

## INVESTING IN AMERICA'S FUTURE

*"We have to make our economy work for every working American. And every policy I pursue as President is aimed at answering that challenge."*

—President Barack Obama, Northwestern University, October 2, 2014

Today in America, we are seeing real, tangible evidence of economic recovery from the crisis the President inherited. In a 58-month streak, the longest on record, American businesses have created more than 11 million new jobs, and almost all of the employment gains since 2010 have been in full-time positions. All in all, the economy added more jobs in 2014 than in any year since the 1990s.

The Administration's investments in American manufacturing have helped fuel its best stretch of job growth since the 1990s. America is now the number-one producer of oil and the number-one producer of natural gas; this has meant decreasing dependence on imported oil and increasing competitiveness for American industry. The rescue of the auto industry officially ended in December 2014, and the American auto industry is on track for its strongest year of new vehicle production since 2005; about half a million new jobs have been created in auto production and sales since mid-2009, when Chrysler and General Motors emerged from bankruptcy.

Since the President took office, the deficit has been cut by about two thirds. The Nation has seen the slowest health care cost growth in 50 years, with the largest reduction in the number of uninsured Americans in decades. The high school graduation rate is above 80 percent for

the first time in history. Both the crime rate and the incarceration rate are falling.

We now have the chance to make sure that all Americans are able to benefit from the economic recovery. America's promise has always been that if we work hard, we can change our circumstances for the better. The economy cannot truly succeed until we live up to that promise. The Budget lays out a strategy to reach that promise, by investing in the drivers of growth and opportunity for all Americans.

To ensure America remains a magnet for jobs, the Budget builds on investments in manufacturing and innovation—including through clean energy technology programs and tax policies that position America as a global clean energy leader with a strong and modern energy infrastructure. To fix the Nation's roads and bridges and create more middle class jobs, it continues the progress toward building a 21<sup>st</sup> Century infrastructure. The Budget invests in education and job training to give American workers the skills they need to compete in the global economy. It also provides resources to programs that help create opportunity and economic mobility for all, and it reforms the tax system to better support and reward work.

To further the progress made to prevent another crisis such as the one we saw in 2008, the

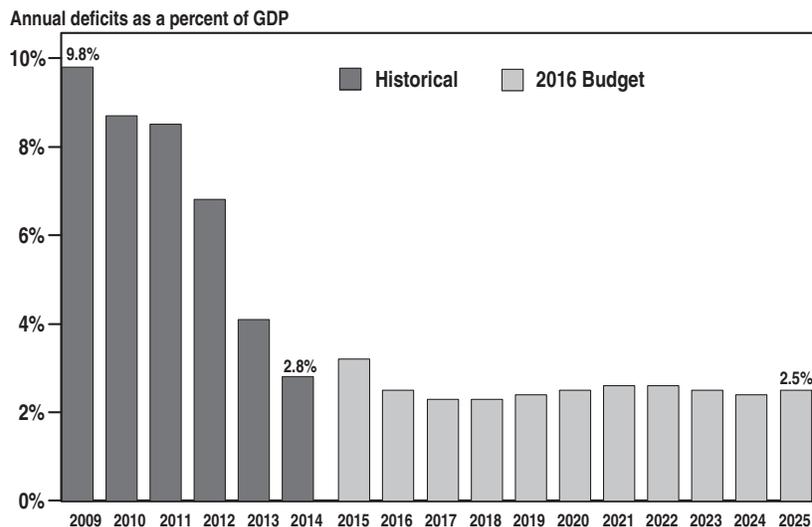
Budget supports the financial stability efforts launched through the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Budget also invests in climate preparedness and resilience—providing necessary tools, technical assistance, and on-the-ground partnership to communities that are dealing with the effects of climate change today. In addition to directly helping these communities, preparing for the impacts of climate change is also part of strengthening the Nation's long-term fiscal outlook (see below, Federal Budget Exposure to Climate Risk).

The Budget recognizes that while America is a world leader in domestic economic growth, it must also continue to promote U.S. national security interests while mobilizing the international community to address global challenges to the Nation's safety and security. That is why the Budget further advances national security priorities by proposing the funding increases above current law needed to execute the President's defense strategy. The Budget supports America's continued fight to degrade and ultimately defeat the Islamic State of Iraq and the Levant (ISIL). The Budget continues the transition in Afghanistan, while also supporting European reassurance efforts to counter Russia's aggressive actions. It advances security, prosperity, and economic growth in the Central America Region to address the root causes of migration. The

Budget also confronts threats such as Ebola by strengthening U.S. global health security and continues to invest in the Nation's cybersecurity, while supporting efforts to maintain technological superiority. It continues the progress made to reassert American leadership in the Asia-Pacific region. The Budget also upholds the Nation's duty to care for its veterans who have risked their lives to serve America.

The Budget also shows that we can end sequestration, make the investments necessary to support economic growth, economic mobility, and national security, and continue to make progress in meeting the Nation's fiscal goals. To further strengthen America's long-term fiscal outlook and the economy, the Budget sets the Nation on a sustainable fiscal path, achieving \$1.8 trillion of deficit reduction over 10 years, primarily from health, tax, and immigration reforms described in this chapter. The Budget proposes to maintain the Affordable Care Act's progress in constraining the growth of health care costs and spurring additional health care reforms to make the system work better for all Americans. It supports comprehensive immigration reform, which would not only grow the U.S. economy, but also strengthen the Nation's fiscal future, reducing deficits by almost \$1 trillion over 20 years. The Budget also reforms the tax system to raise the revenue needed to keep our commitments to seniors,

### Deficits Remain Low Under President's Budget



without shortchanging investments in the next generation. All told, the Budget puts the Nation's economy on a more sustainable fiscal path, with deficits around 2.5 percent of the Gross Domestic Product (GDP) and debt as a share of the economy on a downward path after 2015.

In order to make these critical investments to create more jobs, grow the economy, and ensure the Nation's safety and security, while also putting the Federal budget on a more sound fiscal footing, the Federal Government must continue to move away from the mindless austerity and manufactured crises that have hurt the economy in recent years. As discussed in the previous chapter, *Building on a Record of Economic Growth*

and Progress, the Bipartisan Budget Act in late 2013 represented real progress—partially replacing sequestration cuts in 2014 and 2015, fully offset by long-term savings, in order to provide certainty and increase discretionary investments. The Budget builds on this progress by proposing additional investments in vital areas such as education, research, and national security, offset by a balanced package of spending cuts, proposals to close tax loopholes, and program integrity measures. These investments are crucial to the Nation's economic growth and national security. Failing to make them—and returning to the mindless austerity of sequestration in 2016—would weaken America's economy at a time of accelerating growth.

## INVESTING IN JOBS AND ECONOMIC GROWTH

### *Accelerating Manufacturing Industry Growth*

America is building again. The manufacturing sector has been a critical driver of economic growth and job creation since the President took office, adding more than 750,000 new jobs over the last 58 months. The Recovery Act and subsequent Administration efforts have helped reignite America's manufacturing industry, which many thought was in irreversible decline at the height of the Great Recession. These efforts helped create new clean energy manufacturing markets and rescued the auto industry, which is now on track for its strongest year of new vehicle production since 2005. The President is committed to continuing the manufacturing sector's growth in order to attract the kind of well-paying jobs that will help drive middle class economic security. The Budget reflects that commitment by investing in efforts to promote advanced manufacturing technology and efforts to ensure that manufacturing technology made in America can be used in America, to help create more jobs, and grow the economy.

**Manufacturing Institutes.** To support investment and accelerate innovation in U.S. manufacturing, the President has called for the creation of a National Network for Manufacturing

Innovation across the Nation. The Congress supported this initiative in a bipartisan fashion by passing the Revitalize American Manufacturing and Innovation Act in December 2014, which authorizes manufacturing innovation institutes to come together into a shared network and codifies authority for the Department of Commerce to coordinate this multi-agency initiative.

Leveraging the strengths of a particular region, each institute will bring together companies, universities, community colleges, and Government to co-invest in the development of world-leading manufacturing technologies and capabilities that U.S.-based manufacturers can apply in production. For example, the first manufacturing innovation institute, America Makes in Youngstown, Ohio, is focused on reducing the cost of 3D printing, connecting small businesses with new opportunities, and training American workers to master these sophisticated technologies. Although only in its third year of operation, the institute has research underway that will help accelerate the speed of 3D printing in metals by a factor of 10, is partnering to provide over 1,000 schools with access to 3D printers, and has launched new workforce training programs that have trained over 7,000 workers in the fundamentals of 3D printing. In addition to launching

new products and filing new patents from the research already underway, the institute is serving as a magnet for investment in the region.

The Budget funds a national network of 45 manufacturing institutes that will position the United States as a global leader in advanced manufacturing technology. Specifically, the Budget builds on the nine institutes already funded through 2015 with more than \$350 million in additional discretionary funds to support seven new manufacturing institutes in the Departments of Commerce, Agriculture, Defense, and Energy. The Budget also includes a mandatory spending proposal of \$1.9 billion to fund the remaining 29 institutes in the network.

#### **Scale-Up Manufacturing Investment Funds.**

The Budget also calls on the Congress to work together with the President to launch a public-private investment in a Scale-Up Fund as part of the Administration's innovative manufacturing initiative. This will help emerging advanced manufacturing technologies reach commercial viability, ensuring that if a technology is invented in the United States, it can be made in the United States. To address the gap in financing for these new manufacturing firms, the Budget proposes a \$5 billion investment fund, administered by the Small Business Administration, which will be matched with non-Federal funds to increase investment in the first commercial production facilities for technology intensive manufacturing start-ups. These funds will help entrepreneurial firms secure capital to scale from idea to prototype, and into full commercial production. Once fully deployed, this fund could eventually leverage up to \$10 billion in total public-private investment to build first-of-its-kind manufacturing production capabilities here in the United States.

### ***Investing in Research and Development***

America's long-term economic competitiveness and growth—including efforts to grow domestic manufacturing—depend on robust investments in research and development (R&D), which provide the foundation needed to further grow the economy. Federal funding for R&D has helped

lead to new products, new capabilities, and new industries, resulting in sustainable economic growth and highly-skilled, high-wage jobs, as well as the creation of an astounding array of products and services that benefit every American. Today, we look to engineering and science to address the Nation's biggest challenges: creating jobs; improving the health of all Americans; enhancing access to clean energy, water, and food; addressing global climate change; managing competing demands on environmental resources; and ensuring the security of the Nation.

The Budget provides \$146 billion for R&D overall, a 5.5 percent increase from 2015, targeting resources to areas most likely to directly contribute to the creation of transformational knowledge and technologies that can benefit society and create the businesses and jobs of the future. In addition to making permanent and expanding the Research and Experimentation Tax Credit (discussed later in this chapter), the Budget includes increases for several priorities.

- *Basic Research at the Department of Energy (DOE) and the National Science Foundation (NSF).* To continue the cutting-edge R&D that is essential to U.S. innovation and economic competitiveness, the Budget provides DOE's Office of Science with over \$5.3 billion and NSF with over \$7.7 billion. These investments support ground-breaking research and world-leading facilities across fields of science and engineering, including advanced manufacturing, clean energy, climate science, information technology, and life sciences.
- *Biomedical Research at the National Institutes of Health (NIH).* The Budget provides \$31.3 billion to support biomedical research at NIH, providing about 10,000 new NIH grants that will help to better understand the fundamental causes and mechanisms of disease. The Budget provides increased resources for Alzheimer's, cancer and other diseases that affect millions of Americans, and enhanced support for the BRAIN initiative that is helping to revolutionize understanding of the human brain.

- *Precision Medicine Initiative.* The Budget includes \$215 million to launch a Precision Medicine initiative that will accelerate the ability to improve health outcomes and better treat diseases. The Budget will help to begin the establishment of a voluntary national research group of a million or more Americans, expand research to define cancer subtypes and identify new therapeutic targets, modernize the regulatory framework for DNA-sequence-based diagnostic tests, and enhance interfaces for electronic health records and patient-generated data in assessment of individual health and population-level trends.
- *Agriculture R&D.* The Budget recognizes the importance of science and technology to meet challenges in agriculture, and provides significant investment increases in three major areas of agricultural R&D: 1) Competitive grants are funded at \$550 million to support extramural research grants through the Department of Agriculture's (USDA) flagship Agriculture and Food Research Initiative, for advanced manufacturing public-private institutes, and for a new program to provide competitive support to land grant institutions; 2) USDA's in-house research programs are funded at \$1.19 billion, which includes increases for current and new programs for climate change resilience and vulnerability, agricultural sustainability (e.g., vertical agriculture), translational genetics, antimicrobial resistance and pollinator health, as well as major investments in the repair and maintenance of USDA laboratories to increase their lifespan and respond to health and safety issues; and 3) \$206 million in key infrastructure investments fully funds USDA's five highest laboratory construction and renovation needs, including the poultry biosafety and laboratory consolidation in Athens, Georgia.
- *Stewardship of Natural Resources and the Environment.* Sustainable stewardship of natural resources requires strong R&D investments in the natural sciences to strengthen the scientific basis for decision-making. The Budget provides robust R&D

funding to support resource decision-making and environmental stewardship at the Department of the Interior (DOI), Environmental Protection Agency (EPA), National Oceanic and Atmospheric Administration (NOAA), and USDA. The Budget provides strong support for R&D related to the management of public lands, ecosystems, energy permitting, and Earth observations (such as earth observing satellites and monitoring of water, wildlife, and invasive species). The Budget also provides strong support for science to inform ocean and coastal stewardship, with investments in ocean observations and exploration, coastal mapping and assessment, coastal ecosystem research, and coastal habitat restoration. The Budget strengthens investments in the safety and security of the Nation through R&D related to hazards such as earthquakes, floods, and extreme weather.

### ***Cutting Carbon Pollution and Investing in Climate Preparedness and Resilience***

Deep, persistent drought. Longer, fiercer wildfire seasons. High tides flooding downtowns. Severe storms wreaking havoc. This is the picture from the front lines of climate change in communities across America. As they face these immediate climate crises, cities, towns, counties and Tribes of every size and in every region of the United States have stepped up to be part of the solution: identifying their vulnerabilities; cutting carbon pollution; creating jobs by investing in clean energy and energy efficiency; and finding innovative solutions to make their communities and infrastructure more resilient to climate extremes. Whether it is investing in clean energy technology, or in necessary tools, technical assistance, and on-the-ground efforts, the Federal Government has a key role to play as a strong and ready partner with communities and the State, local, and tribal leaders who are taking action on climate today.

The Administration's robust energy and climate efforts over the last six years provide a strong foundation for this necessary partnership. When the President took office, U.S. greenhouse

gas emissions were projected to continue increasing indefinitely, but the President set a new course with an ambitious goal to cut emissions in the range of 17 percent below 2005 levels in 2020. Throughout the first term, the Administration took strong actions to cut carbon pollution, including investing more than \$80 billion in clean energy technologies through the Recovery Act, establishing historic fuel economy standards, supporting policies that contributed to a doubling of renewable energy generation, and implementing ambitious energy efficiency measures.

In 2013, the President launched an ambitious Climate Action Plan that built on the progress during the first term and doubled-down on cutting carbon pollution, preparing the Nation for climate impacts, and leading internationally. The Plan puts the Nation on track to meet the President's 2020 goal and establishes a strong foundation to reach the new 2025 goal by cutting carbon pollution through new measures, including a Clean Power Plan, historic standards for heavy-duty engines and vehicles, new energy efficiency standards, and economy-wide measures to reduce other greenhouse gases.

**Cutting Carbon Pollution.** Cutting carbon pollution is essential to reducing the threat of climate change and represents one of the greatest economic opportunities of the 21<sup>st</sup> Century. Investments in pollution-cutting technologies and proven energy efficiency and clean energy solutions are investments in American jobs, American industries, and Americans' health.

That is why in June 2014, the EPA proposed the Clean Power Plan, a flexible, commonsense approach that builds on the actions States, cities, and businesses across the United States are already taking to address the risks of climate change by reducing carbon pollution from existing power plants.

The Budget includes \$239 million to support EPA efforts to address climate change through commonsense standards, guidelines, and voluntary programs, including \$25 million to help States develop their Clean Power Plan strategies.

The Budget also includes an incentive fund for States choosing to go beyond the Clean Power Plan, which will be finalized this summer. The Clean Power State Incentive Fund will provide \$4 billion to support States exceeding the minimum requirements established in the Clean Power Plan for timing of State plans and the pace and extent of carbon pollution reductions from the power sector. This funding will enable States to invest in a range of activities that complement and advance the Clean Power Plan, including efforts to address disproportionate impacts from environmental pollution in low-income communities and support for businesses to expand efforts in energy efficiency, renewable energy, and combined heat and power through, for example, grants and investments in much-needed infrastructure.

To support the development of pollution-cutting technologies, the Budget invests approximately \$7.4 billion in clean energy technology programs, advancing American clean energy leadership, supporting job creation, and increasing energy security. These programs conduct research, development, and deployment efforts that stimulate the evolution and use of clean energy sources such as solar, wind, and low-carbon fossil fuels, as well as energy-efficient technologies, products, and process improvements. The largest investors are DOE, the Department of Defense (DOD), NSF, and USDA. DOE provides about 75 percent of the clean energy technology funding and supports a wide array of efforts across the clean energy spectrum that will further reduce costs and increase the use of clean energy technologies. For example, these efforts include increasing the affordability and convenience of advanced vehicles and domestic renewable fuels. They will advance technologies to improve the efficiency of the residential and commercial buildings of today and tomorrow, making energy systems more easily integrated into the electric grid. DOE is also developing technologies that reduce the costs of carbon capture from fossil fuels, undertaking research to ensure the safe, permanent storage of carbon dioxide in underground geologic formations, and conducting R&D to measure and mitigate fugitive methane emissions from natural gas infrastructure. DOE is also supporting

R&D in advanced nuclear reactor technologies, life extension for existing power plants, and innovative fuel-cycle concepts.

To support the adoption and scale-up of proven energy-efficiency and clean-energy solutions, the Budget includes additional key investments. For example, the Budget invests roughly \$100 million in core DOI renewable energy development programs to review and permit new renewable energy projects on Federal lands and waters. These funds will allow DOI to continue progress toward its goal of permitting 20 gigawatts of renewable energy capacity and related transmission infrastructure by 2020, as part of the President's Climate Action Plan. The Budget also includes proposals to reform and renew tax credits that incentivize the deployment of wind, solar, and carbon capture sequestration technologies. In addition, the Budget invests in communities that are experiencing an economic transition as a result of the Nation's energy transformation toward cleaner power sources. This includes targeted investments in economic development for areas such as Appalachia, where declines in coal production over several decades have created economic challenges for communities and families.

**Investing in Climate Resilience and Preparedness.** As a Nation, we need to better understand and prepare for the impacts of a changing climate, which has widespread implications for the well-being of communities, health of our natural resources, and national security. The failure to invest in climate solutions and climate preparedness does not just fly in the face of the overwhelming judgment of science—it is fiscally unwise. While it cannot be said with certainty that any individual weather event is caused by climate change, it is clearly increasing the frequency and intensity of extreme weather events, from floods to drought to the most powerful storms. The costs of climate change add up, and ignoring the problem only makes it worse.

That is why the Budget makes investments to increase the resilience of the Nation's communities and ecosystems, improve understanding of projected climate-change impacts, and assist

communities in planning and preparing for climate change. The goal is simple: to proactively reduce the risks communities and ecosystems face, rather than waiting until after disaster strikes. These forward-thinking investments will not only save lives, but will save communities and taxpayers the costs associated with recovering from the next weather-related emergency for which they were not prepared.

- *Flood Resilience.* The Budget includes \$400 million for National Flood Insurance Program Risk Mapping efforts, an increase of \$184 million over current funding levels. This increase will further support efforts to help communities and businesses understand what areas pose flood risks. The Budget also includes robust investments that will supplement ongoing work across USDA in science and tool development and projects to improve ecosystem and community resilience. Specifically, the Budget includes \$200 million for USDA to emphasize watershed-scale planning and land treatment efforts and aid communities in planning and implementing mitigation and adaptation projects for extreme weather events, including mitigating the risks associated with coastal flooding.
- *Coastal Resilience.* The Budget includes funding for two new coastal resilience programs—one at NOAA and one at DOI—that will help reduce the risks that a changing climate poses to ecosystems and communities. Funding at NOAA will help coastal regions plan for and implement activities related to extreme weather, changing ocean conditions and uses, and climate hazards, while DOI funding will focus on increasing the return on investment from Federal land protection and restoration, through projects on adjacent non-Federal lands that restore ecosystems and boost resilience in coordination with non-Federal partners. The NOAA Regional Coastal Resilience Grants, funded at \$50 million, will provide competitive grants to State, local, tribal, private, and non-governmental organization partners to support activities such as vulnerability as-

assessments, regional ocean partnerships, and development and implementation of adaptation strategies. The new program at DOI, also funded at \$50 million, will be modeled after the agency's Hurricane Sandy Competitive Grant Program and will expand the footprint of healthy ecosystems to deliver valuable ecosystem services, including flood attenuation and storm risk reduction, to nearby communities.

- *Drought Resilience.* The Budget strongly supports USDA in its efforts to integrate climate considerations into existing programs and to use programs to drive resilience. For example, through its regional Climate Hubs, the Department will provide information and guidance to farmers, ranchers, and forest landowners on the latest technologies and risk management strategies to help them implement climate-smart tactics. This effort is complemented by \$89 million for DOI's WaterSMART program, which promotes water conservation initiatives and technological breakthroughs.
- *Wildland Fire Resilience.* The Administration is committed to ensuring that adequate funds are available to fight wildland fires, protect communities and human lives, and implement appropriate land management activities to improve the resiliency of the Nation's forests and rangelands. To accomplish this, the Budget proposes to establish a new budget framework for wildland fire suppression, similar to how other natural disasters are funded. The Budget proposes a base funding level of 70 percent of the 10-year average for suppression costs within the discretionary budget cap. A cap adjustment would then be used for only the most severe fire activity, which comprises one percent of the fires, but 30 percent of the costs. This framework minimizes the adverse impacts from transferring funds from other programs, reduces fire risk, and allows landscapes to be managed more comprehensively.
- *Federal Emergency Management Agency (FEMA) Pre-Disaster Mitigation Grant Program.* The Budget provides \$200 million for FEMA's Pre-disaster Mitigation Grant Program, an increase of \$175 million over current funding levels. This funding will predominately support mitigation planning, facilities hardening, and nonstructural risk reduction measures, such as buyouts and elevation of structures. Studies on mitigation activities conclude that Americans save \$3-\$4 for every dollar invested in pre-disaster mitigation.
- *Climate Resilience Toolkit.* The President's Budget provides \$20 million to continue expanding and improving the recently-released online Climate Resilience Toolkit, which provides scientific tools and information to help Tribes, communities, citizens, businesses, planners, and others manage their climate-related risks and opportunities, and improve their resilience to extreme events. Through this online Toolkit, interested parties can access a variety of tools and data streams to help them understand how certain changes in environmental conditions—such as sea level rise and flooding, or droughts and wild-fires—may impact their communities.
- *On-the-Ground Partnership with Local Communities.* The Budget provides \$4 million to support a Resilience Corps pilot program at the Corporation for National and Community Service. This pilot program will support roughly 200 AmeriCorps members to assist communities in planning for and addressing the impacts of climate change. The Budget also includes \$2 million for NOAA to train the Resilience Corps members. In addition to standing up a new Resilience Corps, the Budget also scales up on-the-ground programs that are already at work—such as the Corps of Engineers' Silver Jackets—by providing \$31 million for the Corps of Engineers to provide local communities with technical and planning assistance regarding the development and implementation of nonstructural approaches to manage and reduce flood risk. The Budget also provides a total of \$50 million, a \$40 million increase, for American Indian Tribes and Alaska Native Villages and new funding totaling \$7 million for Insular Areas (including territories and freely associated states) for understanding,

### Federal Budget Exposure to Climate Risk

The global climate is changing and is projected to continue to change over this century and beyond.<sup>1</sup> Climate change impacts—such as rising sea level and more frequent and intense extreme weather events—will increasingly strain the Federal budget. The ability of policymakers to make smart investment decisions and to steward the Federal budget over the long term is increasingly dependent on understanding the Federal Government's exposure to climate risks.

The Federal Government has broad exposure to escalating costs and lost revenue as a direct or indirect result of a changing climate. For a number of Federal programs, existing climate-related expenditures can be identified. Over the last decade, the Federal Government has incurred over \$300 billion in direct costs due to extreme weather and fire alone, including the following:

- *\$179 billion for domestic disaster response and relief related to extreme weather.* Models demonstrate that climate-driven changes, such as higher sea levels and changes in hurricane activity, are likely to magnify damages and associated disaster response and relief needs.<sup>2</sup>
- *\$24 billion for flood insurance.* While the National Flood Insurance Program is designed to offset losses with premium collections, the program accrued approximately \$24 billion in debt to the U.S. Treasury over the last decade. Losses per policy are expected to grow due to climate change.<sup>3</sup>
- *\$61 billion for crop insurance.* The Federal Government's total exposure for crop insurance is currently about \$110 billion, up from \$67 billion in 2007. Climate-driven increases in extreme weather events such as drought and excessive moisture are expected to exacerbate the costs of crop insurance.
- *\$34 billion for wildland fire management.* Climate change is contributing to an increase in wildfire frequency and intensity across the western United States and Alaska.<sup>1</sup>
- *Health care.* The effects of climate change will increase risk of asthma attacks and other respiratory illnesses, extreme heat exposure, the spread of infectious diseases, and flood-related health hazards. Already, the United States is spending billions of dollars in Medicaid expenses related to asthma each year.
- *Federal property management.* Federal facilities are directly at risk from the kinds of extreme weather events associated with climate change. For example, a military installation in the Southwest incurred \$64 million in damages due to unusual torrential downpours. Another military facility in Alaska will incur \$25 million in costs to bolster its seawall and runway against rising seas and thawing permafrost.
- *National security.* National security agencies expect that climate change effects worldwide will drive overseas conflict and associated costs for military and humanitarian operations.
- *Species decline and loss.* Climate change is expected to fundamentally alter ecosystems in ways that are costly to those systems and the people who depend upon and value them. While some species may be able to move to more suitable climates, others may be unable to and could be driven to extinction. As populations decline due to the impacts of existing stressors—such as habitat loss—coupled with climate change, the number of species needing Federal protection and

1 Melillo, Jerry M., Terese (T.C.) Richmond, and Gary W. Yohe, Eds., 2014. *Climate Change Impacts in the United States: The Third National Climate Assessment*. U.S. Global Research Program, 841 pp. doi:10.7930/J0Z31WJ2

2 Kopp, Robert, and Solomon Hsiang, 2014: *American Climate Prospectus*. Economic Risks in the United States. Rhodium Group, LLC.

3 AECOM, 2013. *The Impact of Climate Change and Population Growth on the National Flood Insurance Program through 2100*. Prepared for Federal Emergency Management Agency

the costs of Federal species recovery efforts will likely increase. For example, climate change has already brought on a mismatch between the life cycle of the Edith's checkerspot butterfly and the timing of the flowering plants it depends on, causing the butterfly's population to crash along its southern range.

Current projections estimate that unabated climate change would cost the global economy over four percent of global GDP each year by 2100.<sup>4</sup> Such economic losses would translate into lost revenue for the U.S. Government. While the extent of this lost revenue in 2100 is highly uncertain—it could be as much as 0.7 percent of U.S. GDP.<sup>5</sup> For reference, such a loss in 2014 would translate into over \$120 billion in lost revenue for the Federal Government.

How we respond to one of the most significant long-term challenges that the Nation and our planet faces speaks volumes about our values. It speaks to who we are as policymakers—if we embrace the challenge of developing pragmatic solutions. It speaks to who we are as Americans—if we seize this moment and lead. It speaks to who we are as parents—if we take responsibility and leave our children a safer planet.

The President has set the United States on an ambitious course to tackle emissions and prepare the Nation's communities for the effects of climate change because he not only believes that we have a moral obligation to do so, but also because climate action is an economic and fiscal imperative.

See *Analytical Perspectives*, Federal Exposure to Climate Risk chapter for more detail.

<sup>4</sup> Contribution of Working Group II to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change. Parry, M.L., O.F. Canziani, J.P. Palutikof, P.J. van der Linden, and C.E. Hanson (eds.). Cambridge University Press, Cambridge, United Kingdom.

<sup>5</sup> Based on 2014 receipts as a share of GDP, estimated by OMB (17.3 percent).

planning for, and implementing actions that support community resilience in the face of a changing climate.

### ***Investing in the Green Climate Fund and Leading International Efforts to Cut Carbon Pollution and Enhance Climate Change Resilience***

The President's Climate Action Plan also calls for leadership abroad. To support this objective, the Budget provides \$1.29 billion, a significant increase above the 2015 enacted level, to advance the goals of the Global Climate Change Initiative (GCCCI) by supporting important multilateral and bilateral engagement with major and emerging economies. This funding includes \$500 million for U.S. contributions to the new Green Climate Fund (GCF), which will help developing countries leverage public and private finance and invest in reducing carbon pollution

and strengthening resilience to climate change. By reducing the most catastrophic risks of climate change, the GCF will help promote smart, sustainable long-term economic growth and preserve stability and security in fragile regions of strategic importance to the United States. These investments will build on the best practices and lessons learned from the Climate Investment Funds. The United States expects that the GCF will become a preeminent, effective, and efficient channel for climate finance. More broadly, GCCCI funding enables the United States to provide international leadership through the Department of State, the U.S. Agency for International Development (USAID), and the Department of the Treasury to expand clean and efficient energy use, to reduce emissions from deforestation and forest degradation and conserve the world's remaining tropical rainforests, to phase down chemicals with high global warming potential, and to support the poorest and most vulnerable

communities in their efforts to cope with the adverse impacts of severe weather events and climate change.

### ***Maintaining the Nation's Natural Resources***

American forests are a critical resource for the economy. They support thousands of timber and forest product jobs, recreation, hunting and fishing, and help to clean the air we breathe and water we drink. However, in the face of a changing climate and increased risk of wildfire, drought, and pests, the Nation's forests are under increasing pressure and their future health and the jobs they support are at risk. Moreover, pressures to develop forest lands for urban or agricultural uses also contribute to the decline of forest health. Investments in conservation and sustainable management and working lands can help to ensure the forest landowners and dependent communities have sustainable, forest-based economic development opportunities. Such investments also have the benefit of helping to improve soil and water quality, reduce wildfire risk, and otherwise manage forests to be more resilient in the face of climate change. That is

why the Budget invests \$83 million, an increase of \$13 million over the 2015 enacted level, for the Forest Inventory and Analysis program to deliver landscape scale survey data in all 50 States, including initial surveys and data collection in interior Alaska, to foster terrestrial carbon conservation and retention in land and natural resource management.

### ***Improving the Farm Safety Net through Common Sense Reforms***

In the last 15 years, the Crop Insurance program has evolved from a small program with minimal participation to one of the main pillars of farm support. Overly generous benefits have almost eliminated the risk in farming at a cost to taxpayers in the billions. The Budget includes reforms that are designed to reduce the distorting aspects of the program while maintaining its place as an insurance program and a key component of the farm safety net. Specifically, the Budget proposes to reduce the subsidy for the premium on the harvest price protection revenue insurance, and tighten the prevented planting crop insurance rules saving an estimated \$16 billion over 10 years.

## **BUILDING A 21<sup>ST</sup> CENTURY INFRASTRUCTURE**

When we build roads, bridges, ports, communications networks, municipal water systems, and other infrastructure, we are not just putting construction workers and engineers to work—we are also revitalizing communities, protecting public health and safety, connecting people to jobs, empowering entrepreneurs, and making it easier for American businesses to export goods around the world. There is certainly enough work to do, with \$2 trillion in deferred maintenance on the Nation's infrastructure. Built by far-sighted investment over generations, America's world-class infrastructure is falling behind the rest of the world. As other nations have sought to compete economically by improving infrastructure, U.S. investment lags behind many of its overseas competitors. In the most recent World Economic Forum rankings, the United States had, in less than a decade, fallen from 7<sup>th</sup> to 18<sup>th</sup> overall in

the quality of its roads. Building a durable and reliable 21<sup>st</sup> Century infrastructure creates good jobs that cannot be outsourced and will provide American workers and businesses with the transportation and communication networks they need to help grow the economy. The Budget includes significant investments to repair the existing infrastructure and build the infrastructure of tomorrow in smart, efficient, and cost-effective ways.

### ***Long-Term Investments in Upgrading America's Transportation Infrastructure***

To spur economic growth and allow States and localities to initiate sound multi-year investments, the Budget includes a six-year, \$478 billion surface transportation reauthorization proposal.

By reinvesting the transition revenue from pro-growth business tax reform, the President's plan will ensure the health of the Highway Trust Fund for another six years—two years beyond the 2015 Budget GROW AMERICA proposal—and invest in a range of activities to spur and sustain long-term

growth. The President's plan to rebuild America will increase spending to repair and modernize the Nation's highways and bridges, as well as injecting much needed investment into the existing transit and intercity passenger rail systems. The President's plan also increases investments to ex-

### The Case for Investing in Infrastructure in Today's Economy

The Budget proposes to invest in infrastructure through a comprehensive six-year surface transportation reauthorization proposal, as well as tax incentives for State and local infrastructure investment, a new Infrastructure Bank, and other initiatives. The Federal Government plays a vital role in infrastructure investment, and the Nation's roads, bridges, and other surface transportation infrastructure systems are badly in need of upgrades and repairs. For example, 65 percent of America's major roads are rated in less than good condition and one quarter of U.S. bridges need rehabilitation, replacement, or significant maintenance and repair to remain in service or do not meet current design standards and traffic needs. Although the economic recovery has begun to accelerate, the economy is still operating below capacity, and interest rates remain at very low levels. While infrastructure investment will continue to be needed even after the economy reaches full employment, time is running out to make these needed investments under ideal economic conditions.

A recent study published by the International Monetary Fund (IMF)<sup>1</sup> makes a convincing case that "the time is right for a strong infrastructure push" in advanced economies such as the United States. While infrastructure is critical for economic efficiency and growth, the private sector often fails to make sufficient investment in infrastructure for several reasons, such as positive externalities, large start-up costs, and economies of scale. Thus, in many cases, the public sector can provide infrastructure more efficiently.

Public infrastructure investment promotes economic growth by boosting aggregate demand in the short run and improving economic efficiency in the long run. While infrastructure needs to be financed, the IMF study presents statistical evidence that—under the right conditions—the combination of short- and long-term economic gains from infrastructure investment can offset much of its cost. When many workers are unemployed, infrastructure investment increases total employment, as opposed to bidding workers away from other sectors, thus increasing aggregate demand.

The U.S. economy still has unused capacity. While the unemployment rate has declined significantly and more workers are holding full-time jobs, nearly four percent of the workforce is still working part time for the lack of full-time work, and unemployment rates in the construction sector remain higher than in the economy as a whole. Moreover, the Federal Government remains able to borrow at very low interest rates, with the 10-year Treasury rate ending 2014 below two and a half percent. While the Budget proposes to offset the cost of its new infrastructure investments, it would front-load the investments and pay for them over the 10-year budget window. This pro-growth approach has the potential to realize both the short- and long-term gains from investing in infrastructure, with no risk of higher long-run debt.

The IMF study also highlights the importance of choosing high-efficiency infrastructure projects based on rigorous benefit-cost analysis. The United States has a pent up supply of badly needed infrastructure projects that meet these tests, and the President's surface transportation plan would result in larger share of funds being allocated through competitive processes.

<sup>1</sup> International Monetary Fund, 2014, "Is It Time for an Infrastructure Push? The Macroeconomic Effects of Public Investment," in *World Economic Outlook: Legacies, Clouds, Uncertainties*.

pand new transit projects, link regional economies by funding the development of high-performance rail, and support American exports by improving goods movement within the Nation's freight rail networks. Small businesses particularly depend on the quality of transportation networks to get goods to market competitively, allowing them to win customers, expand operations, and hire new employees. To help spur innovation and economic mobility, the reauthorization proposal would permanently authorize the competitive TIGER grant program to support projects that bring job opportunities to communities across the United States. The proposal would also advance the President's Climate Action Plan by building more resilient infrastructure and reducing transportation emissions by responding to the greater demand and travel growth in public transit. Also, to make sure that Americans are driving vehicles that are safe to operate, the reauthorization proposal includes additional resources for investigating automobile defects, improving data collection to better support Government oversight of auto manufacturers, and making changes to hold auto manufacturers more accountable for reporting and responding to vehicle defects.

### ***Infrastructure Permitting***

To further accelerate economic growth and improve the competitiveness of the American economy, the Administration is taking action to modernize and improve the efficiency of the Federal permitting process for major infrastructure projects. In May 2014, the President announced a comprehensive interagency plan with 15 reforms to turn best practices into common practice. To implement this plan, the 2015 Budget proposed a new Interagency Infrastructure Permitting Improvement Center housed at the Department of Transportation to lead the Administration's reform efforts across nearly 20 Federal agencies and bureaus. While waiting for the Congress to act, the Administration set-up an interim interagency team to support reforms, such as moving from separate, consecutive reviews to synchronized, simultaneous reviews. For example, the U.S. Coast Guard, the Corps of Engineers, and the Department of Transportation have launched a

new partnership to synchronize their reviews for transportation and other infrastructure projects, such as bridges that cross navigation channels. By developing one environmental analysis that satisfies all three agencies, project timelines can be significantly reduced. Building on these efforts, the Budget supports an expanded, publicly available Permitting Dashboard that tracks project schedules and metrics for major infrastructure projects, further improving the transparency and accountability of the permitting process. To accomplish these goals, the Budget proposes \$4 million for the Department of Transportation to expand the Federal Infrastructure Permitting Dashboard and fund staff to lead interagency reforms that accelerate progress and improve outcomes. In addition, the Budget includes \$4 million for permitting reforms through a proposal to expand interagency transfer authorities, which would institutionalize capacity to address cross-agency management improvements. The Budget also includes additional funding to expedite the consultations required pursuant to the Endangered Species Act, which also will help accelerate permit review timeframes.

### ***Build America Investment Initiative***

The Budget includes support for the Build America Investment Initiative (BAII), a Government-wide, interagency initiative to increase infrastructure investment and promote economic growth by supporting public-private collaboration in major infrastructure sectors such as transportation, water, and telecommunications. As part of the BAII, the Administration has launched investment centers to provide States and municipalities with assistance on securing investment in transportation, water systems, and rural infrastructure. Together, these centers will facilitate direct private investment in U.S. infrastructure and encourage greater public-private collaboration. For example, as part of the BAII, the Department of Transportation established the Build America Transportation Investment Center to serve as a one-stop-shop for cities and States seeking to use innovative financing and partnerships with the private sector to support transportation infrastructure. An Interagency

Infrastructure Finance Working Group, co-chaired by the Secretaries of the Treasury and Transportation, delivered recommendations to the President on how to promote awareness and understanding of innovative financing and increase effective public-private collaboration. Building on those recommendations, the Administration has worked with the private sector to launch two additional investment initiatives that will help leverage existing investments in drinking water and wastewater infrastructure and other infrastructure such as hospitals, schools, local and regional food systems, and broadband expansion throughout rural America. Other Federal agencies are also focusing on using existing authorities to increase the private sector's participation in the financing of public infrastructure. In addition, the Budget proposes to create a new America Fast Forward Bond program that, like its Build America Bond precursor, will provide State and local governments with an optional taxable bond alternative to traditional tax-exempt bonds. The Federal Government will share in the cost of these bonds so they are as affordable to issuers as tax-exempt bonds, proceeds of which can be used to further finance governmental capital projects.

### ***Launching the National Parks Centennial Initiative***

For 100 years, National Park Service (NPS) parks and historic sites have preserved and shared America's cultural and historical identity. These places present America's unique history and draw tourists from across the United States and around the world. There is an opportunity to celebrate the centennial anniversary of the Nation's great parks by providing enhanced park services for visitors, and through targeted investments to improve NPS facilities. This opportunity is an historic effort to upgrade and restore national parks, while putting tens of thousands of Americans to work and engaging and inspiring younger generations to carry the Nation's parks into the future.

The Budget proposes \$860 million in mandatory and discretionary funding to allow NPS, over 10 years, to make targeted, measurable, and

quantifiable upgrades to all of its highest priority non-transportation assets and restore and maintain them to good condition. Addressing the critical needs of these assets avoids deterioration and costs for future generations. The Budget also proposes matching funds to leverage private donations for signature projects and programs at national parks. This significant effort ensures America's national treasures will be preserved over the next hundred years for future generations.

The 1916 Act that created NPS called for parks to be left "unimpaired for the enjoyment of future generations." The Parks Centennial seeks to live up to this call by providing more opportunities for children to interact with natural areas. This targeted effort involves transporting over a million urban youth a year to national and public lands with dedicated youth coordinators to welcome them and their families. Today's investment in the next generation of visitors will help build the stewards of America's national treasures in the future.

This year also marks the 50<sup>th</sup> anniversary of the Voting Rights Act, which the Budget commemorates by proposing \$50 million to restore and highlight key sites across the United States that contributed to the struggle for civil rights. This includes investments in specific NPS sites associated with the 1950s and 1960s civil rights movement, such as the Selma to Montgomery National Historic Trail, Little Rock Central High School National Historic Site, Brown v. Board of Education National Historic Site, and the Martin Luther King, Jr. National Historic Site. State, local, and tribal governments can also apply for historic preservation funds to help them document and preserve stories and sites associated with the struggle.

### ***Smart Investments in Federal Facilities***

Investing in the Nation's federally-owned facilities ensures that mission execution is optimized at the lowest possible cost. Funding reductions in recent years have led to facility deterioration, as well as missed opportunities

to consolidate and reduce operating costs. The General Services Administration (GSA) is leading the Federal effort to both invest in Federal facilities and consolidate space to reduce costs and optimize efficiency, saving tens of millions in annual lease costs. The Budget will invest more than \$2.5 billion in GSA's Federal facilities portfolio, an increase of more than \$1.1 billion over the enacted level. GSA will invest \$1.25 billion in construction and acquisition priorities, including the next phase of the consolidated Department of Homeland Security Headquarters and the first phase of a Civilian Cyber Campus. GSA will also invest more than \$900 million in critical repairs and alterations and consolidation activities. The National Aeronautics and Space Administration and the USDA Forest Service will eliminate operating costs by demolishing unneeded facilities. The Smithsonian Institution and DOI will make

necessary investments to improve the condition of facilities and reduce operational costs. The Budget invests \$60 million to continue renovations of USDA headquarters, and \$206 million for the Agricultural Research Service to renovate and construct its facilities. The Budget also invests \$1.5 billion for construction projects at the Department of Veterans Affairs (VA), an increase of nearly \$500 million over the 2015 enacted level. These investments will enhance the Department's mission while providing opportunities for long-term savings, as building upgrades and renovations result in a reduced footprint. Government-wide, agencies will continue their efforts to reduce their space in accordance with the Administration's goal to reduce the Federal footprint. In total, the Budget provides an additional \$2.4 billion in capital investment funding over the 2015 enacted level.

### **HIGH-QUALITY, AFFORDABLE EDUCATION: FROM PRE-K TO COLLEGE**

America's education system led the world in the 20<sup>th</sup> Century—we sent generations to college, and cultivated the most educated workforce in the world, which supported an unparalleled period of economic growth and rising middle class incomes. Since then, other countries have followed our lead to develop globally competitive education systems. America must lead the world in education once again. That requires both reform and investment, and the Budget does both—investing in what works to improve student outcomes. The Budget provides \$70.7 billion in discretionary funding for Department of Education programs, an increase of \$3.6 billion from the 2015 enacted level.

Significant progress has already been made toward improving educational opportunities. By tying investments to evidence-based reforms and focusing on improving student outcomes, the Administration has worked with States across the Nation to raise their learning standards, improve teacher effectiveness, and use data to ensure students graduate from high school prepared for college and a successful career. These investments have given teachers, school districts, and States the tools to turn around some of the Nation's lowest-performing schools. We are also

on our way to connecting 99 percent of students to next-generation broadband in the classroom through the ConnectED initiative. Progress is being made on the President's goal to prepare 100,000 excellent math and science teachers. Last year, U.S. elementary and middle school students had the highest mathematics and reading scores on record. The high school graduation rate is above 80 percent for the first time in history. More students have been helped to afford college through grants, tax credits, and manageable loans, and today more people are graduating from college than ever before. Further, 1.3 million veterans have been sent to college on the Post-9/11 GI Bill.

Tremendous progress has been made in education, but we still have work to do to make sure we are again leading the world with highly-skilled workers who are able to compete in the global economy and are ready for the jobs of tomorrow. The Budget proposes to do that through improving access to early education; preparing elementary and secondary education students for success; increasing access to quality, affordable higher education; and continuing to build the

evidence base for what works to improve student outcomes.

### ***Improving Access to High-Quality, Affordable Early Education***

Providing children with access to high-quality, early education enables them to start kindergarten ready to succeed and to realize their full potential. Researchers have established that supporting children during this critical stage yields benefits that far outweigh the costs of the investment. This is particularly true for low-income children, who often start kindergarten far less prepared than their peers.

**Preschool for All.** The Budget maintains support for the President's landmark Preschool for All proposal to ensure four-year-olds across the Nation have access to high-quality preschool programs. The proposal establishes a Federal-State partnership to provide all low- and moderate-income four-year-olds with high-quality preschool, while providing States with incentives to expand these programs to reach additional children from middle class families, and put in place full-day kindergarten policies. The proposal is paid for through an increase in tobacco taxes that will help reduce youth smoking and save lives. To lay the groundwork for this proposal, the Budget provides \$750 million for Preschool Development Grants, a substantial increase of \$500 million from the 2015 enacted level. The Department of Education's Preschool Development Grants are currently helping 18 States develop and expand high-quality preschool programs in targeted communities. The Budget also provides \$907 million for early intervention and preschool services for children with disabilities, an increase of \$115 million from the 2015 enacted level. This proposal includes \$15 million for a pay-for-success initiative for early identification of and intervention for learning and developmental delays, with a potential focus on autism, intended to help identify, develop, and scale-up evidence-based practices through innovative public-private partnerships that create incentives for service providers to deliver better outcomes.

**Head Start.** The Budget makes historic investments in the Department of Health and Human Services' Head Start program by providing more than \$1.5 billion in additional funding over the 2015 enacted level, including \$650 million to expand access to high-quality early learning settings for tens of thousands of additional children through Early Head Start and the Early Head Start-Child Care Partnerships. The increased Head Start funding will also ensure that children are served in programs that operate for a full school day and a full school year, which recent research shows promotes better outcomes for young children. In addition, the Budget invests \$15 billion over the next 10 years to extend and expand evidence-based, voluntary home visiting programs, which enable nurses, social workers, and other professionals to work with current and expecting parents to help families track their children's development, identify any health and development issues and connect them to services to address them, and utilize good parenting practices that foster healthy development and early learning. As with Preschool for All, the proposal is paid for through an increase in tobacco taxes. The program builds on research showing that home visiting programs can significantly improve maternal and child health, child development, learning, and success. As discussed below under Supporting Working Families, the Budget also makes historic investments in expanding access to quality, affordable child care. This investment is designed to meet two important purposes—help parents afford child care so they can work and help children access quality care that can support their healthy development.

### ***Preparing all Students for Success in College and Careers***

States and school districts have made significant progress toward expanding opportunity so that all children can meet rigorous, college- and career-ready standards and graduate from high school prepared to succeed in a globally competitive economy. Forty-eight States and the District of Columbia have raised standards for learning in their schools and are supporting the hard

work of teachers to enable their students to succeed. Parents, educators, and communities have joined together to transform low-performing schools and embark on a new day of learning for students. School districts are making important strides to connect students to high-speed broadband that will facilitate personalized instruction and link them to a world of learning beyond the classroom. The signs of progress are clear—the high school graduation rate is the highest on record and students are making academic gains. Yet there is a long way to go to ensure that all students, particularly those who are the most disadvantaged, are ready to compete in a global economy.

**Title I.** The Budget proposes a \$1 billion increase from the 2015 enacted level for Title I, the Department's largest K-12 grant program and the cornerstone of its commitment to supporting low-income schools with the funding necessary to provide high-need students access to an excellent education. In addition, the Budget proposes \$100 million to support districts that are using their Federal formula funds for evidence-based interventions, and includes a pilot opportunity for districts that distribute funds to schools more equitably to receive relief from Federal reporting and fiscal requirements. The Budget also includes increases for programs that help other students who face academic hurdles meet rigorous academic standards, including \$11.7 billion for special education, an increase of \$175 million over 2015 funding, and \$773 million for English learners, an increase of \$36 million.

**Support for Teachers.** The Budget invests \$3 billion in discretionary funding to provide broad support for educators at every phase of their careers, from ensuring they have strong preparation before entering the classroom, to pioneering new approaches to help teachers succeed in the classroom and equipping them with tools and training they need to implement college- and career-ready standards. Recognizing the importance of integrating technology into the classroom, this investment includes \$200 million for an improved Education Technology State Grants program focused on providing educators

with training and support to maximize the impact of expanded access to technology to provide high-quality instruction to students.

The Budget also proposes a companion initiative funded at \$1 billion annually for five years in mandatory funding that will support State and local efforts to attract more of the best and brightest to the teaching profession and prepare them for the demands of the classroom, while also creating a culture of excellence and professional growth for teachers throughout their careers.

**Improving the Nation's High Schools.** The Budget establishes a new \$125 million competitive program to promote the redesign of America's high schools by integrating deeper learning and student-centered instruction, with a particular focus on science, technology, engineering, and mathematics (STEM)-themed high schools that expand opportunities for girls and other groups underrepresented in STEM fields. The Budget also invests \$556 million, a \$50 million increase over the 2015 enacted level, in School Improvement Grants, to expand the use of evidence-based approaches to turning around the Nation's lowest performing schools, including high schools with unacceptably low graduation rates.

**Replicating Successful Charter School Models.** The Budget proposes \$375 million for charter schools, a \$122 million increase over the 2015 enacted level. This investment includes a significant emphasis on replicating and expanding those charter schools and models that have been shown to significantly improve educational outcomes for disadvantaged students to new areas in need of high-quality schools.

**Building Evidence and Fostering Innovation.** The Budget funds the Investing in Innovation program at \$300 million, a \$180 million increase over the 2015 enacted level, to develop and test effective practices and provide better information to States and districts on what works in key areas such as implementing college- and career-ready standards, using data to inform instruction and personalize learning,

and improving low-performing schools. Across every dimension, the Budget continues the Administration's efforts to build a much stronger evidence base on what works in education.

**Strengthening Opportunities for Native Youth.** The Budget supports a comprehensive redesign and reform of the Bureau of Indian Education (BIE) to provide students attending BIE-funded schools with a world-class education, transforming that agency to serve as a capacity-builder and service-provider for Tribes in educating their youth. Investments in the Budget for DOI include funding to: improve opportunities and outcomes in the classroom; provide improved instructional services and teacher quality; promote enhanced language and cultural programs; enhance broadband and digital access; rebuild schools and improve school infrastructure and facilities; and provide grants to incentivize creative solutions to school transformations. The Budget also supports new Native Youth Community Projects at the Department of Education, to provide funding in a select number of Native communities that would support culturally relevant, coordinated strategies to improve the college-and-career readiness of Native children and youth.

### ***Delivering a Quality, Affordable College Education to Millions of Americans***

Today, more than ever, Americans need more knowledge and skills to meet the demands of a growing global economy. A college education opens the door to opportunity—for individuals and, in turn, for the Nation as a whole. That is why the President is committed to making a college education affordable and accessible and to undertaking reforms that improve quality and performance, ensuring that the United States once again leads the world in college completion, as it did a generation ago. This effort requires a multi-pronged strategy that includes a strong Pell Grant Program that expands opportunity for low- and moderate-income students; a student loan program that helps students and families make sound financial choices and ensures student debt stays manageable; key investments in

America's higher education system that make two years of college free for responsible students, ensuring affordable, high-quality community college options for students seeking occupational training or a stepping stone to a four-year degree; and a simpler, better targeted tax system that helps families pay for college. But affordability is not enough. Colleges also need to help students from all backgrounds, including disadvantaged and academically underprepared students, to persist and ultimately succeed. A number of leading colleges and States have already begun to successfully meet these challenges and demonstrate what is possible—the Budget builds on these lessons and the steps the Administration has already taken to improve higher education access, affordability, and quality.

**Investing in Pell Grants.** Over the course of this Administration, the maximum Pell Grant for working and middle class families has gone up by more than \$1,000, to nearly \$5,800 in award year 2015-16, and the Budget will continue the President's commitment to college affordability by ensuring that Pell Grants keep pace with inflation. The Budget also proposes strengthening academic progress requirements in the Pell Grant program and provides a College Opportunity and Graduation Bonus to successful schools, to ensure that students make progress toward completing their degrees.

**Making Two Years of Community College Free for Responsible Students and Strengthening the Quality of Community Colleges.** The Budget includes a new proposal to ensure all Americans have the opportunity to pursue and succeed in higher education, with a goal of making two years of college as universal as high school. The new grant program will provide funding to States that agree to waive tuition and fees at community colleges for eligible students, increase their own investment by matching the Federal funds, and undertake a set of reforms to improve the quality of community colleges. In addition, the Budget includes \$200 million to create a post-secondary American Technical Training Fund within the Career and Technical Education program, which would create or expand job-training

programs with strong employer partnerships to provide accelerated training in in-demand fields.

**Making the Tax System Simpler and More Effective at Supporting Families and Students.** The Budget proposes to expand, simplify, and better target education tax benefits, building on the Administration's success in creating the American Opportunity Tax Credit.

**Making Student Loans Work for Students.** The Budget continues to propose reforms to Pay-As-You-Earn, an income-based repayment option, to ensure that the program is well-targeted while making student loan payments manageable. It

also supports improvements to the loan programs to ensure that borrowers can make sound choices.

**Using Evidence to Improve Higher Education.** Through a \$200 million investment in the First in the World program, a \$140 million increase over the 2015 enacted level, the Administration will scale-up promising evidence-based practices that aim to improve college affordability, persistence, and completion for more of America's students and families. The Budget also includes an additional \$20 million for innovative, evidence-based approaches in the TRIO programs.

## WALL STREET REFORM

When the President took office in 2009, financial markets were in a tailspin. The crisis left millions of Americans unemployed and resulted in trillions in lost wealth. America's broken regulatory system was the principal cause of that crisis. To ensure financial stability for Americans and businesses, the President fought to reform Wall Street, ultimately signing a bill that represented the most sweeping financial regulatory legislation since the Great Depression. Since that time, Americans are getting back to work and regaining lost equity in their homes. But there is still work to do to protect American consumers and investors, and maintain fairness in the financial system.

In response to the destabilizing 2008 financial crisis, the Administration achieved landmark reform of the Nation's financial system in 2010 with enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Wall Street Reform). In the years since enactment, Federal agencies have helped make home, auto, and short-term consumer loan terms fairer and easier to understand for average consumers, improved visibility for investors into the shadowy corners and complex instruments of financial markets, and increased financial firms' planning for and resilience to future financial downturns. The Budget continues to support Wall Street Reform implementation

across agencies, including \$1.7 billion for the Securities and Exchange Commission and \$322 million for the Commodity Futures Trading Commission (CFTC), representing increases over the 2015 enacted level of 15 percent and 29 percent, respectively. These are the only two Federal financial regulators whose budgets are set through annual appropriations. The Budget also reflects continued support for legislation to enable funding the CFTC through user fees like all other financial regulators. The Administration will continue to oppose efforts to restrict the funding independence of the other financial regulators, including the Consumer Financial Protection Bureau, and will fight other attempts to roll back Wall Street Reform.

To finish addressing the weaknesses exposed by the financial crisis, the Government must reform the housing finance system and move forward to wind down the Government-Sponsored Enterprises (GSEs), which have been in conservatorship since September 2008. A bipartisan bill developed in the Senate last year includes many of the Administration's key housing finance reform principles, including ensuring that private capital is at the center of the housing finance system, and that the new system supports affordable housing through programs such as the Housing Trust and Capital Magnet Funds. The President stands ready to work with Members

of Congress in both parties to enact common sense housing finance legislation that embodies these core principles. For additional discussion

of the GSEs, see the Credit and Insurance chapter in the *Analytical Perspectives* volume of the Budget.

## CREATING OPPORTUNITY AND SUPPORTING WORKING FAMILIES

The economy is growing and businesses are creating a record number of jobs; but in order to truly judge this economy as healthy, more must be done to support America's working families and create opportunity for those striving to reach the middle class. Too many Americans are working harder to get by, not feeling the effects of a growing economy. In addition to creating jobs by investing in manufacturing, R&D, and clean energy development, and expanding opportunity by investing in education from the early years through college, support must also be provided to the Nation's working families and more opportunities provided for hardworking Americans to get ahead. That is why this Budget invests in a series of proposals to help ensure that if you work hard and play by the rules, you can reach the middle class and thrive in it.

### *Supporting Working Families*

The Budget includes the following proposals to support working families, and help them reach their full potential in America's growing economy.

**Expanding Access to Quality Child Care for Working Families.** Research shows that access to affordable, quality child care can increase parents' employment and earnings, while also promoting healthy child development. The Budget invests \$82 billion in mandatory funding over 10 years to ensure that all low- and moderate-income working families with children ages three or younger have access to quality, affordable child care. The Budget also provides a \$266 million increase in discretionary funding to help States implement the policies required by the new bipartisan Child Care and Development Block Grant Act of 2014, and designed to improve the safety and quality of care while giving parents the information they need to make good choices about their child care providers. In addition, as described later, the Budget proposes to

expand tax credits that help middle class families afford the cost of child care.

To help build a supply of high-quality child care that meets the needs of today's working families, including those with non-traditional schedules, the Budget also provides \$100 million to States and local communities to develop, implement, and evaluate new, innovative models of providing care. These pilots will benefit low-income working families by focusing on what they need most—high-quality care that is available in their community and during the hours they work.

**Encouraging State Paid Leave Initiatives.** Too many American workers must make the painful choice between caring for their families and a paycheck they desperately need. While the Family and Medical Leave Act allows many workers to take job-protected unpaid time off to care for a new baby or sick family member, or tend to their own health during a serious illness, millions of families cannot afford to use unpaid leave.

A handful of States have enacted policies to offer paid leave, and the Federal Government can encourage more States to follow their lead. The Budget includes \$2 billion for the Paid Leave Partnership Initiative to assist up to five States that wish to launch paid leave programs, following the example of California, New Jersey, and Rhode Island. States that participate in the Paid Leave Partnership Initiative would be eligible to receive funds for the initial set up and benefit costs of the program for three years. The Budget also includes a \$35 million State Paid Leave Fund to provide technical assistance and support to States that are still building the infrastructure they need to launch paid leave programs in the future.

**Expanding Paid Family Leave for Federal Employees.** The United States is one of only a

few countries (and the only industrialized country) that does not offer workers paid maternity leave, although Federal workers do have access to paid sick and annual leave. Evidence shows that the availability of paid maternity leave increases the likelihood that mothers return to their jobs following the birth of a child, in addition to producing better outcomes for the infant. In order to recruit and retain the best possible workforce to provide outstanding service to American taxpayers, the Budget proposes legislation that would offer Federal employees six weeks of paid administrative leave for the birth, adoption, or foster placement of a child. In addition, the proposal would make explicit the ability for mothers and fathers to use sick days to bond with a healthy new child. This proposal is part of a broader effort to expand the availability of paid family leave for the Federal workforce, and establish a Federal family leave policy that is on par with leading private sector companies and other industrialized nations. The proposal complements the President's memorandum in January 2015, directing agencies to offer advanced sick leave in connection with the birth or adoption of a child, foster care placement, or for other sick leave eligible uses, and requiring agencies to consider providing access to affordable emergency backup dependent care service.

#### **Helping Families Care for Aging Relatives.**

Families are the Nation's primary provider of long-term care, but financial constraints, work and family demands, and the challenges of providing care can place great pressure on family caregivers. Caregiving responsibilities demand time and money from families who too often are already strapped for both. Paid leave policies can provide an important support to workers with caregiving responsibilities. The Budget provides \$88 million in additional resources for existing programs that are providing critical help and supports to seniors and caregivers, such as respite care, transportation assistance, and nutrition services. To ensure the continued provision of high-quality and effective supports to older adults and caregivers, the Budget also includes \$35 million for these programs to develop and disseminate evidence-based innovations. In 2015, the Administration

will host the sixth White House Conference on Aging to recognize the importance of these, and other key programs for older Americans, as well as to look ahead on how to improve and advance the quality of life for older Americans in the next decade.

**Maintaining Strong Support for Worker Protections.** The Budget includes nearly \$1.9 billion for the Department of Labor's (DOL) worker protection agencies, putting them on sound footing to meet their responsibilities to defend the health, safety, wages, working conditions, and retirement security of American workers. The Administration is also pursuing a combination of executive and legislative actions to strengthen these laws and their enforcement, so workers can earn wages that will allow them to sustain their families, be protected from discrimination, return home safely at the end of a day's work, and retire with dignity. In the Budget, and through its administrative actions, the Administration:

- *Supports Raising the Minimum Wage.* In a Nation as wealthy as the United States, far too many workers are living below the poverty line. Over the past 30 years, modest minimum wage increases have not kept pace with the higher costs of basic necessities for working families. The Administration supports raising the minimum wage so hard-working Americans can earn enough to support their families and make ends meet. Many companies, from small businesses to large corporations, also see higher wages as the right way to boost productivity, reduce turnover, and increase profits. Raising the minimum wage is good for workers, their families, and for the economy. The President took an important step in this effort by signing an Executive Order (EO) to increase the minimum wage to \$10.10 for those working on new and replacement Federal contracts, and the Administration recently issued regulations to implement the EO. The Administration is encouraged that 17 States and the District of Columbia have passed increases in their minimum wage since the President called for a minimum wage increase during his State of the Union remarks in February

2013. Those increases will benefit seven million workers. As the President continues to encourage States, cities, and businesses to act, he stands ready to work with the Congress to pass legislation to increase the minimum wage for the rest of the workforce as soon as possible.

- *Enhances Worker Safety and Protections for Whistleblowers.* The Budget provides almost \$990 million for the Occupational and Mine Safety and Health Administrations (OSHA and MSHA) to make sure workers are protected from health and safety hazards on the job. In particular, the Budget provides additional resources to enhance safety and security at chemical facilities and improve response procedures when major incidents at these sites occur. The Budget also bolsters OSHA's ability to enforce the more than 20 whistleblower laws that protect workers from discrimination and retaliation when they report unsafe and unscrupulous practices. The Budget also provides MSHA the resources it needs to meet its statutory obligation to inspect every mine and address the risks posed to miners by the Nation's most dangerous mines.
- *Strengthens Penalties Against Employers Who Jeopardize Workers' Health, Safety, Wages, and Retirement Security.* Increased enforcement resources are vital to improving compliance with the Nation's labor and employment laws and protecting American workers. However, many of these laws lack strong civil penalties, which can help deter violations. The Budget proposes to strengthen several of the civil monetary penalties that DOL collects. In addition, the Administration will act on recommendations made by the Government Accountability Office (GAO) and the Administrative Conference of the United States by proposing to improve the Federal Civil Penalties Inflation Adjustment Act, which was established to maintain the deterrent effect of civil monetary penalties Government-wide through timely and predictable inflationary adjustments, but has fallen short because of its structure and implementation.

### **Creating Pathways to High-Growth Jobs.**

Last year, the Congress came together and passed important improvements to the Nation's job training system with the bipartisan Workforce Innovation and Opportunity Act. To build on this progress, the Budget provides a \$500 million increase over the 2015 enacted level to support in-person employment services for unemployed workers to help them find a good job or the training or services to prepare for one. This investment would reach the one-third of unemployment insurance beneficiaries who are most likely to run out of benefits before getting reemployed, all returning veterans who receive unemployment benefits, and other displaced workers who come into American Job Centers for help getting back to work and onto a new career path. Evidence suggests that these types of services are a cost-effective intervention that get workers back into jobs faster, and help employers to fill their in-demand jobs.

For workers who need job training to get back on their feet, the Budget provides \$16 billion over 10 years to double the number of workers receiving training through the workforce development system. This training would focus on industries that are expected to experience significant growth in the coming decades, such as health care, energy, advanced manufacturing, transportation and logistics, cybersecurity, and information technology. The combination of intensive reemployment services and expanded training opportunities will allow the workforce system to provide a suite of services that helps workers obtain stable, high-quality employment. To help improve the quality of training programs and speed the development of credentials that have real labor market value, the Budget provides \$500 million for competitive Industry Credentialing and Career Pathways Grants including \$300 million specifically targeted at information technology jobs to create employer-validated credentials where they do not yet exist, drive additional employer uptake of existing credentials, and develop curriculum and assessments that help individuals earn credentials. Building on the success of the Trade Adjustment Assistance Community College

and Career Training grants, the Budget includes \$200 million to fund State expansion of postsecondary programs based on defined competencies for high-demand jobs, with strong employer partnerships. The Budget also looks to the successful “learn-and-earn” approaches of the Nation’s European counterparts, investing \$2 billion to achieve the goal of doubling Registered Apprenticeships across the United States over the next five years. Apprenticeship is a cost-effective pathway into the middle class. According to DOL data, those who complete registered apprenticeship programs earn median wages of over \$50,000 and almost 90 percent are employed after completion. The Budget also provides \$3 billion for the Connecting for Opportunity initiative, which provides disconnected youth with additional summer and year-round job opportunities and supports competitive grants to municipalities to reengage these youth and create educational and workforce pathways for them.

The Budget also increases job training and financial incentives for public housing residents to secure greater employment through the Department of Housing and Urban Development’s (HUD) Jobs-Plus program. The Budget provides \$100 million for Jobs-Plus to target assistance to 20,000 individuals, or approximately 15,000 more than in 2015. This includes up to \$15 million to implement a demonstration of the Jobs-Plus model in Indian Country. Jobs-Plus is an evidence-based program that has been shown to boost annual incomes by \$1,300 on average.

**Promoting Responsible Parenthood by Modernizing Child Support.** The Administration is taking steps to modernize the child support program, which touches the lives of one in four American children and half of all poor children. In 2014, the Administration proposed the first comprehensive regulatory overhaul of the child support program in years to ensure that the enforcement tools are strong and effective. The Budget builds on this progress by proposing a comprehensive package of legislative reforms to complement executive actions, including a proposal to make sure more child support

reaches children rather than being retained by the Federal and State governments to “pay back” past assistance the child received.

**Promoting Permanency, Safety, and Well-Being for Children and Youth in Foster Care.** On any given day, there are 400,000 children and youth in the Nation’s foster care system with over 100,000 waiting to be adopted. As part of the Administration’s efforts to provide support for stable homes and strong support structures for vulnerable children and youth, the Budget includes a package of proposals to help improve the lives of children and youth in foster care and to help them reach their full potential. The Budget includes funding to provide preventative services to vulnerable families and children to address hardships early, keeping more children out of foster care and with their families. In addition, the Budget provides further support and funding to promote family-based care for children with behavioral and mental health needs to reduce the use of congregate care and ensure it is used only when necessary. The Budget also includes funding for Tribes to build their child welfare infrastructure, and for tribal children and youth removed from their homes to remain in their communities.

**Easing Access to Credit for Housing.** As the Nation’s housing market continues to improve, the Federal Housing Administration (FHA) reduced the annual premiums new borrowers will pay by half of a percent in January 2015. This action is projected to save new FHA homeowners an average of \$900 annually and spur 250,000 new homebuyers to purchase their first home over the next three years. Even with this premium reduction, the financial condition of FHA’s insurance fund will continue to improve. The FHA actuarial review issued in November found that the fund’s economic value increased by \$21 billion over the past two years and the Budget projects that the value will continue to grow by at least \$7 billion each year.

**Supporting Tribal Nation-Building and Opportunities for Native Youth.** The United States recognizes a unique Nation-to-Nation

relationship with each of the 566 federally recognized Tribes. The Budget strongly supports tribal self-determination and Federal treaty and trust responsibilities to Native Americans. The Budget provides significant increases across a wide range of Federal programs that serve Tribes, including education, justice, health, infrastructure, stewardship of land, water, and other natural resources, and climate resilience, and supports a new “one-stop” approach to improving access to Federal programs and resources particularly focused on youth. The Budget includes key investments to support the launch of Generation Indigenous, a Native youth initiative focused on removing barriers to success. This initiative will take a comprehensive, culturally appropriate approach to help improve the lives and opportunities for Native youth. Multiple agencies, including DOI, the Department of Education, HUD, the Department of Health and Human Services (HHS), USDA, the Department of Commerce (DOC), DOL, and the Department of Justice (DOJ), are working collaboratively with Tribes to implement education reforms and address issues facing Native youth. The Budget enhances this work through new and increased investments, including: 1) \$41 million at DOI to extend broadband internet and computer access to all BIE-funded schools and dormitories, with support from DOC’s National Telecommunications and Information Administration community broadband outreach program; 2) \$10 million at HUD and \$8 million at DOI to address teacher housing needs; 3) \$50 million at HHS to provide youth-focused behavioral and mental health, and substance abuse services; and 4) a new \$50 million program at the Department of Education to support community-driven, comprehensive strategies to improve college and career-readiness of Native youth. These new investments will build on current efforts to better coordinate and demonstrate results from across the Federal Government to serve Native youth.

**Equalizing Social Security Benefits for Same-Sex Married Couples.** The Budget proposes to amend the Social Security Act to ensure

all lawfully married same-sex couples will be eligible to receive Social Security spousal benefits, regardless of where they live. Currently, if a legally married same-sex couple lives in a State that does not recognize the marriage, these Social Security benefits are unavailable under Federal law. This means that for a couple that marries in one State where same-sex marriage is recognized and then moves to another State where it is not, the protection that Social Security spousal benefits provides to families is unavailable. Under this proposal, such married couples would have access to these benefits.

### ***Strengthening Retirement Security***

As many as 78 million working Americans—about half the workforce—do not have a retirement savings plan at work. Fewer than 10 percent of those without plans at work contribute to a plan of their own. The Nation needs to do more to help families save and give them better choices to reach a secure retirement. The Budget includes the following proposals that will guarantee that nearly every employee has access to an easy way to save for retirement through their employer. These proposals complement additional proposals, discussed later in the chapter, that would make saving easier for millions of Americans by automatically enrolling workers without employer-based retirement plans in Individual Retirement Arrangements (IRAs) through payroll deposit contributions at their workplace, and by providing tax incentives for small businesses to offer retirement plans, especially with automatic enrollment.

**Expanding Retirement Savings Options for Long-Term, Part-Time Workers.** Under current law, just 37 percent of part-time workers have access to a retirement plan, as compared to 74 percent of full-time private workers, in part because employers are permitted to exclude part-time workers from a retirement plan they provide for full-time workers. The Budget would make employees who have worked for an employer at least 500 hours per year for at least three years eligible to participate in the employer’s existing

plan. Employers would not be required to offer matching contributions. This proposal would provide approximately one million individuals with access to retirement plan coverage.

**Encouraging State Retirement Savings Initiatives.** A number of States have been exploring options for creating automatic retirement accounts for workers in the private sector who do not otherwise have access to a workplace retirement plan. However, concerns about potential conflicts with the Federal law that governs employee benefit plans have slowed those efforts. To better support State efforts, the Budget sets aside \$6.5 million at DOL, along with waiver authority, to allow a limited number of States to implement State-based automatic enrollment IRAs or 401(k)-type programs.

**Promoting Retirement Savings Options among Servicemembers.** The Budget proposes to remove the current statutory bar prohibiting DOD and its armed services branches from automatically enrolling servicemembers in the Thrift Savings Plan. Servicemembers would still have the option to opt out at any point. This would allow the branches to decide to automatically enroll certain groups of members by seniority or pay grade, based on the branches' judgment of which members are the most interested in and likely to benefit from auto enrollment.

### ***A Place-Based Approach to Expanding Opportunity***

Too often in the past, innovative efforts to expand opportunity at the State and local level have been stymied by a Federal Government acting too much like a “check the box” regulator and not enough like a partner. In addition, Federal programs too often focus only on the problems in a community, while ignoring the assets on the ground. This is especially true in communities where limited local revenues and capacity make it even more important for the Federal Government to be a strong partner.

Recent research demonstrates that the opportunities and stressors surrounding children

in the community where they grow up can have deep and lasting impacts on their educational and economic outcomes—their ability to fulfill their inborn potential. That inequality of opportunity in childhood is not just a moral failure, it is also an economic failure for the Nation's cities and America. Every year, the United States incurs a half trillion dollar cost as a result of allowing millions of America's children to grow up in poverty. Most of these costs are obvious, such as health care. But the single most harmful cost is the lost productivity and potential of so many children. Not only do young people lose when they do not get a fair shot—we all lose.

As the President has said, “real progress does not come from the top down, not just from the government. It comes from people.” That is why the Administration has made providing ladders of opportunity to all a top priority and has taken a fundamentally different view of expanding opportunity in distressed communities by: taking a comprehensive approach to community revitalization instead of addressing problems in isolation; working with local leaders to support their vision for their communities; and embracing creative new solutions to old problems, especially in this fiscal environment.

The first step in this work is to ensure that the Federal Government is working well across agencies. The Administration's economic mobility and security efforts have sought to increase collaboration across the Federal Government, serve as a better partner with communities, and to direct resources where evidence suggests they will be most impactful. By creating Federal programs that meet urban and rural communities where they are, and Federal policies that respond to the ways that people live, we can better meet the demands of communities that are striving for a better quality of life. To that end, the Budget proposes to institutionalize the Administration's place-based approach to funding programs that help create opportunity in communities across the Nation. The Budget provides funding to support more Federal agency field staff, who are well-versed in both the community's needs and the Federal resources that can address them, to serve

as community coordinators on the ground to help those communities maximize the impact of assistance from all sources. In addition, the Budget includes funding to accelerate the availability of geo-coded Federal spending information, so communities and citizens can better understand the Federal funds available to them and put them to effective, prompt use.

Through initiatives such as the Strong Cities, Strong Communities program, which strengthens towns, cities and regions by growing the capacity of local governments to develop and execute their local vision and strategies, the Administration is proposing holistic solutions to expand opportunity in the Nation's most vulnerable communities. The Budget increases the Administration's place-based efforts through the following investments:

- *The Upward Mobility Project.* The Budget proposes an Upward Mobility Project, which will allow up to 10 communities, States, or a consortium of States and communities more flexibility to use funding from up to four Federal programs for efforts designed to promote self-sufficiency, improve educational and other outcomes for children, and enhance communities' ability to provide opportunities for families. Projects will have to rely on evidence-based programs or be designed to test new ideas, and will have a significant evaluation component that will determine whether they meet a set of robust outcomes. The funding streams that States and communities can use in these projects are currently block grants—the Social Services Block Grant, the Community Development Block Grant, the Community Services Block Grant, and the HOME Program—that share a common goal of promoting opportunity and reducing poverty, but do not facilitate cross-sector planning and implementation as effectively as they could. The Budget also provides \$1.5 billion in additional funding over five years that States and communities can apply for to help support their Upward Mobility Projects.
- *The Promise Zone Initiative.* The Budget supports the Administration's Promise Zone initiative, which targets communities of concentrated poverty and establishes partnerships between the Federal Government, local communities, and businesses to create jobs, increase economic security, expand educational opportunities, increase access to quality, affordable housing, and improve public safety. Communities are chosen through a competitive process, and each puts forward a plan on how they will partner with local business and community leaders to make investments that reward hard work and expand opportunity. In exchange, the Federal Government partners with these communities to help them secure the resources and flexibility they need to achieve their goals. The President announced the first five Promise Zone communities in 2014, and will designate an additional 15 Zones by the end of calendar year 2016. The Budget also includes Promise Zone tax incentives to stimulate growth and investments in targeted communities, such as tax credits for hiring workers and incentives for capital investment within the Zone.
- *Choice and Promise Neighborhoods.* To support the President's vision for Promise Zones, the Budget also expands the Department of Education's Promise Neighborhoods program and HUD's Choice Neighborhoods program, funding approximately 25 new Promise Neighborhoods and eight new Choice Neighborhoods.
- *Rural Initiatives.* According to a 2014 report by USDA's Economic Research Service, rural childhood poverty rates are at their highest point since 1986—one in four rural children live in poverty and deep poverty among children is more prevalent in rural areas (12.2 percent) than in urban areas (9.2 percent). To help alleviate this growing disparity, the Budget provides \$20 million for demonstration projects to fight childhood poverty in economically distressed rural areas through targeted technical assistance investments in housing, community facilities, small business, and infrastructure. The Budget includes \$50 million to expand the Community Facilities Grant Program to address ongoing

### Modernizing Unemployment Insurance and Improving Automatic Stabilizers

The Budget proposes a suite of reforms to modernize the Unemployment Insurance (UI) program, which provides critical income support to those who are unemployed through no fault of their own. These reforms would improve the solvency of State programs, reach more workers in need, strengthen the program's connection to work, and make the UI program more responsive to economic downturns.

The UI program is a key stabilizer during economic downturns. It provides an important safety net to workers who lose their jobs, and helps the economy by allowing those workers to maintain economic activity. The Budget proposes reforms to strengthen UI's economic stabilization function. The current Extended Benefits (EB) program, which provides up to 20 additional weeks of benefits in States with high and rising unemployment, does not provide sufficient help during recessions because it provides too few weeks of additional benefits and its triggers (which in most States are based on the insured unemployment rate) are not responsive enough. As a result, the Congress passes ad hoc emergency UI programs that begin too late to provide the early stimulus that could lessen the severity of a recession. The Budget proposes to fix this by creating a new permanent, federally funded EB program that would respond quickly when State unemployment rates rise and provide more robust Federal assistance. This new program would provide up to 52 weeks of additional federally funded benefits, with the greatest number of weeks in States with higher unemployment rates. The proposal would provide up to 13 weeks of additional benefits each time States hit certain unemployment rates triggers—at 6.5 percent, 7.5 percent, 8.5 percent, and 9.5 percent. Under the proposal, these threshold rates can be lower in States where unemployment is increasing especially rapidly. This new program would ensure that the UI program responds quickly to dampen the effects of recessions and provides a critical safety net for unemployed workers in States where jobs are scarce.

For the UI program to be effective, it must be on a strong financial footing. Many States' UI systems are chronically underfunded, requiring them to borrow funds from the Federal Government to cover benefits during the most recent downturn. Currently, 12 States have outstanding Federal loans, and 11 other States have outstanding debt exceeding their trust fund balances, including borrowing from the private market. The Budget proposes to improve system solvency by helping States rebuild their trust fund balances to repay their loans, cover current benefits, and create reserves so they are better prepared for the next downturn. The Budget accomplishes this by broadening the taxable wage base to equal average insured wages and reducing the Federal unemployment tax rate to help States shore up their trust funds, while not raising Federal UI taxes. Although the taxable wage base expansion would have the effect of raising State UI taxes, States would be free to change their tax rate structures to offset this increase.

The Budget also proposes to modernize the UI system by improving its connection to jobs and making sure benefits are available to more workers who need them. To do this, the Budget includes a UI modernization fund that would provide incentive payments to States that adopt measures to expand both program eligibility and work-based learning opportunities and training for unemployed workers. A State can receive incentive payments if it adopts two measures that expand eligibility and two measures that improve connections to training and employment. States that maintain these changes for at least four years would also receive a bonus payment. The Budget also creates a \$60 million fund to allow a consortium of States to modernize their outdated UI information technology systems, which would improve administrative efficiency and help businesses and workers interact more easily with the UI system.

ing needs and emerging priorities such as Promise Zones, Energy Sector Transition, or Strike Force Communities. These funds will

allow USDA to be responsive to new needs in communities across rural American and target them in a flexible way.

### ***Strengthening Social Security and Services for People with Disabilities***

Social Security is indispensable to workers, retirees, survivors, and people with disabilities, and is one of the most important and successful programs ever established in the United States. Although current forecasts indicate that the combined Social Security Trust Funds can pay full benefits until 2033, the Administration is committed to ensuring that the program is solvent and viable for the American people, now and in the future, and the President has laid out key principles to achieve this objective. Any reforms should strengthen retirement security for the most vulnerable, including low-income seniors, and should maintain robust disability and survivors' benefits. The Administration will oppose any measures that privatize or weaken the Social Security system and will not accept an approach that slashes benefits for future generations or reduces basic benefits for current beneficiaries.

To address reserve depletion of the Social Security Disability Insurance (DI) Trust Fund, the Budget proposes to reallocate existing payroll tax collections between the Old-Age and Survivors Insurance (OASI) and DI trust funds while a longer-term solution to overall Social Security solvency is developed with the Congress. At various points over the course of Social Security's history, the Congress has passed reallocation legislation as the need arose for reallocating revenue from DI to OASI, and vice versa. This proposed reallocation will have no effect on the overall health of the OASI and DI trust funds on a combined basis.

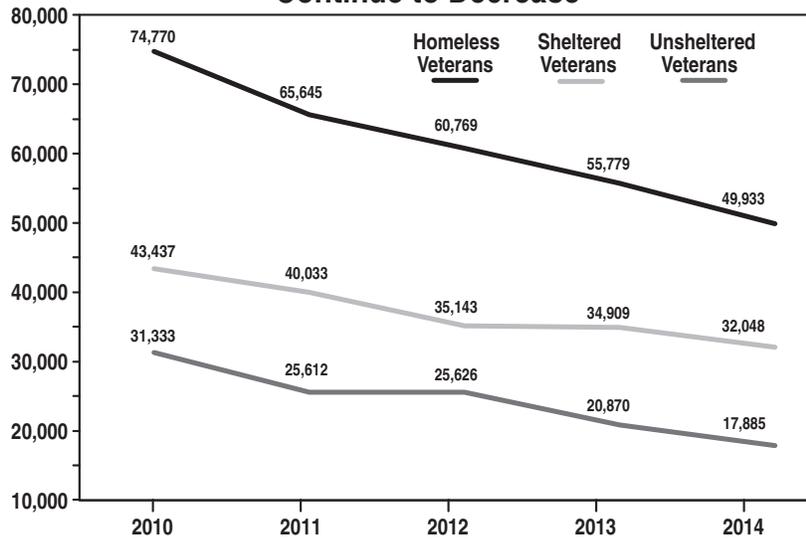
The Budget also includes initiatives to help people with disabilities remain in the workforce. It builds on the bipartisan support for these efforts in the Consolidated and Further Continuing Appropriations Act, 2015, by providing new authority and \$400 million in new resources for the Social Security Administration (SSA), in partnership with other Federal agencies, to test innovative strategies to help people with disabilities remain in the workforce. The cost would be offset by a proposal to better coordinate DI and Federal retroactive disability payments between SSA and the Office of

Personnel Management (OPM.) Early-intervention measures, such as supportive employment services for individuals with mental impairments, targeted incentives for employers to help workers with disabilities remain on the job, and incentives and opportunities for States to better coordinate services, have the potential to achieve long-term gains in the employment and the quality of life of people with disabilities, and the proposed demonstrations will help build the evidence base for future program improvements.

To address increasing wait times for a disability appeal decision, the Budget proposes to increase the hiring of Administrative Law Judges (ALJ). SSA's workloads continue to increase as the baby boom generation enters its most disability-prone years. The average wait time for a disability decision before an ALJ reached a record high of 18.5 months in August 2008. SSA was able to reduce the wait time down to a 10-year low of 12 months in 2011 and 2012, but due to funding constraints, the wait time has begun to grow again and is anticipated to rise above 16 months in 2015. Currently there are over one million people waiting for a disability appeals hearing decision from an ALJ. The Budget commits increased resources to hire more ALJs. But resources alone will not be enough. The process for hiring SSA ALJs has not operated efficiently as is needed to fill vacancies even when funding is available. Therefore, the Administration is creating a workgroup led by the Administrative Conference of the United States and OPM, along with SSA, DOJ, and the Office of Management and Budget (OMB) to review the process of hiring ALJs and recommend ways to eliminate roadblocks, which may include proposing administrative reforms or legislative changes.

To continue to strengthen the integrity and accuracy of Social Security, the Budget proposes to establish a dependable source of mandatory funding in 2017 for Continuing Disability Reviews (CDRs) and Supplemental Security Income Redeterminations, which ensure that only those eligible for benefits continue to receive them. SSA estimates that each \$1 spent on CDRs would save the Federal Government \$9. This proposal,

### Rates of Homelessness Among Veterans Continue to Decrease



Source: Department of Housing and Urban Development. The 2014 Annual Homeless Assessment Report to Congress, Part 1.

together with discretionary funding proposed for 2016, could produce net savings of \$32 billion over 10 years and reduce the current backlog of 906,000 overdue CDRs.

#### Ending Homelessness

In 2010, the President set ambitious goals to end homelessness across the Nation, and since then significant progress has been made. Major cities have hit important milestones toward the goals including New Orleans, Louisiana, which has ended veteran homelessness, and Salt Lake City, Utah and Phoenix, Arizona, which have ended chronic homelessness among veterans. Over 300 mayors, governors, and county executives have committed to ending veteran homelessness in their communities through the Mayors Challenge to End Veteran Homelessness.

The overall number of veterans experiencing homelessness has declined by 33 percent—nearly 25,000 veterans—since 2010, and with continued focus from Federal, State, and local partners, we are on a path to end veteran homelessness by the end of 2015. The Budget continues to make investments to end chronic homelessness in 2017 and to make significant progress in ending homelessness across all other populations. In addition to targeted increases in HUD’s Homeless Assistance Grants, the Budget provides 67,000 new Housing Choice Vouchers to support low-income households, including families experiencing homelessness; survivors of domestic and dating violence; families with children in foster care; youth aging out of foster care; and homeless veterans, regardless of their discharge status.

### ENSURING SAFETY, FAIRNESS, AND COMMUNITY TRUST IN THE CRIMINAL JUSTICE SYSTEM

The President has said that if anyone in the American family feels they have been treated unfairly it is a problem for all Americans. That is why the President is committed to ensuring the criminal justice system is safe, fair, and trustworthy for all Americans. In addition to supporting

the enhancement of community policing practices across the Nation, the Budget proposes to prioritize DOJ’s resources on criminals who pose the most serious threats to American citizens’ safety, support Federal reentry programs that help reduce recidivism, and combat violent extremism.

**Implementing the Smart on Crime Approach.** The Administration continues to advance the DOJ's Smart on Crime initiative, which was announced in 2013, and designed to promote fundamental criminal justice system reforms that will improve public safety, save money, and ensure the fair enforcement of Federal laws. The strategy leverages prevention and reentry programs to reduce recidivism; focuses prosecutorial resources on the most important law enforcement priorities; ensures that punishments for low-level, non-violent offenders are consistent with the offense; and strengthens protections for vulnerable populations. The Budget supports this strategy by providing additional funding for a dedicated Prevention and Reentry Coordinator in each U.S. Attorney's office, while also expanding pre-trial diversion programs, such as reentry and drug courts, that ensure better and more just outcomes for low-level offenders who deserve a pre-incarceration second chance. The Budget also includes funding for research to evaluate the efficacy of these programs using metrics that measure the effects of the Smart on Crime initiative.

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

**Reentry Programs.** Each year, more than 600,000 people are released from State and Federal prison, while another nine million cycle through local jails. Statistics indicate that more than two-thirds of State prisoners are re-arrested within three years of their release and half are

re-incarcerated. High rates of recidivism mean more crime, more victims, and more pressure on an already overburdened criminal justice system. While we must remain vigilant when fighting crime and ensuring the safety of the Nation's communities, there is a substantial and increasing body of evidence showing that reentry programs reduce recidivism by helping individuals transition to their community after they are released. America's Federal criminal justice efforts must also be smarter and more efficient by focusing on prevention and reentry, because whenever a recidivist crime is committed, communities are victimized and less safe; burdens on law enforcement are increased; and already-strained resources are further depleted.

The Administration is committed to a comprehensive strategy to contain incarceration costs over the long term by facilitating inmates' transition into society in order to reduce recidivism rates, increase public safety, and strengthen communities. The Budget reflects these commitments and takes steps to address the cycle of incarceration by investing additional resources in the Bureau of Prisons' (BOP) reentry programs. These investments include \$110 million to increase mental health staff, expand sex offender treatment programs, and provide cognitive behavioral treatment and additional residential reentry center beds. The Budget also provides \$5 million to support a new broader reentry program that reaches out to offenders' children and families to strengthen familial bonds, which are critical for helping inmates transitioning back home, and \$20 million to award innovative reentry programs in BOP facilities. In addition, through State and local assistance programs, the Budget nearly doubles the investment in the Second Chance Act Grant program to reduce recidivism and help those exiting the justice system to rejoin their communities and lead productive lives.

## MAINTAINING THE NATION'S SECURITY

The President's Budget includes \$612 billion of national defense discretionary funds, a \$26

billion, or 4.5 percent, increase from the 2015 enacted level, to provide the resources needed

to sustain the President's national security and defense strategies. The Budget reverses the decline in national defense spending of the past five years and proposes to transition enduring overseas contingency operations (OCO) costs to the base budget, to fully fund and account for the costs of keeping the Nation secure. Discretionary national defense function spending has fallen by 18 percent since 2010 as the military has ended its ground combat missions in Iraq and Afghanistan, and adjusted to the sequestration cuts of 2013 and flat base budget funding levels of 2014 and 2015. This spending—which comprises all base and OCO funding for DOD, as well as funding for certain programs in DOE, DOJ, and other Departments and agencies—peaked in 2010 at \$714 billion, and has since decreased \$128 billion, to the 2015 enacted level of \$586 billion. Accounting for the effects of inflation, the decrease over this period is even steeper, at 24 percent.

Part of the decrease reflects the declining costs of OCO-funded operations in Iraq and Afghanistan, as highlighted below. However, sequestration also reduced the base budget significantly in 2013, and the Bipartisan Budget Act essentially straight-lined the defense base budget in 2014 and 2015. These levels required sharp cuts to training, maintenance, and modernization. Combined with a continued demand for U.S. forces to respond to emergent crises while preparing for a widening spectrum of future challenges, reduced budgets contributed to degraded levels of readiness throughout the military, and delays in fielding equipment and technology that will be critical for future security. Going forward, defense base budgets at or near the sequestration level would undermine the military's capacity and capability to respond to contingencies, deter aggression, project power, and decisively win against potential adversaries—leaving it insufficiently prepared to protect and advance U.S. interests.

The President's Budget provides \$561 billion in base discretionary funding for national defense (of which \$534 billion is for DOD), which is \$40 billion, or eight percent, above the 2015 enacted

level. The Budget makes strategic investments to sustain and advance U.S. global leadership while ensuring the Nation's long-term fiscal health. It provides for the training, maintenance, and support needed to restore military readiness over the next several years, and for investment in recapitalization and modernization needed to ensure America's continued technological edge. Along with these funding increases, the Budget provides savings (detailed below) through critical reforms that slow growth in compensation and divest unnecessary overhead, infrastructure, weapons, and end strength. The Budget also increases outyear projections for defense spending across the 2017 to 2020 period to accommodate select investments in key capabilities, such as space security, nuclear deterrence, power projection, and intelligence, surveillance, and reconnaissance. These targeted increases will further enhance the U.S. military's ability to execute the defense strategy as the Nation continues to adapt to a changing threat environment. The Budget presents a responsible alternative to current law, since risks to the Nation would grow significantly if sequestration-level funding returns, if proposed reforms are not accepted, or if uncertainty over budget levels continues.

DOD's OCO request is \$51 billion, which is \$13 billion, or 21 percent, below the 2015 enacted level. It provides the funding needed to combat diverse terrorist groups, such as the Islamic State of Iraq and the Levant (ISIL); to ensure a responsible transition in Afghanistan, where the United States and international partners will train, advise, and assist Afghan-led operations; and to counter Russia's aggressive actions and reassure allies and partners in Europe. The OCO budget includes certain costs that will endure past these current contingencies, and thus the Budget proposes to transition enduring OCO costs to the base budget, as described later in this chapter.

The President's Budget also provides \$53.4 billion for the Department of State and Other International Programs (State/OIP), including \$46.3 billion in base funding and \$7.0 billion in OCO, which is a \$4.0 billion, or eight percent, increase from the 2015 enacted level, exclud-

ing emergency Ebola funding. This funding will make strategic investments that will help provide not only for a stronger and safer America, but also for a more stable and prosperous world. The Budget supports sustainable security and shared prosperity at home and abroad through critical investments in diplomacy and development, from life-saving humanitarian assistance to counterterrorism programs aimed at defeating terrorist organizations. It provides strong support for U.S. diplomatic personnel and facilities abroad, security partnerships, global engagement, and development programs that advance economic growth, health, education, and democratic governance. The Budget advances American leadership and engagement at a time when diplomacy is most needed to confront the many challenges facing the world today.

### *Advancing National Security Priorities*

**Degrading and Defeating ISIL and Responding to the Syria Crisis.** As part of the U.S. effort to degrade and ultimately defeat ISIL, support security and governance, continue efforts in Iraq, support regional partners, and bring stability and promote the conditions for a negotiated settlement to end the conflict in Syria, the Budget proposes \$8.8 billion in OCO funds for DOD and State/OIP. ISIL poses an immediate threat to Iraq, Syria, and American allies and partners throughout the region as it seeks to overthrow governments, control territory, terrorize local populations, and attack the United States and coalition partners throughout the world. The ongoing conflict in Syria also continues to threaten regional stability and has displaced over 10 million people. The Budget provides funding for military operations, diplomacy, governance, and humanitarian and security assistance programs to address these challenges. This includes \$5.3 billion for DOD to continue Operation Inherent Resolve, which includes conducting airstrikes, collecting intelligence, as well as training, advising, and equipping the Iraqi security forces and properly vetted members of the moderate Syrian opposition. For State/OIP, the Budget provides \$3.5 billion to strengthen regional partners, counter ISIL, provide humanitarian assistance,

and strengthen Syria's moderate opposition to advance the conditions for a negotiated political transition.

**Ensuring a Responsible Transition in Afghanistan.** The Budget continues to support long-term national security and economic interests in Afghanistan and help sustain political, economic, and security gains in the country as the United States draws down its forces, assistance levels gradually decline, and the Afghans assume greater responsibility for securing their country. The Budget includes resources to reinforce Afghanistan's security and development by supporting military training and assistance, as well as health, education, justice, economic growth, governance, and other civilian assistance programs necessary to preserve the gains of the last decade, strengthen diplomatic ties with the international community, and promote stability. The Budget also facilitates the transition of the U.S. military from a combat mission to a mission of training, advising, and assisting the Afghan National Security Forces and maintaining a limited counterterrorism capability to continue targeting the remnants of al Qaeda.

**Countering Russian Pressure and Aggressive Action.** In response to the Russian Federation's aggressive acts and attempts to constrain the foreign and domestic policy choices of neighboring countries, the Budget includes proposals for political, economic, and military support to NATO allies and partner states in Europe. To increase resilience within the governments and economies most targeted by Russian pressure, the Budget provides an additional \$117 million in foreign assistance funds directed specifically toward countering Russian aggressive acts in Ukraine, and \$51 million for countering Russian pressure and destabilizing activities in Moldova and Georgia. This assistance will support efforts to bolster democracy and good governance, increase the capabilities of security forces, strengthen the rule of law and anti-corruption measures, and promote European Union integration, trade, and energy security. In addition, through a \$16 million investment in U.S. international media activities, the United States will seek to engage vulnerable

populations in periphery countries, expand U.S. support to freedom of press and independent journalism in the region, and advance America's foreign policy interests. Building on the \$1 billion sovereign loan guarantee provided in 2014 and the forthcoming \$1 billion sovereign loan guarantee in 2015, the Budget includes funding that could support an additional loan guarantee providing up to \$1 billion in financing in 2016, if conditions warrant, to help Ukraine continue on its path of economic recovery, reforms, and normalized access to international financial markets in the wake of destabilizing Russian actions and violations of Ukrainian sovereignty. To bolster security and reassure NATO allies and partner states in Europe, the Budget provides \$789 million to continue the European Reassurance Initiative (ERI). ERI funding will enable the United States to continue increased military exercises, training, and rotational presence in Europe, enhance U.S. preparedness to reinforce NATO allies through the repositioning of equipment, and build the capacity of partner states in Europe to operate alongside the United States and NATO in strengthening regional security.

**Strengthening Government-wide Efforts to Combat Terrorism.** The Budget provides \$2.5 billion for the Counterterrorism Partnerships Fund to support a sustainable and effective approach for combating terrorism, with a focus on enabling and empowering partners facing terrorist threats. The \$2.1 billion proposed for DOD would increase partner capacity-building, facilitate partner counterterrorism operations, and enhance DOD's counterterrorism activities. The \$390 million proposed for State/OIP would enable the Department to bolster global counterterrorism partnerships, as well as address underlying conditions conducive to terrorism.

**Countering Violent Extremism.** The Administration has developed a strategy to address recent domestic terror incidents and the emergence of groups attempting to recruit Americans to take part in ongoing conflicts in foreign countries. As part of this effort, DOJ's Countering Violent Extremism (CVE) initiative is an Administration priority and supports

the United Nations' efforts to address foreign terrorist fighters. Additional resources are provided to support community led-efforts, including \$4 million to conduct research targeted toward developing a better understanding of violent extremism and advancing evidence-based strategies for effective prevention and intervention; \$6 million to support flexible, locally-developed CVE models; \$2 million to develop training and provide technical assistance; and \$3 million for demonstration projects that enhance the ability of law enforcement agencies nationwide to partner with local residents, business owners, community groups, and other stakeholders to counter violent extremism.

**Rebalancing to the Asia-Pacific Region.** The Budget supports the Presidential priority of advancing security, prosperity, and human dignity across the Asia-Pacific region. Recognizing that security in the Asia-Pacific region underpins regional and global prosperity, the Budget aligns resources and activities to strengthen U.S. alliances, to forge deeper partnerships with emerging powers, and to pursue a productive relationship with China. Building on the President's successful November 2014 trip, the Budget provides resources to help deepen U.S. trade in the region as the United States leads the way in negotiating the high-standard Trans-Pacific Partnership with 11 countries in the Asia-Pacific region, which will boost American exports and create jobs at home by promoting strong rules to protect labor, the environment, and intellectual property. To promote universal and democratic values, the Budget expands education and cultural exchanges and strengthens regional cooperation with organizations such as the Asia-Pacific Economic Cooperation forum and the Association of Southeast Asian Nations. In pursuit of security cooperation, the Budget enhances and modernizes U.S. defense relationships, posture, and capabilities with a focus on maritime security. DOD funding remains consistent with the priorities identified in the 2012 Defense Strategic Guidance and the 2014 Quadrennial Defense Review. To address security, development, and economic challenges, the Budget prioritizes advancing regional and coun-

try capabilities. These investments are critical to the Administration-wide effort to promote regional security and economic cooperation.

**Investing in Adolescent Girls' Education, Safety, and Health.** In collaboration with the Office of the First Lady and building on ongoing U.S. efforts that currently support more than a million adolescent girls worldwide every year, the Budget provides \$250 million in new and reallocated funds to broaden opportunities for adolescent girls around the world. This new, expanded Let Girls Learn initiative—building on USAID's initial funding and programs—will improve access to quality education and health care, and help address violence and other barriers to education that adolescent girls face. The Budget also continues support for the President's Emergency Plan for AIDS Relief (PEPFAR) interventions to reduce HIV infections in young women, and expands USAID's programs in support of adolescent girls' education, including expanded investments in educating adolescent girls in Afghanistan. These and other investments will deepen the United States' commitment to adolescent girls, helping girls and young women thrive and play a fuller role in their respective societies and economies.

**Maintaining Technological Superiority.** Technological superiority enables the United States to project power to dangerous environments, defend against threats in all domains, and continuously adapt, innovate, and prevail as new threats arise. Maintaining this superiority is becoming increasingly challenging as potential adversaries have accelerated their investments in modernizing their militaries, and as disruptive technologies have proliferated, resulting in growing threats where U.S. access had formerly been assured. The Budget makes needed investments in DOD and National Nuclear Security Administration (NNSA) procurement, and research, development, test and evaluation (RDT&E) to address this challenge and maintain technological superiority. Base budget funding for DOD's procurement and RDT&E accounts—which took disproportionate reductions under sequestration to achieve rapid savings in recent years—and funding for NNSA increase to \$190

billion, a \$22 billion, or 13 percent, increase compared to the 2015 enacted level. With this funding, the Administration is prioritizing investments in cybersecurity; missile defense; nuclear deterrence; space; precision strike; intelligence, surveillance, and reconnaissance; and air and sea capabilities for projecting power and operating in denied environments. In addition, DOD recently announced in November 2014, the establishment of a broad, Department-wide initiative to pursue innovative ways to sustain and advance U.S. military superiority for the 21<sup>st</sup> Century and improve business operations throughout the Department. The Defense Innovation Initiative will pursue breakthrough technologies and new concepts of operations to enhance the U.S. military's dominance even as the diffusion of disruptive technology to potential adversaries makes the future operating environment more challenging. Scientific discovery and applied research are central to all these efforts, and thus the proposed funding for DOD's RDT&E accounts includes \$12 billion for science and technology investments in areas including quantum information science, cognitive neuroscience, nanoscience, synthetic biology, autonomy, cybersecurity, and countering weapons of mass destruction, among other investments.

**Strengthening Space Security.** Space capabilities are vital to U.S. national security and the ability to understand emerging threats, project power globally, conduct operations, support diplomatic efforts, and enable global economic prosperity. It is also the shared interest of all nations to act responsibly in space to help prevent mishaps, misperceptions, and mistrust. The Budget supports a variety of measures to help assure the use of space in the face of increasing threats to U.S. national security space systems. The Budget also supports the development of capabilities to defend and enhance the resilience of these space systems. These capabilities help deter and defeat interference with, and attacks on, U.S. space systems.

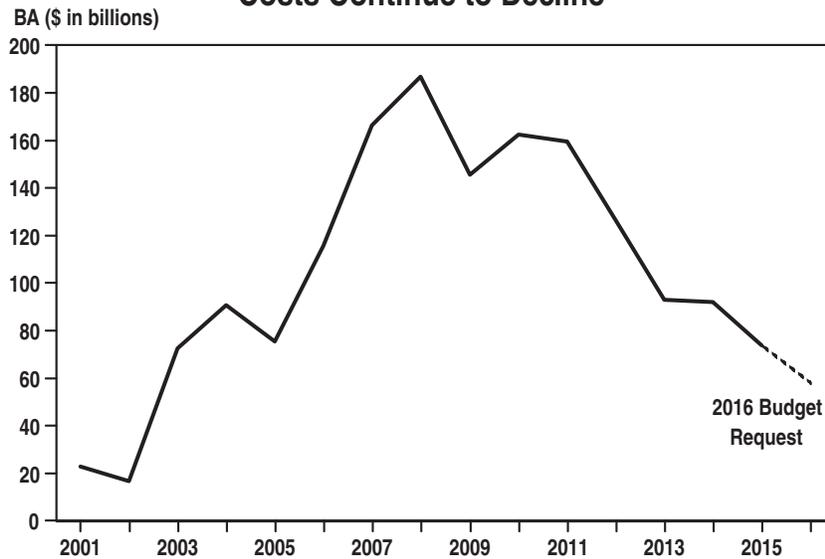
**Addressing Cyber Threats.** Cyber threats targeting the private sector, critical infrastructure, and the Federal Government demonstrate that no sector, network, or system is immune to

### Transitioning Overseas Contingency Operations Spending

Since 2001, the Nation has financed the incremental costs of overseas conflicts, primarily in Iraq and Afghanistan, outside of the base budget. From 2001 to 2009 these funds were designated for the “Global War on Terror” (GWOT), and from 2009 to the present these funds have been designated for “overseas contingency operations” (OCO). Following the institution of statutory budget caps in the Budget Control Act of 2011, funding designated as OCO/GWOT has remained flexible and separate from base budget constraints, which has enabled the United States to fully fund wartime costs principally associated with these major combat operations.

As the U.S. combat mission in Afghanistan ends, it is time to reconsider the appropriate financing mechanism for costs of overseas operations that are enduring. As the chart below shows, the Administration’s transitions in Iraq and Afghanistan have resulted in a \$129 billion, or 69 percent, reduction in OCO costs, from their peak of \$187 billion in 2008 to the Administration’s 2016 request for \$58 billion. Beyond 2016, some costs currently funded in the OCO budget will endure. The United States will continue to provide support to its Afghan partners, counter terrorism abroad, maintain a strong forward presence in the Middle East region, and ensure U.S. military forces are ready to respond to a wide range of potential crises. The Nation’s fiscal and defense policies must fully plan and account for these costs, and the transition must be accomplished in a manner that protects the defense strategy. Accordingly, early this year the Administration will propose a plan to transition all enduring costs currently funded in the OCO budget to the base budget beginning in 2017 and ending by 2020. This plan will describe which OCO costs should endure as the United States shifts from major combat operations, how the Administration will budget for the uncertainty surrounding unforeseen future crises, and the implications for the base budgets of DOD, the Intelligence Community, and State/OIP. This transition will not be possible if the sequester-level discretionary spending caps remain in place. The Administration continues to support the replacement of sequestration with a balanced package of deficit reduction as described elsewhere in the Budget.

**Overseas Contingency Operations  
Costs Continue to Decline**



infiltration by those seeking to steal commercial or Government secrets and property or perpetrate malicious and disruptive activity. Addressing

these threats requires a comprehensive approach that brings all elements of government together with private industry, academia, and the public,

while also protecting individual privacy. The Budget identifies and promotes initiatives and priorities, including the deployment of intrusion detection and prevention capabilities and enhancement of Government information sharing capabilities with the private sector so that they can be more vigilant and better protect themselves against emerging threats. It also makes investments in cyber research and development to strengthen U.S. cybersecurity defenses and make cyberspace inherently more secure. In addition, the Budget includes funding to enhance U.S. capabilities to respond to cyber threats and incidents once they have occurred, begin building a civilian cyber campus to better share information on cyber threats and incidents with those being targeted, improve the ability to share evidence of cyber-crimes with other nations, and maintain efforts to increase the Nation's cyber workforce.

As cybersecurity challenges continue to impact Federal agencies, the protection of the Government's information and information systems has become critical to protecting national infrastructure. The Budget funds key investments to enhance the Federal Government's cybersecurity posture. These include Continuous Diagnostics and Monitoring of Federal systems, the EINSTEIN intrusion detection and prevention system, and Government-wide testing and incident response training to mitigate the impact of evolving cyber threats. These resources will allow the Government to more rapidly protect American citizens, systems, and information from cyber threats.

**Modernizing Military Compensation.** The Budget continues to provide a robust compensation and benefits system that honors the service of the Nation's men and women in uniform and their families. For 2016, the Budget provides a 1.3 percent increase to basic pay, a 1.5 percent increase in the Basic Allowance for Housing, and a 3.4 percent increase in the Basic Allowance for Subsistence. In addition, the Budget proposes to modernize the TRICARE Program and continues to pursue commissary operational efficiencies and revenue generating enhancements. These proposals will ensure that DOD continues to

recruit and retain a high quality All-Volunteer Force, while addressing costs in a responsible and balanced manner. In addition to these proposals, the Administration looks forward to reviewing the report from the Military Compensation and Retirement Modernization Commission, and working with the Congress to ensure a strong and sustainable military compensation and retirement system.

**Promoting Defense Reforms.** The defense strategy depends on investing every dollar where it will have the greatest effect, which the Budget will accomplish through critical reforms that divest unneeded force structure, slow growth in compensation, and reduce wasteful overhead. To direct investments toward a ready, technologically superior force, the military must shed unnecessary force structure now that ground combat missions in Iraq and Afghanistan have ended. Venerable weapons systems, such as the A-10 aircraft, have performed decades of service, yet would now face survivability challenges against a technologically advanced adversary. Therefore, the Budget repropose the retirement of this and other systems, and directs the money saved toward investment in the most capable, versatile, and survivable systems to perform their missions. The Budget also reduces overhead and waste by continuing the initiative to reduce DOD's major headquarters' operating budgets by 20 percent, pursuing acquisition reform through the Better Buying Power initiative, and proposing another round of Base Realignment and Closure (BRAC) to free resources currently consumed by maintaining unneeded facilities. The need to reduce unneeded facilities is so critical that, in the absence of authorization of a new round of BRAC, the Administration will pursue alternative options to reduce this wasteful spending.

**Suitability and Security.** It is critical to the safe and effective operation of the Federal Government to ensure that Federal employees continue to be good stewards of sensitive information and worthy of the public trust their positions require. In order to protect against threats from individuals within the Government, and drive increased efficiency of the security clearance

processes, the Administration is pursuing several reforms in the personnel security, suitability, and credentialing mission space.

Following the Washington Navy Yard shooting, the President directed OMB to conduct a comprehensive review of Federal procedures for background investigations and security clearances. The Performance Accountability Council delivered a Report to the President (120 Day Report), which was approved in March 2014. The Report established a set of recommendations to increase the availability of critical information, reduce risk inherent in the system, and increase oversight and accountability. The Administration established an interagency Program Management Office focused on implementing the Report's recommendations. The immediate and meaningful progress to date includes:

- *Continuous Evaluation.* The Administration is committed to shifting security and suitability evaluations to a continuous evaluations approach, allowing agencies to gather real-time information that may be relevant to these clearances. In the past year, initial pilots have successfully demonstrated the effectiveness of more frequent investigations of cleared personnel. The Budget provides funding in DOD and the Office of the Director of National Intelligence to expand these initial pilots and move to making "Continuous Evaluation" a Government-wide practice. While agencies transition to Continuous Evaluation, the Federal Investigative Standards has already established a new five-year re-investigation requirement for all individuals with a security clearance.
- *Improved Access to Law Enforcement Records.* The National Defense Authorization Act-mandated Records Access Task Force report provided recommendations for improving information sharing among State, local, and Federal law enforcement entities when conducting background investigations. The Budget continues to invest in improving agencies' information technology (IT) systems to enhance data sharing between the Federal Government and State and local entities.
- *Access to Classified Information.* The Director of National Intelligence issued a requirement for all agencies to validate whether each individual identified as eligible for access to classified information still required eligibility. Through this process, the Administration achieved its objective to reduce the total number of security-cleared individuals by 10 percent. This reduction will allow agencies to better deploy resources to priority activities, such as completing periodic reinvestigations for the most sensitive populations.

### ***Honoring America's Commitment to Veterans***

The Budget includes \$70.2 billion in discretionary 2016 resources for the Department of Veterans Affairs (VA), a 7.8-percent increase over 2015. The Budget also includes an advance appropriation request of \$63.3 billion for 2017 medical care, a 5.5-percent increase over the 2016 request. This funding will ensure continued investment in the five pillars the President has outlined for supporting the Nation's veterans: providing the resources and funding they deserve; ensuring high-quality and timely health care; getting veterans their earned benefits quickly and efficiently; ending veteran homelessness; and helping veterans and their families get good jobs, education, and access to affordable housing.

**Implementing the Veterans Access, Choice, and Accountability Act of 2014.** On August 7, 2014, the President signed into law the Veterans Access, Choice, and Accountability Act of 2014 (Veterans Choice Act). The Budget supports implementation of the Veterans Choice Act and the Administration's goal of providing timely, high-quality health care for the Nation's veterans. The Veterans Choice Act provided \$5 billion in mandatory funding to increase veterans' access to health care by hiring more physicians and staff and improving VA's physical infrastructure. It also provided \$10 billion in mandatory funding through 2017 to establish a temporary program (Veterans Choice Program) improving veterans' access to health care by

allowing eligible veterans who meet certain wait-time or distance standards to use health care providers outside of the VA system. The Veterans Choice Program provides a measure of short-term relief from the pressure of escalating health care requirements as current patients in the VA system elect to receive their care through the program. These investments, together with the Budget request of \$70.2 billion, will provide authorities, funding, and other tools to enhance service to veterans in the short term while strengthening the underlying VA system to better serve veterans in the future. However, more resources will be required to ensure that the VA system can provide timely, high-quality health care into the future. In the coming months, the Administration will submit legislation to reallocate a portion of Veterans Choice Program funding to support essential investments in VA

system priorities in a fiscally-responsible, budget-neutral manner.

**Speeding the Processing of Disability Compensation Claims.** VA has made tremendous progress reducing the veteran disability claims backlog. The Budget provides additional funding to continue investment in the Veterans Claims Intake Program and paperless claims, helping provide faster and more accurate benefits claims processing decisions. The Budget also includes funding to hire additional employees to address the growth in related claims and improve the VA's timeliness in resolving appeals. Further, the Budget funds efforts to ensure consistent, personalized, and accurate information about services and benefits, especially in the delivery of compensation and pension claims processing.

## TAX REFORM THAT PROMOTES GROWTH AND OPPORTUNITY

A simpler, fairer, and more efficient tax system is critical to achieving many of the President's fiscal and economic goals. At a time when middle class and working parents remain anxious about how they will meet their families' needs, the tax system does not do enough to reward hard work, support working families, or create opportunity. After decades of rising income and wealth inequality, the tax system continues to favor unearned over earned income, and a porous capital gains tax system lets the wealthy shelter hundreds of billions of dollars from taxes each year. In a period where an aging population will put increasing pressure on the Federal budget, a wide range of inefficient tax breaks prevent the tax system from raising the level of revenue the Nation needs. While commerce around the world is increasingly interconnected, an out-of-date, loophole-ridden business tax system puts U.S. companies at a disadvantage relative to their competitors, while also failing to encourage investment in the United States.

The Budget addresses each of these challenges. It reforms and simplifies tax incentives that help families afford child care, pay for col-

lege, and save for retirement, while expanding tax benefits that support and reward work. It pays for these changes by reforming the system of capital gains taxation and by imposing a new fee on large, heavily-leveraged financial firms. It raises revenue for deficit reduction by curbing high-income tax benefits and closing loopholes and reforms the business tax system to make it fairer and more pro-growth. It also reinvests in the Internal Revenue Service (IRS), reversing the sharp funding reductions of recent years and improving customer service and tax enforcement.

### *Supporting Middle Class and Working Families through the Tax Code*

The President's tax proposals would simplify and improve tax benefits that help middle class families afford quality child care, pay for college, and save for retirement, as well as tax benefits that support work and keep millions of children from growing up in poverty. The Budget also proposes the creation of a new "second earner" tax credit benefiting middle-income couples where both spouses work.

**Expanding Access to Affordable Child Care.** The cost of child care is a major barrier to work for many parents, especially parents of young children, and can put a real strain on the budgets of working families. Through a combination of tax credits and direct subsidies, the Budget would make a major investment in quality, affordable child care for infants and toddlers. Specifically, the Budget would triple the maximum Child and Dependent Care Tax Credit (CDCTC) for families with children under age five. It would also make the full CDCTC available to families with incomes of up to \$120,000, benefiting families with young children, older children, and elderly or disabled dependents. Meanwhile, the Budget would eliminate tax preferences for flexible spending accounts for child care expenses, which are poorly targeted and complex, reinvesting the savings in the improved CDCTC. The child care tax reforms would benefit 5.1 million families, helping them cover costs for 6.7 million children. They would complement a proposal, described above, to make direct child care subsidies universally available for young children in lower-income working families.

**Simplifying and Improving Education Tax Benefits.** A significant portion of Federal spending on higher education occurs through the tax code. But navigating current higher education tax benefits is so complicated that the GAO found that 27 percent of families who claimed one benefit would have been better off claiming another, while 14 percent of eligible families failed to claim any benefit at all. Higher education tax benefits also do not provide enough help for low- and middle-income families that struggle to afford college. Building on bipartisan congressional reform proposals, the Budget proposes to simplify and better target higher education tax benefits, including by consolidating six education tax benefits into just two. The Budget would repeal or let expire duplicative and less effective provisions, including the Lifetime Learning Credit, the tuition and fees deduction, the student loan interest deduction (for new borrowers), and Coverdell accounts (for new contributions), and it would roll back a portion of the subsidy for 529 savings plan (for new

contributions). Meanwhile, it would make permanent and expand the American Opportunity Tax Credit, including by indexing the maximum credit amount for inflation, making the credit available for a fifth year of higher education, providing a partial credit to part-time students, and increasing the amount of the credit available to low-income students without income tax liability. To help struggling borrowers, the Budget would also eliminate tax on debt forgiven under Pay-as-You-Earn or other income-based repayment plans. Overall, these reforms would cut taxes for 8.5 million families and students and simplify taxes for more than 25 million families and students that claim education tax benefits.

**Expanding Access to Workplace Savings Opportunities.** Workers with an easy way to save for retirement through their employer overwhelmingly do so, while tens of millions of American workers without such access by and large do not. Small business and part-time employees are especially unlikely to have access to an employer retirement plan. The Budget proposes to automatically enroll workers without access to employer-based retirement plans in IRAs through payroll deposit contributions at their workplace (with an option to opt out). This proposal would give 30 million more workers access to a workplace saving opportunity. The Budget also proposes to expand the tax credits available to small businesses who set up automatic enrollment IRAs, set up 401(k)s or other employer plans, or start automatically enrolling workers in their existing retirement plans.

**Supporting Work and Addressing the Challenges of Dual-Earner Couples.** Two earner couples face unique challenges in the workforce. When both spouses work, the family incurs additional costs: commuting; professional expenses; child care; and increasingly, elder care. On top of explicit Federal and State taxes, these work-related costs can be quite burdensome and can contribute to a sense that work is not worth it. To address these challenges, the Budget proposes a new second earner credit of up to \$500 for families where both spouses work. The new credit would benefit 24 million couples.

**Expanding the Earned Income Tax Credit (EITC) for Workers without Children and Non-Custodial Parents.** The EITC is among the Nation's most effective tools for reducing poverty and encouraging people to enter the workforce. But because the EITC available to them is so small, workers without children and non-custodial parents miss out on these anti-poverty and employment effects of the EITC. The Budget would double the "childless worker" EITC and make the credit available to workers with earnings up to about 150 percent of the poverty line. It would also expand eligibility to workers age 21-24 and age 65-66, so that the EITC can encourage employment and on-the-job experience for young adults, as well as to older workers, harmonizing the EITC rules with ongoing increases in the Social Security full retirement age. The proposal would directly reduce poverty and hardship for 13.2 million low-income workers struggling to make ends meet, and would encourage and support work.

**Continuing EITC and Child Tax Credit (CTC) Improvements that Benefit 16 Million Working Families with Children.** The Budget starts from a baseline that makes permanent the improvements to the EITC and Child Tax Credit enacted in 2009 and extended in 2010 and 2013. The baseline also makes permanent the American Opportunity Tax Credit, discussed above. The EITC and CTC provisions benefit 16 million families with 29 million children and have likely encouraged thousands of parents to enter or remain in the workforce. In addition to their direct effects in reducing poverty and supporting work, the EITC and the Child Tax Credit have also been found to improve health and educational outcomes for the children whose families receive them. For example, recent research suggests that the 2009 EITC and Child Tax Credit expansions may have boosted college enrollment by two to three percentage points for high school seniors in eligible families.

### ***Reforming Capital Gains Taxation, Imposing a Fee on Large Financial Firms, and Closing Tax Loopholes***

Since the 1970s, income concentration in the United States has surged. In the most recent decade and for the highest income groups, much of that surge resulted from growing concentration of capital income and wealth. Today, the top one percent holds more than 40 percent of the Nation's wealth, and the top 0.1 percent holds more than 20 percent—levels not seen since the 1930s. Meanwhile, the bottom 90 percent has lost ground, with its share of wealth falling since the mid-1980s, and its average wealth falling sharply in the last decade.

A contributing factor in these shifts has been falling tax rates on capital income. While the fiscal cliff deal raised the total capital gains and dividend tax rates to 23.8 percent for high-income households, that is still well below tax rates on earned income and tax rates on capital gains and dividends in earlier decades. Meanwhile, current rules let substantial capital income escape tax altogether.

One of the largest holes in the existing system is what is known as "stepped-up basis." Under current law, capital gains on assets held until death are never subject to income taxes. Not only do bequests to heirs go untaxed, but the basis of inherited assets is immediately increased ("stepped up") to the value at the date of death. For example, suppose an individual bequeaths stock worth \$50 million to an heir, who immediately sells it. When purchased, the stock was worth \$10 million, so the capital gain is \$40 million. However, the heir's basis in the stock is the \$50 million when he inherited it—so he owes no tax on the sale.

Each year, hundreds of billions in capital gains escape income tax due to the non-taxation of gains on bequests. Stepped-up basis perpetuates inequality of wealth and opportunity, since the vast majority of the tax benefits accrue to the wealthiest of decedents and their heirs. It also creates a more basic inequity. Retirees who need to spend down their assets in retirement pay tax on their

capital gains. But the small minority that can afford to hold onto appreciated assets until death can pass them onto their heirs tax-free.

The Budget would reform the taxation of capital income through two important changes. First, it would increase the capital gains and dividend rate to 28 percent (inclusive of the net investment income tax), the rate at which capital gains were taxed under President Reagan, for the highest-income households. Second, it would end stepped-up basis by treating bequests and gifts as realization events that would trigger tax liability for capital gains. To ensure the proposal creates neither tax nor compliance burdens for middle class families, decedents would be allowed a \$200,000 per couple (\$100,000 per individual) exclusion for capital gains income, along with a \$500,000 per couple (\$250,000 per individual) exclusion for personal residences. Tangible personal property other than art and similar collectibles (e.g., bequests or gifts of furniture or other household items) would also be excluded. In addition, family members that inherited small, family-owned and operated businesses would not owe tax on the gains unless and until the asset were sold, and closely-held businesses would have the option to pay tax on gains over 15 years.

The proposed capital income reforms would raise \$208 billion over the first 10 years, with larger revenue gains when fully implemented. Not only is the proposal highly progressive, with 99 percent of the revenue coming from the top 1 percent, it would also improve the efficiency of the tax system. By letting very wealthy investors make their capital gains disappear for tax purposes at death, stepped-up basis creates strong “lock-in” incentives to hold onto assets for generations, even when resources could be invested more productively elsewhere. Eliminating stepped-up basis would reduce lock-in and promote higher productivity and growth by encouraging more efficient capital allocation.

The Budget would also impose a new fee on large, highly-leveraged financial institutions.

Specifically, the Budget would raise \$112 billion over 10 years by imposing a seven basis point fee on the liabilities of large U.S. financial firms—the roughly 100 firms with assets over \$50 billion. This fee will complement other Administration policies aimed at preventing future financial crises and making the economy more resilient. Even with the end of “too big to fail,” excessive leverage still creates risks for the broader economy. Alongside capital requirements and other tools that help rein in excessive leverage, a financial fee would improve economic stability by attaching a direct cost to leverage for large firms. The fee will also satisfy the statutory requirement for the President to propose a means to recoup any remaining costs of assistance provided through the Department of the Treasury’s Troubled Asset Relief Program.

The Budget would also close a number of inefficient, unintended, and unfair tax loopholes in the individual tax code. For example, it would end a loophole that lets some high-paid professional avoid Medicare and Social Security payroll taxes, costing the Trust Funds almost \$10 billion a year by the end of the decade. It would also prevent wealthy individuals from using loopholes to accumulate huge amounts in tax-favored retirement accounts. While tax-preferred retirement plans are intended to help middle class workers prepare for retirement, loopholes in the tax system have let some wealthy individuals convert these accounts into tax shelters. The Budget would prohibit contributions to and accruals of additional benefits in tax-preferred retirement plans and IRAs once balances are about \$3.4 million, enough to provide an annual income of \$210,000 in retirement.

The combination of the capital gains reform package, the financial fee, and closing tax loopholes would pay for the pro-middle class, pro-work tax reforms described above, as well as for the complementary investments in child care access and quality, and for the Budget’s proposal to partner with States to make community college free for responsible students.

### ***Making Sure Everyone Pays Their Fair Share and Reducing the Deficit***

As described in the first chapter, the President's Budget takes a number of steps to put the Nation on a sound fiscal footing. Building on the Affordable Care Act (ACA), it introduces additional health reforms that will help maintain the historic slow-down in health care cost and price growth over the last several years. It proposes comprehensive immigration reform that reduces deficits and strengthens Social Security, while also boosting growth by raising productivity. Even with proposed new investments, it would bring discretionary spending to its lowest level on record as a share of GDP.

But even with slower health care cost growth, immigration reform, and spending restraint, an aging population will put increasing pressures on the budget over the next several decades. For example, by the end of the 10-year budget window in 2025, the ratio of retirees to workers will be almost 50 percent higher than it was at the beginning of the 2000s, and it will increase further over the subsequent decade. Given these demographic shifts, the reality is that additional revenue is needed to maintain the Nation's commitments to seniors without shortchanging investment in future generations.

In addition to raising revenue to pay for tax reforms that help middle class families and support work, as described above, the Budget would also raise an additional \$638 billion in revenue for deficit reduction. Rather than obtaining this additional revenue by raising tax rates, the President's tax reform proposals would reduce the deficit by reforming tax breaks and closing loopholes, making the tax code fairer, simpler and more efficient. Specifically, the Budget would:

- *Limit the Value of Itemized Deductions and Other Tax Preferences to 28 Percent.* Currently, a millionaire who deducts a dollar of mortgage interest enjoys a tax benefit that is more than twice as generous as that received by a middle class family. The Budget would limit the value of most tax deductions and exclusions to 28 cents on the dollar, a

limitation that would affect only couples with incomes over about \$250,000 (singles with incomes over about \$200,000). The limit would apply to all itemized deductions, as well as other tax benefits, such as tax-exempt interest and tax exclusions for retirement contributions and employer-sponsored health insurance.

- *Observe the "Buffett Rule."* As in past years, the Budget proposes to institute the Buffett Rule, requiring that wealthy millionaires pay no less than 30 percent of income—after charitable contributions—in taxes. This proposal will act as a backstop to prevent high-income households from using tax preferences to reduce their total tax bills to less than what many middle class families pay.

### ***Fixing America's Broken Business Tax System and Rebuilding Its Infrastructure***

In February 2012, the President proposed a framework for business tax reform that would help create jobs and spur investment, while eliminating loopholes that let companies avoid paying their fair share. Consistent with that framework, the Budget includes a reserve for long-run revenue neutral reform, while detailing a number of specific proposals that the President believes should be part of reform, including a detailed international tax reform plan that is new to this year's Budget.

Key features of the President's plan include:

- *Cutting the Corporate Tax Rate and Broadening the Tax Base.* The Budget would lower the corporate tax rate to 28 percent, with a 25 percent effective rate for domestic manufacturing, putting the United States in line with major competitor countries and encouraging greater investment here at home. The rate reduction would be paid for by eliminating dozens of inefficient tax expenditures and through additional structural reforms—addressing accelerated depreciation and reducing the tax preference for debt financed investment. Together, these reforms would help achieve

more neutral tax treatment of different industries, types of investment, and means of financing, improving capital allocation and contributing to economic growth.

- *Improving Incentives for Research and Clean Energy.* The Budget would make permanent—and pay for—important research and clean energy incentives that the Congress routinely extends on a year-to-year basis, including the Research and Experimentation Tax Credit, the Production Tax Credit, and the Investment Tax Credit. It would also reform these incentives to make them simpler and more efficient, for example by creating a single formula for calculating the Research and Experimentation Tax Credit and making the renewable energy Production Tax Credit refundable so innovative, growing firms can fully benefit.
- *Simplifying and Cutting Taxes for Small Business.* The Budget includes new proposals to make tax filing simpler for small businesses and entrepreneurs so that they can focus on growing their business rather than filling out their tax returns. Building on bipartisan proposals, the Budget would let businesses with gross receipts of less than \$25 million—more than 99 percent of all businesses—dispense with many of the tax system’s most complex rules and instead pay tax based on simpler, “cash” accounting. The Budget would also permanently extend and enhance Section 179 expensing to let small businesses write off up to \$1 million of investments in equipment up front, so that the vast majority of firms would not have to deal with depreciation rules. The net result is that almost all small businesses would pay taxes based on an income measure much closer to their bank statement: deducting their expenses—including funds reinvested in their businesses—and paying tax based on their cash flow profits.
- *Reforming the International Tax System.* The Budget details the President’s full plan for reforming and modernizing the

international business tax system. The core of the President’s proposal is a 19 percent minimum tax on foreign earnings that would require U.S. companies to pay tax on all of their foreign earnings when earned—with no loopholes or opportunities for deferral—after which earnings could be reinvested in the United States without additional tax. Other proposals in the international reform plan would prevent U.S. companies from avoiding tax through “inversions”—transactions in which U.S. companies buy smaller foreign companies, then reorganize the combined firm to reduce U.S. tax liability—and prevent foreign companies operating in the United States from using excessive interest deductions to “strip” earnings out of the United States and avoid U.S. tax. The Department of the Treasury has taken initial steps to reduce the economic benefits of inversions, but the President has been clear that the only way to fully address the issue of inversions is through action by the Congress, preferably as part of broader tax reform.

- *Devoting One-Time Savings from International Reform to Investment in Infrastructure.* As part of transitioning to a reformed international tax system, the Budget would impose a one-time transition toll charge of 14 percent on the up to \$2 trillion of untaxed foreign earnings that U.S. companies have accumulated overseas. As explained above, the Budget would devote the one-time revenue from this toll charge to the Highway Trust Fund, financing the President’s six-year Surface Transportation Reauthorization proposal. Devoting one-time transition revenue to infrastructure investments is both pro-growth (see above, *The Case for Investing in Infrastructure in Today’s Economy*) and fiscally responsible, since—unlike using this temporary revenue for permanent tax cuts or spending increases—devoting it to one-time investments will not increase long-term deficits.

### ***Investing in a High-Performing Internal Revenue Service***

Middle class families and small businesses deserve a simpler tax system. But they also deserve an IRS with the resources to answer the phone when they call, promptly issue new guidance clarifying laws and regulations, and ensure that those who try to cheat the system are held accountable. Likewise, reforms to the business and—especially—international tax system depend on an IRS that is capable of going toe-to-toe with high-paid tax lawyers and accountants to enforce the law and make sure corporations, the wealthiest, and ordinary American workers all play by the same rules.

Unfortunately, congressional Republicans have insisted on cutting the IRS budget by

about 10 percent since 2010 (adjusted for inflation), severely compromising both customer service and enforcement. The Budget would reinvest in taxpayer services, as well as other IRS responsibilities. Specifically, the Budget's \$12.9 billion investment in the IRS would greatly improve services for taxpayers, including through investments for digital services that will fundamentally change how taxpayers interact with the IRS, such as by creating new online tax filing status and payment options. It also makes investments for the IRS to adequately and fairly administer the tax code. More than \$650 million of the Budget's IRS total is provided through a program integrity cap adjustment for tax enforcement activities that return six times their value in increased revenue.

### **FIXING AMERICA'S BROKEN IMMIGRATION SYSTEM**

On November 20, 2014, the President announced a series of executive actions to begin to fix the Nation's broken immigration system. These executive actions crack down on illegal immigration at the border; prioritize deporting felons, not families; and allow certain undocumented immigrants who register and pass criminal and national security background checks to start paying their fair share of taxes and temporarily stay in the United States without fear of deportation. These actions are only a first step toward reform of the system, and the Administration continues to count on the Congress for the more comprehensive reform that only legislative changes can provide.

The comprehensive reform supported by the President and passed by the Senate in 2013 would fix the Nation's broken immigration system by continuing to strengthen U.S. border security, cracking down on employers who hire undocumented workers, modernizing the Nation's legal immigration system, and providing a pathway to earned citizenship for hardworking men and women who pay a penalty and taxes, learn English, pass background checks, and go to the back of the line.

In addition to contributing to a safer and more just society, comprehensive immigration reform will also boost economic growth, reduce deficits, and strengthen Social Security. Common sense immigration reform will strengthen the workforce by attracting and retaining the best and brightest students whom are trained at U.S. universities, strengthening capital investment and overall productivity, and increasing the number of entrepreneurs starting companies in the United States, thereby creating more jobs. Moreover, by adding younger workers to the labor force, reforming America's broken legal immigration system will help balance an aging population and improve the economic and budget outlook as the baby boom generation retires.

The Congressional Budget Office has estimated that the immigration bill that passed with bipartisan support in the Senate would reduce the deficit by about \$160 billion in the first decade and by almost \$1 trillion over 20 years. Meanwhile, the Social Security Actuaries have found that the Senate bill would reduce the Social Security shortfall by \$300 billion over the first 10 years and would close eight percent of the 75-year Social Security shortfall.

The Administration supports the bipartisan Senate approach taken in 2013, and calls on the Congress to act on comprehensive immigration reform this year. While the President's executive actions will provide temporary relief while demanding accountability for those whose cases are not an enforcement priority, the Administration urges the Congress to act to permanently fix the Nation's broken immigration system.

### ***Addressing the Root Causes of Migration from Central America***

The President's Budget provides \$1 billion to support a long-term, comprehensive strategy for Central America to minimize the pressures of illegal immigration on the United States. The Budget will enable concrete progress toward achieving the President's priority of advancing security, prosperity, and economic growth in the region. The Budget provides resources to focused lines of effort that will take on the root causes of the dangerous migration of unaccompanied children and families, where Central American migrants are extremely vulnerable to becoming victims of violent crime or sexual abuse along the journey. These lines of effort are designed to achieve an economically-integrated Central America that provides economic opportunities to its people; more democratic, accountable, transparent, and effective public institutions; and a safe environment for its citizens to build their lives in peace and stability. Investments in the region also will allow the United States to work with its partners to improve the capacity of Central American governments to receive and reintegrate migrants and to target human smugglers. These resources will complement efforts by Central American governments, especially in El Salvador, Honduras, and Guatemala, to accelerate longer-term reforms and improvements in the lives of ordinary citizens. They will allow the United States to increase its coordination with regional governments as well as with international financial institutions, the private sector, civil society, and other international partners, to promote regional prosperity through a sustained, well-coordinated plan to address longstanding challenges to economic growth

in the region. Based on the U.S. Strategy for Engagement in Central America, which focuses on the interlocking themes of prosperity, security, and good governance, the United States is ready to support aspects of the "Alliance for Prosperity" plan developed jointly by the governments of El Salvador, Honduras, and Guatemala, while working with other international stakeholders and the private sector to define and accelerate their support.

### ***Securing the Borders and Enforcing U.S. Immigration Laws***

Our long-term investment in border security and immigration enforcement has produced significant and positive results. Under this Administration, the resources that the Department of Homeland Security (DHS) dedicates to security at the Southwest border are at an all-time high. Compared to 2008, today there are 3,000 additional Border Patrol agents along the Southwest border. Border fencing, unmanned aircraft surveillance systems, and ground surveillance systems have more than doubled since 2008. Border apprehensions—a key indicator of border security—are at their lowest levels since the 1970s. Even this summer's influx of unaccompanied children was met with an aggressive, coordinated Federal response focused on heightened deterrence, enhanced enforcement, stronger foreign cooperation, and greater capacity for Federal agencies to ensure that the U.S. border remains secure. As a result of the Administration's efforts at the border, the size of the unauthorized population living in the United States has stopped growing for the first time in 40 years.

The Budget continues the investment in border security by maintaining U.S. Customs and Border Protection (CBP) front line operations, funding additional technology and infrastructure, and expanding and enhancing intelligence and targeting capabilities. The Budget supports 21,370 Border Patrol Agents and 26,075 CBP Officers, including over 2,300 new Officers supported by proposed increases to user fees. The Budget includes over \$373 million for the acquisition and sustainment of technology and tactical infrastruc-

ture along U.S. borders, an increase of \$90 million over the current Continuing Resolution funding levels for DHS and \$11 million above the 2015 Budget. This includes \$128 million to support the deployment of new technology and tactical infrastructure investments along the Southwest border. These technology investments provide CBP with increased situational awareness on the border, as well as the ability to effectively respond

to border incursions. The Budget also provides \$97 million for recapitalization of aging non-intrusive inspection equipment at ports of entry, which will help CBP more efficiently detect security threats and facilitate lawful trade and travel. The Budget also funds an increase of \$36 million in CBP intelligence and targeting activities that provide cutting-edge analytic support to Agents and Officers in the field.

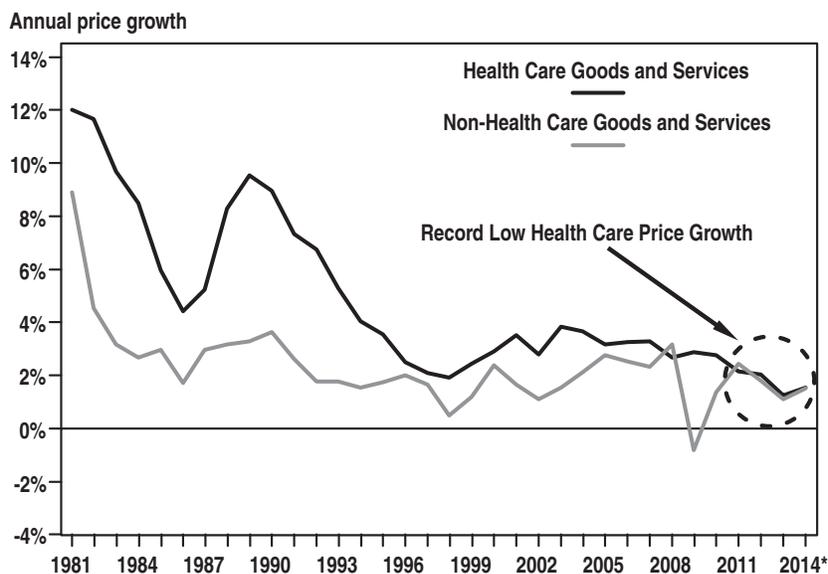
## IMPROVING HEALTH CARE THROUGH ACA AND ADDITIONAL REFORMS

The President's health plan provides hard-working, middle class Americans the economic security they deserve. American families no longer need to worry about losing coverage due to economic setbacks, such as lay-offs or job changes, or due to pre-existing conditions, such as asthma. The ACA also forces insurance companies to play by the rules, prohibiting them from discriminating against anyone with a pre-existing condition, dropping coverage due to illness, billing patients into bankruptcy because of an illness or injury, and limiting annual or lifetime benefits. Further, as discussed in the first chapter, the ACA has taken historic and significant steps toward putting the Nation back on a sustainable fiscal course, while laying the foundation for a higher-quality,

more secure health care system. The ACA is improving the quality of care that Americans receive and reducing cost growth by deploying innovative new payment and delivery models that incentivize more efficient, higher-quality care.

Since the full implementation of the ACA began in 2014, millions of people have enrolled in either private insurance through the Health Insurance Marketplace, or coverage through Medicaid and the Children's Health Insurance Program (CHIP). As a result, the number of uninsured Americans has dropped by an estimated 10 million. The ACA is helping to enhance competition among insurance companies, expand coverage choices, and increase affordability, by keeping premiums

## Health Care Costs Are Under Control



\*Annualized using data through 2014:Q3

Source: Department of Commerce, Bureau of Economic Analysis; Personal Consumption Expenditures data with OMB calculations.

low and offering tax credits to more Americans to help them purchase coverage.

### ***Supporting Implementation of the Affordable Care Act***

The Budget fully funds the ongoing implementation of ACA's health insurance coverage improvements through the operation of Health Insurance Marketplaces and the premium tax credits and cost sharing assistance to help make coverage affordable, drive down long-term health care costs, and improve care for millions of citizens.

**Preserving Coverage through CHIP.** CHIP currently serves over eight million children of working parents who are not eligible for Medicaid. The Budget proposes to extend funding for CHIP, which ends in 2015, through 2019, ensuring continued, comprehensive, affordable coverage for these children. The proposal is paid for through an increase in tobacco taxes that will help reduce youth smoking and save lives.

### ***Strengthening Medicare and Medicaid***

This year will mark the 50<sup>th</sup> anniversary of the enactment of Medicare and Medicaid. Together, Medicare and Medicaid provide affordable health coverage to support longer, healthier lives and economic security for the Nation's seniors and low-income working Americans and families. Today, Medicare provides about 55 million Americans with dependable medical insurance. State Medicaid programs provide health and long-term care coverage to more than 68 million low income Americans. The ACA and the Budget strengthen the Medicare and Medicaid programs through reforms that expand health coverage in Medicaid, encourage high-quality and efficient care, and continue the progress of reducing cost growth.

**Expanding Health Coverage by Improving Access to Medicaid and CHIP Coverage and Services.** The Budget gives States the option to streamline eligibility determinations for children in Medicaid and CHIP and to maintain Medicaid

coverage for adults by providing one-year of continuous eligibility. The Budget expands access to preventive benefits and tobacco cessation for adults in Medicaid and ensures children in inpatient psychiatric treatment facilities have access to comprehensive benefits.

**Promoting Access to Medicaid Long-Term Care Services and Supports (LTSS).** The Budget includes proposals that would expand access to Medicaid home and community-based services (HCBS) as an alternative to institutional care for individuals with disabilities and elderly populations. First, the Budget expands and simplifies eligibility to encourage more States to provide HCBS in their Medicaid programs. The Budget also includes a comprehensive long-term care pilot for up to five States to test, at an enhanced Federal match rate, a more streamlined approach to delivering LTSS to support greater access and improve quality of care. In 2015, the Administration will host the sixth White House Conference on Aging to recognize the importance of these, and other key programs for older Americans, as well as to look ahead to how to improve and advance the quality of life for older Americans in the next decade.

**Improving Care Delivery for Low-Income Medicare-Medicaid Beneficiaries.** The Budget proposes a budget-neutral pilot in a limited number of States to provide qualifying low-income adults, under age 55, benefits under the Program for All-Inclusive Care for the Elderly (PACE), while promoting community services in line with the integration of the landmark Olmstead Supreme Court decision<sup>1</sup>, supporting self-determination, serving people with disabilities in the most integrated setting appropriate to their needs, and achieving better health outcomes. Under current law, PACE provides comprehensive long-term services to qualifying individuals age 55 and older. Pilots will test whether PACE programs can effectively serve a younger popula-

<sup>1</sup> The U.S. Supreme Court's 1999 landmark decision in *Olmstead v. L.C.* (Olmstead) found the unjustified segregation of people with disabilities is a form of unlawful discrimination under the Americans with Disabilities Act. Olmstead requires States to administer programs in the most integrated setting appropriate to the needs of qualified individuals with disabilities.

tion without increasing costs. The Budget also proposes to implement streamlined processes for beneficiary appeals and joint Federal-State review of marketing materials for managed care plans that integrate Medicare and Medicaid payment and services and serve Medicare-Medicaid enrollees. These proposals address the sometimes conflicting requirements in each program. In addition, the Budget proposes to permanently authorize a demonstration that provides retroactive drug coverage for certain low-income Medicare beneficiaries through a single plan, establishing a single point of contact for beneficiaries seeking reimbursement for claims.

**Encouraging High-Quality, Efficient Care among Medicare Providers.** The Budget continues a set of proposals that build on initiatives included in ACA to help extend Medicare's solvency while encouraging provider efficiencies and improved patient care. This includes a proposal to encourage efficient post-acute care by adjusting payment updates and other payment modifications for certain post-acute care providers. The Budget also proposes to better align certain special payments to hospitals with the cost of care and reduce Medicare bad debt payments in a way that more closely matches private sector standards. Additional proposals to promote efficiency in the Medicare program include: improving payment accuracy for Medicare Advantage; constraining Medicare cost growth; better aligning payments to teaching hospitals with patient care costs; and addressing excess payments for Medicare Part B drugs to hospitals and physicians. Together, these proposals would save approximately \$222 billion over 10 years.

**Improving Health Outcomes for Children and Youth in Foster Care.** The Budget also establishes a new Medicaid demonstration project in partnership with the Administration for Children and Families to encourage States to provide evidence-based psychosocial interventions to address the behavioral and mental health needs of children in foster care and reduce reliance on psychotropic medications, with the goal of improving overall health outcomes.

**Reducing Cost Growth by Encouraging Beneficiaries to Seek High-Value Services.** The Budget includes structural changes that will encourage Medicare beneficiaries to seek high-value health care services. To help improve the financial stability of the Medicare program, the Budget reduces the Federal subsidy of Medicare costs for those beneficiaries who need that subsidy the least. The Budget includes several modifications for new beneficiaries starting in 2019, such as a modified Part B deductible and a modest copayment for certain home health episodes. Research indicates that beneficiaries with Medigap plans that provide first, or near-first-dollar coverage have less incentive to consider the costs of health care services, thus raising Medicare costs and Part B premiums for all beneficiaries. The Budget applies a premium surcharge for new beneficiaries beginning in 2019 if they choose such Medigap coverage. Together, these proposals would save approximately \$84 billion over 10 years.

**Improving Quality and Lowering Drug Costs for Federal Health Programs.** The Budget includes a number of proposals that lower drug costs, while improving quality and reducing waste in the Medicare Part D program. The Administration is deeply concerned with the rapidly growing prices of specialty and brand name drugs. The Budget proposes to give the Secretary of HHS the authority to negotiate drug prices for biologics and high-cost drugs in Medicare Part D to help ensure access to and affordability of these treatments. This proposal is one of a range of potential solutions to address these growing costs, and the Administration looks forward to working with the Congress on this challenge. The Budget also proposes to close the coverage gap for brand drugs in the Part D benefit by 2017, three years earlier than under current law, by increasing the discounts offered by the pharmaceutical industry. In addition, the Budget proposes to align Medicare payments for drugs with Medicaid policies for low-income beneficiaries. It also provides the Secretary the authority to suspend coverage and payment for questionable Part D prescriptions. The Budget also establishes a program to reduce prescription drug abuse in Medicare.

Together, these proposals will save Medicare \$126 billion over 10 years. In addition, the Budget includes two proposals designed to increase access to generic drugs and biologics by stopping companies from entering into anti-competitive deals intended to block consumer access to safe and effective generics, by awarding brand biologic manufacturers seven years of exclusivity, rather than 12 years under current law, and by prohibiting additional periods of exclusivity for brand biologics due to minor changes in product formulations. These two proposals will save the Federal Government \$16 billion over 10 years, including savings in Medicare and Medicaid.

**Lowering Medicaid Drug Costs for States and the Federal Government.** The Budget includes targeted policies to lower drug costs in Medicaid. First, the Budget improves the Medicaid drug rebate program by clarifying the definition of brand drugs, collecting an additional rebate for generic drugs whose prices grow faster than inflation, clarifying the inclusion of certain prenatal vitamins and fluorides in the rebate program, and taking actions to promote the integrity of the rebate program. The Budget also corrects a technical error to a rebate for new drug formulations, limits to 12 quarters the timeframe for which manufacturers can dispute drug rebate amounts, and excludes authorized generic drugs from average manufacturer price calculations for determining manufacturer rebate obligations for brand drugs. In addition, the Budget improves Medicaid drug pricing by calculating Medicaid Federal upper limits based only on generic drug prices. These proposals are projected to save the Federal Government approximately \$6.3 billion over 10 years.

**Cutting Waste, Fraud, and Abuse in Medicare and Medicaid.** The Administration has made targeting waste, fraud, and abuse in Medicare, Medicaid, and CHIP a priority and is aggressively implementing new tools for fraud prevention included in the ACA. In 2013, the Health Care Fraud and Abuse Control program's law enforcement efforts produced a record-breaking \$4.3 billion in judgments, settlements, and recovery of taxpayer dollars from individuals

trying to defraud Federal health care programs serving seniors and taxpayers. In addition, further development of the CMS Fraud Prevention System, a predictive analytic model similar to those used by private sector experts, continues to support CMS' efforts to identify and prevent wasteful, abusive, and potentially fraudulent billing activities. While these results indicate progress, more remains to be done. Therefore, the Budget proposes a series of policies to build on these efforts that will save nearly \$3 billion over the next 10 years. Specifically, the Budget proposes to implement new initiatives to reduce fraud, waste, and abuse in Medicare, Medicaid, and CHIP by:

- Requiring prior authorization for power mobility devices and advanced imaging, which could be expanded to other items and services at high risk of fraud and abuse;
- Directing States to track high prescribers and utilizers of prescription drugs in Medicaid to identify aberrant billing and prescribing patterns;
- Supporting efforts to investigate and prosecute allegations of abuse or neglect of Medicaid beneficiaries in non-institutional health care settings and in the territories; and
- Strengthening the Federal Government's ability to identify and act on fraud, waste, and abuse through Medicaid Integrity Program improvements and investments.

In addition, the Budget would simplify and streamline State program integrity reporting requirements by consolidating redundant error rate measurement programs to create a streamlined audit program with meaningful outcomes, while maintaining the Federal and State government's ability to identify and address improper Medicaid payments.

### ***Health Care Delivery System Reforms***

Since passage of the ACA, the Administration has developed an aggressive agenda to reform the Nation's health care delivery system. This means avoiding costly mistakes and readmissions, keep-

ing patients healthy, rewarding quality instead of quantity, and creating the health information technology infrastructure that enables new payment and delivery models to work. Such reforms will help to further slow growth in health care costs, and increase savings for Medicare and Medicaid. Building on the lessons learned and success from existing initiatives, the delivery system reform agenda will continue to improve health care quality and reduce costs using the following three strategies:

- Modify health care payment structures to reward providers for optimal care;
- Support practice redesign and create better capacity to improve care delivery; and
- Improve access to information to encourage data-driven decision-making by consumers, providers, and businesses.

To encourage health care providers who deliver better care and better outcomes for their patients, the Administration has set a goal for 2016 of making 30 percent of Medicare payments through alternative payment models, which link payments to delivery of efficient, high-quality, coordinated health care rather than paying for volume of health care services. By 2018, the Administration's goal is to make 50 percent of Medicare payments to providers through alternative payment models.

To further align incentives and improve care coordination, the Budget includes a proposal to accelerate physician participation in high-quality and efficient health care delivery systems by repealing the Medicare Sustainable Growth Rate formula and reforming Medicare physician payments in a manner consistent with the reforms included in recent bipartisan, bicameral legislation.

The Budget encourages post-acute providers, such as nursing homes and home health agencies, to deliver care efficiently by making a single (bundled) payment for such services. It also includes proposals that will enhance the ability of Accountable Care Organizations to increase quality and reduce costs. In addition, the Budget

improves incentives for providers to deliver care in the most appropriate ambulatory setting and also reduces incentives for physicians to inappropriately order services from which they would financially benefit.

The Budget establishes quality bonuses for the highest rated Part D plans and modifies incentives in the Medicare prescription drug program to encourage patient engagement in health care decisions.

To improve transparency and distribution of information, the Administration has improved access to Federal data through the Open Data Initiative, released Medicare data on cost and quality, and invested in innovative ways to collect and share data, from the way we measure the quality of care to the way health care is documented and communicated to consumers. The Budget increases support to advance interoperable health IT as part of delivery system reform while protecting patient privacy. The Budget supports the Office of the National Coordinator for Health Information Technology (ONC) in developing standards and consensus around policies that will help consumers and providers access electronic health information when and where they need it to make health care decisions, including development of interoperable mobile tools to help consumers use their health information effectively. The Budget also expands Medicare data sharing with qualified entities, which will enable additional third party analysis of data, and may lead to more transparent public discussion of care practices improvement in health care quality and efficiency, and/or reduce fraud, waste, and abuse in the Medicare program.

### ***Public Health, Safety, and Security***

The Budget proposes a number of key investments and reforms to improve the Nation's public health system and to promote access to health care services for vulnerable populations. Further, the Budget invests in protecting the Nation's public health system against global health security challenges such as infectious diseases, antibiotic-resistant bacteria, and biohazard threats. Since

the first cases of Ebola were reported in West Africa in March 2014, the United States has mounted a Government-wide response to contain and eliminate the epidemic at its source, while also taking prudent measures to protect the American people. Emergency funding appropriated in 2014 in response to the President's proposal will mitigate the epidemic in West Africa, enhance domestic preparedness, speed the procurement and testing of new vaccines and therapeutics, and accelerate the Global Health Security Agenda. These activities will combat the spread of Ebola and will help reduce the potential for future outbreaks of infectious diseases that could follow a similarly devastating, costly, and destabilizing trajectory. The Budget continues to invest in these critical programs to strengthen the Nation's preparedness capabilities.

**Prescription Drug and Heroin Abuse.** Every day, more than 100 people die as a result of drug overdose, and more than 6,700 are treated in emergency departments. Abuse of prescription and illicit drugs, such as heroin, is an urgent public health concern. The Budget increases funding for programs across the Centers for Disease Control (CDC), the Substance Abuse and Mental Health Services Administration, the Agency for Healthcare Research and Quality, and ONC to decrease the rates of inappropriate prescription drug abuse. The Budget increases funding for every State to expand existing Prescription Drug Monitoring Programs to improve clinical decision making, interoperability, and effective public health interventions. The Budget also includes funding to expand and improve the treatment for people who use heroin and prescription opioids. In addition, the Budget supports increased dissemination of naloxone by first responders in an effort to prevent overdose deaths in high risk communities.

**Modernizing the Nation's Food Safety System.** CDC has estimated that 48 million foodborne illnesses occur each year from contaminated foods. The Budget includes \$1.6 billion in total program resources to bolster food safety activities, including an increase of \$301 million

for the Food and Drug Administration to implement new safety measures under the Food Safety Modernization Act for domestic and imported foods.

**Investing in Native American Health Care.** The Budget provides the Indian Health Service (IHS) with \$5.1 billion, an increase of \$461 million over the 2015 enacted level, which will expand health care services, and allow IHS to make significant progress toward the construction of health care clinics in Indian Country. The Budget proposes to fund contract support costs through mandatory funds beginning in 2017. The Administration intends to consult broadly with Tribes on this new approach prior to implementation in 2017.

**Combating Antibiotic Resistant Bacteria (CARB).** The Budget includes an increase of more than \$550 million above 2015 enacted levels across the Federal Government to prevent, detect, and control illness and death related to infections caused by antibiotic-resistant (AR) bacteria. These resources will also help support the advancement of therapeutics for the treatment of bacterial infections. The Budget also fully implements the surveillance, prevention, and stewardship activities outlined in the CARB National Strategy. The investments will protect patients and communities by implementing interventions that reduce the emergence and spread of AR pathogens to prevent current antibiotic resistant threats. By 2020, the United States, together with partners, will reduce the incidence of overall *Clostridium difficile* infection in half and reduce Carbapenem-resistant *Enterobacteriaceae* infections acquired during hospitalization by 60 percent.

**Preventing, Detecting, and Responding to Infectious Diseases, Both Abroad and at Home.** The Ebola epidemic in West Africa underscores the need to urgently strengthen global health security in countries around the world that are not equipped to handle Ebola, including the most vulnerable countries across Asia, the Middle East and Africa that have poor infrastructure, limited capacity, high population density,

and major transport hubs. In addition, recent and ongoing outbreaks of Plague, Marburg, Lassa fever, the Middle East Respiratory Syndrome, and avian influenza clearly demonstrate the need to immediately address global vulnerabilities. The Budget continues to invest in the Global Health Security Agenda, increases funding to eradicate polio and for the U.S. contribution to Gavi, the Vaccine Alliance, and creates a new PEPFAR Impact Fund for targeted global HIV/AIDS efforts. The Budget also increases funding for domestic preparedness efforts to more effectively and efficiently respond to potential, future outbreaks here at home and dedicates funding for States to develop HIV Plans to help them reach the goals of the National HIV/AIDS Strategy.

**Strengthening Preparedness for all Health Threats, Including Naturally Occurring Hazards and Intentional Attacks.** The Budget includes \$522 million to enhance the advanced development of next generation medical countermeasures against chemical, biological, radiological, and nuclear threats. The Budget also more than doubles support for Bioshield by providing \$646 million to continue the Federal Government's long-term commitment to the acquisition of new medical countermeasures. The Government response to Ebola has highlighted the importance of sufficient funding and operational capabilities to facilitate an effective and coordinated response to public health crises that may not meet the current criteria for a national disaster or public health emergency declaration, such as those under the Stafford Act. Informed by lessons learned from the Ebola response, the Budget proposes additional funding for HHS to strengthen the Nation's capability to plan for and respond to public health emergencies and enables potential changes in structure and capabilities to improve our public health emergency response.

The Budget includes \$110 million to respond to unanticipated public health emergencies through support for domestic or international activities, such as State and local response and emergency staffing, hospital and containment facilities, infection control, laboratory equipment and supplies, data gathering and analysis, countermeasures,

and other potential needs in such an incidence. Within the total, there are resources for staff coordination and training, command and control, and other related logistical needs.

### ***Health Centers and Health Workforce***

The Budget helps ensure Americans in need of health care services are able to access them in a timely manner. Health centers are a key component of the Nation's health care safety net that provide Americans with access to affordable comprehensive, high-quality, primary care services regardless of their ability to pay. The Budget also strengthens the primary care workforce by providing increased resources for primary care health care providers who train and practice in areas where they are needed most.

**Improving Access to Health Care Services.** Across the United States, 1,300 health centers operate over 9,000 primary care sites that serve as high-quality, dependable sources of primary care services in communities. The Budget invests \$4.2 billion, including \$2.7 billion in new mandatory resources, in the Health Centers program in 2016 to support services for an estimated 28.6 million patients. This funding level will enable health centers to expand services to 1.1 million additional patients. In total, the Budget provides \$8.1 billion in new mandatory resources over three years so that health centers can continue to serve their patients.

**Improving Access to High-Quality Health Care Providers.** The Budget includes new funding to implement innovative policies to train new health care providers and ensure that the future health care workforce is prepared to deliver high-quality and efficient health care services. The Budget invests \$810 million in 2016 and \$2.1 billion from 2017-2020 in the National Health Services Corps to place and maintain 15,000 health care providers in the areas of the Nation that need them most. To encourage and enhance training of primary care practitioners and other physicians in high-need specialties, the Budget proposes \$5.25 billion over 10 years to support 13,000 new medical school graduate residents through a new competitive graduate

medical education program that incentivizes high-quality physician training. To continue encouraging provider participation in Medicaid, the Budget extends increased payments for primary care services delivered by certain physicians through 2016, with modifications to expand provider eligibility and better target primary care services.

As discussed in this chapter, the President's Budget makes balanced investments in health care, infrastructure, clean energy, education, innovation, and research to grow the U.S. economy. By investing in the military, the Budget enhances America's national security. These investments will be fully paid for by cutting inefficient spending and by reforming tax benefits to make sure everyone pays their fair share.

The President believes that investments in the economy and national security must be done together. We cannot abandon our security in service of our economy, and we cannot abandon our economy in service of our security because harm to one does harm to the other. That is why the Budget provides a roadmap to make the investments needed both domestically and abroad.

As discussed in the next chapter, A Government of the Future, the Budget also proposes to make Government work better, by investing in effectiveness and efficiency; using Government data to drive economic growth; and supporting the people who work in Government.

