcomes are not measured as closely as spending programs' outcomes. We have made recommendations in this area that remain open.

- **Evaluation of tax expenditures.** In September 2005, we recommended that OMB take actions to develop a framework for evaluating tax expenditure performance, and to regularly review tax expenditures in executive branch budget and performance review processes.[26] However, OMB has not developed this framework and

[23]GAO, *Tax Gap: IRS Needs Specific Goals and Strategies for Improving Compliance*, GAO-18-39 (Washington, D.C.: Oct. 31, 2017).

[24]GAO, *Internal Revenue Service: Strategic Human Capital Management is Needed to Address Serious Risks to IRS's Mission*, GAO-19-176 (Washington, D.C.: Mar. 26, 2019).

[25]We calculated the total amount based on Treasury's estimates of each tax expenditure. The sum of the tax expenditure estimates is useful for gauging the general magnitude of revenue forgone through provisions of the tax code, but aggregate tax expenditure estimates must be interpreted carefully. Summing revenue loss estimates does not take into account possible interactions between individual provisions or potential behavioral responses to changes in these provisions on the part of taxpayers. Additionally, Treasury's tax expenditure estimates include the effect of certain tax credits on receipts only and not the effect of the credits on outlays, which Treasury reports separately, but does not take into account interactions between individual provisions.

[26]GAO, *Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined*, GAO-05-690 (Washington, D.C.: Sept. 23, 2005).

has not reported progress in evaluating tax expenditures since the President's fiscal year 2012 budget.

- **Identify contributions to agency goals.** In July 2016, we recommended that OMB work with agencies to identify which tax expenditures contribute to agency goals. OMB generally agreed with the recommendation but had not taken action as of March 2019.[27] Absent such analysis, policymakers have little way of knowing whether these tax provisions support achieving the intended federal outcomes. Policymakers also lack information to compare their costs and efficacy with other policy tools.

Improving Stewardship over Defense-Related Resources

The Department of Defense (DOD) accounts for about half of all discretionary spending. In addition, DOD is responsible for more than 70 percent of the government's Property, Plant, and Equipment. It is therefore important for DOD to exercise careful stewardship over its resources and manage these resources efficiently and effectively. DOD has six areas on our High-Risk List representing some of the fundamental functions of the agency. [28] Several government-wide high-risk areas also have direct implications for DOD and its operations, including (1) the government-wide personnel security clearance process, (2) ensuring the cybersecurity of the nation, (3) improving management of IT acquisitions and operations, (4) strategic human capital management, and (5) managing federal real property. We have made recommendations to help DOD make progress addressing these challenges.

DOD's six high-risk areas are:

- **DOD Weapon Systems Acquisition**. DOD can get better returns on its over one trillion dollar weapon system investments by following knowledge-based practices and developing an action plan for performance measures.
- **DOD Approach to Business Transformation**. DOD should accurately track efficiencies gained and costs reduced as it transforms its business functions through a transition to shared services and other efficiency initiatives.

[27]GAO, *Tax Expenditures: Opportunities Exist to Use Budgeting and Agency Performance Processes to Increase Oversight*, GAO-16-622 (Washington, D.C.: July 7, 2016).

[28]GAO-19-157SP.

- **DOD Business Systems Modernization.** DOD needs to improve management of its business system acquisitions, improve management of its portfolio of business system investments, and leverage its federated business enterprise architecture to identify and address potential duplication and overlap across systems.
- **DOD Contract Management**. DOD faces challenges in how it defines, strategically manages, and budgets for its contracted services, which typically account for about half of the department's $300 billion in annual contract obligations.
- **DOD Support Infrastructure Management.** DOD needs to better align its infrastructure capacity with its force structure needs and achieve efficiencies by reducing both excess infrastructure and base support costs, and maximizing the use of its underutilized facilities.
- **DOD Financial Management.** DOD needs to assure that leaders across the department continue to improve their efforts to address long-standing financial management problems.

Added to GAO's High-Risk List in 1995, DOD's financial management continues to face long-standing issues, such as ineffective processes, systems, and controls. DOD remains one of the few federal entities that cannot accurately account for, and report on, its spending or assets. In a positive development, DOD underwent the first agency-wide financial statement audit for its fiscal year 2018 financial statements. However, the auditors were unable to express an opinion due to insufficient evidence.

DOD has acknowledged that achieving a clean audit opinion will take time. DOD established a process to remediate any audit findings and ultimately to improve the quality of financial information that is most valuable in managing the department's day-to-day operations. It stated that over the next several years, the resolution of audit findings will serve as an objective measure of progress toward that goal. DOD will need to develop and effectively monitor corrective action plans to appropriately address audit findings in a timely manner.

In addition, our work has identified a number of actions DOD can take to help improve the federal government's fiscal condition:

- **Defense distribution centers.** In June 2017, we found that, while DOD had taken steps to increase the use of the Defense Logistics Agency's U.S. distribution centers, the department also has other opportunities to use its entire network of U.S. centers more efficiently such as by minimizing unnecessary overlap and duplication.[29] We recommended that DOD assess and direct the implementation of actions, as appropriate, that can be taken using existing authorities to close, realign, or dispose of existing infrastructure to more efficiently use the department's network of U.S. distribution centers. DOD concurred with this recommendation and in July 2017 began to assess options to close, realign, or dispose of existing infrastructure to more efficiently use its network of U.S. distribution centers. DOD estimated by taking such actions, it could potentially save approximately $527 million over 5 years.

- **Department of Defense special and incentive pays.** The Department of Defense obligates billions of dollars annually on special and incentive pay programs to compensate and incentivize servicemembers for occupations that are dangerous, less desirable, or require special skills. In February 2017, we found that DOD needed to take actions to fully ensure the effectiveness of these programs.[30] These actions include incorporating key principles of effective human capital management in its special and incentive pay programs to ensure that the programs are effectively designed and that resources are optimized for the greatest return on investment. For example, using non-monetary incentives to increase retention could lead to program savings totaling tens of millions of dollars annually.
- **Foreign military sales administrative account.** The U.S. government sells defense equipment and services worth tens of billions of dollars each year to its foreign partners through the Foreign Military Sales (FMS) program. To cover the program's operating costs, DOD collects an administrative fee from purchasers and places it into the administrative account of the FMS trust fund. Since 1989, a portion of FMS program operating expenses, for military pay and unfunded civilian retirement and other benefits, have been paid instead from other appropriated funds.

  In 2018, we found that the FMS administrative account had grown to contain over $4 billion and that it likely would continue to have sufficient funds to pay for program expenses through at least fiscal year 2024 even if the account were to cover more annual expenses

[29]GAO, *Supply Chain Management: DOD Could More Efficiently Use Its Distribution Centers,* GAO-17-449 (Washington, D.C.: June 21, 2017).

[30]GAO, *Military Compensation: Additional Actions Are Needed to Better Manage Special and Incentive Pay Programs,* GAO-17-39 (Washington, D.C.: Feb. 3, 2017).

than expected.[31] Congress could enhance federal revenue by at least tens of millions of dollars annually through expanding the definition of allowable expenses authorized to be covered by the FMS administrative account, thereby likely reducing the need to cover these expenses with other appropriated funds.

[31]GAO, *Foreign Military Sales: Controls Should Be Strengthened to Address Substantial Growth in Overhead Account Balances,* GAO-18-401 (Washington, D.C.: May 10, 2018).

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Chairman ENZI. Thank you.

I will be here for the whole hearing. So I will go ahead and defer to Senator Braun to ask questions.

Senator BRAUN. Thank you, Mr. Chairman.

I have been to several Budget Committee meetings so far, and you would think the things you just talked about would create alarm or get folks to at least get agitated about it.

I have been impressed by how unalarmed most people are here about what you just described.

All the things that we have looked at that should be done that any business would do, I really do not see that happening beyond what we are currently doing.

Look at the attendance in what I think ought to be the most important committee in the Senate, and yes, there are some other things going on. But this is not too unusual for committees in general in this place, and I think that is kind of sad too. That is what we are here for.

I want you to maybe go into some things that might describe what happens—because the other day we talked about will it be an interest rate and debt placement crisis first. Will it take us to get to 2026 when we are 91 cents on the dollar in a trust fund capability in the Medicaid Trust Fund?

So I would like to ask you two things. Since we do hardly anything here preemptively, where you would in any other business, State government, whatever it would be—you would take these signs and do something about it before you had the hard accountability that always occurs.

Why do not you describe what would happen if we do not do anything, because I think there is a good chance that come '24, 2025, we are still going to be talking about it.

You mentioned full faith and credit of the government. How would that end up working—and I am sure you have thought about it—if we just have to start cutting programs?

I think at some point, that is a more likely cure to what ails us here than us fixing it before we get there.

I think there is going to be plenty of time for another round of questions, so I want to talk about the income side of the ledger. I will do that on a second round.

So why do not you describe for us and the public how that would happen, and would it be that catastrophic in the sense if were forced to, because we could not borrow the money, starting making the decisions then that we should be making now?

Mr. DODARO. I think that the longer you wait to make these decisions, the more draconian the changes will have to be made. I will give you a couple examples that are right around the corner.

In the multi-employer portion of the Pension Benefit Guaranty Corporation, that is about 11 million Americans, and by 2025, that fund is going to be insolvent, which means if their companies go bankrupt, the Government will only be able to step in and give them a pension, an annual pension of about $2,000, hardly adequate. So those people are at risk, high risk, and the Government would fail them.

When the Medicare situation hits in the Hospital Trust Fund, that will have enormous repercussions, and that fund was supposed to operate on a self-funded basis over time. And this is something that has been known well in advance, but it will have consequences for people on Medicare.

And every day in this Country, 10,000 people a day on average turn 65. So every day more and more people are being added to Medicare. So I think it will affect millions of Americans.

Social Security would require a 23 percent cut, and many Americans, particularly low-income people, rely almost exclusively, if not primarily, on Social Security. That would be disastrous to them and to the economy.

The federal government is not managing the debt situation well. The United States gets great credit ratings by the bond-rating agencies in the international market area because of the strong economy, and that the United States is able to honor our debts and has never defaulted on a debt payment of any significance. And so this is very important. The U.S. dollar is the world's reserve currency. The United States has the deepest and most liquid Treasury markets in the world and that helps in world finance. I think the consequences of this, by the way, will not be just limited to the United States. I think it will have global consequences if the United States ever defaulted on the debt payments, just as the same as when the United States did not deal with the Fannie and Freddie Mac and other things during the last global financial crisis in enough advance notice. That is a good example of what can happen.

Interest rates is another area, if they spike. The United States has been extremely fortunate that interest rates have been low. If interest rates spike—it could precipitate a crisis in confidence in the Government's ability to manage its affairs. I think could lead to a fiscal crisis at that point. CBO has alluded to this and others as well, and I think that if things happen there, they will happen fast.

Because the debt base is so huge and it has to be refinanced every year, it is not just new debt that would be affected. It is old debt that has to be refinanced, and a lot of it is short-term debt. So at any one point in time, we not only have to come up with a trillion dollars for new debt, we have to refinance anywhere from an additional seven, eight trillion dollars.

So the interest rate exposure is enormous, and this could precipitate a crisis.

And the bond-rating agencies are keeping an eye on this, by the way. I mean, Standard & Poor's already lowered, back in 2011, the Federal Government's bond rating to AA+ from AAA.

Now, Fitch and Moody's have not done that yet, but they have signaled that they are paying attention to this.

If that happens, investors will demand more interest to purchase government debt, and that could precipitate those events that you talk about.

Senator BRAUN. We are out of time here, and for my benefit and other members of the committee, I get the feeling you might be able to put together a chronology and what these events might be that you mentioned once we did get to the point where we either did not increase the debt limit or where these automatic cuts would kick in. Is that something your office could kind of put together to the ability of "got to do it"?

Mr. DODARO. Yes. In fact, we have a little bit of that in our prepared testimony. We could add some additional things.

Now, you would have to make some assumptions, obviously.

Senator BRAUN. Make some assumptions, and I would like the top 10 list of what would go.

Mr. DODARO. Yes.

Senator BRAUN. I think that is going to be the way we simply sell this to other members of the body and to the public in general.

Mr. DODARO. Yes.

But I do not think people understand the significance of the gap that we have right now. If you wanted to just stay at the 78 percent of gross domestic product—the debt-to-GDP ratio, you would have to cut expenditures by 27 percent now and keep that over the next 75-year period, or conversely, if you just dealt with the revenues, you would have to raise revenues 37 percent now and keep that over that period of time.

Those things are not palatable right now, but the extent to which the debt-to-GDP ratio grows, that is the magnitude of the changes that we are dealing with. And that does not even consider natural disasters, economic downturns, et cetera, other policy issues that would come up.

So this is a very significant situation that I believe requires Congress' attention now.

Senator BRAUN. Thank you.

Chairman ENZI. Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman, and thank you, Comptroller General, for your work.

And I will just pick up where you left off, talking about the debt-to-GDP ratios, because when we are looking at the exposure we have got as a country to rising debt, you would agree that that is the best measure, right? That looking at the debt-to-GDP ratio rather than looking at the nominal number, that is a much better gage, is it not?

Mr. DODARO. Yes. That is used as a country's ability to repay its debt.

Senator VAN HOLLEN. Right.

Mr. DODARO. It is pretty much an international standard.

Senator VAN HOLLEN. Yeah. And when you are looking at sort of macro trends over time, it also makes sense, does it not, to look at expenditures, Federal expenditures as a percentage of GDP, and Federal revenue as a percentage of GDP?

Mr. DODARO. That is correct.

Senator VAN HOLLEN. And as you said, the equation on deficits and debt, of course, on the one side, you have got expenditures, and on the other side, you have revenues, correct?

Mr. DODARO. Yes.

Senator VAN HOLLEN. So I just want to go over a couple sort of facts here. If you look back not long ago in the scheme of things, we had a series of tax cuts. We had tax cuts under George W. Bush. We, of course, had the 2017 Trump administration tax cuts. We had the Iraq War. We had the Great Recession.

Do you know if you go back to look at the last time we actually had a balanced budget, that was in the year 2000?

Mr. DODARO. Right.

Senator VAN HOLLEN. Do you know what our revenues as a percent of GDP were, roughly?

Mr. DODARO. I think it was about 18 percent.

Senator VAN HOLLEN. I think my figures—and I would like you to confirm them—actually we were closer to 20 percent, okay?

Mr. DODARO. Okay.

Senator VAN HOLLEN. And the reason I mention that is that today I believe they are around 16.5 percent of GDP. Does that sound right to you?

Mr. DODARO. Yes.

Senator VAN HOLLEN. So when you are looking at the outlays of GDP, as we said earlier, outlays and revenues as presented, it really does make sense to look at those percentages over time. And I just think it is important for the committee to note—this is the Budget Committee—that we have dropped significantly in terms of revenue as a share of GDP, and you would agree that is a better way to measure it than nominal revenue, tax dollars.

Mr. DODARO. Yes.

Senator VAN HOLLEN. Yeah. Because we often hear from our colleagues that we have nominal revenues coming in at an all-time high, but is it not kind of obvious that as the economy grows over time, even at a given tax rate, you are going to get more dollars in absolute terms?

Mr. DODARO. Yes.

Senator VAN HOLLEN. So I hope, Mr. Chairman, for the same reason, I agree with you we should look at our debt as a percentage of GDP, that the committee needs to measure both expenditures and revenues as a percent of GDP if we are going to have a logical conversation, because the fact that we happen to have more absolute dollars in revenues is simply a function of the fact that the economy grows over time.

Mr. DODARO. I think, Senator Van Hollen, this problem is so big, you cannot solve it by just doing expenditures alone or revenues alone. Both have to put everything on the table, and you have to deal with entitlements as well as discretionary spending. So I think everything needs to be considered in a proper proportion.

Senator VAN HOLLEN. Look, I believe you have to look at both parts of the equation too.

I mean, I would point out that when it comes to health care, prescription drug costs are through the roof, and many of us have talked about ways we can reduce the Medicare component of prescription drug costs, whether it is Medicare or Medicaid. So I do believe there are ways to address those expenditures as well.

The GAO recently released its annual assessment of our Country's missile defense programs, and this year's addition paints a particularly bleak picture of the state of our missile defense activities. It notes that the Missile Defense Agency, quote, "did not meet its planned goals," unquote, and only completed 65 to 70 percent of its planned deliveries and tests for Fiscal Year 2018. For the most part, the GAO report amounts to a catalog of failures, technical snags, cost overruns, and cancellations of entire programs.

So based on the GAO report's finding and conclusions, the Missile Defense Agency, is it following, in your view, fiscally sound policies and sound acquisition measures?

Mr. DODARO. They have gotten better over time, but they are not following it to the extent that we think they need to.

I would call to the table Ms. Cristina Chaplain, who is our expert in the missile defense area, to give you a little bit more details on it.

But they have a tough job because they are pressured to get things done quickly; however, they are making their job more difficult by not following all sound procedures. And we have made many recommendations in this area.

Cristina.

Ms. CHAPLAIN. Yes. Some of the areas they can really improve in are producing realistic schedules, not overlapping acquisition with other key acquisition activities.

You always hear about that "fly before you buy," and they kind of do the reverse over and over again.

Seeking more robust input from the intelligence community, the warfighters, we often find that some of the concerns expressed are not heeded.

And testing the missile defense system more rigorously and being sure not to fly targets when they are brand-new—do not test them in the middle of a huge complex test. So there is a lot of progress that still needs to be made.

Senator VAN HOLLEN. I appreciate that. I think it is the difference between following the science and engineering and trying to meet a political target, which are often unrealistically set.

I thank you.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Senator Johnson.

Senator JOHNSON. Thank you, Mr. Chairman.

General Dodaro, your knowledge range is pretty impressive here, but I appreciate you putting together this report.

On page 9 of your report, figure No. 5, I was surprised by this. It talks about the daily average number of people turning 65.

My impression always has been that we had a baby-boom bubble, and after 30 years—if we can get through the 30 years in terms of the entitlements for baby boomers, we are in better shape. This shows just the opposite. If anything, it dips a little bit, but then it grows by 2045 to over 11,000 a day. Can you just explain that?

Mr. DODARO. That is primarily due to the fact that life expectancy is growing longer. [Clarification: Also the portion of the population age 65 or older relative to the portion under age 65 is increasing due to lower fertility rates.] But it is mostly life expectancies.

Senator JOHNSON. But again, this is the number of people turning 65.

Mr. DODARO. Right.

Senator JOHNSON. So our population is growing large enough, even with the lower birth rate? Still 11,000 people are going to turn 65?

Mr. DODARO. Yes. We are going to a point where we will have about one in five people in the United States will be 65 or older by around 2030.

I asked the same question when I saw it. I was under the same impression you were, and the team explained to me, no, these are the statistics.

Senator JOHNSON. One thing that has always baffled me, particularly in this almost decade of historically low interest rates, I think we have lengthened the maturity profile of our debt but not all that dramatically. Is there a reason for that, and would you recommend that we really start buying longer bonds and locking in interest rates over a long period of time?

Mr. DODARO. We have looked a little bit at that issue. We are having current work done right now.

I have raised the same questions myself. I mean, there are two big questions I have. One is, Who is going to lend the United States all this money in the future? At what rates? And then what should be the mix of types of debt instruments? So we are studying that issue right now. I do not have an answer for you now, but we will.

Senator JOHNSON. Right now, when people are literally investing and getting a negative interest rate, my guess is there is a fair amount of capacity for even trillions of dollars' worth of debt.

So yeah. If you can complete that study, I think it would be very helpful.

Mr. DODARO. I agree.

Senator JOHNSON. Obviously, if you go to the market and you try to buy more long bonds, the interest rates might bump up, but again, you have got a great deal of demand for security and safety right now. And I think we could do a far better job of lengthening that maturity rate.

In the remaining time I have, I would kind of like to just go through the scenario. I have been, quite honestly, shocked. I ran in 2010 because we were $14 trillion in debt, and now we are over 22. I would have thought something had to give, but it has not.

We are still the world's reserve currency. So my concern is China continues to grow. Certainly, China and Russia and Brazil and India, they talk about that basket of currencies starting to replace or supplant the dollars of the world's reserve currency. Is not that what is keeping us going right now? You can say this could collapse very quickly or interest rates spike very quickly. Can you just kind of go through that scenario?

Mr. DODARO. Yes. Well, I think one of the reasons, everything is relative in this standpoint. The European Union, for example, is having their difficulties at this point in time because, at one point, they were supposed to be on the ascent in that area.

China has its issues that it is dealing with.

So I do not think the United States can always count on the fact that it will have the most robust economy in the world just because other people are having trouble. The United States is able to be more resilient and have better credibility and political stability and a lot of confidence in the marketplace.

The issue right now is—the scenario that I am concerned about is a spike in interest rates suddenly for the reasons I mentioned to Senator Braun and for what you said because a lot of the debt has to be refinanced every year.

It will have an immediate effect on the United States' ability to be able to do this.

The other thing is that the United States has become fairly dependent on foreign investors to buy its debt. Forty-one percent of the debt now is held by foreign sources, largely by China and Japan. Now, given renegotiations with other countries right now on a wide range of issues, there could be some spillover effect as well into who is purchasing the debt and why and what their strategy would be going forward in a more global diplomatic sense.

Senator JOHNSON. Well, thank you, Gene.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Senator Whitehouse.

Senator WHITEHOUSE. Thank you, Mr. Chairman.

Welcome, Mr. Dodaro.

The Select Committee on Budget Process and Appropriations Reform unanimously adopted an amendment that would have changed our Senate budget process to allow for what I call a "bipartisan bypass," leaving the existing process in place. But if you could get bipartisanship providing a route for that to travel and it had a number of characteristics, one is that your target was a debt-to-GDP ratio, and I gather from your testimony today that you think that is the right target. Whatever the number is, that is the right metric, correct?

Mr. DODARO. Yes, that is correct.

Senator WHITEHOUSE. And the second is an element of time because whatever debt-to-GDP ratio you choose as your target, we are probably, I think you will agree, not going to get to in a year?

Mr. DODARO. That is correct. I mean, depending on your target, but I think time is an element of this.

Right now there is no target.

Senator WHITEHOUSE. But the goal is to establish a target and establish a glide slope to that target——

Mr. DODARO. Yes.

Senator WHITEHOUSE [continuing]. And then establish some alarm bells that ring along the way when you get off that glide slope.

And I would add that we have also observed on the Select Committee quite unanimously that the elements of the debt or the deficit arithmetically are health spending and appropriated spending and tax spending and revenues, and that unless you are looking at all of those elements—I am setting Social Security deliberately aside.

Mr. DODARO. I understand.

Senator WHITEHOUSE. But less you are looking at all of those elements, you are not even arithmetically able to calculate debt and deficit.

So it sounds to me like from what you have said here in the hearing that you are in general agreement with all of those principles?

Mr. DODARO. That is exactly right.

And right now the tax spending you mention or tax expenditures is not reviewed by anybody——

Senator WHITEHOUSE. Correct.

Mr. DODARO [continuing]. On a regular basis, and that is, the last estimate, somewhere around——

Senator WHITEHOUSE. That is by special interest of themselves. You do not have to come back every year to have your appropriation renewed. You bake it into the Tax Code and walk away a winner.

Mr. DODARO. Right, right.

And what controls we have in place right now through the Budget Control Act from 2011 focused primarily in discretionary spending, it is too narrow.

Senator WHITEHOUSE. Yeah. Well, that is good to hear.

The second thing is that under the leadership of Chairman Enzi, we are trying to work towards an agreement in this committee on which of those voluntary elements from the bipartisan bypass could actually become part of the actual required process, the standard process of this committee.

So, if you do not mind, I would like to have you suggest to us what your recommendations would be in those specific categories, setting aside the bipartisan bypass. I think we have agreement in terms of an actual change in the basic budget process of this committee. Would you recommend targeting a debt-to-GDP ratio? Would you recommend a glide slope to that, that that would be part of what is fixed? Would you recommend that there be warnings so that people know when we have gotten off the glide slope, and if so, what those warning bells might look like, what you would recommend? And finally, confirm that, in your view, health spending, tax spending, appropriate spending, and revenues are the necessary parts of any factual and arithmetically correct calculation.

Mr. DODARO. Yes. No, I am in agreement with all four of those areas that you mentioned.

Senator WHITEHOUSE. Okay. That is great.

Mr. DODARO. The warning signs and bells and things, I can give some additional thoughts.

In fact, the work we are doing now for Chairman Enzi——

Senator WHITEHOUSE. Could I ask you to give those in writing?

Mr. DODARO. Yes.

Senator WHITEHOUSE. That would be helpful.

Mr. DODARO. The work we are doing now, we are looking at the fiscal rules used by other countries, and most of them use multiple indicators along the lines that you have mentioned, both in the guide for revenues and expenditures, and allow for exceptions, and so——

Senator WHITEHOUSE. Let me turn to another topic because my time is winding down.

Mr. DODARO. Sure. All right.

Senator WHITEHOUSE. GAO has written a report. I am quoting from an article about your GAO report: The Government Accountability Office found that the increasing frequency in scale of disasters as well as the Federal Government's role in funding recovery and flood and crop insurance make climate disaster a high risk for Federal fiscal exposure. GAO reported the Federal recovery efforts alone have cost nearly half a trillion dollars since 2005. To put that spending in context, it represents approximately $4,000 out of the pockets of every American family, and that leads on to the conclusion that addressing climate change is not only an environmental imperative, it is critical to our Nation's economic security.

In the report that was thus described, you were looking primarily at the risk to those specific Federal programs; is that correct?

Mr. DODARO. It would be the overall risk from economic issues as well, but it is mostly Federal Government fiscal risk. So it is the risk to those programs, flood insurance, property insurance.

Senator WHITEHOUSE. Where you have to rebuild things——

Mr. DODARO. Yes, right.

Senator WHITEHOUSE [continuing]. Would be another one.

Mr. DODARO. Right. But also—go ahead.

Senator WHITEHOUSE. There are two risks that are floating around out there.

This will be my last question. I am sorry to go over.

There are two risks that are floating around out there that are getting a fair amount of attention. One is the risk of a coastal property value crash as the threat of sea level rise basically backs into the rear end of a 30-year mortgage, and the owner cannot sell because the next buyer cannot get a 30-year mortgage.

And Freddie Mac and insurance publications and a whole variety of people who are not in the environmental community are starting to raise warnings about that risk.

The other is the carbon asset bubble, that the fossil fuel industry has not accurately disclosed what its asset—what its reserves are and which ones are truly recoverable in a carbon-constrained world. And there, you have got the Bank of England and the Bank of Canada and I think 30 other national banks and Mercer and Standard & Poor's. It is a whole variety of very expert—again, not environmentalists—people who are risk evaluators.

Have you looked at those two specific risks, coastal property value crash a la what Freddie Mac talked about or the carbon asset bubble that Mark Carney and the Bank of England have been so energetic on?

Mr. DODARO. No, not yet.

Senator WHITEHOUSE. Okay. I will ask you to do that, then, and I thank the Chairman for his time.

Chairman ENZI. Thank you. Thanks for your participation and coming up with some answers on these things.

I would mention that I met with Senator Kaine, and he is vigorously working on the debt-to-GDP and other measures to fit into a glide slope and was very excited about that.

Senator WHITEHOUSE. He is one of our cosponsors.

Chairman ENZI. Yes, yes.

What has the GAO found regarding the efficacy of fiscal rules with other countries—you touched on that just a moment ago—to meet their long-term fiscal challenges. Have you discovered any that are particularly effective at this point?

Mr. DODARO. Not yet. Our research has just been initiated. We are looking at that, and it is going to require us to take some time to ferret it out because in almost all cases, Senator, there are multiple factors that each country uses. Most countries use at least two or more different rules as part of their fiscal targets, fiscal rules regime. European Union uses three or four different ones. So we are going to have to figure out which ones are the more effective ones, and it may be that there is a package that needs to be suggested. But also, we need to look at whether or not what other countries do can work in this political system and in this economy. So we are going to look at those issues.

We will have more specific recommendations, but the most important things that are clear right now is that it is used primarily to contain the growth of additional debt down the road and that several factors are important.

One is to pick the right factors to focus on. In other words, you have got to figure out what your objective is. Is it to control the debt and annual deficit? Is it to control revenues or expenditures or a combination of those factors?

Second thing that is important is an adherence to whatever the targets are over time because you can pick the right targets, but if you do not, you make too many exceptions.

Now, they all have what they call "escape clauses," so that if something dramatic happens, you can use some flexibility, but adherence to whatever the rules are is important. Many of them have outside independent commissions that provide advice on their ability to hit those targets over time.

And so those are the things we know right now, but we will know more when we finish our research.

Chairman ENZI. Is Israel one of the countries that you are looking at? I had an interesting meeting with them where they laid out some formulas that they use that they have to meet.

Mr. DODARO. Well, we will consider talking to them.

Chairman ENZI. Okay. Last year the Convergence Center for Policy Resolution published a number of interesting proposals for improving our broken budget process. One of the recommendations was to have GAO conduct periodic long-term reviews of major programs and spending portfolios. These reviews would evaluate the performance of different programs with a shared policy goal and determine which were the most effective and which need to be improved. What do you think of that proposal or any refinements that you——

Mr. DODARO. Yes. Well, I would be happy to entertain a request to do that. It would be a very time- and resource-intensive request because many Federal programs have not been evaluated at all, as I have discussed with you before in this committee.

I do think what they are suggesting is a management responsibility, because the agency should be doing that for individual programs and activities. Individual federal agencies, however, would not be able to look at it on a portfolio basis because, as you pointed out, there are 160-some housing programs across multiple agencies. OMB really does not have the capacity to do this.

So I would be willing to consider, particularly doing a pilot, to see how we could go about doing this, but we are going to need help from the Congress in getting the agencies to comply with already existing statutory requirements. There is no comprehensive program inventory right now. Many programs have not been evaluated, despite the Government Performance and Results Act. Also, Congress has passed the evidence-based policy requirements now that would be helpful if they are implemented effectively.

So we are willing to tackle this issue, but we will need congressional help, and we will need to pilot the approach. But I think it needs to be done. I think it is a great idea.

Chairman ENZI. Who would you suggest would be the best to compile this inventory of programs? I am very intrigued by that.

Mr. DODARO. Well, the Congress has already given a statutory responsibility to OMB, and they just have not done it.

Chairman ENZI. We will continue to press on that, then. I think that is one of the biggest things that we can do.

My time on the first round has expired, so I will go back to Senator Braun.

Senator BRAUN. Thank you.

Senator Johnson mentioned reserve currency. I think he is right on, and you talked about it a little bit as well. I think if that ever changed—and the euro was headed to be a reserve currency—we would be feeling the pain currently. We would not have as much maneuverability.

Senator Van Hollen and the other side always brings up the idea of income. I am interested in that as well. I think you have got to be careful. I think the Tax Cuts and Jobs Act did get close to the sweet spot, since our revenue, I think, has been better than what it was forecast by the CBO. February, we actually generated more in '19 than we took in, in '18, which is a good sign.

Have you done any income modeling? Because that is the other side of the equation. In my opinion, high liquid incomes have the capacity to pay more taxes. They are currently lumped in with passthrough entities, which are the productive part of our economy, Sub S's, LLCs. They create all the jobs.

Have you done any work on seeing what we could generate in income without tanking the economy or at least starting the impacted? I think that is an honest discussion we have to have.

Mr. DODARO. Yes. I agree with you. No, we have not been asked to do that and would be happy to figure out what would be appropriate to us. Typically, it could be either CBO or the Joint Committee on Taxation.

Senator BRAUN. I have asked the CBO, and they did not seem like they had much interest in it or capability to do it.

Mr. DODARO. Well, it is a high-risk endeavor to take on the project.

Senator BRAUN. I would not hold you accountable at all. I just wanted to know if you had an idea.

Mr. DODARO. Yes. Let me give some thought to how we could do it, and I would be happy to do anything I think would be helpful to deal with this situation.

Senator BRAUN. Think about that in terms of true——

Mr. DODARO. I will make a deal with you. I will think about that, but help us address the tax gap that is already in place. There is over $400 billion a year that should be coming in that is not. The United States is only 83 percent compliant. Before you ask people to pay more, Congress should make sure that people are paying their fair share now under the current tax laws.

We have asked Congress to regulate paid tax preparers right now. According to our analysis, the paid tax preparers——

Senator BRAUN. What was that gap again? How much?

Mr. DODARO. $406 billion a year.

Senator BRAUN. So almost half of the deficit?

Mr. DODARO. The deficit, right. And you have improper payments going out that are $151 billion in fiscal year 2018, and that, I believe, is a conservative estimate.

So there is a lot of money, a lot of leakage, money going out that should not go out and a lot of revenue that should be coming in that is not.

If you did require more electronic filing of returns, third-party information reporting, gave IRS math error authority and regulate—give them the authority to regulate tax preparers, I think you could make a major dent.

Our analysis of IRS data shows that returns prepared by paid tax preparers have a higher error rate than people preparing their own return. So I think——

Senator BRAUN. Is that across all tax brackets, or is that isolated in the——

Mr. DODARO. I would have to look and give you an answer, a specific answer on that.

Senator BRAUN. I would be interested to know that too.

Mr. DODARO. Okay.

[The information follows:]

We have not examined this issue by tax bracket. However, in 2014, we reported that, overall, returns prepared by a paid preparer showed a higher estimated error rate—60 percent—than returns prepared by the taxpayer—50 percent. Errors in this context changed either the tax due or the amount to be refunded.[1] These data are for tax years 2006-2009.

[1]GAO, *Paid Tax Return Preparers: In a Limited Study, Preparers Made Significant Errors*, GAO-14-467T (Washington, D.C.: April 8, 2014).

Senator BRAUN. And then along with it, I think it would be real valuable if you could come up with an easy-to-understand chart that as you raised taxes within each category, how much would that actually generate, because I think you mentioned a 36 percent increase——

Mr. DODARO. Yes.

Senator BRAUN [continuing]. Or either a 25 percent cut was what you would need now, which is politically not palatable.

Mr. DODARO. Right.

Senator BRAUN. But I asked the CBO to do the same thing as well and the Tax Foundation to give me some easy information that shows as you would raise rates within brackets, what that would do. I think that is another way, along with the chronology on the top 10 hits that the budget will take, once you get to the threshold of automatic cuts would be the other side of the equation to depict the reality of what revenue generation would be about.

Everybody talks about it abstractly here. Nobody is explaining it particularly.

Mr. DODARO. Okay. We will look at it.

Senator BRAUN. Thank you.

Mr. DODARO. We will go give it the old college try.

Senator BRAUN. Thank you.

Mr. DODARO. You're welcome.

Chairman ENZI. Senator Whitehouse.

Senator WHITEHOUSE. Thank you, Chairman.

I read from an article during my time with Director Dodaro, and I just wanted to follow the proper protocol and ask to have the article put into the record, and I want to also thank your staff for the courtesy of being willing to take care of that if I could not get back in time.

Chairman ENZI. Without objection.

[The information follows:]

Disasters are getting worse and we need a new plan

By Josh Sawislak, opinion contributor — 05/30/19 06:00 PM EDT
The views expressed by contributors are their own and not the view of The Hill

I couldn't seem to turn on the TV this week without being inundated with coverage of the ongoing floods and tornadoes in the Midwest. The dearth of other content is not just due the doldrums of the sports and political seasons — things are genuinely getting worse on the disaster front. Much worse.

The horrible scenes of twister damaged homes across the Midwest and continuing flooding along the entire Mississippi River merely displaced the stories on recovery efforts from the Hurricanes Maria, Irma, Harvey, Michael as well as the Camp Fire and other drought enflamed disasters in California and the Western U.S.

The Fourth National Climate Assessment predicts more frequent and severe storms, longer and more severe droughts, and the continued and likely accelerating rise of sea levels. All of this will only add to the challenges faced by states, counties and municipalities that are on the front lines of these disasters and to the taxpayers who foot the bill for the hundreds of billions in recovery and rebuilding costs

The Government Accountability Office found that the increasing frequency and scale of disasters as well as the federal government's role in funding recovery and flood and crop insurance, make climate disaster a high risk for federal fiscal exposure. GAO reported that the federal recovery efforts alone have cost nearly half a trillion dollars since 2005. To put that spending in context, it represents approximately $4,000 out of the pockets of every American family. Congress will either have to put our nation further into debt or shift the burden to our taxpayers. Addressing climate change is not only an environmental imperative, it's critical to our nation's economic security.

It is clear that we have learned a lot about how to respond to, and recover from, major disasters. In the past 40 years. federal agencies, state and local governments, and the extensive network of volunteer organizations such as the American Red Cross, Habitat for Humanity and the Cajun Navy deserve much credit for their growing ability to save lives and help rebuild communities.

It is also clear that just getting better at response and recovery will keep us on the defensive, always playing catch-up. More importantly, the focus and investment post-disaster does little to keep us safe in the first place. We have to retire the old approach that we can just come in after the storm or fire and rebuild — even if we rebuild stronger. Ask anyone who lost their home, business, community or especially a loved one to one of these disasters. They will tell you that as appreciative as they are for the world-class support from governments and volunteers, it's small comfort for the trauma and years of personal recovery they face. We need to get ahead of the curve by investing in resilient communities and infrastructure so fewer families have to live in devastation.

Congress is beginning to address this. While some members seemed locked in a partisan fight that is keeping funding from storm and fire ravaged communities in Texas, Florida, Puerto Rico, and California, Congress did add a program in the 2018 Disaster Recovery Reform Act that shines a ray of hope on efforts to be more proactive in disaster mitigation. The creation of a National Public Infrastructure Pre-Disaster Mitigation fund, which FEMA plans to implement through a new program called Building Resilient Infrastructure and Communities allows FEMA to invest in communities before a disaster strikes. Research by the National Institute of Building Sciences found that just building to the current resilient building codes returns 11 times the cost of the initial investment. FEMA's new program will allow several hundred million dollars in resilient investments to move forward each year without having to run the congressional appropriations gauntlet, but this is really just a small start.

FEMA's new pre-disaster fund represents only six cents for every dollar spent on reactive recovery. We need to help communities rebuild, but we also need to be serious about investing to make our communities safe from the coming storms, fires, and other climate threats. While construction to current resilient building codes is the right answer for new construction, it doesn't address the vast balance of structures built on codes that are old and don't address the new science and technology of climate resilience. We need to invest in fixing or replacing our failing infrastructure and ensuring that all new construction is resilient to future risks — or we will face this problem all over again.

This doesn't mean that the federal government alone shoulders the entire responsibility. A successful resilience strategy will only work if we bring both the public and the private sectors into the fight. Resilient building codes are one example, but we also need to value and incentivize resilient investments for everyone.

There is a silver lining to our climate challenges — economic growth. Americans are very good at innovating and building and we can leverage our need to be more resilient by growing the economy with good resilient and sustainable jobs. Some of these jobs are found in building, upgrading and maintaining our new and existing infrastructure to make it resilient to the increasing risks from a climate-impacted world.

Not only can we put Americans to work building our resilient future, we can take the lessons we learn in that effort and export it to the rest of the world. This is an approach that works for all Americans and provides a strong economic as well as environmental future for people in all parts of our nation and the world.

This is what we did to become world leaders in democracy, agriculture, manufacturing and technology in the previous centuries, and we can do it with climate in the 21st century. Climate change is real and addressing it is literally an opportunity we can't afford to ignore.

Josh Sawislak served as a climate and resilience official in the Obama White House, HUD and the president's Hurricane Sandy Rebuilding Task Force. He conducts research and provides *strategic guidance on sustainability and climate resilience issues for corporations, governments and NGOs.*

https://thehill.com/opinion/energy-environment/446251-disasters-are-getting-worse-and-we-need-a-new-plan

Senator WHITEHOUSE. Thank you, sir.

That is all I have.

Chairman ENZI. Oh, okay. Thank you.

Earlier there was a question about the percentage of revenue when the budget balanced back in '97, '98, whenever that was. When they did that, was the revenue from the excess Social Security money counted as part of that revenue that balanced the budget?

Mr. DODARO. That is a good question, Senator Enzi.

I do not—it was?

Ms. IRVING. By budget——

Mr. DODARO. This is Sue Irving, our budget expert.

Ms. IRVING. In 1969 when we went to the unified budget, they decided to count all money that comes in and all that is paid out, so yes that revenue was counted. Because the transfers are within the Government, at the time of the balanced budget, revenues in 2000 of about 20 percent, and in 2001, 18.9 percent. The Budget did include both the revenues to the trust fund and the spending from it.

Chairman ENZI. And where are we now on those excess revenues?

Ms. IRVING. Well, there are no excess revenues to the Social Security Trust Fund. Indeed, the trust fund also receives revenues from the income tax since if you, like I, pay income tax on your Social Security benefits, that income tax does not go to the general fund. It goes into the Social Security Trust Fund.

Chairman ENZI. Thank you. Thank you for that answer.

We have talked before about trying to get the executive agencies to list their programs, but another thing that I think you have mentioned before is eliminating some of the material weaknesses in the internal control over financial reporting.

What kind of challenges will the executive agencies need to overcome to have reliable financial statements? Have you identified any opportunities for Congress to help?

Mr. DODARO. Yes. First, I am very pleased with the progress. Right now the largest 24 agencies in the Federal Government, 22 have an unmodified or clean opinion, which is a far cry from when we started back in 1996. Only 6 of the 24 could get an unmodified or clean opinion at that point in time. So now it is 22 out of 24.

Of the two that are not there yet, one is the Housing and Urban Development Department—they had a clean opinion at one point. They had to take on a portfolio of difficult loans during the global financial crisis, and they are having difficulties accounting for those. And so there are some problems, but I am working with them to try to get them on a proper path.

The other big challenge, Mr. Chairman—I am sure will be no surprise to you—is the Defense Department, but I am very pleased with their progress. They have greater leadership commitment than I have seen since the CFO Act was passed in 1990. They have a good team working on this.

The DoD-wide audit for '18 was the first time the entire Department had been under audit since the requirement was in place. There are lots of findings. They now have implemented our recommendation to track the findings, which is important to monitor to fix the problems.

What Congress can do is continue to have oversight hearings in this area. I think Defense understands the budget context they are operating in, and that, they need to become more efficient.

Through the financial audit so far, they have saved millions of dollars by finding items that were not in their inventory records. In Jacksonville, in the Naval base down there, they discovered they had purchased items, $280 million, that were not on the books. So once they put them on the books, they were able to avoid reordering some items that would save about $81 million. They found motor parts in Utah in an Air Force base that were listed to be unserviceable, but they really were in good shape. So then they avoided purchasing $53 million more in missile motor parts. So these are the kind of things that can help them if they have better accountability over their assets and their property as well as their spending.

Chairman ENZI. Good. I know of some extra parts that are in Greybull, Wyoming, too, where they did not get to complete the contract that they were on.

I want to switch to natural disasters. That is one of the fiscal risks that we have, and I watched it go from $13 billion at the beginning of a week to $19.1 billion by the end of the week. And none of that, of course, is paid for.

As was mentioned earlier, we have appropriated nearly half a trillion dollars for these since 2005. How do you think the Federal Government can improve the way that it handles these fiscal risks to curtail some of that future spending?

Mr. DODARO. Yes. First, we need a better threshold to determine when the Federal Government should be involved in a natural disaster.

The current approach is based on a per capita income figure for the States. That figure was set initially in 1986 and was never adjusted for inflation until 2000. So right now it is $1.50 on a per capita basis. If it had been adjusted for inflation, the Federal Government, just on inflation alone, would not have been involved in about 40 percent of the disasters that occurred during a period of time (2004–2011), and if it is adjusted for per capita income, it would be higher.

So Congress has now finally required FEMA to come up with a new, better measure of a State and local capacity to deal with disasters on their won. These obviously are not major disasters, but there are quite a few disasters that happen.

So, number one, to limit the Federal Government's fiscal exposure, we should have a better measure to know which ones the Government should be involved with or not.

This will also prevent FEMA from being stretched so thin when there are multiple disasters. So that is number one.

Number two would be to have more focus on investing and building resilience in beforehand, rather than always after the fact. Now, Congress took a step forward in this. I was very pleased with the Disaster Response Reform Act of 2018, which set up a program to allow some of the money Congress appropriates for disasters to be used for resilience building because if you only build to the way it was before, which has been the Federal Government approach to this, it is still vulnerable as opposed to raising the height on buildings or moving the buildings or doing other things.

For example, some of these bridges that were flooded during Hurricane Katrina, they built them 2 or 3 feet higher to allow for better protections for future flooding in those areas, so that is important.

FEMA is supposed to have that program in place by 2020, but Congress needs to stay on top of this. There is no national strategy for mitigation. We have made that recommendation. FEMA has a draft one that has not been finalized yet, but this is the issue.

The Institute for National Building Information Sciences estimates for every dollar spent, you could save about $11 by building in resilience up front over time. So limiting the number of disasters the Federal Government is involved with, building resilience in, and then we have also recommended that Congress undertake comprehensive reform for the Flood Insurance Program, Mr. Chairman.

Right now that program owes over $20 billion to the Treasury, and that is after the Congress, a few years ago, 2017, I believe, forgave $16 billion in debt to that program. The program is not actuarially sound. It does not pay for itself the way Congress intended, and fully risk-based premiums are not being charged in those areas.

Chairman ENZI. Thank you.

Did you have additional questions?

Senator BRAUN. Every time I ask a question, it creates more homework for the Comptroller General. So I am going to not ask another question.

I want to do a little wrap-up, and I want to thank you for giving intelligence testimony that I think whoever is watching out there ought to take seriously. We have talked about three particular things that will happen if we do not change the trajectory.

Pension benefits will be cut significantly in 2025.

We will have completely depleted the Medicare Trust Fund in 2026, I think only able to pay 91 cents on the dollar at that point for whatever benefits are out there, assuming that it does not get more expensive and we do not add to it.

Then in 2034, we deplete the Social Security Trust Fund.

That is not that far away. I have only been here 6 months. We have known this years, actuarially. I think until we keep repeating it enough, hopefully it is going to sink in with the American public, and they ask all of their Representatives and Senators what is going on.

Whether we get there and look into the abyss of that stuff happening or we are preemptive and make the hard decisions that need to be made to mandatory spending, there is not enough discretionary left to really impact it with simple eighth grade arithmetic. I do not think that is overdramatizing it.

Thank you for that stuff you are going to put together for me, and I intend to use that down the road to talk about the income side of the equation and show how painful that would be to where we simply need to do what almost all other households, State governments, anybody else would do. They would make the decisions.

We had the ability to vote on a bill called the "Pennies Plan," and 2 percent cuts across the board, which in the business world or anywhere else would not be the end of the world. It actually starts balancing a budget in 5 to 6 years, meaning that if you just froze or had somewhere in between, you could fix all this so future generations would not have to worry about a calamity on their doorstep.

Thank you.

Chairman ENZI. Do you think if we actually made some cuts that that would boost confidence in the United States and overseas?

Mr. DODARO. It is always the perspective of where you sit. So I think it is prudent to make certain selected cuts.

I certainly pointed out a number of areas and recommended to the Congress where reductions could be made in Federal spending that would not affect anyone.

Chairman ENZI. Yeah. I am going to congratulate you on your reports on overlapping, duplicative, and fragmented programs.

We have the information. Do you have any suggestions on how you could encourage us to actually consolidate those programs, particularly the ones that span several agencies?

Mr. DODARO. Yes. Actually, Mr. Chairman, this goes to your point on fiscal rules and adhering to fiscal rules. Actually, after the Budget Control Act of 2011—we first started putting out those reports in 2010, 2011-time frame, and when Congress was sticking to those caps, we actually got more movement on our recommendations than the last 4 years when the caps had been raised.

I am not suggesting a position on that particular point. I am just making the point that fiscal rules and targets, if they are adhered to, can create behavior changes that are put in place, and as a result, over half of our recommendations were implemented. And that saved about $262 billion already.

Now, we have many other recommendations that could save tens of billions of dollars, would not adversely affect the programs or the American people, and I want to encourage Congress to take those up. But there has to be an incentive to do it because there is a constituency for every Federal program and every activity, and somebody will complain. But it is up to the Congress to make those judgments, and we give our best advice and have given you plenty of opportunities, both within defense as well as in the health care, which are the two biggest spending areas.

I think the Medicaid program, especially, I am very concerned about because half of the expenditures, those in managed care, are not audited by anyone. I am trying to work with the Administration to get State auditors more involved in auditing those monies because every Medicaid program is different for the States.

But right now, there is a $36 billion estimate in improper payments for Medicaid. That only accounts for largely the fee-for-service portion of it, which is about half of the expenditures.

So there is a lot of room for tightening our belts in these areas. It is not going to solve the overall fiscal problems. That is a fiscal policy decision. But it will make it a lot easier, and it will make a lot more palatable if the Federal Government is not making as many improper payments and more people are meeting their tax obligations.

Chairman ENZI. Thanks. I am going to shift gears one more time. I want to find out how you feel about expanding the use of accrual accounting in the budget. Would the measures provide a more accurate measure of our long-term situation? What do you think the effect would be?

Mr. DODARO. I think it makes a lot of sense. We recommended that Congress consider this, particularly for insurance programs, and also another area would be environmental liabilities.

The reported total number of environmental liabilities in the last financial statements for the Federal Government is getting close to half a trillion dollars, and that is not a complete estimate yet. And even though the Federal Government spends tens of billions of dollars to try to clean up these environmental issues, that liability keeps growing.

But what accrual concepts in the budgeting process would do was give you more idea at the time you make the decisions about what the long-term consequences would be of some of these programs. Right now a lot of things look appealing but until you look down the road as to what the implications would be. That is particularly true for insurance and other liabilities and some of the compensation programs for veterans or Federal employees and others.

So I think it makes sense. It is not always easy to implement, but there are some areas that are easier than others. But if you do not ask for it, you are not going to get any improvements in the reporting.

Chairman ENZI. Right. I am having enough trouble just selling capital budgeting, let alone accrual accounting.

I remember one time when I was on the Banking Committee, we had all of the living chief financial officers of the SEC, and I got to ask them all kinds of accounting questions. It was very exciting for me.

But my staff, who is watching, noticed that the way the camera works, it kind of fans out toward the back of the crowd of the person answering, and the person answering and I were the only two awake. [Laughter.]

Chairman ENZI. So some of the questions we could ask are better not asked at a hearing.

Mr. DODARO. Well, I have high standards for the GAO people behind me. So I hope that never occurs.

Chairman ENZI. They have done very well, but I have not gotten into the real questions. [Laughter.]

Chairman ENZI. One thing I noticed in our markup that we had earlier today is that more things are being moved to mandatory, and I have not figured out how to stop that escalation. I have shown the figures on the amount of mandatory and how much revenue they generate, and it is pitiful. But every time we move something there, we show that we can pay for it for the first 5 years, although that is by borrowing money from the tenth year to move it back into it. So, yes, we have a lot of progress to make.

And I really appreciate all of the effort that you go to and your staff go to every day to give us answers. We will see if we can use the answers instead of just chewing on the covers, but plenty of work for us to do. And I think it will fit in. You can sense, I think, that we do have a desire to do some bipartisan changes to make this an effective committee. I want to change the name of it to something like "Fiscal Control Committee" and have the debt ceiling be a part of that process too. As long as we are meeting the goals, the debt ceiling can be whatever it is, but if the goals are not met, then we have got to do some surgical cuts.

I think we are getting—and a step-by-step process, some ideas that might work, and you play a critical role in providing that. And I will make sure that more people take a little closer look at the testimony that you have provided today as well as the appendix. Both of them are well done, and I really appreciate you and your staff for getting that together and the other questions that you are working on for us.

And if anyone from the Senate Committee wants to submit questions, they can have until tomorrow night at five o'clock to submit their questions. We appreciate your answers, as we always do.

Thank you. With that, this hearing is adjourned.

Mr. DODARO. Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

[Whereupon, at 4:39 p.m., the committee was adjourned.]

ADDITIONAL COMMITTEE QUESTIONS

[The following submitted questions were not asked at the hearing but were answered by the witness subsequent to the hearing:]

Questions for the Record and GAO Responses

Senate Budget Committee Hearing

Fixing a Broken Budget and Spending Process: Securing the Nation's Fiscal Future

Wednesday, June 26, 2019

Responses to Written Questions from Senator Whitehouse

Whitehouse, Question #1:

In GAO's recent report, "The Nation's Fiscal Health: Action Is Needed to Address the Federal Government's Fiscal Future," GAO says that "one cannot overstate the importance of preserving the confidence that investors have that debt backed by the full faith and credit of the U.S. government will be honored." I have previously described the debt ceiling as being comparable to someone placing a bear trap in his own bedroom.

1. **Would you agree that setting a cap on what our nation is able to borrow to pay for existing expenditures is equally nonsensical?**

GAO Response:

We have previously concluded that this is not an efficient or effective method for delegating borrowing authority to the Department of the Treasury's (Treasury) and have suggested that Congress consider alternative approaches both to the delegation of borrowing authority and to controlling debt.[1]

The debt limit is not a limit on creating debt—it is a limit on paying bills already incurred. As we have pointed out, the debt limit restricts Treasury's authority to borrow, but it does not restrict Congress's ability to pass spending and revenue legislation that affects the level of debt or otherwise constrain fiscal policy. Congress usually votes on increasing the debt limit after fiscal policy decisions affecting federal borrowing have begun to take effect. In other words, Congress can commit to future federal spending that Treasury does not yet have sufficient borrowing authority to fund.

[1]GAO, *Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches,* GAO-15-476 (Washington, D.C.: July 9, 2015).

2. What would happen to the economy if we were to default on our debt payments?

GAO Response:
A default would have devastating effects on the U.S. and global economies and the public. It is generally recognized that a default would prevent the Government from honoring all of its obligations to pay for such things as program benefits; contractual services and supplies; employees' salaries and wages and retirement benefits; and principal on maturing securities. Any disruption of these payments would have cascading effects on the economy.

It is difficult to predict all the specific impacts on the economy. However, some adverse effects that a U.S. Government default for even a short time would have include

- substantially increasing uncertainty about the economy that could potentially reduce investment and hiring and thereby trigger a recession. For example, businesses holding defaulted Treasury securities, could, in turn, find it difficult to meet their obligations, which could limit their ability to make capital investments necessary for a healthy economy; and
- the full faith and credit of the U.S. Government would be questioned, making it costlier for Treasury to issue new debt to finance government operations.

It is important to note that even the threat of a default can cause market disruptions even if a delayed payment does not actually occur. For example, disruptions in the financial sector due to the delays in raising the debt limit, such as the one that occurred in 2013, ultimately result in the increased costs for providing credit in the economy, either through increases in interest rates or in transaction costs.

U.S. Treasury securities play a vital role in U.S. and global financial markets in large part because of their large, liquid, and transparent market, and because investors are confident that debt backed by the full faith and credit of the U.S. government will be honored. Because Treasury securities are seen as one of the safest assets in the world, they are broadly held by individuals—including in pension funds or mutual funds—and by institutions and central banks for use in everyday transactions.

3. **How might a default affect our nation's borrowing costs?**

GAO Response:
The cost of borrowing would increase and the effects would likely be substantial and long lasting. The confidence investors have that debt backed by the full faith and credit of the United States will be honored is critical to Treasury's ability to meet its goal of financing the government at the lowest cost over time.

A default would immediately decrease demand for Treasury securities. Those investors that did purchase Treasury securities would demand a premium, in the form of higher interest rates, to compensate for this increased risk. For investors in other countries, including central banks, Treasury securities are attractive to hold since they are considered by market participants to be the premier risk-free asset and are denominated in U.S. dollars—the world's dominant reserve currency. A default could undermine the U.S. dollar's role as the primary reserve currency and have significant impacts on global demand for U.S. Treasury securities.

Whitehouse, Question #2:

In your recent report, "The Nation's Fiscal Health: Action Is Needed to Address the Federal Government's Fiscal Future," GAO acknowledges the effect that climate change has on federal fiscal exposure due to increasing disaster assistance costs.

1. **What are the long-term risks to the federal budget from climate change?**

GAO Response:
The federal budget does not generally account for disaster assistance provided by Congress or the long-term impacts of climate change on existing federal infrastructure and programs. We have reported that more complete information about fiscal exposure could help policymakers better understand the trade-offs when making spending decisions.[2]

We have identified several areas where the federal government faces fiscal exposure from climate change risks, including programs related to the following:

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[2]GAO, *Climate Change: Opportunities to Reduce Federal Fiscal Exposure,* GAO-19-625T (Washington, D.C.: June 11, 2019) and *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas,* GAO-19-157SP (Washington, D.C.: Mar. 6, 2019).

- **Disaster aid.** The rising number of natural disasters and increasing reliance on federal assistance are a key source of federal fiscal exposure, and this exposure will likely continue to rise. Since 2005, federal funding for disaster assistance is at least $450 billion.[3] In July 2015, we reported that the federal government does not adequately plan for disaster resilience and that most federal funding for hazard mitigation is available only after a disaster.[4]

  We have also reported that, due to an artificially low indicator for determining a jurisdiction's ability to respond to disasters that was set in 1986, the Federal Emergency Management Agency risks recommending federal assistance for jurisdictions that could recover on their own.

- **Federal insurance for property and crops.** Federal flood and crop insurance programs are sources of federal fiscal exposures due, in part to the vulnerability of insured property and crops to climate change impacts. These insurance programs were not designed to generate sufficient funds to fully cover all losses and expenses. The flood insurance program, for example, was about $21 billion in debt to the Treasury as of April 2019. Further, the Congressional Budget Office estimated in May 2019 that federal crop insurance would cost the federal government an average of about $8 billion annually from 2019 through 2029.

- **Operation and management of federal property and lands.** The federal government owns and operates hundreds of thousands of facilities and manages millions of acres of land that could be affected by a changing climate and more frequent extreme events.

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[33]This total includes, for fiscal years 2005 through 2014, $278 billion that GAO found that the federal government had obligated for disaster assistance. See GAO, *Federal Disaster Assistance: Federal Departments and Agencies Obligated at Least $277.6 Billion during Fiscal Years 2005 through 2014,* GAO-16-797 (Washington, D.C.: Sept. 22, 2016). It also includes, for fiscal years 2015 through 2018, $124 billion in select supplemental appropriations to federal agencies for disaster assistance and approximately $7 billion in annual appropriations to the Disaster Relief Fund (a total of $28 billion for the 4-year period). For fiscal years 2015 through 2018, it does not include other annual appropriations to federal agencies for disaster assistance. Lastly, on June 6, 2019, the Additional Supplemental Appropriations for Disaster Relief Act of 2019 was signed into law, which provides approximately $19.1 billion for disaster assistance. Pub. L. No. 116-20, 133 Stat. 871 (2019).

[4]GAO, *Hurricane Sandy: An Investment Strategy Could Help the Federal Government Enhance National Resilience for Future Disasters,* GAO-15-515 (Washington, D.C.: July 30, 2015).

For example, in 2018, Hurricane Michael devastated Tyndall Air Force Base in Florida, with a preliminary repair estimate of $3 billion.

2. **What policies and investments can we make today to mitigate those risks?**

GAO Response:
In prior work, we have identified a number of actions—based on our prior recommendations—that remain to be done to help limit the federal government's fiscal exposure to climate change risks.[5] Among our key government-wide recommendations are:

- Entities within the Executive Office of the President (EOP) should work with partners to establish federal strategic climate change priorities that reflect the full range of climate-related federal activities. EOP neither agreed nor disagreed with this recommendation and has not implemented it.

- Entities within EOP should use information on potential economic effects from climate change to help identify significant climate risks and craft appropriate federal responses. EOP neither agreed nor disagreed with this recommendation and has not implemented it.

- Entities within EOP should designate a federal entity to develop and update a set of authoritative climate observations and projections for use in federal decision making, and create a national climate information system with defined roles for federal agencies and certain nonfederal entities. EOP neither agreed nor disagreed with this recommendation and has not implemented it.

- The Department of Commerce, acting through the National Institute of Standards and Technology, should convene federal agencies to provide the best-available forward-looking climate information to organizations that develop design standards and building

[5] GAO-19-157SP and GAO-19-625T. For each of the five areas we identified where government-wide action is needed to reduce federal fiscal exposure, GAO-19-157SP includes a section on "What Remains to Be Done". For actions related to federal insurance programs, see pg. 112; for actions related to disaster aid and resilience, see pgs. 114-115; for actions related to federal government as property owner, see pgs. 117-118; for actions related to the federal government as the leader of a national climate strategic plan, see pgs. 119-120; and for actions related to providing technical assistance to federal, state, local, and private-sector decision makers, see pgs. 121-122.

codes to enhance infrastructure resilience. Commerce neither agreed nor disagreed with this recommendation and has not implemented it.

Reducing federal fiscal exposure to climate change risks will also require congressional action to address other structural challenges in these insurance programs that send inaccurate price signals to policyholders about their risk of loss or increase the cost of these programs to the American public. For example,

- In April 2017, we reported that Congress should consider comprehensive reform to the flood insurance program to improve its solvency and enhance the nation's resilience to floods, including funding for flood mitigation and flood mapping.[6] Congress is still considering various reforms as it works to reauthorize the National Flood Insurance Program, and it is not yet clear what reforms the ultimate legislation will include. We will review the status of this item when such legislation passes.

Whitehouse, Question #3:

My proposal, the Bipartisan Budget and Appropriations Reform Act of 2019 (S. 63), would use debt-to-GDP to establish fiscal targets, and it would set up a year-by-year glideslope to reach debt reduction goals. In your testimony before the Senate Budget Committee on June 26, you agreed that using a debt-to-GDP ratio as a means for measuring debt would be helpful in establishing fiscal targets.

1. **Do you have any recommendations for what sustainable debt-to-GDP targets would look like?**

GAO Response:
We do not have specific recommendations for targets because adopting a specific fiscal target requires weighing the consequences of spending and revenue decisions and their effect on the federal debt. These are policy decisions that only can be made by elected officials.

In the written statement for the testimony, we provided illustrative examples of various debt targets (measured as debt-to-GDP ratios) and the changes in revenue and spending that would

[6]GAO, *Flood Insurance: Comprehensive Reform Could Improve Solvency and Enhance Resilience*, GAO-17-425 (Washington, D.C.: Apr. 27, 2017).

be needed to reach those targets.[7] We are examining the European Union's use of its debt-to-GDP target as part of our ongoing work for Chairman Enzi on fiscal rules and targets.

When developing sustainable debt-to-GDP targets, policymakers should consider the magnitude of policy changes needed to achieve fiscal sustainability. One of the ways to measure the magnitude of changes needed is the fiscal gap—the difference between revenue and program spending (i.e., spending other than interest payments) that would need to be closed immediately and permanently to hold debt as a share of GDP at the end of a given period to the same level as the beginning of the period. The longer action is delayed, the greater and more drastic the changes will have to be, placing an additional burden on future generations.

2. **What alarms should we build into the year-by-year glideslope to keep fiscal targets on track?**

GAO Response:
In our 2019 Nation's Fiscal Health Report, we discussed ways governments can design mechanisms to help fiscal rules and targets strike a balance between flexibility and enforceability, based on the economic literature.[8] We provided examples of various design elements of fiscal rules, such as escape clauses—for responding the events like recessions or natural disasters—and automatic correction mechanisms to respond to past deviations from a rule. As part of our ongoing work for Chairman Enzi, we are examining key considerations for designing, implementing, and enforcing fiscal rules and targets for the U.S. government.

[7]GAO, *The Nation's Fiscal Health: Actions Needed to Achieve Long-Term Fiscal Sustainability,* GAO-19-611T (Washington, D.C.: June 26, 2019).

[8]GAO, *The Nation's Fiscal Health: Action is Needed to Address the Federal Government's Fiscal Future,* GAO-19-314SP (Washington, D.C.: April 10, 2019).

Responses to Written Questions from Senator Grassley

Grassley, Question #1:

Mr. Dodaro, growth in federal spending on health care, Social Security, and net interest are unsustainable. That is something that the Congressional Budget Office has been telling us for some time now.

To get interest under control, we have to reduce deficits and debt.

Social Security will need to be addressed by 2035, before its trust funds become exhausted.

In terms of health care spending, many of us in Congress are working to reduce drug prices and other health-care costs. We can't allow overall healthcare spending and subsidies to grow faster than the economy forever.

Mr. Dodaro, is it even possible for Congress to stop the debt from increasing by slowing growth in discretionary spending alone? If we are serious about reducing or even stabilizing our debt, don't we have to control the growth in federal spending on healthcare and entitlements or raise revenue?

GAO response:

No, it is not possible to stop the debt from increasing by slowing growth in discretionary spending alone. To address the growing federal debt and put the government on a more sustainable fiscal path, policymakers will need to consider policy changes to the entire range of federal activities—both revenue and spending (entitlement programs, other mandatory spending, and discretionary spending).

It is also important to be aware of and examine the key drivers of the growth in federal spending. In the long-term, these key drivers are spending on health care programs and interest on debt held by the public. On the revenue side, even modest reductions in the annual net tax gap of $406 billion would yield significant financial benefits and help improve the government's fiscal condition.

Grassley, Question #2:

Mr. Dodaro, your testimony discusses various types of fiscal rules for us to consider.

And GAO identifies that there are many countries that have fiscal rules for various types. However, there isn't much evidence that those rules work very well. And if you just look at sequestration and lifting of budget caps in recent years, or violations of fiscal rules in Europe, you can see how hard it can be to enforce any of those rules.

I think that you get it right in your testimony when you say: "No process can force choices that the President and Congress are unwilling to make."

I wonder if you can point to any fiscal rule that Congress was willing to make in the past that actually had teeth and helped get us in a better fiscal situation.

GAO Response:

As discussed on the written statement for the testimony, we highlight several fiscal rules that the U.S. federal government has previously enacted in the form of laws that constrain and enforce fiscal policy decisions, but all had limitations.[9]

For example, the Budget Enforcement Act of 1990 (BEA) limited annual discretionary spending and implemented a pay-as-you-go (PAYGO) rule for new direct spending and revenue legislation. Under the BEA, the net effect of new laws could not increase the deficit in any given year. However, the controls on discretionary spending and new legislation did not control the growth in spending from previously enacted laws, such as Medicare and Social Security. The fiscal rules that the U.S. federal government has previously enacted illustrate the challenge in designing rules that are both achievable and effective in addressing the key drivers of the nation's growing debt.

We have ongoing work for Chairman Enzi examining the types of fiscal rules and targets that other countries have used to address long-term fiscal challenges and how fiscal rules and targets might address debt and deficit reduction in the United States. We plan to examine the federal government's use of these past rules as part of our work.

[9] GAO-19-611T.

Grassley, Question #3:

Mr. Dodaro, GAO's April report on the nation's fiscal health says that there are "serious financial management problems at DOD that have prevented its financial statements from being auditable."

And your report also says that eliminating those weaknesses will improve the reliability of financial information and improve decision making.

Can you give me a sense of whether you think DOD is making progress in addressing its financial management problems, and how long you think it will take to solve those problems?

GAO Response:

While DOD is starting to make progress, it has a way to go in fully addressing its financial management challenges. DOD officials have stated that it will likely be around 5 years before some DOD organizations get modified or clean opinions or have a particular financial management challenge remaining.[10] DOD officials have stated that within the next decade, the use of data will have a transformative effect on DOD decision-making. We will continue to monitor the department's progress toward obtaining a clean opinion and fixing its financial management problems.

For fiscal year 2018, DOD underwent the first ever full-scope audit of its department-wide financial statements. The DOD Office of Inspector General (OIG) issued a disclaimer of opinion on the financial statements and reported 20 material weaknesses in internal controls across the department. The independent public accountant firms (IPAs) that audited financial statements for DOD's components also reported over 2,400 findings and recommendations during the fiscal year 2018 audit. These findings, or deficiencies, will have to be remediated, and DOD and its components will have to develop and implement robust corrective action plans for effective remediation.

Long-standing issues continue to include DOD's decentralized environment; lack of sufficiently skilled financial management staff; ineffective processes, systems, and controls; incomplete corrective action plans; and the need for more-effective monitoring and reporting. These deficiencies also hinder the department's mission and operational decision-making. Sound

[10]House Armed Services Committee Hearing on the *Department of Defense's Financial Improvement and Audit Remediation Plan: The Path Forward,* May 16, 2019.

financial management practices and reliable, useful, and timely financial information could help DOD ensure accountability and efficient and effective management of its extensive resources.

DOD's challenges will take time to resolve, but it is starting to make progress. In our *2019 High Risk Report*, the ratings for the DOD Financial Management high-risk area improved for the criteria of leadership commitment and monitoring. For leadership commitment, the rating improved from "partially met" to "met" due to the actions of DOD leadership.

For example, DOD leadership created a centralized database that tracks hundreds of findings and recommendations that come out of the audit, to improve the quality of financial information that is most valuable for managing the department's day-to-day operations. DOD's database will be used to capture, prioritize, and assign responsibility for auditor findings and the related corrective action plans used to measure progress towards achieving a clean opinion. DOD officials stated that the majority of the corrective action plans have been developed for findings and recommendations that were still open from the fiscal year 2018 financial statement audit.

DOD's tracking database also led to improvement in its rating for the high-risk area's monitoring criterion, improving from "not met" to "partially met." For example, DOD established functional councils in certain areas (e.g., financial reporting) to review the status of audit remediation activities and challenges.

Some progress has been made in audit remediation of findings and recommendations, and the remediation has led to operational benefits. DOD officials have provided examples of operational benefits from the financial statement audit such as the following:

- In Jacksonville, the Navy found $280 million worth of items that had been purchased but not recorded in its system. About $81 million of those items have been put into the system and have become available to fulfill requisitions potentially saving the Navy $81 million.

- The DOD audits uncovered millions of dollars in unaccounted-for spare parts. For example, at the Utah Hill Air Force Base, a stockpile of missile motors was erroneously listed as unserviceable even though the motors were in good condition.

Putting them back into circulation instead of ordering new motors saved the Air Force $53 million.

Grassley, Question #4:

Mr. Dodaro, your testimony says that you don't believe that the debt limit is useful or effective.

We've had many debt-limit debates in Congress, and people on both sides of the aisle have taken various positions.

In one recent debt debate, the Obama administration demanded a clean increase in the debt limit with no strings attached. At that time, most on the other side of the aisle agreed.

We are close to having to take action on the debt limit again, and the Trump administration would like a clean increase in the limit.

But recently I have heard from some on the other side that there would have to be strings attached. For instance, some have suggested that we must lift the budget caps before any action can be taken to address the debt limit.

Mr. Dodaro, do you think that there should be a clean debt limit increase in the current environment, or should an increase be tied to some other required budget action?

GAO Response:

Action to suspend or raise the debt limit should be taken as soon as possible. As we have said, the debt limit is a limit on the U.S. Government's authority to borrow the funds to pay for legislation already enacted by Congress and the President. Ideally, action should be taken before the Treasury had to undertake extraordinary actions to manage at the limit. One cannot overstate the importance of preserving investors' confidence that debt backed by the full faith and credit of the U.S. Government will be honored. Failure to increase (or suspend) the debt limit in a timely manner could have serious negative consequences for the Treasury market and borrowing costs.

The United States is unusual among the countries we have reviewed in using the authorization of additional borrowing authority as an occasion to draw attention to past fiscal policy decisions.[11] Other countries that we reviewed generally use fiscal rules to increase attention to or control over fiscal policy decisions that lead to an increase in debt. Instead of budget

[11]GAO, *Debt Limit: Delays Create Debt Management Challenges and Increase Uncertainty in the Treasury Market*, GAO-11-203 (Washington, D.C.: Feb. 22, 2011).

constraints, some countries use fiscal targets, such as debt targets to establish an acceptable outcome for policymakers to work toward when making fiscal policy decisions.

Unlike fiscal rules or targets, the current approach used to set the U.S. government debt limit is not a control on debt but rather an after-the-fact measure that restricts authority to borrow. It does not restrict Congress and the President's ability to enact spending and revenue legislation that affects the level of debt. A fiscal rule could better support efforts to achieve fiscal sustainability by imposing limits on the budget to guide fiscal policy without jeopardizing the full faith and credit of the United States.

Responses to Written Questions from Senator Cramer

Cramer, Question #1:

From 1941 through 1974, Congress had a Joint Committee on Reduction of Non-Essential Federal Expenditures, commonly known as "Byrd Committee". It was terminated by the Congressional Budget and Impoundment Control Act of 1974 and its responsibilities were transferred to the Congressional Budget Office (CBO). The purpose of this committee was to "make a full and complete study and investigation of all expenditures of the Federal Government with a view to recommending the elimination or reduction of all such expenditures deemed by the joint committee to be nonessential." In your view, how successful has CBO been in assuming the work formerly performed by the Byrd Committee and do you have any thoughts on the benefits of Congress re-establishing such a panel?

GAO Response:

We have not reported on the structure or function of that Joint Committee, on CBO's work in comparison to that of the Joint Committee, nor on whether reestablishment of such a committee would be helpful to the Congress.

We do note that one of the Joint Committee's charges was to look at the federal budget as a whole rather than in separate parts, and produce scorekeeping reports. Both of those can be seen in the structure of the Congressional Budget and Impoundment Control Act, which requires CBO to produce its annual *Budget and Economic Outlook* report (issued around January and updated in the summer) and cost estimates.[12]

CBO's *Options for Reducing the Deficit* volume (referred to as "*Budget Options")* contains a wide range of specific options and broad approaches, derived from many sources, for reducing spending or increasing revenues. For each option, CBO presents an estimate of its effects on the budget, the basis for the estimate, and a discussion of its pros and cons. CBO provides a link for locating and sorting options in current and earlier options volumes and in other analytic reports.[13] As a matter of organizational policy, CBO does not make policy recommendations in any of its studies.

[12]For CBO's *Budget and Economic Outlook* reports, see https://www.cbo.gov/topics/budget/outlook-budget-and-economy.

[13]See https://www.cbo.gov/budget-options.

CBO also produces analytic reports on a wide range of topics—spending programs, the tax code, and budgetary and economic challenges. These reports are usually produced at the request of a Chairman or Ranking Member of a committee or subcommittee, or House or Senate Leadership. They generally present a set of options for changes in the federal program or tax rules under consideration, estimate each option's budgetary and economic effects, and discuss its benefits and drawbacks. Some of these reports are produced annually, including an analysis of the Department of Defense's Future Years Defense Program and required sequestration reports.

In addition, GAO conducts a range of oversight-, insight-, and foresight-related engagements, a vast majority of which are conducted in response to federal mandates or requests. Among other things, GAO makes recommendations to agencies and matters for congressional consideration intended to address:

- Fragmented, duplicative, or overlapping federal programs,
- Fraud, waste, and abuse and needed improvements in internal controls, and
- Major management challenges and program risks.

For example, since 2011, our work on fragmentation, overlap and duplication has identified more than 900 actions Congress or executive branch agencies can take to reduce, better manage, or eliminate fragmentation, overlap, or duplication; achieve cost savings; or enhance revenues. As a result of steps Congress and executive branch agencies have taken to address our actions, we have identified approximately $262 billion in total financial benefits through March 2019.[14] In addition, financial benefits to the federal government due to progress in addressing our high-risk areas over the past 13 years (fiscal year 2006 through fiscal year 2018) totaled nearly $350 billion or an average of about $27 billion per year.[15]

In fiscal year 2018, tax expenditures reduced income tax revenues by approximately $1.38 trillion based on Treasury estimates.[16] In comparison, discretionary spending was $1.26 trillion

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[14]GAO, *2019 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Billions in Financial Benefits*, GAO-19-285SP (Washington, D.C.: May 21, 2019).

[15]GAO-19-157SP.

[16]We calculated the total amount based on Treasury's estimates of each tax expenditure. The sum of the tax expenditure estimates is useful for gauging the general magnitude of revenue forgone through provisions of the tax code, but aggregate tax expenditure estimates must be interpreted carefully.

in fiscal year 2018. Although tax expenditures are routinely used as a policy tool, they are not regularly reviewed and their outcomes are not measured as closely as spending programs' outcomes.

We have made recommendations in this area that remain open. For example, in September 2005, we recommended that OMB take actions to develop a framework for evaluating tax expenditure performance, and to regularly review tax expenditures in executive branch budget and performance review processes. However, OMB has not developed this framework and has not reported progress in evaluating tax expenditures since the President's fiscal year 2012 budget.[17]

We would be happy to discuss any of these issues with your staff.

Cramer, Question #2:

In 1988, the report of the Commission on Privatization, appointed by President Reagan, was released. Now, more than 30 years later, most of the functions identified in that report as candidates for privatization are still in the Federal government. Moreover, OMB Circular A-76, which had its origins in the Eisenhower Administration's Bureau of the Budget 1955 Bulletin 55-4, has been under a moratorium by Congress since 2009. In your view, are there activities and functions that can and should be moved from the government to the private sector, and should the moratorium on OMB Circular A-76 be repealed so activities can be studied for potential private sector or contractor performance?

GAO Response:

We have reported extensively in the past on issues involving efforts by executive agencies to explore the potential for improved performance, enhanced efficiencies, and reduced costs through the use of entities in the private sector to perform functions traditionally performed by

Summing revenue loss estimates does not take into account possible interactions between individual provisions or potential behavioral responses to changes in these provisions on the part of taxpayers. Additionally, Treasury's tax expenditure estimates include the effect of certain tax credits on receipts only and not the effect of the credits on outlays, which Treasury reports separately, but does not take into account interactions between individual provisions.

[17]GAO, *Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined,* GAO-05-690 (Washington, D.C.: Sept. 23, 2005).

government employees.[18] We would be pleased to brief you and your staff on our prior work if you wish.

In conducting this work, we have not identified specific functions that can or should be privatized. Under the Office of Management and Budget Circular A-76, that responsibility rests with the executive agencies. Agency actions in this area are subject, of course, to congressional oversight, which as you note has resulted in a moratorium on conducting further A-76 studies. We are not in a position to provide an opinion on whether the moratorium should be lifted.

[18]Many of these GAO reports are listed in a report by the Commercial Activities Panel, *Improving the Sourcing Decisions of the Government*, April 2002. The Commercial Activities Panel, which was chaired by then-Comptroller General David M. Walker, was convened at the direction of Congress to study existing procedures on the outsourcing of government functions.

Cramer, Question #2:

In 1988, the report of the Commission on Privatization, appointed by President Reagan, was released. Now, more than 30 years later, most of the functions identified in that report as candidates for privatization are still in the Federal government. Moreover, OMB Circular A-76, which had its origins in the Eisenhower Administration's Bureau of the Budget 1955 Bulletin 55-4, has been under a moratorium by Congress since 2009. In your view, are there activities and functions that can and should be moved from the government to the private sector, and should the moratorium on OMB Circular A-76 be repealed so activities can be studied for potential private sector or contractor performance?

GAO Response:

We have reported extensively in the past on issues involving efforts by executive agencies to explore the potential for improved performance, enhanced efficiencies, and reduced costs through the use of entities in the private sector to perform functions traditionally performed by government employees.[1]

In conducting this work, we have not identified specific functions that can or should be privatized. Under the Office of Management and Budget Circular A-76, that responsibility rests with the executive agencies. Agency actions in this area are subject, of course, to congressional oversight, which as you note has resulted in a moratorium on conducting further A-76 studies.

Since the enactment of the National Defense Authorization Act for fiscal year 2008, A-76 competitions at the Department of Defense have been suspended. The Omnibus Appropriations Act for fiscal year 2009 began a government-wide moratorium on the use of funds for initiating or announcing new public-private competitions, and the moratorium was most recently extended in the Consolidated Appropriations Act, 2019. We have reported on some of the concerns that led to the moratorium, including potentially overestimated savings attributed to the competitions, the adequacy of oversight mechanisms, and the possible performance of "inherently governmental functions" by contractors. We would be happy to brief your staff further on that work; however, we are not in a position to provide an opinion on whether the moratorium should be lifted.

Legislation has been introduced to lift the moratorium, but failed to pass.

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[1]Many of these GAO reports are listed in a report by the Commercial Activities Panel, *Improving the Sourcing Decisions of the Government*, April 2002. The Commercial Activities Panel, which was chaired by then-Comptroller General David M. Walker, was convened at the direction of Congress to study existing procedures on the outsourcing of government functions.

THE CHIEF FINANCIAL OFFICERS ACT OF 1990: ACHIEVING THE VISION

WEDNESDAY, OCTOBER 30, 2019

UNITED STATES SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committee met, pursuant to notice, at 2:01 p.m., in Room SD–608, Dirksen Senate Office Building, Hon. Michael B. Enzi, Chairman of the Committee, presiding.

Present: Senators Enzi, Grassley, Johnson, Braun, Scott, Kennedy, Whitehouse, Warner, Kaine, and Van Hollen.

Staff Present: Elizabeth McDonnell, Republican Staff Director; and Mike Jones, Minority Acting Staff Director.

OPENING STATEMENT OF CHAIRMAN ENZI

Chairman ENZI. I will go ahead and call this hearing to order.

I want to thank Senator Warner for being here. He was one of the co-requesters of this particular hearing and information, and we appreciate the information that we have. To tell you how bipartisan this is, I am going to be doing the opening statement for both sides. [Laughter.]

So today the Budget Committee will examine the Federal Government's effort to meet the requirements of the Chief Financial Officers Act of 1990. I am pleased to welcome back to the Committee our witness, Gene Dodaro, the Comptroller General of the United States and the head of the Government Accountability Office, known as GAO.

When the CFO Act was signed into law by President George H.W. Bush nearly 30 years ago, it laid a new foundation for Federal financial management. It established a financial management leadership structure, provided for long-range planning, and required audited financial statements as well as strengthened accountability, reporting, and other reforms.

Since enactment of the law, we have seen substantial improvements in the Federal financial management. Today agencies have CFOs in place to provide leadership and accountability over financial operations, and most receive clean audit opinions on their annual financial statements. With the law's 30th anniversary approaching, last year Senators Johnson, Warner, Harris, and I requested that the Government Accountability Office review the Federal Government's efforts to meet the requirements of that CFO Act and provide recommendations to further improve governmentwide financial management.

I look forward to hearing today GAO's assessment of what the Federal Government is doing well in terms of Federal financial management and what opportunities exist for further improvements.

Financial management system limitations remain a persistent barrier to financial and program management. Many agencies are unable to integrate their financial and performance data and lack comprehensive metrics when making decisions for planning, programming, budgeting, and especially execution.

In many cases, the Government is unable to show the relationship between dollars spent and results achieved. Further, while agency-level financial reporting has improved, the Federal Government cannot produce auditable governmentwide financial statements. The Government Accountability Office performs an annual audit of the Government's consolidated financial statements, which the Department of Treasury prepares in coordination with the Office of Management and Budget.

Since audits began in 1997, GAO has been unable to render an opinion, citing serious financial management problems, particularly at the Department of Defense. Addressing these and other challenges requires long-term planning and careful monitoring of progress. To provide for this, the CFO Act requires the Office of Management and Budget to annually develop an executive branch financial management status report and a governmentwide 5-year financial management plan.

Despite this requirement, it has been 10 years since the Office of Management and Budget last published such a status report and plan. A financial management plan is essential to developing a comprehensive approach with milestones and estimated implementation costs. I am concerned that, without it, oversight efforts may not be strategic or effective.

Anniversaries afford us opportunities both to reflect on our achievements and to look ahead to the future. I look forward to hearing more from our witness on what has been accomplished in the nearly 30 years since the CFO Act's passage as well as what we might do in order to fully achieve its vision. I believe that better financial management will lead to more efficiency, more accountability, more data, and ultimately better budgets.

I thank Comptroller Dodaro for being here again and look forward to his testimony. And I will go ahead and introduce our witness so that we can hear his testimony and then get to questions.

Our witness this afternoon, as we are now very familiar with, is Gene Dodaro, who is the head of the Government Accountability Office and Comptroller General of the United States. He testifies frequently before Congress and particularly before this Committee. I am pleased to welcome him back.

Mr. Dodaro is the eighth Comptroller General of the United States. He was confirmed in December of 2010 after serving as Acting Comptroller General since March of 2008. Mr. Dodaro has been with the GAO for more than 40 years. He served 9 years as Chief Operating Officer, the number two leadership position at the agency. Prior to that, he headed GAO's Accounting and Information Management Division, which specialized in financial management, computer technology, and budget issues.

Comptroller General Dodaro, please begin.

STATEMENT OF THE HONORABLE GENE L. DODARO, COMPTROLLER GENERAL OF THE UNITED STATES AND HEAD OF THE GOVERNMENT ACCOUNTABILITY OFFICE

Mr. DODARO. Thank you very much, Mr. Chairman. Good afternoon to you, Senator Warner, Senator Johnson, Senator Kennedy. It is very nice to be back here again. I appreciate the invitation to talk about the 30 years' progress in implementation of the Chief Financial Officers Act.

Substantial progress has been made since the passage of this legislation. It is due to the collective efforts of the Chief Financial Officers and their organizations across Government. The IGs have been definitely involved as well as Independent Public Accounting (IPA) firms that are under contract with many of the IGs to perform the annual financial statement audits. The Department of Treasury, OMB, and GAO have all collectively been working hard to make sure this legislation is successfully implemented.

There are many achievements. I will single out a few.

First, it was very important to have a leadership structure in place, and now, as you pointed out, Mr. Chairman, there are CFOs and Deputy CFOs in career positions, in each of the major agencies. There is a governmentwide Controller position at OMB.

Secondly, there is a comprehensive set of accounting standards for the Federal Government that is set by an independent body, the Federal Accounting Standards Advisory Board. Fifty-seven standards have been issued, and, importantly, those standards include not just looking at the classic set of accrual-based financial statements which are similar for financial statements of companies and entities at the State and local level, but they have a forward-looking standard that focuses on the fiscal sustainability for the Government over a long period of time. And as this Committee well knows, I was here in June talking about the long-term unsustainable fiscal condition of our Federal Government. These standards illuminate that for Congress and policymakers.

The federal government also has more reliable financial information as of fiscal year 2018; 22 of the 24 largest departments and agencies were able to receive an unmodified or clean audit opinion. That is up from six in 1996 when the federal government first started a process of preparing and having annually audited financial statements.

The United States largely went, at the Federal Government, for a couple hundred years without having that fiscal discipline in place, and it took a while to get it well established, and it is taking hold. But there is more to do.

Importantly, also, the audits that have been conducted uncovered the full range of improper payment issues in the Federal Government. Before the audits started, there was no information about the size and scope of improper payments in the federal government. The last governmentwide estimate is over $150 billion. And so that is an issue.

And then, lastly, I will point out another early warning system that the audits provided, which first started surfacing through the financial audits, the problems with computer security in the Federal Government back in the 1990s. And that is what led me to designate computer security across the entire Federal Government as a high-risk area in 1997. So the audits provided early warnings on internal controls. And internal controls are much better now than they were before the federal government had the fiscal discipline in place under the CFO Act. Thousands of weaknesses have been corrected by the agencies that have been pointed out by auditors and their own self-assessments over time.

Now, there is a great deal of work remaining to be done to have all the vision of the CFO Act fully realized, as you pointed out, Mr. Chairman. There are several areas that we commend to this Committee's attention for refinements in the law.

One is that the CFO positions vary in their responsibilities across the agencies. All CFOs do not have the full range of responsibilities that I believe you would want in a modern CFO. So refreshing and updating the responsibilities of the CFOs for a more modern role I think would be very important.

Secondly, the Deputy CFOs can be positioned better to step in when there is inevitable turnover in the CFO positions. CFOs are political positions in most agencies, so there is going to be turnover. It is built into the federal system. And the Deputy CFOs should be ready to step in so there is not a lapse in efforts to deal with issues that occur over a period of time.

Thirdly, there needs to be a governmentwide plan. I have been very disappointed that OMB has not issued a comprehensive financial management plan for the last 10 years as you pointed out, Mr. Chairman. Now, in all fairness, they have produced the President's Management Agenda. They include information in the audited financial statements of the Federal Government in the management discussion and analysis section. So they have put forth plans, and they have a lot of good ideas that I am supportive of. But without a detailed implementation plan, Congress has no ability to hold people accountable to measure progress over time or know what kind of resources are needed over a period of time.

Now, as a potential compromise, we suggest perhaps, rather than have a yearly plan, that it be done every 4 years like the Government Performance and Results Act requires for strategic plans, but that there be an annual status report on that plan to help minimize what they perceive to be the burden of preparing that plan.

Also, more information needs to be done to link costs with the levels of performance across the Government. One of the goals of the CFO Act was to better manage the costs of Government as it relates to developing better performance measures and better cost data. Some efforts have been made in this area, some progress has been made, but much more needs to be done.

We also need to have more metrics to hold the agencies accountable for financial management. Right now the main metric is do they have a clean opinion or don't they have a clean opinion. But there are other areas like total internal control deficiencies, improper payment rates, and the number of anti-deficiency Act violations which can also be used as metrics. We are suggesting that a scorecard be developed of the limited set of performance metrics that could be used to better gauge the overall financial health of the agencies as well.

Financial systems still need a lot of attention. Over 75 percent of the systems, according to the Treasury Department, need upgrading. Thirty of the 39 agencies where the Treasury has been tracking their financial management systems are due to be at the end of their useful life within 5 years without vendor support. So there is a great deal of effort that needs to be made to modernize the systems and perhaps use more centralized systems. Technology has advanced dramatically since 30 years ago when the CFO Act was passed. So the system standards should be updated as well in terms of requirements.

And then, I will mention the workforce area. There are still skill gaps. The federal government needs a modern financial management workforce. You need people with more skills in the technology area, particularly as you look to the future with the prospect of artificial intelligence and other high end technologies that can do a lot of the transaction processing. You want your financial managers to be in a position to help in the management of the agency, guide performance, spend more time on risk management and other activities.

So this is a great opportunity that you are taking here to modernize the CFO Act to help ensure a more modern, progressive financial management for the Government.

Also, lastly, I would point out when the CFO Act was passed, I am not sure exactly what the budget of the Federal Government was, but it was nowhere approaching what it is right now, in terms of $4.5 trillion, and a lot of the challenges associated with it. So you have to size the capabilities of financial management with the size of our enterprise at the Government level.

So thank you again for the opportunity to be here today, and I would be happy to answer questions.

[The prepared statement of Mr. Dodaro follows:]

United States Government Accountability Office

GAO

Testimony

Before the Committee on the Budget, U.S. Senate

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FEDERAL FINANCIAL MANAGEMENT

Substantial Progress Made since the CFO Act of 1990 and Preliminary Observations on Opportunities for Enhancement

Statement of Gene L. Dodaro
Comptroller General of the United States

GAO-20-203T

October 2019

GAO Highlights

Highlights of GAO-20-203T, a testimony before the Committee on the Budget, U.S. Senate

Why GAO Did This Study

Prior to the enactment of the CFO Act, government reports found that agencies lost billions of dollars through fraud, waste, abuse, and mismanagement. These reports painted the picture of a government unable to properly manage its programs, protect its assets, or provide taxpayers with the effective and economical services they expected.

The CFO Act was enacted to address these problems—calling for comprehensive federal financial management reform. Among other things, the act established CFO positions, provided for long-range planning, and began the process of auditing federal agency financial statements. The act also called for integrating accounting and financial management systems and systematic performance measurement with related cost information.

This statement is based on preliminary observations from GAO's ongoing review of the federal government's efforts to meet the requirements of the CFO Act. GAO reviewed federal financial management legislation, guidance, and reports. GAO also conducted interviews and a panel discussion with experts in federal financial management, and surveyed federal CFOs, inspectors general, and independent public accountants.

What GAO Recommends

GAO obtained comments from OMB, the Department of the Treasury, and the Office of Personnel Management and has incorporated their comments as appropriate. As GAO finalizes its work for issuance next year, it will consider feedback on its work in making recommendations related to the opportunities for enhancement, as appropriate.

View GAO-20-203T. For more information, contact Dawn B. Simpson at (202) 512-3406 or simpsondb@gao.gov or Robert F. Dacey at (202) 512-3406 or daceyr@gao.gov.

FEDERAL FINANCIAL MANAGEMENT

Substantial Progress Made since the CFO Act of 1990 and Preliminary Observations on Opportunities for Enhancement

What GAO Found

The federal government has made significant strides in improving financial management since enactment of the Chief Financial Officers Act of 1990 (CFO Act). Substantial progress has occurred in areas such as improved internal controls, reliable agency financial statements, and establishment of chief financial officer (CFO) positions. To help ensure that the CFO Act achieves its full potential, there are several opportunities for enhancement.

Standardize CFO and deputy CFO responsibilities across government. The responsibilities assigned to CFOs vary among agencies. Uniform and effective responsibilities of CFOs would help enhance strategic decision-making and correct inconsistencies across government. In addition, deputy CFOs should have appropriate responsibilities in order to be better prepared to act for CFOs when there are vacancies.

Prepare government-wide and agency-level financial management plans. Since 2009, the Office of Management and Budget (OMB) has not prepared the annual 5-year government-wide plans that the CFO Act requires. Instead, OMB has provided information in the President's Management Agenda, the U.S. government's consolidated financial statements, and other documents. A complete and integrated government-wide financial management plan and supporting agency plans, prepared every few years, could help ensure continuity in direction and a more comprehensive understanding of gauging progress toward addressing financial management challenges across government.

Better link performance and cost information for decision-making. While agencies have made efforts in this direction, opportunities exist for agencies to better link performance and cost information to effectively make financial management decisions that are based on dollars allocated and results achieved.

Develop a broader set of key selected financial management performance-based metrics. Agencies currently have limited performance-based metrics to help them assess the quality of financial management and ensure that the federal government better manages and uses the resources entrusted to it.

Rectify internal control issues in certain areas. The federal government faces many internal control problems. For example, assessments continue to identify long-standing, as well as new, material weaknesses. Improper payments continue to be a long-standing internal control issue. And finally, material weaknesses continue to prevent GAO from rendering an opinion on the U.S. government's consolidated financial statements.

Improve financial management systems. The federal government has made unsuccessful efforts to implement new financial management systems at several agencies and spent billions of dollars on failed systems. Moreover, in fiscal year 2018, nine of 24 CFO Act agencies' still did not comply substantially with federal systems requirements.

Strengthen the federal financial management workforce. With rapid changes, such as emerging technologies, it is critical for the government to identify and strategically plan for the future workforce.

Chairman Enzi, Ranking Member Sanders, and Members of the Committee:

Thank you for the opportunity to be here today to discuss the Chief Financial Officers Act of 1990 (CFO Act).[1] As you know, effective federal financial management helps to ensure that taxpayer-provided and other acquired resources are safeguarded and used lawfully, efficiently, and effectively for the purposes intended. Since enactment of the CFO Act almost 30 years ago, the federal government has made significant strides in improving financial management. Today, I will highlight some of the most significant achievements and offer some preliminary observations on how federal financial management can be enhanced.[2]

The information in this testimony is based on our ongoing review and analysis of relevant legislation; federal financial management guidance and reports; interviews and a panel discussion with experts in federal financial management; and results of GAO surveys to federal chief financial officers (CFO), inspectors general, and independent public accountants. See appendix I for details.

We performed the work on which this statement is based from October 2018 to October 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Prior to the enactment of the CFO Act, government reports found that agencies lost billions of dollars through fraud, waste, abuse, and mismanagement. These reports painted the picture of a government unable to properly manage its programs, protect its assets, or provide taxpayers with the effective and economical services they expected. Reported financial management problems included (1) unreliable financial information driven by widespread weaknesses in agency internal controls over financial reporting and obsolete and inefficient agency financial

[1]Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990).

[2]We plan to issue a detailed report on federal financial management in 2020—30 years after the 1990 enactment of the CFO Act.

management systems and (2) financial reporting practices that did not accurately disclose the current and probable future cost of operating, permit adequate comparison of actual costs among executive branch agencies, or provide the timely information required for efficient program management.

For example, in 1988, we reported on internal control problems such as the Department of Defense being unable to account for hundreds of millions of dollars in advances paid by foreign customers for equipment, weak controls permitting things such as over $50 million in undetected fraudulent insurance claims paid by the Federal Crop Insurance Corporation, millions of dollars in interest penalties because agencies paid 25 percent of their bills late, and over $350 million in lost interest because agencies paid their bills too soon.[3]

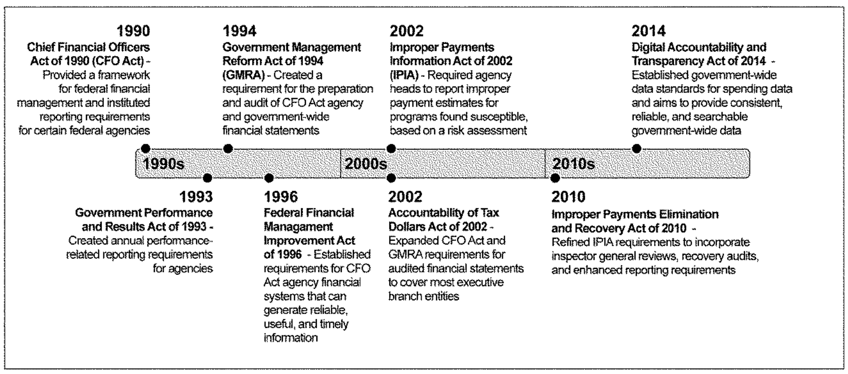
In 1990, Congress mandated financial management reform through enactment of the CFO Act. The CFO Act was the most comprehensive and far-reaching financial management improvement legislation enacted since the Budget and Accounting Procedures Act of 1950. The CFO Act established a Controller position at the government-wide level and a CFO position for each of the agencies identified in the act (referred to as the CFO Act agencies),[4] provided for long-range planning, and began the process of preparing and independently auditing federal agency financial statements. The act aimed to strengthen internal controls, integration of agency accounting and financial management systems, financial reporting practices, and the financial management workforce. The act also called for systematic performance measurement and cost information.

As figure 1 shows, a number of other financial management reforms were subsequently enacted to help improve federal financial management, some of which I will briefly discuss in my statement today. A chronological list of statutes cited in this report and selected additional financial management reforms is included in appendix II.

[3]GAO, *Federal Financial Management Reform*, GAO/T-AFMD-88-18 (Washington, D.C.: Sept. 22, 1988).

[4]As amended, the list includes 24 federal entities and is codified in section 901(b) of Title 31, United States Code.

Figure 1: Timeline of Selected Federal Financial Management Reform Legislation, 1990 through 2014



Source: GAO analysis based on selected federal financial management reform legislation since the CFO Act. | GAO-20-203T

Substantial Progress Has Been Made toward Achieving the Purposes of the CFO Act

The federal government has made substantial progress toward improving financial management and achieving the purposes of the CFO Act. Table 1 highlights some of the progress that has been made.

Table 1: Highlights of Progress in Federal Financial Management in Achieving the Purposes of the Chief Financial Officers Act of 1990 (CFO Act)

Financial management area	Progress made
Leadership	• A Controller position established at the government-wide level and a chief financial officer (CFO) position at each CFO Act agency. • The Office of Management and Budget (OMB) prepared several government-wide plans for reforming financial management and communicated its priorities in various documents. • OMB used its authority to direct federal financial management, issue guidance for federal agencies to modernize financial management systems, strengthen financial reporting and internal control, and reduce improper payments. • The Department of the Treasury (Treasury) developed and periodically updated guidance and tools to support federal financial reporting and developed a long-term vision of the future of federal financial reporting. • Agency CFOs took steps to develop and maintain agency accounting and financial management systems, reduced duplicative financial management systems, resolved many audit findings, and supported agency audits. • The CFO Council undertook interagency initiatives on internal control, financial management systems, and grants reporting.
Financial reporting	• The Federal Accounting Standards Advisory Board (FASAB) was established in 1990 to develop federal government accounting standards; 57 standards have been issued to date. In 1999, FASAB was recognized by the American Institute of Certified Public Accountants as the standard setter for generally accepted accounting principles for federal government entities. • Twenty-two of 24 CFO Act agencies received unmodified ("clean") audit opinions for fiscal year 2018, up from six in 1996. • Since fiscal year 1997, Treasury, in coordination with OMB, has annually prepared government-wide consolidated financial statements. • Since fiscal year 2004, OMB has required CFO Act agencies and agencies covered by the Accountability of Tax Dollars Act of 2002 to issue audited financial statements approximately 45 days after the close of the fiscal year.
Internal control	• Annual financial statement audits have helped to strengthen internal controls. • Material weaknesses in internal control have been significantly reduced. • Audits uncovered the significance of improper payments—cumulative estimates since implementation of the Improper Payments Information Act in fiscal year 2003 total $1.5 trillion. • Audits surfaced widespread information security weaknesses; legislation to address challenges has been enacted.
Financial management systems	• Agencies have made progress in modernizing aspects of their financial management systems. • Fifteen of 24 CFO Act agencies' financial management systems substantially comply with the Federal Financial Management Improvement Act of 1996, up from three in fiscal year 1997, according to auditors. • Four federal payroll providers serve as shared services providers for the government—the Office of Personnel Management (OPM) estimated from fiscal years 2002 through 2015 over $1 billion in cost savings and cost avoidance. • In fiscal year 2019, OMB issued a policy that described the process and desired outcomes for shared services and established a governance and accountability model for achieving them.

Financial management area	Progress made
Federal workforce	• The CFO Council and OPM aligned qualifications standards for accounting, auditing, and budget competencies with emerging financial management position requirements. • Chief human capital officer (CHCO) position established in agencies and the CHCO Council created. • "Auditor" identified as a mission-critical occupation in 2011. • In 2017, OPM published a regulation requiring each CFO Act agency to develop a human capital operating plan describing agency-specific skills and competency gaps that are selected for closure and the strategies that will be implemented

Source: GAO analysis. | GAO-20-203T

Leadership: OMB, Agency CFOs, and Treasury Have Provided Notable Financial Management Leadership

The centralized leadership structures envisioned by the CFO Act—a Controller position at the government-wide level and a CFO position at each CFO Act agency—have been established. OMB's Deputy Director for Management and Office of Federal Financial Management, headed by the Controller and Deputy Controller, have led reform efforts by developing and periodically updating guidance and initiatives in areas such as financial management systems, auditing, financial reporting, internal control, and grants management.

The CFO Act also required OMB to submit to Congress, annually, a 5-year plan for improving financial management—mirrored in corresponding CFO Act agency plans. Among other things, the plan required a description of the existing financial management structure and changes needed; a strategy for developing adequate, consistent, and timely financial information; proposals for eliminating unneeded systems; identification of workforce needs and actions to ensure that those needs are met; a plan for the audit of financial statements of executive branch agencies; and an estimate of the costs for implementing the plan. The CFO Act also required annual financial management status reports government-wide and for executive branch agencies. From 1992 to 2009, OMB annually prepared comprehensive 5-year government-wide financial management plans.

Agency CFOs have significantly contributed to improvements in financial management. According to the survey we issued to CFOs and deputy CFOs, some of these improvements include advising executive leadership on financial management matters and direction for agency financial operations and professional financial management personnel; taking steps to develop and maintain financial management systems; reducing duplicative financial management systems; resolving audit findings; supporting audits of the agency's financial statements; helping to ensure the quality of financial information, and preparing the agency financial report and other financial reports. In addition, the CFO Council periodically met to advise and coordinate activities and initiatives, including those related to internal controls, financial management systems, and enterprise risk management. OMB stated that the CFO Council is also working on a workforce plan.[5]

In addition, the Department of the Treasury (Treasury) made contributions to improving federal financial management. Among other things, Treasury has developed and periodically updated government-wide guidance and tools to support federal financial reporting; issued, in coordination with OMB, the *Financial Report of the U.S. Government* since fiscal year 1997, which includes the government-wide consolidated financial statements; and developed a long-term vision for improving federal financial management. In 2010, Treasury established the Office of Financial Innovation and Transformation, which identifies and facilitates the implementation of innovative solutions to help agencies become more efficient and transparent, and Treasury also issues an annual message to agency CFOs to set the direction and goals of federal financial management.

Financial Reporting: The Preparation and Audit of Financial Statements Have Provided Much-Needed Accountability and Transparency

In 1990, OMB, Treasury, and GAO jointly established the Federal Accounting Standards Advisory Board (FASAB) to develop and promulgate accounting standards and principles for financial reporting in the federal government. In 1999, FASAB was recognized by the American Institute of Certified Public Accountants as the standard setter for generally accepted accounting principles for federal government entities. FASAB has issued 57 statements of federal financial accounting standards (SFFAS) that provide greater transparency and accountability over the federal government's operations and financial condition, including SFFAS 36, *Comprehensive Long-Term Projections for the U.S. Government*, which requires the Statement of Long-Term Fiscal Projections as part of the government-wide consolidated financial statements.[6] In addition, OMB, Treasury, and GAO have regularly

[5]The CFO Council was established by the CFO Act, is headed by the Deputy Director for Management of OMB, and includes the Fiscal Assistant Secretary of the Department of the Treasury and each of the CFO Act agency CFOs.

[6]GAO, *Financial Audit: Fiscal Years 2018 and 2017 Consolidated Financial Statements of the U.S. Government*, GAO-19-294R (Washington, D.C.: Mar. 28, 2019).

provided guidance to agencies that improves transparency, consistency, and usefulness of financial reporting.

Agencies have significantly improved the quality and timeliness of their financial reporting since the enactment of the CFO Act. As expanded by the Government Management Reform Act of 1994 (GMRA) and the Accountability of Tax Dollars Act of 2002 (ATDA), federal law now requires every CFO Act agency and most other executive agencies to annually prepare audited financial statements no later than March 1—5 months after the end of the federal fiscal year.[7] However, OMB has accelerated this due date for audited financial statements. For the first time, for fiscal year 2005, all CFO Act agencies completed their audited financial statements by November 15, approximately 45 days after the close of the fiscal year, compared to the 60–90 day requirement for public companies filing with the Securities and Exchange Commission.[8]

For fiscal year 1996, the first year that all CFO Act agencies were required to prepare audited financial statements, six CFO Act agencies received an unmodified ("clean") audit opinion on their respective entities' financial statements, compared with 22 CFO Act agencies that received clean audit opinions for fiscal year 2018.[9] Today, to demonstrate transparency and accountability to Congress and citizens, the CFO Act agencies make their annual performance reports and annual financial reports, which include audited financial statements, available on their websites. In addition, since fiscal year 1997, Treasury, in coordination

[7]Initially, the CFO Act required CFO Act agencies to issue annual audited financial statements covering only revolving funds, trust funds, and other activities that performed substantially commercial functions. It also initiated pilot programs for audited statements covering the full scope of agency operations. GMRA built on this, requiring every CFO Act agency to annually prepare full-scope audited financial statements. ATDA further expanded this requirement, applying it to almost all executive agencies.

[8]Per Securities and Exchange Commission form 10-K, *Annual Report Pursuant to Section 13 or 15d of the Securities Exchange Act of 1934*, the filing requirements vary depending on the categorization of the public company.

[9]The 22 agencies include the Department of Health and Human Services, which received an unmodified ("clean") opinion on all financial statements except the social insurance statements. The Department of Defense and the Department of Housing and Urban Development received disclaimers of opinion for fiscal year 2018.

with OMB, has annually prepared government-wide consolidated financial statements, which are available on Treasury's website.[10]

Substantial benefits have been achieved as a result of the preparation and audit of financial statements, which provide useful and necessary insight into government operations, including

- federal agency accountability to Congress and citizens, including independent assurance about the reliability of reported financial information;
- greater confidence to stakeholders (governance officials, taxpayers, consumers, or regulated entities) that federal funds are being properly accounted for and assets are properly safeguarded;
- an assessment of the reliability and effectiveness of systems and related internal controls, including identifying control deficiencies that could lead to fraud, waste, and abuse;
- a focus on information security;
- early warnings of emerging financial management issues; and
- identification of noncompliance with laws and regulations, which can present challenges to agency operations.

Our CFO survey respondents (18 of 23) agreed that preparation and audit of financial statements are greatly or moderately beneficial to federal agencies, noting that the financial audit process helped identify and eliminate material weaknesses in internal control, greatly strengthened internal control processes, and led to more discipline and integrity in federal accounting.

Continuation of annual agency financial statement audits is critical to maintaining accountability and sustaining financial management improvements. Also, independent assurance that financial management information included in agency financial statements is fairly stated is an important element of accountability and provides agency management, OMB, Treasury, Congress, and citizens with assurances that the information is reliable and properly accounted for.

[10]See Department of the Treasury and Office of Management and Budget, *Financial Report of the United States Government*, accessed October 25, 2019 https://fiscal.treasury.gov/reports-statements/financial-report/.

Internal Control: Significant Improvements Have Been Made

A key goal of the CFO Act was to improve internal control to reasonably assure that the federal government's financial management information is reliable, useful, and timely. Compared with 1990, internal control is markedly stronger. The number of material weaknesses in internal control over financial reporting—significant issues that create the potential for inaccurate financial information that would change or influence the judgment of a reasonable financial report user relying on the information—reported as part of financial statement audits has been significantly reduced. For fiscal year 2005, financial statement auditors reported no identified material weaknesses for only seven of 24 CFO Act agencies, based on their financial statement audits; by 2018, that number had doubled to 14.

In addition, auditors identified and agencies fixed thousands of internal control problems over the past 3 decades. Further, Treasury and OMB have addressed many of the internal control problems related to the processes used to prepare the U.S. government's consolidated financial statements. However, some internal control problems are long-standing, complex, and not quickly resolved, such as accounting for transactions between federal agencies.

Annual financial statement audits also uncovered the significance of improper payments and prompted legislation to strengthen controls over improper payments. Agencies have made progress in estimating the amount of improper payments and implementing efforts to reduce them, but this remains an area of concern. We have reported improper payments as a material deficiency or weakness since the fiscal year 1997 initial audit of the U.S. government's consolidated financial statements. For fiscal year 2018, 79 programs across 20 agencies reported estimated improper payments totaling about $151 billion. Since fiscal year 2003—when certain agencies were required to begin reporting estimated improper payments—cumulative improper payment estimates have totaled about $1.5 trillion.[11]

[11]For estimation purposes, "improper payment" is statutorily defined as any payment that should not have been made or that was made in an incorrect amount (including both overpayments and underpayments). OMB guidance also provides that when an agency's review is unable to discern whether a payment was proper because of insufficient documentation or lack of documentation, this payment must also be considered an improper payment.

The annual financial statement audits, which include an assessment of information systems controls, surfaced widespread information security weaknesses. Since fiscal year 1997, we have reported information security as a material weakness in the audit of the U.S. government's consolidated financial statements. We have also reported information security as a government-wide high-risk area since 1997.[12] To address information security challenges surfaced by federal agency audits, Congress enacted the Federal Information Security Management Act of 2002 and its successor, the Federal Information Security Modernization Act of 2014. These laws require agencies to develop, document, and implement programs to provide security for the information and information systems that support agency operations and assets.

Financial Management Systems: Steps Have Been Taken to Improve the Government's Systems

One key purpose of the CFO Act and of the Federal Financial Management Improvement Act of 1996 (FFMIA) that followed was to improve federal agencies' financial management systems. FFMIA requires CFO Act agencies to maintain financial management systems that substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the *U.S. Government Standard General Ledger* at the transaction level. Agencies have improved their compliance with FFMIA requirements. For fiscal year 2018, auditors reported that 16 of 24 CFO Act agencies' financial systems substantially comply with FFMIA's systems requirements for fiscal year 2018, up from four agencies in fiscal year 1997.

Federal agencies have taken steps to implement new financial systems. While progress has been made in modernizing financial management systems, we have previously reported that efforts to modernize financial management systems have often exceeded budgeted cost, resulted in delays in delivery dates, and did not provide the anticipated system functionality and performance.[13] For example, one-half (12 of 24) of the CFOs and deputy CFOs who responded to our survey indicated that they still use old systems and use obsolete software or hardware to perform financial management responsibilities.

[12]GAO, *High-Risk Series: An Overview*, GAO/HR-97-1 (Washington, D.C.: February 1997).

[13]GAO, *Financial Management Systems: Additional Efforts Needed to Address Key Causes of Modernization Failures*, GAO-06-184 (Washington, D.C.: Mar. 15, 2006).

Some agencies have used migration of financial systems to external providers as part of their system modernization efforts, but others have experienced challenges in using shared services. For example, some CFO Act agencies have had difficulty in finding a provider with sufficient capacity and decided to modernize their financial system internally. Others that have attempted to move their financial system to a shared service provider failed to meet their cost, schedule, and performance goals.

The federal government also has taken action aimed at reducing duplicative efforts by increasing agencies' use of shared services for commonly used computer applications—such as payroll or travel. Over the past 15 years, there have been some notable shared services successes. For example, consolidating payroll services resulted in more than $1 billion in cost savings and cost avoidance over 10 years, according to Office of Personnel Management (OPM) estimates. In April 2019, OMB issued Memorandum M-19-16 on shared services, which among other things described the process and desired outcomes for shared services and established a governance and accountability model for achieving them.[14]

Workforce: Steps Have Been Taken to Strengthen the Federal Financial Management Workforce

To help achieve the CFO Act's purposes, the federal government established a financial management workforce structure, improving the quality of the federal workforce. Since then, steps have been taken to strengthen the federal financial management workforce, including the following:

- In 2000, the CFO Council and OPM worked together to align qualifications standards for accounting, auditing, and budget competencies with emerging financial management position requirements.
- In 2002, Congress and the President enacted legislation to empower OPM to provide agencies with additional authorities and flexibilities to manage the federal workforce and created the chief human capital officer (CHCO) positions and the CHCO Council to advise and assist agency leaders in their human capital efforts.

[14]Office of Management and Budget, *Centralized Mission Support Capabilities For The Federal Government,* M-19-16 (Washington, D.C.: 2019).

- In 2011, OPM and the CHCO Council created a working group that identified critical skills gaps in six government-wide, mission-critical occupations, including that of auditor.
- In 2017, OPM published a regulation requiring each CFO Act agency to develop a human capital operating plan describing agency-specific skills and competency gaps that are selected for closure and the strategies that will be implemented.

Preliminary Observations on Opportunities for Enhancements to Fulfill the Purposes of the CFO Act

While substantial progress has been made, additional attention is needed in several areas to help fully achieve the vision of the CFO Act and, in doing so, improve and modernize federal financial management. Based on the preliminary results from our ongoing review, we have identified several opportunities for enhancements that could help ensure that the CFO Act reaches its full potential.[15]

1. To help ensure uniform responsibility, enhance strategic decision-making, and correct inconsistencies across government, amend agency CFO's statutory responsibilities to ensure that they include all of the responsibilities necessary to effectively carry out financial management activities. Currently, responsibilities vary across agencies and do not include all key responsibilities that CFOs should possess.
2. To help ensure continuity in agency financial management operations when CFO vacancies occur, establish appropriate statutory responsibilities for deputy CFOs. This would minimize the effects of inevitable turnover in CFO positions.
3. Based on the maturity of federal financial management, extend the reporting frequency of the government-wide and agency-level financial management plans from annually to at least every 4 years (with timing to match the Government Performance and Results Act reporting requirements). In addition to the current government-wide financial management plan requirements, the plans should include actions for improving financial management systems, strengthening the federal financial management workforce, and better linking performance and cost information for decision-making. The

[15]See app. III for a fuller discussion of the findings and analysis supporting these enhancements as well as two additional areas for improvements in federal financial management: internal control related to improper payments and the government-wide consolidated financial statements.

government-wide plan should also include key selected financial management performance-based metrics. It is our view that OMB and Treasury should consult with the CFO Council, the Chief Information Officer Council, the Council of the Inspectors General on Integrity and Efficiency, GAO, and other appropriate financial management experts in preparing the government-wide plan.

4. To provide more complete and consistent measurement of the quality of agencies' financial management, require OMB to develop, in consultation with the CFO Council, key selected performance-based metrics to assess the quality of an agency's financial management, and changes therein. Examples of potential metrics include the number of internal control deficiencies, the number of internal control deficiencies corrected during the year, and the number of Antideficiency Act violations.[16] The metrics should be included in the government-wide and agency-level financial management plans discussed above and agencies' performance against the metrics reported in the annual status reports. Also, consider requiring auditor testing and reporting on the reliability of each agency's reported performance against the metrics.
5. To reasonably assure that key financial management information that an agency uses is reliable, require agency management to (1) identify key financial management information, in addition to financial statements, needed for effective financial management and decision-making and (2) annually assess and report on the effectiveness of internal control over financial reporting and other key financial management information. Also, consider requiring auditor testing and reporting on internal control over financial reporting and other key financial management information.

We provided a draft of the progress and opportunities for enhancements to OMB, Treasury, and OPM. OPM provided technical comments. OMB and Treasury generally agreed with enhancements 1 and 2, regarding CFOs' and deputy CFOs' statutory responsibilities. OMB generally disagreed with enhancement 3, regarding preparation of government-wide and agency-level financial management plans, stating that

[16]The Antideficiency Act prohibits agencies from obligating or expending in excess or in advance of an available appropriation unless otherwise authorized by law; accepting voluntary services for the United States, except in cases of emergency involving the safety of human life or the protection of property; and obligating or expending in excess of an apportionment, or in excess of the amounts permitted by agency regulation. 31 U.S.C. §§ 1341-42, 1349-52, 1511-19.

developing government-wide plans poses an administrative burden and is no longer relevant in light of the current state of financial management. However, we believe that a complete and integrated government-wide plan could help to ensure continuity in direction and a comprehensive understanding of the status and financial management challenges across government. Eight of the 10 financial experts we interviewed stated that without a government-wide financial management plan, the government lacks a clear strategic direction and agency improvement efforts may not appropriately address government-wide priorities.

For enhancement 4, regarding performance metrics for agencies' financial management, OMB generally disagreed, stating that it would be difficult to develop additional metrics that would apply to all agencies. We recognize the challenges in developing the metrics but continue to believe that a limited number of key metrics can be developed to effectively assess the quality of agencies' financial management. For enhancement 5, regarding identifying key financial management information and assessing, reporting, and auditing internal control, Treasury generally agreed and OMB generally disagreed, noting that no action is needed and these controls are adequately addressed under existing initiatives and the enterprise risk management program contained in OMB guidance. We believe that a separate assessment is needed to reasonably assure that key agency financial management information used by the agency is reliable.

Chairman Enzi, Ranking Member Sanders, and Members of the Committee, this completes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

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Appendix I: Objectives, Scope, and Methodology

This testimony highlights some of the most significant achievements in federal government financial management since enactment of the Chief Financial Officers Act of 1990 (CFO Act) and some preliminary observations on how federal financial management can be enhanced. The information in this testimony is based on our ongoing review and analysis of relevant legislation; federal financial management guidance, such as Office of Management and Budget (OMB) circulars; reports on financial management issued by the Government Accountability Office (GAO), agency offices of inspector general, and others; summarization of interviews and a panel discussion with experts in federal financial management; and summarization of results of GAO surveys to federal chief financial officers (CFO), inspectors general (IG), and independent public accountants (IPA).

To obtain perspectives of agency personnel on federal financial management, we developed and administered two web-based surveys from May 22, 2019, through August 5, 2019. We administered one survey to 47 individuals from the CFO offices of the CFO Act agencies and included individuals holding the position of CFO, acting CFO, deputy CFO, or equivalent at these agencies as of May 1, 2019. Of the 47 individuals we surveyed, 24 individuals responded, which resulted in a 51 percent response rate. We administered the other survey to 53 individuals holding the position of IG, deputy IG, or counsel to the IG at the CFO Act agencies as of May 1, 2019, and an additional 24 IPAs who have performed financial statement audits for these agencies since fiscal year 2014. Of the 77 individuals we surveyed, 29 individuals responded, which resulted in a 38 percent response rate. Results of both surveys only represent the views of those individuals who responded to the surveys and may not be representative of all individuals from the CFO offices, IG offices, or IPA offices of the CFO Act agencies.

In May 2019, we hosted an expert meeting with the theme "CFO Act - Progress and Challenges." When planning the meeting, we considered experts with a broad array of expertise. We had a total of eight experts participate, representing both the federal and private sectors. They included individuals who had served in auditing capacities and individuals who had represented federal entities being audited. Some experts were currently serving in their roles, and others had retired. Including experts with both present and past experiences helped to ensure an examination and discussion of the history of the CFO Act from its inception to the present. Topics for discussion included progress and challenges since enactment of the CFO Act, the role of the Department of the Treasury (Treasury) and OMB with regard to the act, and suggestions for improvements to financial management processes and systems. The meeting transcript was categorized by key points, including progress, challenges, OMB's and Treasury's roles, government-wide plans, financial management systems, shared services, leading practices, and proposed reforms or suggestions for improvements.

Appendix II: Selected Statutes Governing Federal Entity Financial Management and Reporting, Including Related Systems and Personnel

Budget and Accounting Procedures Act of 1950, ch. 946 §§ 110-118, 64 Stat. 834 (Sept. 12, 1950).

Federal Managers' Financial Integrity Act of 1982, Pub. L. No. 97-255, 96 Stat. 814 (Sept. 8, 1982), *codified* at 31 U.S.C. § 3512(c), (d).

Chief Financial Officers Act of 1990, Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990).

Government Performance and Results Act of 1993, Pub. L. No. 103-62, 107 Stat. 287 (Aug. 3, 1993).

Government Management Reform Act of 1994, Pub. L. No. 103-356, title IV, § 405, 108 Stat. 3410, 3415 (Oct. 13, 1994).

Clinger-Cohen Act of 1996, Pub. L. No. 104-106, div. D & E, 110 Stat. 642 (Feb. 10, 1996), *codified as amended* at 40 U.S.C. § 11101, *et seq*.

Federal Financial Management Improvement Act of 1996, Pub. L. No. 104-208, div. A, § 101(f), title VIII, 110 Stat. 3009-389 (Sept. 30, 1996), *codified* at 31 U.S.C. § 3512 note.

Reports Consolidation Act of 2000, Pub. L. No. 106-531, 114 Stat. 2537 (Nov. 22, 2000), *codified as amended* at 31 U.S.C. § 3516.

Accountability of Tax Dollars Act of 2002, Pub. L. No. 107-289, 116 Stat. 2049 (Nov. 7, 2002).

Chief Human Capital Officers Act of 2002, Pub. L. No. 107-296, title XIII, subtitle A, 116 Stat. 2135, 2287 (Nov. 25, 2002).

Improper Payments Information Act of 2002, Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002), *codified as amended* at 31 U.S.C. § 3321 note.

Federal Information Security Management Act of 2002, Pub. L. No. 107-347, title III, 116 Stat. 2899, 2946 (Dec. 17, 2002), *codified as amended* at 44 U.S.C. §§ 3551-3558.

Department of Homeland Security Financial Accountability Act, Pub. L. No. 108-330, 118 Stat. 1275 (Oct. 16, 2004).

Federal Funding Accountability and Transparency Act of 2006, Pub. L. No. 109-282, 120 Stat. 1186 (Sept. 26, 2006), *codified as amended* at 31 U.S.C. § 6101 note.

Improper Payments Elimination and Recovery Act of 2010, Pub. L. No. 111-204, 124 Stat. 2224 (July 22, 2010), *codified as amended* at 31 U.S.C. § 3321 note.

GPRA Modernization Act of 2010, Pub. L. No. 111-352, 124 Stat. 3866 (Jan. 4, 2011).

Improper Payments Elimination and Recovery Improvement Act of 2012, Pub. L. No. 112-248, 126 Stat. 2390 (Jan. 10, 2013), *codified as amended* at 31 U.S.C. § 3321 note.

Digital Accountability and Transparency Act of 2014, Pub. L. No. 113-101, 128 Stat. 1146 (May 9, 2014), codified at 31 U.S.C. § 6101 note.

Federal Information Security Modernization Act of 2014, Pub. L. No. 113-283, (Dec. 18, 2014), codified at 44 U.S.C. §§ 3551-3558.

Carl Levin and Howard P. 'Buck' McKeon National Defense Authorization Act for Fiscal Year 2015, Pub. L. No. 113-291, div. A, title VIII, subtitle D, 128 Stat. 3292, 3438-3450 (Dec. 19, 2014) (commonly referred to as the Federal Information Technology Acquisition Reform Act).

Federal Improper Payments Coordination Act of 2015, Pub. L. No. 114-109, 129 Stat. 2225 (Dec. 18, 2015).

Fraud Reduction and Data Analytics Act of 2015, Pub. L. No. 114-186, 130 Stat. 546 (June 30, 2016).

National Defense Authorization Act for Fiscal Year 2018, Pub. L. No. 115-91, div. A, title X, subtitle G, 131 Stat. 1283, 1586 (Dec. 12, 2017), codified at 40 U.S.C. § 11301 note (commonly referred to as the Modernizing Government Technology Act).

Foundations for Evidence-Based Policymaking Act of 2018, Pub. L. No. 115-435, 132 Stat. 5529 (Jan. 14, 2019).

Appendix III: Opportunities for Enhancements to Fulfill the Purposes of the CFO Act

This appendix provides additional information on areas of opportunity to help fulfill the intended purposes of the Chief Financial Officers Act of 1990 (CFO Act), specifically, the following:

- Standardize chief financial officer (CFO) and deputy CFO responsibilities across government
- Prepare government-wide and agency-level financial management plans
- Better link performance and cost information for decision-making
- Develop a broader set of key selected financial management performance-based metrics
- Rectify internal control issues in certain areas
- Improve financial management systems
- Strengthen the federal financial management workforce

Standardize CFO and Deputy CFO Responsibilities across Government

The CFO Act provided agency CFOs with broad responsibilities for all financial management activities of their respective agencies, including financial management systems (including financial reporting and internal controls); agency financial management personnel, activities, and operations; preparation of financial statements; and monitoring of budget execution. The specific responsibilities assigned to CFOs vary among agencies and are inconsistent government-wide. We previously reported that CFO Act agencies need to ensure that CFOs possess the necessary authorities within their agencies to achieve change.[1] For instance, because of the interdependency of the budget and accounting functions, some agencies have included both budget formulation and execution functions under the CFO's authority while others have not.

Most financial experts we interviewed agreed and the CFO Council and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) reported that to allow for better strategic decision-making, CFO responsibilities should include budget formulation and execution, planning and performance, risk management and internal controls, financial systems, and accounting. Most experts agreed that standardizing the CFO portfolio across agencies would promote standardized financial

[1]GAO, *Financial Management: Continued Momentum Essential to Achieve CFO Act Goals*, GAO/T-AIMD-96-10 (Washington, D.C.: Dec. 14, 1995).

management training and education and consistent skill sets across agencies, both at the executive and staff levels.

The CFO Council and CIGIE have identified turnover of agency CFOs, even during the same administration, as a significant challenge. They also stated that major financial management improvement initiatives can take years to fully implement and realize, often outlasting the average tenure of a political appointee to a CFO position. With frequent CFO turnover and potentially lengthy intervals between official appointments, long-term planning and leadership continuity can be affected because career deputy CFOs, who frequently serve as acting CFOs during CFO vacancies, do not always have the same breadth of responsibilities as CFOs. Deputy CFOs can be better prepared to act for CFOs when there are vacancies if appropriate responsibilities are established for deputy CFOs. In our survey to CFOs and deputy CFOs, 17 of 24 respondents stated that the deputy CFO position should include all, most, or many of the same responsibilities as the CFO position. Additionally, some respondents to our survey replied that it is important for the deputy CFO to be able to step into the CFO position should there be a vacancy. CIGIE also said that deputy CFOs should be sufficiently empowered with more standard responsibilities to ensure effective succession planning.

Prepare Government-Wide and Agency-Level Financial Management Plans

The CFO Act called for annual comprehensive government-wide 5-year plans for improving federal financial management. It also called for each agency CFO to annually prepare a plan to implement the government-wide plan prepared by the Office of Management and Budget (OMB). Moreover, it required annual government-wide and agency-level status reports. The OMB plans and status reports were to be submitted to Congress to enable comprehensive congressional oversight.

Since it issued the 2009 report, OMB has neither prepared nor submitted to Congress the annual 5-year government-wide plans as required by the CFO Act. Instead, OMB stated that it is meeting the intent of the requirement by providing information in the President's Management Agenda (PMA), in the annual government-wide consolidated financial statements, and in documents placed on Performance.gov and the CFO Council's website. For the consolidated financial statements, the information is included in a section in the Management's Discussion and Analysis (MD&A) entitled Financial Management. This section discusses several of the priorities and accomplishments in financial management for the prior and current fiscal years and in some cases discusses goals for the next fiscal year.

In addition, according to OMB, financial management elements are being considered in implementing the 2018 PMA. The CFO Council, in coordination with OMB, has identified six financial management cross-agency priorities and is developing detailed plans for each. Two of these plans, results-oriented accountability for grants and getting payments right, have been completed and posted on Performance.gov. The others are being managed by executive steering committees comprising CFO Council–approved members. While the various MD&A Financial Management sections, the PMA, and other OMB documents contain relevant information about improvements in financial management, these documents do not provide a complete and integrated financial management strategy for making continued improvements and for reporting on the administration's accomplishments in a comprehensive manner.

In 2019, OMB proposed eliminating the CFO Act requirement for a separate comprehensive plan, arguing that this change would provide it with flexibility to report information that is most relevant to financial management in a manner that is most efficient.[2] However, having a complete and integrated financial management plan would help to address long-standing, costly, and challenging concerns in financial management in a strategic, comprehensive, efficient, and cost-effective manner. Eight of the 10 financial experts we interviewed stated that without a government-wide financial management plan, the government lacks a clear strategic direction and agency improvement efforts may not appropriately address government-wide priorities. To hold people accountable and facilitate congressional oversight, a complete and integrated financial management plan should include the resources required and measure progress through interim milestones with completion dates. Several experts also stated that they believe that a government-wide plan should be done every few years instead of annually, but that the status report could continue to be prepared annually. A complete and integrated government-wide financial management plan and supporting agency plans, prepared every few years, could help ensure continuity in direction and a more

[2]The GPRA Modernization Act of 2010 added a requirement for agencies to include in their annual budget submissions a list of plans and reports that they have identified for elimination or consolidation because they are outdated or duplicative. The 5-year plan requirement, enacted by the CFO Act, has been included on this list and identified for elimination by the Executive Office of the President, of which OMB is a component.

comprehensive understanding of gauging progress toward addressing financial management challenges across government.

Better Link Performance and Cost Information for Decision-making

The CFO Act calls for agencies to (1) develop and maintain integrated accounting and financial management systems that provide for, among other things, systematic measurement of performance and (2) develop and report cost information. While the Government Performance and Results Act of 1993 (GPRA) laid a foundation for results-oriented management, we found that agencies' reported use of performance data to make decisions has generally not improved.[3]

While agencies have made efforts in this direction, opportunity exists to enhance the availability and reliability of performance and cost information, and better link this information for decision-making. One example of this is linking program performance to program cost. A number of agencies have implemented activity-based costing, which creates a cost model of an organization by identifying the activities performed, the resources consumed, and the outputs (products and services) that an organization produces. However, linking cost and performance information for effective decision-making has been challenging.

Respondents to our CFO survey noted that agencies face challenges in (1) developing and maintaining an integrated agency accounting and financial management system (19 of 24 respondents), (2) developing and reporting cost information (19 of 24 respondents), and (3) having financial management systems that produce the needed financial data to help address agency performance goals (21 of 24 respondents). Agencies that lack readily available, reliable, and linked performance and cost information may not be able to effectively make financial management decisions that are based on dollars allocated and results achieved and thus may miss opportunities to reduce costs or enhance mission effectiveness.

[3]GAO, *Managing for Results: Government-wide Actions Needed to Improve Agencies' Use of Performance Information in Decision Making*, GAO-18-609SP (Washington, D.C.: Sept. 5, 2018).

Develop a Broader Set of Key Selected Financial Management Performance-Based Metrics

Agencies have limited financial management performance-based metrics (e.g., financial statement audit opinion and number of reported material weaknesses in internal control over financial reporting) to help them assess the quality of their financial management. A broader set of key selected financial management performance-based metrics can provide more complete analysis across the breadth of financial management functions. Examples of potential metrics include the number of internal control deficiencies, the number of internal control deficiencies corrected during the year, and the number of Antideficiency Act violations. Key selected financial management performance-based metrics, including identifying metrics in the government-wide and agency-level plans discussed above and reporting of agency performance against the metrics in the annual status reports, can help ensure that the federal government better manages and uses the resources entrusted to it. Also, auditor testing and reporting on each agency's reported performance against the metrics can provide assurance that such information is reliable.

Rectify Internal Control Issues in Certain Areas

The CFO Act required CFOs to develop and maintain an integrated agency accounting and financial management system that provides for complete, reliable, consistent, and timely information prepared on a uniform basis and that responds to agency management's financial information needs. To ensure the reliability of financial information, agencies need effective internal controls. While agencies have made important progress in strengthening internal control, as noted earlier, the federal government faces many internal control problems. The following discusses three areas: assessing internal control over key financial management information, government-wide improper payments, and material weaknesses preventing an opinion on the U.S. government's consolidated financial statements.

Assessing Internal Control over Key Financial Management Information

Management may not have reasonable assurance that internal control over financial reporting and other key financial management information that the agency uses is reliable. Since fiscal year 1997, agency auditors' assessments of the effectiveness of internal control over financial reporting have identified long-standing, as well as new, material weaknesses. As a result of new material weaknesses, a number of agencies have not been able to sustain "clean" audit opinions on their financial statements. In addition, continuing material weaknesses have hindered two CFO Act agencies, the Departments of Defense and Housing and Urban Development, and the government as a whole, from achieving clean audit opinions. For fiscal year 2018, auditors of CFO Act agencies reported a total of 41 material weaknesses.[4]

One key to strengthening internal control over financial reporting at federal entities has been OMB Circular No. A-123, which carries out OMB's responsibility to provide guidelines for agencies to follow in evaluating their systems of internal control. In December 2004, OMB issued A-123, Appendix A, *Internal Controls over Financial Reporting*, which provided a methodology with which agency management could assess, document, and report on internal control over financial reporting. It emphasized management's responsibility for establishing and maintaining effective internal control over financial reporting. Appendix A required CFO Act agency management to annually assess the adequacy of internal control over financial reporting, provide a report on identified material weaknesses and corrective actions, and provide separate assurance on the effectiveness of the agency's internal control over financial reporting. The CFO Council subsequently issued the *Implementation Guide for Appendix A* in 2005.

In 2018, OMB reported that since the issuance of OMB Circular No. A-123's Appendix A, federal agencies have made substantial progress in improving their internal controls over financial reporting. OMB referred to this as a rigorous process for agencies to separately assess internal control over financial reporting.

Beginning in fiscal year 2018, however, OMB no longer requires such a process. On June 6, 2018, OMB issued an updated Appendix A, *Management of Reporting and Data Integrity Risk*. The revised Appendix A integrates internal control over reporting, along with internal controls over operations and compliance, in an overall assessment of the agency's internal control. This reporting guidance includes internal control over financial reporting as well as over other financial and nonfinancial information. It also requires that agencies develop and maintain a data quality plan that considers the risks to data quality in federal spending data required by the Digital Accountability and Transparency Act of 2014

[4]A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

(DATA Act) and any controls that would manage such risks in accordance with OMB Circular No. A-123. Further, agency senior accountable officials are required to certify each quarter, among other things, that their data submissions under the DATA Act are valid and reliable. However, the appendix does not require a separate management assessment of internal controls over the reliability of federal spending data. As we previously reported, there are significant data quality problems related to the completeness and accuracy of DATA Act data.[5]

In addition, the Federal Financial Management Improvement Act of 1996 (FFMIA) requires CFO Act agencies and their auditors to determine whether agency financial management systems comply substantially with federal financial management systems requirements. However, such systems requirements are focused on preparing agency financial statements and do not generally include system requirements related to other key financial management information (e.g., performance information and cost information) needed for management decision-making. We have expressed concerns about the adequacy of financial management systems requirements contained in the *Treasury Financial Manual*.[6] In our survey of CFOs and deputy CFOs, most (20 of 24) respondents said that ensuring data quality of financial information was somewhat, very, or extremely challenging.

Without (1) identifying all key financial management information needed for effective financial management and decision-making, (2) separately assessing and reporting on the effectiveness of internal control over financial reporting and other key financial management information, and (3) independently assessing such controls, management may lack reasonable assurance of the reliability of such information.

Government-Wide Improper Payments

Improper payments have consistently been a government-wide issue, despite efforts to reduce them. Since fiscal year 2003, cumulative improper payment estimates have totaled about $1.5 trillion. Although agencies have made progress identifying and reducing improper

[5]GAO, *DATA Act: OMB, Treasury, and Agencies Need to Improve Completeness and Accuracy of Spending Data and Disclose Limitations*, GAO-18-138 (Washington, D.C.: Nov. 8, 2017).

[6]GAO, *Fiscal Year 2008 U.S. Government Financial Statements: Federal Government Faces New and Continuing Financial Management and Fiscal Challenges*, GAO-09-805T (Washington, D.C.: July 8, 2009).

payments, more work needs to be done to address this government-wide material weakness in internal control.

We continue to report, as a government-wide material weakness in internal control, that the federal government is unable to determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce them.[7] OMB stopped reporting a government-wide improper payment estimate in fiscal year 2017.[8] According to OMB, it stopped reporting a government-wide estimate because program-by-program improper payment data were more useful. However, we believe that the aggregation of improper payment estimates is essential for transparency as without such the extent and magnitude of the government-wide improper payments is not readily available to key decision makers. As such, we support a key provision in the Payment Integrity Information Act of 2019[9]—a bill which has passed the Senate—to require OMB to report a government-wide improper payment estimate amount. Implementing this provision would be a positive step in determining the overall progress the federal government is making in the improper payment area.

The federal government also needs to reasonably assure that agencies take appropriate actions to reduce improper payments. For example, in supplemental appropriations acts providing disaster relief funds in 2017 and 2018, Congress mandated an oversight framework for these funds by requiring federal agencies to submit internal control plans to Congress, based on OMB guidance. However, in June 2019, we reported that OMB lacked a strategy for ensuring that federal agencies provide sufficient, useful plans in a timely manner for oversight of disaster relief funds. As a result, we found that selected agencies did not submit their disaster aid internal control plans timely. The plans also lacked necessary information, such as how the selected agencies plan to meet OMB guidance and

[7]Efforts to determine the full extent of improper payments are hindered by (1) risk assessments not accurately assessing improper payment risks, (2) programs determined to be risk-susceptible not reporting estimates, and (3) estimation methodologies not producing reliable estimates.

[8]From fiscal years 2003 through 2016, a government-wide estimate and error rate had been reported in financial reports based on the programs and activities that reported estimates.

[9]S. 375, 116th Cong.

federal internal control standards.[10] Such a strategy could help provide Congress some assurance that agencies will establish effective and efficient controls over disaster aid.

The federal government also needs to reasonably assure that states, local governments, and nonprofit organizations take appropriate actions to reduce their improper payments of federal funds. For example, OMB recently revised its compliance supplement for Medicaid to enable auditors, as part of the single audit of all federal financial assistance that a state received or administered, to test beneficiaries for eligibility for the program. If this expansion of the compliance supplement is successful for Medicaid, other federal programs that states, local governments, and nonprofit organizations administer may also benefit from such revisions.[11]

Material Weaknesses Preventing an Opinion on the U.S. Government's Consolidated Financial Statements

Since the federal government began preparing consolidated financial statements over 20 years ago, three major impediments have continued to prevent us from rendering an opinion on the federal government's accrual-based consolidated financial statements over this period.

1. Serious financial management problems at the Department of Defense (DOD) have prevented its financial statements from being auditable. DOD's strategy for achieving a clean opinion on its financial statements and improving overall financial management has shifted from preparing for audit readiness to undergoing financial statement audits and remediating audit findings. In a positive development, DOD underwent an audit of its entity-wide fiscal year 2018 financial statements, which resulted in a disclaimer of opinion issued by the DOD Office of Inspector General (OIG). The DOD OIG also reported 20 material weaknesses in internal control over financial reporting, contributing to its disclaimer of opinion.

   DOD has acknowledged that achieving a clean audit opinion will take time. However, it stated that over the next several years, the resolution of audit findings will serve as an objective measure of

[10]GAO, *2017 Disaster Relief Oversight: Strategy Needed to Ensure Agencies' Internal Control Plans Provide Sufficient Information*, GAO-19-479 (Washington, D.C.: June 28, 2019).

[11]The Single Audit Act, 31 U.S.C. chapter 75, provides for either a program-specific audit or an organization-wide "single audit" of states, localities, and nonprofit entities that expend $750,000 or more of federal assistance annually. These audits encompass both financial and compliance components, and OMB publishes an annual Compliance Supplement to guide auditor compliance testing related to each major federal program.

progress toward that goal. DOD will need to develop and effectively monitor corrective action plans to appropriately address audit findings in a timely manner. Partially in response to our recommendations, DOD recently developed a centralized database for tracking the audit findings, recommendations, and related corrective action plans.[12]

2. While significant progress has been made over the past few years, the federal government continues to be unable to adequately account for intragovernmental activity and balances between federal entities. Federal entities are responsible for properly accounting for and reporting their intragovernmental activity and balances in their entity financial statements. When preparing the consolidated financial statements, intragovernmental activity and balances between federal entities should be in agreement and must be subtracted out, or eliminated, from the financial statements. OMB and the Department of the Treasury (Treasury) have issued guidance directing component entities to reconcile intragovernmental activity and balances with their trading partners and resolve identified differences. In addition, the guidance directs the CFOs of significant component entities to report to Treasury, their respective inspectors general, and GAO on the extent and results of intragovernmental activity and balance reconciliation efforts as of the end of the fiscal year.
3. The federal government has an ineffective process for preparing the consolidated financial statements. Treasury, in coordination with OMB, has implemented several corrective actions during the past few years related to preparing the consolidated financial statements. Corrective actions included improving systems used for compiling the consolidated financial statements, enhancing guidance for collecting data from component entities, and implementing procedures to address certain internal control deficiencies. However, the federal government's systems, controls, and procedures were not adequate to reasonably assure that the consolidated financial statements are consistent with the underlying audited entity financial statements, properly balanced, and in accordance with U.S. generally accepted accounting principles.

Further, significant uncertainties, primarily related to achieving projected reductions in Medicare cost growth, and a material weakness in internal

[12]GAO, *DOD Financial Management: Significant Efforts Still Needed for Remediating Audit Readiness Deficiencies*, GAO-17-85 (Washington, D.C.: Feb. 9, 2017).

control prevented us from expressing an opinion on the sustainability financial statements.[13]

We, in connection with our audits, and agency auditors, in connection with their audits, have identified numerous deficiencies underlying the above weaknesses and have provided recommendations for corrective action.

Improve Financial Management Systems

The federal government has made unsuccessful efforts to implement new financial management systems, most notably at DOD, the Internal Revenue Service, the Department of Homeland Security, and the Department of Housing and Urban Development—which have spent billions of dollars on failed systems. We have reported that the executive branch has undertaken numerous initiatives to better manage the more than $90 billion that the federal government annually invests in information technology (IT).[14] However, we reported that federal IT investments too frequently fail or incur cost overruns and schedule slippages, while contributing little to mission-related outcomes.[15] These investments often suffered from a lack of disciplined and effective management, including inadequate project planning, clearly defined requirements, and program oversight and governance. In 2015, we added the government's management of IT acquisitions and operations to our High-Risk List, where it remains in 2019.

In fiscal year 2018, eight of 24 CFO Act agencies' financial management systems still did not substantially comply with FFMIA's systems requirements. Moreover, a number of agencies rely on critical legacy systems that use outdated languages, have unsupported hardware and software, and are operating with known security vulnerabilities. We previously reported that some agencies have not established complete modernization plans and face an increased risk of cost overruns,

[13]The sustainability financial statements are based on projections of future receipts and spending for the federal government as a whole and for the social benefit programs, while the accrual-based consolidated financial statements are based on historical information, including the federal government's assets, liabilities, revenue, and net cost.

[14]GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, GAO-19-157SP (Washington, D.C.: Mar. 6, 2019).

[15]GAO, *High-Risk Series: An Update*, GAO-15-290 (Washington, D.C.: Feb. 11, 2015).

schedule delays, and project failure.[16] In addition, most respondents to our CFO survey (15 of 24) stated that it has been extremely, very, or somewhat challenging to work with financial management systems that are old and use obsolete software or hardware.

Efforts to promote greater use of shared services in certain areas, such as human resources and financial management activities, resulted in some cost savings and efficiency gains, but challenges (e.g., implementation weaknesses, project scheduling, and project management and costs) impede widespread adoption. Almost all respondents to our CFO survey (22 of 24) indicated that they currently use or plan to use shared services. Most of those respondents (16 of 24) believed that use of shared services could help reduce costs. As noted above, in April 2019, OMB issued Memorandum M-19-16 on shared services, which among other things described the process and desired outcomes for shared services and established a governance and accountability model for achieving them. Also, OMB stated that, building off of OMB's and Treasury's efforts to create a Quality Service Management Office for Financial Management, they are establishing a more centralized approach to standardize, consolidate, and automate agency financial systems.

A government-wide plan for improving federal financial management systems, including shared services, that is incorporated into the government-wide and agency-level plans discussed above could help ensure, among other things, that financial management system problems are addressed.

Strengthen the Federal Financial Management Workforce

Insufficient numbers of staff, inadequate workforce planning, and a lack of training in critical areas create gaps between what the federal government needs and the skills federal employees have. We have made a number of recommendations toward achieving a federal workforce with the necessary skills, including in financial management. In a 2007 testimony, we reported that one key challenge to strong federal financial

[16]GAO, *Information Technology: Agencies Need to Develop Modernization Plans for Critical Legacy Systems*, GAO-19-471 (Washington, D.C.: June 11, 2019).

management is building a financial management workforce for the future.[17] This holds true today.

Our CFO survey respondents (14 of 24) noted that CFO Act agencies do not have all of the staff with the professional qualifications, capabilities, and expertise needed to effectively support financial management operations and practices. With rapid changes, such as emerging technologies and growing availability of data, it is critical for the government to identify and strategically plan for the future workforce to achieve effective financial management. A comprehensive, long-term plan to address the challenges in the federal financial management workforce that is incorporated into the government-wide and agency-level plans discussed above could help ensure that agencies are held accountable for a long-term vision of attracting and retaining a workforce that maintains the professional qualifications, capabilities, and expertise that will meet current and future needs.

[17]GAO, *Federal Financial Management: Critical Accountability and Fiscal Stewardship Challenges Facing Our Nation*, GAO-07-542T (Washington, D.C., Mar. 1, 2007).

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Chairman ENZI. Thank you for your testimony and for the fuller version that you presented us with and just for all of the valuable information you presented, not just at this hearing but at all the hearings that you have done.

We will now have a round of questions, and we will alternate back and forth in the order that people arrived. I will begin the questions.

The CFO Act envisioned Federal financial management systems that would allow easy access to integrated budget cost and performance data, allowing us to compare what we budgeted to what we spent and whether what we spent got the outcome we were hoping for. Why has it been so challenging to develop and maintain the integrated accounting and financial management systems and standards? What can be done to address those challenges? You touched on it briefly.

Mr. DODARO. Yes. I'll start with a few things. First, one of the areas which would be helpful is to give the CFOs within the departments and agencies the full range of responsibilities needed because many of them do not have access to all the information to begin to assemble the linkages necessary. They need to have both budget formulation and execution responsibilities. The CFO Act originally talked about budget execution, not budget formulation.

Secondly, we know from the work that we have been doing on overlap, duplication, and fragmentation in the Federal Government and monitoring implementation of the Government Performance and Results Act, many programs and activities do not have evaluations. The Congress just passed the Evidence-Based Policy Act. You cannot link something if it is not there to begin with, and there is not a lot of good, hard evaluative evidence of the performance of Federal programs and activities. So that act needs to be implemented well.

Now, in the Senate, Senator Lankford has been introducing the Taxpayer Right-to-Know Act, and that would link the performance with the budgeting and the accounting process. So I have supported consideration of that legislation as well, and that may be something that you want to entertain as part of the CFO Act initiative as well.

But all those things could help. And the cost data, some agencies are doing activity-based costing, but there really is not good cost information. This is particularly a problem at DOD because of their inability to get reliable data to begin with. But it is a problem throughout Government.

Chairman ENZI. Thank you. On a little different topic, since the enactment of the CFO Act, we have seen a proliferation of narrowly focused chief officers in the agency management. For example, some agencies now have Chief Risk Officers, Chief Data Officers, and Chief Evaluation Officers. I have heard concerns that this has created a fragmented environment where functions that could reside under the CFO umbrella are siloed into separate offices.

How do you think the creation of these offices has affected the process?

Mr. DODARO. We have not fully studied it since some of these positions are relatively new, particularly the Evaluation Officers and the Risk Officers. And my experience has been, before that, there were Chief Information Officers, Chief Procurement Officers, Chief Human Capital Officers. All were well intended because there was a problem in all these areas across Government, and to some extent there still is a problem, and there was nobody focused on it.

I think if you modernize the CFO Act, you can rationalize some of these positions, because then somebody would have clear responsibility and accountability for the functions.

The reason Congress defaults to creating these positions is because the problem persists over time, and no one seems accountable in the agency. So all the legislation then says this is what the legislation is intended to do, and here is who will be held accountable. But it needs to be better rationalized within each department and agency, and so I think there are opportunities to do that.

But the CFO position is a logical locus, particularly for risk management and integrating performance with cost data. If it does not happen at that level, it is not going to happen, and fragmentation will continue in the Government because of the inability to integrate data. And if you do not have your data integrated to the CFO side, you are at a serious disadvantage in meeting any of the objectives of these other laws.

Chairman ENZI. Thank you. I will yield the balance of my time, and the next two people to ask questions will be ones that asked for this hearing and evaluation. Senator Warner.

Senator WARNER. Well, thank you, Mr. Chairman, and I know Senator Johnson will say as well that we appreciate the fact that you made this request to the Comptroller General. I know you have got the two business guys and the accountants who are trying to drive this, but even though we may have somewhat different views on how we get there, I think we share a lot of the same goals. We have got to start with good data.

And, Gene, for all the years I have been here, thank you for your great work and the work you did on this CFO report. I think, you know, 30 years later, there are improvements that you have spoken to.

You mentioned a couple of bills that I was very pleased to have a role in getting passed, the DATA Act and GPRA. I think again about the DATA Act, which was the first open data piece of legislation to try to give taxpayers better insight into how their tax dollars were spent. And echoing what the Chairman said, the performance of Federal programs, I think we have a great aspiration. I am not sure the implementation fully has gotten us where we need to be.

So how can we better link performance metrics—you have spoken of performance metrics here a little bit—with the data that the agencies are already reporting? And are there specific things, as we upgrade the CFO Act, that we might fold those improvements into the CFO Act?

Mr. DODARO. I think, first of all, you have to hold agencies accountable for producing better data and showing the performance of Federal programs and activities. When we looked, for example, there were over 200 science, technology, engineering, and math programs. Two-thirds of them had never been evaluated. Some of them were too small even to evaluate. So you need to rationalize that, but you need to hold agencies accountable for that.

We looked at 47 employment and training programs. Only four had had an evaluation over a period of time.

Congress has the ability to change the incentives. Right now, all the onus is on somebody trying to stop a Federal program. The onus is not on people who want more money to continue the program to prove that it is working well. And so that through the budget and appropriation process and through better oversight I think needs to be a starting place right now because you are missing a whole component of what you want to link. The budget data is fairly good. Cost data is weak. And performance data is very lagging and missing in most cases. So Congress has to provide better oversight and hold people accountable for the components of the linkage.

Then I think you could strengthen the CFO position to be the locus of responsibility for managing the linkages.

Senator WARNER. Well, I hope you would work with us as we get into some of those details. One of the things I know the Chairman, along with Senator Whitehouse, has been proposing is—I have been supportive in the past and look forward to fully reviewing your new legislation that would move us at the Federal level to a 2-year budget cycle. I do not want to speak for my friend and fellow Virginia Governor Tim Kaine, but, you know, we did a 2-year budget cycle. It still allowed appropriation changes to be made on an annual basis. But it did not—we do not even do the existing 1-year process that well here, but having that extra year to really dig into the evaluation component I think is so, so important and I hope we are able to see, Mr. Chairman, your legislation become law.

I want to move off subject for my last minute. One of the things that I appreciate that you guys are looking into—and, again, I think I am speaking for my colleague Senator Kaine as well on this—is GAO looking at the military program of privatized housing. You know, my belief was this was a decision made back in the late 1990s that may have had short-term budget savings. But when we give folks a 50-year lease and very little oversight of how that lease is implemented, you end up now—and I think we have seen this at military installations all around the country—with our servicemen and women not getting the kind of quality care and the Federal Government not having the leverage that we need to have. And I hope you are still going to be able to get that report to us by December. Is that what we are hoping?

Mr. DODARO. Yes.

Senator WARNER. That is a quick yes. I will take that and go in my last 7 seconds.

Mr. DODARO. But I——

Senator WARNER. Let me just get my last comment in so the Chairman does not cut me off. I also want to thank you—I know you have been working with us from your financial side. This is more on the private sector side. But I think there may be—I am still unsure, but there may be some merit in the private sector's move towards ESG type reporting. But there is not much there in terms of standards. I really look forward to working with you on that, and the Chairman will give you the discretion to answer, make your other comment.

Thank you, Mr. Chairman, for having the meeting.

Mr. DODARO. The military privatizing of housing is a classic example where the Government is making short-term decisions without thinking through the long-term implications of this, because if you stop to focus on what the long-term implications are of who is going to take ownership of this after the lease and what is the incentive to make investments to keep the property up to standards, you could logically have predicted some of the problems that we are having now up front. But it is always a rush to make a short-term decision without thinking through the long-term implications, and these things are coming home to roost now.

But, to me, that is a classic case of where the federal government needs to change the horizon of its thinking because most of the things that it gets involved with are long-term efforts, and you need to have a framework for making long-term decisions and trade-offs up front before embarking on these efforts.

Chairman ENZI. We did that on other housing programs, but we did not learn from them.

Senator Johnson.

Senator JOHNSON. Thank you, Mr. Chairman. First of all, thank you for holding this hearing. Thank you for your dedicated efforts on all things financial management. I am a bean counter, and let us face it, numbers generally do not lie. You can probably do something with them, but facts are hard things to argue with, and that is what is so important about, you know, really the work that Gene does day in and day out, and everybody that works for the Government Accountability Office is providing that information so we can make smart management decisions within Government.

I would like to take this opportunity to let you know I have looked at your Congressional Budget Reform Act, and I would ask to be an original cosponsor before you introduce that, if you do not mind, also recognizing that what you are contemplating here, updating the CFO Act, will come under my Committee's jurisdiction. I want to work very closely with you and your budget staff because, again, you have been so dedicated and with Gene and his staff.

Since I have been here 9 years, I have seen probably the best bipartisanship really congeal around studies that the GAO does. Again, it is hard to refute those facts. And when the GAO lists recommendations, they are very hard to argue with, and we can just kind of wrap those into a piece of legislation and hopefully pass them pretty easily.

So I would hope that we can work together, this Committee, your Government Accountability Office, and our Committee of jurisdiction to update the CFO Act. These are great recommendations, you know, consolidating some of these other chiefs under what in business really is the Chief Financial Officer—those functions should go under there—provide these management reports, but that is really my question, because we have not issued a management report since I have been here. I have never really looked at one.

So can you just briefly explain, what is the difference between that and the general budget process? Just like of letting me know.

Mr. DODARO. The plan that we are talking about that has not been prepared would lay out what the overall goals would be for financial management for the Federal Government. It could include goals on doing the linkages that we are talking about. More importantly, it needs to include how to develop the systems necessary in order to generate reliable, timely data. We have good data now on most agencies, but it is one point in time at the end of the year for the financial statements. We are not assured to have timely, reliable information at any point during the year for timely decisionmaking. That needs to be done. The technologies are available now, but the government does not have a good plan.

There are some great ideas Treasury has, and OMB, to try to centralize some of that, to go to more shared services, common standards, and data. Those ideas need to be laid out in the plan with milestones and resource estimates. You also would have a better gauge on the status of controls in the Federal Government. There are a lot of material weaknesses that occur, which means that they could represent situations where there could be material misstatements to the financial statements and not be noticed on a timely basis. How are those being corrected over time? Some of them get fixed, but many of them go years and years before they are corrected. So a plan and status reports would provide more accountability for that, and it would raise additional issues to the Congress' attention and give the Congress an ability to say, well, this is not in your plan, we would like you to include this in the plan.

Right now there is no dialogue. There is no consultation. The plan would be a way to have consultation with the Congress so that you can get the information you want from the agencies as well. It is not just leaving it up to them to decide what they want to manage. That is important and essential. But they are producing this information for you and the American people, and you represent the people. And so I think that has been a missing dialogue, and——

Senator JOHNSON. It really is divorced from numbers. It really is what it says it is, financial management planning.

Mr. DODARO. Yes.

Senator JOHNSON. How do you manage all these functions? That is where I think it really would be a good idea to have this—not on an annual basis. I really do not think there is a need to do it, particularly because it has not been being done, anyway.

Mr. DODARO. Yes.

Senator JOHNSON. But spread that out a little bit longer, then you have a longer term to implement that, come back and do oversight. So 2 years might even be too short a period.

Mr. DODARO. Yes, we are suggesting four.

Senator JOHNSON. So once every 4 years, and then with that—okay.

Mr. DODARO. And you have status reports every year so you can check on the progress, but you do your strategic planning every—4 years and have it coincide with the development of strategic plans in the agencies under the Government Performance and Results Act. So you would say here is what we are planning to do as our business, and here is the financial system management system we need to support our business, and then you have a means to make sure it is integrated.

Senator JOHNSON. It makes perfect sense. I look forward to working with both you and Chairman Enzi and his staff on making this a reality. Thank you.

Mr. DODARO. Thank you, Senator.

Chairman ENZI. Thank you. And with your permission, Senator Kaine, I will call on Senator Grassley next.

Senator GRASSLEY. Well, Mr. Comptroller, I have tried to do diligent oversight for a long period of time here in the Senate. Government agencies do not seem to be very cooperative. If you consider the Department of Defense where I have often noted it is hard to get transparency and financial accountability. In fact, we had a hearing right here in this room with the CFO. I asked that person four simple questions for the record. We are still waiting for answers.

I appreciate your recommendations how to make further progress in the spirit of the CFO Act, including better measurement and more uniformity. But even with better measures, we do not assurances that agencies will be responsive to questions that we ask about those measures.

Could you talk a little bit about whether anything you recommend would lead to more transparency and responsiveness by these agencies?

Mr. DODARO. Yes. To talk about the Department of Defense, one of the things that we recommend is that they have a centralized tracking system to report to the Congress on a regular basis how they are fixing all the problems that are being identified by their auditors. That would give you an ability to track progress and to hold them accountable for results.

For example, the audits that were done at DOD in 2018, there were 2,400 items reported by the auditors that needed to be fixed. Now, from what we can figure out so far, DOD as of October had fixed about 350 of them, something like that, and there should be more fixed by the end of the year. So you should have the ability then to identify how they fixed them, particularly the material weaknesses, the big weaknesses over at DOD. This would give you a scorecard on how well DOD is doing compared to other agencies, and right now there is not transparency, as you point out, Senator. And I know you have been very diligent on these matters, and I appreciate that very much because it has enabled us to make greater progress because of the questions that you ask and the probing that you do. But this would give you more visibility and transparency.

Senator GRASSLEY. The problem of not getting certified audits in Defense is a very disappointing thing but not surprising. Again, for decades I have pressed the Department to fix its broken accounting system, get wasteful spending under control, and produce a clean audit and the Department has spent hundreds of millions of dollars on an audit and billions over the years trying to fix its accounting system with little success. Without proper accounting, an audit turns out to be nothing but wasteful.

So you may have just responded a little bit to this question, but I think it takes a broader answer about what are your views on the changes the Department needs to make to solve its accounting and finance problems. And how and when do you think changes would be implemented to get these clean audits?

Mr. DODARO. Yes. First of all, we have noticed that the audits are starting to produce some good results for them, particularly in identifying the status of their property. For example, in the 2018 audit, they identified in Jacksonville over $280 million of equipment supplies they bought that was not entered into their accounting system. So they put it in the system. Then they avoided repurchasing about $81 million.

They found missile motors that on their records showed that they were unserviceable, when they were actually in good condition based on the audit. They have saved $53 million by not reordering the missile motors.

They are starting to make some tiny steps toward improvement in identifying issues, but I think they have a long way to go. But the fact that they are now doing departmentwide audits for 2018 and 2019 for the first time since the CFO Act was passed, I think the administration and the Congress, quite frankly, gave them a pass for many years that were wasted along the last 30 years. And now they are trying to hold them accountable. I think they have the best plan they have ever had. I have been involved in this since the act was passed. This is the best plan they have had. But they have to fix the problems.

Now, I have been a little concerned—the previous DOD Controller has now been appointed Deputy Secretary—that they are going to lose some momentum in that area. So I am planning to meet with the Deputy Secretary of Defense to try to get his assurance he is going to stay focused on these issues, Senator. We are definitely on the case in this area, and I think that the investment that they are making in the audit will pay off, but only if they fix the problems that the auditors identified. And that is what I think can be done, and we will regularly report to the Congress whether they are fixing the problems that have been identified. That will give you a good gauge.

Senator GRASSLEY. Thank you.

Chairman ENZI. Thanks.

Senator Kaine.

Senator KAINE. Thank you, Mr. Chair.

Mr. Comptroller, I am going to just pick up right there. Am I right that the next DOD audit information is due in mid-November?

Mr. DODARO. That is correct.

Senator KAINE. And so that will be—I am on the Armed Services, and we put in place in 2014—and we should have had it done in 2014 given how long delayed this was, but in the NDAA in 2014 we basically said by fiscal year 2018 you will be producing this audit, and then we will have some data fairly soon about how they took the audits from last year and addressed problems and whether they are improving. And I am very, very anxious to get that, and when we do, I would be very anxious to hear your guys' perspective on the progress that they have made.

Mr. DODARO. Yes, we will definitely do that.

Senator KAINE. And whether that is in a formal hearing here or whether we get you into the office, I think it would be helpful, and

I would probably want to invite other Armed Services colleagues to come and be part of that as well.

Mr. DODARO. Yes.

Senator KAINE. There was a nomination hearing yesterday for somebody who is going to be working directly with Deputy Secretary Norquist on management, and we asked her about the audit, and she is very focused on continuing forward progress on this.

You gave some examples to Senator Grassley about, even in the first iteration, some of the problems that are being discovered, and I really am interested in audits in terms of what is the action item. I hope that we would have continuous improvement as an action item. Senator Warner and I, when we were Governors, we put this thing in place called "Virginia Performs" that is just a dashboard that basically looks at the key indicators of what would success look like to a Virginian. And we track it, you know, whether it is unemployment rate or third grade reading scores or infant mortality. We track Virginia against neighboring States. We track Virginia against national averages, and every year in those areas we give an up arrow if we are getting better, a down arrow if we are getting worse, or a sideways if we are holding steady. And that gives citizens the ability to look and see how their State is doing, and then within each of those data categories, we connect it to programs. And so I certainly would not say we are doing a good job at evaluating all of our programs, but we are not just doing programs and forgetting about them. And I think that is obviously what we want to shoot for at the Federal level.

DOD is kind of late to the party, but tell us how the audit requirements of Federal agencies have not just produced audit reports but have actually—give us some good examples of how the audits have produced improvements in the way citizens are served, because it should be about efficiency, but I like effectiveness even more than efficiency.

Mr. DODARO. Yes. I think one very noticeable example was identifying these improper payments. These are payments made to people that are not eligible or in the wrong amounts, and actually we started developing, along with the IGs, ways to determine—to quantify how much improper payments were made. That then led to legislation where Congress agreed with us that that is a management responsibility, and now there has been a series of legislative efforts to require agencies to estimate improper payments.

In 2018, there were 79 programs or activities that were estimated to have improper payments. The total amount of estimated improper payments was $151 billion, and that is not a complete estimate. We still do not believe the Government has a reasonable basis to know the full extent and have taken appropriate actions. But some of those payments have been rectified. This is done through statistical sampling.

Senator KAINE. Right.

Mr. DODARO. But you have a scorecard now that you did not have before, and a lot of this results in monetary loss to the Government. Every year——

Senator KAINE. I mean, this is such a great testament.

I would love to know the 79 programs that you evaluated—it is not a comprehensive list; there may be others—and which among the 79 programs has taken it seriously to reduce it and which are just still coasting. That would be a really helpful thing for Congress to know. We would like to praise the ones that are getting on it, and we would like to kick the ones that are not getting on it.

Mr. DODARO. Yes, and my concern is the two largest ones are Medicare and Medicaid, and they are the fastest growing programs we have.

Senator KAINE. Yes.

Mr. DODARO. And unless you get on top of this—and the Medicaid estimate right now does not really seriously look at the managed care portion of Medicaid, which has grown about 40 percent.

Senator KAINE. And it is growing quickly.

Mr. DODARO. And this is the classic case how you can use the financial audit to hold people accountable for results.

Senator KAINE. Sometimes people fear this because they feel like, you know, if you find that something is being spent wrong, you will take it away from me. But the DOD had this testimony yesterday. Their attitude is efficiency for lethality. If we spend any cent on the wrong thing, it is a cent that is out of the right thing, and we want to find spending on the wrong thing and reprogram it to spending it on making our Nation more secure.

Medicaid and Medicare, I mean, these are programs that vulnerable people depend upon, and we grapple with are they solvent or not. If we could reprogram money spent on wrong purposes within those programs to shore up things, it would make everybody who is vulnerable and depends on those programs feel more confident that the programs will be there for them.

One of the aspects of your testimony that I want to go a little farther on deals with the workforce. You talk about, you know, how to—steps we could take for the financial management workforce in the Federal Government. What about workforce effects on this workforce more generally, things like sequester and, you know, Government shutdown and CR? Good financial professionals have other alternatives, and they could go elsewhere. So are you worried about the consistency of a workforce when there has been budgetary—and certainly on the congressional side that might make people decide they want to do something else?

Mr. DODARO. I am very concerned about the status of our Federal workforce. The uncertainty in the budget process, as a manager of a Federal agency myself, is a complicating factor, and it makes it very difficult to plan, to hire the people that you need, when you do not know what your appropriation is going to be for the year. I have stopped all hiring right now until I know. And it is not clear when that is going to happen, so it does have effects.

But on the workforce, we designated that a high-risk area across the entire Federal Government for the entire workforce. There are huge skill gaps right now. Of the 35 areas on our High-Risk List, 16 of them are on there in part because of skill gaps, whether you are talking about VA doctors, you are talking about aerospace engineers at NASA, you are talking about cost estimators at DOD and acquisition personnel. A huge percentage of the Federal workforce is eligible to retire on top of these skill gaps. While this is an opportunity to reshape the workforce, but only if you can effectively recruit and hire people.

Senator KAINE. I am significantly over my time.

Mr. DODARO. I am sorry.

Senator KAINE. But I appreciate that answer, and that gives us a direction we need to focus on.

Thank you, Mr. Chair.

Chairman ENZI. Thank you.

Senator Kennedy.

Senator KENNEDY. General, these are your colleagues behind you here, I assume?

Mr. DODARO. Yes.

Senator KENNEDY. I want to thank all of you for your good work. I know it gets frustrating sometimes.

I want to follow up on Senator Kaine's questions about improper payments. You mentioned 79 agencies, and last time I looked, it was about $144 billion a year. That is not a 10-year estimate. That is per year.

Mr. DODARO. Yes.

Senator KENNEDY. And I agree with you, and I think we have done a good job, you have done a good job in terms of understanding the extent of the problem. What more do we need to do to try to make agencies take it seriously? And let me tell you what really frustrates me. I understand making a mistake in terms of a payment. But we are paying dead people, for God's sakes. And they have been dead a long time. Now, I have seen dead people vote but never cash a check. It is obviously fraud. And yet the Social Security Administration has a Master Death File. How hard can it be to check?

Mr. DODARO. First of all, we have recommended that the Congress address that Social Security will not share their full death file with the Treasury Department. You and I had this exchange previously.

Senator KENNEDY. Yes.

Mr. DODARO. It still has not happened.

Senator KENNEDY. I know.

Mr. DODARO. I have asked Congress to give the Social Security Administration——

Senator KENNEDY. I am trying to get a bill passed. I have got all kinds of people objecting to my bill.

Mr. DODARO. It is one Federal agency to another, and the objections are privacy, but it is costing the Federal Government a large amount of money. I cannot believe anybody would not—the average citizen would not agree that it makes sense to do that.

Senator KENNEDY. I cannot believe there are people objecting—I mean, I am not trying to be unfair to any of my colleagues, but who can be for paying a dead person? That is hard to sell back home.

Mr. DODARO. Yes. You will not find any takers from GAO on that either. But it baffles me, to be honest with you. And the other thing is under the law, if an agency has an improper payment rate of over 10 percent for 3 straight years, they are supposed to provide a plan to the Congress to come into compliance with the law. But I cannot for the life of me think of when an oversight hearing was held on these agencies that are out of compliance with the law to say, "When are you going to fix this?"

Now, I have testified in the past on some of these.

The problem is overall, though, it is a cultural problem in the Government. The only time people in the agencies get into trouble is for not paying somebody. If somebody is not paid or they are not paid on time—there are incentives are to deal with that, not to make sure you double-check eligibility and that you match records and things of that nature. So we are trying to shift the culture by highlighting the issue. And a number of agencies say, part of it is a documentation problem; we just do not have the papers.

My point to that is, look at the IRS, if you do not have documentation for your tax exemptions, the Government will take your money. But you are going to turn around and spend somebody else's money without proper documentation?

So this needs congressional oversight in a big way, Senator, and the administration is trying, but they need help, and we could use your help, too.

Senator KENNEDY. Well, another example, and this to me is low-hanging fruit, and I know you see it as well as I do. Our Internal Revenue Service—and I know they get beat up on, and I want to try to be fair here. But when they are—we assume that they know, the IRS, who is paying taxes and who is not. And when I see them hiring consultants that owe them money in a final judgment—not a tax dispute, there is a final judgment, and they are contracting with them without offsetting the amount owed the taxpayers. I do not understand it.

Mr. DODARO. We have issued reports on that. It is not just IRS.

Senator KENNEDY. I know.

Mr. DODARO. Other agencies hire contractors who owe the Federal Government money, tax debt. And Congress has taken some action, but more can be done in that area. We have recommendations on that. But there is just not—the focus on responsibility and ownership—that is why you do not have much of this happening in the private sector because it is their own money.

Senator KENNEDY. I have about convinced—I am not going to go too far here, but I do not want to be unfair to anybody, but it is easier to divorce your spouse than fire somebody around here. And it just seems to me within the parameters of the law that some people ought to be fired over this. I mean, how can you defend paying a dead man? It is pretty basic.

Thank you, Mr. Chairman.

Chairman ENZI. Thank you.

Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. Thank you, Mr. Comptroller General, for your service.

I am going to be submitting for the record some questions related to the idea that came out of OMB for a capital revolving fund. Some of us came from State government where we had capital budgets and operating budgets, and it appears the Federal Government could save quite a bit of money, potentially, if we set aside a capital fund for the purchase of Federal Government buildings instead of leasing these buildings.

Do you agree that is something we might want to look at to save money?

Mr. DODARO. Definitely. It has been on our High-Risk List for many, many years, mostly because of the overreliance on leasing. So I would endorse looking at that issue.

We have been asked recently to look at the specific proposal from the administration, so we will be starting work on that soon.

Senator VAN HOLLEN. I would like to work with you on that.

Mr. DODARO. Definitely.

Senator VAN HOLLEN. If it requires any legislation, because right now, as we know, agencies have to put the entire cost of a building in an annual budget, and they are reluctant to do that because that squeezes out other priorities, and so they lease it so they just have a little slice per year.

Mr. DODARO. Yes.

Senator VAN HOLLEN. So it makes much more sense if we would allow them to have a capital fund. So that is one question.

The second relates to Federal employees. My understanding is the level of Federal employees, total Federal employees in the Federal Government, has remained pretty constant for the last 10, 20 years. Is that right?

Mr. DODARO. Yes.

Senator VAN HOLLEN. But Federal contract employees, we really do not know how many there are, do we?

Mr. DODARO. No.

Senator VAN HOLLEN. All right. Because I have heard estimates of 3.7 million. Does that make sense to you? Paul Light, who is a professor at NYU——

Mr. DODARO. Right.

Senator VAN HOLLEN [continuing]. Has talked about that.

Mr. DODARO. I know Paul very well. And you just do not know. There is no——

Senator VAN HOLLEN. So I would like to work with you. It seems to me that as we work to get a better handle, as you are, on the Federal budget—and the Federal budget, of course, includes payments to contractors, but it would be useful to know just how much work is going outside the Federal Government, because there are some things that, in my view, properly belong within the scope of Federal employees, and we should not be contracting out a lot of governmental functions that are inherently governmental. So I am going to also ask you about that.

Mr. DODARO. I agree with that. For many years, we have had a recommendation to DOD in particular to figure out what is the proper mix of their workforce.

Senator VAN HOLLEN. Yeah.

Mr. DODARO. For some areas, it may make more sense to have Federal employees do it where you want continuity and you want to build up institutional knowledge.

Senator VAN HOLLEN. Absolutely.

Mr. DODARO. The classic example is where in the 1990s when the acquisition workforce was cut back; then all of a sudden the United States was in Afghanistan and Iraq, and the government did not have the people to support it.

Senator VAN HOLLEN. Very good example. We lost our professional Federal Government procurement team, and as a result, we probably wasted a lot of money on——

Mr. DODARO. Yes, short-sighted, just like leasing.

Senator VAN HOLLEN. So I want to work with you on that, too.

Mr. DODARO. Okay.

Senator VAN HOLLEN. I want to ask you about the Impoundment Control Act because GAO plays a very important role in that, right?

Mr. DODARO. That is correct.

Senator VAN HOLLEN. And as we know, we have a very recent example of this administration withholding funds specifically for Ukraine, $400 million, until the very end. And GAO wrote an opinion back in December of last year, "Subject: Impoundment Control Act—Withholding of Funds through Their Date of Expiration," where, as I understand your opinion, it would be illegal, unauthorized for the executive branch to withhold money at the very last minute. Can you just talk briefly about that? And then I have a follow-up.

Mr. DODARO. Yes, sure. Under the law, which was passed in 1974 to resolve the dispute between President Nixon and the Congress on rescinding money, the President can propose to the Congress to rescind the money, and the only way that that would hold is if Congress said, "Yes, we agree." And Congress has 45 days in order to act. And if they do not act, then one of our responsibilities is to make sure the money is released. And if not, we are authorized to go to court to represent the Congress in getting the money released from the administration. We have only had to do that once, but HUD released the money beforehand.

What this opinion says is if you try to withhold the money and not give Congress the 45 days and the money expires toward the end of the year, that is not a proper rescission. It is not contemplated under law to operate that way.

Senator VAN HOLLEN. And this was within the 45 days. As you know, the Ukraine money was not released within those 45 days, and maybe you can get back to me on whether GAO told the administration they were in dangerous territory.

Mr. Chairman, I would like to put in the record an article from Lawfare, "The Role of OMB in Withholding Ukrainian Aid," and an article from Just Security entitled "White House Ignored Pentagon Warning on Ukraine Funding."

Chairman ENZI. Is there objection?

[No response.]

Chairman ENZI. Without objection.

[The articles follow:]

The Role of OMB in Withholding Ukrainian Aid

By Jacques Singer-Emery, Jack Goldsmith
Wednesday, October 16, 2019, 4:00 PM

One of the most damning allegations in the whistleblower complaint is that President Trump pressured Ukrainian President Volodymyr Zelensky to investigate former Vice President Joe Biden and his son by withholding congressionally approved military aid. The amounts include $250 million from the Defense Department and $141 million from the State Department.

As debates swirl over the existence and significance of a presidential quid pro quo, it is worth examining the underlying mechanics of how the White House might have withheld the money. The answer lies in the Office of Management and Budget (OMB), which is responsible for overseeing all executive agency spending. That is why on Oct. 7 the chairmen of three House Committees—Oversight and Reform, Intelligence and Foreign Affairs—sent letters to subpoena documents from the acting director of OMB, Russell Vought, in addition to Secretary of Defense Mark Esper. The subpoena to Vought ordered him to produce "all documents and communications in your custody, possession, or control referring or relating to" various matters linked to the withholding or deferral of congressionally appropriated funds to Ukraine. The deadline to respond to the subpoena was Oct. 15, yesterday, and Vought made clear that he would not comply.

At present, it is unclear whether OMB withheld the money in a manner consistent with its legal obligations. Without drawing any definitive conclusions, this post explains the complex legal underpinnings of the issue about which Congress seeks information.

Origins of the Withheld Funds

The withheld funding was allocated by two laws. First, $250 million in Defense Department aid was provided by the National Defense Authorization Act, which Congress passes every year to allocate federal money to various defense initiatives. Second, $141 million in State Department aid comes from the Consolidated Appropriations Act, which Congress often passes to provide federal money to a number of other government programs (including foreign aid).

The $250 million in military aid was authorized in the 2019 John S. McCain National Defense Authorization Act (or the 2019 NDAA). However, in order for all the funds to be released to Ukraine, §1237(c) of the 2017 NDAA (which 2019 NDAA adopted) requires that "the Secretary of Defense, in coordination with the Secretary of State," *certify*:

> [T]he Government of Ukraine has taken substantial actions to make defense institutional reforms, in such areas as civilian control of the military, cooperation and coordination with [the Ukrainian legislature's] efforts to exercise oversight of the Ministry of Defense and military forces, increased transparency and

> accountability in defense procurement, and improvement in transparency, accountability, and potential opportunities for privatization in the defense industrial sector, for purposes of decreasing corruption, increasing accountability, and sustaining improvements of combat capability.

The under secretary of defense for policy, John C. Rood, provided this certification in a letter to Congress in May 2019 and stated that "[n]ow that this defense institutional reform has occurred, we will use the authority provided ... to support programs in Ukraine further." On June 18, the Pentagon also publicly announced that it was going to release this funding to Ukraine.

Authorization is only half of the process; funds also need to be appropriated. On Sept. 28, 2018, Congress appropriated the $250 million in military aid for Ukraine (see here, § 9013). Once this had occurred, the Defense Department only needed OMB's approval to release the aid. However, OMB delayed, to the frustration of some members of Congress. In late September, Senate Minority Whip Dick Durbin said:

> We'd been given signals twice by the administration that they were going to release the funds then nothing happened. In August we were told the OMB is holding it. They were withholding these funds that had been appropriated and signed into law by the President until the last two weeks of the fiscal year. That's crazy. It hardly ever happens.

On Feb. 15, Congress appropriated $445.7 million to the State Department to assist Ukraine (see here, § 7046(a)(2)), which included the $141 million at issue here. In a joint explanatory statement (page 65 of Division F, for interested readers), Congress broke down the $445.7 million in funding, which included (among other initiatives) $115 million in foreign military financing; $2.9 million in military training; and $45 million in international narcotics control, law enforcement and anti-terrorism funding.

That $141 million State Department aid was earmarked by Congress and approved by the secretary of state to be sent to Ukraine. As a last step, the funding required final approval from OMB. And as with the Defense Department aid, OMB withheld these funds. CNN reported that on June 21 the State Department notified OMB of its plan to spend the $141 million. According to a Democratic aide, OMB would have normally spent five days asking questions about this package, but, instead, it took two months before the White House disbursed the money.

OMB's Authority Over Congressionally Allocated Aid

How can OMB grant final approval to release the funds discussed above?

Once Congress designates money for a program, the executive is typically bound to spend those funds on that program. If the president wants to significantly alter a program's budget, he is required to obtain congressional approval.

Within these bounds, the White House OMB has some discretion to determine when congressional money can be released to an agency and spent. But this discretion is limited to ensuring that congressional funding lasts for the allotted time and that the money is spent appropriately.

The White House's discretion is granted and limited through the president's "apportionment power" and "deferral power," or the ability to limit spending for brief periods if the budget is at risk of not lasting the fiscal year. The president subsequently delegates both these responsibilities to OMB. Usually, plans or instructions for an agency's budget are detailed by OMB Circular A-11, a standard White House document. (An example of one is here.) Once Congress has allocated this money, career OMB employees, and not political appointees, normally review and approve each agency's planned post-appropriation spending.

OMB is prohibited from using its "apportionment power" to determine or set an executive agency's policy. OMB can only use its authority to ensure a congressional law is appropriately executed, and the money allocated for that law typically lasts through the fiscal year unless the money is made available for obligation over a longer period. In particular, 31 U.S.C § 1512(c)(1) states that OMB can use its apportionment or reapportionment power *only*:

(A) to provide for contingencies;

(B) to achieve savings made possible by or through changes in requirements or greater efficiency of operations; or

(C) as specifically provided by law.

Thus, OMB is limited to requiring an agency to provide details on how it plans to spend its apportioned funds. This could entail asking an agency to write a specific timeline; detail activities, projects or objectives; or require the agency to reserve money as contingency funds for other operations linked to that overall initiative.

The 1974 Congressional Budget and Impoundment Control Act (ICA)—written in the wake of President Nixon's attempt to exert greater control over the budget—extends this reasoning to OMB's deferral power, or the ability to withhold congressionally mandated money from an executive agency for a period of time. As a routine matter, these types of deferrals do not last longer than 45 days. 2 U.S.C § 682(1), defines a "deferral" as:

(A) withholding or delaying the obligation or expenditure of budget authority (whether by establishing reserves or otherwise) provided for projects or activities; or

(B) any other type of Executive action or inaction which effectively precludes the obligation or expenditure of budget authority, including authority to obligate by contract in advance of appropriations as specifically authorized by law

Part of the ICA (2 U.S.C § 684) mirrors 31 U.S.C § 1512 and states that, like apportionments, "deferrals shall be permissible *only*:"

(1) to provide for contingencies;

(2) to achieve savings made possible by or through changes in requirements or greater efficiency of operations; or

(3) as specifically provided by law.

This section also clearly states that "[n]o officer or employee of the United States may defer any budget authority for any other purpose."

If OMB believes that all or part of a budget is not required to resource a program or if the president decides that a program is no longer in the best interests of the United States, the ICA requires the White House to write a message to Congress (2 U.S.C. § 683(a)) stating:

(1) the amount of budget authority which he proposes to be rescinded or which is to be so reserved;

(2) any account, department, or establishment of the Government to which such budget authority is available for obligation, and the specific project or governmental functions involved;

(3) the reasons why the budget authority should be rescinded or is to be so reserved;

(4) to the maximum extent practicable, the estimated fiscal, economic, and budgetary effect of the proposed rescission or of the reservation; and

(5) all facts, circumstances, and considerations relating to or bearing upon the proposed rescission or the reservation and the decision to effect the proposed rescission or the reservation, and to the maximum extent practicable, the estimated effect of the proposed rescission or the reservation upon the objects, purposes, and programs for which the budget authority is provided.

Additionally, § 683(b) requires that the allocated money be spent for its originally designated purpose unless Congress passes a bill rescinding the funding within 45 days after the president's message.

OMB's Decision to Conduct a Prolonged Review of Ukrainian Aid

When the Department of Defense and the State Department first requested 2019 foreign aid for Ukraine (here and here, respectively), OMB presumably approved these requests. Congress then gave both these agencies the requisite funding through two appropriations bills. In June, both agencies informed OMB that they intended to spend this congressionally allotted money, but OMB put the money on hold until the White House approved the funds months later, on Sept. 11.

Before the whistleblower complaint and the notes from Trump's call with Zelensky were released, this timing perplexed Congress. Politico's coverage of OMB's delay suggests the Ukrainian funds were upheld as part of a larger White House initiative to review and cut "unnecessary" foreign assistance. This policy placed Trump in direct conflict with Senate Republicans, who saw the Ukrainian aid as vital to national security and thought the president was trying to circumvent Congress's spending power.

OMB might have had the ability to withhold this aid if the White House had provided Congress with a message meeting the ICA's requirements. But no message appears to have been sent. Furthermore, the aid from both Defense and State was held long past the mandated 45-day period and in apparent contravention of his powers defined by 31 U.S.C § 1512. The president and OMB did ultimately release the $250 million in aid from the Defense Department (on Sept. 11) and the $141 million from the State Department (around the same date). Whether there is some good legal or other explanation for the long delay in releasing the money is a question that lacks a clear answer, and that might remain unanswered indefinitely if Congress cannot get its hands on the requested documents.

https://www.lawfareblog.com/role-omb-withholding-ukrainian-aid#

Exclusive: White House Ignored Pentagon Warning on Ukraine Funding

by Kate Brannen

October 30, 2019

As the summer wore on, and President Donald Trump would not budge on his decision to withhold almost $400 million in military aid for Ukraine, the Pentagon warned the White House: If its portion of the money wasn't released quickly, the Defense Department would not be able to spend it before the fiscal year ended on September 30.

The Pentagon even gave the White House a deadline. In late July, as panic spread within the administration over the president's worrisome decision, the National Security Council led a series of interagency meetings to discuss what to do about the military assistance to Ukraine. At one of these meetings, Defense Department officials told the White House that if the $250 million in security assistance was not released by August 6, it would not be able to spend it all by the end of the fiscal year, according to two sources familiar with the deliberations.

The Defense Department's message was clear: If the White House didn't act, the Pentagon would be left with unobligated funds — money that would return to the U.S. Treasury and never make its way to Ukraine. And the Pentagon was also clear that providing Ukraine the security assistance was in the national security interests of the United States, on that point Trump's Cabinet agreed.

"At every meeting, the unanimous conclusion was that the security assistance should be resumed, the hold lifted," Bill Taylor, the top U.S. diplomat in Ukraine, said in his opening statement to House investigators last week.

As for corruption, the pretext being given for why the funding was being withheld, the Pentagon had certified in May that the "Government of Ukraine has taken substantial actions to make defense institutional reforms for the purposes of decreasing corruption [and] increasing accountability." When asked over the summer to perform an analysis of the effectiveness of the military aid, the Defense Department took one day to conclude the assistance was effective and should be resumed, Taylor testified.

In late July, the Pentagon also alerted the White House that if the funding wasn't released in time, the Pentagon would be at risk of violating the Impoundment Control Act, which punishes the executive branch when it doesn't spend money that Congress has appropriated, the sources said.

But, the White House did not heed the Pentagon's warnings. It continued to withhold the money through August and into September.

But the pressure was mounting. Behind the scenes, the White House could see a storm brewing over Trump's decision. On August 12, a whistleblower inside the Intelligence Community filed a complaint, flagging Trump's disturbing phone call with Ukrainian President Vlodomyr

Zelenskyy and raising questions about why the security assistance was being delayed. On August 26, the Intelligence Community Inspector General Michael Atkinson, having determined that the complaint was credible and met the legal definition of an "urgent concern," forwarded it to acting Director Of National Intelligence Joseph Maguire, expecting him to transmit it to Congress. Instead, Maguire consulted with the Justice Department and the White House, which, at some point before September 9, directed Maguire not to share the complaint with the congressional intelligence committees.

In the meantime, *POLITICO* broke the news on August 28 that Trump was withholding the Ukraine money, immediately prompting outcry on Capitol Hill, with lawmakers from both parties asking: What is going on? On September 9, the House Foreign Affairs, Intelligence and Oversight and Reform committees announced they were investigating the "Trump-Giuliani Ukraine Scheme," including Trump's decision to "withhold security assistance to Ukraine in defiance of explicit congressional direction." And, in the Senate, Sen. Dick Durbin (D-Ill.) was reportedly threatening to withhold $5 billion in Pentagon funding for next year unless the Ukraine money was released.

With Congress growing irate and the fight over the whistleblower complaint about to break into the open, Trump finally gave permission to release the Ukraine funding. On September 11, the State Department notified Congress that $141 million worth of military equipment for Ukraine would resume, and the next day, it was reported that the hold on the $250 million of military assistance from the Defense Department had also been lifted.

At the time, a senior administration official told the *Washington Post* that "the determination to release the money was motivated by the fiscal year's looming close on Sept. 30."

At this point, it was widely assumed that with Trump's granting of permission, the funding had been fully restored. But, the Pentagon knew the White House had waited too long, ignoring its August 6 deadline. Halfway through September, there was no way the Pentagon was going to be able to get all of the funding out the door before the fiscal year ended.

"The White House had time to resolve any issues, but apparently ignored the deadline, putting the funding at risk," said Sam Berger, who served at the Office of Management and Budget during the Obama administration and is now vice president for democracy and government reform at the Center for American Progress. "This is further evidence that the aid was withheld for political reasons, not policy concerns."

With time running out, the Defense Department had to rely on Congress for help. The best opportunity to address the problem was with the seven-week Continuing Resolution (CR) spending bill, which was being drafted on Capitol Hill to avert a government shutdown.

"In response to inquiries made by appropriators while the CR was being drafted, the Pentagon alerted Congress that it would not be able to spend all of the money by September 30," Evan Hollander, communications director for the House Appropriations Committee, told *Just Security*.

Appropriators worked with the Defense Department on crafting last-minute legislation that could be added to the CR that would extend the deadline the Pentagon would have to spend the Ukraine money and prevent it from running afoul of the law.

The final CR included language that essentially rescinded the money the Pentagon was unable to spend and then re-appropriated it, putting time back on the clock for the Pentagon to supply Ukraine with what it needed. The Defense Department did not provide a precise amount at that time, but $35.2 million was rescinded and re-appropriated, Hollander said.

The Pentagon did not respond to a request for comment.

In the end, and only with congressional help, the Pentagon appears to have avoided violating of the Impoundment Control Act. However, the release of the funding in September did not address all of the potential legal violations at play. The very act of holding the money in the first place could have also violated the Impoundment Control Act, because the White House did so without congressional approval or notification.

"The Trump administration did not follow the Impoundment Control Act's notification requirements when they held up Ukraine Security Assistance Initiative funding, and actions to delay this and other international assistance funding appear to be clear violations of the law," Hollander said.

In the end, it's clear that the Pentagon's warning to the White House over the summer went ignored, revealing just how much the White House was willing to risk with its Ukraine pressure campaign.

https://www.justsecurity.org/66767/exclusive-white-house-ignored-pentagon-warning-on-ukraine-funding/

Senator VAN HOLLEN. My question is: In this article, the Pentagon was pushing really hard to get these funds released, as was a bipartisan group in Congress. The Internet says that even if they withheld and ended up spending the funds, the failure to notify Congress would be a violation. If you can just get back to me on whether you agree, and, number two, what is our recourse at the end of the day as a Congress if they do not do it?

Senator VAN HOLLEN. Thank you, Mr. Chairman.

Chairman ENZI. Senator Scott.

Senator SCOTT. Sure. First of all, I have been up here just a few months, and I think the reports you put out are really outstanding. They are really good, so I want to thank you and your team for doing it.

What Federal agencies have actually listened to you?

Mr. DODARO. Actually, 77 percent of our recommendations get implemented over time. Probably the two agencies that have the lowest historic rate of implementation of the recommendations are DOD and HHS, the Center for Medicare & Medicaid Services. But I am working with both of them. Every year I send a letter to each major department and agency prioritizing open recommendations from GAO. That is prompting more action. We are often here talking about what has not been implemented, but a lot has. Last year, as a result of the agencies implementing our recommendations, we saved $214 billion on behalf of the Federal Government, which is a good return on GAO's investment.

So a lot of agencies have been listening to us, but there is more that could be done. Tens of billions of dollars could be additionally saved by implementing our recommendations. I am trying to work with the agencies and with Congress to get attention to those matters.

Senator SCOTT. Are you familiar with the low-income program that comes up through CMS at some of the States?

Mr. DODARO. Just generally.

Senator SCOTT. I think Senator Van Hollen has got—I have got the same issue that he just had on something else. I had a situation—I just finished being Governor—where the last administration withheld $1 billion because we did not do Medicaid expansion. Could you look and just let me know, is that something that is proper? Do they have the authority to do that?

Mr. DODARO. Okay. We will look into that.

Senator SCOTT. When you say that, you know, some of the agencies have done it, you know, almost $150 billion a year in improper payments, how much is that thing going down on an annual basis?

Mr. DODARO. It is not. Some individual programs it has gone down, but the governmentwide number is going up, not down, including the amount that has been reported as actually monetary losses as opposed to errors and documentation issues.

Senator SCOTT. And there is no Federal law that requires anybody to focus on that or the other issue that you just brought up of Federal agencies sharing information with other Federal agencies, there is just no requirement to do it or no enforcement mechanism?

Mr. DODARO. The interpretation by the agencies, in this case on Social Security full death information, is they cannot share it. Congress told them not to share it with anybody. We are saying, well, Treasury is just not anybody. We know you are supposed to protect the information, but they—and that is why we asked Congress to clarify the law to say, yes, Social Security, you can provide it to the Treasury Department to be able to do it.

There is a law, improper payment legislation, that requires agencies to do estimates, to report to the Congress, and if they do not bring the rates down within 10 percent—now, 10 percent is a pretty generous figure in an error rate to begin with. But within 3 years if it is still over 10 percent, they are supposed to report to the Congress. Some of the agencies have not been reporting promptly, and then when they do, there is not much action on the congressional front, to be honest with you. And I am trying to spur more attention there.

Senator SCOTT. And the executive branch never enforces it against their own agencies?

Mr. DODARO. No.

Senator SCOTT. Why?

Mr. DODARO. Well, some of them are in mandatory programs. You have Medicare, Medicaid. The law says if somebody is eligible, you got to pay them. And so they are originally determined to be eligible, and it is only after the fact that you find out that they are not.

And so what we are trying to do, like on Medicare, for example, we think—and they have been experimenting with this in part because of our recommendations. You ought to have some prior authorization in some cases, and it could be done in a timely manner so nobody is withheld services that they need. But they are not doing that as much as we think they should.

So we have made a lot of recommendations. I met with the Administrator from CMS, and so they are, beginning to listen to our recommendations. They made some good moves in the Medicaid area where they were approving demonstrations in States that were supposed to be budget neutral, but they really were not. It was costing the Federal Government tens of billions of dollars, and so they have renegotiated those demonstration arrangements and have already saved over $100 billion so far.

So they are taking action. They are trying to do this.

Part of the problem is unless you prevent these payments from being made in the first place, you have a problem because it is hard to recover. About $20 billion gets recovered every year on average, but that is not anywhere near compared to the magnitude of the problem. But you have to prevent them in the first place, so we are trying to get them to use better diagnostics to do more matching, particularly on eligibility requirements. I have been trying to get the State auditors more involved, particularly on Medicaid, because as you know, for some States, it is one third or 40 percent of their entire budget. And while the Federal Government covers a great deal of that cost, the States have skin in the game on it, too. And so the State auditors are getting more involved now.

There was actually a prohibition of them testing beneficiary eligibility determinations in the OMB compliance supplement that gives them guidance on how to audit Federal programs. So I worked to have that rescinded, so they are able now to go in. Nobody has been checking the eligibility on beneficiaries on Medicaid since 2014 when the Affordable Care Act was in place. So I got that changed. They are moving in that direction. But this is fertile ground for a lot of oversight and reducing unnecessary costs.

Senator SCOTT. Would you like me to tell you some numbers in Florida? When I finished, with 22 million people, 61,000 people on unemployment, 71,000 people on TANF; we added 1.7 million jobs. In that eight years, I have doubled the number of people on Medicaid to over 3 million and doubled the number of people on food stamps, because the Federal Government would not crack down on any fraud. Would not even look at it. How could it double?

Mr. DODARO. I have been trying to get the focus on this, and I could use congressional support.

Senator SCOTT. Yes. Thank you.

Mr. DODARO. Sure.

Chairman ENZI. Senator Whitehouse.

Senator WHITEHOUSE. Two things. First, I would be interested in a question for the record, and that would be what recommendations you might have as to ways in which, following up on Senator Van Hollen's questions, Congress can better protect its legislative function from executive manipulation and interference. We appropriate, but at this point the disbursement of those funds is entirely housed in the executive branch, and the disbursement is—at this point it seems that this administration views that it is optional as to whether they follow the law that Congress actually passed.

So what might you suggest by way of a mechanism by which Congress could retain at least so much of the disbursement function that if we do not believe the funds are going out consistent with the law, we have an opportunity to say so and to have some effect? At the moment we just sort of shout into the wind, and there is, to my knowledge, no mechanism for Congress to enforce its power to tax and spend and to see that its appropriations are adhered to. So that is the question. I know it is a long and complicated one, so if you would take it for the record and get back to me, I would be grateful.

Mr. DODARO. Sure.

Senator WHITEHOUSE. The only other thing I want to say is I want to say a word of appreciation to the Chairman. He and I have been through a great many of these budget hearings and budget meetings in which we have heard each other rail about the inefficiency and dysfunction of the Budget Committee, not because of any of its members but because of the way in which it is structured. It is like a cannon that is pointed in the wrong direction, and even if you fire it, it is not going to hit the target because it is not properly designed to do its tasks. As a result, we have a United States Senate in which no committee is tasked in any functional way to look at debt, deficit, borrowing, or any of the financial consequences of the way in which we go about our business. And I think we have heard each other rail about this long enough that we began to discover that there was considerable overlap, and with the Chairman's support, I was able to serve on the Select Committee for Appropriation and Budgeting Reform, and a proposal that would be directed towards the Senate Budget Committee was adopted in full unanimous, bicameral, and bipartisan fashion in that select committee, which I think gave us a good signal that maybe there was some hope to solve this.

In the meantime, Chairman Enzi continued working forward with his efforts to try to reform this Committee and make it functional again, and I think we are at a point where, with any luck, we will be able to announce having something very shortly that we agree on.

I do not think it is the end of the story. We obviously have appropriators and leadership and people out there who have very strong interests in how this works and very important prerogatives to defend. But I think we have a very significant beachhead in a bipartisan proposal to get back to having the Budget Committee be meaningful and to have it be a forum where we can take a responsible look at how the major elements of the budget—appropriated spending, tax spending, health care spending, and revenues—combine and how to get from the result they currently present to a debt-to-GDP ratio that is sustainable over a reasonable period of years and with significant warning lights and flashers and safeguards so that we know when we are off the glide slope.

So I think there has been a lot of progress that has been made. I am very excited about it. I know that the Chairman has been working very hard in this area for a long time, and I just wanted to take this opportunity to express my appreciation to him and to his staff for the work that they have done and that we have done together.

Chairman Enzi. Thank you. And thanks for your efforts on that, both before we started working together and since we started working together, and I think we have got a product that I think has some good possibility of passing.

It will not solve all the problems, but I think it will show where the next steps have to be.

Senator Braun.

Senator BRAUN. Thank you, Mr. Chairman.

One thing that might address what Senator Whitehouse was talking about is Representative Brady and I have introduced the MAP Act which pegs the size of our Government to potential GDP. I do not know if you have looked at that or not, but I think that would go a long way towards talking about his issue, which to me is not the real issue. That is accepting debt as being something that you are going to manage as opposed to how much you are spending, and we will not have time to go over that today, but he mentioned it.

I want to make sure—an exercise in simple arithmetic here: $141 billion in improper payments in 2017. Is that correct?

Mr. DODARO. Yes, that is right.

Senator BRAUN. Okay. So on $4.3 trillion, that is a little over 3 percent of everything we pay for here is an improper payment, and I am trying to equate that to my own business. And, you know, you would not even have that reach into the hundredth of a percent until the whole place would be in an uproar. And, of course, you would find it immediately, and you would make a fix, and it never occurs again. It kind of begs the question. If we do put out a field fire and fix something here, where does all this stuff keep coming from to where you get more and more improper payments when, you know, it looks like we do get some of them—you said maybe $20 billion a year. But it seems like that would put the quietus on and would fix, you know, what that current issue is. It is like we are growing them here out of the nature of the beast.

Mr. DODARO. Yes, well, there are two problems. One, while you calculated the overall number, some programs are over 10 percent improper payments, 14 percent in fee-for service for Medicaid, according to the last calculation. The reason it is growing is that the higher improper payment rates are in the larger programs—Medicare, Medicaid—and they are growing at about 5, 6 percent a year. So, by definition, unless you make more headway, you are going to have improper payments.

Now, there is better estimating, better reporting. It is still not perfect. And so part of it is that. But it is really the nature of the growth in the programs.

Senator BRAUN. And would it be where you remediate and then they would fall back to whatever was causing it in the first place? Or are they coming up with a new way to make an improper payment? It seems like you would run out of bad things to do.

Mr. DODARO. Both things are possible. Sustained improvement in the Federal Government is rather elusive, and so you have got to keep working at it over time to make sure that you do this. And you have different schemes that come up. I had a higher opinion of human nature before I took this job, and I think the——

Senator BRAUN. I will second the motion.

Mr. DODARO. The creativity of people to game the system is endless, and so you have to be on top of things.

Senator BRAUN. Senate bill 375, with cosponsor Senator Johnson and myself, Carper and Peters on the other side, is held up in the House. It is called the "Payment Integrity Information Act of 2019." A fancy title for improper payments.

Mr. DODARO. Yes.

Senator BRAUN. Have you been paying attention to that? And I know that—I think OMB is sitting on some detail there that they do not like about it, and it seems like they would love everything about it. Is that something you could take the time, weigh in on, and see if we could resolve that, put pressure on the House to get it across the finish line?

Mr. DODARO. Yes, well, I have supported that legislation, and I am not sure exactly which provision is problematic. I have a good guess, and I think it goes to the definition of "improper payment" where there is a dispute about whether insufficient documentation should be categorized as an improper payment. The law would make sure that that stays that way, which is the way it has been.

This is of some concern. I do not think this is a problem that you want to define away. You want to meaningfully solve it. And so I do not think Congress should give on that point.

Now, I will work with the House as well to make sure that they know I am supportive of the legislation as passed by the Senate.

Senator BRAUN. And will you get a hold of OMB to see what that particular thing is and kind of weigh in on it?

Mr. DODARO. I have tried that already. This is the last resort of my efforts to have those discussions, and it was to work to get it in law so that they did not have the flexibility.

Senator BRAUN. We will jump on the wagon and see what we can get done.

Mr. DODARO. Thank you.

Senator BRAUN. Thank you.

Chairman ENZI. Thanks. I have got some other questions that did not get asked today that I want to ask.

Maintaining a strong internal control over the financial reporting protects the integrity of the agencies' financial data. A recent change to OMB guidance removed a requirement for agencies to have in place a rigorous process to separately assess internal control over financial reporting. How will this change affect the agencies' internal control assessments? And is GAO concerned it could lead to less reliable financial data?

Mr. DODARO. I am very concerned about the change. We have stated our concern. I think the quest to try to expand internal control concepts to enterprise risk management is a very worthy objective, but it should not be at the sacrifice of internal control over financial reporting, particularly when there are so many existing weaknesses in the Government.

What I am afraid of, Mr. Chairman, is that all the fiscal discipline that has been built over the past several decades will be lost because the attention, proper attention, will not be given to financial reporting at a time where more accurate reporting is needed more than ever before to deal with our fiscal problems that we have talked about at length here in this Committee. So this is not the time to want to relax the focus on the accuracy of financial reporting. So I am very concerned about that.

Chairman ENZI. Thank you. A technology question. It has automated many of the tasks that financial managers used to carry out, such as transaction processing, and many agencies now use shared service providers for functions like payroll and travel processing. How have the responsibilities of financial managers shifted in light of changes like these? And what can we do to ensure our financial management workforce has the skills and experience that are necessary?

Mr. DODARO. Yes, I think the shift toward more automation has not fully affected the financial management community as much as it could yet because of the Government's poor track record in implementing information technology modernization efforts. It has great potential to reduce the manual efforts, a focus on transaction processing, and free up the CFOs and their organizations to do more strategic thinking and focus on these linkage issues that we talked about today and performance and cost and risk.

Almost everybody we talk to in the CFO community is concerned about the future of the Federal workforce in their area of responsibility, and so I think this is an area that is going to require constant attention, by the Congress, and this is one area that should be in the plan that we talked about, in the 4-year plan: What are you doing to determine what skills you need in the workforce driven by your business plans and how you are going to automate and how that will change the mix of skills and what you will do to close the gap in those skills? That is what I do at GAO. Every year we look at our strategic plan. We have a workforce plan to say this is the work we plan to do; these are the skills that we need to do the work; and we change the mix of hiring, re-skilling, training. I know this is on their agenda in the administration, but they need more detailed planning and more effort put into this in order to be successful, in my opinion.

Chairman ENZI. Thanks. The final question, and this is one where I have long called for better budgeting for disasters. Our current approach often entails waiting for a major disaster to strike and then rushing to approve billions of dollars in addition that does not actually go against the budget.

Has GAO found evidence that this strategy introduces challenges for the agency CFOs and financial managers that could decrease accountability or transparency? And do you know of anything we could do?

Mr. DODARO. Yes. First of all, Congress recognized the challenges to CFOs, and when the supplementals are approved for major disasters, there was a requirement for the agency CFOs to develop internal control plans necessary in order to maintain effective oversight over those funds because many of them need to be spent in a rapid manner or spent over time. And we found that the guidance by OMB was not specific enough, and those plans were not developed the way that they should have been developed. That is number one.

Now, the budgeting for disasters area, I have long said a couple things. One, the Federal Government is involving itself in a lot more disasters than probably it needs to, and the method on which we decide whether it is a disaster the Federal Government is going to weigh in or not is an antiquated measure based on a per capita income figure that was determined in 1986 and has not even been fully indexed to inflation over time. So we estimated if you had indexed that amount to inflation over time, the Federal Government would have been involved in 40 percent less disasters. And so we have recommended that the administration come up with a better measure to determine State and local governments' capabilities to handle some of these smaller disasters—not the major catastrophic ones. Of course, the Federal Government needs to be involved there. But, being involved in every flood is not necessary. It is stretching FEMA too thin, and it is spreading the Federal Government's resources. Plus I am concerned that it is creating a disincentive for State and local governments to build resilience into planning so that they could mitigate some of the effects of these disasters and reduce overall federal cost over time.

So there are many recommendations we have made in the budgeting for disaster areas. We would be happy to give all the details to your staff, sir.

Chairman ENZI. Thank you. And thank you once again for outstanding testimony over a wide variety of issues.

As information to all Senators, questions for the record are due by close of business tomorrow, Thursday, October 31st, a signed hard copy delivered to the Committee clerk in Dirksen 624. Under our rules, witnesses have 7 days from the receipt of the questions to respond. The answers, you have been very good at that.

With no further business to come before the Committee, the hearing is adjourned.

[Whereupon, at 3:22 p.m., the Committee was adjourned.]

ADDITIONAL COMMITTEE QUESTIONS

[The following submitted questions were not asked at the hearing but were answered by the witness subsequent to the hearing:]

Questions for the Record
From Senator Cramer
For Gene L. Dodaro
Comptroller General of the United States
The Chief Financial Officers Act of 1990: Achieving the Vision
Date: 10/30/19
Senate Budget Committee

Question 1: Mr. Dodaro, in your testimony you stated, "Prior to the enactment of the CFO Act, government reports found that agencies lost billions of dollars through fraud, waste, abuse, and mismanagement." Though we have made progress, it is clear that our government is more than capable of mismanaging funds. One key example of this mismanagement is our federal procurement process. For the past few months I have been reviewing the procurement process for the border wall, and have found that the US Army Corps of Engineers has committed billions of dollars without allowing bidders to compete on price or schedule. Do you think that our federal procurement process fosters waste, fraud, and abuse?

The federal acquisition system, as implemented through the Federal Acquisition Regulation (FAR) and supplemental agency guidance, helps mitigate the risk of waste, fraud, and abuse when followed appropriately. Competition is the cornerstone of the acquisition system and can save money for the taxpayer, improve contractor performance, curb fraud, and promote accountability for results. While federal statutes and acquisition regulations generally require that contracts be awarded based on full and open competition, they also allow agencies to award noncompetitive contracts in certain circumstances. For example, when agency need for goods and services is of an unusual and compelling urgency that precludes full and open competition, agencies are permitted to award noncompetitive contracts if a delay in award would result in serious financial or other injury to the government.

We have not specifically assessed the use of noncompetitive contracts to construct the border wall, but our prior work has found that the use of noncompetitive contracts can place the government at higher risk for fraud, waste, and abuse. For example:

- In March 2014, we reported that the Department of Defense (DOD), Department of State (State), and U.S. Agency for International Development (USAID) did not always limit the duration of noncompetitive contracts to 1 year—the time generally allowed by the FAR for contracts awarded based on unusual and compelling needs.[1] We recommended that OMB, through its Office of Federal Procurement Policy, provide guidance to ensure that noncompetitive contracts awarded based on unusual and compelling urgency and exceeding 1 year are properly justified. OMB concurred and has implemented our recommendation. Further, we found that senior agency officials at DOD, State, and USAID were not always alerted when the cost of noncompetitive contracts increased significantly—in some cases, by more than 30 percent—from the original estimates. We recommended that to help strengthen oversight, these agencies develop mechanisms to ensure that senior procurement officials were made aware of instances in which noncompetitive contracts awarded based on unusual and compelling urgency significantly increased in value. The three agencies concurred and have implemented our recommendation.

[1]GAO, *Federal Contracting: Noncompetitive Contracts Based on Urgency Need Additional Oversight*, GAO-14-304 (Washington, D.C.: Mar. 26, 2014).

- In December 2018, we reported that because of acquisition planning challenges, the Federal Emergency Management Agency (FEMA) needed to use noncompetitive "bridge" contracts to meet its needs to respond to certain disasters.[2] GAO has generally defined a bridge contract as an extension to an existing contract beyond the period of performance (including base and option years) or a new, short-term sole source contract awarded to an incumbent contractor to avoid a gap in service caused by a delay in awarding a follow-on contract. While bridge contracts can be useful tools for avoiding gaps in service, we have reported that when these noncompetitive contracts are used frequently or for prolonged periods, the government is at risk of paying more than it should for goods and services. We recommended improvements related to FEMA's acquisition planning processes to address these issues. FEMA agreed with our recommendations and has taken steps to improve its acquisition planning processes.

Question 2: I am planning to submit my findings on border wall procurement to the GAO for your review. Do you commit to reviewing my findings? In addition, will you commit to conducting a review of the border wall procurement process?

We would be happy to review your findings and work with your staff to determine how we can best meet your needs for a review of the border wall procurement process.

[2]GAO, *2017 Disaster Contracting: Action Needed to Better Ensure More Effective Use and Management of Advance Contracts*, GAO-19-93 (Washington, D.C.: Dec. 6, 2018).

Questions for the Record
From Senator Pat Toomey
For the Honorable Gene Dodaro
Hearing on the Chief Financial Officers Act of 1990: Achieving the Vision
10/30/19
Senate Budget Committee

Question 1: Can you elaborate more on what control functions will no longer be required under the new standard, as well as the risks that these omissions pose?

Beginning in fiscal year 2018, the Office of Management and Budget (OMB) issued Memorandum M-18-16, Appendix A to OMB Circular No. A-123, *Management of Reporting and Data Integrity Risk*. M-18-16 no longer requires agencies to follow the process described below for assessing the effectiveness of internal control over financial reporting (ICFR) or a separate management assessment of the effectiveness of ICFR. Without performing a separate assessment of ICFR, management may fail to identify material weaknesses and significant deficiencies[3] in ICFR, because of failure to identify changes in risk that require changes to ICFR, or failure to monitor the effectiveness of ICFR to identify controls that are not operating effectively, among other reasons. As a result, management may lack reasonable assurance over the reliability of financial information.

Prior to M-18-16, OMB provided a process with which agency management assesses, documents, and reports on ICFR. This process was described in Circular A-123, Appendix A, *Internal Controls over Financial Reporting*, which OMB issued in December 2004. It emphasized management's responsibility for establishing and maintaining effective ICFR. Appendix A required management of each Chief Financial Officers Act of 1990 agency to annually assess the adequacy of ICFR, report on identified material weaknesses and corrective actions, and provide separate assurance on the effectiveness of the agency's ICFR. The Chief Financial Officers Council subsequently issued the *Implementation Guide for Appendix A* in 2005.

The Sarbanes-Oxley Act of 2002, which required that management of publicly traded companies strengthen their processes for assessing and reporting on ICFR was an impetus for developing the Appendix A issued in 2004. Appendix A laid out a process for assessing ICFR that included the following specific steps, which are generally consistent with the approach for auditors outlined in the *GAO/Council of the Inspectors General on Integrity and Efficiency Financial Audit Manual*:[4]

- Planning (including consideration of what is material or significant to the entity's financial reports)

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[3]A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

[4]GAO and Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual: Volume 1*, GAO-18-601G (Washington, D.C.: June 2018).

- Evaluating Internal Control at the Entity Level (including the entity's control environment, risk assessment, control activities, information and communication, and monitoring of the effectiveness of the entity's internal controls)

- Evaluating Internal Control at the Process, Transaction, or Application Level
  1. Determine Significant Accounts or Groups of Accounts
  2. Identify and Evaluate the Major Classes of Transactions
  3. Understand the Financial Reporting Process
  4. Gain an Understanding of Controls Designed to Achieve Management's Assertions (e.g., existence, completeness, valuation)
  5. Test the Operating Effectiveness of those controls deemed to be designed effectively or moderately effectively to determine the extent to which the controls were applied, the consistency of their application, and who applied them

- Perform an Overall Assessment of the Design and Operation of ICFR

- Document the Assessment of ICFR

- Correct Material Weaknesses in ICFR

In 2018, OMB reported that since the issuance of OMB Circular No. A-123's Appendix A in December 2004, federal agencies had made substantial progress in improving their internal controls over financial reporting. OMB referred to this as a rigorous process for agencies to separately assess ICFR and superseded this process with the issuance of M-18-16 in 2018. It is our view that without separately assessing and reporting on the effectiveness of ICFR and independently assessing such controls, management may lack reasonable assurance of the reliability of financial information.

Question 2: In a public company, the shareholders and Board of Directors may hold management accountable for failures in internal controls. What consequences or remedial measures, if any, are there to agency management for internal control failures in the federal government?

Although the applicable statutes and executive branch policies generally do not spell out specific consequences or remedial measures for agency management, they do require executive agency heads to regularly provide Congress and the President with information on internal control failures. This enables Congress and the administration to support accountability through actions such as holding hearings, initiating or requesting investigations or audits, responding to agency budget requests, and considering appropriate legislative changes.

Specifically, the Federal Managers' Financial Integrity Act of 1982[5] included provisions requiring agency heads to establish internal accounting and administrative controls, in accordance with GAO-issued standards.[6] Each agency head must annually assess these controls, in accordance with OMB guidelines, and sign a statement asserting whether the agency's internal controls reasonably ensure that (1) obligations and costs comply with applicable law; (2) assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and (3) revenues and

[5] 31 U.S.C. § 3512(c)-(d).

[6] GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: September 2014).

expenditures are recorded and accounted for properly. Each agency head is further required to identify any material weaknesses in internal control and describe the agency's plan and schedule for correcting them. This annual statement and report must be sent to Congress and to the President, as well as issued publicly, with appropriate deletions where disclosure of information is prohibited by law or executive order.

In addition, OMB provides guidance to agencies for establishing internal controls and preventing improper payments.[7] As described in OMB Memorandum M-18-20, Appendix C to OMB Circular No. A-123, *Requirements for Payment Integrity Improvement* (June 26, 2018), OMB may use the agency internal control summaries to monitor progress and ensure that planned actions result in the outcome of reducing improper payment rates. If an agency is not demonstrating measurable improvements in its internal control, OMB may encourage progress by requiring an audit of internal controls over payment integrity, which can assist the agency in identifying and prioritizing corrective actions to long-standing internal control weaknesses.

With regard to the reporting of agency improper payments, the Improper Payments Elimination and Recovery Act of 2010 (IPERA)[8] requires agency inspectors general to annually determine whether their respective agencies are in compliance with six specified criteria, including whether the agency has performed all required risk assessments and whether all of the agency's programs or activities that must produce estimates report an estimated rate of less than 10 percent. When an agency is found not to be in compliance with any of these criteria, IPERA requires the agency to develop and submit plans to Congress to bring the agency into compliance, including establishing an accountability mechanism, such as a performance agreement, with appropriate incentives and consequences tied to the success of the senior agency official leading agency efforts to achieve compliance for each program and activity. Consecutive years of noncompliance findings for the same program or activity trigger additional OMB review and congressional submission requirements.

Lastly, some agency internal control failures specific to the obligation and expenditure of funds can also constitute violations of the Antideficiency Act.[9] Specifically, the act prohibits agencies from obligating or expending in excess or in advance of an available appropriation unless otherwise authorized by law; accepting voluntary services for the United States, except in cases of emergency involving the safety of human life or the protection of property; and obligating or expending in excess of an apportionment, or in excess of the amounts permitted by agency regulation. Those who violate the Antideficiency Act are subject to administrative discipline, such as suspension or removal from office, as well as criminal penalties in cases of knowing and willful violations. Criminal penalties include fines of not more than $5,000, imprisonment for not more than 2 years, or both. In addition to these penalties, agencies must immediately report violations to the President and to Congress and must also send a copy of the report to GAO.

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[7]For estimation purposes, an improper payment is statutorily defined as any payment that should not have been made or that was made in an incorrect amount (including both overpayments and underpayments). OMB guidance also provides that when an agency's review is unable to discern whether a payment was proper because of insufficient documentation or lack of documentation, this payment must also be considered an improper payment.

[8]Pub. L. No. 110-204, § 3, 124 Stat. 2224, 2232 (July 22, 2010), *codified at* 31 U.S.C. § 3321 note.

[9]31 U.S.C. §§ 1341, 1342, 1349–51, 1511–19.

Questions for the Record
From Senator Chris Van Hollen
For the Honorable Gene L. Dodaro
Chief Financial Officers Act of 1990: Achieving the Vision
October 30, 2019
Senate Budget Committee

Question 1: The withholding of appropriated funding for Ukrainian security assistance raises grave national security concerns. The legislation that establishes the legal process for withholding funds is the Impoundment Control Act of 1974.

A. If the President, the OMB Director, an agency head, or any federal officer or employee proposes to withhold or delay the obligation or expenditure of budget authority, does the Impoundment Control Act require them to transmit a message to Congress to describe and explain this action?

Unless otherwise authorized to withhold funds, yes, when Congress appropriates funds to the executive branch, the President must prudently obligate them as we have noted in our prior opinions. The Impoundment Control Act (ICA) is rooted in this principle, and grants the President strictly circumscribed authority to temporarily withhold funds from obligation by transmitting a special message pursuant to the procedures established by the ICA.

B. Did the President transmit a special message to Congress pursuant to the Impoundment Control Act regarding Ukrainian security assistance funding?

As of November 25, 2019, the President had not transmitted a special message to Congress or to GAO regarding Ukrainian security assistance funding.

C. What inquiries, if any, did GAO make into the withholding of Ukrainian security assistance funding, and what was the response to those inquiries from the Executive Branch?

As of November 25, 2019, GAO has sent letters to the relevant agencies asking them for factual information and their legal views concerning Ukrainian security assistance funding. We asked the agencies to respond to our inquiries by December 9, 2019. GAO will issue a legal opinion under the ICA regarding the withholding of the Ukrainian security assistance funding.

D. When the President withholds funds appropriated by Congress, what remedies does the Congress have to ensure that the funds are spent as directed by law?

Without specific statutory authority otherwise, a President may withhold from obligation funds that Congress appropriated only as authorized under the ICA. Under the ICA, a President may withhold by submitting a special message to Congress and GAO reporting deferrals or rescission proposals. The President must ensure that deferred amounts are made available for prudent obligation before the amounts expire. Congress may act legislatively to disapprove a deferral.

The President may withhold amounts proposed for rescission for 45 days, unless Congress acts legislatively to disapprove the proposal. Otherwise, the President must make the amounts available for prudent obligation on day 46, if Congress does not complete action on a bill to rescind the amounts. The President must always make withheld amounts available for prudent obligation before they expire, even if the 45-day period for a withholding extends past the date the amounts expire.

When budget authority is improperly withheld and is required to be made available for obligation, the Comptroller General is empowered to bring a civil action in the United States District Court for the District of Columbia to require that the budget authority be made available for obligation. (See 2 U.S.C. § 687.)

Question 2: As we discussed during the hearing, GAO has identified the federal government's overreliance on leasing buildings [as] a high-risk area. I look forward to working with you on solutions to this problem, including the legislative proposal we discussed from the Administration for a Capital Revolving Fund.

A. Why does it tend to be less expensive for the federal government to own a building that it will occupy for the long-term, relative to the costs of a long-term lease?

Several factors can cause ownership to be less costly for long-term space needs than leasing. The federal government has lower borrowing costs than the private sector, and the federal government can stay in leased spaces for decades, causing lease payments to exceed construction costs over time. Agencies often pursue leasing options because they lack the up-front capital needed for constructing or purchasing a building, specifically using operating leases that are intended for short-term space needs.

For operating leases, budget scorekeeping guidelines only require agencies to budget the funding needed to cover the first year's lease payments plus cancellation costs. However, because agencies tend to stay in buildings for long periods, they may actually use successive operating leases for long-term space needs. Consequently, operating leases may appear on paper to be preferable to less-costly alternatives, such as construction, which may require agencies to obligate the full cost of the project up front. In reality, this approach may result in resource allocation decisions for which the budgeting process does not consider the full financial commitment over the full length of time the space need exists.

B. How would the Administration's proposed Capital Revolving Fund affect the operations and solvency of the existing Federal Buildings Fund at the General Services Administration?

Established by Congress in 1972, the Federal Buildings Fund (FBF) is the primary source of funds associated with federal space. The FBF provides the General Services Administration with a means for financing the operating and capital costs associated with federal properties. In June 2018, the administration proposed a new Federal Capital Revolving Fund (FCRF) to secure the capital necessary to acquire federal facilities, which has some parallels to the use of the FBF. GAO is starting work that seeks to better understand the operations of the FBF and potential interactions or overlap it may have with the proposed FCRF. As part of this work, we plan to identify any risks to FBF and FCRF solvency and the steps that could be taken to ensure that both funds remain self-sustaining.

Question 3: We do not know how many contractor employees the federal government has. This lack of basic information about the nature of the total federal workforce weakens our ability to determine the optimal mix of federal employees and contractors.

A. Why have we been unable to determine how many contractor employees the federal government has?

Federal agencies are generally required to prepare an annual inventory related to contracted services, and these inventories are to include information such as a description of the services or functions and missions performed by the contractor and the estimated number of contractor employees. We last reviewed how the civilian agencies implemented this requirement in 2012 and identified a number of challenges that hindered their initial efforts to compile an inventory of their contracted services.[10] For example, we identified instances of agencies significantly underreporting obligation dollars for their inventories, either because they misinterpreted or did not follow OMB guidance. We recommended that OMB clarify guidance to agencies for compiling and reporting on their inventories and that OMB work with agencies to improve how compliance with statutory and OMB requirements related to the inventories is monitored. OMB generally agreed with these recommendations and has addressed them.

As a more specific example of the challenges faced, our work at the Department of Defense (DOD) identified a number of issues involving how it collected and used data related to the number of contractor employees. In 2008, Congress required DOD to compile and review an annual inventory of its contracted services to identify the number of contractor employees providing certain services and the functions that these contractors were performing.[11] From 2008 through 2015, DOD provided annual estimates to Congress indicating that the number of contractor full-time equivalents varied from 561,000 to 767,000. However, in May 2013, and subsequently in October 2016, we cautioned against comparing these estimates across years because of changes in DOD's approach, methodologies, and data sources.[12] For example, most DOD components (with the exception of the Army) used the Federal Procurement Data System-Next Generation (FPDS-NG) as the primary source to make these estimates. However, our work identified several limitations in using FPDS-NG data for compiling a complete and accurate inventory. While DOD's guidance subsequently required DOD components to use a department-wide system based on the Army's system, we reported in October 2016 that long-standing delays and uncertainties hindered efforts to provide accurate and reliable data.[13]

B. Do we at least know the number of contractor employees who have dedicated office space inside federal buildings? If so, how many are there?

We are unaware of any government-wide data source that provides information on contractor employees who have dedicated office space inside federal buildings.

C. What steps do you recommend to collect the data necessary to answer how many contractor employees we have, where they work, what they do, and how much we pay for their services?

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[10]GAO, *Civilian Service Contract Inventories: Opportunities Exist to Improve Agency Reporting and Review Efforts*, GAO-12-1007 (Washington, D.C.: Sept. 27, 2012).

[11]Congress subsequently amended the law, among other things, to focus the inventory on certain types of high-risk contracts.

[12]GAO, *Defense Acquisitions: Continued Management Attention Needed to Enhance Use and Review of DOD's Inventory of Contracted Services*, GAO-13-491 (Washington, D.C.: May 23, 2013), and *DOD Inventory of Contracted Services: Timely Decisions and Further Actions Needed to Address Long-Standing Issues*, GAO-17-17 (Washington, D.C.: Oct. 31, 2016).

[13]GAO-17-17.

While we have not reviewed the issue government wide, perhaps our recommendations to DOD would be a good place to start. Based on our prior work in this area, we found that DOD could (1) make better use of the data it collects through its inventory of contracted services to inform workforce and budget decisions; and (2) collect better information on amounts for contracted services in future budget years. Specifically:

- We have issued numerous reports related to DOD efforts to compile and use an inventory of contracted services. We noted in January 2011 that the real benefit of an inventory process would ultimately be measured by its ability to inform management's decision-making.[14] Between 2011 and 2015 we made 18 recommendations to help improve how DOD collects and uses data on contracted services, including focusing efforts on contracts for certain services that pose a greater risk of contractors performing inherently governmental functions and appointing an accountable official to help develop plans and enforcement mechanisms to use the inventory. As of November 2019, DOD had addressed almost all of the recommendations, and only two recommendations remained open. Nevertheless, it is unclear the extent to which DOD is currently using the inventory to help inform workforce and budgeting decisions.

- Further, our work has identified other opportunities to help DOD better manage its acquisition of services. For example, in February 2016, we found that DOD's and Congress's insight into future spending on contracted services was limited because DOD did not identify service contract spending needs beyond the current budget year.[15] Congress recently mandated that, effective October 2021, DOD include certain information on amounts requested for service contracts in the future-years defense program.

[14]GAO, *Defense Acquisitions: Further Action Needed to Better Implement Requirements for Conducting Inventory of Service Contract Activities*, GAO-11-192 (Washington, D.C.: Jan. 14, 2011).

[15]GAO, *DOD Service Acquisition: Improved Use of Available Data Needed to Better Manage and Forecast Service Contract Requirements*, GAO-16-119 (Washington, D.C.: Feb. 18, 2016).

Questions for the Record
To Senator Mark R. Warner
Chief Financial Officers Act of 1990: Achieving the Vision
30 October 2019
Senate Budget Committee

Question 1: There are a number of laws that Congress has passed related to federal financial reporting that have unfulfilled requirements. What issues that you all have identified in your study could be remedied by Congress pushing for greater implementation of current statutory requirements?

The issues that could be remedied by Congress pushing for greater implementation of current statutory requirements include the following:

Financial management plan. The Office of Management and Budget (OMB) has not submitted a government-wide 5-year financial management plan—a requirement of the Chief Financial Officers Act of 1990 (CFO Act)—since 2009.[16] Instead, OMB stated that it is meeting the intent of this requirement by providing information in the President's Management Agenda, in the annual government-wide consolidated financial statements, and in documents placed on Performance.gov and the Chief Financial Officers (CFO) Council's website. We maintain that submission of a comprehensive plan in accordance with existing statutory requirements is necessary to improve federal financial management. Specifically, a complete and integrated government-wide financial management plan could help ensure continuity in direction, promote accountability, and facilitate congressional oversight. The plan should include actions for improving federal financial management, including improving financial management systems, strengthening the federal financial management workforce, and better linking performance and cost information for decision-making.

Integrated agency accounting and financial management systems. Current law requires the CFO at each CFO Act agency to develop and maintain an integrated agency accounting and financial management system that, among other things, provides for the development and reporting of cost information, the integration of accounting and budgeting information, and the systematic measurement of performance. Respondents to our survey of agency CFOs and deputy CFOs identified this as an area where agencies continue to face challenges. Congressional actions such as conducting oversight hearings, calling attention to agencies' challenges, and providing appropriate resources are important to overcoming financial management weaknesses such as these.

Public reporting of spending data. The ongoing implementation of the Digital Accountability and Transparency Act of 2014 (DATA Act) is another government-wide initiative focused on improving the transparency and quality of federal financial data made available to the public on USAspending.gov.[17] In the 5 years since enactment, progress has been made to improve the transparency of federal spending data. In our 2019 review of these data, we found improvements in the overall quality of the data on USAspending.gov compared to our 2017

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[16]GAO, *Federal Financial Management: Substantial Progress Made since the CFO Act of 1990 and Preliminary Observations on Opportunities for Enhancement*, GAO-20-203T (Washington, D.C.: Oct. 30, 2019).

[17]Pub. L. No. 113-101, 128 Stat. 1146 (May 9, 2014). The DATA Act amended the Federal Funding Accountability and Transparency Act of 2006. Pub. L. No. 109-282, 120 Stat. 1186 (Sept. 26, 2006), *codified at* 31 U.S.C. § 6101 note.

review of data quality.[18] To continue moving forward with this progress and to fully realize the DATA Act's promise of helping to improve data accuracy and transparency, more needs to be done to address continued challenges with the completeness and accuracy of key data elements. The challenges we have found with data completeness and accuracy demonstrate the importance of continued OMB and Department of the Treasury (Treasury) progress in addressing our previous open recommendations to develop a robust and transparent data governance structure and implement controls for monitoring agency compliance with DATA Act requirements.

Question 2: Are there reforms that we should consider to the CFO Act having learned from subsequent financial reporting laws over the years? Has GAO identified duplicative reporting requirements under the various laws governing federal financial reporting, and do you have recommendations for possible streamlining?

There are several reforms that should be considered to the CFO Act. First, the CFO Act requirement for annual 5-year government-wide financial management plans could be more efficiently structured on a model similar to that governing agency strategic planning, with government-wide and agency-level plans required every 4 years. These could be followed by annual status reports and monitoring as appropriate to track the implementation of the plans. The plans should include actions for improving federal financial management, including improving financial management systems, strengthening the federal financial management workforce, and better linking performance and cost information for decision-making.

Second, agency CFOs' statutory responsibilities could be amended and modernized to help ensure that they include all of the responsibilities necessary to effectively carry out financial management activities. Also, statutory responsibilities for deputy CFOs could be established to help ensure continuity in agency financial management operations and minimize any negative effect when CFO vacancies inevitably occur.

Third, OMB could be required to develop, in consultation with the CFO Council, key selected performance-based metrics to assess the quality of agency financial management and changes therein, to provide more complete and consistent measurement of the quality of agencies' financial management.

Finally, to reasonably assure that key financial management information that each agency produces is reliable, Congress could require agency management to (1) identify key financial management information, in addition to financial statements, needed for effective financial management and decision-making; (2) annually assess and report on the effectiveness of internal control over financial reporting and other key financial management information; and (3) consider engaging auditor testing and reporting on internal control over financial reporting and other key financial management information.

Regarding streamlining of federal agency reporting requirements, neither GAO's current work on the CFO Act nor our annual reports on fragmentation, overlap, and duplication in federal programs have identified duplicative reporting requirements under the various laws governing

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[18]GAO, DATA Act: OMB, *Treasury, and Agencies Need to Improve Completeness and Accuracy of Spending Data and Disclose Limitations*, GAO-18-138 (Washington, D.C.: Nov. 8, 2017), and *DATA Act: Quality of Data Submissions Has Improved but Further Action Is Needed to Disclose Known Data Limitations*, GAO-20-75 (Washington, D.C.: Nov. 8, 2019).

federal financial reporting.[19] However, executive branch agencies have current authorities to identify and address reporting requirements that they view as duplicative or otherwise unnecessary. The Reports Consolidation Act of 2000 granted executive branch agencies, with the concurrence of the Director of OMB, the authority to consolidate a variety of required performance and financial reports into a single annual report.[20] Congress has taken efforts intended to streamline federal reporting requirements more broadly, with the passage of the GPRA Modernization Act of 2010 (GPRAMA).[21] Among other things, GPRAMA provisions establish a process for reexamining the usefulness of certain existing reporting requirements.[22] Specifically, GPRAMA requires an annual review, based on OMB guidance, of all agencies' reporting requirements and requires OMB to provide Congress with agencies' proposals to eliminate or modify plans and reports that may no longer be necessary.[23]

Further, many of the major federal financial management laws were enacted as amendments to Title 31 of the U.S. Code and are presently located in that title. For example, the authorities of OMB are in chapter 5, the authorization for agency CFOs is in chapter 9, and requirements related to internal controls and financial statements are in chapter 35. This has allowed new laws to conveniently build upon and amend earlier ones. Other laws that were enacted as stand-alone legislation, such as the Federal Financial Management Improvement Act of 1996 and the Improper Payments Information Act of 2002, have been classified as notes to existing sections of Title 31.

Question 3: Through efforts like the CFO Act and the Digital Accountability and Transparency Act of 2014 (DATA Act), we've made significant investments in developing data for use by policy makers in Congress, the public, auditors, etc. How can we promote the wider usage of the reported data by these end-users?

Encouraging agencies to improve financial management systems, to enhance the availability and reliability of performance and cost information, and to better link this information for decision-making could help promote its wider use. While agencies have made efforts to improve the availability and reliability of performance and cost information, opportunities exist for enhancements. Effective implementation of the CFO Act and DATA Act holds great promise to enhance federal management, oversight, and decision-making. These improvements can support wider usage by end users. Respondents to our CFO survey noted that agencies face challenges in (1) developing and maintaining integrated agency accounting and financial management systems, (2) developing and reporting cost information, and (3) having financial

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[19]*See* https://www.gao.gov/duplication/overview (accessed Nov. 27, 2019).

[20]Pub. L. No. 106-531, 114 Stat. 2537 (Nov. 22, 2000), *codified as amended at* 31 U.S.C. § 3516

[21]Pub. L. No. 111-352, 124 Stat. 3866 (Jan. 4, 2011). In general, GPRAMA updated the Government Performance and Results Act of 1993, Pub. L. No. 103-62, 107 Stat. 285 (Aug. 3, 1993).

[22]31 U.S.C. § 1125. This includes plans and reports either required by statute or directed by congressional reports. OMB's guidance in OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget* (June 28, 2019), provides some information to help agencies determine which reporting requirements to consider when developing report modification proposals. Specifically, the circular directs agencies to include agency-specific plans and reports that are usually recurring in nature, rather than onetime reporting requirements. The guidance also instructs agencies to generally avoid including reports that are required from all agencies, such as strategic plans.

[23]GAO audited the implementation of this GPRAMA provision in 2017. *See* GAO, *Federal Reports: OMB and Agencies Should More Fully Implement the Process to Streamline Reporting Requirements*, GAO-17-616 (Washington, D.C.: July 14, 2017).

management systems that produce the needed financial data to help address agency performance goals.

Based on past survey results, and in response to a request from Congress, in September 2005, we developed a framework intended to help agencies better incorporate performance information into their decision-making.[24] This framework includes five leading practices that can promote the use of performance information for policy and program decisions:

- demonstrating management and leadership commitment;
- aligning agency-wide goals, objectives, and measures;
- improving the usefulness of performance data to better meet different users' decision-making needs;
- developing the capacity to use performance data; and
- communicating performance data frequently and effectively.

Our 2017 survey of federal managers included a number of items related to these practices, but the results suggested that agencies have not effectively adopted them. For example, our survey included questions that cover different aspects of usefulness highlighted by our past work, such as ensuring data meet users' needs for accessibility, accuracy, completeness, consistency, ease of use, timeliness, and validity, among others things. However, 2017 survey results generally showed no changes related to usefulness compared to past surveys.[25]

Open government data only create value to the extent that they are used. In 2018, we identified three key actions for engaging with users.[26]

- **Identify data users and their needs.** By identifying who is using the data and what content or features are important to them, data providers can better prioritize their efforts to present information to data consumers.
- **Solicit and be responsive to user feedback.** Soliciting and being responsive to user feedback—both when the website is being developed and on an ongoing basis—can help ensure that the website meets users' needs.
- **Reach out to potential users to encourage data use.** Actively engaging potential users can provide an opportunity to educate them on how the data can be appropriately used and encourage innovation. For example, we found that open data collaboration and prize competitions or challenges are two strategies that agencies can use to harness the ideas, expertise, and resources of those outside of their organization.[27] Resources such as how-to guides can also encourage data use.

Our work has also highlighted ways to ensure data are useful for Congress. At the request of Congress, in June 2012, we developed a guide to assist members of Congress and their staffs

[24]GAO, *Managing for Results: Enhancing Agency Use of Performance Information for Management Decision Making*, GAO-05-927 (Washington, D.C.: Sept. 9, 2005).

[25]GAO, *Managing for Results: Further Progress Made in Implementing the GPRA Modernization Act, but Additional Actions Needed to Address Pressing Governance Challenges*, GAO-17-775 (Washington, D.C.: Sept. 29, 2017).

[26]GAO, *Open Data: Treasury Could Better Align USAspending.gov with Key Practices and Search Requirements*, GAO-19-72 (Washington, D.C.: Dec. 13, 2018).

[27]GAO, *Open Innovation: Practices to Engage Citizens and Effectively Implement Federal Initiatives*, GAO-17-14 (Washington, D.C.: Oct. 13, 2016).

in ensuring that the consultations required under GPRAMA are useful to Congress.[28] The guide outlines general approaches for successful consultations, including creating shared expectations and engaging the right people in the process at the right time.[29] The guide also provides key questions that members and congressional staff members can ask as part of the consultation process to ensure that agency performance information reflects congressional priorities.

The DATA Act requires government-wide reporting on a wide variety of data related to federal spending, such as budget and award information, as well as the establishment of data standards for reporting this information. The resulting increase in both the types and transparency of federal spending information is intended to enable both policymakers and the public to track federal spending more effectively. We have reported that effective implementation of the act would help promote transparency to the public and address ongoing government management challenges by expanding the quality and availability of federal spending data. Having better data will also make it possible to gauge the magnitude of the federal investment, help agencies make fully informed decisions about how federal resources should be allocated, and provide agencies and the audit community with additional data for detecting and preventing improper payments and fraudulent spending. Further, presenting data in a manner that is more accessible and interactive (e.g., users being able to access and read data on cell phones) could further encourage use of data by the public, academia, and private sector individuals and organizations.

However, the ability to use the data produced based on implementation of the act relies on the degree to whether these data are of sufficient quality. One of the key goals of the DATA Act is to improve the quality of the data being produced. Our first mandated data quality report, issued in November 2017, found significant challenges related to the completeness and accuracy of the data.[30] Our second mandated review, issued in November 2019, found that the quality of these data had improved compared to 2017. However, challenges remain with the accuracy of certain data elements especially important to transparent reporting and the disclosure of known data quality challenges that could limit the usefulness of these data to the public and policymakers.[31] Also, significant improvements in internal control over financial reporting have improved the quality of information in agency financial statements.

Question 4: There are a lot of technical challenges that we're still facing in reporting financial data, and those have to continue to be addressed. But as we consider future efforts related to federal financial management and reporting, what emphasis should be placed on really making sure this data is both usable, and useful? i.e., is not only of quality, but also has utility.

As discussed in our response to question 3, data only create value to the extent that they are used. By identifying who is using the data and what content or features are important to them, data providers can better prioritize their efforts to present information to data consumers. The CFO Act required OMB to submit to Congress a plan and strategy for developing adequate,

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[28]Pub. L. No. 111-352, 124 Stat. 3866 (Jan. 4, 2011).

[29]GAO, *Managing for Results: A Guide for Using the GPRA Modernization Act to Help Inform Congressional Decision Making*, GAO-12-621SP (Washington, D.C.: June 15, 2012).

[30]GAO-18-138.

[31]GAO-20-75.

consistent, and timely financial information to facilitate better financial management. We discussed in our written testimony that an opportunity exists for agency management to (1) identify key financial management information (e.g., information required by the DATA Act), in addition to financial statements, needed for effective financial management and decision-making and (2) annually assess and report on the effectiveness of internal control over financial reporting and other key financial management information. These key actions could lead to collection of targeted data and generation of better analytics and encourage wider use of data.

In order for data to be useful, they need to be timely, accurate, and complete. For example, Treasury makes available on its internet site the Citizen's Guide and Data Lab which educate the public about federal government's finances.[32] However, we have reported that Treasury needs to clearly communicate to users the limitations on the use of such information, including the lack of completeness and accuracy of the data reported.

Finally, the Federal Accounting Standards Advisory Board (FASAB) develops and promulgates generally accepted accounting principles for financial reporting in the federal government. FASAB's stated mission is to serve the public interest by improving federal financial reporting through issuing federal financial accounting standards and providing guidance after considering the needs of external and internal users of federal financial information. In support of its mission, FASAB intends that federal financial reports should be useful in assessing (1) the government's accountability and its efficiency and effectiveness and (2) the economic and social consequences, whether positive or negative, of the allocation and various uses of federal resources. In developing its standards, FASAB conducts extensive due process, including exposure of draft standards for public comment, to obtain the views of internal and external stakeholders. FASAB has a number of current projects aimed at continuing to improve the usefulness of financial reports, including a review of the financial reporting model, Management's Discussion and Analysis, and note disclosures.

Question 5: Sources of performance data that would likely be useful to decision makers, ex. agencies' financial and performance reports, as well as Congressional Budget Justifications, often are not published in a machine-readable format. Has GAO examined what barriers exist to agencies making more of this data machine readable?

Several laws, such as the DATA Act, GPRAMA, and the Foundations for Evidence-Based Policymaking Act (Evidence Act), require agencies to produce data in machine-readable formats. The data required by the DATA Act are currently available in machine-readable formats, and users can download the data from https://api.usaspending.gov/. The requirements under GPRAMA and the Evidence Act for performance information and data assets, respectively, to be available in machine-readable formats are still being implemented. We have not examined barriers to making federal data machine readable.

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[32]The Citizen's Guide, or *Your Guide to America's Finances*, is a digital guide that presents an overview of the money that the federal government processes each year. See https://datalab.usaspending.gov/americas-finance-guide/. The Data Lab is a website that offers visual interpretation of the spending data required under the DATA Act. See https://datalab.usaspending.gov/ (accessed Nov. 27, 2019).

Questions for the Record
From Senator Sheldon Whitehouse
For the Honorable Gene L. Dodaro
Chief Financial Officers Act of 1990: Achieving the Vision
October 30, 2019
Senate Budget Committee

Question 1: As you know, Congress is responsible for determining spending levels and appropriating funds to government programs, and the Executive Branch is largely tasked with the disbursement of the funds appropriated by Congress. Recent news reports suggesting that the President threatened to withhold money from Ukraine without Congress's approval serves as an example of the difficulty that Congress faces in enforcing its authority on funding measures.

A. How can Congress better protect its legislative authority over appropriations from Executive Branch manipulation and interference?

Congress could incorporate measures within an agency's appropriations act or within permanent provisions of law to reduce the amount of discretion that an agency has with regard to the execution of its appropriations. GAO would be happy to assist in drafting such legislation.

Specifically, Congress could consider the following:

- **Line item appropriations.** Congress could consider enacting line item appropriations designating that a particular amount, or a maximum or a minimum amount, be obligated for a specific program or area.

- **Incorporation by reference.** Congress could explicitly incorporate into the law by reference any requirements for the obligation of funds that it has included in report language, giving such requirements the force of law.

- **Specificity in legislation.** Congress could specify in law the purpose and availability of funds or the amount available for a particular activity, which would facilitate congressional control over agency spending.

- **Time limitations.** Congress could consider enacting more stringent time limitations to increase oversight of agency obligations. For example, Congress could divide amounts into quarterly periods of availability or enact time-limited appropriations rather than no-year appropriations for particular accounts.

- **Legislative apportionment.** Congress could designate, legislatively, the manner of apportionment for an account or program, notwithstanding the Office of Management and Budget's (OMB) apportionment authority, which could include restricting the authority to reapportion the funds to particular circumstances. An appropriations bill would be a ready mechanism through which to accomplish this.

- **Conditions precedent to the availability of funds.** Congress could condition the availability of funds on the submission to the budget and appropriations committees of a spend plan or other such document demonstrating the agency's preparedness to obligate its appropriation prudently.

- **Reporting requirements.** Congress could require agencies to report rates of obligation or to provide an accounting of unobligated appropriations at the end of each fiscal year.

- **Reprogramming limitations/notifications.** Congress could enact government-wide reprogramming limitations to restrict the degree to which an agency's obligations may deviate from its budget submissions. Congress could also enact reprogramming notification requirements.

- **Limitations on transfer authority.** Congress could amend existing transfer authorities to reduce agency discretion, to establish conditions precedent to an agency's use of such authority, or to otherwise restrict an agency's use of such authorities.

- **Requiring timely and prudent obligations.** Congress could legislatively affirm that budget authority withheld under the Impoundment Control Act must be made available in time to be prudently obligated, as GAO opined in Impoundment Control Act—Withholding of Funds through Their Date of Expiration, B-330330, December 10, 2018. (The Budget Committee adopted Senator Van Hollen's amendment to S. 2765 to amend the Impoundment Control Act on November 6, 2019; this amendment would also increase visibility around OMB's apportionment of funds and would establish administrative penalties for violations of the act.)

- **Penalties tied to GAO determinations.** Congress could penalize withholdings of budget authority that do not comply with the Impoundment Control Act, as determined by GAO. For example, Congress could enact a provision similar to the government-wide anti-gag provision (see, for example, Pub. L. No. 116-6, div. D, title VII, § 713, 133 Stat. 13,189–90 (Feb. 15, 2019)), prohibiting the use of appropriations for paying the salary of an officer or employee who does not make funds available as required.

  Currently, the Antideficiency Act and the Miscellaneous Receipts statute are the only major fiscal statutes that include penalties. (See 31 U.S.C. §§ 1349–1350, 1518–1519 3302(d).) Congress could enact penalties for violations of other fiscal statutes, such as the purpose statute, 31 U.S.C. § 1301(a), or the *bona fide* needs statute, 31 U.S.C. § 1502(a), and allow relief for an agency that has obtained an advance decision from GAO.

  Creating a link between a penalty and obtaining a GAO decision or complying with a GAO decision would likely increase visibility of agency actions and facilitate congressional oversight.

- **Amend 31 U.S.C. § 3529.** Congress could amend GAO's statutory authority to render decisions to the executive branch to require executive agencies to seek GAO decisions in certain circumstances or to otherwise enhance the weight of GAO's determinations on the executive branch.

- **Increasing GAO's access to information.** Congress could provide GAO legislative authority to compel testimony from individuals under oath.

- **Supporting GAO's authority to sue.** Congress could take action to affirm GAO's standing to bring a civil suit under the Impoundment Control Act. Congress could also amend the act to remove the requirement that GAO cannot commence a civil suit until the expiration of the

25-day period described in law. Congress could also amend the Antideficiency Act to similarly provide GAO authority to bring a civil action to address violations.

- **Resources.** Demand for GAO's appropriations law services has grown to unprecedented levels. It is important that Congress provide the resources necessary to satisfy this demand.

B. Do you have any legislative recommendations?

Please see the GAO response to question 1A for general legislative recommendations.

C. Do you know of any current mechanisms that could be used by Congress to hold the Executive Branch accountable for following through on Congress's appropriations directions?

- Antideficiency Act reporting – When an agency violates the Antideficiency Act, there are statutory reporting requirements and associated penalties. Some of the most powerful mechanisms currently available to Congress are the agency Antideficiency Act reports and GAO opinions and decisions finding Antideficiency Act violations. Congress can conduct oversight to verify that an agency has taken action to prevent future violations and has implemented appropriate discipline. Congress could use the appropriations process to ensure that these matters are seriously considered and addressed by agencies.

- Major fiscal statutes – Generally, the major fiscal statutes that Congress has enacted to implement its power of the purse form the legal framework for an agency's execution of its appropriations. These major fiscal statutes include the Antideficiency Act, the purpose statute, the *bona fide* needs statute, the miscellaneous receipts statute, the recording statute, and the Impoundment Control Act, among others. These statutes are designed to effectuate Congress's control over agency spending. As discussed in the GAO Response to question 1A, Congress could consider enacting the reporting and penalty provisions found in the Antideficiency Act for these fiscal statutes.

- GAO work and the appropriations process – Congress can use GAO legal opinions to aid in carrying out its appropriations power. For example, after GAO concluded that one agency violated the Antideficiency Act, Congress subsequently reduced that agency's appropriations by about 33 percent.[33] In another instance, after GAO concluded that the Department of Defense violated a statutory notification requirement and the Antideficiency Act, the House of Representatives subsequently voted 249 to 163 to condemn and disapprove of the department's actions.[34]

  Congress may also enact legislation or include report language affirming a GAO opinion. For example, in one instance Congress adopted GAO's analysis of the publicity or propaganda prohibition through an appropriations act provision and accompanying report

[33]GAO concluded that the Office of Science and Technology Policy (OSTP) violated the Antideficiency Act when it improperly used its appropriations for bilateral engagements with China. B-321982, October 11, 2011. The explanatory statement accompanying the fiscal year 2012 OSTP appropriation expressed concern about OSTP's actions, while the act appropriated $4.5 million for 2012, a reduction from $6.66 million for fiscal year 2011. Pub. L. No. 112-55, div. B, title III, 125 Stat. 552, 622 (Nov. 18, 2011); H.R. Rep. No. 112-284, at 251 (Nov. 14, 2011) (referencing GAO's determination that OSTP engaged in prohibited activity); *see also* Pub. L. No. 112 -10, § 1316, 125 Stat. 38, 120 (Apr. 15, 2011).

[34]B-326013, August 21, 2014; H.R. Res. 644, 113th Cong. (2014).

language.[35] In another instance, Congress used an explanatory statement to an appropriations bill to direct the Environmental Protection Agency to coordinate with OMB to ensure the dissemination of a GAO legal opinion.[36]

- GAO work and congressional oversight – Congress may request a GAO audit and may also use GAO's High-Risk List, priority open recommendations database, and financial statement audits in which we review statements for compliance with laws and regulations to hold hearings and to elicit commitments from agencies to address issues. Congress could memorialize these commitments in committee report language.

- Other oversight – Congress could request inspector general investigations at agencies of interest.

[35] *See* Pub. L. No. 109-13, § 6076, 110 Stat. 231, 301 (May 11, 2005); H.R. Conf. Rep. No. 109-72, at 158–59 (2005); B-304272, February 17, 2005.

[36] See p. 40 of the explanatory statement for HR 2029, Division G (Department of the Interior, Environment, and Related Agencies Appropriations Act, 2016) referencing our December 2015 opinion, B-326944, concluding that EPA's social media practices violated statutory prohibitions against publicity or propaganda. The Explanatory Statement directs EPA to coordinate with OMB to ensure that GAO's findings were "disseminated to communication offices throughout the government."