

Tax Policy Overview

FY 2017 Budget Tax Policy Narrative

The tax policy proposals in the FY 2017 Budget achieve the following core objectives:

1. Promoting economic growth. The tax proposals in the Budget contribute to growth by:

- Promoting increased and more efficient investment in the United States by reforming the business tax system and by using business reform transition revenue for infrastructure.
- Encouraging labor force participation through targeted pro-work tax cuts: an EITC expansion targeting groups with low or declining participation rates and a second earner tax credit for married couples.
- Paying for reversing sequester and making pro-growth investments in education, innovation, and infrastructure, as well as for universal pre-K, quality child care, and college affordability.
- Contributing to bringing down deficits and putting the nation on a sustainable fiscal path.

2. Responding to the challenge of growing inequality in income and wealth. Over the last several decades, the incomes of those at the top have skyrocketed, while the earnings of typical workers have stagnated. The tax proposals in the Budget respond to these challenges by:

- Promoting economic opportunity for middle-class and working families, through:
 - o Tax credits like an expanded EITC for workers without dependent children, expanded tax credits for child care and education, and the second earner tax credit.
 - o Financing other policies that promote opportunity, including support of universal preschool, apprenticeships, advanced manufacturing, research, and clean energy.
- Paying for these reforms primarily by:
 - o Reforming capital gains taxes to close one of the largest and most skewed loopholes in the tax code. Together with reinvesting the revenue to help the working and middle-class families, this policy is one of the most impactful steps we could take to make the tax code fairer in light of rising wealth inequality.
 - o Imposing a fee on large and heavily leveraged financial institutions to discourage risky bets that can endanger the broader economy.

Major Lines of Attack

Attacks on the Budget's tax proposals will fall into two categories: attacks on specific policies and attacks on the overall Budget as a tax-and- spend, unbalanced, anti-growth approach. There are several lines of response to the latter attack, from which you will probably want to mix and match based on your preferences and the form of the question.

Approach 1: Make the broad case for raising more revenue. *With an aging population putting growing pressure on the budget, we need to raise additional revenue to meet our commitments to seniors while reducing deficits and debt and without shortchanging pro-growth investments.*

- This is not a Budget that shies away from hard choices on the spending side.
 - It includes roughly \$365 billion of health savings, \$68 billion of savings from program integrity measures, and reforms in areas ranging from crop insurance to national resource management.
- But with the aging of the baby boomers putting growing pressure on the budget, reasonable spending restraint and smart program reforms alone are not enough to put debt on a declining path.
 - Over the last 40 years, we averaged about 30 Social beneficiaries per 100 workers. By the end of the current Budget window, there will be roughly 42 beneficiaries per 100 workers.
- The demographic changes we confront leave us with a basic choice: raise more revenue or break our commitments to seniors, disinvest in future generations, or explode our deficits.
- The Budget shows how we can maintain commitments to seniors, make needed investments, and put debt on a declining path through 2025 by raising revenue to the levels of the late 1990s – a time of strong economic growth and budget surpluses --- by closing loopholes, curbing tax breaks, and passing pro-growth immigration reform.

Approach 2: Situate the budget in a broader economic context. *The mix of revenue and spending policies in the Budget is a response to our two key economic challenges: accelerating growth, and then making sure the benefits of growth are widely shared.*

- Over the last several decades, the incomes of the highest-income households have skyrocketed, while real earnings for typical workers have stagnated. Income inequality is at its highest levels since the 1920s, and wealth inequality is at its highest levels since the 1930s.
- Meanwhile, effective tax rates for high-income households are lower than they once were, the result of both lower nominal tax rates and a proliferation of loopholes and spending through the tax code.
 - Even after the fiscal cliff deal, average Federal effective tax rates for the very highest- income households are lower than they were in the mid-1990s and lower than they were from the 1950s through the early 1980s.
- The question comes down to whether it's fair to ask those who have fared the best in the modern economy to pay a little more in taxes to help expand opportunity for the middle-class – and our view is yes.

Approach 3: Focus on how the Budget raises revenue. *With an aging population putting pressure on the budget and a clear need to invest in growth and opportunity, the important thing is to raise revenue in a fair and pro-growth way, as the Budget does.*

- Major pro-growth policies in the Budget include:
 - o Immigration reform, which generates \$170 billion in deficit reduction in the first decade, another roughly \$700 billion in the second decade, and CBO has found would increase economic growth and productivity.
 - o Pro-growth business tax reform, which also raises roughly \$300 billion in revenue during the transition to the reformed system that, along with a new oil fee, will support pro-growth investment in a 21st Century clean transportation system that will strengthen the middle class by creating jobs and economic growth.
 - o Reforms to capital gains taxation that would close the so-called “trust fund loophole” and help unlock capital for more productive investment.
- Most of the remaining revenue comes from:
 - o Imposing a fee on large and heavily leveraged financial institutions to discourage risky bets that can endanger the broader economy.
 - o Limiting the value of high-income tax expenditures and closing loopholes. Members of both parties and numerous bipartisan commentators including the Bowles-Simpson Commission have agreed that we can raise substantial revenue while making our tax system more efficient by curbing wasteful spending through the tax code.

Approach 4: Situate the budget in a broader fiscal context. *Together with the deficit reduction enacted over the last several years, the Budget puts the nation on a sustainable fiscal path with a balanced package of spending cuts and revenue increases.*

- It’s important to look at the Budget policies in the context of the policy choices we’ve made over the last few years.
- Since 2011, we have obtained more than 4/5 of our deficit reduction from spending cuts, including the overly deep cuts imposed by sequestration.
- This Budget:
 - o Replaces the deficit reduction from sequestration with a balanced package of spending cuts and tax changes.
 - o Obtains \$1.7 trillion in additional deficit reduction primarily from health, tax, and immigration reform.
- If the Budget proposals are enacted, they will bring total deficit reduction since 2011 to close to \$7.4 trillion. Of that total, less than half will come from revenues.
 - o *For your awareness: this ratio is computed treating immigration reform as its own category – so the ratios are 47% revenues, 51% spending, 2% immigration reform.*

Approach 5: Redefine the attack as about growth, then refute it. *Stepping back, what the Budget does is raise revenue as a share of GDP to roughly the levels of the late 1990s – which saw both the strongest growth and the only budget surpluses of the last several decades.*

- Concerns that raising revenue would hurt our economy have repeatedly proved ill-founded.
 - o High-income tax increases in the 1990s were followed by an economic and stock market boom, budget surpluses, and the strongest wage gains in decades.
 - o High-income tax increases in the 2013 fiscal cliff deal were followed by accelerating economic and job growth.
- Overall, the revenue increases in the Budget will help the economy, because:
 - o They contribute to putting the nation's finances on a sustainable path.
 - o They fund pro-growth investments in education, innovation, and infrastructure.

The Budget raises revenue in a smart, pro-growth, way, for example through pro-growth immigration reform, curbing inefficient spending through the tax code, and simplifying and modernizing our business tax system.

Glossary

Impose a Financial Fee: The Administration proposes to assess a financial fee on certain liabilities of large firms in the financial sector. Currently, financial firms take risks based on what maximizes their own expected profits, without taking into account the potential costs to the economy as a whole. This attaches a cost to leverage for the largest financial firms, leading them to make decisions more consistent with the economy-wide effects of their actions (111 billion over 10 years).

Reform the Taxation of Capital Income (Stepped-Up Basis): Stepped-up basis means that capital gains on assets held until death are never subject to income taxes: the capital gains disappear forever for tax purposes. This happens because bequests to heirs go untaxed, and the “tax basis” of the inherited asset is immediately increased, i.e. stepped up, to its value when inherited. Under the President’s proposal, capital gains taxes would be due on gifts and bequests, just like in other cases where assets change hands. The proposal would also increase the top capital gains and dividend tax rate to 28 percent, the rate under President Reagan. This proposal has important exclusions including limited household furnishing and effects and certain small business stock (235 billion over 10 years).

Restore the Estate, Gift and Generation-Skipping Transfer (GST) Tax Parameters in Effect in 2009: The proposal would make permanent the estate, GST, and gift tax parameters as they applied during 2009. The top tax rate would be 45 percent and the exclusion amount would be \$3.5 million for estate and GST taxes, and \$1 million for gift taxes. There would be no indexing for inflation (202 billion over 10 years).

Simplify and Better Target Tax Benefits for Education: To further increase tax benefits available to students while they are in college and simplify the claiming of tax benefits, the Administration proposes to replace the Lifetime Learning Credit and student loan interest deduction with an expanded AOTC. To further simplify education benefits for low-income students, the proposal would exclude all Pell Grants from gross income and the AOTC calculation. There are also several other changes to tax rules governing student loans (-49 billion over 10 years).

Provide a Second Earner Tax Credit: The proposal would provide two-earner married couples who file as married-filing-jointly a nonrefundable tax credit equal to a percentage of the lower earner’s earned income up to \$10,000. The maximum credit is \$500, and the credit phases out at higher incomes. This tax credit helps compensate for extra work related costs faced by two-earner couples (-87 billion over 10 years).

Reform Child Care Tax Incentives: The proposal would repeal dependent care flexible spending accounts, increase the child and dependent care credit, and create a larger credit for taxpayers with children under age five. The income level at which the current-law credit begins to phase down would be increased (-40 billion over 10 years).

Expand the Earned Income Tax Credit (EITC) For Workers without Qualifying Children: The proposal would increase the EITC for workers without qualifying children by doubling the phase-in rate and the phase-out rate, thereby doubling the maximum credit from about \$500 to about \$1,000. The beginning of the phase-out range would be increased and be indexed for inflation. The age range for eligibility is also expanded. A related proposal allows otherwise eligible taxpayers residing with qualifying children whom they do not claim to receive the EITC for workers without qualifying children (-61 billion over 10 years).

Consolidate Contribution Limitations for Charitable Deductions and Extend the Carryforward Period:

The proposal would simplify this complicated set of rules limiting deductions for charitable contributions. Under the proposal, the contribution base limit would remain at 50 percent for contributions of cash to public charities. For all other contributions, a single deduction limit of 30 percent of the taxpayer's contribution base would apply. In addition, the proposal would extend the carry-forward period for contributions in excess of these limitations from five to 15 years (-6 billion over 10 years).

A separate proposal would deny the deduction for contributions that entitle donors to a right to purchase tickets to sporting events (3 billion over 10 years).

Like-kind exchanges: When capital assets are sold or exchanged, capital gain or loss is generally recognized. Under section 1031, however, no gain or loss is recognized when business or investment property is exchanged for “like-kind” business or investment property. The proposal would limit the amount of capital gain deferred under section 1031 from the exchange of real property to \$1 million (indexed for inflation) per taxpayer per taxable year (47 billion over 10 years).

Conform Self-Employment Contributions Act (SECA) Taxes for Professional Services Businesses (Gingrich loophole): This loophole allows self-employed people who set up S-corporations to avoid paying Social Security and Medicare taxes by reclassifying much of their income as “business income.” The budget proposal would require owners of professional services businesses who “materially participate” in the business to pay payroll taxes on their income from the business, irrespective of whether it’s categorized as a salary or a profits distribution (28 billion over 10 years).

Reduce the Value of Certain Tax Expenditures: The proposal would limit the tax value of specified deductions or exclusions from AGI and all itemized deductions. This limitation would reduce the value to 28 percent of the specified exclusions and deductions that would otherwise reduce taxable income in the 33-percent, 35- percent, or 39.6-percent tax brackets. A similar limitation also would apply under the alternative minimum tax. The income exclusions and deductions limited by this provision would include any tax-exempt State and local bond interest, employer-sponsored health insurance paid for by employers or with before-tax employee dollars, health insurance costs of self-employed individuals, employee contributions to defined contribution retirement plans and IRAs, the deduction for income attributable to domestic production activities, certain trade or business deductions of employees, moving expenses, contributions to health savings accounts and Archer MSAs, and interest on education loans (646 billion over 10 years).

Limit the Total Accrual of Tax-Favored Retirement Plans: Some wealthy individuals have found ways to circumvent existing contribution limits for tax-preferred retirement accounts by contributing exotic financial instruments and understating their value. As a result these individuals benefit from tax breaks on millions or tens of millions of dollars. This proposal would disallow additional tax-preferred contributions when an individual has accumulated enough tax-preferred savings to finance an annuity worth \$210,000 a year (30 billion over 10 years).

Tax Policy Summary Table

	2017-2026 Revenue Increase (\$ Billions)
<i>Reform the International System</i>	484
<i>Tax Benefits for Small Business</i>	-47
<i>Incentives for R&D, Clean Energy, Manufacturing, Jobs and Regional Growth</i>	-89
<i>Eliminate Fossil Fuel Preferences</i>	38
<i>Other Business Tax Reform (loophole closers and other reforms)</i>	164
Total Business Tax Reform	549
14-percent one-time toll charge for past foreign profits	299
<i>Expand Child Care Tax Credit</i>	-40
<i>Simplify and Target Education Benefits</i>	-49
<i>Expand and Simplify EITC for Childless Workers</i>	-67
<i>Second Earner Credit</i>	-87
Total Middle Class and Pro Work Reforms	-246
Total Reforms to Retirement Benefit and Health Plans	-21
<i>28 percent limit on itemized deductions and other exclusions</i>	646
<i>Buffet Rule</i>	38
<i>Reform NIIT and SECA</i>	272
Total, Curbing Inefficient Tax Breaks for the Wealthy	955
<i>Limit Retirement Benefits</i>	30
Financial Fee	111
Eliminate Stepped Up Basis on Capital Gains at Death	235
Tax Carried Profits as Ordinary Income	19
Gift and Estate Tax Reforms	226
Oil Fee	319
Tobacco Tax Reform	115
All Other	43
TOTAL, BUDGET TAX POLICIES	2,636
<u>Bridge to Revenue Totals</u>	
Outlay increases from refundable credits	205
Non-tax revenues (e.g. IRS program integrity, UI solvency)	119
Immigration reform revenue	420
TOTAL REVENUE INCREASE	3,380

TAXES

New Individual Tax Proposals

Question: Isn't the oil fee a regressive tax? Doesn't the oil fee proposal in your Budget break the President's pledge not to raise taxes on families with incomes below \$250,000? How much will the oil fee cost an average family?

Key Point: President Obama has already permanently extended tax cuts for 98 percent of Americans and recently signed into law major additional tax cuts for working families and families paying for college.

Talking Points

- This proposal is part of a broader Budget that makes the necessary investments to grow the economy and lift middle-class incomes while providing significant tax cuts for middle-class and working families.
- The Budget proposes a new fee on oil—paid by oil companies—to support the sustained investment necessary for a 21st century transportation system. This progressive package will support working and middle-class families by creating jobs and boosting economic growth.
- Moreover, the proposal allocates a portion of the oil fee revenue to provide relief to households with particularly burdensome energy costs.
- On top of this ambitious proposal for additional infrastructure investment, the Budget also proposes tax cuts that would make paychecks go further in covering the cost of child care, college, and a secure retirement; a tax credit for two-earner couples; and an expansion of the Earned Income Tax Credit for workers without dependent children.

Contact: Jamie Taber: 395-2515

TAXES

New Individual Tax Proposals

Question: Why did the President change his position on a gas tax?

Key Point: The Budget proposes a smart and viable approach to fund the investments we need to create a clean 21st century transportation system while also creating a clear incentive for private sector innovation to reduce our reliance on oil and invest in clean energy technologies that will power our future.

Talking Points

- Our transportation system is outdated and is not ready to meet the 21st century challenges we face.
- Our infrastructure deficit is in the hundreds of billions of dollars, resulting in a crumbling system that slows commutes and imposes a hidden tax on businesses that makes America less competitive.
- Nearly every part of our transport system is dependent on oil.
- We recognize that adding a fee on oil means that the cost of fuel could rise as oil companies pass on some of the costs of the fee.

Contact: Jamie Taber: 395-2515

TAXES

New Individual Tax Proposals

Question: Why are you raising taxes on small businesses (NIIT)?

Talking Points

- Most business owners – including sole proprietors – pay Medicare taxes on all of their income, in the same way that workers pay Medicare tax on their wages. However, loopholes allow some high-income business owners – those with incomes above \$250,000 – to avoid Medicare taxes on their business income under current law. This proposal levels the playing field by ensuring that this income is likewise subject to these Medicare taxes.
- Roughly 97 percent of small businesses owners have incomes below those thresholds, and therefore are unaffected.
- The scope of the loopholes in the taxes that support Medicare have become increasingly apparent in recent years. To give one example, under current law, wealthy investment fund managers are organizing their businesses as limited partnerships and asserting that they are "active" participants to avoid Medicare taxes on their profits.
- The proposal is simple – high-income business owners must pay Medicare taxes to the extent that they are not already subject to Medicare taxes.

Contact: Jamie Taber: 395-2515

TAXES

New Individual Tax Proposals

Question: Isn't the proposed increase in ACA taxes just another sign that the ACA is unaffordable and unsustainable (NIIT)?

Talking Points

- No - the Affordable Care Act is costing less than was projected, even while extending health insurance to nearly 18 million more Americans and reaching record levels of coverage.
- The proposal to close gaps in the taxes that support Medicare is intended to ensure that businesses are treated equally and that everyone is contributing to Medicare.
- Under the proposal, all of the revenue from the Net Investment Income Tax is dedicated to Medicare. As a result of the NIIT proposal and other proposed reforms, the President's Budget would sustain the solvency of that vital federal program for more than 15 additional years.

Background

- The NIIT was enacted in the ACA to parallel the Medicare tax that applies to wages and self-employment income. (Prior to ACA, business profits or investment income were not subject to Medicare or similar tax.) While the ACA named it as a Medicare tax, revenues were not directed to the trust funds.
- The NIIT is only paid by high-income taxpayers: couples with incomes over \$250,000 and singles over \$200,000.
- The NIIT applies to passive investment income (capital gains, dividends, etc.) and to profits of passthrough businesses (partnerships, LLCs, S-corps) received by non-active owners. Business profits of active owners is excluded.
- Owners of sole proprietorships (which are most businesses) and general partners are already subject to Medicare self-employment (SECA) taxes on all of their income.
- The proposal would apply NIIT to all income from passthrough businesses that is not currently subject to SECA.
- The proposal would be in addition to FY16 Budget proposal to extend SECA to owners of professional services firms (doctors, lawyers, consultants, etc.) that are organized as S-corps, LLCs, or partnerships. These business owners are currently subject to Medicare taxes on the wages that they pay themselves, but not on business profits.
- The combined SECA/NIIT proposals raise \$272 billion over the window. About \$200 billion of that is from the new NIIT proposal.

Contact: Jamie Taber: 395-2515

TAXES

New Individual Tax Proposals

Question: Doesn't the tobacco tax proposal break the President's pledge not to raise taxes on families with incomes below \$250,000? Why are you hiking taxes even more on snuff and chewing tobacco this year?

Talking Points

- Tobacco taxes directly benefit middle-class children and families by discouraging teenagers from taking up smoking and encouraging smokers to quit. Research shows that tobacco taxes not only help individuals by encouraging them to avoid smoking, but also help their families, communities, and broader public health outcomes.
- We propose to harmonize tax rates on different types of tobacco to eliminate loopholes that undermine the intent of the tax to fund children's health and discourage unhealthy behaviors.
- Research indicates that tobacco users are likely to substitute among tobacco products depending on price changes. As a result, equalizing tobacco taxes among different types of tobacco and increasing taxes on all products should reduce use of all tobacco products and bolster the Budget proposal's public health benefits.
- And similar to the 2009 reauthorization of the Children's Health Insurance Program, the revenues from the President's proposal will go toward a combination of pre-K and other early childhood investments.

Background

- Federal taxes on snuff and chewing tobacco are far below those for cigarettes and other tobacco products.
- The FY16 Budget proposal significantly increased tobacco taxes and indexed them to inflation, raising \$91 billion over ten years. While it increased snuff and chewing tobacco taxes to \$10 per pound, it increased taxes on similar products – pipe and roll-your-own tobacco – to \$44.23 per pound (roughly equivalent to how cigarettes are taxed under the proposal).
- The FY17 Budget proposal goes further by equalizing the rates for each of these products at \$44.23 per pound. That translates to an increase from a tax rate of \$0.03 and \$0.09, respectively, per one-ounce tin or pouch under current law to \$2.77 per one ounce tin or pouch. (Our Budget proposal would increase the tax on a pack of cigarettes from just about \$1 to about \$2.)
- The FY17 proposal raises \$24 billion more than the FY16 proposal (for a total of \$115 billion), with almost all of the increase from the equalization of chewing tobacco and snuff.
- Equalizing tobacco taxes and increasing taxes on all products should reduce use of all tobacco products, while leaving the disparity in place would likely shift some tobacco use to snuff and chewing tobacco. As a result, the equalization proposal should boost the public health benefits of our tobacco tax proposal, particularly for the young men who are the predominant users of smokeless tobacco. Smokeless tobacco contains at least 28 chemicals that cause oral, pancreatic and esophageal cancer, and is also associated with other health problems including lesions in the mouth and tooth decay.

Contact: Jamie Taber: 395-2515

TAXES

New Individual Tax Proposals

Question: Every year you show up with new taxes; why do you always think the answer is new taxes?

Talking Points

- The President has laid out a plan to help middle-class and working families with some of the major challenges they face, including paying for child care, sending a child to college, and saving for retirement.
- But he's not willing to just put the cost of these measures on the national credit card.
- Over the past 30 years, the incomes of the highest-income households have skyrocketed.
- At the same time, effective tax rates for these households are lower than they once were, the result of both lower nominal tax rates and a proliferation of loopholes and spending through the tax code.
 - Even after the fiscal cliff deal, average Federal effective tax rates for the very highest income households are lower than they were in the mid-1990s and lower than they were from the 1950s through the early 1980s.
- The President believes it's fair to ask those who have fared the best in the modern economy to pay more in taxes to help fund investments that will help other families get ahead.
- The specific measures the President is proposing are also pro-growth ways to raise revenue.
- Reforming capital gains taxation will help unlock capital for productive investment, while the new financial fee will discourage excessive leverage that imposes risks on the broader economy.

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Business Tax Reform

Business Reform Overview

As proposed in last year's budget, the President's plan included permanent extension of certain tax preferences, the elimination of many others, and lowering the top corporate tax rate. The 2015 Omnibus permanently extended several of the provisions that the President proposed to make permanent, temporarily extended some the provisions that the President proposed to make permanent, and also extended some of the provisions that the President's plan slated for elimination. It did this without including any offsetting revenue-raising provisions.

The FY17 Budget will reiterate the call for business tax reform that is revenue neutral over the long run using last year's Budget as the baseline – meaning that it would “pay” for the business tax “extenders” passed in 2015. After paying for last year's tax extenders, additional revenues could be used to help pay for reducing the rate. We'd also support enacting many of these proposals (like inversions) separate from broader reform.

The major components of the plan include:

- Cutting the corporate tax rate to 28 percent --- 25 percent for manufacturing --- and broadening the tax base by eliminating dozens of inefficient tax expenditures and through additional structural reforms. (Note that, while we have publicly called for the rate to be reduced to 28 percent, it is not included as a proposal in the Budget.)
- Improving incentives for research and clean energy.
- Simplifying and cutting taxes for small business, with the net result that almost all small businesses would pay taxes based on an income measure much closer to their bank statement.
- Reforming the international tax system, including a 19 percent minimum tax on foreign earnings that would require U.S. companies to pay tax on all of their foreign earnings when earned – with no loopholes or opportunities for deferral – after which earnings could be reinvested in the U.S. without additional tax.
- Devoting much of the one-time savings from international reform to pay for a surge in pro-growth, climate-smart infrastructure investment.

TAXES

Business Tax Reform

Question: Do you still support stand-alone business reform?

Talking Points

- Absolutely. The President has consistently made the case for business tax reform that closes loopholes, encourages firms to invest and create jobs in the United States, and funds a major investment in infrastructure. He has put forward a framework for business tax reform, many elements of which are included in the Budget. And he will continue to make the case for why we need business tax reform.
- The President looks forward to working with Congress to make progress in areas where we can agree – whether that's business tax reform or expanding the childless EITC, both of which have bipartisan support.

Contact: Jamie Taber: 395-2515

TAXES

Business Tax Reform

Question: You claim your business tax reform plan is still revenue neutral in the long run but the Budget shows it raising more than \$500 billion over 10 years. Are you willing to compromise with Republicans and use those revenues to lower rates? (include progressive version in background)

Talking Points

- The business tax reform plan in this year's Budget is the same as in last year's Budget. It is based on the President's framework for business tax reform, which calls for pro-growth reform that promotes investment and innovation in the United States, simplifies and cuts taxes for small businesses, while not adding to deficits in the short-term or long-term.
- We remain willing and eager to work with Congress on pro-growth, fiscally responsible business tax reform because it is critically important for our economy.
- The principal reason that the elements of business tax reform included in the Budget raise revenue is that last year, Congress enacted many of the elements of the plan that reduce revenue and additional business tax cuts.
- For example, the President had long proposed to make permanent the R&E tax credit and the enhanced small business expensing under section 179. The Omnibus, enacted in December, achieved those goals, albeit without offsetting the cost.
- We have always said that business tax cuts should be fully paid for, and therefore have proposed the same reforms and loophole closers that raise revenue as in last year's Budget.
- As it did last year, the Budget proposes to dedicate a portion of the one-time transition revenue from business tax reform to strengthening America's infrastructure.

Background

- The President's business tax reform framework called for business tax reform that did not add to the deficit in the short-term or long-term.
- Recent Budgets have included a reserve fund for business tax reform that is revenue-neutral in the long-term.
- The reserve fund listed many elements of business tax reform including the complete international tax module, but it was not a complete plan. For example, it did not list the cost of lowering the corporate rate to 28 percent or the major reforms to pay for that rate. The individual policies added up to raise about \$140 billion in last year's Budget, but that amount did not flow through to the Budget.
- This year, the Budget's section on business tax reform raises about \$550 billion, and does flow through into the Budget. The BTR policies raise much more because (1) Congress enacted without offsets many of the major revenue-losing provisions in extenders, such as the permanent R&E credit, small business expensing, and the "active financing exception," which had been included in our international plan; and (2) the estimated revenue from the 19 percent minimum tax on foreign income increased substantially, from about \$200 billion to about \$350 billion due to new data.

- The Budget includes almost the exact same Business Tax Reform proposals as last year, except for those that were enacted. The proposal on "like-kind exchanges" is expanded to cover all transactions, not just real estate and collectibles (taxpayers can still defer up to \$1 million of capital gains from like-kind exchanges per year).

Contact: Jamie Taber: 395-2515

TAXES

Other Controversial Issues

Question: Why is the President proposing to further expand the EITC when about a quarter of EITC payments are made in error? (do we need an immigration cousin to this)

Talking Points

- **We take EITC improper payments very seriously and are working to bring down the error rate through a number of different approaches.**
 - The IRS engages in aggressive EITC enforcement, including conducting 500,000 EITC audits and using new tools like better data analytics to target likely errors and problematic tax preparers. These measures have slowly but steadily reduced the error rate in recent years.
 - The Budget proposes a number of additional measures that would help ensure the integrity of the EITC, as well as the rest of the tax code, including:
 - A proposal to give the IRS explicit authority to regulate paid tax preparers, who prepare well over half of EITC returns.
 - Additional authority for the IRS to correct readily-identifiable EITC errors without an audit.
 - Perhaps most important, sufficient funding for the IRS to fulfill its enforcement responsibilities, after years of cuts to the IRS enforcement budget.
- **It is also important to recognize that a large fraction of EITC errors reflect mistakes related to the EITC's complicated qualifying child and residency rules, not fraud.**
 - For example, a typical EITC error might be a case where dad claims the credit when the child in fact lived with mom for just over half the year.
 - This is why steps to educate filers, educate and monitor preparers, and simplify the tax system are an important part of the solution.
 - The National Taxpayer Advocate has also noted that the EITC error rate may be overstated in that low-income filers often have trouble responding to IRS audits and can sometimes substantiate their claims when her office steps in to help.
- **The childless worker EITC has a lower error rate than the overall EITC and accounts for only a tiny fraction of the cost of EITC errors.**
 - The bulk of EITC errors are errors around who can claim a child, most commonly errors in applying the child residency test.
 - For that reason, the childless worker EITC has a lower error rate than the EITC for families with children. Concerns about EITC errors more generally should not be an obstacle to expanding the childless worker credit, a proposal with bipartisan support, including from Speaker Ryan.
- **Finally, we shouldn't let the EITC improper payment rate distract us from the EITC's tremendous success in both reducing poverty and encouraging work for families with children.**
 - This success is directly connected to the fact that the EITC is administered through the tax system, which results in high take-up relative to many other programs – as well as exceptionally low administrative costs (less than 1 percent).

Contact: Jamie Taber: 395-2515

Budget Economic Narrative

- 1. The recovery continued at a steady pace in 2015, despite headwinds caused by turbulence in Europe and emerging markets.**
 - a. Except for 2014, the economy added more private sector jobs than in any year since 1999.
 - b. Together, the Bipartisan Budget Act of 2015 and the Consolidated and Further Continuing Appropriations Act of 2015 have significantly reduced the odds of disruptive manufactured fiscal crises over the next year.
 - c. The additional funding provided by BBA will likely add 340,000 jobs in 2016, according to the CEA, and, in 2016, provides about 90% of the sequestration relief requested by the President.
 - d. This progress has helped consumer confidence return to pre- crisis levels.
 - e. However, continued slow growth in Europe, likely deceleration in China, and recessions in several other large emerging markets have combined to put upward pressure on the dollar and impede export growth, posing a challenge for overall growth going forward.
- 2. The Budget makes a number of smart investments that should promote future growth:**
 - a. Job Training and education: \$90 million for a new apprenticeship expansion to prepare workers for vacancies available now and a large investment to ensure that qualified students can attend two years of community college tuition free.
 - b. Infrastructure / business tax reform: a significant investment in creating a 21st century transportation system to support a cutting-edge economy and address the challenge of climate change. This investment would be paid for in part by pro-growth business tax reform.
 - c. Early learning: a 6% increase in Head Start funding that includes \$300 million for new full-day and full-year programs, as well as a large investment to ensure all four year olds have access to quality preschool.
 - d. Clean Energy Investments: in making progress towards meeting the President's commitment to double clean energy R&D, an 8% increase in funding for projects supported by DoE's Office of Energy Efficiency and Renewable Energy in conjunction with private sector partners.
 - e. Immigration Reform: comprehensive reforms would help address problems posed by an aging population and help boost productivity.

Economic Statistics Cheat Sheet

Macroeconomy

1. Private sector jobs have increased for **70 straight months**, the longest such streak on record, and businesses have added over **14 million jobs** in that time.
2. In 2015, private businesses added over **2.5 million jobs**, which, except for 2014, was the highest number since 1999.
3. The **unemployment rate declined to 5.0%** in December, exactly half the rate at its peak in October 2009. The proportion of the workforce **unemployed for more than 27 weeks fell to 1.3%** in December, its lowest level since September 2008 and more than three percentage points lower than its peak level. The long-term unemployment rate is nearing its 2001-2007 average of 1%.
4. The **participation rate dropped only 0.3 percentage points** (from 62.9% to 62.6%) in 2015. This was the smallest decline since 2008. An overall decline in the participation rate is to be expected due to demographic factors associated with the retiring baby boom generation.
5. **Real GDP growth remained steady in 2015, with nearly 4.0 percent annualized growth in the second quarter of the year** and a further 2.0 percent growth in the third quarter. In the four quarters ending in the third quarter of 2015, real GDP grew by 2.1%. Relative to the peak before the last recession, real GDP is now 9.5% higher.
6. **Health care costs again expanded at only a very modest pace**, approximately equal to their inflation rate of 2014, which was the lowest health care cost inflation rate since 1964.
7. Construction started on over **1.1 million new housing units** in 2015, the largest annual figure since 2007. As of October 2015, depending on the house price index used, **house prices rose by 5-6%** relative to a year earlier. By the third quarter of 2015, **households' owned equity in real estate had increased by over \$6 trillion relative to the first quarter of 2009**, a nearly 100% increase.
8. **U.S. oil production exceeded imports** on a per-day basis in 2015.
9. **The dollar was about 10% stronger in December 2015** against a basket of major currencies relative to a year earlier, due in part to weakness overseas and tightening monetary policy in the U.S. Dollar strength makes U.S. goods and services more expensive for foreign buyers, and **this resulted in a wider trade deficit, with real imports exceeding real exports by \$546.1B** in the third quarter, compared to a deficit of \$429.1B a year earlier.
10. **The Federal Reserve raised its target for the federal funds rate** to 0.25% to 0.50% in December 2015. Longer term interest rates remained low as foreign economic growth disappointed, with the **yield on 10-year Treasury notes finishing the year at 2.27%**, 10 basis points above its final level in 2014. Yields had dropped below 2% earlier in the year.

Inequality, Poverty, and Mobility

1. According to the Census Bureau, **the official poverty rate rose slightly to 14.8% in 2014**, compared to 14.5% in 2013, although the difference was not statistically significant. The poverty rate for children under the age of 18 was 21.1% in 2014,

according to the same report.

2. A measure of poverty that takes into consideration benefits such as SNAP and tax credits (also known as **the Supplemental Poverty Measure**) **declined to 15.3% in 2014**, much lower than the 25.8% in 1967.
3. The top 1 percent of households receive about **20 percent of income**, the highest level since the 1920s.
4. The top 1 percent of households hold more than 40 percent of wealth and the top 0.1 percent hold more than 20 percent, the highest levels since the 1930s. New research shows that rising wealth and capital income inequality accounts for a substantial share of the overall rise in income concentration in the last decade and for the very top income groups.
5. Since the late 1970s, **the real incomes of the top 1 percent of households have almost tripled**, while real median earnings for a full-time male worker have stagnated.
6. According to the Pew Economic Mobility Project, **a child born into the 90th income percentile will have expected income that is three times that of a child born into the 10th income percentile.**
7. **Median real household income fell to \$53,657 in 2014 from \$54,462 in 2013**, according to the Census Bureau and remains about 6.5% lower than in 2007.

Economic Overview: The Administration's Economic Assumptions and Potential Criticisms

In the short run, the Administration's forecast for real GDP growth is about the same as CBO's forecast and slightly more optimistic than that of the Blue Chip panel of private forecasters. In the long run, the Administration's growth forecast exceeds that of each of the other two. The Administration also, however, projects higher interest rates in the long run than CBO or Blue Chip. While higher GDP growth rates would boost revenues and cause deficits to be smaller, higher interest rates would raise debt-financing costs and have an at least partially offsetting effect.

- **Errors in Past Projections:** In the past, the Administration's growth forecasts have tended to be slightly optimistic, averaging an overshoot of 0.1 percentage points over a two-year horizon and 0.3 percentage points over a six-year horizon. On the other hand, CBO and Blue Chip have tended to be too pessimistic at two years, underestimating growth by 0.2 percentage points, but have been broadly unbiased at six years. All three forecasts, however, have made large errors on both sides in the past. This is to be expected given the difficulty of forecasting GDP growth several years in the future.
- **Sensitivity Analysis:** In the past, some have questioned what the Budget forecasts would look like under different economic assumptions, especially if the economic forecasts turn out to be too optimistic.
 - If GDP growth were to be one percentage point lower in 2016, with no subsequent recovery, accumulated deficits over the eleven years from 2016 to 2016 would be about \$836 billion higher than under the current projections.
 - If interest rates were to be one percentage point higher in every year of the forecast window, the accumulated deficits over the forecast window would be about \$891 billion higher.
 - According to CBO, if GDP growth were to be reduced by 0.1 percentage point per year in each year of the forecast horizon, the accumulated budget deficit would be about \$327 billion dollars higher.
 - These rules of thumb are symmetric so that a higher GDP growth rate or lower interest rate would have effects of equal magnitude and opposite sign.

Contact: Christopher Biolsi: 395-7127

Comparison of Economic Assumptions
(Calendar Years)

	2015	2016	2017	2018	2019	2020	2021-26
Real GDP (fourth-quarter-over-fourth-quarter):							
2016 Budget.....	2.2	2.7	2.5	2.4	2.3	2.3	2.3
CBO.....	2.0	2.7	2.5	2.3	1.8	1.9	2.1
Blue Chip.....	2.1	2.6	2.4	2.4	2.2	2.2	2.2
Federal Reserve Central Tendency.....	2.1	2.3 to 2.5	2.0 to 2.3	1.8 to 2.2	1.8 to 2.2	1.8 to 2.2	1.8 to 2.2
Consumer Price Index (CPI-U):							
2016 Budget.....	0.1	1.5	2.1	2.1	2.3	2.2	2.3
CBO.....	0.1	1.3	2.3	2.4	2.4	2.4	2.4
Blue Chip.....	0.1	1.6	2.3	2.4	2.4	2.3	2.3
Unemployment Rate:							
2016 Budget.....	5.3	4.7	4.5	4.6	4.6	4.7	4.9
CBO.....	5.3	4.7	4.4	4.6	4.8	5.0	5.0
Blue Chip.....	5.3	4.8	4.6	4.7	4.7	4.8	5.0
Federal Reserve Central Tendency.....	5.0	4.6 to 4.8	4.6 to 4.8	4.6 to 5.0	4.6 to 5.0	4.6 to 5.0	4.6 to 5.0
Interest Rates 10-Year Treasury Notes:							
2016 Budget.....	2.1	2.9	3.5	3.9	4.1	4.2	4.2
CBO.....	2.2	2.8	3.5	3.9	4.1	4.1	4.1
Blue Chip.....	2.1	2.6	3.2	3.8	4.0	4.0	4.1

ECONOMIC ASSUMPTIONS/ECONOMY

Question: Why is your GDP forecast more optimistic than CBO's?

Key Point: CBO produces its forecast under the assumption that current law will remain in place throughout the forecast window. Therefore, it does not incorporate the President's policy proposals which should have productivity-enhancing effects, especially in the longer run.

Talking Points

- Comprehensive immigration reform should boost economic growth by removing uncertainty about the legal status of migrants who came to the U.S. as children, clearing the way for them to join and remain in the work force and pursue more efficient job matches.
- It should also increase immigration of high-skilled foreigners, including those who plan to start businesses. This would allow them to boost productivity directly via innovation and indirectly via knowledge spillovers to the U.S. born population.
- Job training schemes, including \$90 million dollars for an expanded apprenticeship program, will help workers improve their skills and fill jobs that employers are having difficulty finding enough staff for.
- Investments in clean energy technology would improve the efficiency of the U.S. energy sector, while reducing externalities associated with pollution and carbon emissions.
- Business tax reform would tweak incentives for firms to invest in productivity-enhancing capital and innovations as opposed to exploiting tax loopholes to maximize short run profits.

Contact: Christopher Biolsi: 395-7127

ECONOMIC ASSUMPTIONS/ECONOMY

Question: (REVISED) Your Budget adds a mountain of debt. Economists and CBO have said that debt slows growth. Do your projections consider the fact that your deficits will ruin the economy?

Revisions

- Underlined Talking Points information has been revised reflecting new data.

Key Point: Since the President took office, we have cut the deficit by almost 75 percent the fastest sustained deficit reduction since just after World War II. The President's Budget proposes reforms and investments that will grow our economy, while also including health, tax, and immigration reforms that further reduce deficits and debt.

Talking Points

- As a percentage of GDP, the deficit in 2015 fell to 2.5 percent, the lowest since 2007, almost 75 percent below the peak of 9.8 percent of GDP in 2009, and less than the average of the last 40 years.
- To further strengthen our long-term fiscal outlook and our economy, the President's Budget sets the Nation on a sustainable fiscal path, achieving about \$1.7 trillion of additional deficit reduction over 10 years.

Background

- Some researchers have found that periods of high debt/GDP are associated with real GDP growth that is about 1 percentage point lower.
- No researchers have been able to show the direction of causality. That is, whether high debt leads to slow growth (as some claim), or whether slow growth leads to high debt (a plausible explanation).
- There is some dispute about whether it should be deficits (a flow variable) or debt (a stock variable) that matters for growth. To illustrate the difference, consider that during 1984-1988, deficits were -4.3 percent of GDP, and federal debt held by the public was 36 percent of GDP. During 1994-1998, deficits were -1.2 percent of GDP and debt was 46 percent of GDP. Despite higher debt ratios in the 1990s, many economists would argue that the possibility of government crowding out private investment was more of an issue during the 1980s.

Contact: Chi Mac: 395-4901

ECONOMIC ASSUMPTIONS/ECONOMY

Question: Do your economic assumptions take into account immigration reform?

Key Point: The Budget takes into account the deficit reduction that would occur as a result of comprehensive immigration reform, according to the score produced by CBO when the measure passed the Senate. The score includes the budgetary effects of an increase in population, but it does not include for the economic effects of increases in productivity that would be a product of immigration reform. To avoid double counting, the Administration's economic assumptions do not take into consideration the effects of a larger population, but they do take into consideration the associated effects of higher productivity.

Talking Points

- The CBO analyzed the economic effects of the Senate immigration reform bill in 2013, concluding that if the reform were to be enacted at that time, the level of real GDP would be 3.3% higher in 2023 and 5.4% higher in 2033.
- The CBO also estimated that, after a small initial drop due to a larger labor force, average wages would be 0.5% higher in 2033 than without the reform.
- This rise in wages would have been a result of higher levels of total factor productivity, which CBO concluded would be 0.7% higher in 2023 and 1.0% in 2033, relative to the case of no reform.

Contact: Christopher Biolsi: 395-7127

ECONOMIC ASSUMPTIONS/ECONOMY

Question: Why have wages been stagnant and what are you doing about it?

Key Point: As the labor market continues to improve, we can expect wages to rise. In the last year, we have seen some indications that wage growth is accelerating. Reducing the remaining slack in the labor market is the key to increasing wage growth.

Talking Points

- The labor market has been improving, and we are beginning to see that reflected in job openings and higher wages.
 - The number of job openings, estimated at 5.4 million in November 2015, is more than 11 percent higher than it was a year ago.
 - In FY 2015, the Employment Cost Index (ECI) of wages and salaries, excluding benefits, increased by more than 2 percent (2.1%) for the first time since 2008.
- However, there is still slack in the labor market.
 - Although the unemployment rate has improved, other indicators, such as the share of workers working part-time for economic reasons, suggests that some slack remains.
 - While the level of quits has increased over the last couple of years, it has not returned to pre-recession levels. Rising numbers of quits is a positive indicator, as people typically quit their jobs for better and higher-paying jobs.
- The Administration is focused on accelerating the return to full employment, the most important immediate step for improving wage growth. The Budget also makes investments in education and training that will help raise wages over the longer run.

Contact: Chi Mac: 395-4901

ECONOMIC ASSUMPTIONS/ECONOMY

Question: Your Budget adds trillions of dollars of debt, which will cause interest rates to sky rocket. But you assume that interest rates will remain low. What would the Budget look like under a more realistic interest rate projection?

Key Point: The Administration's forecast for interest rates is in line with those of CBO and the Blue Chip panel, and actually calls for higher rates than the other two in the later years of the budget window. The Budget stabilizes debt and puts it on a declining path through 2025.

Talking Points

- The Administration's forecast is relatively conservative relative to other forecasters.
 - The Administration forecast calls for a 3.2% yield on 3-month Treasury bills by 2026, which is the same as that projected by CBO but 0.1% higher than that expected by Blue Chip. On 10-year Treasury notes, the Administration forecasts a 4.2% yield, whereas CBO and Blue Chip expect a 4.1% yield.
 - The Administration's forecast is based in the near term on futures markets for interest rates on government securities.
- The Administration does expect that interest rates will rise over the forecast horizon, but at only a gradual pace.
- The Administration's sensitivity analysis suggests that if growth were to be one percentage point lower in 2016 relative to the forecast and this growth were not to be recovered, the accumulated deficit over 2016 to 2026 would be about \$837 billion higher, while if interest rates were to be one percentage point higher in every year of the forecast (and all other projections were to remain the same), accumulated deficits would be \$891 billion higher.
- According to CBO, if GDP growth were to be reduced by 0.1 percentage point per year in each year of the forecast horizon, the accumulated budget deficit would be about \$327 billion dollars higher.

Contact: Christopher Biolsi: 395-7127

ECONOMIC ASSUMPTIONS/ECONOMY

Question: Stock markets are doing very badly to start the year, and many foreign economies are imploding. Aren't your growth forecasts for the near term too optimistic?

Key Point: The fundamentals of the U.S. economy remain strong and stock market volatility doesn't necessarily correspond with the health of the broader economy.

Background

- Consumption accounts for two thirds of U.S. GDP, and consumers are well positioned. The job market remains strong – an increase of 292,000 jobs in December. House prices have been increasing. The household debt burden is light by historical standards. Consumers are also benefitting from low gasoline prices.
- The negative effects of slow demand growth abroad and the dollar appreciation should be moderate, and the Administration's economic assumptions already reflect those effects. The Chinese economy has been slowing down gradually but not unexpectedly, negatively affecting many other economies, especially those that rely heavily on export to China (which the U.S. does not).
- In theory, stock prices should reflect future corporate earnings and hence future economic activities. In reality, however, stock prices are a poor leading indicator. For example, the economy grew 4.2 percent in 1988, following the stock market crash in late 1987. In 2007, stock prices advanced at a brisk pace until a month before the official onset of the Great Recession.
- A stock market decline has a modest effect on consumption because stock ownership outside of retirement accounts is concentrated among high-income households. Consumption is much more sensitive to house price movements.

Contact: Sangkyun Park: 395-4504

ECONOMIC ASSUMPTIONS/ECONOMY

Question: Isn't it troubling that such a large share of GDP is accounted for by the same finance sector that caused the financial crisis?

Key Point: The financial sector plays a vital role for economic stability and growth. The size of the financial sector, therefore, is not a problem, as long as financial institutions are managed prudently. The Dodd-Frank Act and international regulatory efforts have placed many safeguards that should prevent a crisis and protect consumers better.

Talking Points

However, the Budget takes additional steps to reduce risk in the financial sector and protect consumers as the financial services industry continues to rapidly evolve, expand and grow more complex. These steps include levying a fee on the largest financial institutions based on their liabilities and doubling resources for the SEC and CFTC over the next few years.

Background

- In 2014, the latest year with full-year data, the finance and insurance industry accounted for 8.2 percent of the private-sector GDP (7.1 percent of total), 9.1 percent of private-sector employee compensation (7.4 percent of total), and 18.5 percent of corporate profits. These values have been roughly stable since 2000.
- The Dodd-Frank Act improved the transparency of derivatives trading, made orderly exits of failing financial institutions in the future more likely, and restricted risky activities such as proprietary trading.
- In coordination with international regulators through Basel III Agreements, U.S. bank regulators have tightened bank capital and liquidity requirements, especially for large banks that can pose systemic risk.
- Consumer Financial Protection Bureau, created by the Dodd-Frank Act, guards against excessive fees, irresponsible lending, and other practices that can harm the consumers of financial services.

Contact: Sangkyun Park: 395-4504

Budget Overview

2017 Budget

- The 2017 Budget builds on the achievements secured for 2016 in the Bipartisan Budget Act (BBA), including nearly two-thirds of the sequestration relief called for in the 2016 Budget. The Budget adheres to the discretionary cap levels in the BBA, resulting in a roughly flat discretionary topline from 2016 to 2017.
- The 2017 Budget makes the case that not fully replacing sequestration has consequences by arguing for mandatory R&D investments in 2017 that could not be accommodated under the tight caps, and proposing equal increases in the defense and non-defense caps starting in 2018.
- The Budget continues our key fiscal goals of reducing deficits and stabilizing debt as a share of the economy, although the 2017 Budget will show significantly less progress in reducing debt and deficits relative to last year's Budget due to enactment of unpaid-for legislation such as tax extenders and CHIP reauthorization.
- The Budget includes \$2.9 billion in deficit reduction, primarily from reforms to health (roughly \$375 billion), tax (\$955 billion from high-income earners and loophole closers), and immigration (\$170 billion). This does not include OCO savings.
- The Administration has described deficit reduction to date as "Since 2011, we have obtained more than 4/5 of our deficit reduction from spending cuts, including the overly deep cuts imposed by sequestration." This formulation focuses primarily on the deficit reduction from BCA, ATRA, and "spending cuts" from lower 2011 appropriations (and counts interest savings as spending cuts).
 - Legislation enacted last year marginally altered the figure only slightly, so the construct "about 4/5 of our deficit reduction" is valid.
- Deficit reduction enacted to date plus the deficit reduction enacted in the Budget would equal more than \$7 trillion, and put the ratio of spending cuts to revenue increases at slightly more than half (52%/48%).

Budget Projections

- The annual deficit is estimated to increase this year from 2.5% to 3.3%, primarily due to lost revenue from the tax extenders legislation, as well as the effect of a 13th benefit payment at the end of FY 2016. After that, the deficit is projected to be below 3.0% of GDP through the end of the budget window. The deficit ticks up from 2.5% to 2.8% between 2024 and 2026 (the 2024 deficit is artificially low due to 11 benefit payments versus 12).
 - OMB's adjusted baseline shows steady increases in deficits starting in 2017 to a high of 5% in 2026.
 - Annual deficits have averaged ~3.2% over the past 40 years, which our Budget out-performs in each year after 2016.
 - Note that the 3.2% includes deficits from this Administration; if those were omitted, the comparable figure would be 2.3%.

<i>Deficit / GDP</i>	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
President's Budget	2.5%	3.3%	2.6%	2.3%	2.6%	2.4%	2.4%	2.8%	2.7%	2.5%	2.7%	2.8%
OMB Adj. Baseline	2.8%	3.3%	3.2%	3.3%	3.7%	3.7%	3.9%	4.4%	4.5%	4.4%	4.7%	5.0%

- Debt as a share of the economy jumps by nearly 3 percentage points between 2015 and 2016, largely as a result of lost revenue from tax extenders and reinvestment of TSP balances disinvested during the debt limit episode. After 2016, it declines by slightly more than a percentage point through 2025, then ticks up by 0.1 percent in 2026.
 - OMB's adjusted baseline shows debt increasing steadily through 2021, then rising rapidly.
 - By 2026, debt will be reduced by more than 12 percentage points relative to the baseline and more than a full percentage point below the 2016 level, but still high by historical standards.

<i>Public Debt / GDP</i>	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
President's Budget	73.7%	76.5%	76.5%	76.1%	76.1%	75.8%	75.5%	75.5%	75.4%	75.2%	75.2%	75.3%
OMB Adj. Baseline	73.7%	76.5%	77.0%	77.6%	78.5%	79.4%	80.3%	81.6%	83.1%	84.3%	85.8%	87.6%

- OMB's adjusted baseline shows revenues rising only slightly, from 18.0% in 2017 to 18.5% in 2026.
- Policy revenue levels will increase to 20.0% of GDP in 2021, dip back to 19.9%, then stick at 20.0% in 2025 and 2026. This level is equal to the historic high of 20.0% in 2000.

<i>Revenues / GDP</i>	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
President's Budget	18.3%	18.1%	18.9%	19.4%	19.5%	19.8%	20.0%	19.9%	19.9%	19.9%	20.0%	20.0%
OMB Adj. Baseline	17.5%	18.1%	18.0%	18.0%	18.0%	18.3%	18.4%	18.4%	18.4%	18.5%	18.5%	18.5%

- Discretionary spending (outlays) will decline as a share of GDP in each year of the Budget window.
 - The apparent reduction in discretionary spending in the Budget relative to the baseline (despite additional investments) is the result of OCO savings.
 - Excluding OCO, *nominal* discretionary BA increases significantly in 2018 and slightly each year thereafter.
 - A more apt historical comparison (that adjusts for proposals to move discretionary spending to mandatory) shows the President's Budget reaching historically low levels of discretionary spending as a share of GDP in 2019.

<i>Discretionary / GDP</i>	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
President's Budget	6.5%	6.6%	6.4%	6.1%	5.8%	5.6%	5.65%	5.2%	5.1%	5.0%	4.9%	4.8%
OMB Adj. Baseline	6.5%	6.6%	6.3%	6.3%	6.2%	6.1%	5.9%	5.8%	5.7%	5.5%	5.4%	5.3%

- Aggregate spending (mandatory + discretionary + interest outlays) as a share of GDP will increase by just under a full percentage point in 2016 and slowly increase throughout the Budget window (with slight ups and downs in 2022-2024 due to the benefit payment patterns). From 2017 to 2026:
 - Social Security increases from 5.0% to 5.8% as a share of GDP
 - Medicare and Medicaid spending increases from 5.0% to 6.1% as a share of GDP
 - Other mandatory spending stays mostly level (because of immigration reform)

<i>Outlays / GDP</i>	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
President's Budget	20.7%	21.4%	21.5%	21.6%	22.1%	22.3%	22.4%	22.7%	22.6%	22.4%	22.7%	22.8%
OMB Adj. Baseline	20.7%	21.4%	21.2%	21.2%	21.7%	22.0%	22.2%	22.9%	22.9%	22.9%	23.2%	23.5%

- Overall, the Budget proposes nearly \$3.4 trillion in new revenues (including immigration reform) and roughly \$260 billion in net spending reductions (including savings from new discretionary caps, OCO reductions, and lower interest).

HIGHLIGHTS OF CBO JANUARY BASELINE

CBO released its baseline estimates on January 25th. CBO estimates a deficit in 2016 of \$544 billion, or 2.9% of GDP. CBO estimates that under current law (including Budget Control Act enforcement on discretionary and mandatory spending), the deficit would remain largely the same in 2017, at \$561 billion, again 2.9% of GDP, with deficits rising gradually thereafter and reaching 4.9% of GDP by the end of the 10-year window.

Under CBO's baseline, debt held by the public rises in 2016 to 75.6% of GDP and remains relatively stable as a percent of GDP until 2018, before rising through the remainder of the window, reaching 86.1% by 2026.

Changes from August 2015

Compared to its August baseline, deficits are more than \$100 billion higher in every year and \$1.5 trillion higher over the 2016-2025 period. About half of the 10-year increase is the result of enacted legislation, mostly the effects of the December tax extender legislation. Another third of the increase is due to the effect of CBO's revised economic assumptions, which decrease revenues and, to a lesser extent, outlays. The remainder is due to revised technical estimates, largely in Medicaid and veterans' compensation and pensions.

Comparison to OMB Baseline

CBO's estimates follow the BBEDCA baseline rules, based largely on current law, with adjustments to reflect the discretionary caps and Joint Committee enforcement. CBO's deficit estimate in 2016 is \$71 billion lower than in OMB's comparable baseline (the 2017 Budget BBEDCA baseline with the same adjustments). This is due to CBO's higher receipts and lower discretionary and mandatory outlays, which are partially offset by higher net interest outlays. CBO generally uses OMB's loan reestimates to update their baseline for the March release, so other things being equal we would expect CBO to decrease outlays by about \$5.5 billion in March to account for reestimates, due largely to a significant downward reestimate in FHA-MMI.

Over 2017 to 2026, CBO's cumulative deficits are \$339 billion lower than in OMB's comparable baseline, due to lower outlays which are partially offset by higher receipts. CBO extends the discretionary caps at the Joint Committee enforcement cap levels past 2021, which more than accounts for the 10-year difference in the deficit.

CBO's Economic Forecast

CBO's new economic forecast has average real GDP growth that is similar to OMB's through 2017, but is 0.3 percentage points less than OMB's on average over 2016-2026. On average, CBO's unemployment rate over that period is higher by 0.2 percentage points. CBO's short- and long-term interest rates are similar to OMB's or slightly lower, with ultimate rates about 10 basis points below OMB's.

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OVERALL FRAMEWORK

Deficits, Debt, and Deficit Reduction

Question: Why doesn't your Budget reach balance over the next 10 years? Does it ever reach balance beyond the 10 years?

Talking Points

- Whether or not a budget is balanced should not be the primary issue of concern. Our focus should be on whether a budget makes critical investments necessary to accelerate and sustain economic growth, create jobs, strengthen the middle class, and build a more durable economy that works for all Americans—and that all Americans can benefit from, while maintaining fiscal stability.
- The President's Budget does just that. It invests in the long-run drivers of economic growth and opportunity, including research and development, education, training, and infrastructure, while ensuring national security and putting the Nation on a fiscally-sustainable path.
- The President's Budget pays for these investments by cutting inefficient spending and reforming tax benefits to make sure everyone pays their fair share, while achieving \$2.9 trillion in deficit reduction primarily from reforms in health programs, our tax code, and immigration.
- It meets the key metric of fiscal stability with annual deficits below three percent of GDP throughout the Budget window and total debt as a share of GDP declining through 2025.

Contact: Kelly Kinneen: 5-7233, Emily Bilbao: 5-6182, David Cruz-Glaudemans: 5-3799

OVERALL FRAMEWORK

Deficits, Debt, and Deficit Reduction

Question: You talk about the fastest deficit reduction since WW II, but CBO says deficits will more than double to over a trillion dollars within the next ten years. How is this responsible fiscal policy?

Key Point: Under the President's leadership, we have made enormous progress in bringing down the deficit. CBO's long-term budget and economic projections confirm the need for Congress to take further action to continue this progress, including by making the investments that will accelerate economic growth and strengthen the economy over the long run.

Talking Points

- When the President took office, he inherited historically high deficits (*inherited deficit was 9.2%*).
- Since that time, we have experienced the fastest period of sustained deficit reduction since the years immediately following World War II, with deficits reduced by about nearly three-quarters since 2009.
- This progress has been due to a number of factors:
 - A growing economy, that under the President's leadership has added more than 14 million jobs over 70 straight months of private-sector job growth, the longest streak on record.
 - Bipartisan efforts to cut spending, as well as changes enacted in the American Taxpayer Relief Act that ensure that the wealthiest Americans pay a fairer share in taxes
 - Slowdown in the growth in health care costs, supported in part by the changes enacted in the Affordable Care Act.
- To sustain and build on this momentum, the President believes we need to make critical investments to spur innovation and expand opportunity, while finishing the job of putting the Nation on a fiscally-stable path.
- The Budget does just that, focusing on the primary drivers of our debt and deficits – by slowing health care costs, supporting common-sense immigration reforms, and reforming the tax code – putting debt as a share of the economy on a downward path through 2025.
- With these policies, the Budget achieves a total of \$2.9 trillion in deficit reduction and puts annual deficits below three percent of GDP throughout the Budget window.

Background

- The deficit for 2015 was 2.5% of GDP, a reduction of roughly 75 percent from the actual figure of 9.8% of GDP for 2009.
- Overall, deficits under the President's Budget will be below the 40-year historical average of 3.2% of GDP in every year of the budget window from 2017 onward.

Contact: Patrick Locke (for Background): (202) 395-3672, Kelly Kinneen: (202) 395-7233, Emily Bilbao: (202) 395-6182

OVERALL FRAMEWORK

Deficits, Debt, and Deficit Reduction

Question: How much does debt go up under your budget in dollar terms?

Talking Points

- Like deficits, the better way to think about debt is as a share of the economy, not in dollar terms.
- Under the President's Budget, as a share of the economy, debt held by the public increases to 76.5 percent in 2016, and then begins to generally decline in subsequent years.

Background

- The answer to the specific question is that in dollar terms, debt held by the public under the President's Budget increases by \$8.2 trillion: from \$13.1 trillion at the end of 2015 to \$21.3 trillion by the end of 2026.
- Gross debt increases by a slightly larger amount, but relatively similar magnitude.
- The attached summary table highlights the key lines - gross debt, debt held by the public, and debt held by the public as a percent of GDP.

Contact: Liz Bernhard: 202-395-1098

OVERALL FRAMEWORK

Deficits, Debt, and Deficit Reduction

Question: Even by your preferred measure, debt is 75% of the economy over 10 years with little to no improvement, historically high outside of wars/economic crises. Is having debt 75% of the American economy responsible? When is the right time to reduce the debt?

Talking Points

- We can all agree that stabilizing our debt and putting it on a downward path is an important fiscal milestone. That is why the President's Budget addresses the primary drivers of debt and deficits and, under the Budget, debt as a share of GDP stabilizes toward the end of the window.
- Under the President's leadership, we have experienced the fastest period of sustained deficit reduction since the years immediately following World War II, with deficits reduced by about three-quarters since 2009.
- The President believes we can make the critical investments needed to accelerate and sustain economic growth, create more high-paying jobs, strengthen the middle class, and ensure our national security while keeping our Nation on a fiscally-stable path.
- To further strengthen our long-term fiscal outlook and our economy, the Budget sets the Nation on a sustainable fiscal path, achieving \$2.9 trillion total in deficit reduction over 10 years, primarily from common-sense immigration reform, health care savings, and from closing tax loopholes that benefit the highest earners.

Contact: Kelly Kinneen: 5-7233, Emily Bilbao: 5-6182, David Cruz-Glaudemans: 5-3799

OVERALL FRAMEWORK

Deficits, Debt, and Deficit Reduction

Question: You have said spending on investments should be our priority. Does the Administration think deficits and debt are no longer a problem?

Talking Points

- The President's Budget shows that investment and fiscal responsibility are not either/or choices.
- The Budget shows how we can make critical investments that will drive economic growth, opportunity, national security and global leadership while still finishing the job of putting the Nation on a fiscally responsible path.
- It builds on our success in bringing down deficits by almost three-quarters since 2009 by paying for critical investments through cutting inefficient spending and reforming tax benefits to make sure everyone pays their fair share.
- By focusing on the primary drivers of debt and deficits, including \$3.6 trillion in deficit reduction, primarily from reforms in health programs, our tax code, and immigration, the Budget achieves the fiscal milestone of stabilizing debt over the ten year budget window.

Background

- While the five-year deficit reduction is the fastest since WWII, the Budget projects that the 2015 deficit will be above the 2014 deficit, so the emphasis should be on the Budget's plan to bring deficits to an average around 2.5%, and put debt on a declining path, as a share of the economy.

Contact: Kelly Kinneen: (202) 395-7233, Emily Bilbao: (202) 395-6182

OVERALL FRAMEWORK

Revenue and Spending Levels

Question: How does OMB review mandatory spending?

Talking Points

- There's sometimes a perception that because mandatory spending isn't subject to annual appropriation, it doesn't receive the scrutiny that discretionary spending does.
- OMB does review mandatory spending each year, and it's critical that we do so, because mandatory spending is currently \$2.5 trillion, compared to discretionary spending of about \$1.2 trillion.
- We ask that agencies put forward proposals in the area of mandatory spending in their annual budget requests, and we review mandatory spending in the annual OMB Director's Reviews that are an important part of the process of developing the President's Budget.
- The 2017 Budget includes numerous mandatory savings proposals as a result of this process. To name a few:
 - Proposals to increase the number of benefit payment reviews in order to improve program integrity in Social Security, SSI, Medicare, unemployment insurance, and other programs. These proposals have a rate of return of as much as 8 to 1.
 - Proposals to reduce premium subsidies and make other reforms in the crop insurance program
 - Reforms to income-based repayments plans for student loans to ensure that those who truly have the resources to pay in fact do so.
 - Around \$375 billion in health savings proposals – especially important because health care costs are one of the key drivers of long-term fiscal concerns.

Contact: Patrick Locke: 5-3672

OVERALL FRAMEWORK

Revenue and Spending Levels

Question: Your Budget shows revenue levels reaching 20 percent of GDP. How can a Budget with historically high levels of revenues and spending be called balanced?

Talking Points

- The previous receipt peak (20.0% in 2000) was at a time of economic strength and budget surplus, and was not a sign of economic weakness.
- It is important to consider Budget policies in the context of the policy choices we have made over the last few years.
- Together with deficit reduction enacted over the last several years, this Budget puts the nation on a sustainable fiscal path with a balanced deficit reduction package that includes both spending cuts and revenue increases.
- Since 2011, we have obtained more than 4/5 of our deficit reduction from spending cuts, including the overly deep cuts imposed by sequestration.
- This Budget achieves a total of \$2.9 trillion in deficit reduction, primarily from health savings, tax reforms targeted at the highest incomes, and immigration reform, and discretionary spending levels that would be the lowest relative to the economy in more than 50 years.
- **If pressed, part 1:** Four fifths of the deficit reduction enacted has been spending cuts.
- **If pressed, part 2:** The President's proposals, together with deficit reduction already enacted during this Administration, would result in enacted deficit reduction since 2011 of more than \$7 trillion, with more than half coming from reductions in spending. [52% to 48%]

Background

- The published revenue share in the Budget is arguably overstated because it includes the additional revenues that would result from immigration reform but not the GDP boost from immigration reform. Holding immigration reform aside, revenue would be 19.7% of GDP in 2026, rather than the published 20.0%. Alternatively, if we recognize the revenue from immigration reform and also raise GDP for the growth effects of immigration reform (assuming CBO's estimate of a 3.3% boost in GDP in year 10), it would result in a revenue share of 19.4%.

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OVERALL FRAMEWORK

Revenue and Spending Levels

Question: According to your own summary tables, the only way your Budget achieves any deficit reduction is through \$3.4 trillion of new taxes. How can you call this anything but just another tax and spend budget?

Key Point: The President's balanced deficit reduction, together with deficit reduction already enacted during this Administration, will bring down the deficit by nearly \$7.4 trillion, with less than half coming from revenues.

Talking Points

- This Budget makes hard choices on the spending side. It includes roughly \$375 billion of health savings, \$68 billion of savings from program integrity measures, and reforms in areas ranging from crop insurance to national resource management.
- The Budget also brings discretionary spending to its lowest level as a share of the economy in more than 50 years.
- But with the aging baby boomers putting growing pressure on the budget, reasonable spending restraint and smart program reforms alone are not enough to put debt on a declining path. The Budget shows how we can maintain commitments to seniors, make needed investments, and put debt on a declining path through 2025 by raising revenue to the levels of the late 1990s – a time of strong economic growth and budget surpluses.
- The Budget raises revenue in a fair and pro growth way by closing loopholes, curbing tax breaks, and passing pro growth immigration.
- Together with the deficit reduction enacted over the last several years, the Budget puts the nation on a sustainable fiscal path with a balanced package of spending cuts and revenue increases.
- **If pressed, part 1:** Since 2011, we have obtained more than 4/5 of our deficit reduction from spending cuts, including the overly deep cuts imposed by sequestration.
- **If pressed, part 2:** If the Budget proposals are enacted, they will bring total deficit reduction since 2011 by nearly \$7 trillion. Of that total, less than half will come from revenues.

Contact: Kelly Kinneen: 5-7233, Emily Bilbao: 5-6182, David Cruz-Glaudemans: 5-7233

OVERALL FRAMEWORK

Revenue and Spending Levels

Question: Average federal spending over the last 40 years was 20.5% of the economy. Under the President's budget, spending is higher than that in every year. Isn't this President responsible for a historic growth in the size of government?

Key Point: Under this Administration, we've seen historic levels of deficit reduction. This Budget proposes additional deficit reduction on both the spending and receipt sides of the ledger, while also making investments to strengthen the middle class, create high paying jobs, and ensure our national security.

Talking Points

- Spending in this Budget would average 22.3 percent of GDP, somewhat above the 40-year historical average (20.5%).
- This growth in spending is more than accounted for by Social Security, Medicare, and Medicaid, driven by the continuing retirement of the baby boom generation and growth in health care costs.
- While we can't repeal the baby boom, through the Affordable Care Act we have taken historic steps to control the growth in health care costs, and those steps are paying off.
- This Budget would also bring discretionary spending to the lowest levels on record – far below the 40-year historical average.
- Toward the end of the budget window, interest costs rise above the historical average (2.4% of GDP versus 2.2%). The only effective way to control interest costs is to bring down the debt, which this Budget does, by reducing debt levels relative to the economy starting in 2018.

Background

- Comparing the average GDP share over the budget window for Social Security, Medicare, and Medicaid to their 40-year historical averages (1976-2015), Social Security is up 1.1% of GDP, Medicare is up 1.5% of GDP, and Medicaid is up 1.0% of GDP.

Contact: Patrick Locke: (202) 395-3672

OVERALL FRAMEWORK

Revenue and Spending Levels

Question: Your Budget calls for revenues and spending above the historical average. What level of revenues does the President think is enough?

Key Point: As a Nation, we need to raise the revenue necessary to meet our commitments, fund critical national priorities, and reduce the deficit to levels that allow us to bring down the debt.

Talking Points

- Looking to historical averages for revenues may not be the most appropriate way to think about the necessary revenue levels in the budgets of today.
- Forty years ago, there were 3.2 workers for every Social Security beneficiary. Today, there are 2.8 and by the end of the current budget window the ratio will fall to 2.4.
- Inevitably, this means that the commitments for our largest entitlement programs will be greater than they were in earlier historical periods.
- We can't repeal the baby boom, but we can work together to enact comprehensive immigration reform, which will bring in more productive workers and raise economic growth, making it easier to honor our commitments to these programs.

Contact: Patrick Locke: (202) 395-3672

OVERALL FRAMEWORK

Other Macro Budget

Question: Does the Budget reflect the costs of the President's illegal immigration actions? What is that cost?

Key Point: While the Administration is committed to moving forward with executive actions on immigration, the Budget reflects the President's continued support for the real solution, which is legislative action to fix the Nation's broken immigration system.

Talking Points

- The Budget reflects the President's support for comprehensive immigration reform, with an allowance based on the bipartisan bill passed in the Senate in 2013.
- CBO has estimated that legislation along the lines of the Senate-passed bill would reduce the deficit by around \$170 billion in the first decade and nearly \$1 trillion in the decade after that.

Background

- The effects of the executive actions would likely reduce the deficit, similar to comprehensive reform, but on a smaller scale. The effects of these actions are not explicitly broken out in the 2017 Budget.

Contact: Patrick Locke: (202) 395-3672

DISCRETIONARY/SEQUESTRATION

Question: You claim that the Budget meets the discretionary spending caps set in the Bipartisan Budget Act of 2015, but then you also fund a set of new mandatory investments that are usually made with discretionary resources to “highlight the consequences of not fully replacing sequester.” Isn’t this just a gimmick to get around the spending limits this Administration agreed to in the BBA?

Talking Points

- The bipartisan budget agreement secured last fall provided a critical increase in discretionary funding for 2016 and 2017, including about 60 percent of the sequestration relief for 2017 that the President called for in his Budget last year.
- The President's FY17 Budget builds on the achievements secured for 2016 and adheres to the agreement's discretionary funding levels.
- But, not fully replacing sequestration in 2017 has consequences, including hindering our ability to make needed investments that are critical to building durable economic growth in the future and maintaining America's edge as the leader in innovation and cutting-edge science.
- For that reason, the Budget will include a series of investments using mandatory funding that will help maintain our preeminence in science and engineering, support jobs and economic growth, expand opportunity, and ensure that we continue to demonstrate economic leadership for decades to come.

Background

- While the proposed response does not distinguish between mandatory investments more generally and the one-year mandatory proposals in the "sidecar," for your information, these "sidecar" investments include:
 - \$1.9 billion for NIH, which includes about \$755 million for the cancer "moonshot"
 - \$633 million for NASA, including funds to support progress on SLS and Orion
 - \$400 for the National Science Foundation
 - \$325 million for USDA's Agriculture and Food Research Initiative
 - \$200 million for Commerce, including \$100 million for NIST Lab renovations and \$100 million for NOAA regional survey vessels
 - \$100 million for the Department of Energy's Office of Science to support basic science research

Contact: Kelly Kinneen: (202) 395-7233, Emily Bilbao: 5-6182, David Cruz-Glaudemans: 5-3799

DISCRETIONARY/SEQUESTRATION

Question: Why is the President proposing to cut defense spending by \$109 billion in his budget?

Talking Points

- The President is not proposing to cut defense spending. In fact, the President's Budget proposes equal increases to defense and non-defense discretionary spending each year.

Background

- This question is a distortion of the discretionary policy presented in the Summary Tables.
- Summary Table S-10 (attached) shows the proposed funding levels for each of the defense and non-defense caps.
- In each year from 2018 through 2021 (the period of the BCA), the Budget proposes roughly equal increases above the estimated post-sequestration defense and non-defense caps.
- After 2021, the Budget proposes new caps that assume equal increases to both the defense and non-defense caps compared to the previous year.
- However, this table measures changes from each year's estimated baseline level. Because our baseline assumes a return to pre-sequestration discretionary funding levels, the new caps proposed starting in 2022 are a reduction from that higher baseline level.
- This results in a \$108 billion reduction from our baseline levels, but the caps still increase each year. The proposed caps are shown in the bank of the table labeled "Proposed Discretionary Policy by Category."

Contact: Courtney Timberlake: 202-395-4630

FY 2017 President's Budget – Health Overview

Talking points

- The Budget expands access to health care coverage by continuing to support the implementation of the Affordable Care Act and builds on the ACA's contributions to improving quality and slowing health care cost growth. The budget does all of this in a fiscally responsible manner, proposing savings of approximately \$378 billion in health spending over 10 years.

Access

- Nearly 18 million Americans have gained coverage as the Affordable Care Act's provisions have taken effect. The uninsured rate has fallen below 10 percent—the lowest level on record.
- We are pleased that interest in the Marketplace continues to be strong with over 11 million people nationwide selecting a plan for Marketplace coverage starting January 1. Most were able to lower their costs even further by getting advanced premium tax credits.

Quality

- The ACA made significant progress in tying Medicare payments to quality instead of volume, including the establishment of the hospital value-based purchasing program and the readmissions reduction program. For example, for FY 2014, avoidable Medicare readmissions fell to 18.1 percent from a 2010 baseline of 18.9 percent, and exceeded CMS' goal of 18.3 percent. The Budget includes proposals that build on the success of the ACA to promote high-quality care by improving the measurement of readmissions, expanding accountability for hospital-acquired conditions, and extending value-based purchasing to new settings of care.

Cost

- At the same time that the President has expanded coverage to millions of Americans, health care prices have risen at the slowest rate in 50 years and per-enrollee health care spending continues to grow slowly.
 - Compared with the 2011 Mid-Session Review (MSR), aggregate projected Federal health care spending for 2020 has decreased by \$185 billion based on current budget estimates, savings above and beyond the deficit reduction directly attributed to the ACA when it was passed.
- **Delivery System Reform:** The Administration's vision for improving health care delivery can be articulated in three words: better, smarter, healthier. The Budget supports efforts to reform the health care delivery system by finding better ways to deliver care, pay providers, and increase access to information so that individuals can receive the right care, at the right time, at the right price.

- **Strengthening Medicare:** The Budget strengthens Medicare by more closely aligning payments with the costs of providing care, encouraging health care providers to deliver better care and better outcomes for their patients, and improving access to care for beneficiaries. This includes a package of reforms that encourage greater quality and efficiency in Medicare Advantage and new proposals to expand competitive bidding to additional durable medical equipment and to encourage efficiency among hospice providers through changes to payments. The Budget also makes structural changes to the financing of the program that will reduce Federal subsidies to high income beneficiaries and create incentives for beneficiaries to seek high value services.
- **Addressing rising drug costs:** The Budget includes a set of proposals to address rapid drug cost growth, particularly in Medicare and Medicaid, improve the information used to support pricing and coverage decisions, and makes key investments in drug development. Additional detail on these proposals is available in the Q&A “What would the Budget do to control drug spending growth, and will this harm pharmaceutical research and development?”
- **Strengthening Medicaid:** The Budget strengthens Medicaid by encouraging more States to expand Medicaid, making targeted investments to improve health and long-term care coverage, and implementing new tools to improve program effectiveness.
 - To support Medicaid expansion efforts, the Budget provides further incentive for States to expand Medicaid by covering the full cost of expansion for the first three years regardless of when a state expands, and ensuring equity between States that already expanded and those that will expand in the future.
 - The Budget gives States options to streamline eligibility, helps beneficiaries access and maintain coverage, increases access to Medicaid home and community-based services, improves care delivery for individuals eligible for both Medicare and Medicaid, and strengthens the Medicaid program in Puerto Rico and the other territories.
 - In addition, the Budget provides tools to States and the Federal government to fight fraud, waste, and abuse, supports reforms to lower Medicaid drug costs, and includes other initiatives aimed at increasing quality and improving program cost-effectiveness.
- **Extending CHIP:** The Budget proposes to extend funding for CHIP, which is slated to end in 2017, through 2019, ensuring continued, comprehensive, affordable coverage for children.
- **Public Health and Preparedness:** The Budget makes targeted investments in public health and emergency preparedness:
 - The Budget enhances support for biomedical research at NIH, providing \$33.1 billion in funding, an increase of \$825 million over 2016 enacted. These funds will support for almost 10,000 new NIH grants that will help scientists and clinicians better understand the fundamental causes and mechanisms of disease that affect millions of Americans. The NIH Budget also includes \$195 million for the BRAIN initiative, an increase of \$45 million over 2016 enacted, which will

help to revolutionize our understanding of the human brain. In addition, the Budget includes an increase for NIH to support for the Precision Medicine Initiative, and new funding for the Vice President's Cancer Moonshot. See below for additional details.

- The Budget proposes \$309 million to support expansion of the Precision Medicine Initiative at HHS. This includes \$300 million for NIH, an increase of \$100 million over 2016, to support further development of a research cohort of a million or more individuals to gather data on the interplay between environmental exposures, physical parameters, and genetic information. The Budget also continues funding for the National Cancer Institute to lead research efforts on cancer genomics. The Budget also includes \$4 million for FDA and \$5 million for ONC to pursue standards and technology initiatives that support precision medicine and protect user privacy.
- The FY 2017 Budget will support the Vice President's Cancer Moonshot with a \$1 billion multi-year initiative to provide the funding necessary for researchers to accelerate the development of new cancer treatments. We are beginning the Moonshot immediately with resources just appropriated to NIH in the FY 2016 Omnibus bill signed by the President. The FY2017 Budget will propose to continue this initiative with \$755 million in mandatory funds requested specifically for new cancer-related activities--\$680 million for NIH and \$75 million for related work at FDA. The Budget also requests additional funding for DOD and VA to support the Moonshot.
- The Budget provides the Indian Health Service (IHS) with \$5.2 billion, an increase of \$377 million over the 2016 enacted level, to expand health care services and to make progress toward the construction of health care clinics in Indian Country.
- The Budget invests more than \$2.5 billion to protect the safety, security, and health of the American people from public health threats, foreign and domestic, intentional and naturally occurring. The Budget prioritizes resources to maintain domestic state and local and hospital preparedness grants at the FY 2016 Enacted level of \$915 million. The Budget also prioritizes resources to support advanced research and development of medical countermeasures at the FY 2016 Enacted level of \$512 million.
- The Budget proposes a \$1 billion new initiative to expand access to treatment for prescription drug abuse and heroin use to help ensure that every American who wants treatment can access the help they need.
- The Budget proposes \$500 million to investment to help engage individuals with serious mental illness in care, improve access to care by increasing service capacity and the behavioral health workforce, and ensure that behavioral health care systems work for everyone. This effort would increase access to mental health services to protect the health of children and communities, prevent suicide, and promote mental health as a top priority.

HEALTH/ACA

Health/ACA Overview

Question: Why has projected health spending in the President's Budget increased since Mid-Session Review?

Talking Points

- Compared with the 2011 Mid-Session Review (MSR), aggregate projected Federal health care spending for 2020 has decreased by \$185 billion based on current budget estimates, savings above and beyond the deficit reduction directly attributed to the Affordable Care Act when it was passed.
- Per-beneficiary spending continues to grow slowly in both private insurance and public programs, and health care prices have risen at the slowest pace in 50 years.
- A technical adjustment in the Medicaid baseline was the primary driver of the increase in projected health spending in the President's Budget, relative to MSR. Actual 2015 Medicaid spending was higher than projected, due to higher enrollment and per enrollee spending, resulting in an upward shift in out-year Medicaid spending projections.
- Overall Medicare spending is lower, largely due to increased savings triggered from the Independent Payment Advisory Board (IPAB) provision in the Affordable Care Act. This is partially offset by higher Prescription Drug (Part D) spending. Increased Part D spending is primarily driven by higher than expected payments for catastrophic coverage and increasing prices trends, partially due to few anticipated generic drug launches. Enrollment growth in Medicare Advantage (and away from fee-for-service) also continues to lead to higher spending.

Background

- Below are the major changes in mandatory health care baselines since MSR 2016.
 - **Medicaid** – Compared to MSR 2016, estimated Federal Medicaid spending is approximately +\$172.5 billion (+3.9%) higher over 2016-2025. This is primarily a result of higher actual spending in FY 2015, reflecting both higher enrollment and higher per enrollee spending than expected, projected through the budget window.
 - Consistent with PB 17, CBO also projected a significant increase in their January 2016 baseline, for mostly the same reason. Note CBO's baseline is approximately \$140b/10 years higher than the PB17 Medicaid baseline, though we believe that is at least partially due to CBO assuming more States expand Medicaid by the end of the Budget window.
 - For the past couple of years, Medicaid has seen low per-capita growth but the actuaries are projecting a significant increase in 2015 as a result of the newly eligible population, which has been more expensive than previously estimated. However, it's not yet clear what specifically is driving that increase. If pushed on the issue, we recommend focusing on the fact that expansion has covered millions of Americans, many who were previously uninsured, and that Medicaid expansion is a good deal for states.

- **Medicare** – Compared to MSR 2016 for the 2016-2025 budget window, the PB 2017 current law baseline is down \$31 billion (-0.4%), from approximately \$7.79 trillion at MSR to \$7.76 trillion. IPAB baseline savings increased from \$63.3 billion to \$83.6 billion over this window. Part D spending increased by \$32 billion (3.0 percent). The remainder is due to a combination of other legislative, technical, and economic changes in the baselines, including higher enrollment estimates for Medicare Advantage.
 - **Marketplaces** - Estimates for Exchange subsidies (Premium Tax Credit outlay and revenue, Cost-sharing Reductions, and Basic Health Program) total \$1,202 billion for the 2017 – 2026 budget window. Compared to MSR, estimates are virtually unchanged (-\$1 billion difference or -0.1%).
- **Health Care Cost Growth:**
 - National health spending growth accelerated in 2014, increasing by 5.3 percent following several years of historically low growth. Spending growth in 2013 was 2.9 percent.
 - Faster growth was largely driven by the expansion of coverage under the Affordable Care Act and faster growth in prescription drug spending.
 - Despite the increase in total health spending as more people gain coverage, health care costs continue to grow slowly on a per-person basis. In 2014, per-enrollee spending grew by less than one-third the rate seen over the preceding decade in both private insurance and Medicare, after adjusting for inflation.

Contact: Hunter Kellett (Medicaid): 202-395-1099, Erica Socker (HIDA): 202-395-7815, Cindy Moon (Medicare): 202-395-7817, Joe Liss (Medicare): 202-395-5413

HEALTH/ACA

Health Care Reform

Question: How and why does the Budget proposal reform the Administration's initial excise tax, especially when the President just signed a delay to 2020?

Key Point: Economists and health policy analysts across the political spectrum agree that the excise tax will drive employers to find innovative ways to reduce health care costs, with sizeable benefits for our economy, including higher wages for workers and lower deficits. The most important step Congress can take now is to ensure that the tax goes into effect without any further delay. That said, the tax can be improved, and we encourage Congress to enact sensible improvements to the tax that protect its benefits for our health care system and our economy. The Budget puts forward our ideas for your consideration.

Talking Points

- The excise tax was designed to target the least efficient plans. The tax thresholds were set far above the cost of typical coverage, and firms with higher costs due to factors beyond their control, like the age or gender of their workers, qualify for even higher thresholds.
- Because of this design, Treasury estimates that only around 1 percent of total employer plan costs will be affected by the tax in 2020, even if employers make no adjustments to their plans; only 7 percent of enrollees will be in plans that are affected at all.
- The Budget would further improve the tax's targeting by changing the tax threshold to be the higher of current law or the premium for a Marketplace gold plan in each state. This reform would avoid unintended burdens for firms in high-cost areas, while ensuring that the tax remains targeted at higher cost plans in the long term.
- The Budget also includes reforms that make it easier for employers offering flexible spending arrangements to plan for and calculate the tax.

If pressed on why there is a Budget proposal to fix the tax when we have been touting the benefits of the tax for so many years:

- We continue to believe that this policy will drive employers to make their health care plans more efficient, such as by deploying innovative new payment models and by negotiating for better prices from insurers and providers, reducing health care costs.
- The Congressional Research Service estimated that employers' efforts in response to the tax as originally enacted would reduce national health expenditures by more than \$40 billion annually in 2024.
- Employers' efforts to reduce health costs will generate major benefits for our economy, including higher wages for workers and lower deficits.

- The money employers save on health benefits due to the tax will benefit workers through higher wages in the long run. Estimates by CBO imply the tax will increase paychecks by around \$50 billion in 2026.
 - The tax will also improve the fiscal outlook, reducing deficits by tens of billions of dollars over the next ten years and many hundreds of billions dollars in subsequent decades.
- That said, the tax can, of course, be improved. The Budget proposal responds to concerns raised by various stakeholders, and will prevent the tax from creating unintended burdens in areas where health care is more expensive, while also ensuring that the policy remains targeted at higher cost plans in the long run.
- We have also heard from businesses that we could make it easier for employers offering flexible spending arrangements to calculate and plan for the tax, so our Budget proposal includes a reform addressing this issue.
- These reforms will improve the tax's targeting and simplify compliance for employers, while protecting the tax's major benefits for our health care system and our economy.
- All employer-sponsored plans will continue to benefit from a generous tax subsidy, in the form of the exclusion of health benefits from income and payroll tax.

If pressed on whether the delay – combined with the moratoriums on the device tax and health insurer fees – means the entire tax will be repealed:

- As you know, the temporary suspensions and delays included in the extenders package were just that—temporary—and we expect the excise tax to be fully implemented, so we can realize the significant reductions in health care costs, as well as the sizeable benefits for our economy.
- Congress can, however, use this time to consider sensible improvements to the tax that protect its benefits for our health care system, workers' wages, and the deficit. We stand ready to work with Congress to make improvements, and the Budget puts forward our ideas for consideration.

If pressed on whether Administration opposes a repeal, which passed in the Senate by 90 votes

- Yes, we oppose repeal. The most important step Congress can take now is to ensure that the tax goes into effect without any further delay

Background

- Cadillac tax ("excise tax on high-premium employer plans") current law:
 - For 2020 and later, the cost of employer-sponsored coverage in excess of the threshold is subject to a 40-percent excise tax. The threshold is \$10,200 for self-only coverage and \$27,500 for other coverage in 2018 dollars, indexed to CPI +1 for 2019 and CPI thereafter.

- The threshold is higher for plan participants in firms likely to face higher health coverage costs due to the age and gender of their workforces or the occupations of plan participants, and for qualified retirees.
 - The cost of coverage includes premiums (whether paid by the employer or the employee) plus certain contributions to flexible spending arrangements (FSAs) and health savings accounts (HSAs).
- Plans affected under current law:
 - Treasury estimates that just 7 percent of people enrolled in employer coverage will be affected by the tax in 2020, even if employers make no adjustments to avoid it.
 - The tax applies only to the portion of plan costs that exceeds the thresholds. Treasury estimates that only around 1 percent of plan costs would be affected in 2020. Even by 2026, this share is projected to be just 4 percent. [Note: critics of the tax frequently point to the share of employers with plans that would be affected, rather than the number of people or plan costs affected. The shares of plans or employers affected is less important; the shares of employees and premiums affected are the more appropriate measures of the tax's reach.]
- Budget Proposal:
 - The proposal would increase the threshold to the greater of the current law threshold or a "gold plan average premium" that would be calculated for each state.
 - The proposal would also define the cost of coverage for an employee under an FSA as the average amount contributed for the year for similarly-situated employees (including both the average salary reduction amount elected by employees and the average amount paid by the employer), rather than as the amount actually contributed on an employee-by-employee basis.
 - Finally, building off of a required study of the methodology used to adjust the tax threshold for differences in age and gender mix across employers, the proposal would require a study of the potential effects of the tax on firms with unusually sick employees, conducted by the Government Accountability Office in consultation with the Department of the Treasury and other experts.
- Extenders package
 - The extenders package delayed the Cadillac tax by 2 years, pushing the start date from 2018 to 2020, while also making the tax deductible for businesses and commissioning a GAO study on the age-gender adjustment methodology.
 - The package also included moratoriums on the health insurer fee and medical device tax.

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HEALTH/ACA

Medicaid

Question: What does the Budget propose with respect to Medicaid and Puerto Rico?

Key Point: The Budget invests nearly \$30 billion to better align Puerto Rico and other U.S. territory Medicaid programs with the mainland.

Talking Points

- Consistent with the Administration's Roadmap for Congressional Action on Puerto Rico released in October 2015, the President's Budget proposes a series of measures to provide Puerto Rico the tools it needs to address its economic and fiscal crisis in a comprehensive manner while creating the foundation for recovery. A key element of this plan is a long-term solution to Puerto Rico's historically inadequate Medicaid treatment.
- Inaction is not an option. Failing to address Medicaid funding would lead to drastic Medicaid cuts that will exacerbate the financial and health care crisis in the Commonwealth of Puerto Rico. The aim of the Budget proposal, which applies to all the U.S. territories, is to address the historic statutory inadequacy in Medicaid treatment of the territories in a fiscally responsible manner.
- To avoid a loss in coverage when the ACA supplemental funds run out and to better align Puerto Rico and other territory Medicaid programs with the mainland, the Budget would remove the cap on Medicaid funding in Puerto Rico and the other territories, gradually increase the federal support territories receive through the Federal Medicaid match by transitioning them to the same level of Federal support as is received on the mainland, and expand eligibility to 100 percent of the Federal Poverty Level in territories currently below this level.
- To be eligible for maximum federal financial support, territories will have to meet financial management and program integrity requirements and achieve milestones related to providing full Medicaid benefits, including long-term care and non-emergency medical transportation.

(Outlays in Millions)	2017	2018	2019	2020	2021	2017-2021	2017-2026
Strengthen Medicaid in Puerto Rico and other U.S. Territories	320	1,433	1,771	2,791	3,000	9,315	29,644

Background

- The Medicaid programs in Puerto Rico and the other U.S. territories of American Samoa, Guam, Northern Mariana Islands, and the U.S. Virgin Islands are fundamentally different from the Medicaid program in the States, leading to a lower standard of care than may otherwise be experienced on the mainland. Medicaid funding in Puerto Rico and the other territories is capped; beneficiaries are offered fewer benefits; and the federal government contributes less on a per-capita basis than it does to the rest of the nation.
- The ACA increased the Federal match rate from 50 to 55 percent and provided \$7.3 billion (\$6.4 billion for Puerto Rico) above the territory funding caps between July 1, 2011 and the end of 2019. Despite the significant one-time funding increase provided in the ACA,

as many as 600,000 Americans living in Puerto Rico could lose their healthcare coverage when those funds run out, which is projected to happen by the end of FY 2017.

- In October 2015, the Administration released the Roadmap for Congressional Action on Puerto Rico, which indicated the Administration would work with Congress on Medicaid reforms that advance the following principles:
 - "Provide access to Medicaid and key health services that better aligns with what their fellow Americans receive on the mainland by:
 - Protecting Medicaid coverage for needy individuals in Puerto Rico during these difficult times, and avoiding a drop in coverage when one-time funds from the Affordable Care Act expire.
 - Improving the quality of Medicaid coverage in the Commonwealth by offering access to additional core services Medicaid beneficiaries would receive if they were living on the mainland.
 - In a fiscally responsible manner, move toward a permanent and stable funding partnership that would alleviate some of the fiscal challenges and risks created by the current insufficient and unstable federal funding.
 - Ensure an adequate transition period needed for Puerto Rico to upgrade its healthcare system to offer new benefits and strengthen its internal accountability, financial management, and program integrity controls to prevent fraud, waste and abuse.
 - Remove the cap on Puerto Rico's Medicaid program and increase the federal support Puerto Rico receives through the federal Medicaid match, after a sufficient transition period."
- The Budget proposal includes an initial transition period (with enhanced match at 60%) during which territories would be required to make necessary financial management and program integrity improvements before they could increase eligibility. After this initial transition period, territories would be allowed to:
 - Expand eligibility up to 100% FPL (or maintain current eligibility levels in territories that have expanded beyond 100% FPL), consistent with recent Congressional legislation; and
 - Receive additional increased Federal match for meeting financial management/program integrity requirements and achieving milestones related to providing full Medicaid benefits, reaching FMAP level consistent with State methodology (83% for PR) if all milestones are met. The scoring assumes Puerto Rico will have made the programmatic changes to reach full eligibility, benefits, and reimbursement by FY 2026.
- Both Resident Commissioner Pierluisi and Senator Schumer introduced legislation to provide the territories with "state-like" Medicaid treatment. Beginning in FY 2017, the Pierluisi/Schumer legislation would allow territories to increase eligibility to 100% FPL and would increase Federal match to what would be provided under the formula used for States.
 - A noticeable difference between the legislation and the Budget proposal is the timeframe for eliminating the cap and increasing federal match. The Budget would

condition maximum federal financial support (83% FMAP in PR) on meeting financial management and program integrity requirements and providing full Medicaid benefits; however, the draft legislation would make the changes effective in FY 2017 without reform as a condition of increased Medicaid financing. In addition, the draft legislation included a provision extending Medicaid Disproportionate Share Hospital payments to the territories.

- Simply extending the ACA supplemental funding to maintain Puerto Rico's status quo is expected to cost \$13.3 billion over the 10-year budget window and does not address the Administration's commitment to improve the Medicaid program in Puerto Rico.

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DEPARTMENT OF HEALTH AND HUMAN SERVICES

Substance Abuse and Mental Health Services Administration

Question: What is the Budget's Opioid proposal?

Key Point: The Budget takes a multi-pronged approach, including a new \$1 billion initiative, to addresses the epidemic of overdoses related to opioids--a class of drugs that includes prescription pain relievers and heroin--that will help every American who wants treatment to access it and get the help they need.

Talking Points

- The Budget takes a two-pronged approach to address this epidemic.
- First, the Budget includes \$1 billion in new mandatory funding over the next two years to support a new initiative to expand access to treatment to reduce prescription drug and heroin use. These funds will boost efforts to help individuals seek treatment, successfully complete treatment, and sustain recovery. States can use these funds to expand treatment capacity and make services more affordable to those who can't afford it. This funding will also help expand the addiction treatment workforce through the National Health Service Corps and support the evaluation of treatment services.
- Second, the Budget proposes approximately \$500 million to continue and expand current efforts across HHS and the Department of Justice to expand state-level prescription drug overdose prevention strategies, increase the availability of medication-assisted treatment programs, and improve access to the overdose-reversal drug naloxone. A portion of this funding is targeted specifically to rural areas, where rates of overdose and opioid use are particularly high.
- This investment, combined with other efforts that were initiated and/or expanded in FY 2016 to reduce barriers to treatment for substance use disorders, will help every American who seeks treatment to access it and get the help they need.

(BA in Millions)	2016 Budget	2016 Enacted	2017 Budget	Change from 2016 Enacted (%+/-)	2017 Change from 2016 Enacted (%+/-)
Substance Abuse and Mental Health Services Administration	56	56	91	35	62%
Centers for Disease Control and Prevention	79	81	89	8	10%
Health Resources and Services Administration 1/	100	100	110	10	10%
Other HHS 1/	10	4	8	4	100%
HHS Total	244	240	298	58	24%
Department of Justice Total	204	175	202	27	15%
HHS and DOJ, Total 1/	448	415	500	85	20%

^{1/}Includes \$100 million in mandatory Health Centers funds.

(Outlays in Millions)	2017	2018	2019	2020	2021	2017-2021	2017-2026
State Targeted Response Program	460	460				920	920
National Health Service Corps	25	25				50	50
Medication Assisted Treatment Evaluation	15	15				30	30
Expand Access to Treatment for Prescription Drug Abuse and Heroin Use Initiative, Total	500	500				1,000	1,000

Background

- There are about one million people estimated to have an opioid use disorder who do not receive treatment. HHS estimates that about 450,000 of these people want or could be persuaded to get treatment, but cannot access it due to affordability or trouble finding a provider. This initiative will help these individuals access services.
- The mandatory opioid initiative includes \$920 million for new State cooperative agreements to expand access to opioid use disorder treatment.
- The mandatory opioid initiative includes \$50 million in the National Health Service Corps to enhance the number of physicians who provide medication assisted treatment in underserved areas. The National Health Service Corps offers loan repayments and scholarships to health care professionals who agree to practice in areas with a shortage of providers.
- The mandatory opioid initiative includes \$30 million to monitor and evaluate the effectiveness of medication assisted treatment (MAT). MAT combines behavioral therapy with FDA approved medications to treat substance abuse disorders.
- In 2016, Congress appropriated \$100 million of the \$104 million increase requested in the FY 2016 Budget for HHS to address the opioid epidemic.

Contact: Hester Grippando: 202-395-5766

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Substance Abuse and Mental Health Services Administration

Question: Does the Administration's mental health proposal go far enough given the need in the country for mental health services?

Key Point: The Affordable Care Act has made great strides to improve access to mental health care by expanding health coverage for millions of Americans that includes mental health and substance abuse disorder services. Despite these gains, many children and adults with diagnosable mental health issues do not receive the treatment they need. The \$500 million mental health initiative strategically addresses gaps in mental health systems and services by building on the Affordable Care Act progress toward improving mental health care.

Talking Points

- The Affordable Care Act expanded mental health coverage for millions of Americans by putting an end to insurance company discrimination based on pre-existing conditions, requiring coverage of mental health and substance abuse disorder services, and expanding mental health parity, which has improved access to mental health services for more than 60 million Americans combined.
- The \$500 million builds on ACA's progress on increasing access to mental health services and makes strategic investments to help engage individuals with serious mental illness in care, improve access to care by increasing service capacity and the behavioral health workforce, and ensure that behavioral health care systems work for everyone. This effort would increase access to mental health services, prevent suicide, and promote mental health as a top priority.
- Despite gains in access to health care coverage, most individuals with serious mental illness do not receive appropriate treatment for over a year after onset of illness, which is why the initiative includes a \$230 million investment that will get individuals with serious mental illness into care as early as possible.
- Many Americans, particularly low income and those living in rural areas, where there are few health care providers, have trouble finding mental health services. This initiative provides incentives for mental health and other behavioral health professionals to practice in areas experiencing a shortage of providers. It will also enhance community-based mental health and substance abuse services for Medicaid beneficiaries by adding six additional states to the Certified Community Behavioral Health Clinic demonstration.
- Suicide, which takes over 40,000 lives a year, continues to be a major public health problem. The initiative supports a new suicide prevention program in the Centers for Disease Control and Prevention that will address access to lethal means for individuals at greatest risk for harming themselves or others.
- Indian Country is disproportionately impacted by mental and other behavioral health challenges. The initiative includes a \$50 million investment that will help create comprehensive crisis response systems and support the development of the behavioral health workforce.
- In addition to this initiative, the Budget continues to build upon other investments in mental health including, expanding the President's *Now is the Time* initiative to improve access to

mental health services for young people; supporting communities in developing comprehensive systems to intervene when an individual is experiencing a mental health crisis; and funding new strategies to address the increasing number of suicides by older adults.

(BA in Millions)	2016 Budget	2016 Enacted	2017 Budget	Change from 2016 Enacted (%+/-)	2017 Change from 2016 Enacted (%+/-)
Now is the Time	185	158	198	40	25%
National, Suicide Strategy	4	2	20	18	900%
Crisis Systems	10	0	10	10	NA

(Outlays in Millions)	2017	2018	2019	2020	2021	2017-2021	2017-2026
Early Mental Health Intervention (BA)	115	115				230	230
Section 223 Demonstration	20	50	30	10		110	110
Suicide Prevention (BA)	30	30				60	60
Indian Health Service (BA)	25	25				50	50
National Health Service Corps (BA)	25	25				50	50
Total, Mental Health Initiative	215	245	30	10		500	500

Background

- Early mental health intervention services for mental health are also supported through a 10 percent (\$53 million) set-aside in the \$533 million the Mental Health Block Grant.
- The Section 223 Demonstration will provide enhanced Medicaid payments to Certified Community Behavioral Health Clinics in participating states. Current law allows for eight states to participate in this demonstration, which will begin in January 2017.
- The National Health Service Corps offers loan repayments and scholarships to health professionals who agree to practice in areas experiencing a shortage of health care providers.
- The FY 2017 budget request includes \$30.0 million within CDC to evaluate the comprehensive suicide prevention programs in partnership with the Injury Control Research Centers and state health departments. This work will focus on addressing key risk factors for suicidal behavior, including substance abuse and mental illness

Contact: Hester Grippando: 55766

DEPARTMENT OF HEALTH AND HUMAN SERVICES

National Institutes of Health

Question: Does the Budget propose to cut NIH by relying on mandatory funding for an increase?

Talking Points

- The Budget requests a total of \$33.2 billion for NIH, which is \$900 million above NIH's FY 2016 funding level. Of this total, \$30.3 billion is requested in discretionary budget authority, which is equal to the FY 2016 President's Budget, and \$1.9 billion in new mandatory resources, of which \$75 million will go to FDA as part of the Moonshot.
- Because last year's budget agreement provided only 60 percent of the discretionary sequester relief sought by the President for FY 2017, the Budget requests a combination of discretionary budget authority and new mandatory resources. These additional resources would be used for Cancer Moonshot activities at NIH and at FDA, and also for other high priority research efforts at NIH.
- The Budget's mandatory requests are fully paid for through sensible spending reductions and closing inefficient tax loopholes. The Administration looks forward to working with the Congress to fund the full \$33.2 billion requested for NIH.

Background

Additional Background on the NIH Budget and the Cancer Moonshot's Mandatory Funding

- Initially, the Moonshot will focus on the following six research areas:
 - Enhanced and Early Detection Technology
 - Cancer Vaccine Development
 - Cancer Immunotherapy
 - Genomic Analysis of Tumor and Stromal Cells
 - Enhanced Data Sharing
 - Pediatric Cancer
- In addition, as part of the Budget's FY2017 request, NIH will support a new Fund, the Exceptional Opportunities in Cancer Research Fund, to provide flexible funding for the pursuit of new ideas directed at currently intractable problems in cancer science.

Contact: Christine Farquharson: 5-7756

DEPARTMENT OF HEALTH AND HUMAN SERVICES

National Institutes of Health

Question: What is the Budget's Cancer Initiative?

Talking Points

- The FY 2017 Budget will support the Vice President's Cancer Moonshot with a multi-year initiative to provide the funding necessary for researchers to accelerate the development of new cancer treatments.
- The FY2017 Budget requests \$755 million in mandatory funds to support the \$1 billion Moonshot --\$680 million for NIH and \$75 million for related work at FDA. The Budget also requests additional funding for DOD and VA to support the Moonshot. The Budget's proposals build on a \$195 million Moonshot investment by NIH in that will begin in FY2016.
- The best science will drive this initiative, which will soon commence, and, as such, some activities may evolve over time. Initially, the Moonshot will focus on the following six areas:
 - Enhanced and Early Detection Technology
 - Cancer Vaccine Development
 - Cancer Immunotherapy
 - Genomic Analysis of Tumor and Stromal Cells
 - Enhanced Data Sharing
 - Pediatric Cancer
- In addition, as part of the Budget's FY2017 request, NIH will support a new Fund, the Exceptional Opportunities in Cancer Research Fund, to provide flexible funding for the pursuit of new ideas directed at currently intractable problems in cancer science. These resources will allow NIH to respond quickly to examine novel insights in any area of oncology ripe for expansion, and these resources will be available to pursue investigations, at academic sites or as public-private partnerships, that may lead to potential breakthroughs.

Background

Additional Background on the NIH Budget and Mandatory Funding

- The Budget requests a total of \$33.2 billion for NIH. Of this total, \$30.3 billion is requested in discretionary Budget Authority, which is equal to the FY 2016 President's Budget, and \$1.9 billion in new mandatory resources.
- Due to the restrictive discretionary cap levels, the mandatory request is necessary to meet the FY 2017 research priorities, including investments for the Moonshot.
- If pressed on discretionary request: Congress should provide \$33.2 billion for NIH. The Budget's mandatory requests are paid for within Budget totals that achieve stable debt to GDP levels throughout the budget window.

STATE/INTERNATIONAL PROGRAMS

Trans-Pacific Partnership (TPP)

Question: How does the Administration propose to pay for the \$28 billion cost of the Trans-Pacific Partnership (TPP) in order to get it enacted this year?

Key Point: TPP is a landmark agreement that will bring tremendous benefits to the U.S. economy, exporters, and workers, and is a key element of the President's long-term focus on the Asia Pacific region. When we formally submit our TPP package to Congress, we will propose specific offsets for the costs of its implementation.

Talking Points

- The Administration greatly appreciates Congress's support enacting Trade Promotion Authority (TPA) last year, and looks forward to working with Congress to pass TPP in the near future.
- In the 2017 Budget, we reflect the estimated costs of implementing TPP over a 10-year period, along with many other policy proposals that impact revenues. When we formally submit our TPP package to Congress, we will propose specific offsets for those costs.
- While there are significant projected revenue losses, we need to focus on the tremendous benefits that free trade, and TPP specifically, will deliver to our economy and American exporters and workers. For example, a recent Petersen Institute report projected that TPP will serve to expand annual U.S. exports by \$357 billion and overall annual U.S. national income by \$131 billion by 2030 relative to a world without TPP. And each year we delay implementing TPP reduces those gains significantly.
- Support for TPP is about maintaining American leadership in the Asia-Pacific. It's about adding strength to American economic power. And it's about strengthening our partnerships abroad. By leading on trade, we can promote a global order that reflects both our interests and our values.
- IF ASKED about labor and environmental concerns: As agreed in TPA, the TPP agreement would lock in many of the progressive gains we have made in recent trade negotiations – including enforceable labor and environmental standards, new consumer protections, and a new chapter on small and medium-sized businesses.

Background

On TPP and Process

- TPP is a proposed free trade agreement among twelve countries in the Asia-Pacific that account for 40% global GDP, which was under negotiation from 2005 until it was completed in 2015.
- The Administration is required to submit a proposal for offsets when it submits draft legislation to approve TPP, which will likely happen this spring.
- The President announced his intent to sign TPP on 11/5/15.
- The next step is that Ambassador Froman will sign the TPP on 2/4/16 in New Zealand.

- Once signed, the Administration will have to submit 1) draft legislation to the Hill and 2) a series of required reports (both of which they aim to get to the Hill in the coming months).
- Trade Promotion Authority (TPA), which passed Congress in June of 2015, lays out all of the Administration requirements for the TPP. It also requires Congress to provide an up/down vote, meaning that it cannot make any changes to the implementing legislation.

Revenue Losses and Benefits:

- The PB 17 will show a \$28 billion revenue loss over the 10 year budget window associated with the Trans Pacific Partnership (TPP). This is the estimate of the tariffs we will not be collecting over a ten-year period if TPP is enacted and is the amount of the needed PAYGO offsets.
- The estimate begins in the FY 2018 column because the Administration position (as determined by USTR) is that while TPP could be passed by Congress as early as CY 2016, the TPP itself would not be implemented until a number of other countries also pass the deal.
- The Peterson Institute report contains strong economic arguments for TPP that NEC / USTR are asking other officials to amplify. Full report is here: <http://www.iie.com/publications/interstitial.cfm?ResearchID=2906>

Report topline:

- **Large U.S. export growth:** As of 2030, with implementation of TPP U.S. exports are estimated to be **\$357 billion** above baseline trends.
- **Significant increase in national income:** U.S. national income is estimated to be **\$131 billion** higher with TPP than without as of 2030.
- **Delay will have high cost:** If we push back implementation, we lose – a single year's delay is estimated to cost the U.S. **\$77 billion** in lost national income over the agreement's implementation.
- **Wages increase and disproportionate return to labor:** The estimates also show substantial benefit for workers. The estimates are that TPP's results "disproportionately favor labor," and raise wages across the economy, for both skilled and unskilled workers.

Contact: Emily Bilbao: (202) 395-6182

(Outlays in Millions)	2017	2018	2019	2020	2021	2017-2021	2017-2026
						0	0

Department of Defense FY 2017 Budget Overview

(\$ in Billions)	Department of Defense Discretionary Budget Authority											
	Enacted							FY 2017 Budget				
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Base.....	528	528	530	495	496	496	522	524	557	565	570	585
OCO*.....	162	159	115	82	85	64	59	59				
Total.....	690	687	645	577	581	560	580	583	557	565	570	585

*For the outyears, the President's Budget includes placeholder amounts for government-wide OCO funding of \$11 billion per year from 2018 through 2021. The placeholder amounts continue to reflect a total OCO budget authority cap from 2013 to 2021 of \$450 billion, in line with previous years' policy, but do not reflect any specific decisions or assumptions about OCO funding in any particular year.

Summary. The Department of Defense (DOD)'s 2017 budget is \$583 billion, which is \$2 billion above the 2016 enacted level, and \$22 billion above FY 2015 enacted. These increases follow a five-year \$130 billion decline, from DOD's peak all-time budget of \$690 billion in 2010 to a recent low of \$560 billion in 2015. Decreases over this period were initially driven by the withdrawals from Iraq and Afghanistan, and then, in 2013, also by the Budget Control Act and sequestration, which harmed the military's readiness and forced significant deferrals in modernization. During this time, the security environment has changed with the rapid military modernization and increased assertiveness of advanced potential adversaries, namely Russia and China; growing concerns about North Korea and Iran; and the resurgent threat of terrorism, especially from the Islamic State of Iraq and the Levant (ISIL). The defense strategy, which is articulated in the 2014 Quadrennial Defense Review, postures the military to sustain U.S. leadership in this environment by prioritizing a more technologically advanced and ready, but also smaller, military, while eschewing the type of large ground counterinsurgency campaigns that dominated the recent past in Iraq and Afghanistan.

DOD's \$524 billion FY 2017 base budget sustains and builds on the defense strategy. It protects readiness and prioritizes advanced military capability to address the growing strength of advanced potential adversaries, while pursuing innovative operating concepts that can overcome otherwise cost-prohibitive challenges, and reforming the personnel system through the Force of the Future initiative. Reform has been central to the defense strategy, and the FY 2017 Budget continues this through continued initiatives to reduce headquarters, reduce end strength, reform military health care, divest or layup unneeded force structure, and divest excess facilities through a round of Base Realignment and Closure (BRAC). A characteristic of reform has been the prioritization of capability over size, or "capacity," and this has been a source of tension. Some Army advocates object to plans to decrease end strength. Some Navy advocates object to plans to reduce the number of Littoral Combat Ships, while congressional advocates of naval power object to phased cruiser modernization, which would temporarily layup eleven cruisers. Air Force advocates have succeeded in deferring plans to divest the A-10 aircraft.

Finally, DOD's \$59 billion OCO budget supports combat against terrorist groups, such as ISIL; enables a responsible transition in Afghanistan; quadruples funds to counter Russian aggression toward neighboring countries and reassure allies and partners in Europe; and allocates about \$5 billion to base requirements, consistent with the Bipartisan Budget Act's \$59 billion OCO target.

Key Points

- The President's Budget reforms and invests in the military to continue its dominance.
- Proposed reforms to force structure, health care, headquarters, and infrastructure are essential to build a more capable and ready military, for an increasingly competitive security environment.
- The OCO budget fully supports our campaigns to destroy ISIL, lead a responsible transition in Afghanistan, and counter Russian aggression in Europe while supporting European allies.

Potential Vulnerabilities

- *The world is more dangerous (Middle East, Russia, China, etc), but you keep reducing the size of the military.* Emphasize our commitment to maintaining the world's pre-eminent military, and to rebalance from the large size demanded by the wars in Iraq and Afghanistan, to the readiness and advanced capability needed for the future.
- *The military does not support your cuts to its size.* The Service Chiefs support this budget. It makes the hard choices needed to direct resources towards the capabilities that will be most effective in a rapidly evolving environment.
- *You are holding defense hostage to increases in non-defense spending.* Stress the dependence of national security on economic security, and the need to fund critical national security activities at non-defense agencies such as the Departments of State and Homeland Security.
- *Your proposed reforms are dead on arrival (especially BRAC).* Emphasize the success of recent reform efforts, such as for military retirement, and the dependence of the defense strategy on investment in advanced capabilities, such as advanced aircraft, unmanned systems, precision munitions, undersea vehicles, railguns, high-speed long-range weapons, and new systems for electronic, space, undersea, and cyber warfare.

DEFENSE

DEPARTMENT OF DEFENSE

Question: Why do you count OCO savings as deficit reduction when you don't have a realistic proposal to actually reduce OCO spending? Why hasn't the Administration presented a plan to transition enduring OCO costs into the base budget?

Key Point: The President's policies to responsibly end combat operations in Iraq and Afghanistan have directly contributed to major deficit reduction that should be accounted for. While OCO amounts in the FY 2017 Budget are consistent with the Bipartisan Budget Act of 2015, we continue to support developing a plan to transition enduring OCO costs into the base budget. This transition must be accomplished in a manner that protects the defense strategy and ensures sufficient funding for ongoing international affairs programs. A transition will not be possible if sequestration-level discretionary caps remain in place.

Talking Points

- In 2008, the year before the President assumed office, OCO spending was \$192 billion. The President's policies in Iraq and Afghanistan directly contributed to the \$118 billion, or 61 percent, decline in OCO spending since then, to the FY 2017 request level of \$74 billion.
- As required by law, both OMB and CBO estimate the baseline by projecting the most recent enacted level for OCO indefinitely into the future, plus inflation. Actual OCO spending, as a result of the Administration's policies, will likely be lower.
- In order to be consistent with the FY 2017 OCO levels established in the Bipartisan Budget Act of 2015, the Budget increases slightly the amount of enduring costs funded in OCO.
- Beyond FY 2017, the Budget continues to reflect the Administration's previously proposed \$450 billion cap (including both defense and international funding) on OCO through 2021.

(BA in Millions)	2016 Budget	2016 Enacted	2017 Budget	Change from 2016 Enacted (%+/-)	2017 Change from 2016 Enacted (%+/-)
Department of Defense OCO	50,949	58,641	58,800	159	0%
Department of State and Other International Programs OCO	7,047	14,895	14,895	0	0%
Department of Homeland Security OCO	0	160	0	-160	-100%
Total, OCO	57,996	73,696	73,695	-1	-0%

Background

- Over the next 10 years, the Budget accounts for \$1.050 trillion of enacted reductions from OCO funding, \$636 billion of reductions proposed in the FY 2017 Budget consistent with the \$450 billion OCO cap, and \$401 billion of savings from debt service, for total ten-year savings from OCO of \$2.087 trillion.
- The last four budgets proposed a \$450 billion OCO cap over FY 2013 - FY 2021. Based on this cap, the Budget tables use an \$11 billion placeholder for FY 2018 through FY 2021.

This totals to the \$450 billion cap over the FY 2013 through FY 2021 period but does not reflect any specific decisions or assumptions about OCO funding in any particular year.

- The FY 2016 Budget stated that the Administration would present a plan to transition all enduring costs currently funded in OCO to the base budget beginning in 2017 and ending by 2020. The Administration was unable to reach a consensus on this plan and did not address enduring OCO costs in the FY 2017 Budget.
- Consistent with the OCO levels established in the Bipartisan Budget Act of 2015, the FY 2017 Budget includes \$5 billion in new enduring OCO costs for the Department of Defense and \$8 billion for the Department of State/Other International Programs that have been temporarily shifted to OCO.

Contact: Will Metzger: 5-3798

FY 2017 PRESIDENT'S BUDGET: DEPARTMENT OF VETERANS AFFAIRS (VA) OVERVIEW

SUMMARY The FY 2017 Budget provides resources to the Department of Veterans Affairs to ensure our Nation's veterans have the funding they deserve; ensuring high-quality and timely healthcare; getting veterans their earned benefits quickly and efficiently; ending veteran homelessness; and helping veterans and their families get good jobs, education, and access to affordable housing.

KEY ISSUES

- *Protects Critical Funding for VA Medical Care:* The 2017 Budget provides \$65.1 billion for VA medical care, a 6.3 percent increase above the 2016 enacted level, to provide high-quality and timely health care services to veterans and other eligible beneficiaries. This level includes \$7.8 billion to improve veterans' mental health services and \$1 billion for life-saving Hepatitis C treatments. In addition, VA will direct \$969 million from the 2014 Veterans Choice Act to support increased access to VA care through critical investments in VA staffing and infrastructure improvements in 2017.
- *Speeding Disability Compensation Claims Processing:* VA has made tremendous progress reducing the veteran disability claims backlog, bringing the disability claims backlog from a peak of 611,083 in March 2013 to approximately 75,000 – an 88 percent reduction and the lowest number of backlogged claims in five years. The Budget provides funding to sustain and improve on these gains.
- *Care in the Community:* The Budget provides \$7.2 billion in discretionary funding for veterans to seek medical care in non-VA settings. When combined with resources from the 2014 Veterans Choice Act, this funding will provide veterans with more than 15.6 million medical procedures from non-VA providers. The Budget also proposes legislation streamlining clinical and administrative processes to implement a simplified, efficient, high-performing, network of integrated care.

POTENTIAL CONCERNS:

- *Access to VA Health Care.* In the wake of the Phoenix scandal, VA re-doubled its efforts to provide quality care to veterans and took a number of steps at national and local levels to ensure timely access to care. VA is addressing challenges in accessing care and is providing regular data updates to enhance transparency. The 2017 Budget continues to support the implementation of the Veterans Choice Act and the Administration's goal of providing timely, high-quality health care for our Nation's veterans.
- *FY 2018 Medical Care Advance Appropriations.* The Budget requests \$66.4 billion in advance appropriations for the VA medical care program in 2018, a 2.2 percent increase over the 2017 amended request. Advance appropriations enable timely and predictable funding for VA's medical care to prevent our Nation's veterans from being adversely affected by budget delays. However, veterans' demand for services and benefits grows continuously, and VA anticipates that more resources will be required to ensure that the VA system can provide timely, high-quality health care into the future.
- *Future of the Veterans Choice Program.* The Veterans Choice Act of 2014 provided limited authority and funding for VA to implement the Veterans Choice Program, making it easier for certain eligible veterans to seek medical care in non-VA settings. This popular program will expire in August, 2017, and VA has already released a report to Congress identifying proposed improvements to the existing program were it to be reauthorized. The 2017 Budget does not

propose reauthorization at this time, to enable the Administration to gather more implementation data and to incorporate the conclusions of the Congressionally-established Commission on Care. The Budget does include legislative proposals that would streamline and improve the Department's administration of its non-VA care programs.

- *Mental Health Services.* The budget includes \$7.8 billion in FY 2017 to ensure the availability of a wide range of mental health services, from treatment of common mental health conditions in primary care to intensive interventions in specialty mental health programs for more severe and persisting mental health conditions. This funding continues the VA and DoD interagency initiatives to improve mental health care for Servicemembers and Veterans, begun in response to the President's 2012 Executive Order on Servicemembers, Veterans and their families' mental health. Both VA and DoD are focused on reducing barriers to mental health care, improving access to high quality care, supporting innovative research and promoting safety.

INCOME SECURITY

Income Security

Question: How does the President's Budget position the Administration to deal with future crises of unaccompanied children arriving at the United States' Southwest border? (EIML/GGP)

Talking Points

- The change in the number of Unaccompanied Children (UC) crossing the U.S. southwest border over the last several months, underscores the unpredictability of migration flows.
- The Administration continues to pursue a coordinated response to curb migration, but also understands the importance of prudent planning and budgeting in the face of uncertain caseloads.
- The 2017 Budget includes resources for the Department of State, HHS, DHS, and DOJ to reinforce Administration efforts to curb migration across the southwest border and to address issues related to the arrival of UC who enter the US. The government will continue efforts to discourage migration of UC, including:
 - Public outreach and media campaigns in Central American highlighting the dangers of the journey to the US and the high chance of prosecution for immigration violations.
 - Law enforcement investigations targeted at disrupting smuggling networks.
 - Efforts to enhance economic growth, peace and stability in the Central America region that is the source of most UC migrants.
- Given the range of external factors that can influence UC migration, the Budget requests contingency funding that would make additional funds available to DHS and HHS if apprehension levels are higher than can be supported with base funding.
- DOJ's Executive Office for Immigration Review (EOIR)--the US civil immigration court system--is working to hire the 55 additional Immigration Judge teams requested and funded in 2016 to reduce the current pending caseload and build the capacity to handle future UC migration increases.

(BA in Millions)	2016 Budget	2016 Enacted	2017 Budget	Change from 2016 Enacted (%+/-)	2017 Change from 2016 Enacted (%+/-)
HHS UC Base Funding	948	948	1,226	278	29%
HHS UC Contingency fund	19		95	95	NA
ICE UC Transport Base Funding	35	35	45	10	29%
ICE UC Transport Contingency Funding	3	0	3	3	NA
CBP UC Base Funding	203	205	217	12	6%
CBP Contingency Funding	24	0	5	5	NA
International Affairs	1,001	750	1,043	293	39%
DOJ EOIR Base Funding	482	420	428	8	2%

¹ HHS UC contingency fund is scored based on the probability funds will outlay. If triggered, up to \$400 million could outlay.

²DHS ICE UC contingency fund is scored based on the estimated probability that funds will outlay. If triggered, up to \$12.6 million is available.

³DHS CBP UC contingency fund is based on the estimated probability that funds will outlay. If triggered, up to \$23 million is available.

Background

- For the Department of State:
 - The FY 2017 Budget includes \$1.04 billion whole-of-government approach to continue support to a long-term, comprehensive strategy for Central America to minimize the illegal migration to the United States.
 - Resources will continue to support the three key lines of action to address the root causes of migration: prosperity, governance, and security.
 - The administration is committed to a multiyear effort to assist the governments of Central America to build a safer and more prosperous future for their citizens, including by supporting governments to become more transparent, accountable, and capable of providing basic services and upholding the rule of law, as seen with the anti-corruption efforts in Guatemala last year that culminated in new and fair elections.
 - The FY 2017 Budget includes roughly \$512 million to provide economic opportunities to people in Central America, over \$205 million for more democratic, accountable, transparent, and effective public institutions, and over \$320 million to advance peace and stability in the region.
- For HHS:
 - The President's Budget provides \$1.226 billion in base funding for the UC program, flat from the level available in FY 2016 when both FY 2016 enacted funding and carryover funds are considered.
 - The budget also re-proposes a contingency fund that would trigger additional funds, not to exceed \$400 million, if caseloads are higher than could be supported with base program funds and any carry over funds for the program from the prior year. The total FY 2016 request for the UC Program is \$1.321 billion, which includes base funding and a probabilistic score of \$95 million for the proposed contingency fund. The contingency fund score is based on the estimated probability that additional funds would be triggered.
- For DHS:
 - The President's Budget provides base funding for the custody, care, transportation, and other related costs of up to 75,000 UCs. This is an increase over the actual custody levels in FYs 2014 and 2015 (68,519 and 39,970 UC, respectively) and is based on increasing UC arrival trends and the end of FY 2015 through early FY 2016.
 - The Budget also requests contingency funding for both U.S. Customs and Border Protection (CBP) and U.S. Immigration and Customs Enforcement (ICE). If triggered, the contingency funding level would not exceed \$35.6 million in total, increments of which would be made available if UC levels are higher than those relative to the comparable date in the previous fiscal year (e.g., after January 1, 2017).
 - The Budget requests a total of \$48 million for UC activities at ICE, which includes base funding of \$45 million and a probabilistic score of \$3 million for the proposed

ICE contingency funding. The contingency fund score is based on the estimated low probability that additional funds would be triggered. If triggered, up to \$12.6 million would be available for ICE.

- For CBP, base funds are provided throughout Border Patrol operations and not easily broken out for the separate costs of apprehension, custody, and care of up to 75,000 UCs. CBP estimates these base funds are approximately \$205M for 2016. The probabilistic score for the proposed CBP contingency funding is \$5.4 million. The contingency fund score is based on the estimated low probability that additional funds would be triggered. If triggered, up to \$23 million would be available for CBP.
- For the Department of Justice:
 - The Budget provided, and Congress funded, \$60 million to hire 55 additional Immigration Judge (IJ) teams in 2016, reducing the case backlog by 70,000 cases annually, based on the projection of 58,000 additional UCs.
 - The Budget included, and Congress did not fund, \$50 million to provide legal representation to UCs in immigration court. Hearings with IJs are more fair and efficient when legal representatives are present to help explain complex legal issues without occupying the time of the court, help children develop a record for their legal claims, facilitate communication with the court, and reduce the need for continuances.

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INCOME SECURITY

Income Security

Question: Why does the President's Budget project SNAP rolls dropping so slowly, if the economy is recovering and unemployment is decreasing?

Key Point: As the economy continues to improve, the Budget projects SNAP participation and benefit costs will continue to decline in FY17 and over the ten-year window.

Talking Points

- SNAP participation has dropped by more than a million people since the summer of 2014, reflecting the continued economic recovery.
- The FY17 Budget projects that SNAP participation and benefit costs will continue to decline in FY17 and over the ten-year window (projects participation will drop by almost two million people between Q4 of FY15 and Q4 of FY17).
- It is not unexpected that SNAP participation is declining more gradually than it increased. The recession was deep, and when people lost their jobs and were faced with significant financial hardship, they turned to SNAP to help them put food on the table. Many workers have found jobs, but long-term joblessness remains high. In addition, some workers have found jobs but their earnings remain low and the household continues to qualify for some SNAP benefits. For these and many other families, SNAP is providing an important work support. Most SNAP recipients who can work do so, and the share of households who are working and participate in SNAP has increased by roughly 50 percent in the last 20 years.
- That's one reason that we are so focused on how to make sure all Americans are sharing in this growing economy and why we have put out proposals and will continue to do so that try to broaden our prosperity and build our middle class.

Background

- SNAP participation grew dramatically as a result of the Great Recession, rising from 28 million individuals in 2008 to over 47 million in 2013. Participation reached a historic high of 47.8 million in December 2012 and remained relatively flat until September 2013, when participation began to drop.
- Average monthly participation dropped to about 45.8 million in FY15. In addition, Average monthly participation is expected to fall to 44.5 million in FY17, a decline of over 3 million since 2012.
- Program spending in FY15 dropped compared to FY14, because of the decline in participation.
- The FY17 PB estimate for FY17 benefit costs is about \$1 billion lower than projected in the FY16 Mid-Session Review. Average participation in FY17 is projected to be nearly the same as projected in MSR. This lower cost is mainly the result of smaller projected price increases in the cost of the Thrifty Food Plan.

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INCOME SECURITY

Income Security

Question: After supporting higher funding for LIHEAP last year, why does the Administration again propose to cut LIHEAP?

Key Point: With the constrained discretionary caps, the Administration made difficult choices, and the decision to reduce LIHEAP discretionary funding was one of them. The Administration has always believed LIHEAP provides critical energy assistance to low-income households and we look forward to working with Congress to ensure available funds are targeted to the neediest households.

Talking Points

- The Administration continues to believe LIHEAP provides critical energy assistance to low-income households.
- The LIHEAP discretionary request represents a difficult decision in a challenging environment for the discretionary budget. The Budget proposes \$3.0 billion in discretionary funding for LIHEAP.
- This Administration has also made historic strides in the last 7 years toward improving residential energy efficiency and will continue companion efforts to improve energy efficiency and reduce costs.
- The Budget also proposes modest reforms to better serve low-income households facing energy crisis:
 - *Contingency Fund:* While energy prices this winter are currently low, the Administration recognizes many factors will continue to affect LIHEAP demand next year, and in the future. The Budget proposes a new \$1 billion contingency fund to help address unexpected demands on the program. Specifically the Fund will help states serve low-income households by automatically providing additional funding when there are significant changes in the number of low-income households, fuel prices, or extreme cold at the beginning of winter.
 - *Energy Efficiency:* To better address both the short and long-term needs of low-income households, the budget proposes increased emphasis on activities that improve residential energy efficiency -- such as weatherization and fuel switching - by allowing states the flexibility to spend more of their LIHEAP allocations on these activities if they choose to do so.

(BA in Millions)	2016 Budget	2016 Enacted	2017 Budget	Change from 2016 Enacted (%+/-)	2017 Change from 2016 Enacted (%+/-)
LIHEAP DISCRETIONARY FUNDING, TOTAL	3,390	3,390	3,000	-390	-12%

(Outlays in Millions)	2017	2018	2019	2020	2021	2017-2021	2017-2026
Mandatory LIHEAP Contingency Fund	560	377	63			1,000	1,000

Background

On the Budget Request:

- *Top-Line:* The \$3.0 billion discretionary request for LIHEAP is a reduction of \$390 million (-12%) from 2016 enacted level [and the 2016 Request].
 - Due to the level of sequestration relief provided in the 2016 Budget, the Administration had flexibility to request a higher level for LIHEAP; however, under the tighter discretionary budget for 2017, LIHEAP funding was a tough choice made by the Administration to stay within the discretionary caps.
 - Enacted appropriations for LIHEAP at the beginning of the Administration increased the annual program funding level to \$4-5 billion. However, with the exception of the 2016 Budget, the Administration routinely requested lower discretionary levels due to budget constraints (2010 PB-\$3.2b, 2011-\$3.3b, 2012-\$2.6b, 2013-\$3.0b, 2014-\$3.0b, 2015-\$2.8b, 2016-\$3.4b).
 - The \$3.0 billion discretionary request remains above the average annual enacted level during any previous Administration. Total LIHEAP funding averaged \$2.2 billion per year during the G.W. Bush Administration and \$1.4 billion per year during the Clinton Administration (nominal \$).
- *Contingency Fund:* \$1 billion in additional contingency funds are requested through a mandatory trigger, which would automatically provide additional resources for LIHEAP when there are significant changes in the number of low-income households, fuel prices, or extreme cold at the beginning of winter. Note this proposal is a scaled back version of a policy previously proposed in the 2016 Budget.
- *Congressional Interest:* Members of Congress and Governors from cold weather States—especially those reliant on home-delivered fuels like heating oil (New England & Alaska) and propane (upper Midwest)—are strong and vocal advocates for LIHEAP funding. In December, 40 Senators sent a letter to the President seeking a \$4.7 billion appropriation in 2017, equal to the FY 2011 level, which was one of the highest appropriations provided for LIHEAP in the program's history. Among the strongest advocates are Senators Reed, Stabenow, Murkowski, Sanders, and Schumer and Congressmen Welch and King.

On the Program:

- LIHEAP is not an entitlement program, and only about 20 percent of eligible families are typically served by the program. It is a discretionary block grant, administered by States with significant flexibility. As such, States may determine how best to target these limited resources to individuals in the greatest need and can tighten eligibility standards.
 - 33 percent of LIHEAP recipient households include elderly residents and 19 percent include young children.
- The demand for LIHEAP is affected by both home energy costs and the number of eligible households.

- While the number of eligible households is expected to remain high in 2017, most energy costs are expected to remain relatively low.
 - The most common fuel types among LIHEAP households are natural gas (60%), electricity (19%), and heating oil (12%).
 - Current winter conditions are not a reliable predictor of next year's demand. However, average home heating expenditures this winter compared to the average over the last five years are currently projected to be lower for most households. In real terms, total expenditures are forecast to be down for natural gas (-19% to \$532), electricity (-4% to \$904), and heating oil (-48% to \$1,088) compared to a 5 year average. *[figures derived from EIA's Short Term Energy Outlook, January 2016]*

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INCOME SECURITY

Income Security

Question: Isn't the Summer EBT proposal just a way of increasing SNAP benefits in the summer months?

Talking Points

- The President's proposal to stand up a nationwide Summer Electronic Benefit Transfer for Children (Summer EBT) program would significantly reduce child hunger during the summer months when low-income children face the highest risk of food insecurity and poor nutrition.
- During the academic year, school meals help ensure consistent and adequate access to nutritious food for the nearly 22 million low-income children who receive free and reduced price school meals. However, only a fraction of these children receive free and reduced price meals when school is out of session.
- The Summer EBT proposal, which would provide supplemental food benefits on an electronic debit card that can only be used for food at SNAP retailers, would help low-income families with school-aged children fill the food budget gap in the summer.
- This proposal is an example of testing promising ideas, gathering evidence, and then using that evidence to inform effective policy going forward. Rigorous evaluations of USDA pilots of Summer EBT found that the program can significantly reduce very low food security among children as well as improve their diets. Nationwide expansion of Summer EBT would result in hundreds of thousands of children being spared from food insecurity over the next decade.

Potential Criticism: The Senate bipartisan child nutrition reauthorization expands Summer EBT but requires families to purchase a set of particular foods, as is the case in WIC, to ensure that families buy healthy foods. Why didn't your proposal adopt that approach?

The Administration is supportive of the bipartisan child nutrition reauthorization bill working its way through the Senate, which includes many important provisions that will ensure that children receive healthy meals at school. And we support the expansion of Summer EBT included in the Bill. Both models have strengths and strong evaluation results; we chose the model that builds off of the SNAP infrastructure and that, evaluations indicate, results in higher participation, as well as potentially lower administrative costs.

(Outlays in Millions)	2017	2018	2019	2020	2021	2017-2021	2017-2026
Summer EBT	127	214	326	462	625	1,754	12,170

Background

Key components of the President's FY 2017 Budget proposal :

- Households with school-aged children eligible for free and reduced price meals through the National School Lunch Program (NSLP) would have access to supplemental food benefits through Summer EBT.
- Households with eligible children would receive a \$45 monthly benefit per child during the summer months, which could be redeemed for food purchases at SNAP eligible retailers. The monthly benefit would be annually adjusted for inflation going forward.
- The proposal includes \$20 million for State start up costs, to be available until expended.
- Almost one million low-income children would receive Summer EBT benefits in the summer of 2017, increasing to nearly 20 million children when all States begin offering the program by 2026.
- Summer EBT would be phased in over ten years with approximately 10 percent of States participating in 2017, a quarter of States participating by 2021, and all States participating by 2026.

Contact: Elizabeth Wolkomir: 57761

INCOME SECURITY

TANF Overview

The President's Budget proposals strengthen the TANF program to make it a better social safety net and work support program for those who truly need help. In addition, the Budget responds to the increase in the number of families living on less than \$2 per person per day by ensuring that TANF does more to address core needs of families and by establishing a new grant program to test strategies for serving families facing financial crisis.

Key proposals include:

Increased Block Grant Funding

- TANF grants to states have not increased since 1996, when the program was enacted, so the real value of the funding has declined by about one third over the last 20 years.
- The Budget's funding increase (\$8B over five years) will help offset some of the erosion in the program's value.
- The funding increase will also provide resources to states to make TANF a better work support program for families trying to escape poverty's grip.

Better targeting TANF funds

- In nearly half the States, the share of TANF funds (including state "maintenance of effort" funds") spent on basic income assistance to poor families, work programs, and child care is less than 50 percent. (The other funds are often used for worthy endeavors, but also often are shifted to areas such as child welfare where states would otherwise have to spend more state funds. But, the fundamental issue is that there is far too little funding for basic assistance and employment services.)
- The Budget would require states to spend 55% of their TANF funds in FY 2017 on "core services" – which the Budget defines as cash assistance, child care, and work activities. This percentage would rise over time as TANF funding increases and would reach 60% in FY 2021.
- The Budget also would limit all TANF spending to supporting individuals and families below 200% of the federal poverty line.

Creating a renewed focus on reducing child poverty

- While TANF caseloads have declined by 64% since 1996, this should not serve as an indicator for decreased need. Currently, just 32 percent of families that meet state eligibility requirements for TANF (such as income and asset rules) actually receive income assistance.
- The budget would add a new purpose to TANF to reduce child poverty.

Putting forward the framework for renewed focus on employment outcomes

- The Budget does not put forward detailed proposals for changes to the "work participation requirements" – the requirements states must meet for engaging TANF recipients in work requirements.
- Instead it puts forward the basic framework for reform: the Budget calls for providing States with more flexibility to design effective work programs in exchange for holding States accountable for the outcome that really matters—helping parents find jobs.
- This is consistent with the direction the Ways and Means discussion draft was heading – more flexibility in employment programs and a greater emphasis on outcomes.

Establishing a new Counter-Cyclical Mechanism called the TANF Economic Response Fund

- The current contingency fund does not serve as a meaningful countercyclical mechanism for TANF, because it is unnecessarily complicated and inappropriately targeted.
- The Budget would establish the TANF Economic Response Fund, modelled after the successful TANF Emergency Fund under ARRA, to provide states additional resources during economic downturns. It includes an effective trigger mechanism, based on the unemployment rate, to provide targeted funding to meet the increased demands for cash assistance, subsidized employment, and short-term emergency aid during recessions.

Repurposing Contingency Fund dollars

- The Budget builds on a prior proposal to redirect funds currently in the poorly designed contingency fund. The proposal would shift these funds to finance two important innovative approaches to reducing poverty and promoting self-sufficiency: subsidized jobs programs, and two- generation initiatives that seek to improve employment outcomes of parents and the developmental and educational outcomes of children.

Creating the Emergency Aid and Service Connection Grant pilot program

- The rise in children living in deep poverty is at least in part due to the declining role of TANF as a safety net. We have seen a large decline in the TANF-to-poverty ratio since TANF's inception: in 1996, for every 100 families in poverty, 68 received TANF assistance; by 2014, that number had dropped to just 23.
- In 2011, roughly 1.5 million households with about 3 million children had cash income of less than \$2 per person per day.
- Separate from the TANF program, the Budget proposes \$2 billion in Emergency Aid and Service Connection Grants to test and scale innovative State and local approaches to aid families facing financial crisis, including families on the brink because of a temporary illness or a broken down car, and families that have already reached bottom.
- The funding will connect those who need longer term assistance to it, such as income assistance/TANF, SNAP, job training, child care, and mental health and substance abuse treatment.

Possible Sensitive Areas

The failure to continue increased funding in second half of ten-year window is just a "budget gimmick."

- We put forward a vision for what a five year reauthorization of TANF should include. A future Congress will need to evaluate how the new provisions work over that period and how states have used the resources provided over the next five years.

The Budget fails to put forward a full TANF reauthorization proposal, which would include details related to work requirements and outcome goals.

- This Administration has laid out the basic principles of a five year TANF reauthorization plan, and we look forward to working with lawmakers to strengthen the program's effectiveness in accomplishing its goals.
- We believe the law should be revised to establish a stronger accountability framework for states, in which they are held accountable for improved performance in helping families get jobs, sustain employment, and make progress in the labor force.
- Congress also should provide states with increased flexibility to develop individualized

approaches to work with families with the most serious barriers to employment, and to effectively coordinate TANF with other state workforce efforts under WIOA.

- We think this is an area where bipartisan agreement should be possible, particularly since governors of both parties have called for greater flexibility and the goal of helping people get jobs is a broadly shared value.

The proposals to require a certain level of funds be spent on so-called core services undermine states' discretion to develop poverty programs that best address the challenges they face.

- We were driven by data and evidence here. It is clear that we have too many very poor families who are not getting help from TANF, the program that is designed to help such families make ends meet in the near term and move forward toward employment.
- When less than a third of families eligible for the program get help and 3 million children are living on less than \$2 per person per day in cash income, it is time to consider changes.
- The reforms we've put forward in the Budget would allow states broad flexibility to design their income support, employment and child care programs but it would ensure that more resources are directed toward the families and children most in need, for activities that help them meet their most basic needs and move toward self-sufficiency.

The Budget proposes a new countercyclical fund, while repurposing the dollars for the Contingency Fund currently in place.

- The current TANF Contingency Fund's structure does not effectively assist states during periods of economic downturns; therefore, the Budget proposal addresses these issues through a more effective trigger and better targeting of funds.
- We continue to propose to repurpose the current contingency fund dollars in order to fund to a subsidized employment initiative and two-generation demos, which are two innovative approaches seeking to reduce poverty and promote self-sufficiency.

Services funded by the new Emergency Aid and Service Connection Grant pilot program are duplicative since states are already able to provide these services with their existing TANF block grants.

- While the TANF rules allow for these services, there is evidence that needs aren't being met. We also want to invest in building the evidence base for learning how to best meet the diverse needs of families facing financial crises. This fund will both direct new resources toward this difficult issue and allow us to test at a robust scale innovating solutions that will inform future policy and program decisions at the local, State, and Federal levels.

SOCIAL SECURITY

Social Security

Question: Does Social Security contribute to the deficit?

Key Point: Social Security is not a primary driver of our near-term deficits or our long-term debt, and the Social Security system does not face an immediate crisis. We do need to shore up Social Security financing over the longer term.

Talking Points

- Social Security is not the primary driver of near-term deficits. The President's Budget does address the primary drivers, which continue to be health care cost growth and inadequate revenues to meet the needs of the 21st century. Most importantly, the Budget puts the debt as a share of GDP on a sustainable path.
- The combined trust funds have sufficient income and assets to pay full benefits until 2034.
- The Bipartisan Budget Act (BBA) of 2015 ensured that the Social Security Disability Insurance Program could provide full benefits to workers with serious disabilities and their families; without Congressional action SSDI would have run short of money in December 2016.
- The BBA reallocated payroll tax revenue so that the DI program could pay full benefits through 2022. Reallocating the payroll tax does not change the overall health of the Trust Fund and was accompanied by a package of reforms to strengthen DI and close a loophole in retirement.
- ***The reallocation does not hurt seniors:***
 - It is important to remember that workers pay one Social Security tax and are protected by the entire system. Workers covered by the disability program are also covered by the retirement program – they are the same workers.
 - The 55 year old who becomes disabled and needs disability benefits, also needs the retirement program when she hits her normal retirement age. This occurs because DI beneficiaries are converted to retirement benefits at their normal retirement age, a seamless change to them.
- The most recent Trustees Report projects permanent cash flow deficits, meaning that Social Security program spending is exceeding tax income. However, the Trust Funds also draw interest income from securities held in the Treasury, which is paid out of the general fund of the Treasury. A cash flow deficit is not alarming or unexpected, in fact it was anticipated when Congress enacted and President Reagan signed the legislation based the recommendations of the Greenspan Commission in 1983. The recommendation was based on demographic trends, which meant that it was prudent to build reserves while the large baby boom generation was working, and then use those reserves when the baby boom retires.
- Our problem is not that we will soon spend more than we take in within the Social Security system, but that the reserves are projected to become depleted in 2034 and at that point the income coming into the program from tax revenues will not be enough to pay full benefits. We need to address that longer term issue, to get to a place where the program can continue

to pay benefits without hitting a cliff because reserves have run out and the program's income is not sufficient to pay full benefits.

- We are willing to work with Congress on this longer term issue, but we think that discussion needs to be guided by some basic principles.
- The President has laid out six principles for strengthening Social Security that should be the basis for any bipartisan reform:
 - Any reform should strengthen Social Security for future generations and restore long-term solvency.
 - The Administration will oppose any measures that privatize or weaken the Social Security system.
 - While all measures to strengthen solvency should be on the table, the Administration will not accept an approach that slashes benefits for future generations.
 - Current beneficiaries should **not** see their basic benefits reduced.
 - Reform should strengthen retirement security for the most vulnerable, including low-income seniors.
 - Reform should maintain robust disability and survivors' benefits.

Background

Key Combined Trust Fund Dates

Trustees Report Assumptions

- First year cost exceeds income including interest 2020

Budget Assumptions

- First year cost exceeds income including interest 2017

The Bipartisan Budget Act (BBA) of 2015 enabled reallocation of payroll tax revenue:

- For earnings in calendar years 2016 through 2018, increase from 1.80 percent to 2.37 percent the portion of the total 12.40 percent OASDI payroll tax that is directed to the DI Trust Fund. This reallocation of the payroll tax rates is projected to change the date for DI reserve depletion from the fourth quarter of 2016 to approximately the third quarter of 2022.

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EDUCATION

Question: Education Overview

Overall Funding: The Budget provides \$69.4 billion in discretionary funding for Department of Education programs, an increase of \$1.3 billion over the 2016 enacted level, adjusted to remove preschool funding that will be in HHS in 2017. It also provides \$139.7 billion over 10 years in new mandatory funding for initiatives such as America's College Promise and Computer Science for All.

Themes: The Department of Education budget invests in three key areas:

- Ensuring equity in educational opportunity for all of our K-12 students, including low-income students, students with disabilities, and English language learners;
- Developing and supporting teachers throughout their careers;
- Making college accessible and affordable, and ensuring students complete their degrees.

Key Investments:

Support for ESSA Implementation: The Every Student Succeeds Act embraces many reforms the Administration has long supported. The Budget provides \$24.4 billion to support implementation of the ESSA and related programs, with a strong focus on improving equity and supporting our teachers. This includes \$15.4 billion for Title I, a \$450 million increase, funding for the newly authorized Student Support and Academic Enrichment block grant, and increased investment in preK-12 innovation, Promise Neighborhoods, and high quality state assessments consistent with the President's Testing Action Plan.

Supporting Teachers: The Budget provides nearly \$2.8 billion in discretionary funding for programs providing support for teachers and principals at every phase of their careers, including \$250 million for the Teacher and School Leader Incentive Program to support innovative strategies for developing, evaluating, and retaining excellent educators and a new \$100 million for Supporting Effective Educator Development to fund evidence-based professional development and alternative pathways into education careers. The Budget also includes \$1 billion in mandatory funding for RESPECT: Best Job in the World to help high-need schools attract and retain effective teachers.

Expanding Access, Affordability, and Completion in Higher Education: The Budget builds on the Administration's efforts to make college more affordable and accessible while putting forward important new initiatives to promote college completion by:

- Making two years of free community college free for responsible students through \$61 billion in mandatory funding over the next decade for America's College Promise (ACP).
- Expanding Pell Grants by:
 - Increasing the Pell maximum award for low-income students who take enough credits per semester to stay on track to graduate on-time;

- Supporting year-round Pell Grant eligibility, which provides an extra semester of Pell Grants to full-time students; and
- Indexing Pell Grants to inflation indefinitely beyond 2017.
- Supporting the development and adoption of evidence-based strategies to increase student success through the \$100 million First in the World program and the \$30 million HBCU/MSI Innovation for Completion Fund.
- Improving income-based repayment by creating a single, simple, and better targeted plan for all borrowers.

Sensitive Areas:

- **Potential ESSA Vulnerabilities:** ESSA passed in mid-December and we worked hard to align the 2017 Budget to the new law to ensure our resources support effective implementation of the law and student success. Nonetheless, authorizers may focus on areas where the Budget departs from the new law: specifically:
 - The Budget funds the new block grant at less than 1/3 of the authorization level (\$500m as opposed to \$1.6 billion) --but at nearly double the amount of the consolidated programs.
 - The Budget provides specific funding levels for a handful of programs for which ESSA authorizes funds as a percent of a total. We believe the approach in the Budget allows for clearer prioritization of programs and closer alignment with how appropriators are likely to fund them.
- **Potential Postsecondary Education Vulnerabilities:**
 - The Budget expands Pell grants to support students who take extra steps to complete on time. These expansions are paid for using the Pell surplus, which, absent these new reforms, is so large, there would not be a shortfall until 2025. Advocates may complain that the surplus should be preserved and NEW funds should pay for the expansions. The Administration believes that proposing more expansive Pell policies is the best way to keep “Pell funds for Pell students.”
 - Second Chance Pell, a proposal to restore Pell eligibility for incarcerated individuals, is based on a pilot program announced by ED that has already received a fair amount of scrutiny from Republicans on the Hill. Congressmen, including Rep. Kline, have already introduced the mean-spirited “Kids Before Cons Act” to bar ED from implementing this pilot. This Budget proposal is likely to receive similar opposition.
 - The Budget proposes to reform the multiple existing income-based repayment plans to create a single, better targeted plan. The targeting reforms are estimated to save \$48.9 billion over 10 years. These savings result from ensuring that those who truly have the resource to repay their loans do – including married couples who would no longer be able to shelter income by filing separately; borrowers who experience significant income increases that are protected by payment caps in the current plans resulting in actual payments far less than 10% of income; and those who borrow large sums for graduate school and do not realize their full

earnings potential well into their repayment period but who would be able to afford significant loan repayment with five more years of payments required.

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EDUCATION

Education

Question: College debt is ruining the lives of many Americans. What are you doing about it?

Key Point: From the start of the Administration, the President has focused on making college more accessible and affordable for all Americans. We've accomplished a lot: direct student loans, more than a \$1,000 increase in Pell Grants, expansion of income-based repayment, and up to \$10,000 in tax credits are making college more affordable now, which has helped our Nation ensure more students are graduating college than ever before. The 2017 Budget goes even further, supporting two years of free community college, ensuring Pell keeps up with inflation, and supporting year-round Pell Grant eligibility.

Talking Points

The 2017 Budget:

- **Provides two free years of community college. America's College Promise (ACP)**, which provides \$60.8 billion in mandatory funding over the next decade would make two years of community college free for responsible students and also provides grants to four-year HBCUs and MSIs to provide new low-income students up to two years of college at zero or significantly reduced tuition.
- **Expands Pell Grants** for low-income students by:
 - Supporting year-round Pell Grant eligibility, which provides an extra semester of Pell for full-time students, helping them complete their degrees faster.
 - Increasing the maximum award by \$300 for students taking at least 15 credit hours per semester in an academic year, the number of credits typically required for on-time completion. The maximum award is estimated to be \$5,935 in award year 2017/18, and will be \$6,235 for those taking at least 15 credits.
 - Increase access to postsecondary education through Second Chance Pell, which will reinstate access to Pell Grant aid for eligible incarcerated students in federal and state penal institutions.
 - Indexing Pell Grants to inflation beyond the 2017 award year with mandatory funding to protect and sustain its value for future generations.
- **Strengthens the American Opportunity Tax Credit (AOTC).** The tax bill enacted in December made the **American Opportunity Tax Credit (AOTC)** – first enacted in the Recovery Act - permanent. The current law AOTC, which is partially refundable, expands the level of support for college by providing a maximum credit of \$2,500 per year for the first four years of college up to \$10,000 per student. The Budget would streamline and further expand education tax benefits by (1) consolidating the Lifetime Learning Credit into an expanded AOTC which would, among other things, expand eligibility to five years and simplify and increase the refundable portion of the AOTC; (2) exempting Pell Grants from taxation and the AOTC calculation; and (3) eliminating tax on student loan debt forgiveness, while repealing the complicated student loan interest deduction for new borrowers.

- **Protects students and taxpayers** by requiring for-profit post-secondary institution to increase revenue from non-federal sources from 10 to 15 percent. Currently 90 percent may come from Federal sources and the Budget proposes to reduce it to 85 percent, its original percentage, and ensure that all sources of Federal support – including benefits provided to current and former members of the military and their families – are included in the calculation. The calculation measures whether or not students who are paying their own way are willing to pay for the education at an institution, ensuring that Federal aid funds do not go to schools that cannot attract even a modest amount of private funding.

These proposals build on past successes:

- **Direct Loans.** Ended the inefficient guaranteed student loan program and reinvested the savings into making college more affordable
- **Pell.** Increased the Pell maximum award to \$5,815 in 2016/17, an increase of more than \$1,000 over 2008 (due to consistent indexing which the Administration fought for). The budget proposes to raise the maximum award for students taking at least 15 credit hours per semester in an academic year, the number of credits typically required for on-time completion. The maximum award is estimated to be \$5,935 in award year 2017/18, and will be \$6,235 for those taking at least 15 credits.
- **Income Based Repayment.** Significantly expanded the income-based repayment plans available to student loan borrowers. Through regulation, the Administration made all student borrowers eligible for an income-driven repayment plan that caps student loan payments at 10 percent of their discretionary income and forgives any remaining balance after 20 years of payments. The 2017 Budget proposes legislative reforms that would create a single, simple, and better targeted income-driven program that would ensure that program benefits are targeted to the borrowers who need help, safeguard the program for the future, and simplify borrowers' experience while reducing program complexity.

Background

Additional policies supporting improvements in higher education include:

- Rewarding colleges that successfully enroll and graduate a significant number of low-income students on time and encouraging all institutions to improve their performance through the new **College Opportunity and Graduation Bonus** program.
- Supporting implementation and rigorous evaluation of promising and evidence-based strategies that can support student success at scale through a \$100 million **First in the World** initiative.
- Fostering innovation to increase the number of low-income students completing degree programs through the \$30 million **HBCU/MSI Innovation for Completion Fund** competitive grant program.
- Supporting the development, operation, and expansion of innovative, evidence-based, tuition-free job training programs in high-demand fields such as healthcare, manufacturing and IT through a new \$75 million CTE Innovation Fund to create the **American Technical Training Fund**, which will be jointly administered by ED and the Department of Labor (DOL).

EDUCATION

Education

Question: Don't we make a lot of money on student loans and doesn't your Budget mean that we will just make more? (address Warren critique and why the PAYE reform estimates have increased so much since last year's Budget)

Key Point: The Administration is committed to ensuring that all students and their families have access to postsecondary education. Part of that effort is providing loans at interest rates well below what they would be in the private market to students and ensuring that, in particular, students from low and moderate income families can get educational loans, something that they may not be able to do at all in the private market. In addition, the Administration has ensured that student loan borrowers have access to repayment plans, particularly income-based plans, to keep their loan payments manageable. The FY 2017 Budget would create a single, easy to understand income based repayment plan going forward and ensures both that loan payments are manageable and that those who can afford to pay back their loans do so.

Talking Points

- We do not make a lot of money on student loans. Under our Budget proposals, the Federal government will only see about \$6.7 billion in savings in FY 2017 and \$35.0 billion over ten years from our overall Direct student loan portfolio. While this seems like a big number, this is on a base of nearly \$2 trillion in student loans that are estimated to be issued over the last 10 years.
- Student loans – both subsidized, unsubsidized, and PLUS loans - offer generous benefits, including fixed interest rates far below what the market would offer most students.
- *Subsidized* Stafford loans, which go primarily to students from lower and middle income families, do not save the government money. In fact, these loans have a cost. Under our Budget proposals, new subsidized loans issued in FY 2017 are projected to have a cost of about \$1.3 billion and over the next 10 years subsidized loans are projected to cost approximately \$26.4 billion. This is a good investment - these programs are essential to ensuring that all Americans, regardless of income, have access to postsecondary education – but they do carry a cost.
- Student loan interest rates are currently low and are a good deal for students. In 2013, we worked with Congress to peg student loan interest rates to the government's cost of borrowing, and placed a cap on those rates to protect borrowers from high rates in the future. This ensures that students and their families have access to the same type of lower-interest rate loans as homebuyers. Unlike a car or home loan, a student loan has no collateral and these loans are often made to students with little to no credit history – that is why they would be far more expensive on the private market
- Our Budget includes common-sense reforms to PAYE to ensure that loan payments are manageable and that those who can afford to repay their loans, do.
 - The largest savings come from limiting the standard repayment cap on monthly payments. The reform still keeps a borrower's monthly payment at no more than 10

- percent of their discretionary income, but eliminates a payment cap that allowed some higher-income borrowers to pay a much smaller percentage of their income.
- Another reform requires graduate students to continue making loan payments for 25 years rather than 20 years (if there is a remaining loan balance). Graduate students often take out large loans to attend programs such as law school or medical school. These graduates often earn healthy salaries, though sometimes it takes a number of years before their earnings reach a level that provides significant loan repayment. Requiring them to pay for 25 years, rather than 20, ensures that taxpayers – many of whom earn less than those with postgraduate degrees – are not left holding the bag for individuals who went to graduate school, are now doing well financially, and can afford to pay back their loans.
- The Budget also proposes to require loan payments to be based on the income of both the individual and his or her spouse, even if they choose to file their tax returns separately. This ensures that families who can afford to pay off more of their loans do not use their filing status to shift the cost of their loans onto taxpayers.
- Our proposal also limits public sector loan forgiveness to \$57,500, the amount that can be borrowed by undergraduate borrowers. For those who go to graduate school and have higher loan balances, they continue to benefit from both \$57,500 in loan forgiveness and the PAYE provisions that ensure their loan payments are manageable. These borrowers may have some student loans after a decade, but the balance will be significantly reduced. This reform will help tamp down on a practice of some graduate schools to increase their tuition for certain professional programs and sell those higher costs to students on the basis of promised public sector loan forgiveness in the future. That leaves taxpayers paying too much.
- The estimates of these savings have increased based on newer information about the loan portfolio and participation in income based repayment plans.
- These reforms are one part of a larger set of higher education investments. In 2017, the Administration will spend more than \$20 billion more a year in Pell and college tax credits than in 2008. And the savings from reforming PAYE are smaller than the nearly \$100 billion the Budget invests in college affordability through proposals for free community college and continuing to index Pell each year (currently indexing is scheduled to end in 2017).

Background

- In recent years, the projected net "savings" from the student loan portfolio has been reduced significantly in large measure because of a series of policy changes that have made student loans more affordable to students, changes in the student borrower population, greater take-up of income-based repayment plans, and newly revised cost estimates of the income-based repayment plans due to the Department of Education's updated cost estimation model based on better data on borrowers' income and borrowers' debt.
- Without our reforms, the **cost** of the student loan portfolio is **+\$12.1 billion** over 10 years. With our overall student loan proposals which save approximately **-\$47.1 billion** (including the reforms to the teacher loan programs), the **savings** will be **-\$35 billion** over 10 years. **[Note: At this point we do not think it is helpful to make clear that but for our PAYE reforms the student loan portfolio would be a net coster, but we should discuss this issue further.]**

- Our IBR reform proposal was estimated to save -\$14.6 billion over ten years in the FY 2016 Budget. In the FY 2017 Budget the savings are significantly higher at -\$49.3 billion over 10 years. Since the reforms primarily affect high-income and high-debt borrowers, ED's new information about the debt and income levels of these borrowers result in the reforms saving significantly more than last year.
- Last year, a Politico reporter questioned the student loan re-estimate (and associated interest) in the Budget (\$12.3 billion) and the modification cost of \$9.3 billion. The re-estimate resulted from increased costs due to the makeup of borrowers and changes in borrower behavior and the modification cost resulted from the President's plan to expand income-based repayment options for all student borrowers. This year's figure is considerably lower (\$7.7 billion) and there is no modification cost.
- Student loan interest rates and protections
 - Stafford Subsidized and Unsubsidized loans to undergraduates: 10-year Treasury rate + 2.05 percent, cap of 8.25 percent (4.29 percent in 2015-2016 award year)
 - Stafford Unsubsidized loans to graduate students: 10-year Treasury rate + 3.6 percent, cap of 9.5 percent (5.84 percent)
 - PLUS loans to parents and graduate students: 10-year Treasury rate + 4.6 percent, cap of 10.5 percent (6.84 percent)
 - Federal student loans also have many protections that private loans (student or other types) do not. All student borrowers have access to income-based repayment plans that cap their payments at 10 percent of their discretionary income and limit repayment to 20 years of payments. These terms do not apply to parent borrowers but all borrowers (student and parent) have access to delayed payments in times of economic distress.

Contact: Victoria Allred: 5-3495

EDUCATION

Education

Question: Can we really afford to expand the Pell program?

Key Point: The economy has significantly improved since 2011, when the number of Pell recipients peaked. During the Great Recession and its aftermath, many Americans returned to school to improve their job prospects. As the economy rebounded and workers had more job opportunities, the number of recipients has declined, though college attendance remains significantly higher than in 2008. This is good news – during recessions workers who can't find jobs should try to gain new skills that will put them in a better position as the economy recovers.

As a result of these trends, program costs have declined and the financial picture for the program has similarly improved. Level-funding for Pell in 2017, when combined with significant carry forward funding and other previously authorized mandatory funding, will provide more funds than are needed to fully fund the program in 2017-18. Given the program's positive funding outlook, the Budget proposes to expand and strengthen the Pell Grant program through new efforts that will promote college access and completion.

Talking Points

- From the start of the Great Recession through 2011, the number of students receiving Pell Grants increased by 3.8 million, resulting in a significant rise in Pell program costs.
- Since this peak, the economy improved significantly, the number of Pell recipients has slowly decreased, and program costs that were once growing have declined.
- The Budget provides \$22.5 billion in discretionary budget authority in 2017, the same level as 2016.
- Under current law, this funding level combined with other available resources, provides \$8.5 billion more than is needed to fully fund the program in the 2017-18 award year.
- Given the program's positive funding outlook, rather than cutting investments to college students, the Budget proposes to expand and strengthen the Pell Grant program through new efforts that will promote college access and completion, including:
 - Supporting year-round Pell Grant eligibility, which provides an extra semester of Pell for full-time students, helping them complete their degrees faster.
 - Increasing the maximum award by \$300 for students taking at least 15 credit hours per semester in an academic year, the number of credits typically required for on-time completion. The maximum award is estimated to be \$5,935 in award year 2017/18, and will be \$6,235 for those taking at least 15 credits
 - Reinstating Pell Grant eligibility for incarcerated individuals, allowing more Americans to access a quality postsecondary education.
- Even with these critical new investments, Congress would not need to increase discretionary Pell funding until 2021, at which point discretionary Pell funding would have been frozen for 6 years. (Discretionary Pell has been frozen while the mandatory Pell funding stream has financed the cost of indexing Pell.)

- In 2021 and beyond, the additional funding needed to support these important Pell reforms are modest and well worth the investment. Ultimately, there is no reason why Pell discretionary program funding should be assumed to be frozen in perpetuity. It is entirely reasonable for additional discretionary resources to be devoted to this important priority over time.

Background

Sensitive Issues

Using Pell carry-forward BA

Advocates may complain that the carry-forward BA (which has been called the "surplus," but we would like to stop using that term) should be preserved for future years and NEW funds should pay for the expansions. In the absence of these policy expansions, these carryover funds would run out in 2025. It is very hard to believe that Congress would not repurpose those funds for other priorities in the interim. The Administration believes that proposing more expansive Pell policies is the best way to keep "Pell funds for Pell students."

Second Chance Pell

Second Chance Pell, a proposal to restore Pell eligibility for incarcerated individuals, is based on a pilot program announced by ED that has already received a fair amount of scrutiny from Republicans on the Hill. Congressmen, including Rep. Kline, have already introduced the mean-spirited "Kids Before Cons Act" to bar ED from implementing this pilot. This Budget proposal is likely to receive similar opposition.

The proposal also could be criticized for going forward before the demonstration project has produced evidence of effectiveness. Our best answer to this is that we have strong evidence already that higher education during incarceration helps adults get jobs and reduce recidivism. Given how many people are now incarcerated and the urgency of improving their prospects upon release, we think this modest investment now is sound.

Additional Program Background

- Under current law, Congress will be able to keep discretionary Pell funding frozen until 2025, because the carry-over BA coupled with flat funding and other resources will be enough to support the current Pell program, even with projected increases in enrollment. Over 10 years, we now project that Congress will only need to appropriate \$4.1 billion more than would be provided under a flat appropriation over the next decade, \$25.6 billion less than the 10-year forecast from the 2016 Budget.
- These estimates have changed significantly from year to year, which illustrates remaining uncertainty about the amount of the Pell funding that will be needed, and the year in which Congress will need to increase its discretionary appropriation.
- Together, the 2017 Budget's student aid reforms increase future discretionary Pell program costs by \$22.1 billion over 10 years. However, even with these increases, Congress will not need to increase its Pell appropriation until 2021.

- The Pell Grant program acts like an entitlement program in which everyone who meets specific eligibility requirements and applies for the program receives a benefit.
- Pell Grant costs in a given year are determined by the maximum award set in statute, the number of eligible applicants, and the award for which those applicants are eligible based on their needs and costs of attendance. The maximum Pell award for the academic year 2016-2017 is \$5,815 and estimated to be \$5,935 in 2017-18 (\$6,235 for those taking 15+ credits under our proposal) of which \$4,860 was established in the annual appropriations act and the remaining is provided through the mandatory funds that index to inflation through the 2017-18 award year.

A note on terminology: Prior to this year, we have termed the need for Congress to increase its base discretionary appropriation as the "Pell shortfall." We are trying to change that language, because there is no reason why discretionary Pell funding should decline in real value in perpetuity, particularly given both projected future increases in enrollment and the need to do more to make college accessible and affordable for low and middle income students. So, as we did in the SSDI context where we worked hard to talk about "reserve depletion" and not "insolvency," we are purposely not using the term "Pell shortfall." It is not unusual or inappropriate for Congress to take action that would require increase resources in the future to maintain.

Contact: Philip Tizzani: 5-3589

Department of Labor (DOL) 2017 Budget Overview

The Budget provides \$12.8 billion in discretionary funding, coupled with targeted mandatory investments, to allow the Department of Labor (DOL) to train and prepare workers to reach their full potential in our growing economy; support working families; protect workers' wages, health, and retirement; and update the agency's operations to meet the needs of today's economy.

Training and Preparing Workers. *The Budget supports investments that train workers with the skills employers need, expand proven models, reconnect youth and unemployed workers with jobs, and empower workers with the information necessary to make smart career choices.*

- Funds the core Workforce Innovation and Opportunity Act formula grants at their full authorized level for the first time ever— a \$138 million (5 percent) increase over 2016.
- Provides \$3 billion in mandatory funding to support regional partnerships between employers, the workforce system, and community colleges to train half a million people and place them into jobs in high-growth sectors.
- Invests in apprenticeship, preserving the \$90M Apprenticeship Grants provided for the first time in the 2016 Omnibus, in addition to \$2 billion in mandatory funding to expand apprenticeships, allowing more workers to participate in this proven model.
- Provides help for unemployed workers. The Budget provides \$1.5 billion in mandatory funding for Career Navigators who will reach out to all long-term unemployed workers, those who have dropped out of the labor force, and people who are only able to find part-time work. These Navigators will help workers look for a job, find training, and access supportive services. The Budget also provides in-person reemployment services to the one-third of Unemployment Insurance (UI) beneficiaries most at risk of exhausting their benefits, as well as all returning veterans who are receiving UI.
- Engages youth in paid work opportunities with a \$5.5 billion mandatory investment called Opening Doors for Youth. This includes: \$1.5 billion for summer job opportunities, \$2 billion for year-round first job opportunities for 150,000 Opportunity Youth (out-of-school, out-of-work youth), and \$2 billion to initiate a competitive grant program for municipalities to get disconnected youth back on a path to education and jobs.
- Investments in workforce data systems and tools. The Budget includes discretionary and mandatory investments designed to build State and local capacity to track WIOA program outcomes and develop new tools and products to improve the quality of information job-seekers and workers have when they are making decisions about which training program or career to choose.

Making the 21st Century Economy Work for Workers. *The Budget updates key worker benefit structures to ensure that workers in the modern economy can balance work and family obligations, save for retirement, and are protected during temporary periods of unemployment.*

- The Budget encourages States to establish paid leave programs, providing over \$2 billion (mandatory) for a Paid Leave Partnership Initiative to help as many as five States launch paid leave programs and small grants to help States and localities plan to do so in the future.
- The Budget proposes a cost-neutral suite of reforms to strengthen and modernize the Unemployment Insurance (UI) program. These reforms would expand UI coverage, improve the program's

connection to work, provide wage insurance to help workers who take lower paying jobs after they are laid off, make the system more responsive to economic downturns, and put the program on stronger financial footing.

- The Budget includes a package of proposals aimed at increasing access to retirement plans and increasing the portability of retirement savings and benefits. These proposals aim to ensure near-universal access to workplace retirement savings accounts and to test what works to make retirement benefits more portable across jobs.

Protecting Workers' Wages, Workplace Safety and Retirement Security. *The Budget strengthens worker protection laws and their enforcement, so workers can earn wages that will allow them to sustain their families, be protected from discrimination, return home safely at the end of a day's work, and retire with dignity.*

- Includes nearly \$1.9 billion (discretionary) for DOL's worker protection agencies, which enforce laws that protect workers' wages, benefits, health, safety, and retirement. This includes almost \$1 billion to protect workers from health and safety hazards on the job, and nearly \$277 million to enforce laws that establish the minimum standards for wages and working conditions.
- Continues to call on Congress to raise the minimum wage.
- Strengthens the Pension Benefit Guaranty Corporation's solvency so it can continue to protect workers' defined benefit pensions.

Modernizing DOL's programs. *The Budget includes resources to modernize the Department's aging IT infrastructure and give DOL the tools it needs to provide better service to the American public.*

Possible Vulnerable Areas:

Creating new training programs when there are already too many and they don't work.

- We are investing in approaches like reemployment services and apprenticeship that we know work well, and making sure training programs are designed to lead to a good job by, for example, partnering with employers to design them. This builds on the work we've done to ensure that all programs are following key principles of job driven training, including training workers for jobs that are in demand.
- We still face a lopsided recovery—still 2.1 million long-term unemployed, and a youth unemployment rate of 16.1 percent—23.7 percent among African-American youth¹—that demands attention.

DOL's "worker protection" efforts will hurt business.

- The Administration does not believe protecting workers or paying them a family-supporting wage is incompatible with the bottom line. Workers are also consumers who themselves contribute to the economy.
- DOL's worker protection agencies enforce laws but also provide assistance to help employers comply with them. For example, the Budget includes over \$143 million for OSHA compliance assistance, including free on-site consultation for small employers.
- Employers cannot succeed without a stable and healthy workforce.

¹ As of the January Employment Situation Summary (<http://www.bls.gov/news.release/empsit.nr0.htm>)

LABOR

Paid Leave

Question: What does the Budget do to expand access to paid leave? Won't these proposals add to the cost of employing workers, killing jobs?

Key Point: The Budget includes \$2.2 billion in mandatory funds to help States plan for and establish paid leave for their workers, making it easier for them to balance the needs of their families and jobs. Policies that better support working families can meet the needs of both employers and employees alike and strengthen America's workforce.

Talking Points

- The Budget would establish a \$2.2 billion mandatory program that would pay for up to half of the benefits and all of the startup costs associated with creating a paid leave program in up to 5 states, and expands discretionary funding for to help States and localities conduct analysis to inform the development of paid leave programs.
- A body of research shows that offering paid leave can benefit employers by improving their ability to recruit and retain talent, lowering costly worker turnover and minimizing loss of firm-specific skills and human capital, as well as boosting morale and increasing productivity (CEA, 2014).
- The experience of States that have implemented paid leave programs is also informative:
 - After Connecticut implemented a paid sick leave program, a survey found that two-thirds of employers reported little to no increase in cost (47 percent reported no increased cost; 19 percent reported additional costs of less than 2 percent). (Appelbaum, 2014).
 - A survey of 253 employers affected by California's paid family leave initiative found that over 90 percent reported no noticeable or a positive effect on profitability, turnover, and morale (Drago and Miller, 2010).
- The Budget also provides \$2 million in discretionary funding for small grants to States and localities to help them analyze how paid leave policies could be structured in their communities. These grants have helped jurisdictions such as Montana and Massachusetts develop concrete options for paid leave policies.
- The Budget does not include the \$35 million in discretionary funds we proposed in FY 2016 for a smaller paid leave initiative that would have helped a small number of states with research, planning, and the administrative costs of establishing a paid leave program due to tight discretionary funding limits.

(Outlays in Millions)	2017	2018	2019	2020	2021	2017-2021	2017-2026
Paid Leave Partnership Initiative	221	664	664	664		2,213	2,213

Background

- The United States is currently the only developed country that does not guarantee paid maternity leave. Overall, 185 out of the 193 countries for which data is available guarantee paid maternal leave.

- The United States and the Republic of Korea are the only developed countries that do not guarantee paid sick leave, but Korea requires that employers provide substantial paid annual leave which can be used for non-work related illnesses.

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LABOR

Unemployment Insurance

Question: Unemployment Insurance Reforms overview

Key Point: The Budget proposes a paid-for package of reforms to strengthen and modernize the Unemployment Insurance (UI) program. These reforms would expand UI coverage, improve the program's connection to work, provide wage insurance to help workers who take lower paying jobs after they are laid off, make the system more responsive to economic downturns, and put the program on stronger financial footing.

Talking Points

- The Administration's UI reform package is intended to create a modern, well-funded UI system that better serves the diverse set of workers in today's economy and gives more unemployed workers the income support and services they need to support their families and find new jobs.
- These reforms would also improve UI's effectiveness as an economic stabilizer. Economists have estimated that every dollar in unemployment benefits generates \$2 in economic activity during a downturn.

Possible criticism: this is just a big tax increase.

- Much of the revenue supporting this proposal comes from on-budget State tax increases caused, in large part, by an increase in the taxable wage base from \$7,000 to \$40,000, which States must match. Under the Administration's proposal States are free to lower their tax rates to offset this increase, and we anticipate that States would initially offset approximately 90 percent of the wage base increase.
- However, we assume that over time, States would use their higher wage bases to build up necessary reserves to weather subsequent economic downturns, which we think is a prudent approach. During the Great Recession, most States had to borrow from the Federal Government to cover their benefit costs, which resulted in higher employer taxes at a time when employers--and the economy--could least afford them.
- The Budget also encourages solvency by temporarily increasing UI taxes in states with insufficient reserves to cover at least 1/2 of a year of benefits in an average recession. UI benefits are a critical benefit for workers and States need solvent systems or the federal government is forced to finance benefits during a downturn.

Possible criticism: you're worried about solvency but are expanding benefits.

- We reject the premise that the goals of solvency and a robust safety net are incompatible. Our proposal accomplishes both.
- In some cases we are requiring coverage expansions (e.g., to include individuals seeking part-time work, low-wage and intermittent workers, and people who have voluntarily quit the workforce for compelling family reasons like domestic violence). These expansions

modernize the UI system to ensure that today's workforce has access to this critical worker benefit. A UI system that doesn't cover unemployed workers should not be acceptable.

- The proposal also mandates a minimum 26 weeks of benefits. We see this as returning to the historical norm. In recent years, nine states have reduced the duration of benefits below this level, making it more difficult for workers to pay their bills while they look for a new job.
- In other cases we are giving states incentives to adopt eligibility expansions, like allowing additional UI receipt for individuals who are out of work and in training.
- Our reforms also are designed to reduce UI costs by doing a better job at helping unemployed workers get back to work. To receive an incentive payment, states must also adopt measures that connect claimants with work and training, with the goal of ensuring that claimants are able to get off UI and into good jobs as quickly as possible. Evidence has shown that providing reemployment services to UI claimants gets those claimants off benefits and back on the job more quickly, saving UI costs.
- But, we cannot have a workable UI system for today's workforce if that system is not financially stable and that is why we are pairing these coverage improvements with solvency measures. And we are doing it now while the economy is strong so that States are prepared for future recessions.

Possible criticism: your wage insurance proposal would just encourage UI claimants to take bad jobs more quickly.

- Wage insurance provides up to \$10,000 over two years for workers who get a new job that pays less than their previous job, at least initially, and less than \$50,000 per year.
- The program recognizes that many displaced workers must start over in a new position. It is designed to encourage these workers to get back to work and begin building up new skills that will ultimately lead to higher pay.

Background

The 2017 Budget's UI Reform package:

- **UI Modernization:** Improves UI coverage and encourages states to increase their UI programs' connection to work.
 - Requires states to adopt an alternative base period (which accounts for recent earnings), cover individuals looking only for part-time work, and cover individuals who leave their jobs for compelling family reasons. Also requires states to offer 26 weeks of benefits, the historic norm.
 - Provides incentive payments for states that adopt one additional measure to expand UI coverage and adopt two measures to provide work-based learning opportunities and training for unemployed workers.
- **Extended Benefits Modernization:** Updates the current Extended Benefits program by providing up to 52 weeks of additional Federally-funded benefits, with the greatest number of weeks in States with higher unemployment rates.

- The current Extended Benefits program, which provides up to 20 additional weeks of benefits in States with high and rising unemployment, does not provide sufficient help during recessions because it provides too few weeks of additional benefits and its triggers are not responsive enough. As a result, Congress passes ad hoc emergency UI programs that begin too late to provide the early stimulus that could lessen the severity of a recession, particularly in states that hit a downturn first.
 - This new program would ensure that the UI system responds quickly to dampen the effects of recessions and provides critical support for unemployed workers in States where jobs are scarce.
- **UI Solvency:** Many States' UI systems are chronically underfunded and had to borrow funds from the Federal government to cover benefits during the most recent downturn. Some states are still repaying those loans. The Budget proposes to improve the system's solvency by helping States rebuild their trust fund balances to repay their loans, cover current benefits, and create reserves so they are better prepared for the next downturn.
 - The Budget accomplishes this by broadening the taxable wage base to equal average insured wages and reducing the Federal unemployment tax rate to help States shore up their trust funds while not raising Federal UI taxes. Although the taxable wage base expansion would have the effect of raising State UI taxes, States would be free to change their tax rate structures to offset this increase.
 - The Budget also encourages solvency by temporarily increasing UI taxes in states with insufficient reserves to cover at least 1/2 of a year of benefits in an average recession.
- **Wage Insurance:** The Budget creates a wage insurance program similar to what is provided for trade-affected workers to provide UI-eligible workers an additional benefit if their new job pays less than their previous job.
 - To be eligible, individuals must earn less than \$50,000 in their new job and must have had at least 3 years of tenure in their previous job.
 - Eligible individuals will receive 50% of the difference between their new wage and their previous wage, up to \$10,000, paid over 2 years.
- **Short-Time Compensation:** The Budget encourages states to adopt short-time compensation (STC, or "work sharing") programs by reinstating federal incentives that expired at the end of 2011. Short-time compensation allows employers to avoid layoffs by temporarily reducing hours when their need for labor falls and providing employees with a partial UI benefit to help compensate for their lower wages. 28 states have STC laws, and 26 of those states are currently operating STC programs. The Budget proposes to:
 - Provide implementation grants and cover up to 3 years of STC benefits for states that adopt new program.
 - Create a 50-50 federal cost share for STC benefits when states are triggered onto Extended Benefits.
 - Allow states to lower employer taxes for the portion of benefits paid by the federal government.

Contact: Michael Branson: 5-6824

2017 UI Package Scoring

Proposal	10-year cost
1) Reinstate and Make 0.2% UI Surtax Permanent	-16,402
2) Expand FUTA Base and Modify FUTA Credit Reduction Rules	-46,294
3) Extended Benefits Modernization	36,652
4) UI Modernization	14,112
5) Wage Insurance Program	11,183
6) Short-Time Compensation	1,800
Total Cost	1,050

LABOR

Retirement

Question: Retirement proposals overview

Key Point: The Budget includes several proposals aimed at increasing access to retirement plans, improving retirement security, and increasing the portability of retirement savings and benefits. These proposals aim to ensure near-universal access to workplace retirement savings accounts and to test what works to make retirement benefits more portable across jobs.

Talking Points

- Our current system of employer-provided retirement plans leaves far too many workers behind and unprepared for retirement. Approximately half of workers employed by firms with fewer than 50 workers and fewer than one-quarter of part-time workers have access to workplace retirement plans. These workers rarely save for retirement.
- The Budget proposes a package of changes that would go a long way toward ensuring that all Americans are prepared to support themselves in retirement.

Background

The Budget includes several retirement re-proposals from previous Budgets as well as a few new proposals.

Re-proposals:

- Automatically enrolling workers without access to a workplace plan in an IRA.
 - This proposal would require employers with more than 10 employees that do not currently offer a retirement plan to automatically enroll their workers in an IRA. Other individuals not automatically enrolled could participate so long as they fall below the income cutoff, and could continue to make their own contributions even if they change jobs. Employers with 100 or fewer employees who offer an auto-IRA would receive a one-time tax credit of up to \$3,000.
- Providing tax cuts for businesses that choose to offer more generous employer plans or switch to auto-enrollment.
 - This proposal would triple the existing "startup" credit, so small employers that newly offer a retirement plan would receive a tax credit of \$1,500 per year for up to three years. In addition, small employers that already offer a plan and add auto-enrollment would also get a tax credit of \$500 per employer per year for up to three years.
- Expanding retirement savings options for long-term, part-time workers.
 - This proposal would require that employees who have worked for an employer at least 500 hours per year for at least three years be eligible to participate in the employer's existing plan; employer contributions would be voluntary.
- Allowing long-term unemployed workers to make penalty-free withdrawals from their retirement accounts.

- This proposal would allow long-term unemployed individuals to withdraw up to \$50,000 per year for two years from any tax-preferred retirement account so they can draw upon their savings rather than going into debt.
- Providing \$6.5 million to allow States to pilot and evaluate State-based 401(k)-type programs or automatic enrollment IRAs.
 - Several states have created their own auto-IRAs or retirement marketplaces connecting small businesses and their employees to existing investment vehicles. To further these state efforts, the Budget sets aside \$6.5 million to allow a handful of states to pilot and evaluate State-based 401(k)-type programs or automatic enrollment IRAs.

New 2017 Budget Proposals:

- Making it easier for employers to create pooled 401(k)s (open multiple-employer plans, or "open MEPs").
 - This proposal would allow employers without a common bond to come together to create a pooled 401(k) plan. This lowers costs for the employers, and also improves access to and portability of 401(k) benefits. If an employee moves between employers participating in the plan, he can keep his plan at his new employers. Intermediaries can also make 401(k)s accessible to self-employed workers by creating a plan that these workers can participate in.
- Piloting new approaches to make retirement benefits more portable.
 - This proposal creates a \$100 million fund for grants to states or non-profits to pilot innovative, more portable approaches to retirement and other employment-based benefits.
 - A possible example is a state-based retirement plan that a diverse set of employers could offer their employees. Such a plan would allow employees to keep the same plan if they change jobs to another employer that takes part in the plan.

Contact: Michael Branson: 5-6824

LABOR

Job Training

Question: Overall Strategy for Job Training (including Workforce Innovation and Opportunity Act implementation)

Key Point: The Budget makes investments that train workers with the skills employers need, expand proven models, reconnect youth and unemployed workers with jobs, and empower workers with the information necessary to make smart career choices.

Talking Points

The Budget makes investments to:

- Prepare more workers for high-quality, in-demand jobs;
- Expand evidence-based interventions, including apprenticeship and reemployment services and eligibility assessments;
- Give more unemployed workers help finding a job;
- Provide paid employment opportunities to more disadvantaged youth;
- Create new tools to give workers meaningful information they can use to find a job, career, or training program.

Background

The attached tables reflect the key training investments in the 2017 Budget. Highlights:

- Funding the core Workforce Innovation and Opportunity Act formula grants at their full authorized level— a \$138 million (5 percent) increase over 2016.
- \$3 billion in mandatory funding to support regional partnerships between employers, the workforce system, and community colleges to train half a million people and place them into jobs in high-growth sectors.
- Investments in apprenticeship, which combines classroom training with paid work experience. The Budget continues the \$90M Apprenticeship Grants provided in the 2016 Omnibus to build State and industry capacity to support Registered Apprenticeship, in addition to \$2 billion in mandatory funding to drive further adoption of the apprenticeship model and allow more workers to participate.
- Help for unemployed workers, including the long-term unemployed. The Budget provides \$1.5 billion in mandatory funding to states to fund Career Navigators who will reach out to all people who have been unemployed for approximately six months or more, those who have dropped out of the labor force altogether, and people who are only able to find part time work. These Career Navigators will help workers look for a job, identify training options, and access additional supportive services. The Budget also builds off of the increase included in the 2016 appropriations by including almost \$190 million in discretionary funding to provide in-person reemployment services to the one-third of Unemployment

Insurance (UI) beneficiaries most at risk of exhausting their benefits, as well as all returning veterans who are receiving UI.

- Engaging youth in paid work opportunities with a \$5.5 billion mandatory investment called Opening Doors for Youth. This includes: \$1.5 billion for summer job opportunities, \$2 billion for year-round first job opportunities for 150,000 Opportunity Youth (out-of-school, out-of-work youth), and \$2 billion to initiate a competitive grant program for municipalities to get disconnected youth back on a path to education and jobs.
- Investments in workforce data systems and tools. The Budget includes a \$40 million discretionary investment to build State and local capacity to track the employment and educational outcomes of WIOA program participants and give those seeking training meaningful information. In addition, the Budget includes \$500 million in mandatory funding for a Workforce Data Science and Innovation Fund that would develop new tools, data standards, analytical data sets and open-source products to improve the quality of information job-seekers and workers have when they are making decisions about which training program or career to choose.

Contact: David Weisshaar: 5-5811

High Growth Sector Training Proposal

- The number of people who receive training under the WIOA formula grants is currently around 214,000 annually. At a training cost of \$3,000 per person, the High-Growth Sector training mandatory proposal would roughly double the number of adults receiving training each year beginning in the 3rd year.
 - Note: The training cost per person figure is not inflation-adjusted; however, even under the most conservative estimates, the proposal would double the number of people who receive training each year, as this does not account for the proposal's \$10 billion to help long-term unemployed individuals, many of whom would also receive training.

Additional Adults Receiving Training Under Proposal

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
67,000	167,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000

Apprenticeship Numbers

- There are currently 415,000 apprentices in the U.S. (These can be thought of as program “slots” – and at any point in time, there are 415,000 people in apprentice slots.) The \$2 billion mandatory Apprenticeship Training Fund will help achieve the President’s stated goal to double the number of active Registered Apprentices over the next five years, so the number of apprentices reaches 830,000 by the end of that period.

HOUSING, TREASURY, COMMERCE

Housing

Question: Does the Administration still support housing finance reform? Why is this not reflected in the Budget?

Key Point: To finish addressing the weaknesses exposed by the financial crisis, we must reform the housing finance system and move forward to wind down the Government-Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac, which have been in conservatorship since September 2008.

Talking Points

- The President stands ready to work with Members of Congress in both parties to enact common sense housing finance legislation that embodies these core principles:
 - require more private capital in the system;
 - end the failed Fannie/Freddie duopoly business model and their relation to the Federal Government (which some termed "privatization of profits with socialization of costs") in order to improve system stability and better protect taxpayers;
 - ensure broad access for all creditworthy families to sustainable products like the 30-year fixed rate mortgage in good times and bad; and
 - help ensure sustainable and affordable rental options are widely available.
- In the absence of GSE reform legislation, the Administration continues to reflect Fannie Mae and Freddie Mac as non-budgetary entities, consistent with budget and accounting principles. Therefore, their cash flows, assets and liabilities are not included in budget totals; however, the Budget does include all of the current Federal assistance being provided to them, including the net transactions on capital provided by Treasury through the Senior Preferred Stock Purchase Agreements (PSPAs).
- The Budget assumes that the GSEs will not need further federal assistance over the ten-year budget timeline, and that they will continue to pay dividend payments on PSPAs to the Treasury based on their net income.

(Outlays in Millions)	2017	2018	2019	2020	2021	2017-2021	2017-2026
GSE Draws on Treasury	0	0	0	0	0	0	0
GSE Dividend Payments to Treasury	-18,671	-17,401	-15,127	-14,886	-13,613	-79,698	-137,698

Background

- The Consolidated Appropriations Act, 2016, included a provision that prohibits Treasury from selling or otherwise disposing of the preferred stock it holds in Fannie Mae or Freddie Mac until January 1, 2018, unless legislation instructing Treasury on how to do so is enacted into law. Further, this provision recommends that legislation regarding the future of Fannie Mae and Freddie Mac be enacted and, notwithstanding the previous limitation, suggests that Treasury should not sell or dispose of its stock until such legislation is enacted. The Administration supports this 'Jump Start' provision.
- A bipartisan bill developed in the Senate in the previous session (Johnson-Crapo) includes many of the Administration's key housing finance reform principles, including ensuring

that private capital is at the center of the housing finance system, and that the new system supports broad access to credit and affordable rental housing.

- Through the PSPA agreements with Treasury, the GSEs drew down \$187.5 billion, with the last draw taking place in FY 2012. As of December 31, 2015, the GSEs have made \$241.2 billion in dividend payments to Treasury, and the Budget estimates that these payments will cumulatively total \$392.7 billion through 2026.
- The Congressional Budget Office (CBO) baseline considers Fannie and Freddie to be on-budget entities, and therefore portrays their annual guarantees of MBS on a Credit Reform basis but using a 'Fair Value' risk adjustment; as a result CBO estimates the GSEs have a positive annual subsidy cost. In addition, the PSPA transactions between the GSEs and Treasury are considered by CBO to be intra-governmental payments; therefore the current GSE payments to Treasury have no effect on CBO's estimated budget deficit but do reduce the Administration's budget deficit. This differing budget treatment of the GSEs complicates comparisons of OMB and CBO scoring of GSE reform legislation.

Contact: Emily Askew: (202) 395-5823

(Outlays in Millions)	2017	2018	2019	2020	2021	2017-2021	2017-2026
Housing Trust Fund - 48.75% in FY16-17, 65% thereafter	-136	-192	-198	-184	-186	-896	-1,881
Capital Magnet Fund - 26.25% in FY16-17, 35% thereafter	-73	-104	-107	-99	-100	-483	-1,012
HOPE Reserve Fund - 25% in FY16-17, 0% thereafter	-70	-	-	-	-	-70	-70
Total	-279	-296	-305	-284	-286	-1,450	-2,965

HOUSING, TREASURY, COMMERCE

Housing

Question: Your Budget provides funds for homeless assistance on the discretionary and mandatory side of the budget. Why? Are these funds for the same purpose? Won't pushing investments to the mandatory side just allow program renewal costs to grow out of control?

Key Point: The Budget makes historic investments in both discretionary and mandatory spending to reach and maintain the goal of ending homelessness among families with children by 2020.

Talking Points

- Since the release of *Opening Doors* in 2010, the first ever Federal strategic plan to prevent and end homelessness, the Administration has proposed and made significant investments to end homelessness among all populations, including veterans, chronically homeless individuals, and families with children.
- With over 64,000 families experiencing homelessness on a given night in 2015 – representing over 206,000 people, including 128,000 under 18 – there remains an urgent need for far greater, dedicated resources to end family homelessness
- The Budget requests \$112 million in targeted discretionary funds and \$11 billion in mandatory spending over ten years to reach and maintain the goal of ending homelessness among family with children. These investments are complementary and reflect the Administration's immediate and long-term commitment.
- Specifically, this request provides the necessary rental assistance and case management to enable HUD to serve nearly 550,000 families with children over the course of ten years through targeted, evidence-based interventions. Of the total spending, we estimate that about 20 percent would be allocated for Rapid Rehousing and 80 percent for Housing Choice Vouchers.
 - Rapid rehousing is an evidence-informed intervention that communities across the country use to provide time-limited housing assistance and stabilization services, and it has proven to be a cost effective solution for many families experiencing homelessness.
 - Families who utilize Housing Choice Vouchers - compared to alternative forms of homeless assistance - have been shown to have fewer incidents of homelessness, child separations, intimate partner violence and school moves, less food insecurity, and generally less economic stress.
- We look forward to working with Congress to develop a mandatory proposal that strategically deploys rapid rehousing resources and ensures that rental assistance growth is sustainable and maximizes cost effectiveness.
 - In addition, this proposal will further solidify local partnerships who will work collaboratively to build on the current service delivery system and leverage coordinated systems to serve the most vulnerable families effectively and efficiently.

- HUD, in coordination with HHS, is also providing assistance to communities to reduce duplication of healthcare services by ensuring that homeless assistance is coordinated with State Medicaid and other mainstream healthcare programs.

(BA in Millions)	2016 Budget	2016 Enacted	2017 Budget	Change from 2016 Enacted (%+/-)	2017 Change from 2016 Enacted (%+/-)
Homeless Assistance Grants - Targeted Rapid Rehousing	0	0	24	24	NA
Housing Choice Vouchers-Family Homeless Vouchers (1)	178	0	88	88	NA

¹The FY 2016 Budget requested \$177.5 million for about 22,500 new vouchers for families, veterans, and tribal families experiencing homelessness as well as victims of domestic or dating violence. There was no specified allocation for homeless families with children.

(Outlays in Millions)	2017	2018	2019	2020	2021	2017-2021	2017-2026
Homeless Assistance for Families	79	359	616	813	998	2,865	10,967

Background

The 2017 Budget includes a mandatory proposal to provide \$11 billion over 10 years to reach and maintain the goal of ending family homelessness in 2020 by providing 550,000 families with rapid rehousing and housing vouchers. The Budget also provides discretionary:

- \$88 million for 10,000 Housing Choice Vouchers targeted to homeless families with children;
- \$24 million for 8,000 units of rapid rehousing;
- \$280 million for 25,500 units of permanent supportive housing to end chronic homelessness; and
- \$25 million to test innovative projects that support homeless youth.

Attachment: Homeless BA Table

Contact: Jessica Lee: 395-6141

				Change from 2016 Enacted (\$ +/-)	2017 Change from 2016 Enacted (% +/-)
Total Program BA (in millions)	2016 Budget	2016 Enacted	2017 Budget		
Homeless Assistance Grants	2,480	2,250	2,664	414	18%
Housing Choice Vouchers	21,124	19,629	20,854	1,225	6%

HOUSING, TREASURY, COMMERCE

Housing

Question: Given recent research by Raj Chetty which shows that moving to higher opportunity areas can have large long-term benefits for children, how does your Budget help low-income families access areas with lower crime, more jobs opportunities, and better schools?

Key Point: The 2017 Budget makes key investments in the Housing Choice Voucher program to help low-income families move to higher opportunity areas.

Talking Points

- The Administration has strongly supported the Housing Choice Voucher program, which is the primary means to not only make available affordable housing to very low-income families but also provide them the ability to rent in higher quality neighborhoods.
- The 2017 Budget provides \$20.9 billion for vouchers, an increase of \$1.2 billion relative to 2016 enacted. The President has consistently prioritized budget increases in the Housing Choice Voucher program to help more families access these opportunities.
- Of this total, the Budget requests \$2.1 billion in Public Housing Authority (PHA) administrative fees to ensure that PHAs have sufficient resources to help families access areas of opportunities, as well as support fundamental functions to operate the program at the local level, such as housing quality inspections and tenant income certifications.
- In addition, the Budget requests \$15 million to implement a Mobility Counseling Demonstration program to help families with housing vouchers move and stay in areas with lower crime, more jobs, and better schools.
 - The funds will be used to pay for mobility counseling for tenants, outreach to landlords, portability coordination, security deposits, and other activities that support tenant mobility.
 - A portion of the funding will also support an evaluation to measure the impact of the counseling pilot to further inform the policy process and design.

(BA in Millions)	2016 Budget	2016 Enacted	2017 Budget	Change from 2016 Enacted (%+/-)	2017 Change from 2016 Enacted (%+/-)
Housing choice Vouchers	21,124	19,629	20,854	1,225	6%
[Contract Renewals]	18,334	17,681	18,447	766	4%
[Administrative Fees]	2,020	1,650	2,077	427	26%
[Mobility Demonstration]	0	0	15	15	NA

Background

- The Administration has published the following rules to promote mobility among low-income families:

1) Affirmatively Furthering Fair Housing Rule (final). This rule provides local jurisdictions with clear guidelines to help execute and meet their fair housing responsibilities under the Fair

Housing Act of 1968. It will help cities and counties across the country as they take proactive steps to overcome historic patterns of segregation, foster inclusive communities, and close opportunity gaps.

2) Portability Rule (final). This rule enables Public Housing Authorities (PHAs) to better serve families and expand housing opportunities by improving the process through which voucher holders move from one PHA jurisdiction to another.

3) Small Area Fair Market Rent Rule (proposed under development). This rule will provide subsidies to families with housing vouchers that better reflect neighborhood-level rental markets (rather than metropolitan-wide), allowing voucher holders to move into areas that have potentially better access to jobs, transportation, services, and educational opportunities. It will also reduce incentives for landlords to charge higher rents in high poverty neighborhoods.

- The Administration has also taken a number of executive actions to further mobility, including making Small Area FMRs available to all jurisdictions, and incorporating mobility components in its programs (e.g., portability requirements in the Rental Assistance Demonstration program).
- The Administration also continues to support research on mobility that can help draw more definitive conclusions to drive policy decisions, such as mobility policies at Moving to Work PHAs, and completion of the Small Area FMR Demonstration.

Contact: Jessica Lee: 395-6141

HOUSING, TREASURY, COMMERCE

Treasury/Dodd Frank

Question: What does the Budget do to advance implementation of the Dodd-Frank Act?

Key Point: The 2017 Budget fully supports robust agency implementation of Wall Street Reform, including significantly increased funding for the market regulators. The Budget proposes \$330 million (+32 percent over 2016) for the Commodity Futures Trading Commission (CFTC) and \$1,781 million (+11 percent over 2016) for the Securities and Exchange Commission (SEC). These increases reflect a 2017 down payment toward the President's goal to double the two agencies' funding in five years to enable them to thoroughly perform their post-Dodd-Frank missions.

Talking Points

- The Nation's citizens and the economy cannot realize the full benefit of Wall Street Reform unless the agencies charged with establishing and enforcing the rules of the road have the resources and independence to do so.
- Without sufficient funding, the market regulators cannot keep pace with the increasing technological sophistication of market participants and high-risk areas like cybersecurity.

CFTC

- The Budget will increase CFTC FTEs by 183 (+26 percent) by the end of 2017 in order to enhance market surveillance capabilities, augment enforcement efforts, and improve the aggregation and analysis of data.
- Resource constraints have forced the CFTC to delay, and even cut back on, its examinations of clearinghouses, which are critical points of systemic risk in our financial system.
- Budget limitations also inhibit the CFTC from fully implementing activities needed to prevent excessive risk in the derivatives markets, such as addressing the insufficient monitoring of over 100 swap dealers.
- The Administration strongly supports authorizing the CFTC to collect user fees to offset its appropriation, beginning in 2018. It is the only financial regulator whose costs are borne by taxpayers rather than the industry it regulates.
- CFTC fee rates would be designed in a way that supports market access, liquidity, and the efficiency of the Nation's futures, options on futures, and swaps markets.

SEC

- The Budget will increase SEC FTEs by 249 (+5 percent) by the end of 2017 to address inadequate examination coverage, bolster enforcement, and invest in tools to improve quantitative and data analytic efforts.
- Without adequate staffing, the SEC is not able to examine investment advisers as frequently as it should, introducing significant risk to investors and the economy. Under current funding levels, the SEC is only able to inspect advisers once every 10 years.

- Increasing the transaction fees that currently fund the SEC would particularly fall on high-frequency trading. The Budget also takes other steps to reduce risk in the financial sector, such as leveling a fee on the largest financial firms on the basis of their liabilities.

Other Regulators

- The Administration will continue to oppose efforts to restrict the independence of the other financial and banking regulators, including the Consumer Financial Protection Bureau (CFPB) and the Federal Reserve, and will fight other attempts to roll back Wall Street Reform.

Background

CFTC Funding and Budget

- The House Financial Services and General Government (FSGG) Appropriations Subcommittee sets the annual limitation on the SEC's administrative expenses, but the CFTC is handled by the House Agriculture Appropriations Subcommittee. The Senate FSGG Appropriations Subcommittee has both the SEC and CFTC, and the House and Senate annually alternate which bill the CFTC is conferenced in. In 2017, we expect the CFTC will be conferenced in the FSGG bill.
- The SEC and the CFTC are the only Federal financial or banking regulators that are subject to appropriations; the SEC's expenses are completely offset within the discretionary cap by user fees, and the Budget proposes similar treatment for the CFTC.
- CFTC fee collections would not begin until 2018 to avoid criticism that the Budget leaves a 'hole' in 2017 CFTC funding that the appropriators must fill because they cannot count on authorization action on the fee proposal; the delay would also enable a fulsome regulatory process to establish the fees.
- The CFTC's authorization lapsed in 2013 and it is possible that a reauthorization bill will move this year, presenting an optimal vehicle for enactment of fee authority.
- Treasury has publicly endorsed fee funding for the CFTC, but the CFTC has not included a fee-funding proposal in its own budget request and we do not expect CFTC Chairman Massad to advocate for the proposal (though he would likely express support if asked). Securing vocal support of the Chairman would greatly help the proposal's prospects.

Wall Street Reform

- In the 114th Congress, opponents of the Dodd-Frank Act proposed numerous riders to 2016 appropriations bills to undermine or roll back Wall Street Reform—including:
 - Politicizing the conduct of monetary policy at the Federal Reserve;
 - Undermining the operations of the Financial Stability Oversight Council that the Treasury Secretary chairs; and
 - Subjecting the CFPB to appropriations or having it be headed by a commission.
- In his July 25, 2015, Weekly Address commemorating the fifth anniversary of the Dodd-Frank Act, President Obama pledged to veto any undoing of critical Wall Street reforms: *"We can't put the security of families at risk by returning to the days when big banks or bad*

actors were allowed to write their own rules. And if any bill comes to my desk that tries to unravel the new rules on Wall Street, I will veto it. We've worked too hard to recover from one crisis only to risk another."

- Delays in implementation of Wall Street Reform are a result of the resource and staffing constraints of the market regulators (particularly the CFTC), the large volume of comments received on many proposed rules, and the difficulty inherent in coordinating policy between both domestic and international regulators.

Contact: Kristin Aveille: 5-4776

Discretionary Table

(BA in Millions)	2016 Budget	2016 Enacted	2017 Budget	Change from 2016 Enacted (\$+/-)
Commodity Futures Trading Commission	322	250	330	+80
<i>FTE</i>	895	714	897	+183
Securities and Exchange Commission	1,722	1,605	1,781	+176
<i>FTE</i>	4,859	4,621	4,870	+249

HOUSING, TREASURY, COMMERCE

Treasury/Dodd Frank

Question: The Budget requests a \$1 billion increase from 2016 Enacted for the IRS. What are the details of the request, including for ACA, protecting taxpayers from ID theft and refund fraud, & how will taxpayers be better served by the IRS as a result?

Key Point: The Administration strongly supports improvements in core IRS functions and is requesting a significant increase for strategic investments to improve service to taxpayers, combat identity theft and refund fraud, and reduce the deficit through more effective enforcement and administration of tax laws.

Talking Points

- The Budget makes strategic investments in the IRS to improve service to tens of millions of taxpayers and to reduce the deficit through more fair and effective enforcement of tax laws.
- The 2016 appropriations bill provided some relief to the IRS by increasing funding by \$290 million (+2.6%) compared to 2015 Enacted. However, the funding level is still almost \$1 billion below 2010 -- which has resulted in an unacceptable deterioration in taxpayer service levels and in the security and integrity of the tax system.
- The modest funding increase provided in 2016 will allow the IRS to improve service levels during the peak of tax filing season through a surge in staffing, with more than 6 in 10 callers expected to reach a live assistor compared with less than 4 in 10 last year, and wait times dramatically reduced from 2015. However, the IRS estimates that less than half of its calls will be answered throughout the year because resource constraints make it impossible to maintain adequate staffing levels, and after tax season many IRS temporary workers are let go.
- An important role for the Budget Committees is in support of the Budget's program integrity cap adjustment for IRS enforcement. Enforcement investments funded through the cap adjustment will generate revenue at a rate of nearly \$6-to-\$1. Clearly this is a great value for taxpayers while improving the fairness of the tax system, for example by going after tax cheats and international entities owing us money. The Budget estimates this proposal would generate over \$64 billion in additional revenue over 10 years, at a cost of \$18 billion in IRS S&E, thereby reducing the deficit by \$46 billion. CBO estimates of prior proposals have been similar. Hopefully this proposal will be reflected in this spring's Budget Resolution.

In addition, the Budget:

- Supports the IRS in its efforts to offer taxpayers secure products, services, and processes comparable to the offerings of today's largest financial institutions; the IRS' current systems are seriously antiquated.
- Improves access to IRS digital services through a new \$110 million Department-wide Cybersecurity Enhancement Account. Through a partnership with the U.S. Digital Service, Treasury will more strategically focus its cybersecurity efforts. This approach will also

eliminate the fragmentation of IT management and personnel that leads to cost inefficiencies across bureaus and limits Treasury's ability to nimbly respond in the event of a cyber attack.

- The Cybersecurity Enhancement Account includes additional funding to expand the Treasury Digital Infrastructure Security Team during 2017. The Treasury Digital Infrastructure Security Team will be deployed in 2016 to enhance existing security systems on internal networks and public websites, safeguarding the data on those systems department-wide.
 - Provides \$570 million for the IRS to combat stolen identity refund fraud at its source. The investments will significantly improve anti-fraud IT infrastructure, safeguard taxpayer data, and help compromised taxpayers regain control of their accounts.
- Provides \$400 million for ACA related IT infrastructure, taxpayer services (e.g. telephone support), and new compliance and audit activities related to ACA Marketplace subsidies and fees. This funding is critical to ensuring proper reconciliation of ACA advanced premium tax credits.

(BA in Millions)	2016 Budget	2016 Enacted	2017 Budget	Change from 2016 Enacted (%+/-)	2017 Change from 2016 Enacted (%+/-)
Base BA	12,264	11,235	11,765	530	5%
Enforcement (non-add)	5,048	4,865	4,985	120	2%
Operations Support (non-add)	4,428	3,747	4,031	284	8%
Taxpayer Services (non-add)	2,409	2,333	2,406	73	3%
Business Systems Modernization (non-add)	379	290	343	53	18%
PI Cap Adjustment	667	0	515	515	NA
Total Program Level	12,931	11,235	12,280	1,045	9%

Background

Current IRS challenges include:

Inadequate customer service, in part due to the reduction in seasonal staff that support the tax filing season.

The telephone level of service (LOS) is currently hovering below 40 percent.

The IRS plans to use \$178 million from the additional \$290 million provided in FY16 to achieve a 65 percent LOS during this upcoming tax filing season and 47 percent for the full fiscal year using additional funds from user fee revenue[1].

Implementation of ACA.

The IRS has a major role in implementing the ACA, and the President's Budget has consistently proposed to fund ACA implementation within IRS base appropriations but the Congress has never appropriated these funds. In 2016, the IRS will again be forced to divert user fees (largely

from taxpayer services) and substantially reduce funding for core operations to fund critical ACA implementation activities, which cost around \$450 million annually.

Delays in modernizing IT infrastructure.

The budget cuts have also forced the IRS to delay modernization of its IT infrastructure and defer critical IT updates. Up-to-date technological infrastructure is essential for the protection of taxpayer data, as the IRS is a prime target for malicious cyber activity.

In 2015, 390,000 fraudulent attempts were made to access the Get Transcript online application (provides a digital display of an individual's tax record) using stolen personal information, of which nearly three out of five attempts were successful.

The U.S. Digital Services team is working with the IRS to bring the application back online in spring 2016 with more secure e-authentication procedures.

[1] IRS user fees are collected for services such as installment payment agreements for back taxes, offers-in-compromise, tax treaty interpretations, and income verification.

Contact: Natalia Mahmud: (202) 395-7513, Tyler Curtis: (202) 395-3112

Overview

Topic: Support for Small Businesses

Key Point The Budget includes strong support for small businesses and entrepreneurs looking to start or expand a business, including through SBA direct and guaranteed loans to ensure access to capital, and technical assistance to give businesses the advice and resources they need to succeed. In addition, the Budget includes revenue proposals that will lower taxes and make filing simpler for small business owners, as well as mandatory spending proposals in Treasury and SBA to enhance small business financing options.

Talking Points

- The Budget recognizes the role that SBA's lending programs play to provide much-needed access to capital for small businesses, which is why the Budget supports over \$46 billion in loans guaranteed through SBA's 7(a), 504 Community Development Corporation and Refinance programs, and Small Business Investment Company (SBIC) programs in 2017. Together, these programs are estimated to provide financing to over 65 thousand small businesses.
- The Budget increases the program level for SBA's flagship 7(a) guaranteed loans to \$27 billion to meet the growing demand for small business lending, after having had to increase the program's FY15 loan limit in July to avoid running out of authority. And it continues to offer upfront fee waivers on small dollar loans as well as to veteran borrowers on loans up to \$500 thousand.
- Beyond SBA, the President's Budget proposes \$1.5 billion for a second round of Treasury's State Small Business Credit Initiative (SSBCI) to provide funds to states to tailor assistance to offer other, innovative sources of needed capital to America's diverse community of entrepreneurs.
- SSBCI is already achieving results with its 2010 Jobs Act funds: from FY 2011 through FY 2014 SSBCI programs in all 50 states supported over 12,400 loans and investments totaling \$4.1 billion to more than 8,500 small businesses across the country—creating or saving more than 140,000 American jobs, as reported by the small businesses who received the loans and investments.
- The 2017 Budget also proposes \$231 million for SBA's entrepreneurial development grant programs to provide entrepreneurs with the training and counseling they need to start and grow their businesses. This includes funding for effective programs that help veterans transition to the civilian workforce by starting businesses, provide mentoring to new entrepreneurs, help small businesses take advantage of exporting opportunities, and encourage entrepreneurship in underserved populations.
- Additionally, the Budget increases assistance to small businesses from the tax side. The President's tax proposal will lower taxes on small businesses, including by increasing their expensing of capital investments, by doubling the allowable deductions for new start-ups, and by enabling more of them to take advantage of enhanced manufacturing and research tax deductions. It would also expand simplified accounting for small business owners, such as by allowing them to use cash accounting if they prefer, so that they can focus on growing their businesses.

- Recognizing the important role that advanced manufacturing plays in growing the economy, SBA's budget also includes a repeat proposal, funded through mandatory spending, for the Scale-Up Manufacturing Investment Company (SUMIC) program. This new loan guarantee program will assist in financing the scale-up of innovative new manufacturing technologies from prototype to first commercial-scale production through a combination of Federal loan guarantees and matching private funds totaling \$10 billion over five years.

Background

- SBA's budget supports over \$46 billion in loan guarantees, with the majority of this coming through the flagship 7(a) program. In addition, through the Microloan program they provide direct loans to intermediaries who in turn lend and provide technical assistance to the smallest of small businesses. The table below summarizes SBA's loan programs.

	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Enacted	FY 2017 Budget
<u>SMALL BUSINESS ADMINISTRATION:</u> (Dollar amounts in millions)				
Business Loans Program - authorized program levels				
7(a) Loan Guarantee	18,500	23,500	26,500	27,000
504 CDC Loan Guarantee	7,500	7,500	7,500	7,500
504 Refi Loan Guarantee	0	0	7,500	7,500
SBIC Commitments	4,000	4,000	4,000	4,000
Microloan Direct Loan	25	25	35	44
Total, Business Loans Program	30,025	35,025	45,535	46,044

- The 2017 Budget continues upfront fee waivers on all 7(a) loans up to \$150 thousand and SBA Express loans to veterans, as well as provides a 50 percent fee waiver on non-SBA Express 7(a) loans up to \$500 thousand to veteran-owned businesses.
- The 2017 Budget also proposes \$231 million for SBA's entrepreneurial development grant programs to provide entrepreneurs with training and counseling. This funding supports the following initiatives:
 - \$12.3 million for Veterans Outreach programs such as Boots to Business, which provides veterans transitioning to civilian life with the training and tools they need to start their own businesses. This program has already trained nearly 27,000 returning service members and spouses and will train an additional 20,000 in FY 2017;
 - \$10 million for Entrepreneurial Education, an initiative that offers training to high-growth small business executives in underserved communities. This program provides them with access to services and education that facilitates connections to capital, identifies opportunities to build a business support network in their local community, and helps them develop business growth strategies. Since its inception this program has supported over 3,000 business executives;
 - \$31 million in technical assistance to support and counsel business owners who receive small startup loans through SBA's Microloan program (\$44 million

program level in 2017). Overall, the Microloan program is expected to assist over 3,900 businesses and help support almost 16,000 jobs in FY 2017;

- \$15 million in State Trade and Export Promotion (STEP) grants to help small businesses prepare to export, tap global markets and market overseas; and
- \$6 million for SBA to enhance small business participation in regional economic clusters that integrate economic, business and workforce assets to accelerate innovation and job creation.

SBA Entrepreneurial Development Programs (thousands)	FY15 Omnibus	FY16 Budget	FY16 Omnibus	FY17 Budget
7(j) Technical Assistance Program	\$ 2,800	\$ 2,800	\$ 2,800	\$ 2,800
Entrepreneurship Education	\$ 7,000	\$ 11,000	\$ 10,000	\$ 10,000
Growth Accelerators	\$ 4,000	\$ 5,000	\$ 1,000	\$ 5,000
HUB Zone Program	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000
Microloan Technical Assistance	\$ 22,300	\$ 25,000	\$ 25,000	\$ 31,000
National Women's Business Council	\$ 1,000	\$ 1,000	\$ 1,500	\$ 1,500
Native American Outreach	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
PRIME Technical Assistance	\$ 5,000	\$ -	\$ 5,000	\$ -
Regional Innovation Clusters	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000
Small Business Development Centers (SBDCs)	\$ 115,000	\$ 115,000	\$ 117,000	\$ 115,000
SCORE	\$ 8,000	\$ 8,000	\$ 10,500	\$ 10,300
Women's Business Centers	\$ 15,000	\$ 16,000	\$ 17,000	\$ 16,700
State Trade & Export Program (STEP)	\$ 17,400	\$ -	\$ 18,000	\$ 15,000
Intermediate Lending Program	\$ 1,000	\$ -	\$ -	\$ -
Veterans Outreach	\$ 10,500	\$ 11,450	\$ 12,300	\$ 12,300
<i>Boots to Business</i>	\$ 7,500	\$ 7,500	\$ -	\$ 7,500
<i>Veterans Business Outreach Centers</i>	\$ 3,000	\$ 3,000	\$ -	\$ 3,000
<i>VWISSE</i>	\$ -	\$ 500	\$ -	\$ 1,350
<i>Entrepreneurship Bootcamp for Veterans with</i>	\$ -	\$ 200	\$ -	\$ 200
<i>Reboots to Business</i>	\$ -	\$ 250	\$ -	\$ 250
	\$ 220,000	\$ 206,250	\$ 231,100	\$ 230,600

HOUSING, TREASURY, COMMERCE

Commerce/Business/Manufacturing

Question: Why does the Budget propose a significant increase for the Census Bureau?

Talking Points

- The Budget proposes a \$274 million, or 20 percent, increase for the Census Bureau compared to the 2016 enacted level.
- This includes an increase of \$211 million over the 2016 enacted level for the 2020 Decennial Census and related activities.
- This investment in the 2020 Decennial Census comes at a critical time. 2017 will mark the second year of implementation and testing of design and technological improvements developed through a comprehensive research program earlier in the decade.
- Together, the changes that were developed and are being implemented have the potential to reduce costs for this Census by at least \$5.2 billion compared to the cost of repeating the 2010 Census design, while maintaining the highest levels of data accuracy amongst all population groups.
- Outside of the decennial census activities, the Budget also proposes an increase for the 2017 Economic Census as well as added abilities and infrastructure for Census to be an administrative records clearinghouse to acquire, link, share, and analyze key administrative datasets that can be used for program evaluation and improved operations.

(BA in Millions)	2016 Budget	2016 Enacted	2017 Budget	Change from 2016 Enacted (%+/-)	2017 Change from 2016 Enacted (%+/-)
Census Bureau	1,508	1,368	1,631	263	19%
Periodic Censuses Program (non-add)	1,221	1,098	1,346	248	23%
2020 Decennial Census + related IT (non-add)	810	723	945	222	31%

Background

- The Budget provides \$945 million for the 2020 Decennial Census and related activities, an increase of \$211 million over the 2016 level, to continue implementing and testing the interconnection and interoperability of systems and innovations identified in the 2020 Census operational plan that have the potential to reduce costs by at least \$5.2 billion compared to the cost of repeating the 2010 Census design. The most significant activities in 2017 that will be critical to achieving these goals include successfully planning and executing the 2017 Census site test with the full decennial design, awarding several significant IT contracts, executing on the communication and outreach contract awarded in 2016, signing leases for field offices, building and testing the official 2020 Census website, and planning for and beginning the address canvassing portion of the 2018 end-to-end dry run test.
- The design and technological improvements Census plans to implement in the 2020 Census include:
 - optimized use of Internet and other self-response options (savings of \$0.4 billion),

- drastically reducing the percentage of households mapped in the field in 2019 through increased use of in-office satellite imagery and other remote mapping tools (savings of \$0.9 billion),
 - integrating technology to move to paperless responses and automated field staff management (savings of \$2.5 billion),
 - eliminating costly follow-up visits with non-responders through use of existing administrative records (savings of \$1.4 billion), and
 - implementing the first-ever Census-wide enterprise data collection and processing system.
- 2017 is the second of two critical years for the decennial census to ensure that the prototype generated by the research phase can be built-out and refined in advance of the critical, end-to-end dry run test in early 2018.
 - Any shortfalls in funding would jeopardize the accuracy of the 2020 Census and put the projected cost savings at risk, thereby requiring substantially more funding in future years
- The total projected lifecycle cost of repeating the methods employed in the 2010 census is nearly \$17.5 billion. The Budget's goal is to take actions now and next year to hold the inflation-adjusted, per-household cost of the 2020 census equal to that in 2010 – an unprecedented feat – which would lead to a lifecycle cost of about \$12.3 billion.
- While Census remains on track to meet this target, shortfalls in appropriations in the years of building out the census operation would significantly hamper performance and increase risk, and potentially jeopardize entire portions of cost-cutting innovations.
- The 2017 Economic Census will be mailed at the end of 2017, and will be 100% internet response for the first time. The fiscal year leading up is a critical to ensuring this occurs by adopting, implementing, and integrating systems developed for the decennial census that will help automate the Economic Census as well as serve as a testbed for the 2020 Census.
- The administrative records clearinghouse, first proposed in the 2016 Budget, will be partially funded this fiscal year, but is fully re-proposed in 2017. In addition to funding to help Census execute the commission on evidence-based policymaking ("Ryan/Murray Commission"), if enacted, most of the funding will be used to enhance Census Bureau infrastructure for acquiring, securing, and making available countless administrative data sets over the next several years to researchers and Federal program evaluators. Doing so will facilitate for the first time securely linking these valuable data to one another, to survey data, and to private sector (or "big") data, creating a myriad of new data resources with which to research, evaluate, and innovate.

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Budget Hearing Prep: FY 2017 Budget Manufacturing Investments

1. The Budget fulfills the President's vision for a National Network of Manufacturing Institutes (NNMI).

- Includes over \$250 million in discretionary funding for FY 2017 in the Departments of Commerce, Energy, and Defense to stand up five new manufacturing institutes and provide continued support for the thirteen institutes that have been funded through FY 2016.
- Includes an additional \$1.9 billion mandatory proposal to fulfill the President's call for a network of 45 institutes around the country (funding 27 more institutes in addition to those in funded in base and requested discretionary funds).
- Includes \$5 million for Commerce, through the National Institute of Standards and Technology (NIST), to coordinate government-wide the existing and planned institutes.

2. Supports research and development of innovative advanced manufacturing techniques.

- The 2016 Budget provides \$2.0 billion, an increase of over \$225 million or 13 percent, for Federal R&D directly supporting advanced manufacturing at the National Science Foundation, the Departments of Defense, Energy, Commerce, and other agencies, consistent with the goals and recommendations of the National Strategic Plan for Advanced Manufacturing.
 - For example, within this total, the Budget provides the Department of Energy's Energy Efficiency and Renewable Energy (EERE) Office \$487 million to expand efforts on innovative manufacturing processes and to help develop and commercialize emerging energy efficient and cross-cutting manufacturing technologies.

3. Helps businesses adopt new manufacturing technologies and reach commercial scale.

- The Budget calls on the Congress to launch the Scale-Up Manufacturing Investment Company program, a public-private investment fund to address the gap in financing for new manufacturing firms. The \$5 billion investment fund proposed as a mandatory program but administered by the Small Business Administration, will be matched with non-Federal funds to increase investment in commercial production facilities for technology-intensive manufacturing start-ups.
- Through NIST's extramural programs, the Budget includes \$141 million for the Manufacturing Extension Partnership (MEP) to share best practices, provide technical assistance to address common manufacturing challenges, and improve the competitiveness of small manufacturers.

4. Assists the revival and creation of strong manufacturing communities, including through tax credits.

- To boost investment in U.S. manufacturing communities, the Budget provides a tax credit for U.S. companies to repatriate jobs here from foreign sites. The Budget also proposes to end tax deductions for U.S. companies that outsource jobs abroad, further incentivizing their continuing investment in American manufacturing.
- A new manufacturing communities tax credit is also proposed for communities that face a major job loss, such as the closure of a large manufacturing facility. The credit would incentivize investments that can help the community recover more quickly from the economic disruption, or even avoid the job losses.

Overview of Manufacturing Budget Proposals

	FY 16 Enacted Level (\$ M)	FY17 Presidents Budget (\$M)
Manufacturing Institutes		
Department of Energy	70	84
Department of Defense	137	137-158
Department of Commerce	20	42
<i>Total</i>	227	263-284
DOC/NIST – Institute Coordination	5	5
<i>Mandatory Proposal (ten year cost)</i>		
National Network of Manufacturing Institutes (NNMI)	1,930	1,890
Research and Development		
DOC/NIST	149	153
DOE/EERE (including the Advanced Manufacturing Office)	347	487
DOD	487	483
Business Support		
DOC/NIST – Manufacturing Extension Partnership	130	141
<i>Mandatory proposal (ten year cost)</i>		
SBA –Scale Up Manufacturing Investment Company – (subsidy costs)	0	1,250

TRANSPORTATION, HOMELAND, JUSTICE

Transportation

Question: Congress just passed a five year surface transportation bill, rejecting most of the President's GROW AMERICA Act proposals. Why is the President proposing a new 21st Century Clean Transportation System Investments infrastructure package?

Key Point: The FAST Act is a down payment on the resources needed to develop and maintain the 21st century surface transportation system our Nation needs.

Talking Points

- With the "Fixing America's Surface Transportation" (FAST) Act, Congress came together in a bipartisan way to pass the first long-term funded surface bill in 10 years.
- That bill, while clearly a step forward, is only a down payment on what we need.
- The deteriorating quality of our nation's infrastructure is widely recognized, and there are plenty of poor report cards from groups like the American Society of Civil Engineers (rates overall quality of America's infrastructure at a D+).
- While the recent bill increases funding by about 5 percent, it falls short of the amount needed to reduce congestion on our roads and meet the increasing demands on our transportation system for the future.
- Over the next 30 years, the U.S. population will increase by 70 million and our transportation networks will have to accommodate 45 percent more freight.
- We need to start making investments now to meet the growing demand and addresses those needs in a cleaner way.

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TRANSPORTATION, HOMELAND, JUSTICE

Transportation

Question: How is this proposal different from raising the gas tax?

Key Point: This is a fee on oil companies paid by oil companies. By placing a fee on oil, the President's plan creates a clear incentive for private sector innovation to reduce our reliance on oil and invest in clean energy technologies that will power our future.

Talking Points

- *The fee's base is different and broader than the base of a gas tax. We feel that the broader base is appropriate because of the general benefit provided to the economy by the infrastructure spending the fee will help to finance.*
- *The investments that the fee funds will provide Americans high quality public transit options, reduce the traffic we face, allowing us to diversify away from dependence on a volatile oil market, and reduce the climate costs of transportation.*
- *Some of the revenue from the fee will be designed to provide relief to households and businesses with particularly heavy energy costs.*
- *The President's plan would allocate 15% of revenues from the new oil fee to provide targeted assistance to households with particularly burdensome energy costs.*
- *Some of this revenue would fund the creation of a Household Clean Energy Transition Program to help American households lower their energy bills while using cleaner forms of energy, including support for households in the Northeast as they transition from fuel oil for heating to cleaner and cheaper forms of energy.*
 - *[If needed] In addition, our proposal temporarily exempts home heating oil from the fee to allow households time to transition.*

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TRANSPORTATION, HOMELAND, JUSTICE

Justice

Question: How does the Budget address police militarization?

Key Point: Events around the country have highlighted the importance of strong, collaborative relationships between local police and the communities they protect. As the nation has observed, trust between law enforcement agencies and the people they protect and serve is essential to the stability of our communities, the integrity of our criminal justice system, and the safe and effective delivery of policing services.

Talking Points

- The President's 2017 Budget includes the third and final year of investments for the Community Policing Initiative that aims to build and sustain trust between law enforcement and the people they serve. The Budget provides \$97 million for the Department of Justice to expand training and oversight for local law enforcement, increase the use of body-worn cameras, provide additional opportunities for police department reform, and facilitate community and law enforcement engagement in 10 pilot sites, with additional technical assistance and training for dozens of communities and police departments across the nation.

(BA in Millions)	2016 Budget	2016 Enacted	2017 Budget	Change from 2016 Enacted (%+/-)	2017 Change from 2016 Enacted (%+/-)
DOJ Body Worn Cameras: Smart Policing	20	5	20	15	300%
DOJ Body Worn Cameras: Partnership	30	23	30	7	30%
DOJ National Initiative for Building Community Trust and Justice	20	5	20	15	300%
DOJ Collaborative Reform Initiative	20	10	20	10	100%
DOJ Oversight and Training	7	7	7	0	0%

Background

This proposal is part of a **three-year \$263 million investment package** that will increase use of body-worn cameras, expand training for law enforcement agencies, add more resources for police department reform, and multiply the number of cities where DOJ facilitates community and local LEA engagement. As part of the initiative, a new Body Worn Camera Partnership Program would provide a 50 percent match to State/localities who purchase body worn cameras and requisite storage. Overall, the proposed \$75 million investment over three years could help purchase 50,000 body worn cameras. The initiative as a whole will help the federal government to be a full partner with state and local LEAs in order to build and sustain trust between communities and those who serve and protect these communities.

This initiative was announced in conjunction with two executive orders following the events in Ferguson, Missouri:

On December 1, 2014 the President announced the creation of a **Task Force on 21st Century Policing**. The Task Force examined, among other issues, how to strengthen public trust and foster strong relationships between local law enforcement and the communities that they protect, while also promoting effective crime reduction. The Task Force submitted its final report on May 18, 2015. The Administration is working with federal agencies, law enforcement organizations, civil rights organizations and state and local government to promote the adoption of the Task Force's recent recommendations by the approximately 18,000 state and local law enforcement agencies around the country.

In January 2015, the President created the **Law Enforcement Equipment Working Group** to identify actions that can improve Federal support for the acquisition of controlled equipment by law enforcement agencies (LEAs). In May, the President received and accepted the recommendations from the Working Group which among other things: created a prohibited equipment list LEAs will no longer be able to acquire from the federal government; provided a consistent Government-wide controlled equipment list; standardized Federal procedures governing provision of controlled equipment and ensured that LEAs have proper policies and training in place regarding the appropriate use of controlled equipment. The recommendations went into effect beginning Fiscal Year 2016.

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TRANSPORTATION, HOMELAND, JUSTICE

Justice

Question: How does the Budget account for the declining prison population?

Key Point: The prison population declined by 8,426 inmates, from 214,149 to 205,723, in FY 2015. The Budget reinvests savings from the reduction in the prison population to increase health services and expand programs designed to reduce recidivism.

Talking Points

- The Budget proposes \$7.2 billion, 3% more than the 2016 enacted level, for the Bureau of Prisons Salaries and Expenses Account.
- The Budget includes over \$125 million to increase health services and expand the capacity of Residential Reentry Centers.
- The Budget also includes over \$35 million to provide innovative reentry programs in BOP facilities, create programming that strengthens familial bonds, and increase vocational and educational training.

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CLEAN ENERGY AND ENVIRONMENT OVERVIEW

Clean Energy

The opening line of all of our fact sheets is: “The President's 2017 Budget focuses on meeting our greatest challenges not only for the year ahead, but for decades to come.”

Mission Innovation-Discretionary Clean Energy R&D funding

Because of the historic commitment to Mission Innovation, the 20-country pledge to double clean energy research and development over five years (in concert with boosted private investment), this statement is especially true for Clean Energy.

In keeping with your guidance, this Budget continues the strong support for clean energy technologies that is critical to securing America's energy future and cutting carbon pollution, putting the Budget on strong path to double the \$6.4 billion in FY 2016 for clean energy research and development to \$12.8 billion in FY 2021. The budget makes a strong first step on this path, providing \$7.7 billion in **discretionary** funding for clean energy R&D across 12 agencies, about 20 percent above the FY 2016 level.

Clean Energy Deployment

In addition to discretionary funds for the Clean Energy pledge, the Budget provides over \$1.3 billion in discretionary funding for deployment support efforts, for a total of \$9 billion across 12 federal agencies.

Complementary Mandatory Funding

The FY 2017 Budget also includes new mandatory funding across the clean energy research, development, demonstration, and deployment spectrum. For example, \$150 million in mandatory funding is provided for DOE's ARPA-E in 2017 as part of the ARPA-E Trust proposal. The Budget also provides funding for a clean energy R&D and deployment as part of the Administration's 21st Century Clean Transportation Plan, of which approximately \$1.3 billion would be allocated to DOE's clean transportation activities.

Other Energy in the Budget

The Budget contains a myriad of other energy related programs and activities, such as Loan Guarantees at DOE and USDA, climate resilience investments at DOI, USDA and Army Corps, and international efforts funded by State, USAID and Treasury. Our rollout factsheet has much more detail on these.

Environment

The Budget reflects a continued commitment to the environment and addressing climate change. The Environmental Protection Agency is funded at \$8.27 Billion, +\$127 million or +2 percent, more than the FY 2016 Enacted level, including an 8 percent increase in the agency's core operating activities. The Budget will provide EPA and states with the funds to implement the Clean Power Plan (CPP). We can expect to continue to defend against funding reductions and riders that could undermine the CPP's success. The Clean Water and Drinking Water State Revolving Funds, which are funded a combined \$257 million below FY 2016 Enacted levels (-

11%), will likely continue to get attention, particularly because of the recent activities in Flint, Michigan.