11. BUDGET PROCESS

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

This chapter begins with a description of three broad categories of budget reform. First, the chapter discusses proposals to improve budgeting and fiscal sustainability with respect to individual programs as well as across Government. These proposals include: legislation that exceeds the remaining savings required for the Joint Select Committee on Deficit Reduction, repeals the Joint Committee reductions, and restores amounts that would be reduced by the 2016 mandatory sequestration order; various initiatives to reduce improper payments; funding requested for disaster relief; reforms to reduce the Federal Government's real property inventory; limits on advance appropriations; structural reforms for surface transportation programs; maximum Pell Grant award funding; Postal Service reforms; changes to the budgetary treatment of the International Monetary Fund quota; reclassification proposals; and providing a fast-track procedure for the Congress to consider certain rescission requests. Second, the chapter describes the system under the Statutory Pay-As-You-Go Act of 2010 (PAYGO) of scoring legislation affecting receipts and mandatory spending, and it summarizes the Administration's commitment to applying a PAYGO requirement to administrative actions affecting mandatory spending. Finally, the chapter presents proposals to revise the budget baseline and to improve budget presentation, for example, by including an allowance for the costs of potential future natural disasters and by projecting the costs of certain major tax and spending policies currently in effect, even though those policies are scheduled to expire within the budget window. This revised baseline better captures the likely future costs of operating the Federal Government. This section also discusses the use of debt net of financial assets, instead of debt held by the public, as a better measure of the Government's demand on private credit markets.

Taken together, these reforms generate a Budget that is more transparent, comprehensive, accurate, and realistic, and is thus a better guidepost for citizens and their representatives in making decisions about the key fiscal policy issues that face the Nation.[1]

[1] Pursuant to section 254 of the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), OMB issues a sequestration preview report covering discretionary spending each fiscal year. The OMB Sequestration Preview Report for FY 2016 is available on the OMB website.

I. BUDGET REFORM PROPOSALS

Joint Committee Enforcement

In August 2011, as part of the BCA, bipartisan majorities in both the House and Senate voted to establish the Joint Select Committee for Deficit Reduction to recommend legislation to achieve at least $1.2 trillion of deficit reduction over the period of fiscal years 2012 through 2021. The BCA included automatic reductions as a mechanism to encourage the Congress to enact legislation to achieve this goal. On multiple occasions, the President has presented comprehensive plans to replace these reductions with a mix of specific spending cuts and revenue proposals. The failure of the Congress to enact such comprehensive deficit reduction legislation to achieve the $1.2 trillion goal has already triggered a sequestration of discretionary and mandatory spending in 2013, reductions to the discretionary caps and a mandatory sequestration in 2014, and a mandatory sequestration in 2015. The BCA requires further automatic reductions to be made to the 2016 discretionary caps and a sequestration of mandatory spending, which is scheduled to take effect beginning on October 1 based on the order released with the 2016 Budget.

To date, legislation has been enacted to partially address the reductions required in two of these years. The American Taxpayer Relief Act of 2012 reduced the sequestration required of 2013 discretionary and mandatory spending by $24 billion. The Bipartisan Budget Act of 2013 (BBA) (P.L. 113-67) decreased the reductions otherwise required to the 2014 discretionary caps by $44.8 billion and set new discretionary caps in 2015 that are approximately $18.5 billion more than the Congressional Budget Office's (CBO) estimate of the post-reduction discretionary spending limits in that year. All of these revisions were paid for by enacting alternative deficit reduction.

In addition to the discretionary cap reductions and mandatory sequestration for 2016 noted above, damaging annual reductions of $109 billion will continue to be required for each of fiscal years 2017 through 2021, unless the Congress enacts balanced deficit reduction legislation that replaces and repeals the Joint Committee reductions. Further, the BBA and P.L. 113-82, commonly referred to as the Military Retired Pay Restoration Act, extended the sequestration of mandatory spending through 2024

at the percentage reduction required for 2021.[2] The reductions to discretionary spending for fiscal years 2016 through 2021 are to be implemented in the sequestration preview report for each year by reducing the discretionary caps. The reductions to mandatory programs are to be implemented by a sequestration of non-exempt mandatory budgetary resources in each of fiscal years 2016 through 2024, which is triggered by the transmittal of the President's Budget for each year and takes effect on the first day of the fiscal year.

The Bipartisan Budget Act took an important first step in moving away from manufactured crises and austerity budgeting by replacing a portion of the Joint Committee reductions with sensible long-term reforms, including a number of reforms proposed in previous President's Budgets. However, the BBA did nothing to alleviate Joint Committee enforcement in 2016 and beyond. The 2016 Budget builds on the BBA's progress by proposing increases to the discretionary caps that make room for a range of domestic and security investments that will accelerate growth and expand opportunity. These increases are offset by a balanced package of spending cuts, tax loophole closers, and program integrity measures. The President will work with the Congress to replace and repeal the Joint Committee reductions while putting the Nation on a sustainable fiscal path.

Program Integrity Funding

Critical programs such as Social Security, Medicare, and Medicaid, should be run efficiently and effectively. Nevertheless, the Government made an estimated $125 billion in improper payments last year, which is an increase from the improper rate of 3.53 percent in 2013 to 4.02 percent in 2014. This level of error is unaffordable and unacceptable. Therefore, the Administration proposes to make significant investments in activities to ensure that taxpayer dollars are spent correctly, by expanding oversight activities in the largest benefit programs and increasing investments in tax compliance and enforcement activities. In addition, the Administration supports a number of legislative and administrative reforms in order to reduce improper payments and improve debt collection. Many of these proposals will provide savings for the Government and taxpayers, and will support Government-wide efforts to improve the management and oversight of Federal resources.

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

Administrative Funding for Program Integrity.—There is compelling evidence that investments in administrative resources can significantly decrease the rate of improper payments and recoup many times their initial investment. The Social Security Administration (SSA) estimates that continuing disability reviews conducted in 2016 will yield net Federal program savings over the next 10 years of roughly $9 on average per $1 budgeted for dedicated program integrity funding, including the Old Age, Survivors, and Disability Insurance Program (OASDI), Supplemental Security Income (SSI), Medicare and Medicaid program effects. Similarly, for Health Care Fraud and Abuse Control (HCFAC) program integrity efforts, CMS actuaries conservatively estimate approximately $2 is saved or payments averted for every additional $1 spent. The Internal Revenue Service (IRS) enforcement activities recoup roughly $6 for every $1 spent.

Enacted Adjustments Pursuant to BBEDCA.—The Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) recognized that a multi-year strategy of agencies focusing attention and resources on reducing the rate of improper payments, commensurate with the large and growing costs of the programs administered by that agency, is a laudable goal. To support that goal, BBEDCA provided for adjustments to the discretionary spending limits to allow for additional funding for specific program integrity activities to reduce improper payments in the Social Security program and in the Medicare and Medicaid programs. These adjustments are increases in the discretionary caps on budget authority through 2021 and are made only if appropriations bills increase funding for the specified program integrity purposes above specified minimum, or base levels. This budget mechanism was intended to ensure that the additional funding did not supplant other Federal spending on these activities and that such spending was not diverted to other purposes.

The Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235) fully funded the adjustment to the discretionary spending limit for HCFAC for the first time and SSA for the second time since the cap adjustment was available in 2012. Tens of billions of dollars in deficit savings over the next 10 years from curtailing improper payments will be realized if the levels of administrative expenses for program integrity envisioned by BBEDCA continue to be provided. To ensure these important program integrity investments are made, the Budget is proposing to continue the discretionary cap adjustment for SSA in 2016 and for HCFAC through 2025. For SSA, starting in 2017, it also proposes to provide a dedicated dependable source of mandatory funding that will achieve the savings envisioned by the BCA in place of the BBEDCA discretionary cap adjustment. The Budget

[2] Subsequent legislation also specified that, notwithstanding the 2 percent limit on Medicare sequestration in the BCA, in extending sequestration into 2023, the reduction in the Medicare program should be 2.90 percent for the first half of the sequestration period and 1.11 percent for the second half of the period. In extending sequestration into 2024, the reduction in the Medicare program should be 4.0 percent for the first half of the sequestration period and zero for the second half of the period.

ensures SSA, the Department of Health and Human Services (HHS) and the Department of Justice (DOJ) have the resources that they need to conduct necessary program integrity activities and make certain that the right people receive the right payment for the right reason at the right time.

Because the SSA adjustment was fully funded for 2015, the base SSA program integrity funding ($273 million) and the SSA cap adjustment ($1,166 million) are proposed to be funded through discretionary appropriations in 2016. However, once that transition year has passed, to maximize the potential savings, the Budget proposes only mandatory funding for SSA program integrity starting in 2017. For HCFAC for 2016, the Budget proposes continuation through 2025 of the base funding that was provided in 2015 ($311 million for HHS and DOJ) through discretionary appropriations and cap adjustments aligned with those enacted in BBEDCA. The Budget also proposes that HCFAC funding support efforts at the Centers for Medicare & Medicaid Services (CMS) to monitor and prevent fraud, waste, and abuse in the private health insurance market including the Health Insurance Marketplace. As part of the Administration's overall program integrity proposals, the Budget proposes an annual reduction to the discretionary spending limits in section 251(c) of BBEDCA beginning in 2017 to offset the cost of shifting the base SSA funding from discretionary to mandatory. These proposals, including the more stable mandatory program integrity funding for SSA, will produce new net deficit savings of almost $37 billion over 10 years.

Social Security Administration Continuing Disability Reviews and Redeterminations of Eligibility.—For the Social Security Administration, the Budget's proposed $1,439 million in discretionary funding in 2016 ($273 million in base funding and $1,116 million in cap adjustment funding) will allow SSA to conduct at least 908,000 Continuing Disability Reviews (CDRs) and at least 2.6 million SSI redeterminations of eligibility. CDRs determine whether an individual continues to qualify for Disability Insurance (DI) or SSI. The mandatory funding provided for the SSA will enable the agency to work down a backlog of CDRs. As a result of the discretionary funding requested in 2016 and the increased mandatory funding requested in 2017 through 2025, SSA would recoup almost $46 billion in gross savings in the DI and SSI programs, with additional savings after the 10-year period, according to estimates of SSA's Office of the Actuary. Taking into account the $12.8 billion cost of the increased mandatory funding and the $1.2 billion provided in the 2016 cap adjustment, this would produce new net deficit savings of $32 billion in the 10-year window, and additional savings in the out-years. These costs and savings are reflected in Table 11-1. The cost of shifting the current SSA base funding of $273 million from discretionary to mandatory in 2017 through 2025 is not reflected in the new net deficit savings because, as noted above, it is being offset with an annual reduction to the discretionary spending limits in section 251(c) of BBEDCA if the mandatory funding proposal is enacted.

SSA is required by law to conduct CDRs for all beneficiaries who are receiving DI benefits, as well as all children under age 18 who are receiving SSI. SSI redeterminations are also required by law. However, the frequency of CDRs and redeterminations is constrained by the availability of funds to support these activities. As noted above, for 2015, the base amounts, as well as an additional $1,123 million discretionary cap adjustment pursuant to section 251(b)(2)(B) of BBEDCA were enacted in the annual appropriations bill. The mandatory savings from the base funding in every year and the enacted discretionary cap adjustment funding in 2015 are included in the BBEDCA baseline because the baseline assumes the continued funding of program integrity activities. The Budget shows the savings that would result from the increase in CDRs and redeterminations made possible by the discretionary funding requested in 2016 and the increased mandatory funding requested in 2017 through 2025. The mandatory funding should eliminate SSA's backlog of CDRs by the end of 2019 and prevent a new backlog from developing during the budget window.

As stated above, current estimates indicate that CDRs conducted in 2016 will yield a return on investment (ROI) of about $9 on average in net Federal program savings over 10 years per $1 budgeted for dedicated program integrity funding, including OASDI, SSI, Medicare and Medicaid program effects. Similarly, SSA estimates indicate that non-medical redeterminations conducted in 2016 will yield a ROI of about $4 on average of net Federal program savings over 10 years per $1 budgeted for dedicated program integrity funding, including SSI and Medicaid program effects. As in prior years, the ROI for CDRs is calculated based on the direct costs of processing CDRs. The Budget proposes funding only the direct costs of CDRs in 2016 and beyond. The savings from one year of program integrity activities are realized over multiple years because some CDRs find that beneficiaries have medically improved and are capable of working, which may mean that they are no longer eligible to receive DI or SSI benefits. Redeterminations focus on an individual's eligibility for the means-tested SSI program and generally result in a revision of the individual's benefit level. However, the schedule of savings resulting from redeterminations will be different for the base funding and the cap adjustment funding in 2016 or increased mandatory funding in 2017 through 2025. This is because redeterminations of eligibility can uncover underpayment errors as well as overpayment errors. SSI recipients are more likely to initiate a redetermination of eligibility if they believe there are underpayments, and these recipient-initiated redeterminations are included in the base. The estimated savings per dollar spent on CDRs and redeterminations reflects an interaction with a provision in the Affordable Care Act (ACA) that allows States to expand Medicaid coverage beginning January 2014 for individuals under age 65 with income less than 133 percent of poverty. As a result of this provision, some SSI beneficiaries, who would otherwise lose Medicaid coverage due to a CDR or redetermination, would continue to be covered. In addition, some of the coverage costs for these individuals will be

Table 11–1. ENACTED CAP ADJUSTMENTS AND PROPOSED MANDATORY FUNDING, INCLUDING MANDATORY SAVINGS
(Outlays in millions of dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016 - 2025 Total
SSA Program Integrity											
Discretionary Costs [1]	1,166	.....	.....	.....	.....	.....	.....	.....	.....	.....	1,166
Mandatory Cost [1]	.....	1,532	1,455	1,403	1,309	1,302	1,358	1,415	1,474	1,535	12,783
Mandatory Savings [2]	–237	–2,090	–3,109	–4,025	–4,697	–5,271	–6,119	–6,386	–6,574	–7,409	–45,917
Net Savings	929	–558	–1,654	–2,622	–3,388	–3,969	–4,761	–4,971	–5,100	–5,874	–31,968
Health Care Fraud and Abuse Control Program											
Discretionary Costs	395	414	434	454	475	496	518	541	565	590	4,882
Mandatory Savings [3]	–749	–795	–844	–894	–947	–991	–1,036	–1,085	–1,135	–1,187	–9,663
Net Savings	–354	–381	–410	–440	–472	–495	–518	–544	–570	–597	–4,781

[1] The cost of shifting the current SSA base funding ($273 million) from discretionary to mandatory is not reflected above in 2017 through 2025 because it is being offset with an annual reduction to the discretionary spending limits in section 251(c) of the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA). For 2015 the base amounts was enacted in the annual appropriations bill and an additional $1,123 million was provided as a discretionary cap adjustment pursuant to section 251(b)(2)(B) of BBEDCA. For 2016, the Budget continues to request the SSA base funding through discretionary appropriations, as well as the $1,166 million enacted discretionary cap adjustment. The mandatory savings from the base funding in every year and the 2015 enacted discretionary cap adjustment funding continues to be included in the BBEDCA baseline.

[2] This is based on SSA's Office of the Actuary estimates of savings. In the first year, there is no net savings. This is due to the fact that redeterminations of eligibility can uncover underpayment errors as well as overpayment errors and corrections for underpayments are realized more quickly than corrections for overpayments.

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

eligible for the Medicaid ACA enhanced Federal matching rate, resulting in higher Federal Medicaid costs in those states.

Health Care Fraud and Abuse Program.—The 2016 Budget proposes base and cap adjustment funding levels over the next 10 years and continues the program integrity cap adjustment through 2025.

The discretionary base funding of $311 million and cap adjustment of $395 million for HCFAC activities in 2016 are designed to reduce the Medicare improper payment rate, support the Health Care Fraud Prevention & Enforcement Action Team (HEAT) initiative, reduce Medicaid improper payment rates, and monitor and prevent fraud, waste, and abuse in the private health insurance market including the Health Insurance Marketplace. The investment will also allow CMS to deploy innovative efforts that focus on improving the analysis and application of data, including state-of-the-art predictive modeling capabilities, in order to prevent potentially wasteful, abusive, or fraudulent payments before they occur. The funding is to be allocated among CMS, the Health and Human Services Office of Inspector General, and DOJ. Over 2016 through 2025, as reflected in Table 11-1, this $4.9 billion investment in HCFAC cap adjustment funding will generate approximately $9.7 billion in savings to Medicare and Medicaid, for new net deficit reduction of $4.8 billion over the 10-year period, reflecting prevention and recoupment of improper payments made to providers, as well as recoveries related to civil and criminal penalties. The mandatory savings from base funding, assuming that amount is to continue in future years, are included in the BBEDCA baseline, as are the savings from the 2015 enacted the cap adjustment funding of $361 million.

Proposed Adjustments to BBEDCA Discretionary Spending Limits.—The Administration also proposes to amend BBEDCA to enact adjustments to the discretionary spending limits at the IRS and Treasury's Alcohol and Tobacco Tax and Trade Bureau (TTB) for tax code enforcement and the Department of Labor (DOL) to reduce improper payments in the Unemployment Insurance (UI) program. As shown in Table 11-2, the proposed adjustments are estimated to result in more than $61 billion in lower spending and additional tax revenue over the next 10 years, with further savings after the ten-year period. Both the base level of funding and the additional funding that would trigger cap adjustments are also listed in Table 11-2.

Internal Revenue Service and Treasury's Alcohol and Tobacco Tax and Trade Bureau.—For the IRS and TTB, the base funds current tax administration activities, including all tax enforcement and compliance program activities, in the Enforcement and Operations Support accounts at IRS and the Salaries and Expenses account at TTB. The additional $667 million cap adjustment funds new and continuing investments in expanding and improving the effectiveness and efficiency of the IRS's and TTB's overall tax enforcement program. As a result of base tax enforcement and compliance activities, the Government will collect roughly $57 billion in 2016 in direct enforcement revenue. The IRS estimates that the proposed new 2016 enforcement initiatives will yield an additional $432 million in revenue from the work done in 2016. Further, once the new staff are trained and become fully operational in 2018, the extra revenue brought in by the work done in each year will rise to $2.9 billion, or roughly $6 in additional revenue for every $1 in IRS expenses. New investments are also proposed beyond 2016, with cap adjustments in fiscal years 2017 through 2019 that include about $350 million in new revenue-producing enforcement initiatives each year. The activities and new initiatives funded out of the cap adjustments through 2025 will generate $60 billion in additional revenue over 10 years and will cost $18.7 billion for an estimated net

savings of $41 billion. Notably, the ROI is likely understated because it only includes amounts received; it does not reflect the effect enhanced enforcement has on deterring non-compliance. This indirect deterrence helps to ensure the continued payment of over $3 trillion in taxes paid each year without direct enforcement measures.

Unemployment Insurance.—The Budget proposes a series of cap adjustments for the Department of Labor's (DOL) Unemployment Insurance (UI) State administrative grants program to reduce UI improper payments, a top management challenge identified by GAO and DOL's Inspector General. The proposal would expand what is now an $80 million initiative to conduct Reemployment and Eligibility Assessments and Reemployment Services (REA/RES).

The REA initiative was begun in 2005 to finance in-person interviews at American Job Centers (also known as "One-Stop Career Centers"), to assess UI beneficiaries' need for job finding services and their continued eligibility for benefits. Research, including a random-assignment evaluation, shows that a combination of eligibility reviews and reemployment services reduces the time on UI, increases earnings, and reduces improper payments to claimants who are not eligible for benefits. Based on this research, the Budget proposes to expand funding for the REA/RES initiative to allow States to conduct robust reemployment services along with REAs. These reemployment services, which may include the development of reemployment and work search plans, provision of skills assessments, career counseling, job matching and referrals, and referrals to training as appropriate.

The funding proposed in the Budget would allow States to provide REA/RES services to focus the top one-third of UI claimants identified as most likely to exhaust their UI benefits as well as all newly separated veterans claiming unemployment compensation for ex-service members. The proposed expansion to the base effort to $151 million, if continued through 2025, would result in savings in UI benefit payments of an estimated $4.2 billion. These benefit savings would allow States to reduce their UI taxes

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

(Budget authority in millions of dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–2025 Total
IRS Tax Enforcement											
Proposed Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985:											
Enforcement Base.	9,572	9,783	10,009	10,242	10,479	10,721	10,970	11,223	13,865	14,186	111,050
Cap Adjustments:											
BA	667	1,039	1,403	1,781	2,170	2,232	2,276	2,329	2,382	2,437	18,716
Outlays	627	1,017	1,381	1,758	2,147	2,228	2,273	2,326	2,379	2,434	18,570
Receipt Savings from Discretionary Program Integrity Base Funding and Cap Adjustments:[1]											
Enforcement Base[2]	–57,000	–57,000	–57,000	–57,000	–57,000	–57,000	–57,000	–57,000	–57,000	–57,000	–570,000
Cap Adjustment[3]	–432	–1,451	–2,926	–4,476	–6,095	–7,481	–8,475	–9,077	–9,503	–9,819	–59,735
Unemployment Insurance Improper Payments											
Proposed Adjustments Pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985:											
Enforcement Base.	151	151	151	151	151	151	151	151	151	151	1,510
Cap Adjustments:											
BA	30	35	40	45	50	55	60	65	70	75	525
Outlays	30	35	40	45	50	55	60	65	70	75	525
Mandatory Savings from Discretionary Program Integrity Base Funding and Cap Adjustments:[4]											
Enforcement Base	–164	–393	–408	–423	–433	–449	–458	–474	–491	–495	–4,188
Cap Adjustment.	–34	–96	–114	–133	–151	–172	–192	–215	–240	–259	–1,606

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

[2] No official estimate for FY 2016 enforcement revenue has been produced, so this figure is an approximation and included only for illustrative purposes.

[3] The Internal Revenue Service (IRS) cap adjustment funds cost increases for existing enforcement initiatives and activities and new initiatives. The IRS enforcement program helps maintain the more than $2 trillion in taxes paid each year without direct enforcement measures. The cost increases will help maintain the base revenue while generating additional revenue through targeted program investments. The activities and new initiatives funded out of the cap adjustment will yield more than $41.1 billion in savings over ten years. Aside from direct enforcement revenue, the deterrence impact of these activities suggests the potential for even greater savings.

[4] The maximum UI benefit period is typically 26 weeks unless temporary extended benefits programs are in effect. As a result, preventing an ineligible individual from collecting UI benefits would save at most a half year of benefits in the absence of extended benefits. The savings estimates are based on regular UI benefits and spread over two years, reflecting the fact that reemployment and eligibility assessments conducted late in the year affect individuals whose benefits would have continued into the subsequent fiscal year. As a result of the benefit savings, many States will be able to reduce their unemployment taxes. The estimated reduction in State UI taxes from the enforcement base is $970 million, net of the income tax offset. The reduction in State UI taxes from the cap adjustment is $316 million, net of the offset.

by $970 million (net of the income tax offset), reducing the burden on employers. Because most unemployment claims are now filed by telephone or online, in-person assessments conducted in the Centers can help determine the continued eligibility for benefits and the adequacy of work search, verify the identity of beneficiaries where there is suspicion of possible identity theft, and provide a referral to reemployment assistance for those who need additional help. The benefit savings from this initiative are short-term because the maximum UI benefit period is limited, typically 26 weeks for regular State UI programs. The proposed cap adjustments would begin at $30 million in 2016 and total $525 million through 2025, providing total deficit savings estimated at $1.6 billion. These deficit savings from the cap adjustments would result in some States reducing their UI taxes, which would result in an estimated revenue loss of $316 million (net of the income tax offset). Net savings for the proposal, including the cost of the cap adjustments, the mandatory outlay savings, and the revenue declines, totals $765 billion.

Partnership Fund for Program Integrity Innovation.—Funded from fiscal year 2010 through 2013, the Partnership Fund invested over $29 million in eleven pilot projects, which are estimated to lead to total savings of up to $200 million or more annually if the pilots are taken to scale. As evaluations are completed and results finalized, OMB will work with Federal agencies, States and local governments, and other stakeholders to disseminate lessons learned and apply the tools and methods tested more broadly across programs and levels of government.

Pilot results so far include:

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

Pilots expected to yield early results in the next year include:

- The National Accuracy Clearinghouse pilot, in which FNS is working with States to test an interstate database of program information to support the Supplemental Nutrition Assistance Program (SNAP) and Disaster SNAP (D-SNAP) eligibility determinations by allowing States to determine whether an applicant is already receiving benefits in a different participating State.
- The Trusted On-Line Credentials pilot, in which Commerce is working with States to develop effective and secure identity verification solutions to support convenient customer access and program integrity across different services and agencies.
- The Identifying State Innovations for Improving Temporary Assistance for Needy Families (TANF) Program Administration pilot, in ACF is working with States to which to develop cost-effective approaches and best practices to maximize TANF block grants by reducing improper payments and directing cash assistance payments to eligible families not participating.
- The Supporting Permanent Placements of Foster Care Children through Electronic Records Exchange pilot, in which ACF and States are implementing real-time, on-line data exchange for States to share records and other information to support permanent placements of children and youth in foster care when they are placed in homes across state lines.

Mandatory Program Integrity Initiatives.—Table 11-3 presents the mandatory and receipt savings from other program integrity initiatives that are included in the 2016 Budget, beyond the expansion in resources resulting from the increases in administrative funding discussed above. These savings total almost $11.5 billion over 10 years. These mandatory proposals to reduce improper payments and ensure agencies recover debt owed to the Federal Government reflect the importance of these issues to the Administration. Through these and other initiatives outlined in the Budget, the Administration can improve management efforts across the Federal Government.

Cut Waste, Fraud, and Abuse in Medicare and Medicaid.—The Budget includes a robust package of Medicare and Medicaid program integrity proposals to help prevent fraud and abuse before they occur; detect fraud and abuse as early as possible; more comprehensively enforce penalties and other sanctions when fraud and abuse occur; provide greater flexibility to the Secretary of Health and

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

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	10-year total
Department of Health and Human Services:											
Cut Waste, Fraud, and Abuse in Medicare and Medicaid[1]	146	183	180	189	215	243	272	303	336	372	2,439
Cut Waste, Fraud, and Abuse in Medicare and Medicaid (non-PAYGO)[1]	–90	–156	–262	–407	–556	–652	–712	–762	–818	–883	–5,298
Department of Labor:											
Electronic Transmission of Unemployment Compensation Claims Information	–5	–10	–16	–17	–18	–19	–19	–20	–21	–22	–167
Electronic Transmission of Unemployment Compensation Claims Information (non-PAYGO receipt effect)	.....	.....	1	2	2	3	6	6	7	9	36
Cross-Match Prisoner Data to Reduce Improper Payments	–3	–7	–8	–8	–9	–10	–10	–10	–11	–11	–87
Cross-Match Prisoner Data to Reduce Improper Payments (non-PAYGO receipt effect)	.....	.....	.....	1	2	2	3	3	4	4	19
Department of the Treasury:											
Increase levy authority for payments to Medicare providers with delinquent tax debt (receipt effect)	–34	–50	–50	–51	–52	–54	–54	–56	–56	–57	–514
Provide authority to contact delinquent debtors via their cell phones.	–12	–12	–12	–12	–12	–12	–12	–12	–12	–12	–120
Authorize Treasury to locate and recover assets of the United States and to retain a portion of amounts collected to pay for the cost of recovery	–3	–3	–3	–3	–3	–3	–3	–3	–3	–3	–30
Increase delinquent Federal non-tax debt collection	–32	–32	–32	–32	–32	–32	–32	–32	–32	–32	–320
Social Security Administration:											
Windfall Elimination Provision/Government Pension Offset Enforcement Provision (non-PAYGO)	18	28	24	–352	–776	–1047	–1142	–1085	–1075	–1054	–6,461
Reconcile OPM/SSA retroactive disability payments	6	.....	.....	.....	.....	.....	.....	.....	.....	.....	6
Allow SSA to Use Commercial Databases to Verify Wages in SSI	.....	.....	.....	–71	–36	–24	–21	–19	–17	–18	–206
Expand Authority to Require Authorization to Verify Financial Information for Overpayment Waiver Requests[1]	–5	–16	–17	–18	–19	–20	–20	–21	–22	–22	–180
Hold Fraud Facilitators Liable for Overpayments[1]	.....	.....	–1	–1	–1	–1	–1	–1	–1	–1	–8
Government Wide Use of CBP Entry/Exit Data to Prevent Improper Payment[1]	.....	.....	–2	–7	–14	–22	–33	–40	–43	–52	–213
Office of Personnel Management:											
Reconcile OPM/SSA retroactive disability payments	.....	.....	–48	–48	–48	–48	–48	–48	–48	–48	–384
Total, Mandatory and Receipt Savings	**–14**	**–75**	**–246**	**–835**	**–1,357**	**–1,696**	**–1,826**	**–1,797**	**–1,812**	**–1,830**	**–11,488**
PAYGO Savings	58	53	–9	–79	–29	–2	19	41	70	94	216
Non-PAYGO Savings	–72	–128	–237	–756	–1,328	–1,694	–1,845	–1,838	–1,882	–1,924	–11,704

[1] Savings estimates may not include all interactions.

Human Services to implement program integrity activities that allow for efficient use of resources and achieve high returns-on-investment; and promote integrity in Federal-State financing. For example, the Budget proposes to authorize civil monetary penalties or other intermediate sanctions for providers who do not update enrollment records, permit exclusion of individuals affiliated with entities sanctioned for fraudulent or other prohibited action from Federal health care programs, and strengthens Medicaid and the Children's Health Insurance Program (CHIP) by providing tools to States, Territories, and the Federal Government to fight fraud, waste, and abuse. Together, the CMS program integrity authority would net approximately $2.9 billion over 10 years in non-PAYGO savings.

Unemployment Insurance Integrity.—The Budget includes two proposals that would implement improved integrity in the Unemployment Insurance program and would result in $254 million in PAYGO savings over 10 years and allow States to reduce their unemployment taxes by $55 million:

- ***Electronic Transmission of Unemployment Compensation Information.***—The Budget proposes to require all State agencies to use a system designated by the Secretary of Labor to obtain information from employers relating to UI claims, which could be the existing State Information Data Exchange System (SIDES) or else a successor system. The Department of Labor's SIDES system is designed to help employers more quickly provide to States the information necessary to determine a claimant's eligibility by providing a secure electronic data exchange between States and employers or their third party administrators. SIDES is currently used by about 44 States. The improvements in speed and accuracy resulting from use of such a system will help avoid overpayments or underpayments, and provide for more efficient and effective administration of the UI program.
- ***Cross-Match Prisoner Data to Reduce Improper Payments.***—The Budget proposes to expand State Unemployment Insurance agency use of the SSA's

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

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

- ***Increase levy authority for payments to Medicare providers with delinquent tax debt.***—The Budget proposes a change to the Department of the Treasury's debt collection procedures that will increase the amount of delinquent taxes collected from Medicare providers. Through the Federal Payment Levy Program, Treasury deducts (levies) a portion of a Government payment to an individual or business in order to collect unpaid taxes. Pursuant to the Medicare Improvements for Patients and Providers Act of 2008, Medicare provider and supplier payments are included in the Federal Payment Levy Program, whereby Treasury is authorized to continuously levy up to 15 percent of a payment to a Medicare provider in order to collect delinquent tax debt. The Budget proposal will allow Treasury to levy up to 100 percent of a payment to a Medicare provider to collect unpaid taxes. This proposal would result in PAYGO savings of $514 million over 10 years.
- ***Provide authority to contact delinquent debtors via their cell phones.***—The Budget proposes to clarify that the use of automatic dialing systems and prerecorded voice messages is allowed when contacting wireless phones in the collection of debt owed to or granted by the United States. In this time of fiscal constraint, the Administration believes that the Federal Government should ensure that all debt owed to the United States is collected as quickly and efficiently as possible and this provision could result in millions of defaulted debt being collected. While protections against abuse and harassment are appropriate, changing technology should not absolve these citizens from paying back the debt they owe their fellow citizens. The proposal would also allow the Federal Communications Commission to implement rules to protect consumers from being harassed and contacted unreasonably. This proposal would result in PAYGO savings of $120 million over 10 years.
- ***Authorize Treasury to locate and recover assets of the United States and to retain a portion of amounts collected to pay for the cost of recovery.***—States and other entities hold assets in the name of the United States or in the name of departments, agencies and other subdivisions of the Federal Government. Many agencies are not recovering these assets due to lack of expertise and funding. Under current authority, Treasury collects delinquent debts owed to the United States and retains a portion of collections, which is the sole source of funding for its debt collection operations. While unclaimed Federal assets are generally not considered to be delinquent debts, Treasury's debt collection operations personnel have the skills and training to recover these assets. The Budget proposes to authorize Treasury to use its resources to recover assets of the United States. This proposal would result in PAYGO savings of $30 million over 10 years.
- ***Increase delinquent Federal non-tax debt collections. Authorize administrative bank garnishment for non-tax debts of commercial entities.***—Allow Federal agencies to collect non-tax debt by garnishing the bank and other financial institution accounts of delinquent commercial debtors without a court order and after providing full administrative due process. The Budget proposes to direct the Secretary of the Treasury to issue government-wide regulations implementing the authority of bank garnishment for non-tax debts of commercial entities. Bank garnishment orders under this authority would be subject to Treasury's rule (31 CFR 212) protecting exempt benefit payments from garnishment. To reach income of commercial entities and other non-wage income and funds available to commercial debtors owing delinquent non-tax obligations to the United States, this proposal would authorize agencies to issue garnishment orders to financial institutions without a court order. Agencies would be required to provide debtors with appropriate administrative due process and other protections to ensure that debtors have had the full opportunity to contest the debts and/or enter into repayment agreements to avoid issuance of an order. The Internal Revenue Service currently has similar authority to collect Federal tax debts. The Debt Collection Improvement Act of 1996 (DCIA) authorized Federal agencies to collect delinquent non-tax debt by garnishing the wages of debtors without the need to first obtain a court order. Since July 2001, the U.S. Department of the Treasury's Bureau of the Fiscal Service has collected $221.4 million in garnished wages (as of December 31, 2014) on behalf of Federal agencies. This proposal would result in estimated savings of $320 million over 10 years in commercial debts.

Preventing Improper Payments in Social Security.—Overall, the Budget proposes legislation that would avert more than $7 billion in improper payments in Social Security over 10 years. While much of this savings is considered off-budget and would be non-PAYGO, about $1 billion from various proposals would be PAYGO savings.

- ***Improve Collection of Pension Information from States and Localities.***—The Budget reproposes legislation that would improve reporting for non-covered pensions by including up to $70 million for administrative expenses, $50 million of

which would be available to the States, to develop a mechanism so that the Social Security Administration could enforce the offsets for non-covered employment, Windfall Elimination Provision (WEP), and Government Pension Offset (GPO). The proposal would require State and local governments to provide information on their noncovered pension payments to SSA so that the agency can apply the WEP and GPO adjustments. Under current law, the WEP and GPO adjustments are dependent on self-reported pension data and cannot be independently verified. This proposal would result in savings in the Old-Age, Survivors, and Disability Insurance program of almost $6.5 billion over 10 years, which would be scored as non-PAYGO savings because the program is off-budget.

- ***Coordination of Disability Benefit Payments between the Office of Personnel Management (OPM) and SSA through Automation.***—The Budget proposes legislation to provide SSA with authority to automate coordination of disability benefit payments with OPM, which would substantially reduce OPM overpayments. This proposal would result in PAYGO savings of $378 million over 10 years. SSA is provided $6 million in 2015 to administer the coordination effort.
- ***Allow SSA to Use Commercial Databases to Verify Wages in SSI.***—The Budget will propose to allow SSA to use commercial databases to verify wages in SSI. This would allow SSA to automate its current process of manually accessing the information. Consent to allow SSA to access these databases would be a condition of benefit receipt for new beneficiaries. All other current due process and appeal rights would be preserved. This proposal would result in an estimated $206 million in savings over 10 years.
- ***Expand Authority to Require Authorization to Verify Financial Information for Overpayment Waiver Requests.***—The Budget will require OASDI recipients seeking overpayment waivers to grant SSA authority to certify financial information. This new authority would extend the current practice of requiring SSI recipients to provide SSA authorization to access data from their financial institutions to determine their available resources. Currently, there is no verification of financial assets for overpayment waiver claims for OASDI. This proposal would result in an estimated $180 million in savings over 10 years.
- ***Hold Fraud Facilitators Liable for Overpayments.***—The Budget proposes to hold fraud facilitators liable for overpayments by allowing SSA to recover the overpayment from a third party if the third party was responsible for making fraudulent statements providing false evidence that allowed the beneficiary to receive payments that should not have been paid. This proposal would result in an estimated $8 million in savings over 10 years.
- ***Government Wide Use of Custom and Border Patrol (CBP) Entry/Exit Data to Prevent Improper Payments.***—The Budget will provide for the use of CBP Entry/Exit data to prevent improper OASDI and SSI payments. An SSI beneficiary who is outside the United States for 30 consecutive days is not eligible for benefits for that month. Generally, U.S. citizens can receive benefits regardless of residence. Non-citizens may be subject to additional residence requirements depending on the country of residence and benefit type. This data has the potential to be useful across government to prevent improper payments. This proposal would result in an estimated $213 million in savings over 10 years.

Other Program Integrity Initiatives.—

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

Second, a "Do Not Pay" list was created by a Presidential memorandum issued June 18, 2010. The "Do Not Pay" list established a single portal through which agencies could check multiple eligibility databases before making an award or payment. The 2012 Budget requested (and the Consolidated Appropriations Act, 2012 appropriated) $10 million to the Treasury Department to support expansion of the "Do Not Pay" list and to add forensic fraud detection capabilities to the basic "Do Not Pay" portal. Specifically, the funding helped to: (1) expand the number of databases and infrastructure of the "Do Not Pay" list; (2) procure the detection technology and hire staff to support an operations center to analyze fraud patterns utilizing public and private sector information; and (3) refer potential issues to agency management and the relevant agency Inspector General.

Third, in November 2010, OMB released a memorandum that encouraged agencies to share high-value data that can be used to support important Administration initiatives, including preventing improper payments.

The Improper Payments and Elimination and Recovery Improvement Act of 2012 (IPERIA; P.L. 112-248) reinforced the Administration's "Do Not Pay" initiative already underway. OMB designated the Department of the Treasury to spearhead the Do Not Pay working system and to integrate the five databases of information specified by IPERIA. The Do Not Pay system provided as an online portal and single location for agencies to verify payment accuracy pre-award, pre-enrollment, and pre-payment. In addition, agencies reviewed their own processes for verifying payment accuracy to address both the cost of improper payments and the integrity of their

programs. Since 2013, agencies have been checking all payments and awards through a Do Not Pay working system as appropriate. The BBA expanded the Do Not Pay initiative to include additional information collected by the Social Security Administration's Prisoner Updates Processing System (PUPS) to prevent the improper payment of Federal funds to incarcerated individuals.

The effective use of data analytics provides insight into methods of reducing costs and improving performance and decision-making capabilities. The Do Not Pay initiative will expand and continue to incorporate other agency best practices and activities that further promote program integrity and benefits to the taxpayer. Current examples of agencies using data to improve payment accuracy include the Centers for Medicare & Medicaid Services' (CMS) Fraud Prevention System (FPS), a state-of-the-art predictive analytics technology used to identify and prevent fraud in the program; and the Department of Labor's Unemployment Insurance (UI) Integrity Center for Excellence, a Federal-State partnership which facilitates the development and implementation of UI integrity tools by the states and shares best practices in the detection and reduction of improper payments

Use of the Death Master File to Prevent Federal Improper Payments.—The Administration is continuing to pursue opportunities to improve information sharing by developing or enhancing policy guidance, ensuring privacy protection, and developing legislative proposals to leverage available information and technology in determining benefit eligibility and other opportunities to prevent improper payments. OMB Memorandum M-13-20, "Protecting Privacy while Reducing Improper Payments with the Do Not Pay Initiative", updated guidance for Federal agencies and enabled Treasury to publish a System of Records Notification in accordance with the Privacy Act of 1974 for the Do Not Pay system.

The Budget proposes to improve payment accuracy further by sharing available death data across government agencies to prevent improper payments. This proposal provides the Do Not Pay system at Treasury access to the SSA full death data to prevent, identify, or recover improper payments to include information received from a State, or any other source, about the deceased; provides additional agencies authorities to share death notices directly with SSA for quality and completeness; and expands the use of the Do Not Pay system the legislative and the judicial branches of government as well as to states, to improve the integrity of federal benefit programs administered by the states.

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

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

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

Disaster Relief Funding

Section 251(b)(2)(D) of BBEDCA includes a provision to adjust the discretionary caps for appropriations that the Congress designates as being for disaster relief in statute. The law allows for the discretionary cap to be increased by no more than the average funding provided for disaster relief over the previous 10 years, excluding the highest and lowest years. The ceiling for each year's adjustment (as determined by the 10 year average) is then increased by the unused amount of the prior year's ceiling (exclud-

ing the portion of the prior year's ceiling that was itself due to any unused amount from the year before). Disaster relief is defined as activities carried out pursuant to a determination under section 102(2) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5122(2)) for major disasters declared by the President. The request amends BBEDCA to extend the discretionary cap adjustment for disaster funding through 2025.

As required by law, OMB included in its Sequestration Update Report for FY 2015 a preview estimate of the 2015 adjustment for disaster relief. The ceiling for the disaster relief adjustment in 2015 was calculated to be $18,430 million. In the Continuing Appropriations Resolution, 2015 (P.L. 113-164, extended through February 27, 2015, by division L of the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235)), the Congress provided $5,626 million designated for disaster relief in the Federal Emergency Management Agency's Disaster Relief Fund (DRF). Further, P.L. 113-235 provided an additional $91 million in disaster relief funding for the Department of Agriculture's Emergency Forest Restoration Program, Emergency Conservation Program, and Watershed and Flood Prevention Operations accounts, for a total of $5,717 million.

OMB must include in its Sequestration Update Report for FY 2016 a preview estimate of the ceiling on the adjustment for disaster relief funding for 2016. This estimate will contain an average funding calculation that incorporates six years (2006 through 2011) using the definition of disaster relief from OMB's September 1, 2011 report and four years using the funding the Congress designated in 2012 through 2015 for disaster relief pursuant to BBEDCA excluding the highest and lowest years. The amounts enacted as full-year or continuing appropriations for disaster relief in 2015 are $12,713 million below the preview adjustment estimate of $18,430 million. However, pursuant to section 251(b)(2)(D)(i)(II) of BBEDCA, any unused carryover from 2014 cannot carry forward into the calculation of the 2016 preview estimate. As a result, only $6,196 million of this total underage will carry forward into the calculation of the 2016 preview adjustment in OMB's August 2015 Sequestration Update Report for Fiscal Year 2016 if no further appropriations are enacted in 2015 that are designated for disaster relief, and if the current continuing appropriation remains unchanged when final appropriations for the Department of Homeland Security are completed.

At this time, the Administration is requesting $6,872 million in funding in two accounts to be designated for disaster relief by the Congress: more than $6.7 billion in FEMA's DRF to cover the costs of Presidentially declared major disasters, including identified costs for previously declared catastrophic events (defined by FEMA as events with expected costs that total more than $500 million) and the predictable annual cost of non-catastrophic events expected to obligate in 2016, and $159 million in the Small Business Administration's Disaster Loans Program Account for administrative expenses. For these two programs, the Budget requests funding for both known needs based on expected costs of prior declared disasters and the typical average expenditures in these programs. This is consistent with past practice of requesting and funding these as part of regular appropriations bills. Also consistent with past practice, the 2016 request level does not seek to pre-fund anticipated needs in other programs arising out of disasters that have yet to occur, nor does the Budget seek funding for potential catastrophic needs. As additional information about the need to fund prior or future disasters becomes available, additional requests, in the form of either 2015 supplemental appropriations (designated as either disaster relief or emergency requirements pursuant to BBEDCA) or budget amendments to the Budget, may be transmitted.

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

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

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

The base levels are defined in the legislation as 70 percent of the average costs for wildfire suppression operations over the previous 10 years. These base levels ensure that the cap adjustment would only be used for the most severe fire activity, since it is 1 percent of fires that cause 30 percent of costs. Only extreme fires that require emergency response or are near urban areas or

activities during abnormally active fire seasons including large fires that require emergency response, which rightly should be considered disasters, would be permitted to be funded through the adjustment to the discretionary spending limits.

Wildfire suppression operations are defined by the legislation as the emergency and unpredictable aspects of wildland firefighting including support, response, and emergency stabilization activities, other emergency management activities, and funds necessary to repay any transfers needed for those costs. This means that related activities, such as fire preparedness, must continue to be funded from base appropriations and are not considered when determining if the cap adjustment is triggered.

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

The two introduced Wildfire Disaster Funding Acts and the Senate Appropriations committee markup of the Department of the Interior, Environment, and Related Agencies Appropriations Act, 2015, which included similar language, attempt to create a more responsible way to budget for wildfire suppression operations that allows for improved agency planning and management. The reality is that the Government has historically - and will in the future - fully fund wildfire suppression operations. It is inefficient and ineffective to provide those resources on an ad hoc basis and to raid other critical land management operations to pay for suppression operation needs. The practice of doing so in prior years led to destabilizing transfers from other accounts, and ultimately to underinvesting in other areas that are critical to long-term forest health and resilience. That is why the Administration is including a wildfire suppression operations cap adjustment as a proposal in this Budget.

The Budget assumes that the cap adjustment will begin in 2016 and will remain in effect through 2025. The only significant departure from the two introduced Wildfire Disaster Funding Acts is that the Budget proposes to phase in the size of the cap adjustment, beginning with a maximum permissible adjustment of $1.5 billion in 2016 that increases slowly to $2.7 billion by 2022 and remains at that level thereafter. At this time, the Administration is requesting to fund only $1.1 billion through the wildfire suppression operations cap adjustment in 2016 ($855 million in the Department of Agriculture and $200 million in the Department of the Interior). If the cap adjustment were to be enacted, additional requests, in the form of amendments to the Budget, might be transmitted as additional information about the severity of the fire season becomes known.

Civilian Property Realignment

Saving on Real Estate Costs.—The Federal Government is the largest property owner in the United States. There are opportunities for savings by using Federal space more efficiently and disposing of unneeded space, and the President has made it a priority to shrink and reduce the cost of operating the Federal real estate inventory. Laying the groundwork for the Administration's long-term strategy on real property, in 2012 the Administration issued a Freeze the Footprint policy and directed agencies to freeze the growth in their office and warehouse real estate inventory. As a result, the government reduced its office and warehouse baseline by 10.2 million square feet, from 730.1 million to 719.9 million square feet in 2013. The Administration is implementing a five-year National Strategy to freeze growth in the federal real property portfolio, measure the cost and utilization of individual real property assets to support their more efficient use, and reduce the size of the portfolio through asset disposal. In addition, a companion real property policy will be issued in 2015, requiring agencies to set annual reduction targets for office and warehouse space and to implement annual disposal targets for all building types to reduce costs and improve the portfolio's efficiency.

In addition, the Budget includes $57 million to implement the Civilian Property Realignment Act (CPRA). CPRA would create an independent board of private and public sector real estate experts that would perform Government-wide, independent portfolio analysis and make recommendations to the Congress on properties that should be disposed, consolidated, co-located, or reconfigured. Enactment of CPRA would help consolidate government operations, streamline the disposal process, generate an estimated $1.2 billion in sales proceeds, and provide funds for real property reinvestment.

Further, the enactment of CPRA, would fully support implementation of the Administration's National Strategy. CPRA has the same project objectives and planned outcomes as the National Strategy, and it implements the same level and type of real estate analysis to identify and prioritize real estate actions. CPRA would accelerate the identification and prioritization of disposal, consolidation renovation, and co-location projects through the Boards' independent portfolio analysis, and provide agencies with a clear set of priority real estate actions. Actions the Board recommends but does not prioritize for inclusion in the CPRA portfolio will be identified and implemented through collaboration and portfolio analysis among agencies and the General Services Administration.

Limit on Discretionary Advance Appropriations

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

There are legitimate policy reasons to use advance appropriations to fund programs. For example, funding for the Corporation for Public Broadcasting is customarily

appropriated two years in advance. This gives the beneficiaries of this funding time to plan their broadcasting budgets before the broadcast season starts.

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

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

The Budget includes $28,835 million in advance appropriations for 2017 and freezes them at this level in subsequent years. In this way, the Budget does not employ this potential gimmick. Moreover, the Administration supports limiting advance appropriations to the proposed level for 2017, similar to the limits enacted as sections 112 and 115(c) of the BBA for the Senate and the House, respectively. Those limits apply only to the accounts explicitly specified in a statement submitted to the Congressional Record by the Chairman of the Committee on the Budget in each House.

In addition, the Administration would allow advance appropriations for the Corporation for Public Broadcasting, which is typically enacted two years in advance, and for Veterans Medical Care, as is required by the Veterans Health Care Budget Reform and Transparency Act (P.L. 111-81). The advance appropriations funding level for the veterans medical care accounts (comprising Medical Services, Medical Support and Compliance, and Medical Facilities) is largely determined by the Enrollee Health Care Projection Model of the Department of Veterans Affairs (VA). This actuarial model projects the funding requirement for over 80 types of health care services, including primary care, specialty care, and mental health. The remaining funding requirement is estimated based on other models and assumptions for services such as readjustment counseling and special activities. The Department of Veterans Affairs has included detailed information in its Congressional Budget Justifications about the overall 2017 VA medical care funding request. For the first time, the Administration is also requesting advance appropriations for the VA mandatory benefit accounts (Compensation and Pension; Readjustment Benefits; and Veterans Insurance and Indemnities), based on projections of anticipated benefit payments, in compliance with the new requirement under the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235).

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

For a detailed table of accounts that have received discretionary and mandatory advance appropriations since 2014 or for which the Budget requests advance appropriations for 2017 and beyond, please refer to the Advance Appropriations chapter in the *Appendix*.

Budgetary Treatment of Surface Transportation Infrastructure Funding

Overview.—Currently, surface transportation programs financed from the Highway Trust Fund (HTF) are treated as hybrids: contract authority is classified as mandatory, while outlays are classified as discretionary. Broadly speaking, this framework evolved as a mechanism to ensure that collections into the HTF (e.g., motor fuel taxes) were used to pay only for programs that benefit surface transportation users, and that funding for those programs would generally be commensurate with collections. However, HTF collections are no longer adequate to support current law spending levels.

The National Commission on Fiscal Responsibility and Reform (the "Fiscal Commission") recommended changing the scorekeeping treatment of surface transportation programs to close loopholes in the present system. This hybrid treatment results in less accountability for transportation spending. The Commission plan reclassifies spending from the Transportation Trust Fund to make both contract authority and outlays mandatory. Specifically, rather than skirting the two mechanisms intended to control spending, caps on discretionary budget authority and PAYGO, the Fiscal Commission's recommendation would establish surface transportation programs as subject to PAYGO.

The 2016 Budget includes structural reforms to surface transportation programs that mirror the recommendation of the Fiscal Commission. These reforms help ensure that when crafting a surface transportation plan, the

President and the Congress will work together to ensure that funding increases do not increase the deficit.

The Budget uses transition revenue from pro-growth business tax reform to offset the cost of President's six-year surface transportation proposal beyond what the current funding mechanism can cover. Beyond the reauthorization window (2016-2021), the Budget assumes that spending returns to baseline levels based on what was enacted in 2015 – and accordingly the structural gap between baseline trust fund spending and baseline trust fund receipts returns. This reflects the assumption that while the Administration has identified a revenue source that will sustain baseline spending levels and programmatic increases proposed in the pending reauthorization, the offset does not offer a permanent solution. The proposal fills both the gap between baseline receipts and baseline spending for the six-year period of the reauthorization and all of the outlays associated with programmatic increases during the six-year reauthorization. Policy-makers will need to work together to develop other fiscally responsible solutions beyond the six-year reauthorization period.

The Budget also includes a surface transportation reauthorization proposal that would broaden the scope of programs included under the Trust Fund umbrella: the HTF is renamed the Transportation Trust Fund (TTF), and supports additional highway safety and transit programs, as well as passenger rail programs and multimodal programs administered by the Department of Transportation. The mechanics of the 2016 proposal are described in greater detail below. Generally speaking:

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

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

While the Administration envisions both types of committees playing important roles, the central innovation of the proposed scorekeeping regime is that it would require all stakeholders to identify offsets for new spending during the authorization process. A scorekeeping regime that closes loopholes in current practice and forecloses options that are not fiscally responsible is necessary for budget discipline and to drive policy makers towards consensus.

The proposal for surface transportation and the corresponding structural reforms are essentially similar to the proposal presented in 2015 Budget. The 2015 Budget presented the Administration's proposal for a four-year $302 billion reauthorization of transportation programs that would substantially increase average annual spending over the four years compared to MAP-21, while the 2016 Budget proposes a six-year $478 billion proposal. As discussed above, the Administration proposes to pay for the reauthorization proposal by using transition revenue from pro-growth business tax reform.

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

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

Account-by-Account Budgetary Treatment.—The Budget proposes the enactment of contract authority for the Transportation Trust Fund for each year, 2016-2021, totaling $478 billion over six years. The contract authority is to be enacted by the reauthorization bill and, as under current law, will be classified as mandatory.

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

For all of the resources in the surface transportation reauthorization proposal, the Budget proposes that the reauthorization contain annual obligation limits at the same level as the contract authority, and also that annual appropriations bills include obligation limits at those levels. The obligation limits enacted by the appropriators

enable the Administration and the Congress to review TTF policies and resource levels on an annual basis, but under a framework that will continue to give external stakeholders a high level of certainty regarding the multi-year resource trajectory for highways, transit, passenger rail, and multimodal activities.

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

- For accounts that are presently classified as having discretionary budget authority and outlays, but that the Administration proposes to incorporate into the TTF (for example, the Federal Transit Administration's Capital Investment Grants account), the Budget includes separate schedules that:
  - — Show baseline budget authority and outlays as discretionary, consistent with current classifications.
  - — Reclassify baseline budget authority and outlays as mandatory in all years, including 2014 and 2015, for comparability purposes (i.e., to enable a comparison of funding levels across years in an account).
  - — Show adjustments (subject to PAYGO) to the reclassified mandatory amounts so that the proposal properly accounts for requested program growth in the new trust fund accounts.
- For accounts that are presently funded from the HTF and that the Administration proposes to incorporate into the TTF (for example, Federal-Aid Highways), the Budget includes separate schedules that:
  - — Show baseline levels of mandatory contract authority and discretionary outlays resulting from obligation limitations contained in appropriations acts. Since the current law surface transportation extension will expire May 31, 2015, the contract authority is frozen in all years subsequent to that date, consistent with current scorekeeping conventions.
  - — Reclassify discretionary outlays from obligation limitations as mandatory outlays from mandatory contract authority for the 2015 estimate and create a new baseline of contract authority that is equal to the previous inflated discretionary baseline for obligation limitations.
  - — Reclassify 2014 enacted budget authority and outlays as mandatory for comparability purposes (i.e., to enable a comparison of funding levels across years in an account).
  - — Show proposed mandatory spending above or below the baseline as PAYGO costs or savings.
- For proposed new accounts supported by the TTF (for example, the Federal Railroad Administration's Rail Service Improvement Program account), the Budget includes a schedule that includes new mandatory contract authority and outlays requested to support those programs.

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

- Office of the Secretary, National Infrastructure Investments.
- Federal Railroad Administration (FRA): Operating Subsidy Grants to the National Railroad Passenger Corporation; Capital and Debt Service Grants to the National Railroad Passenger Corporation; Capital Assistance for High-Speed Rail Corridors.
- National Highway Traffic Safety Administration (NHTSA): Operations and Research.
- Federal Transit Administration (FTA): Administrative Expenses; Capital Investment Grants; Transit Research; Technical Assistance and Training; Public Transportation Emergency Relief.

Amounts in these accounts total $4.2 billion in discretionary budget authority for 2015. The baseline levels for these amounts are what constitute the discretionary cap adjustment noted in the OMB Sequestration Preview Report to the President and Congress for Fiscal Year 2016. Note that in a number of cases, activities captured in these accounts are requested under a new account in the Administration's reauthorization proposal. For example, activities under the two existing Amtrak accounts are requested as part of the Federal Railroad Administration's new Current Passenger Rail Service account. In those instances, the PAYGO impact of the Administration's reauthorization proposal must be calculated at the aggregate level rather than the individual account level (i.e., the change between the reclassified baseline amounts in the existing General Fund accounts and the proposed levels in the successor account).

Outyear Assumptions.—Beyond the reauthorization proposal, the Budget assumes that contract authority will return to baseline levels, as calculated from 2015, for 2022 and thereafter. This reflects that while the Administration has identified savings to offset the presently-pending reauthorization, policy-makers will need to develop alternative fiscally responsible solutions for 2022 and beyond.

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

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

Transportation Emergency Relief; and Administrative Expenses.

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

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

Offsets.—The 2016 Budget fully pays for the 2016-2021 reauthorization proposal by applying transition revenue from pro-growth business tax reform to cover outlays associated with: 1) new spending associated with the Administration's six-year surface transportation reauthorization proposal; and 2) shortfalls between revenue and spending that exist under current law for the same time period. As discussed above, the Budget proposes to make surface transportation spending subject to PAYGO rules, and specific savings are identified to cover the PAYGO costs.

Because the Budget retains the Trust Fund concept, fully-offset transfers from the General Fund to the TTF are reflected to maintain TTF solvency through the reauthorization period and to cover outlays generated from the six-year proposal but projected to occur beyond the reauthorization period. Offsets from business tax reform are only used to cover the structural deficit for six years and all new outlays associated with the reauthorization proposal for the 10-year window. Since the Administration's proposed offset is finite, after the reauthorization period spending levels drop back to baseline levels calculated from 2015 and spending again outstrips revenue.

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

- Line one illustrates the proposed contract authority levels for accounts under the TTF, including accounts presently reflected as General Fund budget authority, HTF-funded accounts (hybrid treatment), and new activities. Line two illustrates outlay estimates associated with that contract authority, as well as prior-year outlays from the HTF.
- Line three illustrates the baseline level of budgetary resources for all activities proposed under the TTF (including enacted appropriations and programs authorized under MAP-21). For comparability, those budgetary resources that were previously classified as discretionary are displayed here as mandatory. Line four illustrates the outlay estimates associated with those budgetary resources, including prior year outlays from the HTF.
- Lines five and six calculate the mandatory budget authority and outlay changes—the increases over the baseline levels. As previously noted and indicated in this line, after this reauthorization period, spending falls back to baseline levels. Line six is the amount that would be subject to PAYGO.
- Line seven indicates the assumed deposits to the Transportation Trust Fund necessary to liquidate outlays. That figure is made up of two components: estimates associated with current law receipts (line eight) to the Highway Trust Fund and offset transfers needed to maintain Trust Fund solvency during the six-year reauthorization and cover outlays from this reauthorization that are expected to occur after 2021 (line nine).
- Line 10 illustrates the net cash flow to the TTF assumed in each year (revenues minus outlays).
- Line eleven illustrates the notional cash balances of the TTF over the ten-year period. As mentioned above, offsets from transition revenue from business tax reform only cover the structural deficit for six years and new outlays associated with the reauthorization proposal; since the Administration's proposed offset is finite, after the reauthorization period spending levels drop back to baseline levels calculated from 2015 and structural deficits return.

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

First, congressional scorekeeping must accommodate the initial shift from discretionary to mandatory outlays. As illustrated by line four, the activities that the administration proposes to incorporate in the TTF as mandatory outlays would generate discretionary outlays under current law totaling an estimated $347 billion over six years. If those outlays are reclassified, they should not be added to the PAYGO cost of any legislation by virtue of the fact that they are new to the mandatory side of the budget. Rather, the mandatory baseline should be adjusted to include those outlays that would occur under current law—as the 2016 Budget does—and calculate any changes from that baseline. Without this initial accommodation, scorekeeping rules would overstate the cost of legislation intended to reform the hybrid system.

Second, to reflect the true cost of fully funding the surface transportation program for the six-year reauthorization period, any offset should be required to cover: 1) the difference between current law revenues and baseline HTF outlays ($85 billion, including a $5 billion cash management cushion for the reauthorization period) to restore solvency to the existing HTF, 2) any reclassification of the inflated baseline activities currently financed by the General Fund ($27 billion in the Administration's

Table 11–4. FUNDING, SPENDING, REVENUES, AND DEPOSITS ASSOCIATED WITH THE TRANSPORTATION TRUST FUND[1]

(Dollars in billions)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	6-year	10-year
1. Funding for the Transportation Trust Fund (Contract Authority)	77	78	79	80	81	82	63	64	65	67	478	737
2. Estimated outlays	60	68	73	75	77	79	77	72	70	69	433	720
3. Baseline funding (Contract Authority and Budget Authority)	56	57	58	59	60	62	63	64	65	67	352	610
4. Estimated baseline outlays[2]	55	56	58	58	59	60	61	63	64	65	347	599
5. Proposed funding increase	21	21	21	21	21	21	.....	.....	.....	.....	126	126
6. Estimated outlay increase	5	11	15	17	18	19	16	10	6	4	85	121
7. Deposits into the Transportation Trust Fund	79	79	80	80	80	80	40	40	40	40	477	637
8. Highway Trust Fund revenues (at current rates)	39	40	40	40	40	40	40	40	40	40	238	399
9. Corporate Tax Proposal Savings	40	40	40	40	40	40	.....	.....	.....	.....	238	238
10. Transportation Trust Fund annual cash flow (net)	19	11	7	4	2	1	(37)	(32)	(30)	(29)	44	(83)
11. Transportation Trust Fund end-of-year balances	19	30	37	41	43	44	7	(25)	(54)	(83)	214	60

[1] This table includes $5 billion in outlays from the GROW AMERICA proposal that were erroneously omitted from the totals in other parts of this Budget.

[2] Note that the FY16 proposal would incorporate into the Transportation Trust Fund all new spending from accounts that would previously have been considered discretionary (e.g. the Federal Transit Administration's Capital Investment Grants account), and future outlays from these accounts will now be paid from the Transportation Trust Fund. FY15 enacted levels for these accounts total $4.2 billion.

proposal, of which $21 billion outlays over the first six years), and 3) all program increases relative to the inflated baseline ($126 billion). While PAYGO rules only require an offset to spending above the BBEDCA baseline, the Administration believes that for both scoring purposes and Trust Fund solvency the offset should cover both proposed spending increases and the gap between baseline spending and current law revenue. As discussed earlier, the outyears beyond the reauthorization, 2022-2025, reflect lower surface transportation spending at baseline levels calculated from 2014 to illustrate that after the current reauthorization, the structural deficit returns and the Transportation Trust Fund faces insolvency. As a matter of policy, the Administration believes that the spending levels under its reauthorization proposal should be the starting point for subsequent authorizations, but policy makers will again have to confront the gap between spending and revenue.

Pell Grants

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

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

- The Pell Grant program acts like an entitlement program, such as the Supplemental Nutrition Assistance Program or Supplemental Security Income, in which everyone who meets specific eligibility requirements and applies for the program receives a benefit. As a result, the size of the individual award and the number of eligible applicants together determine the cost in any given year. Specifically, Pell Grant costs depend on the maximum award set in statute, the number of eligible applicants, and the award for which those applicants are eligible based on their needs and costs of attendance. The maximum Pell award for the academic year 2014-2015 is $5,730, of which $4,860 will be established in the annual appropriations act and the remaining $870 is provided automatically by the College Cost Reduction and Access Act (CCRAA). Under the CCRAA, the amount needed to index the Pell Grant for inflation is provided through the mandatory funds through the 2017-18 award year.
- The cost of each Pell Grant is funded by discretionary budget authority provided in annual appropriations acts, along with mandatory budget authority provided not only by the CCRAA, and the BCA, but also by amendments to the Higher Education Act of 1965 contained in the 2011 and 2012 appropriations acts. There is no programmatic difference between the mandatory and discretionary funding.
- If valid applicants are more numerous than expected, or if these applicants are eligible for higher awards than anticipated, the Pell Grant program will cost more than the appropriations provided. If the costs during one academic year are higher than provided for in that year's appropriation, the Department of

Education funds the extra costs with the subsequent year's appropriation.[3]

- To prevent deliberate underfunding of Pell costs, in 2006 the congressional and Executive Branch scorekeepers agreed to a special scorekeeping rule for Pell. Under this rule, the annual appropriations bill is charged with the full estimated cost of the Pell Grant program for the budget year, plus or minus any cumulative shortfalls or surpluses from prior years. This scorekeeping rule was adopted by the Congress as §406(b) of the Concurrent Resolution on the Budget for Fiscal Year 2006 (H. Con. Res. 95, 109th Congress).

Given the nature of the program, it is reasonable to consider Pell Grants an individual entitlement for purposes of budget analysis and enforcement, and in the 2010 and 2011 Budgets, the Administration requested that Pell Grants be converted into a mandatory program. The Congress has chosen to continue treating the portion funded in annual appropriations acts as discretionary, counting that budget authority for Pell Grants against the discretionary spending caps pursuant to section 251 of BBEDCA, and appropriations allocations established annually under §302 of the Congressional Budget Act. The 2016 Budget maintains this discretionary treatment.

The total cost of Pell Grants can fluctuate from year to year, even with no change in the maximum Pell Grant award, because of changes in enrollment, college costs, and family resources. In addition, since 2009 the program has relied on temporary mandatory or emergency appropriations to fund the program well above the level that could have been provided as a practical matter by the regular discretionary appropriation. The 2016 Budget expects program costs to exceed the discretionary level in 2018, when those extra mandatory funds in large part run out. In prior years the Budget expected the temporary funding to run out before 2018. Pell program costs and student enrollment have both declined since a 2010 peak, however, and the funding has lasted longer than anticipated. The Budget now projects a 10 year funding shortfall of $29.7 billion, $13.9 billion less than the 10 year forecast from 2015 (see Table 11-5). These estimates have changed significantly from year to year, which illustrates remaining uncertainty about the amount of the Pell shortfall, and the year in which the shortfall will reemerge.

Administration policy is to ensure that students have access to the maximum Pell award, and that the Pell grant keeps up with inflation. As in prior years, the Budget provides sufficient resources to fully fund Pell grants in the award years covered by the budget year, and the subsequent year. The Budget provides $22.5 billion in discretionary budget authority in 2016, the same level of discretionary budget authority provided in 2015. Level-funding Pell in 2016 provides $3.9 billion more than is needed to fully fund the program in the 2016-17 award year, because of the mandatory funding provided in prior legislation that remains available. Funding the Pell Grant program above the level needed to fund grants in 2016 is a first step in addressing the funding cliff in 2018. Cutting the budget authority in Pell to only the level needed to fund the program in 2016 would have a doubly detrimental impact on the 2018 cliff; it would reduce the budget authority carried forward from 2016, while simultaneously reducing the discretionary base funding level in the program.

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

In addition, the Budget proposes to make several student aid reforms that impact Pell Grant program costs:

- First, it will strengthen academic progress requirements in the Pell Grant program to encourage students to complete their studies on time.
- Second, the Budget will limit the receipt of additional Pell disbursements by recipients who are not advancing academically.
- Third, it proposes to include other federal student aid programs, such as the Department of Defense Tuition Assistance and GI Bill Benefits, in the 90 percent portion of the 90/10 calculation. Currently, for institutions participating in federal student aid programs, no more than 90% of revenue can come from federal student loans and grants.
- Fourth, the Budget would move Iraq and Afghanistan Service Grants to the Pell Grant program to ensure our veterans' children receive the full, non-sequestered Pell award for which they are eligible.
- Fifth, the Administration also supports the simplification of the Free Application for Federal Student Aid (FAFSA). The Budget proposes eliminating questions related to assets, non-IRS untaxed income, non-IRS income exclusions, and other income adjustments, which have been shown to confuse students. To prevent resulting decreases in Pell Grant awards, the Budget also proposes a $600 reduction in Expected Family Contributions.

[3] This ability to "borrow" from a subsequent appropriation is unique to the Pell Grant program. It comes about for two reasons. First, like many education programs, the Pell Grant program is "forward-funded"—the budget authority enacted in the fall of one year is intended for the subsequent academic year, which begins in the following July. Second, even though the amount of funding is predicated on the expected cost of the program during one academic year, the money is made legally available for the full 24-month period covering the current fiscal year and the subsequent fiscal year. This means that, if the funding for an academic year proves inadequate, the following year's appropriation will legally be available to cover the funding shortage for the first academic year. The 2016 appropriation, for instance, will support the 2016-2017 academic year beginning in July 2016 but will become available in October 2015 and can therefore help cover any shortages that may arise in funding for the 2015-2016 academic year.

Table 11–5. EFFECT OF STUDENT AID PROPOSALS ON DISCRETIONARY PELL FUNDING NEEDS
(Dollars in billions)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–2025
Full Funding, Discretionary Pell		20.5	26.0	26.2	26.7	26.9	27.3	27.5	27.9	28.3	28.7	
Mandatory Funding Previously Provided		.....	(1.6)	(1.4)	(1.4)	(1.4)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	
Discretionary Need	22.5	20.5	24.4	24.9	25.3	25.5	26.1	26.4	26.7	27.1	27.5	
Fund Pell at 2016 Full Funding Estimate	22.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	
Discretionary Funding Gap		.....	(3.9)	(4.3)	(4.8)	(5.0)	(5.6)	(5.9)	(6.2)	(6.6)	(7.0)	(49.3)
Fund Pell at 2015 Enacted Level		2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	
Remaining Funding Gap		2.0	(1.9)	(2.4)	(2.8)	(3.0)	(3.6)	(3.9)	(4.3)	(4.6)	(5.0)	(29.7)
Carry Forward 2015 BA Request to Help Fund 2016		(2.0)	2.0	.....	.....	.....	.....	.....	.....	.....	.....	
Remaining Funding Gap		.....	0.0	(2.4)	(2.8)	(3.0)	(3.6)	(3.9)	(4.3)	(4.6)	(5.0)	(29.7)
Student Aid Proposals												
Require Satisfactory Academic Progress		0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	1.1
Limit Pell Disbursements to Those Not Advancing Academically		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Include Vet & DoD Benefits in 90/10 Rule		.....	.....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Move Iraq Afghanistan Service Grants to Pell		(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Simplify the FAFSA		0.0	0.0	(0.0)	(0.0)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(1.1)
Net Changes to Reduce Pell Costs*		0.2	0.2	0.1	0.1	0.1	0.1	(0.0)	(0.0)	(0.1)	(0.1)	0.5
Remaining Funding Surplus or Gap		0.2	0.2	(2.2)	(2.7)	(3.0)	(3.6)	(3.9)	(4.3)	(4.7)	(5.1)	(29.1)

*Moving Iraq Afghanistan Service Grants and adjusting aid classifications for 90/10 rule compliance generates $72 million in mandatory savings over 10 years. Most of these savings come in later years. These savings can be appropriated toward paying for the discretionary portion of Pell and is included in the calculated $0.5 billion in discretionary savings over ten years.

Together, these student aid reforms reduce future discretionary Pell program costs by $0.5 billion over 10 years (see Table 11-5).

Postal Service Reforms

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

As a matter of law, the Postal Service is designated as an off-budget independent establishment of the Executive Branch. This designation and budgetary treatment was most recently mandated in 1989, in part to reflect the policy agreement that the Postal Service should pay for its own costs through its own revenues and should operate more like an independent business entity. Statutory requirements on Postal Service expenses and restrictions that impede the Postal Service's ability to adapt to the ongoing evolution to paperless written communications have made this goal increasingly difficult to achieve. To address its current financial and structural challenges, the Administration proposes specific financial relief and reform measures to ensure that USPS can continue to operate in the short term and work toward viability in the long run. The Administration also proposes PAYGO scoring of Postal legislation on a unified budget basis to better reflect how and when such legislation will affect overall deficits and debt. That is, for the purposes of entering amounts on the statutory PAYGO scorecards, the applicable estimates should include both the off-budget and the on-budget costs and savings produced by the legislation. This scorekeeping change would be accomplished by a provision contained within Postal reform legislation.

Budgetary Treatment of IMF Quota

In 2010, G-20 Leaders and the International Monetary Fund (IMF) membership decided on a set of quota and governance reforms designed to strengthen the IMF's critical role in the international system. To implement the reforms, the Budget proposes an increase to the U.S. quota and an equivalent rollback in U.S. participation in the New Arrangements to Borrow (NAB), with no net change in overall U.S. financial participation in the IMF. As explained below, the budgetary treatment of the U.S. participation in the IMF has changed over time to address jurisdictional and other political exigencies, most recently in 2009, which most accurately reflects the nature of U.S. participation in the IMF. The Administration would prefer to return to the pre-2009 budgetary treatment. However, recognizing the Congress' desire to show a financial cost for the IMF, as explained below, the Budget proposes to begin estimating the transactions on a present value basis.

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

deal with an exceptional situation that poses a threat to the stability of the system.

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

As a result of a compromise reached in 1980 between the Administration and the Appropriations Committees in order to allow Appropriators to have jurisdiction over IMF quota increases, appropriations for IMF increases were recorded as budget authority, reflecting the appropriations language, but no outlays were recorded, reflecting the principle that these transactions are exchanges of equivalent monetary assets. [5] The same scoring was applied to the NAB when it was established in 1998. To accommodate the relatively large and infrequent appropriations for these purposes, the budget process allowed for adjustments to the limits on discretionary spending equal to these appropriations. For example, OMB's final sequestration report for 1993 included a $12.3 billion adjustment to the budget authority limit on discretionary international spending, which was a 57 percent increase to the $21.5 billion limit. [6] An amount this large clearly could not be accommodated within a limit on appropriations for annually-recurring expenses.

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

Given that the 2016 proposal rolls back part of the 2009 appropriation, it is understandable that the scoring might entail estimating subsidy costs. However, the application of FCRA with a market risk adjustment to the quota appropriation is not the best method for measuring cost. The U.S. reserve position in the IMF consists of U.S. international monetary reserves that are readily available to meet a U.S. balance-of-payments financing need. Since its inception nearly seventy years ago, the IMF has never defaulted on any U.S. reserve claims on the IMF, even after the worst financial crisis since the Great Depression. The IMF is also recognized by its entire membership as the preferred creditor, with the unique ability to set conditions to assure repayment. U.S. reserve claims on the IMF are backed by the IMF's sound financial management and exceptionally strong balance sheet with reserves and gold holdings worth more than total credit outstanding. In addition, the United States earns interest on its reserve position in the IMF. [8]

For all of these reasons, the risk of loss—and consequently the FCRA cost to Government—is negligible. Treating the U.S. quota or participation in the NAB as a loan is not likely to lead to better decisions by the President and Congress about the U.S. participation in the IMF or by program officials who manage the U.S. participation. Instead, FCRA imposes a number of operational requirements that are appropriate for managing a loan portfolio but have little relevance to the IMF quota, such as treating each cash deposit into the IMF as a separate risk category that must be estimated and tracked in perpetuity as long as the U.S. maintains its membership in the IMF.

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

Proposed Budgetary Treatment.—The 2014 Budget proposed to return to the pre-2009 scoring arrangement, with budget authority reflecting the dollar amount of the change in the size of the U.S. quota to the IMF authorized by the Congress and zero outlays, which recognized that the transaction is an exchange of equivalent monetary

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

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

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

[7] The fair value adjustment to the discount rate for market risks is intended to capture private sector pricing for comparable instruments.

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

assets. Recognizing the connection between the 2010 agreement and the FY 2009 Supplemental Appropriations Act and the desire to show budget authority and outlay costs relative to the scoring of that Act, the 2016 Budget, like the 2015 Budget, proposes to estimate costs on a present value basis, using Treasury rates to discount the cash flows. This will result in the restatement of the transactions from the FY 2009 supplemental on this basis. The methods for estimating present value would be similar to the methods used under FCRA, but FCRA requirements for program and financing accounts, cohort-accounting, and reestimates would not apply. Under this proposal, the Budget would record budget authority and outlays equal to the estimated present value in the year that the U.S. contribution is enacted. Cash deposits into the IMF account at the Federal Reserve Bank of New York would be treated as a means of financing, similar to the treatment of other monetary assets. Interest earnings and realized gains and losses due to currency fluctuations would continue to be recorded in the budget on a cash basis, as they are for quota increases authorized prior to 2009. Revisions to the U.S. position at the NAB would receive the same treatment.

Additional Reclassification Proposals

Contract Support Costs.—The Budget proposes a reclassification of the Bureau of Indian Affairs' (BIA) and Indian Health Service's (IHS) Contract Support Costs from a discretionary to a mandatory appropriation. The Contract Support Costs proposal would reduce the discretionary spending limits in section 251(c) of BBEDCA beginning in 2017, to offset the cost of shifting the base funding from discretionary to mandatory. In addition, the mandatory appropriation includes a three-year program expansion to fully fund Contract Support Costs as well as a new investment to ensure program integrity. Through a reauthorization process, updated Contract Support Costs estimates will be provided to set funding levels.

Consider Reclassifying HUD Negative Subsidies.—For negative subsidy credit programs, the present value of fees, loan repayments, and other income to the Government exceed payments by the Government over the life of the loan and is recorded in the Budget as offsetting receipts. For HUD negative subsidy programs, the discretionary offsetting receipts reduce against the overall amount of budget authority that is scored against the discretionary caps. While it is reasonable to classify these negative subsidies as discretionary, significant volatility in the amounts and differences between OMB's estimates and CBO's estimates for HUD's negative subsidy programs introduces uncertainty in the appropriations process. Over the past 5 years, the budget year estimates for total HUD receipts have ranged from less than $1 billion to more than $14 billion, and differences between OMB's and CBO's estimates have ranged from -$0.9 billion to over $4 billion. Furthermore, the classification has changed more than once over the last 20 years. The Administration would like to work with the Congress to examine whether reclassifying HUD negative subsidies as mandatory would be more appropriate.

Expedited Rescission

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

II. STATUTORY PAYGO

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

Drawing upon the PAYGO provisions enacted as part of the Budget Enforcement Act, the Act requires that, subject to specific exceptions, all legislation enacted during each session of the Congress changing taxes or mandatory expenditures and collections not increase projected deficits. Mandatory spending encompasses any spending except that controlled by the annual appropriations process.[9]

The Act established 5- and 10-year scorecards to record the budgetary effects of legislation; these scorecards are maintained by OMB and are published on the OMB web site (*http://www.whitehouse.gov/omb/paygo_default*). The Act also established special scorekeeping rules that affect whether all estimated budgetary effects of PAYGO bills are entered on the scorecards. Off-budget programs and provisions designated by the Congress in law as emergencies are not included. As originally in force, PAYGO also provided exemptions for the costs of extending certain policies that were already in place, but that were scheduled to expire, such as the costs of extending tax cuts enacted in 2001 and 2003, and the costs of extending relief from scheduled reductions in Medicare physician payments. The authority for these exemptions, known as "current policy adjustments," expired as of December 31, 2011.

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

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

effects of all or part of the law be held off of the PAYGO scorecards. In the most recent Congressional session, for example, five pieces of legislation were enacted with such provisions. For more information, see the 2014 Annual PAYGO Report on the OMB web site (*http://www.whitehouse.gov/omb/paygo_default*).

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

Exemptions from a PAYGO sequestration order generally include Social Security; most unemployment benefits; veterans' benefits; interest on the debt; Federal retirement; and the low-income entitlements such as Medicaid, the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps), and SSI.[10] The major remaining mandatory programs, which are subject to sequestration, include most Medicare payments (limited to a maximum sequestration of 4 percent), farm price supports, vocational rehabilitation basic State grants, mineral leasing payments to States, the Social Services Block Grant, and many smaller programs. The list of exempt programs and the special sequestration rules for certain programs are contained in sections 255 and 256 of BBEDCA, and the exemptions and special rules generally apply to the following sequestrations: the sequestration pursuant to the PAYGO Act, the sequestration to eliminate excess spending above discretionary caps specified in section 251 of BBEDCA, and the sequestration currently required by the BCA as a result of the failure of the Joint Committee process.

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

As was the case during 1990s PAYGO, sequestration has not been required during the five Congressional sessions since the PAYGO Act reinstated the statutory PAYGO requirement. For each of those sessions, OMB's annual PAYGO reports showed net savings in the budget year column of both the 5- and 10-year scorecards. For the second session of the 113th Congress, the most recent session, enacted legislation added net savings of $626 million in each year of the 5-year scorecard and $1,521 million in each year of the 10-year scorecard. Balances in 2015, the budget year column, of net savings from prior sessions of the Congress on each scorecard created total net savings of $10,595 million on the 5-year scorecard and $9,730 million on the 10-year scorecard, so no sequestration was required. As of the end of the most recent session, the 5-year scorecard showed net costs of $440 million in the 2016 column. Absent legislation to address these net costs, a PAYGO sequestration order would be required after the end of the 2015 Congressional session.[11]

Administrative PAYGO

The Administration continues to review potential administrative actions by Executive Branch agencies affecting entitlement programs, as stated in a memorandum issued on May 23, 2005, by the Director of the Office of Management and Budget. This effectively establishes a PAYGO requirement for administrative actions involving mandatory spending programs. Exceptions to this requirement are only provided in extraordinary or compelling circumstances.[12]

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

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

[12] For a review of the application of Administrative PAYGO, see USDA's Application of Administrative PAYGO to Its Mandatory Spending Programs, GAO, October 31, 2011, GAO-11-921R.

III. IMPROVED BASELINE AND BUDGET PRESENTATION

Improved Definition of Baseline

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

For years, the baseline used by the Congress has followed the definition contained in section 257 of BBEDCA. However, the BBEDCA baseline does not accurately reflect a continuation of current policy. In each of its Budgets, this Administration has built its budget propos-

als starting from a baseline that adjusts the BBEDCA baseline to better represent the thrust of current policy in certain major cases, and recommends that the Congress, the Congressional Budget Office, and the public use such a baseline in their own analyses as well. The deficit impacts of the adjustments to the BBEDCA baseline are summarized in Summary Table S-8 of the *Budget*. The adjustments are described below. Further detail about the adjusted baseline is provided in Chapter 25, "Current Services Estimates," in this volume.

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

Adjustments to Reflect Certain Expiring Provisions Affecting Middle Class Tax Credits.—In recent years, the Congress has repeatedly extended provisions of the tax code that have a large deficit impact or signaled its intention that a provision be extended when it enacted the provision for a limited number of years. The Administration's adjusted baseline assumes permanent extension of the following tax credits provided to individuals and families under the American Recovery and Reinvestment Act of 2009 (ARRA), which were extended through 2017 by the American Taxpayer Relief Act of 2012 (ATRA): increased refundability of the child tax credit, expansions in the earned income tax credit (EITC) for larger families and married taxpayers filing a joint return, and the American opportunity tax credit (AOTC).

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

Adjustments for Emergency and Disaster Costs.—Because the BBEDCA baseline extends all appropriations already enacted for the year in progress, it can be subject to huge swings as a result of funding enacted as an emergency requirement or as disaster relief funding pursuant to the cap adjustments for these items permitted by section 251(b)(2) of BBEDCA. At times, the BBEDCA baseline could extend large one-time emergency or disaster appropriations for the next 10 years; at other times it might extend very little. The Administration's baseline includes adjustments to account for these swings. Specifically, the Administration's adjusted baseline removes the extension of enacted or continuing appropriations that were designated by the Congress in 2015 as emergency requirements or as disaster relief funding.

In addition, the Administration's adjusted baseline substitutes an allowance for disaster costs in the budget year and future fiscal years. This allowance reflects the fact that the disaster relief cap adjustment has already allowed funding for $5.7 billion in BBEDCA-designated disaster relief in 2015, the Budget is specifically requesting $6.9 billion in 2016 for major disasters, and major natural or man-made disasters may occur in the near future and are likely to occur at some point in subsequent years. Obviously, both the timing and amounts are unknowable in advance. In addition to the inclusion of this entry in the baseline, the Administration includes the same allowance in its Budget.

The baseline and Budget figures are not a "reserve fund," nor are they a request for discretionary budget authority or congressional legislation of any kind. Instead, they are placeholders that represent a meaningful down payment on potential future disaster relief requirements that are not for known needs in the budget year. For more information, see the discussion of disaster relief funding earlier in this chapter in Section I (Budget Reform Proposals) under the heading titled "Disaster Relief Funding." Including a meaningful down payment for the future costs of potential disaster relief funding makes the budget totals more honest and realistic.

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

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

rule, reflecting the full cost of funding the discretionary portion of Pell while covering any prior shortfalls.

As described earlier, an estimate of the full cost of Pell in any year depends in part on the size of the maximum award for that year. The current maximum award for the discretionary portion of Pell is $4,860 per student per year. The adjusted baseline assumes that award level will remain constant in nominal terms over the next 10 years. The baseline projection of the discretionary portion of Pell therefore changes from year to year primarily because of estimated changes in the number of valid applicants. Changes in student income and level of tuition can also make a difference in the size of an individual student's award and therefore the cost of the program.

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

Adjustment to Reflect the Anticipated Postal Service Default on Retiree Health Benefit Prefunding.—Under the Postal Accountability and Enhancement Act of 2006 (P.L. 109-435), the United States Postal Service (USPS) is required to make specified annual payments through 2016 to the Postal Service Retiree Health Benefits (RHB) Fund in the Office of Personnel Management. These payments are designed to prefund unfunded liabilities for health costs for future Postal retirees. Starting in 2017, the USPS's remaining unfunded liability is amortized over a 40-year period. Because of its current financial challenges, the USPS defaulted on four statutory RHB payments due in 2012, 2013, and 2014, totaling $22.4 billion. While the BBEDCA baseline shows USPS making the payments due in 2015 and 2016 as required, the adjusted baseline assumes that these payments will not be made, given the likelihood of continued default. While defaulted payments remain as outstanding statutory liabilities, any default is factored into the 40-year amortization schedule mentioned above.

Nuclear Waste Fund

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

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

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

Nuclear Waste Fee Collections.—On November 19, 2013, the U.S. Court of Appeals for the District of Columbia Circuit sustained a challenge to the Department's determination of the adequacy of the Nuclear Waste Fund fee, and directed the Department to transmit to the Congress a proposal to reduce the fee to zero. The Department complied and, after a congressional review period, its proposal became effective May 16, 2014. The 2016 Budget assumes no change in the estimates of receipts into the Nuclear Waste Fund from the estimates presented in the Mid-Session Review of the President's 2015 Budget. These amounts were a placeholder utilizing a probabilistic estimate that assumes that the fee will not remain uncollected indefinitely.

Fannie Mae and Freddie Mac

The Budget continues to present Fannie Mae and Freddie Mac, the housing Government-Sponsored Enterprises (GSEs) currently in Federal conservatorship, as non-Federal entities. However, Treasury equity investments in the GSEs are recorded as budgetary outlays, and the dividends on those investments are recorded as offsetting receipts. In addition, the budget estimates reflect collections from the 10 basis point increase in GSE guarantee fees that was enacted under the Temporary Payroll Tax Cut Continuation Act of 2011 (P.L. 112-78). The GSEs are discussed in more detail in Chapter 20, "Credit and Insurance."

Fair Value for Credit Programs

In recent years, some analysts have argued that Federal direct loan and loan guarantee programs impose costs on taxpayers that are not reflected under the current budgeting rules, such as the risk that assets may not perform as expected, and propose to require that the Budget use "fair value" estimates for these credit programs. Under fair value, comparable market interest rates would be used to discount expected cash flows,

instead of the Federal Government's cost of borrowing. While fair value may offer some useful insights and inform decision-making in some cases, using fair value for budgetary cost estimates of credit programs raises serious conceptual and implementation problems. Most important, it would compromise the central objective of current budgeting rules for credit, which are designed to put credit program estimates on a comparable basis to other forms of Federal spending and improve the allocation of resources. In addition, many of the factors reflected in fair value pricing are irrelevant or less relevant to taxpayers than to private investors; including these factors in budgetary cost estimates would overstate the cost of credit assistance and introduce a bias relative to other forms of Federal assistance. On top of these and other conceptual issues, implementing fair value may prove extremely costly and introduce inconsistencies in how costs are estimated across programs, reducing the consistency and transparency of the Budget. For a detailed discussion of the conceptual and implementation issues raised by fair value estimates, see the "Credit and Insurance" chapter of the *Analytical Perspectives* volume of the 2015 Budget.

Debt Net of Financial Assets

In the Summary Tables included in the main *Budget* volume, Tables S-1 and S-13 display both debt held by the public and debt held by the public net of financial assets. Borrowing from the public is normally a good approximation of the Federal demand on credit markets. However, it provides an incomplete picture of the financial condition of the Government and under some circumstances may misrepresent the net effect of Federal activity on credit markets. Some transactions that increase the Federal debt also increase the financial assets held by the Government. For example, when the Government lends money to a private firm or individual, the Government acquires a financial asset that provides a stream of future payments of principal and interest, net of the Government's expected losses on the loan. At the time the loan is made, debt held by the public reflects only Treasury's borrowing to finance the loan, failing to reflect the value of the loan asset acquired by the Government. Similarly, the estimate of debt held by the public does not reflect estimated liabilities on loan guarantees. In contrast, debt held by the public net of financial assets provides a more accurate measure of the Government's net financial position by including the value of loans and other financial assets held by the Government. While Federal borrowing reduces the amount of private saving that is available through financial markets for private-sector investment, Federal acquisition of financial assets has the opposite effect—it injects cash into financial markets. Thus, the change in debt net of financial assets can also better indicate the effect of the Federal Government on the financial markets. For further discussion of debt net of financial assets, see Chapter 4, "Federal Borrowing and Debt."