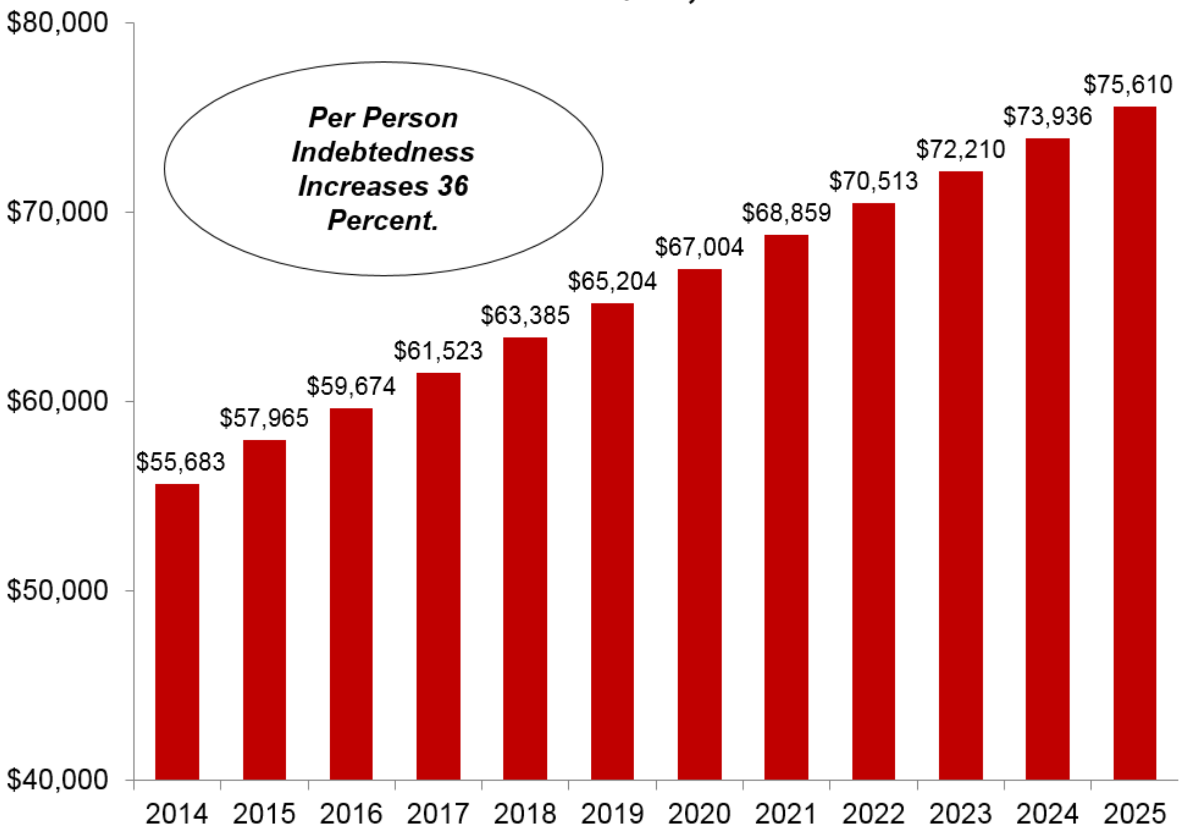
Staff Analysis of the President's FY 2016 Budget Proposal

Debt Per Person Increases $20,000 In President's Plan



Source: Senate Budget Committee Republican staff calculations based on OMB and Census data

February 2015

Material in this analysis is taken from the Fiscal Year 2016 Budget of the U.S. Government, released on February 2, 2015. Content of this document is based on information released by the Obama administration, and does not imply agreement with, or endorsement of, the policies and proposals in the President's budget submission.

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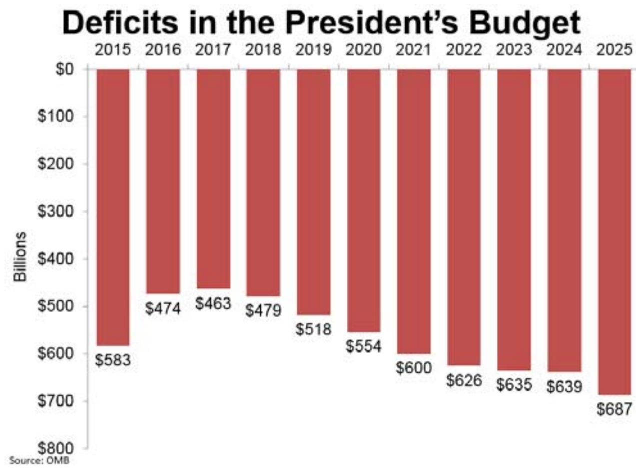
The President's FY 2016 Budget Proposal

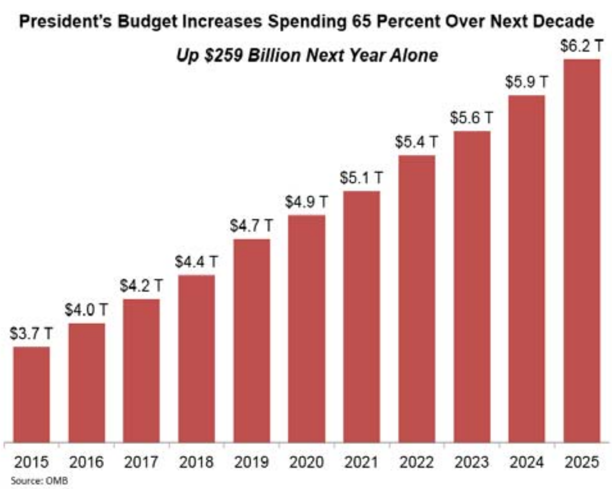
Overview

Under an honest accounting, the President's budget proposes tax increases of $2.1 trillion to mitigate his current law deficits by $1.2 billion over 10 years. Consequently, the President raises taxes to increase spending rather than only for deficit reduction. Over 10 years, deficits in the President's plan total $5.7 trillion, increasing steadily in the years after the President's term is complete.



The budget materials claim that the budget plan would reduce baseline deficits by $2.2 trillion, but in fact the administration uses a baseline that is altered to make it appear that the budget does more on deficits than it really does.

The most obvious example is that the administration counts lower requirements for Overseas Contingency Operations as budgetary savings, even though those costs have declined in recent years. This "saves" $557 billion over 10 years. The budget also assumes continuation of the higher maximum earned income and child tax credits, expected to expire at the end of 2017, preventing the need for $166 billion in offsets from elsewhere in the budget. The President's budget also assumes that the Medicare physician payment patch required to be enacted by March 31 is already current law, freeing the President from having to pay its Presidentially-projected $108 billion cost. All told, these gimmicks reduce the deficit reduction claimed by the President by $984 billion over 10 years.



Next year alone, the President's budget would grow federal spending by $259 billion, or 7 percent. Total spending will increase by 65 percent ($2.4 trillion) in 10 years under the President's plan. Total spending will increase from $3.7 trillion this year to $6.2 trillion in 10 years.

The President claims his budget would increase annually-provided agency spending for next year by $59.4 billion (or 5.8 percent) relative to FY 2015 levels (see Table 1). This figure includes $21.4 billion in changes in mandatory spending programs (ChiMPs), that hold down appropriated spending levels in FY 2016. If these ChiMPs were excluded, total resources available to agencies would increase $80.8 billion (or 7.9 percent) from FY 2015 levels to $1.108 trillion.

Table 1
Funding Levels for Appropriated ("Discretionary") Programs by Agency
(Budget authority, fiscal year, in billions of dollars)

	2014	2015	2016	Increase '16 over '15 $	Increase '16 over '15 %
Base Discretionary Funding by Agency 1/:					
Agriculture	24.3	23.8	23.5	-0.3	-1.1%
Commerce	8.3	8.8	9.8	1.0	11.0%
Census Bureau	*0.9*	*1.1*	*1.5*	*0.4*	*39.0%*
Defense	496.0	496.1	534.3	38.2	7.7%
Education	67.3	67.1	70.7	3.6	5.4%
Energy	27.2	27.3	29.9	2.6	9.4%
National Nuclear Security Administration	*11.2*	*11.4*	*12.6*	*1.2*	*10.2%*
Health & Human Services 2/	79.8	80.2	79.9	-0.3	-0.4%
Homeland Security 3/	39.8	38.2	41.2	3.0	7.9%
Housing and Urban Development	34.2	34.8	41.0	6.2	17.9%
Interior	11.7	12.1	12.9	0.7	6.1%
Justice	27.3	27.3	14.9	-12.5	-45.6%
Labor	12.0	11.9	13.2	1.2	10.1%
State and Other International Programs	42.9	40.1	46.3	6.2	15.5%
Transportation	13.6	13.8	14.3	0.6	4.2%
Treasury	12.7	12.2	12.8	0.6	4.8%
Veterans Affairs	63.3	65.1	70.2	5.1	7.9%
Corps of Engineers	5.7	5.5	4.7	-0.7	-13.2%
Environmental Protection Agency	8.2	8.1	8.6	0.5	5.5%
General Services Administration	2.0	-0.4	0.8	1.3	289.1%
National Aeronautics & Space Administration	17.6	18.0	18.5	0.5	2.9%
National Science Foundation	7.2	7.3	7.7	0.4	5.2%
Small Business Administration	0.9	0.9	0.7	-0.2	-21.1%
Social Security Administration 2/	8.9	9.0	9.6	0.6	6.4%
Corp. for National & Community Service	1.0	1.1	1.2	0.1	12.2%
Other Agencies	18.8	19.0	20.0	1.0	5.1%
Subtotal, Base Discretionary Funding	**1,030.8**	**1,027.4**	**1,086.8**	**59.4**	**5.8%**
Discretionary Cap Adjustments and Other Funding (not included above):					
Overseas Contingency Operations	91.9	73.5	58.0	-15.5	-21.1%
Program Integrity	0.9	1.5	2.3	0.8	52.2%
Disaster Relief	5.6	6.5	6.9	0.3	5.3%
Wildfire Suppression	---	---	1.1	1.1	nc
Other Emergency Funding	0.2	5.4	---	-5.4	-100.0%
Grand Total, Discretionary Funding	**1,129.5**	**1,114.3**	**1,154.9**	**40.7**	**3.6%**

nc - not computable

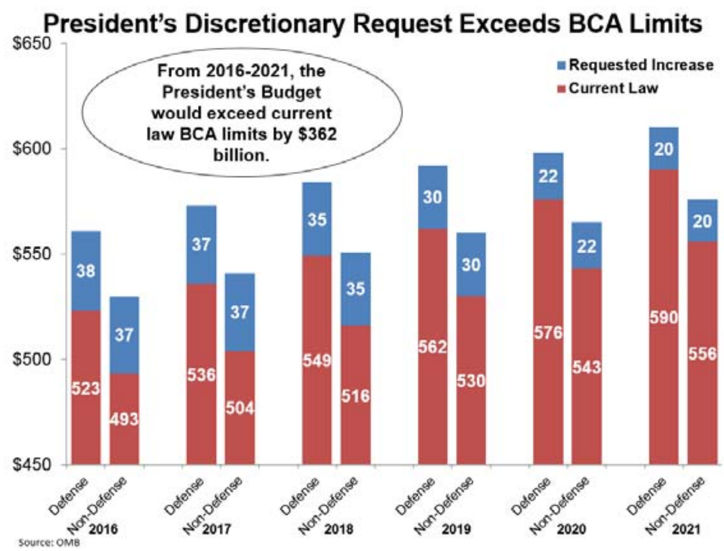
1/ Amounts in the actual and enacted years of 2014 and 2015 exclude changes in mandatory programs enacted in appropriations bills since those amounts have been rebased as mandatory, whereas amounts in 2016 are net of these proposals.

2/ Funding from the Hospital Insurance and Supplementary Medical Insurance trust funds for administrative expenses incurred by the Social Security Administration that support the Medicare program are included in the Health and Human Services total and not in the Social Security Administration total.

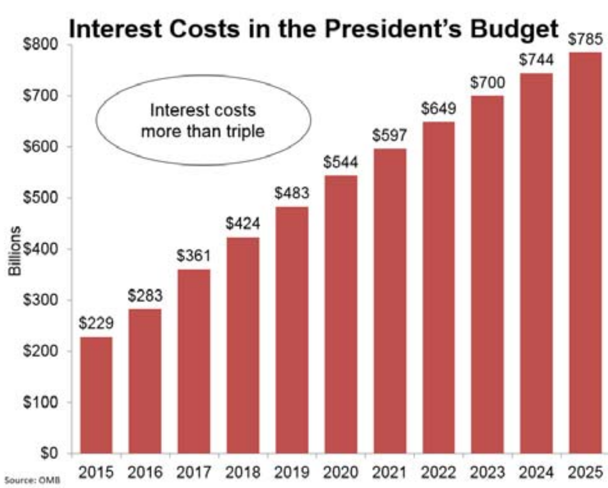
3/ The 2015 Enacted levels are illustratively adjusted to reflect the 2015 Request for the Department of Homeland Security.

If the President's proposal to reclassify surface transportation programs from discretionary to mandatory is ignored (as Congress has never acted on the proposal) and ChiMPs are included (as in the President's material), the budget actually proposes $1.091 trillion in regular discretionary budget authority for FY 2016. Of that amount, $561.0 billion is for defense spending and $530.0 billion is for non-defense spending. The requested defense budget authority would exceed the current-law defense cap of $523.1 billion by $37.9 billion. The requested non-defense budget authority would exceed its cap of $493.5 billion by $36.5 billion. These amounts exceed the Budget Control Act's caps on discretionary spending by a combined $74.4 billion in FY 2016.

For each of the remaining years of the BCA period (FY 2017-2021), the President's budget calls for spending above levels allowed by current law (totaling $287.8 billion, split between defense and non-defense categories). Over the FY 2016-2021 period, the President's budget would increase regular discretionary budget authority by $362.2 billion, reversing approximately two-thirds of the discretionary spending constraints imposed by the BCA.



In addition to the regular discretionary budget authority requested, the budget asks for $68.2 billion in BCA cap adjustments for FY 2016. These adjustments include: $58.0 billion for overseas contingency operations, $6.9 billion for disaster relief, $2.3 billion for program integrity initiatives, and $1.1 billion for a new wildfire suppression cap adjustment. When combined with the $1.091 trillion in regular appropriations, these cap adjustments would allow for $1.159 trillion in discretionary budget authority for FY 2016.



President Obama's plan more than triples interest costs, which remain the fastest growing item in the budget. Interest on the debt this year (FY 2015) is expected to be $229 billion, but would rise to $785 billion in FY 2025 under his plan, making annual interest costs larger than his proposed spending for national defense, Medicaid or the combined total of all non-defense agency spending.

The President's budget also proposes increasing welfare spending by $330.2 billion over ten years. Of that amount, the largest portion, $166.4 billion, would increase income security programs, mostly through the expansion of low-income child support and refundable tax credits. Medicaid and the Children's Health Insurance Program would increase by $60.6 billion over ten years. Finally, the extension of the refundable tax credits (the Earned Income Tax Credit and the Child Tax Credit), which is assumed in the President's baseline, would increase spending by $103.2 billion.

Debt

Debt held by the public at the end of FY 2014 was 74.1 percent the size of the U.S. economy. If all of the President's policies are adopted, then debt held by the public will end the budget window at 73.3 percent of GDP in 2025, well above the historical average of 38.2 percent. Ninety-two percent of this debt will be held in marketable debt instruments, but it is worth noting that the remaining 8 percent held in non-marketable contracts is dominated by a $503 billion increase in obligations owed to federal employees under the Thrift Savings Plan and other retirement programs.

Gross federal debt, or debt held by the public plus debt obligations of the Treasury to other federal agencies, will grow from $18.6 trillion at the end of FY 2015 to $26.3 trillion at the end of FY 2025, for an increase of $7.6 trillion (see Table 2 on the next page). Thus, additional borrowing from Social Security and other government agencies will grow over the budget period by $770 billion. Gross federal debt as a percent of nominal GDP will begin the budget window at 102.7 percent (FY 2016) and will slowly fall to 94.4 percent of GDP by FY 2025, assuming the President's policies are all adopted.[1] Under the gross debt path of the President's budget, debt per person increases by $20,000 (or 36 percent) over the FY 2014-2025 period. A number of economists have argued that total government debt exceeding about 90 percent of GDP often is associated with a general slowing in the rate of economic growth.[2] The metric of gross federal debt continues to play an important role in economic policy making.

[1] Gross federal debt is an important concept for a number of reasons, not the least of which is its role in calculating the statutory debt limit.

[2] Carmen M. Reinhart, Vincent R. Reinhart, and Kenneth S. Rogoff, "Debt Overhangs: Past and Present," *NBER Working Paper 18015*, April 2012, http://www.nber.org/papers/w18015 (accessed February 22, 2013). See also Carmen M. Reinhart and Kenneth S. Rogoff, "Growth in a Time of Debt," *American Economic Review*, Vol. 100, No. 2 (May 2010), pp. 573–578, http://www.ycsg.yale.edu/center/forms/growth-debt.pdf (accessed February 21, 2013). Manmohan S. Kumar and Jaejoon Woo, "Public Debt and Growth," *IMF Working Paper*, WP/10/74, July 2010, http://www.imf.org/external/pubs/ft/wp/2010/wp10174.pdf (accessed February 22, 2013). Stephen Cecchetti, Madhusudan Mohanty, and Fabrizio Zampolli, "The Real Effects of Debt," Bank for International Settlements, September 2011, http://www.bis.org/publ/work352.pdf (accessed February 22, 2013).

Table 2
Federal Net Interest Outlays and Debt Under the President's Proposals
(Billions of Dollars)

						Federal Fiscal Year						
Financial Concept	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016 - 2025
Net Interest Outlays	229	283	361	424	483	544	597	649	700	744	785	5,570
Percent of Nominal GDP	1.3%	1.5%	1.8%	2.1%	2.2%	2.4%	2.5%	2.7%	2.7%	2.8%	2.8%	2.4%
Debt Held by the Public	13,506	14,108	14,705	15,315	15,959	16,635	17,349	18,085	18,830	19,577	20,371	NA
Percent of Nominal GDP	75.1%	75.0%	74.6%	74.3%	74.1%	74.0%	74.0%	73.9%	73.7%	73.5%	73.3%	NA
Debt Held by Government Accounts	5,121	5,225	5,390	5,555	5,681	5,778	5,864	5,868	5,885	5,917	5,891	NA
Percent of Nominal GDP	28.5%	27.8%	27.3%	26.9%	26.4%	25.7%	25.0%	24.0%	23.0%	22.2%	21.2%	NA
Total Debt of the United States	18,628	19,334	20,095	20,870	21,640	22,413	23,213	23,953	24,715	25,494	26,262	NA
Percent of Nominal GDP	103.6%	102.7%	102.0%	101.2%	100.5%	99.7%	99.0%	97.9%	96.8%	95.7%	94.4%	NA
Note:												
Nominal GDP	17,985	18,819	19,709	20,617	21,540	22,476	23,454	24,474	25,539	26,649	27,808	231,085

Source: Office of Management and Budget

Details by Budget Function

National Defense – Function 050

Discretionary. The budget requests $561.0 billion in regular discretionary budget authority for FY 2016. This is an increase of $39.3 billion (or 7.5 percent) relative to the level provided for FY 2015. The Department of Defense, which receives most of the funding in this function, requests $534.3 billion in budget authority for FY 2016, an increase of $38.2 billon (or 7.7 percent) from last year's levels. Additionally, the budget requests $50.9 billion in overseas contingency operations (OCO) funding for this function, which is $13.3 billion (or 20.7 percent) less than the amount thus far enacted in FY 2015.

Regular discretionary budget authority provided to programs in this function are capped annually through FY 2021 under the Budget Control Act of 2011 (BCA). This budget proposes funding above those caps annually for the duration of the BCA period. In all, the budget would increase defense discretionary spending by $181.7 billion over the FY 2016-2021 period, relative to current law limits. In FY 2016 alone, the budget request of $561.0 billion is $37.9 billion greater than the amount ($523.1 billion) allowed under the BCA.

Mandatory. The budget contains one mandatory proposal to create a new nuclear waste management program, which would increase spending in this function by $790 million over the FY 2016-2025 period. This proposal is discussed further under the Energy—Function 270 section (page 7).

International Affairs – Function 150

The budget requests $47.8 billion in regular discretionary budget authority for FY 2016. This is an increase of $6.2 billion (or 14.8 percent) relative to the level provided for FY 2015. The State Department and Other International Programs request totals $46.3 billion in budget authority for FY 2016, which is an increase of $6.2 billion or 15.5 percent from FY 2015 levels. Additionally, the budget requests $7.0 billion in OCO funding for this function, which is $2.2 billion or 23.9 percent less than the amount enacted in FY 2015.

The budget also contains a proposal to implement the 2010 International Monetary Fund (IMF) agreement, which would institute governance reforms at the IMF and increase the United States' quota. This proposal would double the United States' quota from its current level of $63 billion and rescind an equivalent amount from the U.S. contribution to the IMF's New Arrangement to Borrow (NAB) supplemental facility, which Congress supported through an emergency appropriation in 2009. Further, the President proposes to alter accounting for U.S. contributions to the IMF, which currently follow Federal Credit Reform Act accounting methods with an adjustment for market risk (pursuant to a 2009 agreement between the administration and Congress), and estimate costs on a present-value basis, using Treasury rates to discount cash flows. OMB estimates this proposal as "non-scoreable."

Overseas Contingency Operations (OCO)

The budget proposes $58.0 billion in discretionary funding for OCO in FY 2016, a $15.5 billion or 21.1 percent reduction from the amount enacted in FY 2015 (OMB does not include any potential OCO funding for the Department of Homeland Security in FY 2015, as it is still operating under a continuing resolution). The request includes $50.9 billion for activities under the Department of Defense and $7.0 billion for the Department of State and other international programs.

After FY 2016, the budget includes an annual placeholder of $26.7 billion through FY 2021, reflecting the President's proposal to cap OCO budget authority at $450.0 billion over the FY 2013–2021 period. Although placing caps on OCO is a budget gimmick, the Administration uses its OCO policy to claim $557.1 billion in spending reductions.

General Science, Space and Technology – Function 250

The President's budget requests $31 billion in discretionary budget authority for FY 2016. This is an increase of $1.2 billion (or 4.2 percent) relative to the level provided for FY 2015. NASA, which is responsible for administering most of the program funds in this function, has requested $18.5 billion in budget authority for FY 2016, an increase of $0.5 billon (or 2.8 percent). The National Science Foundation has requested $7.7 billion in budget authority for FY 2016, an increase of $0.4 billion, or 5.5 percent.

Energy – Function 270

Discretionary. The President's budget proposes a $1.1 billion increase in discretionary spending in Function 270, Energy. This is a 25 percent increase from last year and includes large increases for the Department of Energy's energy programs: Advanced Research Projects Agency – Energy (ARPA-E) receives a 16 percent increase; Electricity Delivery and Energy Reliability receives an 84 percent increase; and Energy Efficiency and Renewable Energy receives a 41 percent increase. In contrast, the Office of Fossil Energy is cut by 2 percent.

Mandatory. In total, the President proposes a $12.4 billion net increase in mandatory spending in this function over ten years.

Like last year, the President proposes mandatory funding for a nuclear waste management program. As in past years, this would involve interim storage facilities for nuclear waste and a move away from the Yucca Mountain site towards a new site selected after a consensus-based approach. The proposal's Function 270 impact would increase the deficit by $208 million over the period FY 2016-2020 and by $520 million over the period FY 2016-2025.

In addition, the President proposes a Drought Fund for the Southwestern Power Administration, decreasing the deficit by $42 million over the period FY 2016-2020 and by $33 million over the period FY 2016-2025.

The President proposes re-establishing the assessment on domestic nuclear power generators used to fund the Decontamination and Decommissioning Fund. This fund is used to clean up the nation's uranium enrichment sites in Tennessee, Kentucky, and Ohio. The proposal would decrease the deficit by $204 million in FY 2016, $1.1 billion over the period FY 2016-2020, and $2.3 billion over period FY 2016-2025.

Natural Resources and the Environment – Function 300

Discretionary. The President proposes an increase of $341 million in base discretionary spending and a wildfire cap adjustment to increase spending by $1.1 billion over the Budget Control Act limits. Together, this $1.4 billion represents a 3.7 percent increase in spending. The President requests that Congress appropriate $900 million of the wildfire cap adjustment to the Forest Service at the Department of Agriculture, and $200 million to the Department of the Interior.

With the wildfire cap adjustment, the Department of the Interior's discretionary budget would increase by $1 billion in FY 2016. Of this increase, the President proposes directing $100 million to permitting renewable energy projects on federal lands.

The President's request also includes an $800 million cut to the Army Corps of Engineers. The President's budget requests a $500 million increase for the Environmental Protection Agency. This includes an additional $239 million for development and promulgation of climate change standards.

Mandatory. The President proposes a reauthorization of the Secure Rural Schools program that costs an estimated $12 million over the period FY 2016-2025. Additional effects of the reauthorization can be found in Function 800.

The President also proposes the reauthorization of the Federal Lands Transaction Facilitation Act that reduces the deficit by an estimated $43 million over the period FY 2016-2025. Additional effects of the reauthorization can be found in Function 800 (page 27).

The President calls for the reform of hard rock mining on federal lands, which decreases the deficit by $16 million over the period FY 2016-2020 and $80 million over the period FY 2016-2025.

The President proposes changes to the Conservation Stewardship Program that moves some program costs to the discretionary budget. This saves $216 million over the period FY 2016-2020 and $486 million over the period FY 2016-2020.

The President makes spending from the Land and Water Conservation Fund mandatory, increasing the deficit by $156 million in FY 2016, $3.5 billion over the period FY 2016-2020, and by $8.1 billion over the period FY 2016-2025.

The President provides funding of $1.5 billion to the National Park Service (NPS) to support an NPS Centennial Initiative that seeks to "revitalize" the NPS system. The proposal would increase the deficit by $95 million in FY 2016 and $1.5 billion over the period FY 2016-2020.

The President's budget proposes several Abandoned Mine Lands (AML) program changes. The President seeks the establishment of a hard rock AML program that would increase direct spending by $1.3 billion over the period FY 2016-2025 but increase receipts by $1.8 billion over the same period. In addition, he seeks to return the coal AML fee to pre-2006 levels and increases spending within the coal AML program. This results in an increase in the deficit of $6 million in 2016 and $1.0 billion over the period FY 2016-2025. Together, the hard rock and coal AML program changes would increase the deficit by $6 million in 2015 and by $500 million over the period FY 2016-2025. Other impacts from AML program changes appear in Function 800 (page 27).

The President also proposes reforms to the offshore leasing program. In the past, such proposals included fees on non-producing leases. Enacting the President's proposal would decrease spending by $1.1 billion over the period FY 2016-2020 and by $3.1 billion over the period FY 2016-2025.

The President's budget includes the creation of a Clean Power State Incentive Fund, increasing direct spending by $3.1 billion over the period FY 2016-2020 and by $4.0 billion over the period FY 2016-2020. This fund is meant to help states go "beyond" the Clean Power Plan by mitigating climate change impacts to low-income communities and reducing greenhouse gas emissions.

The President also seeks to eliminate the statutory cap on pre-manufacture notice fees and enact a confidential business information management fee, increasing receipts by $4 million in FY 2016, $40 million over the period FY 2016-2020, and $80 million over the period FY 2016-2025.

Agriculture – Function 350

Discretionary. The President's requests a $511 million increase in discretionary spending in Function 350, Agriculture. With the inclusion of $900 million from the proposed wildfire cap adjustment (which appears in Function 300), the Department of Agriculture's discretionary budget would increase by $500 million in FY 2016. Included is an expansion of advanced manufacturing research through the Agriculture and Food Research Initiative, an increase in spending on climate change impacts to agriculture, and a $206 million investment into USDA buildings and laboratory facilities.

Mandatory. The President seeks savings from reducing premium support for crop insurance policies that include the so-called harvest price option. These policies enable farmers to receive a payout above the guaranteed price (which is set early in the year based on market expectations) if market prices are higher at the time of harvest. This reduction in premium support would save $1.1 billion in FY 2016, $7.3 billion over the period FY 2016-2020, and $16.0 billion over the period FY 2016-2025.

The President also seeks to establish inspection fees for the Grain Inspection, Packers, and Stockyards Administration and the Animal Plant and Health Inspection Service. Together, these fees would reduce spending in FY 2016 by $50 million, over the period FY 2016-2020 by $280 million, and over the period FY 2016-2025 by $591 million.

Commerce and Housing Credit – Function 370

Discretionary. The President's budget calls for an increase in spending of $3.1 billion in Function 370, the Commerce and Housing Credit function. This reduces the amount by which this function offsets spending in other functions by 54 percent.

This change includes an increase in spending at the Department of Commerce of $1 billion, $400 million of which will be directed to the Census Bureau. Another portion of the Department of Commerce increase is used by the President to fund a National Network for Manufacturing Innovation initiative, authorized in the December 2014 Continuing Appropriations Act (the Revitalize American Manufacturing and Innovation Act). The President proposes $350 million in discretionary spending for seven manufacturing centers. The President includes mandatory funding for an additional 29 institutes.

The President includes large increases in spending for the Commodity Futures Trading Commission and Securities and Exchange Commission in order to support continued implementation of Dodd-Frank.

Mandatory. The President's budget includes the reauthorization of the Treasury Department's State Small Business Credit Initiative, increasing spending by $216 million in FY 2016 and by $1.5 billion over the periods FY 2016-2020 and FY 2016-2025. The Initiative provides funding to state agencies that support lending to small businesses and manufacturing firms.

The President's Budget includes two manufacturing initiatives at the Department of Commerce. These initiatives are projected to cost $2.2 billion over the period FY 2016-2020 and $3.2 billion over the period FY 2016-2025. Together, these initiatives will include funding for 29 additional manufacturing institutes (seven are funded in the discretionary budget above).

The budget includes Postal Service reform. The effects of this are shown in Functions 370, 600, and 950. The President's proposed reforms of the Postal Service are also expected to decrease the deficit through Function 950 by $2.4 billion in both FY 2015 and in FY 2016, including so-called "non-scoreable" effects. The President's proposal includes the return to the postal service of excess amounts deposited in its Federal Employee Retirement System account; a requirement to fund USPS retirees health benefits through accrual payments rather than fixed amounts set in current law; and increased operating flexibility to improve revenues and decrease costs. The proposal also includes treating these reforms on a unified basis for purposes of statutory PAYGO enforcement.

Finally, the budget proposes changes to the auction of spectrum by the Federal Communications Commission, increasing the deficit by $50 million in FY 2016, $490 million over the period FY 2016-2020, and by $500 million over the period FY 2016-2025.

Transportation – Function 400

Discretionary. The President's budget proposes $14.3 billion in discretionary spending for transportation in FY 2016. This is $500 million more than the $13.8 billion in discretionary spending enacted in FY 2015, an increase of 3.6 percent. As in past years, the President's proposal also takes most current surface transportation discretionary accounts and moves their outlays from the appropriated category to the mandatory category, funding them through the Trust Fund with mandatory contract authority. The President again proposes an aviation passenger security fee increase and a new aviation security infrastructure fee as discretionary offsetting collections that would reduce budget authority by $9.8 billion over ten years. The President also proposes new pipeline design review fees and fees for hazardous materials special permits and approval as offsetting receipts that would reduce budget authority by $150 million over ten years.

Mandatory. The transportation section includes funding for a six-year, $478 billion surface transportation reauthorization bill, an expansion of his four-year $302 billion proposal from FY 2015. CBO projects that $94 billion in general fund transfers or revenue increases through FY 2021 will be required to prevent insolvency in the Highway Trust Fund. The President suggests a “pay-for” to fund his six-year highway reauthorization bill: a $268 billion plan for new revenue from business tax changes, which would impose a 14 percent one-time tax on previously untaxed foreign earnings accumulated overseas. Of this new revenue, $238 billion would be deposited into the Highway Trust Fund, while $30 billion would go toward deficit reduction. This is greater than the $150 billion in “pro-growth business tax reform” that was proposed in FY 2015. This increase covers the $116 billion increase in transportation spending, but it does not insure permanent solvency. In fact, the Trust Fund under the President’s proposal would be insolvent again by FY 2022 and would require more than $85 billion in additional transfers by FY 2025.

The President again proposes an increase in the aviation passenger security fee, which would reduce the deficit by $5.4 billion over ten years. He also proposes TRICARE consolidation and an increase in TRICARE copayments that would reduce the deficit by $121 million over ten years.

The President again calls for the creation of a new financing instrument, America Fast Forward (AFF) Bonds. This proposal is an outgrowth of the Build America Bonds (BAB) program that was part of the American Recovery and Reinvestment Act and expired in 2010. Because government bonds are often tax exempt, they are not an attractive investment for already tax-exempt investors such as pension funds. So, BABs were intended to make it easier for state and municipal governments to issue attractive taxable bonds for capital projects by providing an interest subsidy for the borrower or a tax credit for the lender. According to the President’s Budget, his AFF program will cost a total of $76 billion over 10 years.

The President also proposes reforms to the funding of inland waterways infrastructure. He proposes a fee on users of the inland waterways system to raise $1.1 billion over 10 years.

Community and Regional Development – Function 450

Discretionary. The president’s budget requests $11.1 billion in regular discretionary budget authority for FY 2016. This is an increase of $259 million (or 2.4 percent) relative to the level provided for FY 2015. Additionally, the budget requests $6.9 billion in disaster funding in FY 2016 (a cap adjustment allowed under the BCA), which is $422 million (or 6.5 percent) higher than FY 2015 levels.

Mandatory. The budget includes several mandatory proposals in this function that would increase outlays by $11.1 billion over the FY 2016-2025 period. These proposals include (with ten-year cost): a proposal to provide grants to streamline housing development ($300 million), the provision of mandatory funding for tribal contract support costs ($2.8 billion), the designation of new Promise Zones with incentives for economic development ($317 million, in addition to a $8.3 billion revenue loss), and the creation of a National Infrastructure Bank ($7.7 billion).

Education, Training, Employment and Social Services – Function 500

Discretionary. The President's budget requests $98.9 billion in discretionary budget authority for FY 2016. This is an increase of $7.1 billion, or 7.7 percent. For the Department of Education, which receives the most discretionary budget authority in this function, the President's budget requests $70.7 billion discretionary budget authority for FY 2016. This is an increase of $3.6 billion (or 5.4 percent) relative to the level provided for FY 2015.

Mandatory. In addition to the request for discretionary budget authority for FY 2016, the President's budget includes a number of proposals that affect mandatory spending. These proposals would increase mandatory spending by $60.1 billion over five years and $215.6 billion over ten years, and include. The proposals include:

- **Preschool for All.** The President again proposes this universal preschool initiative, which involves partnering with the states to provide funding for most low and moderate income four-year olds from low-income families to receive free, high-quality preschool. According to OMB, this program would cost $17.3 billion over the next five years, and $66 billion over the next ten years. The budget proposes paying for this program with an increase in tobacco taxes (discussed further in the Revenue section).

- **Teaching for Tomorrow**. This program would cost $2.7 billion over five years, and $5 billion over ten years with the goal of attracting high quality to teachers to the profession.

- **America's College Promise.** The program would cost $11.7 billion over five years and $60.3 billion over ten years. This proposal would make the first two years of community college tuition free for students through a federal-state cost sharing partnership, in which the federal government pays seventy-five percent of the costs.

- **Extend Pell CPI Increase.** The President proposes to extend the recent Consumer Price Index increases for individual Pell Grants, which would cost $3.4 billion over five years and $29.7 billion over ten years.

- **Reform Student Loan IBR Plans.** The President proposes again to refine the student loan income-based repayment plan option to cap the maximum level of loan relief and reduce the benefit available to high-income graduates. The President's proposal would save $5.7 billion over five years and $14.6 billion over ten years.

- **Reform and Expand Perkins Loan Program.** The President again proposes to convert the Perkins Loan program – which is administered by colleges – to a direct loan program administered by the Government. Because this proposal would convert the program from a discretionary spending program scored on a cash flow basis to a federal credit program scored on a net present value basis under the Credit Reform Act, it would result in savings of $4.1 billion over five years and $7.1 billion over ten years.

- **Enact Student Aid Reforms.** The President proposes student aid reforms that would save $287 million over five years and $246 million over ten years. Together these would have a collective net cost over the last three years of the budget window.

- **Implement College Opportunity and Graduate Bonus Program.** The President again proposes a program to provide an annual grant to eligible institutions based on the number of Pell Grant recipients that they graduate on-time. The program would cost $2.3 billion over five years and $5.9 billion over ten years.

- **Education Tax Package.** The President proposes to make permanent the American Opportunity Tax Credit (currently scheduled to expire at the end of 2017), and expand it by increasing the refundable portion of the credit, indexing the maximum credit amount for inflation, making the credit available for a fifth year of higher education and allowing part-time students to receive a partial credit. The President also proposes to eliminate tax on student loan debt forgiven under the Pay-as-You-Earn and Income Based Repayment plans. The President proposes to repeal or let expire the Lifetime Learning Credit, the tuition and fees deduction, the student loan interest deduction (for new borrowers) and Coverdell education savings accounts (for new contributions), and he would increase the taxability of new contributions to Section 529 College Savings Plans. The estimated increase in outlays from these proposals is $16.3 billion over five years and $44.9 billion over ten years.

- **IRS Correctable Errors Flexibility.** The President proposes to provide the IRS with greater flexibility to address correctable errors. Estimated new revenue: $26 million in FY 2016 and $537 million over ten years.

- **Family Connection Grants**. The President proposes reauthorizing these Grants, which are intended to help reunite foster children with their parents. The cost would be $14 million over five years and $14 million over ten years; there is no cost after 2019.

- **Personal Responsibility Education Program (PREP)**. The President proposes to reauthorize this program, which would cost $232 million over five years and $375 million over ten years. The program, run by Health and Human Services, focuses on education related to abstinence and contraception.

- **Health Professional Opportunity Grants**. The President proposes to reauthorize these grants, which would cost $295 million over five years and $341 million over ten years; there is no cost after FY 2022. The program provides education and training in the healthcare fields to low-income individuals.

- **Upward Mobility Project**. This project would cost $1 billion over five and ten years; there is no cost after FY 2020.

- **Trade Adjustment Assistance Program.** The President proposes to extend the Trade Adjustment Assistance Program at a cost of $678 million over five years and $2.1 billion over ten years.

- **Connecting for Opportunity Program** – The President proposes to create this as a temporary program at a cost of $3 billion over five years; there is no cost after FY 2019.

- **Apprenticeship Training Fund** – The President proposes to create this fund at a cost of $2 billion over five years; there is no cost after FY 2019.

- **High-Growth Sector Training and Credentialing Grants** – This new proposed program would have a cost of $8.6 billion over five years and $16 billion over ten years.

- **Expand Foreign Labor Certification Fees** – The proposed cost of administering the certification program is $370 million over five years and $871 million over ten years, which is paid for by the fees.

Health Care/Medicare – Function 550/570

Discretionary. The President's budget requests $53.5 billion in discretionary budget authority for FY 2016. This is a decrease of $3.2 billion (or 6 percent) relative to the level provided for FY 2015. The Department of Health and Human Services, which is responsible for administering most of the programs in this function, has requested $79.9 billion in budget authority for FY 2016, or a decrease of $300 million (or 0.4 percent).

Mandatory. The President presents his mandatory proposals in the budget as netting $400 billion in mandatory health care savings over the FY 2016 to FY 2025 period. However, the President's budget proposes to extend funding for the Children's Health Insurance Program (CHIP) through FY 2019, but does not include the $14.4 billion cost. After accounting for the CHIP extension, the budget only proposes approximately $385 billion in net mandatory changes. This figure includes a $41.4 billion net increase in Medicaid spending and a $426.7 billion net reduction in Medicare spending.

Medicaid and Other Mandatory Health Care Proposals — Function 550

Mandatory: The budget contains numerous proposals in this function that would affect mandatory spending, resulting in a $41.4 billion net increase in mandatory spending. This proposals include:

<u>Increases in spending (+$60.6 billion):</u>

- Extend CHIP funding through 2019 (+$14.4 billion).
- Extend Health Centers (+$8.1 billion).
- Create State option to provide 12-month continuous Medicaid eligibility for adults (+$6.4 billion).
- Extend the Medicaid primary care payment increase through Calendar Year 2016 and include additional providers (+$6.3 billion).
- Create a competitive, value-based graduate medical education program (+$4 billion).
- A pilot comprehensive long-term care State plan option (+$4 billion).
- Expand eligibility under the Community First Choice option (+$3.6 billion).
- Invest in the National Health Service Corps (+$2.6 billion).
- Extend Transitional Medical Assistance (TMA) program through CY 2016 (+$1.8 billion).
- Provide home and community-based services (HCBS) to children eligible for psychiatric residential treatment facilities (+$1.6 billion).
- Expand eligibility for the 1915(i) HCBS state plan option (+$1.3 billion).
- Permanently extend Express Lane Eligibility (ELE) for children (+$1.2 billion).
- Create a demonstration program to address over-prescription of psychotropic medications for children in foster care (+$1.1 billion).
- Allow states to develop age-specific health home programs (+$1 billion).
- Reauthorize the Special Diabetes Program (+$900 million).
- Require full coverage of preventive health and tobacco cessation services for adults in traditional Medicaid (+$754 million).
- Provide CMS Program Management implementation funding for Physician Payment Reform (+$600 million).
- Require coverage of EPSDT for children in inpatient psychiatric treatment facilities (+$425 million).
- Provide CMS Program Management implementation funding (+$400 million).
- Allow full Medicaid benefits for individuals in a home and community-based services (HCBS) state plan option (+$38 million).
- Increase access to and transparency of Medicaid drug pricing data (+$30 million).
- Allow CMS to reinvest civil monetary penalties recovered from home health agencies (+$10 million).

<u>Reductions in spending (-$19.2 billion):</u>

- Changes to Medicaid drug rebate program (-$5.6 billion).

- Limit Medicaid reimbursement of durable medical equipment (DME) based on Medicare rates (-$4.3 billion).
- Rebase future Medicaid Disproportionate Share Hospital (DSH) allotments (-$3.3 billion).
- Streamline FEHBP pharmacy benefit contracting; Provide FEHBP benefits to domestic partners; Expand FEHBP plan types; and Adjust FEHBP premiums for wellness (-$2.6 billion).
- Prohibit brand and generic drug manufacturers from delaying the availability of new generic drugs and biologics; Modify length of exclusivity to facilitate faster development of generic biologics (-$1.6 billion, Medicaid effect).
- Reduce fraud, waste and abuse in Medicaid (-$1 billion).
- Exclude brand-name and authorized generic drug prices from the Medicaid Federal upper limit (FUL) (-$780 million).

<u>Proposals with no budgetary effect:</u>
- Extend Money Follows the Person Rebalancing Demonstration through 2019.
- Allow pregnant women choice of Medicaid eligibility category.
- Expand State flexibility to provide benchmark benefit packages.
- Allow CMS to assess a fee on Medicare providers for payments subject to the Federal Levy Program.
- Establish Medicare appeals refundable filing fee.
- Remand appeals to the redetermination level with the introduction of new evidence.
- Sample and consolidate similar claims for administrative efficiency.
- Increase minimum amount in controversy for Administrative Law Judge (ALJ) adjudication of claims to equal amount required for judicial review.
- Establish magistrate adjudication for claims with amount in controversy below new ALJ amount in controversy threshold.
- Expedite procedures for claims with no material fact in dispute.

Medicare Proposals – Function 570

Mandatory: The budget contains numerous proposals in this function that would affect mandatory spending, resulting in a $426.7 billion net reduction in mandatory spending. These policies include:

<u>Increases in spending (including interactions $52 billion in increases and $18.3 billion in interactions for a total increase of +$70.3 billion):</u>
- Reform Medicare physician payments to promote participation in high-quality and efficient health care delivery systems (+$44 billion).
- Eliminate the 190-day lifetime limit on inpatient psychiatric facility services (+$5 billion).
- Provide Office of Medicare Hearings and Appeals and Department Appeals Board authority to use RAC collections (+$1.3 billion).

- Extend Qualified Individuals (QI) program through calendar year CY 2016 (+$975 million).
- Provide CMS Program Management implementation funding for Physician Payment Reform (+$600 million).
- Invest in CMS quality measurement (+$90 million).
- Interactions (+$18.3 billion).

<u>Reductions in spending (-$497billion):</u>

Medicare providers (-$413.2 billion):

- Align Medicare drug payment policies with Medicaid policies for low-income enrollees (-$116.1 billion).
- Adjust payment updates for certain post-acute care providers (-$102.1 billion).
- Increase the minimum Medicare Advantage coding intensity adjustment (-$36.2 billion).
- Reduce Medicare coverage of bad debts (-$31.1 billion).
- Encourage efficient care by improving incentives to provide care in the most appropriate ambulatory setting (-$29.5 billion).
- Strengthen the Independent Payment Advisory Board (IPAB) to reduce long-term drivers of Medicare cost growth (-$20.8 billion).
- Better align graduate medical education payments with patient care costs (-$16.3 billion).
- Prohibit brand and generic drug manufacturers from delaying the availability of new generic drugs and biologics; Modify length of exclusivity to facilitate faster development of generic biologics (-$14.5 billion, Medicare effect).
- Accelerate manufacturer discounts for brand drugs to provide relief to Medicare beneficiaries in the coverage gap (-$9.4 billion).
- Implement bundled payment for post-acute care (-$9.3 billion).
- Modify reimbursement of Part B drugs (-$7.4 billion).
- Align employer group waiver plan payments with average MA plan bids (-$7.2 billion).
- Exclude certain services from the in-office ancillary services exception (-$6 billion).
- Encourage appropriate use of inpatient rehabilitation hospitals (IRFs) by requiring that 75 percent of IRF patients require intensive rehabilitation services (-$2.2 billion).
- Reduce waste, fraud, and abuse in Medicare (-$1.8 billion).
- Reduce Critical Access Hospital (CAH) payments from 101 percent of reasonable costs to 100 percent of reasonable costs (-$1.7 billion).
- Prohibit CAH designation for facilities that are less than 10 miles from the nearest hospital (-$770 million).
- Require mandatory reporting of other prescription drug coverage (-$480 million).
- Expand coverage of dialysis services for beneficiaries with acute kidney injury (-$200 million).

- Allow CMS to assign beneficiaries to Federally Qualified Health Centers and Rural Health Clinics participating in the Medicare Shared Savings Program (-$80 million)
- Expand basis for beneficiary assignment for Accountable Care Organizations (ACOs) to include Nurse Practitioners, Physician Assistants, and Clinical Nurse Specialists (-$60 million).

Medicare structural reforms (-$83.8 billion):

- Increase income-related premiums under Medicare Parts B and D (-$66.4 billion).
- Encourage the use of generic drugs by low-income beneficiaries (-$8.9 billion).
- Introduce a Part B premium surcharge for new beneficiaries who purchase near first-dollar Medigap coverage (-$4 billion).
- Modify the Part B deductible for new beneficiaries (-$3.7 billion).
- Introduce home health co-payments for new beneficiaries (-$830 million).

<u>Proposals with no budgetary effect:</u>

- Make permanent the Medicare primary care incentive payment in a budget neutral manner.
- Allow ACOs to pay beneficiaries for primary care visits up to the applicable Medicare cost sharing amount.
- Establish quality bonus payments for high-performing Part D plans.
- Implement value-based purchasing for skilled nursing facilities (SNFs), home health agencies (HHAs), ambulatory surgical centers (ASCs), hospital outpatient departments (HOPDs), and community mental health centers (CMHCs).
- Establish a hospital-wide readmissions measure.
- Extend accountability for hospital-acquired conditions.
- Expand sharing Medicare data with qualified entities.
- Suspend coverage and payment for questionable Part D prescriptions and incomplete clinical information.
- Establish authority for a program to prevent prescription drug abuse in Medicare Part D.
- Allow the Secretary to negotiate prices for biologics and high cost prescription drugs.
- Modify the documentation requirement for face-to-face encounters for durable medical equipment, prosthetics, orthotics, and supplies (DMEPOS) claims.
- Clarify calculation of the late enrollment penalty for Medicare Part B premiums.
- Clarify the Medicare Fraction in the Medicare Disproportionate Share Hospital (DSH) statute.
- Ensure retroactive Part D coverage of newly-eligible low-income beneficiaries.

- Establish integrated appeals process for Medicare-Medicaid enrollees.
- Create pilot to expand PACE eligibility to individuals between ages 21 and 55.
- Allow for Federal/State coordinated review of Duals Special Need Plan marketing materials.

While the budget appears to include $385 billion in net mandatory savings, the budget also proposes a Medicare "doc fix" to prevent the 21 percent reduction in physician payment rates scheduled to take effect on April 1, 2015. The budget assumes a permanent freeze in physician payment rates at current levels and places the new mandatory spending in its adjusted baseline, rather than including it as one of the president's policy proposals. OMB estimates the "doc fix" will increase Medicare spending by $108 billion over the 10-year window (and $113 billion over the 11-year period from 2015 to 2025).

The President's budget also proposes turning off the Budget Control Act (BCA) Medicare sequester. The cost of turning off the mandatory sequester is reflected in the overall levels of spending and deficits, but the effect on spending levels for individual programs is not shown in the budget. According to CBO's most recent estimate in the January 2015 baseline, turning off the mandatory sequester would increase Medicare spending by $148 billion over the 10-year budget window. This increase in Medicare spending does not appear in OMB's estimates of mandatory health care spending.

An accurate accounting of all the President's proposals that affect mandatory health care spending—one that counts both the increase in Medicare spending from the "doc fix" as well as from turning off the sequester—reveals that the President is proposing less than $130 billion in net mandatory health care savings over the ten-year period. The President's modest savings relative to current law do not significantly alter the trajectory of spending on mandatory health care programs over the long-term.

Income Security – Function 600

Discretionary. The President's budget requests $69.5 billion in discretionary budget authority for FY 2016. This is an increase of $4.4 billion (or 7 percent) relative to the level provided for FY 2015. A number of agencies administer the programs in this function. They include the Department of Health and Human Services, the Department of Agriculture, the Social Security Administration, the Department of the Treasury, the Department of Labor, and the Department of Housing and Urban Development. The Department of Housing and Urban Development, which is responsible for administering the low-income housing programs in this function, has requested $41.0 billion in budget authority for FY 2016 or an increase of $6.2 billon (18 percent) relative to FY 2015.

Mandatory. In addition to the request for discretionary budget authority for FY 2016, the President's budget includes a number of proposals that would increase gross spending on mandatory programs relative to current law by $350.9 billion over ten years. This includes proposals that would increase spending on means-tested assistance by $166.4 billion. Including the proposals that produce savings, the budget increases income security by $196.9 billion. Those proposals include:

- **Increase Supplemental Nutrition Assistance Program (SNAP).** The budget proposes increasing funding for SNAP employment and training as well as a new state option to increase SNAP enrollment for the elderly. These two proposals would increase spending by $701 million over ten years.

- **Increase foster care funding for Tribes and new prevention and permanency services funding.** The budget proposes additional foster care funding for Native American tribes and a new foster care program to address "prevention and permanency" services. These two proposals would increase spending by $701 million over ten years.

- **Establish a LIHEAP Contingency Fund.** The Low Income Heating and Energy Assistance Program is a discretionary program that provides grants to states providing assistance to low-income people. The budget would provide an additional $7.9 billion in mandatory spending in addition to the amount appropriated annually over the next ten years.

- **Increase funding for the Child Care and Development Fund (CCDF).** The CCDF provides assistance to offset the cost of child care for low- and moderate-income families. The budget proposes expanding the funding for this program so that all children under the age of three who live in homes with incomes below 200 percent of the poverty line can receive a subsidy. This proposal would increase spending by $78.3 billion over the next ten years.

- **Increase the Child and Dependent Care Tax Credit (CDCTC).** The CDCTC provides a credit between 20 and 35 percent of child care expenses up to $3,000 for a child under age 13 (or $6,000 for two or more children). The budget would increase the amount available for children under the age of five allowing taxpayers to claim a 50 percent credit up to $6,000 per child. This proposal would increase spending by $11.1 billion over the next ten years.

- **Create a new grant program to pay for additional child care.** The budget proposes a new fund to provide grants to develop child care programs that are intended to serve populations that have "unique challenges" in finding care. These challenges could include people looking for child care in rural areas or during non-traditional working hours. This proposal would increase spending by $3.1 billion over the next ten years.

- **Establish a paid leave initiative.** This proposal would increase spending by $2.2 billion over ten years.

- **Additional unemployment benefits for those experiencing long-term employment.** The Extended Benefits program is intended to provide the unemployed in states with unusually high unemployment rates with additional benefits beyond the traditional 26 weeks. The budget proposes expanding this program at a cost of $56.0 billion over ten years. In addition, the budget proposes a number of unemployment program integrity initiatives that claim to save $2.2 billion over ten years.

- **Extend Trade Adjustment Assistance.** The budget proposes extending trade adjustment assistance at a cost of $2.0 billion over ten years.

- **Demonstration project for the over-prescription of psychotropic drugs to children in foster care homes.** The budget again proposes a five-year demonstration project that would address alternatives to the prescription of psychotropic drugs to children in foster care. This project would increase spending through the Administration for Children and Families by $251 million over the five years of its existence.

- **Extend Special Immigrant Visa program.** The budget calls for an extension of the Special Immigrant Visa program, which would grant visas for Iraqis, Afghans, and other persons who worked with the U.S. military. This program would increase spending in this function because those granted visas that have low-incomes would be eligible for Supplemental Security Income (SSI), Supplemental Nutrition Assistance Program (SNAP), and other low-income programs. This proposal would increase spending by $52 million over the next ten years.

- **Expand Earned Income Tax Credit (EITC) for workers without children.** The budget proposes expanding the maximum EITC for workers without children from $503 to $1,005 (indexed for inflation). The proposal would also increase the income at which the credit phasing-outs from $8,220-$14,790 to $11,500-$18,070. This proposal would increase spending by $57.6 billion over the next ten years.

- **Providing an additional EITC to second earners.** This budget proposes providing an additional credit to two-earner married couples claiming the EITC. This proposal would increase spending by $6.8 billion over ten years.

- **Earned Income Tax Credit (EITC) and Child Tax Credit (CTC).** The American Relief and Recovery Act of 2009 (ARRA) made a series of changes to the EITC and CTC, including an increase in the maximum EITC for larger families and reducing the minimum earned income for taxpayers to receive the CTC. These provisions were extended through 2017 by the American Taxpayer Relief Act of 2012. The President's budget would make these changes permanent which would increase the deficit by $103.2 billion over the next ten years. However, this policy is assumed in the baseline and not reflected in the summary tables showing total spending. This is a gimmick because the total new spending for the function ignores the new spending associated with this policy.

- **Provide dedicated mandatory funding for Social Security Administration (SSA) program integrity.** The SSA administers the Supplemental Security Income (SSI) program that provides cash assistance to low-income disabled children and adults as well as the elderly. The President's budget proposes new spending on initiatives intended to increase program integrity by $12.2 billion over the next ten years. The budget also claims that this proposal would save $25.6 billion over the same period.

- **Provide funding for automatic enrollment in IRAs.** The budget proposes new funding to promote automatic enrollment into retirement accounts. This proposal would increase spending by $1.8 billion over ten years.

- **Provide the Secretary of the Treasury with authority to regulate all tax return service providers.** This proposal would reduce spending in this function by $182 million over the next ten years.

- **Demonstration authority for Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI).** The budget proposes a four year extension of the authority to conduct demonstration projects in SSDI and SSI that could help improve the programs. This proposal would increase spending by $350 million over the next ten years.

- **Extend Supplemental Security Income (SSI) time limit for refugees.** The 1996 welfare reform law prohibited refugees from qualifying for SSI for more than seven years. In 2008, Congress passed a two-year extension of the time limit to nine years. This proposal would extend the SSI time limit to nine years for another two years. This proposal would increase spending by $72 million over the next two years.

- **Federal Employee Compensation Act.** The President again proposes to reform FECA. The proposal would save $92 million over five years and $336 million over ten years. This recommended change includes reducing payments to FECA recipients when they reach retirement age.

- **Pension Benefit Guaranty Corporation.** The President again proposes to enhance PBGC solvency by allowing the PBGC board discretion to increase the premium fees companies are required to pay. This proposal would increase revenue by $4.3 billion over five years and $21.3 billion over ten years.

- **Railroad Retirement Board fraud.** The President proposes to amend the Railroad Retirement Act and the Railroad Unemployment Insurance Act to include a felony charge for fraud. This policy has no scoreable impact.

- **Railroad Retirement Board program integrity.** The President proposes program integrity initiatives for the RRB that would cost $11 million over five years and $21 million over ten years.

Social Security – Function 650

Discretionary. Social Security provides retirement, survivors, and disability insurance to covered workers and their eligible dependents. It is the largest budget function in terms of outlays. According the 2014 Report of the Social Security Trustees, the trust funds that disburse Social Security retirement and disability benefits are financially troubled. The problem is particularly acute for the disability trust fund (DI), which will be exhausted by the fourth quarter of 2016 and unable to pay full benefits.

The President's budget requests $5.4 billion in on-budget discretionary budget authority for FY 2016. This is an increase of $352 million (or 7 percent) relative to FY 2015. The Social Security Administration (SSA), is responsible for administering all of the programs in this function. Proposals in the President's budget that would affect discretionary spending include:

- **Reclassify Discretionary Spending for Continuing Disability Reviews as Mandatory.** The Budget Control Act (BCA) authorizes adjustments to the discretionary spending caps for amounts appropriated to SSA for continuing disability reviews (CDRs) and benefit redeterminations. The maximum cap adjustment is limited to the levels in the BCA, provided that Congress first provides a base level of $273 million in annual appropriations. The President's budget includes a proposal to repeal the discretionary cap adjustments for CDRs and instead provide a permanent (and higher) dedicated source of mandatory funding for CDRs to the Social Security Administration. For FY 2016, the budget provides $273 million in base funding for SSA, but after 2016, no further discretionary funding is proposed. In addition, the President proposes an annual reduction to the discretionary spending caps beginning in 2017 to offset the cost of shifting the base funding from discretionary to mandatory (see Table 3).

Table 3. Changes to Funding for CDRs in the President's Budget

	2015 (Enact)	2016	2017	2016-2020	2016-2025
BCA Spending on CDRs*					
- Base	273	273	273	1,365	1,638
- Cap Adj.	1,123	1,166	1,309	6,402	7,711
Total:	1,396	1,439	1,582	7,767	9,349
President's Budget:					
Discretionary Spending on CDRs	273 1,123 1,396	273 1,166 1,439	0	0	0
Mandatory Spending on CDRs	0	0	1,805	8,230	16,679

Note: Mandatory spending reflects $273 billion in base spending that is moved from discretionary to mandatory. The President proposes to reduce the discretionary caps over the FY 2017-2021 period by $273 billion to offset the cost. Some of these costs are attributable to function 600 (SSI) but are included here for simplicity.
Note: The BCA does not provide cap adjustments for CDRs beyond FY 2021.

Mandatory. In addition to the request for discretionary budget authority for FY 2016, the President's budget includes a number of proposals that affect mandatory spending. In total, these proposals would increase the deficit in FY 2016 by $43 million but would reduce the deficit by $13.9 billion over the ten year period of FY 2016-2025. Those proposals include:

- **Provide Social Security benefits for same sex married couples.** For couples married ten years or more, a working or non-working spouse of the primary wage earner is eligible for Social Security benefits based on the primary wage earner's contributions or the spouse's own earnings, whichever is more. The President's budget would extend the spousal provision to married same-sex couples in 2015.
    - New spending: $5 million in FY 2016 and $1.1 billion over ten years.

- **Offset disability insurance (DI) Benefits for Period of Concurrent Receipt of Unemployment Insurance (UI) Benefits.** For DI beneficiaries receiving UI benefits, the federal government is replacing a portion of their lost earnings not once, but twice. According to a 2012 GAO report, 117,000 individuals in FY 2010 received concurrent cash benefit payments from the DI and UI programs at a cost of more than $850 million. Moreover, the DI and UI trust funds both face serious fiscal sustainability challenges. The President's budget includes a proposal to reduce an individual's DI benefit in any month in which the individual also receives a state or federal unemployment compensation benefit.
    - Estimated savings (in function 650): $0 in FY 2016 and $2.2 billion over ten years.

- **Expand authority to require authorization to verify financial information for overpayment waiver requests.**
    - Estimated savings: $5 million in FY 2016, $75 million over five years and $180 million over ten years.

- **Strengthen Government Pension Offset (GPO) and Windfall Elimination Provision (WEP) enforcement.** The President's budget would require state and local governments to share pension data with the Social Security Administration. WEP and GPO are offsets that reduce the Social Security benefit of retirees who are also receiving state or local government pensions for non-covered employment. The current system relies on self-reporting of non-covered pension income.
    - New spending in FY 2016: $18 million
    - Estimated savings: $1.1 billion over five years and $6.5 billion over ten years.

- **Restructure the Federal Wage Reporting process by moving from annual to quarterly wage reporting** and amending the Internal Revenue Code to lower the electronic wage reporting threshold from 250 employees to 100 employees.
    - New spending in FY 2016: $20 million.
    - Estimated savings: $1.1 billion over ten years.

- **Reauthorize and expand demonstration authority for Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI).** The budget proposes a five-year extension of the authority to conduct demonstration projects in SSDI and SSI that could help improve the programs. Specifically, the demonstration authority would be used to initiate the Work Incentives Simplification Pilot (WISP) with the intention of encouraging beneficiaries to go back to work. This proposal would increase spending by $350 million over the next 10 years.

- **Improve the collection of Worker's Compensation data.** Similar to the WEP/GPO proposal, worker's compensation information is self-reported to the Social Security Administration and used to adjust disability benefits. The Administration's proposal would develop a process to collect the data from states and private insurers, instead. The $5 million in FY16 would help states with implementation costs.
    - New spending: $5 million in FY 2016 and $10 million over ten years.
    - Estimated OMB savings*: "The proposal is expected to generate long-term savings, based on a pilot previously reported by SSA's OIG office, but SSA has been unable to develop a savings estimate."*

Veterans Benefits and Services – Function 700

Discretionary. The President's budget requests $70.5 billion in discretionary budget authority for FY 2016. This is an increase of $5.1 billion (or 8 percent) relative to the level provided for FY 2015. The Department of Veterans Affairs, which is responsible for administering most of the programs in this function, requests $70.2 billion in budget authority for FY 2016 or an increase of $5.1 billon (8 percent) relative to FY 2015.

Mandatory. In addition to the request for discretionary budget authority for FY 2016, the President's budget includes a number of proposals that affect mandatory spending. Over ten years, these proposals would reduce the deficit by $2.3 billion. The proposals include:

- **Changes to Post-9/11 education benefits.** The budget proposes to cap the amount of GI benefits that can be used for flight training. This would save $326 million over ten years.

- **Clarify threshold for medical examination.** This proposal would clarify threshold for when the Veterans Administration is required to provide a medical examination for receipt of benefits. This proposal would save $438 million over ten years.

- **Cost-of-living adjustment for compensation and education.** Prior to calendar year 2014, the cost-of-living adjustment for veterans compensation and education benefits was rounded down to the nearest dollar. This proposal would bring back the "round down" for veterans benefits. This proposal would reduce spending by $1.7 billion over the next ten years.

- **Increase readjustment benefits.** The VA provides a variety of readjustment benefits to veterans as they return to civilian life. The budget proposes increasing the funding for a number of these programs including vocational rehabilitation contract counseling and the housing grant program. Together, these proposals would increase spending by $189 million over the next ten years.

- **Provide burial receptacles for certain new casketed gravesites.** This proposal would provide burial receptacles for each new gravesite in a VA cemetery that receives a grant from the VA Veterans Cemetery Grants Program (VCGP) so that veterans buried in State or Tribal cemeteries can have access to the same receptacles as the national cemeteries. This proposal would increase spending by $30 million over the next ten years.

Administration of Justice – Function 750

The President's budget requests $41.3 billion discretionary budget authority for FY 2016[3]. This is a decrease of $10.5 billion (or 20 percent) relative to the level provided for FY 2015. Function 750 covers the Department of Justice, including the Federal Bureau of Investigation, the Drug Enforcement Administration, the Bureau of Alcohol, Tobacco, Firearms and Explosives, and Citizenship and Immigration Services. The Department of Justice, which is responsible for administering most of the programs

[3] This amount includes $89 million in program integrity authority.

in this function, has requested $58.2 billion in total budget authority for FY 2016 or an increase of $2.9 billion (or 5.3 percent).

*The President's Immigration Reform Plan***.** The largest single policy change responsible for these changes in budget authority is the proposed implementation of the President's immigration reform plan. This plan would have two major effects on overall fiscal results, according to the President's budget. On the one hand, outlays would increase as funds are spent to identify undocumented aliens and enable them to achieve provisional legal status. On the other hand, these newly documented workers would begin or increase their contribution to tax revenues through the income and payroll tax systems.

The President's immigration reform plan calls for undocumented immigrants to step forward and, without criminal penalty, register with the government's immigration service. They would submit to biometric identification, pass criminal and national security background checks, and pay certain fees and penalties. After successfully passing through these checkpoints, immigrants would be granted provisional legal status, which would enable them to work in the United States. Additional tests and fees would be required for those applying for a Green Card, which would enable them to begin a five-year waiting period to apply for U.S. citizenship.

In addition, children brought to this country illegally by their parents would, in certain circumstances, be immediately eligible for a citizenship application. Most others would be given an accelerated schedule for citizenship upon successfully completing college or serving honorably in the Armed Forces.

Finally, the President's plan gives additional resources to Homeland Security for securing the country's southern border and for combating fraud by employers in the hiring of undocumented immigrants.

The President's budget estimates immigration reform will increase outlays by $8 billion in FY 2016, $11 billion in FY 2017, and $18 billion in FY 2018. Over the entire ten-year budget window, outlays for the plan will equal $298 billion. The President also estimates increased revenues from legalization of millions of undocumented immigrants. Revenues from the income and payroll tax systems are expected to increase by $2 billion in FY 2016, $12 billion in FY 2017, and $28 billion in FY 2018. The President expects revenue growth over the entire ten-year period to equal $456 billion, thus presumably offsetting all $298 billion in additional outlays.

General Government – Function 800

Discretionary. The President's budget requests $19.3 billion in discretionary budget authority for FY 2016. This is an increase of $2.6 billion (or 15.6 percent) relative to the level provided for FY 2015. The FY 2016 request separately includes $578 million for program integrity funds; no program integrity funds were provided in this function in FY 2015.

Mandatory. In addition to the request for discretionary budget authority for FY 2016, the president's budget includes a number of proposals that affect mandatory spending. Those proposals would decrease spending by $2.0 billion over ten years and include:

- **Secure Rural Schools** – The President proposes to reauthorize the program at a cost of $389 million over five years. There is no cost after 2020.
- **Federal Land Transaction Facilitation Act** – The President proposes to reauthorize FLTFA at a cost of $2 million over five years and $7 million over ten years.
- **Abandoned Mine Lands** – The President proposes to terminate AML payments to certified States, saving $161 million over five years and $224 million over ten years.
- **Palau Compact of Free Association** – The President proposes to extend the Compact at a cost of $125 million over five years, and $163 million over ten years.
- **Payment in Lieu of Taxes (PILT)** – The President proposes to extend federal payments to local governments through 2016. PILT helps offset losses of property taxes due to non-taxable federal lands within their boundaries. This proposal costs $452 million over one, five and ten years.
- **Geothermal Payments to Counties** – The President proposes to repeal these payments. There is no scoreable impact in the budget window.
- **Foreign Labor Certification Fees** – The President proposes to expand these fees, which produce revenues used to administer the program. The proposed fees would produce revenue of $370 million over five years, and $871 million over ten years.
- **Pay for Success Incentive Fund** – The President proposes to establish a fund that would pay entities for the operation of social welfare programs only if the programs are proven successful based on certain performance metrics. The proposed cost is $124 million over five years and $300 million over ten years.
- **Recovery of Assets of the United States –** The President proposes to authorize Treasury to locate and recover assets of the U.S. and to retain a portion of amounts collected to pay for the cost of recovery. The savings from this proposal is $15 million over five years and $30 million over ten years.
- **Administrative Bank Garnishment** – The President proposes to increase delinquent federal non-tax debt collections by authorizing administrative bank

garnishment for non-tax debt. The projected savings is $160 million over five years and $320 million over ten years.

- **State Income Tax Collection on Out of State residents** – The President proposes to allow offset of federal income tax refunds to collect delinquent State income taxes for out-of-state residents. There is no scoreable impact from this proposal.

- **State Tax Collection Costs** – The President proposes to reduce costs for States collecting delinquent income tax obligations. There is no scoreable impact from this proposal.

- **Contacting Debtors Via Cellphone** – The President proposes to provide authority to contact delinquent debtors via their cell phones. The projected savings is $60 million over five years and $120 million over ten years.

- **Civilian Property Realignment Board** – The President proposes to increase the disposal of unneeded federal property by again proposing the creation of a commission that would propose properties to be sold. The projected cost of the board is $94 million over five years and $104 million over ten years.

- **Benefit Protection Threshold** – The President proposes to index the $750 benefit protection threshold for inflation at a cost of $2 billion over five years and $2.2 billion over ten years.

Interest – Function 900

Net interest will equal $5.6 trillion over the budget window. That would place outlays for interest as the fourth biggest category of spending in the President's budget after Social Security, Medicare and defense outlays broadly defined.

The President estimates that net interest outlays will grow from $229 billion at the end of FY 2015 to $785 billion by FY 2025, or a growth of 243 percent over the ten-year period. Not only does this increase reflect the effect of higher interest rates on re-financing of existing debt, but it results as well from new borrowing. Federal debt held by the public will increase by $6.865 trillion from FY 2016 through FY 2025, or a growth of 51 percent in ten years.

Allowances – Function 920

The budget contains no discretionary allowances for fiscal year 2016. However, for fiscal years after 2016, the budget contains allowances for two items. First, for each year through FY 2025, the budget includes unspecified spending reductions to meet the non-defense discretionary caps proposed by the President. These unspecified cuts total $198.9 billion in budget authority and $186.6 billion in outlays for the nine years FY 2017-FY 2025. In addition, the budget includes in function 920 the placeholder amount included by the President for Overseas Contingency Operations (OCO). The placeholder is $26.7 billion budget authority for each year FY 2017 – FY 2021, or a total of $133.3 billion in budget authority with $133.1 billion in outlays. While one might anticipate that much of the OCO allowance will be for defense spending, the administration places it here because the exact split between defense and non-defense is not identified.

The budget also contains two mandatory items in the allowance function. The first is $298 billion over 10 years for the costs of comprehensive immigration reform (discussed in more detail in Function 750). Some of the newly-legalized immigrants will draw federal means-tested benefits for health care and other purposes, and those costs are shown in this function. The second is an allowance that nets to zero over 10 years to ensure that federal benefits programs make 12 payments each year, rather than the 11 or 13 that would otherwise occur. This smooths cash flow and deficit projections.

Undistributed Offsetting Receipts — Function 950

Mandatory. There is no discretionary spending in function 950. Mandatory fee increases proposed in the budget total $7.0 billion and include:

- **Increase Pharmacy Copayments.** The President proposes to increase TRICARE pharmacy copayments, which on an accrual basis would increase receipts by $1.7 billion over five years and $3.99 billion over ten years.

- **Increase Tricare Premiums.** The President also proposes to increase annual premiums for TRICARE enrollment, which on an accrual basis would increase receipts by $436 million over five years and $983 million over ten years.

- **Oil and Gas Management Reforms.** The President proposes additional reforms of oil and gas management by the Federal government that would increase receipts by $50 million in 2016, $615 million over five years and $1.7 billion over ten years.

- **Changes To FCC Auction Authority.** The President proposes to establish a Spectrum License User Fee and proposes other changes to FCC auction authority, raising $225 million in FY 2016, $3.1 billion over five years, and $6.6 billion over ten years.

- **Dispose Of Unneeded Federal Real Property.** The President's proposes to create a Civilian Property Realignment Board to dispose of unneeded federal real property, which is projected to increase receipts by $940 million over five years and $1.2 billion over ten years.

- **Postal Service Reform.** The President's proposal to reform the Postal Service would increase receipts by $2.4 billion in FY 2016. It has no effect in the out-years.

- **Offshore Revenue Reform.** Additionally, the President proposes offshore revenue reform that would have no scoreable impact.

Revenues

The President's policies would increase taxes by $2.1 trillion, on net, over the next ten years. This is in addition to the $776 billion tax increase the President demanded in 2012, when Republicans fought—and won—to protect middle- and lower-income taxpayers from new tax increases.

Throughout his two terms in office, the President repeatedly has sought to impose a tax regime that redistributes the gains from productivity, penalizes work, and fosters class warfare. His 2016 budget includes tax policies that stymie economic growth, hurt small business, and increase complexity.

In addition, the President assumes the permanent extension of certain expiring tax provisions that would increase the deficit by $47.3 billion over five years and by $166.2 billion over ten years in his baseline.

Tax provisions include:

- **Increase the death tax.** The 2010 Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act set a single death tax rate of 35 percent and a $5 million exemption (indexed for inflation) through 2012. The bipartisan 2012 fiscal cliff deal permanently increased the death tax rate to 40 percent and set the exemption at $5.1 million, indexed for inflation. Now the President proposes to roll back the death tax rate to the 2009 level of 45 percent and a $3.5 million exemption (not indexed for inflation) beginning in 2017—a proposal detrimental to small businesses, especially family farmers. OMB estimates that this proposal would raise $189.3 billion in revenues.

- **Limit itemized deductions.** The President's budget again includes a proposal that would limit the tax benefit of deductions and certain exclusions to 28 percent of the value of those deductions and exclusions. The limitation would be applied after the limitation on itemized deductions in current law known as "Pease." In fact, the Pease limitation on deductions was eliminated as part of the 2001 tax cuts, but resurrected in 2013 as part of the fiscal cliff deal. This tax increase will likely be shouldered by many small businesses, given that 94 percent of U.S. business are organized as pass-through entities and subject to the individual income tax. Over ten years, OMB estimates this proposal would raise $603.2 billion in revenue.

- **The "Buffet Rule."** The President's budget once again includes the "Buffett rule"—a new tax on high income individuals that would increase the total tax liability to 30 percent of an individual's adjusted gross income. This tax would be applied after the 39.6 percent maximum marginal tax rate and the 3.8 percent tax on investment income that was included in the President's healthcare law. Over 10 years, OMB estimates that this proposal would raise $35 billion in revenue.

- **Increase the income tax on capital gains.** Under current law, the top marginal tax rate for long term capital gains is 20 percent. In addition, higher income tax payers are subject to a 3.8 percent tax on net investment income. The President proposes to increase the top marginal tax rate on capital gains from 23.8 percent to 28 percent for households with incomes in excess of $500,000 per year (with certain exceptions). Over ten years, OMB estimates this proposal would take $207.9 billion from taxpayers.

- **Tax carried interest as ordinary income.** Certain partners in a business entity receive ownership interests in future profits as compensation for services rendered ("carried interest.") Under current law, this income is treated as capital gain and taxed at a lower rate than earned income. The President's budget proposes to tax carried interest at ordinary income rates (to include self-employment payroll taxes). Over ten years, OMB estimates this proposal would take $17.7 billion from taxpayers.

- **Make the unemployment insurance (UI) surcharge permanent.** The regular 26-week unemployment compensation (UC) program is financed by federal taxes under the Federal Unemployment Tax Act (FUTA) and by state payroll taxes under the State Unemployment Tax Acts (SUTA). The 0.6% FUTA tax is paid by employers on the first $7,000 of each employee's earnings. In response to the Great Recession, the federal government increased and expanded the amount of unemployment compensation benefits available to dislocated workers. To help finance that effort (and aid states), the federal government temporarily increased the federal unemployment insurance tax (FUTA) from 0.6 percent to 0.8 percent. With the unemployment rate dropping, the higher FUTA rate was allowed to expire. The President's budget proposes to permanently reinstate the higher FUTA at 0.8 percent. According to OMB, this proposal would impose $15.7 billion in higher taxes on job creators over the next ten years.

- **Limit the total accrual of tax-favored retirement benefits.** The President proposes to limit the deduction or exclusion for contributions to defined contribution retirement plans (e.g. 401(k)s), defined benefit plans, and IRAs for an individual who has total benefits or accrued benefits that are sufficient to provide an annuity equal to $210,000 (the maximum allowable defined benefit plan amount, which is indexed for inflation) effective for tax years beginning after 2015. Over ten years, OMB estimates this proposal would take $26.0 billion from taxpayers.

- **Conform Self-Employed Contributions Act (SECA) taxes for professional service businesses.** The organizational tax structure of some pass-through entities allows partners to avoid payroll taxes on income that could be considered self-employment earnings but isn't under the legal structure of the entity. Under the President's budget, owners who provide services and materially participate in a business that provides professional services would be subject to the self-employment tax on their distributive shares of income. Over ten years, OMB estimates this proposal would take $74.6 billion from taxpayers.

Business tax proposals. The President's budget outlines many of the same proposals found in previous budgets that would raise taxes on multinationals and energy companies, or lower taxes by making the research and development tax credit permanent. Unlike previous years, the budget creates a deficit neutral reserve fund for "business tax reform" and does not count the budget estimates of these proposals towards the new revenue included in the budget.

Other tax proposals in the President's budget:

- **Establish a new second-earner tax credit.** The budget includes a new, nonrefundable maximum tax credit of $500 for two-earner households. The credit rate, 5 percent on the first $10,000 of earned income (indexed for inflation), would phase out 0.5 percent for every $10,000 over $120,000 of adjusted gross income (fully phasing out for AGI in excess of $210,000 per year). The proposal, which would be effective for tax years after 2015, would reduce revenues by $2.1 billion in FY 2016, $39.1 billion over five years, and $89.0 billion over ten years.

- **Reform and expand existing child care tax incentives.** The President proposes to eliminate the dependent care flexible spending account and replace it with a larger tax credit available to a broader range of household income. Taxpayers with children under age five could claim a credit of up to 50 percent of up to $6,000 in eligible childcare expenses (12,000 for two children). The credit would gradually phase out for households with adjusted gross income of $120,000 per year until it reaches 20 percent for taxpayers with incomes above $178,000. The proposal, which would affect both revenues and outlays, would increase the deficit by $4 billion in FY 2016, $22.1 billion over five years, and $49.9 billion over ten years.

- **Expand the EITC to workers without children**. Under current law, different EITC tax credits apply based on household income and the number of qualifying children. Taxpayers with low wages who do not have a qualifying child and are at least 25 years old (but less than 65 years old) may be eligible for a small EITC credit. The President's budget would increase the amount of the minimum credit from approximately $500 to $1000 and would increase the income phase-out to $11,500 ($17,090 for joint filers) and index it for inflation. The President would also expand the eligibility age to workers at least 21 years old but less than 67 years old. This proposal, which would affect both revenues and outlays, would increase the deficit by $$25.8 billion over five years and by $$59.9 billion over ten years.

- **Create a new automatic IRA.** The President's budget would require employers that do not currently offer a retirement plan to their employees to provide automatic enrollment in an Individual Retirement Account (IRA) funded with an automatic payroll deduction from the employee's salary. An employee not providing a written participation election would be enrolled at a default rate of 3 percent of the employee's compensation in a Roth IRA. Contributions by employees to automatic payroll-deposit IRAs could qualify for the Saver's Credit. Employers with ten or fewer employees and employers in existence for less than two years would be exempt. Small employers (with less than 100 employees) that offer an auto-IRA would be entitled to a temporary tax credit for the employer's expenses up to $1,000 per year for three years and an additional credit of $25 per participating employee up to a total of $250 per year for six years. The proposal would also triple the existing start-up tax credit available to small employers who adopt new qualified retirement plans (SEP or SIMPLE plans). The proposal would be effective for tax years beginning after 2016. The proposal, which would affect both outlays and revenues, would increase the deficit by $6.0 billion over five years and by $17.1 billion over ten years.

Revenue effects from policies associated with outlay changes discussed in functional analysis:

Environment and Natural Resources – Function 300

- **Alternative fuels**. The President proposes new tax credits for the manufacture of advanced technology vehicles, alternative-fuel commercial vehicle, and energy-efficient homes. OMB estimates the provision would increase the deficit by $659 million in FY 2016 and by $5.8 billion over ten years.

- **Conservation**. The President's budget would enhance the conservation easement deduction. OMB estimates this proposal would increase the deficit by $144 million in FY 2016 but would reduce the deficit by $272 million over ten years.

- **Reinstate Superfund taxes**. The proposal would increase revenue by $1.6 billion in FY 2016 and by $21.2 billion over ten years.

- **Oil Spill Liability Trust Fund**. The President's budget would increase taxes deposited into the Oil Spill Liability Trust Fund, generating $105 million in new revenues in FY 2016 and $1.6 billion over ten years.

- **Renewables**. The President's budget would make permanent the production tax credit for renewable electricity. The proposal would reduce the deficit by $596 million in FY 2016, but would increase the deficit by $31.5 billion over ten years.

- **Energy Efficiency**. The President's budget would make permanent the deduction for energy-efficient commercial building property. OMB estimates this proposal would reduce revenues by $170 million in FY 2016 and by $2.6 billion over ten years.

- **CO_2 Tax Credit**. The President proposes a new carbon dioxide sequestration tax credit. Estimated revenue loss: $5.0 billion over ten years.

- **Energy Manufacturing Projects.** The President's budget would provide new tax credits for advanced energy manufacturing projects as well as for "Manufacturing Communities." Estimated revenue loss: $87 million in FY 2016 and $7.0 billion over ten years.

- **Biofuels**. The President's budget would extend the tax credit for second generation biofuel production. Estimated revenue loss: $80 million in FY 2016 and $1.2 billion over ten years

Commerce and House Credit — Function 370

- **Financial fee.** The President's budget proposes additional fees and requirements on U.S. based banks and other financial companies. This includes a new fee on U.S- based banks and international banks with U.S. subsidiaries, which is expected to raise $111.8 billion over ten years.

Transportation — Function 400

- **Surcharge for Transportation.** The President proposes a 14 percent one-time tax on previously untaxed foreign income accumulated overseas to offset new and existing spending obligations out of the Highway Trust Fund. Estimated new revenue: $34.6 billion in FY 2016 and $268.1 billion over ten years.

- **Waterways**. The President also proposes reforms to the funding of inland waterways infrastructure. He proposes a fee on users of the inland waterways system to raise $1.1 billion over ten years.

Community and Regional Development — Function 450

- **Promise Zones.** The President proposes expanding the number of Promise Zones, designated geographic areas with various federal tax incentives for economic development. Estimated revenue loss: $592 million in FY 2016 and $8.3 billion over ten years.

Education — Function 500

- **American Opportunity Tax Credit.** Make permanent the American Opportunity Tax Credit while increasing the portion of the credit that is refundable; and,

- **Education Tax Policy.** Reduce the taxable portion of Pell Grants and the tax advantages of Coverdell Education Savings Accounts and Section 529 college savings plans. Estimated combined cost: $16.3 billion over five years and $44.9 billion over ten years.

- **IRS Flexibility.** Provide the IRS with greater flexibility to address correctable errors. Estimated new revenue: $26 million in FY 2016 and $537 million over ten years.

Health/Medicaid — Function 550

- **Increase the tobacco tax and index for inflation**. Over ten years, OMB estimates that this proposal will raise $95.1 billion more in revenues.

Social Security revenue proposals. The President's budget includes two revenue proposals directly related to Function 650:

- **Reallocate Social Security's portion of the payroll tax**. The President proposes to reallocate a portion of the 12.4 percent payroll tax from the retirement trust fund to the disability trust fund. However, payroll taxes are no longer sufficient to cover the cost of retirement and disability benefits. Consequently, both programs are now partially financed federal debt (in addition to the $18 trillion already owed). The President proposes no polices to shore up the troubled Social Security programs.

- **Tobacco tax increase**. The tobacco tax increase (used to fund universal pre-kindergarten education) is projected to increase spending for Social Security retirement benefits as the number of people who smoke falls and the average life-span increases.

Revenue Policies assumed in the President's Baseline:

- **Permanent extension of the increased refundable Child Tax Credit.** The 2009 stimulus bill temporarily increased the refundability of the Child Tax Credit by reducing the earnings threshold to qualify for the credit from $10,000 (indexed to inflation) to $3,000 (unindexed). The 2012 fiscal cliff deal renewed the temporary extension through 2017. The President's adjusted baseline assumes permanent extension of the lower threshold for tax years beginning after 2017. This provision, which affects mostly outlays, would increase the deficit by $22.5 billion over five years and by $78.3 billion over ten.

- **Permanent extension of the Earned Income Tax Credit (EITC) marriage penalty relief.** The progressive nature of the federal income tax unfairly punishes married couples with two working spouses. A married couple filing jointly with a household income of $70,000 would pay higher taxes than an identical household wherein an unmarried couple earned the same amount. The 2009 stimulus bill temporarily provided tax relief to married couples filing joint (regardless of the number of children) by increasing the income threshold phase-out for the EITC from $3,000 (indexed for inflation) to $5,000 (also indexed). The 2012 fiscal cliff deal renewed the temporary extension through 2017. The President's adjusted baseline assumes permanent extension of the $5,000 threshold effective for tax years beginning after 2017. This provision, which affects both revenues and outlays, would increase the deficit by $2.9 billion over five years and by $9.9 billion over ten.

- **Permanent extension of the EITC for larger families.** The 2009 stimulus bill temporarily provided an EITC credit for families with three or more children. The 2012 fiscal cliff deal renewed the temporary extension through 2017. The President's adjusted baseline assumes permanent extension of the expanded EITC effective for tax years beginning after 2017. This provision, which affects both revenues and outlays, would increase the deficit by $4.2 billion over five years and by $15.0 billion over ten.

- **Permanent extension the American Opportunity Tax Credit (AOTC).** The 2009 stimulus bill consolidated and expanded several education-related tax credits into a temporary, single credit called the American Opportunity Tax Credit (AOTC). The AOTC provides a partially-refundable tax credit up $2,500 per eligible student for qualified education expenses. The 2012 fiscal cliff deal renewed the temporary extension through 2017. The President's adjusted baseline assumes permanent extension of the expanded EITC effective for tax years beginning after 2017. This provision, which affects both revenues and outlays, would increase the deficit by $17.7 billion over five years and by $62.5 billion over ten.

In total, the revenue policies assumed in the President's baseline would increase the deficit by $47.3 billion over five years and by $166.2 billion over ten years.

Economic Assumptions[4]

The economic assumption underlying the President's budget submission fall roughly in line with those found in the Blue Chip Economic Indicators (Blue Chip) and the Congressional Budget Office (CBO) forecasts for the same calendar year period, 2015 through 2025. All see the economy picking up to roughly a 3 percent growth rate after the slowest economic recovery since the end of World War II. The President's budget forecasts slightly lower unemployment and inflation rates and is in line with the other forecasters on key interest rates.

Four economic indicators illustrate the President's economic outlook: inflation-adjusted GDP, unemployment, inflation, and the interest rate on the 10-year Treasury note.

- **Inflation-adjusted (real) GDP.** The President has downgraded economic growth for the next ten years when compared with his forecasts made at this time last year. The President assumes that inflation-adjusted GDP will grow at a 3 percent clip in calendar year 2015, compared to 3.4 percent pace that he

[4] All estimates cited in this section are for calendar years.

assumed last year. The economy continues at a 3 percent pace in 2016 before dropping slightly to 2.7 percent in 2017 and an average of 2.3 percent over the period 2018 through 2025. While all of these estimates are lower than last year, they differ by about one-tenth of a percentage point from current Blue Chip and CBO growth forecasts.

- **Unemployment rate.** The President joins CBO and Blue Chip in assuming that the unemployment rate continues to drop before stabilizing. The President expects the unemployment rate to fall to 5.4 percent in 2015 from its current rate of 5.6 percent. Thereafter the rate falls to 5.1 percent in 2016, 4.9 percent in 2017 and an average rate of 5.1 percent over the period 2018 through 2025. Blue Chip and CBO forecasts are about 0.25 percentage points higher for each of the forecast years.

- **Inflation.** Like their Blue Chip and CBO counterparts, the President's forecasters expect very little inflation over the budget period. The Consumer Price Index (CPI) is expected to grow by 1.4 percent in 2015 and continue modestly increasing thereafter: 1.9 percent in 2016, 2.1 percent in 2017 and an average of 2.3 percent for the period 2018 through 2025. The average difference with Blue Chip and CBO is about 0.1 percentage points over the entire period.

- **Interest rates.** The President assumes that the interest rate on the 10-year Treasury note will increase over the forecast period by 160 basis points over the budget window. The interest rate will rise to 2.8 percent in 2015 from its December 2014 close of 2.2 percent. It will average 3.3 percent in 2016, 3.7 percent in 2017, and 4.4 percent over the period 2018 through 2025. This increase is in line with Blue Chip and CBO, which have the rate growing, respectively, by 175 and 170 basis points.

Economic Assumptions
President's Projections Compared to CBO and Blue Chip

Real GDP Growth Rates
Year Over Year

	CY 2015	CY2016	CY2017	Average CY2018-2025
Obama	3	3	2.7	2.3
Blue Chip	2.9	2.8	2.7	2.3
CBO	2.9	3.0	2.7	2.1

Unemployment Rate
Annual Average, Percent of Civilian Labor Force

	CY 2015	CY2016	CY2017	Average CY2018-2025
Obama	5.4	5.1	4.9	5.1
Blue Chip	5.5	5.1	5.2	5.4
CBO	5.6	5.4	5.3	5.4

Inflation Rates
Annual Percent Change in the CPI-U

	CY 2015	CY2016	CY2017	Average CY2018-2025
Obama	1.4	1.9	2.1	2.3
Blue Chip	0.8	2.2	2.3	2.3
CBO	2.0	2.2	2.3	2.3

Interest Rates
10-Year Treasury Notes, Annual Average

	CY 2015	CY2016	CY2017	Average CY2018-2025
Obama	2.8	3.3	3.7	4.4
Blue Chip	2.7	3.5	4.2	4.5
CBO	2.8	3.4	3.9	4.5

Budget Process

Sequester Replacement. The President's budget would replace the remainder of the Joint Committee sequester (triggered by failure of the 2011 Joint Committee to find $1.2 trillion in savings over ten years) starting in FY 2016 with a combination of spending cuts and tax increases. Rather than apply these savings to deficit reduction, however, the President proposes $74 billion in new spending initiatives.

Potential PAYGO Sequester in 2016. The President acknowledges that the budgetary effects of policies he has enacted since 2010 threaten to impose a mandatory sequester. Absent any changes, the $440 million balance in FY 2016 on the five-year Statutory PAYGO scorecard will trigger automatic reductions in non-exempt mandatory accounts at the end of this current session of Congress.

Extend the Discretionary Cap Adjustment for Disaster Relief. The Balanced Budget and Emergency Deficit Control Act (BBEDCA), as amended, provides for an upward adjustment to discretionary spending caps for appropriations that Congress designates for disaster relief pursuant to section 102(2) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act. Under current law, the cap adjustment is not available after 2021 because there are no discretionary caps in BBEDCA after 2021. Although the President's Budget does not explicitly extend the discretionary caps in BBEDCA, it can be inferred from the President's data tables (see Tables S-8 and S-10) that the disaster caps are extended to 2024. This is also consistent with the President's disaster cap proposal in last year's budget.

Create a New Discretionary Cap Adjustment for Wildland Fire Suppression. The President's budget would create a new category of discretionary spending for wildland fire suppression that is independent of the fiscal controls imposed by the spending caps in BBEDCA. The Departments of the Interior and Agriculture could tap an extra $1 billion per fiscal year when the cost of firefighting exceeds their annual budgets. The President's budget proposes to reduce the general disaster cap in a given fiscal year for the amount of funds provided under the wildfire suppression cap in the prior year.

Reclassify Program Integrity Cap Adjustments as Mandatory Spending. The Balanced Budget and Emergency Deficit Control Act (BBEDCA), as amended by the Budget Control Act of 2011, allows discretionary cap adjustments for certain program integrity initiatives: continuing disability reviews (CDRs) and health care fraud and abuse control (HCFAC). If appropriation bills provide a minimum base amount for these efforts ($273 million for CDRs; $311 million for HCFAC), then BBEDCA permits an upward adjustment of the discretionary caps, subject to limit, for additional "bonus" spending. This mechanism was designed to prevent the "bonus" funds from supplanting the base funding, and to keep the base funding from being diverted for other purposes.

The President's Budget proposes to re-classify all discretionary spending for CDRs and HCFAC after FY 2015 as mandatory spending, and eliminate the discretionary cap adjustments for these purposes. OMB estimates that these two proposals combined would reduce net spending on the two programs by nearly $37 billion over the next 11 years, but it would also enshrine in perpetuity "bonus" spending that was intended to expire after FY 2021. Moreover, the "bonus" funding for CDRs in BBEDCA was capped. It is not clear whether CDR funding would be similarly constrained on the mandatory ledger. For more on the CDR proposal, see "Social Security – Budget Function 650."

New Program Integrity Cap Adjustments. The President proposes to rebrand up to $2 billion in new FY 2016 spending as "program integrity adjustments" that would permit increased spending above the discretionary spending caps. Program integrity cap adjustments are provided for the Internal Revenue Service to reduce the tax gap; the Department of Labor, to reduce improper unemployment insurance payments; the Department of Health and Human Services to reduce Medicare and Medicaid fraud and waste; the Treasury Department to improve the collection of bad debts; and more.

Adopt a Modified Current Policy Baseline, for Limited Purposes. Currently, Congress follows the parameters outlined in section 257 of BBEDCA, as amended, to develop the baseline against which the budgetary impact of policy changes are analyzed. The President's Budget proposes to change the rules and concepts governing construction of the annual baseline to, the budget claims, better reflect the continuation of current policy, rather than current law. While the Administration claims its proposed changes would "provide a more accurate basis for analyzing budgets," the proposal cherry picks preferred Administration priorities to be included in the modified baseline (leaving others aside), and would disregard the modified baseline in favor of the BBEDCA baseline for the application of Statutory PAYGO and for other legal purposes.

Reclassify Transportation Infrastructure Funding. Surface transportation spending financed by the Highway Trust Fund is a unique and confusing hybrid of classifications. Contract authority is considered mandatory spending whereas outlays are classified as discretionary spending. This hybrid treatment is fodder for budget gimmicks that thwart accountability and fiscal discipline. The President proposes to treat both contract authority and outlays as mandatory spending.